

First Circle Mortgage Investment Corporation
Financial Statements
September 30, 2023

First Circle Mortgage Investment Corporation

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For the year ended September 30, 2023

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Independent Auditor's Report

To the Shareholders of First Circle Mortgage Investment Corporation:

Opinion

We have audited the financial statements of First Circle Mortgage Investment Corporation (the "Company"), which comprise the statement of financial position as at September 30, 2023, and the statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Vancouver, British Columbia

December 5, 2023

MNP LLP

Chartered Professional Accountants

First Circle Mortgage Investment Corporation

Statement of Financial Position

As at September 30, 2023

	2023	2022
Assets		
Accrued interest receivable	2,335,811	1,480,255
Mortgages receivable (Note 4)	193,340,203	190,443,452
Prepaid expenses and other assets	52,843	42,061
Deferred costs	352,183	373,175
Total assets	196,081,040	192,338,943
Liabilities		
Bank indebtedness (Note 6)	49,358,789	60,663,993
Accounts payable and accrued liabilities (Note 5)	543,074	660,166
Dividends payable	1,719,537	2,708,706
Deferred revenue	57,261	19,009
Preferred shares to be issued (Note 7)	-	2,779,640
Preferred shares (Note 7)	143,276,673	125,503,929
Prepaid mortgage interest	1,122,206	-
Total liabilities	196,077,540	192,335,443
Commitments (Note 9)		
Shareholders' Equity		
Common shares (Note 8)	3,500	3,500
	196,081,040	192,338,943

Approved on behalf of the Board



 Director



 Director

First Circle Mortgage Investment Corporation

Statement of Comprehensive Income

For the year ended September 30, 2023

	2023	2022
Revenue		
Interest income	19,359,955	13,439,179
Fees and other income	77,213	67,472
	19,437,168	13,506,651
Expenses		
Amortization of deferred costs	117,308	100,545
Bank charges and interest	3,066,708	1,826,464
Management fee (Note 5)	2,859,268	2,735,764
Professional fees and other expenses	121,355	90,100
Other	66,865	57,723
	6,231,504	4,810,596
Operating income	13,205,664	8,696,055
Preferred share dividends (Note 7)	(13,189,321)	(8,684,423)
Total comprehensive income for the year	16,343	11,632

The accompanying notes are an integral part of these financial statements

First Circle Mortgage Investment Corporation

Statement of Changes in Shareholders' Equity

For the year ended September 30, 2023

	<i>Common shares</i>	<i>Total equity</i>
Balance September 30, 2021	3,750	3,750
Total comprehensive income for the year	-	11,632
Common share dividends	-	(11,632)
Redemption of share capital	(250)	(250)
Balance September 30, 2022	3,500	3,500
Total comprehensive income for the year	-	16,343
Common share dividends	-	(16,343)
Balance September 30, 2023	3,500	3,500

The accompanying notes are an integral part of these financial statements

First Circle Mortgage Investment Corporation

Statement of Cash Flows

For the year ended September 30, 2023

	2023	2022
Cash provided by (used for) the following activities		
Operating activities		
Comprehensive income for the year	16,343	11,632
Amortization of deferred costs	117,308	100,545
Preferred shares issued by way of stock dividend (Note 7)	7,871,167	3,855,288
Interest expense	3,053,030	1,815,799
Interest received	19,359,955	13,439,179
	30,417,803	19,222,443
Changes in working capital accounts		
Accrued interest receivable	(855,556)	(746,113)
Prepaid expenses and other assets	(10,781)	(26,528)
Mortgages receivable	(22,256,706)	(57,057,647)
Accounts payable and accrued liabilities	(117,094)	323,154
Dividends payable	(989,169)	868,862
Deferred revenue	38,252	(9,400)
Deferred costs	(96,316)	(345,423)
Prepaid mortgage interest	1,122,206	-
	7,252,639	(37,770,652)
Financing activities		
Payments for redemption of common shares	-	(250)
Increase (decrease) in preferred shares to be issued (Note 7)	(2,779,640)	902,720
Increase (decrease) in bank indebtedness	(11,305,203)	32,720,031
Common share dividends paid (Note 8)	(16,343)	(11,632)
Issuance of preferred shares (Note 7)	15,498,610	12,536,200
Redemption of preferred shares (Note 7)	(5,597,033)	(6,560,618)
Interest paid	(3,053,030)	(1,815,799)
	(7,252,639)	37,770,652
	-	-
Increase in cash	-	-
Cash, beginning and end of year	-	-
Supplementary cash flow information		
Non-cash financing activity		
Preferred shares issued by way of stock dividend	7,871,167	3,855,288

The accompanying notes are an integral part of these financial statements

First Circle Mortgage Investment Corporation
Notes to Financial Statements
For the year ended September 30, 2023

1. Nature of operations

First Circle Mortgage Investment Corporation (the “Company”) provides financing for mortgages which are generally secured against real property within British Columbia, Canada. The Company was incorporated on November 23, 2005 under the Business Corporations Act of British Columbia for the purpose of carrying on business as a Mortgage Investment Corporation (“MIC”) as defined in Section 130(1) of the Income Tax Act of Canada (“ITA”).

As a Mortgage Investment Corporation, the Company is permitted to deduct dividends paid to its shareholders from its taxable income. It is the Company’s mandate to distribute all of its taxable income to the shareholders. Taxable income often differs from accounting income due to the timing of certain tax deductions. Consequently, dividends paid and payable may exceed income reported for accounting purposes and result in a net loss and shareholder deficit.

2. Basis of presentation

a. Statement of compliance

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) using accounting policies with IFRS as issued by the International Accounting Standards Board (“IASB”).

These annual financial statements for the year ended September 30, 2023 were approved by the Board of Directors of the Company on December 5, 2023.

b. Basis of measurement

These financial statements have been prepared on the basis of historical cost, except for financial instruments classified as fair value through profit and loss, which are measured at fair value.

c. Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company.

d. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates may include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of future legislation or regulation, prior encumbrances and other factors affecting the investments in mortgages and the underlying security of the mortgages. However, actual outcomes may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Mortgages receivable

The Company makes an estimate for determining whether the cash flows from mortgages investments represent solely payments of principal and interest (SPPI). The Company is also required to make assessments of the future expected losses on mortgage receivables, and in particular, the measurement of credit risk to determine significant changes. The estimation of future cash flows and expected losses includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. The assumptions used in the assessment of impairment are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns and the uncertainty of predictions concerning future events. Liquid credit markets and volatile equity markets have increased the uncertainty inherent in such estimates and assumptions.

These estimates of impairment are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated allowance for impairment losses could vary by a material amount.

2. Basis of presentation – continued

d. Significant accounting judgments, estimates and assumptions - continued

Impairment of financial assets

Significant judgements, estimates, and assumptions are required when calculating the expected credit losses of financial assets and determining whether there has been a significant increase in credit risk since initial recognition in accordance with IFRS 9 Financial Instruments. For more information, refer to Note 10.

e. Non-classified statement of financial position

In the opinion of management, a classified statement of financial position would present no additional information as the Company's activities are substantially directed towards short-term mortgage investments. Accordingly, a non-classified statement of financial position has been presented.

3. Summary of significant accounting policies

a. Revenue recognition

Interest income on mortgages receivable is recognized as revenue on an accrual basis in the statement of comprehensive income using the effective interest method. Fees that are an integral part of the effective interest rate of the financial instrument, including loan origination, commitment, restructuring and renegotiation fees are capitalized as part of the related asset and amortized to interest income over the term of the loan using the effective interest method.

b. Financial instruments

Financial assets

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets consist of accrued interest receivable and mortgages receivable and are recorded at amortized cost. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

Classification and subsequent measurement

Subsequent to initial recognition, all financial assets are classified and subsequently measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss.

Reclassifications

The Company reclassifies debt instruments only when its business model for managing those financial assets has changed. Reclassifications are applied prospectively from the reclassification date and any previously recognized gains, losses or interest are not restated.

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than debt instruments measured at fair value through profit or loss and equity investments. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The date the Company commits to purchasing a financial asset is considered the date of initial recognition for the purpose of applying the Company's accounting policies for impairment of financial assets.

For mortgages receivable, the Company records a loss allowance based on expected credit losses. For performing mortgages, the loss allowance is based on expected losses within the next 12-month period. For mortgages that have experienced a significant increase in credit risk since initial recognition and credit-impaired mortgages, the loss allowance is based on contractual lifetime expected credit losses.

3. Summary of significant accounting policies – continued

b. Financial instruments – continued

The Company assesses whether a financial asset has experienced a significant increase in credit risk since initial recognition at the reporting date. Regular indicators that a mortgage has experienced a significant increase in credit risk but is not yet credit-impaired include financial difficulties as evidenced through delinquent payments. Regular indicators that a financial instrument is credit-impaired include financial difficulties as evidenced through borrowing patterns or observed balances in other accounts, breaches of borrowing contracts such as default events, breaches of borrowing covenants or requests to restructure loan payment schedules.

Loss allowances for expected credit losses are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the financial assets.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

Refer to Note 10 for additional information about the Company's credit risk management process, credit risk exposure and expected credit losses.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or the financial asset has been transferred under particular circumstances.

For this purpose, a financial asset is transferred if the Company either:

- Transfers the right to receive the contractual cash flows of the financial asset, or;
- Retains the right to receive the contractual cash flows of the financial asset, but assumes an obligation to pay received cash flows in full to one or more third parties without material delay and is prohibited from further selling or transferring the financial asset.

Transferred financial assets are evaluated to determine the extent to which the Company retains the risks and rewards of ownership. When the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it evaluates whether it has retained control of the financial asset.

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. Financial liabilities consist of bank indebtedness, accounts payable and accrued liabilities, dividends payable, prepaid mortgage interest, preferred shares to be issued and preferred shares. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability or a component classified as a financial liability are recognized in profit or loss.

3. Summary of significant accounting policies – continued

b. Financial instruments – continued

Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Interest

Interest income and expense are recognized in profit or loss using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

The 'amortized cost' of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The 'gross carrying amount' of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

Interest income and expense is calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

Where a financial asset has become credit-impaired subsequent to initial recognition, interest income is calculated in subsequent periods by applying the effective interest method to the amortized cost of the financial asset. If the asset subsequently ceases to be credit-impaired, calculation of interest income reverts to the gross basis.

For financial assets that were purchased or originated as credit-impaired financial assets, a credit-adjusted effective interest rate is calculated which incorporates expected credit losses. Interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. Calculation of interest does not revert to another basis if credit risk of the asset subsequently improves.

c. Redeemable preferred shares

Non-voting redeemable preferred shares, which include a right for the holder to request of the Company to redeem the shares, are recorded as liabilities and are presented at their redemption value.

d. Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of shares are recognized as a deduction from equity.

Dividends are recognized in equity in the year in which they are declared. Dividends on new shares issued during the year are calculated on a pro-rated daily basis.

e. Income taxes

The Company is a Mortgage Investment Corporation ("MIC") as defined in Section 130.1(6) of the Income Tax Act of Canada. As such, the Company 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 that the dividends were not deducted previously. The Company intends to maintain its status as a MIC and distribute sufficient dividends in the current and future years to ensure that the Company is not subject to income taxes. Accordingly, no provision for current or future income taxes is required.

f. Standards issued but not yet effective

The Company has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at September 30, 2023 but are not yet effective. Unless otherwise stated, the Company does not plan to early adopt any of these new or amended standards and interpretations.

First Circle Mortgage Investment Corporation
Notes to Financial Statements
For the year ended September 30, 2023

3. Summary of significant accounting policies – continued

f. Standards issued but not yet effective – continued

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements

Amendments to IAS 1 and IFRS Practice Statement 2, issued in February 2021, help entities provide accounting policy disclosures that are more useful to primary users of financial statements by replacing the requirement to disclose “significant” accounting policies with a requirement to disclose “material” accounting policies and providing guidance to explain and demonstrate the application of the four-step materiality process to accounting policy disclosures.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Amendments to IAS 8, issued in February 2021, introduce a new definition of “accounting estimates” to replace the definition of “change in accounting estimates” and also include clarification intended to help entities distinguish changes in accounting policies from changes in accounting estimates.

4. Mortgages receivable

The mortgages receivable balance is comprised of several mortgages, bearing interest at 5.95% to 13.95% (2022 – 5.95% to 15.90%) per annum, accrued on a monthly basis. All mortgages have the underlying real property as collateral and are for periods between twelve and thirty months. The mortgages have either repayment terms prior to September 30, 2024 or are open, giving the borrower the option to repay principal at any time prior to the maturity date.

Property Category	2023	2022
Greater Vancouver		
Residential – conventional	\$ 79,229,205	\$ 80,652,423
Residential – construction	16,125,930	14,269,228
Land	8,954,576	6,347,115
Commercial	12,929,975	10,316,843
Other British Columbia		
Residential – conventional	49,093,695	59,617,358
Residential – construction	8,498,381	9,402,584
Land	5,491,456	6,258,766
Commercial	15,402,796	5,176,915
	\$ 195,726,014	\$ 192,041,232
Accrued interest receivable	(2,335,811)	(1,597,780)
Mortgage holdbacks	(50,000)	-
	\$ 193,340,203	\$ 190,443,452

Principal repayments based on contractual maturity dates are as follows:

	2023	2022
Mortgages contracts expiring within 12 months	\$ 189,765,203	\$ 184,061,695
Mortgages contracts expiring over 12 months	3,625,000	6,381,757
	\$ 193,390,203	\$ 190,443,452

Properties categorized as Other British Columbia are generally situated in major population centers of southwestern British Columbia.

As at September 30, 2023, the carrying amount of mortgages over 90 days in arrears is \$11,034,500 (2022 – \$nil). There were 10 (2022 – nil) mortgage accounts with a carrying value of \$11,034,500 (2022 – \$nil) under collection action.

As at September 30, 2023, the allowance for impairment losses is \$nil (2022 - \$nil). This allowance represents management’s estimate of the expected credit losses (“ECL”) on mortgage investments that have experienced a significant increase in credit risk since initial recognition. Management estimates the ECL for mortgages as nil due to the collateral held.

First Circle Mortgage Investment Corporation
Notes to Financial Statements
For the year ended September 30, 2023

5. Related party transactions and balances

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

- (a) The Company has a management contract with FCMIC Management Ltd., a Company managed by a Director of the Company. FCMIC Management Ltd., pursuant to a management agreement, provides all management services for a fee equal to 1.5% per annum of the value of all investments contained in the portfolio of the Company. For the year ended September 30, 2023, the amount paid under this contract was \$2,859,268 (2022 – \$2,735,764). Included in accounts payable and accrued liabilities are amounts totaling \$256,890 (2022 – \$252,054) due to FCMIC Management Ltd. relating to these management services and were paid subsequent to the year end.
- (b) As at September 30, 2023, accounts payable and accrued liabilities include \$76,229 (2022 – \$63,258) due to First Circle Financial Services Ltd., a company controlled by a Director of the Company.
- (c) As at September 30, 2023, prepaid expenses and other assets includes \$17,500 for a refundable bond paid on behalf of First Circle Development Corp., a company controlled by a Director of the Company.
- (d) During the year, the Company issued mortgages under a co-lending agreement with Crown Vista Mortgage Investment Corporation, a company managed by FCMIC Management Ltd. At year end, 57 mortgages (2022 – 72), with a total amount outstanding of \$63,146,374 (2022 - \$65,350,861) were jointly issued under this agreement.

6. Bank indebtedness

	2023	2022
Operating line of credit	5,358,789	2,169,077
Chequing account	-	(5,084)
Prime rate loans	4,000,000	18,500,000
CDOR loans	40,000,000	40,000,000
	\$ 49,358,789	\$ 60,663,993

The Company has a syndicated credit facility with two chartered banks for the lesser of \$85,000,000 and a percentage of total eligible mortgages. Eligible mortgages and their percentages are determined by criteria set by the bank. The syndicated credit facility is secured by a general security agreement covering first-ranking security of all tangible and intangible assets. The credit facility consists of up to \$85,000,000 in revolving credit facilities in the form of a “swingline” operating line of credit, prime rate loans, and Canadian Dollar Offered Rate (“CDOR”) loans, of which the Company utilized \$49,358,789 as at September 30, 2023.

The swingline can be drawn to \$8,500,000, of which the Company had utilized \$5,358,789 (2022 - \$2,169,077) at September 30, 2023. The swingline facility bears interest at 0.6% plus the bank’s prime lending rate

The Company utilized \$4,000,000 of prime rate loans, which bear interest at 0.6% plus the bank’s prime lending rate, as at September 30, 2023.

Additionally, the Company utilized \$40,000,000 of CDOR loans, which bear interest at 2.0% plus the applicable CDOR rate, as at September 30, 2023.

Per the credit agreement, the Company is subject to various financial and non-financial covenants. The financial covenants require the company to maintain a Tangible Net Worth of \$100,000,000, a Maximum Total Debt to Tangible Net Worth Ratio of 0.75x and a Minimum EBITDA/Interest Coverage ratio of 3.00x.

As at September 30, 2023, the Company was in compliance with all financial and non-financial covenants.

The Company offsets cash held in its chequing account and bank indebtedness related to the line of credit as it has a legally enforceable right to offset the recognized amounts and it is intended to settle on a net basis.

First Circle Mortgage Investment Corporation
Notes to Financial Statements
For the year ended September 30, 2023

7. Preferred shares

The authorized preferred shares of the Company consist of 20,000,000 non-voting redeemable preferred shares with a par value of \$10 each. The issued shares are as follows:

	2023		2022	
	Number	Amount	Number	Amount
Opening balance	12,550,395	\$ 125,503,929	11,567,308	\$ 115,673,059
Issued	1,549,861	15,498,610	1,253,620	12,536,200
Issued by way of stock dividend	787,117	7,871,167	385,529	3,855,288
Redeemed	(559,703)	(5,597,033)	(656,062)	(6,560,618)
Closing Balance	14,327,670	\$ 143,276,673	12,550,395	\$ 125,503,929

The preferred shares are non-voting, subject to the provisions of the British Columbia Business Corporations Act and are not entitled to receive notice of or attend or vote at any meetings of the shareholders. The preferred shareholders have the following rights:

- (i) Upon liquidation, dissolution or winding up of the Company, the preferred shareholders are entitled to receive the amount paid up thereon together with any declared and unpaid dividends. After payment, they have no right or claim to any of the remaining assets of the company.
- (ii) Subject to the British Columbia Business Corporations Act and the Company having sufficient funds, a preferred shareholder shall have the right to request redemption of all or any of their preferred shares. The company is not obligated to redeem any shares and will do so subject to various regulatory, banking, liquidity, and/or other financial requirements.
- (iii) Entitlement to dividends declared, which are payable in cash or reinvested in preferred shares, at the election of the shareholder.

Shares to be issued:

Nil (2022 – 277,964) preferred shares have been subscribed for consideration of \$nil (2022 – \$2,779,640) and will be issued subsequent to September 30, 2023.

Dividends per share:

	2023	2022
Preferred share dividends paid or payable	\$13,189,321	\$ 8,684,423
Dividends per preferred share paid or payable	\$ 0.99	\$ 0.70

Dividends on preferred shares are recorded as an expense on the statement of comprehensive income.

8. Common shares

The authorized common shares of the Company consist of 1,000,000 voting common shares, without par value. The issued shares consist of the following:

	2023		2022	
	Number	Amount	Number	Amount
Total common shares	17,500	\$ 3,500	17,500	\$ 3,500

First Circle Mortgage Investment Corporation
Notes to Financial Statements
For the year ended September 30, 2023

9. Commitments

As at September 30, 2023, unfunded mortgage commitments outstanding amounts were \$13,676,940 (2022 – \$16,146,954).

10. Risk management

In common with other mortgage investment corporations, the Company is exposed to local and global economic conditions as well as other factors that could adversely affect its business, financial condition and operating results.

Developing policies and procedures to identify risks and implementation of appropriate risk management policies and procedures is the responsibility of management. Management reviews and approves these policies and procedures, and monitors their compliance with them through ongoing reporting requirements. There has been no change in this process since the previous year. A description of the Company's most prominent risks is as follows:

a. Liquidity risk

Liquidity risk arises as a result of changes in conditions which cause the Company to encounter difficulties in meeting obligations associated with financial liabilities. The redeemable preferred shares provide the holders of the preferred shares the right to require the Company to redeem all or a portion of their shares. To ensure that the Company has sufficient funds to operate, there is a restriction on redemptions as the Board of Directors has the right to delay any redemptions if the Company does not have sufficient cash reserves. The Company's financial liabilities mature within one year.

b. Market risk

Market risk arises as a result of changes in conditions which affect real estate values. These market changes may be regional or national in nature or may revolve around a specific product type. For example, the Company is exposed to geographical concentration risk as the majority of the Company's mortgages are secured by property in British Columbia. To manage these risks, management reviews the pertinent market conditions that affect each mortgage application. More generally, management monitors changes in the real estate market on an ongoing basis and adjusts the Company's lending practices and policies when necessary to reduce the impact of the above risks.

c. Credit risk

Credit risk is the risk of financial loss to the Company if a mortgagor fails to meet their contractual obligations. To manage credit risk, management:

- Investigates the creditworthiness of all prospective borrowers, including assessing whether the security is sufficient;
- Establishes authorization limits for mortgage approvals. Large mortgages require Board approval;
- Regularly monitors the credit risk of the Company's mortgage portfolio;
- Engages qualified independent consultants such as lawyers and real estate appraisers dedicated to protecting the Company's interests; and
- Promptly initiates recovery procedures on overdue mortgages.

Inputs, assumptions and techniques

Definition of default and assessments of credit risk

Financial instruments are assessed at each reporting date for a significant increase in credit risk since initial recognition. This assessment considers changes in the risk of a default occurring at the reporting date as compared to the date of initial recognition.

10. Risk management – continued

c. Credit risk – continued

The Company considers mortgages receivable to be in default when contractual payments are more than 90 days past due, insurance has lapsed, or other objective evidence of impairment exists. This definition is consistent with the definitions used for the Company's internal credit risk management practices and has been selected because it most closely aligns the definition of default to the Company's past credit experience, and the covenants placed in standard borrowing contracts. Relatively few financial instruments subsequently return to performing status after a default has occurred under this definition without further intervention on the part of the Company.

Changes in credit risk are assessed on the basis of the risk that a default will occur over the contractual lifetime of the financial instrument rather than based on changes in the amount of expected credit losses or other factors. In making this assessment the Company takes into account all reasonable and supportable information, including forward-looking information, available without undue cost or effort. The Company considers past due information of its balances and information about the borrower available through regular commercial dealings, such as requests for loan modifications.

The credit risk of a financial instrument is deemed to have significantly increased since initial recognition when there has been a history of missed contractual payments, or other information becomes available to management through communication with the borrower or forecasting processes which consider macroeconomic conditions expected to have a future impact on borrowers. The Company considers there not to have been a significant increase in credit risk despite contractual payments being more than 30 days past due when they have interviewed the borrower and determined that payment is forthcoming. When a financial instrument is considered to have low credit risk, it is assumed that there has not been a significant increase in credit risk since initial recognition.

The Company identifies credit-impaired financial assets through regular reviews of past due balances and credit assessments of its customers. Credit-impaired financial assets are typically placed on the Company's watch list based on its internal credit risk policies. In making this assessment, the Company considers past due information of its balances and information about the borrower available through regular commercial dealings.

Measurement of expected credit losses

The Company measures expected credit losses for mortgages receivable on a group basis. These assets are grouped on the basis of their shared risk characteristics such as loan type (residential, land and commercial mortgages, conventional or construction mortgages) and geographic region of the borrower.

At the end of each reporting period, impairment is assessed using an expected credit loss (ECL) approach. Under this approach the level of credit risk deterioration is assessed in a three-stage impairment model. The three stages are determined, and expected credit losses are assessed as follows:

Stage 1 – No significant increase to credit risk since initial recognition. 12-month expected credit losses are recognized.

Stage 2 – Significant increase in credit risk since initial recognition. Lifetime expected credit losses are recognized.

Stage 3 – Credit impaired. Lifetime expected credit losses are recognized.

The Company is required to make assessments of the future expected losses on mortgage investments in Stage 1 and Stage 2 using forward-looking information, including macroeconomic factors. Mortgage investments are transferred to Stage 3 when one or more events have occurred that have a detrimental effect on the estimated future cash flows of that asset.

First Circle Mortgage Investment Corporation
Notes to Financial Statements
For the year ended September 30, 2023

10. Risk management – continued

c. Credit risk – continued

When measuring 12-month and lifetime expected credit losses, the Company considers items such as the contractual period of the financial asset or the period for which the entity is exposed to credit risk, determination of appropriate discount rates used in incorporating the time value of money, assumptions about prepayments, timing and extent of missed payments or default events, how probabilities of default and other assumptions and inputs used in calculating the amount of cash short falls depending on the type or class of financial instrument. Forward-looking information is incorporated into the determination of expected credit loss by considering regional economic journals and forecasts, collecting information available from regular commercial dealings with its customers and other publicly available information and considering the effect such information could have on any assumptions or inputs used in the measurement of expected credit losses, determining significant increases in credit risk or identifying a credit-impaired financial asset.

Significant judgments, estimates and assumptions are required when calculating the expected credit losses of financial assets. In measuring the 12-month and lifetime expected credit losses, management makes assumptions about prepayments, the timing and extent of missed payments or default events. In addition, management assesses the impact that future events may have on the assumptions used to estimate expected credit losses.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery. The Company assesses that there is no reasonable expectation of recovery when the security relating to the loan has been sold and there are remaining amounts outstanding or the borrower has filed for bankruptcy and the trustee has indicated that no additional funds will be paid. Where an asset has been written off but is still subject to enforcement activity, the asset is written off but remains on a list of delinquent accounts. Where information becomes available indicating the Company will receive funds, such amounts are recognized at their fair value.

Exposure to credit risk

The following table sets out information about the credit quality of financial assets assessed for impairment under IFRS 9 Financial instruments. The amounts in the table, unless otherwise indicated, represent the assets' gross carrying amount.

The gross carrying amount of financial assets and exposure amount of loan commitments and financial guarantee contracts represents the maximum exposure to credit risk for that class of financial asset.

As at September 30, 2023

Property Category	Stage 1	Stage 2	Stage 3	Total
Greater Vancouver				
Residential – conventional	\$ 73,091,034	\$ -	\$ 6,138,171	\$ 79,229,205
Residential – construction	16,125,930	-	-	16,125,930
Land	7,254,623	-	1,699,953	8,954,576
Commercial	12,929,975	-	-	12,929,975
	109,401,562	-	7,838,124	117,239,686
Other British Columbia				
Residential – conventional	45,648,421	-	3,445,274	49,093,695
Residential – construction	8,498,381	-	-	8,498,381
Land	5,081,600	-	409,856	5,491,456
Commercial – construction	-	-	-	-
Commercial	15,402,796	-	-	15,402,796
	74,631,198	-	3,855,130	78,486,328
	\$ 184,032,760	\$ -	\$ 11,693,254	\$ 195,726,014

First Circle Mortgage Investment Corporation
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10. Risk management – continued

c. Credit risk – continued

As at September 30, 2022

Property Category	Stage 1	Stage 2	Stage 3	Total
Greater Vancouver				
Residential – conventional	\$ 79,341,088	\$ 1,311,335	\$ -	\$ 80,652,423
Residential – construction	14,269,228	-	-	14,269,228
Land	4,795,100	1,552,015	-	6,347,115
Commercial	10,316,843	-	-	10,316,843
	108,722,259	2,863,350	-	111,585,609
Other British Columbia				
Residential – conventional	59,617,358	-	-	59,617,358
Residential – construction	9,402,584	-	-	9,402,584
Land	6,258,766	-	-	6,258,766
Commercial - construction	3,876,981	-	-	3,876,981
Commercial	1,299,934	-	-	1,299,934
	80,455,623	-	-	80,455,623
	\$ 189,177,882	\$ 2,863,350	\$ -	\$ 192,041,232

Properties categorized as Other British Columbia are generally situated in major population centers of southwestern British Columbia.

Management estimates expected impairment losses to not be significant due to the collateral held. As such, no provision for loss has been provided for in Stage 1, 2 or 3 mortgages.

The maximum exposure to credit risk at September 30, 2023 is the carrying values of its mortgage investments, including accrued interest receivable, which total \$195,726,014 (2022 – \$192,041,232).

The Company has recourse under these investments in the event of default by the borrower, in which case the Company would claim against the underlying collateral and any other assets owned by the borrower. Among other tools, the Company uses a total encumbrance to the appraised value of the underlying real property ratio to manage its portfolio risk. As at September 30, 2023, the total encumbrances of the underlying property made up approximately 51% (2022 – 53%) of the total appraised value, representing the loan to value ratio, of the secured property. The Company's mortgage portfolio consisted of the following classifications:

	2023	2022
First mortgages	93.89%	96.80%
Second mortgages	5.85%	2.94%
Third mortgages	0.26%	0.26%
	100.00%	100.00%

Concentration of credit risk analysis:

A significant mortgage investment is defined as a single loan amount being greater than 10% of the total mortgage receivable balance. As at September 30, 2023, the Company has nil mortgages (September 30, 2022 – nil) which exceed that threshold.

Amounts arising from expected credit losses

The Company has not recognized a loss allowance for mortgages receivable due to collateral held.

10. Risk management – continued

d. Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on mortgages receivable to the extent of changes in the prime interest rate, mitigated by minimum rates specified in all of its variable interest rate mortgage contracts. Due to the short term nature of the mortgages the interest rate risk associated with mortgages receivable at year-end is not considered significant. The interest rate risk on bank indebtedness, accounts payable and accrued liabilities is not considered significant. There is no significant concentration of interest rate risk.

Sensitivity analysis

The Company is exposed to interest rate risk on the bank indebtedness. Based on the outstanding balance of \$49,358,789 on the credit facility as at September 30, 2023 (2022 – \$60,663,993) a 0.50% decrease in the borrowing rate, keeping other variables constant, would result in an annual increase in comprehensive income of \$246,794 (2022 – \$303,320) as a result of lower interest payable on the bank indebtedness. A 0.50% increase in the borrowing rate would have opposite effect. However, the amounts indicated by this sensitivity analysis are greater than the Company's net interest rate risk exposure because the Company has a balance of variable interest rate mortgage assets that naturally hedge the Company's variable interest rate debt liabilities, thereby significantly mitigating net downside interest rate risk.

e. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that financial asset or financial liability. Due to the use of subjective judgements and uncertainties in the determination of these fair values, they should not be interpreted as being realizable in an immediate settlement of the financial instruments.

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value of mortgage investments not determined to be impaired approximate their carrying values as the majority of the mortgages are repayable in full at any time without penalty after the fixed term. The mortgage investments lack an available trading market and are not typically exchanged and have been valued assuming they are not available for sale. The fair values are not necessarily representative of the amounts realizable in immediate settlements of instruments. The fair value of mortgage investments are determined using Level 2 inputs. As at September 30, 2023, the Company had no financial instruments measured at fair value.

11. Capital management

The Company manages its capital with the intention of maximizing interest income on investments in loans for distribution to its shareholders. The Company defines its capital structure to include common and preferred shares.

The Company reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage investment opportunities, the availability of capital and anticipated changes in general economic conditions. The Company's capital management objectives and strategies are unchanged from the prior year.

First Circle Mortgage Investment Corporation
Notes to Financial Statements
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11. Capital management - continued

The Company is exposed to the external restrictions in its capital as follows:

- (i) To continue as a MIC, the Company must comply with requirements set forth in Section 130.1(6) of the Income Tax Act of Canada. The Company regularly monitors its compliance with these externally imposed restrictions.
- (ii) The Company also must comply with covenant guidelines for the credit facility from a financial institution as set out in Note 6.

The Company was in compliance with all restrictions throughout the year.