FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

REPORT TO SHAREHOLDERS

FIRST QUARTER
MARCH 31, 2020

FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

MD&A

MANAGEMENT DISCUSSION AND ANALYSIS

FIRST QUARTER
MARCH 31, 2020

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 May 7, 2020 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation and the notes thereto as at, and for the three months ended March 31, 2020 and 2019, as well as the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018, and the related Management's Discussion and Analysis, including the section on "Risk and Uncertainties", and each of the quarterly reports for 2019.

HIGHLIGHTS

INCOME

Income for the three months ended March 31, 2020 decreased by 5.3% to $6,236,442 as compared to $6,588,877 reported for the same period in 2019.

REVENUES

Revenues for the three months ended March 31, 2020 decreased by 11.1% to $10,550,399 as compared to $11,862,823 reported for the same period in 2019. The decrease is mainly a result of lower interest income due to a smaller average portfolio size (on average $40 million lower in the first quarter of 2020 vs the first quarter of 2019) and a lower weighted average portfolio interest rate, over the comparable period in 2019. The decrease in the Bank prime rate during the quarter from 3.95% to 2.45% per annum, impacted the Corporation's investment portfolio weighted average interest rate, which decreased from 8.58% at March 31, 2019 to 8.05% at March 31, 2020. Several of the Corporation's investments have Bank prime based interest rate formula.

INVESTMENT PORTFOLIO

The Corporation's investment portfolio (the "Investment Portfolio") increased by $40.2 million to $521.1 million as at March 31, 2020, in comparison to $480.9 million as at December 31, 2019 (in each case, gross of impairment provision). The impairment provision as at March 31, 2020 was $5.51 million (December 2019 - $5.48 million). There was a strong level of new investment funding during the first quarter of 2020 in the amount of $141.4 million (2019 – $51.7 million), while repayments were at $101.2 million (2019 – $23.0 million), resulting in an increase to 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 three months ended March 31, 2020 represented an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 7.88%, representing a return on shareholders' equity of 751 basis points per annum over the average one-year Government of Canada Treasury bill yield of 0.37%.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio was $515,552,875 as at March 31, 2020 (net of the provision for impairment of $5,514,000) and was $475,445,143 as at December 31, 2019 (net of the provision for impairment of $5,480,000). On March 31, 2020 the Investment Portfolio was comprised of 181 investments (196 as at December 31, 2019). The average gross investment size was approximately $2.8 million, with 18 investments individually exceeding $7.5 million. As at March 31, 2020, 131 of the 181 investments were individually less than $2.5 million.

	March 31, 2020			December 31, 2019			
Mortgage Amount	**Number**	**Total Amount (before provision)**	**% of Portfolio**	**Number**	**Total Amount (before provision)**	**% of Portfolio**	***% Change***
$0 - $2,500,000	131	$ 131,975,380	25.3%	151	$ 148,256,833	30.8%	*(11.0%)*
$2,500,001 - $5,000,000	28	101,531,949	19.5%	21	70,373,853	14.6%	*44.3%*
$5,000,001 - $7,500,000	4	32,346,423	6.2%	7	48,279,560	10.0%	*(33.0%)*
$7,500,001 +	18	255,213,123	49.0%	17	214,014,898	44.5%	*19.3%*
Total Investments	181	**$ 521,066,875**	**100%**	196	**$ 480,925,143**	**100%**	*8.3%*
Less: Impairment Allowance		(5,514,000)			(5,480,000)		
Investment Portfolio		**$ 515,552,875**			**$ 475,445,143**		***8.44%***

Unadvanced committed funds under the existing Investment Portfolio amounted to $108 million as at March 31, 2020 (December 31, 2019– $108 million).

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

	March 31, 2020			December 31, 2019			
Investment Categories	*W.A Interest Rate*	**Outstanding amount**	**% of Portfolio**	*W.A Interest Rate*	**Outstanding amount**	**% of Portfolio**	***% Change***
Conventional First Mortgages	*7.87%*	$ 373,380,828	71.7%	*8.32%*	$ 334,859,014	69.6%	*11.5%*
Conventional Non-First Mortgages	*8.91%*	36,238,238	7.0%	*8.84%*	42,337,892	8.8%	*(14.4%)*
Related Debt Investments	*8.81%*	92,182,409	17.7%	*9.45%*	95,532,087	19.9%	*(3.5%)*
Discounted Debt Investments*	-	5,365,400	1.0%	-	5,378,150	1.1%	*(0.2%)*
Non-Conventional Mortgages	*8.78%*	13,900,000	2.7%	*8.52%*	2,818,000	0.6%	*393.3%*
Total Investments	***8.05%***	**$ 521,066,875**	**100%**	***8.49%***	**$ 480,925,143**	**100%**	
Less: Impairment Allowance		(5,514,000)			(5,480,000)		
Investment Portfolio		**$ 515,552,875**			**$ 475,445,143**		***8.4%***

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

The $40.1 million increase in the Investment Portfolio (before the provision for impairment) was mainly due to the increase in the amount of the conventional first mortgages category and non-conventional mortgages, offset by a decrease in conventional non-first mortgages, related debt investments and a marginal decrease in discounted debt investments. There was a strong level of new investment funding during the first quarter of 2020 in the amount of $141.4 million (2019 – $51.7 million), and repayments were $101.2 million (2019 – $23.0 million). The funding level was higher than the repayment level, this resulted in an increase to the Investment Portfolio size.

Conventional first mortgages increased by 11.5% and represented 71.7% of the Investment Portfolio as at March 31, 2020 (69.6% as at December 31, 2019). Conventional non-first mortgages decreased by 14.4% and represented 7.0% of the Investment Portfolio at March 31, 2020 (8.8% as at December 31, 2019). Related debt investments decreased by 3.5% and represented 17.7% of the Investment Portfolio as at March 31, 2020 (19.9% as at December 31, 2019). Discounted debt investments decreased by 0.2% and represented 1.0% of the Investment Portfolio, as at March 31, 2020 (1.1% as at December 31, 2019). Non-conventional mortgages increased by 393.3% and represented 2.7% of the Investment Portfolio as at March 31, 2020 (0.6% as at December 31, 2019). Conventional first mortgages and non-conventional mortgages increased as a result of new investment funding in these categories exceeding repayments.

The related debt 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 weighted average face interest rate on the Corporation's Investment Portfolio was 8.05% per annum as at March 31, 2020, compared to 8.49% per annum as at December 31, 2019. During March 2020, the Bank of Canada lowered its target for the overnight bank rate three times. The weighted average portfolio rate is impacted by changes in the bank rate and has trended lower as a result. The Bank of Canada's overnight rate now stands at 0.25 per cent, and any further rate cuts will not impact the Investment Portfolio, as the weighted average portfolio rate already reflects the floor. Several of the Corporation's investments have Bank prime based interest rate formula.

The provision for impairment is $5,514,000 as at March 31, 2020 (December 31, 2019 - $5,480,000), of which $4,604,000 (December 31, 2019 – $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. As at March 31, 2020, the Corporation carries a collective provision balance of $910,000 (December 31, 2019 - $396,000).

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

	March 31, 2020				December 31, 2019				
Property Type			**Total Amount** (before provision)	**% of Portfolio**	**Number**		**Total Amount** (before provision)	**% of Portfolio**	***% Change***
Construction Mortgages	59	$	114,582,349	22.0%	62	$	109,565,010	22.8%	*4.6%*
Single Family	53		73,228,414	14.1%	60		70,222,853	14.6%	*4.3%*
Land	37		136,493,344	26.2%	39		142,171,487	29.6%	*(4.0%)*
Condo/*Including multi unit condo loans*	3		19,876,000	3.8%	3		27,267,000	5.7%	*(27.1%)*
Multi Family Resi Mortgages	4		45,898,113	8.8%	5		20,770,261	4.3%	*121.0%*
Industrial	4		25,335,748	4.9%	2		2,465,518	0.5%	*927.6%*
Related Investments	13		92,182,409	17.7%	17		95,532,086	19.9%	*(3.5%)*
Other	8		13,470,500	2.6%	8		12,930,928	2.7%	*4.2%*
	181	**$**	**521,066,875**	**100%**	**196**	**$**	**480,925,143**	**100%**	***8.3%***

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 March 31, 2020, the value of the portfolio that is secured by properties outside of Ontario is 12.2%, compared to 7.0% as at December 31, 2019.

	March 31, 2020				December 31, 2019				
Geographic Segment	**Number**		**Total Amount** (before provision)	**% of Portfolio**	**Number**		**Total Amount** (before provision)	**% of Portfolio**	***% Change***
Greater Toronto Area	122	$	285,141,534	66.6%	136	$	314,459,608	81.7%	*(9.3%)*
Non-GTA Ontario	29		90,717,648	21.2%	28		43,591,476	11.3%	*108.1%*
Quebec	10		11,683,501	2.7%	9		10,350,127	2.7%	*12.9%*
Alberta	2		4,000,000	0.9%	2		4,000,000	1.0%	-
Saskatchewan	2		10,561,395	2.5%	2		10,556,355	2.7%	*0.0%*
British Columbia	1		4,500,000	1.0%			-	-	
United States	2		22,280,388	5.1%	2		2,435,491	0.6%	*999.6%*
Mortgage Investment Portfolio	**168**	**$**	**428,884,466**	**100%**	**179**	**$**	**385,393,057**	**100%**	
Related Debt Investments	13		92,182,409		17		95,532,087		
	181	**$**	**525,566,875**		**196**	**$**	**480,925,144**		

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

	March 31, 2020				December 31, 2019				
Underlying Security Type	**Number**		**Total Amount** (before provision)	**% of Portfolio**	**Number**		**Total Amount** (before provision)	**% of Portfolio**	***% Change***
Residential	154	$	357,375,162	68.6%	168	$	333,754,669	69.4%	*7.1%*
Commercial	14		71,509,305	13.7%	11		51,638,387	10.7%	*38.5%*
Related Debt Investments	13		92,182,409	17.7%	17		95,532,087	19.9%	*(3.5%)*
	181	**$**	**521,066,875**	**100%**	**196**	**$**	**480,925,143**	**100%**	***8.3%***

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 $22,280,388 (US$15,704,792) (December 31, 2019 - $2,435,491 (US$1,875,186)).

Included in related debt investments (classified as fair value through profit or loss ("FVTPL")) are four US dollar denominated investments of $18,392,798 (US$12,964,543), (December 31, 2019 - four US dollar denominated investments of $16,726,003 (US$12,878,043)). 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 March 31, 2020, income recorded on the US investments (at amortized cost and FVTPL) was $323,318 (US$224,849), (March 31, 2019 - $304,080 (US$227,554)). These amounts are included in interest and fees income.

Related debt investments (classified as FVTPL) as at March 31, 2020 also included two Canadian investments (December 31, 2019 - two investments) of $18,325,000 (December 31, 2019 - $18,325,000).

The Investment Portfolio as at March 31, 2020 had five investments with balances totaling $11,918,693 (December 31, 2019 – six investments with balances totaling $12,903,309) with contractual interest arrears greater than 60 days past due , amounting to $574,445 (December 31, 2019 – $666,620), for which management has determined that no provision for impairment is required (December 31, 2019 – $nil). Subsequent to March 31, 2020, one of the five investments was paid out reducing the balance by $1,760,000.

The investment portfolio as at March 31, 2020, includes twelve investments totaling $39,013,138 (December 31, 2019 - eleven investments totaling $23,762,758) with maturity dates that are past due and for which no extension or renewal was in place. Two of the twelve investments were paid out after March 31, 2020, reducing the balance by $2,872,320 (December 31, 2019 - three investments totaling $3,107,050). Three investments totaling $13,039,146 (December 31, 2019 - three investments totaling $13,034,146) have an allowance against them included in the Corporation's provision for impairment. The remaining seven investments with maturity dates that are past due, and for which no extension or renewal was in place, totaling $23,101,672 (December 31, 2019 - five investments totaling $7,621,561) have been determined to not require a provision.

As at March 31, 2020, the Investment Portfolio continued to be heavily concentrated in short-term investments, with approximately 50% of the portfolio maturing by December 31, 2020 and approximately 93% 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:

	March 31, 2020			
Years	**Number**		**Total Amount (before provision)**	**% of Portfolio**
2021	111	$	260,932,223	50.08%
2022	58		224,051,621	43.00%
2023	9		32,258,427	6.19%
2024	1		152,400	0.03%
2025	1		3,527,606	0.68%
2026	1		144,598	0.03%
	181	**$**	**521,066,875**	**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 March 31, 2020, 138 of the Corporation’s 181 investments (investment amount of $443,962,171) are shared with other participants, and 26 of which (investment amount of $143,649,995) the Corporation is a participant for less than 50% percent of the loan amount.

Certain members of our Board of Directors and senior management and their related entities co-invested approximately $60 million with the Corporation alongside its March 31, 2020, 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 an investment with a first priority syndicate participant (i.e. loans payable), the Corporation ranks pari passu with other members of the syndicate as to the receipt of principal, interest, and fees. As at March 31, 2020, one investment with first priority syndicate participation was outstanding.

RESULTS OF OPERATIONS

REVENUES

For the three months ended March 31, 2020, revenues decreased by 11.1% to $10,550,339 compared to $11,862,823 for the three months ended March 31, 2019.

Revenues for the three months ended March 31, 2020 and March 31, 2019 are broken down as follows:

Three Months Ended	March 31, 2020	%	March 31, 2019	%	% Change
Interest	$ 9,935,096	94.2%	$ 11,304,460	95.3%	(12.1%)
Commitment & Renewal Fees	542,452	5.1%	477,225	4.0%	13.7%
Other Income	72,852	0.7%	81,138	0.7%	(10.2%)
	$ 10,550,399	**100.0%**	**$ 11,862,823**	**100.0%**	**(11.1%)**

For the three months ended March 31, 2020, interest income was $9,935,096, a decrease of 12.1% over the $11,304,460 reported for the comparable period in 2019. The lower interest income is a result of a smaller average Investment Portfolio size and a lower weighted average portfolio interest rate, over the comparable period in 2019.

For the three months ended March 31, 2020, commitment and renewal fees were $542.452, an increase of 13.7% from $477,225 reported for the comparable period in 2019. As at March 31, 2020, the Corporation had deferred commitment fee revenue of $1,095,488 (December 31, 2019 – $950,377). The Corporation's policy is to recognize commitment 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 ended March 31, 2020 other income was $72,852 (2019 – $81,138).

CORPORATION MANAGER SPREAD INTEREST ALLOCATION

During the three months ending March 31, 2020, the Corporation Manager received $859,813 (2019 – $949,444), through a spread interest arrangement. The decrease in the spread interest is related to the decrease in the average size of the Investment Portfolio over the comparable period in 2019.

INTEREST EXPENSE

For the three months ended March 31, 2020, interest expense decreased by 24.6% to $2,719,230 as compared to $3,604,468 for the three months ended March 31, 2019. The Corporation's indebtedness was lower during the first quarter of 2020 over the comparable quarter in 2019, primarily a result of a convertible debenture redemption on December 20, 2019, totaling $20,000,000, resulting in lower convertible debenture interest and the lower average size of the Investment Portfolio during the period, which required less borrowing under our credit facility. This translated into lower interest expense.

Interest expense is broken down as follows:

Three Months Ended		March 31, 2020	%		March 31, 2019	%	%
Bank Interest Expense	$	278,088	10.2%	$	472,835	13.1%	(41.2%)
Loan Payable Interest Expense		134,695	5.0%		217,149	6.0%	(38.0%)
Debenture Interest Expense		2,306,447	84.8%		2,914,484	80.9%	(20.9%)
	$	**2,719,230**	**100.0%**	**$**	**3,604,468**	**100.0%**	**(24.6%)**

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

For the three months ended March 31, 2020, G&A expenses increased by $83,981 to $332,163, compared to the $248,182 for the three months ended March 31, 2019. During the first quarter of 2020, the Corporation expensed enforcement costs (consisting of property tax and insurance) in the amount of $89,332 relating to one of its defaulted mortgages. This mortgage has been paid off and no further expenses will be incurred on it.

THE PROVISION FOR IMPAIRMENT ON INVESTMENT PORTFOLIO AND INTEREST RECEIVABLE

The provision for impairment for the three months ended March 31, 2020 was $402,751 (2019 – $471,852). 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 March 31, 2020, was $6,236,442 (2019 – $6,588,877), which represents a decrease of 5.3%.

Income for the quarter ended March 31, 2020, represented an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 7.88%. This return on shareholders' equity represents 751 basis points per annum over the average one-year Government of Canada Treasury bill yield of 0.37% 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. 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 March 31, 2020, was $0.218 (2019 – $0.246), a decrease of 11.4% over the comparable quarter.

Diluted weighted average earnings per share for the three months ended March 31, 2020, was $0.218, (2019 – 0.241), a decrease of 22.8% over the comparable quarter.

QUARTERLY FINANCIAL INFORMATION

($ in millions except per unit amounts)	Mar. 31 2020	Dec. 31 2019	Sep. 30 2019	Jun. 30 2019	Mar. 31 2019	Dec. 31 2018	Sep. 30 2018	Jun. 30 2018
Operating revenue	$ 10.55	$ 11.04	$ 12.23	$ 12.21	$ 11.86	$ 11.53	$ 12.39	$ 11.64
Interest expense	2.72	2.77	2.93	3.37	3.60	3.67	3.81	3.68
Corporation manager spread interest allocation	0.86	0.82	0.90	1.01	0.95	0.99	0.96	0.97
General & administrative expenses	0.33	0.38	0.33	0.28	0.24	0.31	0.23	0.25
Impairment loss on investment portfolio	0.40	0.39	0.38	0.50	0.47	0.46	0.46	0.45
Income	**$ 6.24**	**$ 6.68**	**$ 7.69**	**$ 7.05**	**$ 6.60**	**$ 6.10**	**$ 6.93**	**$ 6.29**
Earnings per share								
- Basic	**$0.218**	**$0.237**	**$0.273**	**$0.251**	**$0.246**	**$0.233**	**$0.265**	**$0.241**
- Diluted	**$0.218**	**$0.209**	**$0.260**	**$0.244**	**$0.241**	**$0.231**	**$0.253**	**$0.237**
Dividends per share	**$0.234**	**$0.304**	**$0.234**	**$0.234**	**$0.234**	**$0.284**	**$0.234**	**$0.234**

DIVIDENDS

For the three months ended March 31, 2020, the Corporation declared dividends on the Shares totaling $6,700,442, or $0.234 per Share. The number of Shares outstanding at March 31, 2020 was 28,700,531, compared to 27,937,215 at March 31, 2019.

Three Months Ended		**March 31, 2020**		**March 31, 2019**	**Change**
Cash Flow From Operating Activities (net of cash interest paid)	$	7,864,372	$	6,656,452	**18%**
Profit	$	6,236,442	$	6,588,877	**(5%)**
Declared Dividends	$	6,700,959	$	6,257,548	**7%**
Excess Cash Flow From Operating Activities Over Declared Dividends	$	1,163,413	$	398,904	
(Deficit) Surplus Over Declared Dividends	$	(464,517)	$	331,329	

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses of $4,411,592 as at March 31, 2020, comprised of interest receivable (net of impairment provision) of $3,852,831, prepaid expenses of $112,359, fees receivable of $404,907, and other income receivable of $41,495, compared to $4,099,876 as at December 31, 2019.

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 $42,139 (investment cost $50,966) balance reported on the Corporation's balance sheet as at March 31, 2020 represents the fair value of the marketable securities comprising the portfolio (December 31, 2019 – $250,285, investment cost $185,026).

CREDIT FACILITY AND BANK INDEBTEDNESS

As at March 31, 2020, the bank indebtedness amount was $40,673,186 and the cash balance was $8,149,468 (December 31, 2019, the bank indebtedness was $20,336,957 and the cash balance was $nil).

LOANS PAYABLE

First priority charges on a specific mortgage investment have been granted as security for the loans payable. This loan matures on the date consistent with the underlying mortgage, is on a non-recourse basis and bears interest at the rate of 3.55% as at March 31, 2020. The Corporation's loans payable balance as at March 31, 2020 was $27,000,000 (December 31, 2019 - $nil) and the principal balance outstanding under the mortgages for which a first priority charge has been granted is $37,125,000 as at March 31, 2020 (December 31, 2019 - $nil).

CONVERTIBLE DEBENTURES

As at March 31, 2020, 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	22,111,000	13.95	21,736,542
FC.DB.F	5.50%	Dec. 22, 2015	Dec. 31, 2022	20,497,000	14.00	19,946,549
FC.DB.G	5.20%	Dec. 21, 2016	Dec. 31, 2023	22,500,000	15.25	21,699,180
FC.DB.H	5.30%	Jun. 27, 2017	Aug. 31, 2024	26,500,000	15.25	25,544,030
FC.DB.I	5.40%	Jun. 21, 2018	Jun. 30, 2025	25,000,000	15.00	23,860,171
FC.DB.J	5.50%	Nov. 23, 2018	Jan. 31, 2026	24,983,000	14.60	23,382,276
Total / Average	**5.37%**			**$ 141,591,000**		**$ 136,168,748**

As at March 31, 2020, the principal balance for the outstanding convertible debentures was $141,591,000 (December 31, 2019 – $144,980,000). The convertible debenture carrying value as at March 31, 2020 was $136,168,748 (December 31, 2019 – $139,161,491). The weighted average effective interest rate of the convertible debentures is 5.37% per annum (December 31, 2019 – 5.37%).

During the three months ended March 31, 2020, $3,389,000 of the debentures were converted into 242,501 Shares.

On December 20, 2019, the Corporation completed an early 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.

OTHER LIABILITIES

Other liabilities for the Corporation include the following:

Additional Liabilities	Mar. 31, 2020	Dec. 31, 2019	% Change
Accounts Payable and Accrued Liabilities	$ 2,549,942	$ 1,253,498	103.4%
Deferred Revenue	1,095,488	950,377	15.3%
Shareholders' Dividend Payable	2,238,641	4,193,576	(46.6%)
Total	**$ 5,884,071**	**$ 6,397,451**	**(8.0%)**

Accounts payable and accrued liabilities increased by 103.4% to $2.549,942 as at December 31, 2020, compared to $1,253,498 as at December 31, 2019. Accounts payable and accrued liabilities include interest payable of $1,881,620 (December 31, 2019 – $627,262) and accrued liabilities of $668,322 (December 31, 2019 – $626,236).

Deferred revenue is comprised of commitment fees generated on the Corporation's mortgage investments. As at March 31, 2020, the commitment fees was $1,095,488 (December 31, 2019 – $950,377). The Corporation's policy is to recognize commitment fees over the term of the related loans.

SHAREHOLDERS' EQUITY
Shareholders' equity at March 31, 2020 totaled $318,430,072 compared to $313,899,405 as at December 31, 2019. The Corporation had 28,700,531 Shares issued and outstanding as at March 31, 2020 compared to 28,334,972 Shares as at December 31, 2019. The increase is attributable to 58,058 Shares issued under the DRIP (2019 – 43,009), which amounted to $838,835 (2019 – $601,652) and 65,000 stock options were exercised (2019 – 46,250), which amounted to $771,950 (2019 – $549,272), also $3,389,000 of debentures were converted into 242,501 Shares during the quarter.

On March 30, 2020, the Corporation received approval from the Toronto Stock Exchange ("TSX") for its intention to make a normal course issuer bid (the "NCIB") with respect to the Shares. The notice provides that the Corporation may, during the 12 months period commencing April 3, 2020 and ending no later than April 2, 2021, purchase through the facilities of the TSX or alternative Canadian Trading Systems up to 2,800,000 Shares in total, being approximately 10% of the "public float" of common shares as of March 30, 2020.

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, granted to the underwriters of this offering, 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 number of Shares issued pursuant to this offering 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:

	March 31, 2020	December 31, 2019
Conventional First Mortgages	3,771,000	4,819,000
Conventional Non-First Mortgages	75,000	46,000
Related Debt Investments	-	-
Discounted Debt Investments	-	-
Non-Conventional Mortgages	758,000	219,000
Total Specific Provision	**4,604,000**	**5,084,000**
IFRS 9 Collective Provision	910,000	396,000
Total Provision	**5,514,000**	**5,480,000**

The following table presents the changes to the provision for credit losses on loans as at March 31, 2020:

The changes to the allowance	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2020	396,000	-	6,304,077	6,700,077
Provision for (recovery of) credit losses	514,000	-	(111,248)	402,752
Transfer to (from):	-	-	-	-
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Allocation of provision to interest receivable	-	-	(1,588,829)	(1,588,829)
Balance at March 31, 2020	**910,000**	**-**	**4,604,000**	**5,514,000**

The loans comprising the Investment Portfolio are stated at amortized cost and FVTPL. As of March 31, 2020, the provision for impairment is $5,514,000 (December 31, 2019 – $5,480,000) of which $4,604,000 (December 31, 2019 – $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 March 31, 2020, the Corporation carries a collective impairment provision of $910,000 (December 31, 2019 – $396,000). The

Corporation has allocated the impairment provision in the amount of $1,588,829 (2019 – $1,220,077) to interest receivable related to loans in default.

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 March 31, 2020, this amount was $859,813 (2019 - $949,444). Included in accounts payable and accrued liabilities at March 31, 2020 are amounts payable to the Corporation's Manager of $303,715 (December 31, 2019 - $275,964).

For the three months ended March 31, 2020, the director's fees were $76,750 (2019 – $71,000). Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The directors and officers of the Corporation held 655,235 Shares as at March 31, 2020 (December 31, 2019 - 542,587).

During the three months ended March 2020, the Corporation did not grant any options (2019– 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 $115,000 for the three months ended March 31, 2020 (2019 - $127,000). 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.

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, 2019 - $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 three months and year ended March 31, 2020, the Corporation recognized interest and fees earned of $nil (2019 - $nil) from this investment. The impairment provision recorded on this loan was reduced to $nil as at March 31, 2020 (December 31, 2019 – $300,000).

Aggregate compensation paid to key management personnel (including payments to related parties for recovery of costs), all consisted of short-term employee compensation of $589,754 for the three months ended March 31, 2020 (2019 - $533,933) and 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 unaudited interim condensed consolidated financial statements for the three months ended March 31, 2020.

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 a 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.

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.

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 unaudited interim condensed consolidated financial statements present the fair values of the Corporation's financial instruments as at March 31, 2020 and December 31, 2019. 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 March 31, 2020 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 7 years
Bank indebtedness	$ 32,523,718	$ 32,523,718	$ -	$ -
Accounts payable and accrued liabilities	2,549,942	2,549,942	-	-
Loan on debenture portfolio investment	-	-	-	-
Shareholder dividends payable	2,238,641	2,238,641	-	-
Loans payable	27,000,000	27,000,000	-	-
Convertible debentures	141,591,000	-	65,108,000	76,483,000
Subtotal - Liabilities	$205,903,301	$ 64,312,301	$ 65,108,000	$ 76,483,000
Future advances under portfolio	107,912,218	107,912,218	-	-
Liabilities and contractual obligations	$313,815,519	$172,224,519	$ 65,108,000	$ 76,483,000

SIGNIFICANT ACCOUNTING POLICIES
Significant accounting policies are described in note 3 of the Corporation's financial statements for the three months ended March 31, 2020 and 2019.

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 March 31, 2020, 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 March 31, 2020 (December 31, 2019 - $108 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 (up to $80 million) and a demand component (up to $20 million). The Corporation is in compliance with the covenants contained in the credit facility and expects to be in compliance with such covenants going forward. 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.

RISKS AND UNCERTAINTIES

The Corporation follows investment guidelines and operating policies, as outlined in the AIF. Our 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 first quarter of 2020, 28 investment approvals were sent to the Board of Directors. During the fiscal year of 2019, 79 investment approvals were sent to the Board of Directors 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.

- *On January 30, 2020, the World Health Organization declared COVID-19 outbreak a global health emergency. Many governments have likewise declared that the COVID-19 outbreak in their jurisdictions constitutes an emergency. Reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, business closures, quarantines and a general reduction in consumer activity. While these affects are expected to be temporary, the duration of the business disruption and related financial impact cannot be reasonably estimated at this time. The volatility and disruption related to the COVID-19 outbreak and the reactions to it may result in a disruption or deferral in borrower payments, a decline in the appraised value or salability of properties, a deterioration of the credit worthiness of the borrowers, an inability for the borrowers to obtain additional financing, should the need arise, and/or the need to extend the maturity date of the mortgage. At this point, the extent to which COVID-19 may impact the Corporation is uncertain.*
- *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 the Income Tax Act (Canada) (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.*
- *Litigation risk. We may, from time to time, become involved in legal proceedings in the course of our business. The costs of litigation and settlement can be substantial and there is no assurance that such costs will be recovered in whole or at all. During litigation, we might not receive payments of interest or principal on a mortgage that is the subject of litigation, which would affect our cash flows. An unfavourable resolution of any legal proceedings could have a material adverse effect on us, our financial position and results of operations.*
- *Ability to manage growth: We intend to grow our Investment Portfolio. In order to effectively deploy our capital and monitor our loans and investments in the future, we, the Corporation Manager and/or the Mortgage Banker will need to retain additional personnel and may be required to augment, improve or replace existing systems and controls, each of which can divert the attention of management from their other responsibilities and present numerous challenges. As a result, there can be no assurance that we would be able to effectively manage our growth and, if unable to do so, our Investment Portfolio, and the market price of our securities, may be materially adversely affected.*
- *Cyber risk: We collect and store confidential and personal information. Unauthorized access to our computer systems could result in the theft or publication of confidential information or the deletion or modification of records or could otherwise cause interruptions in our operations. In addition, despite implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. Any such system failure, accident or security breach could disrupt our business and make our applications unavailable. If a person penetrates our network security or otherwise misappropriates sensitive data, we could be subject to liability or our business could be interrupted, and any of these developments could have a material adverse effect on our business, results of operations and financial condition.*
- *Convertible debentures: Risks relating to the ownership of our outstanding Convertible Debentures are set out in the section entitled "Risk Factors" contained in each of our (final) prospectuses or prospectus supplements qualifying the distribution of such outstanding Convertible Debentures, which sections are incorporated herein by reference and available on SEDAR at www.sedar.com.*
- *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.*

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 unaudited interim condensed consolidated financial statements as at, and for the three months period ended, March 31, 2020 and 2019.

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, 2019 and March 31, 2020 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 March 31, 2020. 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 March 31, 2020 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.

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 2020 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 the impact of COVID-19 pandemic, 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; adequate bank indebtedness are available to the Corporation; and a non-material impact resulting from COVID-19 pandemic. 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.

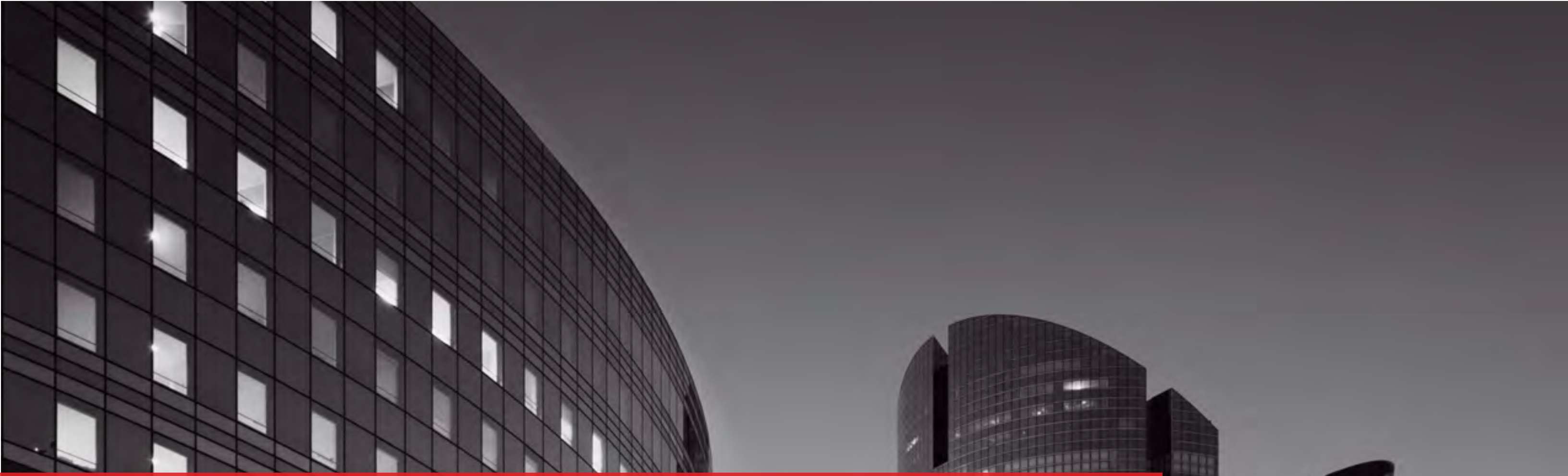
All forward-looking statements in this MD&A are qualified by these cautionary statements. Except as required by applicable law, the Corporation undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

OUTLOOK

The Corporation’s Investment Portfolio has continued to revolve with significant investment repayments. We have continuously stated that our intention was to revolve the portfolio into new investments that reflect our view of recent values and on keeping matters simple. For the first quarter of 2020, we were repaid $101 million and funded $141 million in new investments, or 30% of the average portfolio in one quarter. Further, we have been stating we would turn this Investment Portfolio, if need, be at lower interest rates to insure we originate solid investments and that any reduction in interest would be off set in time with the portfolio turn. The three reductions in the Bank of Canada policy rate in March and the corresponding reduction in Bank Prime has reduced interest rates and have caused interest revenue to decline. This decline could be offset by new investments throughout the year, if some are done at higher rates but there are no assurance that this will occur as the focus at this time is safety, not yield.

During March 2020, the COVID-19 pandemic has caused significant financial market and social dislocation, the extent of the effect of the COVID-19 pandemic on the Corporation is uncertain. The Corporation continues to monitor the investment portfolio and assess the impact COVID-19 will have on it. The Corporation's investment underwriting and loan management team have been together since the Corporation went public in 1999 and have worked together since the 1990's real estate recession. This management team has over 23 years of experience of working together, in dealing with risk mitigation, collections, and underwriting. Since going public, management has stuck to its stated policy, that our one objective of *"Protecting Shareholders Equity"* first. We have always stated our focus is on having a strong balance sheet and we would never grow for the sake of growth. We are proud of our management team for staying so focused on these objectives. On March 26, 2020 the Corporation issued a press release outlining the Corporation's balance sheet position and liquidity. We anticipate that May 1, 2020 payment experience will be similar to April 1, 2020.

As we address this market, we are looking for opportunities. We are reinvesting selectively, with the investment policy of doing less, making more and being able to hold a hard line on what we feel are margin of safety values, sponsor quality and warranted pricing. We expect this trend to continue throughout 2020. There are no assurances that new lending interest rates will offset the drop in interest rates, as the focus is on security, not yield. The Mortgage Banker continues to reject a significant number of potential investments that don't meet its investment criteria and risk tolerance. We will continue to be very hands on in managing all aspects of the business and remind shareholders that they need to look at investing in our Corporation as a long-term investment and not driven by short term events.



FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FIRST QUARTER
MARCH 31, 2020

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Interim Condensed Consolidated Balance Sheets

(in Canadian dollars)

(Unaudited)

As at		March 31, 2020		December 31, 2019
Assets				
Amounts receivable and prepaid expenses (note 4)	$	4,411,592	$	4,099,876
Marketable securities (note 5)		42,139		250,285
Investment portfolio (note 6)		515,552,875		475,445,143
Total assets	$	520,006,606	$	479,795,304
Liabilities				
Credit facility and bank indebtedness (note 7)	$	32,523,718	$	20,336,957
Accounts payable and accrued liabilities		2,549,942		1,253,499
Deferred revenue		1,095,488		950,377
Shareholders' dividends payable		2,238,641		4,193,576
Loans payable (note 8)		27,000,000		--
Convertible debentures (note 9)		136,168,745		139,161,491
Total liabilities	$	201,576,534	$	165,895,899
Shareholders' Equity				
Common shares (note 10)	$	315,160,032	$	310,158,598
Equity component of convertible debentures		2,076,500		2,111,650
Stock options (note 10)		80,936		87,186
Contributed surplus		1,863,776		1,828,626
Deficit		(751,172)		(286,655)
Total shareholders' equity	$	318,430,072	$	313,899,405
Commitments (note 6)				
Contingent liabilities (note 15)				
Total liabilities and shareholders' equity	$	520,006,606	$	479,795,304

See accompanying notes to interim condensed consolidated financial statements.

On behalf of the Directors:

"Eli Dadouch"	*"Jonathan Mair"*
ELI DADOUCH	JONATHAN MAIR
Director	Director

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Interim Condensed Consolidated Statements of Income and Comprehensive Income

(in Canadian dollars)

(Unaudited)

	March 31, 2020	March 31, 2019
Revenues		
Interest and fees income	$ 10,477,548	$ 11,781,685
Other income	72,851	81,138
	10,550,399	11,862,823
Operating expenses		
Corporation manager spread interest allocation (note 13)	859,813	949,444
Interest expense (note 14)	2,719,230	3,604,468
General and administrative expenses	332,163	248,182
Provision for impairment on investment portfolio and interest receivable (note 4 and 6)	402,751	471,852
	$ 4,313,957	$ 5,273,946
Net income and comprehensive income for the period	$ 6,236,442	$ 6,588,877
Earnings per share (note 11)		
Basic	$0.218	$0.246
Diluted	$0.218	$0.241

See accompanying notes to interim condensed consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(in Canadian dollars)

(Unaudited)

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Surplus (Deficit)	Accumulated other comprehensive income	Shareholders' equity
Balance at January 1, 2020	$ 310,158,598	$ 2,111,650	$ 87,186	$ 1,828,626	($286,655)	-	$313,899,405
Offering costs	1,649	-	-	-	-	-	1,649
Proceeds from issuance of shares from dividend reinvestment	838,835	-	-	-	-	-	838,835
Conversion and redemption of debentures	3,389,000	(35,150)	-	35,150	-	-	3,389,000
Exercise of stock options (note 10 (b))	771,950	-	(6,250)	-	-	-	765,700
Net income and comprehensive income for the period	-	-	-	-	6,236,442	-	6,236,442
Dividends to shareholders (note 12)	-	-	-	-	(6,700,959)	-	(6,700,959)
Balance at March 31, 2020	**$ 315,160,032**	**$ 2,076,500**	**$ 80,936**	**$ 1,863,776**	**(751,172)**	**$ -**	**$ 318,430,072**
Shares issued and outstanding (note 10)	**28,700,531**						

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Surplus (Deficit)	Accumulated other comprehensive income (loss)	Shareholders' equity
Balance at January 1, 2019	$ 282,362,724	$ 3,254,000	$ 91,633	$ 686,276	($286,655)	-	$ 286,107,978
Issuance of shares	23,073,600	-	-	-	-	-	23,073,600
Offering costs	(1,062,213)	-	-	-	-	-	(1,062,213)
Proceeds from issuance of shares from dividend reinvestment	8,899	-	-	-	-	-	8,899
Conversion and redemption of debentures	-	(690,000)	-	690,000	-	-	-
Exercise of stock options (note 10 (b))	534,427	-	(4,327)	-	-	-	530,100
Net income and comprehensive income for the period	-	-	-	-	6,588,877	-	6,588,877
Dividends to shareholders (note 12)	-	-	-	-	(6,257,548)	-	(6,257,548)
Balance at March 31, 2019	**$ 304,917,437**	**$ 2,564,000**	**$ 87,306**	**$ 1,376,276**	**44,674**	**-**	**308,989,693**
Shares issued and outstanding (note 10)	**27,937,215**						

See accompanying notes to interim condensed consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Interim Condensed Consolidated Statements of Cash Flows

(in Canadian dollars)

(Unaudited)

		March 31, 2020		March 31, 2019
Cash provided by (used in):				
Operating activities:				
Income and profit for the period	$	6,236,442	$	6,588,877
Adjustments for:				
Financing costs (net of implicit interest rate and deferred finance cost amortization)		2,322,974		3,168,725
Implicit interest rate in excess of coupon rate - convertible debentures (note 9)		87,444		113,254
Deferred finance cost amortization - convertible debentures (note 14)		308,812		322,491
Provision for impairment on investment portfolio and interest receivable		402,751		471,852
Share-based compensation		(6,250)		(4,327)
Unrealized (gain)/loss on marketable securities investments (note 5)		74,086		(19,691)
Net change in non-cash operating items:				
Accrued interest payable		(1,344,925)		(757,848)
Receivables and prepaid expenses		(680,467)		(1,551,195)
Accounts payable and accrued liabilities		1,296,443		742,627
Deferred revenue		145,111		(7,435)
Net cash flow from operating activities	$	8,842,421	$	9,067,329
Financing activities:				
Issuance of shares in new offerings		-		23,073,600
Issuance of shares from dividend reinvestment		838,835		8,899
Exercise of stock options		771,950		534,427
Repayment of convertible debentures (note 9)		-		(20,485,000)
Equity offering costs		1,649		(1,062,213)
Advance/(repayment) of loans payable		27,000,000		(1,175,531)
Cash interest paid (note 14)		(978,049)		(2,410,877)
Dividends to shareholders paid during the period (note 12)		(8,655,894)		(7,424,819)
Net cash flow from (used in) financing activities	$	18,978,491	$	(8,941,516)
Investing activities:				
Sales of marketable securities		134,060		-
Funding of investment portfolio		(141,352,007)		(51,731,178)
Discharging of investment portfolio		101,210,274		23,018,252
Net cash flow from (used in) investing activities	$	(40,007,673)	$	(28,712,926)
Net increase (decrease) in cash flow for the period	$	(12,186,761)	$	(28,587,113)
Cash and cash equivalents (bank indebtedness), beginning of period		(20,336,957)		(32,704,070)
Cash and cash equivalents (bank indebtedness), end of period	$	(32,523,718)	$	(61,291,183)

Cash flows from operating activities include:

Interest received	$	8,390,064	$	9,912,768

Supplementary cash flow information :

Conversions of debenture to shares (note 9)

See accompanying notes to interim condensed consolidated financial statements.

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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:

The unaudited interim condensed consolidated financial statements of the Corporation have been prepared by management in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The preparation of these unaudited interim condensed consolidated financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). The accompanying unaudited condensed interim consolidated financial statements should be read in conjunction with the notes to the Corporation's audited consolidated financial statements for the year ended December 31, 2019, since they do not contain all disclosures required by IFRS for annual financial statements. These unaudited interim condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

These unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through comprehensive income or available for sale through other comprehensive income, which are measured at fair value. These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

These unaudited interim condensed consolidated financial statement were approved by the Board of Directors on May 7, 2019.

3. Significant accounting policies:

The significant accounting policies used in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those as described in note 3 of the Corporation’s audited consolidated financial statements for the year ended December 31, 2019.

(in Canadian dollars)

4. Amounts receivable and prepaid expenses:

The following is a breakdown of amounts receivable and prepaid expenses as at March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
Interest receivable, net of impairment provision	$ 3,852,830	$ 3,402,067
Prepaid expenses	112,359	136,364
Fees receivable	404,908	532,769
Special profit income receivable	41,495	28,676
Amounts receivable and prepaid expenses	$ 4,411,592	$ 4,099,876

Interest receivable is net of the impairment provision of $1,588,829 (December 31, 2019 - $1,220,077); see note 6.

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 March 31, 2020 is $42,139 (December 31, 2019 - $250,285). For the three months ended March 31, 2020, the Corporation recorded an unrealized loss of $74,086 (2019 - an unrealized loss of $41,080).

6. Investment portfolio:

The following is a breakdown of the investment portfolio as at March 31, 2020 and December 31, 2019:

	March 31, 2020		December 31, 2019	
Conventional first mortgages	$ 373,380,828	71.7%	$ 334,859,014	69.6%
Conventional non-first mortgages	36,238,238	7.0%	42,337,892	8.8%
Related debt investments	55,464,611	10.6%	60,481,084	12.6%
Discounted debt investments	5,365,400	1.1%	5,378,150	1.2%
Non-conventional mortgages	13,900,000	2.7%	2,818,000	0.6%
Total investments (at amortized cost)	484,349,077	93.1%	$ 445,874,140	92.8%
Provision for impairment	(5,514,000)		(5,480,000)	
Total investments (at amortized cost), net	478,835,077		440,394,140	
Related debt investments (at FVTPL)	36,717,798	6.9%	35,051,003	7.2%
Total investments (at FVTPL)	36,717,798		35,051,003	
Total investments	521,066,875	100.0%	480,925,143	100.0%
Investment portfolio	$ 515,552,875	100%	$ 475,445,143	100%
By geography:				
Canada	$ 474,879,689	92.1%	$ 456,283,649	96.0%
United States	40,673,186	7.9%	19,161,494	4.0%
Total	$ 515,552,875	100%	$ 475,445,143	100%

Included in conventional first mortgages are two United States ("US") dollar denominated investments (at amortized cost) of $22,280,388 (US$15,704,792) (December 31, 2019 - $2,435,491 (US$1,875,186)).

(in Canadian dollars)

Included in related debt investments (classified at FVTPL) are four US dollar denominated investments of $18,392,798 (US$12,964,543), (December 31, 2019 - four US dollar denominated investments of $16,726,003 (US$12,878,043)). 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 March 31, 2020, income recorded on the US investments (at amortized cost and FVTPL) was $323,318 (US$224,849), (2019 - $304,080 (US$227,554)). These amounts are included in interest and fees income.

Related debt investments (classified as FVTPL) as at March 31, 2020 also included two Canadian investments (December 31, 2019 - two investments) of $18,325,000 (December 31, 2019 - $18,325,000).

As at March 31, 2020, $37,125,000 (December 31, 2019 - $nil) of the mortgages within the conventional first mortgage portfolio had first priority syndicate participations totaling $27,000,000 (December 31, 2019 - $nil), which were recorded on the Corporation's balance sheets as loans payable (see note 8). The Corporation's net investment in these mortgages is $10,125,000 (December 31, 2019 - $nil).

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 debt 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 March 31, 2020:

	March 31, 2020		
	Gross carrying amount	Provision for impairment	Net carrying amount
Conventional first mortgages	$ 373,380,828	$ 4,681,000	$ 368,699,828
Conventional non-first mortgages	36,238,238	75,000	36,163,238
Related debt investments	92,182,409	-	92,182,409
Discounted debt investments	5,365,400	-	5,365,400
Non-conventional mortgages	13,900,000	758,000	13,142,000
Total investment portfolio	$ 521,066,875	$ 5,514,000	$ 515,552,875

Included in the total provision for impairment of $5,514,000 is a collective allowance of $910,000.

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 debt 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	$ 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.

(in Canadian dollars)

The following is a breakdown of the provision for impairment credit losses of the investment portfolio as at March 31, 2020:

	March 31, 2020		
	Gross carrying amount	Provision for impairment	Net carrying amount
Conventional first mortgages	$ 82,424,208	$ 4,681,000	$ 77,743,208
Conventional non-first mortgages	396,000	75,000	321,000
Related debt investments	-	-	-
Discounted debt investments	-	-	-
Non-conventional mortgages	13,900,000	758,000	13,142,000
Total investment portfolio	$ 96,720,208	$ 5,514,000	$ 91,206,208
By geography:			
Canada	$ 96,720,208	$ 5,514,000	$ 91,206,208
United States	-	-	-
Total	$ 96,720,208	$ 5,514,000	$ 91,206,208

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 carrying amount	Provision for impairment	Net carrying amount
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 debt investments	-	-	-
Discounted debt investments	-	-	-
Non-conventional mortgages	1,950,000	219,000	1,731,000
Total	$ 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 table presents the staging of gross investments at amortized cost as at March 31, 2020:

Gross investments at amortized cost	As at March 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	$ 249,697,878	$ 44,409,132	$ 79,273,818	$ 373,380,828
Conventional non-first mortgages	33,238,238	3,000,000	-	36,238,238
Related debt investments	53,516,921	1,947,690	-	55,464,611
Discounted debt investments	152,400	5,213,000	-	5,365,400
Non-conventional mortgages	1,950,000	-	11,950,000	13,900,000
Total	$ 338,555,438	$ 54,569,822	$ 91,223,818	$ 484,349,077
By geography:				
Canada	$ 316,275,050	$ 54,569,822	$ 91,223,818	$ 462,068,690
United States	22,280,388	-	-	22,280,388
Total	$ 338,555,438	$ 54,569,822	$ 91,223,818	$ 484,349,077

(in Canadian dollars)

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 debt 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	$ 360,426,524	$ 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	$ 445,874,141

The following table presents the provision for credit losses on investments as at March 31, 2020:

Provision for impairment of credit losses on loans	As at March 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	$ 247,000	$ -	$ 4,434,000	$ 4,681,000
Conventional non-first mortgages	75,000	-	-	75,000
Related debt investments	-	-	-	-
Discounted debt investments	-	-	-	-
Non-conventional mortgages	588,000	-	170,000	758,000
Total	$ 910,000	$ -	$ 4,604,000	$ 5,514,000
By geography:				
Canada	$ 910,000	$ -	$ 4,604,000	$ 5,514,000
United States	-	-	-	-
Total	$ 910,000	$ -	$ 4,604,000	$ 5,514,000

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 debt 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

(in Canadian dollars)

The following table presents the changes to the provision for credit losses on investments as at March 31, 2020:

The changes to the provision	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2020	$ 396,000	$ -	$ 6,304,077	$ 6,700,077
Provision for (recovery of) credit losses	514,000	-	(111,248)	402,752
Transfer to (from):				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Allocation of provision to interest receivable			(1,588,829)	(1,588,829)
Balance at March 31, 2020	$ 910,000	$ -	$ 4,604,000	$ 5,514,000

The loans comprising the investment portfolio are stated at amortized cost and FVTPL. As at March 31, 2020 the provison for impairment is $5,514,000, (2019 - $5,480,000) of which $4,604,000 (2019 - 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 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 March 31, 2020, the Corporation carries a collective allowance of $910,000 (2019 - $396,000). The Corporation has allocated the impairment provision in the amount of $1,588,829 (2019 - $1,220,077) to interest receivable (note 4) related to loans in default

(in Canadian dollars)

The loans comprising the Investment portfolio bear interest at the weighted average rate of 8.05% per annum (December 31, 2019 - 8.49% per annum) and mature between 2020 and 2025.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to $107,912,218 as at March 31, 2020 (December 31, 2019 - $89,188,507).

Principal repayments based on contractual maturity dates as at March 31, 2020, are as follows:

2020	$ 260,932,223
2021	224,051,621
2022	32,258,427
2023	152,400
2024	3,527,606
2025	144,598
	$ 521,066,875

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 March 31, 2020, the carrying value of the priority participants' interests in the Corporation's investment portfolio and loans payable was $27,000,000 (December 31, 2019 - $nil).

The Investment Portfolio as at March 31, 2020 had five investments with balances totaling $11,918,693 (December 31, 2019 – six investments with balances totaling $12,903,309) with contractual interest arrears greater than 60 days past due amounting to $574,445 (December 31, 2019 – $666,620), for which management has determined that no provision for impairment is required (December 31, 2019 – $nil). Subsequent to March 31, 2020, one of the five investments was paid out reducing the balance by $1,760,000.

The investment portfolio as at March 31, 2020, includes twelve investments totaling $39,013,138 (December 31, 2019 - eleven investments totaling $23,762,758) with maturity dates that are past due and for which no extension or renewal was in place. Two of the twelve investments were paid out after March 31, 2020, reducing the balance by $2,872,320 (December 31, 2019 - three investments totaling $3,107,050). Three investments totaling $13,039,146 (December 31, 2019 - three investments totaling $13,034,146) have an allowance against them included in the Corporation's provision for impairment. The remaining seven investments with maturity dates that are past due, and for which no extension or renewal was in place, totaling $23,101,672 (December 31, 2019 - five investments totaling $7,621,561) have been determined to not require a provision.

As at March 31, 2020, 138 of the Corporations’ 181 investments (investment amount of $443,962,171) 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 an investment 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 March 31, 2020, one investment with first priority syndicate participation was outstanding.

7. Credit facility and bank indebtedness

The Corporation has a demand revolving line of credit and a committed revolving line of credit with its principal banker of which a net amount of $32,523,718 has been drawn as at March 31, 2020 (December 31, 2019 - $20,336,957). Interest on the 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 March 31, 2020 and December 31, 2019, the Corporation was in compliance with all financial covenants.

As at March 31, 2020, the bank indebtedness amount was $40,673,186 and the cash balance was $8,149,468 (December 31, 2019, the bank indebtedness was $20,336,957 and the cash balance was $nil). The draw on the credit facility in the amount of $40,673,186 at March 31, 2020 (December 31, 2019 - $19,161,494), related to total borrowings in US dollar which exactly matches the total amount of US investments, thereby acting as an economic hedge against currency exposure.

8. Loans payable:

First priority charges on a specific mortgage investment have been granted as security for the loans payable. This loan matures on the date consistent with the underlying mortgage, is on a non-recourse basis and bears interest at the rate of 3.55% as at March 31, 2020. The Corporation's loans payable balance as at March 31, 2020 was $27,000,000 (December 31, 2019 - $nil) and the principal balance outstanding under the mortgages for which a first priority charge has been granted is $37,125,000 as at March 31, 2020 (December 31, 2019 - $nil).

The loan is repayable at the earlier of the contractual expiry date of the underlying mortgage investment (March 21, 2021) and the date the underlying mortgage is repaid.

9. Convertible debentures:

	Three Months Ended March 31, 2020		Year Ended December 31, 2019
Carrying value, beginning of the period	$ 139,161,491		$ 179,994,435
Issued	-		-
Conversions of debentures to shares	(3,389,000)		(2,020,000)
Repayments upon maturity	-		(40,485,000)
Implicit interest rate in excess of coupon rate	87,444		400,837
Deferred finance cost	308,812		1,271,220
Carrying value, end of the period	$ 136,168,745	$ -	$ 139,161,491

The continuity of the convertible debentures for the three months ended March 31, 2020:

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
5.30%	23,539,994	-	$ (1,885,000)	$ 12,416	$ 69,132	$ -	$ 21,736,542	May 31, 2022
5.50%	21,339,774	-	(1,487,000)	24,264	69,511	-	19,946,549	Dec 31, 2022
5.20%	21,647,210	-	-	10,927	41,043	-	21,699,180	Dec 31, 2023
5.30%	25,490,648	-	-	7,285	46,097	-	25,544,030	Aug 31, 2024
5.40%	23,808,324		-	9,794	42,053	-	23,860,171	Jun 30, 2025
5.50%	23,335,542		(17,000)	22,758	40,976	-	23,382,276	Jan 31, 2026
Total	$ 139,161,491	$ -	(3,389,000)	$ 87,444	$ 308,812	$ -	$ 136,168,745	

(in Canadian dollars)

As at March 31, 2020, debentures payable bear interest at the weighted average effective rate of 5.37% per annum (December 31, 2019 - 5.37% per annum). Notwithstanding the carrying value of the convertible debentures, the principal balance outstanding to the debenture holders is $141,591,000 as at March 31, 2020 (December 31, 2019 - $144,980,000).

During three months ended March 31 2020, $3,389,000 of the debentures were converted into 242,501 common shares.

On December 20, 2019, the Corporation completed an early redemption of its 4.75% convertible unsecured subordinated debentures, which were scheduled to mature on March 31, 2020. This redemption was completed with a cash payment 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. This redemption was completed with a cash payment of the aggregate principal amount of $20,485,000 and all accrued interest to the time

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 maturity	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	

(in Canadian dollars)

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 March 31, 2020:

	# of shares		Amount
Balance, beginning of period	28,334,972	$	310,158,598
New shares from equity offering	-	-	
Conversion of convertible debenture to shares	242,501		3,389,000
Private Placement equity offering	-		-
Equity offering costs	-		1,649
Options exercised in the period	65,000		771,950
New shares issued during the period under Dividend Reinvestment Plan	58,058		838,835
Balance, end of period	28,700,531	$	315,160,032

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 year under Dividend Reinvestment Plan	43,009		601,652
Balance, end of year	28,334,972	$	310,158,598

During three months ended March 31 2020, $3,389,000 of the debentures were converted into 242,501 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, granted to the underwriters of this offering, 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 number of shares issued pursuant to this offering was 1,748,000.

(in Canadian dollars)

(b) Incentive option plan:

	# of options		Amount
Balance, beginning of period	880,000	$	87,186
Options exercised	(65,000)		(6,250)
Balance, end of period	815,000	$	80,936

During the three months ended March 31, 2020, the Corporation did not grant any options (2019 - nil).

During the three months ended March 31, 2020, options under the stock option plan were exercised for a total of 65,000 common shares (2019 - 46,250).

(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.

(d) Normal course issuer bid:

On March 30, 2020, the Corporation received approval from the Toronto Stock Exchange ("TSX") for its intention to make a normal course issuer bid (the "NCIB") with respect to its outstanding common shares. The notice provides that the Corporation may, during the 12 months period commencing April 3, 2020 and ending no later than April 2, 2021, purchase through the facilities of the TSX or alternative Canadian Trading Systems up to 2,800,000 common shares in total, being approximately 10% of the "public float" of common shares as of March 30, 2020.

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 three months ended March 31, 2020 and 2019.

Basic earnings per share calculation:

		Three Months Ended		
		March 31, 2020		**March 31, 2019**
Numerator for basic earnings per share:				
Net earnings for the period	$	6,236,442	$	6,588,877
Denominator for basic earnings per share:				
Weighted average shares		28,548,027		26,750,977
Net basic earnings per share	$	0.218		0.246

(in Canadian dollars)

Diluted earnings per share calculation:

	Three Months Ended	
	March 31, 2020	**March 31, 2019**
Numerator for diluted earnings per share:		
Net earnings for the period	$ 6,236,442	$ 6,588,877
Interest on convertible debentures		2,582,905
Net diluted earnings per share	$ 6,236,442	$ 9,171,782
Denominator for diluted earnings per share:		
Weighted average shares	28,548,027	26,750,977
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average share price	49,268	97,247
Assuming debentures are converted	-	11,292,905
Diluted weighted average shares	28,597,295	38,141,129
Diluted earnings per share:	$ 0.218	$ 0.241

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 three months ended March 31, 2020, the Corporation recorded dividends of $6,700,959 (2019 - $6,257,548) to its shareholders. Dividends were $0.234 per share (2019 - $0.234 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 three month month ended March 31, 2020, this amount was $859,813 (2019 - $949,444). Included in accounts payable and accrued liabilities at March 31, 2020 are amounts payable to the Corporation's Manager of $303,715 (December 31, 2019 - $275,964).

For the three months ended March 31, 2020 the total directors' fee expenses were $76,750 (2019 - $71,000). Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The Directors and Officers held 655,235 shares in the Corporation as at March 31, 2020 (December 31, 2019 - 542,587).

For the three months ended March 31, 2020, no directors were awarded options (2019 - nil).

For the three months ended March 31, 2020, no options were issued under the incentive option plan (2019 - 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 $115,000 for the three months ended March 31, 2020 (2019 - $127,000).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.

(in Canadian dollars)

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.

The Corporation holds a mortgage investment totaling $5,213,000 at March 31, 2020 (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, 2019 - $5,213,000). 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 three months ended March 31, 2020, the Corporation recognized interest and fees earned of $nil (2019 - $nil) from this investment. The impairment provision on this loan is $nil as at March 31, 2020 (December 31, 2019 - $300,000).

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 $589,745 for the thee months ended March 31, 2020 (2019 - $533,833). All of this compensation was paid by the Corporation's Manager and not by the Corporation.

14. Interest expense:

	Three Months Ended	
	March 31, 2020	**March 31, 2019**
Bank interest expense	$ 278,088	$ 472,835
Loans payable interest expense	134,695	217,149
Debenture interest expense	2,306,447	2,914,484
Interest expense	**$ 2,719,230**	**$ 3,604,468**
Deferred finance cost amortization - convertible debentures	(308,812)	(322,489)
Implicit interest rate in excess of coupon rate - convertible debentures	(87,444)	(113,254)
Change in accrued interest payable	(1,344,925)	(757,848)
Cash interest paid	**$ 978,049**	**$ 2,410,877**

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.

(in Canadian dollars)

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 debt investments (at FVTPL) as at March 31, 2020

Changes to related debt investments at FVTPL		
Balance, beginning of period	$	35,051,003
Funding of investments		122,718
Discharging of investments		-
Unrealized foreign exchange		1,544,077
Balance at March 31, 2020	$	36,717,798

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.

The tables below present the fair values of the Corporation's financial instruments as at March 31, 2020 and December 31, 2019. 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:

March 31, 2020		Level 1	Level 2	Level 3		Total
Marketable securities	$	42,139	-	-	$	42,139
Convertible debentures		123,380,170	-	-		123,380,170

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

(in Canadian dollars)

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.

(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 March 31, 2020, 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	4,411,592	-	-
Marketable securities	42,139	-	-
Investment portfolio	515,552,875	-	39,244
Financial liabilities:			
Bank indebtedness	32,523,718	325,237	(325,237)
Accounts payable and accrued liabilities	2,549,942	-	-
Shareholders dividends payable	2,238,641	-	-
Loans payable	27,000,000	-	-
Convertible debentures	$ 136,168,745	-	-
Total increase		$ 325,237	$ (285,993)

(in Canadian dollars)

(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).

As at March 31, 2020, 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 $107,912,218 as at March 31, 2020 (December 31, 2019 - $107,961,384). 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 March 31, 2020 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 7 years
Bank indebtedness	$ 32,523,718	$ 32,523,718	$ -	$ -
Accounts payable and accrued liabilities	2,549,942	2,549,942	-	-
Loan on debenture portfolio investment	-	-	-	-
Shareholders dividends payable	2,238,641	2,238,641	-	-
Loans payable	27,000,000	27,000,000	-	-
Convertible debentures	141,591,000	-	65,108,000	$ 76,483,000
Subtotal - Liabilities	$ 205,903,301	$ 64,312,301	$ 65,108,000	$ 76,483,000
Future advances under portfolio	107,912,218	107,912,218	-	-
Liabilities and contractual obligations	$ 313,815,519	$ 172,224,519	$ 65,108,000	$ 76,483,000

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 $7,597,783 for less than 1 year, $13,937,163 for 1 to 3 years and $9,797,893 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.

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.

(f) COVID-19 risk:

On January 30, 2020, the World Health Organization declared COVID-19 outbreak a global health emergency. Many governments have likewise declared that the COVID-19 outbreak in their jurisdictions constitutes an emergency. Reactions to the spread of COVID-19 have led to, amoug other things, significant restrictions on travel, business closures, quarantines and a general reduction in consumer activity. While these affects are expected to be temporary, the duration of the business disruption and related financial impact cannot be reasonably estimated at this time. The volatility and disruption related to the COVID-19 outbreak and the reactions to it may result in a disruption or deferral in borrower payments, a decline in the appraised value or salability of properties, a deterioration of the credit worthiness of the borrowers, an inability for the borrowers to obtain additional financing, should the need arise, and/or the need to extend the maturity date of the mortgage.

Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more uncertainty associated with our future operating assumptions and expectations as compared to prior periods. As such, it is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the Corporation’s estimate of allowance for credit losses and investments measured at FVTPL, both in the short term and in the long term.

The allowance for credit losses and carrying value for the Corporation's investments measured at FVTP reflect its best estimate. Actual results may differ materially from the Corporation's current estimates as the scope of COVID-19 evolves or if the duration of business disruptions is longer than initially anticipated.