FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

REPORT TO SHAREHOLDERS

YEAR ENDED

DECEMBER 31, 2022

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MD&A

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED
DECEMBER 31, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

OUR BUSINESS

Firm Capital Mortgage Investment Corporation (the "Corporation") is a non-bank lender, investing predominantly in short-term residential and commercial real estate mortgage loans and real estate related debt investments. The Corporation operates as a mortgage investment corporation under the Income Tax Act (Canada). Mortgage investment corporations are able to have no income tax payable provided that they satisfy the requirements in subsection 130.1(6) of the Income Tax Act (Canada). The Corporation's primary investment objective is the preservation of shareholders' equity, while providing shareholders with a stable stream of dividends from the Corporation's investments. The Corporation achieves its investment objectives by pursuing a strategy of investing in loans in select niche real estate markets that are under-serviced by larger financial institutions.

The Corporation's more specific objective is to hold an investment portfolio that:

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

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

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

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

RECENT DEVELOPMENTS AND OUTLOOK

The Corporation's investment portfolio (the "Investment Portfolio") continued to revolve in 2022 with significant investment repayments and new fundings. During the year ended December 31, 2022, new fundings and discharges of investments were $462 million and $443 million respectively (2021 – $515 million and $432 million). The Corporation increased its allowance for impairment and fair value loss in 2022 by $4.41 million, to a total of $10.16 million as at December 31, 2022, while generating earnings per share of $0.939. At the end of 2022 the Investment Portfolio consisted of 83.5% of conventional first mortgages with 68% maturing in 2023. In addition, the interest rate of 96% of the Investment Portfolio was floating allowing the Corporation to capture the benefit of rising rates throughout 2022. The Corporation continues to participate in new investments on a disciplined bases with conservative underwriting on real estate in large urban centers.

In 2023, the Corporation expects to revolve the Investment Portfolio selectively, with an investment policy of holding a hard line on acceptable exposure levels, borrower quality and warranted interest rate pricing. There are no assurances on achievable 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. Active portfolio management will be key during the year with expected unpredictable market conditions.

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 28, 2023 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, 2022, and 2021, as well as the Corporation's Management's Discussion and Analysis, including the section on "Risks and Uncertainties", and each of our quarterly reports for 2022 and 2021.

HIGHLIGHTS

NET INCOME

For the three months ended December 31, 2022 net income increased by 2.9% to $7,955,086 as compared to $7,734,278 for the same period in 2021.

For the year ended December 31, 2022 net income increased by 7.5% to $32,234,067 as compared to $29,985,385 for the year ended December 31, 2021.

EARNINGS PER SHARE

Basic weighted average earnings per share for the three months ended December 31, 2022 was $0.231 (2021 – $0.234). Basic weighted average earnings per share for the year ended December 31, 2022, was $0.939 (2021 – $0.950).

Diluted weighted average earnings per share for the three months ended December 31, 2022 was $0.230 (2021 – $0.223). Diluted weighted average earnings per share for the for the year ended December 31, 2022 was $0.931 (2021 – $0.942).

REVENUES

Revenues for the three months ended December 31, 2022 increased by 32.3% to $17,258,942 as compared to $13,046,022 reported for the same period in 2021. Revenues for the year ended December 31, 2022 increased by 25.5% to $60,119,205 as compared to $47,904,954 for the year ended December 31, 2021. The increase is primarily a result of higher interest income due to a larger average Investment Portfolio size (the portfolio size was on average $82 million higher in 2022), a higher average interest rate (December 31, 2022 – 10.99% vs December 31, 2021 – 7.91%) and an increase in fee income offset by a decrease in special income.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio increased by $18.5 million to $661,003,596 as at December 31, 2022, in comparison to $642,531,533 as at December 31, 2021 (in each case, gross of impairment allowance, fair value adjustment, and unamortized fees). The allowance for impairment and fair value adjustment as of December 31, 2022 was $10,160,000 (December 31, 2021 allowance for impairment and fair value adjustment – $5,750,000), comprising (i) $3,700,000 (December 31, 2021 – $2,045,000) representing 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, (ii) $4,700,000 (December 31, 2021 – $2,600,000) representing the total amount of management's estimate of fair value adjustment on an investment stated at fair value through profit or loss ("FVTPL"). and (iii) a collective allowance balance of $1,760,000 (December 31, 2021 – $1,105,000). The unamortized commitment fees as at December 31, 2022 were $1,101,863 (December 31, 2021 – $1,429,532).

CAPITAL ACTIVITIES

In January 2022, the Corporation completed a public offering on a bought deal basis of 5.00% convertible unsecured subordinated debentures with a maturity date of March 31, 2029 for gross proceeds of $43.7 million. The net proceeds from the debenture offering were used to repay bank indebtedness and for general corporate purposes.

On March 4, 2022, the Corporation completed the early redemption of its 5.30% convertible unsecured subordinated debentures due May 31, 2022 (FC.DB.E). The redemption was completed with a cash payment of the aggregate principal amount of $9,919,000 and all accrued interest to the time of redemption.

On December 31, 2022, the Corporation's 5.50% convertible unsecured subordinated debentures due December 31, 2022 (FC.DB.F) matured and were repaid in full. The repayment was completed with a cash payment of the aggregate principal amount of $19,333,000 and all accrued interest to the time of maturity.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio was $649,741,733 as at December 31, 2022 (net of the allowance for impairment of $5,460,000, fair value loss adjustment of $4,700,000 and unamortized fees of $1,101,863) and was $635,352,001 as at December 31, 2021 (net of the allowance for impairment of $3,150,000, fair value loss adjustment of $2,600,000 and unamortized fees of $1,429,532). On December 31, 2022, the Investment Portfolio comprised of 252 investments (224 as at December 31, 2021). The average gross investment size was approximately $2.6 million, with 13 investments individually exceeding $7.5 million.

	December 31, 2022				December 31, 2021				
Mortgage Amount	**Number**		**Total Amount (before provision)**	**% of Portfolio**	**Number**		**Total Amount (before provision)**	**% of Portfolio**	***% Change***
$0 - $2,500,000	173	$	183,067,027	27.7%	150	$	139,782,051	21.8%	*31.0%*
$2,500,001 - $5,000,000	44		156,317,154	23.7%	42		150,290,014	23.4%	*4.0%*
$5,000,001 - $7,500,000	22		142,381,503	21.5%	12		71,395,108	11.1%	*99.4%*
$7,500,001 +	13		179,237,912	27.1%	20		281,064,360	43.7%	*(36.2%)*
Total Investments	**252**	**$**	**661,003,596**	**100%**	**224**	**$**	**642,531,533**	**100%**	*2.9%*
Less: Impairment allowance			(5,460,000)				(3,150,000)		
Less: Fair value adjustment			(4,700,000)				(2,600,000)		
Less: Unamortized fees			(1,101,863)				(1,429,532)		
Investment Portfolio		**$**	**649,741,733**			**$**	**635,352,001**		***2.3%***

Unadvanced committed funds under the existing Investment Portfolio amounted to $146 million as at December 31, 2022 (December 31, 2021 – $116 million).

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

	December 31, 2022				December 31, 2021				
Investment Categories	***W.A Interest Rate***		**Outstanding amount**	**% of Portfolio**	***W.A Interest Rate***		**Outstanding amount**	**% of Portfolio**	***% Change***
Conventional First Mortgages	*10.77%*	$	551,779,067	83.5%	*7.67%*	$	471,593,004	73.4%	*17.0%*
Conventional Non-First Mortgages	*11.93%*		33,439,892	5.1%	*8.28%*		53,002,813	8.2%	*(36.9%)*
Related Debt Investments	*12.02%*		60,122,951	9.1%	*8.76%*		81,226,107	12.7%	*(26.0%)*
Debtor In Possession Loans	*11.25%*		6,098,235	0.9%	*8.46%*		24,260,000	3.8%	*(74.9%)*
Non-Conventional Mortgages	*13.73%*		9,563,451	1.4%	*8.91%*		12,377,894	1.9%	*(22.7%)*
Discounted Debt Investments	-		-	-	-		71,715	-	*(100.0%)*
Total Investments	***10.99%***	**$**	**661,003,596**	**100%**	***7.91%***	**$**	**642,531,533**	**100%**	*2.9%*
Less: Impairment allowance			(5,460,000)				(3,150,000)		
Less: Fair value adjustment			(4,700,000)				(2,600,000)		
Less: Unamortized fees			(1,101,863)				(1,429,532)		
Investment Portfolio		**$**	**649,741,733**			**$**	**635,352,001**		***2.3%***

The related debt investments 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.

A debtor in possession loan ("DIP Loan"), is a loan obtained by an insolvent debtor while that debtor is restructuring its business under the *Companies' Creditors Arrangement Act* (Canada). A DIP Loan has "super-priority" security on the assets of the debtor company awarded by the court.

The $18.5 million increase in the Investment Portfolio (before the allowance for impairment, fair value adjustments and unamortized fees) was mainly due to the significant increase in the amount of the conventional first mortgages, offset by the decreases in each of the remaining investment categories. During 2022, new investment funding was $461.8 million (2021 – $515.2 million), while repayments during the period were $443.0 million (2021 – $432.0 million), resulting in an increase in the Investment Portfolio size.

Conventional first mortgages increased by 17.0% and represented 83.5% of the Investment Portfolio as at December 31, 2022 (73.4% as at December 31, 2021). Conventional non-first mortgages decreased by 36.9% and represented 5.1% of the Investment Portfolio at December 31, 2022 (8.2% as at December 31, 2021). Related debt investments decreased by 26.0% and represented 9.1% of the Investment Portfolio as at December 31, 2022 (12.7% as at December 31, 2021). DIP Loan decreased by 74.9% and represented 0.9% of the Investment Portfolio as at December 31, 2022 (3.8% as at

December 31, 2021). Non-conventional mortgages decreased by 22.7% and represented 1.4% of the Investment Portfolio as at December 31, 2022 (1.9% as at December 31, 2021). There were no Discounted debt investments as at December 31, 2022 (nominal amount as at December 31, 2022).

The weighted average face interest rate on the Corporation's Investment Portfolio was 10.99% per annum as at December 31, 2022, compared to 7.91% per annum as at December 31, 2021.

The allowance for impairment and fair value loss adjustment was $10,160,000 as at December 31, 2022 (December 31, 2021, allowance for impairment and fair value loss adjustment – $5,750,000), comprised of (i) $3,700,000 (December 31, 2021 – $2,045,000) representing 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, (ii) $4,700,000 (December 31, 2021 – $2,600,000) representing the total amount of management's estimate of fair value adjustment on an investment and (iii) a collective allowance balance of $1,760,000 (December 31, 2021 – $1,105,000).

The allocation of the Investment Portfolio between its 10 different loan categories is as follows:

	December 31, 2022			December 31, 2021			
Property Type		**Total Amount (before provision)**	**% of Portfolio**	**Number**	**Total Amount (before provision)**	**% of Portfolio**	***% Change***
Land	51	210,885,353	31.9%	53	$ 191,429,056	29.8%	*10.2%*
Construction Mortgages	63	113,259,876	17.1%	53	97,315,215	15.1%	*16.4%*
Condo/*Including multi unit condo loans*	26	79,573,907	12.0%	13	37,846,030	5.9%	*110.3%*
Single Family	54	69,734,207	10.6%	44	59,173,156	9.2%	*17.8%*
Related Debt Investments	14	60,122,951	9.1%	17	81,226,107	12.6%	*(26.0%)*
Other	12	36,657,315	5.6%	22	67,410,747	10.6%	*(45.6%)*
Multi Family Residential Mortgages	7	35,506,740	5.4%	7	40,115,777	6.2%	*(11.5%)*
Retail	18	36,542,816	5.5%	7	28,976,591	4.5%	*26.1%*
Industrial	7	18,720,431	2.8%	7	15,938,854	2.5%	*17.5%*
University	-	-	0.0%	1	23,100,000	3.6%	*(100.0%)*
	252	**$ 661,003,596**	**100%**	**224**	**$ 642,531,533**	**100%**	***2.9%***

The Corporation continues to focus its lending into core markets that can be monitored closely during evolving economic conditions, with a strong focus in Ontario. The Mortgage Banker does not service or underwrite mortgages on hotels, hospitality properties or long-term care facilities and, as such, the Corporation does not have any investment exposure to these asset types.

As at December 31, 2022, the value of the Investment Portfolio that is secured by properties outside of Ontario was 15.5%, compared to 12.4% as at December 31, 2021.

	December 31, 2022			December 31, 2021			
Geographic Segment	**Number**	**Total Amount (before provision)**	**% of Portfolio**	Number	Total Amount (before provision)	% of Portfolio	*% Change*
Greater Toronto Area	**150**	**$ 314,746,642**	**52.4%**	145	$ 303,896,050	54.1%	*3.6%*
Non-GTA Ontario	**61**	**192,808,536**	**32.1%**	44	188,073,209	33.5%	*2.5%*
Quebec	**14**	**50,136,561**	**8.3%**	10	23,496,365	4.2%	*113.4%*
Western Canada	**8**	**21,644,358**	**3.6%**	3	32,001,725	5.7%	*(32.4%)*
United States	**5**	**21,544,548**	**3.6%**	5	13,838,077	2.5%	*55.7%*
Mortgage Investment Portfolio	**238**	**$ 600,880,645**	**100%**	207	$ 561,305,426	100%	*7.1%*
Related Debt Investments	**14**	**60,122,951**		17	81,226,107		*(26.0%)*
	252	**$ 661,003,596**		224	$ 642,531,533		*2.9%*

*The Related Debt Investments includes $39,830,951 investments at amortized cost and $15,592,000 investments at FVTPL and then adjusted for a fair value decrease of $4,700,000.

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

	December 31, 2022			December 31, 2021			
Underlying Security Type	**Number**	**Total Amount (before provision)**	**% of Portfolio**	Number	Total Amount (before provision)	% of Portfolio	*% Change*
Residential	**192**	**$ 443,616,254**	**67.1%**	166	$ 422,837,341	65.7%	*4.9%*
Commercial	**46**	**157,264,391**	**23.8%**	41	138,468,085	21.7%	*13.6%*
Related Debt Investments	**14**	**60,122,951**	**9.1%**	17	81,226,107	12.6%	*(26.0%)*
	252	**$ 661,003,596**	**100%**	224	$ 642,531,533	100%	*2.9%*

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

The commercial category includes mortgages on retail, industrial, retail or commercial land, offices, and DIP loans.

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 are four United States ("US") dollar denominated investments (at amortized cost) of $17,044,548 (US$12,584,575) (December 31, 2021 – one US dollar denominated investment of $9,338,077 (US$7,365,577)).

Included in related debt investments, classified at FVTPL, are two US dollar denominated investments totaling $10,671,797 (US$7,879,354), (December 31, 2021 – three US dollar denominated investments totaling $9,659,447 (US$7,619,062)). 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, 2022, income recorded on the US investments (at amortized cost and FVTPL) was $282,039 (US $210,083), (2021 – 202,429(US $172,923)). For the year ended December 31, 2022, income recorded on the US investments (at amortized cost and FVTPL) was $1,286,629 (US$987,271) (2021 – $1,277,721(US $1,033,580)). These amounts are included in interest and fees income.

Related debt investments (classified as FVTPL) as at December 31, 2022 also included seven Canadian investments (December 31, 2021 – six Canadian investments) totaling $9,620,203 (December 31, 2021 – $6,862,500).

As at December 31, 2022, the Investment Portfolio included three investments totaling $24,789,855 (December 31, 2021 – one investment totaling $8,712,449) for which a specific allowance of $3,700,000 (December 31, 2021 – $2,045,000) was recorded by the Corporation.

As at December 31, 2022, the Investment Portfolio included one investment totaling $6,902,502 (December 31, 2021 – $5,833,861) for which a fair value adjustment of $4,700,000 (December 31, 2021 – $2,600,000) was recorded by the Corporation.

As at December 31, 2022, excluding investments for which there is an allowance or a fair value adjustment recorded against them by the Corporation, the Investment Portfolio had one investment totaling $1,890,000 (December 31, 2021 – two investments with a balance totaling $4,019,732) with contractual interest arrears greater than 60 days past due amounting to $67,805 (December 31, 2021 – $404,111).

As at December 31, 2022, the Investment Portfolio included four investments totaling $15,250,230 (December 31, 2021 – five investments totaling $25,284,527) with maturity dates that are past due and for which no extension or renewal was in place. One of the four investments, in the amount of $2,125,000, were paid out after December 31, 2022 (December 31, 2021 – three investments were paid out in the amount of $6,539,732). One of these investments totaling $7,363,355 (December 31, 2021 – one investment totaling $8,712,448) has an allowance recorded against it included in the Corporation's allowance for impairment or a fair value adjustment. The remaining two investments with a maturity date that are past due, and for which no extension or renewal was in place, amount to $5,761,875 (December 31, 2021 – one investment totaling $10,032,347), and it have been determined not to require a specific allowance .

As at December 31, 2022, the Investment Portfolio continued to be heavily concentrated in short-term investments, with approximately 68% maturing on or before December 31, 2023. 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.

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

	December 31, 2022		
	No.	Total Amount (before allowance)	% of Portfolio
2023	190	$ 451,680,800	68.3%
2024	52	158,194,570	23.9%
2025	8	44,113,226	6.7%
2026	2	7,015,000	1.1%
	252	**$ 661,003,596**	**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, 2022, 184 of the Corporation's 252 investments (investment amount of $661,003,596) are shared with other participants, and 26 of which (with a total investment amount of $90,545,715) 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 $62 million with the Corporation alongside its Investment Portfolio as at December 31, 2022.

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, 2022 and 2021, there were no mortgages with first priority participants.

As at December 31, 2022, the Corporation had unamortized commitment fees of $1,101,863 (December 31, 2021 – $1,429,532) which are netted against the investment portfolio. The Corporation's policy is to recognize commitment fees using the effective interest method over the contractual terms of the mortgages.

RESULTS OF OPERATIONS

REVENUES

For the three months ended December 31, 2022, revenues increased by 32.3% to $17,258,942 compared to $13,046,222 for the three months ended December 31, 2021. For the year ended December 31, 2022, revenues increased by 25.5% to $60,119,205 compared to $47,904,954 for the year ended December 31, 2021.

Revenues for the three months and year ended December 31, 2022 and 2021 are broken down as follows:

Three Months Ended	**December 31, 2022**			December 31, 2021			% Change
Interest	**$**	**16,195,195**	**93.9%**	$	12,282,823	94.2%	34.0%
Commitment & Renewal Fees		**573,861**	**3.3%**		734,764	5.6%	(21.9%)
Other Income		**489,886**	**2.8%**		28,635	0.2%	708.1%
	$	**17,258,942**	**100%**	$	13,046,222	100.0%	32.3%

Year Ended	**December 31, 2022**			December 31, 2021			% Change
Interest	**$**	**56,933,513**	**94.7%**	$	44,599,942	93.1%	27.7%
Commitment & Renewal Fees		**2,707,674**	**4.5%**		2,611,455	5.5%	3.7%
Other Income		**478,018**	**0.8%**		693,557	1.4%	(31.1%)
	$	**60,119,205**	**100%**	$	47,904,954	100.0%	25.5%

For the three months ended December 31, 2022, interest income was $16,195,195, an increase of 31.9% over the $12,282,823 reported for the comparable period in 2021. For the year ended December 31, 2022, interest income was

$56,933,513, an increase of 27.7% over the $44,599,942 as reported for 2021. The increase is mainly a result of a larger average portfolio size over the comparable period in 2021, and an increase in the average interest rate of the Investment Portfolio during the period.

For the three months ended December 31, 2022, commitment and renewal fees were $573,861, a decrease of 21.9% from $734,764 reported for the comparable period in 2021. For the year ended December 31, 2022, fee income relating to commitment and renewal fees was $2,707,674, an increase of 3.7% over the $2,611,455 reported for 2021.

For the three months and year ended December 31, 2022, other income was $489,018 and $478,018 (2021 – $28,635 and $693,557 respectively). The decrease in other income in 2022 from 2021 is related to completion and full payout of two investments resulting in the distribution of special profits.

CORPORATION MANAGER INTEREST ALLOCATION

During the three months ending December 31, 2022, the Corporation Manager received $1,151,540 (2021 – $1,210,020), through a joint venture interest arrangement with the Corporation. For the year ended December 31, 2022, $4,690,384 (2021 – $4,151,045) was received by the Corporation Manager under this arrangement. The increase resulted mainly from the higher average size of the Investment Portfolio over the comparable period in 2021.

INTEREST EXPENSE

For the three months ended December 31, 2022, interest expense increased by 17.1% to $3,792,148 as compared to $3,237,970 for the three months ended December 31, 2021. For the year ended December 31, 2022, interest expense increased by 34.0% to $14,868,929 as compared to $11,094,452 for the year ended December 31, 2021. The increase in interest expense is mainly the result of additional borrowing under the Corporation's credit facility, rising interest rates under the facility and additional fees associated with the newly entered credit syndication, and additional outstanding debentures when compared to the same period in 2021.

Interest expense is broken down as follows:

Three Months Ended	**December 31, 2022**			December 31, 2021			% Change
Bank Interest Expense	**$**	**504,117**	**13.3%**	$	342,367	10.6%	47.2%
Debenture Interest Expense		**3,288,031**	**86.7%**		2,895,603	89.4%	13.6%
	$	**3,792,148**	**100%**	$	3,237,970	100.0%	17.1%

Year Ended	**December 31, 2022**			December 31, 2021			% Change
Bank Interest Expense	**$**	**1,751,480**	**11.8%**	$	1,338,192	12.1%	30.9%
Debenture Interest Expense		**13,117,449**	**88.2%**		9,756,260	87.9%	34.5%
	$	**14,868,929**	**100%**	$	11,094,452	100.0%	34.0%

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

For the three months ended December 31, 2022, G&A expenses were $467,455 (2021 – $386,837). For the year ended December 31, 2022, G&A expenses increase by $445,600 to $1,598,837 compared to $1,153,237 for the year ended December 31, 2021. The increase in G&A expenses is mainly the result of additional accounting and legal fees along with higher listing fees.

INCENTIVE OPTION PLAN

The following is the status of the stock options issued under the Corporation’s stock option plan:

	December 31, 2022			December 31, 2021		
	Number of options	Weighted average exercise price	Amount	Number of options	Weighted average exercise price	Amount
Outstanding, beginning of period	**1,842,500**	**11.76**	**$ 790,412**	2,690,000	11.77	$987,067
Exercised (Options issued on Aug 14, 2020)	**-**	**-**	**-**	(355,000)	11.70	(258,537)
Exercised (Options issued on Jun 29, 2017)	**-**	**-**	**-**	(35,000)	13.15	(5,515)
Exercised (Options issued on Nov 11, 2013)	**(45,000)**	**11.78**	**(4,326)**	(557,500)	11.78	(3,605)
Options granted/amortization amount	**1,630,000**	**11.62**	**1,666,964**	100,000	13.97	71,002
Outstanding, end of period	**3,427,500**	**$ 11.69**	**$ 2,453,050**	1,842,500	$ 11.87	$ 790,412
Number of options exercisable	**2,902,500**	**$ 11.75**	**-**	1,667,500	$ 11.87	

[1]The amount outstanding corresponds to the stock based compensation associated with the issued stock options

The following options were issued and outstanding as at December 31, 2022:

Expiry date	Number of options outstanding	Exercise price	Number of options exercisable
November 11, 2023	142,500	$11.78	187,500
November 11, 2023	35,000	12.21	35,000
November 11, 2023	35,000	13.15	35,000
August 14, 2030	1,485,000	11.70	1,310,000
December 6, 2031	100,000	13.97	100,000
July 6, 2032	1,630,000	11.62	1,280,000
Total	3,427,500	$11.75	2,947,500

On July 6, 2022, the Company granted options to its officers, directors and employees to purchase up to 1,630,000 Shares at a price of $11.62 per Share with the expiry date of July 6, 2032. Of the 1,630,000 options granted, 1,280,000 options vested immediately, and the remaining 370,000 options will vest on July 6, 2027. The fair value of the options granted was estimated at $1,632,437 using the Black-Scholes options pricing model.

For the year ended December 31, 2021, the board of directors of the Corporation granted options to an officer of the Corporation to purchase up to 100,000 Shares at price of $13.97 per Share with the expiry date of December 6, 2031. All 100,000 of these options vested immediately. The fair value of the options granted was estimated at $52,621 using the Black-Scholes options pricing model.

The total number of stock options outstanding as at December 31, 2022 is 3,427,500 (December 31, 2021 – 1,842,500), of which 2,902,500 stock options are vested and exercisable (December 31, 2021 – 1,667,500). During year ended December 31, 2022, 45,000 options were exercised under the stock option plan (2021 – 947,500) the options were exercised).

FAIR VALUE ADJUSTMENT ON INVESTMENT PORTFOLIO AND ALLOWANCE FOR IMPAIRMENT ON INVESTMENT PORTFOLIO AND INTEREST RECEIVABLE

The Fair Value Adjustment on the Corporation’s Investment Portfolio for the year ended December 31, 2022 was an increase of $2,100,000 (2021 – $2,600,000). The provision for impairment on Investment Portfolio and interest receivable for the year ended December 31, 2022 was $2,958,552 (2021 – recovery $1,150,167). The sum of the fair value adjustment and provision for impairment for the year end December 31, 2022, was an expense of $5,058,552 (2021 – $1,449,833). As disclosed in our audited financial statements for the year ended December 31, 2022, interest and fees income is gross of our interest receivable impairment allowance for 2022 of $648,552. The remaining fair value and loan impairment expense is related to an increase in the impairment allowance and fair value adjustment of $4,410,000.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for the three months ended December 31, 2022, was $7,955,086 (2021 – $7,734,278), which represents an increase of 2.9% over the comparable prior year quarter. Net income and comprehensive income for the year ended December 31, 2022, was $32,234,067 (2021 – $29,985,385), which represents an increase of 7.5% over 2021. Income for the year ended December 31, 2022 represented return on total shareholders’ equity (based on the month end average total shareholders’ equity) of 8.12%. This return on total shareholders’ equity represents 360 basis points per annum over the average one-year Government of Canada Treasury bill yield of 4.52%. The above return on total shareholders' equity is a non-IFRS financial measure and does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. This non-IFRS measure provides useful information to the Corporation's shareholders as it provides a measure of return generated on the Corporation's equity base.

EARNINGS PER SHARE

Basic weighted average earnings per share for the three months ended December 31, 2022 was 0.231 (2021 – $0.234). Basic weighted average earnings per share for the year ended December 31, 2022, was 0.939 (2021 – 0.950).

Diluted weighted average earnings per share for the three months ended December 31, 2022 was $0.230 (2021 – $0.223). Diluted weighted average earnings per share for the year ended December 31, 2022 was $0.931 (2021 – $0.942). During the year ended December 31, 2022, $11,155,000 of the principal amount of our convertible debentures were converted into 799,616 Shares (December 31, 2021 – $2,201,000 of our convertible debentures were converted into 157,490 Shares).

QUARTERLY FINANCIAL INFORMATION

($ in millions except per unit amounts)	Dec. 31 2022	Sep. 30 2022	Jun. 30 2022	Mar. 31 2022	Dec. 31 2021	Sep. 30 2021	Jun. 30 2021	Mar. 31 2021	Dec. 31 2020
Operating revenue	$ 17.26	$ 16.37	$ 13.90	$ 12.59	$ 13.05	$ 11.92	$ 11.46	$ 11.48	$ 11.72
Interest expense	3.79	3.75	3.64	3.68	3.24	2.72	2.58	2.56	2.69
Corporation manager spread interest allocation	1.15	1.21	1.17	1.16	1.21	0.99	0.98	0.97	1.00
General & administrative expenses	0.47	0.53	0.33	0.27	0.38	0.29	0.19	0.28	0.31
Share based compensation	0.54	1.11	0.01	0.01	0.07	-	-	-	-
Fair value adjustment on investment portfolio	(0.29)	2.39	-	-	0.80	0.32	1.48	-	-
Impairment loss on investment portfolio	3.64	(0.80)	0.51	(0.39)	(0.39)	0.03	(1.15)	0.36	0.40
Income	**$ 7.96**	**$ 8.18**	**$ 8.24**	**$ 7.86**	**$ 7.74**	**$ 7.57**	**$ 7.38**	**$ 7.31**	**$ 7.32**
Earnings per share									
Basic	**$0.231**	**$0.237**	**$0.239**	**$0.232**	**$0.234**	**$0.241**	**$0.238**	**$0.237**	**$0.249**
Diluted	**$0.230**	**$0.234**	**$0.237**	**$0.230**	**$0.223**	**$0.238**	**$0.234**	**$0.234**	**$0.247**
Dividends per share	**$0.248**	**$0.234**	**$0.234**	**$0.234**	**$0.246**	**$0.234**	**$0.234**	**$0.234**	**$0.242**

DIVIDENDS

For the three months and year ended December 31, 2022, the Corporation declared dividends on the Shares totaling $8,552,413 and $32,631,802, respectively, or $0.248 and $0.950 per Share, versus $8,148,312 and $29,985,385, respectively, or $0.246 and $0.948 per Share for the three months and year ended December 31, 2021. The number of Shares outstanding at December 31, 2022 was 34,485,740, compared to 33,610,885 at December 31, 2021.

	December 31, 2022	December 31, 2021	Change
Cash Flow From Operating Activities (net of cash interest paid)	$ 39,547,849	$ 32,364,049	22%
Profit	32,234,067	29,985,385	7%
Declared Dividends	32,631,802	29,985,385	9%
Excess Cash Flow from Operating Activities Over Declared Dividends	6,916,047	2,378,664	
Declared Dividends in Excess of Profit	(397,735)	-	

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES
The amounts receivable and prepaid expenses of $6,385,608 as at December 31, 2022 are comprised of interest receivable (net of impairment allowance) of $5,351,458, prepaid expenses of $637,567, and fees and special income receivable of $396,583, compared to $4,876,253 as at December 31, 2021.

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 $48,673 (investment cost $50,966) balance reported on the Corporation’s balance sheet as at December 31, 2022 represents the fair value of the marketable securities (December 31, 2021 – $ 54,407, investment cost $50,966).

CREDIT FACILITY AND BANK INDEBTEDNESS
As at December 31, 2022, the credit facility drawn amount was $57,716,347 and bank indebtedness was $15,235,918 (December 31, 2021, the credit facility drawn amount was $53,997,526 and bank indebtedness was $20,550,644).

CONVERTIBLE DEBENTURES
As at December 31, 2022, 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.G	5.20%	Dec. 21, 2016	Dec. 31, 2023	$ 22,500,000	$ 15.25	22,282,919
FC.DB.H	5.30%	Jun. 27, 2017	Aug. 31, 2024	26,500,000	15.25	26,135,530
FC.DB.I	5.40%	Jun. 21, 2018	Jun. 30, 2025	25,000,000	15.00	24,441,710
FC.DB.J	5.50%	Nov. 23, 2018	Jan. 31, 2026	24,983,000	14.60	24,108,937
FC.DB.K	5.00%	Sep. 3, 2021	Sep. 30, 2028	46,000,000	17.75	42,202,647
FC.DB.L	5.00%	Jan. 31, 2022	Mar. 31, 2029	43,700,000	17.00	39,112,724
Total / Average	**5.19%**			**$ 188,683,000**		**$ 178,284,467**

As at December 31, 2022, the principal balance for the outstanding convertible debentures was $188,683,000 (December 31, 2021 – $185,390,000). The aggregate convertible debenture carrying value as at December 31, 2022 was $178,284,467 (December 31, 2021 – $177,807,478). The weighted average effective interest rate of the convertible debentures as at December 31, 2022 is 5.19% (December 31, 2021 – 5.28%).

During 2022, $11,155,000 of the principal amount of our convertible debentures were converted into 799,616 Shares (December 31, 2021 – $2,201,000 was converted into 157,490 Shares).

On January 27, 2022, the Corporation completed a public offering of 5.00% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $40,000,000. On February 2, 2022, the over-allotment option for this offering was exercised whereby additional 5.00% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $3,700,000 were issued. Issuance costs of this offering were, in aggregate, $2,073,690. The debentures mature on March 31, 2029 and interest is paid semi-annually on the last day of March and September of each year. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $17.00 per Share. The debentures may not be redeemed by the Corporation prior to March 31, 2025. On or after March 31, 2025, but prior to March 31, 2027, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the Shares on the Toronto Stock Exchange (“TSX”) for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2027 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debentures by issuing that number of Shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the Shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

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

Liability	**$ 40,700,000**
Equity	**3,000,000**
Principal	**$ 43,700,000**

On September 3, 2021, the Corporation completed a public offering of 5.00% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $40,000,000. On September 9, 2021, the over-allotment option granted to the underwriters of the debenture offering was fully exercised whereby an additional 5.00% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $6,000,000 were issued. Issuance costs of this offering were, in aggregate, $2,076,387. The debentures mature on September 30, 2028 and interest is paid semi-annually on the last day of March and September of each year. The debentures are convertible into Shares at the option of the holder at any time prior to the maturity date at a conversion price of $17.75. The debentures may not be redeemed by the Corporation prior to September 30, 2024. On or after September 30, 2024, but prior to September 30, 2026, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the Shares on the Toronto Stock Exchange ("TSX") for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after September 30, 2026 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debentures by issuing that number of Shares obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the Shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

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

Liability	$ 43,500,000
Equity	2,500,000
Principal	$ 46,000,000

OTHER LIABILITIES

Other liabilities for the Corporation include the following:

Additional Liabilities	**December 31, 2022**	December 31, 2021	Change
Accounts Payable and Accrued Liabilities	**$ 2,720,494**	$ 2,229,194	22%
Shareholders' Dividend Payable	**3,172,688**	3,024,980	5%
Total	**$ 5,893,182**	$ 5,254,174	12%

Accounts payable and accrued liabilities increased by $491,300 to $2,720,494 as at December 31, 2022, compared to $2,229,194 as at December 31, 2021. Accounts payable and accrued liabilities include interest payable of $1,628,657 (December 31, 2021 – $1,321,346) and accrued liabilities of $1,091,837 (December 31, 2021 – $907,848).

SHAREHOLDERS' EQUITY

Shareholders' equity at December 31, 2022 totaled $399,046,100 compared to $382,672,839 as at December 31, 2021. The Corporation had 34,485,740 Shares issued and outstanding as at December 31, 2022, compared to 33,610,885 Shares as at December 31, 2021. The increase is attributable to 30,239 Shares issued under the DRIP (2021 – 196,129 Shares), which amounted to additional shareholders' equity of $418,931 (2021 – $2,808,307), the exercise of stock options for 45,000 Shares (2021 – 947,500), which amounted to additional shareholders' equity of $534,426 (2021 – $11,448,757), and the conversion of convertible debentures into 799,616 Shares, which increased shareholders' equity by $11,155,000 (2021 – conversion of the convertible debentures into 157,490 Shares increased shareholders' equity by $2,201,000).

On July 18, 2022, 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 common Shares and debentures. The notice provided that the Corporation may, during the 12-month period commencing July 18, 2022 and ending no later than July 17, 2023, purchase through the facilities of the TSX or alternative Canadian Trading Systems up to 3,359,442 Shares in total, being approximately 10% of the "public float" of Shares as of July 5, 2022; FC.DB.H $2,621,831 aggregate principal amount of

2024 Debentures in total, being 10% of the "public float" of 2024 Debentures as of July 5, 2022; FC.DB.I $2,478,894 aggregate principal amount of 2025 Debentures in total, being 10% of the "public float" of 2025 Debentures as of July 5, 2022; FC.DB.J $2,462,188 aggregate principal amount of 2026 Debentures in total, being 10% of the "public float" of 2026 Debentures as of July 5, 2022; FC.DB.K $4,600,000 aggregate principal amount of 2028 Debentures in total, being 10% of the "public float" of 2028 Debentures as of July 5, 2022; and FC.DB.L $4,369,850 aggregate principal amount of 2029 Debentures in total, being 10% of the "public float" of 2029 Debentures as of July 5, 2022. As of December 31, 2022, the Corporation has not purchased any security under the NCIB.

On November 1, 2021, the Corporation along with shareholders associated with the Corporation (the "Selling Shareholders") closed on a bought deal basis, to a syndicate of underwriters, 1,936,000 at a price of $14.85 per Share. Under the Agreement, 1,466,600 Shares were issued from treasury by the Corporation for gross proceeds of approximately $22 million and an aggregate of 470,000 Shares were be sold by the Selling Shareholders for aggregate gross proceeds to the Selling Shareholders of approximately $7 million.

ALLOWANCE FOR IMPAIRMENT

The Investment Portfolio consists primarily of the Company's 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 allowance for impairment. The Corporation assesses individually significant investments at each reporting date to determine whether there is objective evidence of impairment. The allowance 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 allowance for impairment. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Changes in the allowance for impairment are recognized in the statement of income and reflected in the allowance for impairment against the investments. Interest on the impaired assets continues to be recognized to the extent it is deemed to be collectible.

The allowance for credit losses is as follows:

	December 31, 2022		December 31, 2021	
Investment Categories	**Adjustments**	**Total Amount (before allowance)**	Adjustments	Total Amount (before allowance)
Conventional First Mortgages	**$ 3,700,000**	**$ 551,779,067**	$ 2,045,000	$ 471,593,004
Conventional Non-First Mortgages	**-**	**33,439,892**	-	53,002,813
Related Debt Investments	**-**	**60,122,951**	-	81,226,107
Debtor In Possession Loan	**-**	**6,098,235**	-	24,260,000
Non-Conventional Mortgages	**-**	**9,563,451**	-	12,377,894
Total Specific Allowance / Amount	**$ 3,700,000**	**$ 661,003,596**	$ 2,045,000	$ 642,459,818
IFRS 9 Collective Allowance	**1,760,000**		1,105,000	
Total Allowance	**$ 5,460,000**		$ 3,150,000	
Fair Value Adjustment	**4,700,000**		2,600,000	
Total Allowance and Fair Value Adjustment	**$ 10,160,000**		$ 5,750,000	

The following table presents the changes to the allowance for credit losses on loans as at December 31, 2022:

	1	2	3	Total
Balance at January 1, 2022	$ 777,000	$ 11,000	$ 2,362,000	$ 3,150,000
New fundings	571,000	18,000	1,591,000	2,180,000
Discharges	(297,000)	(3,000)	(317,000)	(617,000)
Transfer to (from):				
Stage 1	(88,000)	84,000	4,000	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Remeasurements	395,000	73,000	279,000	747,000
Balance at December 31, 2022	**$ 1,358,000**	**$ 183,000**	**$ 3,919,000**	**$ 5,460,000**

The loans comprising the Investment Portfolio are stated at amortized cost or FVTPL. As of December 31, 2022, the allowance for impairment and fair value adjustment was $10,160,000 (December 31, 2021, allowance for impairment and fair value adjustment – $5,750,000) of which $3,700,000 (December 31, 2021 – $2,045,000) 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, the total amount of management's estimate of fair value adjustment was $4,700,000 (2021 -$2,600,000) on an investment stated at FVTPL at December 31, 2023.

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 this analysis, the Corporation used judgement to determine the amounts calculated. As at December 31, 2022, the Corporation carries a collective impairment allowance of $1,760,000 (December 31, 2021 – $1,105,000). The Corporation has an allowance against its interest receivable in the amount of $1,233,819 as at December 31, 2022 (December 31, 2021 – $1,308,832) related to loans in default.

As at December 31, 2022, the Investment Portfolio includes three investments totaling $24,789,855 (December 31, 2021 – one investment totaling $8,712,449) for which a specific allowance of $3,700,000 (December 31, 2021 – $2,045,000) was recorded in the Corporation's allowance for impairment.

As at December 31, 2022, the Investment Portfolio includes one investment totaling $6,902,502 (December 31, 2021 – $5,833,860) for which a fair value loss adjustment of $4,700,000 was recorded.

The following table presents the staging of gross investments at amortized costs as at December 31, 2022:

Gross Investments at amortized cost				
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Conventional first mortgages	**$ 476,282,169**	**$ 41,585,169**	**$ 33,911,730**	**$ 551,779,068**
Conventional non-first mortgages	**29,949,892**	**3,000,000**	**490,000**	**33,439,892**
Related debt investments	**39,830,951**	**-**	**-**	**39,830,951**
Debtor in possession loan	**6,098,235**	**-**	**-**	**6,098,235**
Non-conventional mortgages	**7,934,879**	**1,628,571**	**-**	**9,563,450**
Total gross investments at amortized cost	**560,096,126**	**46,213,740**	**34,401,730**	**640,711,596**
By geography:				
Canada	**$ 556,615,318**	**$ 32,650,000**	**$ 34,401,730**	**$ 623,667,048**
United States	**3,480,808**	**13,563,740**	**-**	**17,044,548**
Total gross investments at amortized cost	**$ 560,096,126**	**$ 46,213,740**	**$ 34,401,730**	**$ 640,711,596**

The following table presents the staging of gross investments at amortized cost as at December 31, 2021:

Gross investments at amortized cost				
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	$ 442,690,794	$ 6,132,415	$ 22,769,796	$ 471,593,005
Conventional non-first mortgages	50,002,813	3,000,000	-	53,002,813
Related debt investments	61,386,792	3,317,367	-	64,704,159
Debtor in possession loan	24,260,000	-	-	24,260,000
Discounted debt investments	71,715	-	-	71,715
Non-conventional mortgages	11,948,144	429,750	22,769,796	12,377,894
Total gross investments at amortized cost	590,360,258	12,879,532	22,769,796	626,009,586
By geography:				
Canada	$ 581,022,181	$ 12,879,532	$ 22,769,796	$ 616,671,509
United States	9,338,077	-	-	9,338,077
Total gross investments at amortized cost	$ 590,360,258	$ 12,879,532	$ 22,769,796	$ 626,009,586

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 Manager (a company related to certain officers and/or directors of the Corporation) receives an allocation of interest, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the three months ended December 31, 2022, this amount was $1,151,540 (2021 – $1,210,020). For the year ended December 31, 2022, this amount was $4,690,384 (2021 – $4,151,045). Included in accounts payable and accrued liabilities at December 31, 2022 are amounts payable to the Corporation Manager of $379,186 (December 31, 2021 – $486,188).

The Mortgage Banker (a company related to officers and/or directors of the Corporation) receives certain fees from 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 $625,000 for the year December 31, 2022 (2021 – $541,000). 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 Joint Venture Agreement and Mortgage Banking Agreement contain, respectively, allowances 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.

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 $1,042,022 for the three months ended December 31, 2022 (2021 – $966,738) and $4,246,547 for the year ended December 31, 2022 (2021 – $3,746,744), all of which was paid by the Corporation Manager and not by the Corporation.

For the year ended December 31, 2022, total director's fees paid were $321,000 (2021 – $321,000). Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation Manager. The directors and officers of the Corporation held 802,967 Shares as at December 31, 2022 (December 31, 2021 – 694,728 Shares).

During 2022 the Company granted options to its officers, directors and employees to purchase up to 1,630,000 Shares (2021 – 100,000) at a price of $11.62 per Share with the expiry date of July 6, 2032. Of the 1,630,000 options granted, 1,280,000 options vested immediately, and the remaining 350,000 options will vest on July 6, 2027. The fair value of the options granted was estimated at $1,632,437 using the Black-Scholes options pricing model.

For the year ended December 31, 2021, 100,000 options were issued to the officer of the Corporation under the stock option plan.

Related party transactions are further discussed and detailed in the Corporation's AIF and in note 12 of the accompanying audited consolidated financial statements of the Corporation for the year ended December 31, 2022.

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 allowance for current or deferred income taxes is required.

CRITICAL ACCOUNTING ESTIMATES

The determination of the impairment allowance 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 allowance. Losses are recognized in the statement of income and reflected in the allowance 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 the statement of income. Management is required to consider the estimated future cash flow recovery from the collateral securing the mortgage investments. The estimation of cash flow recovery is performed on an individual mortgage basis and is based on assumptions pertinent to each mortgage investment. Each mortgage analysis often has unique factors that are considered in determining the cash flow and realizable value of the underlying security. The estimates are based on historical experience and other assumptions that management believes are responsible and appropriate in the circumstances. Actual results may differ from these estimates.

CLASSIFICATION & MEASUREMENT OF FINANCIAL ASSETS

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

MEASUREMENT OF EXPECTED CREDIT LOSS

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

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

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

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic inputs, such as real gross domestic product, interest rates and unemployment rates.

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, when incurred, 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 the prime rate.

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 15 of the audited consolidated financial statements of the Corporation for the years ended December 31, 2022 and 2021 present the fair values of the Corporation's financial instruments as at December 31, 2022 and December 31, 2021, respectively.

CONTRACTUAL OBLIGATIONS

Contractual obligations as at December 31, 2022 are due as follows:

	Total	Less than 1 year	1-3 years	4-7 years
Bank indebtedness	$ 15,235,918	$ 15,235,918	$ -	$ -
Credit facility	57,716,347	57,716,347	-	-
Accounts payable and accrued liabilities	2,720,494	2,720,494	-	-
Shareholders' dividends payable	3,172,688	3,172,688	-	-
Convertible debentures	188,683,000	22,500,000	76,483,000	89,700,000
Subtotal - Liabilities	267,528,447	101,345,447	76,483,000	89,700,000
Future advances under portfolio	145,796,810	145,796,810	-	-
Liabilities and contractual obligations	**$ 413,325,257**	**$ 247,142,257**	**$ 76,483,000**	**$ 89,700,000**

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, 2022 and 2021.

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, 2022, 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 $146 million as at December 31, 2022 (December 31, 2021 – $116 million). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments under the Investment Portfolio.

The Corporation has revolving credit facilities, with a demand revolving line of credit of $30 million and a committed revolving line of credit of $150 million to fund the timing differences between investment advances and investment repayments. The committed line is a committed facility with a maturity date to November 30, 2024.

The Corporation is in compliance with the covenants contained in the credit facility and expects to be in compliance with such covenants going forward. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing investments and funding commitments.

RISKS AND UNCERTAINTIES

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

The Corporation's independent directors take an active role in approving the investments that the Corporation makes. During the year ended December 31, 2022, 111 investment proposals were sent to the Board of Directors for approval. During the fiscal year of 2021, 120 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..

- *Economic conditions such as inflation, that would result in a significant decline in real estate values and corresponding loan losses.*
- *Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The existence of such liability can have a negative impact on the value of the underlying real property securing a mortgage. The Corporation does not own the real property securing its Investment Portfolio and thus would not attract the environmental liability that an owner would be exposed to. In rare circumstances where a mortgage is in default, the Corporation may take possession of real property and may become liable for environmental issues as a mortgagee in possession. The Corporation obtains phase 1 environmental reports for mortgages where the Mortgage Banker determines that such reports would be prudent given the nature of the underlying property.*
- *The inability to obtain borrowings and leverage, thus reducing yield enhancement.*
- *Dependence on the Corporation Manager and Mortgage Banker. The Corporation's earnings are impacted by the Mortgage Banker's ability to source and generate appropriate investments that provide sufficient yields while maintaining pre-determined risk parameters. The Corporation has also entered into long-term contracts with the Mortgage Banker and the Corporation Manager, as more particularly described in the AIF. The Corporation is exposed to adverse developments in the business and affairs of the Corporation Manager and Mortgage Banker, since the day-to-day activities of the Corporation are run by the Corporation Manager and since all of the Corporation's investments are originated by the Mortgage Banker.*
- *Portfolio face rate fluctuations. The interest rate earned on the Corporation's Investment Portfolio fluctuates given that (i) it continually revolves given that it is short term in nature; and (ii) the portfolio is predominately floating rate interest with floors.*
- *Interest rate risk. The Corporation's operating loan is floating rate and an increase in market interest rates would increase the Corporation's cost of borrowing. Increases in market interest rates could, in general, also negatively impact borrowers ability to service their debt and could impact real estate values.*
- *No guaranteed return. There is no guarantee as to the return that an investment in Shares of the Corporation will earn.*
- *Qualification as a Mortgage Investment Corporation. Although the Corporation intends to qualify at all times as a mortgage investment corporation, no assurance can be provided in this regard. If for any reason the Corporation does not maintain its qualification as a mortgage investment corporation under the Income Tax Act (Canada) (the "Tax Act"), dividends paid by the Corporation on the Shares will cease to be deductible by the Corporation in computing its income and will no longer be deemed by the rules in the Tax Act that apply to mortgage investment corporations to have been received by shareholders as bond interest or a capital gain, as the case may be. In consequence, the rules in the Tax Act regarding the taxation of public corporations and their shareholders should apply, with the result that the combined corporate and shareholder tax may be significantly greater.*
- *Investment Portfolio size. The Investment Portfolio size (and income generated thereon) can fluctuate and will decrease when repayments exceed new advances. Our ability to make investments in accordance with our objectives and investment policies depends upon the availability of suitable investments and the general economy and*

marketplace. Repayments of investments can be significant given the open prepayment provision associated with most investments.

- *Limited sources of borrowing. The Canadian financial marketplace is characterized as having a limited number of financial institutions that provide credit to entities such as ours. The limited availability of sources of credit may limit our ability to obtain additional leverage, if required.*
- *Liquidity risk. Liquidity risk is the risk the Corporation will not be able to meet its financial obligations as they come due. The Corporation's approach to managing liquidity risk is to ensure, to the extent possible, that it always has sufficient liquidity to meet its liabilities when they come due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's credit worthiness. The Corporation manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. If the Corporation is unable to continue to have access to its loans and mortgages syndications and revolving operating facility, the size of the Corporation's loan and mortgage investments will decrease, and the income historically generated through holding larger investments by utilizing leverage will not be earned.*
- *Demand loan bank indebtedness. A significant component of the Corporation's bank indebtedness is in the form of a demand facility, repayment of which can be demanded by the bank at any time.*
- *Specific investment risk for non-conventional mortgage and second mortgage investments. Non-conventional and second mortgage investments attract higher loan loss risk due to their subordinate ranking to other mortgage charges and sometimes high loan to value ratio. Consequently, this higher risk is compensated for by a higher rate of return. In order to mitigate risk and maintain a well-diversified Investment Portfolio, the operating policies of the Corporation generally limit the amount of Conventional Non-First Mortgage investments to a maximum of 30% of the Corporation's capital, subject to the Board of Directors' approval for any modifications to the operating policies.*
- *Reliance on Borrowers. After the funding of an investment, we rely on borrowers to maintain adequate insurance and proper adherence to environmental regulations during the ongoing management of their properties.*
- *Credit Risk. The Investment Portfolio is exposed to credit risk. Credit risk is the risk that a counterparty to a financial investment will fail to fulfill its obligations or commitment, resulting in a financial loss to the Corporation.*
- *Change in Legislation. There can be no assurance that certain laws applicable to the Corporation, including Canadian federal and provincial tax legislation, commodity and sales tax legislation, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation thereof, will not change in a manner that will adversely affect the Corporation or fundamentally alter the tax consequences to shareholders acquiring, holding or disposing of Shares.*
- *Litigation risk. We may, from time to time, become involved in legal proceedings in the course of our business. The costs of litigation and settlement can be substantial and there is no assurance that such costs will be recovered in whole or at all. During litigation, we might not receive payments of interest or principal on a mortgage that is the subject of litigation, which would affect our cash flows. An unfavourable resolution of any legal proceedings could have a material adverse effect on us, our financial position and results of operations.*
- *Ability to manage growth. We intend to grow our Investment Portfolio. In order to effectively deploy our capital and monitor our loans and investments in the future, we, the Corporation Manager and/or the Mortgage Banker will need to retain additional personnel and may be required to augment, improve or replace existing systems and controls, each of which can divert the attention of management from their other responsibilities and present numerous challenges. As a result, there can be no assurance that we would be able to effectively manage our growth and, if unable to do so, our Investment Portfolio, and the market price of our securities, may be materially adversely affected.*
- *Cyber risk. We collect and store confidential and personal information. Unauthorized access to our computer systems could result in the theft or publication of confidential information or the deletion or modification of records or could otherwise cause interruptions in our operations. In addition, despite implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. Any such system failure, accident or security breach could disrupt our business and make our applications unavailable. If a person penetrates our network security or otherwise misappropriates sensitive data, we could be subject to liability or our business could be interrupted, and any of these developments could have a material adverse effect on our business, results of operations and financial condition.*
- *Convertible debentures. Risks relating to the ownership of our outstanding convertible debentures are set out in the section entitled "Risk Factors" contained in each of our (final) prospectuses or prospectus supplements qualifying the distribution of such outstanding convertible debentures, which sections are incorporated herein by reference and available on SEDAR at www.sedar.com.*
- *Currency risk. Currency risk is the risk that the fair value or future cash flows of the Corporation's foreign currency-denominated investments and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates. Consequently, the Corporation is subject to currency fluctuations that may impact its financial position and results of operations. The Corporation manages its currency risk on its investments by borrowing the same amount as the investment in the same currency. As a result, a change in exchange rate of the Canadian dollar against the U.S. dollar will not change the net income and comprehensive income and equity.*

- *Public Health Crisis. The Corporation's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises beyond its control.*

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 the years ended, December 31, 2022 and 2021.

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, 2022 and December 31, 2022 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, 2022. 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 the financial reporting period ended December 31, 2022 that would have materially affected, or would be reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

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

FORWARD LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2023 objectives and our strategies to achieve those objectives, as well as statements with respect to management's beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance, or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “outlook”, “objective”, “may”, “will”, “expect”, “intent”, “estimate”, “anticipate”, “believe”, “should”, “plans”, or “continue”, or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties, including those described above in this MD&A under Risks and Uncertainties, which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters, and shareholder liability. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include the assumption that there is not a significant decline in the value of the general real estate market; market interest rates remain relatively stable; the Corporation is generally able to sustain the size of its Investment Portfolio; adequate investment opportunities are presented to the Corporation; and adequate bank indebtedness is available to the

Corporation;. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

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

FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED
DECEMBER 31, 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Firm Capital Mortgage Investment Corporation

Opinion

We have audited the consolidated financial statements of Firm Capital Mortgage Investment Corporation (the "Corporation"), which comprise the consolidated balance sheet as at December 31, 2022 and the consolidated statement of income and comprehensive income, consolidated statement of changes in shareholders' equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of investment portfolio and related interest receivable

Refer to consolidated financial statements Note 2(e): Basis of Presentation; 3(a): Significant accounting policies; Note 4: Amounts receivable and prepaid expenses; and Note 6: Investment portfolio

The Corporation recognized an impairment allowance against its investment portfolio and related interest receivable in the amount of $5,460,000 and $1,233,819, respectively. The impairment allowance was determined by estimating expected credit losses based on the expected cash shortfalls of the investments. Management's impairment allowance considers a range of possible scenarios and involves significant assumptions and judgements including the extent of credit deterioration, estimated recoverable value of the underlying security, the probability of default, loss given default, and exposure at default.

We considered the impairment of the investment portfolio and interest receivable to be a key audit matter due to the significant judgements applied by management to determine assumptions underlying the impairment allowance and the high degree of estimation uncertainty. Assessing these assumptions required significant auditor judgement and increased audit effort.

How our audit addressed the Key Audit Matter

Our audit procedures related to the impairment of the investment portfolio and related interest receivable included:

- Obtaining an understanding of the impairment model and assessing whether it complied with IFRS.
- Inspecting underwriting assessments and testing collections of interest receivable on a sample basis to evaluate management's assessment of credit deterioration.
- For the impairment of individually assessed investments, evaluating the recoverable value by inspecting property appraisals, comparable sales transactions, and other available market data.
- For the impairment of collectively assessed investments, we:
    - Involved professionals with specialized skills and knowledge in credit modelling and economics who assisted in evaluating the appropriateness of the model and significant assumptions by evaluating independent delinquency data, the Corporation's historical default experience, and the correlation between macroeconomic variables to assess portfolio delinquency.
    - Evaluated the significant assumptions used by management by inspecting property appraisals and testing data inputs from applicable housing indices, inspecting evidence of forced sales discounts, sales commissions, and carrying costs and evaluating the Corporation's historical foreclosure experience.
    - Confirmed amounts of loans and interest outstanding directly with borrowers on a sample basis to evaluate the exposure at default.

Other Matter

The consolidated financial statements of Corporation for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those statements on March 8, 2022.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report.

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

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of this auditor's 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 Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Curtis Dorfman.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 28, 2023
Toronto, Ontario

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Balance Sheets
(in Canadian dollars)

As at		**December 31, 2022**		December 31, 2021
Assets				
Amounts receivable and prepaid expenses (note 4)	**$**	**6,385,608**	$	4,876,253
Marketable securities (note 5)		**48,673**		54,407
Investment portfolio (note 6)		**649,741,733**		635,352,001
Total assets	**$**	**656,176,014**	$	640,282,661
Liabilities				
Bank indebtedness (note 7)		**15,235,918**		20,550,644
Credit facility (note 7)		**57,716,347**		53,997,526
Accounts payable and accrued liabilities		**2,720,494**		2,229,194
Shareholders' dividends payable		**3,172,688**		3,024,980
Convertible debentures (note 8)		**178,284,467**		177,807,478
Total liabilities	**$**	**257,129,914**	$	257,609,822
Shareholders' Equity				
Common shares (note 9)		**388,914,500**		376,806,142
Equity component of convertible debentures		**7,110,000**		4,551,714
Stock options (note 9)		**2,453,050**		790,412
Contributed surplus		**2,330,276**		1,888,562
Deficit		**(1,761,726)**		(1,363,991)
Total shareholders' equity	**$**	**399,046,100**	$	382,672,839
Commitments (note 6)				
Contingent liabilities (note 14)				
Total liabilities and shareholders' equity	**$**	**656,176,014**	$	640,282,661

See accompanying notes to consolidated financial statements.

On behalf of the Directors:

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

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Income and Comprehensive Income

For the Years Ended December 31, 2022 and 2022

(in Canadian dollars)

		2022		2021
Revenues				
Interest and fees income	**$**	**59,641,187**	$	47,211,397
Other income		**478,018**		693,557
		60,119,205		47,904,954
Operating expenses				
Corporation manager interest allocation (note 12)		**4,690,384**		4,151,045
Interest expense (note 13)		**14,868,929**		11,094,451
General and administrative expenses		**1,598,837**		1,153,237
Share based compensation (note 9)		**1,668,436**		71,003
Fair value adjustment on investment portfolio (carried at FVTPL) (note 6)		**2,100,000**		2,600,000
Provision/(recovery) for impairment on investment portfolio and interest receivable (note 4 and 6)		**2,958,552**		(1,150,167)
	$	**27,885,138**	$	17,919,569
Income and comprehensive income for the year	**$**	**32,234,067**	$	29,985,385
Earnings per share (note 10)				
Basic		**$0.939**		$0.950
Diluted		**$0.931**		$0.942

See accompanying notes to consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2022 and 2021

(in Canadian dollars)

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Surplus (Deficit)	Shareholders' equity
Balance at January 1, 2022	**$ 376,806,142**	**$ 4,551,714**	**$ 790,412**	**$ 1,888,562**	**$ (1,363,991)**	**$382,672,839**
Proceeds from issuance of shares from dividend reinvestment	**418,932**	**-**	**-**	**-**	**-**	**418,932**
Conversion and redemption of debentures	**11,155,000**	**(441,714)**	**-**	**441,714**	**-**	**11,155,000**
Equity component of debentures issued during the period (note 8)	**-**	**3,000,000**	**-**	**-**	**-**	**3,000,000**
Issuance of stock options (note 9 (b))	**-**	**-**	**1,632,437**	**-**	**-**	**1,632,437**
Exercise of stock options (note 9 (b))	**534,426**	**-**	**(4,326)**	**-**	**-**	**530,100**
Amortization of stock options granted (note 9 (b))	**-**	**-**	**34,527**	**-**	**-**	**34,527**
Income and comprehensive income for the year	**-**	**-**	**-**	**-**	**32,234,067**	**32,234,067**
Dividends to shareholders (note 11)	**-**	**-**	**-**	**-**	**(32,631,802)**	**(32,631,802)**
Balance at December 31, 2022	**$ 388,914,500**	**$ 7,110,000**	**$ 2,453,050**	**$ 2,330,276**	**$ (1,761,726)**	**$ 399,046,100**
Shares issued and outstanding (note 9)	**34,485,740**					

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Surplus (Deficit)	Shareholders' equity
Balance at January 1, 2021	$ 339,784,430	$ 2,076,500	$ 987,067	$ 1,863,776	$ (1,363,991)	$ 343,347,782
Issuance of shares	21,779,010	-	-	-	-	21,779,010
Offering costs	(1,215,362)	-	-	-	-	(1,215,362)
Proceeds from issuance of shares from dividend reinvestment	2,808,307	-	-	-	-	2,808,307
Conversion and redemption of debentures	2,201,000	(24,786)	-	24,786	-	2,201,000
Equity component of debentures issued during the year (note 8)	-	2,500,000		-	-	2,500,000
Issuance of stock options (note 9 (b))	-	-	52,621	-	-	52,621
Exercise of stock options (note 9 (b))	11,448,757	-	(267,657)	-	-	11,181,100
Amortization of stock option granted (note 9 (b))	-	-	18,381	-	-	18,381
Income and comprehensive income for the year	-	-	-	-	29,985,385	29,985,385
Dividends to shareholders (note 11)	-	-	-	-	(29,985,385)	(29,985,385)
Balance at December 31, 2021	$ 376,806,142	$ 4,551,714	$ 790,412	$ 1,888,562	$ (1,363,991)	$ 382,672,839
Shares issued and outstanding (note 9)	33,610,885					

See accompanying notes to consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

(in Canadian dollars)

		2022		2021
Cash provided by (used in):				
Operating activities:				
Income and comprehensive income for the year	$	**32,234,067**	$	29,985,385
Adjustments for:				
Financing costs (net of implicit interest rate and deferred finance cost amortization)		**12,619,790**		9,627,417
Implicit interest rate in excess of coupon rate - convertible debentures (note 8)		**786,714**		380,610
Deferred finance cost amortization - convertible debentures (note 13)		**1,462,425**		1,086,424
Provision /(recovery) for impairment on investment portfolio and interest receivable		**2,958,552**		(1,150,167)
Fair value adjustment on investment portfolio (carried at FVTPL)		**2,100,000**		2,600,000
Amortization of stock option granted (note 9 (b))		**1,666,964**		71,002
Changes in unrealized (gain)/loss on marketable securities investments (note 5)		**5,734**		(7,334)
Net change in non-cash operating items:				
Accrued interest payable		**(307,311)**		(701,999)
Receivables and prepaid expenses		**(2,157,907)**		(1,756,212)
Accounts payable and accrued liabilities		**491,300**		816,526
Deferred revenue		**-**		-
Net cash flow from operating activities	$	**51,860,328**	$	40,951,652
Financing activities:				
Issuance of common shares in new offerings		**-**		21,779,010
Dividend reinvestment in common shares		**418,932**		2,808,307
Exercise of stock options		**530,100**		11,181,100
Proceeds from convertible debentures issued (note 8)		**43,700,000**		46,000,000
Redemption of convertible debenture (note 8)		**(29,252,000)**		-
Debenture offering costs (note 8)		**(2,065,150)**		(2,076,387)
Equity offering costs		**-**		(1,215,362)
Credit facility (note 7)		**3,718,821**		412,106
Cash interest paid (note 13)		**(12,312,479)**		(8,925,418)
Dividends to shareholders paid during the year (note 11)		**(32,484,094)**		(29,612,917)
Net cash flow from (used in) financing activities	$	**(27,745,870)**	$	40,350,439
Investing activities:				
Funding of investment portfolio		**(461,849,997)**		(515,201,336)
Discharging of investment portfolio		**443,050,265**		432,015,540
Net cash flow from (used in) investing activities		**(18,799,732)**		(83,185,796)
Net increase /(decrease) in cash flow for the period		**5,314,726**		(1,883,705)
Bank indebtedness beginning of year		**(20,550,644)**		(18,666,939)
Bank indebtedness end of year (note 7)	$	**(15,235,918)**	$	(20,550,644)
Cash flows from operating activities include:				
Interest received (note 17)	$	**59,040,765**	$	41,248,933

See accompanying notes to consolidated financial statements.

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") and interpretations issued by the IFRS Interpretations Committee (“IFRS IC”).

The consolidated financial statements were approved by the Board of Directors on March 28, 2023.

(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 continues to be consolidated until the date that such control ceases. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(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.

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

Allowance 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 are related to determining when a significant increase in credit risk occurs, determining the probability of default, assessing the loss given default and the methodology used to incorporate forward-looking data when measuring expected credit loses (ECL). In addition, 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 expected credit loss could vary by a material amount. The allowance for credit losses and carrying value for the Corporation's investments at FVTPL reflects management's best estimates.

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 for Stages 1, 2 and 3 (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, liabilities and the equity component of convertible debentures.

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

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

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

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

3. Significant accounting policies

New or amended Accounting Standards and Interpretations adopted

The Corporation has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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 allowance of the instrument.

The initial measurement of a financial asset or liability is at fair value and in the case of financial assets and liabilities carried at amortized cost, 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 a collection of contractual cash flows. The Corporation takes into consideration the following factors:

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

Cash flow characteristics assessment

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

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

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

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

Debt instruments measured at amortized cost

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

Impairment on debt instruments measured at amortized cost is calculated using the ECL approach. 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 allowance that would arise if the assets were measured at amortized cost is recognized in OCI with a corresponding charge to allowance for impairment in the Consolidated Statement of Income. The accumulated allowance 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-other -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.

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. Forecasts specific to the loan are incorporated when assessing the cash flows expected to be received.

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. The PD is determined at each reporting date using historical data and current conditions. Adjustments to the PD can be impacted by taking into account forecasted unemployment rates, GDP and interest rates.

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), unemployment rate, and interest rate 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 signfiicantly increased since initial recognition when contractual payments are more than 30 days overdue.

Presentation of allowance for credit losses in the Consolidated Balance Sheets

(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 allowance is recognized in the Consolidated Statement of Financial Position because the carrying value of these assets is their fair value. However, the allowance determined is presented in the accumulated other comprehensive income.

Definition of default

The Corporation considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:
(i) significant financial difficulty of the borrower;
(ii) default or delinquency in interest or principal payments;
(iii) high probability of the borrower entering a phase of bankruptcy or a financial reorganization; and
(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 allowance 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 allowance 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 allowance 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 allowances are calculated for performing loans. Allowances 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 allowance for impairment. Internal risk rating parameters form the basis for calculating the quantitative portion of the collective allowance for performing loans:

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

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

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

Write-off

Investment portfolio and interest receivable (and the related allowance 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 are amortized to income using the effective interest method over the contractual terms of the mortgages.
(ii) Non-conventional mortgages: At each reporting period the Corporation determines the fair value of the 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 9 (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 allowance 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, credit facility, accounts payable and accrued liabilities, shareholders' dividends 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	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
Shareholders' dividends payable	Amortized cost
Convertible debentures	Amortized cost

Recognition and measurement of financial instruments:

The Corporation determines the classification of its financial assets and liabilities at initial recognition. Financial instruments are recognized initially at fair value and, in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs. Investment portfolio assets classified at FVTPL are subsequently measured at FV using level 3 inputs. Marketable securities classified as at FVTPL are subsequently measured at fair value using the close price when it falls between 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.

(in Canadian dollars)

(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 upon declaration in shareholders' equity.

(i) Basic and diluted per share calculation:

The Corporation presents basic and diluted profit per share data for its common shares. Basic per share amounts are calculated by dividing the profit and loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the year. Diluted per share amounts are calculated using the "if converted method" and are determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all potentially 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 balance sheets. 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) Dividend and share purchase plan:

The Corporation has in place a Dividend Reinvestment Plan (DRIP) and Share Purchase Plan that is available to its shareholders. The DRIP allows participants to have their monthly cash dividends reinvested in additional shares. The price paid per share is 97% (if the share price is higher than $14.85) of the weighted average trading price calculated five trading days immediately preceding each dividend date with no commission cost. Once registered with the Share Purchase Plan, participants have the right to purchase additional shares, totaling no greater than $12,000 per year and no less than $250 per month. Shareholders participating pay no commission.

4. Amounts receivable and prepaid expenses

The following is a breakdown of amounts receivable and prepaid expenses as at December 31, 2022 and December 31, 2021:

	December 31, 2022	December 31, 2021
Interest receivable, net of impairment allowance	**$ 5,351,458**	$ 4,324,345
Prepaid expenses	**637,567**	169,225
Fees receivable	**362,263**	359,905
Special income receivable	**34,320**	22,778
Amounts receivable and prepaid expenses	**$ 6,385,608**	$ 4,876,253

Interest receivable is net of the impairment allowance of $1,233,819 which is related to loans in default that are Stage 3 (December 31, 2021 – $1,308,832). The balances of both interest receivable and impairment allowance were reduced by amounts written off of $1,308,832 (December 31, 2021 – $1,270,864), with no impact on income during the year. During the year a recovery of $585,267 of interest receivable occurred (2021 – $nil). The Corporation will continue to seek recovery on amounts that were written off during the year, unless it no longer has 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, 2022 is $48,673 (December 31, 2021 – $54,407). For the year ended December 31, 2022, the Corporation recorded a change in unrealized loss of $5,734 (2021 – a change in unrealized gain of $7,334) in other income.

(in Canadian dollars)

6. Investment portfolio

The following is a breakdown of the investment portfolio as at December 31, 2022 and December 31, 2021:

	December 31, 2022		December 31, 2021	
Conventional first mortgages	**$ 551,779,067**	**84.9%**	$ 471,593,004	74.2%
Related debt investments	**39,830,951**	**6.1%**	64,704,160	10.2%
Conventional non-first mortgages	**33,439,892**	**5.2%**	53,002,813	8.3%
Non-conventional mortgages	**9,563,451**	**1.5%**	12,377,894	2.0%
Debtor in possession loan	**6,098,235**	**0.9%**	24,260,000	3.8%
Discounted debt investments	**-**	**0.0%**	71,715	0.0%
Total investments (at amortized cost)	**640,711,596**	**98.6%**	626,009,586	98.5%
Allowance for impairment on investments (at amortized cost)	**(5,460,000)**	**(0.8%)**	(3,150,000)	(0.5%)
Unamortized fees	**(1,101,863)**	**(0.2%)**	(1,429,532)	(0.2%)
Total investments (at amortized cost), net	**$ 634,149,733**	**97.6%**	$ 621,430,054	97.8%
Total Related debt investments (at FVTPL)	**15,592,000**	**2.4%**	13,921,947	2.2%
Total investments	**$ 649,741,733**	**100.0%**	$ 635,352,001	100.0%
By geography				
Canada	**$ 632,704,403**	**97.4%**	$ 618,984,477	97.4%
United States	**17,037,330**	**2.6%**	16,367,524	2.6%
Total	**$ 649,741,733**	**100.0%**	$ 635,352,001	100.0%

Included in conventional first mortgages are four United States ("US") dollar denominated investments (at amortized cost) of $17,044,548 (US$12,584,575) (December 31, 2021 – one US dollar denominated investment of $9,338,077 (US$7,365,577)). As of December 31, 2022 a collective loss allowance of $16,000 was applied to these conventional first mortgages (December 31, 2021- $37,000).

Included in related debt investments (classified at FVTPL) are two US dollar denominated investments totaling $10,671,797 (US$7,879,354), December 31, 2021 - three US dollar denominated investments totaling $9,659,447 (US$7,619,062). These investments are a participation by the Corporation in limited partnerships that have provided equity to real estate entities in the US. As at December 31, 2022, a fair value loss adjustment on one US dollar denominated investment of $4,700,000 had been recognized (2021 – $2,600,000).

For the year ended December 31, 2022, income recorded on the US investments (at amortized cost and FVTPL) was $1,286,629 (US$987,271), (2021 – $1,277,721 (US$1,033,580). These amounts are included in interest and fees income.

Related debt investments (classified as FVTPL) as at December 31, 2022 also included seven Canadian investments (December 31, 2021 – six Canadian investments) totaling $9,620,203 (December 31, 2021 – $6,862,500).

As at December 31, 2022, and December 31, 2021, there were no mortgages with first priority participants.

Conventional first mortgages are loans secured by a first priority mortgage charge with loan to values not exceeding 75% at the time of origination. 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. A debtor in possession loan ("DIP Loan"), is a loan obtained by an insolvent debtor while that debtor is restructuring its business under the Companies' Creditor Arrangement Act (Canada). A DIP Loan has top priority on the assets of the debtor company awarded by the court. 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 value ratios that exceed or may exceed 75%. Related investments and non-conventional mortgage investments at times are a source of special profit participation earned by the Corporation.

(in Canadian dollars)

The following is a breakdown of the investment portfolio as at December 31, 2022:

	Gross carrying amount	Provision for impairment	Fair value adjustment	Carrying amount
Conventional first mortgages	**$ 551,779,067**	**$ 4,895,000**	**$ -**	**$ 546,884,067**
Conventional non-first mortgages	**33,439,892**	**117,000**	**-**	**33,322,892**
Related debt investments	**60,122,951**	**107,000**	**4,700,000**	**55,315,951**
Debtor in possession loan	**6,098,235**	**7,000**	**-**	**6,091,235**
Non-conventional mortgages	**9,563,451**	**334,000**	**-**	**9,229,451**
	$ 661,003,596	**$ 5,460,000**	**$ 4,700,000**	**$ 650,843,596**
Unamortized fees				**(1,101,863)**
Total investment portfolio, net				**$ 649,741,733**

Included in the total allowance for impairment of $5,460,000 is a collective allowance of $1,760,000.

The following is a breakdown of the investment portfolio as at December 31, 2021:

	Gross carrying amount	Provision for impairment	Fair value adjustment	Carrying amount
Conventional first mortgages	$ 471,593,004	$ 2,774,000	$ -	$ 468,819,004
Conventional non-first mortgages	53,002,813	130,000	-	52,872,813
Related debt investments	81,226,107	80,000	2,600,000	78,546,107
Debtor in possession loan	24,260,000	1,000	-	24,259,000
Discounted debt investments	71,715	-	-	71,715
Non-conventional mortgages	12,377,894	165,0000	-	12,212,894
	$ 642,531,533	$ 3,150,000	$ 2,600,000	$ 636,781,533
Unamortized fees				(1,429,532)
Total investment portfolio, net				$ 635,352,001

Included in the total allowance for impairment of $3,150,000 is a collective allowance of $1,105,000.

The following table presents the staging of gross investments at amortized cost as at December 31, 2022:

Gross Investments at amortized cost				
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Conventional first mortgages	**$ 476,282,168**	**$ 41,585,169**	**$ 33,911,730**	**$ 551,779,067**
Conventional non-first mortgages	**29,949,892**	**3,000,000**	**490,000**	**33,439,892**
Related debt investments	**39,830,951**	**-**	**-**	**39,830,951**
Debtor in possession loan	**6,098,235**	**-**	**-**	**6,098,235**
Non-conventional mortgages	**7,934,880**	**1,628,571**	**-**	**9,563,451**
Total gross investments at amortized cost	**560,096,126**	**46,213,740**	**34,401,730**	**640,711,596**
By geography:				
Canada	**$ 556,615,318**	**$ 32,650,000**	**$ 34,401,730**	**$ 623,667,048**
United States	**3,480,808**	**13,563,740**	**-**	**17,044,548**
Total gross investments at amortized cost	**$ 560,096,126**	**$ 46,213,740**	**$ 34,401,730**	**$ 640,711,596**

(in Canadian dollars)

The following table presents the staging of gross investments at amortized cost as at December 31, 2021:

Gross investments at amortized cost	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	$ 442,690,794	$ 6,132,415	$ 22,769,796	$ 471,593,005
Conventional non-first mortgages	50,002,813	3,000,000	-	53,002,813
Related debt investments	61,386,792	3,317,367	-	64,704,159
Debtor in possession loan	24,260,000	-	-	24,260,000
Discounted debt investments	71,715	-	-	71,715
Non-conventional mortgages	11,948,144	429,750	-	12,377,894
Total gross investments at amortized cost	590,360,258	12,879,532	22,769,796	626,009,586
By geography:				
Canada	$ 581,022,181	$ 12,879,532	$ 22,769,796	$ 616,671,509
United States	9,338,077	-	-	9,338,077
Total gross investments at amortized cost	$ 590,360,258	$ 12,879,532	$ 22,769,796	$ 626,009,586

The following table presents the transfers between stages of the gross investments at amortized cost at December 31, 2022:

The changes to the provision	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at January 1, 2022	**$ 590,360,258**	**$ 12,879,532**	**$ 22,769,796**	**$ 626,009,586**
New fundings	289,706,810	15,173,740	21,276,500	326,157,050
Discharges	(295,645,421)	(5,429,532)	(14,057,347)	(315,132,300)
Transfer to (from):				
Stage 1	(29,351,875)	23,590,000	5,761,875	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net of Advances/Repayments	5,026,354	-	(1,349,094)	3,677,260
Balance at December 31, 2022	**$ 560,096,126**	**$ 46,213,740**	**$ 34,401,730**	**$ 640,711,596**

The following table presents the transfers between stages of the gross investments at amortized cost at December 31, 2021:

The changes to the provision	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2021	$ 456,848,601	$ 23,388,750	$ 43,128,336	$ 523,365,687
New fundings	376,151,249	4,059,855	4,025,000	384,236,104
Discharges	(255,169,891)	-	(15,653,752)	(270,823,643)
Transfer to (from):				
Stage 1	-	-	-	-
Stage 2	18,938,750	(18,938,750)	-	-
Stage 3	1,811,347	3,262,867	(5,074,214)	-
Net of Advances/Repayments	(8,219,798)	1,106,810	(3,655,574)	(10,768,562)
Balance at December 31, 2021	$ 590,360,258	$ 12,879,532	$ 22,769,796	$ 626,009,586

(in Canadian dollars)

The following table presents the provision for credit losses on investments as at December 31, 2022:

Provision for impairment of credit losses on loans		**Stage 1**		**Stage 2**		**Stage 3**		**Total**
Conventional first mortgages	**$**	**799,000**	**$**	**177,000**	**$**	**3,919,000**	**$**	**4,895,000**
Conventional non-first mortgages		**111,000**		**6,000**		**-**		**117,000**
Related debt investments		**107,000**		**-**		**-**		**107,000**
Non-conventional mortgages		**334,000**		**-**		**-**		**334,000**
Debtor in possession loan		**7,000**		**-**		**-**		**7,000**
Total	**$**	**1,358,000**	**$**	**183,000**	**$**	**3,919,000**	**$**	**5,460,000**
By geography:								
Canada	**$**	**1,358,000**	**$**	**167,000**	**$**	**3,919,000**	**$**	**5,444,000**
United States		**-**		**16,000**		**-**		**16,000**
Total	**$**	**1,358,000**	**$**	**183,000**	**$**	**3,919,000**	**$**	**5,460,000**

The following table presents the provision for credit losses on investments as at December 31, 2021:

Provision for impairment of credit losses on loans		Stage 1		Stage 2		Stage 3		Total
Conventional first mortgages	$	407,000	$	5,000	$	2,362,000	$	2,774,000
Conventional non-first mortgages		126,000		4,000		-		130,000
Related debt investments		80,000		-		-		80,000
								165,000
Non-conventional mortgages		163,000		2,000		-		-
Debtor in possession loan		1,000		-		-		1,000
Total	$	777,000	$	11,000	$	2,362,000	$	3,150,000
By geography:								
Canada	$	740,000	$	11,000	$	2,362,000	$	3,113,000
United States		37,000		-		-		37,000
Total	$	777,000	$	11,000	$	2,362,000	$	3,150,000

The following table presents the changes to the provision for credit losses on investments as at December 31, 2022:

The changes to the provision		**Stage 1**		**Stage 2**		**Stage 3**		**Total**
Balance at January 1, 2022	**$**	**777,000**	**$**	**11,000**	**$**	**2,362,000**	**$**	**3,150,000**
New fundings		571,000		18,000		1,591,000		2,180,000
Discharges		(297,000)		(3,000)		(317,000)		(617,000)
Transfer to (from)[1]:								
Stage 1		(82,000)		78,000		4,000		-
Stage 2		-		-		-		-
Stage 3		-		-		-		-
Remeasurements[2]		395,000		73,000		279,000		747,000
Balance at December 31, 2022	**$**	**1,358,000**	**$**	**183,000**	**$**	**3,919,000**	**$**	**5,460,000**

1 Transfers between stages which are presumed to occur before any corresponding remeasurement of the allowance
2 Remeasurements represent the change in the expected credit loss related to changes in model inputs or assumptions, including changes in macroeconomic conditions, balances changes, and changes in measurement following a transfer between stages.

(in Canadian dollars)

The following table presents the changes to the provision for credit losses on investments as at December 31, 2021:

The changes to the provision	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2021	$ 565,000	$ 23,000	$ 5,021,000	$ 5,609,000
New fundings	611,000	3,000	78,000	692,000
Discharges	(318,000)	-	(1,786,000)	(2,104,000)
Transfer to (from)[1]:				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	1,007,000	988,000	(1,995,000)	-
Remeasurements[2]	(1,088,000)	(1,003,000)	1,044,000	(1,047,000)
Balance at December 31, 2021	$ 777,000	$ 11,000	$ 2,362,000	$ 3,150,000

1 Transfers between stages which are presumed to occur before any corresponding remeasurement of the allowance
2 Remeasurements represent the change in the expected credit loss related to changes in model inputs or assumptions, including changes in macroeconomic conditions, balances changes, and changes in measurement following a transfer between stages.

The loans comprising the investment portfolio are stated at amortized cost and FVTPL. As at December 31, 2022, the allowance for impairment is $5,460,000 (2021 – $3,150,000) of which $3,700,000 (2021 – $2,045,000) 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, 2022, the Corporation carries a collective allowance of $1,760,000 (2021 – $1,105,000).

The investment portfolio as at December 31, 2022, included three investments totaling $24,789,855 (December 31, 2021 – one investment totaling $8,712,449) which are considered in default and a specific allowance of $3,700,000 (December 31, 2021 – $2,045,000) was recorded in the Corporation's allowance for impairment.

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 5 of the largest Financial Institutions in Canada. 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, 2022:

	Benign	**Base**	**Adverse**
Marco-economic scenario probability weightings	10%	70%	20%

The Corporation has considered the relationship between multiple macro-economic variables that have included interest rates, unemployment rates, and GDP. Forecasting relationships between key macro-economic indicators and the default rates of the loan portfolio have been developed based on analysing over 6 years of market data and internal data.

For the Adverse and Benign scenarios, the Corporation took the upper and lower limits of the macro economic forward looking data published by the 5 largest Financial Institutions.

(in Canadian dollars)

The impact of each scenario on the collective allowance at December 31, 2022 is as follows:

	Benign	Base	Adverse
Real GDP	1.50%	(0.08%)	(1.80%)
Interest Rates	3.75%	4.25%	4.59%
Unemployment rates	3.80%	5.59%	6.80%
Collective Allowance	$ 1,280,000	$ 1,829,000	$ 2,203,000

The base scenario forecasted macroeconomic variables from the 5 largest Financial Institutions in Canada are used.

The Adverse scenario presents an economic downturn with GDP declining, interest rates rising and with unemployment increasing.

The Benign scenario presents an economic upturn where interest rates decrease, unemployment decreases leading to increasing GDP.

These assumptions are limited to the availability of relatable 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 become available, the Corporation monitors the key modeling assumptions and including macro-economic factors expected trends, and the impact these changes will have on the ECL.

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

(in Canadian dollars)

The following table represents the internal risk ratings as at December 31, 2022:

	Conventional first mortgages	Conventional non-first mortgages	Related investments	Discounted debt	Debtor In Possession Loan	Non-conventional mortgages	Total
Stage 1							
Low	$ 12,459,663	$ 1,044,409	$ -	$ -	$ -	$ -	$ 13,504,072
Low to medium	116,278,706	13,998,609	-		-	346,844	130,624,159
Medium	303,787,920	9,947,630	39,830,951	-	6,098,235	2,539,500	362,204,236
Medium to high	43,755,879	4,959,245		-	-	5,048,535	53,763,659
Stage 2							
Medium	23,121,429	3,000,000	-	-	-	300,000	26,421,429
Medium to high	15,173,740	-	-	-	-	1,328,571	16,502,311
High	3,290,000	-	-	-	-	-	3,290,000
Stage 3							
Medium	12,538,375	-	-	-	-	-	12,538,375
Medium to High	1,960,000	-	-	-	-	-	1,960,000
High to default	19,413,355	490,000	-	-	-	-	19,903,355
Total	$ 551,779,067	$ 33,439,893	$ 39,830,951	$ -	$ 6,098,235	$ 9,563,450	$ 640,711,596

The following table represents the internal risk ratings as at December 31, 2021:

	Conventional first mortgages	Conventional non-first mortgages	Related investments	Discounted debt	Non-conventional mortgages	Debtor In Possession Loan	Total
Stage 1							
Low	$ 42,970,208	$ 2,724,371	$ -	$ 71,650	$ 3,500,000	$ 23,100,000	$ 72,366,229
Low to medium	87,672,174	12,212,550	12,316,026	65	369,609	-	112,570,424
Medium	287,749,261	30,835,637	49,070,767	-	2,652,000	1,160,000	371,467,665
Medium to high	24,299,150	4,230,255	-	-	5,426,535	-	33,955,940
Stage 2							
Medium	4,450,000	3,000,000	-	-	429,750	-	7,879,750
Medium to high	1,682,415	-	-	-	-	-	1,682,415
High	-	-	3,317,367	-	-	-	3,317,367
Stage 3							
Medium	10,032,347	-	-	-	-	-	10,032,347
Medium to High	4,025,000	-	-	-	-	-	4,025,000
High to default	8,712,449	-	-	-	-	-	8,712,449
Total	$ 471,593,004	$ 53,002,813	$ 64,704,160	$ 71,715	$12,377,894	$ 24,260,000	$ 626,009,586

The loans comprising the Investment portfolio bear interest at the weighted average rate of 10.99% per annum as at December 31, 2022 (December 31, 2021 – 7.91% per annum) and mature between 2023 and 2026.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to $146,883,046 as at December 31, 2022 (December 31, 2021 – $115,566,269).

(in Canadian dollars)

The contractual maturity dates of the investment portfolio as at December 31, 2022:

2023	$ 451,680,800
2024	158,194,570
2025	44,113,226
2026	7,015,000
	$ 661,003,596

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 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. 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, 2022, excluding investments for which there is an allowance or a fair value adjustment recorded against them by the Corporation, the Investment Portfolio had one investment totaling $1,890,000 (December 31, 2021 – two investments with a balance totaling $4,019,732) with contractual interest arrears greater than 60 days past due amounting to $67,805 (December 31, 2021 – $404,111).

The investment portfolio as at December 31, 2022, included four investments totaling $15,250,230 (December 31, 2021 - five investments totaling $25,284,527) with maturity dates that are past due and for which no extensions or renewals was in place. One of the four investments were paid out after December 31, 2022 for an amount of $2,125,000 (December 31, 2021 - three investments were paid out in the amount of $6,539,732). One of these investments totaling $7,363,355 (December 31, 2021 – one investment totaling $8,712,448) has an allowance recorded against it included in the Corporation's allowance for impairment. The remaining two investments with maturity dates that are past due and for which no extensions or renewals was in place amount to $5,761,875 (December 31, 2021 - one investment totaling $10,032,347) and do not require a specific allowance.

As at December 31, 2022, 184 of the Corporation's 252 investments (investment amount of $591,319,499) are shared with other participants (December 31, 2021 – 147 of the Corporations' 224 investments totaling $556,525,380).

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, 2022 and December 31, 2021, no investment with first priority syndicate participation was outstanding.

Investments classified at FVTPL:
As at December 31, 2022, there are nine investments totalling $20,292,000 (December 31, 2021 – nine investments totalling $16,521,947) that are carried at FVTPL and a fair value adjustment of $4,700,000 (December 31, 2021- $2,600,000l) is recorded against one of the investment carried at FVTPL (note 15).

The Corporation establishes fair value for investments that are classified as FVTPL using an appropriate valuation technique. Fair value was determined by applying an appropriate overall capitalization rate to stabilized net operating income.

7. Credit facility and bank indebtedness

The Corporation has revolving syndicate credit facilities with The Toronto – Dominion Bank, as administrative agent, and the lenders party thereto, as lenders as of November 28, 2022 of which $72,952,265 includes the credit facility and bank indebtedness balance as at December 31, 2022 (December 31, 2021 – $74,548,170). 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 syndicate credit arrangement comprises a revolving operating facility, a component of which is a demand facility and a component of which has a committed term (as further detailed in note 16 (c)). Bank indebtedness is secured by a general security agreement. The syndicate credit agreement contains certain financial covenants that must be maintained. As at December 31, 2022 and December 31, 2021, the Corporation was in compliance with all financial covenants.

As at December 31, 2022, the credit facility drawn amount was $57,716,347 and the bank indebtedness was $15,235,918 (December 31, 2021, the credit facility drawn amount was $53,997,526 and the bank indebtedness was $20,550,644).

The draw on the credit facility in the amount of $57,716,347 at December 31, 2022 (December 31, 2021 - $53,997,526), related to both borrowings in Canadian dollars of $30,000,000 (December 31, 2021 – $35,000,000) and US dollar borrowings of $20,463,931 (in Canadian dollars $27,716,347), (December 31, 2021 US dollar borrowings $14,984,640 (in Canadian dollars $18,997,526)). The borrowing in US dollars exactly matches the amount of US dollar denominated investments, thereby acting as an economic hedge against currency exposure.

8. Convertible Debentures

	Year Ended December 31, 2022	Year Ended December 31, 2021
Carrying value, beginning of the year	**$ 177,807,478**	$ 137,117,831
Issued	**41,634,850**	43,923,613
Equity component of debenture	**(3,000,000)**	(2,500,000)
Conversions of debentures to shares	**(11,155,000)**	(2,201,000)
Repayment	**(29,252,000)**	-
Implicit interest rate in excess of coupon rate	**786,714**	380,610
Deferred finance cost	**1,462,425**	1,086,424
Carrying value, end of the year	**$ 178,284,467**	$ 177,807,478

The continuity of the convertible debentures for the year ended December 31, 2022:

Debenture	Balance, beginning of year	Issued	Conversions	Implicit interest rate in excess of coupon	Deferred finance cost	Repayments upon Redemption	Balance, end of year	Maturity date
FC.DB.E 5.3%	$ 20,928,744	$ -	$ (11,080,000)	$ -	$ 70,256	$ (9,919,000)	$ -	31-Mar-22
FC.DB.F 5.5%	19,213,499	-	(75,000)	51,445	143,056	$ (19,333,000)	-	31-Dec-22
FC.DB.G 5.2%	22,068,597	-	-	49,698	164,624	-	22,282,919	31-Dec-23
FC.DB.H 5.3%	25,919,245	-	-	31,390	184,895	-	26,135,530	31-Aug-24
FC.DB.I 5.4%	24,228,388	-	-	44,647	168,675	-	24,441,710	30-Jun-25
FC.DB.J 5.5%	23,839,643	-	-	104,937	164,357	-	24,108,937	31-Jan-26
FC.DB.K 5.0%	41,609,362	-	-	299,419	293,866	-	42,202,647	30-Sep-28
FC.DB.L 5.0%	-	38,634,850[3]	-	205,178	272,696	-	39,112,724	31-Mar-29
Total	$ 177,807,478	$ 38,634,850	$ (11,155,000)	$ 786,714	$1,462,425	$ (29,252,000)	$178,284,467	

[3] Balance is net of the $3,000,000 equity component of the issued debenture

As at December 31, 2022, debentures payable bear interest at the weighted average effective rate of 5.19% per annum (December 31, 2021 – 5.28% per annum). Notwithstanding the carrying value of the convertible debentures, the principal balance outstanding to the debenture holders is $188,683,000 as at December 31, 2022 (December 31, 2021 – $185,390,000).

During 2022, $11,155,000 of the principal amount of our convertible debentures were converted into 799,616 Shares (December 31, 2021 – $2,201,000 was converted into 157,490 Shares).

On March 4, 2022, the Corporation completed the redemption of its 5.30% convertible unsecured subordinated debentures (FC.DB.E), which were scheduled to mature on May 31, 2022, for payment in cash in the aggregate principal amount of $9,919,000 and all accrued interest to the time of redemption. Prior to redemption, $11,080,000 of the convertible debenture series FC.DB.E 5.3% were converted into 794,260 Shares at price of $13.95.

(in Canadian dollars)

On December 30, 2022, the Corporation completed the redemption of its 5.50% convertible unsecured subordinated debentures (FC.DB. F). This redemption was completed with a cash payment of the aggregate principal amount of $19,333,000 and all accrued interest to the time of redemption.

On January 27, 2022, the Corporation completed a public offering of 5.00% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $40,000,000. On February 2, 2022, the over-allotment option for this offering was exercised whereby additional 5.00% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $3,700,000 were issued. Issuance costs of this offering were, in aggregate, $2,073,690. The debentures mature on March 31, 2029 and interest is paid semi-annually on the last day of March and September of each year. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $17.00 per Share. The debentures may not be redeemed by the Corporation prior to March 31, 2025. On or after March 31, 2025, but prior to March 31, 2027, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the Shares on the Toronto Stock Exchange (“TSX”) for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2027 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of Shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the Shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

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

Liability	**$ 40,700,000**
Equity	**3,000,000**
Principal	**$ 43,700,000**

On September 10th, 2021, the Corporation completed a public offering of 40,000 5.00% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $40,000,000. Prior to closing, an over-allotment was fully exercised whereby an additional 6,000 5.00% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $6,000,000 were issued. Issuance costs of these offerings were in aggregate $2,076,387. The debentures mature on September 30, 2028, and interest is paid semi-annually on the last day of March and September of each year. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $17.75. The debentures may not be redeemed by the Corporation prior to September 30, 2024. On or after September 30, 2024, but prior to September 30, 2026, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after September 30, 2026 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

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

Liability	$ 43,500,000
Equity	2,500,000
Principal	$ 46,000,000

(in Canadian dollars)

The continuity of the convertible debentures for the year ended December 31, 2021:

Debenture	Balance, beginning of period	Issued	Conversions	Implicit interest rate in excess of coupon	Deferred finance cost amortization	Balance, end of period	Maturity date
FC.DB.E 5.3%	21,867,107	-	(1,112,000)	20,300	153,337	20,928,744	31-May-22
FC.DB.F 5.5%	20,095,314	-	(1,089,000)	52,931	154,254	19,213,499	31-Dec-22
FC.DB.G 5.2%	21,856,890	-	-	47,083	164,624	22,068,597	31-Dec-23
FC.DB.H 5.3%	25,704,610	-	-	29,740	184,895	25,919,245	31-Aug-24
FC.DB.I 5.4%	24,017,456	-	-	42,257	168,675	24,228,388	30-Jun-25
FC.DB.J 5.5%	23,576,454	-	-	98,837	164,352	23,839,643	31-Jan-26
FC.DB.K 5.0%	-	41,423,613[2]	-	89,462	96,287	41,609,362	30-Sep-28
Total	$137,117,831	$41,423,613	($2,201,000)	$380,610	$1,086,424	$177,807,478	

[2] Balance is net of the $2,500,000 equity component of the issued debenture

9. 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, 2022:

	# of shares	**Amount**
Balance, beginning of year	33,610,885	$ 376,806,142
Conversion of convertible debenture to shares	799,616	11,155,000
Options exercised in the year	45,000	534,427
New shares issued during the year under Dividend Reinvestment Plan	30,239	418,931
Balance, end of year	**34,485,740**	**$ 388,914,500**

The following shares were issued and outstanding as at December 31, 2021:

	# of shares	Amount
Balance, beginning of year	30,843,166	$ 339,784,430
Shares from equity offering	1,466,600	21,779,010
Conversion of convertible debenture to shares	157,490	2,201,000
Equity offering costs	-	(1,215,362)
Options exercised in the year	947,500	11,448,757
New shares issued during the year under Dividend Reinvestment Plan	196,129	2,808,307
Balance, end of year	33,610,885	$ 376,806,142

Shares issued during 2022 under the Dividend Reinvestment Plan were 30,239 (2021 – 196,129).

During 2022, $11,155,000 of the principal amount of the convertible debentures were converted into 799,616 Shares (December 31, 2021 – $2,201,000 was converted into 157,490 Shares).

During 2022, 45,000 options were exercised under the stock option plan (2021 – 947,500) options were exercised.

On November 1, 2021, the Corporation along with shareholders associated with the Corporation (the "Selling Shareholders") closed on a bought deal basis, to a syndicate of underwriters, 1,936,000 common shares of the Corporation (the "Shares") at a price of $14.85 per Share (the "Issue Price"). Under the Agreement, 1,466,600 Shares were issued from Treasury by the Corporation for gross proceeds of approximately $22 million (the "Treasury Offering") and an aggregate of 470,000 Shares were sold by the Selling Shareholders for aggregate gross proceeds to the Selling Shareholders of approximately $7 million (the "Secondary Offering").

(in Canadian dollars)

(b) Incentive option plan

The following is the status of the stock options issued under the Corporation's stock option plan.

	December 31, 2022			December 31, 2021		
	Number of options	**Weighted average exercise price**	**Amount[4]**	Number of options	Weighted average exercise price	Amount[3]
Outstanding, beginning of year	**1,842,500**	**$ 11.76**	**$ 790,412**	2,690,000	$ 11.77	$987,067
Exercised (Options issued on Aug 14, 2020)	**-**	**-**	**-**	(355,000)	11.70	(258,537)
Exercised (Options issued on Jun 29, 2017)	**-**	**-**	**-**	(35,000)	13.15	(5,515)
Exercised (Options issued on Nov 11, 2013)	**(45,000)**	**11.78**	**(4,326)**	(557,500)	11.78	(3,605)
Options granted/amortization amount	**1,630,000**	**11.62**	**1,666,964**	100,000	13.97	71,002
Outstanding, end of year	**3,427,500**	**$ 11.75**	**$ 2,453,050**	1,842,500	$ 11.87	$790,412
Number of options exercisable	**2,902,500**	**$ 11.77**	**-**	1,667,500	$ 11.87	

[4] The amount outstanding corresponds to the stock based compensation associated with the issued stock options.

The following options were issued and outstanding as at December 31, 2022:

Expiry date	**Number of options outstanding**	**Exercise price**	**Number of options exercisable**
November 11, 2023	142,500	$ 11.78	187,500
November 11, 2023	35,000	12.21	35,000
November 11, 2023	35,000	13.15	35,000
August 14, 2030	1,485,000	11.70	1,310,000
December 6, 2031	100,000	13.97	100,000
July 6, 2032	1,630,000	11.62	1,280,000
Total	3,427,500	$ 11.75	2,947,500

On July 6, 2022, the Company granted options to its officers, directors and employees to purchase up to 1,630,000 Shares at a price of $11.62 per Share with the expiry date of July 6, 2032. Of the 1,630,000 options granted, 1,280,000 options vested immediately, and the remaining 370,000 options will vest on July 6, 2027. The fair value of the options granted was estimated at $1,632,437 using the Black-Scholes options pricing model. The fair value of the options was determined based on the following assumptions:

Expected Option Life (Years)	10
Risk Free Interest Rate	3.19%
Distribution Yield	8.19%
Expected Volatility	18.22%

Expected volatility is based in part on the historical volatility of the Company's shares consistent with the expected life of the option. The risk free interest rate of return is the yield on zero-coupon Government of Canada bond of a term consistent with the expected option life.

In 2021, the board of directors of the Corporation granted options to certain officers of the Corporation to purchase up to 100,000 Shares at a price of $13.97 per Share with the expiry date of December 6, 2031. All 100,000 options vested immediately. The fair value of the options granted was estimated at $52,621 using the Black-Scholes options pricing model.

The total number of stock options outstanding as at December 31, 2022 is 3,427,500 (December 31, 2021 – 1,842,500), of which 2,902,500 stock options are vested and exercisable (December 31, 2021 – 1,667,500).

(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.

(in Canadian dollars)

(d) Normal course issuer bid

On July 18, 2022, 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 common Shares and debentures. The notice provided that the Corporation may, during the 12-month period commencing July 18, 2022 and ending no later than July 17, 2023, purchase through the facilities of the TSX or alternative Canadian Trading Systems up to 3,359,442 Shares in total, being approximately 10% of the "public float" of Shares as of July 5, 2022; FC.DB.H $2,621,831 aggregate principal amount of 2024 Debentures in total, being 10% of the “public float” of 2024 Debentures as of July 5, 2022; FC.DB.I $2,478,894 aggregate principal amount of 2025 Debentures in total, being 10% of the “public float” of 2025 Debentures as of July 5, 2022; FC.DB.J $2,462,188 aggregate principal amount of 2026 Debentures in total, being 10% of the “public float” of 2026 Debentures as of July 5, 2022; FC.DB.K $4,600,000 aggregate principal amount of 2028 Debentures in total, being 10% of the “public float” of 2028 Debentures as of July 5, 2022; and FC.DB.L $4,369,850 aggregate principal amount of 2029 Debentures in total, being 10% of the “public float” of 2029 Debentures as of July 5, 2022. As of December 31, 2022, the Corporation has not purchased any security under the NCIB.

10. Earnings per share

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, 2022 and 2021:

Basic earnings per share calculation:

	2022	2021
Numerator for basic earnings per share:		
Net earnings for the year	$ 32,234,067	$ 29,985,385
Denominator for basic earnings per share:		
Weighted average shares	34,332,947	31,560,133
Net basic earnings per share	**$ 0.939**	**$ 0.950**

Diluted earnings per share calculation:

	2022	2021
Numerator for basic earnings per share:		
Net earnings for the year	$ 32,234,067	$ 29,985,385
Interest on convertible debentures	5,826,545	8,119,005
Net diluted earnings for the year	38,060,612	38,104,390
Denominator for basic earnings per share:		
Weighted average shares	34,332,947	31,560,133
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average share price	304,446	328,106
Assuming debentures are converted	6,260,710	8,580,787
Diluted weighted average shares	40,898,103	40,469,026
Diluted earnings per share	**$ 0.931**	**$ 0.942**

11. 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, 2022, the Corporation recorded dividends of $32,631,802 (2021 – $29,985,385) to its shareholders. Dividends were $0.95 per share (2020 – $0.948 per share).

(in Canadian dollars)

12. 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's joint venture interest arrangement, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the year ended December 31, 2022, this amount was $4,690,384 (2021 – $4,151,045). Included in accounts payable and accrued liabilities at December 31, 2022 are amounts payable to the Corporation's Manager of $379,186 (December 31, 2021 – $486,188).

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 $625,000 for the year ended December 31, 2022 (2021 – $541,000). 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 Joint Venture Agreement and Mortgage Banking Agreement contain, respectively, allowances 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.

Key management compensation:

For the year ended December 31, 2022 the total directors' fee expenses were $321,000 (2021 – $321,000). Certain key management personnel are also directors of the Corporation and received compensation from the Corporation's Manager. The Directors and Officers held 802,967 shares in the Corporation as at December 31, 2022 (December 31, 2021 – 694,728).

During 2022, the Company granted options to its officers, directors and employees to purchase up to 1,630,000 Shares at a price of $11.62 per Share with the expiry date of July 6, 2032. Of the 1,630,000 options granted, 1,280,000 options vested immediately, and the remaining 370,000 options will vest on July 6, 2027. The fair value of the options granted was estimated at $1,112,437 using the Black-Scholes options pricing model.

For the year ended December 31, 2021, 100,000 options were issued to the officer of the Corporation under the stock option plan.

Aggregate compensation paid to key management personnel (including payments to related parties for their recovery of costs), consisted of short-term employee compensation of $4,246,547 (2021 – $3,746,744) for the year ended December 31, 2022. All compensation was paid by the Corporation's Manager and not by the Corporation.

13. Interest expense

	2022	2021
Bank interest expense	**$ 1,751,480**	$ 1,338,192
Debenture interest expense	**13,117,449**	9,756,259
Interest expense	**14,868,929**	11,094,451
Deferred finance costs amortization - convertible debentures	**(1,462,425)**	(1,086,424)
Implicit interest rate in excess of coupon rate - convertible debentures	**(786,714)**	(380,610)
Changes in accrued interest payable	**(307,311)**	(701,999)
Cash interest paid	**$ 12,312,479**	$ 8,925,418

(in Canadian dollars)

14. 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.

15. 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. 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, 2022:

Changes to related debt investments at FVTPL	2022	2021
Balance at January 1st	**$ 13,921,947**	$ 35,642,235
Funding of investments	**3,385,500**	11,623,706
Repayments of investments	**(297,299)**	(31,612,674)
Unrealized foreign exchange	**682,352**	868,680
Fair value adjustment	**(2,100,000)**	(2,600,000)
Balance at December 31st	**$ 15,592,500**	$ 13,921,947

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

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

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

The tables below present the fair values hierarchy of the Corporation's financial instruments as at December 31, 2022 and December 31, 2021 other than our related debt investments as disclosed above. 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:

December 31, 2022	Level 1	Level 2	Level 3	Total
Marketable securities	$ 48,673	$ -	$ -	$ 48,673
Convertible debentures	167,418,429	-	-	167,418,429

December 31, 2021	Level 1	Level 2	Level 3	Total
Marketable securities	$ 54,407	$ -	$ -	$ 54,407
Convertible debentures	189,384,870	-	-	189,384,870

There were no transfers between level 1, level 2 and level 3 during the years ended December 31, 2022 and December 31, 2021.

(in Canadian dollars)

16. 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

(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. To help mitigate this risk most of the Corporation's investments have floating interest rate with a fixed floor thereby taking advantage of rising rates but limiting the downside risk of falling rates.

(ii) Interest expense risk

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

At December 31, 2022, 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:

Financial assets:	**Carrying Value**	**-1%**	**+1%**
Amounts receivable and prepaid expenses	$ 6,385,608	$ -	$ -
Marketable securities	48,673	-	-
Investment portfolio	650,843,596	(6,234,698)	6,317,581
Financial liabilities:			
Bank indebtedness	15,235,918	152,359	(152,359)
Credit facility	57,716,347	577,163	(577,163)
Accounts payable and accrued liabilities	2,720,494	-	-
Shareholders' dividends payable	3,172,688	-	-
Convertible debentures	178,284,467	-	-
Total increase	**$ 914,407,791**	**$ (5,505,176)**	**$ 5,588,059**

(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. The Company minimizes its credit risk by ensuring that the collateral value of the security fully protects first, second and subsequent mortgage advances and that there is a viable exit strategy for each loan. In addition, the Company limits

(in Canadian dollars)

its concentration risk by diversifying its investment portfolio by way of location, property type, loan to value, maximum loan amount on any one property and maximum loan amounts to one borrower.

(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, 2022, 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 $145,796,810 as at December 31, 2022 (December 31, 2021 – $115,566,269). These commitments are anticipated to be funded from the Corporation's syndicate credit facility and borrower repayments.

The Corporation has revolving syndicate credit facilities with The Toronto – Dominion Bank, as administrative agent, and the lenders party thereto, as lenders as of November 28, 2022. Demand revolving line of credit of $30 million and a committed revolving line of credit with The Toronto – Dominion Bank, as administrative agent, and the lenders party thereto, as lenders, to fund the timing differences between investment advances and investment repayments. The committed line of $150 million is a committed facility with a maturity date extended to November 30, 2024.

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.

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, 2022 are due as follows:

	Total	Less than 1 year	1-3 years	4-7 years
Bank indebtedness	$ 15,235,918	$ 15,235,918	$ -	$ -
Credit facility	57,716,347	57,716,347	-	-
Accounts payable and accrued liabilities	2,720,494	2,720,494	-	-
Shareholders' dividends payable	3,172,688	3,172,688	-	-
Convertible debentures	188,683,000	22,500,000	76,483,000	89,700,000
Subtotal - Liabilities	267,528,447	101,345,447	76,483,000	89,700,000
Future advances under portfolio	145,796,810	145,796,810	-	-
Liabilities and contractual obligations	**$ 413,325,257**	**$ 247,142,257**	**$ 76,483,000**	**$ 89,700,000**

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 $9,783,565 for less than 1 year, $14,679,463 for 1 to 3 years and $13,540,755 for 4 to 7 years.

(in Canadian dollars)

(d) Capital risk management

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

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

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

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

(e) Currency risk

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

17. Supplementary information

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

	Credit facility	Convertible Debentures
Balance at January 1, 2022	$ 53,997,526	$ 177,807,478
Financing cash flow activities:		
Debenture issue	-	38,634,850
Draw on credit facility	3,718,821	-
Repayment and conversions of convertible debentures	-	(40,407,000)
Total cash flow from financing activities	57,716,347	176,035,328
Financing non-cash activities:		
Implicit interest rate in excess of coupon rate (note 14)	-	786,714
Deferred finance cost amortization (note 14)	-	1,462,425
Total non-cash flow financing activities	-	2,249,139
Balance at December 31, 2022	**$ 57,716,347**	**$ 178,284,467**

18. Comparative figures

Some prior year figures have been reclassified to confirm with current year presentation.