FinDev Canada

2019 Financial Statements

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Independent auditor's report

To the Directors of **Development Finance Institute Canada**

Opinion

We have audited the accompanying financial statements of Development Finance Institute Canada ("DFIC"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DFIC as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 Financial Statements section of our report. We are independent of DFIC in accordance with the ethical requirements that are relevant to our audit of the 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.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing DFIC'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 DFIC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing DFIC financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 DFIC 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 DFIC's ability to continue as a going concern. 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 DFIC to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Ernst & Young LLP

Chartered Professional Accountants

Ottawa, Canada
April 14, 2020

Chartered Professional Accountants
Licensed Public Accountants

FinDev Canada

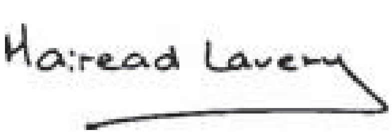
STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

(in thousands of Canadian dollars)	Notes	**2019**	2018
Assets			
Cash		**3,657**	2,733
Marketable securities	3	**105,991**	77,367
Derivative instruments	8	**1,400**	-
Loans receivable	4	**21,977**	-
Allowance for losses on loans	4	**(1,743)**	-
Investments	5	**51,315**	15,971
Other assets		**1,705**	549
Property, plant and equipment	6	**562**	566
Right-of-use asset	7	**1,663**	-
Total Assets		**$186,527**	$97,186
Liabilities and Equity			
Accounts payable and other credits		**1,800**	990
Owing to Export Development Canada	17	**1,104**	6,194
Deferred revenue	9	**369**	-
Derivative instruments	8	**-**	321
Lease liability	7	**1,686**	-
Total Liabilities		**4,959**	7,505
Equity (Deficit)			
Share capital	10	**200,000**	100,000
Deficit		**(18,432)**	(10,319)
Total Equity		**181,568**	89,681
Total Liabilities and Equity		**$186,527**	$97,186

The accompanying notes are an integral part of these financial statements.

These financial statements were approved for issuance by the Board of Directors on April 14, 2020.



Mairead Lavery
Director

Paul Lamontagne
Director

FinDev Canada

STATEMENT OF COMPREHENSIVE LOSS

FOR THE YEAR ENDED DECEMBER 31

(in thousands of Canadian dollars)	Notes	**2019**	2018
Financing and Investment Revenue			
Loan	4	**486**	-
Marketable securities	3	**1,336**	1,293
Investments		**31**	-
Total financing and investment revenue		**1,853**	1,293
Interest expense	8	**178**	100
Transaction costs		**74**	432
Net Financing and Investment Income		**1,601**	761
Donor Contributions	15	**523**	-
Other Income (Expenses)	16	**1,691**	(517)
Administrative Expenses			
Salaries and benefits		**4,316**	2,034
Administration costs	17	**1,535**	2,240
Professional services		**1,135**	1,916
Travel, hospitality and conferences		**851**	477
Impact project		**646**	-
Marketing and communications		**477**	743
Other		**1,209**	1,016
		10,169	8,426
Loss before Provision		**(6,354)**	(8,182)
Provision for Credit Losses	4	**1,746**	-
Net Loss		**(8,100)**	(8,182)
Other comprehensive income		**-**	-
Comprehensive Loss		**$(8,100)**	$(8,182)

The accompanying notes are an integral part of these financial statements.

FinDev Canada

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31

(in thousands of Canadian dollars)	Notes	**2019**	2018
Share Capital			
Balance beginning of year		**100,000**	-
Shares issued	10	**100,000**	100,00
Balance end of year		**200,000**	100,00
Deficit			
Balance beginning of year		**(10,319)**	(2,137)
IFRS 16 transition adjustment	2	**(13)**	-
Revised balance beginning of year		**(10,332)**	(2,137)
Comprehensive loss		**(8,100)**	(8,182)
Balance end of year		**(18,432)**	(10,319)
Total Equity End of Year		**$181,568**	$89,681

The accompanying notes are an integral part of these financial statements.

FinDev Canada

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

(in thousands of Canadian dollars)	**2019**	2018
Cash Flows used in Operating Activities		
Net Loss	**(8,100)**	(8,182)
Adjustments to determine net cash from (used in) operating activities		
Provision for credit losses	**1,746**	-
Depreciation	**135**	58
Changes in operating assets and liabilities		
Change in fair value of investments and accrued interest on loans receivable	**(2,161)**	448
Change in accrued interest and fair value of marketable securities	**59**	(59)
Change in derivative instruments	**345**	(532)
Other	**292**	230
Loan disbursements	**(22,280)**	-
Net cash used in operating activities	**(29,964)**	(8,037)
Cash Flows used in Investing Activities		
Disbursement for investments	**(35,185)**	(15,358)
Purchases of marketable securities	**(29,130)**	(83,416)
Sales/maturities of marketable securities	**57,615**	54,931
Purchases of property, plant, and equipment	**(131)**	(624)
Net cash used in investing activities	**(6,831)**	(44,467)
Cash Flows from Financing Activities		
Increase (decrease) in amount due to EDC	**(5,077)**	4,045
Issuance of share capital	**100,000**	100,000
Net cash from financing activities	**94,923**	104,045
Effect of exchange rate changes on cash and cash equivalents	**(36)**	15
Net increase in cash and cash equivalents	**58,092**	$51,556
Cash and cash equivalents		
Beginning of year	**51,556**	-
End of year	**$109,648**	$51,556
Cash and cash equivalents are comprised of:		
Cash	**3,657**	2,733
Cash equivalents included within marketable securities	**105,991**	48,823
	$109,648	$51,556

The accompanying notes are an integral part of these financial statements.

1. Corporate Mandate

Development Finance Institute Canada (DFIC) Inc. was incorporated in September 2017 as a wholly-owned subsidiary of Export Development Canada ("EDC") for the purpose of providing, directly or indirectly, development financing and other forms of development support in a manner that is consistent with Canada's international development priorities. The corporation operates under the trade name FinDev Canada. As a subsidiary of EDC, FinDev Canada is subject to the *Export Development Act* and the *Financial Administration Act.*

FinDev Canada's principal place of business is located at 1 Place Ville Marie #2950, Montreal, Quebec.

2. Summary of Significant Accounting Policies

Basis of Presentation

FinDev Canada's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Application of New and Revised International Financial Reporting Standards

(A) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED DURING THE YEAR

The following standard issued by the IASB was adopted during the year:

IFRS 16 – Leases – In January 2016, the IASB released the new leases standard requiring lessees to recognize assets and liabilities for the rights and obligations created by leases.

We applied the modified retrospective approach and recognized the measurement difference of $13 thousand through an adjustment to opening retained earnings. As such, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. We have elected to apply the practical expedient not to recognize leases of low-value assets or leases with a term of 12 months or less. Lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term. We have also elected not to include initial direct costs from the measurement of the right-of-use assets at date of initial application and we have used hindsight when determining the lease term. IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. We have not used this practical expedient.

Upon transition, we recognized a right-of-use asset of $1.9 million and a lease liability of $1.9 million based on the present value of the remaining lease payments. We discounted these payments using the incremental borrowing rate as at January 1, 2019. Our weighted average incremental borrowing rate as at January 1, 2019 was 2.33%.

(B) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET IN EFFECT

The following standards and amendments issued by the IASB have been assessed as having a possible effect on FinDev Canada in the future. FinDev Canada is currently assessing the impact of these standards and amendments on its consolidated financial statements:

IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors – In October 2018, the IASB issued amendments to IAS 1 and IAS 8 regarding the definition of materiality. The amendments clarify the definition of material, explain how the definition should be applied and improve the explanations accompanying the definition. The amendments also ensure that the definition is consistent across all IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2020 with early application permitted. We do not anticipate that the clarification to the definition of materiality will result in any changes to the financial statements.

The Conceptual Framework for Financial Reporting – In March 2018, the IASB issued the revised Conceptual Framework, which sets out the fundamental concepts for financial reporting to ensure consistency in standard setting decisions and that similar transactions are treated in a similar way, in order to provide useful information to users of financial statements. The Conceptual Framework is effective for annual periods beginning on or after January 1, 2020 with early application permitted. We do not anticipate the Conceptual Framework will result in any significant change to the financial statements.

Use of Estimates and Key Judgements

To prepare our financial statements in accordance with IFRS, it is necessary for management to exercise judgment and make use of estimates and assumptions, in applying certain accounting policies. We utilize current market data, and other information available to us as at the date of the financial statements in arriving at our decisions. We have established procedures to ensure that the process for determining our estimates and assumptions is well-controlled and occurs in an appropriate and systematic manner.

Uncertainty is inherent in the use of estimates and assumptions and as a result, actual results may vary significantly from management's estimates. Uncertainty arises, in part, from the use of data at a point in time to establish our assumptions. While this data may be the most reliable basis available on which to base our assumptions, economic events may occur subsequently that render previous assumptions invalid and cause a material change to actual results.

Management has made significant use of estimates and exercised judgment as described in the following paragraphs.

LOANS AND ALLOWANCE FOR CREDIT LOSSES

The allowance for losses on loans represents management's best estimate of expected credit losses. These estimates are reviewed periodically during the year and in detail as at the date of the financial statements.

The purpose of the allowance is to provide an estimate of expected credit losses inherent in the loan portfolio. Estimation is inherent in the assessment of forward-looking probabilities of default, loss severity in the event of default (also referred to as loss given default), review of credit quality and the value of any collateral. Management also considers the impact of forward-looking macroeconomic factors including current and future economic events, industry trends and risk concentrations on the portfolio and the required allowance.

Allowances are established on an individual basis for loans that management has determined to be impaired and/or for which losses have been incurred. When an obligor is considered impaired, we reduce the carrying value of the loan to its net realizable value. Management is required to make a number of estimates including the timing and amount of future cash flows and the residual values of the underlying collateral.

Management judgment is used in the expected credit loss (ECL) calculation as it pertains to the application of forward-looking information to support future events and historical behaviour patterns in determining the expected life of a financial instrument. Judgment is also used in assessing significant increase in credit risk.

Fair Value of Financial Instruments

The majority of our financial instruments are recognized on our statement of financial position at their fair value. These financial instruments include marketable securities, derivative instruments, and investments. Fair value is defined as 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.

Financial instruments are categorized into one of three levels based on whether the techniques employed to value the instruments use observable or unobservable market inputs. Financial instruments categorized as Level 1 are valued using quoted market prices, thus minimal estimation is required. Those instruments categorized as Level 2 and 3 require the use of greater estimation and judgment as they may include inputs such as discount rates, yield curves and other inputs into our models which may not be based on observable market data. Refer to Note 3 and 5 for further details.

Our fund investments are considered structured entities. A structured entity (SE) is defined as an entity created to accomplish a narrow and well-defined objective. Management exercises judgment in determining whether FinDev Canada has control of structured entities. When FinDev Canada has power over a SE and is exposed or has rights to variable returns from its involvement with a SE and has the ability to affect those returns through its power over the SE, FinDev Canada is considered to have control over the SE which must be consolidated within our financial statements. When the criteria for control are not met, SEs are not consolidated.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of cash and short-term marketable securities with a term to maturity of 90 days or less from the date of their acquisition, are considered highly liquid, readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are included within marketable securities on the statement of financial position.

MARKETABLE SECURITIES

Marketable securities are held for liquidity purposes. These are held with creditworthy counterparties that must have a minimum credit rating from an external credit rating agency of A- for all transactions.

Marketable securities held directly by FinDev Canada are recorded at fair value through profit or loss to reflect our business model for managing these instruments. Purchases and sales of marketable securities are recorded on the trade date and the transaction costs are expensed as incurred. Interest revenue is recorded in marketable securities revenue in the statement of comprehensive income. Realized and unrealized gains and losses on these securities are included in other income (expenses) in the statement of comprehensive income.

LOANS RECEIVABLE

Loans receivable are recorded at fair value upon initial recognition and subsequently measured at amortized cost using the effective interest method. Our loans receivable are held in order to collect contractual cash flows which represent payments of principal, interest and fees. They are derecognized when the rights to receive cash flows have expired or we have transferred substantially all the risks and rewards of ownership. A loan payment is considered past due when the obligor has failed to make the payment by the contractual due date.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period in financing and investment revenue in the Statement of Comprehensive Income. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, we estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses. The calculation includes all fees paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Deferred loan revenue, which consists of exposure, administration and other upfront fees, is considered an integral part of the effective interest rate and is amortized over the term of the related loan.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses represents management's best estimate of expected credit losses and is based on the expected credit loss model.

Financial instruments subject to an impairment assessment include loans held at amortized cost. The allowance for credit losses related to loans receivable is presented in the allowance for losses on loans in the Statement of Financial Position.

Changes in the allowance for credit losses as a result of originations, repayments and maturities, changes in risk parameters, remeasurements and modifications are recorded in the provision for credit losses in our Statement of Comprehensive Income.

Expected Credit Loss Impairment Model

The ECL model applies a three-stage approach to measure the allowance for credit losses. At initial recognition financial instruments are placed in Stage 1. Expected credit losses are measured based on the stage assignment of the financial instrument:

- *Stage 1* - Where there has not been a significant increase in credit risk since origination, the allowance recorded is based on the expected credit losses resulting from defaults over the next 12-months;
- *Stage 2* - Where there has been a significant increase in credit risk since origination, the allowance recorded is based on the expected credit losses over the remaining lifetime of the financial instrument; and
- *Stage 3* - Where a financial instrument is considered impaired, the allowance recorded is based on the expected credit losses over the remaining lifetime of the instrument and interest revenue is calculated based on the carrying amount of the instrument, net of the loss allowance, rather than on its gross carrying amount.

Impairment and Write-off of Financial Instruments

Under our definition of default on loans receivable and loan commitments, financial instruments are considered to be in default and placed in Stage 3 when they meet one or both of the following criteria which represent objective evidence of impairment:

- there has been a deterioration in credit quality to the extent that we consider the obligor is unlikely to pay its credit obligations to us in full; or
- the obligor is past due more than 90 days on any credit obligation to us, as required under IFRS 9.

If there is objective evidence that an impairment loss has occurred on an individual loan or loan commitment, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of any estimated future cash flows discounted at the loan's original effective interest rate. The carrying value of the loan is reduced through the use of an individual allowance.

Thereafter, interest income on individually impaired loans is recognized based on the reduced carrying value of the loan using the original effective interest rate of the loan.

Loans and the related allowance for credit losses are written off, either partially or in full, when all collection methods, including the realization of collateral, have been exhausted and no further prospect of recovery is likely.

Loans are returned to performing status when it is likely that contractual payments will continue pursuant to the terms of the loan.

MEASUREMENT OF EXPECTED CREDIT LOSSES

The ECL calculation along with the stage assignment considers reasonable and supportable information about past events, current conditions and forecasts of future economic events. The estimation and application of forward-looking information, using both internal and external sources of information, requires significant judgement.

The ECL model is a function of the probability of default (PD), loss given default (LGD), and exposure at default (EAD) of a specific obligor or group of obligors with like characteristics such as industry and country classification as well as credit risk rating, discounted to the reporting date using the effective interest rate, or an approximation thereof. PD is modelled based on current and historic data along with relevant forward-looking macroeconomic factors to estimate the likelihood of default over a given time horizon. LGD is an estimate of the percentage of exposure that will be lost if there is a default on a specific obligor. EAD is modelled based on cash flow expectations which include contractual terms as well as forward-looking repayment and draw patterns and represents the outstanding exposure at the time of default.

FORWARD-LOOKING INFORMATION

Expected credit losses are calculated using forward-looking information determined from reasonable and supportable forecasts of future economic conditions as at the reporting date. The ECL model does not consider every possible scenario but reflects a representative sample of three possible outcomes. The scenarios used are not biased towards extremes, reflect consistency among variables and are probability-weighted.

In addition to a baseline macroeconomic outlook, FinDev Canada also produces two alternative outlooks. These alternative forecasts leverage our country risk and sector analysts in EDC's Economics team to identify and vet key upside and downside scenario possibilities, considering their impacts and probability of occurrence. The scenarios are reviewed quarterly for ongoing relevance.

The macroeconomic variables considered in the determination of the scenarios have been established to be key drivers of a global macroeconomic outlook and influential to FinDev Canada's loan portfolio and include, but are not limited to, gross domestic product, commodity prices, equity indices, bond yields and unemployment rates. The macroeconomic variables are applied in the ECL model based on industry classification. We also assess the extent to which these variables may not reflect recent economic events that may result in credit deterioration. In these cases we will estimate the potential impact on our allowances and apply market overlays to specific industries or other exposure categories that we deem appropriate.

SIGNIFICANT INCREASE IN CREDIT RISK

At each reporting date, an assessment of whether a significant increase in credit risk has taken place since the initial recognition of the financial instrument is performed. The assessment, which does not use the low credit risk exemption allowed under IFRS 9, requires significant judgement and considers the following factors:

- a threshold based on a relative change in the probability of default for the remaining expected life of the instrument relative to the corresponding probability of default at origination;
- qualitative information available as at the reporting date; and
- days past due.

Any exposure that is 30 days past due is placed in Stage 2. Any exposure that is 90 days past due is considered impaired and placed in Stage 3.

Assets can move in both directions through the stages of the impairment model. If, in a subsequent period, the credit quality improves for an instrument in Stage 2 such that the increase in credit risk since initial recognition is no longer considered significant, the instrument will move to Stage 1 and the loss allowance shall revert to being recognized based on the 12-month expected credit losses.

Investments

Investments are comprised of direct investments that are held in private companies and investments in private equity funds. Purchases and sales of these investments are recorded on a trade-date basis and are measured at fair value through profit or loss. Subsequent changes in fair value and any realized gains and losses are recorded in other income (expenses). Transaction costs are expensed as incurred.

Leases

At the inception of a contract, we assess whether the contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. In our assessment of whether a contract conveys the right to use an asset, we consider whether FinDev Canada has:

- access to a physically identifiable asset either explicitly or implicitly within the contract;
- the right to obtain substantially all of the economic benefits from use of the identified asset; and
- the right to direct the use of the identified asset.

We recognize the right-of-use asset and the lease liability at the lease commencement date. At initial recognition, the right-of-use asset is measured at cost and is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is assessed for impairment consistent with the requirements under IAS 36.

Our right-of-use asset pertains to office space. FinDev Canada accounts for lease components and non-lease components separately. We do not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less or are of a low value. Lease payments associated with these leases are recognized as an expense as they are incurred.

Our lease liability is initially measured at the present value of lease payments and discounted using the interest rate implicit in the lease or, if not available, FinDev Canada's incremental borrowing rate. Subsequently, the lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change to the term of the lease. When a lease is remeasured, a corresponding adjustment is also made to the carrying amount of the right-of-use asset or is recognized as a gain or loss in other income or other expenses if the carrying amount of the right-of-use asset is nil.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets or the term of the lease. The estimated useful lives and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis. The useful life used in the calculation of depreciation for furniture and equipment is five years and three years for computer hardware. Leasehold improvements are depreciated on a straight-line basis over the shorter of the term of the lease or the useful economic life of the leasehold improvement. Depreciation is recorded in administrative expenses.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in other expenses. The estimated useful lives and depreciation method are reviewed at the end of each year, with the effect of any changes in estimate being accounted for on a prospective basis.

Derivative Instruments

Derivative instruments (derivatives) are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, equities, credit spreads or other financial measures. We use derivatives (foreign exchange swaps) to manage foreign exchange risk.

We do not apply hedge accounting to our derivatives. Derivatives are accounted for at fair value through profit or loss and are recognized on the statement of financial position upon the trade date and are removed from the statement of financial position when they expire or are terminated. Derivatives with a positive fair value are reported as derivative instruments within assets, while derivatives with a negative fair value are reported as derivative instruments within liabilities. All interest income and expenses associated with our derivatives are included in interest expense, while realized and unrealized gains and losses are recorded in other income (expenses).

Accounts Payable and Other Credits

Accounts payable and other credits are carried at amortized cost.

Translation of Foreign Currency

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars, the functional and presentation currency of FinDev Canada, at exchange rates prevailing at the end of the year. Income and expenses are translated at either daily or monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included in other income (expenses).

Foreign currency non-monetary items that are measured at historical cost are translated at historical rates. Foreign currency non-monetary items measured at fair value are translated using the rate of exchange at the date the fair value was determined.

3. Marketable Securities

FinDev Canada holds Canadian dollar interest-earning short-term instruments with Canadian banks that are due within one year for cash management purposes. Instruments with a term to maturity of 90 days or less from the date of their acquisition are considered cash equivalents.

We are exposed to risk on our marketable securities portfolio that the deposit-taking institutions or counterparties will not repay us in accordance with contractual terms. To mitigate this risk, we only transact marketable securities with counterparties having a credit rating of A- or better. Our marketable securities credit exposure is represented by the carrying value of the financial instruments.

The yield on marketable securities for 2019 was 1.94% (2018 – 1.50%).

4. Loans and Allowance for Credit Losses

The following table shows the components of our loans receivable:

(in thousands of Canadian dollars)	**Dec 2019**	Dec 2018
Gross loans receivable	**21,807**	-
Accrued interest and fees receivable	**428**	-
Deferred loan revenue and other	**(258)**	-
Total loans receivable	**$21,977**	$-

The following reflects the movement in gross loans receivable during the period:

(in thousands of Canadian dollars)	**2019**	2018
Balance beginning of year	**-**	-
Disbursements	**22,280**	-
Foreign exchange translation	**(473)**	-
Balance end of year	**$21,807**	$-

FinDev Canada's loans receivable have not experienced a significant increase in credit risk since origination, therefore the loans and related allowance for losses of $1.7 million are considered to be in stage 1 for IFRS 9 purposes. FinDev Canada has no undisbursed loan commitments as at December 31, 2019 (2018 – nil).

We employ a range of methods to mitigate credit risk on our commercial loans which includes obtaining certain forms of security interest. The principal types of security interest are liens on real and personal property and fixtures of the borrower.

The country risk exposures of our loans receivable were $10.4 million in Peru, $9.7 million in Ecuador and $1.7 million in Colombia.

The maximum exposure to credit risk is $21.8 million at December 31, 2019.

5. Investments

(in thousands of Canadian dollars)	**Dec. 31, 2019**		Dec. 31, 2018	
	Cost	**Fair Value**	Cost	Fair Value
Direct Investments	**38,955**	**41,152**	13,652	13,652
Fund Investments	**11,121**	**10,163**	2,791	2,319
Total Investments	**$50,076**	**$51,315**	$16,443	$15,971

We invest in funds which are pooled investment vehicles structured as limited partnerships and financed by the limited partners. These funds invest primarily in private or public companies and are considered to be structured entities.

We have undisbursed investment commitments of $50.2 million for fund investments (2018 - $24.2 million).

6. Property, Plant and Equipment

During the year, changes to property, plant and equipment were as follows:

(in thousands of Canadian dollars)	**Dec. 31, 2019**				Dec. 31, 2018			
	Computer hardware	**Furniture and equipment**	**Leasehold improvements**	**Total**	Computer hardware	Furniture and equipment	Leasehold improvements	Total
Cost:								
Balance at beginning of year	**74**	**90**	**460**	**624**	-	-	-	-
Additions	**-**	**63**	**68**	**131**	74	90	460	624
Balance at end of year	**74**	**153**	**528**	**755**	74	90	460	624
Accumulated Depreciation:								
Balance at beginning of year	**(13)**	**(5)**	**(40)**	**(58)**	-	-	-	-
Depreciation expense	**(25)**	**(18)**	**(92)**	**(135)**	(13)	(5)	(40)	(58)
Balance at end of year	**(38)**	**(23)**	**(132)**	**(193)**	(13)	(5)	(40)	(58)
Carrying amount	**$36**	**$130**	**$396**	**$562**	$61	$85	$420	$566

Future contractual commitments related to property, plant and equipment at the end of 2019 were $197 thousand (2018 - nil).

7. Right-of-Use Asset and Lease Liability

Right-of-Use Asset

FinDev Canada leases office space with a term of 5 years and has the option to renew for an additional period of the same duration after the end of the contract term. We have included the extension option in the measurement of our lease liability as it is reasonably certain to exercise the extension option. During the year, changes to our right-of-use asset were as follows:

(in thousands of Canadian dollars)	**2019**
Balance beginning of year	**1,856**
Depreciation	**(193)**
Balance end of year	**$1,663**

Lease Liability

The following table presents the maturity analysis of the contractual undiscounted cash flows for our lease liability as at December 31, 2019:

(in thousands of Canadian dollars)	**2019**
Under 1 year	**206**
1 to 5 years	**1,085**
Over 5 years	**569**
Total undiscounted lease liability	**1,860**
Total lease liability end of year	**$1,686**

Interest expense on the lease liability recognized in administrative expenses on our statement of comprehensive loss for the year ended December 31, 2019 was $41 thousand. Expenses relating to leases of low value were not significant. Total cash outflow for the lease was $206 thousand, including $169 thousand of principal payments on the lease liability.

Future contractual commitments related to non-lease components and leases of low value at the end of 2019 were $2.0 million (2018 - $2.4 million).

8. Derivative Instruments

We use foreign exchange swaps to manage our foreign exchange risk. These instruments are commitments to exchange cash flows in different currencies where there are two exchanges; the first is made at the spot rate at inception and the second at a predetermined rate on a specified date in the future.

To limit credit risk on our derivative instruments FinDev Canada only transacts these foreign exchange swaps with EDC.

Derivative instruments are recorded on the statement of financial position at fair value. Notional amounts are not recorded as assets or liabilities on our statement of financial position as they only represent the face amount of the contract to which a rate or a price is applied to determine the amount of cash flows to be exchanged.

We have transacted three foreign exchange swaps (two 4-month and one 3-month) with EDC to convert Canadian dollars to U.S. dollars. The notional value of the swaps was $75 million at December 31, 2019 (2018 – one swap with a notional value of $16.8 million). Interest expense on the foreign exchange swap of $158 thousand (2018 - $80 thousand) was recorded in the statement of comprehensive loss.

9. Deferred Revenue

Deferred revenue of $369 thousand (2018 – nil) represents the unspent portion of funds received on donor contributions received from The Department of Foreign Affairs, Trade and Development (DFATD) for the Technical Assistance Facility (TAF) project.

10. Share Capital

FinDev Canada's authorized share capital is $200 million consisting of 2 million shares with a par value of $100. One million common shares were issued in 2019 (2018 – 1 million).

11. Capital Management

We manage our capital through a Board-approved risk and capital management policy. Due to the start-up nature of FinDev Canada, it is not possible to calculate the supply and demand for capital. As a proxy for a capital adequacy policy, FinDev Canada shall have limits on the volume of transactions it can undertake.

FinDev Canada shall not undertake transactions exceeding, on aggregate, 3 times of its Committed Capital.

The Board of Directors shall determine the payment of dividends, if any.

FinDev Canada shall manage its borrowings and transaction intake to ensure that it remains within the foregoing limits. FinDev Canada's Board of Directors is ultimately accountable for managing FinDev's capital adequacy.

12. Financial Risk Management

In providing financing and equity to private companies operating in developing countries, FinDev Canada is exposed to several financial risks. To control or mitigate FinDev Canada's exposure to financial risk, FinDev Canada has a Board-approved Financial Risk Management Framework in place which sets out governance and oversight of financing and equity transactions as well as our treasury operations.

To ensure that the level of financial risk is transparent to both management and the Board, processes have been established for the effective management of financial risks. These processes, which include Board-approved risk limits by country, industry and obligor, minimum counterparty and portfolio credit ratings, and monitoring and reporting requirements, are identified in the organization's Risk Appetite Framework. Given FinDev Canada is in the early stages of building its portfolio Board limits come into effect December 31, 2020, nonetheless exposures against those limits are actively monitored and reported to management and the Board.

FINANCING RISK

Financing risk is the risk of loss or harm due to the failure of a borrower or any other financial obligor to honour its obligations to FinDev Canada.

EQUITY RISK

Equity risk is the risk of loss due to adverse changes to the value of equity held by FinDev Canada.

COUNTERPARTY RISK

Counterparty risk is the risk of loss from a treasury counterparty not meeting its obligations, including failing to meet settlement requirements.

CONCENTRATION AND PORTFOLIO RISK

Concentration and portfolio risk arises from concentration of exposure or an undesirable allocation of exposures with respect to obligor, investee, industry, geography, and/or product in relation to FinDev Canada's financing, equity and treasury portfolios.

MARKET RISK

Market risk is the risk of loss or harm due to adverse movements in market prices, interest rates and/or foreign exchange rates. We are exposed to potential negative impacts on the value of financial instruments resulting from adverse movements in interest and foreign exchange rates.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to potential adverse impacts on the value of financial instruments resulting from differences in the maturities or repricing dates of our marketable securities, as well as from embedded optionality in those assets. We monitor net financing and investment income to determine when measures of interest rate risk and foreign exchange risk impact earnings.

Foreign Exchange Risk

Foreign exchange risk is the risk of loss or harm due to changes in spot and forward prices, and/or volatility of currency exchange rates. We are exposed to foreign exchange risk when there is a mismatch between assets and liabilities in any currency. As described in Note 8, we use foreign exchange swaps to manage our foreign exchange risk.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk that FinDev Canada would be unable to honour daily cash commitments or the risk that we would have to obtain funds rapidly, possibly at an excessively high premium during severe market conditions. Our liquidity risk is managed by holding cash and marketable securities to ensure that sufficient liquidity is available if required to meet forecasted cash requirements.

13. Fair Value of Financial Instruments

Fair value represents our estimation of 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.

Estimates of fair values are based on market conditions at a certain point in time and may not be reflective of future market conditions. Therefore, the estimates of the fair value of our financial instruments do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market.

We have controls and policies in place to ensure that our valuations are appropriate and realistic. The models, valuation methodologies, and market-based parameters and inputs that are used are subject to regular review and validation, including a comparison with values from outside agencies.

We categorize financial instruments on the fair value hierarchy based on whether the inputs to the valuation techniques are observable or unobservable.

- *Level 1* - fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- *Level 2* - fair values are determined using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- *Level 3* - fair values are determined using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The assumptions and valuation techniques that we use to estimate fair values are as follows:

Loans Receivable

Loans receivable are classified as Level 3 financial instruments on the fair value hierarchy and have a fair value of $20.7 million (2018 – nil) and a carrying value of $20.2 million (2018 – nil) as at December 31, 2019.

Marketable Securities

We estimate the fair value of marketable securities using observable market prices. If such prices are not available, we determine the fair value by discounting future cash flows using an appropriate yield curve. All of our marketable securities are classified as level 1.

Investments

Our approach to fair value measurement has been developed using International Private Equity and Venture Capital Valuation Guidelines. Depending on the type of direct investment, we estimate fair value using one of the following: market-based methodologies, such as the quoted share price from available market data, price of recent investment, multiples, or industry benchmarks; income-based methodologies such as discounted cash flows; or replacement cost-based methodology such as net assets. Our fund valuations are performed using their most recent published financial statements. The valuations are established by management and approved by an independent valuation committee. The valuation methods are constantly validated and calibrated through discussions with co-investors and market participants, taking into account all known market events.

As at December 31, 2019, we held one investment for which there was an unobservable input used in its valuation technique: multiple of sales of 2.0, with a fair value of $15.2 million recorded.

The following table summarizes the reconciliation of Level 3 fair values between 2019 and 2018 for investments:

(in thousands of Canadian dollars)	**Dec. 31, 2019**	Dec. 31, 2018
Balance at beginning of year	**15,971**	-
Purchase of investments	**35,185**	15,611
Unrealized gains (losses) included in other expenses	**1,663**	(448)
Foreign exchange translation	**(1,504)**	808
Balance at end of year	**$51,315**	$15,971
Total gains (losses) for the year included in comprehensive income (loss) for instruments held at end of the year	**$1,663**	$(448)

In 2019, a sensitivity analysis was performed using possible alternative assumptions to recalculate the fair value of our Level 3 financial instruments. The fair value of Level 3 financial instruments is in whole or in part based on unobservable inputs. In preparing financial statements, appropriate levels for the parameters of the unobservable inputs are chosen so that they are consistent with prevailing market evidence or management judgment.

In order to perform our sensitivity analysis for our Level 3 investments, we adjusted the unobservable inputs. The unobservable inputs used to value our Level 3 investments include one or more of the following: multiple of sales, liquidity discount, multiple of EBITDA and discount rate. When multiple unobservable inputs are shocked, no netting is considered, resulting in the highest favourable or unfavourable change. The results of our analysis on our Level 3 investments ranged from an unfavourable change of $3.7 million to a favourable change of $7.8 million.

Derivative Instruments

Foreign exchange forwards and foreign exchange swaps are valued by discounting the notional amounts using the respective currency's yield curve and converting the amounts using the spot Canadian dollar exchange rate. All of our derivative instruments are classified as Level 2.

14. Contractual Obligations

In the normal course of business, we enter into contracts that give rise to commitments of future minimum payments.

Purchase obligations include those obligations that are legally binding agreements whereby we have agreed to purchase products or services with specific minimum quantities defined as fixed, minimum or variable in price over a specified period of time.

As at December 31, 2019, purchase obligations not otherwise disclosed in the notes to our financial statements amounted to $2 million (2018 - $523 thousand).

15. Donor Contributions

Donor contributions relate specifically to development impact projects managed by FinDev Canada in partnership with other organizations. In the second quarter of 2019, FinDev Canada, CDC Group, the Overseas Private Investment Corporation (OPIC) and Proparco, with the support of the Mastercard Foundation, launched 2X Invest2Impact, a business competition which aims to support the growth of high potential, women-owned businesses in East Africa. For the year ended December 31, 2019, donor contributions of $523 thousand from the Mastercard Foundation ($326 thousand) and OPIC ($197 thousand) have been recognized in revenue (2018 – nil).

FinDev Canada recovers administrative costs from the management of donor contributions. The total recovery for the year ended December 31, 2019 was $77 thousand (2018 – nil).

16. Other Income (Expenses)

(in thousands of Canadian dollars)	**Dec. 31, 2019**	Dec. 31, 2018
Unrealized gain (loss) on investments [(1)]	**1,663**	(458)
Foreign exchange translation gain (loss)	**70**	(27)
Unrealized gain (loss) on derivatives	**(34)**	(22)
Net unrealized gain (loss) on marketable securities	**(8)**	(10)
Total other income (expenses)	**$1,691**	$(517)

[(1)] *Unrealized gain on investment due to favorable fair market value adjustment of $3.6 million (2018 - $nil), partially offset by fund investment management fees of $1.9 million (2018 - $458 thousand).*

17. Related Party Transactions

Loans Receivable

During the year, FinDev Canada purchased a loan asset from EDC. The purchase price of $1.3 million, representing EDC's book value of the loan, was paid in full at the time of transfer and no amounts related to the transaction were due to EDC at December 31, 2019.

Derivative Instruments

FinDev Canada has transacted three foreign exchange swaps (two 4-month and one 3-month) with EDC to convert Canadian funds to U.S. dollars.

Owing to Export Development Canada

In 2019, FinDev Canada paid EDC $1.5 million (2018 - $2.2 million) for contracted shared services for general corporate functions and specialized roles. The delivery of shared services is governed by a series of Service Level Agreements, developed according to industry best practices. Amounts due to EDC for shared services, which totalled $1.1 million as at December 31, 2019 (2018 - $6.2 million), are non-interest bearing and have no specific terms of repayment.

Key Management Personnel Compensation

Key management personnel, defined as those having authority and responsibility for planning, directing and controlling the activities of FinDev Canada, include the Board of Directors and the management team.

Compensation paid or payable to key management personnel during the year, including non-cash benefits subject to income tax was $811 thousand (2018 - $569 thousand).

18. Subsequent Events

Due to the economic uncertainty as a result of the challenges brought on by the public health crisis: Novel Coronavirus 2019 (COVID-19) and the resulting volatility in financial markets, we could see an impact on several of our financial statement line items and our financial results in 2020. The timing and size of those impacts is not possible to forecast at this time.