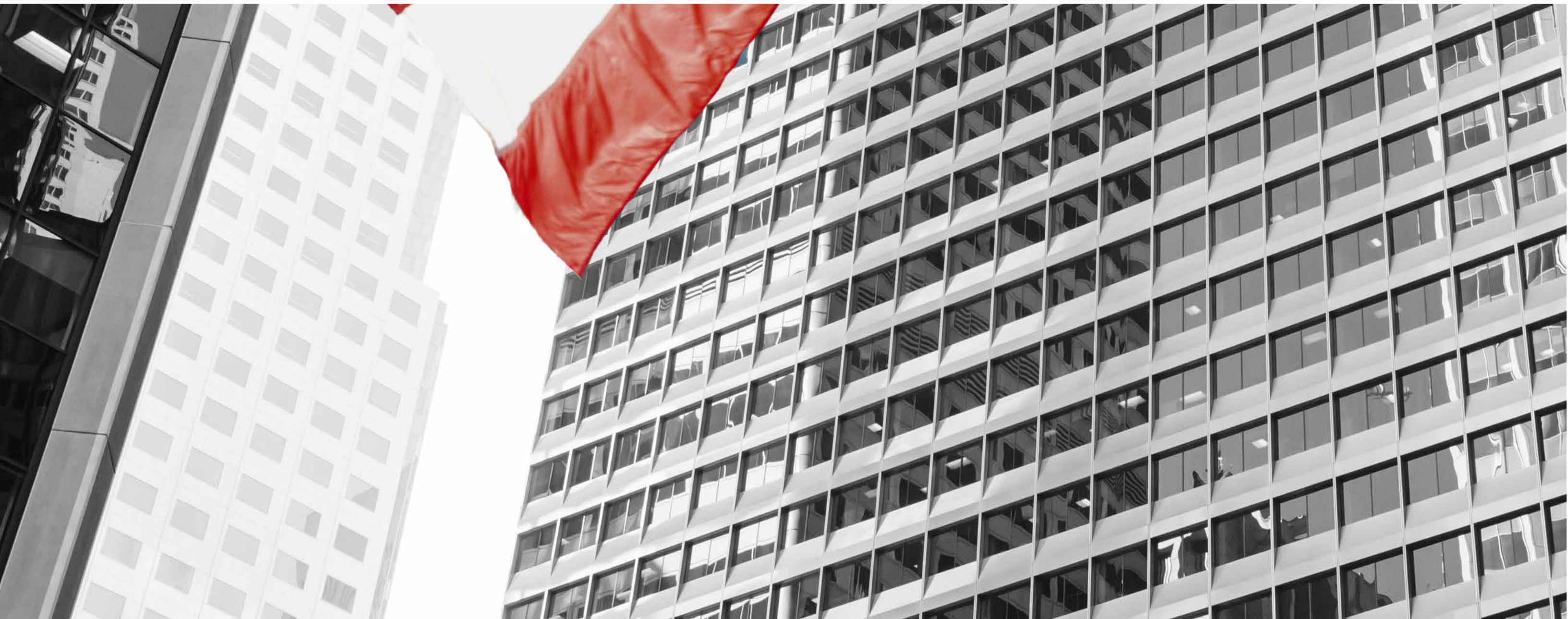
FIRM CAPITAL AMERICAN REALTY PARTNERS CORP.

CAPITAL PRESERVATION • DISCIPLINED INVESTING

CONSOLIDATED FINANCIAL STATEMENTS

FOURTH QUARTER 2019
DECEMBER 31, 2019



Consolidated Financial Statements of

FIRM CAPITAL AMERICAN REALTY PARTNERS CORP.

For the Years Ended December 31, 2019 and 2018

(Expressed In US Dollars)

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Firm Capital American Realty Partners Trust

Opinion

We have audited the consolidated financial statements of Firm Capital American Realty Partners Corp. (the Entity), which comprise:

- the consolidated balance sheet as at December 31, 2019
- the consolidated statement of income and comprehensive income for the year then ended
- the consolidated statement of changes in shareholders' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

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

Basis for Opinion

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

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

Other Matter - Comparative Information

The financial statements for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 14, 2019.

Other Information

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

- Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report 2019".

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

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

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

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report 2019" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Saqib Jawed.

Toronto, Canada

April 6, 2020

FIRM CAPITAL AMERICAN REALTY PARTNERS CORP.

Consolidated Balance Sheets

(Expressed in US Dollars)

	Notes	December 31, 2019	December 31, 2018
Assets		$	$
Current assets			
Cash and cash equivalents		6,408,509	2,374,340
Restricted cash		632,011	631,266
Accounts receivable		195,361	159,387
Prepaid expenses and other assets		181,731	231,159
Assets held for sale	19	-	3,085,841
Total current assets		7,417,612	6,481,993
Non-current assets			
Investment properties	4	48,167,177	44,783,595
Equity accounted investments	5	16,082,203	10,129,436
Preferred investments	5	22,383,164	18,568,744
Preferred capital investments	6	5,373,377	2,000,354
Total non-current assets		92,005,921	75,482,129
Total assets		99,423,533	81,964,122
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	17	2,411,062	2,170,970
Liabilities associated with assets held for sale	19	-	59,119
Mortgages payable	8,9	355,899	341,974
Convertible debentures payable	7,9	-	1,346,716
Deferred share unit liabilities	20	37,974	40,832
Total current liabilities		2,804,935	3,959,611
Non-current liabilities			
Mortgages payable	8,9	17,456,453	17,768,758
Convertible debentures payable	7,9	14,039,421	-
Deferred tax liability		-	525,358
Total non-current liabilities		31,495,874	18,294,116
Total liabilities		34,300,809	22,253,727
Shareholders' Equity			
Share capital	10	82,931,506	82,938,306
Contributed surplus		7,006,754	5,764,737
Equity portion of convertible debentures	7	-	1,242,017
Accumulated foreign currency translation reserve		3,331,939	3,331,939
Deficit		(28,147,475)	(33,566,606)
Total shareholders' equity		65,122,724	59,710,395
Total liabilities and shareholders' equity		99,423,533	81,964,122

Subsequent Events 23

See accompanying Notes to Consolidated Financial Statements

(signed) "Geoffrey Bledin"
Geoffrey Bledin
Director

(signed) "Sandy Poklar"
Sandy Poklar
CFO & Director

FIRM CAPITAL AMERICAN REALTY PARTNERS CORP.

Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 2019 and 2018
(Expressed in US Dollars)

	Notes	December 31, 2019		December 31, 2018	
		$		$	
Net rental income					
Rental revenue			4,296,303		4,135,834
Property operating expenses	15		1,960,474		1,740,490
			2,335,829		2,395,344
Income from equity accounted investments	5		3,257,890		2,633,578
Income from preferred investments	5		1,745,183		1,231,717
Income from preferred capital investments			292,527		256,747
Expenses and other:					
General and administrative and professional fees	15		2,137,613		1,817,518
Finance costs	15		1,648,304		2,053,139
Foreign exchange loss			166,615		11,420
Share based compensation	11,12, 20		(2,858)		329,230
			3,949,674		4,211,307
Net income before fair value adjustments and income taxes			3,681,755		2,306,079
Fair value adjustments of investment properties	4		3,086,342		1,741,574
Income tax recovery	21		525,358		95,015
Net Income from continuing operations			7,293,455		4,142,669
Net income/(loss) from discontinued operations (net of income tax recovery)	19		(237,593)		1,486,689
Income tax (recovery)/expense (note 20)			-		-
Net income and comprehensive income			7,055,862		5,629,358
Basic net income per share					
From continuing operations	13	$	1.05	$	0.66
From discontinued operations	13	$	(0.03)	$	0.24
		$	1.02	$	0.90
Diluted net income per share					
From continuing operations	13	$	1.05	$	0.52
From discontinued operations	13	$	(0.03)	$	0.19
		$	1.02	$	0.71

See accompanying Notes to Consolidated Financial Statements

FIRM CAPITAL AMERICAN REALTY PARTNERS CORP.

Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2019 and 2018
(Expressed in US Dollars)

	Notes	Share capital	Contributed surplus	Equity portion of convertible debentures	Accumulated foreign currency translation reserve	Deficit	Total
Balance at December 31, 2017		76,842,700	5,100,195	1,242,017	3,331,939	(37,771,759)	48,745,094
Issuance of shares from Equity Offering	10(a)	6,211,579	-	-	-	-	6,211,579
Issuance of warrants from Equity Offering	10(a),12(a)(ii)	-	338,229	-	-	-	338,229
Issuance costs	10(a)	(115,973)	-	-	-	-	(115,973)
Issuance of options	11,12(b)(i)	-	401,182	-	-	-	401,182
Expiration of options	12(b)(i)		(74,868)	-	-	-	(74,868)
Net income and comprehensive income for the year		-	-	-	-	5,629,358	5,629,358
Dividends	14	-	-	-	-	(1,424,207)	(1,424,207)
Balance at December 31, 2018		82,938,306	5,764,737	1,242,017	3,331,939	(33,566,606)	59,710,394
Normal Course Issuer Bid	10(b)	(6,800)	-	-	-	-	(6,800)
Reclassification of equity portion of convertible debentures	7(a)	-	1,242,017	(1,242,017)	-	-	-
Net income and comprehensive income for the year		-	-	-	-	7,055,862	7,055,862
Dividends	14	-	-	-	-	(1,636,731)	(1,636,731)
Balance at December 31, 2019		82,931,506	7,006,754	-	3,331,939	(28,147,475)	65,122,724
Shares Outstanding		6,935,306					

See accompanying Notes to Consolidated Financial Statements

FIRM CAPITAL AMERICAN REALTY PARTNERS CORP.

Consolidated Statement of Cash Flows
Years Ended December 31, 2019 and 2018
(Expressed in US Dollars)

	Notes	December 31, 2019	December 31, 2018
Cash flow from (used in) operating activities			
Net income and comprehensive income		7,055,862	5,629,358
Add (Deduct):			
Fair Value Adjustments			
Investment properties	4,19	(2,914,393)	(2,433,831)
Equity accounted investments	5	(2,807,848)	(2,742,253)
Depreciation		-	9,922
Accretion expense/fair value change	7	397,189	292,532
Income earned from equity accounted investments, net of distributions	5	(185,584)	(26,940)
Income earned from preferred investments, net of distributions	5	(506,061)	-
Preferred Capital Investments, net of distributions		(68,749)	(7,198)
Share based compensation	11,12,20	(2,858)	329,230
Deferred tax liability		(525,358)	(129,114)
Amortization		49,525	-
Changes in non-cash operating working capital:			
Accounts receivable		(35,974)	207,186
Prepaid expenses and other assets		49,428	(89,387)
Accounts payable and accrued liabilities		161,959	(344,248)
Total operating activities		667,138	695,259
Cash flows from (used in) investing activities			
Proceeds received from redemption of preferred investments	5	-	1,777,188
Proceeds received from redemption of preferred capital investments	6	-	520,833
Investment in equity accounted investments	5	(2,959,335)	(15,011,722)
Investment in preferred investments	5	(3,308,359)	-
Investment in preferred capital investments	6	(3,304,274)	-
Capital expenditures on investment properties	4,19	(297,240)	(442,053)
Proceeds from disposition of assets held for sale	19	2,913,890	13,678,088
Total investing activities		(6,955,317)	522,333
Cash flow from (used in) financing activities			
Proceeds from convertible debenture and warrants issuances net of issuance costs	7	13,724,465	6,433,835
Normal course issuer bid	10(b)	(6,800)	-
Cash dividends paid	14	(1,617,717)	(1,378,724)
Repayment of convertible debentures	7,9	(1,428,950)	(11,006,050)
Advances of mortgages	8,9	1,060,000	8,050,000
Repayment of mortgages	8,9	(1,407,905)	(8,417,582)
Total financing activities		10,323,093	(6,318,521)
Increase in cash, cash equivalents and restricted cash		4,034,914	(5,100,929)
Cash and cash equivalents, beginning of year		3,005,606	8,106,535
Cash and cash equivalents, end of year		7,040,520	3,005,606
Consisting of:			
Cash and cash equivalents		6,408,509	2,374,340
Restricted cash		632,011	631,266

See accompanying Notes to Consolidated Financial Statements

1. Nature of operations

Firm Capital American Realty Partners Corp. (the "**Company**") was incorporated under the Business Corporations Act (Ontario) on March 19, 2007. The Company trades on the TSX Venture Exchange ("**TSXV**") under the trading symbols "FCA.U" and "FCA". The address of the Company's registered office is 163 Cartwright Avenue, Toronto, Ontario, M6A 1V5.

The Company is focused on the following investment platforms:

Income Producing Real Estate Investments: Acquiring income producing real estate assets in major cities across the United States. Acquisitions are completed solely by the Company or in joint-venture partnerships with local industry expert partners who retain property management; and

Mortgage Debt Investments: Real estate debt and equity lending platform in major cities across the United States. Focused on providing all forms of bridge mortgage loans and equity accounted and preferred investments.

On January 8, 2020, the Company completed its plan of arrangement to convert into a Real Estate Investment Trust and will be trading under Firm Capital American Realty Partners Trust (the "Trust"). The units of the Trust began trading on TSXV on January 8, 2020, under symbols FCA.U and FCA.UN. Under the terms of the Arrangement, each outstanding common share of the Company was exchanged for one unit of the Trust.

The financial statements were approved and authorized for issue by the Board of Directors on April 6, 2020.

2. Basis of preparation

The consolidated financial statements are prepared on a going concern basis and have been presented in US dollars which is the Company's reporting currency. Standards and guidelines not effective for the current accounting period are described in note 3(a). Standards and guidelines implemented and effective for the current accounting period are described in note 3(b).

Statement of compliance

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

Basis of measurement

The consolidated financial statements have been prepared on the cost basis except as otherwise noted.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. Subsidiaries are consolidated from the date control commences until control ceases.

Functional currency

As at December 31, 2019, the Company and all of its subsidiaries' functional currencies are the US Dollar ("USD").

Investment properties

The Company uses the fair value method to account for real estate classified as investment properties. The Company's investment properties are principally held to earn rental income or for capital appreciation, or both. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are recognized in profit and loss during the period in which they arise.

The Company determines the fair value of the investment properties based on an overall capitalization method which is a generally accepted appraisal methodology. Under the overall capitalization method, year one net operating income is stabilized, incorporates allowances for vacancy, management fees and other operating expenses.

Subsequent capital expenditures are charged to the investment property only when it is probable that the future economic benefits of the expenditure will flow to the Company and the cost can be measured reliably.

Equity Investments

Investments in entities where the Company exercises significant influence are accounted for using the equity method and are recorded initially at cost plus the Company's share of income or loss to date including the fair value adjustments to the underlying investment properties less dividends or distributions received.

Preferred Investments and Preferred Capital Investments

Preferred investments and preferred capital investments are debt and/or equity investments provided to sponsors or borrowers to acquire real estate. These investments are typically ranked above common equity and generate a fixed rate of return over the life of the investment. The investments are held at amortized cost.

Assets held for sale and discontinued operations

Non-current assets and groups of assets and liabilities which are comprised of disposal groups are presented as assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification; and it is unlikely there will be changes to the plan. Where an asset or disposal group is acquired with a view to resale, it is classified as a current asset held for sale if the disposal is expected to take place within one year of the acquisition. Non-current assets held for sale and disposal groups are carried at fair value less costs to sell. When a component of an entity has been disposed of, or is reclassified as held for sale, and it represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, the related results of operations and gain or loss on reclassification or disposition are presented in discontinued operations. The profit or loss arising on disposition of assets or disposal groups that do not represent discontinued operations are presented in gains (losses) on disposition of investment properties.

Accounting for acquisitions

The Company assesses whether an acquisition transaction should be accounted for as an asset acquisition or a business combination under IFRS 3, Business Combinations ("IFRS 3"). This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business, as defined in IFRS 3, and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business, and the Company obtains controls of the business.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand to fund acquisition and other operating requirements. Cash and cash equivalents consists of cash on deposit and liquid money market funds, which are held at major Canadian and American banking institutions.

Financial instruments - recognition and measurement

The Company recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value plus or minus directly attributable transaction costs when a financial asset or financial liability is not recognized at fair value through profit or loss. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Subsequent measurement depends on the initial classification of the financial asset or financial liability.

The classification of financial assets depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified and measured based on the following categories:

- amortized cost
- fair value through other comprehensive income ("FVOCI")
- fair value through profit or loss ("FVTPL")

The following summarizes the Company's classification of financial assets and liabilities:

	Notes	Classification
Assets		
Preferred Investments	5	Amortized cost
Preferred Capital Investments	6	Amortized cost
Accounts Receivable		Amortized cost
Deposits and Other Assets		Amortized cost
Restricted Cash		Amortized cost
Cash and Cash Equivalents		Amortized cost
Liabilities		
Mortgages Payable	8,9	Amortized cost
Convertible Debentures Payable	7,9	Amortized cost/ FVTPL
Accounts Payable and Accrued Liabilities	17	Amortized cost
Deferred Share Unit Liabilities	20	FVTPL

Financial Instruments - Impairment

The Company uses the "expected credit loss" ("ECL") model to assess impairment for financial assets carried at amortized cost.

Trade receivables

The Company applies the simplified approach and measures loss allowances at an amount equal to lifetime ECLs. The Company adopted the practical expedient to determine ECL on trade receivables based on historical credit loss experiences to estimate lifetime ECLs.

Preferred investments and preferred capital investments

The preferred investments and preferred capital investments with low credit risk (Stage 1) determine credit loss using 12-month ECL approach, and where the credit risk has increased (Stage 2) or in default (Stage 3) a life time ECL approach.

The determination of significant increase in credit risk takes into account different factors which vary based on the investment. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due and certain criteria are met which are specific to the individual customer/borrower and underlying asset, based on judgement.

When determining the ECL provision, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. Management considers past events, current market conditions, and reasonable forecasts of future economic events based on mutually agreed assumptions. In assessing potential economic outcomes, the Company assess multiple scenarios and evaluates the most probable outcome based on facts and management's expertise.

In the calculation of ECLs, management has considered key macroeconomic variables that are relevant to each investment type. The estimation of future cashflows also includes assumptions about local market for the real estate, availability of future financing and the underlying value of the asset. These assumptions are limited to the availability of comparable market data and the uncertainty of future events. Accordingly, the estimates of impairment are subjective and may not be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cashflows could vary. The Company exercises judgement to incorporate multiple economic models in the determination of the final ECL.

Revenue recognition

The Company has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. Non- rental revenue is recorded as the services are provided over the term of the rental contract.

Finance costs

Finance costs comprise interest expense on borrowings and impairment losses, if any, recognized on financial assets.

Deferred share units

The Company's deferred share unit ("DSU") plan provides for grants to non-employee directors as a long-term incentive component of their compensation. DSU's vest immediately upon grant and are paid out in either cash or shares when a participant ceases to be a director of the Company. The DSUs are recorded as a liability at fair value at the date of grant. Each subsequent reporting period, the liability is updated to the period end fair value of the DSU's and changes are recorded and presented as deferred share unit compensation expense. The fair value of the DSU's are calculated based on the share price of the Company at period end.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income (loss) except for items recognized directly in equity or in other comprehensive income/ (loss).

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax basis, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in net income (loss) in the year of change.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Share-based compensation

The fair value of stock options awarded to employees, directors, and lenders is measured using the Black-Scholes and Binomial Tree option pricing models and is recognized over the vesting periods in the consolidated statement of income/(loss) and comprehensive income/(loss) and in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon exercise of the option, consideration received, together with the amount previously recognized in contributed surplus, is reclassified as an increase to share capital.

Income (loss) per share

Basic income (loss) per share is computed by dividing the net income (loss) applicable to common shares of the Company by the weighted average number of common shares outstanding for the period. Diluted income per share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. When there is a loss, no potential shares are included in the computation of the denominator as they are anti-dilutive.

Consolidated statement of cash flows

The Company prepares its consolidated statement of cash flows using the indirect method. The Company classifies interest received and paid as part of operating activities in the consolidated statement of cash flows.

Significant estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and judgements. In making estimates and judgements, management relies on external information and observable conditions where possible, supplemented by internal analysis as required.

The estimates and judgements used in determining the recorded amount for assets and liabilities in the consolidated financial statements include the following:

Equity accounted investments

Judgement is used to determine that the Company exercises significant influence over the operating and financing activities of the associate instead of joint control.

Impairment of Preferred Investments and Preferred Capital Investments

Management uses judgement in assessing factors discussed above in assessing ECL.

Impairment of Trade receivables

Management uses judgement in assessing factors discussed above in assessing ECL.

Investment properties

The Company uses significant estimates in the calculations for capitalization rates, inflation rates, vacancy rates, and net rental income.

Share-based compensation

Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including expected life of the share-based payment, volatility and dividend yield, and making assumptions about them.

Deferred income taxes

Tax interpretations and regulations in the jurisdictions of operations are subject to change, and as such, income taxes are subject to measurement uncertainty. Deferred income tax assets and liabilities are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable income. Judgment is required in determining the manner in which the carrying amounts will be recovered.

3. Accounting policy changes

(*a*) *Future changes in accounting policies*

(i) Amendments to IFRS 3. The IASB published amendments to IFRS 3 in relation to whether a transaction meets the definition of a business combination. The amendments clarify the definition of a business, as well as provide additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, and to asset acquisitions that occur on or after the beginning of that period. Early application is permitted. The Company intends to adopt the amendments to IFRS 3 on the required effective date of January 1, 2020.

(ii) Amendments to References to the Conceptual Framework in IFRS Standards. On March 29, 2018, the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards to update references in IFRS Standards to previous versions of the Conceptual Framework. Both documents are effective from January 1, 2020 with earlier application permitted. The Company will adopt the amendments in its financial statements for the annual period beginning on January 1, 2020. The Company does not expect the amendments to have a material impact on the financial statements

(iii) Definition of Material (Amendments to IAS 1 and IAS 8). On October 31, 2018, the IASB refined its definition of material and removed the definition of material omission or misstatements from IAS 8. The amendments are effective for annual periods beginning on or after January 1, 2020. Early adoption is permitted. The definition of material has been aligned across IFRS Standards and the Framework. The amendments provide a definition and explanatory paragraphs in one place. Pursuant to the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company will adopt the amendments to IAS 1 and IAS 8 in its financial statements for the annual period beginning on January 1, 2020. The Company does not expect the amendments to have a material impact on the financial statements.

(b) New changes in accounting policies

IFRS 16, Leases ("IFRS 16") supersedes IAS 17, Leases ("IAS 17"), IFRIC 4, Determining Whether an Arrangement Contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the financial statements with a right-of-use asset and a corresponding lease liability. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 requirements. The effective date for IFRS 16 was January 1, 2019. Based on the adoption of IFRS 16, the Company did not experience a significant impact on its consolidated financial statements since the Company is the lessor, and not the lessee, in virtually all instances.

4. Investment properties

	December 31, 2019	December 31, 2018
	$	$
Balance, beginning of year	44,783,595	42,651,982
Building improvements	297,240	390,039
Fair value adjustments to investment properties	3,086,342	1,741,574
Balance, end of year	48,167,177	44,783,595

The investment properties as at December 31, 2019 consist of 311 multi-family apartment units in three buildings located in Florida and Texas.

The Company determined the fair value of the investment properties using a combination of an internally managed valuation model and property appraisals. The key valuation assumptions for the properties are set out in the following table:

	December 31, 2019	December 31, 2018
Capitalization rate	4.75%	5.00%

The fair values of the Company's investment properties are sensitive to changes in key valuation assumptions. Changes in capitalization rates would result in a change in fair value of the Company's investment properties as set out in the following table:

	December 31, 2019
	$
Capitalization rate increase by 25 basis points	(2,408,000)
Capitalization rate decrease by 25 basis points	2,675,000

5. Equity accounted and preferred investments

The Company has invested in the following equity accounted and preferred investments.

(In $millions unless otherwise stated).

Location	Units	Investment Properties	Ownership %	Preferred Investment	Equity Accounted Investment	Total Investment	Preferred Yield
New York City	129	$ 33.3	22.8%	$ 5.3	$ 0.1	$ 5.5	8%
Brentwood, MD	118	17.8	25.0%	-	1.9	1.9	-
Bridgeport, CT	462	38.7	30.0%	2.8	3.0	5.8	9%
Irvington, NJ	189	21.9	50.0%	2.6	2.7	5.4	9%
Houston, TX	235	20.4	50.0%	3.6	2.9	6.5	9%
Bronx, NY	132	25.8	50.0%	5.2	2.5	7.6	8%
Hartford, CT	109	13.1	50.0%	0.9	1.3	2.2	8%
Canton, GA	138	18.7	50.0%	2.1	1.6	3.7	8%
Total/ Weighted Average	**1,512**	**$ 189.7**	**38.8%**	**$ 22.4**	**$ 16.1**	**$ 38.5**	**8.4%**

(Expressed in US Dollars unless otherwise noted)

The Company has significant influence over these equity accounted and preferred investments as further outlined below:

New York City: Certain officers and directors of the Company have an indirect interest or management oversight of approximately 14.6% of the preferred equity and 7.3% of the common equity;

Brentwood, Maryland: Certain officers and directors of the Company have an indirect interest or management oversight of approximately 20.0% of the common equity; and

Bridgeport, Connecticut: Certain officers and directors of the Company have an indirect interest or management oversight of approximately 18.0% of the preferred equity and 9.0% of the common equity.

Outlined below are the details of the Company's net investment in the equity accounted investment comprised of common equity, accounted for using the equity method and preferred equity, accounted as preferred investment loans carried at amortized cost, along with the balance sheet and statement of income (each at 100% of the underlying property) and income allocation from the equity accounted and preferred investments for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Equity Accounted and Preferred Investments, Beginning of Year	$ 28,698,180	$ 12,694,453
Investments		
- Preferred Investments	3,308,359	10,834,248
- Equity Accounted Investments	2,959,335	4,503,500
- Redemption of Preferred Investments	-	(1,777,188)
Income Earned		
- Interest on Preferred Investments	1,745,183	1,231,720
- Equity Accounted Investments	450,040	(108,678)
- Fair Value Adjustments	2,807,848	2,742,253
Less: Distributions and interest received	(1,503,580)	(1,422,129)
Equity Accounted and Preferred Investments, End of Year	**$ 38,465,367**	**$ 28,698,180**

	December 31, 2019	December 31, 2018
Assets		
Cash	$ 883,977	$ 2,190,301
Restricted Cash	2,843,411	2,830,615
Accounts Receivable	531,860	250,513
Other Assets	719,398	2,971,330
Investment Properties	189,714,434	151,062,573
	$ 194,693,081	**$ 158,722,185**
Liabilities		
Accounts Payable	$ 2,213,869	$ 1,360,264
Security Deposits	1,085,447	1,023,323
Mortgages	124,648,326	102,960,000
	$ 127,947,642	**$ 105,343,587**
Equity		
Retained Earnings	$ 11,263,777	$ 6,398,977
Preferred Equity	30,229,177	26,055,870
Common Equity	25,252,485	20,923,751
	$ 66,745,438	**$ 53,378,597**
	$ 194,693,081	**$ 158,722,185**
Investment Allocation for the Company		
Preferred Investments	$ 22,383,163	$ 18,568,745
Equity Accounted Investments	16,082,204	10,129,435
	$ 38,465,367	**$ 28,698,180**

(Expressed in US Dollars unless otherwise noted)

		December 31, 2019		December 31, 2018
Net Income				
Rental Revenue	$	16,517,038	$	11,493,954
Property Operating Expenses		(7,960,708)		(6,202,104)
Net Rental Income		**8,556,330**		**5,291,850**
General & Administrative		(289,466)		(517,969)
Interest Expense		(4,929,246)		(3,923,059)
Fair Value Adjustments		3,886,118		9,702,958
Net Income Before Interest from Preferred Investments	**$**	**7,223,737**	**$**	**10,553,780**
Less: Interest from Preferred Investments		(2,358,936)		(1,938,304)
Net Income	**$**	**4,864,800**	**$**	**8,615,476**
Income Earned by the Company				
Preferred Investments	$	1,745,183	$	1,231,720
Equity Accounted Investments		3,257,890		2,633,575
	$	**5,003,073**	**$**	**3,865,295**

On April 4, 2019, the Company closed an equity accounted and preferred investment to acquire a 109 unit multi-family residential portfolio comprised of two buildings located in Hartford, CT (the “Hartford Portfolio”). The purchase price of the Hartford Portfolio was $13.0 million (including transaction costs). The acquisition was financed with a $10.0 million 4.81% first mortgage due April 3, 2039 and $3.0 million of equity. The Company contributed $0.6 million (100% ownership) of preferred equity yielding 8% and $1.2 million of common equity, representing a 50% ownership interest in the investment.

On September 27, 2019, the Company closed an equity accounted and preferred investment to acquire a 138 unit multi-family residential building located in Canton, GA (the “Canton Acquistion”). The purchase price for 100% of the Canton Acquisiton was $19.3 million (including transaction costs). The Canton Acquistion was financed, in part with a $14.0 million, 4.0% first mortgage due on September 26, 2029. The Company contributed $2.1 million (100% ownership) of preferred equity yielding 8% and $1.6 million of common equity representing a 50% ownership interest in the investment.

Preferred investments and associated allowance for losses on preferred investments accounted at amortised cost at December 31, 2019 and 2018 are as follows:

	December 31, 2019			December 31, 2018		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Preferred investments	$ 17,055,350	$ 5,327,814	-	$18,568,744	-	-
Allowance for losses of preferred investments	-	-	-	-	-	-
Preferred Investments, net of allowances	**$ 17,055,350**	**$ 5,327,814**	**-**	**$18,568,744**	**-**	**-**

As at December 31, 2019, the Company has presented these assets in accordance to their credit risk. No allowance has been recognized for the years ended December 31, 2019 and 2018.

6. Preferred capital investments

On December 18, 2017, the Company closed a participation of $2.5 million in a $12.0 million preferred capital loan (the “New York Preferred Capital”) to fund the acquisition of a portfolio of three apartment buildings located in New York, New York. The New York Preferred Capital earns an interest rate of 12% per annum during its initial term of three years and, if the term is extended for a further two years, at an interest rate thereafter that is the greater of 13% or London Interbank Offered Rate (“LIBOR”) plus 10% per annum. The investment yield is interest only and may be repaid by the borrower prior to maturity in whole or in part upon 30 days prior written notice.

On September 24, 2018, $2.5 million of the New York Preferred Capital was repaid leaving a principal balance of $9.5 million. Subsequently, on June 5, 2019, an additional $1.0 million was advanced leaving a total principal balance of $10.5 million. As at December 31, 2019, the Company's pro-rata principal balance was $2.3 million.

(Expressed in US Dollars unless otherwise noted)

On November 15, 2019, the Company closed on a participation of $3.0 million in a $10.0 million preferred capital loan (the "Houston Preferred Capital") for a portfolio of five apartment buildings located in Houston, Texas. The Houston Preferred Capital earns an interest rate of 12% per annum during its initial term of two years, following which if the term is extended, at an interest rate of 18% per annum. As at December 31, 2019, the Company's pro-rata principal balance was $3.0 million.

Preferred capital investments and associated allowance for losses on preferred capital investments accounted at amortised cost at December 31, 2019 and 2018 are as follows:

	December 31, 2019			December 31, 2018		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Preferred capital investments	$ 3,000,000	-	$ 2,373,377	$ 2,000,354	-	-
Allowance for losses of preferred capital investments	-	-	-	-	-	-
Preferred Capital Investments, net of allowances	**$ 3,000,000**	**-**	**$ 2,373,377**	**$ 2,000,354**	**-**	**-**

As at December 31, 2019, the Company has presented these assets in accordance to their credit risk. No allowance has been recognized for the years ended December 31, 2019 and 2018.

7. Convertible debentures payable

(a) The Company had 7.0% unsecured subordinated convertible debentures (the "Previous Debentures"). The principal balance of the Previous Debentures as at December 31, 2018 was $1.3 million and had the ability to be converted into common shares of the Company at $33.82 per common share. The maturity date on the Previous Debentures was July 31, 2019. During 2019, the Company repaid the outstanding principal of $1.4 million. The Company re-allocated $1.2 million representing the equity portion of the Previous Debentures into Contributed Surplus as the conversion option was not exercised.

(b) On August 8, 2019, the Company closed a $13.7 million (CAD $18.1 million based on the Bank of Canada daily noon rate of exchange $1.3257), 6.25% convertible unsecured unsubordinated debenture (the "Convertible Debenture") offering. On August 13, 2019, the Company closed an additional $1.0 million (CAD $1.3 million based on the Bank of Canada daily noon rate of exchange of $1.3236) of the Convertible Debenture. The Convertible Debenture has a term to maturity of seven years and is due on June 30, 2026. The Convertible Debenture can be converted into common shares of the Company at an exercise price of CAD $12.60 per common share (the "Conversion Option") at any time prior to June 30, 2026. Each Convertible Debenture Unit also includes 79 common share purchase warrants (the "Warrants") of the Company. The warrants are exercisable at an exercise price of CAD $12.60 per common share for a period of two years expiring on August 7, 2021.

As the functional currency of the Company is USD, the Conversion Option and Warrants were classified as embedded derivatives. The Company has elected to classify and measure the Convertible Debenture at FVTPL with changes in fair value being recognized in finance costs.

(Expressed in US Dollars unless otherwise noted)

8. Mortgages payable

	December 31, 2019	December 31, 2018
	$	$
Mortgages payable	$ 18,010,932	18,355,310
Less: current portion	(355,899)	(341,974)
Less: unamortized financing costs	(198,580)	(244,578)
	17,456,452	17,768,758

As at December 31, 2019 the Company had mortgages payable secured by the multi-family properties of $17,456,452 (including the current portion and net of unamortized financing costs) (December 31, 2018-$17,768,758) which bear interest at a weighted average interest rate of 4.37% (December 31, 2018- 4.37%) per annum, and have maturity dates ranging between October 2022 and June 2023.

The following annual payments of principal and interest are required over the next four years in respect of these mortgages:

	Principal	Interest	Total
	$	$	$
2020	355,899	794,490	1,150,389
2021	375,241	775,148	1,150,389
2022	11,210,634	676,134	11,886,768
2023	6,069,157	127,451	6,196,608
Total	18,010,932	2,373,223	20,384,155

On April 3, 2019, the Company entered into a promissory note with the Firm Capital Corporation, a mortgage banker that is related to certain officers and directors of the Company. The promissory note had a one year term, was originally $1.1 million at issuance, and an 8.5% interest rate, interest only. The Company agreed to repay the promissory note from net proceeds received from single family homes located in Atlanta, Georgia. During 2019, the Company repaid this promissory note in full.

9. Changes in debt

The following table sets out an analysis of the movements in net debt during 2019 and 2018:

	Mortgages	Convertible Debentures
	$	$
As at December 31, 2017	18,723,092	12,118,400
Repayments	(8,417,582)	(11,006,050)
Advances	8,050,000	-
Finance costs	(294,303)	-
Unamortized portion of finance costs	49,525	234,366
As at December 31, 2018	18,110,732	1,346,716
Repayments	(1,407,905)	(1,428,000)
Finance costs amortization	49,525	81,284
Advances	1,060,000	14,654,540
Change in fair value of convertible debenture	-	(918,196)
Foreign exchange loss	-	303,077
As at December 31, 2019	17,812,352	14,039,421

10. Share capital

The Company is authorized to issue an unlimited number of common shares. The common shares are voting and entitle the holder to dividends as and when declared by the board of directors of the Company. The following is a summary of changes in common share capital:

(Expressed in US Dollars unless otherwise noted)

	Number of shares	Value
		$
Balance at December 31, 2017	6,127,663	76,842,700
Issuance of shares from equity offering (a)	808,643	6,211,579
Less: Issuance Costs	-	(115,973)
Balance at December 31, 2018	6,936,306	82,938,306
Less: Normal Course Issuer Bid (b)	(1,000)	(6,800)
Balance at December 31, 2019	6,935,306	82,931,506

(a) On November 9, 2018, the Company issued 808,643 common shares at a price of $8.10 per share for total gross proceeds of approximately $6.6 million. Net of the value of the warrants as further described in note 12(a)(ii) of the consolidated financial statements, the common shares had a value of approximately $6.2 million.

(b) On January 30, 2019, the Company repurchased 1,000 common shares through a Normal Course Issuer Bid at a price of $6.80 per share for a total gross proceeds of approximately $0.007 million.

11. Share-based compensation

The Company has a 10% rolling incentive stock option plan which provides for the issuance of incentive stock options to directors, management, employees and consultants of the Company.

As at December 31, 2019, the Company has 617,138 stock options issued and outstanding (December 31, 2018 – 686,842) at a $8.66 weighted average exercise price per share (December 31, 2018 - $10.30). Further details around the outstanding balances are detailed in note 12(b) of these consolidated financial statements.

12. Warrants and Options

Warrants

(a) A continuity of the warrants reserve is as follows:

	Number of warrants	Warrants reserve	Weighted average exercise price
Balance at December 31, 2018	1,658,803	955,954	$ 8.95
Issuance of warrants (note 12(a)(iii))	1,534,812	800,702	CAD $12.60
Balance at December 31, 2018 and 2019	3,193,615	1,756,656	$ 9.40

The warrant reserve was calculated using the Black Scholes model. The key assumptions used in the model were: stock prices ranging from $6.50 to CAD $10.00; exercise price ranging from $8.50 to CAD $12.60 ; expected life ranging, in years, from 2.0 to 2.7; 27.5% to 30% volatility; risk free rate ranging from 1.45% to 2.36%; and annual dividends of $0.225 per share.

The Company had the following warrants outstanding and exercisable as at December 31, 2019:

Issuance Date	Number of warrants	Weighted average exercise price	Expiry Date
May 29, 2017 (note 12 (a)(i))	850,160	$ 8.50	May 29, 2020
November 9, 2018 (note 12 (a)(ii))	808,643	9.50	November 9, 2020
August 8, 2019 (note 12 (a)(iii)	1,534,812	CAD $12.60	August 7, 2021
Total/ Weighted Average	3,193,615	$ 9.40	

(Expressed in US Dollars unless otherwise noted)

(i) On May 29, 2017, the Company issued 850,160 Warrants to participants in a common share offering that closed on the same day. The Warrants have an exercise price of $8.50 per warrant and expire on May 29, 2020.

(ii) On November 9, 2018, the Company issued 808,643 Warrants to participants in the common share offering as described in note 10(a) of these consolidated financial statements. The warrants have an exercise price of $9.50 per warrant and expire on November 9, 2020.

(iii) On August 8, 2019, the Company issued 1,534,812 Warrants as part of the Convertible Debenture offering as further described in note 7(b) of these consolidated financial statements. The warrants have an exercise price of CAD $12.60 per warrant and expire on August 7, 2021.

Options

(b) A continuity of the option reserve is as follows:

	Number of Options	Options reserve		Weighted average exercise price
Balance at December 31, 2017	507,159	476,615	$	10.92
Expiry of Options	(138,421)	(74,868)		7.50
Issuance of Options (note 12(b)(i))	248,400	401,182		8.30
Balance at December 31, 2018 and 2019	617,138	802,929	$	8.66

The option reserve as at December 31, 2019, was calculated on the issuance date using the Black Scholes option-pricing model. The key assumptions used in the model were; stock price ranging from $6.20 to $7.30; exercise price ranging from $7.50 to $8.30; expected life of approximately 10 years; volatility of 30%; risk free rate ranging from 1.69% to 2.22%; and dividends of $0.225 per share.

The Company had the following options outstanding and exercisable on December 31, 2019.

Issuance Date	Number of Options		Weighted average exercise price	Expiry Date
August 17, 2017	368,738	$	7.50	August 17, 2027
November 19, 2018 (note 12 (b)(i))	248,400		8.30	November 19, 2028
Total/ Weighted Average	617,138	$	8.66	

(i) On November 19, 2018, the Company issued 248,400 Options to members of senior management and the board. The Options have an exercise price of $8.30 per option and expire on November 19, 2028.

(Expressed in US Dollars unless otherwise noted)

13. Net income / (loss) per share

	Years Ended	
	December 31, 2019	December 31, 2018
	$	$
Continuing Operations:		
Numerator for basic income per share:		
Net Income from continuing operations	7,293,455	4,142,669
Denominator for basic income per share:		
Weighted average shares	6,935,388	6,253,947
Basic income per share	$ 1.05	$ 0.66
Discontinued Operations:		
Numerator for basic income per share:		
Net Income from discontinued operations	(237,593)	1,486,688
Denominator for basic income per share:		
Weighted average shares	6,935,388	6,253,947
Basic income per share	$ (0.03)	$ 0.24

	Years Ended	
	December 31, 2019	December 31, 2018
	$	$
Continuing operations:		
Net Income from continuing operations	7,293,455	4,142,669
Denominator for diluted income per share:		
Weighted average shares - diluted	6,941,221	7,989,901
Diluted income per share	$ 1.05	$ 0.52
Discontinued operations:		
Numerator for diluted income per share:		
Net Income from discontinued operations	(237,593)	1,486,688
Denominator for diluted income per share:		
Weighted average shares - diluted	6,935,416	7,989,901
Diluted income per share	$ (0.03)	$ 0.19

14. Dividends

For the year ended December 31, 2019, the Company declared dividends of $0.236 per common share resulting in total dividends of $1,636,731 (December 31, 2018- $1,424,207). As at December 31, 2019, the Company accrued $409,183 which is included in its accounts payable and accrued liabilities (December 31, 2018- $390,167).

15. Property Operating, General and Administrative and Finance Expenses

Property operating, general and administrative and finance expenses for the years ended December 31, 2019 and December 31, 2018 are as follows:

Property Operating Expenses	**December 31, 2019**	**December 31, 2018**
	$	$
Property Taxes	674,583	628,779
Insurance	173,523	155,291
Operating Expenses	1,112,368	956,420
Total	1,960,474	1,740,490

General and Administrative and Professional Fees	**December 31, 2019**	**December 31, 2018**
	$	$
Asset Management Fees (note 18(i))	1,134,025	815,103
Public Company Expenses	176,996	245,685
Corporate Reorganization Costs	433,409	-
Office and General	393,183	756,729
Total	2,137,613	1,817,518

Finance Costs	**December 31, 2019**	**December 31, 2018**
	$	$
Bank interest expense	850,992	839,305
Loans payable interest expense	31,995	39,415
Convertible debentures expense	765,317	1,174,419
Total	1,648,304	2,053,139

16. Financial instruments and risk management

Risk management

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

Market risk

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in the market prices and includes foreign currency and interest rate risk.

Foreign currency risk

The Company's operations are based principally in the United States of America, but it has exposure to foreign exchange risk from the CAD. Foreign exchange risk arises from the recognized financial assets and liabilities denominated in CAD. As a result of the convertible debenture offering as further described in note 7 (b) of these consolidated financial statements, the Company has additional exposure to foreign currency risk as the cash proceeds and interest payments of the debenture are in CAD while it invests the net proceeds from the convertible debenture offering in USD. The Company monitors the foreign currency market closely to mitigate these risks. The following CAD amounts are presented in USD to demonstrate the effects of changes in foreign exchange rates:

	CAD
	$
Cash and other assets	8,126,653
Total Liabilities	(18,704,353)
Total	(10,577,700)
Effect of +/- 10% change in exchange rate	(1,057,770)

Interest rate risk

The Company is subject to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates. As all mortgages, loans and notes payable bear interest at fixed rates, interest rate risk is limited to potential decreases in the interest rate offered on cash held with chartered Canadian and American financial institutions. The risk also exists of a change in interest rates when the Company is required to renew its debt. The Company's objective of managing interest rate risk is to minimize the volatility of earnings. Interest rate risk has been minimized as mortgages have been financed at fixed interest rates. As a result of debt not being subject to floating interest rates, changes in prevailing interest rates would not be expected to have a material impact on profit or loss.

Credit risk

Credit risk refers to the risk that a tenant, counterparty or borrower will default on its contractual obligations resulting in financial loss to the Company. Financial instruments which are potentially subject to credit risk for the Company consists primarily of non-payment of accounts receivable. The Company mitigates this risk by monitoring the credit worthiness of its tenants and borrowers. To ensure that tenants continue to meet their credit terms, the financial viability of tenants is kept under review. Credit risk, or the risk of a counterparty defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Where appropriate, the Company obtains security deposits as collateral.

The credit risk on cash is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the consolidated financial statements, net of any expected credit losses, represents the Company's maximum exposure to credit risk.

Financing Risk

The Company subject to the risks associated with debt financing, including the risk that the convertible debentures and mortgages secured by the properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness. To the extent that interest rates rise there may be a material adverse effect on the Company's business, cash flows, financial condition, and results of operations.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations as they fall due. The Company's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities, cash flow provided by financing activities, and divestitures of non-current assets.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer or settle a liability in an orderly transaction between market participants at the measurement date. The fair values of the Company's cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities are estimated by management to approximate their carrying values due to their short-term nature.

The Company classifies its fair value measurements in accordance with the fair value hierarchy as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following table summarizes information about assets measured at fair value on a recurring basis and categorized by level of significance of the inputs used in making the measurements:

(Expressed in US Dollars unless otherwise noted)

December 31, 2019	Level 3
Investment properties	$ 48,167,177

There were no transfers between levels during the year ended December 31, 2019.

December 31, 2018		Level 3
Assets held for sale	$	3,085,841
Investment properties		44,783,595

17. Capital risk management

The capital of the Company includes equity, which is comprised of issued share capital, contributed surplus, equity portion of convertible debentures, warrants, accumulated foreign currency translation reserve and deficit. The Company's objective when managing its capital is to safeguard the ability to continue as a going concern in order to provide returns for its shareholders, and other stakeholders and to maintain a strong capital base to support the Company's core activities, the acquisition, ownership, management and rental of residential real estate properties as discussed in note 1 of these consolidated financial statements.

Although the Company is not subject to any formal covenants, there are certain restrictions under the different debts and mortgages that the Company must target to stay in compliance. The Company monitors these different debts and mortgages and was in compliance throughout the year ended December 31, 2019.

18. Related party transactions

(i) On November 1, 2015, the Company entered into a Management Agreement with Firm Capital Realty Partners Advisors Inc. (the “**Manager**”), an entity related to a director of the Company. Under the terms of the Agreement, the Manager provides a number of services to the Company, and is entitled to certain fees payable monthly, as follows:

- **a. Asset Management Fee:** 0.75% of the Gross Invested Assets of the Company,
- **b. Acquisition Fee:**
  - i. 1.0% of the first $300 million of aggregate Gross Book Value in respect of Properties acquired in a particular year; and thereafter
  - ii. 0.75% of aggregate Gross Book Value in respect of Properties acquired in such year.
- **c. Performance Incentive Fees:** 15% of Adjusted Funds from Operation (“AFFO”) once AFFO exceeds 8.0% of Net Asset Value (“**NAV**”) per share.
- **d. Placement Fees:** 0.25% of the aggregate value of all debt and equity financing arranged by the Manager.
- **e. Property Management Fees:**
  - i. Multi-unit residential properties with 120 units or less, 4.0% of Gross Revenue collected from the property;
  - ii. Multi-unit residential properties with more than 120 units. 3.5% of Gross Revenue collected from the property.
  - iii. Industrial or commercial property, 4.25% of Gross Revenue are collected from the property; provided, however, that for such properties with a single tenant 3.0% of Gross Revenue collected from the property.
- **f. Commercial Leasing Fees:** 3.0% of the net rental payments for the first year of the lease, and 1.5% of the net rental payments for each year during duration of the lease; provided, however, that where a third party broker arranges for the lease of any such property that is not subject to a long-term listing agreement, the Manager shall be entitled to reduced commission equal to 50% of the foregoing amounts with respect to such property.
- **g. Commercial Leasing Renewal Fees:** Renewals of space leased on commercial terms (including lease renewals at the option of the tenant) which are handled exclusively by the Manager shall be subject to a 0.50% commission on the net rental payments for each year of the renewed lease. When a long-term listing agreement is in effect for leasing and marketing

of space with a party other than the Manager, the Manager shall cooperate fully with the broker and the leasing fees will not be payable to the Manager.

h. **Construction Development Property Management Fees:** Where the Manager is requested by the Company to construct tenant improvements or to renovate same, or where the Manager is requested by the Company to construct, modify, or re-construct improvements to, or on, the Properties (collectively, "**Capital Expenditures**"), the Manager shall receive 5.0% of the cost of such Capital Expenditures, including the cost of all permits, materials, labour, contracts, and subcontracts; provided, however, that no such fee shall be payable unless the Capital Expenditures are undertaken following a tendering or procurement process wherein the total cost of such Capital Expenditures exceed $50,000.

i. **Loan Servicing Fees:** 0.25% per annum on the principal amount of each Mortgage Investment (other than syndicated loans serviced by third parties). The Loan Servicing Fee will be calculated as spread interest and deducted from the first interest received on a mortgage investment. Mortgage servicing fees will be payable as to 1/12 monthly based on the receipt of interest payments from borrowers. Loan Servicing Fees will not be payable in respect of the Company's cash balances or Non-Performing Loans held by the Company, except that the Manager shall be entitled to retain any overnight float interest on all accounts maintained by the Manager in connection with the servicing of the Company's Mortgage Investments. The Manager will retain all overnight float interest and related loan servicing fees as charged such as advance fees, discharge statement fees, realty tax escrow account charges, late payment and dishonoured payment charge fees, and all other such fees as charged by a loan servicing agent. This will only apply to the Mortgage Investments of the Company.

j. **Origination, Commitment & Discharge Fees and Profit Sharing Fees:** The Manager shall remit to the Company:
   i. 25% of all originating fees, commitment fees and renewal fees it receives from borrowers on mortgages it originates for the Company (prorated to reflect the Company's participation in the investment). The Manager will retain 100% of all originating fees, commitment fees, renewal fees and will remit 25% of such fees to the Company calculated on the Company's investment amount; and
   ii. 75% of any profit sharing, discharge fees, participation fees and profit made on discounted debt that the Mortgage Banker receives in respect of all Non-Conventional Mortgages and Special Profit Transactions it originates for the Company (with a 8.0% annual preferential return to be given to the Company on the Company's investment amount prior to the Manager receiving its share of such fees). The Manager shall retain 100% of all servicing charges paid by borrowers which are not identified above, including, without limitation, discharge statement administration fees and all fees identified.

k. **Term and Termination:** Initial term of ten years with automatic renewal for successive five year terms. The Company may terminate the Agreement any time after November 1, 2025 other than for cause upon the approval of two-thirds of the votes cast by shareholders at a meeting and upon 24 months prior written notice. Upon termination, the Company shall pay to the Manager the following:

   i. 2% of the Gross Invested Assets of the Properties and the Company's other assets; and
   ii. any amounts which would have been earned by the Manager under the Agreement for the uncompleted portion of the term (the "**Termination Payment**").

For the year ended December 31, 2019, asset management fees were $1,080,216 (2018- $815,103), loan servicing fees were $53,809 (2018-$nil), acquisition fees were $152,750 (2018-$284,250), debt placement fees were $76,612 (2018- $137,851) and property management fees were $87,078 (2018- $85,648).

Asset Management fees and loan servicing fees are included in general and administrative expenses. Property management fees are included in property operating expenses. Finance costs associated with the promissory note are included in finance costs, while the acquisition fees and debt placement fees are capitalized to equity accounted investments.

(Expressed in US Dollars unless otherwise noted)

As at December 31, 2019, the Company has accrued $722,859 (December 31, 2018 - $895,502) under this Management Agreement, which is included in accounts payable and accrued liabilities.

On April 3, 2019, the Company entered into a promissory note with the Firm Capital Corporation, a mortgage banker that is related to certain officers and directors of the Company. The promissory note had a one year term, was originally $1.1 million, and an 8.5% interest rate, interest only. The Company agreed to repay the promissory note from net proceeds received from single family homes located in Atlanta, Georgia. During 2019, the Company repaid this note in full.

19. Assets held for sale

As at December 31, 2019, all of the Company's single family homes have been sold (December 31, 2018– 31 units). Accordingly, the Company classified the single family units as held for sale.

	December 31, 2019	December 31, 2018
	$	$
Balance, beginning of year	3,085,841	16,019,657
Building Improvements	-	52,014
Dispositions	(2,913,890)	(13,678,088)
Fair value adjustments to assets held for sale	(171,951)	692,257
Balance, end of year	-	3,085,841
Liabilities		
Accounts payable and other liabilities	-	59,119
Liabilities related to assets held for sale	-	59,119

The net cash flows associated with discontinued operations are as follows:

	Years Ended	
	December 31 2019	December 31 2018
	$	$
Operating activities	(124,761)	546,252
Investing activities	2,913,890	13,626,073
Net cash inflows	2,789,128	14,172,325

20. Deferred share units

On March 31, 2015, the Company adopted a DSU plan. Under the terms of the plan, any units issued must be issued at a share price which is a minimum of the volume weighted average trading price of the shares on the TSXV for the five days trading immediately preceding the date on which DSUs are granted. Dividend equivalents are awarded in respect of DSU holders on the same basis as shareholders, and credited to the DSU holders account as additional DSUs. The maximum DSUs which may be awarded under the DSU plan shall not exceed 10% of the issued and outstanding common shares. The DSU plan is designed such that the board may elect to pay out the DSUs in either cash or common shares of the Company.

21. Income Taxes

(a) Income tax expenses

The reconciliation of the combined Canadian federal and provincial statutory tax rate of 26.5% to the effective tax rates for the years ended December 31, 2019 and 2018 is as follows:

(Expressed in US Dollars unless otherwise noted)

	December 31, 2019	December 31, 2018
	$	$
Net income before income taxes	6,530,504	5,500,244
Expected income tax expense	1,730,584	1,457,565
Difference in foreign tax rates	(32,653)	(26,240)
Tax rate changes and other adjustments	-	39,469
Permanent differences	-	(1,586,393)
Recognition of previously unrecognized deductible temporary differences and tax losses	(1,725,326)	-
Reversal of prevoiusly recognized deferred liability	(525,358)	-
Changes in tax benefits not recognized	27,395	(13,514)
Income tax recovery	(525,358)	(129,114)
Income tax recovery from continuing operations	-	(95,015)
Income tax recovery from discontinued operations	(525,358)	(34,099)
Income tax recovery	(525,358)	(129,114)

(b) Deferred taxes

The following table summarizes the components of the recognized deferred taxes:

	December 31, 2019	December 31, 2018
Deferred tax assets	$	$
Other Assets	-	-
Non-capital losses carried forward	8,663,045	5,156,657
	8,663,045	5,156,657
Deferred tax liabilities		
Assets held for sale and investment properties	(5,351,790)	(5,490,747)
Equity investment	(3,311,255)	(191,268)
Notes payable and mortgages	-	-
Convertible debenture	-	-
	(8,663,045)	(5,682,015)
Net deferred income tax liabilities	-	(525,358)

Movement in net deferred tax liabilities:

	December 31, 2019	December 31, 2018
	$	$
Balance, beginning of year	(525,358)	(654,472)
Recognized in profit/loss	525,358	129,114
Balance, end of year	-	(525,358)

(c) Unrecognized Deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible differences:

(Expressed in US Dollars unless otherwise noted)

	December 31, 2019	December 31, 2018
	$	$
Capital losses carried forward - Canada	63,618	-
Non-capital losses carried forward - Canada	27,258,212	30,038,709
Share issuance costs	1,709,085	834,507
Other temporary differences	327,892	370,345

The non-capital loss carry forwards expire between 2027 and 2039. Financing expenses will be fully amortized in 2024. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The Company has additional net operating losses (“NOL”) for US branch purposes of approximately $8.8 million. Certain of the losses will expire between 2031 and 2037. NOLs arising after December 31, 2017 are limited to 80% of taxable income in any given year. Per the new "CARES" or "Coronavirus Aid, Relief, and Economic Security Act" act, the net operating loss deduction limitation of 80% of taxable income for certain net operating losses – that arise after December 31, 2017 - may be suspended for tax years beginning before January 1, 2020. Any NOLs subject to the limitation do not expire and are carried over to the following taxable year. However, as there is no future tax value expected to be realized from these additional US branch losses, no deferred tax assets have been recognized for these loss carryforwards.

22. Segmented information

The Company defines its reportable segments based on investment type. Note that the segment of single family units represent the Company’s discontinued operations:

	Single Family	Multi Family	Equity Accounted Investments	Preferred Investments	Preferred Capital Investments	Corporate	Total
Year Ended December 31, 2019	$	$	$	$	$		$
Net Rental Income							
Rental revenue	58,394	4,296,303	-	-	-	-	4,354,697
Operating costs	124,036	1,960,474	-	-	-	-	2,084,510
	(65,642)	2,335,829	-	-	-	-	2,270,187
Income from equity investments	-	-	3,257,890	-	-	-	3,257,890
Income from preferred investments	-	-	-	1,745,183	-	-	1,745,183
Income from preferred capital investments	-	-	-	-	292,527	-	292,527
General and administrative	-	-	-	-	-	(2,137,613)	(2,137,613)
Finance costs	-	-	-	-	-	(1,648,304)	(1,648,304)
Foreign exchange loss	-	-	-	-	-	(166,615)	(166,615)
Share based compensation	-	-	-	-	-	2,858	2,858
	(65,642)	2,335,829	3,257,890	1,745,183	292,527	(3,949,674)	3,616,113
Fair value adjustments of properties	(171,951)	3,086,342	-	-	-	-	2,914,391
Income tax recovery	-	-	-	-	-	525,358	525,358
Net income (loss) for the year	(237,593)	5,422,171	3,257,890	1,745,183	292,527	(3,424,316)	7,055,862

(Expressed in US Dollars unless otherwise noted)

	Single Family	Multi Family	Equity Accounted Investments	Preferred Investments	Preferred Capital Investments	Corporate	Total
Year Ended December 31, 2018	$	$		$	$	$	$
Net rental income							
Rental revenue	1,285,684	4,135,834	-	-	-	-	5,421,518
Property operating expenses	525,350	1,740,490	-	-	-	-	2,265,840
	760,334	2,395,344		-	-	-	3,155,678
Income from equity accounted investments	-	-	2,633,578		-	-	2,633,578
Income from preferred investments	-	-	-	1,231,717	-	-	1,231,717
Income from preferred capital investments	-	-	-	-	256,747	-	256,747
General and administrative	-	-	-	-	-	(1,817,518)	(1,817,518)
Finance costs	-	-	-	-	-	(2,053,139)	(2,053,139)
Foreign exchange loss	-	-	-	-	-	(11,420)	(11,420)
Share based compensation	-	-	-	-	-	(329,231)	(329,231)
	760,334	2,395,344	2,633,578	1,231,717	256,747	(4,211,308)	3,066,413
Fair value adjustments of properties	692,257	1,741,574	-	-	-	-	2,433,831
Income tax (recovery)/expense	(34,099)	(97,110)	(90,734)	-	(6,027)	98,856	(129,114)
Net income (loss) for the year	1,486,690	4,234,028	2,724,312	1,231,717	262,774	(4,310,164)	5,629,358

	Single Family	Multi Family	Equity Accounted Investments	Preferred Investments	Preferred Capital Investments	Corporate	Total
As at December 31, 2019							
Total current assets	114,941	1,096,102	-	-	-	6,206,573	7,417,612
Total non-current assets	-	48,167,177	16,082,203	22,383,164	5,373,377	-	92,005,921
Total liabilities	-	(18,457,566)	-	-	-	(15,843,243)	(34,300,809)

	Single Family	Multi Family	Equity Accounted Investments	Preferred Investments	Preferred Capital Investments	Corporate	Total
As at December 31, 2018							
Total current assets	3,474,584	1,561,244	-	-	-	1,690,747	6,726,571
Total non-current assets	-	44,783,595	10,129,435	18,568,745	2,000,354	-	75,482,129
Total liabilities	(59,120)	(18,973,457)	-	-	-	(3,465,728)	(22,498,305)

23. Subsequent events

i. Conversion to Real Estate Investment Trust

On January 8, 2020, the Company completed its plan of arrangement to convert into a Real Estate Investment Trust and will be trading under Firm Capital American Realty Partners Trust (the “Trust”). The units of the Trust began trading on TSXV on January 8, 2020, under symbols FCA.U and FCA.UN. Under the terms of the Arrangement, each outstanding common share of the Company was exchanged for one unit of the Trust.

ii. Woodglen Acquisition

On January 31, 2020, the Trust closed an equity accounted and preferred investment to acquire the Woodglen Village, a 250-unit multi-family residential building located in Houston, TX (the “Woodglen Acquisition”). The purchase price for 100% of the Woodglen Acquisition was $27.9 million (including transaction costs). The Woodglen Acquisition was financed, in part with a $22.1 million, 4.6% first mortgage due on January 30, 2024. The Trust contributed $3.5 million (100% ownership) of preferred equity yielding 9% and $1.2 million of common equity representing a 50% ownership interest in the investment.

iii. Distributions

On February 14, 2020, The Trust declared and approved quarterly distributions of $0.059 per unit for unitholders on record on March 31, 2020 payable on or about April 15, 2020.

iv. Equity Offering

On March 13, 2020, the Trust closed a marketed offering of 1,590,000 Trust Units at a price of $8.20 (CAD $10.90 per unit based on the Bank of Canada daily noon rate of exchange of $1.3745). The Trust raised total gross proceeds of $12.8 million.

v. Public Health Pandemic

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. The Trust will continue to monitor its impact which is uncertain at this time.