Financial Statements

Equityline Mortgage Investment Corporation

December 31, 2019

(Expressed in Canadian dollars)

Contents

	Page
Independent Auditor’s Report	1 - 2
Statement of Financial Position	3
Statement of Net Loss and Comprehensive Loss	4
Statement of Changes in (Deficiency) Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 25

Grant Thornton

Independent Auditor's Report

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To the Shareholder of
Equityline Mortgage Investment Corporation

Opinion

We have audited the financial statements of Equityline Mortgage Investment Corporation ("the Company"), which comprise the statements of financial position as at December 31, 2019, and 2018 and the statements of net loss and comprehensive loss, statements of changes in (deficiency) equity and statements of cash flows for the year ended December 31, 2019 and the period from the date of incorporation on January 18, 2018 to December 31, 2018, 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 2018, and its financial performance and its cash flows for the year ended December 31, 2019 and the period from the date of incorporation on January 18, 2018 to December 31, 2018 in accordance with International Financial Reporting Standards (IFRSs).

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 (IFRSs), 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.

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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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Frank Friedman.

Markham, Canada
February 28, 2020

Chartered Professional Accountants
Licensed Public Accountants

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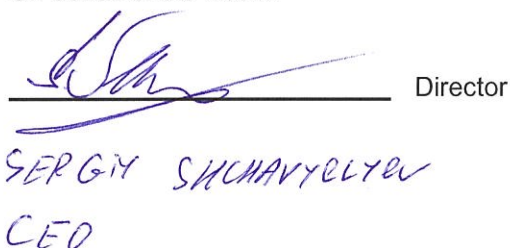
Equityline Mortgage Investment Corporation
Statement of Financial Position

(Expressed in Canadian dollars)

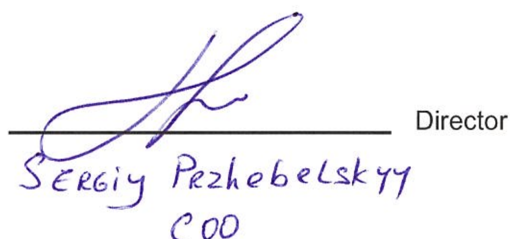
December 31	**2019**	2018
Assets		
Cash and cash equivalents	**$ 193,556**	$ 146
Accounts receivable	**28,280**	-
Mortgage investments (Note 4)	**7,785,878**	-
Due from related party (Note 6)	**197,474**	-
	$ 8,205,188	$ 146
Liabilities		
Accounts payable and accrued liabilities	**$ 164,732**	$ -
Prepaid mortgage interest	**170,259**	-
Withholding taxes payable	**61,492**	-
Distributions payable (Note 8)	**53,027**	-
Interest payable	**10,721**	-
Debentures (Note 7)	**2,100,000**	-
Series A redeemable preferred shares	**6,480,844**	-
	9,041,075	-
Shareholders' Deficiency		
Share capital (Note 9)	**200**	200
Deficit	**(836,087)**	(54)
	(835,887)	146
	$ 8,205,188	$ 146

Contingent liability (Note 11)

On behalf of the Board



Director



Director

See accompanying notes to the financial statements.

Equityline Mortgage Investment Corporation
Statement of Net Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	Year ended December 31, 2019	For the period from the date of incorporation on January 18, 2018 to December 31, 2018
Mortgage interest income	**$ 752,690**	$ -
Operating Expenses		
Professional fees	**312,514**	-
Management fees	**81,138**	-
Director fees	**73,000**	-
Advertising and promotion	**56,885**	-
Provision for mortgage investment losses	**39,000**	-
Research fees	**21,000**	-
Custodial services	**19,210**	-
Travel	**14,632**	-
General and administrative	**13,235**	-
Insurance	**11,826**	-
Business taxes, licenses and memberships	**1,695**	-
Referral fees	**1,000**	-
Consulting fees	**650**	-
	645,785	-
Income before finance expenses	**106,905**	-
Finance expenses		
Interest and bank charges	**163,483**	54
Realized foreign exchange gain	**(22,599)**	-
Unrealized foreign exchange loss	**22,889**	-
Accretion of transaction costs	**237,973**	-
Distributions to shareholders of Series A redeemable preferred shares	**541,192**	-
	942,938	54
Net loss and comprehensive loss	**$ (836,033)**	$ (54)
Loss per common share (Note 10)	**$ (0.96)**	$ -

See accompanying notes to the financial statements.

Equityline Mortgage Investment Corporation
Statement of Changes in (Deficiency) Equity
(Expressed in Canadian dollars)

	Share Capital	Deficit	Total Shareholders' Deficiency
Balance at incorporation on January 18, 2018	$ 200	$ -	$ 200
Net loss and comprehensive loss	-	(54)	(54)
Balance at December 31, 2018	$ 200	$ (54)	$ 146
Balance at January 1, 2019	$ 200	$ (54)	$ 146
Net income and comprehensive income	-	(836,033)	(836,033)
Balance at December 31, 2019	**$ 200**	**$ (836,087)**	**$ (835,887)**

See accompanying notes to the financial statements.

Equityline Mortgage Investment Corporation
Statement of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2019	For the period from the date of incorporation on January 18, 2018 to December 31, 2018
Increase (decrease) in cash and cash equivalents		
Operating		
Net loss	**$ (836,033)**	$ (54)
Accretion of transaction costs	**237,973**	-
Provision for mortgage investment losses	**39,000**	-
Unrealized foreign exchange loss	**22,889**	-
	(536,171)	(54)
Changes in non-cash working capital items		
Accounts receivable	**(28,280)**	-
Accounts payable and accrued liabilities	**164,732**	-
Withholding taxes payable	**61,492**	-
Interest payable	**10,721**	-
Distributions payable	**53,027**	-
Prepaid mortgage interest	**170,259**	-
	(104,220)	(54)
Financing		
Advances to related parties	**(197,474)**	-
Issuance of common shares	**-**	200
Net proceeds from issuance of Series A redeemable preferred shares, net of financing costs	**6,219,982**	-
Net proceeds from issuance of convertible debentures	**2,600,000**	-
Repayment of convertible debentures	**(500,000)**	-
	8,122,508	200
Investing		
Investments in mortgage investments, net of discharges	**(7,824,878)**	-
Increase in cash and cash equivalents	**193,410**	146
Cash and cash equivalents, beginning of period	**146**	-
Cash and cash equivalents, end of period	**$ 193,556**	$ 146

See accompanying notes to the financial statements.

1. Nature of business

Equityline Mortgage Investment Corporation (the "Company") is a mortgage investment corporation domiciled in Canada. The Company is incorporated under the laws of the Province of Ontario. The registered office of the Company is Suite 338 - 550 Highway 7 Avenue East, Richmond Hill, Ontario L4B 3Z4. The Company was managed by Equityline Service Corporation (“the Manager”). The Series A preference shares of the Company are listed on the Jamaica Stock Exchange (JSE) under the symbol "ELMIC".

The investment objective of the Company is to acquire mortgages and maintain a portfolio of mortgages consisting primarily of residential Non-Conventional Mortgages and Alt-A Mortgages that generates attractive returns relative to risk in order to permit the Corporation to pay dividends to its shareholders.

2. Basis of presentation

Statement of compliance

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

The audited financial statements were approved by the Board of Directors on February 28, 2020.

Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss ("FVTPL") which are measured at fair value at each reporting date.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company’s functional currency.

Critical accounting estimates, assumptions and judgments

In the preparation of these audited financial statements, Equityline Services Corporation (the “Manager”) has made judgments, estimates and assumptions that affect the application of the Company’s accounting policies and the reported amounts of assets, liabilities, income and expenses.

In making estimates, the Manager relies on external information and observable conditions where possible, supplemented by internal analysis as required. There are no known trends, commitments, events or uncertainties that the Manager believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these statements. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the statements are as follows:

2. Basis of presentation (continued)

Critical accounting estimates, assumptions and judgments (continued)

Classification of mortgage investments

Mortgage investments are classified based on the business model for managing assets and the contractual cash flow characteristics of the asset. The Manager exercises judgment in determining both the business model for managing the assets and whether cash flows of the asset comprise solely payments of interest.

Provision for impairment

The most significant estimates that the Company is required to make relate to the impairment of the investments (Note 4). These estimates include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances, adverse changes in the payment status of borrowers, and other factors affecting the investments and underlying security of the investments. These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns, and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations of the actual outcome. Should the underlying assumptions change, the estimated fair value could vary by a material amount.

Classification of investment portfolio - Investment portfolio is classified based on the assessment of business model and the cash flow characteristics of the investments. The Company exercises judgement in determining the classification of loans in the investment portfolio into measurement categories (Note 3).

Measurement of expected credit loss

The determination of allowance for credit losses takes into account different factors and varies by nature of investment. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different form current assessments, which would require an increase or decrease in the allowance of credit risk. (Note 4).

Measurement of fair values

The Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses market observable data where possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

2. Basis of presentation (continued)

Critical accounting estimates, assumptions and judgments (continued)

Measurement of fair values (continued)

The Manager reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or appraisals are used to measure fair values, the Manager will assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Convertible debentures

The Manager exercises judgment in determining the allocation of the debt and equity components of convertible debentures. The liability allocation is based upon the fair value of a similar liability that does not have an equity conversion option and the residual value is allocated to the equity component.

3. Summary of significant accounting policies

(a) Cash and cash equivalents

The Company considers highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. Cash and cash equivalents are classified and measured at amortized cost.

(b) Mortgage investments

Mortgage investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage investments are measured at amortized cost using the effective interest method, less any impairment losses. Mortgage investments are assessed on each reporting date to determine whether there is objective evidence of impairment.

A financial asset is considered to be impaired only if objective evidence indicates that one or more loss events have occurred after its initial recognition that have a negative effect on the estimated future cash flows of that asset. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary materially.

3. Summary of significant accounting policies (continued)

(b) Mortgage investments (continued)

The Company consider evidence of impairment for mortgage investments at both a specific asset and collective level. All individually significant mortgage investments are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but is not yet identifiable at an individual mortgage level. Mortgage investments that are not individually significant are collectively assessed for impairment by grouping together mortgage investments with similar risk characteristics.

(c) Convertible debentures

The convertible debentures on issuance are convertible at the option of the Company and were therefore classified as equity. During the year, the terms of the convertible debentures were amended to remove the conversion right and repayable in cash on maturity and as a result classified as a liability.

(d) Mortgage interest income

Interest and other income includes interest earned on the Company's mortgage investments and interest earned on cash and cash equivalents. Interest income earned on mortgage and other investments is accounted for using the effective interest rate method.

(e) Income taxes

The Company is a mortgage investment corporation ("MIC") pursuant to the Income Tax Act (Canada). As such, the Company is entitled to deduct from its taxable income dividends paid to shareholders during the year or within 90 days of the end of the year to the extent the dividends were not deducted previously. The Company intends to maintain its status as a MIC and intends to distribute sufficient dividends in the year and in future years to ensure that the Company is not subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company being effectively exempt from taxation and no provision for current or future income tax is required for the Company.

3. Summary of significant accounting policies (continued)

(f) Foreign currency forward contract

The Company may enter into foreign currency forward contracts to economically hedge its foreign currency risk exposure of its mortgage and other investments that are denominated in foreign currencies. The value of forward currency contracts entered into by the Company is recorded as the difference between the value of the contract on the reporting period and the value on the date the contract originated. Any resulting gain or loss is recognized in the statement of net income and comprehensive income unless the foreign currency contract is designated and effective as a hedging instrument under IFRS. The Company has elected to not account for the foreign currency contracts as an accounting hedge.

(g) Financial instruments

Classification & Measurement of Financial Assets

Recognition and initial measurement

The Company on the date of origination or purchase recognizes loans, debt and equity securities, deposits and subordinated debentures at the fair value of consideration paid. Regular-way purchases and sales of financial assets are recognized on the settlement date. All other financial assets and liabilities are initially recognized on the date at which the Company becomes a party to the contractual provisions of the instrument.

The initial measurement of a financial asset or liability is at fair value plus transaction costs that are directly attributable to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss.

Classification and subsequent measurement - financial assets

Financial assets are classified into one of the following measurement categories:
- amortized cost;
- fair value through other comprehensive income ("FVOCI") - debt investment; or
- FVTPL.

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 interest on the principal amount outstanding.

A debt investment is measured at FVOCI 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 achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of interest on the principal amount outstanding.

3. Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

Classification and subsequent measurement - financial assets (continued)

The Company has no debt investments measured at FVOCI.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Financial assets - Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- the objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales of financial assets in prior periods. the reasons for such sales and expectation about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets - assessment whether contractual cash flows are solely payments of interest

For the purposes of this assessment, 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets.

3. Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

Financial assets - assessment whether contractual cash flows are solely payments of interest (continued)

A prepayment feature is consistent with the solely payments of interest criterion if the prepayment amount substantially represents unpaid amounts of interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Subsequent measurement and gains and losses – financial assets

Financial assets classified at FVTPL

Measured at fair value. Net gains and losses, including any interest, are recognized in net income and comprehensive income.

Financial assets classified at amortized cost

Measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in net income and comprehensive income. Any gain or loss on derecognition is recognized in net income and comprehensive income.

Debt investments classified at FVOCI

Measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in Other Comprehensive Income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Financial assets

The Company classified its financial assets into one of the following categories:

Financial Instrument	Classification and measurement
Financial Assets:	
Mortgage loans	Amortized cost
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Due from related parties	Amortized cost

3. Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

Classification, subsequent measurement and gains and losses - financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Company classified its financial liabilities into one of the following categories:

Financial Instrument	Classification and measurement
Financial Liabilities:	
Accounts payable	Amortized cost
Debentures	Amortized cost
Series A redeemable preferred shares	Amortized cost

Impairment of financial assets

The Company recognizes loss allowances for expected credit loss ("ECL") on financial assets measured at amortized cost, unfunded loan commitments and financial guarantee contracts. The Company applies a three-stage approach to measure allowance for credit losses. The Company measures loss allowance at an amount equal to 12 months of expected losses for performing loans if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

The determination of a significant increase in credit risk takes into account different factors and varies by nature of investment. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due interest payment or maturity date, and borrower specific criteria as identified by the Manager. As is typical in shorter duration, structured financing, the Manager does not solely believe there has been a significant deterioration in credit risk or an asset to be credit impaired if mortgage and other investments to go into overhold position past the maturity date for a period greater than 30 days or 90 days, respectively. The Manager actively monitors these mortgage and other investments and applies judgment in determining whether there has been significant increase in credit risk. The Company considers a financial asset to be credit impaired when the borrower is more than 90 days past due and when there is objective evidence that there has been a deterioration of credit quality to the extent the Company no longer has reasonable assurance as to the timely collection of the full amount of interest or/and when the Company has commenced enforcement remedies available to it under its contractual agreements.

3. Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

Impairment of financial assets (continued)

The assessment of significant increase in credit risk requires experienced credit judgment. In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, the Manager relies on estimates and exercises judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. In cases where a borrower experiences financial difficulties, the Company may grant certain concessionary modifications to the terms and conditions of a loan. Modifications may include payment deferrals, extension of amortization periods, debt consolidation, forbearance and other modifications intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. The Company determines the appropriate remediation strategy based on the individual borrower. If the Company determines that a modification results in expiry of cash flows, the original asset is derecognized while a new asset is recognized based on the new contractual terms. Significant increase in credit risk is assessed relative to the risk of default on the date of modification. If the Company determines that a modification does not result in derecognition, significant increase in credit risk is assessed based on the risk of default at initial recognition of the original asset. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For loans that were modified while having a lifetime ECL, the loans can revert to having 12-month ECL after a period of performance and improvement in the borrower's financial condition.

Measurement of ECLs

ECLs are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset. Lifetime ECLs are the ECLs that result from all possible default event over the expected life of a financial instrument. 12-months ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining the expected credit loss provision, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. The Manager consider past events, current market conditions and reasonable forward-looking supportable information about future economic conditions. In assessing information about possible future economic conditions, the Manager utilized multiple economic scenarios including a base case, which represents the most probable outcome and is consistent with our view of the portfolio. In considering the lifetime of a loan, the contractual period of the loan, including prepayment, extension and other options is generally used.

3. Summary of significant accounting policies (continued)

(g) Financial instruments (continued)

Measurement of ECLs (continued)

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic conditions. In determining expected credit losses, the Manager has considered key macroeconomic variables that are relevant to each investment type. Key economic variables include unemployment rate, housing price index and interest rates. The estimation of future cash flows also includes assumptions about local real estate market conditions, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary. The forecast is developed internally by the Manager. The Manager exercises experienced credit judgment to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability- weight assigned to each forecast scenario.

Credit-impaired financial assets

Allowances for Stage 3 are recorded for individually identified impaired loans to reduce their carrying value to the expected recoverable amount. The Manager reviews the loans on an ongoing basis to assess whether any loans carried at amortized cost should be classified as credit impaired and whether an allowance or write-off should be recorded. The review of individually significant problem loans is conducted at least quarterly by the Manager, who assesses the ultimate collectability and estimated recoveries for a specific loan based on all events and conditions that are relevant to the loan. To determine the amount the Manager expects to recover from an individually significant impaired loan, the Manager uses the value of the estimated future cash flows discounted at the loan's original effective interest rate. The determination of estimated future cash flows of a collateralized impaired loan reflects the expected realization of the underlying security, net of expected costs and any amounts legally required to be paid to the borrower.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial asset measured at amortized cost are deducted from the gross carrying amount of the asset.

Write-offs

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectation of recovering a financial asset in its entirely or a portion thereof. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

3. Summary of significant accounting policies (continued)

(h) Derecognition of financial assets and liabilities

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that does not qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Company enters into transactions whereby it transfers mortgage investments recognized on its statement of financial position, but retains either all, substantially all, or a portion of the risks and rewards of the transferred mortgage investments. If all or substantially all risks and rewards are retained, then the transferred mortgage or loan investments are not derecognized. In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Company derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

(i) Adoption of new accounting standards

The Company has not adopted any new accounting standards that had a material impact on the Company’s financial statements.

Future accounting policy changes

At the date of authorization of these financial statements, several new, but not yet effective, standards and amendments to existing standards, and interpretations have been published by the IASB. None of these standards or amendments to existing standards have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company’s financial statements.

4. Mortgage investments

	Number	**2019**	Number	2018
Residential	**7,602,748**	**38**	-	-
Commercial	**150,000**	**1**	-	-
	7,752,748	**39**	-	•
Accrued interest receivable (net of servicing fees)	**72,130**			
	7,824,878			
Allowance for loan loss	**(39,000)**			
	7,785,878			

	2019	**%**	2018	%
Interest in first mortgages	**$ 927,613**	**5%**	$ -	-
Interest in non-first mortgages	**6,897,265**	**95%**	-	-
	7,824,878	**100%**	-	-
Allowance for loan losses	**(39,000)**			
	$ 7,785,878			

The following table presents the gross carrying amounts of mortgage investments subject to IFRS 9 impairment requirements.

Allowance for credit losses

Allowance on performing loans

The mortgage investments are assessed at each reporting date to determine whether there is objective evidence of expected credit losses. The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2). As at December 31, 2019, a provision for expected credit losses on the mortgage investments was recorded of $39,000.

Allowance on impaired loans

Allowance for impaired loans (Stage 3) are recorded for individually identified impaired loans to reduce their carrying value to the expected recoverable amount. As at December 31, 2019, there were no impaired mortgage investments.

4. Mortgage investments (continued)

Loans are broken down into the different stages as follows:

	Stage 1	Stage 2	Stage 3	Total
Residential				
Gross mortgage investments	$ 7,492,808	$ 180,697	$ -	$ 7,673,505
Allowance for loan losses	(37,345)	(901)	-	(38,246)
Mortgage investment, net of allowance	7,455,463	179,796	-	7,635,259
Commercial				
Gross mortgage investments	151,373	-	-	151,373
Allowance for loan losses	(754)	-	-	(754)
Mortgage investment, net of allowance	150,619	-	-	150,619
Total mortgage loans	**$ 7,606,082**	**$ 179,796**	**$ -**	**$ 7,785,878**

The Company uses the following internal risk ratings for credit risk purposes:

Low Risk: Mortgage investments that exceed the credit risk profile standard of the Company with a below average probability of default. Yields on these investments are expected to trend lower than the Company's average portfolio.

Medium-Low: Mortgage investments that are typical for the Company's risk appetite, credit standards and retain a below average probability of default. These mortgage and loan investments are expected to have average yields and would represent a significant percentage of the overall portfolio.

Medium-High: Mortgage investments within the Company's risk appetite and credit standards with an average probability of default. These investments typically carry attractive risk- return yield premiums.

High Risk: Mortgage investments within the Company's risk appetite and credit standards that have an additional element of credit risk that could result in an above average probability of default. These mortgage and loan investments carry a yield premium in return for their incremental credit risk. These mortgage and loan investments are expected to represent a small percentage of the overall portfolio.

Default: Mortgage investments that are 90 days past due and when there is objective evidence that there has been a deterioration of credit quality to the extent the Company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest and/or when the Company has commenced enforcement remedies available to it under its contractual agreements.

All Mortgage investments held at December 31, 2019 are classified as Medium-low risk.

The mortgage loans bear interest at the weighted average rate of 11.63%.

5. Management fees

The Manager is responsible for day-to-day operations including administration of the Company's mortgage portfolio. Pursuant to the management agreement, the Manager is entitled to 1% per annum of the gross mortgage investments of the Company, calculated and paid monthly in arrears.

Gross mortgage investments are defined as the total mortgage investments of the Company less unearned revenue. For the year ended December 31, 2019, the Company incurred management fees of $81,138.

6. Related party transactions and balances

	2019	2018
Due from Equityline Services Corporation (the Manager) – non-interest bearing and due on demand, related by virtue of common ownership and management	**$ 197,474**	$ -

As at December 31, 2019, included in due to related party is $121,625 of cash held in trust by the Manager. The Manager provides mortgage servicing and administration services to the Company. The balance relates to mortgage funding holdbacks and prepaid mortgage interest received from various borrowers.

During the year, the Company issued two debentures for $1,500,000 and $1,000,000 to Bonello Holdings Limited with a maturity date of September 11, 2019. On October 8, 2019, the Company repaid $500,000 of the $1,000,000 debenture issued to Bonello Holdings Limited. Bonello Holdings Limited is related to the Company by way of common ownership and management.

On December 1, 2019, Bonello Holdings Limited assigned the outstanding balances of the debentures to Velev Capital Inc. Velev Capital Inc. is related to the Company by way of common ownership and management. Refer to Note 7 which provides further details on the terms and conditions of these debentures.

During the year, Equityline Financial Corp. charged the Company $99,211 for management services provided to list the Series A Preference shares on the Jamaican Stock Exchange. This charge has been included in financing costs of the redeemable preferred shares (Note 8). Equityline Financial Corp. is related to the Company by virtue of common management and ownership.

During the year, the Company paid management fees of $81,138 to the Manager.

These related party transactions are 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.

7. Debentures

The debentures are comprised of as follows:

	2019	2018
Issued		
Due on demand, carrying interest rate of 8% (Note 6)	$ 1,500,000	$ -
Due on demand, carrying interest rate of 8% (Note 6)	500,000	-
Due June 20, 2020, carrying interest rate of 9%	100,000	-
Debentures, end of period	$ 2,100,000	$ -

During the year, the Company issued convertible debentures at the option of the Company for proceeds of $2,600,000, with maturity dates ranging from September 11, 2019 to December 20, 2019. The convertible debentures are convertible for 1 Series C non-voting shares for every $1 outstanding. On initial measurement of the convertible debentures, management determined the underlying debentures were equity instruments and measured at its carrying value of $2,600,000.

On July 11, 2019, the terms of the convertible debentures were amended to remove the conversion right. Thereafter, the debentures are repayable in cash on maturity. The maturity date of the debenture for $100,000 was subsequently amended to June 20, 2020. The remaining debentures are due on demand.

Interest costs of $160,992 related to the debentures are recorded in financing costs using the effective interest rate method.

8. Series A redeemable preferred shares

Series A Redeemable Preferred Shares

	2019		2018	
	Shares	Amount	Shares	Amount
Shares outstanding at the beginning of the year	-	$ -	-	$ -
Issuance of Series A preferred shares	2,683,400	6,980,538	-	-
Less: financing costs	-	(737,667)	-	-
	2,683,400	6,242,871	-	-
Accretion of transaction costs	-	237,973	-	-
	2,683,400	$ 6,480,844	-	$ -

On January 18, 2019 the Company completed a public offering of 2,683,400 Series A redeemable preferred shares for a total of net proceeds of $6,480,844.

There is an unlimited number of Series A redeemable preferred shares available for issue. The shares are non-voting and redeemable at $2 USD per share.

Distributions to shareholders of Series A redeemable preferred shares

The Company intends to pay dividends to holders of Series A preferred shares monthly within 15 days following the end of each month. For the year ended December 31, 2019, the Company declared dividends of $541,192, or $0.20 CAD ($0.16 USD) per Series A preferred shares.

9. Share capital

Authorized:

Unlimited as to number
Voting common shares
Series A preferred shares, non-voting, redeemable by the Company after 24 months and retractable by the holder after 36 months at $2 USD per share with a right to a monthly dividend of $0.01333 USD ($0.16 USD annually).
Series C non-voting shares, redeemable and retractable at $10 per share with a right to an annual cumulative dividend of 8.0% paid monthly.
Series F non-voting shares, redeemable and retractable at $10 per share with a right to an annual dividend between 7.5% and 8.5%.
Series H non-voting shares, redeemable and retractable at $10 per share with a right to an annual cumulative dividend of 8.0% paid monthly.

	2019	2018
Issued		
200 voting common shares	**$ 200**	$ 200

10. Earnings per share

Basic earnings per share are calculated by dividing total net income and comprehensive income by the weighted average number of common shares during the period.

The debentures issued at March 11, 2019 were convertible at the option of the Company and therefore were considered an equity instrument. This convertible feature was removed on July 11, 2019. The convertible feature allowed the Company to convert the debentures into non-voting common shares having the same attributes as the voting common shares that are issued. The basic earnings per share calculation includes the issued voting shares and the effect of the debentures being converted into non-voting common shares.

The following table shows the computation of per share amounts:

	2019
Net loss and comprehensive loss	**$ (836,033)**
Weighted average number of common shares - basic	**869,241**
Loss per common share – basic	**(0.96)**

11. Contingent liability

In the ordinary course of business activities Company may be contingently liable for litigation and claims arising from investing in mortgage investments and other investments. Where required, management records adequate provisions in the accounts.

Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the Company's financial position.

Currently, there are no contingent liabilities or litigations.

12. Financial instruments

The Company is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results. Many of these risk factors are beyond the Company's direct control. The Manager and Board of Directors play an active role in monitoring the Company's key risks and in determining the policies that are best suited to manage these risks. There has been no change in the process since the previous year.

The Company's business activities, including its use of financial instruments, exposes the Company to various risks, the most significant of which are market rate risk (interest rate risk and currency risk), credit risk, and liquidity risk.

Credit risk

Credit risk is the risk that a borrower may be unable to honour its debt commitments as a result of a negative change in market conditions that could result in a loss to the Company. The Company mitigates this risk by the following:

i. adhering to the investment restrictions and operating policies included in the asset allocation model (subject to certain duly approved exceptions);
ii. ensuring all new mortgage investments are approved by the investment committee before funding; and
iii. actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, where required.

The Company's primary exposure to credit risk at December 31, 2019 is its mortgage investments of $7,785,878. However, the exposure to risk is mitigated by security against the assets of the borrowers.

The Company has recourse under these mortgages and in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment advances and repayments and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

12. Financial instruments (continued)

The following are the contractual maturities of financial liabilities as at December 31, 2019 and December 31, 2018:

2019	Carrying values	Contractual cash flows	Within a year
Accounts payable and accrued liabilities	$ 164,732	$ 164,732	$ 164,732
Withholding tax payable	61,492	61,492	61,492
Distributions payable	53,027	53,027	53,027
Interest payable	10,721	10,721	10,721
Prepaid mortgage interest	170,259	170,259	170,259
Debentures	2,100,000	2,100,000	2,100,000
	$ 2,560,231	$ 2,560,231	$ 2,560,231

2018	Carrying values	Contractual cash flows	Within a year
Accounts payable and accrued liabilities	$ -	$ -	$ -

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk primarily from other investments that are denominated in a currency other than the Canadian dollar. The Company does not use foreign currency forwards to hedge the principal balance of future earnings and cash flows caused by movements in foreign exchange rates.

As at December 31, 2019, the Company has the following assets and liabilities denominated in US dollars:

	2019	2018
Cash and cash equivalents	**$ 29,911**	$ -
Distributions payable	**53,027**	-
Series A redeemable preferred shares	**6,480,844**	-
	$ 6,563,782	$ -

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of December 31, 2019, the Company had mortgage investments of $7,785,878. The Company manages its sensitivity to interest rate fluctuations by managing the fixed rate composition of its investment portfolio.

The Company's amounts receivable, accounts payable and accrued expenses, prepaid mortgage interest have no exposure to interest rate risk due to their short-term nature. Cash and cash equivalents carry a variable rate of interest and are subject to minimal interest rate risk and the debentures have no exposure to interest rate risk due to their fixed interest rate.

Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant market risk and other price risks arising from these financial instruments.

13. Fair value of financial instruments

a) Mortgage investments

There is no quoted price in an active market for the mortgage investments. The Manager makes its determination of fair value based on its assessment of the current lending market for mortgages. Typically, the fair value of these mortgage investments approximate their carrying values given the amounts consist of short-term loans.

b) Other financial assets and liabilities

The fair values of cash and cash equivalents, amounts receivable, due from related parties, accounts payable, prepaid mortgage interest, debentures and redeemable preferred shares approximate their carrying amounts due to their short-term maturities or bear interest and dividend at market rates.

14. Capital risk management

The Company manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a stable monthly cash dividend to shareholders. The Company defines its capital structure to include common shares and debentures.

The Company reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage investment opportunities, the availability of capital and anticipated changes in general economic conditions.

The Company's investment restrictions and asset allocation model incorporate various restrictions and investment parameters to manage the risk profile of the mortgage investments. There have been no changes in the process over the previous year.

At December 31, 2019, the Company was in compliance with its investment restrictions.