# TEMPUS CAPITAL INC.

**Condensed Interim Consolidated Financial Statements**

**June 30, 2019**

**(Unaudited)**

**(Expressed in Canadian Dollars)**

*These condensed interim consolidated financial statements have not been reviewed by the Company's auditors*

**TEMPUS CAPITAL INC.**

**(Unaudited)**

**(Expressed in Canadian Dollars)**

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***June 30, 2019 and 2018***

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying condensed interim consolidated financial statements of Tempus Capital Inc. were prepared by management in accordance with International Financial Reporting Standards. Management acknowledges responsibility for the preparation and presentation of the condensed interim consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the condensed interim consolidated financial statements and (ii) the condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the financial statements.

The Board of Directors is responsible for reviewing and approving the condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

| | |
|---|---|
| /s/ Russell Tanz | /s/ Brian Crawford |
| Russell Tanz, Chief Executive Officer | Brian Crawford, Chief Financial Officer |

Burlington, Ontario
August 27, 2019

**TEMPUS CAPITAL INC.**
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)
(Unaudited)

| | Note | June 30, 2019 | December 31, 2018 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment properties | [3] | $ 11,914,854 | $ 11,903,708 |
| Tenant allowances | | - | 2,083 |
| **Total non-current assets** | | 11,914,854 | 11,905,791 |
| **Current assets** | | | |
| Sundry receivables | | 18,305 | 63,729 |
| Tenant allowances | | 9,583 | 15,000 |
| Prepaid expenses and deposits | | 123,877 | 94,442 |
| Cash | | 5,581 | - |
| **Total current assets** | | 157,346 | 173,171 |
| **Total Assets** | | $ 12,072,200 | $ 12,078,962 |
| **Equity and Liabilities** | | | |
| Share capital | [6] | $ 2,827,687 | $ 2,827,687 |
| Contributed surplus | [6] | 63,218 | 37,007 |
| Retained earnings | | 1,250,042 | 1,146,799 |
| **Total Equity** | | 4,140,947 | 4,011,793 |
| **Non-current liabilities** | | | |
| Mortgages payable | [4] | 4,213,953 | 6,021,929 |
| Tenant deposits | | 54,586 | 45,640 |
| Deferred income taxes | [8] | 253,837 | 444,837 |
| **Total non-current liabilities** | | 4,522,376 | 6,512,406 |
| **Current liabilities** | | | |
| Mortgages payable | [4] | 3,036,403 | 1,308,193 |
| Promissory note payable | [5] | - | 12,107 |
| Accounts payable and accrued liabilities | | 372,474 | 234,763 |
| **Total current liabilities** | | 3,408,877 | 1,555,063 |
| **Total Liabilities** | | 7,931,253 | 8,067,469 |
| **Total Equity and Liabilities** | | $ 12,072,200 | $ 12,078,962 |

**Approved on behalf of the Board**

*"Russell Tanz"*
Russell Tanz - Director

*"Brian Crawford"*
Brian Crawford - Director

See accompanying notes to the consolidated financial statements

**TEMPUS CAPITAL INC.**
Condensed Interim Consolidated Statements of Operations and Comprehensive Income
(Expressed in Canadian dollars)
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2019** | **June 30, 2018** | **June 30, 2019** | **June 30, 2018** |
| **Rental revenue** | $ 245,379 | $ 285,059 | $ 493,450 | $ 527,257 |
| **Property operating costs** | 90,843 | 105,119 | 177,866 | 174,621 |
| **Net rental revenue** | 154,536 | 179,940 | 315,584 | 352,636 |
| **Expenses** | | | | |
| Interest expense | 97,164 | 105,896 | 195,652 | 210,787 |
| General and administrative | 45,853 | 36,231 | 86,725 | 66,035 |
| Professional fees | 30,591 | 15,667 | 42,110 | 23,167 |
| Share-based compensation | 26,211 | - | 26,211 | - |
| Listing expense | - | - | 52,643 | - |
| **Total expenses** | 199,819 | 157,794 | 403,341 | 299,989 |
| **Income (loss) before income taxes** | (45,283) | 22,146 | (87,757) | 52,647 |
| Deferred tax recovery (expense) | - | - | 191,000 | - |
| **Net income (loss) and comprehensive income (loss)** | $ (45,283) | $ 22,146 | $ 103,243 | $ 52,647 |
| Basic earnings per share | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 |
| Diluted earnings per share | $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 |

See accompanying notes to the consolidated financial statements

**TEMPUS CAPITAL INC.**
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)
(Unaudited)

| Six Months Ended June 30 | 2019 | 2018 |
|---|---|---|
| **CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES** | | |
| Net income for the period | $ 103,243 | $ 52,647 |
| Items not affecting cash | | |
| Deferred income taxes | (191,000) | - |
| Financing costs | 25,166 | 36,444 |
| Share-based compensation | 26,211 | - |
| Accretion on discounted promissory note | 142 | 1,113 |
| Changes in non-cash working capital | | |
| Sundry receivables | 45,424 | (31,862) |
| Tenant allowances | 7,500 | 7,500 |
| Prepaid expenses and deposits | (29,435) | (53,924) |
| Tenant deposits | 8,946 | 6,260 |
| Accounts payable and accrued liabilities | 137,711 | 95,227 |
| **Cash flows from operating activities** | 133,908 | 113,405 |
| **FINANCING ACTIVITIES** | | |
| Repayment of promissory note | (12,249) | (12,250) |
| Mortgage repayments | (104,932) | (118,198) |
| Increase in deferred financing | - | (5,000) |
| **Cash flows from financing activities** | (117,181) | (135,448) |
| **INVESTING ACTIVITIES** | | |
| Additions to investment property | (11,146) | (5,713) |
| **Cash flows from investing activities** | (11,146) | (5,713) |
| **Increase (decrease) in cash for the period** | 5,581 | (25,756) |
| **Cash, beginning of period** | - | 36,424 |
| **Cash, end of period** | $ 5,581 | $ 8,668 |

Supplemental cash flow information (Note 9).

See accompanying notes to the consolidated financial statements

**TEMPUS CAPITAL INC.**
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)
(Unaudited)

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | Number of Shares | Amount | Contributed Surplus | Deficit | Total Shareholders' Equity |
| At December 31, 2017 | 29,878,993 | $2,827,687 | $ 37,007 | $1,120,662 | $ 3,985,536 |
| Net income for the period | | | - | 52,647 | 52,647 |
| At June 30, 2018 | 24,571,878 | 2,137,762 | 27,500 | 1,173,309 | 4,038,003 |
| Net income for the period | | - | - | (26,510) | (26,510) |
| At December 31, 2018 | 29,878,993 | 2,827,687 | 37,007 | 1,146,799 | 4,011,493 |
| Options granted | | - | 26,211 | - | 26,211 |
| Net income for the period | | | | 103,243 | 103,243 |
| At June 30, 2019 | 29,878,993 | $2,827,687 | $ 63,218 | $1,250,042 | $ 4,140,947 |

See accompanying notes to the consolidated financial statements

## 1. CORPORATE INFORMATION

Tempus Capital Inc. ("Tempus" or the "Company") was incorporated on February 16, 2011 pursuant to the provisions of the Business Corporations Act (Ontario).

The Company is a reporting issuer in Ontario, Alberta and British Columbia and its shares are listed on the Canadian Securities Exchange.

The registered and operating office of the Company is 855 Brant Street, Burlington, Ontario L7R 2J6. Tempus is a real estate operating company whose real estate portfolio currently consists of properties in Ontario.

The condensed interim consolidated financial statements of the Company for the period ended June 30, 2019, were authorized for issue in accordance with a resolution of the Board of Directors on August 27, 2019.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB, have been omitted or condensed.

### Basis of Presentation

The condensed interim consolidated financial statements of the Company include the accounts of its wholly owned subsidiaries 2335501 Ontario Inc., 2443578 Ontario Ltd., 2590197 Ontario Inc., and Tempus Capital LLC. The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for investment properties that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The condensed interim consolidated financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is Tempus's functional currency.

The condensed interim consolidated financial statements should be read in conjunction with the most recently annual financial statements of Tempus, which includes information necessary or useful to understanding the Company's financial statement presentation. In particular, the Company's significant accounting policies were presented in Note 2 to the consolidated financial statements for the year ended December 31, 2018 and have been consistently applied in the preparation of these condensed interim consolidated financial statements except as described herein.

The operating results for the three months ended June 30, 2019, are not necessarily indicative of results that may be expected for the full year ended December 31, 2019, due to seasonal variation in property expenses and other factors.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Current Change to Significant Accounting Policies

Effective January 1, 2019, the Company has adopted IFRS 16 Leases, which was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 – Leases. This is the first set of the Company's consolidated financial statements where IFRS 16 has been applied. Changes to the Company's accounting policies, which are also expected to be reflected in the Company's annual consolidated financial statements as at and for the year ending December 31, 2019, are described below. Lessor accounting under IFRS 16 is substantially unchanged; lessors will continue to classify all leases as either operating or finance leases using similar principles as in IAS 17.

The Company adopted IFRS 16 using the modified retrospective approach. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts, that at the commencement date, have a lease term of 12 months or less and do not include a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

The Company reviewed all lease contracts in which it is a lessee and has determined that all of the leases are considered immaterial.

*Lease policy applicable from January 1, 2019:*

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

At inception or on reassessment of a contact that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

(Expressed in Canadian Dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset is periodically reduced by impairment losses.

The lease liability is initially measured at the present value of future lease payments discounted using an implicit interest rate or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

*Short-term leases and leases of low-value assets:*

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term of 12 months or less and leases of low-value assets, including premises. The Company recognizes the lease payments associated with these leases in net earnings on a straight-line basis over the lease term.

## 3. INVESTMENT PROPERTIES

| As at and for the period ended June 30, 2019 | | |
|---|---|---|
| Balance, beginning of period | $ | 11,903,708 |
| Acquisition | | - |
| Capital expenditure on investment properties | | 11,146 |
| Balance, end of period | $ | 11,914,854 |

| As at and for the year Ended December 31, 2018 | | |
|---|---|---|
| Balance, beginning of year | | 11,879,748 |
| Acquisition | | - |
| Capital expenditure on investment properties | | 23,960 |
| Balance, end of year | $ | 11,903,708 |

(Expressed in Canadian Dollars)

**3. INVESTMENT PROPERTIES (continued)**

Investment properties are held by wholly owned subsidiaries. Each of the wholly owned subsidiaries hold registered title to the respective properties as bare trustees.

Valuation methodology and processes

The fair value of investment properties as of June 30, 2019 and December 31, 2018 is determined internally by management using assumptions and market information obtained from industry professionals. Investment properties carried at fair value are categorized by level according to the significance of the inputs used in making the measurements. As the fair value of investment properties is determined with significant unobservable inputs, all of the investment properties are classified as Level 3 assets.

Management's primary internal valuation model is based on a capitalization of forecasted normalized net operating income approach. The Company determines the forecasted normalized net operating income for each property based on current in-place rents and assumptions about occupancy, less cash outflows expected to operate and manage each individual property within the portfolio. Capitalization rates used to estimate fair market value take into account many factors including but not limited to: the location of the property, the quality and strength of tenants, whether lease rates are over or under current market rates, demand for the type and use of the property, the age of the building, any special use characteristics of the building or area, and vacancy rates in the area. Market information related to the external sale of similar buildings within a similar geographic location is also taken into consideration. The Company's management is responsible for determining fair value measurements including verifying all major inputs included in the valuation.

The key level 3 valuation metrics for the investment properties are set out in the following table:

| | | **June 30 2019** | | **December 31 2018** |
|---|---|---|---|---|
| Range of capitalization rates applied to investment properties | | 5.25%-6.25% | | 5.25%-6.25% |
| Fair values of properties where cap rates were applied | $ | 11,914,814 | $ | 11,903,708 |
| Weighted average cap rates | | 6.12% | | 6.11% |
| Fair value impact of increasing average cap rate by 1% | $ | (19,856) | $ | (20,202) |
| Fair value impact of a 1% decrease in net operating income | $ | (119,300) | $ | (120,214) |

(Expressed in Canadian Dollars)

## 4. MORTGAGES PAYABLE

| | | 2019 | 2018 |
|---|---|---|---|
| Current portion | - First mortgage | $ 2,792,197 | $ 4,652,946 |
| | - Second mortgage | 276,796 | 887,147 |
| | - Unamortized deferred financing costs | (32,590) | (31,724) |
| | | 3,036,403 | 5,508,369 |
| Non-current portion | - First mortgage | 4,291,349 | 1,534,468 |
| | - Second mortgage | - | 276,796 |
| | - Unamortized deferred financing costs | (77,396) | (8,504) |
| | | 4,213,953 | 1,802,760 |
| Total | | $ 7,250,356 | $ 7,311,129 |

| 425 Caradoc St South, Strathroy, Ontario | 605-607 Richmond St, London, Ontario | | 723 Richmond St, London, Ontario |
|---|---|---|---|
| First Mortgage | First Mortgage | Second Mortgage | First Mortgage |
| $4,392,852 | $1,534,468 | $276,796 | $1,156,227 |

The first mortgage on the Strathroy property bears interest at 4.52% and is payable in blended monthly payments of $24,679. The first mortgage on the London property at 605-607 Richmond Street bears interest at 3.53% and is payable in blended monthly payments of $10,661. The first mortgage on the London property at 723-727 Richmond Street bears interest at 5.25% and is payable in blended monthly payments of $7,146. All three first mortgages are secured by the respective investment property. The first mortgage on the Strathroy property matures on November 1, 2023. The first mortgage on the London property at 605-607 Richmond Street matures on January 1, 2020 and the first mortgage on the London property at 723-727 Richmond Street matures on September 12, 2019.

Management estimates that the fair value of the mortgages at June 30, 2019 is approximately equal to their reported values.

The first mortgage on the Strathroy property and the first and second mortgages on the London property are guaranteed by a director of the Company as to 25% up to a maximum of $1,098,213 and $750,000, respectively.

The second mortgage on the London property at 605-607 Richmond St. bears interest at 3.75%, is payable in blended monthly payments of $1,953 and is secured by the investment property. The second mortgage on the London property at 605-607 Richmond Street matures on January 1, 2020.

(Expressed in Canadian Dollars)

## 4. MORTGAGES PAYABLE (continued)

Estimated future principal repayments required to meet mortgage obligations are as follows:
Principal payments by 12-month periods ended June 30,

| | | | |
|---|---|---|---|
| | 2020 | $ | 3,068,993 |
| | 2021 | | 106,142 |
| | 2022 | | 110,994 |
| | 2023 | | 116,068 |
| | 2024 | | 3,958,145 |
| | | | 7,360,342 |
| Unamortized deferred financing costs | | | (109,986) |
| | | $ | 7,250,356 |

## 5. PROMISSORY NOTE PAYABLE

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Total | $ - | $ 12,107 |

Promissory note, unsecured, non-interest bearing payable in monthly instalments of $2,042 matured June 30, 2019.

## 6. SHARE CAPITAL AND CONTRIBUTED SURPLUS

**Share Capital**

**Authorized**

Unlimited number of common shares without par value

**Issued**

The following table summarizes the changes in issued common shares of the Company.

| For the three months ended June 30 | **2019** Number of Shares | **2019** Value | **2018** Number of Shares | **2018** Value |
|---|---|---|---|---|
| Balance, beginning of period | 29,878,993 | $ 2,827,687 | 29,878,993 | $ 2,827,687 |
| Balance, end of period | 29,878,993 | $ 2,827,687 | 29,827,687 | $ 2,827,687 |

(Expressed in Canadian Dollars)

## 6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

**Contributed Surplus**

| For the three months ended June 30 | | **2019** | | **2018** |
|---|---|---|---|---|
| Balance, beginning of period | $ | 37,007 | $ | 37,007 |
| Additions | | 26,211 | | - |
| Balance, end of period | $ | 63,218 | $ | 37,007 |

## 7. SHARE-BASED COMPENSATION

**Stock options**

| For the three months ended June 30 | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| | Number of Shares | | Weighted Average Exercise Price | Number of Shares | | Weighted Average Exercise Price |
| Outstanding, beginning of period | 1,390,000 | $ | 0.12 | 1,390,000 | $ | 0.12 |
| Granted | 600,000 | | 0.085 | - | | - |
| Outstanding, end of period | 1,990,000 | $ | 0.11 | 1,390,000 | $ | 0.12 |

600,000 stock options were issued in April 2019 with an estimated fair value of $26,211. The share price was $0.085. The volatility factor used was 60%. The risk-free interest rate used was 1.3%. The dividend yield was 0%. The weighted average remaining contractual life of options outstanding at June 30, 2019 was 2.37 years (December 31, 2018 - 1.81 years). The options expire as follows, 890,00 on September 11, 2019, 500,000 on October 17, 2022 and 600,000 on April 26, 2024.

## 8. INCOME TAXES

During the period, there was a change in the tax categorization of the Company, from a private company to a public company as a result of listing the Company’s shares on the Canadian Securities Exchange. Pursuant to the change, the tax rate applied to the Company’s cumulative timing differences changed resulting in a reduction in the Company’s deferred income taxes of $191,000.

## 9. PER SHARE INFORMATION

The basic net income per share is calculated based on the following:

| | **2019** | **2018** |
|---|---|---|
| Weighted average number of shares | 29,878,993 | 29,878,993 |

The diluted net income per share is calculated based on the following:

| | **2019** | **2018** |
|---|---|---|
| Weighted average number of shares | 31,484,463 | 31,268,993 |

**9. PER SHARE INFORMATION (continued)**

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of share options issued to certain management, directors and consultants.

**10. SUPPLEMENTAL CASH FLOW INFORMATION**

| | 2019 | 2018 |
|---|---|---|
| Interest paid on mortgages and promissory notes | $ 195,652 | $ 210,787 |

**11. FINANCIAL RISK MANAGEMENT**

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

*Credit risk*

Credit risk arises from the possibility that tenants and/or debtors may experience financial difficulty and be unable or unwilling to fulfill their lease commitments or other obligations. The Company mitigates the risk of credit loss by investing in well-located properties in urban markets that attract quality tenants, ensuring that its tenant mix is well diversified, and by limiting its exposure to any one tenant. A tenant's success over the term of its lease and its ability to fulfill its lease obligations is subject to many factors. There can be no assurance that a tenant will be able to fulfill all of its existing commitments and leases up to the expiry date. The Company's exposure to credit risk is limited to the carrying amounts of its financial assets.

*Interest rate risk*

The Company attempts to structure its financings so as to stagger the maturities of its debt, thereby mitigating its exposure to interest rate and other credit market fluctuations. Interest represents a significant cost in financing the ownership of real property. Currently all of the Company's mortgages and promissory note are fixed rate instruments. The Company's cash held in its bank account earns interest income at variable rates and is exposed to movements in interest rates.

*Liquidity risk*

Real estate investments are relatively illiquid. This will tend to limit the Company's ability to sell components of its portfolio promptly in response to changing economic or investment conditions. If the Company was required to quickly liquidate its assets, there is a risk that it would realize sale proceeds of less than the current value of its investment property.

An analysis of the Company's contractual maturities of its material financial liabilities is set out below:

(Expressed in Canadian Dollars)

**11. FINANCIAL RISK MANAGEMENT (continued)**

Payments by Period

| | 2020 | 2021 | 2022 | Thereafter | Total |
|---|---|---|---|---|---|
| Gross mortgage payments | $ 3,068,993 | $ 106,142 | $ 110,994 | $ 4,074,213 | $ 7,360,342 |
| Accounts payable and accrued liabilities | 372,474 | - | - | - | 372,474 |
| Total | $3,441,467 | $ 106,142 | $ 110,994 | $ 4,074,213 | $ 7,732,816 |

In addition, the Company has contractual commitments with respect to its outstanding accounts payable and accrued liabilities and investment property. Accounts payable and accrued liabilities are normally due within thirty to sixty days from their incurrence.

The Company manages its liquidity risk by staggering debt maturities and issuing equity when considered appropriate. In the years in which mortgages mature (2020 and 2023), it is expected that the mortgages will be renewed or refinanced and not that the amount will be paid out in full.

**12. CAPITAL MANAGEMENT**

The Company manages its capital, taking into account the long-term business objectives of the Company, to provide stability and reduce risk while generating an acceptable return on investment over the long term to shareholders. The Company's capital structure currently includes share capital, mortgages and other term financings, which together provide the Company with financing flexibility to meet its capital needs. Primary uses of capital include acquisitions, capital improvements, leasing costs, and debt principal repayments. The actual level and type of future financings to fund these capital requirements will be determined based on prevailing interest rates, various costs of debt and/or equity capital, capital market conditions and management's general view of the required leverage in the business.

The Company periodically re-evaluates its overall financing and execution strategy to ensure the best access to available capital at the lowest possible cost.

The Company is not subject to externally imposed capital requirements.

The components of the Company's capital are set out in the following table:

| | June 30 2019 | December 31 2018 |
|---|---|---|
| Mortgages payable | $7,250,356 | $7,465,429 |
| Promissory note payable | - | 12,107 |
| Share capital | 2,837,687 | 2,837,687 |
| Contributed surplus | 63,218 | 37,007 |
| Retained earnings | 1,250,042 | 1,146,799 |
| | $11,401,303 | $11,488,874 |

(Expressed in Canadian Dollars)

## 13. COMMITMENTS AND CONTINGENCIES

The Company has agreed to indemnify a director who has personally guaranteed 25% of the first mortgage on the Strathroy property to a maximum of $1,104,382, and the first mortgage and the second mortgages on the London property to a maximum of $750,000. The annual indemnification fee is calculated at 1% of the amounts indemnified for the mortgages.

## 14. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors and officers, close family members and enterprises that are controlled by these individuals as well as certain consultants performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Management services (i) | $ | 15,000 | $ | 15,000 |
| Office rent and supplies (ii) | $ | 1,500 | $ | 1,500 |
| Property management fees (iii) | $ | 13,675 | $ | 13,675 |
| Guarantees (iv) | $ | 4,580 | $ | 4,040 |
| Share-based compensation | $ | 26,211 | $ | - |

(i) The Company paid or accrued $7,500 (2018-$7,500) to the CEO and $7,500 (2018-$7,500) to the CFO for management services

(ii) The Company paid $1,500 (2018 - $1,500) to a company controlled by the CFO of the Company for office rent, telephone, office supplies, and other overhead items.

(iii) The Company paid $13,675 (2018 - $13,675) to a company controlled by the CEO of the Company for property management services.

(iv) The Company expensed $4,616 (2018 - $4,040) with respect to the indemnification fee for the personal guarantee of the CEO for the mortgages.

Included in accounts payable is an amount of $8,475 due to Brant Capital Partners Inc., $6,622 due to Russell Tanz Management Inc., $34,572 due to the CEO, and $1,387 due to the CFO.

## 15. SUBSEQUENT EVENT

On July 25, 2019, the Company refinanced mortgages in connection with the investment property located at 605 Richmond St., London, Ontario. A new first mortgage was issued in the amount of $2,350,000 bearing interest at 3.66%, a term of five years, and payable in blended monthly payments

**15. SUBSEQUENT EVENT (continued)**

of $12,573. Proceeds from the new first mortgage were used to extinguish the existing first and second mortgages on the property and for general working capital purposes.