
FINDEV INC.

**UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS**

SEPTEMBER 30, 2020

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of Findev Inc. (“**Corporation**”) have been prepared by and are the responsibility of the Corporation’s management.

The Corporation’s independent auditor has not performed a review of these unaudited condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s independent auditor.

FINDEV INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

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FINDEV INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 (All Amounts are in Canadian Dollars)

As at

September 30, 2020 December 31, 2019

ASSETS

Cash	\$ 561,109	\$ 458,366
Marketable securities (Note 6)	27,514	—
Receivables (Note 6)	25,062	37,990
Prepaid expenses	6,535	18,709
Loans and mortgage investments (Note 7 and 13)	<u>17,800,911</u>	<u>17,202,106</u>
	<u>\$ 18,421,131</u>	<u>\$ 17,717,171</u>

LIABILITIES

Accounts payable and accrued liabilities (Note 8 and 13)	\$ <u>309,998</u>	\$ <u>325,767</u>
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SHAREHOLDERS' EQUITY

Share capital (Note 9)	34,474,681	34,474,681
Contributed surplus (Note 101)	12,646,481	12,646,481
Accumulated deficit	<u>(29,010,029)</u>	<u>(29,729,758)</u>
	<u>18,111,133</u>	<u>17,391,404</u>
	<u>\$ 18,421,131</u>	<u>\$ 17,717,171</u>

Nature of Organization (Note 1)
 Commitments and Contingencies (Note 14)

Approved on behalf of the board of directors:

 /s/ "Brice Scheschuk"
 Brice Scheschuk, Director

 /s/ "Yisroel Weinreb"
 Yisroel Weinreb, Director

FINDEV INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(All Amounts are in Canadian Dollars)

	Number of Common Shares	Amount of Common Shares	Contributed Surplus	Accumulated Deficit	Shareholders' Equity
Balance, January 1, 2019	28,647,441	\$ 34,474,681	\$ 12,646,481	\$ (30,541,612)	\$ 16,579,550
Dividends declared (Note 12)	—	—	—	(644,568)	(644,568)
Comprehensive income	—	—	—	1,183,913	1,183,913
Balance, September 30, 2019	28,647,441	\$ 34,474,681	\$ 12,646,481	\$ (30,121,017)	\$ 17,118,895
Balance, January 1, 2020	28,647,441	\$ 34,474,681	\$ 12,646,481	\$ (29,729,758)	\$ 17,391,404
Dividends declared (Note 12)	—	—	—	(644,568)	(644,568)
Comprehensive income	—	—	—	1,364,297	1,364,297
Balance, September 30, 2020	28,647,441	\$ 34,474,681	\$ 12,646,481	\$ (29,010,029)	\$ 18,111,133

FINDEV INC.
UNAUDITED CONDENSED INTERIM
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(All Amounts are in Canadian Dollars)

For the Period from To September 30,	July 1,		January 1,	
	2020	2019	2020	2019
REVENUE				
Interest income (Notes 7 and 13)	\$ 528,141	\$ 482,275	\$ 1,530,668	\$ 1,423,878
EXPENSES				
General and administrative (Note 11)	61,525	77,857	202,312	198,117
Realized (gain) loss on securities	—	—	19,070	(1,156)
Unrealized gain on convertible debenture (Note 6 and 8)	<u>3,839</u>	<u>71,812</u>	<u>(55,011)</u>	<u>43,004</u>
	<u>65,364</u>	<u>148,669</u>	<u>166,371</u>	<u>239,965</u>
COMPREHENSIVE INCOME	<u>\$ 462,777</u>	<u>\$ 333,606</u>	<u>\$ 1,364,297</u>	<u>\$ 1,183,913</u>
Net income per common share				
Basic and Diluted	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ 0.04</u>
Weighted average number of common shares outstanding (Note 17)				
Basic and Diluted	<u>28,647,441</u>	<u>28,647,441</u>	<u>28,647,441</u>	<u>28,647,441</u>

FINDEV INC.
UNAUDITED CONDENSED INTERIM
CONSOLIDATED STATEMENTS OF CASH FLOWS
(All Amounts are in Canadian Dollars)

For the Period from To September 30,	July 1,		January 1,	
	2020	2019	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the year	\$ 462,777	\$ 333,606	\$ 1,364,297	\$ 1,183,913
Non-cash expenses:				
Amortization of financing fee			—	—
Loan loss provision	9,000	14,500	(14,500)	19,000
Unrealized loss on convertible debenture	3,839	71,812	(55,011)	43,004
Loan and mortgage investments:				
Investment in loans and mortgages	(203,679)	(162,710)	(526,890)	(1,001,235)
Repayments of loans and mortgages	—	—	—	465,000
Net change in operating assets and liabilities				
Receivables	(17,590)	(17,425)	(16,990)	(284)
Prepaid expenses	8,105	9,066	12,174	9,780
Accounts payable and accrued liabilities	9,336	7,380	(15,769)	(14,662)
CASH FLOWS FROM OPERATING ACTIVITIES	<u>271,788</u>	<u>256,229</u>	<u>747,311</u>	<u>705,516</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid	(214,856)	(214,856)	(644,568)	(644,568)
CASH FLOWS USED IN FINANCING ACTIVITIES	<u>(214,856)</u>	<u>(214,856)</u>	<u>(644,568)</u>	<u>(644,568)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in marketable securities	—	—	—	—
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	56,932	41,373	102,743	59,948
CASH AND CASH EQUIVALENTS - Beginning of the year	<u>504,177</u>	<u>317,582</u>	<u>458,366</u>	<u>299,007</u>
CASH AND CASH EQUIVALENTS - End of the year	<u>\$ 561,109</u>	<u>\$ 358,955</u>	<u>\$ 561,109</u>	<u>\$ 358,955</u>
NON-CASH FINANCING ACTIVITY				
Capitalized interest	<u>\$ 174,185</u>	<u>\$ 69,799</u>	<u>\$ 323,211</u>	<u>\$ 288,524</u>

FINDEV INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020
(Expressed in Canadian Dollars)

1. Nature of Organization

Description of the Business

Findev Inc. (“**Findev**” or “**Corporation**”) was incorporated under the Canada Business Corporations Act on August 4, 2004. The Corporation’s principal office is located at 10 Wanless, Suite 201, Toronto, Ontario. The principal business is to provide real estate financing secured by investment properties and real estate developments. These financings are generally for a period of one to five years to bridge a period during the various stages of development.

The Corporation’s common shares are listed on the TSX Venture Exchange (“**TSXV**”) under the symbol FDI.

These audited consolidated financial statements of the Corporation were authorized for issue in accordance with a resolution of the directors on October 28, 2020.

2. Basis of Presentation

Statement of Compliance

These unaudited condensed interim consolidated financial statements (“**Financial Statements**”) for the period from January 1, 2020 to September 30, 2020 have been prepared by management in accordance International Accounting Standards (“**IAS**”) 34 – Interim Financial Reporting under International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”) and incorporated into Canadian Generally Accepted Accounting Principles (“**CGAAP**”). Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the International Accounting Standards Board (“**IASB**”) and interpretations of the International Financial Reporting Interpretations Committee (“**IFRIC**”). These financial statements have not been reviewed by the Corporation’s external auditors.

Basis of Presentation and Basis of Measurement

These Financial Statements have been prepared on a going concern basis, which assumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business and under the historical cost convention, modified, where applicable, by the measurement at fair value of selected financial assets and financial liabilities.

Principles of Consolidation

These Financial Statements of the Corporation include the accounts of Findev and its wholly owned subsidiary, Findev Lending Inc. (“**FLI**”). All intercompany balances, transactions and gains and losses from intercompany transactions have been eliminated on consolidation.

Functional and Presentation Currency

These Financial Statements are presented in Canadian dollars, which is the Corporation’s functional currency. Foreign exchange transactions during the year were converted at the then average exchange rate and year-end balance sheet amounts denominated in foreign currencies were converted at the exchange rate as at that date.

Critical Judgments and Estimates

The preparation of the unaudited condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of income and expenses during the year. Actual results may differ from these estimates.

FINDEV INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

2. Basis of Presentation – continued

In making estimates, the Corporation relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior year and there are no known trends, commitments, events or uncertainties that the Corporation believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements. The areas involving greater judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed separately.

Critical Judgments and Estimates – continued

Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of these Financial Statements and the reported amounts of revenue and expenses during the years. Actual results could also differ from those estimates under different assumptions and conditions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Critical judgements and estimates are disclosed in Note 4.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these unaudited condensed interim consolidated financial statements in accordance with IFRS.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Marketable Securities

Marketable securities are comprised of securities that trade on an exchange and the book value is recorded at fair market value.

Investment in Non-Derivative Financial Assets and Derivative Assets

Investments in non-derivative financial assets and derivative assets that are not traded in an active market are valued based on the results of valuation techniques – using observable market inputs where possible, on such a basis and in such a manner established by the management. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other commonly used by market participants and which make the maximum use of observable inputs.

Financial assets and liabilities

Classification

The Corporation classifies its financial instruments in the following categories: at fair value through profit and loss (“**FVTPL**”), at fair value through other comprehensive income (loss) (“**FVTOCI**”) or at amortized cost. The Corporation determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Corporation's business model for managing the financial assets and their contractual cash flow characteristics.

FINDEV INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – continued

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Corporation can make an irrevocable election (on an instrument-by-instrument basis) to designate them at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Corporation has opted to measure them at FVTPL.

Measurement

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Corporation's own credit risk will be recognized in other comprehensive income (loss).

Impairment of financial assets at amortized cost

The Corporation recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Corporation measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Corporation measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Corporation shall recognize in the consolidated statements of loss and comprehensive loss as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

The Corporation derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of net (loss) income. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

The Corporation derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

FINDEV INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM
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(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – continued

Business Model Assessment

Business model assessment involves determining whether financial assets are managed in order to generate collection of contractual cash flows. The Corporation takes into consideration the following factors:

- i. How the performance of assets in a particular portfolio is evaluated and reported;
- ii. The risks that affect the performance of assets held within a business model and how those risks are managed; and
- iii. Whether the assets held for trading purposes;

Cash Flow Characteristics Assessments

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (“**SPPI**”)

Cash Flow Characteristics Assessments – continued

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments. Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In performing this assessment, the Corporation takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement.

If the Corporation identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments measured at amortized cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization is included in Interest income in the Consolidated Statement of Income.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (“**ACL**”) in the Consolidated Statement of Financial Position.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive Income (“**OCI**”), unless the instrument is designated in a fair value hedge relationship.

FINDEV INC.
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(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – continued

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Consolidated Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognised in OCI with a corresponding charge to Provision for impairment losses in the Consolidated Statement of Income. The accumulated allowance recognised in OCI is recycled to the Consolidated Statement of Income upon derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest.

Debt instruments measured at FVTPL – continued

These instruments are measured at fair value in the Consolidated Statement of Financial Position, with transaction costs recognized immediately in the Consolidated Statement of Income as part of Non-interest income. Realized and unrealized gains and losses are recognized as part of Non-interest income in the Consolidated Statement of Income.

Equity Investments

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase. For equity instruments measured at FVTPL, changes in fair value are recognized as part of Non-interest income in the Consolidated Statement of Income.

The Corporation can elect to classify non-trading equity instruments at FVOCI. This election will be used for certain equity investments for strategic or longer-term investment purposes. The FVOCI election is made upon initial recognition on an instrument-by-instrument basis and once made is irrevocable.

Impairment

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – Where there has not been a significant increase in credit risk (“**SIR**”) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SIR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

FINDEV INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – continued

Measurement of expected credit loss

The probability of default (“**PD**”), exposure at default (“**EAD**”), and loss given default (“**LGD**”) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of these statistical parameters/inputs are as follows:

PD: The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

EAD: The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD: The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Macroeconomic Factors

In its models, the Corporation relies on forward looking information as economic inputs, such as house price indices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement.

Assessment of SIR

At each reporting date, the Corporation assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macro-economic factors, management judgement and delinquency and monitoring.

The common assessments for SIR on investment portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Presentation of allowance for credit losses in the Statement of Financial Position

- i. Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the financial assets;
- ii. Debt instruments measured at fair value through other comprehensive income: no allowance is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the allowance determined is presented in the accumulated other comprehensive income.

FINDEV INC.
NOTES TO THE UNAUDITED CONDENSED INTERIM
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(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – continued

Definition of default

The Corporation considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- i. Significant financial difficulty of the borrow;
- ii. Default or delinquency in interest or principal payments;
- iii. High probability of the borrower entering a phase of bankruptcy or financial reorganization;
- iv. Measurable of decrease in the estimated future cash flows of the loan or the underlying assets that back the loan.

The Corporation considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is applicable.

Share Capital

Share capital, common shares and equity instruments are any contracts that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Corporation are recorded at the proceeds received, net of direct issue costs.

Warrants

The Corporation measures the fair value of warrants issued using the Black-Scholes option-pricing model. The fair value of each warrant is estimated based on their respective issuance dates considering volatility, expected life, the dividend rate, and the risk-free interest rate. The fair value of warrants issued in conjunction with an offering is charged to share issue costs with an offsetting amount recorded to contributed surplus. The fair value of warrants exercised is recorded as share capital, and the fair value of any expired warrants is recorded as contributed surplus.

Unearned Income

Unearned income includes commitment fees received from borrowers, which are amortized over the contractual terms of the respective loan and mortgage investments.

Revenue Recognition – Interest Income and Fees Earned

Interest income and fees earned is recognized in the consolidated statements of operations and comprehensive income using the effective interest rate method (“EIM”). The EIM discounts the estimated future cash receipts through the expected life of the loan and mortgage to its carrying amount. When estimating future cash flows, the contractual terms of the mortgage are considered, including origination revenue, interest receipts, principal receipts and contractual end-of-term participation receipts, where applicable. Participation receipts that are contingent upon future events, such as the profitability of the underlying security, are not included in the estimated cash flows. Such amounts are recorded in income when management is reasonably assured of its collectability.

Share-based Compensation

The Corporation has an incentive stock option plan for grants to eligible directors, officers, senior management and consultants under its incentive stock option plan. The expense of the equity-settled incentive option plan is measured based on fair value of the options granted of each tranche at the grant date. The expense is recognized in proportion to the vesting features of each tranche of the grant and is reflected in contributed surplus. When incentive stock options are exercised, any consideration paid, together with the amount recorded in contributed surplus, are recorded in share capital.

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3. Summary of Significant Accounting Policies – continued

Provisions

Provisions for legal claims, where applicable, are recognized in other liabilities when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting year and are discounted to present value where the effect is material.

Deferred Financing Costs

Financing costs related to the Corporation's financings are recorded as deferred financing costs. These costs will be deferred until the financing is completed; at which time the costs will be charged against the proceeds received. If the financing does not close, the costs will be charged to the statements of operations and comprehensive loss.

Incremental costs incurred in respect of raising capital are charged against equity or debt proceeds raised. Costs associated with the issuance of common shares are charged to share capital upon the raising of equity. Costs associated with the issuance of debt are amortized using the EIM over the life of the debt.

Income Tax

Income tax comprises current and deferred taxes. Income tax is recognized in the consolidated statements of income and comprehensive income, except to the extent that it relates to items recognized directly in equity, in which case, the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the reporting year, using tax rates enacted, or substantively enacted, at the end of the reporting year.

Deferred tax is determined based on the temporary differences between the carrying value and the tax basis of the assets and liabilities. Any change in the net amount of deferred income tax assets and liabilities is included in income. Deferred income tax assets and liabilities are determined based on enacted or substantially enacted tax rates and laws which are expected to apply to the Corporation's taxable income for the year in which the assets and liabilities will be recovered or settled. Deferred income tax assets are recognized when it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per Share

Basic earnings per share is calculated by dividing the net income attributable to shareholders of the Corporation by the weighted average number of shares outstanding during the year.

Diluted earnings per share is determined by adjusting the net income attributable to shareholders and the weighted average number of shares outstanding, adjusted for the dilutive effects of all convertible securities and granted incentive stock options and warrants, issued and outstanding, if any. No effect has is given to the potential exercise of stock options and warrants in the calculation of diluted net earnings (loss) per share if the effect would be anti-dilutive. Stock options and warrants have a dilutive effect only when the average market price per common share during the year exceeds the exercise price.

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4. Significant Accounting Policies, Judgements and Estimation Uncertainty

Critical Judgments and Estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of income and expenses during the year. Actual results may differ from these estimates.

In making estimates, the Corporation relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior year and there are no known trends, commitments, events or uncertainties that the Corporation believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in the financial statements. The areas involving greater judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed separately.

Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of these financial statements and the reported amounts of revenue and expenses during the years. Actual results could also differ from those estimates under different assumptions and conditions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

Fair Value of Financial Instruments

The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

Impairment of Loans and Mortgages

At the end of each reporting period, the Corporation reviews the carrying amounts of its loans and mortgages to determine the expectation of future impairment losses, taking into consideration the value of the recoverable amount and an adjustment to the expected future impairment, if any, with such amount being reflected as a reduction in revenues within the Statement of Operations and Comprehensive Income.

Income Taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determinations are made.

Fair value of the Investment in Convertible Debentures

The Corporation measures the investments in convertible debentures at fair value. Estimating fair value for the convertible debentures requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the debentures. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model such the time to expiration, volatility, dividend yield and risk rate of the debentures.

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5. Marketable Securities

As at	September 30, 2020	December 31, 2019
Cost	\$ 29,918	\$ —
Unrealized change in value	(2,404)	—
Fair Market Value	<u>\$ 27,514</u>	<u>\$ —</u>

6. Receivables

As at	September 30, 2020	December 31, 2019
Interest receivable	<u>\$ 25,062</u>	<u>\$ 37,990</u>

7. Loan and Mortgage Investments

As at September 30, 2020, the Corporation had net principal balance of loan and mortgage investments of \$17,800,911 (December 31, 2019 - \$17,202,106). The loan and mortgage investments carry a weighted average effective interest rate of 11.59% (December 31, 2019 – 11.49%) and a weighted average term to maturity of 0.12 years (December 31, 2019 – 0.63), with maturities as follows:

Maturity	September 30, 2020	December 31, 2019
Less than one year	\$ 17,895,846	\$ 16,868,956
Between one and five years	—	500,000
	<u>17,895,846</u>	<u>17,368,956</u>
Allowance for fair value valuation	(24,435)	(81,850)
Allowance for loan and mortgage investments loss	(70,500)	(85,000)
	<u>\$ 17,800,911</u>	<u>\$ 17,202,106</u>

The Corporation reduced its loan loss provision during the period by \$14,500 (December 31, 2019 decreased by \$3,000).

There are is one loan issued to Plazacorp Investments Limited (“**Plazacorp**”), a related party (Note 13), for a total of \$10,805,000 (December 31, 2019 - \$10,805,000) maturing November 30, 2020 and can be prepaid at any time without penalty. Subsequent to September 30, 2020, this loan has been extended to November 30, 2023.

The loan and mortgage investments are secured by mortgages registered on title and/or other forms of security, including, but not limited to, floating charge debentures, general security agreements, postponement of specific claims and joint and several guarantees.

The Corporation may syndicate certain of its loan and mortgage investments to private investors or to financial institutions, each participating in a prescribed manner per agreement and on an investment by investment basis. In these investments, the investors will assume the same risks associated with the specific investment transaction as the Corporation. Each syndicated loan and mortgage investment has a designated rate of return that the syndicated investors expect to earn from that loan and mortgage investment. As at September 30, 2020, the balance of the syndicated debt was \$1,607,539 (December 31, 2019 - 820,010), which is offset by syndicated assets of \$1,607,539 (December 31, 2019 - 820,010), for a net balance of \$nil. This loan is syndicated to Plazacorp.

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7. Loan and Mortgage Investments – continued

The following table presents details of the loan and mortgage investments as at September 30, 2020:

	Net Investment	% of net investments
Residential housing development	\$ 10,805,000	60.38
Land and lot inventory	6,590,846	36.83
Special situations	500,000	2.79
	<u>17,895,846</u>	<u>100.00</u>
Allowance for fair value valuation	(24,435)	(0.14)
Allowance for loan and mortgage investments loss	(70,500)	(0.39)
	<u>\$ 17,800,911</u>	<u>99.47</u>

The special situation loan is an investment in 500 convertible debentures with a face value of \$1,000 each due on August 3, 2021 bearing a coupon rate at 10% per annum if paid in cash or 12 % per annum if paid by issuing shares at the 20 day volume weighted average price of the borrow prior to the interest due date. The convertible debentures were initially convertible at any time with a conversion price of \$0.70 per common share, subject to certain price adjustment provisions. Due to the convertible debenture price adjustment provisions the conversion price has been reduced and is currently at \$0.05.

In addition, the Corporation also received in aggregate 714,500 warrants in connection with the convertible debentures subscription mentioned above. The warrants expire on August 3, 2021 are exercisable at \$0.80 per share initially subject to certain price adjustment provisions. Due to the warrant price adjustment provision the exercise price has been re-adjusted to \$0.06. The fair value of these convertible debentures and warrants at September 30, 2020 is estimated to be \$475,565 (December 31, 2019 - \$418,150) based on a discounted cash flow basis and using a Black Scholes option pricing model to value the conversion feature and the detachable warrants. A valuation allowance of \$24,435 (December 31, 2019 - \$81,850) was recorded as the fair value fell below \$500,000, being the purchase value.

8. Accounts payable and accrued liabilities

As at	September 30, 2020	December 31, 2019
Accounts payable	\$ 1,739	\$ 42,108
Accrued liabilities	93,404	68,803
Dividend payable	214,856	214,856
	<u>\$ 309,998</u>	<u>\$ 325,767</u>

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9. Share capital

The Corporation is authorized to issue an unlimited number of common shares.

10. Contributed Surplus

The Corporation's contributed surplus consists of the following:

	General	Incentive Stock Option	Warrants	Total
Balance, January 1, 2019, December 31, 2019 and September 30, 2020	\$ 11,294,358	\$ 443,880	\$ 908,243	\$ 12,646,481

a) Incentive Stock options

The Corporation's Incentive Stock Option Plan ("Plan") provides for the issuance of a maximum of 10% of the issued and outstanding common shares at an exercise price equal or greater than the market price of the Corporation's common shares on the date of the grant to directors, officers, employees and consultants to the Corporation. The option period for options granted under the Plan is for a maximum period of 10 years. Options granted may vest over certain time periods within the option period, which will limit the number of options that may be exercised. Each stock option is exercisable into one common share of the Corporation at the price specified within the terms of the option.

The number of common shares reserved for issuance under the Plan is a rolling 10% of the issued and outstanding common shares. Stock option issuances are recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest that have not yet been forfeited. Stock compensation expense adjustments for anticipated forfeitures have been determined to be immaterial.

No options were granted during the fiscal year ending September 30, 2020 and December 31, 2019.

The following table reconciles outstanding incentive stock options as at September 30, 2020 and December 31, 2019:

	Number	Weighted Average Exercise Price
Balance, January 1, 2019	1,466,857	\$ 0.630
Granted	—	N/A
Exercised	—	N/A
Expired	(2,857)	6.125
Forfeited	—	N/A
Balance, January 1, 2020	1,464,000	\$ 0.616
Granted	—	N/A
Exercised	—	N/A
Expired	(14,000)	6.125
Forfeited	—	N/A
Balance, September 30, 2020	1,450,000	\$ 0.600

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10. Contributed Surplus – continued

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at September 30, 2020.

Exercise Price	Options Outstanding	Expiry Date	Outstanding		Exercisable	
			Weighted Average Remaining Life	Weighted Average Price	Quantity	Weighted Average Price
\$ 0.600	1,250,000	October 20, 2024	4.1 years	\$ 0.60	1,250,000	\$ 0.600
0.600	200,000	November 2, 2024	4.1 years	0.60	200,000	0.600

b) Warrants

The following is a summary of outstanding warrants as at September 30, 2020 and December 31, 2019:

	Number of Warrants	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding, December 31, 2019	11,542,665	\$ 908,243	\$ 0.70	1.80
Outstanding, September 30, 2020	11,542,665	908,243	0.70	1.00

11. Expenses by Nature

For the period from To September 30,	July 1		January 1	
	2020	2019	2020	2019
Bank charges and interest	285	237	\$ 648	\$ 751
Insurance	5,103	4,860	13,309	14,580
Management fees (Note 13)	25,425	25,425	79,775	76,275
Office	438	383	1,247	877
Professional fees (Note 13)	23,326	31,665	78,697	74,214
Regulatory reporting	6,948	14,287	26,639	31,420
	61,525	76,857	\$ 202,312	\$ 198,117

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12. Dividend Payable

The following are the dividend declared, ex-dividend and when dividends are to be paid dates as well as the total amounts paid out and the dividend per common share declared and paid.

Declared	Ex-Dividend	Paid	Total Amount Declared	Total Amount Declared	Declared paid per Share	Amount paid per Share
Sept. 9, 2019	Sept. 27, 2019	Oct. 11, 2019	\$ 214,856	\$ 214,856	\$ 0.0075	\$ 0.0075
Dec. 4, 2019	Dec. 27, 2019	Jan. 6, 2020	214,856	214,856	0.0075	0.0075
March 12, 2020	March 31, 2020	April 14, 2020	214,856	214,856	0.0075	0.0075

For the period from To September 30,	July 1		January 1	
	2020	2019	2020	2019
Declared	\$ 214,856	\$ 214,856	\$ 644,568	\$ 644,568
Paid	214,856	214,856	644,568	644,568
Declared per common share	0.0075	0.0075	0.0225	0.0225
Paid per common share	0.0075	0.0075	0.0225	0.0225

13. Transactions with Related Parties and payments to Key Management

Related party transactions include transactions with parties related by common directors and transactions with other private entities owned or controlled by officers and directors. All transactions are provided in the normal course of business and are measured at exchange amounts agreed upon by the related parties. The following table summarizes the related party transactions occurring during the fiscal year.

For the period from To September 30,	July 1		January 1	
	2019	2018	2019	2018
Revenues				
Interest income	\$ 475,629	272,345	\$ 1,012,927	\$ 814,285
Expenses				
Director Fees	—	—	3,500	—
Management Fees	22,500	22,500	67,500	67,500
Professional Fees	16,047	31,665	48,778	61,730
Loans and mortgage investments Included with accounts payable	10,805,000	10,805,000	10,805,000	10,805,000
	—	—	—	—

Payments to key management

For the period from To September 30,	July 1		January 1	
	2020	2019	2020	2019
Directors' Fees	\$ 3,500	\$ —	\$ 3,500	—
Management Fees	22,500	22,500	67,500	67,500
Professional Fees	16,047	31,665	48,778	61,730

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13. Transactions with Related Parties and payments to Key Management – continued

The key management personnel of the Corporation include the Chief Executive Officer, Chief Financial Officer, Corporate Secretary and the Board of Directors. During the period ended September 30, 2020 and December 31, 2019, no key management personnel were indebted to the Corporation, with the exception that certain loans and mortgage investments of the Corporation were issued to Plazacorp Investments Limited and/or its affiliates which are owned and controlled by a director of the Corporation.

14. Commitments and contingencies

The Corporation, from time to time, may be involved in various claims, legal and tax proceedings and complaints arising in the ordinary course of business. The Corporation is not aware of any pending or threatened proceedings that would have a material adverse effect on the financial condition or future results of the Corporation.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operations in future periods.

15. Capital management

The Corporation manages its common shares, stock options, warrants and accumulated deficit as capital. The Corporation’s objectives when managing capital are to safeguard the Corporation’s ability to continue and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk, as there are no external restrictions on it.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares, issue new debt, acquire or dispose of assets in order to adjust the amount of cash on its balance sheet.

To facilitate the management of its capital requirements, the Corporation prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry and market conditions.

The Corporation’s investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

Management reviews its approach on an ongoing basis and believes that this approach, given the relative size of the Corporation, is reasonable.

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16. Financial instruments and risk management

The Corporation's financial instruments have been classified into categories that determine their basis of measurement and for items carried at fair value, where changes in fair value are recognized in the Statement of Operations and Comprehensive Income (Loss):

Financial Assets	September 30, 2020	December 31, 2019
Cash	\$ 561,109	\$ 458,366
Marketable securities	27,514	—
Receivables	25,062	37,990
Loans and mortgage investments	17,800,911	17,202,106
Financial Liabilities	September 30, 2020	December 31, 2019
Accounts payables and accrued liabilities	\$ 309,998	\$ 325,767

Fair value

The Corporation's operations expose the Corporation to market risk, credit risk, and liquidity risk. The Corporation manages its exposure to these risks by operating in a manner that minimizes these risks. Senior management employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Corporation's business objectives and risk tolerance levels. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has established policies in setting risk limits and controls and monitors these risks in relation to market conditions.

(a) Fair Value of Non-Derivative Financial Instruments

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. The fair value of interest-bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. The carrying value and fair value of financial instruments are as follows:

As at	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	\$ 561,109	\$ 561,109	\$ 458,366	\$ 458,366
Marketable securities	27,514	27,514	—	—
Receivables	25,062	25,062	37,990	37,990
Loans and mortgages investments	17,800,911	17,800,911	17,202,106	17,202,106
Financial liabilities				
Accounts payable and accrued liabilities	309,998	309,998	325,767	325,767

(b) Fair Value Hierarchy

The Corporation values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Corporation maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

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17. Financial instruments and risk management – continued

The following table outlines financial assets and liabilities measured at fair value in these consolidated financial statements and the level of the inputs used to determine those fair values in the context of the hierarchy as defined above:

As at September 30, 2020	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 561,109	\$ —	\$ —	\$ 561,109
Marketable securities	—	27,514	—	27,514
Receivables	—	25,062	—	25,062
Loans and mortgages investments	—	—	17,800,911	17,800,911
Total Assets	\$ 561,109	\$ 52,576	\$ 17,800,911	\$ 18,414,596
Liabilities				
Accounts payables	\$ —	\$ 309,998	\$ —	\$ 309,998
Total liabilities	\$ —	\$ 309,998	\$ —	\$ 309,998

Level 3 fair values are based on a number of valuation techniques other than observable market data (Note 7).

Credit risk

Credit risk is the possibility that a borrower under one of the loans and mortgages investments, may be unable to honour their debt commitment as a result of a negative change in the borrowers' financial position or market conditions that could result in a loss to the Corporation.

Any instability in the real estate sector or an adverse change in economic conditions in Canada could result in declines in the value of real property securing the Corporation's investments. There have been significant increases in real estate values in various sectors of the Canadian market over the past few years. A correction or revaluation of real estate in such sectors will result in a reduction in values of the real estate securing mortgage loans that comprise the Corporation's investment portfolio. This could result in impairments in the mortgage loans or loan losses in the event the real estate security has to be realized upon by the lender. The Corporation's maximum exposure to credit risk is represented by the fair values of amounts receivable and the loans and mortgage investment portfolio.

For the period ended September 30, 2020, the Corporation's two largest borrowers accounted for 100% of revenues of continuing operations and for the period ending December 31, 2019, the Corporation's three largest borrowers accounted for 100% of revenues of continuing operations.

The Corporation's exposure to credit risk for its loans and mortgage portfolio by geographic area is limited to Ontario, Canada.

Interest rate risk on income and expense

The Corporation's credit risk relating to cash and cash equivalents, which mainly relates to balances with large Canadian chartered banks. This risk's maximum exposure as at September 30, 2020 is comprised of \$561,109 (December 31, 2019 - \$425,103 and \$33,263 held with legal counsel in a trust account).

Interest rate risk is the risk that fair value of future cash flows of financial assets or financial liabilities will fluctuate because of changes in the market interest rates.

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17. Financial instruments and risk management – continued

The Corporation's current loan and mortgage portfolio is not subject to interest rate fluctuations, nor are its current liabilities. There is however, the risk of not being able to reinvest its capital at the same or greater rates due to the fluctuation of interest rates. In addition, as the Corporation expands its operations the loans which it may make may incorporate variable interest rates that shall fluctuate with the market.

Currently, if a shift in interest rates of 1% were to occur, the impact on cash and the related gain (loss) for over the year would have an impact on revenues of approximately \$200,000 (2019 - \$200,000). Management does not deem this to be material as it could and would continue to meet its operating expenses as well as its dividend policy.

Liquidity risk

Liquidity risk is the risk the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. The Corporation's objective for liquidity risk management is to maintain sufficient liquid financial resources to fund operations and to meet commitments and obligations in the most cost-effective manner possible. The Corporation achieves this by maintaining sufficient cash and cash equivalents and managing working capital. The Corporation monitors its financial resources on a regular basis and updates its expected use of cash resources based on the latest available data.

The Corporation's financial liabilities, classified as current, primarily consist of trade payables and accrued liabilities. Current liabilities were \$309,998 (December 31, 2019 - \$325,767) with all of it having expected settlement dates within one year or where conditions exist that could result in accelerated payment.

17. Earnings Per Share

In calculating the diluted earnings per share, issued and outstanding incentive stock options and warrants were not considered as they would have been anti-dilutive.

September 30,	2020	2019
Denominator basic and diluted earnings per share		
Weighted average number of Common shares outstanding	28,647,441	28,647,441
Dilutive effect of incentive stock options	—	—
Dilutive effect of warrants	—	—
Diluted weighted average Common shares	<u>28,647,441</u>	<u>28,647,441</u>