



**AUDITED ANNUAL CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

### To the Shareholders of Urbanfund Corp.

The accompanying consolidated financial statements of Urbanfund Corp. (the "Company" or "Urbanfund") are the responsibility of management and have been approved by the Board of Directors of the Company.

The annual consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with International Financial Reporting Standards, as disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the consolidated balance sheets date. In the opinion of management, the consolidated financial statements have been prepared with acceptable limits of materiality and are in accordance with International Financial Reporting Standards.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

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

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

RSM Canada LLP independent auditors appointed by the shareholders of Urbanfund, upon recommendation of the Board of Directors, have examined the 2022 and 2021 annual consolidated financial statements and have expressed their opinion upon the completion of such examination in the following report to the shareholders. The auditors have full and free access to, and meet at least quarterly with, the Audit Committee to discuss their audits and related matters.

*Mitchell Cohen*  
President, Chief Executive Officer and Director

*Thomas Kofman*  
Director

Toronto, Ontario  
April 19, 2023

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Urbanfund Corp.

### *Opinion*

We have audited the consolidated financial statements of Urbanfund Corp. (the "Group"), which comprise the consolidated balance sheets as at December 31, 2022 and 2021 and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### *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 are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *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, 2022. 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.

### Fair Value of Investment Properties

*Refer to consolidated financial statements Note 2(e) – Basis of preparation – Use of estimates and assumptions – Investment properties; Note 3(c) – Significant accounting policies – Fair value measurement; Note 3(d) – Significant accounting policies – Investment Properties; and Note 4 – Investment properties.*

The fair market value of investment properties as at December 31, 2022 is \$104,437,000 which represents approximately 69% of total assets. Management utilized both internal and external valuation specialists in determining the fair value of investment properties using the direct capitalization income approach at December 31, 2022.

We identified the valuation of investment properties as a key audit matter because management made significant assumptions relating to the capitalization rate, vacancy rate, and forecasted stabilized net operating income of each investment property used in its internal model. These significant assumptions involve a high degree of estimation uncertainty and complexity. This has resulted in significant audit effort, including the use of valuation specialists, and a high degree of auditor judgment to evaluate the audit evidence obtained.

How our audit addressed the Key Audit Matter

Our audit procedures related to the valuation of investment properties included the following, among others:

- We evaluated the appropriateness of the direct capitalization model and tested the appropriateness of the underlying data used in the calculation of stabilized net operating income.
- We assessed the competency and objectivity of those involved in the valuation of investment properties, including management's internal valuation team and management's external valuation specialists, by considering their qualifications and expertise.
- We tested the reasonableness of management's estimate process by comparing the prior year forecasted stabilized net operating income from management's internal valuation model to actual results.
- For a sample of properties, we utilized an internal valuation specialist to assist in:
  - a. Evaluating the appropriateness of assumptions used in management's internal valuation model including capitalization rates, vacancy rates, and forecasted stabilized net operating income by comparing to independent regional market data, industry averages, and improved comparable sales; and
  - b. Developing independent estimates for the assumptions applied in the internal valuation model based on comparable market benchmarks for similar assets in similar locations.

#### *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 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.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. 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 International Financial Reporting 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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 Group 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 Mark Jakovcic.

RSM Canada LLP

Chartered Professional Accountants  
Licensed Public Accountants  
April 19, 2023  
Toronto, Ontario

**URBANFUND CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
(In Canadian dollars)

As at	Note	December 31, 2022	December 31, 2021
<b>Assets</b>			
Investment properties	4	\$ 104,437,000	\$ 101,537,000
Equity accounted investments	5	21,346,430	20,733,430
Income taxes recoverable		-	660,768
Inventory properties	7	10,520,124	9,288,182
Receivables and other assets	8	1,478,935	1,886,158
Cash		12,992,706	10,367,437
<b>Total assets</b>		<b>\$ 150,775,195</b>	<b>\$ 144,472,975</b>
<b>Liabilities</b>			
Mortgages payable	11	\$ 65,073,329	\$ 65,777,147
Deferred tax liabilities	12	9,551,000	8,660,000
Tenant deposits		442,235	455,191
Income taxes payable		948,660	-
Accounts payable and accrued liabilities		1,611,797	1,867,634
<b>Total liabilities</b>		<b>77,627,021</b>	<b>76,759,972</b>
<b>Equity</b>			
Common shares		15,395,340	14,599,517
Preferred shares		1,113,750	1,113,750
Retained earnings		55,159,182	50,761,042
<b>Total shareholders' equity</b>		<b>71,668,272</b>	<b>66,474,309</b>
<b>Non-controlling interests</b>		<b>1,479,902</b>	<b>1,238,694</b>
<b>Total equity</b>		<b>73,148,174</b>	<b>67,713,003</b>
<b>Total liabilities and equity</b>		<b>\$ 150,775,195</b>	<b>\$ 144,472,975</b>
Contingencies and commitments	24		
Subsequent events	25		

Approved by the Board of Directors:

Mitchell Cohen  
Director

Thomas Kofman  
Director

The accompanying notes are an integral part of the consolidated financial statements.

**URBANFUND CORP.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(In Canadian dollars)

Years ended December 31,	Note	2022	2021
<b>Revenue</b>			
Rental revenue	16	\$ 8,484,928	\$ 6,450,982
Inventory property sales	7,16	15,321,522	-
		<b>23,806,450</b>	6,450,982
<b>Operating costs</b>			
Rental expenses		3,756,951	3,023,749
Inventory property cost of sales	7	10,150,173	-
		<b>13,907,124</b>	3,023,749
<b>Operating income</b>		<b>9,899,326</b>	3,427,233
<b>Other income</b>			
Income from equity accounted investments	5	1,013,000	5,630,000
Interest income		102,374	28,421
Fair value adjustment on investment properties	4	1,688,271	5,631,386
		<b>2,803,645</b>	11,289,807
<b>Other expenses</b>			
Financing costs		2,433,615	1,707,177
General and administrative costs		576,853	623,597
		<b>3,010,468</b>	2,330,774
<b>Income before taxes</b>			
		<b>9,692,503</b>	12,386,266
Current income tax expense (recovery)	12	1,217,000	(419,000)
Deferred income tax expense	12	891,000	2,128,000
		<b>2,108,000</b>	1,709,000
<b>Net income and comprehensive income</b>		<b>\$ 7,584,503</b>	\$ 10,677,266
<b>Net income attributable to:</b>			
Shareholders		\$ 7,343,295	\$ 10,304,928
Non-controlling interests		241,208	372,338
		<b>\$ 7,584,503</b>	\$ 10,677,266
<b>Net income per share attributable to shareholders:</b>			
Basic income per share	13	\$ 0.143	\$ 0.204
Diluted income per share	13	\$ 0.125	\$ 0.178

The accompanying notes are an integral part of the consolidated financial statements.

**URBANFUND CORP.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(In Canadian dollars)

	Note	<u>Common equity</u>		<u>Preferred equity</u>		Retained earnings	Non-controlling interests	Total equity
		Number of shares	Share capital	Number of shares	Share capital			
Balance, December 31, 2020		49,352,905	\$ 13,194,933	7,425,000	\$ 1,113,750	\$ 43,065,597	\$ 866,356	\$ 58,240,636
Changes during the year								
Net income and comprehensive income for the year		-	-	-	-	10,304,928	372,338	10,677,266
Dividends paid	22,15	-	-	-	-	(900,565)	-	(900,565)
Add: prior year dividends payable		-	-	-	-	425,834	-	425,834
Less: current year dividends payable	15	-	-	-	-	(730,168)	-	(730,168)
Dividend reinvestment plan	15	1,635,510	1,404,584	-	-	(1,404,584)	-	-
Balance, December 31, 2021		50,988,415	\$ 14,599,517	7,425,000	\$ 1,113,750	\$ 50,761,042	\$ 1,238,694	\$ 67,713,003
	Note	<u>Common equity</u>	<u>Share capital</u>	<u>Preferred equity</u>	<u>Share capital</u>	Retained earnings	Non-controlling interests	Total equity
Balance, December 31, 2021		50,988,415	\$ 14,599,517	7,425,000	\$ 1,113,750	\$ 50,761,042	\$ 1,238,694	\$ 67,713,003
Changes during the year								
Net income and comprehensive income for the year		-	-	-	-	7,343,295	241,208	7,584,503
Dividends paid	22,15	-	-	-	-	(2,139,003)	-	(2,139,003)
Add: prior year dividends payable	15	-	-	-	-	730,168	-	730,168
Less: current year dividends payable	15	-	-	-	-	(740,497)	-	(740,497)
Dividend reinvestment plan	15	826,326	795,823	-	-	(795,823)	-	-
Balance, December 31, 2022		51,814,741	\$ 15,395,340	7,425,000	\$ 1,113,750	\$ 55,159,182	\$ 1,479,902	\$ 73,148,174

The accompanying notes are an integral part of the consolidated financial statements.

**URBANFUND CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In Canadian dollars)

Years ended December 31,	Note	2022	2021
<b>Operating activities</b>			
Net income and comprehensive income		\$ 7,584,503	\$ 10,677,266
<i>Items not affecting cash:</i>			
Income from equity accounted investments	5	(1,013,000)	(5,630,000)
Interest income	22	(102,374)	(28,421)
Fair value adjustment on investment properties	4	(1,688,271)	(5,631,386)
Deferred income tax expense	12	891,000	2,128,000
<i>Other adjustments:</i>			
Acquisition of inventory properties	7	(9,790,000)	-
Financing of inventory properties	11,22	7,027,500	-
Disposition of inventory properties	7	10,150,173	-
Repayment of mortgage from sale of inventory properties	11	(6,850,668)	-
Adjustments for other non-cash working capital items	23	1,839,903	(3,757,396)
<b>Cash provided by (used in) operating activities</b>		<b>8,048,766</b>	<b>(2,241,937)</b>
<b>Investing activities</b>			
Capital expenditures on income properties	4	(1,211,729)	(3,796,871)
Construction expenditures to inventory properties	7	(1,592,115)	(951,956)
Contributions to equity accounted investment	5	-	(20)
Distributions from equity accounted investment	5	400,000	500,000
<b>Cash used in investing activities</b>		<b>(2,403,844)</b>	<b>(4,248,847)</b>
<b>Financing activities</b>			
Proceeds from mortgage financing	11,22	723,966	36,565,447
Repayments of mortgage principal	11,22	(1,604,616)	(25,336,705)
Dividends paid	15,22	(2,139,003)	(900,565)
<b>Cash provided by (used in) financing activities</b>		<b>(3,019,653)</b>	<b>10,328,177</b>
<b>Net change in cash</b>		<b>2,625,269</b>	<b>3,837,393</b>
Cash, beginning of year		10,367,437	6,530,044
<b>Cash, end of year</b>		<b>\$ 12,992,706</b>	<b>\$ 10,367,437</b>

Supplemental cash flow information 22

The accompanying notes are an integral part of the consolidated financial statements.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

(In Canadian dollars)

### 1. GENERAL INFORMATION

Urbanfund Corp. and its consolidated subsidiaries (collectively, "Urbanfund" or the "Company") own, develop and operate a real estate portfolio focused on a mix of both residential and commercial properties. Urbanfund also actively focuses on identifying real estate related projects. The parent company, Urbanfund Corp., was incorporated on February 4, 1997, pursuant to the provisions of the Business Corporations Act of Alberta. In 2003, the Company filed articles of continuance, allowing operations to continue under the laws of the Province of Ontario, Canada. The Company's corporate headquarters and registered head office are located at 35 Lesmill Road, Toronto, Ontario, Canada, M3B 2T3.

Urbanfund's common shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol UFC.

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

Urbanfund's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFIRC).

These consolidated financial statements of the Company for the years ended December 31, 2022 and 2021 were authorized for issuance by the Board of Directors on April 18, 2023.

#### (b) Basis of presentation

The consolidated financial statements are prepared on a going concern basis using the historical cost method modified to include fair value measurement of investment properties (note 4), as set out in the relevant accounting policies. The Company presents its consolidated balance sheets based on the liquidity method, whereby all assets and liabilities are presented in increasing order of liquidity. Urbanfund considers this presentation to be more relevant than a classified balance sheet distinguished between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within one year from the reporting period, and non-current assets and liabilities are those where the recovery or settlement is expected to be greater than a year from the reporting period. The accounting policies set out below have been applied consistently in all material respects. Any IFRS not effective for the current accounting year are described in note 3(s).

#### (c) Principles of consolidation

These consolidated financial statements include the accounts of the parent company, Urbanfund, and its subsidiaries, after elimination of intercompany transactions, balances, revenues and expenses.

##### (i) *Subsidiaries*

Subsidiaries are entities where the Company has control. Control is achieved when Urbanfund is exposed to, or has the rights, to variable returns from its involvement with the investee and the ability to affect those returns through its power over the investee. Power may be determined on the basis of voting rights or in the case of structured entities, other contractual arrangements. The Company reassesses whether or not it controls an investee based on current facts and circumstances. All subsidiaries are consolidated from the date Urbanfund obtains control and continues to be consolidated until the date that such control ceases.

##### (ii) *Associates*

Associates are entities over which Urbanfund has significant influence but not control or joint control, generally accompanying ownership between 20%-50% of the voting rights, although other factors such as the ability to impact key operating decisions could also indicate significant influence. Investments in associates are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and adjusted by the Company's share of post-acquisition results of operations and changes in net assets of the associate. The financial statements of Urbanfund's associates are prepared in the same reporting period as the Company, and where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

##### (iii) *Non-controlling interests*

When Urbanfund does not own all the equity in a consolidated subsidiary, the non-controlling equity interest is presented as a separate component of equity on the consolidated balance sheets. The net income attributable to the non-controlling

**URBANFUND CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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(In Canadian dollars)

interests is separately disclosed in the Company's consolidated statements of income and comprehensive income.

Transactions with non-controlling interests by the Company that do not result in a loss of control are accounted for as equity transactions. A disposal of rights in a subsidiary that does not result in a loss in control, results in an increase or decrease within equity of the difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary, also taking into account any amounts which have been recognized in income and comprehensive income, if any, based on the decrease in the interests in the subsidiary. Transactions costs with respect to non-controlling interests are also recorded in equity.

*(iv) Joint operations*

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets and the obligations for the liabilities relating to the arrangement. Urbanfund records only its share of assets, liabilities and share of the results of the joint operation. The assets, liabilities and results of the joint operation are included within the respective line items of the consolidated balance sheets and consolidated statements of income and comprehensive income.

**(d) Significant judgments**

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to exercise judgment in applying the Company's accounting policies. Judgments made by management in the on-going application of IFRS that have a significant effect on the consolidated financial statements are outlined below:

*Investment properties*

Urbanfund's accounting policies relating to its investment properties are described in note 3(d). In applying these policies, judgment is required in determining whether certain costs represent additions to the carrying amount of the property and distinguishing between tenant incentives and capital improvements. The Company's management also applies judgment in determining when property under development qualifies as an income property, which is when fair value can be reliably measured or construction of the property under development is substantially complete (whichever is earlier). Costs capitalized to properties under development include common area maintenance, property taxes and borrowing costs on both specific and general debt.

*Leases – Urbanfund as a lessor*

The Company makes judgments in determining whether certain leases, in particular tenant leases, where the Company is the lessor, are either operating or finance leases. The Company has determined, based on the evaluation of the terms and conditions of the lease arrangements, that Urbanfund retains all significant risks and rewards of ownership of the investment properties and accounts for these arrangements as operating leases.

*Acquisitions of investment properties*

At the time of acquisition of a property, whether through controlling share investment or directly, the Company considers whether the acquisition represents an acquisition of a business under *IFRS 3, Business Combinations*. This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business as defined by IFRS 3, and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business. The Company has determined that its acquisitions have been accounted for as asset acquisitions, as no integrated set of activities were acquired, the cost is accounted for as a group of assets and liabilities and the transaction costs are allocated to the assets and liabilities acquired based on their relative fair values. No goodwill is recognized for an asset acquisition.

*Joint arrangements*

The Company makes judgments in determining whether a joint arrangement structured through a separate vehicle is a joint operation by assessing the legal form of the separate vehicle, including the determination on whether the separate vehicle has independent power, discretion or responsibilities pertaining to the investment properties, and whether Urbanfund retains the right to control and direct the separate vehicle in all matters related to the investment properties.

*Significant influence*

When determining the appropriate basis of accounting for Urbanfund's investees, management makes judgments about the degree of influence that Urbanfund exerts directly or through an arrangement over the investees' relevant activities. This may include the ability to elect investee directors, appoint management or influence key decisions.

**URBANFUND CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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(In Canadian dollars)

*Income taxes*

The Company applies judgment in determining the tax rates applicable to the temporary differences to determine the provision for income taxes. Deferred taxes relate to temporary differences arising from its subsidiaries and are measured using tax rates that are expected to apply in the year when the asset is realized or the liability is settled. Temporary differences are differences between accounting and tax asset values that are expected to be deductible or taxable in the future.

**(e) Use of estimates and assumptions**

The preparation of Urbanfund's consolidated financial statements requires management to make estimates based on events and circumstances that existed at the consolidated balance sheet date. Accordingly, actual results may differ from these estimates.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The duration and impact of the COVID-19 pandemic on the Company is unknown at this time. As such, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. Any estimates are therefore subject to significant uncertainty, and may materially and adversely affect the Company's operation and financial results.

In light of the COVID-19 pandemic, management has made estimates in determining the valuation inputs used in its internal valuation model to measure fair value of investment properties. The carrying value for the Company's investment properties reflects its best estimate for the highest and best use as at December 31, 2022.

Significant estimates made by management with a significant risk of material adjustment in the current and following years are discussed below:

*Investment properties*

Estimates and assumptions used in determining fair value of investment properties include capitalization rates and stabilized net operating income (which is influenced by vacancy rates) used in the direct capitalization income approach. A change to any of these inputs could significantly affect the fair value of an investment property.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Revenue**

The Company's rental revenue from investment properties come from different sources and is accounted for in accordance with IFRS 16, "Leases".

Revenue is recognized to the extent it is probable the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received. The following specific recognition criteria must also be met before revenue is recognized:

*(i) Rental revenue*

Base rent

The Company has not transferred substantially all the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases. Revenue recognition under a lease commences when the tenant has the right to use the leased asset, which is typically when the tenant takes possession of, or controls, the physical use of the leased property, which generally occurs on the lease commencement date.

When Urbanfund is required to make additions to the property in the form of tenant improvements that enhance the value of the property, revenue recognition begins upon substantial completion of such additions. Tenant incentives are recognized as a reduction of rental revenue on a straight-line basis over the term of the lease contract.

Realty tax and insurance recoveries

Tenant reimbursements for real estate taxes and insurance incurred by the Company relate specifically to leased property and are unavoidable costs directly related to the leased asset. The Company recognizes realty tax and insurance recoveries as they become due.

# URBANFUND CORP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR YEARS ENDED DECEMBER 31, 2022 AND 2021

(In Canadian dollars)

#### Common area maintenance recoveries

The Company has obligations pursuant to its lease contracts with tenants to provide common area maintenance (CAM) services in exchange for CAM recoveries, which are considered non-lease components. These CAM services are delivered to tenants during the period which the tenants occupy the premises and as such, CAM recoveries are recognized in revenue over time. The Company receives variable consideration for the CAM recoveries to the extent of costs incurred and revenue is recognized on this basis as this is the best estimate of amounts earned over the period these services are performed. Revenue is constrained by actual costs incurred and any restrictions in the lease contracts. The Company is obligated to continue to provide CAM services over the remainder of the lease contract term and will recognize revenue based on actual cost incurred to fulfill the CAM services.

#### Percentage rent

Percentage rent is typically calculated based on a percentage of tenant sales over a specified threshold, which is in addition to base rent. Percentage rents are recognized once the specified threshold has been achieved in accordance with each tenant lease.

#### Lease cancellation fees

Amounts receivable from tenants to terminate their lease prior to the contractual expiry date are included in rental revenue as lease cancellation fees when collectability is reasonably assured at the effective date of the lease termination.

#### Parking revenue

Parking revenue are fees charged for short-term or transient use of a parking space. Revenue is recognized when the parking space is used and the fee is collected. Parking revenue pursuant to a lease is included in base rent.

#### Inventory property sales

Revenue from contracts with customers for inventory property sales are recognized at a point in time when control over the property has been transferred. This happens when possession passes to the customer, since the customer then has the ability to direct the use and obtain substantially all benefits of the property. Revenue is measured at the transaction price agreed to under the contract.

### **(b) Business combinations**

#### *IFRS 3 Business Combinations*

Effective January 1, 2020, the Company has adopted the amendments to IFRS 3 which clarifies whether a transaction meets the definition of a business combination. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendments do not have any impact on the Company's consolidated financial statement.

### **(c) Fair value measurement**

The Company measures certain financial instruments, such as marketable securities, and non-financial assets, such as investment properties, at fair value at each consolidated balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined by incorporating all factors that market participants would consider in setting a price acting in their economic best interests, including commonly accepted valuation approaches.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability that is accessible by Urbanfund.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its "highest and best use" or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure

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fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**(d) Investment properties**

Investment properties are held to earn rental revenue or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by the entity.

*(i) Income properties*

Income properties are initially measured at cost. Subsequent to initial recognition, income properties are recorded at fair value and related gains and losses arising from changes in fair value are recognized in net income in the year of change. The determination of fair value is based on, among other things, rental revenue from current leases and reasonable supportable assumptions that represent what knowledgeable, willing parties would assume about rental revenue from future leases in light of current conditions, less future cash outflows in respect to tenant installation costs, income property operations and capital expenditures.

*(ii) Properties under development*

Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to prepare the properties for their intended use as income properties.

The cost of a development property that is an asset acquisition comprises cash, or the fair value of other consideration, paid to acquire the properties, including transaction costs. Subsequent to the acquisition, the cost of a development property includes costs that are directly attributable to these assets, including development costs, property taxes and borrowing costs on specific debt. Direct borrowing costs, development costs and property taxes are capitalized when the activities necessary to prepare an asset for development or redevelopment begin and continue until the date that construction is substantially complete and all necessary occupancy and related permits have been received.

If Urbanfund is required as a condition of a lease to construct tenant improvements that enhance the value of the property, then capitalization of costs continues until such improvements are completed. Properties under development are measured at cost, when the fair value is not reliably determinable or when development is completed, at which point fair value is reliably determinable.

Properties under development are measured at cost and reviewed for impairment at each reporting date. An impairment loss is recognized in net income when the carrying value of the asset exceeds its recoverable amount.

**(e) Inventory properties**

Inventory properties are assets acquired or developed that Urbanfund has no intention of using for rental income purposes and plans to sell in the ordinary course of business. The Company expects to earn a return on such assets through a combination of property operating income earned during the holding period and sales proceeds. Residential inventory is recorded at the lower of cost, including pre-development expenditures and capitalized borrowing costs, and net realizable value, which Urbanfund determines using the estimated selling price in the ordinary course of business, less estimated selling costs and development costs to complete.

Inventory properties are reviewed for impairment at each reporting date. An impairment loss is recognized in net income when the carrying value of the asset exceeds its net realizable value.

Transfers into inventory properties are based on a change in use evidenced by the commencement of development expenditures with

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the view to sell, at which point an investment property would be transferred to inventory. Transfers from inventory property to investment property are based on a change in use evidenced by management's commitment to use a property for rental purposes or the commencement of an operating lease to another party.

Revenue from contracts with customers for inventory property sales is recognized at a point in time when control over the property has been transferred, which is when possession passes to the customer, since the customer then has the ability to direct the use and obtain substantially all the benefits of the property. Revenue is measured at the transaction price agreed to under the contract.

Funds received from the customer prior to the customer taking possession are recognized as deferred revenue (contract liability). Non-refundable sales commissions paid by the Company prior to the customer taking possession are capitalized to the inventory property (contract asset) and expensed when residential inventory revenue is recognized. Directly attributable selling and disposition costs are expensed as incurred.

**(f) Recognition and measurement of financial instruments**

Financial assets include Urbanfund's accounts receivable, within receivables and other assets, cash and investment in private company (shares and loans receivable). Financial liabilities include Urbanfund's mortgages payable, tenant deposits, and accounts payable and accrued liabilities.

The Company determines the classification of its financial assets and financial liabilities at initial recognition. The classification of financial instruments depends on the purpose for which they are acquired or incurred. Financial instruments are initially recorded at fair value and, in the case of financial assets or liabilities carried at amortized cost, adjusted for directly attributable transaction costs.

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument without modification or on a valuation technique using market-based inputs. The fair value of other assets and accounts payable and certain other liabilities are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

The fair value of term mortgages is estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the instrument. Financial assets are no longer recognized when the rights to receive cash flows from the assets have expired or are assigned and all the risks and rewards of ownership have been transferred to a third party. Financial liabilities are no longer recognized when the related obligation expires or is discharged or cancelled.

The following table outlines the financial assets and liabilities, their classification of those values:

Financial instruments	Classification
<i>Financial assets:</i>	
Cash	Amortized cost
Receivables and other assets	Amortized cost
Investment in private company <sup>(i)</sup>	
Common shares	FVTPL
Loan receivable	Amortized cost
<i>Financial liabilities:</i>	
Accounts payable and accrued liabilities	Amortized cost
Tenant deposits	Amortized cost
Mortgages payable	Amortized cost

(i) Included in receivables and other assets

**Financial assets**

The Company's financial assets are classified and measured based on both the business model in which the assets are managed and the contractual cash flow characteristics of the asset. Financial assets subsequent to initial recognition are classified and measured based on three categories: (i) amortized cost; (ii) fair value through other comprehensive income (FVOCI) with fair value gains or losses recycled to net income on derecognition for loans and receivables only; or (iii) fair value through profit and loss (FVTPL).

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### *(i) Financial assets at amortized cost*

Financial assets are recorded at amortized cost when financial assets held with the objective of collecting contractual cash flows and those cash flows represent solely payments of principal and interest and are not designated as FVTPL. These assets are measured at amortized cost subsequent to initial recognition using the effective interest method. This method uses an effective interest rate that discounts estimated future cash receipts through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability. The amortized cost is reduced by impairment losses, if any. Interest income and impairment losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

### *(ii) Financial assets at FVOCI*

These financial assets are measured at fair value subsequent to initial recognition. For debt instruments held with the objective of collecting contractual cash flows and selling financial assets, interest income is calculated using the effective interest method and impairment is recognized in profit or loss. Other net fair value gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. For equity instruments not held for trading and where an election to present changes in the fair value subsequent to initial recognition of such instruments in other comprehensive income is made, dividends are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net fair value gains and losses are recognized in OCI and are never reclassified to profit or loss. Regular way transactions are recorded on a trade date basis. The Company does not have any financial assets classified as FVOCI.

### *(iii) Financial assets at FVTPL*

These financial assets are neither held at amortized cost nor at FVOCI as they are managed and evaluated on a fair value basis. These financial assets are measured at fair value subsequent to initial recognition. Net gains and losses, including any interest or dividend income, are recognized in profit or loss unless they are derivative instruments designated in an effective hedging relationship.

### *(iv) Impairment of financial assets*

At each reporting date, each financial asset measured at amortized cost is assessed for impairment under an expected credit loss (ECL) model. The Company applies the simplified approach which uses lifetime ECLs for contractual rents receivable and the general approach for other receivables.

The Company uses an accounts receivable aging provision matrix to measure the ECL for contractual rents receivable and applies loss factors to aging categories greater than 60 days past due.

Other receivables are classified as impaired when there is objective evidence that the full carrying amount of the receivable is not collectible.

## **Financial liabilities**

Financial liabilities are initially measured at fair value and subsequent to initial recognition are classified and measured based on two categories: (i) amortized cost; or (ii) FVTPL.

### *(i) Financial liabilities at amortized cost*

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

### *(ii) Financial liabilities at FVTPL*

A financial liability is classified as FVTPL if it is classified as held for trading, it is derivative or designated as FVTPL on initial recognition. Financial liabilities at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expenses, are recognized in profit or loss unless they are derivative instruments designated in an effective hedging relationship.

## **(g) Income taxes**

Urbanfund is subject to tax under *Part I* of the *Income Tax Act (Canada)* and is subject to the general rate applicable on Canadian corporations. Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other

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comprehensive income or directly in equity respectively.

*(i) Current income taxes*

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Canada, where Urbanfund and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

*(ii) Deferred income taxes*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

**(h) Interest income**

Revenue is recognized as interest accrues using the effective interest method.

**(i) Other income**

Other income includes distributions from investment in real estate project, which is recorded when the Company's right to receive payment has been established, which is generally when the distributions are declared payable.

**(j) Levies**

Levies are outflows from the Company imposed by a government in accordance with legislation. The Company has assessed property taxes as being within the scope of *IFRIC 21, Levies*, given that property taxes are non-reciprocal charges imposed by a government, in accordance with the legislation and are based on property value. IFRIC 21 confirms that an entity shall recognize an asset if it has a prepaid levy but does not yet have a present obligation to pay that levy. The Company has determined that the liability to pay property taxes is an obligating event over future periods and therefore recognizes a prepaid property tax asset which is then amortized over the year.

**(k) Provisions**

Provisions are recognized when present (legal or constructive) obligations as a result of a past event will lead to a probable outflow of economic resources and amounts can be estimated reliably. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resources as a result of present obligations is considered remote, no liability is recognized.

**(l) Borrowing costs**

Borrowing costs include interest and other costs incurred in connection with borrowing of funds for operations or costs directly attributable to the acquisition. Borrowing costs associated with direct expenditures on investment properties under development and inventory properties are capitalized from the commencement of construction to the date of practical completion. The Company

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considers practical completion to have occurred when the inventory property or investment property is capable of operating in the manner intended by management, generally, this occurs upon the completion of construction and the receipt of all necessary occupancy and other material permits. Thereafter, borrowing costs are charged to the statement of income and comprehensive income.

**(m) Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects. Preferred shares are classified as equity if it is non-redeemable or redeemable only at the Company's option and dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval of the Company's shareholders.

**(n) Share-based payments**

The Company issues share-based awards to certain directors, officers, employees and consultants. The cost of equity-settled share-based transactions with directors, officers and employees is determined as the fair value of the options on the grant date using a fair value model. The cost of equity-settled share-based transactions with consultants is at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case, the cost is determined as the fair value of the options using a fair value model. The value of the stock options is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

The cost of cash-settled share-based transactions is measured at the fair value at the grant date, and expensed over the vesting period with the recognition of a corresponding liability. The liability is measured at each reporting date at fair value with changes in fair value recognized in net income.

**(o) Net income per share**

The basic income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted net income per common share is calculated by dividing the applicable net income by the sum of the weighted average number of common shares outstanding and all additional shares that would have been outstanding if potentially dilutive common shares had been issued during the year. The dilutive effect of preferred shares on net income per share is calculated by determining the proceeds for the exercise of such securities which are then assumed to be used to purchase common shares of the Company.

**(p) Joint arrangements**

Urbanfund determines whether a joint arrangement constitutes a joint operation based on the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations to the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

**(q) Non-current assets held for sale**

Non-current assets are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale, and it is highly probable to occur within one year. Non-current assets classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell and are presented separately from other assets on the Company's consolidated balance sheets.

**(r) Foreign currency translation**

Foreign currency denominated revenues and expenses are translated using average rates of exchange during the year. Foreign currency denominated monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. The resulting exchange gains and losses are recognized in net income.

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

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory at certain future dates. Urbanfund monitors the potential changes proposed by the IASB and analyzes the effect that the changes in standards may have on its operations.

Standards issued but not yet effective up to the date of issuance of these consolidated financial statements are described below. This

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description is of the standards and interpretations issued that the Company reasonably expects to be applicable at a future date. Urbanfund intends to adopt these standards when they become effective.

*IAS 1 Presentation to Financial Statements – Classification of Liabilities as Current or Non-Current*

This amendment was issued originally in January 2020, then subsequently adjusted and re-released on October 31, 2022 after stakeholder feedback was considered. The amendment is effective for annual reporting periods beginning on or after January 1, 2024.

The amendment:

- creates a new section on the concept of settlement for the purpose of classifying a liability as current versus non-current. A settlement refers to a transfer to the counterparty that results in the extinguishment of the liability that can either be in cash, another economic resource, or the entity's own equity instruments;
- clarifies that the classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least 12 months after the reporting period, and instead focuses on the rights to defer settlement that have substance and exist at the end of the reporting period; and
- clarifies that if the right to defer settlement is subject to the entity complying with specified conditions (i.e., covenants), this amendment will only apply to conditions that exist when compliance is measured on or before the reporting date.

Additionally, new presentation and disclosure requirements were added for debt and future covenants as a result of the amendment. The Company is in the process of assessing the impact of this amendment.

**4. INVESTMENT PROPERTIES**

As at,	December 31, 2022		December 31, 2021	
Income properties	\$	104,437,000	\$	101,537,000
	\$	104,437,000	\$	101,537,000

	Properties under			Total
	Income properties	development		
Balance, January 1, 2022	\$ 101,537,000	\$ -	\$	101,537,000
Capital expenditures	1,211,729	-		1,211,729
Fair value adjustment on investment properties	1,688,271	-		1,688,271
Balance, December 31, 2022	\$ 104,437,000	\$ -	\$	104,437,000

	Properties under			Total
	Income properties	development		
Balance, January 1, 2021	\$ 61,074,000	\$ 31,034,743	\$	92,108,743
Capital expenditures	3,796,871	-		3,796,871
Transfer to income properties	31,034,743	(31,034,743)		-
Fair value adjustment on investment properties	5,631,386	-		5,631,386
Balance, December 31, 2021	\$ 101,537,000	\$ -	\$	101,537,000

**Valuation methodology**

*Fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). Expectations about future improvements or modifications to be made to the investment property to reflect its highest and best use may be considered in the valuation. Investment properties are carried at fair value and the Company uses significant unobservable inputs to estimate fair value at each reporting date. Significant unobservable inputs are classified as level 3 inputs under IFRS (see note 18).

Quoted market prices in active markets are the best evidence of fair value and are used as a basis of fair value measurement, when available. When quoted market prices are not available, judgment is required to estimate the fair value based on the best information available, including prices for similar assets and the use of other valuation techniques. These valuation techniques are consistent with the objective of measuring fair value and involve a degree of estimation depending on the availability of market-based information.

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*Valuation approach and techniques*

Urbanfund's management team is responsible for determining the fair value of investment properties, including any co-owned properties, at each reporting date. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations. In order to substantiate management's valuation, approximately 38% of the income properties valuation was appraised by external valuation professionals throughout 2022 (approximately 41% in 2021). The management team, consisting of the senior management of the Company, including the President & Chief Executive Officer and Chief Financial Officer, estimates the fair value of each income property based on a valuation technique known as the direct capitalization income approach. The fair value is determined by applying a capitalization rate to stabilized net operating income ("SNOI").

- SNOI is based on budgeted rents and expenses and supported by the terms of any existing lease, other contracts or external evidence such as current market rents for similar properties, adjusted to incorporate allowances for estimated vacancy rates and capital expenditures based on current and expected future market conditions after expiry of any current lease and expected maintenance costs.
- The capitalization rate is based on the location and quality of the properties and takes into account market data at the valuation date.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and an opposite change in the long-term vacancy rate. Each of these inputs when increased or decreased, in isolation, would not result in a material change in the fair value of the Company's investment properties. As a result, management does not consider these variables as key inputs in estimating the fair value of an investment property.

As at December 31, 2022 and 2021, the capitalization rates used in valuing the commercial and residential properties are set out as follows:

	December 31, 2022			December 31, 2021		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Commercial properties	6.00%	7.75%	6.01%	5.75%	7.75%	5.80%
Residential properties	3.50%	4.50%	3.81%	3.50%	5.25%	3.87%

**Sensitivity**

An increase in SNOI would result in an increase to the estimated fair value of properties. The capitalization rates have an inverse relationship between the rate and the fair value, in other words, the lower the capitalization rate, the higher the estimated value. The following table is a sensitivity applied to the proportion of the Company's investment properties measured using the direct capitalization approach and therefore is sensitive to the changes in capitalization rates:

	Stabilized NOI -1%	Stabilized NOI as reported	Stabilized NOI +1%
<b>As at December 31, 2022</b>			
Capitalization rate, decrease, 0.25%	\$ 5,697,700	\$ 6,810,700	\$ 7,922,900
Capitalization rate, as reported	(1,044,000)	-	1,046,800
Capitalization rate, increase, 0.25%	(6,981,400)	(5,997,600)	(5,014,900)
<b>As at December 31, 2021</b>			
Capitalization rate, decrease, 0.25%	\$ 5,496,400	\$ 6,576,700	\$ 7,658,800
Capitalization rate, as reported	(1,017,300)	-	1,013,500
Capitalization rate, increase, 0.25%	(6,761,300)	(5,805,000)	(4,846,500)

**5. EQUITY ACCOUNTED INVESTMENTS**

As at,		December 31, 2022	December 31, 2021
Equity investees	Principal activity		
Highfield Park Residential Inc. (" <i>Highfield</i> ")	Owns and operates investment properties	20%	20%
Bellbrook Residential Inc. (" <i>Bellbrook</i> ")	Owns and operates investment properties	20%	20%
West Mic Mac Properties Inc. (" <i>Mic Mac</i> ")	Owns and operates investment properties	20%	20%

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The following table shows the changes in the aggregate carrying value of Urbanfund's equity accounted investments:

As at,	December 31,				December 31,			
	Highfield	Bellbrook	Mic Mac	2022 Total	Highfield	Bellbrook	Mic Mac	2021 Total
Balance, beginning of year	\$ 16,916,410	\$ 2,680,000	\$ 1,137,020	\$ 20,733,430	\$ 12,551,410	\$ 2,026,000	\$ 1,026,000	\$ 15,603,410
Contributions (Distributions)	(400,000)	-	-	(400,000)	(500,000)	-	20	(499,980)
Share of net income (loss)	526,000	(71,000)	558,000	1,013,000	4,865,000	654,000	111,000	5,630,000
Balance, end of year	\$ 17,042,410	\$ 2,609,000	\$ 1,695,020	\$ 21,346,430	\$ 16,916,410	\$ 2,680,000	\$ 1,137,020	\$ 20,733,430

The following tables presents the financial position of Urbanfund's equity accounted investees on a 100% basis:

As at,	December 31,				December 31,			
	Highfield	Bellbrook	Mic Mac	2022 Total	Highfield	Bellbrook	Mic Mac	2021 Total
Current assets	\$ 2,791,418	\$ 530,424	\$ 974,957	\$ 4,296,799	\$ 3,692,702	\$ 610,858	\$ 878,354	\$ 5,181,914
Non-current assets	152,130,000	35,040,000	19,350,000	206,520,000	152,660,000	36,060,000	17,000,001	205,720,001
Current liabilities	(4,316,405)	(825,516)	(585,842)	(5,727,763)	(4,150,481)	(1,034,862)	(546,791)	(5,732,134)
Non-current liabilities	(65,392,963)	(21,699,906)	(11,264,017)	(98,356,886)	(67,620,172)	(22,235,998)	(11,646,466)	(101,502,636)
Net assets	\$ 85,212,050	\$ 13,045,002	\$ 8,475,098	\$ 106,732,150	\$ 84,582,049	\$ 13,399,998	\$ 5,685,098	\$ 103,667,145
<b>Urbanfund's interest</b>	<b>\$ 17,042,410</b>	<b>\$ 2,609,000</b>	<b>\$ 1,695,020</b>	<b>\$ 21,346,430</b>	<b>\$ 16,916,410</b>	<b>\$ 2,680,000</b>	<b>\$ 1,137,020</b>	<b>\$ 20,733,430</b>

Years ended December 31	Highfield	Bellbrook	Mic Mac	2022 Total	Highfield	Bellbrook	Mic Mac	2021 Total
Revenue	\$ 14,312,000	\$ 2,612,000	\$ 1,541,000	\$ 18,465,000	\$ 13,806,000	\$ 2,522,000	\$ 1,463,000	\$ 17,791,000
Operating expenses	(7,507,000)	(1,171,000)	(725,000)	(9,403,000)	(6,731,000)	(1,051,000)	(632,000)	(8,414,000)
Interest expense	(2,539,000)	(589,000)	(244,000)	(3,372,000)	(2,667,000)	(608,000)	(267,000)	(3,542,000)
Fair value adjustment on investment properties	(1,635,000)	(1,209,000)	2,218,000	(626,000)	19,915,000	2,407,000	(7,000)	22,315,000
Net income	\$ 2,631,000	\$ (357,000)	\$ 2,790,000	\$ 5,064,000	\$ 24,323,000	\$ 3,270,000	\$ 557,000	\$ 28,150,000
<b>Income from equity accounted investments</b>	<b>\$ 526,000</b>	<b>\$ (71,000)</b>	<b>\$ 558,000</b>	<b>\$ 1,013,000</b>	<b>\$ 4,865,000</b>	<b>\$ 654,000</b>	<b>\$ 111,000</b>	<b>\$ 5,630,000</b>

## 6. INVESTMENT IN REAL ESTATE PROJECT

In September 2009, the Company invested \$2,000,000 in a 10% interest in private partnership, which in turn acquired a 33.3% interest in the One Bloor Street East, Toronto, Ontario real estate project. Throughout the course of investment, the Company's capital contribution of \$2,000,000 has been fully returned, and an additional profit distribution of \$4,616,667 has been received to date.

## 7. INVENTORY PROPERTIES

In January 2022, the Company, together with Takol Real Estate Inc. and two private real estate investors, formed a joint operation which acquired an industrial complex located at 67-69 Westmore Drive, Etobicoke, Ontario. The purchase price was \$23,425,000 plus customary closing costs, funded by a \$17,568,750 mortgage and \$5,856,250 in equity contributions. The joint operation intends to renovate, change to condominium title and sell units in the complex. Urbanfund holds a 40% interest in this joint operation.

In December 2022, the Company, together with its joint operation partners, Takol Real Estate Inc. and 2074-84 Steeles Avenue East Inc., sold all units within the 2074, 2080 and 2084 Steeles Avenue East, Brampton, Ontario project and received a total distribution of \$7,250,000, which included a return of capital of \$2,375,000.

The following table shows the changes in the aggregate carrying value of Urbanfund's inventory property:

As at,	December 31, 2022	December 31, 2021
Balance, beginning of year	\$ 9,288,182	\$ 8,336,226
Acquisition of inventory property	9,790,000	-
Development expenditures	1,592,115	951,956
Disposition of inventory properties	(10,150,173)	-
Balance, end of year	\$ 10,520,124	\$ 9,288,182

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**8. RECEIVABLES AND OTHER ASSETS**

The following table details Urbanfund's receivables and other assets:

As at	Note	December 31, 2022	December 31, 2021
Accounts receivable		\$ 784,218	\$ 369,749
Refundable deposits		152,495	1,089,985
Investment in private company (2,083,333 common shares)		250,000	250,000
Amounts receivable	17	128,087	128,087
Prepaid expenses		164,135	48,337
		\$ 1,478,935	\$ 1,886,158

**9. JOINT OPERATIONS**

The following table details the Company's ownership interest in joint arrangements:

As at,		December 31, 2022	December 31, 2021
Joint operation	Principal activity		
La Corporation Headway ("Quebec Headway")	Own and operate investment properties	10%	10%
Alfred Kuehne <sup>(i)</sup>	Develop and sale of inventory property	50%	50%
Steeles Avenue East ("Steelton")	Develop and sale of inventory property	25%	25%
Westmore Drive ("Westmore")	Develop and sale of inventory property	40%	-

(i) The inventory properties in Alfred Kuehne were sold in 2020.

The following table presents the financial results of Urbanfund's joint operations:

As at December 31, 2022	Quebec Headway	Alfred Kuehne	Steelton	Westmore	Total
<b>Current assets</b>	\$ 377,877	\$ 6,957	\$ 406,319	\$ 205,021	\$ 996,174
<b>Non-current assets</b>	15,597,000	-	-	10,520,124	26,117,124
<b>Current liabilities</b>	(316,639)	(1,126)	(49,143)	(9,691)	(376,599)
<b>Non-current liabilities</b>	(5,551,818)	-	-	(7,705,814)	(13,257,632)
<b>Net assets</b>	\$ 10,106,420	\$ 5,831	\$ 357,176	\$ 3,009,640	\$ 13,479,067

As at December 31, 2021	Quebec Headway	Alfred Kuehne	Steelton	Westmore	Total
Current assets	\$ 470,911	\$ 10,509	\$ 9,552,364	\$ -	\$ 10,033,784
Non-current assets	14,437,000	-	-	-	14,437,000
Current liabilities	(295,684)	4,463	(232,602)	-	(523,823)
Non-current liabilities	(5,783,751)	-	(6,837,674)	-	(12,621,425)
Net assets	\$ 8,828,476	\$ 14,972	\$ 2,482,088	\$ -	\$ 11,325,536

Year ended December 31, 2022	Quebec Headway	Alfred Kuehne	Steelton	Westmore	Total
<b>Revenue</b>	\$ 1,601,396	\$ -	\$ 15,960,166	\$ 409,979	\$ 17,971,541
<b>Expenses</b>	(972,471)	(1,420)	(10,509,686)	(146,047)	(11,629,624)
<b>Fair value gains (losses)</b>	810,240	-	-	-	810,240
<b>Interest expense</b>	(169,883)	15	(325,391)	(374,292)	(869,551)
<b>Net income (loss)</b>	\$ 1,269,282	\$ (1,405)	\$ 5,125,089	\$ (110,360)	\$ 6,282,606

Year ended December 31, 2021	Quebec Headway	Alfred Kuehne	Steelton	Westmore	Total
Revenue	\$ 1,582,930	\$ -	\$ 606,577	\$ -	\$ 2,189,507
Expenses	(883,528)	(3,097)	(305,369)	-	(1,191,994)
Fair value gains	1,199,710	-	-	-	1,199,710
Interest expense	(71,449)	-	(245,110)	-	(316,559)
Net income (loss)	\$ 1,827,663	\$ (3,097)	\$ 56,098	\$ -	\$ 1,880,664

**10. LIMITED PARTNERSHIP**

The Company entered into a limited partnership agreement as the limited partner of Weber Investments LP ("Weber LP"), to continue its expansion of real estate activities in the Kitchener, Ontario area. Urbanfund has control over Weber LP, and therefore has consolidated the financial results, reference note 2(c) for further details.

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Distributions by Weber LP are allocated to the limited partner who has contributed capital in excess of their pro-rata share such that each limited partner achieves an annualized internal rate of return of 6% on their excess contribution. Thereafter, Weber LP's distributions will be 86.67% to Urbanfund and 13.33% to the non-controlling interests. An officer of Urbanfund is also an officer of the general partner.

The following table presents the financial results of Weber LP:

As at December 31,	2022	2021
Current assets	\$ 1,848,375	\$ 2,054,279
Non-current assets	39,160,000	37,750,000
Current liabilities	(952,823)	(1,086,820)
Non-current liabilities	(30,262,946)	(30,733,315)
Net assets	\$ 9,792,606	\$ 7,984,144

  

Years ended December 31,	2022	2021
Rental revenue	\$ 2,344,524	\$ 771,564
Rental expenses	(768,146)	(462,247)
General and administrative	(78,444)	(214,454)
Financing costs	(815,532)	(613,362)
Fair value adjustments on investment properties	1,126,660	3,311,037
Net income	\$ 1,809,062	\$ 2,792,538

**11. MORTGAGES PAYABLE**

As at	December 31, 2022	December 31, 2021
Current	\$ 12,765,498	\$ 10,384,033
Non-current	52,307,831	55,393,114
	\$ 65,073,329	\$ 65,777,147

Mortgages payable are secured by investment properties and bear interest at various fixed rates with payment terms either monthly blended principal and interest payments ("MBPI") or interest only ("IO").

As at				December 31, 2022	December 31, 2021
Property name(s)	Payment Terms	Maturity Date	Interest Rate		
Quebec Headway, Assumed Mortgages <sup>(iv)</sup>	MBPI	(i)	(i)	\$ 5,800,623	\$ 6,027,244
305 North Front Centre	MBPI	October 5, 2022 <sup>(iii)</sup>	3.95%	8,779,057	9,067,063
Quebec Headway, Vendor Take Back	MBPI	May 1, 2023	4.50%	1,935,492	2,078,346
476-480 Wonderland Road	MBPI	June 5, 2023	4.35%	913,636	979,614
67-69 Westmore Drive <sup>(iv)</sup>	IO	January 20, 2025	Prime + 1.25%	7,027,500	-
67-69 Westmore Drive <sup>(iv)</sup>	IO	July 18, 2025	Prime + 1.25%	698,324	-
3080-3094 Don Mills & 200 Van Horne	MBPI	March 1, 2025	2.52%	9,293,694	9,716,786
63 Scott Street <sup>(ii), (iv)</sup>	MBPI	March 1, 2031	2.65%	30,733,316	31,191,381
2074, 2080, 2084 Steeles Avenue East	IO	June 30, 2023	Prime + 1.25%	-	6,000,000
2074, 2080, 2084 Steeles Avenue East	IO	May 12, 2024	Prime + 1.25%	-	850,668
Mortgages payable				\$ 65,181,642	\$ 65,911,102
Less: Unamortized mortgage financing costs				(108,313)	(133,955)
				\$ 65,073,329	\$ 65,777,147

- i) Quebec Headway assumed mortgages payable are made up of 8 mortgages outstanding on the income properties of Quebec Headway. The weighted average remaining life is 3.52 years (December 31, 2021 – 4.51 years) and bear a weighted average interest rate of 2.62% (December 31, 2021 – 2.61%).
- ii) Lands on 51,55,59 Scott Street and 59,61,65 Weber Street were amalgamated to develop a residential building subsequently renamed as 63 Scott Street.
- iii) Subsequent to year end, the Company has refinanced the mortgage for \$10,000,000, bearing interest at 5.55% per annum.
- iv) The Company's policy is to provide financial guarantee only for subsidiaries' liabilities. As at December 31, 2022 and 2021, the Company has issued guarantees to certain banks in respect of mortgages granted to certain subsidiaries.

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Minimum principal payments over the following years are as follows:

2023	\$	12,765,498
2024		1,880,295
2025		16,819,862
2026		4,940,051
2027		522,509
Thereafter		28,253,427
		65,181,642
Unamortized mortgage financing costs		(108,313)
	\$	65,073,329

**12. INCOME TAXES**

**Income tax expense**

The following table reconciles the income taxes calculated at the combined Canadian federal and provincial tax rates with the income tax expense as recognized in the consolidated statements of income and comprehensive income.

Years ended December 31,	2022	2021
Income before income taxes	\$ 9,692,503	\$ 12,386,266
Statutory rate	26.5%	26.5%
Expected income tax expense	2,568,513	3,282,360
<i>Increase (decrease) in income tax expense due to:</i>		
Income from equity accounted investments	(134,000)	(745,975)
Investment properties	(262,000)	(715,205)
Profit related to investment in real estate project	-	(1,538)
Non-deductible items	27	40
Non-controlling interests	(89,348)	(109,688)
Other	24,808	(994)
Total income tax expense	\$ 2,108,000	\$ 1,709,000

Years ended December 31,	2022	2021
Current income tax expense (recovery)	\$ 1,217,000	\$ (419,000)
Deferred income tax expense	891,000	2,128,000
Income tax expense	\$ 2,108,000	\$ 1,709,000

**Deferred income taxes**

The temporary differences that give rise to deferred income tax assets and liabilities are presented below:

As at December 31,	2022	2021
Investment properties	\$ (7,947,000)	\$ (7,179,000)
Equity accounted investments	(1,587,000)	(1,453,000)
Deferred financing costs	(17,000)	(28,000)
Deferred tax liabilities, net	\$ (9,551,000)	\$ (8,660,000)

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**13. EQUITY**

**Authorized**

20,000,000	First preferred, Series A shares, non-voting, non-participating, each share is convertible to one common share for no additional consideration unless, at the date of conversion, the aggregate number of common shares held by the directors and officers of Urbanfund, and related parties to such individuals, would exceed 80% of the issued and outstanding common shares, in which case the shares cannot be converted.
Unlimited	First preferred shares, issuable in series with rights, privileges, restrictions and conditions determined by the directors and officers of Urbanfund at the time of issuance.
Unlimited	Second preferred shares, issuable in series with rights, privileges, restrictions and conditions determined by the directors and officers of Urbanfund at the time of issuance.
Unlimited	Common shares.

**Basic and diluted income per share**

Basic and diluted income per share has been calculated as follows:

Years ended December 31,	2022	2021
<b>Basic income per share</b>		
Net income attributable to shareholders	\$ 7,343,295	\$ 10,304,928
Weighted average common shares outstanding	51,444,726	50,438,531
<b>Basic income per share</b>	<b>\$ 0.143</b>	<b>\$ 0.204</b>
<b>Diluted income per share</b>		
Net income attributable to shareholders	\$ 7,343,295	\$ 10,304,928
Weighted average common shares outstanding	51,444,726	50,438,531
Dilutive effect of preferred shares <sup>(i)</sup>	7,425,000	7,425,000
Weighted average common shares outstanding, diluted	58,869,726	57,863,531
<b>Diluted income per share</b>	<b>\$ 0.125</b>	<b>\$ 0.178</b>

(i) First preferred, Series A shares

**14. STOCK OPTIONS**

The Company has an established stock option plan for the benefit of its employees, directors, officers and consultants. The maximum number of options that may be granted under the plan cannot exceed 10% of the number of issued and outstanding common shares. Options granted under the stock option plan have a maximum of five years and vest over three years from the grant date. The exercise price of the options is determined by the Board of Directors and must not be less than the closing price of Urbanfund's common shares on the TSX Venture Exchange on the last trading day prior to the date of the grant. As at December 31, 2022 and 2021, there were no stock options issued, outstanding or exercised.

**15. DIVIDENDS PAID AND DIVIDEND REINVESTMENT PLAN**

On June 17, 2015, Urbanfund adopted a dividend policy (the "Dividend Policy") and implemented a dividend reinvestment plan for the holders of common shares and Series A preferred shares (collectively, the "DRIP"). The DRIP is a voluntary program permitting holders of Series A, first preferred shares and common shares to automatically and without charge, reinvest dividends into additional common shares at a specified discount to the volume-weighted average market price calculated as the date of payment.

On June 22, 2021, Urbanfund amended its Dividend Policy to increase the annual dividend rate to \$0.05 per common share and \$0.05 per Series A preferred share, or 67% increase from the previous year, payable quarterly in the amount of \$0.0125 per common share and Series A preferred share.

For the year ended December 31, 2022, Urbanfund issued 826,326 common shares valued at \$795,823 to participants enrolled in the DRIP (December 31, 2021 – 1,635,510 and \$1,404,584).

For the year ended December 31, 2022, total dividends paid in cash during the year was \$2,139,003 (December 31, 2021 - \$900,565). As at December 31, 2022, dividends payable was \$740,497 (December 31, 2021 - \$730,168).

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**16. REVENUE**

**Rental revenue**

Years ended December 31,	2022	2021
Base rent	\$ 7,225,097	\$ 5,357,752
Realty tax recoveries	365,966	351,181
Common area maintenance recoveries	648,926	512,492
Percentage rent	54,185	62,985
Miscellaneous revenue	190,754	166,572
	<b>\$ 8,484,928</b>	<b>\$ 6,450,982</b>

Future minimum rent payments receivable under non-cancellable operating leases are as follows:

As at December 31,	2022
1 year	\$ 5,462,575
2 years	707,381
3 years	651,761
4 years	574,778
Over 5 years	1,479,471
	<b>\$ 8,875,966</b>

**Revenue from Contracts with Customers**

Revenue from contracts with customers include inventory property sales, and common area maintenance recoveries and parking revenue that are included in rental revenue:

Years ended December 31,	2022	2021
Inventory property sales	\$ 15,321,522	-
Common area maintenance recoveries	648,926	512,492
Parking revenue	98,015	69,240
	<b>\$ 16,068,463</b>	<b>\$ 581,732</b>

The revenue from contracts with customers are recognized either at a point in time or over time, as indicated by the following table:

Year ended December 31, 2022	Timing of recognition		
	Total	At a point in time	Over time
Inventory property sales	\$ 15,321,522	\$ 15,321,522	-
Common area maintenance recoveries	648,926	-	648,926
Parking revenue	98,015	-	98,015
<b>Revenue with contracts from customers</b>	<b>\$ 16,068,463</b>	<b>\$ 15,321,522</b>	<b>\$ 746,941</b>

Year ended December 31, 2021	Timing of recognition		
	Total	At a point in time	Over time
Common area maintenance recoveries	\$ 512,492	-	\$ 512,492
Parking revenue	69,240	-	69,240
<b>Revenue with contracts from customers</b>	<b>\$ 581,732</b>	<b>\$ -</b>	<b>\$ 581,732</b>

**Inventory property sales**

The following table identifies estimated revenue from inventory property sales to be recognized in future periods at the point in time when purchasers take possession of their respective units based on condominiums pre-sold as of December 31, 2022:

As at December 31,	2022
Less than 12 months	\$ -
Greater than 1 year	4,894,152
	<b>\$ 4,894,152</b>

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**17. RELATED PARTY BALANCES AND TRANSACTIONS**

Included in amounts receivable within receivables and other assets (note 8) is \$128,087 (December 31, 2021 - \$128,087) of amounts due from a corporation that is also a shareholder of the Company. For the year ended December 31, 2022, Urbanfund issued dividends of \$1,656,892 (December 31, 2021 - \$1,291,378) to this shareholder.

Urbanfund is also contracted to this shareholder for property management fees and cost reimbursements as follows:

Years ended December 31,		<b>2022</b>		2021
<i>Property management fees, included in:</i>				
Rental expenses	\$	<b>112,325</b>	\$	109,063
Income from equity accounted investments, net		<b>126,989</b>		121,420
Accounts payable and accrued liabilities		<b>56,076</b>		54,126
<i>Management cost reimbursements, included in:</i>				
Rental expenses	\$	<b>219,248</b>	\$	207,323
Income from equity accounted investments, net		<b>262,366</b>		248,563
Accounts payable and accrued liabilities		<b>53,103</b>		53,611

The marketable securities owned by Urbanfund are held at a brokerage that is partially owned, directly or indirectly, by common shareholders who are also directors of the Company. At December 31, 2022, there was \$23,579 (December 31, 2021 - \$22,679) in cash held by the brokerage.

There has been no compensation paid to key management personnel during the years ended December 31, 2022 and 2021.

**18. FAIR VALUE MEASUREMENT**

The fair value hierarchy of assets and liabilities measured at fair value on a recurring basis in the consolidated balance sheets are as follows:

As at	Note	December 31, 2022			December 31, 2021		
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<i>Assets measured at fair value:</i>							
Income properties	4	\$ -	\$ -	\$ 104,437,000	\$ -	\$ -	\$ 101,537,000
Total assets measured at fair value		\$ -	\$ -	\$ 104,437,000	\$ -	\$ -	\$ 101,537,000

For assets measured at fair value as at December 31, 2022 and December 31, 2021, there were no transfers between Level 1, Level 2 and Level 3.

*Receivables and other assets, tenant deposits, accounts payable and accrued liabilities*

The carrying value of receivables and other assets, tenant deposits, accounts payable and accrued liabilities are considered to be representative of their fair values due to their short-term nature.

*Investment in private company*

The fair value of the investment in private company included in receivables and other assets (note 8) are not reasonably determinable, as there is no active market for the investments, therefore are recorded at cost.

*Mortgages payable*

The fair values of the mortgages payable are Level 2 and approximate \$63,892,000 (December 31, 2021 - \$64,223,000) based on the interest rates obtainable for similar financial instruments in the current market place.

**19. RISK MANAGEMENT**

**Financial risk management objectives and policies**

The Company's activity exposes it to a variety of financial risks, including interest rate risk, credit risk and liquidity risk. These financial risks are managed by the Company under policies approved by the Board of Directors. The principal financial risks are actively

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managed by the Company's finance department, within Board approved policies and guidelines. On an ongoing basis, the finance department actively monitors market conditions with a view to minimizing the exposure of the Company to changing market factors, while at the same time limiting the funding costs of the Company.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The duration and impact of the COVID-19 pandemic on the Company is unknown at this time but has resulted in the federal and provincial governments 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 business globally resulting in an economic slowdown. Uncertain economic conditions resulting from the COVID-19 outbreak may, in the short or long term, materially adversely impact: the Company's tenants, and their ability to pay rent (credit risk); and/or the debt and equity market and Company's ability to access debt and/or capital on acceptable terms, or at all (liquidity risk), all of which could materially adversely affect the Company's operations and financial performance.

**Interest rate risk**

Urbanfund is exposed to interest rate risks on its borrowings and could be adversely affected if it were unable to obtain cost-effective financing. The Company's debt is financed at fixed and variable rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. A change in the interest rate by 1% would result in an increase or decrease in the fair value of mortgages by \$435,412 (December 31, 2021 - \$561,274).

**Credit risk**

Credit risk arises from the possibility that Urbanfund's tenants may experience financial difficulty and be unable to fulfil their lease commitments. The Company mitigates this risk of credit loss by diversifying its tenant mix and by limiting its exposure to any one tenant. In addition, the Company obtains security deposits from tenants. The Company mitigates its exposure to credit loss by placing its cash and short-term investments with major financial institutions.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations as they become due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

Since inception, the Company has financed its cash requirements primarily through issuances of securities, short-term borrowings and issuances of long-term debt. The Company controls liquidity risk through management of working capital, cash flows and the availability and sourcing of financing. Financial liabilities are due as follows:

	Note	< 1 year	1-2 years	3-5 years	>5 years
Accounts payable and accrued liabilities		\$ 1,611,797	\$ -	\$ -	\$ -
Interest payable		1,883,238	1,735,708	2,588,537	2,346,104
Mortgages payable	11	12,765,498	1,880,295	22,282,422	28,253,427

**20. CAPITAL MANAGEMENT**

Urbanfund defines capital as its equity. The Company's objective when managing capital is: (i) to safeguard the ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders; and (ii) to provide adequate return to shareholders by obtaining an appropriate amount of debt commensurate with the level of risk, to reduce after-tax cost of capital.

The Company sets the amount of capital in proportion to the risk. Urbanfund manages capital structure and makes adjustments in light of changes in economic conditions and the characteristic risk of underlying assets. In order to maintain or adjust capital structure, the Company may repurchase shares, return capital to shareholders, issue new shares or sell assets to reduce debt. Urbanfund's objective is met by retaining adequate liquidity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. There have been no changes to the Company's capital management policies during the years ended December 31, 2022 and 2021.

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**21. SEGMENTED INFORMATION**

Urbanfund, primarily owns, develops, manages and operates residential and commercial sector properties in Canada. In measuring its performance of its residential and commercial properties, the Company does not distinguish or group its operations on a geographical or any other basis and, accordingly has a single reportable operating segment. Management has applied judgment by aggregating its operating segments into one single reportable segment for disclosure purposes. Such judgment considers the nature of property operations, tenant mix and an expectation that operating segments within a reportable segment have similar long-term economic characteristics. The Company's Chief Executive Officer is the chief operating decision maker and regularly reviews Urbanfund's operations and performance on a consolidated basis. Urbanfund does not have any single major tenant or any significant groups of tenants.

**22. SUPPLEMENTAL CASH FLOW INFORMATION**

Years ended December 31,	2022	2021
Interest received	\$ 102,374	\$ 28,241
Interest paid	(2,370,382)	(1,660,570)
Dividends paid:		
Dividends declared during the year	\$ (2,135,881)	(1,365,117)
Dividends declared in the prior year paid in the current year	(537,695)	(73,144)
Dividends declared in the current year paid in next year	534,573	537,696
Dividends paid	\$ (2,139,003)	\$ (900,565)

The following provides a reconciliation of cash flows arising from financing activities relating to mortgages payable:

Years ended December 31,	2022	2021
Balance, beginning of year	\$ 65,911,102	\$ 54,707,015
Cash flows		
Proceeds from mortgage financing	723,966	36,565,447
Proceeds from financing of inventory properties	7,027,500	-
Repayments from sale of inventory properties	(6,850,668)	-
Repayments of mortgage principals	(1,604,616)	(25,336,705)
Non-cash changes:		
Deferred financing costs	(25,642)	(24,655)
Balance, end of year	\$ 65,181,642	\$ 65,911,102

**23. ADJUSTMENTS FOR OTHER NON-CASH WORKING CAPITAL ITEMS**

Years ended December 31,	2022	2021
Receivables and other assets	\$ 407,223	\$ (373,290)
Accounts payable and accrued liabilities	(266,166)	(2,629,653)
Income taxes	1,609,428	(1,043,351)
Tenant deposits	(12,956)	260,477
Deferred financing costs and other	102,374	28,421
Net change in other working capital items	\$ 1,839,903	\$ (3,757,396)

**24. CONTINGENCIES AND COMMITMENTS**

The Company may have various other contractual obligations in the normal course of operations with tenants, supplies and former employees. The Company is not contingently liable with respect to litigation, claims and environmental matters, including those that could result in mandatory damages or other relief. Any expected settlement of claims in excess of amounts recorded will be charged to the consolidated statements of income and comprehensive income as and when such determination is made. Management believes that adequate provisions have been recorded in the accounts where required.

**URBANFUND CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR YEARS ENDED DECEMBER 31, 2022 AND 2021**  
(In Canadian dollars)

**25. SUBSEQUENT EVENTS**

In January 2023, the Company received a distribution of profit of \$128,000 from the One Bloor Street East, Toronto real estate project, bringing the total profit distribution to date to \$4,744,667.

In February 2023, the Company refinanced the mortgage for 305 North Front Centre for \$10,000,000, with a five year term, bearing interest at 5.55% per annum.

In April 2023, Urbanfund invested \$1,870,000 into a limited partnership that holds 50% interest in the purchase of an industrial complex located on 1040 Martin Grove Road, Toronto, Ontario.