Montfort

**CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

# Independent auditor's report

To the Shareholders of Montfort Capital Corp.

## Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Montfort Capital Corp. and its subsidiaries (together, the Company) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

**What we have audited**
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of net income (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Impairment assessment of goodwill**<br><br>*Refer to note 2 – Basis of presentation and material accounting policies and note 8 – Intangible assets and goodwill to the consolidated financial statements.*<br><br>As at December 31, 2023, the Company had goodwill of $44.8 million. Goodwill was acquired as part of the Pivot, Brightpath and Langhaus acquisitions and is tested for impairment annually or more frequently if specific events and circumstances dictate that the carrying amount of the asset group may not be fully recoverable. In assessing impairment, management estimates the recoverable amount of the cash generating units (CGU) to which the goodwill relates. If the carrying amount of the CGU exceeds the recoverable amount of the CGU, the Company recognizes an impairment loss.<br><br>As at December 31, 2023, annual impairment tests were performed and management has estimated the recoverable amounts of the CGUs by value in use discounted cash flow calculations. Significant assumptions used by management in determining the recoverable amounts included revenue growth rates and discount rates. No impairment was recognized as a result of the 2023 impairment tests.<br><br>We considered this a key audit matter due to the significant judgment by management in determining the recoverable amounts of the CGUs, including the development of significant assumptions. | Our approach to addressing the matter included the following procedures, among others:<br><br>• Tested how management determined the recoverable amounts of the CGUs, which included the following:<br>– Tested the appropriateness of the valuation method and the discounted cash flow models.<br>– Tested the underlying data used in the discounted cash flow models.<br>– Assessed the reasonableness of the revenue growth rates by considering current market and industry data.<br>– Professionals with specialized skill and knowledge in the field of valuation assisted in assessing the reasonableness of the discount rates applied by management based on available data of comparable companies.<br><br>• Tested the disclosures made in the consolidated financial statements, particularly with regard to the sensitivity of the significant assumptions used by management. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation. | |
| **Expected credit loss allowance for loans receivable**<br><br>*Refer to note 2 – Basis of presentation and material accounting policies, note 4 – Accounts receivable, note 5 – Loans receivable, and note 16 – Financial instruments and risk to the consolidated financial statements.*<br><br>The Company's expected credit loss (ECL) allowance as at December 31, 2023 was $7.0 million on a loans and accounts receivable balance of $336.6 million.<br><br>The Company assesses on a forward-looking basis the ECL associated with its financial assets carried at amortized cost and with the exposure arising from loan commitments. The Company recognizes an ECL allowance for such losses at each reporting date.<br><br>The Company calculates an ECL allowance using a three-stage model for impairment based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Company. If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to Stage 2, but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. | Our approach to addressing the matter included the following procedures, among others:<br><br>• Tested how management determined the ECL allowance, which included the following:<br>– Tested the appropriateness of the models.<br>– Evaluated the reasonableness of the collateral value in the current macroeconomic environment by obtaining independent collateral appraisals for a sample of loans receivable and assessed changes in valuation since the appraisal date by considering current market data.<br>– Evaluated the reasonableness of the probability of default and whether a significant increase in credit risk had occurred by considering historical performance.<br>– Tested the underlying data used in the determination of the ECL allowance.<br><br>• Assessed the adequacy of the Company's disclosure in the consolidated financial statements in relation to this matter. |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| Financial instruments in Stage 1 have their ECL allowance measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL allowance measured based on expected credit losses on a lifetime basis.<br><br>Calculating the ECL allowance involves a number of interrelated inputs and assumptions including probability of default, indications of SICR and collateral value. Management applies significant judgment to estimate the value of collateral in the current macroeconomic environment.<br><br>We considered this a key audit matter due to the significant judgment required by management when determining ECL allowance and the high degree of auditor judgment and subjectivity in performing procedures related to management's interrelated inputs and assumptions. | |

## Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 25, 2024

**MONTFORT CAPITAL CORP.**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023 AND 2022
(Expressed in Canadian Dollars)

| ASSETS | | December 31, 2023 | | December 31, 2022 (Revised - Note 3) |
|---|---|---|---|---|
| Cash | $ | 8,281,046 | $ | 7,008,311 |
| Accounts receivable - net of allowance (Note 4) | | 8,605,909 | | 6,091,216 |
| Current portion of loans receivable - net of allowance (Note 5) | | 302,899,364 | | 371,817,166 |
| Other current assets | | 3,247,191 | | 824,966 |
| **Total Current Assets** | | 323,033,510 | | 385,741,659 |
| **Non-current assets** | | | | |
| Loans receivable - net of allowance (Note 5) | | 17,682,345 | | 8,872,389 |
| Carried interest receivable | | 2,430,338 | | 2,088,735 |
| Investments (Note 6) | | 4,504,869 | | 3,674,397 |
| Right-of-use asset (Note 7) | | 1,539,680 | | 125,258 |
| Deferred tax asset | | 429,888 | | 252,580 |
| Intangible assets (Note 8) | | 8,101,294 | | 9,928,035 |
| Goodwill (Note 8) | | 44,786,309 | | 44,786,309 |
| **Total Non-Current Assets** | $ | 79,474,723 | $ | 69,727,703 |
| **TOTAL ASSETS** | **$** | **402,508,233** | **$** | **455,469,362** |
| **LIABILITIES** | | | | |
| Accounts payable and accrued liabilities (Note 13) | $ | 7,389,695 | $ | 4,847,557 |
| Debentures & co-investment obligations | | - | | 2,463 |
| Lease liability (Note 7) | | 1,622,232 | | 146,796 |
| Current portion of loans payable (Note 10, 13, 20) | | 333,771,960 | | 286,977,138 |
| Current portion of other liability (Note 3, 11) | | 1,705,145 | | 19,843,266 |
| **Total Current Liabilities** | | 344,489,032 | | 311,817,220 |
| **Non-current liabilities** | | | | |
| Deferred tax liability | | 2,187,840 | | 2,678,414 |
| Loans payable (Note 10, 13, 20) | | 17,599,351 | | 86,607,477 |
| Other liability (Note 3, 11) | | - | | 1,501,431 |
| **Total Non-Current Liabilities** | $ | 19,787,191 | $ | 90,787,322 |
| **TOTAL LIABILITIES** | | 364,276,223 | | 402,604,542 |
| **EQUITY** | | | | |
| Common shares (Note 12) | | 22,308,139 | | 21,956,183 |
| Preferred shares (Note 12) | | 39,812,301 | | 39,848,214 |
| Share-based payments reserve (Note 12) | | 2,917,021 | | 2,103,570 |
| Non-controlling interests (Note 14) | | 2,457,304 | | 2,599,264 |
| Contributed surplus (Note 12) | | 82,070 | | 44,144 |
| Accumulated other comprehensive loss | | (3,348) | | - |
| Accumulated deficit | | (29,341,477) | | (13,686,555) |
| **TOTAL EQUITY** | | 38,232,010 | | 52,864,820 |
| **TOTAL LIABILITIES AND EQUITY** | **$** | **402,508,233** | **$** | **455,469,362** |

Nature of operations, Commitments and contingencies and Subsequent events (Notes 1, 10, 20)

Approved on behalf of the Board of Directors:

*/s/ “Howard Atkinson”*
Howard Atkinson, Director

*/s/ “David Demers”*
David Demers, Director

See accompanying notes to the consolidated financial statements.

**MONTFORT CAPITAL CORP.**
CONSOLIDATED STATEMENTS OF NET INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(Expressed in Canadian Dollars)

| | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Interest income (Note 5) | $ | 37,498,181 | $ | 23,468,463 |
| Income from transaction and other fees (Note 5) | | 12,539,912 | | 6,595,045 |
| Income from settlement of loans | | 62,026 | | 755,106 |
| Performance fee income | | 1,366,264 | | 447,739 |
| **TOTAL REVENUE** | | 51,466,383 | | 31,266,353 |
| **EXPENSES** | | | | |
| Accounting and legal | | 2,885,283 | | 1,658,206 |
| Administrative, management and directors fees (Note 14) | | 8,199,163 | | 4,906,215 |
| Amortization (Note 7, 8) | | 2,073,465 | | 1,323,080 |
| Expected credit loss (accounts receivable) (Note 4) | | 4,747,086 | | 141,265 |
| Expected credit loss (loans receivable) (Note 5) | | 2,265,251 | | 703,182 |
| Investor relations, communications and regulatory fees | | 495,139 | | 484,177 |
| Impairment loss on intangible assets (Note 8) | | 3,564,441 | | - |
| Interest and financing fees (Note 10) | | 35,857,265 | | 15,285,192 |
| Marketing services and promotion | | 658,360 | | 734,680 |
| Office, travel, systems, and miscellaneous | | 1,621,814 | | 1,010,201 |
| Restructuring (Note 18) | | 650,000 | | - |
| Share-based payments (Note 12) | | 1,093,967 | | 606,611 |
| **TOTAL EXPENSES** | | 64,111,234 | | 26,852,809 |
| **OPERATING (LOSS) INCOME** | | (12,644,851) | | 4,413,544 |
| Foreign exchange losses (gains) | | 152,849 | | (70,682) |
| Loss on settlement of debentures | | - | | 21,297 |
| Gain on forward contract | | - | | (30,716) |
| Acquisition costs (Note 3) | | 73,026 | | 557,607 |
| **NET (LOSS) INCOME BEFORE TAXES** | | (12,870,726) | | 3,936,038 |
| Current income tax expense | | 299,880 | | 623,959 |
| Deferred tax recovery | | (667,882) | | (619,611) |
| **NET (LOSS) INCOME** | **$** | **(12,502,724)** | **$** | **3,931,690** |
| **NET (LOSS) INCOME ATTRIBUTABLE TO:** | | | | |
| Shareholders of the corporation | | (12,360,764) | | 591,077 |
| Non-controlling interest (Note 14) | | (141,960) | | 3,340,613 |
| **NET (LOSS) INCOME** | **$** | **(12,502,724)** | **$** | **3,931,690** |
| NET (LOSS) INCOME PER COMMON SHARE BASIC AND DILUTED | $ | (0.17) | $ | (0.01) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | | 92,138,065 | | 71,632,269 |

**MONTFORT CAPITAL CORP.**
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(Expressed in Canadian Dollars)

| | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| **OTHER COMPREHENSIVE(LOSS) INCOME** | | | | |
| Net (loss) income | $ | (12,502,724) | $ | 3,931,690 |
| **Other comprehensive (loss) income** | | | | |
| Items that may be reclassified to net income: | | | | |
| Foreign currency translation adjustment | | (1,098) | | 2,226,845 |
| **TOTAL COMPREHENSIVE (LOSS) INCOME** | **$** | **(12,503,822)** | **$** | **6,158,535** |
| | | | | |
| **Comprehensive (loss) income attributable to:** | | | | |
| Shareholders of the corporation | | (12,361,862) | | 788,654 |
| Non-controlling interest | | (141,960) | | 5,369,881 |
| **TOTAL COMPREHENSIVE (LOSS) INCOME** | **$** | **(12,503,822)** | **$** | **6,158,535** |

**MONTFORT CAPITAL CORP.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(Expressed in Canadian Dollars)

| | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net (loss) income for the period | $ | (12,502,724) | $ | 3,931,690 |
| Non-cash items | | | | |
| Share-based payments | | 1,093,967 | | 606,611 |
| Current and deferred tax expense (recovery) | | (667,882) | | (619,611) |
| Amortization | | 2,073,465 | | 1,404,988 |
| Participation interest expense | | - | | 35,805 |
| (Loss) gain on settlement of loans | | (6,863) | | 78,572 |
| Interest accrued and interest accretion | | 1,929,052 | | 773,091 |
| Expected credit loss - accounts receivable | | 4,747,086 | | - |
| Expected credit loss - loans receivable | | 2,265,251 | | 703,182 |
| Investment income | | (1,303,816) | | - |
| Impairment loss on intangible assets | | 3,564,441 | | - |
| Loss on extinguishment of debentures | | - | | 21,297 |
| Unrealized foreign exchange gain | | (101,568) | | (1,928,567) |
| Repayment of loans receivable | | 334,417,341 | | 204,694,743 |
| Advances of loans receivable | | (354,918,791) | | (251,442,123) |
| | | (19,411,041) | | (41,740,322) |
| Changes in non-cash working capital items: | | | | |
| Restricted cash | | - | | 443,506 |
| Accounts receivable | | (7,266,046) | | (1,990,574) |
| Other current assets | | (2,210,564) | | (74,635) |
| Forward contract receivable | | - | | 290,500 |
| Carried interest receivable | | (372,938) | | - |
| Accounts payable and accrued liabilities | | 2,333,909 | | (2,322,367) |
| Other liability | | (3,274,952) | | (3,935,520) |
| **CASH USED IN OPERATING ACTIVITIES** | | (30,201,632) | | (49,329,412) |
| **INVESTING ACTIVITIES** | | | | |
| Acquisition of Pivot | | - | | - |
| Acquisition of Brightpath, net of cash acquired | | - | | 4,295,678 |
| Acquisition of Langhaus | | - | | (6,196,327) |
| Loss of control adjustment | | - | | (324,720) |
| Sale of other non-current assets | | 160,000 | | - |
| Purchase of other non-current assets | | (57,856) | | - |
| Purchases of investments | | (2,494,860) | | - |
| Distributions from investments | | 2,569,996 | | - |
| Redemptions from investments | | 79,542 | | - |
| **CASH PROVIDED BY INVESTING ACTIVITIES** | | 256,822 | | (2,225,369) |
| **FINANCING ACTIVITIES** | | | | |
| Payments on redemption of debentures and co-investors, net | | - | | (1,503,599) |
| Proceeds on issuance of common shares | | - | | 1,233,749 |
| Proceeds on issuance of Limited Partnership units | | - | | 8,246,881 |
| Proceeds on issuance of loans payable | | 178,905,050 | | 193,953,629 |
| Repayments of loans payable | | (144,203,041) | | (142,034,946) |
| Distributions paid through the Limited Partnerships | | - | | (6,869,810) |
| Dividends & share issuance costs paid | | (3,300,207) | | (1,558,880) |
| Proceeds on exercise of options and warrants | | 84,750 | | 209,372 |
| Lease payments | | (243,991) | | (94,735) |
| Repayment of revolving credit facility | | - | | (4,485,129) |
| Purchase of common shares under NCIB | | (23,958) | | (74,812) |
| **CASH PROVIDED BY FINANCING ACTIVITIES** | | 31,218,603 | | 47,021,720 |
| **CHANGE IN CASH DURING THE PERIOD** | | 1,273,793 | | (4,533,061) |
| **EFFECT OF FOREIGN EXCHANGE ON CASH** | | (1,058) | | 2,226,846 |
| **CASH, BEGINNING OF PERIOD** | | 7,008,311 | | 9,314,526 |
| **CASH, END OF PERIOD** | **$** | **8,281,046** | **$** | **7,008,311** |

Cash flows operating activities include: Income taxes paid $2,035,768 (2002 - $961,819); interest received $37,498,181 (2022 - $23,468,463) and interest paid $35,857,265 (2022 - $15,285,192).

See accompanying notes to the consolidated financial statements.

MONTFORT CAPITAL CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(Expressed in Canadian Dollars)

| | Common Shares | | Preferred Shares | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Share-based Payment Reserve | Non-controlling interest | Contributed Surplus | Deficit (Revised - Note 3) | Accumulated Other Comprehensive Income (Loss) | Total Equity |
| **As at December 31, 2021** | **53,041,463** | **7,777,918** | **10,485,994** | **9,560,495** | **1,608,314** | **-** | **68,370** | **(5,843,738)** | **(44,097)** | **13,127,262** |
| Shares issued for cash | 6,253,571 | 2,175,273 | - | - | - | - | - | - | - | 2,175,273 |
| Shares issued for acquisition (Note 3) | 31,250,000 | 11,722,494 | 18,000,000 | 17,817,719 | - | - | - | - | - | 29,540,213 |
| Shares acquired through acquisition | - | - | 1,247,000 | 5,470,580 | - | 2,621,573 | - | - | - | 8,092,153 |
| Dividends paid | - | - | - | - | - | - | - | (1,558,880) | - | (1,558,880) |
| Share-based payments | - | - | - | - | 587,891 | - | - | - | - | 587,891 |
| Options exercised | 892,096 | 212,510 | - | - | (92,635) | - | - | - | - | 119,875 |
| Warrants exercised | 298,326 | 89,497 | - | - | - | - | - | - | - | 89,497 |
| Shares repurchased and cancelled | (103,500) | (21,509) | - | - | - | - | (24,226) | (29,077) | - | (74,812) |
| Other comprehensive income | - | - | - | - | - | - | - | - | 197,580 | 197,580 |
| Loss of control adjustment (Note 2) | - | - | - | - | - | - | - | 153,483 | (153,483) | - |
| Langhaus preferred share adjustment (Note 3) | - | - | - | 6,999,420 | - | - | - | (6,999,420) | - | - |
| Net income (loss) | - | - | - | - | - | (22,309) | - | 591,077 | - | 568,768 |
| **As at December 31, 2022** | **91,631,956** | **21,956,183** | **29,732,994** | **39,848,214** | **2,103,570** | **2,599,264** | **44,144** | **(13,686,555)** | **-** | **52,864,820** |
| Dividends paid on Montfort preferred shares | - | - | - | - | - | - | - | (2,890,194) | - | (2,890,194) |
| Dividends paid on Langhaus preferred shares | - | - | - | - | - | - | - | (374,100) | - | (374,100) |
| Issuance of Series 1 Class C preferred shares (Note 12) | - | - | 498,800 | 12,434,087 | - | - | - | - | - | 12,434,087 |
| Share exchange (Note 12) | - | - | (1,247,000) | (12,470,000) | - | - | - | - | - | (12,470,000) |
| Share-based payments | - | - | - | - | 1,112,677 | - | - | - | - | 1,112,677 |
| Options exercised | 1,072,500 | 383,976 | - | - | (299,226) | - | - | - | - | 84,750 |
| Shares repurchased and cancelled | (133,500) | (32,020) | - | - | - | - | 37,926 | (29,864) | - | (23,958) |
| Other comprehensive loss | - | - | - | - | - | - | - | - | (3,348) | (3,348) |
| Net loss | - | - | - | - | - | (141,960) | - | (12,360,764) | - | (12,502,724) |
| **As at December 31, 2023** | **92,570,956** | **22,308,139** | **28,984,794** | **39,812,301** | **2,917,021** | **2,457,304** | **82,070** | **(29,341,477)** | **(3,348)** | **38,232,010** |

See accompanying notes to the consolidated financial statements.

## 1. NATURE OF OPERATIONS

Montfort Capital Corp. ("Montfort" or the "Company") is incorporated under the Business Corporations Act of British Columbia. The Company is listed on the TSX Venture Exchange (the "TSX-V") trading under the symbol "MONT" as well as the OTCQB Venture Market ("OTCQB") under the symbol of MONTF.

The Company builds and manages private credit portfolios that have focused investing strategies for the institutional and accredited investors markets under five divisions: TIMIA Capital (TIMIA), Pivot Financial (Pivot), Brightpath Capital Corporation (Brightpath), Nuvo Financial Inc (Nuvo) and Langhaus Financial Partners Inc. (Langhaus).

- TIMIA originates, underwrites and services private-market, loans in the technology space. TIMIA offers revenue-based investment to fast growing, business-to-business recurring revenue software businesses in North America.
- Pivot specializes in asset-based private credit targeting mid-market borrowers in Canada. Sources of revenue include interest income from loans receivable, as well as income from the settlement of loans and transaction fees from due diligence. In addition, Pivot earns loan servicing fees and performance fee income for loan management services performed that is not part of interest income.
- Brightpath uses investor loans to administer first and second mortgages secured by residential properties. Brightpath is a registered Mortgage Brokerage and Mortgage Administrator.
- Nuvo partners with both private equity and private debt funds to provide revolving net asset value based loans that help achieve the unique goals of the fund.
- Langhaus provides insurance policy-backed lending solutions to high-net-worth individuals and entrepreneurs in Canada that are ensuring their personal and corporate affairs are optimally structured to allow for planning opportunities that generate more after-tax liquidity.

The Company's head office and principal place of business is 2920-181 Bay St, Toronto, Ontario, Canada. These consolidated financial statements were authorized for issuance by the Board of Directors on April 25, 2024.

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES

Montfort prepares its consolidated financial statements ("financial statements") in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board. The preparation of consolidated financial statements in accordance with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires that management exercise judgment in applying Montfort's accounting policies.

### Basis of presentation

The consolidated financial statements have been prepared using the historical cost basis except for certain financial instruments, which are measured at fair value. All amounts are expressed in Canadian dollars unless otherwise stated.

### Basis of consolidation

The Company uses the criteria outlined in IFRS 10 in order to determine whether it has control of its Limited Partnerships. In applying the criteria outlined in IFRS 10, judgment is required in determining whether the Company controls TIMIA Capital I Limited Partnership ("LP I"), TIMIA Capital II Limited Partnership ("LP II"), TIMIA Capital Preferred Return III Fund ("Fund") and TIMIA Capital Preferred Return III Limited Partnership ("LP III"), together the "LPs". Making this judgment involves taking into consideration the concepts of power over LP I, LP II, the Fund and LP III, exposure and rights to variable returns, and the ability to use power to direct the relevant activities of the LP's so as to generate economic returns. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operating policies of such entities so as to obtain economic benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

On December 31, 2022, the Company restructured its Limited Partnership Agreements for TIMIA Capital I Limited Partnership, TIMIA Capital II Limited Partnership and TIMIA Capital III Preferred Return Fund LP (together "TIMIA LP's"), and no longer has control of the entities per IFRS 10. Accordingly, the Company has derecognized its interest in and has recognized an equity investment, as the Company through its General Partner ("GP") has significant influence in the TIMIA LP's. Therefore the TIMIA LP's Statement of Financial Position has not been consolidated in the statement of financial position as at December 31, 2022 nor during 2023 or as at December 31, 2023. As of the date of loss of control, December 31, 2022, the Company derecognized assets, liabilities and non-controlling interests at their carrying amounts. The Company recognized an equity investment retained in the former subsidiary at its fair value at the date when control was lost. In addition, any comprehensive income (loss) in relation to these consolidated subsidiaries was reclassified to retained earnings.

The loss of control occurred on December 31, 2022 and was accounted for prospectively, and therefore the statement of financial position for December 31, 2022 does not include the consolidated LP's. Year ended December 31, 2022 the fully consolidated LP's have been included in the statement of net income (loss). There was no gain (loss) recorded on derecognition. The following summarized statement of financial position illustrates the impact of this loss of control:

| | | Prior to loss of control December 31, 2022 | | Loss of control adjustment | | Consolidated statement of financial position |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and other current assets | $ | 14,712,944 | $ | (788,451) | $ | 13,924,493 |
| Current loans receivable | | 379,954,470 | | (8,137,304) | | 371,817,166 |
| **Total Current Assets** | | 394,667,414 | | (8,925,755) | | 385,741,659 |
| **Non-current assets** | | | | | | |
| Loans receivable | | 42,784,108 | | (33,911,719) | | 8,872,389 |
| Carried Interest Receivable | | - | | 2,088,735 | | 2,088,735 |
| Investments | | 829,704 | | 2,844,693 | | 3,674,397 |
| Right-of-use asset | | 125,258 | | - | | 125,258 |
| Deferred tax asset | | 252,580 | | - | | 252,580 |
| Forward contract receivable | | - | | - | | - |
| Intangible assets | | 9,928,035 | | - | | 9,928,035 |
| Goodwill | | 44,786,309 | | - | | 44,786,309 |
| **TOTAL ASSETS** | **$** | **493,373,408** | **$** | **(37,904,046)** | **$** | **455,469,362** |
| **LIABILITIES** | | | | | | |
| Accounts payable and accrued liabilities | $ | 5,446,756 | $ | (599,199) | $ | 4,847,557 |
| All other current liabilities | | 306,991,674 | | (22,011) | | 306,969,663 |
| **Total Current Liabilities** | | **312,438,430** | | (621,210) | | **311,817,220** |
| **Non-current liabilities** | | | | | | |
| Debentures & co-investment obligations | | - | | - | | - |
| Deferred tax liability | | 2,678,414 | | - | | 2,678,414 |
| Loans payable | | 86,607,477 | | - | | 86,607,477 |
| Other liability | | 1,501,431 | | - | | 1,501,431 |
| Non-controlling interests | | 37,282,836 | | (37,282,836) | | - |
| **TOTAL LIABILITIES** | | **440,508,588** | | **(37,904,046)** | | **402,604,542** |
| **TOTAL EQUITY** | | 52,864,820 | | - | | 52,864,820 |
| **TOTAL LIABILITIES AND EQUITY** | **$** | **493,373,408** | **$** | **(37,904,046)** | **$** | **455,469,362** |

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. These consolidated financial statements include the accounts of the Company and the following subsidiaries in the statement of financial position as of December 31, 2023:

| Legal Entity | Country | Percentage Ownership of Parent |
|---|---|---|
| Montfort Capital Corp. | Canada | - |
| TIMIA Capital GP Inc. | Canada | 100% |
| TIMIA Capital II GP Inc. | Canada | 100% |
| TIMIA Capital III GP Inc. | Canada | 100% |
| TIMIA Capital Holdings Limited Partnership | Canada | 100% |
| TIMIA SPIV I Inc. | Canada | 100% |
| TIMIA Capital Inc. | Canada | 100% |
| Montfort USA 1 Corp. | USA | 100% |
| Pivot Financial Services Inc. | Canada | 100% |
| Pivot Financial I Limited Partnership | Canada | 100% |
| 2862454 Ontario Inc. | Canada | 100% |
| SQI Diagnostics Systems Ltd | Canada | 100% |
| Brightpath Capital Corporation* | Canada | 100% |
| Brightpath Residential Mortgage LP I | Canada | 100% |
| Brightpath Servicing Corporation | Canada | 100% |
| Brightpath Residential Mortgage LP II | Canada | 100% |
| Brightpath II Servicing Corporation | Canada | 100% |
| Brightpath Opportunity Corporation | Canada | 100% |
| 14637208 Canada Inc. (Albright Holdings Inc.)* | Canada | 100% |
| 2754681 Ontario Inc.* | Canada | 100% |
| 9975756 Canada Inc.* | Canada | 100% |
| 10260835 Canada Corp.* | Canada | 100% |
| Nuvo Financial Inc | Canada | 100% |
| Nuvo Financial LP | Canada | 100% |
| Nuvo Financial GP Inc | Canada | 100% |
| Langhaus Financial Partners Inc.** | Canada | 78% |
| Langhaus Financial Corporation | Canada | 78% |
| Langhaus Insurance Finance Limited Partnership | Canada | 78% |
| Langhaus Insurance Finance GP Corporation | Canada | 78% |
| Langhaus Insurance Finance Limited Partnership II | Canada | 78% |
| Langhaus Insurance Finance GP II Corporation | Canada | 78% |
| Langhaus Insurance Finance Limited Partnership III | Canada | 78% |
| Langhaus Insurance Finance GP III Corporation | Canada | 78% |
| Langhaus Insurance Finance Limited Partnership IV | Canada | 78% |

All significant intercompany balances and transactions have been eliminated on consolidation.

*Effective April 1, 2023, the Company amalgamated Brightpath Capital Corporation, 10260835 Canada Corp., 14637208 Canada Inc. (Albright Holdings Inc.), 9975756 Canada Inc., and 14637542 Canada Inc. (formerly 2754681 Ontario Inc.), to continue as one corporation under the name "Brightpath Capital Corporation".

**Subsequent to year-end, the Company acquired the remaining shares increasing ownership of this entity and all the related subsidiaries under Langhaus FInancial Partners Inc. to 100%

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Foreign currency translation

Functional and presentation currency

The Company determines its subsidiaries' functional currency by reviewing the currency of the primary economic environment in which each entity operates (the "functional currency"). The functional currency of TIMIA SPIV I Inc and Montfort USA 1 Corp is the United States dollar. The functional currency of all other entities in the group is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, until the change in consolidation of subsidiaries in USD functional currency (see note 2). Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of net income (loss).

Subsidiaries

The results and balances of TIMIA SPIV I Inc and Montfort USA 1 Corp, subsidiaries that have a functional currency different from the presentation currency, is translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position and capital contributions are translated at the historical exchange rate at the time of contribution;
- Income and expenses for each statement of net income (loss) and comprehensive income (loss) are translated at average exchange rates, and
- All resulting exchange differences are recognized in other comprehensive income.

### Material accounting policies

### Cash and cash equivalents

Cash is comprised of cash at banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. The amount of cash equivalents is $nil (2022 - $nil).

### Derivative financial instruments

The Company may enter into forward contracts to reduce its exposure to fluctuations in foreign exchange rates. The Company does not account for these forward contracts using hedge accounting. As a result, these instruments are measured at fair value on initial recognition with changes in fair value recognized through profit and loss. The timing and amount of these forward foreign exchange contracts are estimated based on expected future cash outflows. The fair values of the currency forward contracts are based upon the difference between the forward exchange rate and the contract rate.

### Financial assets

The Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss or "FVTPL";
- Fair value through other comprehensive income or "FVOCI"; and
- Amortized cost.

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Financial assets (continued)

***Classification and subsequent measurement***

The classification and subsequent measurement of financial assets depends on:

(i) The Company's business model for managing assets; and
(ii) The cash flow characteristics of the asset.

Based on these factors the Company classifies its financial assets in one of the following three measurement categories.

**Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in note 5. Interest income from these financial assets is included in 'Interest income' using the effective interest method.

*Amortized cost and effective interest rate*

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimates of future cash flows, the carrying amounts of the respective financial assets or financial liabilities are adjusted to reflect the new estimates discounted using the effective interest rate. Any changes are recognized in the consolidated statement of net income (loss) and comprehensive income (loss).

**Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest method.

**Fair value through profit or loss (FVTPL):** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a financial asset that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement in the period in which it arises, unless it arises from financial assets that were designated at fair value or which are not held for trading, in which case they are presented separately. Interest income from these financial assets is included in 'Interest income' using the effective interest method.

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Financial assets (continued)

***Initial recognition and measurement***

At initial recognition, the Company measures a financial asset at its fair value plus or minus costs such as fees and commissions that are directly attributable to its acquisition or issue. Transaction costs are expensed in profit or loss as incurred. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognized for financial assets measured at amortized cost and FVOCI, as described in the section entitled *Expected Credit Loss Measurement* (Note 16), which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

**Business model:** The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

It has been determined by Company management that the objective of the Company is solely to collect contractual cash flows arising from the loans receivable. Historic profits generated from the early extinguishment of the obligations by the borrower are not within the control of the Company and are considered to be incidental to the business model.

**SPPI:** As the Company's business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, that is to say the asset fails the SPPI test, the related financial asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

*Impairment*

The Company assesses on a forward-looking basis the ECL associated with its financial assets carried at amortized cost and with the exposure arising from loan commitments. The Company recognizes a loss allowance for such losses at each reporting date. In addition, the Company also completes a loan specific analysis to assess whether there are indications of impairment. The Company reviews a variety of factors such as maintenance of loan repayments in accordance with the contractual obligations, general economic conditions, the underlying stability of the company to which the loan was granted and has periodic discussions with the management of each company. The Company then makes an assessment using this information on whether or not the loan is impaired.

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Financial assets (continued)

*Impairment (continued)*

The Company assigns each loan in the portfolio to a credit quality stage of Stage 1, Stage 2 or Stage 3. This credit quality staging is then used to calculate the ECL. The ECL is the maximum loss in default adjusted for the probability of loss. At each reporting period, the ECL is calculated for each loan receivable. The Company periodically reviews the ECL model to determine if industry trends or macro-economic factors have changed, causing a need to adjust the ECL model.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

*Loans receivable*

There are four types of loans receivable held by the Company:

1) Loans receivable consisting of loans provided to North American technology companies in exchange for either a variable monthly payment schedule structured either as a percentage of applicable revenue, subject to minimum monthly payments or a fixed schedule of predetermined monthly payments.

2) Asset-backed loans receivable consisting of loans provided to North American companies and generally collateralized by a first charge on the borrowers' assets or factored receivables which the Company owns. Collateral securing these loans includes receivables or purchase orders as well as real estate and guarantees.

3) Mortgages consist of first and second mortgages to Canadian consumers that are secured by residential properties. These loans are repayable monthly with either fixed or variable interest only payments, with the principal balance due on maturity.

4) Insurance-backed loans include loans to individuals and corporations that are secured by one or a combination of an assignment of life insurance policies, assignment of Cash Surrender Value (CSV), personal and/or corporate guarantees, pledge of cash held in trust, collateral mortgages and/or general security agreements over the borrower's assets. These loans consist of a combination of interest only payments and interest and principal payments that are due monthly at either fixed or variable rates of interest.

On initial recognition the Company evaluates the characteristics of each investment to determine if the loan passes the SPPI test, as described above. If the loan is determined to pass the SPPI test, it is carried at amortized cost.

*Modification of loans*

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of its loans. When this happens, the Company assesses whether or not the new terms are substantially different from the original terms. The Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows the borrower is expected to be able to pay.

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Financial assets (continued)

*Modification of loans (continued)*

- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognizes the original loan and recognizes a 'new' loan at fair value and recalculates a new effective interest rate for the loan. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new loan recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the loan and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired loans).

*Derecognition other than on a modification*

Loans, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the loans have expired, or when they have been transferred and either:

(i) the Company transfers substantially all the risks and rewards of ownership, or
(ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

The Company enters into Co-investment agreements where it retains the contractual rights to receive cash flows from loans but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Company:

(i) Has no obligation to make payments unless it collects equivalent amounts from the loans;
(ii) Is prohibited from selling or pledging the loans; and
(iii) Has an obligation to remit any cash it collects from the loans without material delay.

*Equity instruments*

The Company measures all equity investments at FVTPL, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal.

Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Company's right to receive payments is established.

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Financial assets (continued)

*Equity instruments (continued)*

Gains and losses on equity investments at FVTPL are included in the consolidated statement of net income (loss).

At the end of each financial reporting period, the Company's management estimates the fair value of its investments based on the criteria below and records such valuations in the consolidated financial statements.

Equity investments are initially recorded at cost at the time of acquisition. At each reporting period thereafter, the fair value of an investment may, depending on circumstances, be adjusted by taking into account the following circumstances:

- There has been a significant subsequent equity financing provided by outside investors at a valuation above or below the current fair value of the investee, in which case the fair value of the investment is adjusted to reflect the value at which the financing took place;
- Based on financial information received from the investee it is apparent to the Company that the investee is unlikely to be able to continue as a going concern, in which case the fair value of the investment is adjusted downward;
- The investee is placed into receivership or bankruptcy; or
- There have been significant corporate, political, operating or economic events affecting the investee that, in the Company's opinion, have a positive or negative impact on the investee's prospects and, therefore, its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be ultimately realized or realizable. Such events include, without limitation:
    - receipt or denial of necessary approvals that allow or prevent the investee to proceed with its project(s);
    - release by the investee of positive or negative technical results, which either proves or disproves its technical prospects; or
    - management personnel changes at the investee level that the Company's management believes will have a very positive or negative impact on the investee's ability to achieve its objectives and build value for shareholders.

In addition to the circumstances described above, the Company will take into account general market conditions when determining if an adjustment to the fair value of an investment is warranted at the end of each reporting period. Absent the occurrence of any of these events, or any significant change in general market conditions, the fair value of the investment is left unchanged.

Application of the valuation techniques described above may involve uncertainties and determinations based on the Company's judgment and any value estimated from these techniques may not be realized. The amount at which an investment could be disposed of may differ from its carrying value due to the availability and/or reliability of information available to, and determinations reached by, the Company. Any fair value estimated by the application of these techniques may not ultimately be realized. Transaction costs incurred in the purchase and sale of investments are recorded as an expense in the consolidated statement of net income (loss).

### Financial liabilities

*Classification and subsequent measurement*

Financial liabilities are classified and subsequently measured at amortized cost, except for financial liabilities that are designated as FVTPL. An entity may, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information because either:

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

(a) it eliminates or significantly reduces a measurement or recognition inconsistency or (b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the entity's key management personnel.

*Derecognition*

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, canceled or expires).

The exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, the difference between fair values at the date of modification is recognized through gain or loss on modification and the difference along with any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

*Debentures*

The Company uses the relative fair value method when allocating the fair value of the share purchase warrants issued in conjunction with debentures. The Company measures the fair value of the debentures issued at the fair value of the consideration received. The Company measures the fair value of the warrants on the date of issuance as determined using the Black-Scholes Option Pricing Model.

### Equity method investments

Investments in entities over which the Company does not have a controlling financial interest but has significant influence, are accounted for using the equity method, with the Company's share of losses reported in loss from equity method investments on the consolidated statement of net income (loss). Equity method investments are recorded at cost, plus the Company's share of undistributed earnings or losses, and impairment, if any, within Investments on the statements of financial position.

### Revenue recognition

*Interest income on loans*

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the loan (i.e. amortized cost). When a loan that is carried at amortized cost subsequently becomes credit-impaired, interest income is calculated by applying the effective interest rate to the amortized cost, net of the expected credit loss provision. Such amounts are recorded in income when management is reasonably assured of collection. The impact of changes in the expected cash flows is recorded in interest income in the period of the change in estimate.

Mortgage interest is recognized using the effective interest method. Late fees and penalties are recognized as incurred.

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

*Income from settlement of loans*

The difference between proceeds received to settle a loan receivable before its stated maturity date and its carrying value is recorded in income.

*Income from transaction and other fees*

Income from diligence fees, setup fees as well as other fees are recognized when a contract with a customer exists, performance obligations are met, transaction price is determinable and collectability is reasonably assured. Late fees and penalties are recognized as incurred.

Lender fees are recognized using the effective interest method.

In addition, management fee income and income earned on investments held in TIMIA LP's is recognized on a monthly basis as earned.

*Performance fee revenue*

The Company has been engaged to perform sub-adviser services to a third party fund, including assessing credit risk of proposed debt securities to the fund, advisory services and portfolio management services. Income is earned by the Company when advisory services are performed under the terms of the agreement. The fees are calculated on a monthly basis based on a percentage of the change in the fund's net assets. The Company recognizes the total amount of accrued performance fees at the end of each month. Performance fees are collected in cash on a monthly basis and are not subject to clawback.

*Carried interest revenue*

Carried interest is a performance fee arrangement in which the Company receives a percentage of investment returns, generated based on a contractual formula. The Company is eligible to earn carried interest from funds managed once returns exceed the fund's contractually defined performance hurdles at which point additional fund profit is shared between the Company as fund manager and other investors. Revenue is recognized for carried interest when earned by the fund and probable that a significant reversal will not occur.

### Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or 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 by the year-end date. Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and 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 or loss.

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. Management considers the scheduled reversal of future income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Income taxes (continued)

The amount of deferred income tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period. 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.

### Basic and diluted earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the income (loss) attributable to common shareholders of the Company, less any dividends declared in the year, by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is determined by adjusting the earnings (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. However, the calculation of diluted earnings (loss) per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. For the year ended December 31, 2023 the numerator consisted of net loss attributable to shareholders of $12,498,222 less dividends declared $2,890,194.

### Business combinations and goodwill

The Company measured goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of equity in the acquiree's identifiable net assets. The determination of fair values for the acquired intangible assets involves the use of discounted cash flow analysis.

The allocation of goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is not amortized but is reviewed for impairment annually, or more frequently when there is an indication of impairment. Goodwill is allocated to the cash generating unit ("CGU") or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization. However, the CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the CGU may be impaired, by comparing the carrying amount of the CGU, including the goodwill, with the recoverable amount of the CGU. If the recoverable amount of the CGU exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that unit is not impaired. If the carrying amount of the CGU exceeds the recoverable amount of the CGU, the entity will recognize an impairment loss first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets in the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

### Share-based payment transactions

The share option plan allows Company employees, directors and consultants to acquire shares of the Company. All options granted are measured at fair value and are recognized in expenses as share-based payments with a corresponding increase in equity reserves. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value of employee options is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes Option Pricing Model ("Black-Scholes Model"), taking into account the terms and conditions upon which the options were granted. Share options granted to non-employees or consultants are measured at the fair value of goods or services received. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Leases

Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use, with the exception of leases of low-value assets or leases with a term of 12 months or less, which are recognized on a straight-line basis as an expense. Each lease payment is allocated between the repayment of the lease liability and finance cost. The finance cost is charged to the consolidated statement of net income (loss) over the lease period to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Right-of-use assets and lease liabilities arising from a lease are initially measured on a present value basis. See Note 7. During the year ended December 31, 2023, the Company recognized $151,204 in rent expense for contracts exempted under the IFRS 16 provisions due to lease terms of less than 12 months.

### Significant accounting judgements and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Goodwill arising from business acquisitions is tested for impairment annually or more frequently if specific events or circumstances dictate that the carrying amount of the asset group may not be fully recoverable. Management makes assumptions and estimates in determining the recoverable amount of its assets and groups of CGUs' goodwill, including significant key assumptions relating to revenue growth (driven by loan portfolio growth assumptions) and discount rates. In addition, assumptions are required pertaining to expenses, cash flows and operating margins.

The directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the CGUs to exceed its recoverable amount.

Loans receivable are reviewed on a quarterly basis as to their collectability and an appropriate impairment charge is provided where considered necessary. The Company estimates an expected credit loss on a quarterly basis by reviewing the underlying loan portfolio. The allowance represents the Company's estimate of the expected credit losses inherent in the loan portfolio, net of the future income stream belonging to the holders of the co-investment agreements. In addition, the Company also completes a loan specific analysis to assess whether there are indications of impairment. The Company reviews a variety of factors such as maintenance of loan repayments in accordance with the contractual obligations, general economic conditions, the underlying stability of the company to which the loan was granted and has periodic discussions with the management of each company. The Company then makes an assessment using this information on whether or not the loan is impaired.

Changes in these estimates and assessments may have a material impact on these consolidated financial statements. Other significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are:

- Goodwill impairment;
- Variables used in determining expected credit losses (note 16);
- Estimated fair values of share-based payments awards (note 12);
- Fair value of identifiable assets acquired and liabilities assumed in a business combination (Note 3).

## 2. BASIS OF PRESENTATION AND MATERIAL ACCOUNTING POLICIES (continued)

### Significant accounting judgements and estimates (continued)

Significant areas of judgment considered by management in preparing the consolidated financial statements are:

- Determination of control of entities, giving rise to the consolidation thereof; and
- Indicators of impairment of financial instruments, intangible assets and goodwill.

## 3. BUSINESS ACQUISITIONS

### Brightpath Capital Corporation

On August 15, 2022, the Company acquired all the outstanding common shares of Brightpath Capital Corporation ("Brightpath Capital"), Brightpath Servicing Corporation ("Brightpath Servicing"), Albright Holdings Inc., 9975756 Canada Inc., 2754681 Ontario Inc., 10260835 Canada Corp. and all outstanding limited partnership units of Brightpath Residential Mortgage LP I (together "Brightpath"), together the "Acquisition" or "Acquired Companies". Brightpath is a private provider of residential mortgages focused in Ontario and British Columbia. Brightpath offers private credit to individuals who are self-employed, experiencing credit issues, or looking at real estate renovation or development projects. The acquisition is intended to accelerate the growth of Brightpath in combination with Montfort.

The acquisition has been accounted for as a business combination under the acquisition method. The results of operations of the business since the date of acquisition have been consolidated.

### Consideration

Total consideration transferred by the Company was $29,540,213, consisting of 31,250,000 common shares issued for $11,722,494 and 18,000,000 Series A preferred shares issued for $17,817,719. The working capital adjustment has been determined as $nil. The number of shares issued was determined based on the trading price on closing of the transaction less a discount due to trading restrictions on each tranche of shares issued.

### Identifiable assets acquired and liabilities assumed

The Company has finalized the fair values of the net assets acquired. The valuations are final and there will be no further adjustments to the net assets acquired.

## 3. BUSINESS ACQUISITIONS (continued)

**Brightpath Capital Corporation (continued)**

**Identifiable assets acquired and liabilities assumed (continued)**

The table below summarizes the final fair value of the assets acquired and the liabilities assumed at the acquisition date:

| | **Total** |
|---|---|
| Cash | 4,295,678 |
| Accounts receivable | 2,796,498 |
| Prepaid expenses | 108,392 |
| Loans receivable | 158,474,873 |
| Other current assets | 14,547 |
| Right-of-use-asset | 1,492 |
| Intangible assets | 4,700,000 |
| Accounts payable and accrued liabilities | (1,135,213) |
| Loans payable | (171,391,345) |
| Lease liabilities | (1,747) |
| Deferred tax liability | (1,269,000) |
| **Total identifiable net assets at fair value** | **(3,405,825)** |
| Goodwill arising on acquisition | 32,946,038 |
| **Total** | **29,540,213** |

| **Purchase Price** | |
|---|---|
| Total value of shares issued on acquisition | 29,540,213 |
| Working capital payment | - |
| **Total Purchase Price** | **29,540,213** |

The fair value of the loan receivables determined above approximate the gross contractual amount on the date of the acquisition. In addition, there was an inconsequential amount of contractual cash flows not expected to be collected as at the acquisition date.

The determination and measurement of fair value of the identifiable intangible assets was based on the estimated net present value of future cash flow streams associated with each intangible asset. These estimates are based on management's best estimates and assumptions and utilizes established methodologies. Estimates in valuing the identifiable intangible assets include future expected cash flows and discount rates applied to future expected cash flows.

During the year ended December 31, 2022, acquisition related costs of $336,191 were expensed when incurred. Revenue included in the consolidated statement of income since the acquisition date for the year ended December 31, 2022 related to Brightpath was $11,359,127. The net income before income taxes included in the consolidated statement of income since the acquisition date to December 31, 2022 was $2,339,030. Revenue and net income before tax of the combined entity for the year ended December 31, 2022 as though the acquisition date had occurred at the beginning of the year would be $45,784,056 and $7,973,172, respectively on a proforma basis.

The primary factors that contributed to a residual purchase price resulting in the recognition of goodwill include Brightpath’s assembled workforce, expected synergies, intangible assets not separately identified and other benefits from combining the assets and activities with those of the Company. The goodwill is not deductible for tax purposes.

## 3. BUSINESS ACQUISITIONS (continued)

### Langhaus Financial Partners Inc.

On October 3, 2022, the Company acquired 78% of the outstanding common shares of Langhaus Financial Partners Inc. ("Langhaus"). Langhaus is the parent company of Langhaus Financial Corporation ("LFC"), Canada's largest independent provider of insurance policy backed loans, with a specific focus on high-net worth individuals and entrepreneurs. The acquisition is intended to accelerate the growth of Langhaus in combination with Montfort. The acquisition has been accounted for as a business combination under the acquisition method. The results of operations of the business since the date of acquisition have been consolidated.

### Consideration

Total consideration transferred by the Company consisted of a cash payment of $7,021,377 for 78% of the outstanding common shares. In the event that Langhaus achieves certain financial targets on or before August 31, 2027, the vendors shall be eligible to receive additional contingent cash consideration of up to $2,340,000. The Company determined that the closing date fair value of this contingent consideration was $2,281,584.

### Identifiable assets acquired and liabilities assumed

The Company has finalized the fair values of the net assets acquired. The valuations are final and there will be no further adjustments to the net assets acquired. The table below summarizes the final fair value of the assets acquired and the liabilities assumed at the acquisition date:

| | Preliminary Total | Adjustment | Revised Total |
|---|---|---|---|
| Cash | 825,050 | | 825,050 |
| Accounts receivable | 1,080,280 | | 1,080,280 |
| Current portion of loans receivable | 173,926,215 | | 173,926,215 |
| Other current assets | 51,484 | | 51,484 |
| Intangible assets | 3,541,000 | | 3,541,000 |
| Accounts payable and accrued liabilities | (941,278) | | (941,278) |
| Current portion of loans payable | (144,890,958) | | (144,890,958) |
| Current portion of other liability | (22,998,633) | | (22,998,633) |
| Deferred tax liability | (938,365) | | (938,365) |
| Loans payable | (566,151) | | (566,151) |
| Preferred shares | (12,470,000) | 6,999,420 | (5,470,580) |
| **Total identifiable net assets at fair value** | **(3,381,356)** | **6,999,420** | **3,618,064** |
| Goodwill arising on acquisition | 15,305,890 | (6,999,420) | 8,306,470 |
| Non-controlling interest | (2,621,573) | | (2,621,573) |
| **Total** | **9,302,961** | **-** | **9,302,961** |

| **Purchase Price** | | | |
|---|---|---|---|
| Total cash paid on acquisition | 7,021,377 | | 7,021,377 |
| Contingent consideration | 2,281,584 | | 2,281,584 |
| **Total Purchase Price** | **9,302,961** | | **9,302,961** |

## 3. BUSINESS ACQUISITIONS (continued)

**Langhaus Financial Partners Inc. (continued)**

### Identifiable assets acquired and liabilities assumed (continued)

The Company recorded goodwill based on the full fair value of the business including non-controlling interests. Preferred shares were recorded at their fair value which was assessed to be below their liquidation preference as a result of the below market dividend entitlement. Subsequent to the acquisition, the Company applied the Hypothetical Liquidation at Book Value (HLBV) approach to determine the entitlement of non-controlling interests. Therefore, the preference shares were recorded at their liquidation entitlement by allocating equity from controlling shareholders (by increasing the Company's deficit). This adjustment has been reflected in the balance sheet of the Company as of December 31, 2022 (Revised) as an adjustment to goodwill and accumulated deficit.

The fair value of the loan receivables determined above approximate the gross contractual amount on the date of the acquisition. In addition, there was an inconsequential amount of contractual cash flows not expected to be collected as at the acquisition date.

The determination and measurement of fair value of the identifiable intangible assets was based on the estimated net present value of future cash flow streams associated with each intangible asset. These estimates are based on management's best estimates and assumptions and utilizes established methodologies. Estimates in valuing the identifiable intangible assets include future expected cash flows and discount rates applied to future expected cash flows.

During the period ended December 31, 2022, acquisition related costs of $221,415 have been expensed as incurred. Revenue included in the consolidated statement of income since the acquisition date for the period ended December 31, 2022 related to Langhaus was $2,909,704. The net loss before income taxes included in the consolidated statement of income since the acquisition date to December 31, 2022 was $101,404. Revenue and net income before tax of the combined entity for the period ended December 31, 2022 as though the acquisition date had occurred at the beginning of the period would be $39,751,851 and $4,516,392, respectively on a proforma basis.

The primary factors that contributed to a residual purchase price resulting in the recognition of goodwill include Langhaus's assembled workforce, expected synergies, intangible assets not separately identified and other benefits from combining the assets and activities with those of the Company. The goodwill is not deductible for tax purposes.

## 4. ACCOUNTS RECEIVABLE

| | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Accounts receivable | $ | 371,515 | $ | 506,389 |
| Interest receivable | | 5,943,720 | | 3,433,609 |
| Penalties and late fees | | 6,843,749 | | 2,047,873 |
| Other receivables | | 311,981 | | 244,610 |
| Expected credit loss (accounts receivable) | | (4,865,056) | | (141,265) |
| | **$** | **8,605,909** | **$** | **6,091,216** |

Accounts receivable consists of both current and aged interest and fees related to loans receivable. Credit risk is described in Note 16 and the following is the continuity of accounts receivable and expected credit loss (accounts receivable) by stage for January 1 - December 31, 2023:

| | | Stage 1 | | Stage 2 | | Stage 3 | | Total |
|---|---|---|---|---|---|---|---|---|
| **Opening accounts receivable balance** | $ | 3,393,357 | $ | 1,999,741 | $ | 839,383 | $ | 6,232,481 |
| Change in accounts receivable | | 988,664 | | (828,139) | | 7,099,020 | | 7,259,545 |
| Write-off of accounts receivable | | - | | - | | (21,061) | | (21,061) |
| **Closing accounts receivable balance** | **$** | **4,382,021** | **$** | **1,171,602** | **$** | **7,917,342** | **$** | **13,470,965** |
| | | | | | | | | |
| **Expected credit loss (accounts receivable), opening balance** | $ | - | $ | - | $ | (141,265) | $ | (141,265) |
| Add: expected credit loss (accounts receivable) expense | | - | | - | | (4,723,791) | | (4,723,791) |
| **Expected credit loss (accounts receivable), closing balance** | **$** | **-** | **$** | **-** | **$** | **(4,865,056)** | **$** | **(4,865,056)** |
| | | | | | | | | |
| Closing balance prior to expected credit loss (accounts receivable) | $ | 4,382,021 | $ | 1,171,602 | $ | 7,917,342 | $ | 13,470,965 |
| Expected credit loss (accounts receivable) | | - | | - | | (4,865,056) | | (4,865,056) |
| **Accounts receivable, net of allowance, current portion** | **$** | **4,382,021** | **$** | **1,171,602** | **$** | **3,052,286** | **$** | **8,605,909** |

## 4. ACCOUNTS RECEIVABLE (continued)

The following is the continuity of accounts receivable and expected credit loss (accounts receivable) by stage for January 1 - December 31, 2022:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Opening accounts receivable balance** | $ 687,595 | - | - | 687,595 |
| Accounts receivable obtained from Brightpath business combinations | 707,465 | 1,656,086 | 432,947 | 2,796,498 |
| Accounts receivable obtained from Langhaus business combinations | 1,080,280 | - | - | 1,080,280 |
| Change in accounts receivable | 918,017 | 343,655 | 406,436 | 1,668,108 |
| Write-off of accounts receivable | - | - | - | - |
| **Closing accounts receivable balance** | **$ 3,393,357** | **$ 1,999,741** | **$ 839,383** | **$ 6,232,481** |
| | | | | |
| **Expected credit loss (accounts receivable)** | $ - | $ - | $ - | $ - |
| Expected credit loss (accounts receivable) | - | - | (141,265) | (141,265) |
| **Expected credit loss (accounts receivable), closing balance** | **$ -** | **$ -** | **$ (141,265)** | **$ (141,265)** |
| | | | | |
| Closing balance prior to allowance | $ 3,393,357 | $ 1,999,741 | $ 839,383 | $ 6,232,481 |
| Expected credit loss (accounts receivable) | - | - | (141,265) | (141,265) |
| **Accounts receivable, net of allowance, current portion** | **$ 3,393,357** | **$ 1,999,741** | **$ 698,118** | **$ 6,091,216** |

## 5. LOANS RECEIVABLE

The Company makes loans through its operating segments, consumer and corporate lending. The term of loans receivable range from on demand to nine years.

| | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| **Opening balance** | **$** | **381,745,841** | **$** | **106,916,931** |
| Loans acquired in acquisition | | - | | 332,401,087 |
| Elimination of pre-existing loan on business combination | | - | | (64,000,000) |
| Advances on loans receivable and renewals | | 354,918,791 | | 251,442,123 |
| Interest and transaction fee revenue | | 38,018,807 | | 23,468,462 |
| Interest and principal payments | | (86,516,731) | | (128,953,548) |
| Net change in deferred lender fees | | 635,297 | | 971,989 |
| Transfer of LSFC loans receivable | | (74,533,460) | | - |
| Settlement of loans | | (291,096,715) | | (100,181,646) |
| Foreign currency | | (87,506) | | 2,196,580 |
| Derecognition of loans receivable as a result of loss of control | | - | | (42,516,137) |
| **Closing balance prior to expected credit loss** | **$** | **323,084,324** | **$** | **381,745,841** |
| | | | | |
| **Provision for expected credit loss, opening balance** | **$** | **(1,056,286)** | **$** | **(799,130)** |
| Provision for expected credit loss, acquired in acquisitions | | - | | (87,551) |
| Change in provision for expected credit | | (2,265,251) | | (615,631) |
| Loan receivable written off | | 817,560 | | - |
| Foreign currency translation adjustment | | 1,362 | | (21,088) |
| Derecognition of loans receivable as a result of loss of control | | - | | 467,114 |
| **Provision for expected credit loss, closing balance** | **$** | **(2,502,615)** | **$** | **(1,056,286)** |
| | | | | |
| Closing balance prior to expected credit loss | $ | 323,084,324 | $ | 381,745,841 |
| Less: current portion | | (302,899,364) | | (371,817,166) |
| Provision for expected credit loss, closing balance | | (2,502,615) | | (1,056,286) |
| **Loans receivable, net of ECL, non-current portion** | **$** | **17,682,345** | **$** | **8,872,389** |

## 5. LOANS RECEIVABLE (continued)

The expected credit loss provision for the period from January 1, 2023 to December 31, 2023 is calculated as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Opening amortized loan balance** | $ 357,458,903 | $ 13,415,664 | $ 10,871,274 | $ 381,745,841 |
| Advances on loans receivable | 349,032,327 | 5,886,464 | - | 354,918,791 |
| Interest and transaction fee revenue, net of interest and principal payments | (48,340,026) | 300,931 | 176,468 | (47,862,627) |
| Foreign currency | (87,506) | - | - | (87,506) |
| Loans receivable moved to stage 1 | 3,685,835 | (2,685,835) | (1,000,000) | - |
| Loans receivable moved to stage 2 | (28,266,995) | 23,901,462 | 4,365,533 | - |
| Loans receivable moved to stage 3 | (14,550,735) | (6,470,505) | 21,021,240 | - |
| Transfer of LSFC loans receivable | (74,533,460) | - | - | (74,533,460) |
| Settlement of loans | (271,554,504) | (10,446,227) | (9,095,984) | (291,096,715) |
| **Closing balance** | **$ 272,843,839** | **$ 23,901,954** | **$ 26,338,531** | **$ 323,084,324** |
| | | | | |
| **Provision for expected credit loss, opening balance** | $ (534,042) | $ (116,216) | $ (406,028) | $ (1,056,286) |
| Change in provision for expected credit loss, outstanding loans | 76,792 | (377,676) | (1,964,367) | (2,265,251) |
| Loan receivable written off | $ - | - | 817,560 | 817,560 |
| Foreign currency translation adjustment | 1,362 | - | - | 1,362 |
| **Provision for expected credit loss, closing balance** | **$ (455,888)** | **$ (493,892)** | **$ (1,552,835)** | **$ (2,502,615)** |
| | | | | |
| Closing balance prior to ECL | $ 272,843,839 | $ 23,901,954 | $ 26,338,531 | $ 323,084,324 |
| Less: current portion | (254,705,606) | (23,408,062) | (24,785,696) | (302,899,364) |
| Provision for expected credit loss, closing balance | (455,888) | (493,892) | (1,552,835) | (2,502,615) |
| **Loans receivable, net of ECL, non-current portion** | **$ 17,682,345** | **$ -** | **$ -** | **$ 17,682,345** |

## 5. LOANS RECEIVABLE (continued)

The expected credit loss provision for the period from January 1, 2022 to December 31, 2022 is calculated as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Opening amortized loan balance** | **$ 104,470,716** | **$ 2,446,216** | **$ -** | **$ 106,916,932** |
| Loans acquired in acquisitions | 332,401,087 | - | - | 332,401,087 |
| Loan eliminated through intercompany consolidation | (64,000,000) | - | - | (64,000,000) |
| Advances on loans receivable | 257,172,677 | 19,604,315 | - | 276,776,992 |
| Interest revenue, net of interest and principal payments | (82,005,297) | (19,769,451) | - | (101,774,748) |
| Foreign exchange | 2,012,196 | 184,384 | - | 2,196,580 |
| Loans receivable moved to stage 1 | 871,808 | (871,808) | - | - |
| Loans receivable moved to stage 2 | (14,610,418) | 14,610,418 | - | - |
| Loans receivable moved to stage 3 | (10,871,274) | - | 10,871,274 | - |
| Derecognition of loans receivable as a result of loss of control | (39,727,728) | (2,788,410) | - | (42,516,138) |
| Settlement of loans | (128,254,864) | - | - | (128,254,864) |
| **Closing balance** | **$ 357,458,903** | **$ 13,415,664** | **$ 10,871,274** | **$ 381,745,841** |
| | | | | |
| **Provision for expected credit loss, opening balance** | **$ (358,811)** | **$ (440,319)** | **$ -** | **$ (799,130)** |
| Provision for expected credit loss, acquired in acquisitions | (71,609) | (15,942) | - | (87,551) |
| Add: provision for expected credit loss, outstanding loans | (329,855) | 120,254 | (406,028) | (615,629) |
| Add: Foreign exchange translation adjustment | (21,090) | - | - | (21,090) |
| Derecognition of loans receivable as a result of loss of control | 247,323 | 219,791 | - | 467,114 |
| **Provision for expected credit loss, closing balance** | **$ (534,042)** | **$ (116,216)** | **$ (406,028)** | **$ (1,056,286)** |
| | | | | |
| **Closing balance prior to ECL** | **$ 357,458,903** | **$ 13,415,664** | **$ 10,871,274** | **$ 381,745,841** |
| Less: current portion | (348,052,472) | (13,299,448) | (10,465,246) | (371,817,166) |
| Provision for expected credit loss, closing balance | (534,042) | (116,216) | (406,028) | (1,056,286) |
| **Loans receivable, net of ECL, non-current portion** | **$ 8,872,389** | **$ -** | **$ -** | **$ 8,872,389** |

Details of the expected credit loss model can be found in Note 16 under the heading *Expected Credit Loss Measurement*.

## 5. LOANS RECEIVABLE (continued)

### Loans receivable by type

- TIMIA originates, underwrites and services private-market, loan opportunities in the technology space. TIMIA offers revenue-based investment to fast growing, business-to-business recurring revenue software businesses in North America.
- Pivot specializes in asset-based private credit targeting mid-market borrowers in Canada. Sources of revenue include interest income from loans receivable, as well as income from the settlement of loans and transaction fees from due diligence. In addition, Pivot earns loan servicing fees and performance fee income for loan management services performed.
- Brightpath uses investor loans to administer first and second mortgages secured by residential properties. Brightpath is a registered Mortgage Brokerage and Mortgage Administrator.
- Langhaus provides insurance policy-backed lending solutions to high-net-worth individuals and entrepreneurs in Canada that are ensuring their personal and corporate affairs are optimally structured to allow for planning opportunities that generate more after-tax liquidity.

The Company manages private credit offerings through its four divisions and various loan types as follows:

*Interest Only Loans*
TIMIA and Brightpath offer Interest Only Loans that are designed for borrowers that anticipate achieving a financing milestone in the relatively near future. TIMIA's loans, typically two to five years in length, require the borrower to pay approximately two thirds of the interest monthly. The remainder of the interest is accrued over the term of the loan and is due and payable at the end of the term.

*Amortized Loans*
TIMIA offers Amortized Loans which are a type of growth capital provided to a company in which the timing of loan payments are tied to the forecast revenue of the company. Any unamortized amounts are due and payable at the end of the term.

*Mortgages*
Brightpath's mortgages consist of loans secured by residential property and are repayable monthly, with the principal balance due on maturity. Mortgages have a combination of fixed and variable rates of interest ranging between 7.7% and 22.2% and all mature within one year of origination. The weighted average effective interest rate of the portfolio as at December 31, 2023 is 17.65.%, which includes the effect of interest plus the effect of the lender fees earned on the portfolio. Included in accounts receivable is accrued interest on mortgages receivable of $4,748,616.

Mortgage lender fees are charged to customers upon issuance of the loan and withheld from the principal funds forwarded to the customer. These fees make up part of the effective interest earned on the loans and as such are recognized into income over the life of the loan. As at December 31, 2023 there was $1,322,934 of unrecognized lender fees on outstanding mortgage loans receivables which is netted against the receivable.

*Term Loans and Factored Facilities*
Pivot Financial provides Term Loan and Factored Facilities that are asset-based loans with fixed or determinable payments. Factored facilities earn administration fees up to 1.25% and are purchased with recourse. Term loans have generally fixed interest rates ranging from 12% - 15%, secured and range in maturity generally are due on demand or in a period less than one year.

*Langhaus Loans*
Langhaus loans to individuals and corporations. Rates of interest vary with positive or negative adjustments to interest rate bases, including bank prime, bankers' acceptance and others. At year end, $nil ($6,464,210 - December 31, 2022) of loans carried a fixed rate and $121,930,194 ($162,709,433 - December 31, 2022) carried a variable rate.

## 5. LOANS RECEIVABLE (continued)

### Loans receivable by type (continued)

*Langhaus Loans (continued)*

Within the Langhaus portfolio, $121,038,447 ($78,525,306 - December 31, 2022) or 112 (78 - December 31, 2022) loans, representing 99.2% of the value of the Langhaus portfolio, are secured by one or a combination of an assignment of life insurance policies, assignment of Cash Surrender Value (CSV), personal and/or corporate guarantees, pledge of cash held in trust, collateral mortgages, and/or general security agreements over the borrower's assets. Within the portfolio, a loan of $893,534 is secured by a cash collateral formally pledged to Langhaus Financial Corporation ("LFC"). LFC will have discretion to invest the collateral funds for any provident purpose in its normal course of business. Should the LFC investment of these funds result in a reduction in the principal amount invested, Langhaus undertakes to make available the full amount of funds pledged. The amount of $893,534 is currently classified in other liability (note 11).

The December 31, 2022 loans receivable balance for Langhaus included loans of $90,583,792 Langhaus Financial Specialty Finance Corporation ("LSFC") purchased under various purchase agreements with lenders ("Purchased Loan Portfolio"). In accordance with the agreement, upon maturity of this arrangement on July 31 2023, the Purchased Loan Portfolio, valued at $74,533,460 was transferred back to the lenders. Simultaneously, the loans payable of $58,013,430 and other liabilities of $16,534,017 were extinguished in relation to this portfolio. A gain of $13,987 has been recorded in the consolidated statements of net income (loss) within income from transaction and other fees. See note 10 and 11 for more information.

The Company periodically evaluates whether there are any indications of loan impairment due to a significant change in the expected timing or amount of future cash flows generated by the loan, including the realization of security. Management prepares a probability-weighted range of possible outcomes to arrive at an appropriate provision for expected credit losses.

The following table presents a breakdown of the loan portfolio by type of loan:

| | | At December 31, 2023 Carrying Value | | At December 31, 2022 Carrying Value |
|---|---|---|---|---|
| Interest only loans | $ | 6,132,889 | $ | 4,859,375 |
| Amortized Loans | | 13,413,881 | | 6,812,790 |
| Term Loans | | 9,582,077 | | 18,678,584 |
| Factored facilities | | 3,026,889 | | 5,535,256 |
| Mortgages | | 166,495,779 | | 175,695,895 |
| Insurance-backed loans | | 121,930,194 | | 169,107,655 |
| **Total** | **$** | **$320,581,709** | **$** | **$380,689,555** |

*Loans receivable by geography*

The Company advances loans in Canada and the United States of America. The following table presents a breakdown of the loan portfolio by geography, denominated in Canadian dollars.

| | | At December 31, 2023 | | At December 31, 2022 |
|---|---|---|---|---|
| Canada | $ | 304,321,857 | $ | 373,090,821 |
| United States of America | | 16,259,852 | | 7,598,734 |
| **Total** | **$** | **$320,581,709** | **$** | **$380,689,555** |

## 6. INVESTMENTS

As at December 31, 2023 and 2022, the Company held the following investments:

| | Common Shares | Capital Contributed | December 31, 2023 Fair Value | December 31, 2022 Fair Value |
|---|---|---|---|---|
| *Equity instruments* | | | | |
| Moj.io Inc. | 427,998 | $ 43 | $ 462,300 | $ 462,300 |
| Lambda Solutions Inc. | 185,000 | 46,538 | 77,700 | 77,700 |
| CamDo Solutions Inc. | 1,062,500 | 25,100 | 425,100 | 425,100 |
| Greenspace Brands Inc. | 1,428,572 | 100,000 | - | 7,143 |
| AvenueHQ | 50,000 | 282,803 | 282,803 | 282,803 |
| | | 454,484 | 1,247,903 | 1,255,046 |
| *Investments - equity method* | **LP Units** | | | |
| TIMIA Capital I LP - Class B units | 2,400 | 178,579 | 138,401 | 513,513 |
| TIMIA Capital I LP - Class A units | 1,980 | 212,350 | 218,674 | - |
| TIMIA Capital II LP - Class B units | 1,036 | 622,912 | 825,795 | 1,296,880 |
| TIMIA Capital II LP - Class A units | 1,845 | 1,100,497 | 1,458,929 | - |
| TIMIA Capital III LP - Class A and M units | 71,128 | 1,020,232 | 932,841 | 1,034,300 |
| TIMIA Ventures I LLC | - | 269,360 | 264,471 | - |
| Kane Biotech | - | - | 7,960 | - |
| **Total Investments** | | **$ 3,858,414** | **$ 5,094,974** | **$ 4,099,739** |
| Less: current portion | | - | (590,106) | (425,342) |
| **Total non-current Investments** | | **$ 3,858,414** | **$ 4,504,869** | **$ 3,674,397** |

As of December 31, 2023, the Company is expecting to receive $590,106 in the form of return of capital within the next 12 months.

## 7. RIGHT-OF-USE ASSET AND LEASE LIABILITY

In May 2021, the Company relocated its Vancouver location and entered into a lease agreement for office space in Vancouver for a monthly lease payment of $8,731 ($6,721 - December 31, 2022) with a term of three years. There is no extension contemplated in the lease agreement. Under IFRS 16, the Company recognizes lease liabilities measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates. The rate applied to the lease liabilities on May 1, 2021 was 8%.

In March 2023, the Company entered into a lease agreement for its head office space in Toronto for a monthly lease payment of $17,678 with a term of five years. There is no extension contemplated in the lease agreement.

In December of 2023, the Company entered into a lease agreement for its Waterloo office space for a monthly lease payment of $16,389 with a term of five years. Under IFRS 16, the Company recognizes lease liabilities measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates.

The rate applied to all lease liabilities is 8%. The details of the right-of-use assets and lease liabilities recognized as at December 31, 2023 and 2022 are as follows:

| **Right-of-use asset** | | **December 31, 2023** | | **December 31, 2022** |
|---|---|---|---|---|
| Beginning balance | $ | 125,258 | $ | 202,655 |
| Additions | | 1,650,184 | | 7,736 |
| Amortization | | (235,762) | | (85,133) |
| **Ending balance** | **$** | **1,539,680** | **$** | **125,258** |

| **Lease Liability** | | **December 31, 2023** | | **December 31, 2022** |
|---|---|---|---|---|
| Beginning balance | $ | 146,796 | $ | 218,618 |
| Additions | | 1,650,184 | | 7,736 |
| Accrued interest | | 69,243 | | 15,177 |
| Cash payment | | (243,991) | | (94,735) |
| **Ending balance** | **$** | **1,622,232** | **$** | **146,796** |

## 8. INTANGIBLE ASSETS AND GOODWILL

Intangible assets were recognized by Montfort as part of the Pivot, Brightpath and Langhaus acquisitions. In the Pivot acquisition, the Company acquired a customer relationship and service contract. The customer relationship was subject to accelerated amortization in 2022 as a result of the acquisition of Brightpath.

The intangible asset acquired as part of the Brightpath acquisition included lender relationships which have a limited life and are amortized on a straight-line basis over the useful life, estimated to be approximately five years from acquisition. The intangible assets acquired as part of the Langhaus acquisition included a service contract and customer relationships with a limited life and are amortized on a straight-line basis over the useful life, estimated to be approximately one year and ten years, respectively. The useful lives of the customer relationships are linked to the life of the policies within each of the relationships.

## 8. INTANGIBLE ASSETS AND GOODWILL (continued)

Goodwill was acquired as part of the Pivot, Brightpath and Langhaus acquisition and is tested for impairment on an annual basis. The Company performs its annual test for impairment of goodwill in the fourth quarter. Assessment of impairment of goodwill and intangible assets is performed more frequently as specific events or circumstances indicate that the carrying amount of the asset group may not be fully recoverable.

| | | Intangibles | | | |
|---|---|---|---|---|---|
| | | **Pivot** | **Brightpath** | **Langhaus** | **Total** |
| Beginning balance - January 1, 2023 | $ | 2,108,309 | $ 4,344,603 | $ 3,475,123 | $ 9,928,035 |
| Additions | | 3,564,441 | - | - | 3,564,441 |
| Less: Impairment loss | | (3,564,441) | - | - | (3,564,441) |
| Less: amortization | | (372,046) | (927,123) | (527,572) | (1,826,741) |
| **Ending balance - December 31, 2023** | **$** | **1,736,263** | **$ 3,417,480** | **$ 2,947,551** | **$ 8,101,294** |

| | | Goodwill | | | |
|---|---|---|---|---|---|
| | | **Pivot** | **Brightpath** | **Langhaus (Revised - Note 3)** | **Total (Revised - Note 3)** |
| Beginning balance - January 1, 2023 | $ | 3,533,801 | $ 32,946,038 | $ 8,306,470 | $ 44,786,309 |
| Additions through business acquisition | | - | - | - | - |
| **Balance - December 31, 2022 and December 31, 2023** | **$** | **3,533,801** | **$ 32,946,038** | **$ 8,306,470** | **$ 44,786,309** |

The intangible asset addition to Pivot in the current year was a result of assets assumed on foreclosure of a loan receivable. The intangible assets assumed included intellectual property relating to certain patents used by the underlying portfolio company. During the year the Company explored the potential for realizing cash flows from the sale of the intangible asset but ultimately determined the recoverable amount of the intellectual property was $nil. Accordingly, an impairment charge of $3,564,441 was recorded in Impairment Loss expense on the consolidated statements of net income (loss) and included in operating loss for the period ended. Following the assumption of control of these assets, management has reassessed the expected future business plan related to these intangible assets and their expected performance. The impairment charge was driven by changes in expected future recovery of these assets, either through operation of the underlying company or sale of the intangible assets. An impairment loss is reversed if there is change in the estimates used to determine the asset's recoverable amount since the date the impairment loss was recognized. If an increase in recoverable amount is determined, this would be reflected as a reversal impairment loss on the statement of net (loss) income.

The recoverable amount of the CGUs were determined by a value in use calculation. Cash flow projections for a five year period were based on a one year financial budget approved by the Board of Directors. The Board approved budgets consider projected loan receivable growth based on past experience, capital sources available as well as market and economic conditions. The discounted cash flow models incorporate key assumptions related to revenue growth rate and discount rates. The forecasted revenue growth rates are based on the Company's expectation of future performance and the Company has set the terminal value to reflect a 2.0% growth rate for the present value calculation.

Discount rates applied to CGU's represent the Company's assessment of the risks specific to each CGU regarding the time value of money and individual risks of the underlying assets. Discount rates used were between 14.36% and 23.08% (2022 - 8% to 20.6%). The higher discount rates primarily reflect the cost of borrowing applicable to certain CGU's. Increases to discount rates could have the impact of reducing recoverable amounts.

## 8. INTANGIBLE ASSETS AND GOODWILL (continued)

The determination of fair values is sensitive to the above assumptions rates relating to revenue growth and discount rates. The risk premiums expected by market participants related to uncertainties about the industry and assumptions relating to future cash flows may differ, depending on economic conditions and other events. It is reasonably possible that future changes in assumptions may negatively impact future assessments of recoverable amounts for CGU's.

For the Brightpath CGU, a 12% change in the discount rate would result in an impairment of $983,000 and a 12% reduction in revenue forecasts would result in an impairment of $431,000. For the Langhaus CGU, a 3% change in the discount rate would result in an impairment of $2,017,000 and a 5% reduction in revenue forecasts would result in an impairment of $3,540,000. For the Pivot CGU, a 3% change in the discount rate would result in an impairment of $1,270,000 and a 5% change in the revenue forecasts would result in an impairment of $2,350,000.

| | Intangible assets | | | | |
|---|---|---|---|---|---|
| | **Service contract** | **Customer relationships** | **Lender relationships** | **Intellectual Property** | **Goodwill (Revised - Note 3)** |
| Beginning balance - January 1, 2023 | $ 2,244,421 | $ 3,339,011 | $ 4,344,603 | $ - | $ 44,786,309 |
| Additions | | | | 3,564,441 | - |
| Less: Impairment loss | | | | (3,564,441) | - |
| Less: amortization | (508,158) | (391,459) | (927,123) | | - |
| **Ending balance - December 31, 2023** | **$ 1,736,263** | **$ 2,947,552** | **$ 3,417,480** | **$ -** | **$ 44,786,309** |

| | Intangible assets | | | |
|---|---|---|---|---|
| | **Service contract** | **Customer relationships** | **Lender relationships** | **Goodwill (Revised - Note 3)** |
| Beginning balance - January 1, 2022 | $ 2,485,400 | $ 520,000 | $ - | $ 3,533,801 |
| Additions through business acquisition (see Note 3) | 180,000 | 3,361,000 | 4,700,000 | 41,252,508 |
| Less: amortization | (420,979) | (541,989) | (355,397) | - |
| **Ending balance - December 31, 2022** | **$ 2,244,421** | **$ 3,339,011** | **$ 4,344,603** | **$ 44,786,309** |

## 9. COMMITMENTS AND CONTINGENCIES

The Company has provided guarantees and limited recourse guarantees to certain lenders with respect to loan payable agreements in place. These arrangements were acquired as part of the Pivot acquisition. Recourse is limited to the lender's right, title and interest in collateral under the loan agreement, such as cash and other assets defined.

Brightpath Capital has been named as a defendant in lawsuits arising in the ordinary course of business. Due to the nature of the claim and the inability to estimate the outcome, no amount has been recorded in these financial statements.

## 10. LOANS PAYABLE

Loans payable consist of the following as at year-end:

| | Interest Rate | Security | Note | December 31, 2023 | December 31, 2022 |
|---|---|---|---|---|---|
| Loans payable | 10% | Unsecured | (i) | 500,000 | 1,000,000 |
| Loans payable | 10.75% | Unsecured | (i) | 7,500,000 | 10,500,000 |
| Loans payable | 11% | Unsecured | (i) | 9,160,039 | 6,876,617 |
| Loans payable | 11.75% | Unsecured | (i) | 5,000,000 | - |
| Loans payable | Higher of prime + 5.3% or 9.25% | Secured | (i) | 17,027,100 | 26,077,600 |
| Loans payable | Higher of prime + 5.5% or 9.5% | Secured | (i) | 60,000,000 | 60,000,000 |
| Investor loans | 10% - 12% | Unsecured | (ii) | 55,106,574 | 49,485,313 |
| Demand loan | Higher of prime + 1.25% or 4.2% | Secured | (iii) | 65,686,952 | 75,683,234 |
| Bank Loan | Higher of prime + 0.25% or 3% | Secured | (iv) | 42,520,082 | 36,637,586 |
| Bank Loan | Higher of prime + 0.70% or 3% | Secured | (iv) | 52,269,899 | 26,848,969 |
| Bank Loan | Higher of prime + 0.80% or 3% | Secured | (iv) | 3,085,086 | - |
| Bank Loan | Interest Free | Unsecured | (iv) | 40,000 | 40,000 |
| Credit agreement | Prime -0.55% to Prime +1.55% | Unsecured | (v) | - | 10,110,544 |
| Credit agreement | BA +0.75% to BA +1.55% | Unsecured | (v) | - | 55,216,245 |
| Credit agreement | 0.92% | Unsecured | (v) | - | 6,368,630 |
| Promissory notes | 5% | Unsecured | (vi) | 50,985 | 404,877 |
| Promissory notes | 9% | Unsecured | (xv) | 1,500,000 | - |
| Promissory note | 8% | Unsecured | (vii) | - | 500,000 |
| Promissory note | 8.50% | Unsecured | (viii) | 725,000 | - |
| Promissory note | Prime +0.25% | Secured | (ix) | 5,250,000 | - |
| Promissory note | 12.50% | Unsecured | (x) | 3,600,000 | - |
| Promissory note | Prime + 1.25% | Secured | (xiii) | 7,975,000 | 5,900,000 |
| Promissory note | Prime + 1.00% | Secured | (xii) | 1,810,000 | 1,810,000 |
| Promissory note | Prime - 0.50% | Unsecured | (xiv) | 70,000 | 125,000 |
| Promissory note | Prime | Unsecured | (xi) | 145,243 | - |
| Debenture notes | 8% | Secured | (xvi) | 12,349,351 | - |
| | | | | 351,371,311 | 373,584,615 |
| Less: current portion | | | | (333,771,960) | (286,977,138) |
| **Total Loans Payable** | | | | **17,599,351** | **86,607,477** |

## 10. LOANS PAYABLE (continued)

Expected required repayments of principal over the next five years and thereafter, are as follows:

| | |
|---|---:|
| 2024 | 333,771,960 |
| 2025 | 5,250,000 |
| 2026 | - |
| 2027 | |
| 2028 | 12,349,351 |
| Thereafter | - |

*(i)* *Loans payable*

For all new loans payable, the initial term is set at one year. The lender has the option to extend while the Company also has the option to repay at any time, therefore all loans payable are classified as current liabilities.

The secured loans payable is a revolving credit facility from a senior lender and has a combined authorized limit of $60,000,000. The agreement covering this loan payable has expired in the period, however the lender has agreed to an extension of the existing agreement, under the same terms and conditions, until January 2024. The expired agreement included covenants regarding reporting requirements, liens on account, distribution limitations and cash investment limits. The loan is designated as FVTPL to ensure measurement consistency with the credit risk associated with the related loan receivable that is security to the loan.

All loans include covenants which the Company is required to report on a regular basis. Covenants restrict total debt levels relative to permitted investments as well as total net debt relative to subordinated debt. The Company was in compliance with all covenants other than for 1 subsidiary. The covenant breaches have been communicated to the lenders and they have not requested any change to the loans status as a result. Related to the most significant loan payable, subsequent to year-end, $50,000,000 of the outstanding $60,000,000 was repaid and the loan agreement was amended such that historical breaches were waived and covenants were amended (see Note 20).

*(ii)* *Investor loans*

Investor loans are unsecured, due on demand with maturity dates ranging between 90 to 180 days from day of demand with fixed interest rates ranging between 10.0% - 12.0%. The weighted average interest rate to maturity for December 31, 2023 is:

| | | **Principal** | **2023 Weighted Average** | **Average Term (days)** |
|---|---|---:|---:|---:|
| Fixed rate due less than one year | $ | 55,106,574 | 11.96% | 174 |

## 10. LOANS PAYABLE (continued)

*(iii) Demand loan*

The demand loan is in the form of an uncommitted senior secured revolving credit demand facility for the purpose of purchasing eligible mortgages and incurs interest at the greater of the Canadian Bank Prime Rate plus 1.25%, or 4.2% per annum. The maximum capacity that the Brightpath Residential Mortgage LP I can draw on under this loan is the lesser of the maximum borrowing amount on the date of the loan, and $100,000,000. The debt for each individual mortgage is due on each mortgage settlement date. The demand loan is secured by mortgages held by Brightpath Residential Mortgage LP I as well as the co-ownership interest of mortgages held by Brightpath Capital Corporation, granting the lender first priority lien on all collateral. The demand loan is guaranteed by a limited recourse guarantee made by the General Partner of Brightpath LP in favour of the lender. As at December 31, 2023 the balance was $65,686,952 ($75,683,234 - December 31, 2022). The Company incurred financing fees in order to obtain financing. These fees are expensed as incurred.

*(iv) Bank Loans*

Langhaus Insurance Finance LP ("LH LP") has an uncommitted revolving credit facility of $75,000,000 with a schedule 1 bank to fund up to 95% of the value of loans acquired from Langhaus Financial Corporation ("LFC"). The facility bears a variable rate of interest at the greater of prime rate plus 0.25% and 3.00% per annum, payable monthly. The facility is secured by LH LP's assets and a guarantee from LFC.

During the year, LH LP amended the uncommitted revolving credit facility, increasing the facility from $75,000,000 to $100,000,000 to fund up to 95% of the value of loans acquired from LFC. Additional guarantees have been included on the credit facility by four related parties (Note 13). As at December 31, 2023, LH LP has drawn $42,520,082 ($36,637,586 - December 31, 2022) on this facility. Financing fees of $62,500 were expensed as incurred related to this amendment.

Langhaus Insurance Finance LP II ("LH LP II") has entered an uncommitted revolving credit facility of $50,000,000 with a schedule 1 bank to fund up to 90% (90% - December 31, 2022) of the value of full premium loans acquired from LFC in the period. The facility bears variable rate of interest at the greater of prime rate plus 0.70% and 3.00% on Eligible Loans and a variable rate of interest at the greater of prime rate plus 0.80% and 3.00% on loans with an Approved Issuer (prime plus 0.70% and 3.00% - December 31, 2022) per annum, payable monthly. The facility is secured by the Partnership's assets and a guarantee from LFC.

During the period, LH LP II amended the uncommitted revolving credit facility, increasing the facility from $50,000,000 to $90,000,000. As at December 31, 2023, LH LP II has drawn $52,269,899 ($26,848,969 - December 31, 2022) on the facility relating to Eligible Loans and $3,085,086 ($nil - December 31, 2022) on the facility relating to loans with an Approved Issuer. Financing fees of $100,000 were expensed as incurred related to this amendment.

The bank loans impose financial covenants with respect to yield, delinquency and loss ratio of the loans receivable, as well as maintaining minimum tangible net worth. As at December 31, 2023, Langhaus is in compliance with all covenants.

Langhaus Insurance Finance LP III ("LH LP III") has entered an uncommitted loan receivable sale facility of $50,000,000 with a schedule 1 bank to fund up to 100% of the value of loans acquired from LFC. The facility bears a fixed rate of interest determined at the average life Government of Canada bond yield plus 3.00% to a floor of 0.50%. The facility is secured by the Partnership's assets, and a performance guarantee from LFC. On October 21, 2023, the facility was not extended by the parties and was extinguished.

The bank facility imposes financial covenants with respect to yield, delinquency and loss ratio of the loans receivable, as well as maintaining minimum tangible net worth and other qualifications on the related performance guarantor. At year end, the Group is in compliance with all covenants.

## 10. LOANS PAYABLE

Also included in bank loans is a $40,000, non-interest bearing loan received under the Canada Emergency Business Account program launched in response to the pandemic. The loan shall be considered repaid in full if LFC repays at least 75% or $30,000 of the principal amount on or before the termination date of January 18, 2024 ("Forgiveness Benefit"). If this loan amount is not repaid by this date, the Forgiveness Benefit will not be available to the Organization and the loan will be extended for a term of three years until December 31, 2025, with interest-only payments of 5% per annum due monthly. Subsequent to year end, $30,000 of the principal amount was paid and the remaining portion was forgiven.

(v) *Credit Agreements*

Credit agreements of $nil ($71,695,419 - December 31, 2022) include borrowed funds from private lenders under several credit agreements. Credit agreements correlate to loan receivables being funded. On July 31, 2023, pursuant to the purchase agreements, this arrangement matured and loans receivable, loans payable and other liability balances were settled with the lenders. See note 5 for more information.

During the year, these loans payable beared differing rates of variable interest based on bank prime -0.55% to +1.55% (bank prime -0.55% to +0.55% - December 31, 2022), and bankers' acceptance +0.75% to +1.55% (bankers' acceptance +0.75% to +1.55% - December 31, 2022).

(vi) *Promissory notes - 5%*

Promissory notes are unsecured, due on demand with no maturity, bearing interest at 5% per annum payable on maturity. As of December 31, 2023, $50,985 of $50,985 ($48,585 of $404,877 - December 31, 2023) is due to a member of key management (Note 17).

(vii) *Promissory notes - 8%*

Promissory notes of $nil ($500,000 - December 31, 2022) was due to a company controlled by a member of key management (Note 13). The amount due was unsecured, bearing interest at 8% per annum with interest payable monthly and no fixed terms of repayment. The note was repaid in the period.

(viii) *Promissory notes* - 8.5%

Promissory note of $725,000 ($nil - December 31, 2022) is unsecured, bearing interest at 8.5% per annum with interest compounded monthly and is due on demand.

(ix) *Promissory notes* - Prime + 0.25%

Promissory note of $5,250,000 ($nil - December 31, 2022) is secured through the assignment of life insurance policies, bearing interest at prime + 0.25% per annum with interest compounded monthly and a maturity date of April 1, 2025 with the option to extend at the discretion of both parties.

(x) *Promissory notes* - 12.5%

Promissory note of $3,600,000 ($nil - December 31, 2022) is unsecured, bearing interest at 12.50% per annum with interest compounded monthly and a maturity date of September 30, 2024.

(xi) *Promissory notes* - Prime

Promissory note of $145,244 ($nil - December 31, 2022) is unsecured, bearing interest at prime per annum with interest compounded monthly and a maturity date of September 1, 2024.

## 10. LOANS PAYABLE (continued)

(xii) *Promissory notes* - Prime + 1.00%

Promissory note of $1,810,000 ($1,810,000 - December 31, 2022) is secured through the assignment of a life insurance policy, bearing interest at prime + 1.00% per annum with interest compounded monthly and a maturity date of December 31, 2024 with a twelve month extension option.

(xiii) *Promissory notes - Prime +* 1.25%

Promissory note of $7,975,000 ($5,900,000 - December 31, 2022) is secured through the assignment of a life insurance policy, bearing interest at prime + 1.25% per annum with interest compounded monthly and a maturity date of September 30, 2024 with a twelve month extension option.

(xiv) *Promissory notes* - Prime - 0.5%

Promissory note of $70,000 ($125,000 - December 31, 2022) is unsecured, bearing interest at prime - 0.5% per annum with interest compounded monthly and a maturity date of July 31, 2024.

(xv) *Promissory notes - 9%*

Promissory note of $1,500,000 ($nil - December 31, 2022) is unsecured, bearing interest at 9.00% per annum with interest compounded monthly and no fixed terms of repayment. The note is due on the date of demand.

(xvi) *Debenture Notes*

Debenture notes have maturity dates of five years from the date of issuance and a fixed interest rate of 8% plus quarterly non-cumulative bonus interest, calculated and paid quarterly in cash at a variable rate. Debentures are held in a wholly owned corporation and secured by assets held within that specific corporation.

## 11. OTHER LIABILITY

Other liability consists of the following as at year-end:

| | Note | December 31, 2023 | December 31, 2022 |
|---|---|---|---|
| Other liability | (i) | $ 893,534 | $ 19,063,113 |
| Contingent consideration | (ii) | 811,611 | 2,281,584 |
| **Total Other liability** | | **$ 1,705,145** | **$ 21,344,697** |
| Less: current portion | | (1,705,145) | (19,843,266) |
| **Total Other liability** | | **$ -** | **$ 1,501,431** |

(i) *Other liability*

The purchase price for the Purchased Loan Portfolio (see Note 5) was lower than the amount of the portfolio loan principal, whose principal was determined to be fair value on the purchase date. This liability bore interest at the bankers acceptance rate plus 0.30% to 1.50% and prime minus 0.25% . At December 31, 2022, the entire Purchased Loan Portfolio was considered collectible, therefore the liability $19,063,113 was recorded as the difference between the remaining purchased principal and the purchase price.

## 11. OTHER LIABILITY (continued)

*(i) Other liability (continued)*

On July 31, 2023, pursuant to the purchase agreements, this arrangement matured and loans receivable, loans payable and other liability balances were settled with the lenders. During the period, interest expense of $677,812 relating to other liability has been included in interest expense in the consolidated statement of net income (loss).

Within the portfolio on December 31, 2023, $893,534 or 1 loan is secured by a cash collateral formally pledged to LFC. LFC will have discretion to invest the collateral funds for any provident purpose in its normal course of business. Should the LFC investment of these funds result in a reduction in the principal amount invested, LFC undertakes to make available the full amount of funds pledged.

*(ii) Contingent Consideration*

As part of the Langhaus acquisition, in the event that Langhaus achieves certain financial targets on or before August 31, 2027, the vendors shall be eligible to receive additional contingent cash consideration of up to $2,340,000. The Company determined that the acquisition closing date fair value of this contingent consideration was $2,281,584. The fair value was determined based on the expected date of payment in the forecast and a discount rate based on the equity rate of return. During the year ended December 31, 2023, two cash payments were made related to this contingent consideration. As at December 31, 2023, the remaining amount owing of $811,611 was classified as current. Final settlement of this amount occurred on January 22, 2024. A portion was repaid in cash and $600,000 was exchanged for a promissory note with a related party.

## 12. SHARE CAPITAL

*(a) Common shares:*

An unlimited number of common voting shares are authorized without par value. As of December 31, 2023 Montfort had 92,570,956 common shares issued and outstanding.

*(b) Preferred shares:*

| | Note | | December 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|---|
| Montfort preferred shares - Series A Class A | (i) | $ | 27,378,214 | $ | 27,378,214 |
| Montfort preferred shares - Series 1 Class C | (i) | $ | 12,434,087 | $ | - |
| Langhaus preferred shares | (ii) | | - | | 12,470,000 |
| **Total preferred shares** | | **$** | **39,812,301** | **$** | **39,848,214** |

*(i) Montfort preferred shares*

*Series A Class A (Series A)*

As of December 31, 2023, Montfort has 28,485,994 non-cumulative Series A Class A Preferred shares issued and outstanding (28,485,994 - December 31, 2022). Holders of Preferred shares will be entitled to receive fixed non-cumulative preferential cash dividends, if, as and when declared by the Board of Directors of the Company at an annual rate equal to $0.08 per Preferred share. Dividends, if declared, will be payable on the last day of December, March, June and September in each year, or if such day is not a business day, on the next business day, at a quarterly rate of $0.02 per Preferred Share.

## 12. SHARE CAPITAL (continued)

*(c) Preferred shares: (continued)*

*(i) Montfort preferred shares (continued)*

*Series A Class A (Series A) (continued)*

The Preferred Shares will rank senior to the Common shares of the Company with respect to declared but unpaid dividends. The Preferred Shares are retractable by the Corporation at any time on or after the date that is three years after the Closing Date. On or after the date that is three years after the closing date, the Company may, at its option, upon 10 days' prior written notice, retract all or any number of the Preferred shares. Upon notice of retraction by the Company, holders of the Preferred Shares may elect to receive either: (a) a cash payment equal to the offering price; or (b) one Common share in exchange for each one Preferred share, subject to adjustment. The Preferred shares do not have a fixed maturity date and are not redeemable at the option of the holders of Preferred shares. Holders of the Preferred shares may elect to convert the Preferred shares into Common shares on the basis of one Common share for each Preferred share held, subject to adjustment, at any time.

*Series 1 Class C (Series 1)*

As of December 31, 2023, Montfort has 498,800 non-cumulative Series 1 Class C Preferred shares issued and outstanding (nil - December 31, 2022). On July 1, 2023, the board of directors of the Company resolved to create the Series 1, Class C Preferred Shares to facilitate the share exchange with the preferred shareholders of Langhaus Financial Corporation. Under the terms of the Series 1 Shares, holders of the Series 1 Shares are entitled to a non-cumulative annual dividend rate equal to the yield on the Canadian dollar denominated non-callable Government of Canada bond with a two-year maturity ("Canadian 2YR Yield") plus 5.0% (the "Dividend Rate"), payable quarterly if and when such dividend is declared by the Company. Under the terms of the Series 1 Shares, if the actual Canadian 2YR Yield is less than 1.00%, the Canadian 2YR Yield will be deemed to be 1.00% for the purposes of the Dividend Rate and if the actual Canadian 2YR Yield is greater than 7.00%, the Canadian 2YR Yield will be deemed to be 7.00% for the purposes of calculating the Dividend Rate. The Dividend Rate will be calculated on the last day of the previous quarter in which a dividend is payable.

The Series 1 Shares are also redeemable by the Company at $25.00 per Series 1 Share and rank senior to the Common shares and subordinate to the Class A Preferred Shares upon liquidation, dissolution or winding-up of the Company or other distributions of assets among shareholders for the purposes of winding-up affairs.

The Preferred Shares will rank senior to the Common shares of the Company with respect to declared but unpaid dividends. The Preferred Shares are retractable by the Corporation at any time on or after the date that is three years after the Closing Date. On or after the date that is three years after the closing date, the Company may, at its option, upon 10 days' prior written notice, retract all or any number of the Preferred shares. Upon notice of retraction by the Company, holders of the Preferred Shares may elect to receive either: (a) a cash payment equal to the offering price; or (b) one Common share in exchange for each one Preferred share, subject to adjustment. The Preferred shares do not have a fixed maturity date and are not redeemable at the option of the holders of Preferred shares. Holders of the Preferred shares may elect to convert the Preferred shares into Common shares on the basis of one Common share for each Preferred share held, subject to adjustment, at any time.

## 12. SHARE CAPITAL (continued)

*(d) Dividends declared:*

On a quarterly basis the Company's Board of Directors declared and paid dividends on Series A Preferred shares as follows:

| Dividend declaration date | Dividend payment date | Dividend rate | | Total dividends paid |
|---|---|---|---|---|
| February 22, 2023 | March 31, 2023 | Series A 0.02 | $ | 569,720 |
| May 24, 2023 | June 28, 2023 | Series A 0.02 | | 569,720 |
| August 31, 2023 | September 29, 2023 | Series 1 0.06 | | 301,111 |
| August 31, 2023 | September 29, 2023 | Series A 0.02 | | 569,720 |
| November 22, 2023 | December 29, 2023 | Series 1 0.06 | | 310,204 |
| November 22, 2023 | December 29, 2023 | Series A 0.02 | | 569,720 |
| | | | **$** | **2,890,195** |

Dividends paid during the year ended December 31, 2022 were as follows:

| Dividend declaration date | Dividend payment date | Dividend rate | | Total dividends paid |
|---|---|---|---|---|
| February 24, 2022 | March 31, 2022 | 0.0200 | $ | 209,720 |
| May 26, 2022 | June 30, 2022 | 0.0200 | | 209,720 |
| August 26, 2022 | September 29, 2022 | 0.0200 | | 569,720 |
| November 25, 2022 | December 30, 2022 | 0.0200 | | 569,720 |
| | | | **$** | **1,558,880** |

*(d) Stock options and share unit plan:*

<u>Stock options</u>

The Company has adopted an equity incentive plan for granting options to directors, employees and consultants, under which the total outstanding options are limited to 10% of the issued and outstanding Common Shares as at the grant date. Under the plan, the exercise price of an option shall not be less than the discounted market price at the time of granting, or as permitted by the policies of TSX-V. Options granted may not exceed a term of ten years from the grant date. The vesting period for all other options will be determined by the Board of Directors at the time of each grant.

## 12. SHARE CAPITAL (continued)

*(d) Stock options and share unit plan: (continued)*

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| **Balance, December 31, 2021** | **4,830,000** | **$ 0.22** |
| Issued | 2,915,000 | 0.41 |
| Forfeited | (96,628) | 0.29 |
| Exercised | (993,372) | 0.17 |
| **Balance, December 31, 2022** | **6,655,000** | **$ 0.31** |
| Issued | 2,395,001 | 0.35 |
| Forfeited | (335,000) | 0.29 |
| Exercised | (700,000) | 0.18 |
| **Balance, December 31, 2023** | **8,015,001** | **$ 0.34** |

Additional information regarding stock options outstanding as at December 31, 2023 is as follows:

| Outstanding | | | Exercisable | | |
|---|---|---|---|---|---|
| Exercise Price | Number of Options | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| 0.19 | 355,000 | 1.59 | 0.19 | 350,575 | 0.19 |
| 0.22 | 700,000 | 0.37 | 0.22 | 700,000 | 0.22 |
| 0.20 | 440,000 | 1.03 | 0.20 | 440,000 | 0.20 |
| 0.17 | 550,000 | 1.44 | 0.17 | 550,000 | 0.17 |
| 0.30 | 275,000 | 2.73 | 0.30 | 208,562 | 0.30 |
| 0.44 | 600,000 | 2.82 | 0.44 | 600,000 | 0.44 |
| 0.44 | 50,000 | 4.07 | 0.44 | 15,525 | 0.44 |
| 0.42 | 1,460,000 | 3.24 | 0.42 | 798,959 | 0.42 |
| 0.38 | 30,000 | 3.40 | 0.38 | 16,000 | 0.38 |
| 0.40 | 755,000 | 4.06 | 0.40 | 210,297 | 0.33 |
| 0.48 | 145,000 | 3.73 | 0.48 | 61,575 | 0.48 |
| 0.46 | 50,000 | 3.74 | 0.46 | 21,050 | 0.46 |
| 0.31 | 250,000 | 3.76 | 0.31 | 250,000 | 0.31 |
| 0.35 | 955,001 | 4.21 | 0.35 | 252,923 | 0.35 |
| 0.41 | 840,000 | 3.76 | 0.41 | 493,388 | 0.41 |
| 0.50 | 200,000 | 0.38 | 0.50 | 200,000 | 0.50 |
| 0.16 | 20,000 | 4.65 | 0.16 | 2,374 | 0.16 |
| 0.20 | 20,000 | 4.66 | 0.20 | 2,283 | 0.20 |
| 0.19 | 10,000 | 4.73 | 0.19 | 922 | 0.19 |
| 0.13 | 310,000 | 4.92 | 0.13 | 9,059 | 0.13 |
| | **8,015,001** | **2.91** | **0.34** | **5,183,492** | **0.32** |

Option-pricing requires the use of highly subjective estimates and assumptions including the expected stock price volatility. The expected volatility used in valuing stock options is based on volatility observed in historical periods. Changes in the underlying assumptions can materially affect the fair value estimates. The fair value of the options re-priced and granted to officers, directors, consultants, and employees was calculated using the Black-Scholes Option Pricing Model with the following weighted average assumptions and resulting grant date fair value:

## 12. SHARE CAPITAL (continued)

*(d) Stock options and share unit plan: (continued)*

| | **2023** | **2022** |
|---|---|---|
| Weighted average assumptions: | | |
| Risk-free interest rate | 2.88% - 4.25% | 1.64% - 3.50% |
| Expected dividend yield | - | - |
| Expected option life (years) | 5 | 5 |
| Expected stock price volatility | 69% - 72% | 79% - 83% |
| Weighted average fair value at grant date | $0.08-$0.44 | $0.31-$0.48 |
| Expected forfeiture rate | - | - |

The Company has a share unit (SU) plan that allows for the granting of restricted share units (RSUs), performance share units (PSUs), deferred share units (DSUs) and Stock Appreciation Rights (SARs) to directors and employees. The maximum number of the Company's common shares that may be issued under the share unit plan as of December 31, 2023 is 9,257,096.

RSUs granted entitle participants to receive one common share of the Company for each share unit granted if certain vesting and performance conditions are achieved. PSUs entitle participants to receive common shares of the Company if certain performance and vesting criteria are achieved. DSUs granted entitle participants the right to receive one common share of the Company for each share unit granted if certain vesting conditions are achieved. Each DSU shall initially have a value equal to the market price of a common share as at the date the DSU is granted. SARs granted entitle participants to receive one common share of the Company, a cash payment or a combination thereof for each right if certain performance and vesting criteria are achieved. Under the plan, the exercise price of an option shall not be less than the market price at the time of grant.

The performance criteria of the share units may be based upon the achievement of corporate or individual goals, and may be applied relative to performance relative to an index or comparator group, or on any other basis determined by the Board. The Board may modify the performance criteria as necessary to align them with the Corporation's corporate objectives.

A summary of the SU activity is presented as follows:

| | **SUs** | |
|---|---|---|
| | **# of PSUs** | **# of RSUs** |
| SUs outstanding, January 1, 2022 | - | - |
| Issued | 5,650,000 | 700,000 |
| **SUs outstanding, December 31, 2022** | **5,650,000** | **700,000** |
| Issued | - | 2,701,050 |
| Exercised | - | (500,000) |
| **SUs outstanding, December 31, 2023** | **5,650,000** | **2,901,050** |
| | | |
| **Weighted average fair value** | 0.00 | 0.30 |
| **Weighted average remaining contractual life (years)** | 1.63 | 1.35 |

## 12. SHARE CAPITAL (continued)

(e) *Normal Course Issuer Bid*

On November 1, 2022, the TSXV approved and the Company announced its intention to commence a normal course issuer bid (NCIB) to repurchase the Company's common shares. Under the NCIB the Company may purchase for cancellation up to 4,575,286 common shares over a 12-month period ending November 3, 2023. Transactions were executed from time to time in the open market in accordance with the rules and policies of the TSXV. During the year ended December 31, 2023, the Company canceled 133,500 shares under the NCIB of which 52,500 were purchased during the year and 81,000 shares previously repurchased in 2022.

(f) Warrants:

| | Number of Warrants | | Weighted Average Exercise Price |
|---|---|---|---|
| **Balance, December 31, 2021** | **431,667** | **$** | **0.30** |
| Granted | 2,511,681 | | 0.50 |
| Exercised | (133,339) | | 0.30 |
| Expired | (298,328) | | 0.30 |
| **Balance, December 31, 2023 and 2022** | **2,511,681** | **$** | **0.50** |

Additional information regarding warrants outstanding and exercisable as at December 31, 2023 is as follows:

| Exercise Price | Number of Warrants | Weighted Average Remaining Contractual Life (years) | | Weighted Average Exercise Price |
|---|---|---|---|---|
| 0.50 | 2,511,681.00 | 0.01 | $ | 0.50 |

## 13. RELATED PARTY TRANSACTIONS AND EXECUTIVE COMPENSATION

The Company may have transactions in the normal course of business with individuals (as well as their family members or entities they control) who are related to the Company either as key management personnel or a member of the board of directors. Any such transactions are in the normal course of operations and are measured at market based on exchange amounts. The Company had the following related party transactions:

(a) For the year ended December 31, 2023, $502,793 of interest from $4,899,985 of debentures and loans payable ($4,438 and $nil respectively - December 31, 2023) was paid to certain directors, officers, family members of directors and officers and companies controlled by a director.

(b) Accounts payable of $94,454 ($141,723 - December 31, 2022) was due to directors and/or officers identified as key management personnel as at December 31, 2023.

(c) Rent expense of $56,352 ($44,811 - December 31, 2022) was accrued or paid for the eleven months ended December 31, 2023 to a third party company controlled by the CEO.

(d) During the period the Company recognized interest and fee revenue of $457,226 on loans receivable from related parties in the amount of $nil ($3,409,723 and $nil respectively - December 31, 2022) where the entity is controlled by a member of the Company's management, is a significant shareholder of the entity and a member of the entity's board of directors. Amounts earned on loans outstanding during the year were fully repaid prior to year-end.

## 13. RELATED PARTY TRANSACTIONS AND EXECUTIVE COMPENSATION

(e) The Company has agreed to pay guarantee fees to two related parties for personal guarantees made on the bank loan in LH LP, limited to the lesser of 2.5% of the amount drawn and $2,500,000 ("Guarantor's Exposure"). Guarantee fees of $66,464 ($nil - December 31, 2022) have been paid to related parties equal to 8% of the Guarantor's exposure as at December 31, 2023.

The Company considers the Chief Executive Officer, Chief Financial Officer, Chief Strategy Officer, Chief Credit Officer, and Directors as key management personnel. Key management compensation for the year ended December 31, 2023 and 2022 were as follows:

(a) Directors fees of $324,000 (December 31, 2022 - $199,450) were accrued or paid during the year ended December 31, 2023.

(b) Management compensation of $1,464,438 (December 31, 2022 - $1,045,015) was accrued or paid during the year ended December 31, 2023.

(c) Share-based payments expenses of $619,680 (December 31, 2023 - $503,868) were recorded for directors and certain officers identified as key management personnel for the year ended December 31, 2023.

## 14. NON-CONTROLLING INTEREST ("NCI")

As a result of the acquisition of Langhaus (Note 3), a non-controlling interest was recognized representing the 22% of shares not purchased by the Company. Details of the change in non-controlling interest for the year were as follows:

| | | |
|---|---|---|
| **NCI Balance, December 31, 2022** | **$** | **2,599,264** |
| Net loss attributable to NCI | | (141,960) |
| **NCI Balance, December 31, 2023** | **$** | **2,457,304** |

The following table shows the movement in NCI for the year ended December 31, 2022, including the adjustment related to the loss of control adjustment (see Note 2 for further details):

| | **TIMIA Capital I LP** | **TIMIA Capital II LP** | **TIMIA Capital III LP** | **Langhaus** | **Total** |
|---|---|---|---|---|---|
| **NCI Balance, December 31, 2021** | **$ 5,956,600** | **$ 24,556,976** | **$ -** | **$ -** | **$ 30,513,576** |
| Contributions by LP's | - | - | 8,246,881 | - | 8,246,881 |
| Distributions paid to LP's | (2,674,986) | (3,767,841) | (446,230) | - | (6,889,057) |
| Reinvestment of distributions | - | - | 19,249 | - | 19,249 |
| Acquired as part of business acquisition (Note 3) | - | - | - | 2,621,573 | 2,621,573 |
| Net income (loss) attributable to NCI | 672,323 | 2,345,293 | 345,306 | (22,309) | 3,340,613 |
| Foreign currency translation | - | 1,636,227 | 393,038 | - | 2,029,265 |
| Loss of control adjustment | (3,953,937) | (24,770,655) | (8,558,244) | - | (37,282,836) |
| **NCI Balance, December 31, 2022** | **$ -** | **$ -** | **$ -** | **$ 2,599,264** | **$ 2,599,264** |

## 14. NON-CONTROLLING INTEREST ("NCI") (continued)

### Summarized financial information

Statements of financial position as at December 31, 2023 and statements of net income (loss) for the year ended December 31, 2023:

| | | Langhaus |
|---|---|---|
| Total current assets | $ | 123,982,676 |
| Total non-current assets | | 1,455 |
| **Total Assets** | | **123,984,131** |
| Total liabilities | | 118,618,897 |
| Shareholders' equity | | 5,365,235 |
| **Total liabilities & Shareholders' equity** | **$** | **123,984,131** |

| For the 12 months ended December 31, 2023 | | Total |
|---|---|---|
| Total revenue | $ | 11,332,133 |
| Total expense and other income | | 11,484,769 |
| **Total net income and comprehensive income** | **$** | **(152,637)** |

Statements of financial position as at December 31, 2022 and statements of net income (loss) for the year ended December 31, 2022:

| | | Total |
|---|---|---|
| Total current assets | $ | 170,481,909 |
| Total non-current assets | | - |
| **Total Assets** | | **170,481,909** |
| Total liabilities | | 164,097,304 |
| Partners' capital | | 6,384,605 |
| **Total liabilities & Partners' capital** | **$** | **170,481,909** |

| For the year ended December 31, 2022 | | Langhaus | | TIMIA Capital I LP | | TIMIA Capital II LP | | TIMIA Capital III LP |
|---|---|---|---|---|---|---|---|---|
| Total revenue | $ | 2,909,704 | $ | 936,973 | $ | 4,724,851 | $ | 938,784 |
| Total expense and other income | | 3,011,108 | | (70,558) | | 1,200,548 | | 556,486 |
| **Total net income and comprehensive income** | **$** | **(101,404)** | **$** | **1,007,531** | **$** | **3,524,303** | **$** | **382,298** |

## 14. NON-CONTROLLING INTEREST ("NCI") (continued)

### TIMIA Capital I LP

Since inception the Company has completed financings for a total of $18,420,000 ("Committed Capital") in its first Limited Partnership ("LP I"). In addition to holding units in LP I, TIMIA is entitled to receive a management fee of 1.5% of committed capital for the first six years and 0.75% thereafter. In addition, LP I reimburses TIMIA for operating expenses incurred on its behalf.

### TIMIA Capital II LP

Since inception of LP II, the Company closed financings of $27,146,565 (US $16,215,000). The Company is invested in LP II and is entitled to receive a management fee of 1.5% of invested capital and a performance fee based upon the profit of LP II for the life of the fund. In addition, LP II reimburses TIMIA for operating expenses incurred on its behalf.

### TIMIA Capital III LP

During the year ended December 31, 2022, the Company launched TIMIA Capital III Preferred Return Fund (The "Trust") and TIMIA Capital III Preferred Return Fund LP ("LP III"). The primary business of the Trust will be to invest in units of LP III. Since inception the Trust and LP III have closed financings for a total of $8,628,442 (US $6,508,593). The Company is invested in LP III and is entitled to receive a management fee of 1.5% of invested capital and a performance fee. In addition, LP III reimburses TIMIA for operating expenses incurred on its behalf.

## 15. INCOME TAX

The following table reconciles the amount of income tax expense on application of the combined statutory Canadian federal and provincial income tax rates:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Net income before taxes | $ | (12,870,726) | $ | 3,936,038 |
| Combined Canadian statutory income tax rate | | 27% | | 27% |
| Income tax expense at statutory rate | | (3,475,096) | | 1,062,730 |
| Income taxes attributable to non-controlling interests in partnerships | | - | | (1,062,636) |
| Non-deductible items and other permanent differences | | 304,791 | | 318,198 |
| Change in tax benefit not recognized | | 2,775,179 | | (998,046) |
| Tax effect on loss of control | | - | | 520,929 |
| True up of prior periods | | (18,389) | | 224,198 |
| Other | | 45,513 | | (61,025) |
| **Income tax expense** | **$** | **(368,002)** | **$** | **4,348** |

## 15. INCOME TAX (continued)

Significant components of the Company's deferred tax assets (liabilities) are shown below:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Non-capital loss carryforward | $ | 452,400 | $ | 682,642 |
| Financing fees & share issuance costs | | 51,072 | | 37,478 |
| Reserves and other temporary differences | | 353,230 | | 189,262 |
| Carried interest receivable | | (656,191) | | (563,958) |
| Intangible assets | | (2,187,349) | | (2,680,570) |
| Investments | | 203,792 | | (118,683) |
| Other | | 25,094 | | 27,995 |
| **Net deferred tax liability** | **$** | **(1,757,952)** | **$** | **(2,425,834)** |

As of December 31, 2023, Montfort has approximately $15,030,520 of non-capital losses for tax purposes which may be used to reduce income taxes of future years and will expire from 2028 to 2043.

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Current tax expense | $ | 299,880 | $ | 623,959 |
| Deferred tax recovery | | (667,882) | | (619,611) |
| **Income tax expense** | **$** | **(368,002)** | **$** | **4,348** |

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Opening balance | $ | (2,425,834) | $ | (838,080) |
| Tax liability earned in business combination | | - | | (2,207,365) |
| Tax (expense) recovery recognized in income statement | | 667,882 | | 619,611 |
| **Net deferred tax liability** | **$** | **(1,757,952)** | **$** | **(2,425,834)** |

## 16. FINANCIAL INSTRUMENTS AND RISK

### Financial instruments

The following table summarizes information regarding the carrying values and classification of the Company's financial instruments as of the years ended December 31, 2023 and 2022 :

| | | Carrying value | |
|---|---|---|---|
| | **Classification** | **December 31, 2023** | **December 31, 2022** |
| Cash | Amortized Cost | $ 8,281,046 | $ 7,008,311 |
| Accounts receivable | Amortized Cost | 8,605,909 | 6,091,216 |
| Carried interest receivable | Amortized Cost | 2,430,338 | 2,088,735 |
| Loans receivable | Amortized Cost | 320,581,709 | 380,689,555 |
| Investments | FVTPL | 1,247,903 | 1,255,046 |
| Accounts payable | Amortized Cost | 7,375,530 | 3,557,016 |
| Debentures & co-investment obligations | Amortized Cost | - | 2,463 |
| Loans payable (Note 10) | Amortized Cost | 291,371,311 | 313,584,615 |
| Loans payable (Note 10) | FVTPL | 60,000,000 | 60,000,000 |
| Other liability | Amortized Cost | 893,534 | 19,063,113 |
| Other liability | FVTPL | 811,611 | 2,281,584 |

The estimated fair values of cash and accounts payable approximate their respective carrying values due to their nature and short terms to maturity. Investments are carried at their fair value. Loans receivable, accounts receivable, carried interest receivable, co-investment obligations, revolving credit facility, debentures and non-controlling interests are carried at amortized cost. Loans payable and other liability are split between amortized cost and FVTPL.

The fair value measurements use a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

## 16. FINANCIAL INSTRUMENTS AND RISK (continued)

### Financial instruments (continued)

The following table presents the Company's financial instruments, measured at fair value on the consolidated statements of financial position and categorized into levels of the fair value hierarchy as at December 31, 2023:

| | Balance at December 31, 2023 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Investments | $ 1,247,903 | $ - | $ - | $ 1,247,903 |
| Loans payable | 60,000,000 | - | - | 60,000,000 |
| Other liability | 811,611 | - | - | 811,611 |

Loans payable were transferred from Level 1 to Level 3 during the period were $nil (2022 - $nil).

The consolidated statements of financial position and categorized into levels of the fair value hierarchy as at December 31, 2022:

| | Balance at December 31, 2022 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Investments | 1,255,046 | 7,143 | - | 1,247,903 |
| Loans payable | 60,000,000 | - | - | 60,000,000 |
| Other liability | 2,281,584 | - | - | 2,281,584 |

Investments classified as Level 3 relate to shares held in private companies. Fair value of equity interests held is determined using a market approach. Management reviews financial results of underlying companies and uses recent equity transactions to value the investment. No change in methodology or fair value noted during the period.

Loans payable classified as Level 3 relate to variable interest debt from a third party. During the year ended December 31, 2023 no gains or losses were recognized in the statement of net income (loss) for changes in fair value related to the loans payable as there were no material movements in the fair value of the loans payable. Factors considered in determining the fair value of loans payable include changes to own credit risk as well as variable interest rate associated with this debt which did not have a significant impact on the fair value at December 31, 2023.

For information regarding the valuation of Other liability above refer to Note 11.

The investment operations of the Company's business involve the origination and purchase of loans receivable and the purchase and sale of securities, and accordingly, a portion of the Company's assets are currently composed of financial instruments. The use of financial instruments can expose the Company to several risks, a discussion of which is provided below.

## 16. FINANCIAL INSTRUMENTS AND RISK (continued)

### Financial instruments (continued)

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains sufficient cash balances to meet current working capital requirements. The Company is dependent on obtaining regular financings in order to continue as a going concern. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash consists of cash deposited in business accounts held by high credit quality financial institutions. The following lists the contractual cash flows as of December 31, 2023:

| | Carrying amount | Contractual cash flows | Within 1 year | Within 2 years | Within 5 years |
|---|---|---|---|---|---|
| Accounts payable | $ 7,375,530 | $ 7,375,530 | $ 7,375,530 | $ - | $ - |
| Loans payable | 351,371,311 | 358,817,322 | 337,135,530 | 6,368,340 | 15,313,452 |
| Lease liability | 1,622,232 | 1,939,834 | 453,790 | 405,842 | 1,080,202 |
| Other liability | 1,705,145 | 1,705,145 | 1,705,145 | - | - |
| **Total** | **$ 362,074,218** | **$ 369,837,831** | **$ 346,669,994** | **$ 6,774,182** | **$ 16,393,654** |

The following lists the contractual cash flows as of December 31, 2022:

| | Carrying amount | Contractual cash flows | Within 1 year | Within 2 years | Within 5 years |
|---|---|---|---|---|---|
| Accounts payable | $ 3,557,016 | $ 3,557,016 | $ 3,557,016 | $ - | $ - |
| Loans payable | 373,584,615 | 374,536,771 | 287,929,294 | 86,607,477 | - |
| Debentures & Co-investment obligations | 2,463 | 2,463 | 2,463 | - | - |
| Lease liability | 102,479 | 129,090 | 105,894 | 23,196 | - |
| Other liability | 21,344,697 | 21,344,697 | 19,843,266 | 1,501,431 | - |
| **Total** | **$ 398,591,270** | **$ 398,617,881** | **$ 310,485,777** | **$ 88,132,104** | **$ -** |

## 16. FINANCIAL INSTRUMENTS AND RISK (continued)

### Foreign exchange risk

The Company's foreign exchange risk is due to the Company's loan investments totaling US$12,265,107 ($6,295,919 - December 31, 2022) which are currently valued at $16,259,852 ($8,527,193 - December 31, 2022) and loans payable totaling US$12,315,343 ($4,000,000 - December 31, 2022) which are currently valued at $16,326,451 ($5,417,600 - December 31, 2022). A 10% movement in the US dollar exchange rate would increase/decrease foreign exchange gains/losses on the consolidated statement of net income (loss) by $6,660.

### Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash, loans receivable as it relates to mortgages, and loans payable. The Company's practice has been to invest cash at floating rates of interest in order to maintain liquidity, while achieving a satisfactory return for shareholders. A 10% change in the interest rate would result in an increase or decrease in interest expense of $2,195,048 ($1,097,480 - December 31, 2022).

As of December 31, 2023, 6.5% of mortgage loans receivable bear interest at fixed rates and 93.5% of mortgages receivable bear interest at variable rates. The interest rate risk associated with variable rate mortgages receivable is mitigated by a minimum interest rate being the greater of the stated variable rate and fixed rate determined at mortgage origination for each respective variable rate mortgage loan receivable. Changing interest rates may result in changes in interest income and expense for the Brightpath variable rate mortgages. The extent of the future impact on the market rates of interest and the corresponding effect on the fair value of the Company's mortgage receivable could be significant. On a consolidated basis, a 10% change in interest rates would result in an increase or decrease in interest revenue of $3,102,759 ($3,363,686 - December 31, 2022).

### Market risk

Market risk is the risk that the fair value of, or future cash flows from the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity prices. The Company is exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Additionally, the Company adjusts its investments to fair value at the end of each reporting period. This process could result in significant write-downs of the Company's investments over one or more reporting periods, particularly during periods of overall market instability, which could have a significant unfavourable effect on the Company's financial position.

The Company manages market risk by having a portfolio of investments not singularly exposed to any one issuer. The Company also manages its market risk by reviewing individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

### Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash, accounts receivable and loan receivables. The Company limits exposure to credit risk by maintaining its cash with financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash, restricted cash, accounts receivable, forward contract and loans receivable.

## 16. FINANCIAL INSTRUMENTS AND RISK (continued)

### Credit risk (continued)

*Credit risk measurement*

In monitoring credit risk, the Company performs ongoing credit evaluations of its investees' financial condition. The evaluation considers delinquency trends, sales volumes and the investee's ability to maintain its financial condition. In accordance with IFRS 9, the Company calculates a provision for expected credit loss as outlined below.

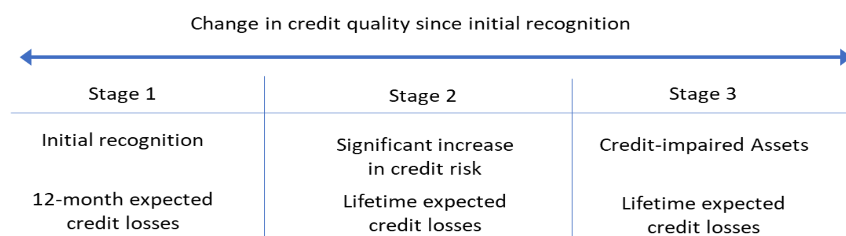
*Expected credit loss measurement*

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

Calculating the ECL allowance involves a number of interrelated inputs and assumptions including probability of default, indications of SICR and collateral value.  Key judgments relate to the estimated value of collateral, in the current macroeconomic environment.

The following diagram summarizes the impairment requirements under IFRS 9:




The Company assigns each financial instrument in the portfolio to a credit quality stage of Stage 1, Stage 2 or Stage 3. This credit quality staging is then used to calculate the lifetime ECL. The lifetime ECL is the maximum loss in default adjusted for the probability of loss. At each reporting period, the ECL is calculated for each loan receivable. The Company periodically reviews the ECL model to determine if industry trends or macro-economic factors have changed, causing a need to adjust the ECL model. The ECL - loans receivable recorded in the consolidated statement of net income (loss) is $2,265,251 as at December 31, 2023 (December 31, 2022 - $703,182) and ECL - accounts receivable recorded is $4,747,086 (December 31, 2022 - $141,265).

## 16. FINANCIAL INSTRUMENTS AND RISK (continued)

### Credit risk (continued)

*Significant increase in credit risk (SICR)*

The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative or qualitative criteria have been met:

- The investment is more than 30 days but less than 90 days in arrears on its contractual payment obligations;
- The Company's management believes the cash resources available to the investment may not be sufficient to meet ongoing needs; or
- The investment has significantly underperformed with respect to revenue growth and expense control.

A financial instrument is considered to be in stage 3 if:

- The borrower is 90 days past due on contractual payments;
- The borrower is in long-term forbearance;
- The borrower is insolvent; or
- The borrower is in material breach of financial covenants.

*Expected credit loss model*

The Company determines the lifetime expected credit loss to be the maximum loss in a default adjusted for the probability of loss. At each reporting period, the ECL is calculated for each accounts receivable and loan receivable.

The maximum default loss is a function of the relative exposure of the Company to a particular investment. The Company assesses this as a ratio of the enterprise value of the underlying entity to the amortized loan balance. Based on this ratio, the Company assigns the loan receivable to a maximum default loss band. Each band has a loss percentage based on historic experience.

The probability of default represents the likelihood that the borrower defaults on its financial obligation. As such it is dependent on the stage of the investment at the measurement date. An investment in stage 3 is in default by definition so the likelihood of default is 100%. Stage 1 and stage 2 credits are assigned default probabilities based on historic experience and an assessment of forward looking macro-economic trends. If Company management determines that a segment of the portfolio is facing macro-economic trends that differ from other investments in the portfolio, the probability of default will be adjusted accordingly for that segment.

The Company reviews the stage of each accounts receivable and loan receivable and recalculates the ECL every reporting period. Changes to the ECL are recognized on the consolidated statement of income (loss) in the period of the change.

*Credit risk exposure*

The Company's credit risk exposure by ECL staging is included in a table in Note 5.

## 17. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to: a) identify and to invest in investments with strong cash-flow and long-term growth potential; b) to maintain financial strength, to protect its ability to meet its ongoing liabilities and to continue as a going concern and maintain creditworthiness; c) maximize returns for shareholders over the long-term. If the Company does not receive sufficient cash flows from its activities, it may have to undertake a private placement to cover its cash outflows.

The Company is subject to certain restrictions on its assets as described in Note 10. The Company's share capital is not subject to external restrictions. The capital of the Company comprises shareholders' equity, notes payable, debentures and co-investment obligations.

The Company manages and adjusts the capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets.

## 18. RESTRUCTURING

The Company incurred restructuring costs related to severance due to relocation of its head office. All amounts expensed in the period were paid, no further expenditures relating to this restructuring are expected.

## 19. SEGMENT DISCLOSURES

Segments are identified on the same basis that is used internally to manage and to report performance, taking into account the services of each segment and the organizational structure of the Company. The Company's operations consist of the following reporting segments:

- Corporate Lending
- Consumer Lending
- Montfort Operations

The Company's Corporate Lending business consists of TIMIA and Pivot, which both provide corporate financing to small and medium sized enterprises. TIMIA Capital offers revenue-based investment to fast growing, business-to-business recurring revenue software businesses in North America and Pivot Financial, specializes in asset-based private credit targeting mid-market borrowers in Canada.

The Company's Consumer Lending business consists of Brightpath and Langhaus. Brightpath uses investor loans to administer first and second mortgages secured by residential properties within Canada and Langhaus provides insurance policy-backed loans to high-net-worth individuals and entrepreneurs in Canada.

Montfort Operations includes management of corporate borrowings and equity instruments, which fund a portion of the capital invested as well as operations. Certain corporate costs such as interest expense and salary allocations are allocated to each operating segment based on an internal framework.

The role of the "chief operating decision maker" with respect to resource allocation and performance assessment is embodied in the position of the Chief Executive Officer. The performance of the segments is measured on the basis of net income or loss before tax, and net assets, which is defined as total segment assets less total segment liabilities which is used as the basis of assessing the allocation of resources.

## 19. SEGMENT DISCLOSURES (continued)

Selected information by segment for the years ended December 31, 2023 and 2022 is presented in the tables below:

| | Twelve months ended December 31, 2023 | | | |
|---|---|---|---|---|
| | **Corporate Lending** | **Consumer Lending** | **Montfort Operations** | **Total** |
| **REVENUE** | | | | |
| Interest income | $ 6,470,592 | $ 31,027,589 | $ - | $ 37,498,181 |
| Income from transaction and other fees | 2,769,691 | 9,760,221 | 10,000 | 12,539,912 |
| Income from settlement of loans | 62,026 | - | - | 62,026 |
| Performance fee income | 1,366,264 | - | - | 1,366,264 |
| **TOTAL REVENUE** | 10,668,573 | 40,787,810 | 10,000 | 51,466,383 |
| | | | | |
| **TOTAL OPERATING EXPENSES** | 15,270,587 | 39,656,665 | 9,183,982 | 64,111,234 |
| **TOTAL NON-OPERATING EXPENSES** | 164,678 | - | 61,197 | 225,875 |
| **NET INCOME BEFORE TAXES** | (4,766,692) | 1,131,145 | (9,235,179) | (12,870,726) |
| Income tax expense | 126,402 | 170,808 | 2,670 | 299,880 |
| Deferred tax recovery | - | (177,309) | (490,573) | (667,882) |
| **NET INCOME** | **$ (4,893,094)** | **$ 1,137,646** | **$ (8,747,276)** | **$ (12,502,724)** |

| **As at December 31, 2023** | | | | |
|---|---|---|---|---|
| Total assets | $ 41,724,481 | $ 303,811,089 | $ 56,972,663 | $ 402,508,233 |
| Total liabilities | 38,912,196 | 308,334,890 | 17,029,137 | 364,276,223 |
| Cash | 2,466,699 | 4,691,015 | 1,123,332 | 8,281,046 |
| Loans receivable | 32,155,735 | 288,425,974 | - | 320,581,709 |
| Provision for expected credit loss (loans receivable) | (1,108,457) | (1,394,158) | - | (2,502,615) |
| Loans payable | 111,536,490 | 236,234,821 | 3,600,000 | 351,371,311 |
| Intangibles and Goodwill | - | - | 52,887,603 | 52,887,603 |

## 19. SEGMENT DISCLOSURES (continued)

| | Twelve months ended December 31, 2022 | | | |
|---|---|---|---|---|
| | Corporate Lending | Consumer Lending | Montfort Operations | Total |
| **REVENUE** | | | | |
| Interest income | $ 13,711,711 | $ 9,756,752 | $ - | $ 23,468,463 |
| Income from transaction and other fees | 2,082,966 | 4,512,079 | - | 6,595,045 |
| Income from settlement of loans | 755,106 | - | - | 755,106 |
| Performance fee income | 447,739 | - | - | 447,739 |
| **TOTAL REVENUE** | 16,997,522 | 14,268,831 | - | 31,266,353 |
| **TOTAL OPERATING EXPENSES** | 9,646,468 | 12,031,171 | 5,175,170 | 26,852,809 |
| **TOTAL NON-OPERATING EXPENSES** | (70,725) | 35 | 548,196 | 477,506 |
| **NET INCOME BEFORE TAXES** | 7,421,779 | 2,237,625 | (5,723,366) | 3,936,038 |
| Income tax expense | 56,244 | 603,351 | (35,636) | 623,959 |
| Deferred tax expense | - | (188,942) | (430,669) | (619,611) |
| **NET INCOME** | $ 7,365,535 | $ 1,823,216 | $ (5,257,061) | $ 3,931,690 |
| **As at December 31, 2022** | | | | |
| Total assets | $ 92,051,970 | $ 356,853,161 | $ 13,563,651 | $ 462,468,782 |
| Total liabilities | 47,333,180 | 355,771,381 | (500,019) | 402,604,542 |
| Cash and restricted cash | 2,774,373 | 4,233,938 | - | 7,008,311 |
| Loans receivable | 35,886,006 | 344,803,549 | - | 380,689,555 |
| Provision for expected credit loss | (250,640) | (805,646) | - | (1,056,286) |
| Intangibles and Goodwill | - | - | 61,713,764 | 61,713,764 |

## 20. SUBSEQUENT EVENTS

On February 22, 2024, the Company's board of directors declared a quarterly cash dividend of $0.02 per Series A Preferred Shares and $0.5520 per Series 1 Class C, payable on March 28, 2023, to preferred shareholders of record as of March 19, 2023.

On January 22, 2024, the Company announced that its subsidiary Langahus achieved certain financial targets, including assets under management growth, which resulted in the settlement of the remaining contingent consideration. Cash payments of $217,056 were made to various sellers and the remaining $603,326 was rolled into a promissory note with a maturity date of April 15 2024.

On January 17, 2024, the Company announced the launch of a new strategic growth initiative, Nuvo Financial (Nuvo), which is focused on providing net asset value (NAV) loans to small and mid-sized investment funds in Canada.  Nuvo closed a financing arrangement with a Canadian bank to provide up to $50,000,000 of funding. The facility will be due on demand and bear an interest rate of prime plus 1.75% per annum. Nuvo will be an operating segment and fall within the corporate lending reporting segment.

On February 22, 2024, the Company announced the launch of Langhaus LP IV and the closing of a new financing arrangement with a Canadian bank to provide up to $50,000 000 of funding.

On March 19, 2024, the Company announced it has agreed to acquire the remaining 21.98% issued and outstanding share capital of Langhaus Financial Partners Inc. Langhaus achieved its financial target for assets under management, which allowed the Company to exercise its call option to acquire the remaining Langahus interest.

## 20. SUBSEQUENT EVENTS (continued)

On March 22, 2024 the Company announced the closing of a senior secured, revolving credit facility for up to $200,000,000 ("new credit facility"). The initial commitment of $100,000,000 will be used by a subsidiary of the Company to finance its current portfolio and future originations as well as $50,000,000 of loans payable were repaid. The facility will bear interest at a floating rate equal to the Canadian Overnight Repo Rate Average ("CORRA") plus a commercially reasonable credit spread and matures on April 1, 2028.

As a result of the new credit facility, the Company renegotiated the terms of the existing term loan. The Company repaid $50,000,000 of the $60,000,000 of the term loan due to a lender and the remaining balance is due March 21, 2025.