



**FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION**

CAPITAL PRESERVATION • DISCIPLINED INVESTING

REPORT TO SHAREHOLDERS

YEAR ENDED
DECEMBER 31, 2020





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MORTGAGE INVESTMENT CORPORATION**

CAPITAL PRESERVATION • DISCIPLINED INVESTING

MD&A
MANAGEMENT
DISCUSSION
AND ANALYSIS

YEAR ENDED
DECEMBER 31, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS

OUR BUSINESS

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

The Corporation's primary investment objective is the preservation of shareholders' equity, while providing shareholders with a stable stream of dividends from the Corporation's investments. The Corporation achieves its investment objectives by pursuing a strategy of investing in loans in select niche real estate markets that are under-served 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.

RECENT DEVELOPMENTS AND OUTLOOK

The Corporation's investment portfolio (the "Investment Portfolio") has continued to revolve in 2020 with significant investment repayments. Management's position continues to be that we will turn the Investment Portfolio, if need be, at lower interest rates to ensure we originate solid investments. The three reductions in the Bank of Canada policy rate in March 2020 and the corresponding reduction in the bank prime reduced Investment Portfolio interest rates during 2020 and contributed to a decline in the Corporation's interest revenue for the year. Holding a larger portfolio can compensate for the lower portfolio average interest rate.

We continue to monitor the COVID-19 crisis and the resulting economic impact on the Investment Portfolio and the Corporation. One of the most significant impacts to date has been a reduction in the portfolio average interest rate (resulting from the drop in bank prime, decreasing some of

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our floating rate investments) resulting in a decline in interest income earned by the Corporation. It is difficult to predict movements in the average interest rate going forward as it will depend on the rates available on new investments as they arise.

There have been no material signs of deterioration in the Investment Portfolio during 2020. Borrower repayment performance has remained consistent with pre-COVID-19 performance and no payment deferral arrangements have been granted. At December 31, 2020, the Corporation's loan arrears are not materially different from pre-COVID balances and, to date, we have not experienced defaults attributed to the COVID-19 pandemic. New investment volumes were lower in the first three quarters of 2020 likely as a result of the impact of the pandemic on fewer borrower loan requests.

The Mortgage Banker does not service or underwrite mortgages on hotels and hospitality properties or on long-term care facilities and as such the Corporation does not have any investments exposure to these asset types. During 2020, the Corporation increased the availability under its credit facility, which is the lowest cost of capital debt available to the Corporation.

The Corporation's investment underwriting and loan management team at the Mortgage Banker 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 maintained its stated primary 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.

As we address this market, we are looking for opportunities. We are reinvesting selectively, with the investment policy of holding a hard line on acceptable exposure levels, borrower quality and warranted interest rate pricing. There are no assurances on achievable new lending interest rates or portfolio size as the primary focus is on security. The Mortgage Banker continues to reject a significant number of potential investments that do not meet our investment criteria and risk tolerance.

BASIS OF PRESENTATION

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

The following Management's Discussion and Analysis ("MD&A") is dated as of March 9, 2021 and should be read in conjunction with the audited consolidated financial statements of the Corporation and the notes thereto as at, and for the years ended December 31, 2020 and 2019, as well as our Management's Discussion and Analysis, including the section on "Risk and Uncertainties", and each of our quarterly reports for 2020 and 2019.

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HIGHLIGHTS

INCOME

For the three months ended December 31, 2020, income increased to \$7,318,366 as compared to \$6,678,983 reported for the same period in 2019.

For the year ended December 31, 2020, income decreased to \$26,353,473 as compared to \$28,002,051 for the year ended December 31, 2019. Excluding the non-recurring, non-cash share-based compensation expense of \$906,131 recorded during 2020, adjusted income for the year ended December 31, 2020 was \$27,259,604.

EARNINGS PER SHARE

Basic weighted average earnings per share for the three months ended December 31, 2020, was \$0.249 (2019 – \$0.237). Basic weighted average earnings per share for the year ended December 31, 2020 was \$0.913 (excluding share-based compensation expense it was \$0.945) as compared to \$1.008 for the year ended December 31, 2019.

Diluted weighted average earnings per share for the three months ended December 31, 2020, was \$0.247 (2019 – \$0.209). Diluted weighted average earnings per share for the year ended December 31, 2020 was \$0.909 (2019 – \$0.953).

REVENUES

Revenues for the three months ended December 31, 2020 increased by 6.1% to \$11,719,759 as compared to \$11,040,763 reported for the same period in 2019. The increase is a result of holding a bigger average portfolio size over the comparable period.

Revenues for the year ended December 31, 2020 decreased by 6.7% to \$44,176,297 as compared to \$47,342,851 for the year ended December 31, 2019. A marginally lower portfolio size and a lower weighted average interest rate resulted in a decrease in revenue for the year.

The decrease in the bank prime rate during March 2020 decreased the weighted average interest rate of the Corporation's Investment Portfolio. Several of the Corporation's mortgage investments have interest rates based on the prime rate.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio increased by \$78.1 million to \$559.0 million as at December 31, 2020, in comparison to \$480.9 million as at December 31, 2019 (in each case, gross of impairment provision). Most of the portfolio growth took place late in the year. The impairment provision as at December 31, 2020 was \$5.61 million (December 2019 - \$5.48 million). There was a strong level of new investment funding during 2020 in the amount of \$399.4 million (2019 – \$260.2 million), and repayments during the year were \$321.5 million (2019 – \$300.3 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 year ended December 31, 2020 represented a return on shareholders' equity (based on the month end average shareholders' equity in the year) of 8.18%, representing

MANAGEMENT'S DISCUSSION AND ANALYSIS

a return on shareholders' equity of 798 basis points per annum over the average one-year Government of Canada Treasury bill yield of 0.20%.

EQUITY OFFERINGS

On November 30, 2020, the Corporation completed an equity offering of 1,860,000 common shares at a price of \$12.10 per share for gross proceeds of \$22,506,000. The over-allotment option, granted to the underwriters of this offering, was exercised in full and the Corporation issued an additional 279,000 shares at a price of \$12.10 per share for gross proceeds of \$3,375,900. The total number of shares issued pursuant to this offering was 2,139,000.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio was \$553,398,922 as at December 31, 2020 (net of the provision for impairment of \$5,609,000) and was \$475,445,143 as at December 31, 2019 (net of the provision for impairment of \$5,480,000). On December 31, 2020, the Investment Portfolio was comprised of 183 investments (196 as at December 31, 2019). The average gross investment size was approximately \$3.1 million, with 23 investments individually exceeding \$7.5 million. As at December 31, 2020, 130 of the 183 investments were individually less than \$2.5 million.

Mortgage Amount	December 31, 2020			December 31, 2019			% Change
	Number	Total Amount (before provision)	% of Portfolio	Number	Total Amount (before provision)	% of Portfolio	
\$0 - \$2,500,000	130	\$ 124,049,075	22.2%	151	\$ 148,256,833	30.8%	(16.3%)
\$2,500,001 - \$5,000,000	22	81,408,128	14.6%	21	70,373,853	14.6%	15.7%
\$5,000,001 - \$7,500,000	8	50,790,465	9.1%	7	48,279,560	10.0%	5.2%
\$7,500,001 +	23	302,760,253	54.2%	17	214,014,898	44.5%	41.5%
Total Investments	183	\$ 559,007,922	100%	196	\$ 480,925,143	100%	16.2%
Less: Impairment Allowance		(5,609,000)			(5,480,000)		
Investment Portfolio		\$ 553,398,922			\$ 475,445,143		16.4%

Unadvanced committed funds under the existing Investment Portfolio amounted to \$109 million as at December 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:

Investment Categories	December 31, 2020			December 31, 2019			% Change
	W.A Interest Rate	Outstanding amount	% of Portfolio	W.A Interest Rate	Outstanding amount	% of Portfolio	
Conventional First Mortgages	8.10%	\$ 396,063,172	70.9%	8.32%	\$ 334,859,014	69.6%	18.3%
Conventional Non-First Mortgages	8.75%	39,441,874	7.1%	8.84%	42,337,892	8.8%	(6.8%)
Related Debt Investments	8.57%	110,915,226	19.8%	9.45%	95,532,087	19.9%	16.1%
Discounted Debt Investments*	-	5,209,650	0.9%	-	5,378,150	1.1%	(3.1%)
Non-Conventional Mortgages	10.83%	7,378,000	1.3%	8.52%	2,818,000	0.6%	161.8%
Total Investments	8.20%	\$ 559,007,922	100%	8.49%	\$ 480,925,143	100%	
Less: Impairment Allowance		(5,609,000)			(5,480,000)		
Investment Portfolio		\$ 553,398,922			\$ 475,445,143		16.4%

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

The \$78.1 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, related debt investments and non-conventional mortgages, offset by a decrease in conventional non-first

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mortgages, and a marginal decrease in discounted debt investments. There was a strong level of new investment funding during 2020, particularly later in the year, in the amount of \$399.4 million (2019 – \$260.2 million), and repayments were \$321.5 million (2019 – \$300.3 million), resulting in an increase to the Investment Portfolio size.

Conventional first mortgages increased by 18.3% and represented 70.9% of the Investment Portfolio as at December 31, 2020 (69.6% as at December 31, 2019). Conventional non-first mortgages decreased by 6.8% and represented 7.1% of the Investment Portfolio at December 31, 2020 (8.8% as at December 31, 2019). Related debt investments increased by 16.1% and represented 19.8% of the Investment Portfolio as at December 31, 2020 (19.9% as at December 31, 2019). Discounted debt investments decreased by 3.1% and represented 0.9% of the Investment Portfolio, as at December 31, 2020 (1.1% as at December 31, 2019). Non-conventional mortgages increased by 161.8% and represented 1.3% of the Investment Portfolio as at December 31, 2020 (0.6% as at December 31, 2019).

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 8.20% per annum as at December 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, which resulted in a reduction in the prime rate. Several of the Corporation's mortgage investments have interest rates based on the prime rate. The weighted average portfolio rate is impacted by changes in the prime rate and have trended lower as a result. Any further decrease in the prime rate should not have an adverse impact on the Investment Portfolio's average interest rate.

The provision for impairment is \$5,609,000 as at December 31, 2020 (December 31, 2019 - \$5,480,000), of which \$4,529,000 (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 December 31, 2020, the Corporation carries a collective provision balance of \$1,080,000 (December 31, 2019 - \$396,000).

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

Property Type	December 31, 2020			December 31, 2019			%
	Number	Total Amount (before provision)	% of Portfolio	Number	Total Amount (before provision)	% of Portfolio	
Construction Mortgages	49	\$ 111,215,505	19.9%	62	\$ 109,565,010	22.8%	1.5%
Single Family	50	59,226,350	10.6%	60	70,222,853	14.6%	(15.7%)
Land	36	138,258,791	24.7%	39	142,171,487	29.6%	(2.8%)
Condo/Including multi unit condo loans	9	34,612,735	6.2%	3	27,267,000	5.7%	26.9%
Multi Family Resi Mortgages	9	58,453,165	10.5%	5	20,770,261	4.3%	181.4%
Industrial	4	8,614,598	1.5%	2	2,465,518	0.5%	249.4%
Related Debt Investments	16	110,915,226	19.8%	17	95,532,086	19.9%	16.1%
Other	10	37,711,552	6.7%	8	12,930,928	2.7%	191.6%
	183	\$ 559,007,922	100%	196	\$ 480,925,143	100%	16.2%

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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. The Mortgage Banker does not service or underwrite mortgages on hotels and hospitality properties or on long-term care facilities and as such the Corporation does not have any investments exposure to these asset types.

As at December 31, 2020, the value of the Investment Portfolio that is secured by properties outside of Ontario is 17.9%, compared to 7.0% as at December 31, 2019. A large component of the increase is driven by the funding of multi-family apartment mortgages in Alberta.

Geographic Segment	December 31, 2020			December 31, 2019			Change
	Number	Total Amount	% of	Number	Total Amount	% of	
Greater Toronto Area	113	\$ 282,201,783	63.1%	136	\$ 314,459,608	81.7%	(10.3%)
Non-GTA Ontario	32	85,549,680	19.1%	28	43,591,476	11.3%	96.3%
Quebec	15	14,738,739	3.3%	9	10,350,127	2.7%	42.4%
Alberta	3	48,825,000	10.9%	2	4,000,000	1.0%	1120.6%
Saskatchewan	2	10,694,649	2.4%	2	10,556,355	2.7%	1.3%
British Columbia	1	4,166,664	0.9%		-	-	
United States	1	1,916,182	0.4%	2	2,435,491	0.6%	(21.3%)
Mortgage Investment Portfolio	167	\$ 448,092,696	100%	179	\$ 385,393,056	100%	
Related Debt Investments	16	110,915,226		17	95,532,087		
	183	\$ 559,007,922		196	\$ 480,925,143		

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

Underlying Security Type	December 31, 2020			December 31, 2019			% Change
	Number	Total Amount (before provision)	% of Portfolio	Number	Total Amount (before provision)	% of Portfolio	
Residential	148	\$ 356,930,394	63.9%	168	\$ 333,754,669	69.4%	6.9%
Commercial	19	91,162,302	16.3%	11	51,638,387	10.7%	76.5%
Related Debt Investments	16	110,915,226	19.8%	17	95,532,087	19.9%	16.1%
	183	\$ 559,007,922	100%	196	\$ 480,925,143	100%	16.2%

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 under 60% based on the appraisals obtained at the time of funding each mortgage loan.

Included in conventional first mortgages is one United States ("US") dollar denominated investment (at amortized cost) of \$1,916,182 (US\$1,505,013) (December 31, 2019 - two US dollar denominated investments of \$2,435,491 (US\$1,875,186)).

Included in related debt investments (classified at FVTPL) are four US dollar denominated investments totaling \$16,669,235 (US\$13,092,393), (December 31, 2019 - four US dollar

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denominated investments totaling \$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 December 31, 2020, income recorded on the US investments (at amortized cost and FVTPL) was \$359,281 (US\$275,783), (2019 - \$455,904 (US\$345,088)). For the year ended December 31, 2020, income recorded on the US investments (at amortized cost and FVTPL) was \$1,848,511 (US\$1,363,715), (2019 - \$1,274,748 (US\$962,317)). These amounts are included in interest and fees income.

Related debt investments (classified as FVTPL) as at December 31, 2020 also included three Canadian investments (December 31, 2019 - two Canadian investments) totaling \$18,973,000 (December 31, 2019 - \$18,325,000).

The Investment Portfolio as at December 31, 2020 had one investment totaling \$822,854 (December 31, 2019 – six investments with balances totaling \$12,903,309) with contractual interest arrears greater than 60 days past due amounting to \$68,440 (December 31, 2019 – \$666,620).

The Investment Portfolio as at December 31, 2020, includes seven investments totaling \$30,245,129 (December 31, 2019 - 11 investments totaling \$23,762,758) with maturity dates that are past due and for which no extension or renewal was in place. One of the seven investments was paid out after December 31, 2020 in the amount of \$822,854 (December 31, 2019 - three investments were paid out totaling \$3,107,050). Three investments totaling \$11,431,554 (December 31, 2019 - three investments totaling \$13,034,146) have an allowance against them included in the Corporation's provision for impairment. The remaining three investments with maturity dates that are past due, and for which no extension or renewal was in place, totaling \$17,990,721 (December 31, 2019 - five investments totaling \$7,621,561) have been determined to not require a specific provision.

As at December 31, 2020, the Investment Portfolio continued to be heavily concentrated in short-term investments, with approximately 73.3% 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.

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The contractual maturity dates of the Investment Portfolio are as follows:

December 31, 2020			
Years	Number	Total Amount (before provision)	% of Portfolio
2021	143	409,447,596	73.25%
2022	36	131,459,243	23.52%
2023	2	14,710,783	2.63%
2024	1	3,245,702	0.58%
2025	1	144,598	0.03%
	183	\$ 559,007,922	100%

A significant number of the Corporation's investments are shared with other syndicate partners, including several members of the Board of Directors and senior management of the Mortgage Banker and/or officers and directors of the Corporation. The Corporation ranks equally with other members of the syndicate as to receipt of principal, interest, and fees. As at December 31, 2020, 141 of the Corporation's 183 investments (investment amount of \$494,686,380) are shared with other participants, and 26 of which (investment amount of \$127,776,833) 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 \$66 million with the Corporation alongside its Investment Portfolio as at December 31, 2020.

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 December 31, 2020, no investment with first priority syndicate participation was outstanding.

RESULTS OF OPERATIONS

REVENUES

For the three months ended December 31, 2020, revenues increased by 6.1% to \$11,719,759 compared to \$11,040,763 for the three months ended December 31, 2019. For the year ended December 31, 2020, revenues decreased by 6.7% to \$44,176,297 compared to \$47,342,851 for the year ended December 31, 2019.

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

Three Months Ended	Dec. 31, 2020	%	Dec. 31, 2019	%	% Change
Interest	\$ 11,113,519	95%	\$ 10,212,313	92%	8.8%
Commitment & Renewal Fees	584,393	5%	613,372	6%	(4.7%)
Other Income	21,847	0%	215,078	2%	(89.8%)
	\$ 11,719,759	100%	\$ 11,040,763	100%	6.1%

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Year Ended	Dec. 31, 2020	%	Dec. 31, 2019	%	% Change
Interest	\$ 41,813,447	95%	\$ 44,356,376	94%	(5.7%)
Commitment & Renewal Fees	2,141,117	5%	2,167,688	5%	(1.2%)
Other income	221,734	0%	818,787	2%	(72.9%)
	\$ 44,176,297	100%	\$ 47,342,851	100%	(6.7%)

For the three months ended December 31, 2020, interest income was \$11,113,519, an increase of 8.8% over the \$10,212,313 reported for the comparable period in 2019. For the year ended December 31, 2020, interest income was \$41,813,447, a decrease of 5.7% over the \$44,356,376 as reported for the same year ended period in 2019. The lower yearly interest income is a result of a marginally smaller average Investment Portfolio size and a lower weighted average portfolio interest rate, over the comparable period in 2019. The December 31, 2020 weighted average interest rate was 8.20% versus 8.49% as at December 31, 2019.

For the three months ended December 31, 2020, commitment and renewal fees were \$584,393, a decrease of 4.7% from \$613,372 reported for the comparable period in 2019. For the year ended December 31, 2020, fee income relating to commitment and renewal fees was \$2,141,117 a decrease of 1.2% over the \$2,167,688, reported for the comparable period in 2019.

For the three months and year ended December 31, 2020 other income was \$21,847 and \$221,734 (December 31, 2019 – \$215,078 and \$818,787), respectively. In 2019, other income was usually high as a result of the collection of one-off special income on certain of the Corporation's non-conventional investments.

As at December 31, 2020, the Corporation had deferred commitment fee revenue of \$1,091,717 (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.

CORPORATION MANAGER SPREAD INTEREST ALLOCATION

During the three months ending December 31, 2020, the Corporation Manager received \$998,928 (2019 – \$819,988), through a spread interest arrangement. The increase in the spread interest is related to the increase in the size of the Corporation's average Investment Portfolio over the comparable period in 2019. For the year ended December 31, 2020, \$3,774,550 (2019 - \$3,685,593) was received by the Corporation Manager through the spread interest arrangement.

INTEREST EXPENSE

For the three months ended December 31, 2020, interest expense decreased by 2.9% to \$2,691,297 as compared to \$2,770,997 for the three months ended December 31, 2019. For the year ended December 31, 2020, interest expense decreased by 16.8% to \$10,536,613 as compared to \$12,670,345 for the year ended December 31, 2019. In 2020, the interest expense decreased primarily as a result of the repayment of convertible debentures.

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Interest expense is broken down as follows:

Three Months Ended	Dec. 31, 2020	%	Dec. 31, 2019	%	% Change
Bank Interest Expense (Earned)	\$ 158,507	6%	\$ (51,836)	(2%)	n/a
Loan Payable Interest Expense	315,098	12%	167,598	6%	88.0%
Debenture Interest Expense	2,217,692	82%	2,655,235	96%	(16.5%)
	\$ 2,691,297	100%	\$ 2,770,997	100%	(2.9%)

Year Ended	Dec. 31, 2020	%	Dec. 31, 2019	%	% Change
Bank Interest Expense	\$ 371,008	3%	\$ 769,197	6%	(51.8%)
Loan Payable Interest Expense	1,230,805	12%	1,150,753	9%	7.0%
Debenture Interest Expense	8,934,800	85%	10,750,395	85%	(16.9%)
	\$ 10,536,613	100%	\$ 12,670,345	100%	(16.8%)

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

For the three months ended December 31, 2020, G&A expense was \$308,794, compared to \$379,139 for the three months ended December 31, 2019. For the year ended December 31, 2020 G&A expenses decreased by \$29,116 to \$1,205,668 compared to \$1,234,784 for the year ended December 31, 2019.

SHARE BASED COMPENSATION

The following is the status of the stock options plan:

	December 31, 2020			December 31, 2019		
	Number of Options	Weighed Average Exercise Price	Amount	Number of Options	Weighed Average Exercise Price	Amount
Outstanding, beginning of year	880,000	\$11.91	\$87,186	926,250	\$11.90	\$91,633
Exercised	(65,000)	\$11.78	(6,250)	(46,250)	\$11.78	(4,447)
Options Granted / Amortization Amount	1,875,000	\$11.70	906,131	-	-	-
Cancelled	-	-	-	-	-	-
Expired	-	-	-	-	-	-
Outstanding, end of year	2,690,000	\$11.77	\$987,067	880,000	\$11.91	\$87,186
Number of options exercisable	2,515,000	\$11.77	-	880,000	\$11.91	

The following options were issued and outstanding as at December 31, 2020:

Expiry Date	Number of Options Outstanding	Number of Options Exercisable	Exercise Price
November 11, 2023	710,000	710,000	\$11.78
November 11, 2023	35,000	35,000	\$12.21
November 11, 2023	70,000	70,000	\$13.15
August 14, 2030	1,875,000	1,700,000	\$11.70
	2,690,000	2,515,000	

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On August 14, 2020, the board of directors of the Corporation granted options to certain of the officers, directors and employees of the Corporation and the Mortgage Banker to purchase up to 1,875,000 Shares (2019 - nil) at a price of \$11.70 per Share with the expiry date of August 14, 2030. Of the 1,875,000 options granted, 1,700,000 options vested immediately, and the remaining 175,000 options will vest on August 14, 2025. The fair value of the options granted was estimated at \$991,093 using the Black-Scholes options pricing model.

Total stock options outstanding as at December 31, 2020 are 2,690,000 (December 31, 2019 - 880,000), of which 2,515,000 are exercisable (December 31, 2019 - 880,000).

During 2020, 65,000 options were exercised under our stock options plan (2019 - 46,250 options were exercised).

For the year ended December 31, 2020, the share-based compensation expense was \$906,131 (2019 - \$nil).

PROVISION FOR IMPAIRMENT ON INVESTMENT PORTFOLIO AND INTEREST RECEIVABLE

The provision for impairment for the three months ended December 31, 2020 was \$397,740 (2019 - \$391,656). For the year ended December 31, 2020, the provision for impairment was \$1,399,862 (2019 - \$1,750,077). Further details are described in the Provision for Impairment section.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for the three months ended December 31, 2020, was \$7,318,366 (2019 - \$6,678,983). Net income and comprehensive income for the year ended December 31, 2020 was \$26,353,473 (2019 - \$28,002,051).

Net income and comprehensive income for the year ended December 31, 2020, includes share-based compensation expense in the amount of \$906,131, which is a non-cash expense, related to the issuance of stock options during 2020. Excluding share-based compensation expense of \$906,131 adjusted income for the year ended December 31, 2020 was \$27,259,604 (2019 - \$28,002,051).

Income for the quarter ended December 31, 2020 represented an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 8.77%. This return on shareholders' equity represents 857 basis points per annum over the average one-year Government of Canada Treasury bill yield of 0.20% and is well in excess of the Corporation's stated target yield objective of 400 basis points per annum over the average one-year Government of Canada Treasury bill yield. For the year ended December 31, 2020, the annual return on shareholders' equity (based on the month end average shareholders' equity during the year) is 8.18% and is 798 basis points over the one-year Government of Canada Treasury bill yield of 0.20%. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

EARNINGS PER SHARE

Basic weighted average earnings per share for the three months ended December 31, 2020, was \$0.249 (2019 – \$0.237). Basic weighted average earnings per share for the year ended December 31, 2020 was \$0.913 (2019 - \$1.008). Excluding share-based compensation expense of \$906,131 the basic weighted average earnings per share for the year ended December 31, 2020 was \$0.945 (2019 – \$1.008).

Diluted weighted average earnings per share for the three months ended December 31, 2020, was \$0.247 (2019 – \$0.209). Diluted weighted average earnings per share for the year ended December 31, 2020 was \$0.909 (2019 – \$0.953).

QUARTERLY FINANCIAL INFORMATION

	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
(\$ in millions except per unit amounts)	2020	2020	2020	2020	2019	2019	2019	2019
Operating revenue	\$ 11.72	\$ 10.69	\$ 11.21	\$ 10.55	\$ 11.04	\$ 12.23	\$ 12.21	\$ 11.86
Interest expense	2.69	2.43	2.70	2.72	2.77	2.93	3.37	3.60
Corporation manager spread interest allocation	1.00	0.93	0.98	0.86	0.82	0.90	1.01	0.95
General & administrative expenses	0.31	0.28	0.28	0.33	0.38	0.33	0.28	0.24
Share based compensation	-	0.90	-	-	-	-	-	-
Impairment loss on investment portfolio	0.40	0.22	0.38	0.40	0.39	0.38	0.50	0.47
Income	\$ 7.32	\$ 5.93	\$ 6.87	\$ 6.24	\$ 6.68	\$ 7.69	\$ 7.05	\$ 6.60
Earnings per share								
- Basic	\$0.249	\$0.207	\$0.239	\$0.218	\$0.237	\$0.273	\$0.251	\$0.246
- Diluted	\$0.247	\$0.207	\$0.237	\$0.218	\$0.209	\$0.260	\$0.244	\$0.241
Dividends per share	\$0.242	\$0.234	\$0.234	\$0.234	\$0.304	\$0.234	\$0.234	\$0.234

DIVIDENDS

For the three months and year ended December 31, 2020, the Corporation declared dividends on the Shares totaling \$7,297,147 and \$27,430,809, respectively, or \$0.249 and \$0.944 per Share versus \$8,587,699 and \$28,002,051, respectively, or \$0.304 and \$1.006 per Share for the three months and year ended December 31, 2019. The number of Shares outstanding at December 31, 2020 was 30,843,166, compared to 28,334,972 at December 31, 2019.

Year End	December 31, 2020	December 31, 2019	Change
Cash Flow From Operating Activities (net of cash interest paid)	\$ 28,616,069	\$ 28,940,104	(1.1%)
Income for the year	\$ 26,353,473	\$ 28,002,051	(5.9%)
Declared Dividends	\$ 27,430,809	\$ 28,002,051	(2.0%)
Excess Cash Flow From Operating Activities Over Declared Dividends	\$ 1,185,260	\$ 938,053	
Deficiency Over Declared Dividends	\$ (1,077,336)	\$ -	

For the year ended December 31, 2020, the deficiency over declared dividends is \$1,077,336. Reflected in income is the non-cash share-based compensation expense of \$906,131. Excluding this amount of \$906,131 the deficiency is \$171,205.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses of \$4,428,874 as at December 31, 2020, comprise interest receivable (net of impairment provision) of \$3,727,709, prepaid expenses of \$224,113, fees receivable of \$471,501, and other income receivable of \$5,551, 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 \$47,073 (investment cost \$50,966) balance reported on the Corporation's balance sheet as at December 31, 2020 represents the fair value of the marketable securities (December 31, 2019 – \$250,285, investment cost \$185,026).

CREDIT FACILITY AND BANK INDEBTEDNESS

As at December 31, 2020, the credit facility drawn amount was \$53,585,420 and bank indebtedness was \$18,666,939 (December 31, 2019, the credit facility drawn amount was \$19,161,494 and bank indebtedness was \$1,175,463). During 2020, the Corporation increased the availability under its credit facility, which is the lowest cost of capital debt available to the Corporation.

LOAN PAYABLE

First priority charge on mortgage investments is granted as security for loans payable from time-to-time. During 2020, the Corporation's loan payable balance was \$27,000,000 and the principal balance outstanding under the mortgage for which a first priority charge had been granted was \$37,125,000. The mortgage and the related loan payable were fully repaid on July 2, 2020.

The Corporation's loan payable balance as at December 31, 2020 was \$nil (December 31, 2019 - \$nil) and the principal balance outstanding under the mortgage for which a first priority charge had been granted is \$nil as at December 31, 2020 (December 31, 2019 - \$nil).

CONVERTIBLE DEBENTURES

As at December 31, 2020, the Corporation had 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	21,867,107
FC.DB.F	5.50%	Dec. 22, 2015	Dec. 31, 2022	20,497,000	14.00	20,095,314
FC.DB.G	5.20%	Dec. 21, 2016	Dec. 31, 2023	22,500,000	15.25	21,856,890
FC.DB.H	5.30%	Jun. 27, 2017	Aug. 31, 2024	26,500,000	15.25	25,704,610
FC.DB.I	5.40%	Jun. 21, 2018	Jun. 30, 2025	25,000,000	15.00	24,017,456
FC.DB.J	5.50%	Nov. 23, 2018	Jan. 31, 2026	24,983,000	14.60	23,576,454
Total / Average	5.37%			\$ 141,591,000		\$ 137,117,831

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at December 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 December 31, 2020 was \$137,117,831 (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 2020, convertible debentures in the amount of \$3,389,000 (2019 - \$2,020,000) were converted into 242,501 Shares (2019 - 144,539 Shares).

On December 20, 2019, the Corporation completed an early redemption of its 4.75% convertible unsecured subordinated debentures, 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	Dec. 31, 2020	Dec. 31, 2019	% Change
Accounts Payable and Accrued Liabilities	\$ 1,412,668	\$ 1,253,498	12.7%
Deferred Revenue	1,091,717	950,377	14.9%
Shareholders' Dividend Payable	2,652,512	4,193,576	(36.7%)
Total	\$ 5,156,897	\$ 6,397,451	(19.4%)

Accounts payable and accrued liabilities increased by \$159,170 to \$1,412,668 as at December 31, 2020, compared to \$1,253,498 as at December 31, 2019. Accounts payable and accrued liabilities include interest payable of \$619,347 (December 31, 2019 – \$627,262) and accrued liabilities of \$793,324 (December 31, 2019 – \$626,236).

Deferred revenue is comprised of commitment fees generated on the Corporation's mortgage investments. As at December 31, 2020, the deferred commitment revenue was \$1,091,717 (December 31, 2019 – \$950,377). The Corporation's policy is to recognize deferred commitment fees over the term of the related loans.

SHAREHOLDERS' EQUITY

Shareholders' equity at December 31, 2020 totaled \$343,347,782 compared to \$313,899,405 as at December 31, 2019. The Corporation had 30,843,166 Shares issued and outstanding as at December 31, 2020 compared to 28,334,972 Shares as at December 31, 2019.

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-month 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 Shares as of March 30, 2020. Since commencement under the NCIB, the Corporation has not purchased and cancelled any Shares.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On November 30, 2020, the Corporation completed an equity offering of 1,860,000 common shares at a price of \$12.10 per share for gross proceeds of \$22,506,000. The over-allotment option, granted to the underwriters of this offering, was exercised in full and the Corporation issued an additional 279,000 shares at a price of \$12.10 per share for gross proceeds of \$3,375,900. The total number of shares issued pursuant to this offering was 2,139,000.

During 2020, convertible debentures in the amount of \$3,389,000 (2019 - \$2,020,000) were converted into 242,501 Shares (2019 - 144,539 Shares).

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

On March 1, 2019, the Corporation completed an equity offering of 1,520,000 Shares at a price of \$13.20 per Share for gross proceeds of \$20,064,000. The over-allotment option, 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 in the Investment Portfolio consist primarily 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 each investment measured at amortized cost is calculated as the difference between its carrying amount and the amount of the future cash flows estimated to be recoverable 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The provision for credit losses is as follows:

	December 31, 2020	December 31, 2019
Conventional First Mortgages	\$ 2,450,000	\$ 4,819,000
Conventional Non-First Mortgages	228,000	46,000
Related Debt Investments	900,000	-
Discounted Debt Investments	5,000	-
Non-Conventional Mortgages	946,000	219,000
Total Specific Provision	\$ 4,529,000	\$ 5,084,000
IFRS 9 Collective Provision	1,080,000	396,000
Total Provision	\$ 5,609,000	\$ 5,480,000

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

The changes to the provision	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2020	\$ 396,000	\$ -	\$5,084,000	\$5,480,000
Provision for credit losses	172,000	23,000	1,204,864	1,399,864
Transfer to (from):	-	-	-	-
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Allocation of provision to interest receivable	-	-	(1,270,864)	(1,270,864)
Balance at December 31, 2020	\$ 568,000	\$23,000	\$5,018,000	\$5,609,000

The loans comprising the Investment Portfolio are stated at amortized cost or FVTPL. As of December 31, 2020, the provision for impairment is \$5,609,000 (December 31, 2019 – \$5,480,000) of which \$4,529,000 (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 this analysis, the Corporation used judgement to determine the amounts calculated. As at December 31, 2020, the Corporation carries a collective impairment provision of \$1,080,000 (December 31, 2019 – \$396,000). The Corporation has allocated the impairment provision in the amount of \$1,270,864 (2019 – \$1,220,077) to interest receivable related to loans in default.

The Investment Portfolio as at December 31, 2020, includes six investments totaling \$25,137,615 (December 31, 2019 - seven investments totaling \$52,092,335) which are considered in default and a specific allowance of \$4,529,000 (December 31, 2019 - \$5,084,000) is recorded in the Corporation's provision for impairment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents the staging of the gross investments at amortized cost as at December 31, 2020 and December 31, 2019:

Gross investments at amortized cost	As at December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 347,011,643	\$ 18,318,750	\$ 30,732,779	\$ 396,063,172
Conventional non-first mortgages	36,256,874	-	3,185,000	39,441,874
Related debt investments	73,062,433	-	2,210,557	75,272,990
Discounted debt investments	139,650	5,070,000	-	5,209,650
Non-conventional mortgages	378,000	-	7,000,000	7,378,000
Total	\$ 456,848,600	\$ 23,388,750	\$ 43,128,336	\$ 523,365,687

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

The Corporation's gross Investment Portfolio was \$559,007,922 (comprised of gross investments at amortized cost of \$523,365,687 and related debt investments at FVTPL of \$35,642,235) as at December 31, 2020, and was \$480,925,143 (comprised of gross investments of \$445,874,140 and related debt investments at FVTPL of \$35,051,003) as at December 31, 2019.

GROSS CARRYING VALUE OF EXPOSURE BY RISK RATING

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table represents the internal risk ratings as at December 31, 2020:

	Conventional first mortgages	Conventional non-first mortgages	Related Investments	Discounted Debt	Non- conventional mortgages	Total
Stage 1						
Low	\$ 8,142,447	\$ 1,301,024	\$ -	\$ 139,650	\$ -	\$ 9,583,121
Low to Medium	111,954,819	10,974,135	31,991,667	-	-	154,920,621
Medium	213,105,499	23,474,043	41,070,767	-	378,000	278,028,309
Medium to High	13,808,878	507,673	-	-	-	14,316,551
Stage 2						
Medium	4,450,000	-	-	-	-	4,450,000
Medium to High	13,868,750	-	-	5,070,000	-	18,938,750
Stage 3						
Medium	21,511,783	3,185,000	-	-	-	24,696,783
Medium to High	-	-	-	-	7,000,000	7,000,000
High to Default	9,220,996	-	2,210,557	-	-	11,431,553
Total	\$ 396,063,172	\$ 39,441,875	\$ 75,272,991	\$ 5,209,650	\$ 7,378,000	\$ 523,365,687
Impairment provision	3,436,000	227,000	995,000	5,000	946,000	5,609,000
Carrying amount	\$ 392,627,172	\$ 39,214,875	\$ 74,277,991	\$ 5,204,650	\$ 6,432,000	\$ 517,756,687

The following table represents the internal risk ratings as at December 31, 2019:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

RELATED PARTY TRANSACTIONS

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

The Corporation's Manager (a company related to certain officers and/or directors of the Corporation) receives an allocation of interest, referred to as the Corporation Manager spread interest, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the three months ended December 31, 2020, this amount was \$998,928 (2019 - \$819,988). For the year ended December 31, 2020 this amount was \$3,774,550 (2019 - \$3,685,593). Included in accounts payable and accrued liabilities at December 31, 2020 are amounts payable to the Corporation's Manager of \$345,968 (December 31, 2019 - \$275,964).

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 \$133,190 for the three months ended December 31, 2020 (2019 - \$109,332) and approximately \$503,000 for the year ended December 31, 2020 (2019 - \$491,000). 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 \$5,070,000 at December 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 – \$5,148,000). 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 December 31, 2020, the Corporation recognized interest earned of \$258,014 (2019 - \$nil) from this investment. The impairment provision recorded on this loan was reduced to \$nil as at December 31, 2020 (December 31, 2019 – \$300,000).

MANAGEMENT'S DISCUSSION AND ANALYSIS

KEY MANAGEMENT COMPENSATION

Aggregate compensation paid to key management personnel (including payments to related parties for recovery of costs), consisted of short-term employee compensation of \$914,782 for the three months ended December 31, 2020 (2019 - \$497,442) and \$3,330,814 for the year ended December 31, 2020 (2019 - \$2,122,507), all of which was paid by the Corporation's Manager and not by the Corporation.

For the three months ended December 31, 2020, total director's fees were \$83,750 (2019 – \$76,750). For the year ended December 31, 2020, total director's fees were \$314,000 (2019 – \$307,000). 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 657,919 Shares as at December 31, 2020 (December 31, 2019 - 542,587 Shares).

For the year ended December 31, 2020, 1,875,000 options were issued under our stock option plan (2019 - nil), of which 1,230,000 (2019 - nil) were issued to the directors of the Corporation.

Related party transactions are further discussed and detailed in the Corporation's AIF and in note 13 of the accompanying 2020 audited consolidated financial statements of the Corporation.

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 each 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 gross domestic product factors by province and 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 prime rate.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 TSX for the applicable 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 TSX for the applicable date.

The tables in note 16 of the accompanying 2020 audited consolidated financial statements present the fair values of the Corporation's financial instruments as at December 31, 2020 and December 31, 2019.

CONTRACTUAL OBLIGATIONS

Contractual obligations as at December 31, 2020 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 7 years
Bank indebtedness	\$ 18,666,939	\$ 18,666,939	\$ -	\$ -
Credit facility	53,585,420	53,585,420	-	-
Accounts payable and accrued liabilities	1,412,668	1,412,668	-	-
Shareholder dividends payable	2,652,512	2,652,512	-	-
Convertible debentures	141,591,000	-	65,108,000	76,483,000
Subtotal - Liabilities	\$217,908,539	\$ 76,317,539	\$65,108,000	\$ 76,483,000
Future advances under portfolio	108,587,860	108,587,860	-	-
Liabilities and contractual obligations	\$326,496,399	\$184,905,399	\$65,108,000	\$ 76,483,000

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used are consistent with those as described in note 3 of the Corporation's audited consolidated financial statements for the years ended December 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 December 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 \$109 million as at December 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 demand facility of \$100 million (increased from \$80 million) and a committed facility of \$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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 fiscal year of 2020, 88 investment proposals were sent to the Board of Directors for approval. During the fiscal year of 2019, 79 investment proposals 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 Directors' 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 March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, requiring important protective measures be taken to prevent its spread. This pandemic has had disruptive and adverse impacts on the global economy including by rendering the markets more volatile, disrupting global supply chains and provoking an economic slowdown. Governments, monetary authorities and regulators have responded to help support the economy and the financial system, including by adopting fiscal and monetary measures to increase liquidity and support incomes. Among the changes and responses taken included the Bank of Canada's decision to reduce its overnight interest rate three times in March 2020, which resulted in financial institutions and other lenders such as us obtaining reduced interest rates on funds borrowed. This has contributed to a reduction in our interest revenues in 2020, and any further Bank of Canada or market based pressure which caused us to reduce the interest we obtain on our mortgages may similarly reduce our interest revenue in 2021. The volatility and disruption related to the COVID-19 pandemic 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 decline of interest rates, a deterioration of the credit worthiness of the borrowers, and inability for borrowers to obtain additional financing should the need arise, and/or the need to extend the maturity date of/or renew a mortgage. Accordingly, our business, results of operations and financial position may decline, potentially impacting our credit losses as result of changes in the financial condition of our borrower-clients, the responsiveness of our borrower-clients, housing prices and real estate market statistics and employment statistics and others. Each of the aforementioned factors can have an impact on our expected or actual credit losses. At this point, the extent to which COVID-19 may continue to impact us is uncertain. We will continue to monitor the effects and potential consequences of the COVID-19 pandemic in 2021.*
- *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*

MANAGEMENT'S DISCUSSION AND ANALYSIS

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-*

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 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 existing or future waves in the 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 is available to the Corporation; and a non-material impact resulting from the 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.



**FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION**

CAPITAL PRESERVATION • DISCIPLINED INVESTING

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED
DECEMBER 31, 2020





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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Firm Capital Mortgage Investment Corporation

Opinion

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

- the consolidated balance sheets as at December 31, 2020 and December 31, 2019
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated balance sheets of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of impairment provisions over the investment portfolio and interest receivable

Description of the matter

We draw attention to Note 2(e), 3(a), 4 and 6 of the financial statements. The Entity has recorded an impairment provision against its investment portfolio and related interest receivable for an amount of \$6,879,864 (investment portfolio \$5,609,000 and interest receivable \$1,270,864). Impairment losses over individually assessed impaired loans are dependent on expected future cash flows. Significant assumptions in determining the expected future cash flows for impaired loans include the recoverable value of the investment's underlying security. For collectively assessed loans, allowances are driven by management's judgement on significant assumptions including the probability of default, loss given default and exposure at default factors.

Why the matter is a key audit matter

We identified the evaluation of impairment provisions over the investment portfolio and interest receivable as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of the investment portfolio and interest receivable and the high degree of estimation uncertainty in determining the provision for impairment. In addition, significant auditor judgement was required in evaluating the results of our audit procedures over certain significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For the impairment provisions relating to the individually assessed impaired loans and related interest receivable, we evaluated the appropriateness of significant assumptions used by the Entity to determine the recoverable value of the investment's underlying security. These values were evaluated by comparing them to appraisals, comparable sale transactions, reports of real estate commentators and available industry transaction databases, as applicable considering the features of the specific underlying security.



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For the impairment provision relating to collectively assessed loans, we involved professionals with specialized skills and knowledge who assisted in evaluating the appropriateness of Entity's measurement model and the significant assumptions such as:

- probability of default;
- loss given default; and
- exposure at default factors.

We compared the significant assumptions used by management to historical actual results, external evidence, including appraisals and industry databases, as applicable considering the features of the specific underlying security.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2020 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated.

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

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2020 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.



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

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.



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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

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

Toronto, Canada

March 9, 2021

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Balance Sheets

(in Canadian dollars)

As at	December 31, 2020	December 31, 2019
Assets		
Amounts receivable and prepaid expenses (note 4)	\$ 4,428,874	\$ 4,099,876
Marketable securities (note 5)	47,073	250,285
Investment portfolio (note 6)	553,398,922	475,445,143
Total assets	\$ 557,874,869	\$ 479,795,304
Liabilities		
Bank indebtedness (note 7)	\$ 18,666,939	\$ 1,175,463
Credit facility (note 7)	53,585,420	19,161,494
Accounts payable and accrued liabilities	1,412,668	1,253,498
Deferred revenue	1,091,717	950,377
Shareholders' dividends payable	2,652,512	4,193,576
Convertible debentures (note 9)	137,117,831	139,161,491
Total liabilities	\$ 214,527,087	\$ 165,895,899
Shareholders' Equity		
Common shares (note 10)	\$ 339,784,430	\$ 310,158,598
Equity component of convertible debentures	2,076,500	2,111,650
Stock options (note 10)	987,067	87,186
Contributed surplus	1,863,776	1,828,626
Deficit	(1,363,991)	(286,655)
Total shareholders' equity	\$ 343,347,782	\$ 313,899,405
Commitments (note 6)		
Contingent liabilities (note 15)		
Total liabilities and shareholders' equity	\$ 557,874,869	\$ 479,795,304

See accompanying notes to consolidated financial statements.

On behalf of the Directors:

"Eli Dadouch"
ELI DADOUCH
Director

"Jonathan Mair"
JONATHAN MAIR
Director

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Income and Comprehensive Income

Years ended December 31, 2020 and 2019

(in Canadian dollars)

	2020	2019
Revenues		
Interest and fees income	\$ 43,954,563	\$ 46,524,064
Other income	221,734	818,787
	44,176,297	47,342,851
Operating expenses		
Corporation manager spread interest allocation (note 13)	3,774,550	3,685,593
Interest expense (note 14)	10,536,613	12,670,346
General and administrative expenses	1,205,668	1,234,784
Share based compensation (note 10)	906,131	--
Provision for impairment on investment portfolio and interest receivable (note 4 and 6)	1,399,862	1,750,077
	\$ 17,822,824	\$ 19,340,800
Income and comprehensive income for the year	\$ 26,353,473	\$ 28,002,051
Earnings per share (note 11)		
Basic	\$0.913	\$1.008
Diluted	\$0.909	\$0.953

See accompanying notes to consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2020 and 2019

(in Canadian dollars)

	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
Issuance of shares	25,881,900	-	-	-	-	-	25,881,900
Offering costs	(1,297,013)	-	-	-	-	-	(1,297,013)
Proceeds from issuance of shares from dividend reinvestment	879,995	-	-	-	-	-	879,995
Conversion and redemption of debentures	3,389,000	(35,150)	-	35,150	-	-	3,389,000
Issuance of stock options (note 10 (b))	-	-	906,131	-	-	-	906,131
Exercise of stock options (note 10 (b))	771,950	-	(6,250)	-	-	-	765,700
Income and comprehensive income for the year	-	-	-	-	26,353,473	-	26,353,473
Dividends to shareholders (note 12)	-	-	-	-	(27,430,809)	-	(27,430,809)
Balance at December 31, 2020	\$ 339,784,430	\$ 2,076,500	\$ 987,067	\$ 1,863,776	(1,363,991)	\$ -	\$ 343,347,782

Shares issued and outstanding (note 10) **30,843,166**

	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	25,840,712	-	-	-	-	-	25,840,712
Offering costs	(1,215,762)	-	-	-	-	-	(1,215,762)
Proceeds from issuance of shares from dividend reinvestment	601,652	-	-	-	-	-	601,652
Conversion and redemption of debentures	2,020,000	(1,142,350)	-	1,142,350	-	-	2,020,000
Exercise of stock options (note 10 (b))	549,272	-	(4,447)	-	-	-	544,825
Income and comprehensive income for the year	-	-	-	-	28,002,051	-	28,002,051
Dividends to shareholders (note 12)	-	-	-	-	(28,002,051)	-	(28,002,051)
Balance at December 31, 2019	\$ 310,158,598	\$ 2,111,650	\$ 87,186	\$ 1,828,626	(286,655)	-	313,899,405

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

See accompanying notes to consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Cash Flows

(in Canadian dollars)

	2020	2019
Cash provided by (used in):		
Operating activities:		
Income for the year	\$ 26,353,473	\$ 28,002,051
Adjustments for:		
Financing costs (net of implicit interest rate and deferred finance cost amortization)	9,191,270	10,998,289
Implicit interest rate in excess of coupon rate - convertible debentures (note 9)	295,673	400,837
Deferred finance cost amortization - convertible debentures (note 14)	1,049,666	1,271,220
Provision for impairment on investment portfolio and interest receivable	1,399,862	1,750,077
Share-based compensation, net	899,881	(4,447)
Unrealized (gain)/loss on marketable securities investments (note 5)	69,152	(41,080)
Accrued interest payable	(13,563)	707,946
Receivables and prepaid expenses	(1,752,154)	(1,444,705)
Accounts payable and accrued liabilities	159,180	(765,006)
Deferred revenue	141,340	(228,843)
Net cash flow from operating activities	\$ 37,793,780	\$ 40,646,339
Financing activities:		
Issuance of shares in new offerings	25,881,900	25,840,712
Issuance of shares from dividend reinvestment	879,995	601,652
Exercise of stock options	771,950	549,272
Repayment of convertible debentures (note 9)	--	(40,485,000)
Equity offering costs	(1,297,013)	(1,215,762)
Credit facility (note 7)	34,423,926	8,076,119
Repayment of loan payable	--	(14,718,382)
Cash interest paid (note 14)	(9,177,711)	(11,706,235)
Dividends to shareholders paid during the year (note 12)	(28,971,873)	(27,154,849)
Net cash flow from (used in) financing activities	\$ 22,511,174	\$ (60,212,473)
Investing activities:		
Sales of marketable securities	134,060	(10,001)
Funding of investment portfolio	(399,439,382)	(260,232,222)
Discharging of investment portfolio	321,508,892	300,251,589
Net cash flow from (used in) investing activities	\$ (77,796,430)	\$ 40,009,366
Net (decrease)/increase in cash flow for the year	\$ (17,491,477)	\$ 20,443,232
Bank indebtedness, beginning of year	(1,175,463)	(21,618,695)
Bank indebtedness, end of year (note 7)	\$ (18,666,939)	\$ (1,175,463)
Cash flows from operating activities include:		
Interest received	\$ 41,331,997	\$ 43,206,263

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(in Canadian dollars)

1. Organization of Corporation:

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

2. Basis of presentation:

(a) Statement of compliance:

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

The consolidated financial statements were approved by the Board of Directors on March 9, 2021.

(b) Basis of measurement:

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

(c) Principles of consolidation

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

(d) Functional and presentation currency:

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

(e) Critical estimates and judgements:

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

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Revisions to accounting estimates are recognized in the year in which estimates are revised. Those estimates and judgements have been applied in a manner consistent with previous years and there are no known trends, commitments, events or uncertainties other than the potential effects of COVID-19 pandemic, that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgements in these audited financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

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(in Canadian dollars)

On March 11, 2020, the World Health Organization declared COVID-19 outbreak a pandemic, requiring important protective measures to be implemented to prevent its spread. The governments have likewise declared that the COVID-19 outbreak in their jurisdictions constitutes an emergency and enacted measures to contain the spread of the virus. Reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, temporary business closures, quarantines, a general reduction in commercial activity due to reduced consumer spending related to job loss and other adverse economic effects attributable to COVID-19. Given the unprecedented and pervasive impact of changing circumstances surrounding COVID-19, there is inherently greater uncertainty related to the Corporation's future operating assumptions as compared to the prior periods. Given this, it is not possible to forecast with certainty the duration and scope of the economic impact of COVID-19 and the impact 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 duration of the business disruption due to government lockdown orders and their related financial impact cannot be reasonably estimated at this time and may be instituted, terminated and re-instituted from time to time due as the COVID-19 outbreak worsens or waves of COVID outbreaks may occur. 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 decline of interest rates, 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.

In the near-term, there have been no material signs of deterioration in the Investment Portfolio as a result of COVID-19. Borrower repayment performance has remained consistent with pre-COVID-19 performance with no payment deferral arrangements have been implemented.

The allowance for credit losses and carrying value for the Corporation's investments at FVTPL reflects management's best estimates. As at December 31, 2020, for the purpose of assessing the allowance for credit losses, our assumptions were updated to reflect the potential for increased risk to cash flows as a result of the ongoing COVID-19 pandemic.

The significant estimates and judgements used in determining the recorded amount for assets and liabilities in the financial statements are as follows:

Provision for impairment - The most significant estimates that the Corporation is required to make relate to the impairment of the investment portfolio and interest receivables (notes 3(a), 4 and 6). These estimates include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances, adverse changes in the payment status of borrowers, and other factors affecting the investments and underlying security of the investments. These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns, and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations of the actual outcome. Should the underlying assumptions change, the estimated fair value could vary by a material amount.

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

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

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

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

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

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

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

3. Significant accounting policies:

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

(a) Financial instruments

Classification & Measurement of Financial Assets

Recognition and initial measurement

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

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

Financial assets include both debt and equity instruments.

Debt instruments

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

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

Classification of debt instruments is determined based on:

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

Business model assessment

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

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

Cash flow characteristics assessment

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

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

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

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

Debt instruments measured at amortized cost

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

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

Debt instruments measured at FVOCI

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

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

Debt instruments measured at FVTPL

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

Equity instruments

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

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

Impairment

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

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

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

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

Measurement of ECL

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

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

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

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

Macroeconomic factors

In its models, the Corporation relies on a range of forward looking economic information as inputs, such as gross domestic product (GDP) factors. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement.

Assessment of significant increase in credit risk (SIR)

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

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

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

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

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Definition of default

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

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

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

Individual provision for impairment

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

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

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

Impairment losses over individually assessed impaired loans are dependent on expected future cash flows. Significant assumptions in determining the expected future cash flows for impaired loans include the recoverable value of the investment's underlying security.

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

Collective provision for impairment

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

For collectively assessed loans, allowances are driven by management's judgement on significant assumptions including the probability of default, loss given default and exposure at default factors.

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

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

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

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

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Write-off

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

(b) Revenue recognition:

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

(c) Share-based compensation:

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

(d) Income taxes:

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

(e) Financial assets and liabilities:

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

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

The Corporation classifies its financial assets and liabilities as follows:

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

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

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Recognition and measurement of financial instruments:

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

(f) Derecognition of financial assets and liabilities:

Financial assets:

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

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

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

Financial liabilities:

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

(g) Compound financial instruments:

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

(h) Share capital:

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

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(in Canadian dollars)

(i) Basic and diluted per share calculation:

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

(j) Foreign currency translation:

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

(k) Accounting policies implemented during the year

Amendments to References to the Conceptual Framework in IFRS Standards

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

The Corporation adopted the amendments in its consolidated financial statements for the annual period beginning on January 1, 2020 and the amendments did not have an impact on the consolidated financial statements.

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

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

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

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

The Corporation adopted the amendments to IAS 1 and IAS 8 in its consolidated financial statements for the annual period beginning on January 1, 2020. The amendments do not have a material impact on the consolidated financial statements.

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4. Amounts receivable and prepaid expenses:

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

	December 31, 2020	December 31, 2019
Interest receivable, net of impairment provision	\$ 3,727,709	\$ 3,402,067
Prepaid expenses	224,113	136,364
Fees receivable	471,501	532,769
Special income receivable	5,551	28,676
Amounts receivable and prepaid expenses	\$ 4,428,874	\$ 4,099,876

Interest receivable is net of the impairment provision of \$1,270,864 (December 31, 2019 - \$1,220,077); see note 6. The balances of both interest receivable and impairment provision were reduced by amounts written off of \$1,220,077 (December 31, 2019 - \$2,178,639), with no impact on income for the year. The Corporation will continue to seek recovery on amounts that were written off during the year, unless it no longer have the right to collect or it has exhausted all reasonable efforts to collect.

5. Marketable securities:

The Corporation holds units in publicly traded real estate investment trusts, which are classified as fair value through profit or loss ("FVTPL"). The fair value of the units is based on the closing price of the investments, which are actively traded in the marketplace and any adjustments to fair value are reflected in other income. The fair value of the marketable securities at December 31, 2020 is \$47,073 (December 31, 2019 - \$250,285). For the year ended December 31, 2020, the Corporation recorded an unrealized loss of \$69,152 (2019 - an unrealized gain of \$41,080) in other income.

6. Investment portfolio:

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

	December 31, 2020		December 31, 2019	
Conventional first mortgages	\$ 396,063,172	70.9%	\$ 334,859,014	69.6%
Conventional non-first mortgages	39,441,874	7.1%	42,337,892	8.8%
Related debt investments	75,272,991	13.6%	60,481,084	12.6%
Discounted debt investments	5,209,650	0.9%	5,378,150	1.2%
Non-conventional mortgages	7,378,000	1.3%	2,818,000	0.6%
Total investments (at amortized cost)	523,365,687	93.7%	\$ 445,874,140	92.8%
Provision for impairment	(5,609,000)		(5,480,000)	
Total investments (at amortized cost), net	517,756,687		440,394,140	
Related debt investments (at FVTPL)	35,642,235	6.3%	35,051,003	7.2%
Total investments (at FVTPL)	35,642,235		35,051,003	
Investment portfolio, net	553,398,922		475,445,143	
Total investments, gross	\$ 559,007,922	100.0%	\$ 480,925,143	100.0%
By geography:				
Canada	\$ 540,422,505	96.7%	\$ 461,763,649	96.0%
United States	18,585,417	3.3%	19,161,494	4.0%
Total	\$ 559,007,922	100%	\$ 480,925,143	100%

Included in conventional first mortgages is one United States ("US") dollar denominated investment (at amortized cost) of \$1,916,182 (US\$1,505,013) (December 31, 2019 - two US dollar denominated investments of \$2,435,491 (US\$1,875,186)).

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Included in related debt investments (classified at FVTPL) are four US dollar denominated investments totaling \$16,669,235 (US\$13,092,393), (December 31, 2019 - four US dollar denominated investments totaling \$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 year ended December 31, 2020, income recorded on the US investments (at amortized cost and FVTPL) was \$1,848,511 (US\$1,363,715), (2019 - \$1,274,748 (US\$962,317)). These amounts are included in interest and fees income.

Related debt investments (classified as FVTPL) as at December 31, 2020 also included three Canadian investments (December 31, 2019 - two Canadian investments) totaling \$18,973,000 (December 31, 2019 - \$18,325,000).

As at December 31, 2020, and December 31, 2019, there were no mortgages with first priority participants (see note 8).

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 December 31, 2020:

	December 31, 2020		
	Gross carrying amount	Provision for impairment	Net carrying amount
Conventional first mortgages	\$ 396,063,172	\$ 3,436,000	\$ 392,627,172
Conventional non-first mortgages	39,441,874	227,000	39,214,874
Related debt investments	110,915,226	995,000	109,920,226
Discounted debt investments	5,209,650	5,000	5,204,650
Non-conventional mortgages	7,378,000	946,000	6,432,000
Total investment portfolio	\$ 559,007,922	\$ 5,609,000	\$ 553,398,922

Included in the total provision for impairment of \$5,609,000 is a collective allowance of \$1,080,000.

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.

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The following table presents the staging of gross investments at amortized cost as at December 31, 2020:

Gross investments at amortized cost	As at December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 347,011,643	\$ 18,318,750	\$ 30,732,779	\$ 396,063,172
Conventional non-first mortgages	36,256,874	-	3,185,000	39,441,874
Related debt investments	73,062,433	-	2,210,557	75,272,991
Discounted debt investments	139,650	5,070,000	-	5,209,650
Non-conventional mortgages	378,000	-	7,000,000	7,378,000
Total	\$ 456,848,600	\$ 23,388,750	\$ 43,128,336	\$ 523,365,687
By geography:				
Canada	\$ 454,932,418	\$ 23,388,750	\$ 43,128,336	\$ 521,449,505
United States	1,916,182	-	-	1,916,182
Total	\$ 456,848,600	\$ 23,388,750	\$ 43,128,336	\$ 523,365,687

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	\$ 357,991,033	\$ 25,733,720	\$ 59,713,896	\$ 443,438,649
United States	2,435,491	-	-	2,435,491
Total	\$ 360,426,524	\$ 25,733,720	\$ 59,713,896	\$ 445,874,140

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

Provision for impairment of credit losses on loans	As at December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 378,000	\$ 18,000	\$ 3,040,000	\$ 3,436,000
Conventional non-first mortgages	75,000	-	152,000	227,000
Related debt investments	112,000	-	883,000	995,000
Discounted debt investments	-	5,000	-	5,000
Non-conventional mortgages	-	-	946,000	946,000
Total	\$ 565,000	\$ 23,000	\$ 5,021,000	\$ 5,609,000
By geography:				
Canada	\$ 563,000	\$ 23,000	\$ 5,021,000	\$ 5,607,000
United States	2,000	-	-	2,000
Total	\$ 565,000	\$ 23,000	\$ 5,021,000	\$ 5,609,000

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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	

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

The changes to the provision	Stage 1	Stage 2	Stage 3	Total	
Balance at January 1, 2020	\$ 396,000	\$ -	\$ 5,084,000	\$ 5,480,000	
Provision for credit losses	172,000	23,000	1,204,864	1,399,864	
Transfer to (from):	-	-	-	-	
Stage 1	-	-	-	-	
Stage 2	-	-	-	-	
Stage 3	-	-	-	-	
Allocation of provision to interest receivable	-	-	(1,270,864)	(1,270,864)	
Balance at December 31, 2020	\$ 568,000	\$ 23,000	\$ 5,018,000	\$ 5,609,000	

The loans comprising the investment portfolio are stated at amortized cost or FVTPL. As at December 31, 2020 the provision for impairment is \$5,609,000, (2019 - \$5,480,000) of which \$4,529,000 (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 December 31, 2020, the Corporation carries a collective allowance of \$1,080,000 (2019 - \$396,000). The Corporation has allocated the impairment provision in the amount of \$1,270,864 (2019 - \$1,220,077) to interest receivable (note 4) related to loans in default.

The investment portfolio as at December 31, 2020, includes six investments totaling \$25,137,615 (December 31, 2019 - seven investments totaling \$52,092,335) which are considered in default and a specific allowance of \$4,529,000 (December 31, 2019 - \$5,084,000) is recorded in the Corporation's provision for impairment.

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ECL sensitivity and key economic variables

The Corporation incorporates forward-looking information into the measurement of ECL and formulates probability weightings to three economic scenarios - base case scenario being the Corporation's view of the most probable outcome, as well as benign and adverse scenarios. The key modelled inputs include economic data and forecasts published by the Canada Mortgage and Housing Corporation, Statistics Canada and the Canadian House Price Index. The weights assigned to each scenario have been determined based on applying management's judgement and industry knowledge.

The scenario probability weightings applied in the measuring the ECL as at December 31, 2020:

	Benign	Base	Adverse
Marco-economic scenario probability weightings	10%	60%	30%

The Corporation has considered the relationship between multiple macro-economic variables, credit risk and credit losses and determined that the key driver of credit risk are changes in the GDP and its impact on consumer spending, household indebtedness and mortgage delinquency rates. Forecasting relationships between key macro-economic indicators and the default rates of the loan portfolio have been developed based on analysing over eight years of market data and over three years of internal data.

The macro-economic assumptions inherent in the base, benign and adverse scenarios over the next 12 months, which represents the year-on-year percentage changes for GDP at market prices.

GDP assumptions and ECL sensitivity analysis as at December 31, 2020:

	Benign	Base	Adverse
GDP at market price changes	10.1%	1.7%	(6.7%)
Investments (at amortized cost)	\$ 523,365,687	\$ 523,365,687	\$ 523,365,687
Provision for impairment	\$ 5,550,000	\$ 5,609,000	\$ 5,670,000

For the base scenario, GDP growth will be low due to regional restrictions to combat COVID-19 outbreaks and continued disruptions to travel, hospitality and related sectors. Growth is expected to pick up in the second half of 2021 as vaccine rates increase and restrictions are eased. This scenario aligns with the Organization for Economic Co-operation and Development's forecast for 2021, which anticipates the growth rate will continue to improve in the following years to 3.7% in Q4 2022. The Bank of Canada projects the economy will grow by four percent in 2021, almost five percent in 2022, and around two and half percent in 2023.

The adverse scenario presents and economic downturn as GDP declines 6.17% due to a third-wave of COVID-19, potential for reduced government support and delayed economic recovery.

The benign scenario presents and economic upturn as the relaxation of COVID-19 restrictions fuels increased consumer confidence as the economy reopens.

These assumptions are limited to the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairments are subjective and may not necessarily be comparable to the actual outcomes. As new market and internal data becomes available, the Corporation monitors the key modeling assumptions and including macro-economic factors and expected trends, and the impact these changes will have on the ECL.

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Gross carrying value of exposure by risk rating

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

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

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

The following table represents the internal risk ratings as at December 31, 2020:

	Conventional first mortgages	Conventional non-first mortgages	Related Investments	Discounted Debt	Non-conventional mortgages	Total
Stage 1						
Low	\$ 8,142,447	\$ 1,301,024	\$ -	\$ 139,650	\$ -	\$ 9,583,121
Low to Medium	111,954,819	10,974,135	31,991,667	-	-	154,920,621
Medium	213,105,499	23,474,043	41,070,767	-	378,000	278,028,309
Medium to High	13,808,878	507,673	-	-	-	14,316,551
Stage 2						
Medium	4,450,000	-	-	-	-	4,450,000
Medium to High	13,868,750	-	-	5,070,000	-	18,938,750
Stage 3						
Medium	21,511,783	3,185,000	-	-	-	24,696,783
Medium to High	-	-	-	-	7,000,000	7,000,000
High to Default	9,220,996	-	2,210,557	-	-	11,431,553
Total	\$ 396,063,172	\$ 39,441,875	\$ 75,272,991	\$ 5,209,650	\$ 7,378,000	\$ 523,365,687
Impairment provision	3,436,000	227,000	995,000	5,000	946,000	5,609,000
Carrying amount	\$ 392,627,172	\$ 39,214,875	\$ 74,277,991	\$ 5,204,650	\$ 6,432,000	\$ 517,756,687

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The following table represents the internal risk ratings as at December 31, 2019:

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

The loans comprising the Investment portfolio bear interest at the weighted average rate of 8.20% per annum as at December 31, 2020 (December 31, 2019 - 8.49% per annum) and mature between 2021 and 2025.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to \$108,587,859 as at December 31, 2020 (December 31, 2019 - \$107,961,384).

The contractual maturity dates of the investment portfolio as at December 31, 2020, are as follows:

2021	409,447,596
2022	131,459,243
2023	14,710,783
2024	3,245,702
2025	144,598
	\$ 559,007,922

Borrowers who have open loans generally have the option to repay principal at any time prior to the maturity date without penalty, subject to written notice, according to the terms of 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 retains 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 note 3(f) above (Derecognition of financial assets and liabilities).

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

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

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The investment portfolio as at December 31, 2020 had one investment totaling \$822,854 (December 31, 2019 – six investments with balances totaling \$12,903,309) with contractual interest arrears greater than 60 days past due amounting to \$68,440 (December 31, 2019 – \$666,620).

The investment portfolio as at December 31, 2020, includes seven investments totaling \$30,245,129 (December 31, 2019 - 11 investments totaling \$23,762,758) with maturity dates that are past due and for which no extension or renewal was in place. One of the seven investments was paid out after December 31, 2020 in the amount of \$822,854 (December 31, 2019 - three investments were paid out totaling \$3,107,050). Three investments totaling \$11,431,554 (December 31, 2019 - three investments totaling \$13,034,146) have an allowance against them included in the Corporation's provision for impairment. The remaining three investments with maturity dates that are past due, and for which no extension or renewal was in place, totaling \$17,990,721 (December 31, 2019 - five investments totaling \$7,621,561) have been determined to not require a specific provision.

As at December 31, 2020, 141 of the Corporations' 183 investments (investment amount of \$494,686,380) 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 December 31, 2020, no investment with first priority syndicate participation was outstanding.

Investments classified at FVTPL:

As at December 31, 2020, there are six investments totalling \$35,642,235 (December 31, 2019 - six investments totalling \$35,051,003) that are carried at FVTPL.

7. Credit facility and bank indebtedness

The Corporation has revolving credit facilities with its principal banker of which \$72,252,359 includes the credit facility and bank indebtedness balance as at December 31, 2020 (December 31, 2019 - \$20,336,957). Interest on the credit facility and 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, 2021 (as further detailed in note 17 (c)). Bank indebtedness is secured by a general security agreement. The credit agreement contains certain financial covenants that must be maintained. As at December 31, 2020 and December 31, 2019, the Corporation was in compliance with all financial covenants.

As at December 31, 2020, the credit facility drawn amount was \$53,585,420 and the bank indebtedness was \$18,666,939 (December 31, 2019, the credit facility drawn amount was \$19,161,494 and the bank indebtedness was \$1,175,463).

The draw on the credit facility in the amount of \$53,585,420 at December 31, 2020 (December 31, 2019 - \$19,161,494), related to both borrowings in Canadian dollars of \$35,000,000 (December 31, 2019 - \$nil) and in Canadian dollars of \$18,585,420 (US \$14,597,408), (December 31, 2019 totaling \$19,161,494 (US \$14,753,220)). The borrowing in US dollars exactly matches that amount of US investments, thereby acting as an economic hedge against currency exposure.

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8. Loan payable:

First priority charge on mortgage investments are granted as security for loans payable from time-to-time. During 2020, the Corporation's loan payable balance was \$27,000,000 and the principal balance outstanding under the mortgage for which a first priority charge had been granted was \$37,125,000. The mortgage and the related loan payable were fully repaid on July 2, 2020.

The Corporation's loan payable balance as at December 31, 2020 was \$nil (December 31, 2019 - \$nil) and the principal balance outstanding under the mortgage for which a first priority charge has been granted is \$nil as at December 31, 2020 (December 31, 2019 - \$nil).

9. Convertible debentures:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Carrying value, beginning of the year	\$ 139,161,491	\$ 179,994,433
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	295,673	400,837
Deferred finance cost	1,049,666	1,271,220
Carrying value, end of the year	\$ 137,117,831	\$ 139,161,491

The continuity of the convertible debentures for the year ended December 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)	28,529	183,584	-	21,867,107	May 31, 2022
5.50%	21,339,774	-	(1,487,000)	60,875	181,665	-	20,095,314	Dec 31, 2022
5.20%	21,647,210	-	-	44,605	165,075	-	21,856,890	Dec 31, 2023
5.30%	25,490,648	-	-	28,560	185,402	-	25,704,610	Aug 31, 2024
5.40%	23,808,324	-	-	39,995	169,137	-	24,017,456	Jun 30, 2025
5.50%	23,335,542	-	(17,000)	93,109	164,803	-	23,576,454	Jan 31, 2026
Total	\$ 139,161,491	\$ -	\$ (3,389,000)	\$ 295,673	\$ 1,049,666	\$ -	\$ 137,117,831	

As at December 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 December 31, 2020 (December 31, 2019 - \$144,980,000).

During 2020, convertible debentures in the amount of \$3,389,000 (2019 - \$2,020,000) were converted into 242,501 (2019 - 144,539) 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 of redemption.

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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	

10. Shareholders' equity:

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

(a) Shares issued and outstanding:

The following shares were issued and outstanding as at December 31, 2020:

	# of shares	Amount
Balance, beginning of year	28,334,972	\$ 310,158,598
New shares from equity offering	2,139,000	25,881,900
Conversion of convertible debenture to shares	242,501	3,389,000
Equity offering costs	-	(1,297,013)
Options exercised in the period	65,000	771,950
New shares issued during the period under Dividend Reinvestment Plan	61,693	879,995
Balance, end of year	30,843,166	\$ 339,784,430

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

On November 30, 2020, the Corporation completed an equity offering of 1,860,000 common shares at a price of \$12.10 per share for gross proceeds of \$22,506,000. The over-allotment option, granted to the underwriters of this offering, was exercised in full and the Corporation issued an additional 279,000 common shares at a price of \$12.10 per share for gross proceeds of \$3,375,900. The total number of shares issued pursuant to this offering was 2,139,000.

During 2020, convertible debentures in the amount of \$3,389,000 (2019 - \$2,020,000) were converted into 242,501 (2019 - 144,539) common shares.

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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.

(b) Incentive options plan:

The status of the Company's stock options plan:

	December 31, 2020			December 31, 2019		
	Number of Options	Weighed Average Exercise Price	Amount	Number of Options	Weighed Average Exercise Price	Amount
Outstanding, beginning of year	880,000	\$11.91	\$87,186	926,250	\$11.90	\$91,633
Exercised	(65,000)	\$11.78	(6,250)	(46,250)	\$11.78	(4,447)
Options Granted / Amortization Amount	1,875,000	\$11.70	906,131	-	-	-
Cancelled	-	-	-	-	-	-
Expired	-	-	-	-	-	-
Outstanding, end of year	2,690,000	\$11.77	\$987,067	880,000	\$11.91	\$87,186
Number of options exercisable	2,515,000	\$11.77	-	880,000	\$11.91	

The following options were issued and outstanding as at December 31, 2020:

Expiry Date	Number of Options Outstanding	Number of Options Exercisable	Exercise Price
November 11, 2023	710,000	710,000	\$11.78
November 11, 2023	35,000	35,000	\$12.21
November 11, 2023	70,000	70,000	\$13.15
August 14, 2030	1,875,000	1,700,000	\$11.70
	2,690,000	2,515,000	

On August 14, 2020, the board of directors of the Corporation granted options to certain of the officers, directors and employees of the Corporation and the Mortgage Banker to purchase up to 1,875,000 Shares (2019 - nil) at a price of \$11.70 per Share with the expiry date of August 14, 2030. Of the 1,875,000 options granted, 1,700,000 options vested immediately, and the remaining 175,000 options will vest on August 14, 2025. The fair value of the options granted was estimated at \$991,093 using the Black-Scholes options pricing model.

Total stock options outstanding as at December 31, 2020 are 2,690,000 (December 31, 2019 - 880,000), of which 2,515,000 are exercisable (December 31, 2019 - 880,000).

During 2020, 65,000 options were exercised under our stock options plan (2019 - 46,250 options were exercised).

(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.

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(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 month 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.

Since commencement under the NCIB, the corporation has not purchased and cancelled any common shares.

11. Per share amounts:

Earnings per share calculation:

The following table reconciles the numerators and denominators of the basic and diluted earnings per share for the year ended December 31, 2020 and 2019.

Basic earnings per share calculation:

	2020	2019
Numerator for basic earnings per share:		
Net earnings for the year	\$ 26,353,473	\$ 28,002,051
Denominator for basic earnings per share:		
Weighted average shares	28,852,672	27,786,966
Net basic earnings per share	\$ 0.913	1.008

Diluted earnings per share calculation:

	2020	2019
Numerator for diluted earnings per share:		
Net earnings for the year	\$ 26,353,473	\$ 28,002,051
Interest on convertible debentures	1,375,671	9,229,908
Net diluted earnings per share	\$ 27,729,144	\$ 37,231,959
Denominator for diluted earnings per share:		
Weighted average shares	28,852,672	27,786,966
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average share price	57,867	123,914
Assuming debentures are converted	1,585,018	11,113,682
Diluted weighted average shares	30,495,557	39,024,562
Diluted earnings per share:	\$ 0.909	\$ 0.953

12. Dividends:

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

For the year ended December 31, 2020, the Corporation recorded dividends of \$27,430,809 (2019 - \$28,002,051) to its shareholders. Dividends were \$0.944 per share (2019- \$1.006 per share).

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13. Related party transactions and balances:

The Corporation's Manager (a company related to certain officers and/or directors of the Corporation) receives an allocation of interest, referred to as the Corporation Manager spread interest, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the year ended December 31, 2020, this amount was \$3,774,550 (2019 - \$3,685,593). Included in accounts payable and accrued liabilities at December 31, 2020 are amounts payable to the Corporation's Manager of \$345,968 (December 31, 2019 - \$275,964).

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 \$503,000 for the year ended December 31, 2020 (2019 - \$491,000). 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 \$5,070,000 at December 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 year ended December 31, 2020, the Corporation recognized interest earned of \$258,014 (2019 - \$nil) from this investment. The impairment provision on this loan is \$nil as at December 31, 2020 (December 31, 2019 - \$300,000).

Key management compensation:

For the year ended December 31, 2020 the total directors' fee expenses were \$314,000 (2019 - \$307,000). Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The Directors and Officers held 657,919 shares in the Corporation as at December 30, 2020 (December 31, 2019 - 542,587).

For the year ended December 31, 2020, 1,875,000 options were issued under our stock option plan (2019 - nil), of which 1,230,000 (2019-nil) were issued to the directors of the Corporation.

Aggregate compensation paid to key management personnel (including payments to related parties for their recovery of costs), consisted of short-term employee compensation of \$3,330,814 for the year ended December 31, 2020 (2019 - \$2,122,507). All of this compensation was paid by the Corporation's Manager and not by the Corporation.

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14. Interest expense:

	2020	2019
Bank interest expense	\$ 1,228,150	\$ 1,534,245
Loans payable interest expense (note 8)	373,663	385,706
Debenture interest expense	8,934,800	10,750,395
Interest expense	\$ 10,536,613	\$ 12,670,346
Deferred finance cost amortization - convertible debentures	(1,049,666)	(1,271,220)
Implicit interest rate in excess of coupon rate - convertible debentures	(295,673)	(400,837)
Change in accrued interest payable	(13,563)	707,946
Cash interest paid	\$ 9,177,711	\$ 11,706,235

15. Contingent liabilities:

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

16. Fair value:

The fair values of amounts receivable, bank indebtedness, credit facility, 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 December 31, 2020

Changes to related debt investments at FVTPL	
Balance at January 1, 2020	\$ 35,051,003
Funding of investments	1,190,598
Discharging of investments	(249,222)
Unrealized foreign exchange	(350,144)
Balance at December 31, 2020	\$ 35,642,235

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.

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The tables below present the fair values hierarchy of the Corporation's financial instruments as at December 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:

2020	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 47,073	-	-	\$ 47,073
Convertible debentures	142,409,853	-	-	142,409,853

December 31, 2019	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 250,285	-	-	\$ 250,285
Convertible debentures	149,806,418	-	-	149,806,418

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.

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At December 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:			
Amounts receivable and prepaid expenses	\$ 4,428,874	-	-
Marketable securities	47,073	-	-
Investment portfolio	553,398,922	-	2,550,337
Financial liabilities:			
Bank indebtedness	18,666,939	186,669	(186,669)
Accounts payable and accrued liabilities	1,412,668	-	-
Shareholders dividends payable	2,652,512	-	-
Convertible debentures	\$ 137,117,831	-	-
Total increase		\$ 186,669	\$ 2,363,668

(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 carrying 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 December 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 \$108,587,859 as at December 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 \$100 million (increased from \$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, 2021.

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, when implemented, 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.

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

Contractual obligations as at December 31, 2020 are due as follows:

	Total	Less than 1 year	1-3 years	4-7 years
Bank indebtedness	\$ 18,666,939	\$ 18,666,939	\$ -	\$ -
Credit facility	53,585,420	53,585,420	-	-
Accounts payable and accrued liabilities	1,412,668	1,412,668	-	-
Shareholders dividends payable	2,652,512	2,652,512	-	-
Convertible debentures	141,591,000	-	65,108,000	\$ 76,483,000
Subtotal - Liabilities	\$ 217,908,539	\$ 76,317,539	\$ 65,108,000	\$ 76,483,000
Future advances under portfolio	108,587,860	108,587,860	-	-
Liabilities and contractual obligations	\$ 326,496,399	\$ 184,905,399	\$ 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, \$12,212,750 for 1 to 3 years and \$5,823,969 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.

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(e) Currency risk:

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

18. Supplementary information:

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

	Credit Facility	Loan Payable	Convertible Debentures
Balance, beginning of the year	\$ 19,161,494	\$ -	\$ 139,161,491
Financing cash flow activities:			
Advance of loan payable		27,000,000	-
Repayment of loan payable		(27,000,000)	-
Draw on credit facility	34,423,926		
Repayment of convertible debentures		-	(3,389,000)
Total cash flow from financing activities	34,423,926	-	(3,389,000)
Financing non-cash activities:			
Conversion of convertible debenture to shares (note 9 & 10)		-	-
Implicit interest rate in excess of coupon rate (note 14)		-	295,673
Deferred finance cost amortization (note 14)		-	1,049,666
Total non-cash flow financing activities		-	1,345,339
Balance, end of the year	53,585,420	-	137,117,831