



**FIRM CAPITAL  
MORTGAGE INVESTMENT CORPORATION**

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**CAPITAL PRESERVATION • DISCIPLINED INVESTING**

# **REPORT TO SHAREHOLDERS**

YEAR ENDED  
DECEMBER 31, 2023





FIRM CAPITAL  
MORTGAGE INVESTMENT CORPORATION

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CAPITAL PRESERVATION • DISCIPLINED INVESTING

**MD&A**  
MANAGEMENT  
DISCUSSION  
AND ANALYSIS

YEAR ENDED  
DECEMBER 31, 2023



## **NOTICE TO READER**

The 2023 MD&A that was originally filed has been re-filed to update the return on total shareholders' equity of **8.51% (new)**, representing **372 (new)** basis points per annum over the average one-year Government of Canada Treasury bill yield of 4.79%, on page 8 herein under the heading "NET INCOME AND COMPREHENSIVE INCOME".

No amendment has otherwise been made to any amount, balance or disclosure in the attached MD&A.

March 22, 2024

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## 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 underserved 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](http://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](http://www.sedar.com).

## RECENT DEVELOPMENTS AND OUTLOOK

The Corporation's investment portfolio (the "Investment Portfolio") continued to revolve in 2023 with significant investment repayments and new fundings. During the year ended December 31, 2023, new fundings and discharges of investments were \$250 million and \$312 million respectively (2022 – \$461 million and \$443 million). The Corporation increased its allowance for impairment and fair value loss in 2023 by \$12.5 million, to a total of \$22.7 million as at December 31, 2023, while generating earnings per share of \$0.990. At the end of 2023, the Investment Portfolio consisted of 87.5% of conventional first mortgages, and 80% maturing in 2024. In addition, the interest rates in 96% of the Investment Portfolio investments were floating allowing the Corporation to capture the benefit of rising rates throughout 2023. The Corporation continues to participate in new investments on a disciplined base with conservative underwriting on real estate in large urban centers.

In 2024, 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 2024 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 20, 2024 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, 2023, and 2022, 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 2023 and 2022.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### HIGHLIGHTS

#### **NET INCOME**

For the three months ended December 31, 2023, net income increased by 4.8% to \$8,335,525 as compared to \$7,955,086 for the same period in 2022.

For the year ended December 31, 2023, net income increased by 6.0% to \$34,164,416 as compared to \$32,234,067 for the year ended December 31, 2022.

#### **EARNINGS PER SHARE**

Basic weighted average earnings per share for the three months ended December 31, 2023 was \$0.242 (2022 – \$0.231). Basic weighted average earnings per share for the year ended December 31, 2023, was \$0.991 (2022 – \$0.939).

Diluted weighted average earnings per share for the three months ended December 31, 2023 was \$0.241 (2022 – \$0.230). Diluted weighted average earnings per share for the year ended December 31, 2023 was \$0.984 (2022 – \$0.931).

#### **REVENUES**

Revenues for the three months ended December 31, 2023 increased by 5.0% to \$18,118,118 as compared to \$17,258,942 reported for the same period in 2022. Revenues for the year ended December 31, 2023 increased by 19.6% to \$71,904,849 as compared to \$60,119,205 for the year ended December 31, 2022. The increase is primarily a result of higher interest income due to a higher weighted average interest rate during the year (2023 weighted average interest rate – 11.15% vs 2022 weighted average interest rate – 9.28%) offset partially by a reduction in overall Investment Portfolio size.

#### **INVESTMENT PORTFOLIO**

The Corporation's Investment Portfolio decreased by \$63 million to \$598,059,570 as at December 31, 2023, in comparison to \$661,003,596 as at December 31, 2022 (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, 2023 was \$22,700,000 (December 31, 2022 allowance for impairment and fair value adjustment – \$10,160,000), comprising (i) \$10,653,000 (December 31, 2022 – \$3,700,000) 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) \$10,380,300 (December 31, 2022 – \$4,700,000) 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 \$1,666,700 (December 31, 2022 – \$1,760,000). The unamortized commitment fees as at December 31, 2023 were \$943,901 (December 31, 2022 – \$1,101,863). The marketable securities as at December 31, 2023 were \$39,072 (December 31, 2022 – \$48,673).

#### **CAPITAL ACTIVITIES**

On December 31, 2023, the Corporation's 5.20% convertible unsecured subordinated debentures due December 31, 2023 (FC.DB.G) matured and were repaid in full. The repayment was completed with a cash payment of the aggregate principal amount of \$22,500,000 and all accrued interest to the time of maturity.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio was \$574,454,741 as at December 31, 2023 (net of the allowance for impairment of \$12,319,700, fair value loss adjustment of \$10,380,300, unamortized fees of \$943,901 and marketable securities of \$39,072) and was \$649,790,406 (net of the allowance for impairment of \$5,460,000, fair value loss adjustment of \$4,700,000, unamortized fees of \$1,101,863 and marketable securities of \$48,673 as at December 31, 2022). On December 31, 2023, the total Investment Portfolio comprised of 243 investments (252 as at December 31, 2022). The average gross investment size was approximately \$2.5 million, with 14 investments individually exceeding \$7.5 million.

Mortgage Amount	December 31, 2023			December 31, 2022			% Change
	Number	Total Amount (before provision)	% of Portfolio	Number	(before provision)	% of Portfolio	
\$0 - \$2,500,000	174	\$ 175,897,086	29.4%	173	\$ 183,067,027	27.7%	(3.9%)
\$2,500,001 - \$5,000,000	39	135,258,957	22.6%	44	156,317,154	23.6%	(13.5%)
\$5,000,001 - \$7,500,000	16	97,433,745	16.3%	22	142,381,503	21.5%	(31.6%)
\$7,500,001 +	14	189,469,782	31.7%	13	179,237,912	27.1%	5.7%
<b>Total Investments</b>	<b>243</b>	<b>\$ 598,059,570</b>	<b>100%</b>	<b>252</b>	<b>\$ 661,003,596</b>	<b>100%</b>	<b>(9.5%)</b>
Add: Marketable securities		39,072			48,673		
Less: Impairment allowance		(12,319,700)			(5,460,000)		
Less: Fair value adjustment		(10,380,300)			(4,700,000)		
Less: Unamortized fees		(943,901)			(1,101,863)		
<b>Investment Portfolio</b>		<b>\$ 574,454,741</b>			<b>\$ 649,790,406</b>		<b>(11.6%)</b>

Unadvanced committed funds under the existing Investment Portfolio amounted to \$155 million as at December 31, 2023 (December 31, 2022 – \$146 million).

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

Investment Categories	December 31, 2023			December 31, 2022			% Change
	W.A Interest Rate	Outstanding amount	% of Portfolio	W.A Interest Rate	Outstanding amount	% of Portfolio	
Conventional First Mortgages	10.9%	\$ 523,562,081	87.5%	10.77%	\$ 551,779,067	83.5%	(5.1%)
Related Debt Investments	10.1%	18,851,599	3.2%	12.02%	60,122,951	9.1%	(68.6%)
Conventional Non-First Mortgages	11.8%	39,550,432	6.6%	11.93%	33,439,892	5.1%	18.3%
Non-Conventional Mortgages	14.4%	9,614,348	1.6%	13.73%	9,563,451	1.4%	0.5%
Debtor In Possession Loans	12.0%	6,481,110	1.1%	11.25%	6,098,235	0.9%	6.3%
<b>Total Investments</b>	<b>10.99%</b>	<b>\$ 598,059,570</b>	<b>100%</b>	<b>10.99%</b>	<b>\$ 661,003,596</b>	<b>100%</b>	<b>(9.5%)</b>
Add: Marketable securities		39,072			48,673		
Less: Impairment allowance		(12,319,700)			(5,460,000)		
Less: Fair value adjustment		(10,380,300)			(4,700,000)		
Less: Unamortized fees		(943,901)			(1,101,863)		
<b>Investment Portfolio</b>		<b>\$ 574,454,741</b>			<b>\$ 649,790,406</b>		<b>(11.6%)</b>

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 \$63 million decrease in the Investment Portfolio (before the allowance for impairment, fair value adjustments and unamortized fees) was due to the significant decrease in the amount of the conventional first mortgages and related debt investments. During 2023, new investment funding was \$249.4 million (2022 – \$461.8 million), while repayments during the period were \$312.3 million (2022 – \$443.0 million), resulting in a decrease in the Investment Portfolio size.

Conventional first mortgages decreased by 5.1% and represented 87.5% of the Investment Portfolio as at December 31, 2023 (83.5% as at December 31, 2022). Conventional non-first mortgages increased by 18.3% and represented 6.6% of the Investment Portfolio at December 31, 2023 (5.1% as at December 31, 2022). Related debt investments decreased by 68.6% and represented 3.2% of the Investment Portfolio as at December 31, 2023 (9.1% as at December 31, 2022). DIP Loan increased by 6.3% and represented 1.1% of the Investment Portfolio as at December 31, 2023 (0.9% as at

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2022). Non-conventional mortgages increased by 0.5% and represented 1.6% of the Investment Portfolio as at December 31, 2023 (1.4% 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, 2023, which is in line with the average rate reported at December 31, 2022.

The allowance for impairment and fair value loss adjustment was \$22,700,000 as at December 31, 2023 (December 31, 2022, allowance for impairment and fair value loss adjustment – \$10,160,000), comprised of (i) \$10,653,000 (December 31, 2022 – \$3,700,000) 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) \$10,830,300 (December 31, 2022 – \$4,700,000) representing the total amount of management's estimate of fair value adjustment on an investment and (iii) a collective allowance balance of \$1,666,700 (December 31, 2022 – \$1,760,000).

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

Property Type	December 31, 2023			December 31, 2022			% Change
	Number	Total Amount (before provision)	% of Portfolio	Number	Total Amount (before provision)	% of Portfolio	
Land & Housing Sites	36	\$ 151,442,650	25.3%	45	\$ 205,583,708	31.2%	(26.3%)
Single Family Dwelling and Condo unit(s)	82	151,209,871	25.3%	79	138,885,010	20.8%	8.9%
Construction Mortgages	72	142,640,836	23.8%	65	116,639,876	17.7%	22.3%
Retail	10	51,382,177	8.6%	13	50,317,104	7.6%	2.1%
Multi Family Residential Mortgages	9	38,034,552	6.4%	6	23,480,240	3.6%	62.0%
Related Debt Investments	8	18,851,599	3.2%	14	60,122,951	9.1%	(68.6%)
Land Servicing & Serviced Lots	8	15,695,990	2.6%	7	17,319,402	2.6%	(9.4%)
Industrial	5	11,656,431	1.9%	7	18,720,431	2.8%	(37.7%)
Mixed Use & Other	6	12,347,500	2.1%	7	23,110,993	3.5%	(46.6%)
Office & Office Condos ( <i>owner occupied</i> ) & Other	7	4,797,964	0.8%	9	6,823,881	1.3%	(29.7%)
	<b>243</b>	<b>\$ 598,059,570</b>	<b>100%</b>	<b>252</b>	<b>\$ 661,003,596</b>	<b>100%</b>	<b>(9.5%)</b>

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, 2023, the value of the Investment Portfolio that is secured by properties outside of Ontario was 13.2%, compared to 15.5% as at December 31, 2022.

Geographic Segment	December 31, 2023			December 31, 2022			% Change
	Number	Total Amount (before provision)	% of Portfolio	Number	Total Amount (before provision)	% of Portfolio	
Greater Toronto Area	155	\$ 327,580,878	56.6%	150	\$ 314,746,642	52.4%	4.1%
Non-GTA Ontario	57	175,206,939	30.2%	61	192,808,536	33.1%	(9.1%)
Quebec	13	41,309,698	7.1%	14	50,136,561	8.3%	(17.6%)
Western Canada	7	17,253,389	3.0%	8	21,644,358	3.6%	(20.3%)
United States	3	17,857,066	3.1%	5	21,544,548	3.6%	(17.1%)
<b>Mortgage Investment Portfolio</b>	<b>235</b>	<b>\$ 579,207,970</b>	<b>100%</b>	<b>238</b>	<b>\$ 600,880,645</b>	<b>100%</b>	<b>3.6%</b>
Related Debt Investments	8	18,851,600		14	60,122,951		(68.6%)
	<b>243</b>	<b>\$ 598,059,570</b>		<b>252</b>	<b>\$ 661,003,596</b>		<b>(9.5%)</b>

\*The Related Debt Investments includes \$1,890,000 investments at amortized cost and \$16,961,599 investments at FVTPL and then adjusted for a fair value decrease of \$10,380,300.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Underlying Security Type	December 31, 2023			December 31, 2022			% Change
	Number	Total Amount (before provision)	% of Portfolio	Number	Total Amount (before provision)	% of Portfolio	
Residential	204	\$ 472,680,304	78.9%	192	\$ 443,616,254	67.0%	6.6%
Commercial	31	106,527,666	17.8%	46	157,264,391	23.8%	(32.3%)
Related Debt Investments	8	18,851,600	3.3%	14	60,122,951	9.2%	(68.6%)
	<b>243</b>	<b>\$ 598,059,570</b>	<b>100%</b>	<b>252</b>	<b>\$ 661,003,596</b>	<b>100%</b>	<b>(9.5%)</b>

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 two United States ("US") dollar denominated investments (at amortized cost) of \$14,257,066 (US\$10,779,575) (December 31, 2022 – four US dollar denominated investments of \$17,044,548 (US\$12,584,575)).

Included in related debt investments, classified at FVTPL, are two US dollar denominated investments totaling \$10,421,233 (US \$7,879,354), (December 31, 2022 – two US dollar denominated investments totaling \$10,671,797 (US\$7,879,354)). 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, 2023, income recorded on the US investments (at amortized cost and FVTPL) was \$439,872 (US \$326,137), (2022 – \$282,039 (US \$210,083)). For the year ended December 31, 2023, income recorded on the US investments (at amortized cost and FVTPL) was \$1,753,140 (US \$1,303,097) (2022 – \$1,286,629 (US \$987,271)). These amounts are included in interest and fees income.

Related debt investments (classified as FVTPL) as at December 31, 2023 also included five Canadian investments (December 31, 2022 – seven Canadian investments) totaling \$6,540,366 (December 31, 2022 – \$9,620,203).

As at December 31, 2023, the Investment Portfolio included six investments totaling \$53,709,591 (December 31, 2022 – three investments totaling \$24,789,855) for which a specific allowance of \$10,653,000 (December 31, 2022 – \$3,700,000) was recorded by the Corporation.

As at December 31, 2023, the Investment Portfolio included two investments totaling \$10,421,234 (December 31, 2022 – one investment \$6,902,502) for which a fair value adjustment of \$10,380,300 (December 31, 2022 – \$4,700,000) was recorded by the Corporation.

As at December 31, 2023, excluding investments for which there is an allowance or a fair value adjustment recorded against them by the Corporation, the Investment Portfolio had three investments totaling \$5,203,609 (December 31, 2022 – one investment with a balance totaling \$1,890,000) with contractual interest arrears greater than 60 days past due amounting to \$617,675 (December 31, 2022 – \$67,805).

The Investment Portfolio as at December 31, 2023, included fifteen investments totaling \$56,461,478 (December 31, 2022 - four investments totaling \$15,250,230) with maturity dates that are past due and for which no extensions or renewals were in place. One of these investments was paid out after December 31, 2023 for an amount of \$1,863,750 (December 31, 2022 - one investment was paid out in the amount of \$2,125,000). Two of these investments totaling \$10,572,193 (December 31, 2022 – one investment totaling \$7,363,355) have allowances recorded against them included in the Corporation's allowance for impairment. The remaining twelve investments with maturity dates that are past due and for which no extensions or renewals were in place amount to \$44,025,535 (December 31, 2022 - two investments totaling \$5,761,875) and do not require a specific allowance.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

As at December 31, 2023, the Investment Portfolio continued to be heavily concentrated in short-term investments, with approximately 80% maturing on or before December 31, 2024. 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. Of the 243 investments, 90% were underwritten (as part of a renewal process or for new fundings) between 2022 and 2023, while only 10% were underwritten in 2021 or prior to that.

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

	December 31, 2023		
	No.	Total Amount (before allowance and Fair market adjustment)	% of Portfolio
2024	199	\$ 478,320,206	80.0%
2025	40	114,372,710	19.1%
2026	4	5,366,654	0.9%
	<b>243</b>	<b>\$ 598,059,570</b>	<b>100%</b>

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, 2023, 196 of the Corporation's 243 investments (investment amount of \$550,640,011) are shared with other participants, and 28 of which (with a total investment amount of \$111,458,033) the Corporation is a participant for less than 50% of the loan amount.

Certain members of our Board of Directors and senior management and their related entities co-invested approximately \$40 million with the Corporation alongside its Investment Portfolio as at December 31, 2023.

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, 2023 and 2022, there were no mortgages with first priority participants.

As at December 31, 2023, the Corporation had unamortized commitment fees of \$943,901 (December 31, 2022 – \$1,101,863) 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, 2023, revenues increased by 5% to \$18,118,118 compared to \$17,258,942 for the three months ended December 31, 2022. For the year ended December 31, 2023, revenues increased by 19.6% to \$71,904,849 compared to \$60,119,205 for the year ended December 31, 2022.

Revenues for the three months and year ended December 31, 2023 and 2022 are broken down as follows:

Three Months Ended	December 31, 2023		December 31, 2022		% Change
Interest	\$ 16,835,743	93.0%	\$ 16,195,195	93.8%	4.0%
Commitment & Renewal Fees	540,017	3.0%	573,861	3.3%	(5.9%)
Other Income	742,358	4.0%	489,886	2.8%	51.5%
	<b>\$ 18,118,118</b>	<b>100%</b>	<b>\$ 17,258,942</b>	<b>100.0%</b>	<b>5.0%</b>

Year Ended	December 31, 2023		December 31, 2022		% Change
Interest	\$ 68,699,962	95.6%	\$ 56,933,513	94.7%	20.7%
Commitment & Renewal Fees	2,241,949	3.1%	2,707,674	4.5%	(17.2%)
Other Income	962,938	1.3%	478,018	0.8%	101.4%
	<b>\$ 71,904,849</b>	<b>100%</b>	<b>\$ 60,119,205</b>	<b>100.0%</b>	<b>19.6%</b>

For the three months ended December 31, 2023, interest income was \$16,835,743, an increase of 4.0% over the \$16,195,195 reported for the comparable period in 2022. For the year ended December 31, 2023, interest income was

## MANAGEMENT'S DISCUSSION AND ANALYSIS

\$68,699,962, an increase of 20.7% over the \$56,933,513 as reported for 2022. The increase is mainly a result of an increase in the weighted average interest rate of the Investment Portfolio over the comparable period in 2022.

For the three months ended December 31, 2023, commitment and renewal fees were \$540,017, a decrease of 5.9% from \$ 573,861 reported for the comparable period in 2022. For the year ended December 31, 2023, fee income relating to commitment and renewal fees was \$ 2,241,949, a decrease of 17.2% over the \$2,707,674 reported for 2022.

For the three months and year ended December 31, 2023, other income was \$742,358 and \$962,938 (2022 – \$ 489,018 and \$478,018 respectively). The increase in other income in 2023 from 2022 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, 2023, the Corporation Manager received \$1,157,669 (2022 – \$1,151,540), through a joint venture interest arrangement with the Corporation. For the year ended December 31, 2023, \$4,848,896 (2022 – \$4,690,384) was received by the Corporation Manager under this arrangement. The increase, notwithstanding the smaller average portfolio size, resulted mainly from payment on previously non-performing loans and were paid upon realization of the investments in 2023.

### **INTEREST EXPENSE**

For the three months ended December 31, 2023, interest expense increased by 4.8% to \$4,031,968 as compared to \$3,845,571 for the three months ended December 31, 2022. For the year ended December 31, 2023, interest expense increased by 5.3% to \$15,710,302 as compared to \$14,924,812 for the year ended December 31, 2022. The increase in interest expenses is mainly the result of rising interest rates under the Corporation's Bank facility, and additional fees associated with the new credit syndication.

Interest expense is broken down as follows:

<b>Three Months Ended</b>	<b>December 31, 2023</b>		<b>December 31, 2022</b>		<b>% Change</b>
Bank Interest Expense	\$	887,203 22.0%	\$	557,540 14.5%	59.1%
Debenture Interest Expense		3,144,765 78.0%		3,288,031 85.5%	(4.4%)
	\$	4,031,968 100%	\$	3,845,571 100.0%	4.8%

<b>Year Ended</b>	<b>December 31, 2023</b>		<b>December 31, 2022</b>		<b>% Change</b>
Bank Interest Expense	\$	3,588,884 22.8%	\$	1,807,363 12.1%	98.6%
Debenture Interest Expense		12,121,418 77.2%		13,117,449 87.9%	(7.6%)
	\$	15,710,302 100%	\$	14,924,812 100.0%	5.3%

### **GENERAL AND ADMINISTRATIVE (G&A) EXPENSES**

For the three months ended December 31, 2023, G&A expenses were \$663,571 (2022 – \$467,455). For the year ended December 31, 2023, G&A expenses increased by \$271,714 to \$1,870,550 compared to \$1,598,837 for the year ended December 31, 2022. The increase in G&A expenses is mainly the result of additional accounting and legal fees along with higher listing fees.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INCENTIVE OPTION PLAN

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

	December 31, 2023			December 31, 2022		
	Number of options	Weighted average exercise price	Amount	Number of options	Weighted average exercise price	Amount
Outstanding, beginning of year	3,427,500	11.69	\$ 2,453,050	1,842,500	11.76	\$ 790,412
Exercised (Options issued on Nov 11, 2013)	-	-	-	(45,000)	11.78	(4,326)
Options granted/amortization amount	-	-	82,439	1,630,000	11.62	1,666,964
Cancelled	(182,500)	12.13	-	-	-	-
Outstanding, end of year	3,245,000	\$ 11.67	\$ 2,535,489	3,427,500	\$ 11.69	\$ 2,453,050
Number of options exercisable	2,725,000	\$ 11.75	-	1,622,500	\$ 11.75	-

<sup>1</sup>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, 2023:

Expiry date	Number of options outstanding	Exercise price	Number of options exercisable
August 14, 2030	1,515,000	11.70	1,345,000
December 6, 2031	100,000	13.97	100,000
July 6, 2032	1,630,000	11.62	1,280,000
<b>Total</b>	<b>3,245,000</b>	<b>\$11.75</b>	<b>2,725,000</b>

On July 6, 2022, the Corporation 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 Corporation did not grant any options in 2023.

The total number of stock options outstanding as at December 31, 2023 is 3,245,000 (December 31, 2022 – 3,427,500), of which 2,725,000 stock options are vested and exercisable (December 31, 2022 – 2,902,500). During the year ended December 31, 2023, nil options were exercised under the stock option plan (2022 – 45,000).

### 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, 2023 was \$10,380,300 (2022 – \$4,700,000). The provision for impairment on Investment Portfolio and interest receivable for the year ended December 31, 2023 was \$9,703,378 (2022 – provision \$2,958,552). The sum of the fair value adjustment and provision for impairment for the year end December 31, 2023, was an expense of \$15,383,678 (2022 – \$5,058,552). As disclosed in the Corporation's audited financial statements for the year ended December 31, 2023, interest and fees income is gross of the interest receivable impairment allowance for 2023 of \$519,466. The remaining fair value and loan impairment expense is related to an increase in the impairment allowance and fair value adjustment of \$14,864,212.

### NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for the three months ended December 31, 2023, was \$8,335,525 (2022 – \$7,955,086), which represents an increase of 4.8% over the comparable prior year quarter. Net income and comprehensive income for the year ended December 31, 2023, was \$34,164,416 (2022 – \$32,234,067), which represents an increase of 6.0% over 2022. Income for the year ended December 31, 2023 represented return on total shareholders' equity (based on the month end average total shareholders' equity) of 8.51%. This return on total shareholders' equity represents 372 basis points per annum over the average one-year Government of Canada Treasury bill yield of 4.79%. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### EARNINGS PER SHARE

Basic weighted average earnings per share for the three months ended December 31, 2023 was \$0.242 (2022 – \$0.231). Basic weighted average earnings per share for the year ended December 31, 2023, was \$0.991 (2022 – \$0.939).

Diluted weighted average earnings per share for the three months ended December 31, 2023 was \$0.241 (2022 – \$0.230). Diluted weighted average earnings per share for the year ended December 31, 2023 was \$0.984 (2022 – \$0.931).

### QUARTERLY FINANCIAL INFORMATION

	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31
(\$ in millions except per unit amounts)	2023	2023	2023	2023	2022	2022	2022	2022	2021	2021	2021	2021	2020
Operating revenue	\$ 18.11	\$ 17.24	\$ 17.52	\$ 19.02	\$ 17.53	\$ 16.37	\$ 13.90	\$ 12.59	\$ 13.05	\$ 11.92	\$ 11.46	\$ 11.48	\$ 11.72
Interest expense	3.88	3.57	4.10	4.00	4.10	3.75	3.64	3.68	3.24	2.72	2.58	2.56	2.69
Corporation manager spread interest allocation	1.16	1.07	1.12	1.50	1.12	1.21	1.17	1.16	1.21	0.99	0.98	0.97	1.00
General & administrative expenses	0.66	0.43	0.46	0.32	0.46	0.53	0.33	0.27	0.38	0.29	0.19	0.28	0.31
Share based compensation	0.02	0.02	0.02	0.02	0.02	1.11	0.01	0.01	0.07	-	-	-	-
Fair value adjustment on investment portfolio	(0.08)	3.76	2.00	-	2.10	2.39	-	-	0.80	0.32	1.48	-	-
Impairment loss/(recovery) on investment portfolio	4.14	(0.20)	1.30	4.47	1.30	(0.80)	0.51	(0.39)	(0.39)	0.03	(1.15)	0.36	0.40
Income	\$ 8.33	\$ 8.59	\$ 8.52	\$ 8.71	\$ 8.43	\$ 8.18	\$ 8.24	\$ 7.86	\$ 7.74	\$ 7.82	\$ 7.37	\$ 7.31	\$ 7.32
Earnings per share													
Basic	\$0.242	\$0.249	\$0.245	\$0.253	\$0.245	\$0.237	\$0.239	\$0.232	\$0.234	\$0.241	\$0.238	\$0.237	\$0.249
Diluted	\$0.241	\$0.247	\$0.243	\$0.242	\$0.243	\$0.234	\$0.237	\$0.230	\$0.223	\$0.238	\$0.234	\$0.234	\$0.247
Dividends per share	\$0.288	\$0.234	\$0.234	\$0.234	\$0.248	\$0.234	\$0.234	\$0.234	\$0.246	\$0.234	\$0.234	\$0.234	\$0.242

### DIVIDENDS

For year ended December 31, 2023, the Corporation declared dividends on the Shares totaling \$34,142,921 or \$0.990 per Share, versus \$32,631,802 or \$0.950 per Share, respectively, for the year ended December 31, 2022. The number of Shares outstanding at December 31, 2023 was 34,489,308, compared to 34,485,740 at December 31, 2022.

	December 31, 2023	December 31, 2022	Change
Cash Flow From Operating Activities (net of cash interest paid)	\$ 50,078,569	\$ 39,547,849	27%
Profit	34,164,416	32,234,067	6%
Declared Dividends	34,142,921	32,631,802	5%
Excess Cash Flow from Operating Activities Over Declared Dividends	15,935,648	6,916,047	
Declared Dividends in Excess of Profit	21,495	(397,735)	

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CHANGES IN FINANCIAL POSITION

#### AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses of \$5,785,090 as at December 31, 2023 are comprised of interest receivable (net of impairment allowance) of \$5,254,836, prepaid expenses of \$297,212, and fees and special income receivable of \$233,042 compared to \$6,385,608 as at December 31, 2022.

#### CREDIT FACILITY AND BANK INDEBTEDNESS

As at December 31, 2023, the credit facility drawn amount was \$24,678,301 and cash on hand was \$9,367,300 (December 31, 2022, the credit facility drawn amount was \$57,716,347 and bank indebtedness was \$15,235,918).

#### CONVERTIBLE DEBENTURES

As at December 31, 2023, the Corporation had five series of convertible debentures outstanding, as outlined below:

Ticker				Current	Strike Price	Carrying
Symbol	Coupon	Issue Date	Maturity Date	Principal	Per Share	Value
FC.DB.H	5.30%	Jun. 27, 2017	Aug. 31, 2024	26,500,000	15.25	26,353,173
FC.DB.I	5.40%	Jun. 21, 2018	Jun. 30, 2025	25,000,000	15.00	24,671,414
FC.DB.J	5.50%	Nov. 23, 2018	Jan. 31, 2026	24,983,000	14.60	24,401,702
FC.DB.K	5.00%	Sep. 3, 2021	Sep. 30, 2028	46,000,000	17.75	42,814,144
FC.DB.L	5.00%	Jan. 31, 2022	Mar. 31, 2029	43,700,000	17.00	39,881,815
<b>Total / Average</b>	<b>5.19%</b>			<b>\$ 166,183,000</b>		<b>\$ 158,122,248</b>

As at December 31, 2023, the principal balance for the outstanding convertible debentures was \$166,183,000 (December 31, 2022 – \$188,683,000). The aggregate convertible debenture carrying value as at December 31, 2023 was \$158,122,248 (December 31, 2022 – \$178,284,467). The weighted average effective interest rate of the convertible debentures as at December 31, 2023 is 5.19% (December 31, 2022 – 5.19%).

On December 31, 2023, the Corporation's 5.20% convertible unsecured subordinated debentures due December 31, 2023 (FC.DB. G) matured and were repaid in full. The repayment was completed with a cash payment of the aggregate principal amount of \$22,500,000 and all accrued interest to the time of maturity.

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.

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 debentures by issuing that number of Shares of the Corporation obtained by dividing

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

<b>Liability</b>	<b>\$ 40,700,000</b>
<b>Equity</b>	<b>3,000,000</b>
<b>Principal</b>	<b>\$ 43,700,000</b>

### **OTHER LIABILITIES**

Other liabilities for the Corporation include the following:

<b>Additional Liabilities</b>	<b>December 31, 2023</b>	<b>December 31, 2022</b>	<b>Change</b>
Accounts Payable and Accrued Liabilities	<b>\$ 2,996,808</b>	\$ 2,720,494	10%
Shareholders' Dividend Payable	<b>4,552,589</b>	3,172,688	43%
<b>Total</b>	<b>\$ 7,549,397</b>	\$ 5,893,182	28%

Accounts payable and accrued liabilities increased by \$276,314 to \$2,996,808 as at December 31, 2023, compared to \$2,720,494 as at December 31, 2022. Accounts payable and accrued liabilities include interest payable of \$1,604,750 (December 31, 2022 – \$1,628,657) and accrued liabilities of \$1,392,058 (December 31, 2022 – \$1,091,837).

### **SHAREHOLDERS' EQUITY**

Shareholders' equity at December 31, 2023 totaled \$399,189,685 compared to \$399,046,100 as at December 31, 2022. The Corporation had 34,489,308 Shares issued and outstanding as at December 31, 2023, compared to 34,485,734 Shares as at December 31, 2022. The increase is attributable to 3,568 Shares issued under the DRIP (2022 – 30,239 Shares).

On October 5, 2023, the Corporation received approval from the Toronto Stock Exchange ("TSX") to make a normal course issuer bid (the "NCIB") with respect to the Shares. The notice provided that the Corporation may, during the 12-month period commencing October 11, 2023, and ending no later than October 10, 2024, purchase through the facilities of the TSX or alternative Canadian Trading Systems up to 3,356,287 Shares in total, being approximately 10% of the "public float" of Shares as of October 4, 2023. As of December 31, 2023, the Corporation has not purchased any securities under the NCIB.

### **ALLOWANCE FOR IMPAIRMENT**

The Investment Portfolio consists primarily of the Corporation'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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The allowance for credit losses is as follows:

Investment Categories	December 31, 2023		December 31, 2022	
	Adjustments	Total Amount (before allowance)	Adjustments	Total Amount (before allowance)
Conventional First Mortgages	\$ 3,340,000	\$ 523,562,080	\$ 3,700,000	\$ 551,779,067
Conventional Non-First Mortgages	2,065,000	39,550,432	-	33,439,892
Related Debt Investments	-	18,851,600	-	60,122,951
Debtor In Possession Loan	-	6,481,110	-	6,098,235
Non-Conventional Mortgages	5,248,000	9,614,348	-	9,563,451
<b>Total Specific Allowance / Amount</b>	<b>\$ 10,653,000</b>	<b>\$ 598,059,570</b>	<b>\$ 3,700,000</b>	<b>\$ 661,003,596</b>
IFRS 9 Collective Allowance	1,666,700		1,760,000	
<b>Total Allowance</b>	<b>\$ 12,319,700</b>		<b>\$ 5,460,000</b>	
Fair Value Adjustment	10,380,300		4,700,000	
<b>Total Allowance and Fair Value Adjustment</b>	<b>\$ 22,700,000</b>		<b>\$ 10,160,000</b>	

The following table presents the changes to the allowance for credit losses on loans as at December 31, 2023:

	1	2	3	Total
Balance at January 1, 2023	\$ 1,358,000	\$ 183,000	\$ 3,919,000	\$ 5,460,000
New fundings	549,000	-	-	549,000
Discharges	(294,000)	(2,000)	(1,617,000)	(1,913,000)
Transfer to (from):				
Stage 1	70,000	(20,000)	(50,000)	-
Stage 2	(17,000)	17,000	-	-
Stage 3	(455,000)	(129,000)	584,000	-
Remeasurements	(86,300)	(7,000)	8,317,000	8,223,700
<b>Balance at December 31, 2023</b>	<b>\$ 1,124,700</b>	<b>\$ 42,000</b>	<b>\$ 11,153,000</b>	<b>\$ 12,319,700</b>

The loans comprising the Investment Portfolio are stated at amortized cost or FVTPL. As of December 31, 2023, the allowance for impairment and fair value adjustment was \$22,700,000 (December 31, 2022, allowance for impairment and fair value adjustment – \$10,160,000) of which \$10,653,000 (December 31, 2022 – \$3,700,000) 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 \$10,380,300 (2022 – \$4,700,000) on an investment stated at FVTPL at December 31, 2023 and December 31, 2022.

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, 2023, the Corporation carries a collective impairment allowance of \$1,666,700 (December 31, 2022 – \$1,760,000). The Corporation has an allowance against its interest receivable in the amount of \$2,843,678 as at December 31, 2023 (December 31, 2022 – \$1,233,819) related to loans in default.

As at December 31, 2023, the Investment Portfolio included six investments totaling \$53,709,591 (December 31, 2022 – three investments totaling \$24,789,855) for which a specific allowance of \$10,653,000 (December 31, 2022 – \$3,700,000) was recorded in the Corporation's allowance for impairment.

As at December 31, 2023, the Investment Portfolio included two investments totaling \$10,421,234 (December 31, 2022 – one investment \$6,902,502) for which a fair value loss adjustment of \$10,380,300 was recorded (December 31, 2022 – \$4,700,000).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents the staging of gross investments at amortized costs as at December 31, 2023:

<b>Gross Investments at amortized cost</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Conventional first mortgages	\$ 433,661,326	\$ 23,785,277	\$ 66,115,477	\$ 523,562,080
Conventional non-first mortgages	33,302,314	3,000,000	3,248,118	39,550,432
Related debt investments	-	1,890,000	-	1,890,000
Debtor in possession loan	6,481,110	-	-	6,481,110
Non-conventional mortgages	1,039,966	-	8,574,382	9,614,348
Total gross investments at amortized cost	474,484,716	28,675,277	77,937,977	581,097,970
<b>By geography:</b>				
Canada	\$ 473,472,927	\$ 15,430,000	\$ 77,937,977	\$ 566,840,904
United States	1,011,789	13,245,277	-	14,257,066
Total gross investments at amortized cost	\$ 474,484,716	\$ 28,675,277	\$ 77,937,977	\$ 581,097,970

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

<b>Gross investments at amortized cost</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
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
Discounted debt investments	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
<b>By geography:</b>				
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

### 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, 2023, this amount was \$1,157,669 (2022 – \$1,151,540). For the year ended December 31, 2023, this amount was \$4,848,896 (2022 – \$4,690,384). Included in accounts payable and accrued liabilities at December 31, 2023 are amounts payable to the Corporation Manager of \$384,422 (December 31, 2022 – \$379,186).

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 \$647,000 for the year December 31, 2023 (2022 – \$625,000). 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 \$1,020,961 for the three months ended December 31, 2023 (2022 – \$1,042,022) and \$4,184,269 for the year ended December 31, 2023 (2022 – \$4,246,547), all of which was paid by the Corporation Manager and not by the Corporation.

For the year ended December 31, 2023, total director's fees paid were \$321,000 (2022 – \$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 853,721 Shares as at December 31, 2023 (December 31, 2022 – 802,967 Shares).

During 2022 the Corporation 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 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.

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, 2023.

### **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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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, 2023 and 2022 present the fair values of the Corporation's financial instruments as at December 31, 2023 and December 31, 2022, respectively.

### CONTRACTUAL OBLIGATIONS

Contractual obligations as at December 31, 2023 are due as follows:

	Total	Less than 1 year	1-3 years	4-7 years
Bank indebtedness	\$ -	\$ -	\$ -	\$ -
Credit facility	24,678,301	24,678,301	-	-
Accounts payable and accrued liabilities	2,996,808	2,996,808	-	-
Shareholders' dividends payable	4,552,589	4,552,589	-	-
Convertible debentures	166,183,000	26,500,000	49,983,000	89,700,000
Subtotal - Liabilities	198,410,698	58,727,698	49,983,000	89,700,000
Future advances under portfolio	154,832,754	154,832,754	-	-
<b>Liabilities and contractual obligations</b>	<b>\$ 353,243,452</b>	<b>\$ 213,560,452</b>	<b>49,983,000</b>	<b>89,700,000</b>

### MATERIAL ACCOUNTING POLICIES INFORMATION

The material accounting policies information used are consistent with those as described in note 3 of the Corporation's audited consolidated financial statements for the years ended December 31, 2023, and 2022.

### 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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raising of additional equity, issuing debt, and utilizing available borrowing capacity. As at December 31, 2023, 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 \$154 million as at December 31, 2023 (December 31, 2022 – \$146 million). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments under the Investment Portfolio.

The Corporation has a revolving committed line of credit of \$180 million to fund the timing differences between investment advances and investment repayments. The committed facility has a maturity date of January 17, 2026. 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, 2023, 75 investment proposals were sent to the Board of Directors for approval. During the fiscal year of 2022, 111 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 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*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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.sedarplus.ca](http://www.sedarplus.ca).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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- *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, 2023 and 2022

### **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, 2023 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, 2023. 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, 2023 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2023



## 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 sheets as at December 31, 2023 and 2022, and the consolidated statements of income and comprehensive income, consolidated statement of changes in shareholders' equity, and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated balance sheets of the Corporation as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years 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, 2023. 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): Material accounting policy information; Note 4: Amounts receivable and prepaid expenses; and Note 5: Investment portfolio

The Corporation recognized an impairment allowance against its investment portfolio and related interest receivable in the amount of \$12,319,700 and \$2,843,678, 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 related 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.

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## 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, we:
  - Evaluated the appropriateness of the significant assumptions used by management to determine the recoverable value of the investment's underlying security by comparing them to appraisals.
  - Involved professionals with specialized skills and knowledge in the field of real estate valuations to further assist us in evaluating the reasonableness of certain inputs used by management to determine the recoverable value.
- 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.

### *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 20, 2024  
Toronto, Ontario

# FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Balance Sheets  
(in Canadian dollars)

As at	December 31, 2023	December 31, 2022
<b>Assets</b>		
Cash and cash equivalents (note 6)	\$ 9,367,300	\$ -
Amounts receivable and prepaid expenses (note 4)	5,785,090	6,385,608
Investment portfolio (note 5)	574,454,741	649,790,406
Total assets	\$ 589,607,131	\$ 656,176,014
<b>Liabilities</b>		
Bank indebtedness (note 6)	\$ -	\$ 15,235,918
Credit facility (note 6)	24,678,301	57,716,347
Accounts payable and accrued liabilities	3,064,308	2,720,494
Shareholders' dividends payable	4,552,589	3,172,688
Convertible debentures (note 7)	158,122,248	178,284,467
Total liabilities	\$ 190,417,446	\$ 257,129,914
<b>Shareholders' Equity</b>		
Common shares (note 8)	388,954,151	388,914,500
Equity component of convertible debentures	6,794,000	7,110,000
Stock options (note 8)	2,535,489	2,453,050
Contributed surplus	2,646,276	2,330,276
Deficit	(1,740,231)	(1,761,726)
Total shareholders' equity	\$ 399,189,685	\$ 399,046,100
Commitments (note 5)		
Contingent liabilities (note 13)		
Total liabilities and shareholders' equity	\$ 589,607,131	\$ 656,176,014

See accompanying notes to consolidated financial statements.

On behalf of the Directors:

*/s/ "Eli Dadouch"*  
ELI DADOUCH  
Director

*/s/ "Jonathan Mair"*  
JONATHAN MAIR  
Director

# FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Income and Comprehensive Income

For the Years Ended December 31, 2023 and 2022

(in Canadian dollars)

	2023	2022
<b>Revenues</b>		
Interest and fees income	\$ 70,941,911	\$ 59,641,187
Other income	962,938	478,018
<b>Total Revenues</b>	<b>71,904,849</b>	<b>60,119,205</b>
<b>Operating expenses</b>		
Corporation manager interest allocation (note 11)	4,848,896	4,690,384
Interest expense (note 12)	15,710,302	14,924,812
General and administrative expenses	1,715,118	1,542,954
Share based compensation (note 8)	82,439	1,668,436
Fair value adjustment on investment portfolio (carried at FVTPL) (note 5)	5,680,300	2,100,000
Provision for impairment on investment portfolio and interest receivable (note 4 and 5)	9,703,378	2,958,552
<b>Total Operating expenses</b>	<b>\$ 37,740,433</b>	<b>\$ 27,885,138</b>
<b>Income and comprehensive income for the year</b>	<b>\$ 34,164,416</b>	<b>\$ 32,234,067</b>
<b>Earnings per share (note 9)</b>		
Basic	<b>\$0.991</b>	\$0.939
Diluted	<b>\$0.984</b>	\$0.931

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, 2023 and 2022  
(in Canadian dollars)

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Deficit	Shareholders' equity
<b>Balance at January 1, 2023</b>	\$ 388,914,500	\$ 7,110,000	\$ 2,453,050	\$ 2,330,276	\$ (1,761,726)	\$ 399,046,100
Offering costs	1,176	-	-	-	-	1,176
Proceeds from issuance of shares from dividend reinvestment	38,475	-	-	-	-	38,475
Conversion and redemption of debentures	-	(316,000)	-	316,000	-	-
Amortization of stock options granted (note 8 (b))	-	-	82,439	-	-	82,439
Income and comprehensive income for the year	-	-	-	-	34,164,416	34,164,416
Dividends to shareholders (note 10)	-	-	-	-	(34,142,921)	(34,142,921)
<b>Balance at December 31, 2023</b>	\$ 388,954,151	\$ 6,794,000	\$ 2,535,489	\$ 2,646,276	\$ (1,740,231)	\$ 399,189,685
Shares issued and outstanding (note 8)	34,489,308					

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Deficit	Shareholders' equity
<b>Balance at January 1, 2022</b>	\$ 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 year (note 7)	-	3,000,000	-	-	-	3,000,000
Issuance of stock options (note 8 (b))	-	-	1,632,437	-	-	1,632,437
Exercise of stock options (note 8 (b))	534,426	-	(4,326)	-	-	530,100
Amortization of stock option granted (note 8 (b))	-	-	34,527	-	-	34,527
Income and comprehensive income for the year	-	-	-	-	32,234,067	32,234,067
Dividends to shareholders (note 10)	-	-	-	-	(32,631,802)	(32,631,802)
<b>Balance at December 31, 2022</b>	\$ 388,914,500	\$ 7,110,000	\$ 2,453,050	\$ 2,330,276	\$ (1,761,726)	\$ 399,046,100
Shares issued and outstanding (note 8)	34,485,740					

See accompanying notes to consolidated financial statements.

# FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

## Statements of Cash Flows

For the Years Ended December 31, 2023 and 2022

(in Canadian dollars)

	2023	2022
Cash provided by (used in):		
Operating activities:		
Income and comprehensive income for the year	\$ 34,164,416	\$ 32,234,067
Adjustments for:		
Financing costs (net of implicit interest rate and deferred finance cost amortization) (note 12)	13,372,522	12,619,790
Implicit interest rate in excess of coupon rate - convertible debentures (note 7)	1,067,153	786,714
Deferred finance cost amortization - convertible debentures (note 7)	1,270,628	1,462,425
Provision for impairment on investment portfolio and interest receivable	9,703,378	2,958,552
Fair value adjustment on investment portfolio (carried at FVTPL)	5,680,300	2,100,000
Amortization of stock option granted (note 8 (b))	82,439	1,666,964
Changes in unrealized (gain)/loss on marketable securities investments (note 5)	9,601	5,734
Net change in non-cash operating items:		
Accrued interest payable (note 12)	23,907	(307,311)
Receivables and prepaid expenses	(2,243,160)	(2,157,907)
Accounts payable and accrued liabilities	343,814	491,300
<b>Net cash flow from operating activities</b>	<b>\$ 63,474,998</b>	<b>\$ 51,860,328</b>
Financing activities:		
Dividend reinvestment in common shares	38,475	418,932
Exercise of stock options	-	530,100
Proceeds from convertible debentures issued (note 7)	-	43,700,000
Redemption of convertible debenture (note 7)	(22,500,000)	(29,252,000)
Debenture offering costs (note 7)	-	(2,065,150)
Equity offering costs	1,176	-
Payback to credit facility (note 6)	(87,711,869)	
Withdraw from credit facility (note 6)	54,673,823	3,718,821
Cash interest paid (note 12)	(13,396,429)	(12,312,479)
Dividends to shareholders paid during the year (note 10)	(32,763,020)	(32,484,094)
<b>Net cash flow used in financing activities</b>	<b>\$ (101,657,844)</b>	<b>\$ (27,745,870)</b>
Investing activities:		
Funding of investment portfolio	(249,494,504)	(461,849,997)
Discharging of investment portfolio	312,280,568	443,050,265
<b>Net cash flow from (used in) investing activities</b>	<b>62,786,064</b>	<b>(18,799,732)</b>
<b>Net increase in cash flow for the year</b>	<b>24,603,218</b>	<b>5,314,726</b>
<b>Cash and cash equivalents (Bank indebtedness) beginning of year</b>	<b>(15,235,918)</b>	<b>(20,550,644)</b>
<b>Cash and cash equivalents (Bank indebtedness) end of year (note 6)</b>	<b>\$ 9,367,300</b>	<b>\$ (15,235,918)</b>

### Cash flows from operating activities include:

Interest received	\$ 68,796,584	\$ 59,040,765
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See accompanying notes to consolidated financial statements.

# FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

## Notes to Consolidated Financial Statements

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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### 1. Organization of Corporation

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

### 2. Basis of presentation

(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 20, 2024.

(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, 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 losses (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



# FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

## Notes to Consolidated Financial Statements

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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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.

Significant assumptions in determining the expected future cash flows for impaired loans include the recoverable value of the investment's underlying security.

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

### 3. Material accounting policy information

#### **New or amended Accounting Standards and Interpretations adopted.**

Effective January 1, 2023, the company adopted the narrow-scope amendments to International Accounting Standard (IAS) 1, Presentation of Financial Statements, IFRS Practice Statement 2, Making Materiality Judgements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The amendments require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarify how to distinguish changes in accounting policies from changes in accounting estimates. These amendments had no material impact on the consolidated financial statements.

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. A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2023, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Corporation.

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.

# FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

## Notes to Consolidated Financial Statements

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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*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 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 income in the Consolidated Statement of Income.

# FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

## Notes to Consolidated Financial Statements

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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### *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 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.

# FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

## Notes to Consolidated Financial Statements

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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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 significantly increased since initial recognition when contractual payments are more than 30 days overdue.

### *Presentation of allowance for credit losses in the Consolidated Balance Sheets*

For financial assets measured at amortized cost, the allowance for credit losses is shown as reduction from the gross carrying amount.

### *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.

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 (EAD).

# FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

## Notes to Consolidated Financial Statements

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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

Committed but undrawn exposure is 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 is calculated on the gross carrying amount for mortgage investments in Stage 1 and 2, and on the net carrying amount for mortgage investments on Stage 3. 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 realized 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 cash and cash equivalents, amounts receivable, 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:

<b>Assets</b>	<b>Classification</b>
Amounts receivable	Amortized cost
Cash and cash equivalents	Amortized cost
Investment portfolio	Amortized cost
Investment portfolio	FVTPL
<b>Liabilities</b>	
Credit facility and bank indebtedness	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Shareholders' dividends payable	Amortized cost
Debt component of the Convertible debentures	Amortized cost

# FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

## Notes to Consolidated Financial Statements

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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### Recognition and measurement of financial instruments:

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

### (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.

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

(j) Foreign currency translation:

Transaction 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, 2023 and December 31, 2022:

	December 31, 2023	December 31, 2022
Interest receivable, net of impairment allowance	\$ 5,254,836	\$ 5,351,458
Prepaid expenses	297,212	637,567
Fees receivable	211,334	362,263
Special income receivable	21,708	34,320
<b>Amounts receivable and prepaid expenses</b>	<b>\$ 5,785,090</b>	<b>\$ 6,385,608</b>

Interest receivable is net of the impairment allowance of \$2,843,678 which is related to loans in default that are Stage 3 (December 31, 2022 – \$1,233,819). The balances of both interest receivable and impairment allowance were reduced by amounts written off of \$1,233,819 (December 31, 2022 – \$1,308,832), with no impact on income during the year. The Corporation will continue to seek recovery of 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. Investment portfolio**

The following is a breakdown of the investment portfolio as at December 31, 2023 and December 31, 2022:

	December 31, 2023		December 31, 2022	
Conventional first mortgages	\$ 523,562,080	91.1%	\$ 551,779,067	84.9%
Related debt investments	1,890,000	0.3%	39,830,951	6.1%
Conventional non-first mortgages	39,550,432	6.9%	33,439,892	5.2%
Non-conventional mortgages	9,614,348	1.7%	9,563,451	1.5%
Debtor in possession loan	6,481,110	1.1%	6,098,235	0.9%
Total investments (at amortized cost)	581,097,970	101.1%	640,711,596	98.6%
Allowance for impairment on investments (at amortized cost)	(12,319,700)	(2.0%)	(5,460,000)	(0.8%)
Unamortized fees	(943,901)	(0.2%)	(1,101,863)	(0.2%)
Total investments (at amortized cost), net	\$ 567,834,369	98.9%	\$ 634,149,733	97.6%
Total investments (at FVTPL)	6,620,372	1.1%	15,640,673	2.4%
Total investments	\$ 574,454,741	100.0%	\$ 649,790,406	100.0%
<b>By geography</b>				
Canada	\$ 556,597,675	96.9%	\$ 632,753,076	97.4%
United States	17,857,066	3.1%	17,037,330	2.6%
Total	\$ 574,454,741	100.0%	\$ 649,790,406	100.0%

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

Included in conventional first mortgages are two United States ("US") dollar denominated investments (at amortized cost) of \$14,257,066 (US\$10,779,575) (December 31, 2022 – four US dollar denominated investment of \$17,044,548 (US\$12,584,575)). As of December 31, 2023, a collective loss allowance of \$23,000 was applied to these conventional first mortgages (December 31, 2022- \$16,000).

Included in related debt investments (classified at FVTPL) are two US dollar denominated investments totaling \$10,421,233 (US\$7,879,354), December 31, 2022 - two US dollar denominated investments totaling \$10,671,797 (US\$7,879,354). 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, 2023, a fair value loss adjustment on two US dollar denominated investments of \$10,380,300 has been recognized (2022 – \$4,700,000).

For the year ended December 31, 2023, income recorded on the US investments (at amortized cost and FVTPL) was \$1,753,140 (US\$1,303,097), (2022 – \$1,286,629 (US\$987,271)). These amounts are included in interest and fees income.

Related debt investments (classified as FVTPL) as at December 31, 2023 also included five Canadian investments (December 31, 2022 – seven Canadian investments) totaling \$6,540,366 (December 31, 2022 – \$9,620,203).

As at December 31, 2023, and December 31, 2022, 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.

The following is a breakdown of the investment portfolio as at December 31, 2023:

	Gross carrying amount	Provision for impairment	Fair value adjustment	Carrying amount
Conventional first mortgages	\$ 523,562,080	\$ (4,617,000)	\$ -	\$ 518,945,080
Conventional non-first mortgages	39,550,432	(2,276,700)	-	37,273,732
Related debt investments	18,851,600	(63,000)	(10,380,300)	8,408,300
Debtor in possession loan	6,481,110	(10,000)	-	6,471,110
Non-conventional mortgages	9,614,348	(5,353,000)	-	4,261,348
Marketable securities	50,966	-	(11,894)	39,072
	\$ 598,110,536	\$ (12,319,700)	\$ (10,392,194)	\$ 575,359,570
Unamortized fees				(943,901)
Total investment portfolio, net				\$ 574,454,741

Included in the provision for impairment of \$12,319,700 is a collective allowance of \$1,666,700.

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
Marketable securities	50,966	-	(2,293)	48,673
	\$ 661,054,562	\$ (5,460,000)	\$ (4,702,293)	\$ 650,892,269
Unamortized fees				(1,101,863)
Total investment portfolio, net				\$ 649,790,406

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



**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

The following table presents the staging of gross investments at amortized cost as at December 31, 2023:

<b>Gross Investments at amortized cost</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Conventional first mortgages	\$ 433,661,326	\$ 23,785,277	\$ 66,115,477	\$ 523,562,080
Conventional non-first mortgages	33,302,314	3,000,000	3,248,118	39,550,432
Related debt investments	-	1,890,000	-	1,890,000
Debtor in possession loan	6,481,110	-	-	6,481,110
Non-conventional mortgages	1,039,966	-	8,574,382	9,614,348
<b>Total gross investments at amortized cost</b>	<b>\$ 474,484,716</b>	<b>\$ 28,675,277</b>	<b>\$ 77,937,977</b>	<b>\$ 581,097,970</b>
<b>By geography:</b>				
Canada	\$ 473,472,927	\$ 15,430,000	\$ 77,937,977	\$ 566,840,904
United States	1,011,789	13,245,277	-	14,257,066
<b>Total gross investments at amortized cost</b>	<b>\$ 474,484,716</b>	<b>\$ 28,675,277</b>	<b>\$ 77,937,977</b>	<b>\$ 581,097,970</b>

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

<b>Gross investments at amortized cost</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
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
Discounted debt investments	6,098,235	-	-	6,098,235
Non-conventional mortgages	7,934,880	1,628,571	-	9,563,451
<b>Total gross investments at amortized cost</b>	<b>560,096,126</b>	<b>46,213,740</b>	<b>34,401,730</b>	<b>640,711,596</b>
<b>By geography:</b>				
Canada	\$ 556,615,318	\$ 32,650,000	\$ 34,401,730	\$ 623,667,048
United States	3,480,808	13,563,740	-	17,044,548
<b>Total gross investments at amortized cost</b>	<b>\$ 560,096,126</b>	<b>\$ 46,213,740</b>	<b>\$ 34,401,730</b>	<b>\$ 640,711,596</b>

The following table presents the transfers between stages of the gross investments at amortized cost at December 31, 2023:

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at January 1, 2023</b>	<b>\$ 560,096,126</b>	<b>\$ 46,213,740</b>	<b>\$ 34,401,730</b>	<b>\$ 640,711,596</b>
New fundings	179,007,448	-	-	179,007,448
Discharges	(189,592,158)	(1,910,000)	(22,676,500)	(214,178,658)
Transfer to (from) <sup>1</sup> :				
Stage 1	(31,489,535)	(944,266)	32,433,801	-
Stage 2	-	(23,175,000)	23,175,000	-
Stage 3	(20,337,427)	1,155,000	19,182,427	-
Net of Advances/Repayments	(23,199,738)	2,995,803	(4,238,481)	(24,442,416)
<b>Balance at December 31, 2023</b>	<b>\$ 474,484,716</b>	<b>\$ 24,335,277</b>	<b>\$ 82,277,977</b>	<b>\$ 581,097,970</b>

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

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Balance at January 1, 2022	\$ 590,360,258	\$ 12,879,532	\$ 22,769,796	\$ 626,009,586
New fundings	326,157,050	-	-	326,157,050
Discharges	(295,645,421)	(5,429,532)	(14,057,347)	(315,132,300)
Transfer to (from) <sup>1</sup> :				
Stage 1	(29,351,875)	23,590,000	5,761,875	-
Stage 2	-	-	-	-
Stage 3	(36,450,240)	15,173,740	21,276,500	-
Net of Advances/Repayments	5,026,354	-	(1,349,094)	3,677,260
<b>Balance at December 31, 2022</b>	<b>\$ 560,096,126</b>	<b>\$ 46,213,740</b>	<b>\$ 34,401,730</b>	<b>\$ 640,711,596</b>

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

The following table presents the provision for credit losses on investments as at December 31, 2023:

<b>Provision for impairment of credit losses on loans</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Conventional first mortgages	\$ 956,000	\$ 34,000	\$ 3,661,000	\$ 4,651,000
Conventional non-first mortgages	158,700	8,000	2,102,000	2,268,700
Related debt investments	-	-	51,000	51,000
Non-conventional mortgages	-	-	5,339,000	5,339,000
Debtor in possession loan	10,000	-	-	10,000
<b>Total</b>	<b>\$ 1,124,700</b>	<b>\$ 42,000</b>	<b>\$ 11,153,000</b>	<b>\$ 12,319,700</b>
<b>By geography:</b>				
Canada	\$ 1,122,700	\$ 21,000	\$ 11,153,000	\$ 12,296,700
United States	2,000	21,000	-	23,000
<b>Total</b>	<b>\$ 1,124,700</b>	<b>\$ 42,000</b>	<b>\$ 11,153,000</b>	<b>\$ 12,319,700</b>

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

<b>Provision for impairment of credit losses on loans</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
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
<b>Total</b>	<b>\$ 1,358,000</b>	<b>\$ 183,000</b>	<b>\$ 3,919,000</b>	<b>\$ 5,460,000</b>
<b>By geography:</b>				
Canada	\$ 1,358,000	\$ 167,000	\$ 3,919,000	\$ 5,444,000
United States	-	16,000	-	16,000
<b>Total</b>	<b>\$ 1,358,000</b>	<b>\$ 183,000</b>	<b>\$ 3,919,000</b>	<b>\$ 5,460,000</b>

The following table presents the changes to the provision for credit losses on investments as at December 31, 2023:

<b>The changes to the provision</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance at January 1, 2023</b>	<b>\$ 1,358,000</b>	<b>\$ 183,000</b>	<b>\$ 3,919,000</b>	<b>\$ 5,460,000</b>
New fundings	549,000	-	-	549,000
Discharges	(294,000)	(2,000)	(1,617,000)	(1,913,000)
Transfer to (from) <sup>1</sup> :				
Stage 1	70,000	(20,000)	(50,000)	-
Stage 2	(17,000)	17,000	-	-
Stage 3	(455,000)	(129,000)	584,000	-
Remeasurements <sup>2</sup>	(86,300)	(7,000)	8,317,000	8,223,700
<b>Balance at December 31, 2023</b>	<b>\$ 1,124,700</b>	<b>\$ 42,000</b>	<b>\$11,153,000</b>	<b>\$ 12,319,700</b>

<sup>1</sup> Transfers between stages which are presumed to occur before any corresponding remeasurement of the allowance.

<sup>2</sup> 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.

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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	369,000	-	-	369,000
Discharges	(297,000)	(3,000)	(317,000)	(617,000)
Transfer to (from) <sup>1</sup> :				
Stage 1	(82,000)	78,000	4,000	-
Stage 2	-	-	-	-
Stage 3	(131,000)	2,000	129,000	-
Remeasurements <sup>2</sup>	722,000	95,000	1,741,000	2,558,000
Balance at December 31, 2022	\$ 1,358,000	\$ 183,000	\$ 3,919,000	\$ 5,460,000

<sup>1</sup> Transfers between stages which are presumed to occur before any corresponding remeasurement of the allowance

<sup>2</sup> 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, 2023, the allowance for impairment is \$12,319,700 (2022 – \$5,460,000) of which \$10,653,000 (2022 – \$3,700,000) 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, 2023, the Corporation carries a collective allowance of \$1,660,700 (2022 – \$1,760,000).

The investment portfolio as at December 31, 2023, included six investments totaling \$53,709,591 (December 31, 2022 – three investments totaling \$24,789,855) which are considered in default and a specific allowance of \$10,653,000 (December 31, 2022 – \$3,700,000) 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 five 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, 2023 and 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 five largest Financial Institutions.

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

Impact of each scenario on the collective allowance at December 31, 2023 is as follows:

	<b>Benign</b>	<b>Base</b>	<b>Adverse</b>
Real GDP	2.30%	1.15%	(0.20%)
Interest Rates	3.50%	4.33%	5.00%
Unemployment rates	6.00%	6.38%	6.70%
Collective Allowance	\$ 1,530,000	\$ 1,680,000	\$ 1,807,000

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

	<b>Benign</b>	<b>Base</b>	<b>Adverse</b>
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 five 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, and unemployment decreases leading to increasing GDP.

These assumptions are limited to the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairments are subjective and may not necessarily be comparable to the actual outcomes. As new market and internal data 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:

<b>Category</b>	<b>Borrower Quality</b>	<b>Certainty of Repayment</b>	<b>Property Location</b>	<b>Loan to Value</b>
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

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

The following table represents the internal risk ratings as at December 31, 2023:

	Conventional first mortgages	Conventional non-first mortgages	Related investments	Debtor In possession loan	Non-conventional mortgages	Total
<b>Stage 1</b>						
Low	\$ 5,467,001	\$ 760,000	\$ -	\$ -	\$ -	\$ 6,227,001
Low to medium	98,785,595	6,304,994	-	-	173,716	105,264,305
Medium	303,806,449	22,257,593	-	6,481,110	243,750	332,788,902
Medium to high	24,017,280	3,979,728	-	-	622,500	28,619,508
High	1,585,000	-	-	-	-	1,585,000
<b>Stage 2</b>						
Medium	20,550,277	3,000,000	-	-	-	23,550,277
Medium to high	3,235,000	-	1,890,000	-	-	5,125,000
<b>Stage 3</b>						
Medium	32,166,920	-	-	-	-	32,166,920
Medium to High	21,376,802	-	-	-	8,574,382	29,951,184
High	4,575,000	-	-	-	-	4,575,000
Default and /or Provision	7,996,755	3,248,118	-	-	-	11,244,873
<b>Total</b>	<b>\$ 523,562,079</b>	<b>\$ 39,550,433</b>	<b>\$ 1,890,000</b>	<b>\$ 6,481,110</b>	<b>\$ 9,614,348</b>	<b>\$ 581,097,970</b>

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

	Conventional first mortgages	Conventional non-first mortgages	Related investments	Debtor In possession loan	Non-conventional mortgages	Total
<b>Stage 1</b>						
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
<b>Stage 2</b>						
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
<b>Stage 3</b>						
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
<b>Total</b>	<b>\$ 551,779,067</b>	<b>\$ 33,439,893</b>	<b>\$ 39,830,951</b>	<b>\$ 6,098,235</b>	<b>\$ 9,563,450</b>	<b>640,711,596</b>

The loans comprising the Investment portfolio bear interest at the weighted average rate of 10.99% per annum as at December 31, 2023 (December 31, 2022 – 10.99% per annum) and mature between 2024 and 2026.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to \$154,832,754 as at December 31, 2023 (December 31, 2021 – \$146,883,046).

The contractual maturity dates of the investment portfolio as at December 31, 2023:

2024	\$ 478,320,206
2025	114,372,710
2026	5,366,654
<b>Total</b>	<b>\$ 598,059,570</b>

# FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

## Notes to Consolidated Financial Statements

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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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, 2023, excluding investments for which there is an allowance or a fair value adjustment recorded against them by the Corporation, the Investment Portfolio had three investments totaling \$5,203,609 (December 31, 2022 – one investment with a balance totaling \$1,890,000) with contractual interest arrears greater than 60 days past due amounting to \$617,675 (December 31, 2022 – \$67,805).

The investment portfolio as at December 31, 2023, included fifteen investments totaling \$56,461,478 (December 31, 2022 - four investments totaling \$15,250,230) with maturity dates that are past due and for which no extensions or renewals were in place. One of these investments was paid out after December 31, 2023 for an amount of \$1,863,750 (December 31, 2022 - one investment was paid out in the amount of \$2,125,000). Two of these investments totaling \$10,572,193 (December 31, 2022 – one investment totaling \$7,363,355) have allowances recorded against them included in the Corporation's allowance for impairment. The remaining twelve investments with maturity dates that are past due and for which no extensions or renewals were in place amount to \$44,025,536 (December 31, 2022 - two investments totaling \$5,761,875) and do not require a specific allowance.

As at December 31, 2023, 196 of the Corporation's 243 investments (investment amount of \$598,059,570) are shared with other participants (December 31, 2022 – 184 of the Corporations' 252 investments totaling \$591,319,499).

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, 2023 and December 31, 2022, no investment with first priority syndicate participation was outstanding.

Investments classified at FVTPL:

As at December 31, 2023, there are seven investments totalling \$16,961,599 (December 31, 2022 – nine investments totalling \$20,292,000) that are carried at FVTPL and a fair value adjustment of \$10,380,300 (December 31, 2022- \$4,700,000) is recorded against one of the investments carried at FVTPL (note 15). During the year, the Corporation recorded a gain of \$659,772 on investments held at FMV that is recorded in Other Income (2022 - \$93,546).

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.

### 6. Cash, 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, with \$24,678,301 drawn as at December 31, 2023 (December 31, 2022 – \$72,952,265). In addition, the Corporation also had \$9,367,300 of cash on hand (December 31, 2022 – \$nil). 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 15 (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, 2023 and December 31, 2022, the Corporation was in compliance with all financial covenants.

The draw on the credit facility in the amount of \$24,678,301 at December 31, 2023 (December 31, 2022 - \$57,716,347), related to borrowings in US dollars of \$18,658,931 (in Canadian dollars \$24,678,301), (December 31, 2022 US dollar borrowings \$20,463,931 (in Canadian dollars \$27,716,347)). The borrowing in US dollars exactly matches the amount of US dollar denominated investments, thereby acting as an economic hedge against currency exposure.

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

**7. Convertible Debentures**

	Year Ended December 31, 2023	Year Ended December 31, 2022
<b>Carrying value, beginning of the year</b>	<b>\$ 178,284,467</b>	<b>\$ 177,807,478</b>
Issued	-	41,634,850
Equity component of debenture	-	(3,000,000)
Conversions of debentures to shares	-	(11,155,000)
Repayment	<b>(22,500,000)</b>	<b>(29,252,000)</b>
Implicit interest rate in excess of coupon rate	<b>1,067,153</b>	786,714
Deferred finance cost	<b>1,270,628</b>	1,462,425
<b>Carrying value, end of the year</b>	<b>\$ 158,122,248</b>	<b>\$ 178,284,467</b>

The continuity of the convertible debentures for the year ended December 31, 2023:

Debenture	Balance, beginning of year	Issued	Conversions	Implicit interest rate in excess of coupon	Deferred finance cost	Repayments	Balance, end of year	Maturity date
FC.DB.G 5.2%	\$ 22,282,919	\$ -	\$ -	\$ 52,458	\$ 164,623	\$(22,500,000)	\$ -	31-Dec-23
FC.DB.H 5.3%	26,135,530	-	-	32,748	184,895	-	26,353,173	31-Aug-24
FC.DB.I 5.4%	24,441,710	-	-	61,029	168,675	-	24,671,414	30-Jun-25
FC.DB.J 5.5%	24,108,937	-	-	128,413	164,352	-	24,401,702	31-Jan-26
FC.DB.K 5.0%	42,202,647	-	-	317,631	293,866	-	42,814,144	30-Sep-28
FC.DB.L 5.0%	39,112,724	-	-	474,874	294,217	-	39,881,815	31-Mar-29
<b>Total</b>	<b>\$178,284,467</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,067,153</b>	<b>\$1,270,628</b>	<b>\$(22,500,000)</b>	<b>\$158,122,248</b>	

As at December 31, 2023, debentures payable bear interest at the weighted average effective rate of 5.19% per annum (December 31, 2022 – 5.19% per annum). Notwithstanding the carrying value of the convertible debentures, the principal balance outstanding to the debenture holders is \$166,183,000 as at December 31, 2023 (December 31, 2022 – \$188,683,000).

On December 31, 2023, the Corporation completed the repayment of its 5.20% convertible unsecured subordinated debentures (FC.DB.G). This repayment was completed with a cash payment of the aggregate principal amount of \$22,500,000 and all accrued interest to the time of maturity.

During 2022, \$11,155,000 of the principal amount of our convertible debentures were converted into 799,616 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.

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

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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:

<b>Liability</b>	<b>\$ 40,700,000</b>
<b>Equity</b>	<b>3,000,000</b>
<b>Principal</b>	<b>\$ 43,700,000</b>

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	Balance, end of year	Maturity date
FC.DB.E 5.3%	\$ 20,928,744	\$ -	\$ (11,080,000)	\$ -	\$70,256.00	\$ (9,919,000)	\$ -	31-May-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%	24,225,388	-	-	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	-	205,178	272,696	-	39,112,724	31-Mar-29
<b>Total</b>	<b>\$177,804,478</b>	<b>\$38,634,850</b>	<b>(\$11,155,000)</b>	<b>\$ 786,714</b>	<b>\$1,462,425</b>	<b>(\$29,252,000)</b>	<b>\$178,284,467</b>	

## 8. 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, 2023:

	<b># of shares</b>	<b>Amount</b>
Balance, beginning of year	<b>34,485,740</b>	<b>\$ 388,914,500</b>
Equity offering costs	-	<b>1,176</b>
New shares issued during the period under Dividend Reinvestment Plan	<b>3,568</b>	<b>38,475</b>
Balance, end of year	<b>34,489,308</b>	<b>\$ 388,954,151</b>

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

	<b># of shares</b>	<b>Amount</b>
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

Shares issued during 2023 under the Dividend Reinvestment Plan were 3,568 (2022 – 30,239).

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.



**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(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, 2023			December 31, 2022		
	Number of options	Weighted average exercise price	Amount <sup>3</sup>	Number of options	Weighted average exercise price	Amount <sup>3</sup>
Outstanding, beginning of year	3,427,500	\$ 11.69	\$ 2,453,050	1,842,500	\$ 11.76	\$ 790,412
Exercised (Options issued on Nov 11, 2013)	-	-	-	(45,000)	11.78	(4,326)
Options granted/amortization amount	-	-	82,439	1,630,000	11.62	1,666,964
Cancelled	(182,500)	12.13	-	-	-	-
Outstanding, end of year	3,245,000	11.67	\$ 2,535,489	3,427,500	\$ 11.69	\$2,453,050
Number of options exercisable	2,725,000	\$ 11.75	-	1,667,500	\$ 11.77	-

<sup>3</sup> 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, 2023:

Expiry date	Number of options outstanding	Exercise price	Number of options exercisable
August 14, 2030	1,515,000	11.70	1,345,000
December 6, 2031	100,000	13.97	100,000
July 6, 2032	1,630,000	11.62	1,280,000
<b>Total</b>	<b>3,245,000</b>	<b>\$ 11.75</b>	<b>2,725,000</b>

On July 6, 2022, the Corporation 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 Corporation 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.

The total number of stock options outstanding as at December 31, 2023 is 3,245,000 (December 31, 2022 – 3,427,500), of which 2,725,000 stock options are vested and exercisable (December 31, 2022 – 2,902,500).

(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.

(d) Normal course issuer bid.

On October 5, 2023, the Corporation received approval from the Toronto Stock Exchange ("TSX") 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 October 11, 2023, and ending no later than October 10, 2024, purchase through the facilities of the TSX or alternative Canadian Trading Systems up to 3,356,287 Shares in total, being approximately 10% of the "public float" of Shares as of October 4, 2023. As of December 31, 2023, the Corporation has not purchased any securities under the NCIB.

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

**9. Earnings per share**

The following table reconciles the numerators and denominators of the basic and diluted earnings per share for the year ended December 31, 2023 and 2022:

<b>Basic earnings per share calculation:</b>		
	<b>2023</b>	2022
Numerator for basic earnings per share:		
Net earnings for the year	\$ 34,164,416	\$ 32,234,067
Denominator for basic earnings per share:		
Weighted average shares	34,487,580	34,332,947
<b>Net basic earnings per share</b>	<b>\$ 0.991</b>	<b>\$ 0.939</b>
<b>Diluted earnings per share calculation:</b>		
	<b>2023</b>	2022
Numerator for basic earnings per share:		
Net earnings for the year	\$ 34,164,416	\$ 32,234,067
Interest on convertible debentures	6,255,758	5,826,545
Net diluted earnings for the year	40,420,174	38,060,612
Denominator for basic earnings per share:		
Weighted average shares	34,487,580	34,332,947
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average share price	-	304,446
Assuming debentures are converted	6,590,946	6,260,710
Diluted weighted average shares	41,078,526	40,898,103
<b>Diluted earnings per share</b>	<b>\$ 0.984</b>	<b>\$ 0.931</b>

**10. 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, 2023, the Corporation recorded dividends of \$34,142,921 (2022 – \$32,631,802) to its shareholders. Dividends were \$0.99 per share (2022 – \$0.95 per share).

**11. 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, 2023, this amount was \$4,848,896 (2022 – \$4,690,384). Included in accounts payable and accrued liabilities at December 31, 2023 are amounts payable to the Corporation's Manager of \$384,422 (December 31, 2022 – \$379,186).

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 \$647,000 for the year ended December 31, 2023 (2022 – \$625,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments.

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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, 2023, the total directors' fee expenses were \$321,000 (2022 – \$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 853,721 shares in the Corporation as at December 31, 2023 (December 31, 2022 – 802,967).

During 2022, the Corporation 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.

Aggregate compensation paid to key management personnel (including payments to related parties for their recovery of costs), consisted of short-term employee compensation of \$4,184,269 (2022 – \$4,246,547) for the year ended December 31, 2023. All compensation was paid by the Corporation's Manager and not by the Corporation.

**12. Interest expense**

	2023	2022
Bank interest expense	\$ 3,588,884	\$ 1,751,480
Debenture interest expense	12,121,418	13,117,449
<b>Interest expense</b>	<b>15,710,302</b>	<b>14,868,929</b>
Deferred finance costs amortization - convertible debentures	(1,270,628)	(1,462,425)
Implicit interest rate in excess of coupon rate - convertible debentures	(1,067,152)	(786,714)
Changes in accrued interest payable	23,907	(307,311)
<b>Cash interest paid</b>	<b>\$ 13,396,429</b>	<b>\$ 12,312,479</b>

**13. 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.

**14. 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.

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

The following table presents the changes in related debt investments (at FVTPL) as at December 31, 2023:

Changes to related debt investments at FVTPL	2023	2022
<b>Balance at January 1st</b>	\$ 15,592,000	\$ 13,921,947
Funding of investments	635,163	3,385,000
Repayments of investments	(3,715,000)	(297,299)
Unrealized foreign exchange	(250,563)	682,352
Fair value adjustment	(5,680,300)	(2,100,000)
<b>Balance at December 31st</b>	\$ 6,581,300	\$ 15,592,000

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, 2023 and December 31, 2022 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, 2023	Level 1	Level 2	Level 3	Total
Convertible debentures	147,375,411	-	-	169,834,911

  

December 31, 2022	Level 1	Level 2	Level 3	Total
Convertible debentures	167,418,429	-	-	167,418,429

There were no transfers between level 1, level 2 and level 3 during the years ended December 31, 2023 and December 31, 2022.

## 15. 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.

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

At December 31, 2023, if interest rates at that date had been 100 basis points lower or higher, with all other variables held constant, comprehensive income and equity for the year would be affected as follows:

	Carrying Value	-1%	+1%
<b>Financial assets:</b>			
Amounts receivable and prepaid expenses	\$ 5,785,090	\$ -	\$ -
Investment portfolio	574,454,741	(3,169,272)	5,746,399
<b>Financial liabilities:</b>			
Bank indebtedness	-	-	-
Credit facility	24,678,301	246,783	(246,783)
Accounts payable and accrued liabilities	2,996,808	-	-
Shareholders' dividends payable	4,552,589	-	-
Convertible debentures	158,122,248	-	-
<b>Total change</b>	<b>\$ 770,589,777</b>	<b>\$ (2,922,490)</b>	<b>\$ 5,499,617</b>

(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 Corporation 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 Corporation limits 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, 2023, 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 \$154,832,754 as at December 31, 2023 (December 31, 2022 – \$145,796,810). 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. A committed revolving line of credit of \$180 million with The Toronto – Dominion Bank, as administrative agent, and the lenders party thereto, as lenders exists, to fund the timing differences between investment advances and investment repayments. The committed line of \$180 million is a committed facility with a maturity date 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.

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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, 2023 are due as follows:

	Total	Less than 1 year	1-3 years	4-7 years
Credit facility	\$ 24,678,301	\$ 24,678,301	\$ -	\$ -
Accounts payable and accrued liabilities	2,996,808	2,996,808	-	-
Shareholders' dividends payable	4,552,589	4,552,589	-	-
Convertible debentures	166,183,000	26,500,000	49,983,000	89,700,000
Subtotal - Liabilities	198,410,698	58,727,698	49,983,000	89,700,000
Future advances under portfolio	154,832,754	154,832,754	-	-
<b>Liabilities and contractual obligations</b>	<b>\$ 353,243,452</b>	<b>\$ 213,560,452</b>	<b>\$ 49,983,000</b>	<b>\$ 89,700,000</b>

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	-	-
<b>Liabilities and contractual obligations</b>	<b>\$ 413,325,257</b>	<b>\$ 247,142,257</b>	<b>\$ 76,483,000</b>	<b>\$ 89,700,000</b>

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 \$8,145,398 for less than 1 year, \$11,133,570 for 1 to 3 years and \$8,941,250 for 4 to 7 years.

(d) Capital risk management.

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

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

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

The Corporation's investment guidelines, which can be varied at the discretion of the Board of Directors, incorporate various guidelines and investment operating policies. The Corporation's guidelines include the following: the Corporation (i) will not invest more than 10% of the amount of its capital in any single conventional first mortgage where the loan to value on such loan is less than 60%, (ii) will not invest more than 8% of the amount of its capital in any single conventional first mortgage where the loan to value on such loan is between 60% and 70%, (iii) will not invest more than 5% of the amount of its capital in any single conventional first mortgages where the loan to value on such loan exceeds 70%, (iv) will not invest more than 2.5% of the amount

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**  
**Notes to Consolidated Financial Statements**

Years ended December 31, 2023 and 2022  
(in Canadian dollars)

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.

**16. Supplementary information**

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

	<b>Credit Facility</b>	<b>Convertible Debentures</b>
<b>Balance at January 1, 2023</b>	\$ 57,716,347	\$ 178,284,467
Financing cash flow activities:		
Debenture issue	-	-
Draw on credit facility	(33,038,046)	-
Repayment and conversions of convertible debentures	-	(22,500,000)
<b>Total cash flow from financing activities</b>	<b>24,678,301</b>	<b>155,784,467</b>
Financing non-cash activities:		
Implicit interest rate in excess of coupon rate (note 14)	-	1,067,153
Deferred finance cost amortization (note 14)	-	1,270,628
<b>Total non-cash flow financing activities</b>	<b>-</b>	<b>2,337,781</b>
<b>Balance at December 31, 2023</b>	<b>\$ 24,678,301</b>	<b>\$ 158,122,248</b>

**17. Subsequent Events**

As discussed in Note 15(c), the Corporation has a revolving syndicate credit facilities with The Toronto – Dominion Bank as administrative agent, and lenders party thereto, with a maturity date of November 30, 2024. The Corporation renewed early the syndicate facilities by extending the maturity date to January 17, 2026.