



2019 ANNUAL REPORT



BUILDING RELATIONSHIPS
A REAL ESTATE CAPITAL FINANCE COMPANY

DISCIPLINED INVESTING ● CAPITAL PRESERVATION

**Firm
Capital**

Mortgage Investment Corporation



PROFILE

Firm Capital Mortgage Investment Corporation, through its Mortgage Banker, Firm Capital Corporation, is a non-bank lender providing residential and commercial real estate finance. The Corporation's investment objective is the preservation of Shareholders' Equity, while providing Shareholders with a stable stream of monthly dividends from the Corporation's investments, targeting returns on equity in excess of 400 basis points over Government of Canada one year average treasury bill yields. The Corporation achieves its investment objectives by pursuing a strategy of growth through investments in select niche markets that are under-serviced by large lending institutions.

TSX: FC, FC.DB.E, FC.DB.F, FC.DB.G, FC.DB.H, FC.DB.I and FC.DC.J.

MORTGAGE BANKER PROFILE

Boutique Mortgage Lenders[®]

Firm Capital Corporation is the Corporation's Mortgage Banker, acting as the Corporation's loan originator, underwriter, servicer, and syndicator. Since 1988, Firm Capital Corporation has been a non-bank lender providing construction, equity, and conventional real estate finance to the builder, developer, and real estate owner marketplace.

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Where Mortgage Deals Get Done[®]

LETTER TO SHAREHOLDERS

We are pleased to report to you the 2019 results for Firm Capital Mortgage Investment Corporation (the “Corporation”).

Managing risk and maintaining a strong balance sheet is our main priority. We mitigate risk by maintaining a diversified portfolio that has the majority of the investments shared with other investor partners. We are continually monitoring all markets and rebalancing the portfolio to reflect the current environment and market conditions. In 2019, we were able to generate dividends to Shareholders of \$1.006 per share, while maintaining our loan loss provision of \$5,480,000 representing approximately 1% of the Corporation’s investment portfolio.

HIGHLIGHTS

DIVIDENDS

For the year ended December 31, 2019, the Corporation declared dividends totaling \$1.006 per share versus \$0.986 per share for the year ended December 31, 2018. The December 2019 special dividend was 7 cents per share.

INCOME

Income for year ended December 31, 2019 of \$28,002,051 represents an 8.7% increase compared to \$25,750,696 reported for the year ended December 31, 2018. Basic weighted average profit per share for the year ended December 31, 2019 was \$1.008, which is 2.2% higher compared to the \$0.986 per share reported for the year ended December 31, 2018.

INVESTMENT PORTFOLIO


The Corporation’s Investment Portfolio at December 31, 2019 totaled \$481 million (before impairment provision) consisting of 196 separate investments. The average interest rate on the Corporation’s investments at December 31, 2019 was 8.49% per annum.

VERY SHORT-TERM PORTFOLIO WITH SIGNIFICANT ANNUAL TURNOVER

In 2019, the Investment Portfolio’s repayments totaled \$300 million with new investments during the year totaling \$260 million. This turn is the key to our investment approach and demonstrates the short-term bridge financing nature of the portfolio.

2020 OUTLOOK

We encourage Shareholders to read the Management Discussion and Analysis in this report and our Outlook for 2020.



ELI DADOUCH
President
Chief Executive Officer



BORIS BARIL
Chief Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

OUR BUSINESS

Firm Capital Mortgage Investment Corporation (the "Corporation") is a non-bank lender, investing predominantly in short-term residential and commercial real estate mortgage loans and real estate related debt investments. The Corporation operates as a mortgage investment corporation under the Income Tax Act (Canada). Mortgage investment corporations are able to have no income tax payable provided that they satisfy the requirements in subsection 130.1(6) of the Income Tax Act (Canada).

The Corporation's primary investment objective is the preservation of shareholders' equity, while providing shareholders with a stable stream of dividends from the Corporation's investments. The Corporation achieves its investment objectives by pursuing a strategy of investing in loans in select niche real estate markets that are under-serviced by larger financial institutions. The Corporation's more specific objective is to hold an investment portfolio that:

- (i) is widely diversified across many investments.
- (ii) is concentrated in first mortgages.
- (iii) reduces exposure as a result of participation in various loan syndicates; and
- (iv) is primarily short-term in nature.

Firm Capital Corporation (the "Mortgage Banker") is the Corporation's mortgage banker and acts as the Corporation's loan originator, underwriter, servicer, and syndicator. The Corporation's affairs are administered by FC Treasury Management Inc. (the "Corporation Manager").

The Corporation has in place a Dividend Reinvestment Plan ("DRIP") and a Share Purchase Plan (collectively, with the DRIP, the "Plans") that are available to its shareholders. The Plans allow participants to have their monthly cash dividends reinvested in additional common shares of the Corporation ("Shares") and grant participants the right to purchase additional Shares. Shareholders who wish to enroll or who would like further information about the Plans should contact Investor Relations at (416) 635-0221.

Additional information on the Corporation, its Plans, and its investment portfolio is available on the Corporation's web site at www.firmcapital.com. Additional information about the Corporation, including its Annual Information Form ("AIF"), can be found on the SEDAR website at www.sedar.com.

BASIS OF PRESENTATION

The Corporation has adopted International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, as its basis of financial reporting. The Corporation's functional and reporting currency is the Canadian dollar.

The following Management's Discussion and Analysis ("MD&A") is dated as of March 18, 2020 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation and the notes thereto for the of the Corporation years ended December 31, 2019 and 2018, as well as the Management's Discussion and Analysis, including the section on "Risk and Uncertainties", along with each of the quarterly reports for 2019 and 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

HIGHLIGHTS

INCOME

Income for the three months ended December 31, 2019 increased by 9.5% to \$6,678,983 as compared to \$6,097,699 reported for the same period in 2018. Income for the year ended December 31, 2019 increased by 8.7% to \$28,002,051 as compared to \$25,750,696 reported for the year ended December 31, 2018.

REVENUES

Revenues for the three months ended December 31, 2019 decreased by 4.2% to \$11,040,763 as compared to \$11,528,868 reported for the same period in 2018. The decrease is mainly a result of lower interest income from holding a smaller average portfolio size. Revenues for the year ended December 31, 2019 increased by approximately 0.1% to \$47,342,851 as compared to \$47,313,264 for the year ended December 31, 2018.

INVESTMENT PORTFOLIO

The Corporation's investment portfolio (the "Investment Portfolio") decreased by \$40.0 million to \$480.9 million as at December 31, 2019, in comparison to \$520.9 million as at December 31, 2018 (gross of impairment provision). The allowance for credit losses as at December 31, 2019 was \$5.48 million (December 2018 - \$4.95 million). While there was a strong level of new investment funding during 2019 of \$260.2 million (2018 – \$287.0 million), repayments were large at \$300.3 million (2018 – \$327.6 million). The repayment level was higher than the funding of the investment portfolio and has resulted in the decrease in the investment portfolio size.

RETURN ON EQUITY

The Corporation continues to exceed its yield objective of producing a return on shareholders' equity in excess of 400 basis points over the average one-year Government of Canada Treasury bill yield. Income for the year ended December 31, 2019 represents an annualized return on shareholders' equity (based on the month end average shareholders' equity in the year) of 9.09%, representing a return on shareholders' equity of 733 basis points per annum over the average one-year Government of Canada Treasury bill yield of 1.76%.

EQUITY OFFERINGS

On March 1, 2019, the Corporation completed an equity offering of 1,520,000 common shares at a price of \$13.20 per share for gross proceeds of \$20,064,000. The over-allotment option was exercised in full and the Corporation issued an additional 228,000 shares at a price of \$13.20 per share for gross proceeds of \$3,009,600. The total shares issued were 1,748,000.

On May 15, 2019, the Corporation completed a non-brokered private placement of 209,630 Shares at a price of \$13.20 per Share for gross proceeds of \$2,767,116.

REDEMPTIONS

On March 29, 2019, the Corporation completed the redemption of its 5.25% convertible unsecured subordinated debentures. It was a cash redemption of the aggregate principal amount of \$20,485,000 and all accrued interest to the time of Redemption Date.

On December 20, 2019, the Corporation completed the redemption of its 4.75% convertible unsecured subordinated debentures. It was a cash redemption of the aggregate principal amount of \$20,000,000 and all accrued interest to the time of Redemption Date.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio was \$475,445,143 as at December 31, 2019 (net of the provision for impairment of \$5,480,000) and was \$515,994,509 as at December 31, 2018 (net of the provision for impairment of \$4,950,000). The Investment Portfolio is comprised of 196 investments (231 as at December 31, 2018). The average gross investment size was approximately \$2.5 million, with 17 investments individually exceeding \$7.5 million. As at December 31, 2019, 151 of the 196 investments are individually less than \$2.5 million.

Mortgage Amount	December 31, 2019			December 31, 2018			% Change
	Number	Total Amount (before provision)	% of Portfolio	Number	Total Amount (before provision)	% of Portfolio	
\$0 - \$2,500,000	151	\$ 148,256,833	30.8%	181	\$ 165,349,152	31.7%	(10.3%)
\$2,500,001 - \$5,000,000	21	70,373,853	14.6%	27	94,921,879	18.2%	(25.9%)
\$5,000,001 - \$7,500,000	7	48,279,560	10.0%	6	37,775,714	7.3%	27.8%
\$7,500,001 +	17	214,014,898	44.5%	17	222,897,764	42.8%	(4.0%)
	196	\$ 480,925,143	100%	231	\$ 520,944,509	100%	(7.7%)

Unadvanced committed funds under the existing Investment Portfolio amounted to \$108 million as at December 31, 2019 (December 31, 2018 – \$89 million).

The allocation of the Investment Portfolio between the five main investment categories (as well as the weighted average interest rate) is as follows:

Investment Categories	December 31, 2019			December 31, 2018			% Change
	W.A Interest Rate	Outstanding amount	% of Portfolio	W.A Interest Rate	Outstanding amount	% of Portfolio	
Conventional First Mortgages	8.32%	\$ 334,859,014	69.6%	8.47%	\$ 399,214,814	76.6%	(16.1%)
Conventional Non-First Mortgages	8.84%	42,337,892	8.8%	9.21%	41,808,791	8.0%	1.3%
Related Investments	9.45%	95,532,087	19.9%	9.44%	70,259,622	13.5%	36.0%
Discounted Debt Investments*	-	5,378,150	1.1%	-	5,336,525	1.0%	0.8%
Non-Conventional Mortgages	8.52%	2,818,000	0.6%	9.23%	4,324,757	0.9%	(34.8%)
Total Investments	8.49%	\$ 480,925,143	100%	8.58%	\$ 520,944,509	100%	
Less: Impairment Allowance		(5,480,000)			(4,950,000)		
Investment Portfolio		\$ 475,445,143			\$ 515,994,509		(7.9%)

* The yield on Discounted Debt Investments will be determined upon final repayment of the investments.

The \$40.0 million decrease in the Investment Portfolio (before the provision for impairment) was mainly due to the decrease in the amount of the conventional first mortgages category and non-conventional mortgages, offset by an increase in related investments and a marginal increase in conventional non-first mortgages, with discounted debt investments being largely in line. While there was a strong level of new investment funding during 2019 of \$260.2 million (2018 – \$287.0 million), repayments were large at \$300.3 million (2018 – \$327.6 million). The repayment level was higher than the funding of the investment portfolio and has resulted in the decrease in the investment portfolio size.

Conventional first mortgages decreased by 16.1% and represented 69.6% of the Investment Portfolio as at December 31, 2019 (76.6% as at December 31, 2018). Conventional non-first mortgages increased by 1.3% and represented 8.8% of the Investment Portfolio at December 31, 2019 (8.0% as at December 31, 2018). Conventional first mortgages decreased as a result of investment repayments in these categories exceeding funding. Related investments increased by 36.0% and represented 19.9% of the Investment Portfolio as at December 31, 2019 (13.5% as

MANAGEMENT'S DISCUSSION AND ANALYSIS

at December 31, 2018). Discounted debt investments increased by 0.8% and represented 1.1% of the Investment Portfolio, as at December 31, 2019 (1.0% as at December 31, 2018). Non-conventional mortgages decreased by 34.8% and represented 0.6% of the Investment Portfolio as at December 31, 2019 (0.9% as at December 31, 2018).

The related investment category is a basket of investments that are all participating in debt investments to a variety of third-party borrowers. Such debt investments are not secured by mortgage charges, and instead have other forms of security or recourse.

The timing for recognition and collection of accrued interest and special profit on non-conventional mortgages is difficult to estimate given the nature of such instruments. As such, the Corporation will recognize revenue when amounts are determinable, and management is reasonably assured of collection.

The weighted average face interest rate on the Corporation's Investment Portfolio was 8.49% per annum as at December 31, 2019, compared to 8.58% per annum as at December 31, 2018.

The provision for impairment is \$5,480,000 as at December 31, 2019 (December 31, 2018 - \$4,950,000), of which \$5,084,000 (December 31, 2018 - \$4,265,000) represents the total amount of management's estimate of the shortfall between the investment balances and the estimated recoverable amount from the security under the specific loans. As at December 31, 2019, the Corporation carries a collective provision balance of \$396,000 (December 31, 2018 - \$685,000).

The allocation of the Investment Portfolio between its seven property types is as follows:

Property Type	December 31, 2019			December 31, 2018			% Change
	Number	Total Amount (before provision)	% of Portfolio	Number	Total Amount (before provision)	% of Portfolio	
Construction Mortgages	62	\$ 109,565,010	22.8%	81	\$ 112,395,511	21.6%	(2.5%)
Single Family	60	70,222,853	14.6%	57	51,468,471	9.9%	36.4%
Land	39	142,171,487	29.6%	58	182,614,627	35.1%	(22.1%)
Condo/Including multi unit condo loans	4	32,480,000	6.8%	8	40,628,403	7.7%	(20.1%)
Multi Family Resi Mortgages	5	20,770,261	4.3%	4	43,010,019	8.3%	(51.7%)
Related Investments	17	95,532,086	19.9%	14	70,259,622	13.5%	36.0%
Other	9	10,183,446	2.1%	9	20,567,856	3.9%	(50.5%)
	196	\$ 480,925,143	100%	231	\$ 520,944,509	100%	(7.7%)

The Corporation continues to focus its lending into core markets that can be monitored closely during evolving economic conditions, with a strong focus on Ontario. As at December 31, 2019 the value of the portfolio that is secured by properties outside of Ontario is 7.0%, compared to 8.5% as at December 31, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Geographic Segment	December 31, 2019			December 31, 2018			% Change
	Number	Total Amount (before provision)	% of Portfolio	Number	Total Amount (before provision)	% of Portfolio	
Greater Toronto Area	136	\$ 314,459,608	81.7%	161	\$ 292,815,303	65.0%	7.4%
Non-GTA Ontario	28	43,591,476	11.3%	44	119,616,945	26.5%	(63.6%)
Quebec	9	10,350,127	2.7%	3	8,634,670	1.9%	19.9%
Alberta	2	4,000,000	1.0%	2	4,000,000	0.9%	-
Saskatchewan	2	10,556,355	2.7%	2	10,914,942	2.4%	(3.3%)
Other	2	2,435,491	0.6%	5	14,703,027	3.3%	(83.4%)
Portfolio (excluding Related Investments)	179	\$ 385,393,057	100%	217	\$ 450,684,887	100%	
Related Investments	17	95,532,087		13	69,636,557		
	196	\$ 480,925,144		230	\$ 520,321,444		

The allocation of the Investment Portfolio between the underlying security types, is as follows:

Underlying Security Type	December 31, 2019			December 31, 2018			% Change
	Number	Total Amount (before provision)	% of Portfolio	Number	Total Amount (before provision)	% of Portfolio	
Residential	168	\$ 333,754,669	69.4%	203	\$ 392,109,235	75.3%	(14.9%)
Commercial	11	51,638,387	10.7%	14	58,575,652	11.2%	(11.8%)
Related Investments	17	95,532,087	19.9%	14	70,259,622	13.5%	36.0%
	196	\$ 480,925,143	100%	231	\$ 520,944,509	100%	(7.7%)

The residential category includes mortgages on single family dwellings, residential condominiums, residential land, residential construction, and multifamily residential.

The Corporation's strategy is to mitigate loan loss risk by focusing on those areas of mortgage lending that have historically withstood market corrections and retained their underlying real estate asset value while limiting its exposure to those real estate asset classes that do not.

The weighted average loan to value ratio on conventional mortgages (being the combined conventional first and conventional non-first mortgages) is approximately 60% based on the appraisals obtained at the time of funding each mortgage loan.

Included in conventional first mortgages are two United States ("US") dollar denominated investments (at amortized cost) of \$2,435,491 (US\$1,875,186) (December 31, 2018 - \$5,709,177 (US\$4,185,000)).

Included in related investments are four US dollar denominated investments of \$16,726,003 (US\$12,878,043), (December 31, 2018 - two US dollar denominated investments of \$5,376,199 (US\$3,940,917)). These investments are a participation by the Corporation in limited partnerships that have provided equity to real estate entities in the US.

For the three months ended December 31, 2019, income recorded on the US investments (at amortized cost and FVTPL) was \$455,904 (US\$345,088), (2018 - \$182,737 (US\$137,793)). For the year ended December 31, 2019, income recorded on the US investments was \$1,274,748 (US\$962,317), (2018 - \$730,663 (US\$562,948)). These amounts are included in interest and fees income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Investment Portfolio as at December 31, 2019 had six investments with balances totaling \$12,903,309 (December 31, 2018 – two investments with balances totaling \$1,474,000) with contractual interest arrears greater than 60 days past due and were not brought current at year end, amounting to \$666,620 (December 31, 2018 – \$48,727), for which management has determined that no provision for impairment is required (December 31, 2018 – \$nil). Subsequent to year end, two of the six investments was paid out reducing the balance by \$2,242,562.

The investment portfolio as at December 31, 2019 includes eleven investments totaling \$23,762,718 (December 31, 2018 - thirteen investments totaling \$19,735,486) with maturity dates that are past due and for which no extension or renewal was in place. Three of the eleven investments were paid out after December 31, 2019, reducing the balance by \$3,107,050. Three investments totaling \$13,034,106 (December 31, 2018 - four investments totaling \$10,629,767) have an allowance against them included in the Corporation's provision for impairment. The remaining five investments with maturity dates that are past due, and for which no extension or renewal was in place, totaling \$7,621,561 (December 31, 2018 - five investments totaling \$5,028,925) have been determined to not require a provision.

As at December 31, 2019, the Investment Portfolio continued to be heavily concentrated in short-term investments, with 76.1% of the portfolio maturing by December 31, 2020 and 96.5% maturing on or before December 31, 2021. The short-term nature of the portfolio provides the Corporation with the ability to continually revolve the portfolio and adapt to changes in the real estate market. Renewals are offered to borrowers when deemed appropriate.

Principal repayments of the Investment Portfolio based on contractual maturity dates are as follows:

	December 31, 2019		
	Number	Total Amount (before provision)	% of Portfolio
2020	168	\$ 365,727,134	76.1%
2021	23	98,279,848	20.4%
2022	3	13,688,686	2.9%
2023	1	-	0.0%
2024	1	3,229,475	0.7%
	196	\$ 480,925,143	100%

A significant number of the Corporation's investments are shared with other syndicate partners, including several members of the Board of Directors and senior management of the Mortgage Banker and/or officers and directors of the Corporation. The Corporation ranks equally with other members of the syndicate as to receipt of principal, interest, and fees. As at December 31, 2019, 165 of the Corporation's 196 investments (investment amount of \$440,819,005) are shared with other participants, and for 29 of which (investment amount of \$123,668,335) the Corporation is a participant for less than 50% percent of the loan amount.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Certain members of the Board of Directors and senior management and their related entities co-invested approximately \$60 million with the Corporation alongside its December 31, 2019, Investment Portfolio.

The Mortgage Banker services the entire investment in which the Corporation is a participant, on behalf of all participants and except for the case of investments with a first priority syndicate participant (i.e. Loans Payable), the Corporation ranks pari passu with other members of the syndicate as to receipt of principal, interest, and fees. As at December 31, 2019, no such first priority syndicate participations were outstanding.

RESULTS OF OPERATIONS

REVENUES

For the three months ended December 31, 2019, revenues decreased by 4.2% to \$11,040,763 compared to \$11,528,868 for the three months ended December 31, 2018. For the year ended December 31, 2019, revenues increased by approximately 0.1% to \$47,342,851 compared to \$47,313,264 for the year ended December 31, 2018. During 2019, the average size of the Investment Portfolio was lower.

Revenues for the three months and year ended December 31, 2019 and December 31, 2018 are broken down as follows:

Three Months Ended	Dec. 31, 2019	%	Dec. 31, 2018	%	% Change
Interest	\$ 10,212,313	92%	\$ 10,623,533	92%	(3.9%)
Commitment & Renewal Fees	613,372	6%	879,844	8%	(30.3%)
Other Income	215,078	2%	25,491	0%	743.7%
	\$ 11,040,763	100%	\$ 11,528,868	100%	(4.2%)

Year Ended	Dec. 31, 2019	%	Dec. 31, 2018	%	%
Interest	\$ 44,356,376	94%	\$ 44,466,299	94%	(0.2%)
Commitment & Renewal Fees	2,167,688	5%	2,515,714	4%	(13.8%)
Other income	818,787	2%	331,251	2%	147.2%
	\$ 47,342,851	100%	\$ 47,313,264	100%	0.06%

For the three months ended December 31, 2019, interest income was \$10,212,313, a decrease of 3.9% over the \$10,623,533 reported for the comparable period in 2018. The decrease is a result of the Corporation holding a lower average Investment Portfolio. For the year ended December 31, 2019, interest income was \$44,356,376 a decrease of 0.2% over the \$44,466,299 as reported for the same year ended period in 2018. During 2019, the decrease in the average Investment Portfolio size was largely offset by the higher average interest rates over the comparable period in 2018.

For the three months ended December 31, 2019, commitment and renewal fees were \$613,372, a decrease of 30.3% from \$879,844 reported for the comparable period in 2018. For the year ended December 31, 2019, fee income relating to commitment and renewal fees was \$2,167,688, a decrease of 13.8% over the \$2,515,714 reported for the same year ended comparable period in 2018. As at December 31, 2019, the Corporation has deferred commitment fee revenue of \$950,377 (December 31, 2018 – \$795,485). The Corporation's policy is to recognize commitment

MANAGEMENT'S DISCUSSION AND ANALYSIS

fees over the term of the related loan. The unrecognized component of the fees is recorded as deferred revenue on the Corporation's balance sheet. These fees have been received and are not refundable to borrowers.

For the three months and year ended December 31, 2019, other income was \$215,079 and \$818,787 (December 31, 2018 - \$25,491 and \$331,251), respectively. Other income was unusually high as a result of the collection of one-off special income on certain of the Corporations non-conventional investments.

CORPORATION MANAGER SPREAD INTEREST ALLOCATION

The Corporation Manager, through a spread interest arrangement, received for the three months ended December 31, 2019, \$819,988 (2018 - \$993,850). For the year ended December 31, 2019, \$3,685,593 (2018 - \$3,932,134), was received. The decrease in the spread interest is related to the decrease in the size of the Corporation's average Investment Portfolio over the comparable periods in 2018.

INTEREST EXPENSE

For the three months ended December 31, 2019, interest expense decreased by 24.5% to \$2,770,997 as compared to \$3,672,297 for the three months ended December 31, 2018. For the year ended December 31, 2019, interest expense decreased by 15.0% to \$12,670,346 as compared to \$14,908,334 for the year ended December 31, 2018. The Corporation's indebtedness in 2019 was lower than in 2018, as result of two convertible debenture redemptions totaling \$40,458,000 and the lower average investment portfolio during the period which required a smaller draw on the credit facility. This translated into lower interest expense.

Interest expense is broken down as follows:

Three Months Ended	Dec. 31, 2019	%	Dec. 31, 2018	%	% Change
Bank Interest (Earned) Expense	\$ (51,836)	-2%	\$ 224,803	6%	n/a
Loan Payable Interest Expense	167,598	6%	340,855	9%	(50.8%)
Debenture Interest Expense	2,655,235	96%	3,106,639	87%	(14.5%)
	\$ 2,770,997	100%	\$ 3,672,297	100%	(24.5%)

Year Ended	Dec. 31, 2019	%	Dec. 31, 2018	%	%
Bank Interest Expense	\$ 769,197	6%	\$ 1,541,320	10%	(50.1%)
Loan Payable Interest Expense	1,150,753	9%	2,223,767	15%	(48.3%)
Debenture Interest Expense	10,750,395	85%	11,143,247	75%	(3.5%)
	\$ 12,670,345	100%	\$ 14,908,334	100%	(15.0%)

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

For the three months ended December 31, 2019, G&A expenses increased by \$69,614 to \$379,139 compared to the \$309,525 for the three months ended December 31, 2018. For the year ended December 31, 2019, G&A expenses increased by \$180,009 to \$1,234,784 compared to the \$1,054,775 for the year ended December 31, 2018. During the fourth quarter of 2019, the Corporation expensed enforcement costs (consisting of property tax and insurance) in the amount of \$152,291 relating to one of its defaulting mortgages. The property securing the mortgage was sold in the first quarter of 2020 with no further costs paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE PROVISION FOR IMPAIRMENT ON INVESTMENT PORTFOLIO AND INTEREST RECEIVABLE

The provision for impairment for the three months ended December 31, 2019 was \$391,656 (2018 – \$455,497). For the year ended December 31, 2019, the provision for impairment was \$1,750,077 (2018 – \$1,667,325). Further details are described in the Provision for Impairment section.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for the three months ended December 31, 2019 was reported at \$6,678,983 (2018 – \$6,097,699), which represents an increase of 9.5%. Net income and comprehensive income for the year ended December 31, 2019, was reported at \$28,002,051 (2018 – \$25,750,696), which represents an increase of 8.7%.

Income for the quarter ended December 31, 2019 represented an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 8.51%. This return on shareholders' equity represents 675 basis points per annum over the average one-year Government of Canada Treasury bill yield of 1.76% and is well in excess of the Corporation's stated target yield objective of 400 basis points per annum over the average one-year Government of Canada Treasury bill yield. For the year ended December 31, 2019 the annual return on shareholders' equity (based on the month end average shareholders' equity during the year) is 9.09%, and 733 basis points over the one-year Government of Canada Treasury bill yield of 1.76%. The above return on shareholders' equity is a non-IFRS financial measure and does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. This non-IFRS measure provides useful information to the Corporation's shareholders as it provides a measure of return generated on the Corporation's equity base.

EARNINGS PER SHARE

Basic weighted average earnings per share for the three months ended December 31, 2019, was \$0.237 (2018 – \$0.233), an increase of 1.7% over the comparable quarter. Basic weighted average earnings per share for the year ended December 31, 2019 was \$1.008 (2018 – \$0.986), an increase of 2.2% over the comparable period.

Diluted weighted average earnings per share for the three months ended December 31, 2019, was \$0.209, (2018 – 0.231), a decrease of 9.5% over the comparable quarter. Diluted weighted average earnings per share for the year ended December 31, 2019 was \$0.953 (2018 – \$0.963), a decrease of 1.0% over the comparable period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

QUARTERLY FINANCIAL INFORMATION

	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
(\$ in millions except per unit amounts)	2019	2019	2019	2019	2018	2018	2018	2018
Operating revenue	\$ 11.04	\$ 12.23	\$ 12.21	\$ 11.86	\$ 11.53	\$ 12.39	\$ 11.64	\$ 11.74
Interest expense	2.77	2.93	3.37	3.60	3.67	3.81	3.68	3.75
Corporation manager spread interest allocation	0.82	0.90	1.01	0.95	0.99	0.96	0.97	1.00
General & administrative expenses	0.38	0.33	0.28	0.24	0.31	0.23	0.25	0.26
Impairment loss on investment portfolio	0.39	0.38	0.50	0.47	0.46	0.46	0.45	0.30
Income	\$ 6.68	\$ 7.69	\$ 7.05	\$ 6.60	\$ 6.10	\$ 6.93	\$ 6.29	\$ 6.43
Earnings per share								
- Basic	\$0.237	\$0.273	\$0.251	\$0.246	\$0.233	\$0.265	\$0.241	\$0.247
- Diluted	\$0.209	\$0.260	\$0.244	\$0.241	\$0.231	\$0.253	\$0.237	\$0.241
Dividends per share	\$0.304	\$0.234	\$0.234	\$0.234	\$0.284	\$0.234	\$0.234	\$0.234

DIVIDENDS

For the three months and year ended December 31, 2019, the Corporation declared dividends on the Shares totaling \$8,587,699 and \$28,002,051, respectively, or \$0.304 and \$1.006 per share versus \$7,432,171 and \$25,750,696 respectively, or \$0.284 and \$0.986 per Share for the three months and year ended December 31, 2018. The number of Shares outstanding at December 31, 2019 was 28,334,972, compared to 26,143,544 at December 31, 2018.

Year Ended	Dec. 31, 2019	Dec. 31, 2018	Change
Cash Flows From Operating Activities (net of cash interest paid)	\$ 28,940,104	\$ 27,335,015	5.9%
Income	\$ 28,002,051	\$ 27,750,696	0.9%
Declared Dividends	\$ 28,002,051	\$ 25,750,696	8.7%
Excess Cash Flows From Operating Activities Over Declared Dividends	\$ 938,053	\$ 1,584,319	
Income Over Declared Dividends	\$ -	\$ -	

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses of \$4,099,876 as at December 31, 2019, comprised of interest receivable (net of impairment provision) of \$3,402,067, prepaid expenses of \$136,364, fees receivable of \$532,769, and other income receivable of \$28,676, compared to \$3,875,248 as at December 31, 2018.

MARKETABLE SECURITIES

The Corporation holds publicly traded units of a Canadian real estate investment trust. The units were mostly acquired through the exercise of warrants that were granted by the issuer as part of a loan facility in which the Corporation was a participant. The units generate distributions that are consistent with the Corporation's overall yield objective. The \$250,285 balance reported on the Corporation's balance sheet as at December 31, 2019 represents the fair value of the marketable securities comprising the portfolio (December 31, 2018 – \$199,204). The Corporation's purchase price for the units was \$185,026. The approximate average interest yield on the cost of these investments is 10.0% per annum.

BANK INDEBTEDNESS

As at December 31, 2019 and December 31, 2018, bank indebtedness was \$20,336,957 and \$32,704,070, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LOANS PAYABLE

First priority charges on specific mortgage investments have been granted as security for the loans payable. These loans matured on dates consistent with those of the underlying mortgages, which have been fully repaid during the third quarter of 2019. These loans were on a non-recourse basis and bore interest at the weighted average effective rate of 6.10% at the time of repayment (December 31, 2018 – 6.09%). The Corporation's principal balance outstanding under the mortgages for which a first priority charge has been granted is \$nil as at December 31, 2019 (December 31, 2018 - \$18,672,754).

CONVERTIBLE DEBENTURES

As at December 31, 2019, the Corporation has six series of convertible debentures outstanding, as outlined below:

Ticker Symbol	Coupon	Issue Date	Maturity Date	Current Principal	Strike Price Per Share	Carrying Value
FC.DB.E	5.30%	Apr. 17, 2015	May. 31, 2022	23,996,000	13.95	23,539,994
FC.DB.F	5.50%	Dec. 22, 2015	Dec. 31, 2022	21,984,000	14.00	21,339,774
FC.DB.G	5.20%	Dec. 21, 2016	Dec. 31, 2023	22,500,000	15.25	21,647,210
FC.DB.H	5.30%	Jun. 27, 2017	Aug. 31, 2024	26,500,000	15.25	25,490,648
FC.DB.I	5.40%	Jun. 21, 2018	Jun. 30, 2025	25,000,000	15.00	23,808,324
FC.DB.J	5.50%	Nov. 23, 2018	Jan. 31, 2026	25,000,000	14.60	23,335,542
Total / Average	5.37%			\$ 144,980,000		\$ 139,161,491

As at December 31, 2019, the principal balance for the outstanding convertible debentures was \$144,980,000 (December 31, 2018 – \$187,485,000). The recorded convertible debenture carrying value as at December 31, 2019 was \$139,161,491 (December 31, 2018 – \$179,994,443). The weighted average effective interest rate of the convertible debentures is 5.37% per annum (December 31, 2018 – 5.29%).

On December 20, 2019, the Corporation completed the redemption of its 4.75% convertible unsecured subordinated debenture, through a cash redemption of the aggregate principal amount of \$20,000,000 and all accrued interest to the time of redemption.

On March 29, 2019, the Corporation completed the redemption of its 5.25% convertible unsecured subordinated debentures, through a cash redemption of the aggregate principal amount of \$20,485,000 and all accrued interest to the time of redemption.

On December 27, 2018, the Corporation completed an early redemption of its 5.40% convertible unsecured subordinated debentures, which were scheduled to mature on February 28, 2019, through a cash redemption of the aggregate principal amount of \$25,738,000 and all accrued interest to the time of redemption date.

On November 23, 2018, the Corporation completed the issuance of \$25,000,000 aggregate principal amount of 5.50% convertible unsecured subordinated debentures due January 31, 2026. These debentures bear interest at a rate of 5.50% per annum, payable semi-annually in arrears on the last day of June and December each year, commencing on December 31, 2018. The debentures mature on January 31, 2026 and are convertible at the holder's option into Shares at a conversion price of \$14.60.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On June 21, 2018, the Corporation completed the issuance of \$25,000,000 aggregate principal amount of 5.40% convertible unsecured subordinated debentures due June 30, 2025. These debentures bear interest at a rate of 5.40% per annum, payable semi-annually in arrears on the last day of June and December each year, commencing on December 31, 2018. The debentures mature on June 30, 2025 and are convertible at the holder's option into Shares at a conversion price of \$15.00.

OTHER LIABILITIES

Other liabilities for the Corporation include the following:

Additional Liabilities	Dec. 31, 2019	Dec. 31, 2018	% Change
Accounts Payable and Accrued Liabilities	\$ 1,253,498	\$ 2,018,504	(37.9%)
Deferred Revenue	950,377	1,179,220	(19.4%)
Shareholders' Dividend Payable	4,193,576	3,346,374	25.3%
Total	\$ 6,397,451	\$ 6,544,098	(2.2%)

Accounts payable and accrued liabilities decreased by 37.9% to \$1,253,498 as at December 31, 2019, compared to \$2,018,504 as at December 31, 2018. Accounts payable and accrued liabilities include interest payable of \$627,262 (December 31, 2018 – \$1,379,501) and accrued liabilities of \$626,236 (December 31, 2018 – \$639,003). Interest expense was lower during 2019, due to the repayment of loans payable and lower draw on the credit facility.

Deferred revenue is comprised of commitment fees generated on the Corporation's mortgage investments and interest income received in advance. As at December 31, 2019, the portion related to commitment fees was \$950,377 (December 31, 2018 – \$795,485) and the portion related to interest income was \$nil (December 31, 2018 – \$383,735). The Corporation's policy is to recognize commitment fees over the term of the related loans. During the third quarter of 2019, the Corporation recognized deferred interest income of \$383,735 (2018 – \$nil), upon the receipt of a payment related to an investment that had both a conventional and a non-conventional facility.

SHAREHOLDERS' EQUITY

Shareholders' equity at December 31, 2019 totaled \$313,899,405 compared to \$286,107,978 as at December 31, 2018. The Corporation had 28,334,972 Shares issued and outstanding as at December 31, 2019 compared to 26,143,544 Shares as at December 31, 2018. The increase in Shares is attributable to the equity offering completed in the first quarter of 2019, a private placement completed in the second quarter of 2019, a small number of Shares issued under the DRIP and the stock option plan and the conversions of debentures to Shares in the fourth quarter of 2019.

During 2019, \$2,020,000 in debentures were converted into 144,539 common shares.

On May 15, 2019, the Corporation completed a private placement of 209,630 Shares at a price of \$13.20 per Share for gross proceeds of \$2,767,116.

On March 1, 2019, the Corporation completed an equity offering of 1,520,000 Shares at a price of \$13.20 per Share for gross proceeds of \$20,064,000. The over-allotment option was exercised

MANAGEMENT'S DISCUSSION AND ANALYSIS

in full and the Corporation issued an additional 228,000 Shares at a price of \$13.20 per share for gross proceeds of \$3,009,600. The total number of Shares issued was 1,748,000.

PROVISION FOR IMPAIRMENT

Investments consist primary of participation in mortgage loans and real estate related debt investments. Such investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the investments are measured at amortized cost using the effective interest method, less any provision for impairment. The Corporation assesses individually significant investments at each reporting date to determine whether there is objective evidence of impairment. The provision for impairment in respect of the investments measured at amortized cost is calculated as the difference between its carrying amount and the amount of the future cash flows estimated to be recovered on the loan security. Estimates and assumptions are made as to the gross sale proceeds that would be generated on the forced sale of the real property securing the related mortgage loan and reflect estimates of the current local market conditions. Estimates are made as to the costs of enforcing under the mortgage loan and of realizing on the real property. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the provision for impairment. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision. Changes in the provision for impairment are recognized in the statement of income and reflected in the provision for impairment against the investments. Interest on the impaired asset continues to be recognized to the extent it is deemed to be collectible.

The provision for credit losses is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Conventional First Mortgages	4,819,000	3,293,000
Conventional Non-First Mortgages	46,000	-
Related Investments	-	-
Discounted Debt Investments	-	860,000
Non-Conventional Mortgages	219,000	112,000
Total Specific Provision	5,084,000	4,265,000
IFRS 9 Collective Provision	396,000	685,000
Total Provision	5,480,000	4,950,000

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents the changes to the provision for credit losses on loans as at December 31, 2019:

The changes to the allowance	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	685,000	-	4,265,000	4,950,000
Provision for credit losses	(289,000)	-	2,039,077	1,750,077
Allocation of credit losses to interest receivable	-	-	-	-
Transfer to (from):	-	-	-	-
Non-Conventional Mortgages	-	-	-	-
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	(1,220,077)	(1,220,077)
Balance at December 31, 2019	396,000	-	5,084,000	5,480,000

The loans comprising the Investment Portfolio are stated at amortized cost and FVTPL. The provision for impairment is \$5,480,000 as at December 31, 2019, of which \$5,084,000 represents the total amount of management's estimate of the shortfall between the investment balances and the estimated recoverable amount from the security under the specific loans in default.

The Corporation also assessed collectively for impairment to identify potential future losses, by grouping the Investment Portfolio with similar risk characteristics to determine whether a collective provision should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Corporation used judgement to determine the amounts calculated. As at December 31, 2019, the Corporation carries a collective impairment provision of \$396,000 (December 31, 2018 – \$685,000).

MANAGEMENT'S DISCUSSION AND ANALYSIS

GROSS CARRYING VALUE OF EXPOSURE BY RISK RATING

The following table presents the gross carrying amount of the investment portfolio stated at amortized cost subject to IFRS 9 impairment requirements by internal risk ratings used by the Corporation for credit risk purposes.

The internal risk ratings presented in the table below are defined as follows:

Category	Borrower Quality	Certainty of Repayment	Property Location	Loan to Value
Low	Strong	High	Strong	Low
Low to Medium	Medium\Strong	High\Moderate	Medium\Strong	Low\Medium
Medium	Medium	Moderate	Medium	Medium
Medium to High	Weak\Medium	Low\Moderate	Weak\Medium	Medium\High
High	Weak	Low	Weak	High
High to Default	Very Weak	Very Low	Weak	High

	Conventional first mortgages	Conventional non-first mortgages	Related Investments	Discounted Debt	Non-conventional mortgages	Total
Stage 1						
Low	\$ 6,602,518	\$ 2,374,409	\$ -	\$ -	\$ -	\$ 8,976,927
Low to Medium	62,707,385	16,752,232	21,527,244	165,150	-	101,152,011
Medium	170,039,864	19,316,251	38,953,840	-	1,950,000	230,259,955
Medium to High	17,644,631	895,000	-	-	868,000	19,407,631
High	630,000	-	-	-	-	630,000
Stage 2						
Low to Medium	2,320,000	-	-	-	-	2,320,000
Medium	11,200,720	3,000,000	-	-	-	14,200,720
Medium to High	4,000,000	-	-	-	-	4,000,000
High to Default	-	-	-	5,213,000	-	5,213,000
Stage 3						
Medium	22,250,728	-	-	-	-	22,250,728
Medium to High	19,166,451	-	-	-	-	19,166,451
High to Default	18,296,717	-	-	-	-	18,296,717
Total	\$ 334,859,014	\$ 42,337,892	\$ 60,481,084	\$ 5,378,150	\$ 2,818,000	\$ 445,874,140
Impairment provision	5,215,000	46,000	-	-	219,000	5,480,000
Carrying amount	\$ 329,644,014	\$ 42,291,892	\$ 60,481,084	\$ 5,378,150	\$ 2,599,000	\$ 440,394,140

RELATED PARTY TRANSACTIONS

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties and are measured at fair value.

The Corporation's Manager (a company related to certain officers and/or directors of the Corporation) receives an allocation of interest, referred to as the Corporation Manager spread interest, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the three months ended December 31, 2019, this amount was

MANAGEMENT'S DISCUSSION AND ANALYSIS

\$819,988 (2018 - \$993,850). For the year ended December 31, 2019, the amount was \$3,685,593 (2018 - \$3,932,134). Included in accounts payable and accrued liabilities at December 31, 2019 are amounts payable to the Corporation's Manager of \$275,964 (December 31, 2018 - \$314,105).

For the three months ended December 31, 2019 the director's fee expense were \$76,750 (2018 – \$91,000). For the year ended December 31, 2019 the total directors' fee expenses were \$307,000 (2018 - \$304,000). Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The Directors and Officers held 542,587 Shares in the Corporation as at December 31, 2019 (December 31, 2018 - 492,837).

During 2019, the Corporation did not grant any options (2018 – nil) under its stock options plan.

The Mortgage Banker (a company related to officers and/or directors of the Corporation) receives certain fees from the borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all of the commitment and renewal fees generated from the Corporation's investments; and 25% of all of the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income of the Corporation is net of the loan servicing fees paid to the Mortgage Banker of approximately \$109,332 for the three months ended December 31, 2019 (2018 - \$129,000) and approximately \$491,000 for the year ended December 31, 2019 (2018 - \$524,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments.

The Corporation's Spread Interest Agreement and Mortgage Banking Agreement contain, respectively, provisions for the payment of termination fees to the Corporation Manager and Mortgage Banker in the event that the respective agreements are either terminated or not renewed.

A significant number of the Corporation's investments are shared with other investors of the Mortgage Banker, which may include members of management of the Mortgage Banker and/or officers or directors of the Corporation. The Corporation ranks equally with other members of the syndicate as to receipt of principal and income.

During the first quarter of 2018, the two mortgage investments totaling \$1,400,000 that were issued to a borrower controlled by an independent director of the Corporation were fully repaid.

The Corporation holds a mortgage investment totaling \$5,213,000 at December 31, 2019 (classified as discounted debt investment) that originated from the purchase of a mortgage loan from a Schedule 1 bank at a discount to its original principal balance (December 31, 2018 - \$5,148,000). The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure that occurred after the purchase of the underlying Schedule 1 bank mortgage. The Corporation is a pari passu participant in the mortgage, having the same rights as all other participants in the loan. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation, and

MANAGEMENT'S DISCUSSION AND ANALYSIS

for this reason, the borrower is classified as a related party. For the three months and year ended December 31, 2019, the Corporation recognized interest and fees earned of \$nil (2018 - \$nil) from this investment. The impairment provision recorded on this loan was reduced to \$nil as at December 31, 2019.

Aggregate compensation paid to key management personnel (including payments to related parties for recovery of costs), all consisted of short-term employee compensation of \$497,442 for the three months ended December 31, 2019 (2018 - \$548,799) and for the year ended December 31, 2019 was \$2,122,507 (2018 - \$2,196,744), all of which was paid by the Corporation's Manager and not by the Corporation.

Related party transactions are further discussed and detailed in the Corporation's AIF and in Note 13 of the accompanying consolidated financial statements.

INCOME TAXES

The Corporation qualifies as a mortgage investment corporation within the meaning of the Income Tax Act (Canada). As such, the Corporation is entitled to deduct from its taxable income dividends paid to shareholders during the year or within the first 90 days of the following taxation year. In order to maintain its status as a mortgage investment corporation, the Corporation must continually meet all criteria enumerated in the relevant section of the Income Tax Act (Canada) throughout such taxation year. The Corporation intends to maintain its status as a mortgage investment corporation and intends to distribute sufficient dividends in the year and in future years to ensure that the Corporation has no tax payable under the Income Tax Act (Canada). Accordingly, for financial statement reporting purposes, the tax deductibility of the Corporation's dividends results in the Corporation being effectively exempt from taxation and no provision for current or deferred income taxes is required.

CRITICAL ACCOUNTING ESTIMATES

The determination of the impairment provision for the Investment Portfolio is a critical accounting estimate.

The Investment Portfolio is classified as loans and receivables. Such investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage loans are measured at amortized cost using the effective interest method, less any impairment losses. The investments are assessed at each reporting date to determine an impairment provision. Losses are recognized in the statement of income and reflected in the provision account against the mortgage investments. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or profit. Management is required to consider the estimated future cash flow recovery from the collateral securing the mortgage investments. The estimation of cash flow recovery is performed on an individual mortgage basis and is based on assumptions pertinent to each mortgage investment. Each mortgage analysis often has unique factors that are considered in determining the cash flow and realizable value of the underlying security. The estimates are based on historical experience and other assumptions that management believes are responsible and appropriate in the circumstances. Actual results may differ from these estimates.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CLASSIFICATION & MEASUREMENT OF FINANCIAL ASSETS

Mortgage investments and other loans are classified based on the business model for managing assets and the contractual cash flow characteristics of the asset. The Corporation exercises judgment in determining both the business model for managing the assets and whether cash flows consist solely of principal and interest.

MEASUREMENT OF EXPECTED CREDIT LOSS

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination.

The determination of a significant increase in credit risk takes into account different factors and varies by nature of investment. The Corporation assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due as well as other criteria, such as watch list status and changes in weighted probability of default since origination.

The assessment of significant increase in credit risk requires experienced credit judgment. In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, the Corporation must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the provision for credit losses.

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic inputs, such as house price indices.

FINANCIAL INSTRUMENTS

The fair values of amounts receivable and prepaid expenses, bank indebtedness, accounts payable and accrued liabilities, and shareholder dividends payable approximate their carrying values due to their short-term maturities.

The fair value of the Investment Portfolio approximates its carrying value as the majority of the loans are fully open for repayment at any time without penalty and have floating interest rates. There is no quoted price in an active market for the mortgage and loan investments or mortgage syndication liabilities. Management makes its determinations of fair value based on its assessment of the current lending market for mortgage and loan investments of the same or similar terms. As a result, the fair value of mortgage and loan investments is based on Level 3 on the fair value hierarchy.

The fair values of loans payable approximate their carrying values due to the fact that the majority of the loans are: (i) repayable in full, at any time, upon the repayment of the underlying loan that secures the loan payable, and (ii) have floating interest rates linked to bank prime.

The fair value of convertible debentures, including their conversion option, has been determined based on the closing price of the debentures of the Corporation on the Toronto Stock Exchange for the respective date.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The fair value of marketable securities has been determined based on the closing price of the security of the respective entity listed on the Toronto Stock Exchange for the respective date.

The tables in note 16 of the accompanying consolidated financial statements present the fair values of the Corporation's financial instruments as at December 31, 2019 and December 31, 2018. They do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

CONTRACTUAL OBLIGATIONS

Contractual obligations as at December 31, 2019 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 7 years
Bank indebtedness	\$ 20,336,957	\$ 20,336,957	\$ -	\$ -
Accounts payable and accrued liabilities	1,253,498	1,253,498	-	-
Shareholder dividends payable	4,193,576	4,193,576	-	-
Convertible debentures	144,980,000	-	45,980,000	99,000,000
Subtotal - Liabilities	\$170,764,031	\$ 25,784,031	\$ 45,980,000	\$ 99,000,000
Future advances under portfolio	107,961,384	107,961,384	-	-
Liabilities and contractual obligations	\$278,725,415	\$133,745,415	\$ 45,980,000	\$ 99,000,000

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are described in note 3 of the Corporation's financial statements for the three months and year ended December 31, 2019 and 2018.

LIQUIDITY AND CAPITAL RESOURCES

As a result of the Corporation's intent to qualify as a mortgage investment corporation, the Corporation intends to distribute no less than 100% of the taxable income of the Corporation, determined in accordance with the Income Tax Act (Canada), to its shareholders. The result is that growth in the Investment Portfolio can only be achieved through the raising of additional equity, issuing debt, and utilizing available borrowing capacity. As at December 31, 2019, the Corporation had not utilized its full leverage availability, being a maximum of 50% of its first mortgage investments. Unadvanced committed funds under the existing Investment Portfolio amounted to \$108 million as at December 31, 2019 (December 31, 2018 - \$89 million). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments under the Investment Portfolio. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between mortgage advances and mortgage repayments. There are limitations in the availability of funds under the revolving line of credit, which is made up of a committed component and a demand component. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing investments and funding commitments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISKS AND UNCERTAINTIES

The Corporation follows investment guidelines and operating policies. The Board of Directors, in its discretion may amend or approve investments that exceed these guidelines and policies as investments are made. These policies govern such matters as: (i) restricting exposure per mortgage investment; (ii) requirements for director approvals; and (iii) implementation of operational risk management policies.

The Corporation's directors take an active role in approving the investments that the Corporation makes. During the fiscal year of 2019, 79 investment approvals were sent to the Board of Directors (2018 – 170) for approval. Under the investment guidelines, investment amounts between \$1 million to \$2 million, require one Independent Director's approval, and investments with total investment amounts over \$2 million, require no less than three Independent Director's approvals.

The Corporation is faced with the following ongoing risk factors, among others, that would affect shareholders' equity and the Corporation's ability to generate returns. A greater discussion of risk factors that affect the Corporation are included in the AIF under the section "Risk Factors", which section is incorporated herein by reference.

- *COVID-19 outbreak was declared by the World Health Organization. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak.*
- *Economic conditions that would result in a significant decline in real estate values and corresponding loan losses.*
- *Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The existence of such liability can have a negative impact on the value of the underlying real property securing a mortgage. The Corporation does not own the real property securing its Investment Portfolio and thus would not attract the environmental liability that an owner would be exposed to. In rare circumstances where a mortgage is in default, the Corporation may take possession of real property and may become liable for environmental issues as a mortgagee in possession. The Corporation obtains phase 1 environmental reports for mortgages where the Mortgage Banker determines that such reports would be prudent given the nature of the underlying property.*
- *The inability to obtain borrowings and leverage, thus reducing yield enhancement.*
- *Dependence on the Corporation Manager and Mortgage Banker. The Corporation's earnings are impacted by the Mortgage Banker's ability to source and generate appropriate investments that provide sufficient yields while maintaining pre-determined risk parameters. The Corporation has also entered into long-term contracts with the Mortgage Banker and the Corporation Manager, as more particularly described in the AIF. The Corporation is exposed to adverse developments in the business and affairs of the Corporation Manager and Mortgage Banker, since the day-to-day activities of the Corporation are run by the Corporation Manager and since all of the Corporation's investments are originated by the Mortgage Banker.*
- *Portfolio face rate fluctuations. The interest rate earned on the Corporation's Investment Portfolio fluctuates given that (i) it continually revolves given that it is short term in nature; and (ii) the portfolio is predominately floating rate interest with floors.*
- *Interest rate risk. The Corporation's operating loan is floating rate and an increase in short term rates would increase the Corporation's cost of borrowing.*
- *No guaranteed return. There is no guarantee as to the return that an investment in Shares of the Corporation will earn.*
- *Qualification as a Mortgage Investment Corporation. Although the Corporation intends to qualify at all times as a mortgage investment corporation, no assurance can be provided in this regard. If for any reason the Corporation does not maintain its qualification as a mortgage investment corporation under*

MANAGEMENT'S DISCUSSION AND ANALYSIS

the Canadian Income Tax Act (the "Tax Act"), dividends paid by the Corporation on the Shares will cease to be deductible by the Corporation in computing its income and will no longer be deemed by the rules in the Tax Act that apply to mortgage investment corporations to have been received by shareholders as bond interest or a capital gain, as the case may be. In consequence, the rules in the Tax Act regarding the taxation of public corporations and their shareholders should apply, with the result that the combined corporate and shareholder tax may be significantly greater.

- *Investment portfolio size. The investment portfolio size (and income generated thereon) can fluctuate and will decrease when repayments exceed new advances. Our ability to make investments in accordance with our objectives and investment policies depends upon the availability of suitable investments and the general economy and marketplace. Repayments of investments can be significant given the open prepayment provision associated with most investments.*
- *Limited sources of borrowing. The Canadian financial marketplace is characterized as having a limited number of financial institutions that provide credit to entities such as ours. The limited availability of sources of credit may limit our ability to obtain additional leverage, if required.*
- *Liquidity risk. Liquidity risk is the risk the Corporation will not be able to meet its financial obligations as they come due. The Corporation's approach to managing liquidity risk is to ensure, to the extent possible, that it always has sufficient liquidity to meet its liabilities when they come due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's credit worthiness. The Corporation manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. If the Corporation is unable to continue to have access to its loans and mortgages syndications and revolving operating facility, the size of the Corporation's loan and mortgage investments will decrease, and the income historically generated through holding larger investments by utilizing leverage will not be earned.*
- *Demand loan bank indebtedness. A significant component of the Corporation's bank indebtedness is in the form of a demand facility, repayment of which can be demanded by the bank at any time.*
- *Specific investment risk for non-conventional mortgage and second mortgage investments. Non-conventional and second mortgage investments attract higher loan loss risk due to their subordinate ranking to other mortgage charges and sometimes high loan to value ratio. Consequently, this higher risk is compensated for by a higher rate of return. In order to mitigate risk and maintain a well-diversified Investment Portfolio, the operating policies of the Corporation generally limit the amount of Conventional Non-First Mortgage investments to a maximum of 30% of the Corporation's capital, subject to the Board of Directors' approval for any modifications to the operating policies.*
- *Reliance on Borrowers. After the funding of an investment, we rely on borrowers to maintain adequate insurance and proper adherence to environmental regulations during the ongoing management of their properties.*
- *Credit Risk. The Investment Portfolio is exposed to credit risk. Credit risk is the risk that a counterparty to a financial investment will fail to fulfill its obligations or commitment, resulting in a financial loss to the Corporation.*
- *Change in Legislation. There can be no assurance that certain laws applicable to the Corporation, including Canadian federal and provincial tax legislation, commodity and sales tax legislation, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation thereof, will not change in a manner that will adversely affect the Corporation or fundamentally alter the tax consequences to shareholders acquiring, holding or disposing of Shares.*
- *Currency risk. Currency risk is the risk that the fair value or future cash flows of the Corporation's foreign currency-denominated investments and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates. Consequently, the Corporation is subject to currency fluctuations that may impact its financial position and results of operations. The Corporation manages its currency risk on its investments by borrowing the same amount as the investment in the same currency. As a result, a change in exchange rate of the Canadian dollar against the U.S. dollar will not change the net income and comprehensive income and equity. As a result, a change in exchange rate of the Canadian dollar against the U.S. dollar will not result in a material change to the net income and comprehensive income and equity.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures, and controls to ensure that the information used internally by management and disclosed externally is complete, reliable, and timely. In addition, the Corporation's Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Corporation and have reviewed and approved this MD&A as well as the audited consolidated financial statements as at December 31, 2019 and 2018.

CONTROLS AND PROCEDURES

The Corporation maintains appropriate information systems, procedures, and controls to ensure that information disclosed externally is complete, reliable, and timely. The Corporation's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, of the design and operating effectiveness of the Corporation's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2018 and December 31, 2019 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

The Corporation has also established adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS for periods effective January 1, 2010. The Corporation's Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision, of the design and operating effectiveness of the Corporation's internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2019. Based on that assessment, it was determined that the Corporation's internal controls over financial reporting were appropriately designed and were operating effectively.

The Corporation did not make any changes to the design of the Corporation's internal controls over financial reporting period ended December 31, 2019 that would have materially affected, or would be reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

MANAGEMENT’S DISCUSSION AND ANALYSIS

FORWARD LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2019 objectives and our strategies to achieve those objectives, as well as statements with respect to management’s beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance, or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “outlook”, “objective”, “may”, “will”, “expect”, “intent”, “estimate”, “anticipate”, “believe”, “should”, “plans”, or “continue”, or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management’s current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties, including those described above in this MD&A under Risks and Uncertainties, which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters, and shareholder liability. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include the assumption that there is not a significant decline in the value of the general real estate market; market interest rates remain relatively stable; the Corporation is generally able to sustain the size of its Investment Portfolio; adequate investment opportunities are presented to the Corporation; and adequate bank indebtedness are available to the Corporation. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

All forward-looking statements in this MD&A are qualified by these cautionary statements. Except as required by applicable law, the Corporation undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

OUTLOOK

The Corporation’s investment portfolio has continued to revolve with the significant investment repayments exceeding new investing in 2019. We are reinvesting the repaid funds selectively, keeping in mind the high values in various real estate sectors and the significant increases in values. We expect that this trend could continue through the first part of 2020. The Mortgage Banker continues to reject a significant number of potential investments as a result of not meeting its investment criteria and risk tolerance.

SUBSEQUENT EVENT

Subsequent to year end, the COVID-19 pandemic is causing significant financial market and social dislocation. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. The Corporation continues to monitor the investment portfolio and assess the impact COVID-19 will have on its business activities. The extent of the effect of the COVID-19 pandemic on the Corporation is uncertain.

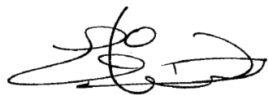
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and information included in this Annual Report have been prepared by the management of Firm Capital Mortgage Investment Corporation, which is responsible for their consistency, integrity and objectivity. The Corporation maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are consistent, efficient and of a high quality.

An independent auditor appointed by management, KPMG LLP, has audited the financial statements of Firm Capital Mortgage Investment Corporation in accordance with generally accepted auditing standards and has provided an independent professional opinion thereon.

Estimates are necessary in the preparation of financial statements because a precise determination of some assets and liabilities depends on future events.

The financial statements have been reviewed and approved by the Board of Directors and the Audit Committee. This Committee meets regularly with management and the auditors who have full and free access to the Committee.



ELI DADOUCH
President
Chief Executive Officer



BORIS BARIL
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT



To the Shareholders of Firm Capital Mortgage Investment Corporation

Opinion

We have audited the consolidated financial statements of Firm Capital Mortgage Investment Corporation (the "Entity"), which comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated balance sheets of the Entity as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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 "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity 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. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

INDEPENDENT AUDITOR'S REPORT



We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Annual Report" is expected to be made available to us after the date of this auditors report. If, based on the work we will perform on this information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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 International Financial Reporting Standards (IFRS), 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 the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 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.

INDEPENDENT AUDITOR'S REPORT



- 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Saqib Jawed.

Toronto, Canada

March 18, 2020

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Balance Sheets

(in Canadian dollars)

As at	December 31, 2019	December 31, 2018
Assets		
Amounts receivable and prepaid expenses (note 4)	\$ 4,099,876	\$ 3,875,248
Marketable securities (note 5)	250,285	199,204
Investment portfolio (note 6)	475,445,143	515,994,509
Total assets	\$ 479,795,304	\$ 520,068,961
Liabilities		
Credit facility and bank indebtedness (note 7)	\$ 20,336,957	\$ 32,704,070
Accounts payable and accrued liabilities	1,253,498	2,018,504
Deferred revenue	950,377	1,179,220
Shareholders' dividends payable	4,193,576	3,346,374
Loans payable (note 8)	--	14,718,382
Convertible debentures (note 9)	139,161,491	179,994,433
Total liabilities	\$ 165,895,899	\$ 233,960,983
Shareholders' Equity		
Common shares (note 10)	\$ 310,158,598	\$ 282,362,724
Equity component of convertible debentures	2,111,650	3,254,000
Stock options (note 10)	87,186	91,633
Contributed surplus	1,828,626	686,276
Deficit	(286,655)	(286,655)
Total shareholders' equity	\$ 313,899,405	\$ 286,107,978
Commitments (note 6)		
Contingent liabilities (note 15)		
Total liabilities and shareholders' equity	\$ 479,795,304	\$ 520,068,961

See accompanying notes to consolidated financial statements.

On behalf of the Directors:

"Eli Dadouch"
ELI DADOUCH
Director

"Jonathan Mair"
JONATHAN MAIR
Director

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Income and Comprehensive Income

Years ended December 31, 2019 and 2018

(in Canadian dollars)

	2019	2018
Revenues		
Interest and fees income	\$ 46,524,064	\$ 46,982,013
Other income	818,787	331,251
	<u>47,342,851</u>	<u>47,313,264</u>
Operating expenses		
Corporation manager spread interest allocation (note 13)	3,685,593	3,932,134
Interest expense (note 14)	12,670,346	14,908,334
General and administrative expenses	1,234,784	1,054,775
Provision for impairment on investment portfolio and interest receivable (note 4 and 6)	1,750,077	1,667,325
	<u>\$ 19,340,800</u>	<u>\$ 21,562,568</u>
Income and comprehensive income for the year	<u>\$ 28,002,051</u>	<u>\$ 25,750,696</u>
Earnings per share (note 11)		
Basic	\$1.008	\$0.986
Diluted	\$0.954	\$0.963

See accompanying notes to consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2019 and 2018

(in Canadian dollars)

	Equity					Accumulated other comprehensive income	Shareholders' equity
	Common shares	component of convertible debentures	Stock options	Contributed surplus	Surplus (Deficit)		
Balance at January 1, 2019	\$ 282,362,724	\$ 3,254,000	\$ 91,633	\$ 686,276	(\$286,655)	-	\$286,107,978
Issuance of shares	25,840,712	-	-	-	-	-	25,840,712
Offering costs	(1,215,762)	-	-	-	-	-	(1,215,762)
Proceeds from issuance of shares from dividend reinvestment	601,652	-	-	-	-	-	601,652
Conversion and redemption of debentures	2,020,000	(1,142,350)	-	1,142,350	-	-	2,020,000
Exercise of stock options (note 10 (b))	549,272	-	(4,447)	-	-	-	544,825
Income and comprehensive income for the year	-	-	-	-	28,002,051	-	28,002,051
Dividends to shareholders (note 12)	-	-	-	-	(28,002,051)	-	(28,002,051)
Balance at December 31, 2019	\$ 310,158,598	\$ 2,111,650	\$ 87,186	\$ 1,828,626	(286,655)	\$ -	\$ 313,899,405

Shares issued and outstanding (note 10) **28,334,972**

	Equity					Accumulated other comprehensive income (loss)	Shareholders' equity
	Common shares	component of convertible debentures	Stock options	Contributed surplus	Surplus (Deficit)		
Balance at January 1, 2018	\$ 281,377,245	\$ 2,780,000	\$ 93,556	\$ 76,276	(\$286,655)	-	\$ 284,040,422
Issuance of shares	735,818	-	-	-	-	-	735,818
Offering costs	(35,382)	-	-	-	-	-	(35,382)
Proceeds from issuance of shares from dividend reinvestment	47,520	-	-	-	-	-	47,520
Conversion and redemption of debentures	-	(610,000)	-	610,000	-	-	-
Equity component of debentures issued during the year (note 9)	-	1,084,000	-	-	-	-	1,084,000
Exercise of stock options (note 10 (b))	237,523	-	(1,923)	-	-	-	235,600
Income and comprehensive income for the year	-	-	-	-	25,750,696	-	25,750,696
Dividends to shareholders (note 12)	-	-	-	-	(25,750,696)	-	(25,750,696)
Balance at December 31, 2018	\$ 282,362,724	\$ 3,254,000	\$ 91,633	\$ 686,276	(286,655)	-	\$ 286,107,978

Shares issued and outstanding (note 10) **26,143,544**

See accompanying notes to consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Cash Flows

(in Canadian dollars)

	2019	2018
Cash provided by (used in):		
Operating activities:		
Income for the year	\$ 28,002,051	\$ 25,750,696
Adjustments for:		
Financing costs (net of implicit interest rate and deferred finance cost amortization)	10,998,289	13,187,646
Implicit interest rate in excess of coupon rate - convertible debentures (note 9)	400,837	437,426
Deferred finance cost amortization - convertible debentures (note 14)	1,271,220	1,283,262
Provision for impairment on investment portfolio and interest receivable	1,750,077	1,667,325
Share-based compensation	(4,447)	(1,923)
Unrealized (gain)/loss on marketable securities investments (note 5)	(41,080)	10,990
Net change in non-cash operating items:		
Accrued interest payable	707,946	485,960
Receivables and prepaid expenses	(1,444,705)	(1,066,371)
Accounts payable and accrued liabilities	(765,006)	(631,054)
Deferred revenue	(228,843)	(115,336)
Net cash flow from operating activities	\$ 40,646,339	\$ 41,008,621
Financing activities:		
Issuance of shares in new offerings	25,840,712	735,818
Issuance of shares from dividend reinvestment	601,652	47,520
Exercise of stock options	549,272	237,523
Proceeds from convertible debentures issued (note 9)	--	50,000,000
Repayment of convertible debentures (note 9)	(40,485,000)	(25,738,000)
Debenture offering costs (note 9)	--	(2,369,157)
Equity offering costs	(1,215,762)	(35,382)
Repayment of loans payable (net)	(14,718,382)	(36,944,567)
Cash interest paid (note 14)	(11,706,235)	(13,673,606)
Dividends to shareholders paid during the year (note 12)	(27,154,849)	(26,261,840)
Net cash flow from (used in) financing activities	\$ (68,288,592)	\$ (54,001,691)
Investing activities:		
Purchase of marketable securities	(10,001)	--
Funding of investment portfolio	(260,232,222)	(287,000,225)
Discharging of investment portfolio	300,251,589	327,557,693
Net cash flow from (used in) investing activities	\$ 40,009,366	\$ 40,557,468
Net increase in cash flow for the year	\$ 12,367,113	\$ 27,564,398
Cash and cash equivalents (bank indebtedness), beginning of year	(32,704,070)	(60,268,468)
Cash and cash equivalents (bank indebtedness), end of year	\$ (20,336,957)	\$ (32,704,070)
Cash flows from operating activities include:		
Interest received	\$ 43,206,263	\$ 43,283,752

Supplementary cash flow information :

Conversions of debenture to shares (note 9)

See accompanying notes to consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(in Canadian dollars)

1. Organization of Corporation:

Firm Capital Mortgage Investment Corporation (the "Corporation"), through its mortgage banker, Firm Capital Corporation (the "Mortgage Banker"), is a non-bank lender providing primarily residential and commercial short-term bridge and conventional real estate financing, including construction, mezzanine, and equity investments. The shares of the Corporation are listed on the Toronto Stock Exchange under the symbol "FC". The Corporation is a Canadian mortgage investment corporation and the registered office of the Corporation is 163 Cartwright Avenue, Toronto, Ontario, M6A 1V5. FC Treasury Management Inc. is the Corporation's manager (the "Corporation Manager"). The Corporation was incorporated pursuant to the laws of Canada on October 22, 2010.

2. Basis of presentation:

(a) Statement of compliance:

The consolidated financial statements of the Corporation have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Board of Directors on March 18, 2020.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss ("FVTPL") which are measured at fair value at each reporting date.

(c) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries which includes FC Finance Trust. Subsidiaries are fully consolidated from the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intercompany transactions and balances are eliminated upon consolidation.

(d) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(e) Critical estimates and judgements:

The preparation of the financial statements requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Revisions to accounting estimates are recognized in the year in which estimates are revised. Those estimates and judgements have been applied in a manner consistent with previous years and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgements in these audited financial statements. The significant estimates and judgements used in determining the recorded amount for assets and liabilities in the financial statements are as follows:

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(in Canadian dollars)

Provision for impairment - The most significant estimates that the Corporation is required to make relate to the impairment of the investments (notes 3(a) and 6). These estimates include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances, adverse changes in the payment status of borrowers, and other factors affecting the investments and underlying security of the investments. These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns, and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations of the actual outcome. Should the underlying assumptions change, the estimated fair value could vary by a material amount.

Classification of investment portfolio - Investment portfolio is classified based on the assessment of business model and the cash flow characteristics of the investments. The Corporation exercises judgement in determining the classification of loans in the investment portfolio into measurement categories (note 3(a)).

Measurement of fair values - The Corporation's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Corporation uses market observable data where possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

The Corporation reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or appraisals are used to measure fair values, the Corporation will assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The information about the assumptions made in measuring fair value is included in note 16.

3. Significant accounting policies:

The Corporation's accounting policies and its standards of financial disclosure set out below are in accordance with IFRS.

(a) Financial instruments

Classification & Measurement of Financial Assets

Recognition and initial measurement

The Corporation on the date of origination or purchase recognizes loans, debt and equity securities, deposits and subordinated debentures at the fair value of consideration paid. Regular-way purchases and sales of financial assets are recognized on the settlement date. All other financial assets and liabilities are initially recognized on the date at which the Corporation becomes a party to the contractual provisions of the instrument.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(in Canadian dollars)

The initial measurement of a financial asset or liability is at fair value plus transaction costs that are directly attributable to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss.

Financial assets include both debt and equity instruments.

Debt instruments

Debt instruments, including loans and debt securities, are classified into one of the following measurement categories:

- (i) Amortized cost;
- (ii) Fair value through other comprehensive income (FVOCI); or
- (iii) Fair value through profit or loss (FVTPL) for trading related assets.

Classification of debt instruments is determined based on:

- (i) The business model under which the asset is held; and
- (ii) The contractual cash flow characteristics of the instrument.

Business model assessment

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

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

Cash flow characteristics assessment

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

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments.

Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In performing this assessment, the Corporation takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement. If the Corporation identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments measured at amortized cost

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

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

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Debt instruments measured at FVOCI

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

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

Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. These instruments are measured at fair value in the Consolidated Balance Sheets, with transaction costs recognized immediately in the Consolidated Statement of Income as part of Non-interest income. Realized and unrealized gains and losses are recognized as part of Non-interest income in the Consolidated Statement of Income.

Equity instruments

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

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

Impairment

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

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

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

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

Measurement of expected credit loss

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

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

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the

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exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

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

Macroeconomic factors

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

Assessment of significant increase in credit risk (SIR)

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

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

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

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

Definition of default

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

- (i) significant financial difficulty of the borrower;
- (ii) default or delinquency in interest or principal payments;
- (iii) high probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- (iv) measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

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

Individual provision for impairment

For loans that are considered individually impaired the Corporation assesses on a case-by-case basis at each reporting period whether an individual provision for loan losses is required.

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For those loans where objective evidence of impairment exists and the Corporation has determined a loan to be impaired, impairment is determined based on the Corporation's aggregate exposure to the customer considering the following factors:

- (i) the customer's ability to generate sufficient cash flow to service debt obligations;
- (ii) the extent of other creditors' commitments ranking ahead of, or *pari passu* with, the Corporation and the likelihood of other creditors continuing to support the company; and
- (iii) the realizable value of security (or other credit mitigants) and likelihood of successful repossession.

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount. This results in interest income being recognized using the original effective interest rate.

Collective provision for impairment

For loans that have not been individually assessed as being impaired, the Corporation pools them into groups to assess them on a collective basis. Collective provisions are calculated for performing loans. Provisions related to performing loans estimate probable incurred losses that are inherent in the portfolio but have not yet been specifically identified as impaired.

Internal risk rating parameters are used in calculation of the collective provision for impairment. Internal risk rating parameters form the basis for calculating the quantitative portion of the collective provision for performing loans:

- (i) Probability of Default rates (PD) which are based upon the internal rating for each borrower;
- (ii) Loss Given Default ratings (LGD); and
- (iii) Exposure at Default factors (EAD).

Funded exposures are multiplied by the borrower's PD and by the relevant LGD parameter.

Committed but undrawn exposure are multiplied by the borrower's PD, by the relevant LGD parameter, and by the relevant EAD parameter. A model stress component is also applied to recognize uncertainty in the credit risk parameter and the fact that current actual loss rates may differ from the long-term averages included in the model.

Write-off

Investment portfolio and interest receivable (and the related provision for impairment accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

- (b) Revenue recognition:
 - (i) Interest and fee income: Interest income earned is accounted for using the effective interest method. Commitment fees received are amortized to profit and loss over the expected term of the investment.
 - (ii) Non-conventional mortgages: At each reporting period the Corporation determines the fair value of the special profit and interest participation receivable on non-conventional mortgages. Any changes in fair value are recognized in Other Income.
- (c) Share-based compensation:

The Corporation has a share-based compensation plan (i.e. incentive option plan), which is described in note 10(b). The expense of equity-settled incentive option plans are measured based on fair value of the awards of each tranche at the grant date. The expense is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

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(d) Income taxes:

The Corporation is a mortgage investment corporation ("MIC") pursuant to the Income Tax Act (Canada). As such, the Corporation is entitled to deduct from its taxable income dividends paid to shareholders during the year or within 90 days of the end of the year to the extent the dividends were not deducted previously. The Corporation intends to maintain its status as a MIC and intends to distribute sufficient dividends in the year and in future years to ensure that the Corporation is not subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Corporation's dividends results in the Corporation being effectively exempt from taxation and no provision for current or future income tax is required for the Corporation and its subsidiaries.

(e) Financial assets and liabilities:

Financial assets include the Corporation's amounts receivable, marketable securities, and investment portfolio. Financial liabilities include bank indebtedness, accounts payable and accrued liabilities, shareholder dividend payable, loans payable, and convertible debentures.

The Corporation classifies its financial assets into the following categories: financial assets at amortized cost, FVOCI, or FVTPL. Marketable securities have been designated as FVTPL. Internal reporting and performance measurement of these investments are on a fair value basis and are based on prices as quoted in an active public marketplace. Amounts receivable and the investment portfolio are classified as amortized cost with some related investments at FVTPL.

The Corporation classifies its financial assets and liabilities as follows:

Assets	Classification
Amounts receivable and prepaid expenses	Amortized cost
Marketable securities	FVTPL
Investment portfolio	Amortized cost
Investment portfolio	FVTPL
Liabilities	
Credit facility and bank indebtedness	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Deferred revenue	Amortized cost
Shareholders' distributions payable	Amortized cost
Loans payable	Amortized cost
Convertible debentures	Amortized cost

Recognition and measurement of financial instruments:

The Corporation determines the classification of its financial assets and liabilities at initial recognition. Financial instruments are recognized initially at fair value and, in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs. Investment portfolio assets classified at FVTPL are subsequently measured at FV using level 3 inputs. Marketable securities classified as at FVTPL are subsequently measured at fair value using the bid/ask price, with gains and losses recognized in profit or loss. Financial instruments classified at amortized cost are subsequently measured at amortized cost less any costs of impairment.

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(f) Derecognition of financial assets and liabilities:

Financial assets:

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Corporation is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Corporation enters into transactions whereby it transfers mortgage or loan investments recognized on its statements of financial position, but retains either all or substantially all of the risks and rewards of the transferred mortgage or loan investments. If all or substantially all risks and rewards are retained, then the transferred mortgage or loan investments are not derecognized.

In transactions in which the Corporation neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Corporation continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities:

The Corporation derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

(g) Compound financial instruments:

Compound financial instruments issued by the Corporation comprise convertible debentures that can be converted into shares of the Corporation at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to the initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss.

(h) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity. Dividends to shareholders are recognized in shareholders' equity.

(i) Basic and diluted per share calculation:

The Corporation presents basic and diluted profit per share data for its common shares. Basic per share amounts are calculated by dividing the profit and loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the year. Diluted per share amounts are calculated using the "if converted method" and are determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all potential dilutive convertible debentures and any options granted under the incentive option plan.

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(j) Foreign currency translation:

Transactions amounts denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange prevailing at the time of the transactions. Carrying values of monetary assets and liabilities are translated at exchange rates prevailing at the dates of the consolidated statements of financial position. Foreign exchange gains and losses on the receipt of the payments from translations are included in realized gains/loss on foreign exchange in the consolidated statements of income and comprehensive income. All unrealized foreign gains and losses on monetary assets and liabilities are included in unrealized foreign exchange gain/loss in the consolidated statements of income and comprehensive income.

(k) Future changes in accounting policies

Amendments to References to the Conceptual Framework in IFRS Standards

On March 29, 2018 the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards to update references in IFRS Standards to previous versions of the Conceptual Framework. Both documents are effective from January 1, 2020 with earlier application permitted.

The Corporation will adopt the amendments in its financial statements for the annual period beginning on January 1, 2020. The Corporation does not expect the amendments to have a material impact on the financial statements.

Definition of Material (Amendments to IAS 1 and IAS 8)

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omission or misstatements from IAS 8. The amendments are effective for annual periods beginning on or after January 1, 2020. Early adoption is permitted.

The definition of material has been aligned across IFRS Standards and the Framework. The amendments provide a definition and explanatory paragraphs in one place.

Pursuant to the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Corporation will adopt the amendments to IAS 1 and IAS 8 in its financial statements for the annual period beginning on January 1, 2020. The Corporation does not expect the amendments to have a material impact on the financial statements.

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4. Amounts receivable and prepaid expenses:

The following is a breakdown of amounts receivable and prepaid expenses as at December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Interest receivable, net of impairment provision	\$ 3,402,067	\$ 3,472,030
Prepaid expenses	136,364	128,701
Fees receivable	532,769	254,881
Special profit income receivable	28,676	19,636
Amounts receivable and prepaid expenses	\$ 4,099,876	\$ 3,875,248

Interest receivable is net of the impairment provision of \$1,220,077 (December 31, 2018 - \$2,417,325); see note 6. The prior year's balances for interest receivable and impairment provision of \$2,178,639 was written off during the year. The Corporation will continue to seek recovery on amounts that were written off during the year, unless we no longer have the right to collect or we have exhausted all reasonable efforts to collect.

5. Marketable securities:

The Corporation holds units in publicly traded real estate investment trusts, which are classified as FVTPL. The fair value of the units is based on the closing price of the investments, which are actively traded in the marketplace and any adjustments to fair value are reflected in other income. The fair value of the marketable securities at December 31, 2019 is \$250,285 (December 31, 2018 - \$199,204). For the year ended December 31, 2019, the Corporation recorded an unrealized gain of \$41,080 (2018 - an unrealized loss of \$10,990).

6. Investment portfolio:

The following is a breakdown of the investment portfolio as at December 31, 2019 and December 31, 2018:

	December 31, 2019		December 31, 2018	
Conventional first mortgages	\$ 334,859,014	69.6%	\$ 399,214,814	76.6%
Conventional non-first mortgages	42,337,892	8.8%	41,808,791	8.0%
Related investments	60,481,084	12.6%	54,023,423	10.4%
Discounted debt investments	5,378,150	1.2%	5,336,525	1.1%
Non-conventional mortgages	2,818,000	0.6%	4,324,757	0.8%
Total investments (at amortized cost)	445,874,140	92.8%	\$ 504,708,310	96.9%
Provision for impairment	(5,480,000)		(4,950,000)	
Total investments (at amortized cost), net	440,394,140		499,758,310	
Related investments (at FVTPL)	35,051,003	7.2%	16,236,199	3.1%
Total investments (at FVTPL)	35,051,003		16,236,199	
Investment portfolio	\$ 475,445,143	100%	\$ 515,994,509	100%
By geography:				
Canada	\$ 456,283,649	96.0%	\$ 504,909,133	97.9%
United States	19,161,494	4.0%	11,085,376	2.1%
Total	\$ 475,445,143	100%	\$ 515,994,509	100%

Included in conventional first mortgages are two United States ("US") dollar denominated investments (at amortized cost) of \$2,435,491 (US\$1,875,186) (December 31, 2018 - \$5,709,177 (US\$4,185,000)).

Included in related investments (classified at FVTPL) are four US dollar denominated investments of \$16,726,003 (US\$12,878,043), (December 31, 2018 - two US dollar denominated investments of \$5,376,199 (US\$3,940,917)). These investments are a participation by the Corporation in limited partnerships that have provided equity to real estate entities in the US.

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For the three ended December 31, 2019, income recorded on the US investments (at amortized cost and FVTPL) was \$455,904 (US\$345,088), (2018 - \$182,737 (US\$137,793)). For the year ended December 31, 2019, income recorded on the US investments was \$1,274,748 (US\$962,317), (2018 - \$730,663 (US\$562,948)). These amounts are included in interest and fees income.

Related investments (classified as FVTPL) also includes two Canadian investments (December 31, 2018 - two investments) of \$18,325,000 (December 31, 2018 - \$10,860,000).

As at December 31, 2019, there were no mortgages with first priority syndicate participants. As at December 31, 2018, \$18,672,764 of the mortgages within the conventional first mortgage portfolio had first priority syndicate participations totaling \$14,718,382, which were recorded on the Corporation's balance sheets as loans payable (see note 8). These mortgage investments were fully repaid during the year.

Conventional first mortgages are loans secured by a first priority mortgage charge with loan to values not exceeding 75%. Conventional non-first mortgages are loans with mortgage charges not registered in first priority with loan to values not exceeding 75%. Related investments are loans that may not necessarily be secured by mortgage charge security. Discounted debt investments are loans purchased from arms-length third parties at a discount to their face value. Non-conventional mortgages are loans that in some cases have loan to values that exceed or may exceed 75% and are investments that are the source of all special profit participation earned by the Corporation.

The following is a breakdown of the investment portfolio as at December 31, 2019:

	December 31, 2019		
	Gross carrying amount	Provision for impairment	Net carrying amount
Conventional first mortgages	\$ 334,859,014	\$ 5,215,000	\$ 329,644,014
Conventional non-first mortgages	42,337,892	46,000	42,291,892
Related investments	95,532,087	-	95,532,087
Discounted debt investments	5,378,150	-	5,378,150
Non-conventional mortgages	2,818,000	219,000	2,599,000
Total investment portfolio	\$ 480,925,143	\$ 5,480,000	\$ 475,445,143

Included in the total provision for impairment of \$5,480,000 is a collective allowance of \$396,000.

The following is a breakdown of the investment portfolio as at December 31, 2018:

	December 31, 2018		
	Gross carrying amount	Provision for impairment	Net carrying amount
Conventional first mortgages	\$ 399,214,814	\$ 3,978,000	\$ 395,236,814
Conventional non-first mortgages	41,808,791	-	41,808,791
Related investments	70,259,622	-	70,259,622
Discounted debt investments	5,336,525	860,000	4,476,525
Non-conventional mortgages	4,324,757	112,000	4,212,757
Total	\$ 520,944,509	\$ 4,950,000	\$ 515,994,509

Included in the total provision for impairment of \$4,950,000 is a collective allowance of \$685,000.

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The following is a breakdown of the provision for impairment credit losses of the investment portfolio as at December 31, 2019:

	December 31, 2019		
	Gross impaired loans	Provision for impairment	Net
Conventional first mortgages	\$ 58,723,081	\$ 5,215,000	\$ 53,508,081
Conventional non-first mortgages	1,181,000	46,000	1,135,000
Related investments	-	-	-
Discounted debt investments	-	-	-
Non-conventional mortgages	1,950,000	219,000	1,731,000
Total investment portfolio	\$ 61,854,081	\$ 5,480,000	\$ 56,374,081
By geography:			
Canada	\$ 61,854,081	\$ 5,480,000	\$ 56,374,081
United States	-	-	-
Total	\$ 61,854,081	\$ 5,480,000	\$ 56,374,081

The following is a breakdown of the provision for impairment credit losses of the investment portfolio as at December 31, 2018:

	December 31, 2018		
	Gross carrying amount	Provision for impairment	Net carrying amount
Conventional first mortgages	\$ 36,352,685	\$ 3,978,000	\$ 32,374,685
Conventional non-first mortgages	-	-	-
Related investments	-	-	-
Discounted debt investments	5,148,000	860,000	4,288,000
Non-conventional mortgages	1,938,000	112,000	1,826,000
Total	\$ 43,438,685	\$ 4,950,000	\$ 38,488,685
By geography:			
Canada	\$ 43,438,685	\$ 4,950,000	\$ 38,488,685
United States	-	-	-
Total	\$ 43,438,685	\$ 4,950,000	\$ 38,488,685

The following table presents the staging of gross investments at amortized cost as at December 31, 2019:

Gross investments at amortized cost	As at December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 257,624,398	\$ 17,520,720	\$ 59,713,896	\$ 334,859,014
Conventional non-first mortgages	39,337,892	3,000,000	-	42,337,892
Related investments	60,481,084	-	-	60,481,084
Discounted debt investments	165,150	5,213,000	-	5,378,150
Non-conventional mortgages	2,818,000	-	-	2,818,000
Total	\$ 360,426,525	\$ 25,733,720	\$ 59,713,896	\$ 445,874,140
By geography:				
Canada	\$ 357,991,034	\$ 25,733,720	\$ 59,713,896	\$ 443,438,650
United States	2,435,491	-	-	2,435,491
Total	\$ 360,426,525	\$ 25,733,720	\$ 59,713,896	\$ 445,874,140

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The following table presents the staging of gross investments at amortized cost as at December 31, 2018:

Gross investments at amortized cost	As at December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 339,889,554	\$ 32,981,552	\$ 26,343,708	\$ 399,214,814
Conventional non-first mortgages	40,142,125	1,666,666	-	41,808,791
Related investments	54,023,423	-	-	54,023,423
Discounted debt investments	188,525	-	5,148,000	5,336,525
Non-conventional mortgages	3,324,757	-	1,000,000	4,324,757
Total	\$ 437,568,384	\$ 34,648,218	\$ 32,491,708	\$ 504,708,310
By geography:				
Canada	\$ 431,859,207	\$ 34,648,218	\$ 32,491,708	\$ 498,999,133
United States	5,709,177	-	-	5,709,177
Total	\$ 437,568,384	\$ 34,648,218	\$ 32,491,708	\$ 504,708,310

The following table presents the provision for credit losses on investments as at December 31, 2019:

Provision for impairment of credit losses on loans	As at December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 131,000	\$ -	\$ 5,084,000	\$ 5,215,000
Conventional non-first mortgages	46,000	-	-	46,000
Related investments	-	-	-	-
Discounted debt investments	-	-	-	-
Non-conventional mortgages	219,000	-	-	219,000
Total	\$ 396,000	\$ -	\$ 5,084,000	\$ 5,480,000
By geography:				
Canada	\$ 396,000	\$ -	\$ 5,084,000	\$ 5,480,000
United States	-	-	-	-
Total	\$ 396,000	\$ -	\$ 5,084,000	\$ 5,480,000

The following table presents the provision for credit losses on investments as at December 31, 2018:

Provision for impairment of credit losses on loans	As at December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 573,000	\$ -	\$ 3,405,000	\$ 3,978,000
Conventional non-first mortgages	-	-	-	-
Related investments	-	-	-	-
Discounted debt investments	-	-	860,000	860,000
Non-conventional mortgages	112,000	-	-	112,000
Total	\$ 685,000	\$ -	\$ 4,265,000	\$ 4,950,000
By geography:				
Canada	\$ 685,000	\$ -	\$ 4,265,000	\$ 4,950,000
United States	-	-	-	-
Total	\$ 685,000	\$ -	\$ 4,265,000	\$ 4,950,000

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The following table presents the changes to the provision for credit losses on investments as at December 31, 2019:

The changes to the provision	Stage 1		Stage 2		Stage 3		Total
Balance at January 1, 2019	\$	685,000	\$	-	\$	4,265,000	\$ 4,950,000
Provision for (recovery of) credit losses		(289,000)		-		2,039,077	1,750,077
Transfer to (from):							
Stage 1		-		-		-	-
Stage 2		-		-		-	-
Stage 3		-		-		(1,220,077)	(1,220,077)
Balance at December 31, 2019	\$	396,000	\$	-	\$	5,084,000	\$ 5,480,000

The loans comprising the investment portfolio are stated at amortized cost and FVTPL. As at December 31, 2019 the provision for impairment is \$5,480,000, (2018 - \$4,950,000) of which \$5,084,000 (2018 - 4,625,000) represents the total amount of management's estimate of the shortfall between the investment balances and the estimated recoverable amount from the security under the specific loans in default.

The Corporation also assessed collectively for impairment to identify potential future losses, by grouping the investment portfolio with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Corporation used judgement to determine the amounts calculated. As at December 31, 2019, the Corporation carries a collective allowance of \$396,000 (2018 - \$685,000).

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Gross carrying value of exposure by risk rating

The following table presents the gross carrying amount of the investment portfolio stated at amortized cost subject to IFRS 9 impairment requirements by internal risk ratings used by the Corporation for credit risk purposes.

The internal risk ratings presented in the table below are defined as follows:

Category	Borrower Quality	Certainty of Repayment	Property Location	Loan to Value
Low	Strong	High	Strong	Low
Low to Medium	Medium\Strong	High\Moderate	Medium\Strong	Low\Medium
Medium	Medium	Moderate	Medium	Medium
Medium to High	Weak\Medium	Low\Moderate	Weak\Medium	Medium\High
High	Weak	Low	Weak	High
High to Default	Very Weak	Very Low	Weak	High

	Conventional first mortgages	Conventional non-first mortgages	Related Investments	Discounted Debt	Non-conventional mortgages	Total
Stage 1						
Low	\$ 6,602,518	\$ 2,374,409	\$ -	\$ -	\$ -	\$ 8,976,927
Low to Medium	62,707,385	16,752,232	21,527,244	165,150	-	101,152,011
Medium	170,039,864	19,316,251	38,953,840	-	1,950,000	230,259,955
Medium to High	17,644,631	895,000	-	-	868,000	19,407,631
High	630,000	-	-	-	-	630,000
Stage 2						
Low to Medium	2,320,000	-	-	-	-	2,320,000
Medium	11,200,720	3,000,000	-	-	-	14,200,720
Medium to High	4,000,000	-	-	-	-	4,000,000
High to Default	-	-	-	5,213,000	-	5,213,000
Stage 3						
Medium	22,250,728	-	-	-	-	22,250,728
Medium to High	19,166,451	-	-	-	-	19,166,451
High to Default	18,296,717	-	-	-	-	18,296,717
Total	\$ 334,859,014	\$ 42,337,892	\$ 60,481,084	\$ 5,378,150	\$ 2,818,000	\$ 445,874,140
Impairment provision	5,215,000	46,000	-	-	219,000	5,480,000
Carrying amount	\$ 329,644,014	\$ 42,291,892	\$ 60,481,084	\$ 5,378,150	\$ 2,599,000	\$ 440,394,140

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The loans comprising the Investment portfolio bear interest at the weighted average rate of 8.49% per annum (December 31, 2018 - 8.58% per annum) and mature between 2020 and 2024.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to \$107,961,384 as at December 31, 2019 (December 31, 2018 - \$89,188,507).

Principal repayments based on contractual maturity dates as at December 31, 2019, are as follows:

2020	\$ 365,727,134
2021	98,279,848
2022	13,688,686
2023	-
Thereafter	3,229,475
	<u>\$ 480,925,143</u>

Borrowers who have open loans generally have the option on notice to repay principal at any time prior to the maturity date without penalty, subject to written notice, according to each mortgage loan.

The Corporation enters into participation agreements with respect to certain mortgage investments from time to time, whereby the other participating investors take the senior position and the Corporation retains a subordinated position. Under these participation agreements, the Corporation has retained a residual portion of the credit and/or default risk as a result of holding the subordinated interest in the mortgage and has therefore not met the de-recognition criteria described in the notes to the annual financial statements.

The portion of such mortgage interests held by the priority participant is included in investment portfolio and recorded as loans payable (note 8). Any gross interest and fees earned on the priority participants' interests and the related interest expense is recognized in income and profit.

As at December 31, 2019, the carrying value of the priority participants' interests in the Corporation's investment portfolio and loans payable was \$nil (December 31, 2018 - \$14,718,382).

The Investment Portfolio as at December 31, 2019 had six investments with balances totaling \$12,903,309 (December 31, 2018 – two investments with balances totaling \$1,474,000) with contractual interest arrears greater than 60 days past due and were not brought current at year end, amounting to \$666,620 (December 31, 2018 – \$48,727), for which management has determined that no provision for impairment is required (December 31, 2018 – \$nil). Subsequent to year end, two of the six investments was paid out reducing the balance by \$2,242,562.

The investment portfolio as at December 31, 2019 includes eleven investments totaling \$23,762,718 (December 31, 2018 - thirteen investments totaling \$19,735,486) with maturity dates that are past due and for which no extension or renewal was in place. Three of the eleven investments were paid out after December 31, 2019, reducing the balance by \$3,107,050. Three investments totaling \$13,034,106 (December 31, 2018 - four investments totaling \$10,629,767) have an allowance against them included in the Corporation's provision for impairment. The remaining five investments with maturity dates that are past due, and for which no extension or renewal was in place, totaling \$7,621,561 (December 31, 2018 - five investments totaling \$5,028,925) have been determined to not require a provision.

As at December 31, 2019, 165 of the Corporations' 196 investments (investment amount of \$440,819,005) are shared with other participants.

The Mortgage Banker services the entire investment in which the Corporation is a participant, on behalf of all participants and except for the case of investments with a first priority syndicate participant, the Corporation ranks pari passu with other members of the syndicate as to receipt of principal, interest and fees.

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7. Credit facility and bank indebtedness

The Corporation has entered into credit arrangements of which \$20,336,957 has been drawn as at December 31, 2019 (December 31, 2018 - \$32,704,070). Interest on bank indebtedness is predominantly charged at a rate that varies with bank prime and may have a component with a fixed interest rate established based on a formula linked to bankers' acceptance rates. The credit arrangement comprises a revolving operating facility, a component of which is a demand facility and a component of which had a committed term extended to September 30, 2020 (as further detailed in note 17 (c)). Bank indebtedness is secured by a general security agreement. The credit agreement contains certain financial covenants that must be maintained. As at December 31, 2019 and December 31, 2018, the Corporation was in compliance with all financial covenants.

8. Loans payable:

First priority charges on specific mortgage investments have been granted as security for the loans payable. These loans matured on dates consistent with those of the underlying mortgages, which have been fully repaid during the third quarter of 2019. These loans were on a non-recourse basis and bore interest at the weighted average effective rate of 6.10% at the time of repayment (December 31, 2018 - 6.09%). The Corporation's loans payable balance is \$nil (2018 - \$14,718,382) and the principal balance outstanding under the mortgages for which a first priority charge has been granted is \$nil as at December 31, 2019 (December 31, 2018 - \$18,672,754).

The loans were repayable at the earlier of the contractual expiry date of the underlying mortgage investments and the date the underlying mortgage was repaid.

9. Convertible debentures:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Carrying value, beginning of the year	\$ 179,994,433	\$ 157,464,906
Issued	-	46,546,839
Conversions of debentures to shares	(2,020,000)	-
Repayments upon maturity	(40,485,000)	(25,738,000)
Implicit interest rate in excess of coupon rate	400,837	437,426
Deferred finance cost	1,271,220	1,283,262
Carrying value, end of the year	\$ 139,161,491	\$ 179,994,433

The continuity of the convertible debentures for the year ended December 31, 2019:

Convertible debenture	Balance, beginning of year	Issued	Conversions	Implicit interest rate in excess of coupon rate	Deferred finance cost amortization	Repayments upon Redemption	Balance, end of year	Maturity date
5.25%	20,422,154	\$ -	\$ -	29,668	33,177	\$ (20,485,000)	\$ -	Mar 31, 2019
4.75%	19,734,544	-	-	88,302	177,153	(20,000,000)	-	Mar 31, 2020
5.30%	24,329,835	-	(1,004,000)	25,260	188,899	-	23,539,994	May 31, 2022
5.50%	22,105,324	-	(1,016,000)	61,005	189,445	-	21,339,774	Dec 31, 2022
5.20%	21,440,326	-	-	42,260	164,624	-	21,647,210	Dec 31, 2023
5.30%	25,279,056	-	-	26,697	184,895	-	25,490,648	Aug 31, 2024
5.40%	23,599,710	-	-	39,939	168,675	-	23,808,324	Jun 30, 2025
5.50%	23,083,484	-	-	87,706	164,352	-	23,335,542	Jan 31, 2026
Total	\$ 179,994,433	\$ -	(2,020,000)	\$ 400,837	\$ 1,271,220	\$ (40,485,000)	\$ 139,161,491	

As at December 31, 2019, debentures payable bear interest at the weighted average effective rate of 5.37% per annum (December 31, 2018 - 5.29% per annum). Notwithstanding the carrying value of the convertible debentures, the principal balance outstanding to the debenture holders is \$144,980,000 as at December 31, 2019 (December 31, 2018 - \$187,485,000).

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On December 20, 2019, the Corporation completed the redemption of its 4.75% convertible unsecured subordinated debentures, which were scheduled to mature on March 31, 2020. It was a cash redemption of the aggregate principal amount of \$20,000,000 and all accrued interest to the time of Redemption Date.

On March 29, 2019, the Corporation completed the redemption of its 5.25% convertible unsecured subordinated debentures. It was a cash redemption of the aggregate principal amount of \$20,485,000 and all accrued interest to the time of Redemption Date.

The continuity of the convertible debentures for the year ended December 31, 2018:

Convertible debenture	Balance, beginning of year	Issued	Conversions	Implicit interest rate in excess of coupon rate	Deferred finance cost amortization	Repayments upon maturity	Balance, end of year	Maturity date
5.40%	\$ 25,445,554	\$ -	\$ -	\$ 90,947	\$ 201,497	\$ (25,738,000)	\$ -	Feb 28, 2019
5.25%	20,173,140	-	-	114,465	134,549	-	20,422,154	Mar 31, 2019
4.75%	19,515,688	-	-	66,713	152,143	-	19,734,544	Mar 31, 2020
5.30%	24,136,563	-	-	21,632	171,640	-	24,329,835	May 31, 2022
5.50%	21,889,426	-	-	48,907	166,991	-	22,105,324	Dec 31, 2022
5.20%	21,235,666	-	-	40,036	164,624	-	21,440,326	Dec 31, 2023
5.30%	25,068,867	-	-	25,294	184,895	-	25,279,056	Aug 31, 2024
5.40%	-	23,489,730	-	20,328	89,652	-	23,599,710	Jun 30, 2025
5.50%	-	23,057,109	-	9,104	17,271	-	23,083,484	Jan 31, 2026
Total	\$ 157,464,904	\$46,546,839	\$ -	\$ 437,426	\$ 1,283,262	\$ (25,738,000)	\$ 179,994,433	

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On December 27, 2018, the Corporation completed the redemption of its 5.40% convertible unsecured subordinated debentures, which were scheduled to mature on February 28, 2019. It was a cash redemption of the aggregate principal amount of \$25,738,000 and all accrued interest to the time of Redemption Date.

On November 23, 2018, the Corporation completed a public offering of 25,000 5.50% convertible unsecured subordinated debentures at a price of \$1,000 per debenture for gross proceeds of \$25,000,000, less issuance costs of \$1,182,887. The debentures mature on January 31, 2026 and interest is paid semi-annually on the last day of June and December of each year. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of \$14.60. The debentures may not be redeemed by the Corporation prior to January 31, 2022. On or after January 31, 2022, but prior to January 31, 2024, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after January 31, 2024 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

The convertible debentures were allocated into liability and equity components on the date of issuance as follows:

Liability	\$ 24,240,000
Equity	760,000
Principal	\$ 25,000,000

On June 21, 2018, the Corporation completed a public offering of 25,000 5.40% convertible unsecured subordinated debentures at a price of \$1,000 per debenture for gross proceeds of \$25,000,000, less issuance costs of \$1,186,270. The debentures mature on June 30, 2025 and interest is paid semi-annually on the last day of June and December of each year. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of \$15.00. The debentures may not be redeemed by the Corporation prior to June 30, 2021. On or after June 30, 2021, but prior to June 30, 2023, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after June 30, 2023 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

The convertible debentures were allocated into liability and equity components on the date of issuance as follows:

Liability	\$ 24,676,000
Equity	324,000
Principal	\$ 25,000,000

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10. Shareholders' equity:

The beneficial interest in the Corporation is represented by a single class of shares that are unlimited in number. Each share carries a single vote at any meeting of shareholders and carries the right to participate pro rata in any dividends.

(a) Shares issued and outstanding:

The following shares were issued and outstanding as at December 31, 2019:

	# of shares	Amount
Balance, beginning of year	26,143,544	\$ 282,362,724
New shares from equity offering	1,748,000	23,073,600
Conversion of convertible debenture to shares	144,539	2,020,000
Private Placement equity offering	209,630	2,767,112
Equity offering costs	-	(1,215,762)
Options exercised in the year	46,250	549,272
New shares issued during the period under Dividend Reinvestment Plan	43,009	601,652
Balance, end of year	28,334,972	\$ 310,158,598

The following shares were issued and outstanding as at December 31, 2018:

	# of shares	Amount
Balance, beginning of year	26,064,310	\$ 281,377,245
New shares from equity offering	55,600	735,818
Equity offering costs	-	(35,382)
Options exercised in the year	20,000	237,523
New shares issued during the year under Dividend Reinvestment Plan	3,634	47,520
Balance, end of year	26,143,544	\$ 282,362,724

During 2019, \$2,020,000 in debentures were converted into 144,539 common shares.

On May 15, 2019, the Corporation completed a non-brokered private placement of 209,630 common shares at a price of \$13.20 per share for gross proceeds of \$2,767,116.

On March 1, 2019, the Corporation completed an equity offering of 1,520,000 common shares at a price of \$13.20 per share for gross proceeds of \$20,064,000. The over-allotment option was exercised in full and the Corporation issued an additional 228,000 shares at a price of \$13.20 per share for gross proceeds of \$3,009,600. The total shares issued were 1,748,000.

During 2018, the Corporation issued 55,600 shares at a weighted average price of \$13.23 per share for gross proceeds of \$735,818 from its At-The-Market ("ATM") program as previously announced.

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(b) Incentive option plan:

	# of options	Amount
Balance, beginning of year	926,250	\$ 91,633
Options exercised	(46,250)	(4,447)
Balance, end of year	880,000	\$ 87,186

During the year ended December 31, 2019, the Corporation did not grant any options (2018 - nil).

During the year ended December 31, 2019, 46,250 options were exercised (2018 - 20,000).

(c) Dividend reinvestment plan and direct share purchase plan:

The Corporation has a dividend reinvestment plan and direct share purchase plan for its shareholders that allows participants to reinvest their monthly cash dividends or purchase additional shares of the Corporation at a share price equivalent to the weighted average price of shares for the preceding five-day period.

11. Per share amounts:

Earnings per share calculation:

The following table reconciles the numerators and denominators of the basic and diluted earnings per share for the year ended December 31, 2019 and 2018.

Basic earnings per share calculation:

	2019	2018
Numerator for basic earnings per share:		
Net earnings for the period	\$ 28,002,051	\$ 25,750,696
Denominator for basic earnings per share:		
Weighted average shares	27,786,966	26,109,949
Net basic earnings per share	\$ 1.008	0.986

Diluted earnings per share calculation:

	2019	2018
Numerator for diluted earnings per share:		
Net earnings for the period	\$ 28,002,051	\$ 25,750,696
Interest on convertible debentures	9,229,908	9,474,914
Net diluted earnings per share	\$ 37,231,959	\$ 35,225,610
Denominator for diluted earnings per share:		
Weighted average shares	27,786,966	26,109,949
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average share price	123,914	85,938
Assuming debentures are converted	11,113,682	10,366,838
Diluted weighted average shares	39,024,562	36,562,725
Diluted earnings per share:	\$ 0.954	\$ 0.963

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12. Dividends:

The Corporation intends to make dividend payments to the shareholders on a monthly basis on or about the 15th day of each following month. The operating policies of the Corporation set out that the Corporation intends to distribute to shareholders within 90 days after the year end at least 100% of the net income of the Corporation determined in accordance with the Income Tax Act (Canada), subject to certain adjustments.

For the year ended December 31, 2019, the Corporation recorded dividends of \$28,002,051 (2018 - \$25,750,696) to its shareholders. Dividends were \$1.006 per share (2018 - \$0.986 per share).

13. Related party transactions and balances:

The Corporation's Manager (a company related to certain officers and/or directors of the Corporation) receives an allocation of interest, referred to as the Corporation Manager spread interest, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the year ended December 31, 2019, this amount was \$3,685,593 (2018 - \$3,932,134). Included in accounts payable and accrued liabilities at December 31, 2019 are amounts payable to the Corporation's Manager of \$275,964 (December 31, 2018 - \$314,105).

For the year ended December 31, 2019 the total directors' fee expenses were \$307,000 (2018 - \$304,000). Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The Directors and Officers held 542,587 shares in the Corporation as at December 31, 2019 (December 31, 2018 - 492,837).

For the year ended December 31, 2019, no directors were awarded options (2018 - nil).

The Mortgage Banker (a company related to certain officers and/or directors of the Corporation) receives certain fees from the borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all of the commitment and renewal fees generated from the Corporation's investments; and 25% of all of the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income of the Corporation is net of the loan servicing fees paid to the Mortgage Banker of approximately \$491,000 for the year ended December 31, 2019 (2018 - \$524,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments.

The Corporation's Spread Interest Agreement and Mortgage Banking Agreement contain, respectively, provisions for the payment of termination fees to the Corporation Manager and Mortgage Banker in the event that the respective agreements are either terminated or not renewed.

A significant number of the Corporation's investments are shared with other investors of the Mortgage Banker, which may include members of management of the Mortgage Banker and/or Officers or directors of the Corporation. The Corporation ranks equally with other members of the syndicate as to receipt of principal and income.

During the first quarter of 2018, the two mortgage investments totaling \$1,400,000 that were issued to a borrower controlled by an independent director of the Corporation were fully repaid.

The Corporation holds a mortgage investment totaling \$5,213,000 at December 31, 2019 (classified as discounted debt investment) that originated from the purchase of a mortgage loan from a Schedule 1 bank at a discount to its original principal balance (December 31, 2018 - \$5,148,000). The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure that occurred after the purchase of the underlying Schedule 1 bank mortgage. The Corporation is a pari passu participant in the mortgage, having the same rights as all other participants in the loan. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation, and for this reason, the borrower is classified as a related party. For the year ended December 31, 2019, the Corporation recognized interest and fees earned of \$nil (2018 - \$nil) from this investment. The impairment provision recorded on this loan was reduced to \$300,000 as at December 31, 2019, from \$860,000 as at December 31, 2018, due to an improvement in the realization that will be generated on the underlying real estate.

Key management compensation:

Aggregate compensation paid to key management personnel (including payments to related parties for their recovery of costs), all consisted of short-term employee compensation of \$2,122,507 for the year ended December 31, 2019 (2018 - \$2,196,744). All of this compensation was paid by the Corporation's Manager and not by the Corporation.

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14. Interest expense:

	2019	2018
Bank interest expense	\$ 1,534,245	\$ 1,541,319
Loans payable interest expense	385,706	2,223,767
Debenture interest expense	10,750,396	11,143,248
Interest expense	\$ 12,670,346	\$ 14,908,334
Deferred finance cost amortization - convertible debentures	(1,271,220)	(1,283,262)
Implicit interest rate in excess of coupon rate - convertible debentures	(400,837)	(437,426)
Change in accrued interest payable	707,946	485,960
Cash interest paid	\$ 11,706,235	\$ 13,673,606

15. Contingent liabilities:

The Corporation is involved in certain litigation arising out of the ordinary course of investing in loans. Although such matters cannot be predicted with certainty, management believes the claims are without merit and does not consider the Corporation's exposure to such litigation to have a material impact on these financial statements.

16. Fair value:

The fair values of amounts receivable, bank indebtedness, accounts payable and accrued liabilities, and shareholders dividends payable approximate their carrying values due to their short-term maturities.

The fair value of the investment portfolio approximates its carrying value as the majority of the loans are repayable in full at any time without penalty and generally have floating interest rates. There is no quoted price in an active market for the mortgage and loan investments or mortgage syndication liabilities. The Corporation makes its determinations of fair value based on its assessment of the current lending market for mortgage and loan investments of same or similar terms. As a result, the fair value of mortgage and loan investments is based on Level 3 of the fair value hierarchy.

The following table presents the changes in related investments (at FVTPL) as at December 31, 2019

Changes to related investments at FVTPL	
Balance, beginning of year	\$ 16,236,199
Funding of investments	19,901,724
Discharging of investments	(800,000)
Unrealized foreign exchange	(286,920)
Balance, end of year	\$ 35,051,003

The fair values of loans payable approximate their carrying values due to the fact that the majority of the loans are: (i) repayable in full, at any time, upon the repayment of the underlying loan that secures the loan payable, and (ii) have floating interest rates linked to bank prime.

The fair value of convertible debentures, including their conversion option, has been determined based on the closing price of the debentures of the Corporation on the Toronto Stock Exchange for the respective date.

The fair value of marketable securities has been determined based on the closing price of the security of the respective listed entities on the Toronto Stock Exchange for the respective date.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(in Canadian dollars)

The tables below present the fair values of the Corporation's financial instruments as at December 31, 2019 and December 31, 2018. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

2019	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 250,285	-	-	\$ 250,285
Convertible debentures	149,806,418	-	-	149,806,418

2018	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 199,204	-	-	\$ 199,204
Convertible debentures	182,566,500	-	-	182,566,500

17. Risk management:

The Corporation is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition, and operating results. Many of these risk factors are beyond the Corporation's direct control. The Corporation Manager and Board of Directors play an active role in monitoring the Corporation's key risks and in determining the policies that are best suited to manage these risks. There has been no change in the process since the previous year.

The Corporation's business activities, including its use of financial instruments, exposes the Corporation to various risks, the most significant of which are interest rate risk, credit and operational risks, and liquidity risk.

(a) Interest rate risk:

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

The Corporation's operations are subject to interest rate fluctuations. The interest rate on the majority of the investments is set at the greater of a floor rate and a formula linked to bank prime. The floor interest rate mitigates the effect of a drop in short-term market interest rates on existing investments while the floating component linked to bank prime allows for increased interest earnings on a component of the investments where short-term market rates increase.

(i) Interest income risk:

A significant portion of the Corporation's investment portfolio comprise investments in short term mortgage loans that generally are repaid by the borrowers in under twenty-four months. The reinvestment of funds received from such repayments are invested at current market interest rates. As such, the weighted average interest rate applicable to the investment portfolio changes with time. This creates an ongoing risk that the weighted average interest rate on the investment portfolio will decrease, which will have a negative impact on the Corporation's interest income and net profit.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(in Canadian dollars)

(ii) Interest expense risk:

The Corporation's floating-rate debt comprises bank indebtedness, and loan on debenture portfolio investment, with each bearing interest based on bank prime and/or based on short term bankers' acceptance interest rates as a benchmark.

At December 31, 2019, if interest rates at that date had been 100 basis points lower or higher, with all other variables held constant, comprehensive income and equity for the year would be affected as follows:

	Carrying Value	-1%	+1%
Financial assets:			
Cash and cash equivalents	\$ -	-	-
Amounts receivable and prepaid expenses	4,099,876	-	-
Marketable securities	250,285	-	-
Investment portfolio	475,445,143	(212,896)	3,387,649
Financial liabilities:			
Bank indebtedness	20,336,957	203,370	(203,370)
Accounts payable and accrued liabilities	1,253,498	-	-
Shareholders dividends payable	4,193,576	-	-
Loans payable	-	-	-
Convertible debentures	\$ 139,161,491	-	-
Total increase		\$ (9,526)	\$ 3,184,279

(b) Credit and operational risks:

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

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

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting its financial obligations as they become due.

The Corporation's liquidity requirements relate to its obligations under its bank indebtedness, loans payable, convertible debentures, and its obligations to make future advances under its existing portfolio. Liquidity risk is managed by ensuring that the sum of (i) availability under the Corporation's bank borrowing line, (ii) the sourcing of other borrowing facilities, and (iii) projected repayments under the existing investment portfolio, exceeds projected needs (including funding of further advances under existing and new investments).

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(in Canadian dollars)

As at December 31, 2019, the Corporation had not utilized its full leverage availability, being a guideline of 50% of its first mortgage investments. Unadvanced committed funds under the existing investment portfolio amounted to \$107,961,384 as at December 31, 2019 (December 31, 2018 - \$89,188,507). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments. The Corporation has a demand revolving line of credit of \$80 million and a committed revolving line of credit with its principal banker to fund the timing differences between investment advances and investment repayments. The committed line of \$20 million is a committed facility with a maturity date extended to September 30, 2020. In the current economic climate and capital market conditions, there are no assurances that the bank borrowing line will be renewed or that it could be replaced with another lender if not renewed. If it is not extended at maturity, repayments under the Corporation's investment portfolio would be utilized to repay the bank indebtedness. There are limitations in the availability of funds under the revolving line of credit. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing investments creates liquidity for ongoing investments and funding commitments. Loans payable relate to borrowings on specific investments within the Corporation's portfolio and only have to be repaid once the specific loan is paid out by the borrower.

If the Corporation is unable to continue to have access to its bank borrowing line and loans payable, the size of the Corporation's investment portfolio will decrease and the income historically generated through holding a larger portfolio by utilizing leverage will not be earned.

Contractual obligations as at December 31, 2019 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 7 years
Bank indebtedness	\$ 20,336,957	\$ 20,336,957	\$ -	\$ -
Accounts payable and accrued liabilities	1,253,498	1,253,498	-	-
Shareholders dividends payable	4,193,576	4,193,576	-	-
Convertible debentures	\$ 144,980,000	-	45,980,000	\$ 99,000,000
Subtotal - Liabilities	\$ 170,764,031	\$ 25,784,031	\$ 45,980,000	\$ 99,000,000
Future advances under portfolio	107,961,384	107,961,384	-	-
Liabilities and contractual obligations	\$ 278,725,415	\$ 133,745,415	\$ 45,980,000	\$ 99,000,000

The bank indebtedness and loans payable are liabilities resulting from the funding of the Corporation's investments. Repayment of investments results in a direct and corresponding pay down of the bank indebtedness and/or loans payable. The obligations for future advances under the Corporation's investment portfolio are anticipated to be funded from the Corporation's credit facility and borrower repayments. Upon funding of same, the funded amount forms part of the Corporation's investments.

Interest payments on debentures (assuming the amounts remain unchanged) would be \$7,780,408 for less than 1 year, \$14,818,939 for 1 to 3 years and \$11,125,417 for 4 to 7 years.

(d) Capital risk management:

The Corporation defines capital as being the funds raised through the issuance of publicly traded securities of the Corporation. The Corporation's objectives when managing capital/equity are:

- to safeguard the Corporation's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and
- to provide an adequate return to shareholders by obtaining an appropriate amount of debt, commensurate with the level of risk.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(in Canadian dollars)

The Corporation manages the capital/equity structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Corporation may issue new shares or convertible debentures or repay bank indebtedness (if any) and loans payable.

The Corporation's investment guidelines, which can be varied at the discretion of the Board of Directors, incorporate various guidelines and investment operating policies. The Corporation's guidelines include the following: the Corporation (i) will not invest more than 10% of the amount of its capital in any single conventional first mortgage where the loan to value on such loan is less than 60%, (ii) will not invest more than 8% of the amount of its capital in any single conventional first mortgage where the loan to value on such loan is between 60% and 70%, (iii) will not invest more than 5% of the amount of its capital in any single conventional first mortgages where the loan to value on such loan exceeds 70%, (iv) will not invest more than 2.5% of the amount of its capital in any single non-conventional mortgage or conventional investment that is not a first mortgage, and (v) will only borrow funds in order to acquire or invest in investments in amounts up to 60% of the book value of the Corporation's portfolio of conventional first mortgages. Capital is defined as the sum of shareholders' equity plus the face amount of convertible debentures.

The Corporation is required by its bank lender to maintain various covenants, including minimum equity amount, interest coverage ratios, indebtedness as a percentage of the performing first mortgage portfolio size, and indebtedness to total assets. The Corporation is in compliance with all such bank covenants.

(e) Currency risk:

Currency risk is the risk that the fair value or future cash flows of the Corporation's foreign currency-denominated investments and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates. Consequently, the Corporation is subject to currency fluctuations that may impact its financial position and results of operations. The Corporation manages its currency risk on its investments by borrowing the same amount as the investment in the same currency. As a result, a 1% change in the exchange rate of the Canadian dollar against the U.S. dollar will not result in a significant change to the net income and comprehensive income and equity.

18. Supplementary information:

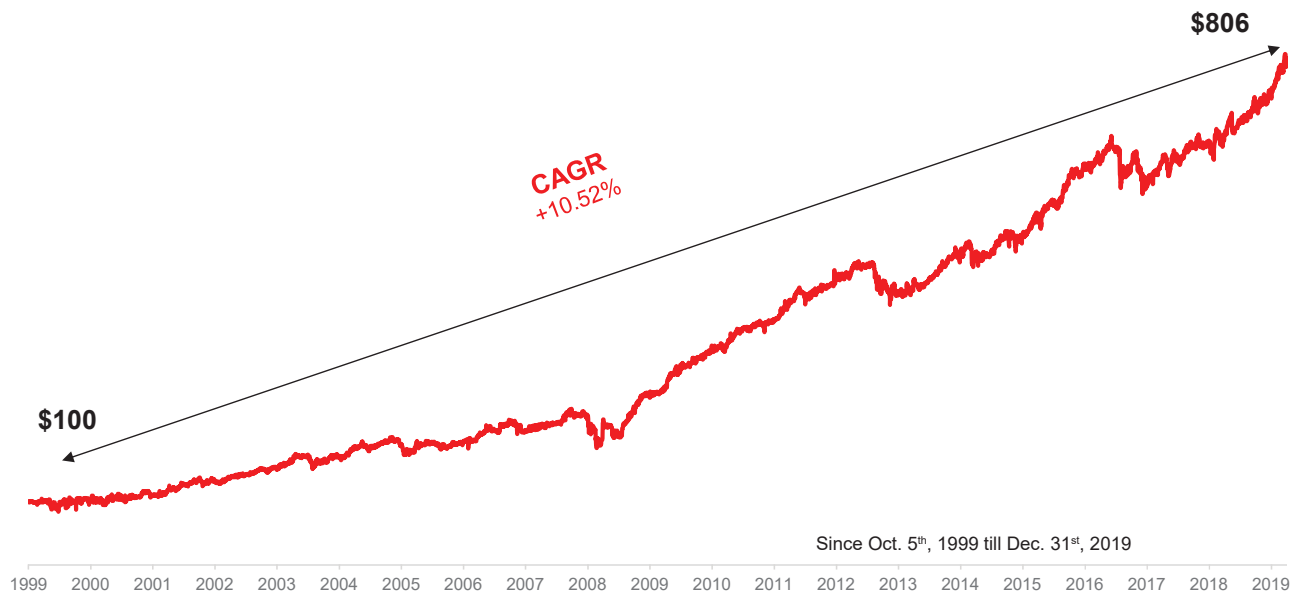
The following table reconciles the changes in cash flows from financing activities for loans payable and convertible debentures:

	Loans Payable	Convertible Debentures
Balance, beginning of the year	14,718,382	179,994,433
Financing cash flow activities:		
Repayment of loans payable	(14,718,382)	-
Repayment of convertible debentures	-	(40,485,000)
Total cash flow from financing activities	(14,718,382)	(40,485,000)
Financing non-cash activities:		
Conversion of convertible debenture to shares (note 9 & 10)	-	(2,020,000)
Implicit interest rate in excess of coupon rate (note 14)	-	400,837
Deferred finance cost amortization (note 14)	-	1,271,220
Total non-cash flow financing activities	-	(347,943)
Balance, end of the year	-	139,161,491

19. Subsequent event:

Subsequent to year end, the COVID-19 pandemic is causing significant financial market and social dislocation. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. The Corporation continues to monitor the investment portfolio and assess the impact COVID-19 will have on its business activities. The extent of the effect of the COVID-19 pandemic on the Corporation is uncertain.

Total Return Since IPO



An investment in Firm Capital, since its initial public offering, has generated an attractive return for investors. Since the IPO in 1999, a \$100 investment in Firm Capital has appreciated to \$806 when factoring in full dividend reinvestment over the same period. The compounded annual growth rate or “CAGR” in Firm Capital Mortgage Investment Corporation shares, since 1999 has been in excess of 10.52%

DIVIDEND REINVESTMENT PLAN

Shareholders are reminded that they can participate in the Corporation's Dividend Reinvestment Plan and Share Purchase Plan. The plan allows participants to have their monthly dividend reinvested in additional shares.

SHARE PURCHASE PLAN

Once registered with the plan, participants have the right to purchase additional Shares at 5 day weighted average market price from the Corporation, totaling no greater than \$12,000 per year and no less than \$250.00 per month. Participating Shareholders pay no commission.

For further information, including answers to frequently asked questions about the program, please refer to our website: www.firmcapital.com. To enroll, please contact your investment advisor or, if you are a registered Shareholder, complete the Authorization Form located on our website and forward to our Transfer Agent, Computershare Trust Company of Canada, at the address noted on the website. You can also contact Investor Relations at the Corporation by calling 416-635-0221, who will assist you in enrolling in the program.



CORPORATE DIRECTORY

Board of Directors

Stanley Goldfarb, FCPA, FCA ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
President
Goldfarb Management Services Limited

Morris Fischtein ⁽¹⁾⁽²⁾⁽³⁾
President
High City Holdings Limited

Anthony Heller ⁽¹⁾⁽²⁾⁽³⁾
President
Plazacorp Investments Limited

Larry Shulman, B. Comm., CPA, CA ⁽¹⁾⁽²⁾⁽³⁾
President
Rabbim Company Finance Inc.

Keith L. Ray, CPA, CA ⁽¹⁾⁽²⁾⁽³⁾
President
Realvest Management

Geoffrey Bledin ⁽¹⁾⁽³⁾
Corporate Director

Eli Dadouch
President
Firm Capital Corporation

Jonathan Mair, CPA, CA
Vice-President, Mortgage Banking and
Chief Financial Officer Firm Capital
Corporation

Edward Gilbert, CPA, CA
Director, Mortgage Investments Firm
Capital Corporation

Victoria Granovski, MFin
Director, Firm Capital Mortgage
Investment Corporation

The Honourable Joe Oliver, P.C.⁽¹⁾⁽³⁾
Former Minister of Finance, Minister of Natural
Resources and Member of Parliament

The Honourable Francis (Frank)
Newbould, Q.C.⁽¹⁾⁽³⁾
Former Justice at the Ontario Superior Court of
Justice

Officers & Senior Management

Eli Dadouch
President and
Chief Executive Officer

Jonathan Mair, CPA, CA
Chief Operating Officer, and
Executive Vice President

Joseph Fried
Secretary

Sandy Poklar, CPA, CA
Executive Vice President and
Managing Director Finance

Boris Baril, CPA, CA
Chief Financial Officer

Victoria Granovski, MFin, CFA
Senior Vice President, Credit and
Equity Capital

Mortgage Banker

Firm Capital Corporation
www.firmcapital.com

Corporation Manager

FC Treasury Management Inc.

Registered Office

Firm Capital Mortgage
Investment Corporation
163 Cartwright Avenue
Toronto, Ontario
M6A 1V5
Telephone: 416-635-0221
Fax: 416-635-1713
Email: investorrelations@firmcapital.com

Auditors

KPMG LLP

Transfer Agent

Computershare Trust Company of Canada

Legal Counsel

Fogler, Rubinoff LLP

Stock Exchange Listing

Shares Listed TSX
Symbol: **FC**
Debentures Listed
TSX Symbol: **FC, FC.DB.E, FC.DB.F, FC.DB.G,
FC.DB.H, FC.DB.I, FC.DB.J**

Plan Eligibility

RRSP RRIF DPSP TFSA

Shareholder Dividend Reinvestment Plan

Firm Capital Mortgage Investment Corporation is offering Canadian Shareholders of the Corporation, an opportunity to increase their holdings by participating in the Corporation's Shareholder Dividend Reinvestment Plan. If you are a Shareholder and would like to enroll or would like further information about the Plan, please contact Firm Capital Mortgage Investment Corporation, Attention: Sandy Poklar - Executive Vice President and Managing Director Finance Telephone (416) 635-0221

(1) Member of the Investment Committee

(2) Member of the Audit Committee

(3) Independent Directors

(4) Chairman of the Board, Investment Committee
and Audit Committee

TAILORED MORTGAGE ENGINEERING BY FIRM CAPITAL®

- Bridge Financing - 1st & 2nd Mortgages
- Land & Construction Financing
- Purpose Built Rental Construction
- Infill Construction
- Residential Mortgages
- Mezzanine Equity Capital
- Preferred Equity Capital
- Partnerships for Investment Properties
- Joint Venture Equity Capital

SELECTED TRANSACTIONS - BOUTIQUE MORTGAGE LENDERS®

<p>LAND FINANCING</p> <p>\$10,800,000</p> <p>FIRST MORTGAGE</p> <p>2.4 acre residential development site</p> <p>TORONTO, ON</p>	<p>BRIDGE LOAN</p> <p>\$4,750,000</p> <p>FIRST MORTGAGE</p> <p>75,400 sq. ft. mixed-use industrial/office building</p> <p>MONTREAL, QC</p>	<p>LAND & CONSTRUCTION LOAN</p> <p>\$108,000,000</p> <p>FIRST MORTGAGE</p> <p>41 storey mixed-use condominium building with 112 luxury residential units</p> <p>TORONTO, ON</p>	<p>PURPOSE BUILT RENTAL CONSTRUCTION LOAN</p> <p>\$99,240,000</p> <p>FIRST MORTGAGE</p> <p>20 storey rental building with 370 units</p> <p>OSHAWA, ON</p>
<p>INFILL CONSTRUCTION LOAN</p> <p>\$4,125,000</p> <p>SECOND MORTGAGE</p> <p>8 semi-detached units and 1 single family house</p> <p>TORONTO, ON</p>	<p>SUBORDINATED CORPORATE DEBENTURE</p> <p>\$30,000,000</p> <p>CORPORATE LINE OF CREDIT</p> <p>International real estate development company with Canadian operations</p> <p>AUGUST 2019</p>	<p>LAND & CONSTRUCTION LOAN</p> <p>\$4,915,000</p> <p>FIRST MORTGAGE</p> <p>4 detached single family homes</p> <p>OAKVILLE, ON</p>	<p>SUBORDINATED CONVERTIBLE DEBENTURE</p> <p>\$20,000,000</p> <p>PRIVATE PLACEMENT</p> <p>Corporate Finance Investment</p> <p>JULY 2019</p>
<p>RESIDENTIAL MORTGAGE</p> <p>\$1,230,000</p> <p>SECOND MORTGAGE</p> <p>5,120 sq. ft. single-family dwelling</p> <p>MONTREAL, QC</p>	<p>INVENTORY LOAN</p> <p>\$28,000,000</p> <p>FIRST MORTGAGE</p> <p>73 residential condominium units</p> <p>TORONTO & MISSISSAUGA, ON</p>	<p>CONSTRUCTION LOAN</p> <p>\$20,000,000</p> <p>SECOND MORTGAGE</p> <p>100 semi-detached units</p> <p>MARKHAM, ON</p>	<p>BRIDGE LOAN</p> <p>\$12,000,000</p> <p>SECOND MORTGAGE</p> <p>66 residential building lots</p> <p>STOUFFVILLE, ON</p>

RELATIONSHIP DRIVEN • EXECUTION FOCUSED

BUILDING
RELATIONSHIPS
FOR OVER
30 YEARS

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Capital
Corporation**

FOR MORE INFORMATION, PLEASE CONTACT:

Firm Capital
 (416) 635-0221
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