Financial Statements

Unaudited Interim Financial Statements

Sonor Investments Limited

June 30, 2019

Sonor Investments Limited

UNAUDITED INTERIM STATEMENTS OF FINANCIAL POSITION

[in thousands of Canadian dollars]

	June 30 2019 $	Dec 31 2018 $
ASSETS		
Current		
Cash and cash equivalents	**23,465**	25,171
Interest and dividends receivable	**192**	126
Total current assets	**23,657**	25,297
Investments		
Investment in Fairwater Capital Corporation, at fair value *[note 3]*	**35,596**	35,596
Investments with a quoted market value *[schedule 1 and note 6]*	**10,055**	7,767
Total investments	**45,651**	43,363
Total assets	**69,308**	68,660
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued charges	**103**	141
Total current liabilities	**103**	141
First preference shares *[note 4, 5 and 8]*	**978**	978
Total liabilities	**1,081**	1,119
Shareholders' equity		
Capital stock *[note 4]*	**7,795**	7,795
Retained earnings	**60,432**	59,746
Total shareholders' equity	**68,227**	67,541
Total liabilities and shareholders' equity	**69,308**	68,660

See accompanying notes and schedule

On behalf of the Board:

Director Director

Sonor Investments Limited

UNAUDITED INTERIM STATEMENTS OF INCOME

[in thousands of Canadian dollars, except per share prices expressed in Canadian dollars]

	Six months ended June 30		Three months ended June 30	
	2019	2018	**2019**	2018
	$	$	**$**	$
REVENUE				
Dividend income	**220**	146	**132**	68
Dividend income - Fairwater Capital Corporation *[note 3]*	**3,381**	3,381	**3,381**	3,381
Interest income	**318**	133	**194**	79
Change in unrealized (loss) on investments	**170**	(868)	**(76)**	34
Gain on sale of investments	**26**	806	**26**	56
	4,115	3,598	**3,657**	3,618
EXPENSES				
Interest on first preference shares *[note 5 and 8]*	**44**	44	**-**	-
Professional fees and general administration	**168**	152	**83**	77
Management fees *[note 3]*	**71**	71	**35**	35
	283	267	**118**	112
Income before taxes	**3,832**	3,331	**3,539**	3,506
Future tax expense *[note 7]*	**-**	(32)	**-**	4
Net comprehensive income for the period	**3,832**	3,363	**3,539**	3,502
Net income per common share	**2.06**	1.81	**1.90**	1.88

See accompanying notes

Sonor Investments Limited

UNAUDITED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[in thousands of Canadian dollars, except per share prices expressed in Canadian dollars]

	Capital stock *[note 4]* $	Retained earnings $	Total $
Balance, December 31, 2017	7,795	57,333	65,128
Net income for the year	-	3,363	3,363
Dividend declared on common shares	-	(261)	(261)
Change during the year	-	3,102	3,102
Balance, June 30, 2018	**7,795**	**60,435**	**68,230**
Balance, December 31, 2018	**7,795**	**59,746**	**67,541**
Net income for the year		**3,832**	**3,832**
Dividend declared on common shares	-	**(3,146)**	**(3,146)**
Change during the year	-	**686**	**686**
Balance, June 30, 2019	7,795	60,432	68,227

Dividends per share for the six months ended June 30	**2019**	2018
Common	**1.69**	0.14
Interest on first preference	**0.22**	0.22

See accompanying notes

Sonor Investments Limited

UNAUDITED INTERIM STATEMENTS OF CASH FLOWS

[in thousands of Canadian dollars]

	Six months ended June 30		Three months ended June 30	
	2019	2018	2019	2018
	$	$	$	$
OPERATING ACTIVITIES				
Net income for the year	**3,832**	3,363	**3,539**	3,502
Deduct non-cash items:				
Change in unrealized loss on investments	**(170)**	868	**76**	(34)
Realized gain on sale of investments	**(26)**	(806)	**(26)**	(56)
	3,636	3,425	**3,589**	3,412
Net change in non-cash operating items				
Increase (decrease) in future tax liability	**-**	(32)	**-**	4
Increase (decrease) in interest and dividends receivable	**(66)**	14	**(7)**	9
Increase (decrease) in accounts payable and accrued charges	**(38)**	(78)	**(86)**	(56)
Cash provided by operating activities	**3,532**	3,329	**3,496**	3,369
INVESTING ACTIVITIES				
Proceeds from sale of investments	**483**	2,960	**191**	327
Purchase of investments	**(2,575)**	(389)	**(97)**	(97)
Cash used in investing activities	**(2,092)**	2,571	**94**	230
FINANCING ACTIVITIES				
Dividend paid on common shares	**(3,146)**	(261)	**(3,146)**	(261)
Cash used in financing activities	**(3,146)**	(261)	**(3,146)**	(261)
Net (decrease) increase in cash and cash equivalents during the year	**(1,706)**	5,639	**444**	3,338
Cash and cash equivalents, beginning of year	**25,171**	19,417	**23,021**	21,718
Cash and cash equivalents, end of year	**23,465**	25,056	**23,465**	25,056
Supplemental cash flow information				
Interest received	**245**	133	**121**	84
Interest paid	**44**	44	**-**	-
Dividends received	**3,601**	3,527	**3,513**	3,449

See accompanying notes

Sonor Investments Limited

Schedule 1

SCHEDULE OF INVESTMENTS

[in thousands of Canadian dollars]

Description of investment	Number of shares		Cost ($)		Quoted market value ($)	
	Jun 30 2019	Dec 31 2018	**Jun 30 2019**	Dec 31 2018	**Jun 30 2019**	Dec 31 2018
Common shares with a quoted market value						
Algonquin Power & Utilites	**14,000**	-	**204**	-	**223**	-
Bank of Montreal	**3,900**	3,900	**206**	206	**385**	347
BCE Inc.	**4,500**	4,500	**115**	115	**268**	243
Canadian Imperial Bank of Commerce	**2,800**	2,800	**160**	160	**288**	286
Cineplex Inc.	**5,500**	5,500	**201**	201	**126**	140
Enbridge Inc.	**7,200**	7,200	**316**	316	**340**	306
First Capital Realty Inc.	**12,800**	12,800	**142**	142	**279**	237
Great West Life Company	**8,500**	8,500	**188**	188	**256**	244
Intact Financial Corp.	**4,000**	4,000	**130**	130	**484**	393
Power Corp. of Canada	**5,300**	5,300	**133**	133	**149**	132
Rogers Communications Inc.	**4,900**	4,900	**149**	149	**343**	338
Royal Bank of Canada	**3,700**	3,700	**140**	140	**385**	344
Shaw Communications Inc.	**6,000**	6,000	**119**	119	**160**	147
Sun Life Financial Inc.	**5,000**	6,700	**199**	267	**271**	304
Suncor Energy Inc.	**5,000**	7,500	**150**	150	**201**	193
Telus Corporation	**6,000**	8,000	**96**	96	**290**	270
Toronto Dominion Bank	**5,500**	5,500	**193**	193	**420**	375
TC Energy Corporation (n/c from TransCanada Corpor	**5,100**	5,100	**164**	164	**331**	250
Total common shares			**3,005**	2,869	**5,199**	4,549
Preference shares with a quoted market value						
CDN $						
Floating Rate Reset Preferred						
BCE Inc.						
Cumulative Redeemable First Preferred Shares, Series AB date Sept 1, 2022	**63,200**	-	**1,008**	-	**939**	-
BCE Inc.						
Cumulative Redeemable First Preferred Shares, Series AE date Feb 1, 2020	**30,500**	-	**486**	-	**451**	-
BCE Inc.						
Cumulative Redeemable First Preferred Shares, Series AH date May 21, 2021	**116,600**	110,300	**1,642**	1,541	**1,720**	1,859
Total preference shares			**3,136**	1,541	**3,110**	1,859

See accompanying notes

Sonor Investments Limited

Schedule 1

SCHEDULE OF INVESTMENTS (continued)

[in thousands of Canadian dollars]

Description of investment	Par value		Cost ($)		Quoted market value ($)	
	Jun 30 2019	Dec 31 2018	**Jun 30 2019**	Dec 31 2018	**Jun 30 2019**	Dec 31 2018
Fixed income securities						
Bank of Montreal Mortgage GIC 2.61% due 15-Aug-2019	**97**	97	**97**	97	**97**	97
Bank of Montreal Mortgage GIC 2.55% due 19-Sept-2019	**97**	97	**97**	97	**97**	97
B2B Bank GIC 2.50% due 19-Sept-2019	**97**	97	**97**	97	**97**	97
BMO Trust GIC 2.61% due 15-Aug-2019	**97**	97	**97**	97	**97**	97
Canadian Tire Bank GIC 2.75% due 22-Jan-2020	**97**	-	**97**	-	**97**	-
Canadian Western Bank GIC 2.70% due 22-Jan-2020	**97**	-	**97**	-	**97**	-
Canadian Western Bank GIC 2.22% due 22-Jan-2019	**-**	98	**-**	98	**-**	98
Concentra Bank GIC 2.95% due 18-Nov-2019	**97**	97	**97**	97	**97**	97
Equitable Bank GIC 2.66% due 19-Sept-2019	**97**	97	**97**	97	**97**	97
Homequity Bank GIC 2.60% due 01-May-2020	**97**	-	**97**	-	**97**	-
Homequity Bank GIC 2.50% due 01-May-2019	**-**	97	**-**	97	**-**	97
Home Trust Company GIC 2.55% due 31-Jul-2019	**97**	97	**97**	97	**97**	97
HSBC Bank Canada GIC 2.30% due 13-Feb-2019	**-**	97	**-**	97	**-**	97
Laurentian Bank GIC 2.50% due 19-Sept-2019	**97**	97	**97**	97	**97**	97
LBC Trust GIC 2.50% due 19-Sept-2019	**97**	97	**97**	97	**97**	97

Sonor Investments Limited

Schedule 1

SCHEDULE OF INVESTMENTS (continued)

[in thousands of Canadian dollars]

Description of investment	Par value		Cost ($)		Quoted market value ($)	
	Jun 30 2019	Dec 31 2018	**Jun 30 2019**	Dec 31 2018	**Jun 30 2019**	Dec 31 2018
Fixed income securities						
Manulife Bank of Canada 2.76%						
due 22-Jan-2020	**97**	-	**97**	-	**97**	-
Montreal Trust Company Canada GIC 2.81%						
due 22-Jan-2020	**97**	-	**97**	-	**97**	-
National Bank of Canada GIC 2.75%						
due 22-Jan-2020	**97**	-	**97**	-	**97**	-
Peoples Trust GIC 2.85%						
due 06-Feb-2020	**97**	-	**97**	-	**97**	-
Peoples Trust GIC 2.35%						
due 2-Feb-2019	**-**	97	**-**	97	**-**	97
Royal Bank of Canada GIC 2.81%						
due 22-Jan-2020	**97**	-	**97**	-	**97**	-
Royal Bank of Canada GIC 2.50%						
due 19-Sept-2019	**97**	97	**97**	97	**97**	97
Total fixed income securities			**1,746**	1,359	**1,746**	1,359
Total investments			**7,887**	5,769	**10,055**	7,767

See accompanying notes

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

[in thousands of Canadian dollars,
except per share amounts expressed in Canadian dollars]

June 30, 2019

1. CORPORATE INFORMATION

Sonor Investments Limited [the "Company" or "Sonor"] is incorporated in Canada under the laws of Ontario and its first preference shares are traded on the TSX Venture Exchange. The Company is in the business of making portfolio investments in public and private equity and fixed income securities with the objective of preserving its capital and growing it over the long term. The head office, principal address and registered office of the Company are located at 130 Adelaide Street West, Suite 2120, Toronto, Ontario, M5H 3P5.

The Company's Board of Directors authorized these unaudited interim financial statements for issue on August 13, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"]. The unaudited interim financial statements are in compliance with IAS 34.

These unaudited interim financial statements have been prepared on the basis of IFRS standards that are effective as at June 30, 2019.

The accounting policies set out below have been applied consistently to the periods presented in these unaudited interim financial statements.

Basis of presentation

Theses unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"]. These unaudited interim financial statements have been prepared on a going concern basis under the historical cost convention. In addition, these unaudited interim financial statements have been prepared using the accrual basis of accounting. The functional and presentation currency of the Company is the Canadian dollar.

New standards, interpretations and amendments adopted by the Company

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 Financial Instruments ["IFRS 9"]. The Company has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018 and adjusting the comparative information for the period beginning January 1, 2017.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement ["IAS 39"]for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment; and hedge accounting.

Classification and measurement

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit and loss (FVPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest on the principal amount outstanding (the 'SPPI criterion')'.

The new classification and measurement of the Company debt financial assets are, as follows:

- Debt instruments at amortized cost (under IAS 39 categorized as available-for-sale 'AFS') for financial assets that are held with a business model with the objective to hold the financial asset in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Company's guaranteed investment certificates (GICs) as "Investments".

Other financial assets are classified and subsequently measured, as follows:

- Financial assets at FVPL comprise quoted equity instruments and the investment in Fairwater which the Company had not irrevocably elected at initial transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Company's quoted equity securities, which the Company intends to hold to preserve and grow capital, were classified as AFS Financial assets. Upon transition, the AFS reserve related to quoted equity securities, which has been previously recognized under accumulated Other Comprehensive Income ('OCI'), was reclassified to Retained earnings.

The assessment of the Company's business model was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Under IFRS 9, the accounting for the Company's financial liabilities remains largely the same as under IAS 39. Financial liabilities are measured at amortized cost or at FVPL when the fair value designation is applied. The Company has not designated Sonor's first preference shares as fair value and therefore measure them at amortized cost at their redemption amount.

Impairment

The adoption of IFRS 9 has fundamentally changed the accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Company to record an allowance for ECL's for all loans and other debt financial assets not held at FVPL. As all GICs held by the Company are CDIC insured, no allowance has been recorded.

Critical accounting estimates and use of judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue and expenses. These estimates and judgments are based on information available as at the date of issuance of the financial statements. Actual results may differ from these estimates. There were no significant estimates used in these financial statements.

Revenue recognition

Securities transactions are recorded on a settlement date basis. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the statements of changes and shareholders' equity and are calculated on an average cost basis. Dividends are recognized as revenue on the record date. Interest income is recognized on an accrual basis.

Income taxes

Current income taxes and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting period.

Deferred income taxes are accounted for using the liability method. Under this method, deferred income taxes are recognized for the deferred income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply to taxable income in the period in which the temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in income in the period in which the change becomes enacted or substantively enacted.

A deferred tax asset is recognized to the extent that future realization of the tax benefit is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the tax benefit will be realized. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same taxation authority on the same taxable entity.

[in thousands of Canadian dollars,
except per share amounts expressed in Canadian dollars]

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short-term interest bearing investments with original maturities of no greater than 90 days from the date of purchase, which are subject to an insignificant risk of changes in value.

3. INVESTMENT IN AND TRANSACTIONS WITH FAIRWATER CAPITAL CORPORATION ["FAIRWATER"]

The investment in Fairwater, a private investment holding company, consists of 100% of the outstanding first preference non-voting shares of Fairwater. The investment is recorded at fair value. The Company has determined that the most appropriate measure of fair value for these shares is $1,000 per share [$35,596 in total] as the shares are redeemable at the option of the Company or Fairwater at any time at that value [2016 - $1,000 per share; $35,596 in total]. The shares are redeemable and retractable at a price of $1,000 per share, are non-voting and are entitled to a fixed non-cumulative dividend at the rate of $95 per share per annum. Additional dividends, if and when declared, may not exceed the aggregate of the dividends paid on the common shares by Fairwater. The dividend relating to Fairwater's fiscal year ending March 31, 2018, at the stated rate of $95 on each first preference share

The investment in Fairwater is as follows:

	June 30, 2019	**December 31, 2018**
	$	**$**
35,596 first preference shares		
Cost	**31,923**	31,923
Fair value	**35,596**	35,596

The Company conducts a liquidity analysis on a quarterly basis to determine if there is any impairment in the Company's investment in Fairwater's preferred shares. This analysis ensures that Fairwater's net liquid asset [composed of investments with a quoted market value, cash and marketable securities less liabilities] is in excess of the carrying value of the investment in Fairwater's first preference share

[in thousands of Canadian dollars,
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4. CAPITAL STOCK

The capital stock of the Company consists of the following as at:

	June 30, 2019 $	December 31, 2018 $
Authorized		
195,600 9% cumulative, redeemable, voting first preference shares		
Unlimited 9% non-cumulative, second preference shares, redeemable at $100 per share		
Unlimited non-voting Class A common shares		
Unlimited voting Class B common shares		
Unlimited common shares		
Issued and outstanding		
195,600 first preference shares	**978**	978
1,861,730 common shares	**7,795**	7,795

There was no change in shares issued and outstanding from January 1, 2016 to June 30, 2019. As required under IFRS, the value of the issued first preference shares has been classified as a liability, as discussed below in note 5.

Common shares

Each common share may be converted at the option of the holder at any time into either one Class A common share or one Class B common share. Each Class A common share may be converted at the option of the holder at any time into one Class B common share.

The Class A common shares are similar in all respects to the common shares, except that they are non-voting. The Class B common shares are similar in all respects to the common shares, except that they are redeemable at the option of the Company at a redemption price determined by the Board of Directors of the Company.

5. FIRST PREFERENCE SHARES

The first preference shares are redeemable at the option of the Company at a redemption price of $5 per share plus any accrued but unpaid dividends [the "Redemption Price"]. Each first preference share entitles the holder to 15 votes. The Company is required to make a reasonable effort to purchase for cancellation up to 4,800 first preference shares annually in the open market at prices not exceeding $5 per share. No first preference shares were purchased for cancellation in the past two fiscal years.

In addition, the Company is required to redeem all the first preference shares at the Redemption Price in the event dividends are in arrears or certain other events occur. The shares have traded in the range of $5.25 to $6.02 per share in the past year and, accordingly, $5 is deemed to be the carrying value of these shares [2018 - $5].

The Restated Articles of Incorporation dated November 19, 1984 state that as long as the first preference shares are outstanding, the Company must maintain net assets and qualified investments in excess of the prescribed amounts. The Company was in compliance with these requirements as at June 30, 2019 and December 31, 2018. In addition, the Company may only declare dividends on shares ranking junior to the first preference shares providing the Company meets certain performance targets.

6. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The estimated fair values of financial instruments approximate their carrying values in the statements of financial position. The available-for-sale investments are carried at fair value in accordance with the Company's policy described in note 2. It was determined that there were no embedded derivatives within the financial instruments.

For investments carried at fair value, the Company has categorized the measurement basis into a fair value hierarchy as follows:

Quoted market prices in active markets - ["Level 1"]

Fair values are based on quoted prices [unadjusted] in active markets for identical assets or liabilities.

Quoted models with significant observable market parameters - ["Level 2"]

Fair values are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Internal models with significant unobservable market parameters - ["Level 3"]

Fair values are based on valuation techniques with unobservable market data inputs for the asset or liability. Unobservable inputs reflect the assumptions the Company considers that a market participant would use in pricing the asset or liability. An example is certain private equity investments.

[in thousands of Canadian dollars,
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An analysis of investments as at June 30, 2019 according to fair value measurement hierarchy is given below:

	Level 1	Level 2	Level 3	Total fair value
	$	$	$	$
Financial assets				
Equity securities	8,309	—	—	8,309
Fixed income securities	—	1,746	—	1,746
Investment in Fairwater	—	35,596	—	35,596

The comparative numbers for December 31, 2018 are as follows:

	Level 1	Level 2	Level 3	Total fair value
	$	$	$	$
Financial assets				
Equity securities	6,408	—	—	6,408
Fixed income securities	—	1,359	—	1,359
Investment in Fairwater	—	35,596	—	35,596

Transfers between levels in the fair value hierarchy are deemed to have occurred at the beginning of the quarter in which the transfer occurred. Transfers between levels can occur as a result of additional or new information regarding valuation inputs and changes in their observability. There were no transfers between levels during the six months ended June 30, 2019 and the year ended December 31, 2018.

Risk management

The Company is exposed to several risks as a result of holding financial instruments. The Company manages its risks through establishing policies that provide management oversight related to the risks of operations, including ensuring that risks are identified and assessed and appropriate policies are in place and effective. There are formal guidelines that govern the extent of exposure to various types of risk, including diversification within asset classes and limits on the exposure to individual investments. The following is a description of these risks and how they are managed.

Credit risk

Credit risk is the risk of a financial loss occurring as a result of default of counterparty on its obligations to the Company. Credit spreads represent the additional yield demanded by investors when purchasing securities with increased credit risk, or probability of default.

The Company's cash and cash equivalents are held at major Canadian financial institutions and the Company believes that there is no significant credit risk with the cash and cash equivalents.

Investments in Fairwater and equity securities represent the maximum credit risk to the Company. The carrying value of these assets as at June 30, 2019 was $45,651 [December 31, 2018 was $43,363]. There is significant coverage of the investment in Fairwater, in the form of net free balances of highly liquid securities held by Fairwater [as described in note 3] and the Company believes that the credit risk associated with this investment is low.

The fixed income securities are either provincially guaranteed or guaranteed under the Canada Deposit Insurance Corporation and, accordingly, the Company believes that there is low credit risk with these investments.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and fair value risk. Fair value risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices [other than those arising from interest rate risk or currency risk]. These risks are discussed below.

The Company manages market risk through the establishment of strict investment criteria both in terms of direct individual investments and the selection of its professional money manager. It actively oversees its external professional money manager and conducts its activities in accordance with investment policies that are regularly reviewed and approved by the Board of Directors. Management and the Board of Directors review the performance of the professional money manager periodically throughout the year.

Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The Company is exposed to interest rate cash flow risk and income risk on monetary assets with floating interest rates that are reset as market rates change and is exposed to interest rate price risk on monetary financial assets that have a fixed interest rate. Details of the fixed and floating rate investments are noted on the Schedule of Investments. At June 30, 2019, the fair value of fixed rate investments totaled $1,746 [December 31, 2018 - $1,359] and the fair value of floating rate investments totaled $3,110 [December 31, 2018 - $1,859]. A change in market rates would impact revenue earned on the floating rate investments. A change in market interest rates would also impact the valuation of the fixed rate investments. An increase in market interest rates would tend to decrease the investment valuation while a decrease in market interest rates would have the opposite effect.

[in thousands of Canadian dollars,
except per share amounts expressed in Canadian dollars]

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. There were no foreign currency denominated assets or liabilities outstanding as at June 30, 2019 and December 31, 2018 and, accordingly, the Company is not exposed to currency risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flows and retains sufficient balances in cash or cash equivalent positions to maintain adequate liquidity. At June 30, 2019, the Company held assets of $33,520 in cash and cash equivalents and liquid securities [December 31, 2018 - $32,938] compared to total liabilities of $1,081 [December 31, 2018 - $1,119] and, accordingly, believes that there is no liquidity risk. As described in note 5, the Company is required to maintain prescribed levels of net assets and qualified investments. These prescribed levels have been maintained in 2019 and 2018.

7. INCOME TAXES

As at June 30, 2019, the Company has non-capital losses of $1,980 [December 31, 2018 - $1,980], which will expire in 2029 to 2037. The Company also has available capital losses of $1,939 [December 31, 2018 - $2,813] that may be carried forward indefinitely to offset future capital gains. The movement of deferred taxes through other comprehensive income (loss) in the year is an expense recovery of $nil [2018 - recovery of $36].

	June 30, 2019 $	**December 31, 2018 $**
Income (loss) before income taxes	**3,832**	2,547
Statutory tax rate	**26.50%**	26.50%
Provision for income taxes (recovery) at statutory tax rate	**1,015**	675
Increase (decrease) in income taxes resulting from:		
Canadian dividends	**(954)**	(976)
Non-tax deductible interest expense	**12**	23
Non-taxable portion of capital gains	**(26)**	114
Other	**(44)**	37
Income taxes	—	(127)

[in thousands of Canadian dollars,
except per share amounts expressed in Canadian dollars]

Deferred tax liabilities:

	June 30, 2019 $	December 31, 2018 $
Deferred tax assets		
Capital and non-capital losses carried forward	**770**	781
Deferred tax liabilities		
Fair value of available-for-sale investments	**(770)**	(781)
	—	—

8. MANAGEMENT OF CAPITAL

The Company considers the following as capital as at:

	June 30, 2019 $	December 31, 2018 $
Due to first preference shareholders	**978**	978
Shareholders' equity comprises:		
Capital stock	**7,795**	7,795
Retained earnings	**60,432**	59,746
	69,205	68,519

The Company's objectives when managing capital are:

[a] to allow the Company to respond to changes in economic and/or marketplace conditions by maintaining its ability to purchase new investments;

[b] to provide shareholders with a fair return on investments;

[c] to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk; and

[d] to safeguard the Company's ability to continue as a going concern.

The Company reviews and assesses its capital structure on an ongoing basis.

The Company has no long term-debt other than the first preference shares, which are accounted for as liabilities in the statements of financial position and are not subject to any regulatory covenants. Under its Restated Articles of Incorporation, as long as the first preference shares are outstanding, the Company is required to maintain qualified investments and net assets at prescribed minimum levels. The Company ensures that these prescribed levels are maintained. The Company ensures that the dividends on the first preference shares are paid when due. For the three months ended June 30, 2019, dividends of $44 [December 31, 2018 - $88] were paid on the first preference shares and were recorded as interest expense in the statements of comprehensive income.

9. RELATED PARTY TRANSACTIONS

Transactions with related parties are conducted in the normal course of business and amounts are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

There is a management contract between the Company and Fairwater under which Fairwater employees provide management services and Fairwater provides premises and other administration services to the Company. The cost of these services is currently established at $126 per year plus applicable taxes, payable semi-annually, and such costs include a portion of the salaries paid by Fairwater to its officers who act as officers of the Company. The management fees expense for the year ended December 31, 2018 was $142 [December, 2017 - $120].

Included in the accounts payable and accrued charges as at June 30, 2019 is $nil [December 31, 2018 - $nil] relating to management fees owing to Fairwater. Any balance is payable on a semi-annual basis and does not bear interest.

Except as noted above, there are no other transactions between the Company and related parties.