



FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

**ANNUAL INFORMATION FORM
FOR THE YEAR ENDED DECEMBER 31, 2014**

March 25, 2015

TABLE OF CONTENTS

ITEM 1 – CORPORATE STRUCTURE.....	6
ITEM 2 - GENERAL DEVELOPMENT OF THE CORPORATION	7
ITEM 3 - NARRATIVE DESCRIPTION OF THE ACTIVITIES OF THE CORPORATION	8
INDUSTRY OVERVIEW	8
Short-Term Bridge Financing.....	8
Interim Bridge Financing.....	8
Non-Conventional Mortgages	8
THE CORPORATION’S INVESTMENTS	9
INVESTMENT STRATEGY.....	10
Objectives	10
Borrowing Strategy.....	11
Development and Maintenance of the Investment Portfolio.....	11
Syndication Strategy.....	12
MANAGEMENT OF THE INVESTMENT PORTFOLIO	13
General	13
Risk Management	13
Collection Activities	13
INVESTMENT AND OPERATING GUIDELINES	14
Investment Guidelines	14
Operating Guidelines	16
Amendment	17
LICENSING AND LEGISLATIVE REGIME.....	18
DIVIDEND POLICY	18
DIVIDEND REINVESTMENT PLAN.....	19
ITEM 4 - DESCRIPTION OF CAPITAL STRUCTURE.....	19
General	19
Shares	20
Preferred Shares.....	20
Limitation on Ownership.....	20
Convertible Debentures	21
ITEM 5 - MANAGEMENT OF THE CORPORATION.....	22
General	22
The Mortgage Banker	22
The Corporation Manager.....	25
Internalized Credit Management	27
Employees	27
ITEM 6 - DIRECTORS AND OFFICERS.....	28
Directors and Officers of the Corporation	28
Independent Director Matters	31
Investment Committee.....	32
Audit Committee	32
Audit Services	33
Remuneration of Directors and Officers.....	33
Stock Option Plan.....	33
Non-Competition Arrangements	34
Interest of Directors and Others in Material Transactions.....	34

Director Term Limits and Other Mechanisms of Board Renewal	35
Policies Regarding the Representation of Women on the Board	35
Consideration of the Representation of Women in the Director Identification and Selection Process	35
Consideration of the Representation of Women in Executive Officer Appointments	35
Issuer’s Targets Regarding the Representation of Women on the Board and in Executive Officer Positions.....	36
Number of Women on the Board and in Executive Officer Positions	36
ITEM 7 - RISK FACTORS	36
Liquidity and Price Fluctuation	36
Dependence on the Corporation Manager and the Mortgage Banker	36
Potential Conflicts of Interest	37
Dilution.....	37
No Guaranteed Return	37
Nature of the Investments	37
Environmental Matters	37
Availability of Investments.....	37
Reliance on the Directors.....	38
Borrowing.....	38
Limited Sources of Borrowing	38
Renewal of Mortgages Comprising the Investment Portfolio.....	38
Composition of the Investment Portfolio.....	38
Subordinated and Subsequent Debt Financing	38
Investment Risk for Land Mortgage Investments.....	39
Reliance on Borrowers	39
ITEM 8 - MARKET FOR SECURITIES.....	39
Shares	40
5.75% Convertible Debentures	40
5.40% Convertible Debentures	40
5.25% Convertible Debentures	41
4.75% Convertible Debentures	41
ITEM 9 - MATERIAL CONTRACTS	41
ITEM 10 - EXPERTS.....	42
ITEM 11 - TRANSFER AGENT AND REGISTRAR	42
ITEM 12 - LEGAL PROCEEDINGS	42
ITEM 13 - ADDITIONAL INFORMATION.....	42

GLOSSARY

The following terms used in this Annual Information Form have the meanings set out below:

“4.75% Convertible Debentures” means the \$20,000,000 principal amount of 4.75% convertible unsecured subordinated debentures issued by the Corporation and due March 31, 2020.

“5.25% Convertible Debentures” means the \$20,485,000 principal amount of 5.25% convertible unsecured subordinated debentures issued by the Corporation and due March 31, 2019.

“5.40% Convertible Debentures” means the \$25,738,000 principal amount of 5.40% convertible unsecured subordinated debentures issued by the Corporation and due February 28, 2019.

“5.75% Convertible Debentures” means the \$31,443,000 principal amount of 5.75% convertible unsecured subordinated debentures originally issued by the Trust, assumed by the Corporation and due October 31, 2017.

“6% Convertible Debentures” means the \$25,000,000 principal amount of 6% convertible unsecured subordinated debentures originally issued by the Trust, assumed by the Corporation and due June 30, 2013.

“AAA Rated Mortgage Backed Securities” means mortgage backed securities, being bonds or other financial obligations secured by a pool of mortgage loans, with a rating of AAA (or the equivalent), as determined by any one of Dominion Bond Rating Service Limited, Standard & Poor’s Corporation, Moody’s Investor Services Inc., or any of their successors.

“affiliate” has the meaning ascribed thereto in the *Securities Act* (Ontario).

“Arrangement” means the plan of arrangement pursuant to Section 192 of the CBCA among the Trust and the Corporation effective as of January 1, 2011.

“associate” has the meaning ascribed thereto in the *Canada Business Corporations Act*.

“Audit Committee” means the audit committee of the Directors described under “Directors and Officers – Audit Committee”.

“Authorized Interim Investments” means investments guaranteed by the Government of Canada or of a province or territory of Canada, including deposits in or receipts, deposit notes, certificates of deposits, acceptances and other similar instruments issued, endorsed or guaranteed by a Schedule I Bank or short-term CMHC insured Residential Mortgages.

“Automatic Purchase” means the automatic repurchase or cancellation of the Repurchased Shares.

“Automatic Repurchase Shareholder” means a Shareholder that either alone or together with Related Persons, holds more than 25% of any class or series of the Shares.

“Average Market Price” means the weighted average price of the Shares on the TSX for the five trading days immediately preceding the relevant dividend date.

“Board of Directors” means the board of Directors of the Corporation.

“CBCA” means the *Canada Business Corporations Act*.

“CMHC” means Canada Mortgage and Housing Corporation, a Canadian federal crown corporation incorporated under the Canada Mortgage and Housing Corporation Act.

“Commercial and Residential Mortgages” means, collectively, Commercial Mortgages and Residential Mortgages.

“**Commercial Mortgage Backed Securities**” means bonds or other financial obligations secured by a pool of mortgage loans.

“**Commercial Mortgages**” means mortgages which are principally secured by income-producing properties which have retail, commercial service, office and/or industrial uses.

“**Conventional First Mortgage**” means a First Mortgage for which the principal amount, at the time of commitment, does not exceed the lower of 75% of the purchase price, in the case of a property purchase, of the underlying real property securing the mortgage and 75% of the appraised value of the underlying real property securing the mortgage as determined by a Qualified Appraiser.

“**Conventional Mortgage**” means a mortgage for which the principal amount, at the time of commitment, together with all other equal and prior ranking mortgages (a) in the case of a property purchase, does not exceed the lower of 75% of the purchase price of the underlying real property securing the mortgage and 75% of the appraised value of the underlying real property securing the mortgage as determined by a Qualified Appraiser, and (b) in the case of a refinancing, does not exceed 75% of the appraised value of the underlying real property securing the mortgage as determined by a Qualified Appraiser at the time of such refinancing.

“**Convertible Debentures**” means, collectively, the 5.75% Convertible Debentures the 5.40% Convertible Debentures the 5.25%, Convertible Debentures and the 4.75% Convertible Debentures.

“**Corporation**” means Firm Capital Mortgage Investment Corporation.

“**Corporation Capital**” means, at any time, the aggregate amount of Shareholders’ equity and the outstanding principal amount of any indebtedness that is issued by the Corporation and convertible into Shares.

“**Corporation Management Agreement**” means the amended and restated trust management agreement dated as of June 26, 2012 between the Corporation Manager and the Corporation, providing for, among other things, the retention of the Corporation Manager by the Corporation.

“**Corporation Manager**” means FC Treasury Management Inc. and its successors as the Corporation’s manager under the Corporation Management Agreement.

“**Credit Manager**” means the credit manager appointed from time to time by the Independent Directors as described under “Management of the Corporation – Internalized Credit Management”.

“**Debentures**” means convertible and un-convertible debentures issued by Canadian real estate investment trusts and real estate corporations from time to time listed for trading on the TSX or TSX Venture Exchange, as the case may be.

“**Declaration of Trust**” means the amended and restated declaration of trust dated as of June 9, 2010, governed by the laws of the Province of Ontario, pursuant to which the Trust was created and dissolved, as amended, supplemented or amended and restated from time to time.

“**Directors**” means the directors of the Corporation.

“**Dividend Reinvestment Plan**” means, collectively, the Corporation’s dividend reinvestment plan and share purchase plan.

“**FCMIC**” means Firm Capital Mortgage Investment Corporation, a mortgage investment corporation, the assets of which are currently managed by the Mortgage Banker.

“**FCPI**” means Firm Capital Properties Inc.

“**Fifth Supplemental Indenture**” means the supplemental indenture prepared in connection with the issuance of the 4.75% Convertible Debenture.

“**Firm Syndication Interest**” means up to a 20% *pari passu* interest in a mortgage in which the Corporation is offered an interest and which interest is made available to the Mortgage Banker for the benefit of the Mortgage Banker and its clients, including pooled funds (other than the Corporation) for which it acts as manager.

“**First Mortgage**” means a mortgage having priority over all other security interests registered against the same real property used to secure such mortgage.

“**FM/MB Minimum Interest**” means an aggregate minimum 10% *pari passu* interest in each Non-Conventional Mortgage in which the Corporation acquires an interest and which interest is required to be acquired by members of management of the Corporation Manager and/or the Mortgage Banker and/or their respective associates.

“**Fourth Supplemental Indenture**” means the supplemental indenture prepared in connection with the issuance of the 5.25% Convertible Debenture.

“**FSCO**” means Financial Services Commission of Ontario.

“**Independent Director**” means a Director who is not an associate, director, officer or employee of the Corporation Manager or the Mortgage Banker or of an affiliate of any of the foregoing and who is independent (as defined in Multilateral Instrument 52-110 *Audit Committees*) of the Corporation Manager or Mortgage Banker. A Director who is a nominee of the Corporation Manager is deemed not to be an Independent Director.

“**Investment Committee**” means the investment committee of the Directors described under “Directors and Officers – Investment Committee” comprised entirely of Independent Directors.

“**Investment Guidelines**” means the investment policies described in “Investment and Operating Guidelines – Investment Guidelines” herein below.

“**Investment Portfolio**” means, at any time, the Corporation’s portfolio of Mortgages or interests therein and Related Investments.

“**MBLAA**” means the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (Ontario).

“**MIC**” means mortgage investment corporation, within the meaning of subsection 130.1(6) of the Tax Act.

“**mortgage**” means a mortgage, hypothec, deed of trust, charge or other security interest of or in real property used to secure obligations to repay money by a charge upon the underlying real property, whether evidenced by notes, debentures, bonds, assignments of purchase and sale agreements or other evidences of indebtedness, whether negotiable or non-negotiable.

“**Mortgage Banker**” means Firm Capital Corporation and its successors as mortgage banker under the Mortgage Banking Agreement.

“**Mortgage Banking Agreement**” means the amended and restated mortgage banking agreement dated as of June 26, 2012 between the Corporation and the Mortgage Banker, providing for, among other things, the retention of the Mortgage Banker by the Corporation.

“**Mortgages**” means, collectively, the mortgage investments of the Corporation comprising part of the Investment Portfolio.

“**Non-Competition Agreement**” means the non-competition agreement dated October 6, 1999 between the Trust and the Restricted Group as described under “Non-Competition Arrangements”.

“**Non-Conventional Mortgage**” means a mortgage other than a Conventional Mortgage, and includes, without limitation, mortgage investments that exceed, or may exceed, 75% of the appraised value of the real property underlying such mortgages as determined by a Qualified Appraiser, such as mezzanine and subordinated debt, participating mortgages, discounted debt and joint venture mortgages.

“**Operating Facility**” means the Corporation’s revolving credit facility arranged with a Canadian bank for the purpose of providing funding for general operating expenses of the Corporation and working capital for the Corporation including for the purpose of making advances under committed mortgages and additional funding of existing mortgages, as described under “Investment Strategy – Borrowing Strategy.”

“**Operating Guidelines**” means the operational policies described in “Investment and Operating Guidelines – Operating Guidelines” herein below.

“**Phase I Environmental Audit**” means an evaluation of real property for purposes of environmental analysis performed solely on the basis of historical records without invasive sampling or drillings from such property.

“**Preferred Shares**” means the preferred shares of the Corporation.

“**Prime Rate**” means the rate of interest, expressed as an annual rate, in effect from time to time and announced in Canada by the principal banker of the Corporation from time to time as its prime rate with respect to commercial loans in Canadian dollars made in Canada to its Canadian commercial borrowers.

“**Qualified Appraiser**” means a person who is an accredited appraiser of the Appraisal Institute of Canada or any successor thereof.

“**Related Investments**” means (i) a direct investment in real property resulting from the Corporation's equity, mezzanine and other investment transactions; (ii) a bond, debenture, note or other evidence of indebtedness, or a share, unit or other evidence of ownership, in a person (other than an individual) engaged in real estate development, lending or the funding or holding of mortgages; and (iii) a mortgage that is not registered at the appropriate registry office.

“**Related Person**” means a person that is related (as such term is defined in the Tax Act) to a Shareholder of the Corporation.

“**Repurchased Shares**” means that portion of the Shares held by each Automatic Repurchase Shareholder which constitutes in excess of 24.9% of issued Shares of any class or series of Shares.

“**Residential Mortgages**” means mortgages which are principally secured by real estate properties that have or will have residential uses.

“**Restricted Group**” means the Mortgage Banker, Eli Dadouch, Edward Gilbert and Jonathan Mair, who have each entered into the Non-Competition Agreement as described under “Directors and Officers - Non-Competition Arrangements”.

“**Required Property**” means debt secured on certain specified residential properties or funds on deposit with a Canada Deposit Insurance Fund-insured or Régie de l’assurance-dépôts du Québec-insured institution or credit union.

“**Schedule I Bank**” means a bank listed in Schedule I of the *Bank Act* (Canada).

“**Servicing Standard**” means the servicing standard described in “Mortgage Banking Agreement” herein below.

“**Shares**” means the common shares of the Corporation.

“**Shareholder**” means a holder of Shares.

“**Special Resolution**” means a resolution approved by at least 66.67% of the votes cast by Shareholders present in person or by proxy at a duly constituted meeting of Shareholders which has been called for that purpose.

“**Stock Option Plan**” means the 2010 Stock Option Plan referred to under the heading “Directors and Officers – Stock Option Plan”.

“**Superintendent**” means the Superintendent of Financial Services.

“**Supplemental Indenture**” means the supplemental indenture prepared in connection with the issuance of the 5.75% Convertible Debenture.

“**syndication**” means the sharing of a mortgage investment by more than one person.

“**Tax Act**” means the *Income Tax Act* (Canada), as amended.

“**Third Supplemental Indenture**” means the supplemental indenture prepared in connection with the issuance of the 5.40% Convertible Debenture.

“**Triggering Transaction**” means the exercise by any holder of Convertible Debentures or, as determined by the Board of Directors, in its sole discretion, any other transaction affecting the Shares which, if completed would result in a Shareholder becoming an Automatic Repurchase Shareholder.

“**Trust**” means Firm Capital Mortgage Investment Trust.

“**Trustees**” means the trustees of the Trust.

“**TSX**” means the Toronto Stock Exchange.

“**Units**” means the units of the Trust.

“**Unitholder**” means a holder of Units.

ANNUAL INFORMATION FORM
(Information as at December 31, 2014 unless otherwise indicated)

EXPLANATORY NOTES

Unless otherwise stated, the information in this Annual Information Form is stated as of December 31, 2014 and all references to Firm Capital Mortgage Investment Corporation's ("We", "Us", "FCMIC" or the "Corporation") fiscal year are to the year ended December 31, 2014.

Effective January 1, 2011, the income trust structure of Firm Capital Mortgage Investment Trust (the "Trust") was reorganized into a corporate structure by way of a plan of arrangement among the Trust and the Corporation under Section 192 of the CBCA (the "Arrangement"). The Arrangement was approved by Unitholders at the special meeting held on November 30, 2010. Pursuant to the Arrangement, the Trust was dissolved and common shares of a newly incorporated corporation, Firm Capital Mortgage Investment Corporation, were distributed to Unitholders on the basis of one common share of the Corporation (the "Shares" and each a "Share") for each Unit held.

In this Annual Information Form, for any period that ended prior to January 1, 2011, unless the context otherwise requires: (i) any reference to *Firm Capital Mortgage Investment Corporation, FCMIC or the Corporation* will be deemed to be a reference to its predecessor, Firm Capital Mortgage Investment Trust; (ii) any reference to a *Director* when made in reference to a director of the Corporation will be deemed to be a reference to a Trustee of Firm Capital Mortgage Investment Trust; and (iii) any reference to *Shareholders* will be deemed to be a reference to Unitholders of Firm Capital Mortgage Investment Trust.

FORWARD-LOOKING STATEMENTS

Advisory: Certain information included in this Annual Information Form contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 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 below in this Annual Information Form under "Risk Factors", which could cause our actual results to differ materially from the forward-looking statements contained in this Annual Information Form. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters, Shareholder liability and certain Canadian income tax matters. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general real estate market remains stable; adequate mortgage investment opportunities are presented to the Corporation; and adequate bank indebtedness and bank loans are available to the Corporation. Although the forward-looking statements contained in this Annual Information Form are 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 Annual Information Form 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.

ITEM 1 – CORPORATE STRUCTURE

The Corporation is a mortgage investment corporation and is a non-bank provider of residential and commercial real estate finance. We completed our initial public offering on October 6, 1999. See "Narrative Description of the Activities of the Corporation - Distribution Policy – Cash Distributions of the Trust".

The Corporation is the successor to the Trust, following completion of the conversion of the Trust from an income trust to a corporate structure by way of a court-approved plan of arrangement under the CBCA on January 1, 2011.

The Corporation was incorporated under the CBCA on October 22, 2010 for the sole purpose of participating in the Arrangement and did not carry on any active business prior to the Arrangement, other than executing the arrangement agreement pursuant to which the Arrangement was implemented. The Corporation's Board of Directors (the "**Board of Directors**") is comprised of individuals who were members of the Board of Trustees of the Trust and the Corporation's senior management was not changed as a result of the Arrangement.

The registered and head office of the Corporation is located at 163 Cartwright Avenue, Toronto, Ontario, Canada, M6A 1V5.

The Shares, 5.75% Convertible Debentures, 5.40% Convertible Debentures, 5.25% Convertible Debentures and 4.75% Convertible Debentures are posted and listed for trading on the Toronto Stock Exchange (the "**TSX**") under the symbols "FC", "FC.DB.A", "FC.DB.B", "FC.DB.C", and "FC.DB.D" respectively.

ITEM 2 - GENERAL DEVELOPMENT OF THE CORPORATION

The Trust was created pursuant to the Declaration of Trust governed by the laws of the Province of Ontario. On April 16, 2002, we changed our name from Firm Capital Mortgage Investment Fund to Firm Capital Mortgage Investment Trust.

Pursuant to the Arrangement, on January 1, 2011, all of the issued and outstanding Units were automatically exchanged on a 1:1 basis without any further action by the holder for Shares of the Corporation and the Trust was wound up. The Corporation also assumed all of the covenants and obligations of the Trust under the Trust's then outstanding Convertible Debentures. The Shares, 6% Convertible Debentures and 5.75% Convertible Debentures commenced trading on the TSX on January 5, 2011 under the symbols "FC", "FC.DB" and "FC.DB.A", respectively. The Units were delisted from the TSX on January 4, 2010.

As a result of the Arrangement, the Corporation is the successor reporting issuer of the Trust in all provinces of Canada, the same jurisdictions as those of the Trust prior to the Arrangement. In addition, as a result of the Arrangement, the Trust ceased to be a reporting issuer.

On August 23, 2011, the Corporation completed a bought deal offering pursuant to which it issued the 5.40% Convertible Debentures. The 5.40% Convertible Debentures trade on the TSX under the symbol "FC.DB.B".

On March 21, 2012, the Corporation completed a bought deal offering pursuant to which it issued Shares at \$13.45 and the 5.25% Convertible Debentures. The 5.25% Convertible Debentures trade on the TSX under the symbol "FC.DB.C".

On March 28, 2013, the Corporation completed a bought deal offering pursuant to which it issued the 4.75% Convertible Debentures. The 4.75% Convertible Debentures trade on the TSX under the symbol FC.DB.D.

On June 30, 2013, the Corporation either fully redeemed or converted into Shares of the Corporation the balance of the 6% Convertible Debentures. As at December 31, 2013, none of the 6% Convertible Debentures remain on the balance sheet of the Corporation.

On January 28, 2014, the Corporation completed a bought deal offering of 1,955,000 Shares at a price of \$12.10 per Share, including the exercise of the underwriters' over-allotment option, for aggregate gross proceeds to the Corporation of approximately \$23.7 million.

ITEM 3 - NARRATIVE DESCRIPTION OF THE ACTIVITIES OF THE CORPORATION

INDUSTRY OVERVIEW

The market niches in which we invest are all underserved by the larger, more traditional financial institutions. This reduced level of competition allows us to earn above average returns and to be selective in our investments.

We invest in mortgages secured by all types of residential and commercial real property, subject to compliance with our investment policies. The types of properties that we finance include residential houses, small multi-family residential properties comprised of six or fewer units, residential apartment buildings, mixed-use residential apartments and store-front properties, investment properties, land and development sites, and development and construction projects. We also invest in all forms of short-term bridge financing for residential and commercial real estate (including, primarily, construction loans for such properties) for owners and developers. The principal types of Non-Conventional Mortgages in which we invest, either alone or in participation with other lenders, include: equity and participating mortgage loans; joint venture financing for builders and developers; mezzanine and subordinated mortgage debt for investment properties; partnership capital; and distressed mortgage debt purchases.

The market niches in which we focus our investments are summarized below.

Short-Term Bridge Financing

Alternative Conventional Residential Mortgages

The single family Conventional Mortgage market in Canada is dominated by the Schedule I Banks which are aggressive in underwriting single family Conventional Mortgage loans under rigid underwriting criteria. The five largest Schedule I Banks are less aggressive in pursuing single family Conventional Mortgage loans where the borrower is self-employed or compensated by commission income as opposed to a salary, or has experienced previous financial difficulties as a result of a failed business venture or the loss of employment or lack of long-term employment. Consequently, the borrowers who do not meet the rigid underwriting criteria of the Schedule I Banks find it difficult to obtain financing from larger traditional financial institutions, regardless of loan-to-value ratios or security offered.

Multi-Family Residential, Investment Properties and Commercial Mortgages

The investment property market is dominated by large financial institutions. These institutions are less aggressive in pursuing bridge financing opportunities for value-creating mortgage loans.

Interim Bridge Financing

Developer and Builder Loans

The provision of interim financing for large new home subdivisions and large interim land development projects is well served by the Schedule I Banks as this is a good source of single family, owner-occupied Conventional Mortgage loans for these institutions. However, developers and builders seeking financing for land developments and housing projects in developed areas have fewer financing options as the small scale of these types of projects are of limited appeal to the larger financial institutions. We specialize in providing construction and development financing to developers and builders, which is a niche that has become a key focus of our business. Our primary investment activities relate to investments or loans to builders and developers.

Non-Conventional Mortgages

Mezzanine and Subordinated Debt Financing

The provision of mezzanine or subordinated debt financing for small-scale residential and commercial development projects is highly fragmented. There are few institutional providers of this highly specialized form of financing for the small developer and the capital providers are typically small private concerns with limited access to large amounts of capital. Given the lack of participation from the large financial institutions, there is a lack of competition in this market segment thereby providing the opportunity to underwrite well-structured, secure mortgage loans with attractive pricing.

Discounted Mortgage Debt

Discounted mortgage debt consists of performing and non-performing mortgages acquired from financial institutions, receivers and liquidators. These mortgages are purchased at a discount from the principal amount outstanding thereunder. Investment returns are comprised of: (i) the interest rate earned on the full principal amount of the mortgage, and (ii) the profit made when the mortgage is repaid (which consists of the difference between the cost to us of purchasing the mortgage and the amount ultimately received by us on repayment).

In summary, the larger financial institutions are focused on mortgage loans which comply with the often restrictive lending criteria of Canadian banks and loans which are secured by large development or investment properties on a long-term basis.

As a result of the focus of large financial institutions on limited types of mortgage loans, a number of niches exist in the mortgage investment market, and these niches are characterized by the absence of a dominant financial services provider and a general lack of competition.

We have profitably taken advantage of the mortgage investment opportunities that exist within the market segments outlined above in which the Mortgage Banker has a proven and successful operating track record.

Other Investments

Subject to the Investment Guidelines listed below under “Investment and Operating Guidelines”, we are permitted to invest in Commercial Mortgage Backed Securities, Debentures and Related Investments. Commercial Mortgage Backed Securities are bonds or other financial obligations secured by a pool of mortgage loans, and include the unrated portions of these securitized pools. Debentures are TSX and TSXV-listed convertible and non-convertible secured and unsecured debentures of Canadian Real Estate Investment Trusts and real estate corporations. Related Investments refer to a bond, debenture, note or other evidence of indebtedness, or a share, unit or other evidence of ownership, in a person (other than an individual) engaged in real estate development, lending or the funding or holding of mortgages.

THE CORPORATION’S INVESTMENTS

We invest in the Investment Portfolio based on an underwriting report prepared by the Mortgage Banker for each mortgage and Related Investment. Based on this information, the Investment Committee has determined that each of the investments meets the objectives and investment policies of the Corporation. The Investment Portfolio was sourced and underwritten by the Mortgage Banker. As at December 31, 2014 the Investment Portfolio included 177 mortgages and investments (including a portfolio investment). See “Investment Strategy” and “Investment and Operating Guidelines” below.

All properties are evaluated on the basis of location, quality, prospects for capital appreciation and, in the case of Commercial Mortgages, on prospects for income. In addition, the credit of the borrower is also reviewed and, where applicable, personal covenants are obtained.

The following is an overview of the Investment Portfolio held by the Corporation as at December 31, 2014 and 2013:

	Dec 31, 2014		Dec 31, 2013	
Conventional First Mortgages	\$ 249,021,514	72.6%	\$ 217,909,340	64.2%
Related Investments	48,313,224	14.1%	58,124,384	17.1%
Non-Conventional Mortgages	30,551,339	8.9%	30,597,843	9.0%
Conventional Non-First Mortgages	10,075,075	2.9%	27,984,768	8.2%
Discounted Debt Investments	4,903,900	1.4%	5,010,150	1.5%
Total Investments (at amortized cost)	\$ 342,865,051	100%	\$ 339,626,485	100%

The Investment Portfolio as at December 31, 2014 is representative of the types of investments in which we invest. While there can be no assurance that the interest yields on these mortgages will be representative of interest yields to be obtained on our future mortgage investments, management anticipates that the aggregate interest yield on our mortgage investments will continue to be in excess of 400 basis points above the then current yield to maturity on

one year Government of Canada treasury bills, based on the performance of the Investment Portfolio and the historical performance of the mortgage investments originated and serviced by the Mortgage Banker.

As at December 31, 2014, the Investment Portfolio consists of mortgages secured by a range of properties which reflect, among other things, the following characteristics, some of which are included among our investment policies:

- the Investment Portfolio is diversified by property type and no group of mortgages to a single borrower (including associates of such borrower) represents more than 15% of the aggregate cost of our assets;
- payment schedules consist primarily of interest only, with a small portion consisting of blended interest and principal loans for those mortgages with terms in excess of one year;
- mortgages are generally written for terms of five years or less, with a majority currently being bridge and construction financing activities; and
- a significant portion of our mortgage investments are secured by real property located in Ontario and principally in the Toronto and surrounding area and are denominated in Canadian dollars.

See “Investment Strategy” below.

We receive from the Mortgage Banker a portion of the commitment fees and discharge fees otherwise payable to the Mortgage Banker by borrowers under our mortgage investments. See “Management of the Corporation – The Mortgage Banker”. The Mortgage Banker’s entitlement to these fees (which are paid for by borrowers) arises only from its ability to source mortgages funded by us.

Legal title to each registered mortgage is held by and registered in the name of a corporation or other entity wholly owned by us, other than mortgages held by another entity or other entities holding an interest in such mortgages jointly with and/or in trust for us, with beneficial title to our interest being held by us. Where legal title to a mortgage is held by and registered in the name of an entity wholly owned by us, such entity may hold legal title to such mortgage on behalf of the other beneficial owners of such mortgage. Where appropriate, title insurance is obtained. In addition, we obtain standard security in respect of Commercial Mortgages which, depending on the specific mortgage, may include one or more of an assignment of rents, an assignment of purchase agreements (on residential development projects), a general security agreement and, in some cases, personal covenants from borrowers.

INVESTMENT STRATEGY

Objectives

Our objectives are (i) the preservation of Shareholders’ equity and (ii) to provide a return on Shareholders’ equity in excess of 400 basis points above the average yield to maturity on one year Government of Canada treasury bills from time to time. We aim to provide Shareholders with stable and secure cash distributions from our investments in mortgage loans in market segments which are underserved by large financial institutions and seek to maximize yields, distributions and Share value through the sourcing and efficient management of our mortgage investments in such market segments.

The Mortgage Banker, on our behalf, diligently reviews and selects investment opportunities to be approved by the Investment Committee (depending on the size of the loan) and manages the Investment Portfolio. In making its investment selections to be presented to us, the Mortgage Banker adheres to our Investment Guidelines. The Credit Manager is responsible for ongoing compliance with our Investment and Operating Guidelines.

Our investment strategy is to invest in Commercial and Residential Mortgages from smaller niche borrowers whose financing needs are not being met by the larger financial institutions.

To maintain a stable interest yield on the Investment Portfolio, we manage risk through maintenance of a diversified investment portfolio, conservative underwriting and diligent and aggressive mortgage servicing.

Borrowing Strategy

An important strategy of ours is to borrow against a pool of Conventional First Mortgages forming part of the Investment Portfolio, to a maximum indebtedness of 60% of the book value of our portfolio of Conventional First Mortgages but specifically excluding the Convertible Debentures. The cost of such borrowing must be less than the interest received by us from our mortgage investments, and this interest spread enhances the interest yield on the Investment Portfolio. In particular: (i) we are able to charge a premium over the rate of interest which would generally be charged by existing financial institutions to smaller borrowers who are unable to arrange their Residential Mortgage or Commercial Mortgage financing with such financial institutions; (ii) we are able to pool a number of our Conventional First Mortgages and pledge them to financial institutions as security for financing; (iii) the financial institutions referred to in (ii) lend to us an amount less than the aggregate principal amounts of such Conventional First Mortgages and are therefore exposed to less risk than the Corporation; and (iv) as a result of being exposed to lower risk, such financial institutions require a lower rate of interest than we charge mortgagors. Our investment policies require that the interest rate payable on any such borrowing must be less than the interest rate charged by us on the corresponding mortgage investment, and we will continue to ensure that both rates are at floating rates or matched fixed rates to minimize the risk of mismatching interest rates that is normally associated with borrowing against mortgages. This borrowing strategy further enhances the aggregate interest rate yield on our mortgage investments. See "Investment and Operating Guidelines", below, and "Risk Factors". As a result of our conservative borrowing practices, our exposure to downturns in the real estate market is minimized, thereby preserving Corporation Capital.

We have arranged the Operating Facility with a Canadian chartered bank. As at December 31, 2014, \$14,664,178 was drawn under the Operating Facility. Interest on the Operating Facility is predominantly charged at rates that vary with the Prime Rate and may have a component with a fixed interest rate established based on a formula linked to Banker's Acceptance rates. The Operating Facility comprises a revolving operating facility, a component of which is a demand facility and a component of which has a committed term to September 30, 2014 with an option to term out the drawn balance until September 30, 2015 if not renewed by the bank. The Operating Facility is secured by a general security agreement over all of the assets of the Corporation and contains certain financial covenants that must be maintained.

From time to time we draw on credit from various financial institutions to acquire mortgages. Any advance under these loans payable is subject to the approval of the specific lender and is secured by an assignment of the mortgage investment acquired with the proceeds of such advance. All advances made under these loans are on a non-recourse basis to us. As at December 31, 2014, approximately \$21,847,970 was outstanding under such loans. These loans are different from the Operating Facility, in that funds under these loans are drawn for the sole purpose of matching the interest rate and the term of the underlying investments. In contrast, the Operating Facility is a revolving facility used by us for operating expenses and the funding of additional mortgage investments.

In 2014 the Corporation entered into a margin facility with a Canadian Chartered Bank to finance the acquisition of debentures on the open market from time to time. The use of leverage to finance the acquisition of securities creates increased risk as compared to making such investments with cash on-hand but can enhance overall returns in respect of such investments. The Corporation regularly monitors its use of leverage, the level of margin and its associated costs.

Development and Maintenance of the Investment Portfolio

In the view of management, the three keys to developing and maintaining a successful Investment Portfolio are: (i) knowledgeable mortgage underwriting; (ii) the ability to source a broad range of investment opportunities, thereby allowing the Directors to be selective and prudent in their choice of mortgage investments; and (iii) disciplined monitoring, servicing and collection enforcement methods. In these respects, we benefit from the experience of the Directors, the Corporation Manager and the Mortgage Banker.

We enhance interest yields through innovative sourcing practices that are accomplished through the Mortgage Banker, through whom we have been able to source and fund mortgage investments which satisfy our investment criteria based on: (i) the specialized lending structures offered to borrowers; (ii) the reputation, experience and marketing ability of the Mortgage Banker; (iii) the timely credit analysis and decision-making processes followed by the Mortgage Banker and by us; and (iv) a lack of significant lenders in the market segments in which we invest,

resulting from the consolidation in the financial services industry and the migration by the remaining participants in the industry away from the small and medium sized mortgage market in which we invest.

The Mortgage Banker sources mortgages on our behalf and on behalf of its other investor clients through conventional intermediaries, including existing borrowers of the Mortgage Banker, mortgage brokers, banks, trust companies, lawyers and accountants. All fees which may be payable to any such intermediaries will generally be paid by the borrower.

The Mortgage Banker's sourcing of our investments and servicing of the Investment Portfolio provide the following benefits to us:

Mortgage Investment Opportunity Sources. Senior management of the Mortgage Banker has been in the business of sourcing and underwriting mortgages for over 20 years. The Mortgage Banker manages and services mortgages on behalf of various investor clients and it sources mortgages for these investors either directly or through intermediaries such as mortgage brokers, banks, trust companies, lawyers and accountants. All of the Mortgage Banker's officers have extensive contacts in the mortgage and real estate industries which will allow them to identify investment opportunities and submit them to us. In addition, the Mortgage Banker has periodically acquired discounted performing and non-performing mortgages and has extensive experience in successfully restructuring such debt. We have taken and will continue to take advantage of the Mortgage Banker's experience in these types of activities, thereby gaining access to a source of mortgage investments for which there is limited competition.

Proven Industry Experience. Collectively, members of management of the Mortgage Banker have over 100 years of mortgage and real estate experience. Each officer has a comprehensive knowledge and understanding of the mortgage and real estate industries that has enabled him to make prudent investment decisions and identify sound investment opportunities. The name and municipality of residence, office held with the Mortgage Banker and principal occupation of each officer of the Mortgage Banker are described under the heading "Management of the Corporation – The Mortgage Banker".

Problem Identification and Rectification Experience. We minimize risks associated with defaulting mortgages through diligent monitoring of the Investment Portfolio, active communication with borrowers and the institution of aggressive enforcement procedures on defaulting mortgages. We accomplish this through the Mortgage Banker, which has substantial experience in servicing mortgage loans, including the institution of enforcement proceedings, and has a history of a low default rate on mortgages which it services. The Mortgage Banker's officers also have extensive experience in servicing high yield investment portfolios as a result of purchasing and restructuring distressed mortgage debt.

Focus on Toronto and the Surrounding Area and other Urban Centres. One of the keys to successful mortgage underwriting is knowing and understanding the real estate markets in which the properties are located. Together, Toronto and the surrounding area and other urban centres contain a sizeable portion of Canada's population and a well-diversified industry base. We make our mortgage investments on real property located primarily in Toronto and the surrounding area and other urban centres in Ontario, areas with which the officers of the Mortgage Banker are familiar due to their past lending experience. In addition, we have recently made mortgage investments in Alberta and expect to continue to make further investments in this and other provinces if circumstances are appropriate.

Syndication Strategy

To manage and diversify risk, the Mortgage Banker may, if it is financially feasible to do so, syndicate a mortgage investment in which we will participate with one or more lenders. All such syndicated mortgages may initially be funded by us with mortgagors at a specified interest rate and a portion of the mortgage may then be syndicated to a financial institution at a lower interest rate. Syndication may be on a *pari passu* basis or a subordinated basis. Syndicating mortgages reduces our exposure to any one investment we may have. Where a mortgage is syndicated to a financial institution on a subordinated basis, the rights of the financial institution to receive interest payments and the repayment of principal will rank in priority to our rights to receive our share of the interest payments and the repayment of our principal balance; however, in such circumstances the syndicating financial institution will have no recourse to us.

The spread between the interest rate paid by borrowers and the interest rate paid to participating financial institutions on syndicated investments in which we have a subordinated interest enhances our overall interest yield on

the Investment Portfolio. Any such mortgages are subject to the investment policies of the Corporation. See “Investment and Operating Guidelines – Investment Guidelines” below.

MANAGEMENT OF THE INVESTMENT PORTFOLIO

General

The Mortgage Banker is responsible for originating, underwriting, servicing and syndicating our mortgage investments pursuant to the Mortgage Banking Agreement. The Credit Manager is responsible for ensuring compliance with our Investment and Operating Guidelines and, after confirming such compliance, the Credit Manager presents a mortgage investment opportunity to the Directors or Investment Committee, as applicable. See “Investment and Operating Guidelines”, below, “Management of the Corporation – The Mortgage Banker”, and “Management of the Corporation – Internalized Credit Management”.

Risk Management

We have implemented the following controls to limit and manage risk:

- (a) conservative investment and operating policies;
- (b) when appropriate and subject to our cash position and the underlying investment profile, a syndication strategy whereby the Mortgage Banker syndicates on our behalf mortgage investments with other investors to diversify and share risks associated with a given mortgage investment;
- (c) requiring members of management of the Corporation Manager and/or the Mortgage Banker and/or their respective associates to acquire and maintain a minimum 10% *pari passu* interest, in the aggregate, in each Non-Conventional Mortgage in which we invest;
- (d) detailed mortgage underwriting analysis which emphasizes realty values, lending exposure and market conditions; and
- (e) independent appraisals prepared by Qualified Appraisers for all mortgage investments.

Collection Activities

The Mortgage Banker monitors the performance of the Investment Portfolio, including tracking of the status of outstanding payments due, grace periods and due dates, and the calculation and assessment of other applicable charges.

The Mortgage Banking Agreement requires the Mortgage Banker to make reasonable efforts to collect all payments called for under the terms and provisions of each mortgage comprising the Investment Portfolio, and to follow collection procedures that are consistent with the Servicing Standard (as defined herein) or as the Investment Committee may otherwise direct.

The Mortgage Banker is required to monitor any loan that is in default, evaluate whether the causes of the default will be corrected by the related borrower over a 15 day period without significant impairment of the value of the related mortgaged property, initiate corrective action, inspect the related mortgaged property and take such other actions as are consistent with the Servicing Standard. The Mortgage Banking Agreement provides that the Mortgage Banker must initiate enforcement proceedings no later than 15 days following default under the terms of a mortgage. See “Investment Strategy – Development and Maintenance of the Mortgage Portfolio” above.

The time within which the Mortgage Banker may make the initial determination of appropriate action, evaluate the appropriate corrective action, if any, develop additional initiatives, or institute foreclosure, power of sale or other enforcement proceedings on behalf of the Corporation may vary considerably depending on the particular mortgage loan, the mortgaged property, the borrower, the mortgagor’s circumstances as perceived by the Mortgage Banker and the presence of an acceptable party to assume the mortgage loan. If a borrower makes a proposal or

assignment or takes any other proceedings under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada), the *Winding-Up and Restructuring Act* (Canada) or other insolvency, arrangement or other legislation for the relief of debtors, the Mortgage Banker may not be permitted to accelerate the maturity of the related mortgage loan, to foreclose the mortgaged property or to exercise power of sale or other mortgage enforcement proceedings for a considerable period of time.

INVESTMENT AND OPERATING GUIDELINES

The Board of Directors adopted a series of Investment and Operating Guidelines for the Corporation, as described in this section, which were implemented upon the Arrangement becoming effective.

Investment Guidelines

The assets of the Corporation may be invested only as follows, unless otherwise approved by the Board of Directors:

- (a) the Corporation shall invest only in Residential Mortgages, Commercial Mortgages, Commercial Mortgage Backed Securities and/or Related Investments, in the equity or on the security of real estate situated in Canada and primarily within Ontario;
- (b) 100% of the Corporation's Capital may be invested in Conventional First Mortgages and/or AAA Rated Mortgage Backed Securities;
- (c) a maximum of 30% of the Corporation's Capital may be invested in a combination of Non-Conventional Mortgages, Conventional Mortgages that are not Conventional First Mortgages and Commercial Mortgage Backed Securities that are not AAA Rated Mortgage Backed Securities;
- (d) a Conventional Mortgage may not exceed the lower of 75% of the purchase price of the underlying real property securing the mortgage and 75% of the appraised value of the property ("**Loan to Value**"), as determined by a Qualified Appraiser and calculated at the time of commitment, provided that if a mortgage exceeds 75% Loan to Value, it can be classified as a Conventional Mortgage for the portion up to 75% of the Loan to Value, with the portion in excess of 75% being classified as a Non-Conventional Mortgage;
- (e) the Corporation may not participate in any Non-Conventional Mortgage investment where its interest in such mortgage exceeds 75% of the principal amount of such mortgage;
- (f) a maximum of 10% of the Corporation's Capital (the "**Allocation**") may be invested in Debentures. Leverage may be applied to such Debentures to a maximum of 50%. No more than 1% of the Corporation's Capital may be invested in any one Debenture. Investments in Debentures will be treated in the same manner as all non-conventional investments in terms of amounts earned by the Mortgage Banker. Management of the Corporation will provide the Directors a monthly report outlining each Debenture investment
- (g) other than investments in Non-Conventional Mortgages and Commercial Mortgage Backed Securities or the acquisition of a portfolio of mortgages, the Corporation shall not invest in any mortgage where the term of the mortgage exceeds five years, but mortgages in which the Corporation invests may contain clauses permitting the mortgagor, when not in default, to renew the mortgage for additional terms;
- (h) at no time may the Corporation hold any real property which is not capital property or which is not situated in Canada;
- (i) unless approved by a majority of the Independent Directors, the Corporation will not make an investment in any mortgage or other investment in real property where a Director, the Mortgage Banker, any of their respective officers, directors or employees or any affiliate or associate thereof: (i) has or expects to obtain, insofar as the Corporation is aware, directly or indirectly, an interest in the transaction; (ii) has at any time in the period of 24 months preceding the date of the transaction

had a direct or indirect material financial interest in the real property being mortgaged or acquired; or (iii) has an interest in any other mortgage on the real property being mortgaged, or acquired of;

- (j) when not invested in Residential Mortgages, Commercial Mortgages, Commercial Mortgage Backed Securities or Related Investments, the funds of the Corporation shall be placed in Authorized Interim Investments;
- (k) Up to 10% of the Corporation's Capital in any single Conventional First Mortgage where the principal amount of such mortgage loan is less than 60% of the appraised value of the secured properties.

Up to 8% of the Corporation's Capital in any single Conventional First Mortgage where the principal amount of such mortgage loan is between 60% and 70% of the appraised value of the secured properties.

Up to 5% of the Corporation's Capital in any single Conventional First Mortgage where the principal amount of such mortgage loan exceeds 70% of the appraised value of the secured properties.

Up to 2.5% of the Corporation's Capital in any single Non-Conventional Mortgage or Conventional Mortgage that is not a Conventional First Mortgage.

For purposes of the above provision, where the mortgage loan is secured by properties that were acquired by the Borrower within a 12 month period of the date of the loan funding, the purchase price of the property shall be utilized as the appraised value where same is less than the appraised value, unless there has been a material, post acquisition, value enhancing change at the property that justifies the appraised value.

- (l) the Corporation shall not make an investment in, or acquisition of, a mortgage with a single borrower (including associates of such borrower), all calculated at the time the investment is made, if the aggregate of the cost of such investment and the cost of the Corporation's mortgages, loans or investments already provided to or with such single borrower (including associates of such borrower) would exceed 10% of the cost of the Corporation's assets;
- (m) unless approved by no less than three of the Independent Directors, the Corporation shall not make an investment in, or acquisition of, a mortgage with a single borrower (including associates of such borrower) if the aggregate book value of the Corporation's mortgages, loans or investments already provided to or with such single borrower (including associates of such borrower) would exceed \$1 million in aggregate;
- (n) the Corporation shall not make any investment in, or acquisition of, a mortgage: (i) with a cost to the Corporation of \$1 million or more without the approval of no less than three of the Independent Directors; and (ii) with a cost to the Corporation of an amount less than \$1 million without the approval of any one Independent Directors;
- (o) the Corporation may only borrow funds in order to acquire or invest in specific mortgage investments or mortgage portfolios in amounts up to 60% of the book value of the Corporation's portfolio of Conventional First Mortgages and at an interest rate less than the interest rate charged by the Corporation on the corresponding mortgage investment or portfolios acquired with such borrowed funds; provided, however, that the outstanding amount of any Convertible Debt shall for purposes of this Section 2(o) be deemed not to be "borrowed funds";
- (p) the Corporation may participate in mortgages on a syndication basis, subject to the approvals otherwise required in connection with its mortgage investments;
- (q) notwithstanding any other paragraph in this Section 2 and subject to Section 2(n), with the prior approval of a majority of the members of the Investment Committee, the Corporation may invest up to 10% of the Corporation's Capital in Related Investments, provided that no single Related Investment would exceed 2.5% of Corporation's Capital in the aggregate; and

- (r) the Corporation shall not make any investment, take any action or omit to take any action that would result in the Common Shares not being classified as shares of a “mutual fund corporation” within the meaning of the Tax Act or that would result in the Common Shares being disqualified for investment by registered retirement savings plans, registered disability savings plans, registered education savings plans, registered retirement income funds, deferred profit sharing plans or tax-free savings accounts, and the Corporation shall take all such actions as may be required to continually meet all of the criteria enumerated in subsection 130.1(6) of the Tax Act throughout such taxation year in order to maintain its status as a “mortgage investment corporation” in each taxation year.
- (s) Notwithstanding any other paragraph in Section 2 and subject to Section 2(n), with the prior approval of a majority of the members of the Investment Committee, the Corporation may invest up to 15% of the Corporation’s Capital in Margin Loans, provided that no single Margin Loan would exceed 2.50% of Corporation’s Capital in the aggregate.

Operating Guidelines

The operations and affairs of the Corporation must be conducted in accordance with the following policies:

- (a) a single Independent Director shall not approve a mortgage investment by the Corporation if after making such investment, such Director will have approved mortgage investments by the Corporation in a calendar month with an aggregate cost to the Corporation of greater than 5% of Corporation’s Capital;
- (b) before making an investment or acquisition, the Corporation shall obtain an independent appraisal from a Qualified Appraiser of the underlying real property which is the primary security for the mortgage, and may or may not obtain additional independent appraisals of additional collateral and other properties securing obligations to the Corporation;
- (c) before making an investment or acquisition, the Corporation will obtain a Phase I Environmental Audit on the underlying real property provided as security for a mortgage unless the Investment Committee has determined that a Phase I Environmental Audit is not necessary;
- (d) the Directors may approve an investment or acquisition to be made in accordance with investment and operating policies at a meeting of the Directors whose approval is required to approve such investment or acquisition or in writing, provided that written approval may be signed in counterparts, original or by telecopier by the number of Directors required to approve such investment or acquisition;
- (e) when deemed necessary by the Mortgage Banker, the Corporation will obtain title insurance in respect of all real property provided as security for the Corporation's mortgage investments in amounts and on such terms as the Mortgage Banker considers appropriate (provided that the Mortgage Banker or Board of Directors may determine not to obtain title insurance if, in the Mortgage Banker’s or Board of Directors' opinion, it is appropriate);
- (f) upon the request of the Investment Committee or the Mortgage Banker, the Corporation will establish and manage property tax escrow accounts in respect of a property provided as security for the Corporation's mortgage investments;
- (g) the underwriting policies and procedures of the Corporation shall include an evaluation of both the prospective mortgagor and the proposed real estate collateral. In connection with a proposed mortgage, the Corporation shall analyze factors, including, without limitation, the mortgaged property's historical cash flow; age and condition; appraised value; gross square footage; net rentable area; gross land area; number of units, rooms or beds; current tenants' size, identity and any lease termination or purchase option rights; property interest to be mortgaged; term, expiration and rental rates under current leases; leasing commissions; tenant improvements and concessions; applicable market rentals for similar properties; historical vacancy rate and market vacancy rate; debt service coverage ratio; and loan to value ratio. Factors to be analyzed in connection with a

prospective borrower will include its credit history, capitalization and overall financial resources and management skill and experience in the applicable property type; and

- (h) the legal title to each mortgage will be held by and registered in the name of a corporation or other entity wholly owned by the Corporation, other than mortgages held by another entity or other entity in trust for the Corporation, with beneficial title to the mortgage being held by the Corporation. Where the Corporation's interest is held in trust, the trust arrangements will be approved by a majority of Independent Directors. Where the legal title to a mortgage is held by and registered in the name of an entity wholly owned by the Corporation, such entity may hold legal title to such mortgage on behalf of other beneficial owners of such mortgage.

Amendment

These Investment and Operating Guidelines may be amended from time to time by the Board of Directors of the Corporation, in its discretion, as amendments are made.

For the purpose of the foregoing policies, the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by the Corporation will be deemed to be those of the Corporation on a proportionate consolidated basis. In addition, any references in the foregoing to investment in mortgages will be deemed to include an investment in a joint venture arrangement.

Qualification as a Mortgage Investment Corporation

The Board of Directors have elected to operate the Corporation as a “mortgage investment corporation” (within the meaning of subsection 130.1(6) of the Tax Act) (a “**MIC**”). See “Distribution Policy - Dividend Policy”, below, and “Description of Capital Structure – Limitation on Ownership”. In addition to the foregoing policies, and in order for Corporation to qualify as a MIC, the Corporation must continually meet all of the criteria enumerated in subsection 130.1(6) of the Tax Act throughout such taxation year, including the requirements that:

- the Corporation be a “Canadian corporation” for purposes of the Tax Act, which generally means a corporation incorporated and resident in Canada;
- the only undertaking of the Corporation must be investing its funds and it must not manage or develop real property;
- none of the Corporation’s property can consist of specified types of foreign property;
- the Corporation must have, at all times, at least 20 Shareholders;
- no Shareholder (together with related persons for purposes of the Tax Act) may hold, directly or indirectly, more than 25% of the Shares of any class of the issued Shares of the Corporation;
- at least 50% of the “cost amount” (as defined in the Tax Act) to the Corporation of its property must consist, in general, of certain residential mortgages, certain types of deposits and money;
- not more than 25% of the cost amount to the Corporation of all of its property can be attributable to real property or leasehold interests therein; and
- in circumstances where at any time during the year the cost amount to the Corporation of its money, debt secured on certain specified residential properties, and funds on deposit with a Canada Deposit Insurance Fund-insured or Régie de l’assurance-dépôts du Québec-insured institution or credit union (such debts and deposits referred to herein as “**Required Property**”) represented less than two-thirds of the aggregate cost amount to the Corporation of all of its property, the Corporation’s liabilities may not exceed 75% of its assets (at cost amount). Where, however, throughout the year the cost amount to the Corporation of its money and Required Property represented two-thirds or more of the aggregate cost amount to the Corporation of all of its property, the Corporation’s liabilities may not exceed 83.33% of its assets (at cost amount).

LICENSING AND LEGISLATIVE REGIME

In 2006, the Province of Ontario enacted new legislation to govern the mortgage broker industry. The *Mortgage Brokerages, Lenders and Administrators Act, 2006* (Ontario) (the “**MBLAA**”), which replaced the *Mortgage Brokers Act* (Ontario), took effect on July 1, 2008. The MBLAA is administered through the Financial Services Commission of Ontario (“**FSCO**”) and regulates mortgage brokerages, brokers, agents and administrators.

Under the MBLAA, corporations, partnerships and sole proprietorships that carry on the business of dealing in or trading in mortgages in Ontario, or that carry on business as a mortgage lender in Ontario, are required to hold a valid brokerage licence. A person or entity is a mortgage lender when he, she or it lends money in Ontario on the security of real property. An individual who deals in mortgages or trades in mortgages in Ontario is required to be licensed as a mortgage broker or a mortgage agent. A mortgage broker or mortgage agent can only act on behalf of one specified mortgage brokerage and every brokerage must appoint a principal broker who is licensed as a mortgage broker. Corporations, partnerships and sole proprietorships that carry on the business of administering mortgages in Ontario are required to hold a valid mortgage administrator’s licence.

As we are not and will not be licensed under the MBLAA, we cannot engage directly in the business of lending money in Ontario on the security of real property, and must therefore conduct our mortgage investment activities under contract with a licensed mortgage brokerage such as the Mortgage Banker.

A mortgage brokerage and its principal broker must obtain a brokerage and a broker license, respectively, issued by the Superintendent of Financial Services (the “**Superintendent**”) who is the chief executive officer of FSCO. As of April 1, 2010, licenses changed from a one-year licensing term to a two-year licensing cycle, and are subject to a fee established by the Minister of Finance. The Mortgage Banker, which performs mortgage brokerage services on behalf of the Corporation pursuant to the Mortgage Banking Agreement, currently holds a valid license under the MBLAA sufficient to permit it to carry on the activities contemplated in the Mortgage Banking Agreement, and operates in compliance with the requirements of the MBLAA. The Mortgage Banker’s license under the MBLAA qualifies it to syndicate mortgage loans.

The Superintendent has wide authoritative power over the mortgage brokerage industry, including the power to grant or renew licenses, revoke licenses, attach conditions to licenses, and investigate complaints made regarding the conduct of registered mortgage brokerages, brokers and agents.

Under the MBLAA and its regulations there are several requirements a mortgage brokerage, broker or agent must meet in order to obtain or renew a license. The MBLAA also imposes a continuing obligation on registered mortgage brokerages to remain in compliance with the MBLAA, failing which the Superintendent may revoke the license.

Generally, a mortgage brokerage will not be granted a license or a renewal of a license if, having regard to the financial position of the mortgage brokerage, it could not reasonably be expected that the mortgage brokerage would be financially responsible in the conduct of its business. In addition, a license will not be granted or renewed if the past conduct of the applicant is such that it provides reasonable grounds for the Superintendent to believe that the mortgage brokerage will not conduct business legally and with integrity and honesty. In the case of a corporate mortgage brokerage, the Superintendent will look to the past conduct of the directors and officers of the corporation.

DIVIDEND POLICY

Registered Shareholders are entitled to receive dividends as and when declared from time to time by the Directors, acting in their sole discretion. It is the intention of the Corporation to make distributions to the extent necessary to reduce its taxable income each year to nil so that it has no tax payable under Part I of the Tax Act. To the extent that the Corporation realizes a capital gain in a year in excess of applicable capital losses, the Corporation intends to elect to have dividends to be capital gains dividends to the maximum extent allowable.

The dividend policy is at the discretion of the Directors and the amount paid may vary depending on, among other things, the Corporation’s earnings, financial requirements, the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends and other conditions existing at such future time.

Dividend and Distribution History

The following is a chart detailing the dividend and distribution history of the Corporation.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
January	\$0.078	\$0.078	\$0.078
February	\$0.078	\$0.078	\$0.078
March	\$0.078	\$0.078	\$0.078
April	\$0.078	\$0.078	\$0.078
May	\$0.078	\$0.078	\$0.078
June	\$0.078	\$0.078	\$0.078
July	\$0.078	\$0.078	\$0.078
August	\$0.078	\$0.078	\$0.078
September	\$0.078	\$0.078	\$0.078
October	\$0.078	\$0.078	\$0.078
November	\$0.078	\$0.078	\$0.078
December	\$0.112	\$0.126	\$0.132
Total per Share	\$0.970	\$0.984	\$0.990

DIVIDEND REINVESTMENT PLAN

The Corporation has implemented a dividend reinvestment plan and a Share purchase plan (collectively, the “**Dividend Reinvestment Plan**”). Under the Dividend Reinvestment Plan, Shareholders who are resident Canadians may elect to invest any and all cash dividends of income on eligible Shares at a 2% discount to the five day weighted average price of the Shares on the TSX and/or to receive optional cash payments in additional Shares of the Corporation. Computershare Trust Company of Canada has agreed to act as the Corporation’s agent under the Dividend Reinvestment Plan.

Under the terms of the Dividend Reinvestment Plan, if the weighted average price of the Shares on the TSX for the five trading days immediately preceding the relevant dividend date (the “**Average Market Price**”) is less than \$12.25, then using the dividends received on behalf of Shareholders who have elected to participate in the Dividend Reinvestment Plan, the agent shall purchase, through the facilities of the TSX, additional Shares at prevailing market prices of less than \$12.25 per Share (after payment of brokerage fees and commissions) during the period ending five trading days following the relevant dividend date. To the extent the agent is unable to purchase additional Shares at a cost less than \$12.25 per Share (after payment of brokerage fees and commissions) due to prevailing market prices, then the remaining funds deposited into the Dividend Reinvestment Plan for such purpose will be applied to the purchase of Shares from the treasury of the Corporation at \$12.25 per Share. If the Average Market Price is \$12.25 or more, all of the funds deposited into the Dividend Reinvestment Plan will be applied to the purchase of Shares from the treasury of the Corporation at the Average Market Price. In addition, pursuant to the Share purchase plan component, participants in the Dividend Reinvestment Plan may elect to purchase additional Shares at the Average Market Price. A minimum purchase of \$1,000 per month and maximum purchases of up to an aggregate of \$12,000 per year will be permitted under this election. These additional Shares will be issued from the treasury of the Corporation. 79,473 Shares were issued pursuant to the Dividend Reinvestment Plan in fiscal 2014.

ITEM 4- DESCRIPTION OF CAPITAL STRUCTURE

General

The authorized capital of the Corporation consists of an unlimited number of Shares and an unlimited number of Preferred Shares issuable in series. The summary below of the rights, privileges, restrictions and conditions attaching to the Shares and to the Preferred Shares, respectively, is subject to, and qualified in its entirety by reference to, the Corporation’s articles and by-laws which are available on SEDAR at www.sedar.com.

Shares

Each Share entitles the holder thereof to one (1) vote at all meetings of Shareholders, except where holders of another class are entitled to vote separately as a class as provided by law or the rules of any applicable stock exchange. Subject to the rights of the holders of the Preferred Shares and of any other class of shares ranking senior to the Shares, the holders of Shares are entitled to such dividends as the Directors may declare from time to time, which dividends are payable in money or property or by issuing fully paid Shares of the Corporation.

Subject to the prior rights of the holders of the Preferred Shares and of any other class of shares ranking senior to the Shares, in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of assets of the Corporation among its Shareholders for the purpose of winding-up its affairs, the holders of Shares are entitled to receive the remaining property and assets of the Corporation.

Preferred Shares

The Directors may, at any time and from time to time, issue the Preferred Shares in one or more series, in accordance with and subject to the provisions of the CBCA. The Directors may, from time to time, fix before issuance the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares. No rights, privileges, restrictions or conditions attached to any series of Preferred Shares shall confer upon the shares of such series a priority, in respect of dividends and the distribution of assets or return of capital in the event of the liquidation, dissolution or winding-up of the Corporation, over the shares of any other series of Preferred Shares. The Preferred Shares of each series rank in priority to the Shares and on parity with the shares of every other series of Preferred Shares with respect to the payment of dividends and the distribution of assets or return of capital in the event of the liquidation, dissolution or winding-up of the Corporation.

The holders of the Preferred Shares are not entitled, except as provided by law or the rules of any applicable stock exchange, to receive notice of or to attend any meeting of the Shareholders, and are not entitled to vote at any such meeting (except where holders of a specified class or series of shares are entitled to vote separately as a class or series as provided by law). Subject to the rights, privileges, restrictions and conditions that may be attached to a particular series of Preferred Shares by the Directors in accordance with paragraph 1 of the conditions attaching to the Preferred Shares, the holders of the Preferred Shares shall not be entitled to vote separately as a class or series or to dissent upon a proposal to amend the articles of the Corporation to: (a) increase or decrease any maximum number of authorized shares of such class or series, or increase any maximum number of authorized shares of a class or series having rights or privileges equal or superior to the shares of such class or series; (b) effect an exchange, reclassification or cancellation of the shares of such class or series; or (c) create a new class or series of shares equal or superior to the shares of such class or series. Notwithstanding such restrictions, conditions or prohibitions on the right to vote, the holders of the Preferred Shares shall be entitled to notice of all meetings of Shareholders called for the purpose of authorizing the dissolution of the Corporation or the sale, lease or exchange of all or substantially all of the property of the Corporation other than in the ordinary course of business, as required under subsection 189(3) of the CBCA as such subsection may be amended from time to time.

Limitation on Ownership

In order to maintain its status as a MIC, the articles of incorporation of the Corporation provide that no Shareholder is permitted to hold at any time, directly or indirectly, either alone or together with a person "related" to the Shareholder (within the meaning of the Tax Act, a "**Related Person**"), more than 25% of any class or series of the issued Shares.

In the event that (i) the exercise by any holder of Convertible Debentures of the Corporation, or (ii) as determined by the Board of Directors in its sole discretion, any other transaction affecting the Shares (each a "**Triggering Transaction**"), if completed, would cause any Shareholder(s) (each an "**Automatic Repurchase Shareholder**"), either alone or together with Related Persons, to hold more than 25% of any class or series of the issued Shares, that portion of the Shares held by each Automatic Repurchase Shareholder which constitutes in excess of 24.9% of issued Shares of any class or series of shares (the "**Repurchased Shares**") will, immediately prior to the completion of a Triggering Transaction, automatically be repurchased and cancelled by the Corporation (an "**Automatic Repurchase**") without any further action by the Corporation or the Automatic Repurchase Shareholder. The purchase price for any Repurchased Shares will be equal to the volume weighted average trading price of the

particular class or series of shares for the five consecutive trading days ending immediately preceding the date of the Triggering Transaction. The proceeds of any Automatic Repurchase will be remitted to each applicable Automatic Repurchase Shareholder at the time of the Automatic Repurchase.

Convertible Debentures

On October 13, 2010, the Trust issued \$31,443,000 principal amount of 5.75% convertible unsecured subordinated debentures (each, a “**5.75% Convertible Debenture**”). Each 5.75% Convertible Debenture pays interest at 5.75% per annum, payable semi-annually, and is convertible at the option of the holder at any time up to and including October 31, 2017, at a price of \$15.90 per unit (the “**5.75% Conversion Price**”). Each 5.75% Convertible Debenture ranks *pari passu* with each other 5.75% Convertible Debenture, and with all other present and future indebtedness of the Corporation except for sinking fund provisions (if any) applicable to different series of debentures or similar obligations of the Corporation. The 5.75% Convertible Debentures are subordinated in right of payment to the prior payment in full of all Senior Indebtedness (as defined in the supplemental trust indenture governing the 5.75% Convertible Debentures (the “**Supplemental Indenture**”)) and trade creditors of the Corporation, and are also effectively subordinated to claims of creditors of the Corporation’s subsidiaries, except to the extent the Corporation is a creditor of such subsidiaries, ranking at least *pari passu* with such other creditors. On and after October 31, 2013, but prior to October 31, 2014, the 5.75% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the current market price (as defined in the Supplemental Indenture) on the date on which the notice of redemption is given is not less than 125% of the 5.75% Conversion Price. On or after October 31, 2014, the 5.75% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest. The 5.75% Convertible Debentures mature on October 31, 2017. The Corporation may, at its option, elect to satisfy its obligation to pay interest or to pay the principal amount of the 5.75% Convertible Debentures upon redemption or at maturity by issuing Shares.

In accordance with the terms of the Arrangement, the Corporation assumed all of the covenants and obligations of the Trust under the 6% Convertible Debentures and the 5.75% Convertible Debentures, such that the 6% Convertible Debentures and the 5.75% Convertible Debentures are valid and binding obligations of the Corporation.

On August 23, 2011, the Trust issued \$25,738,000 principal amount of 5.40% convertible unsecured subordinated debentures (each, a “**5.40% Convertible Debenture**”). Each 5.40% Convertible Debenture pays interest at 5.40% per annum, payable semi-annually, and is convertible at the option of the holder at any time up to and including February 28, 2019, at a price of \$14.35 per unit (the “**5.40% Conversion Price**”). Each 5.40% Convertible Debenture ranks *pari passu* with each other 5.40% Convertible Debenture, and with all other present and future indebtedness of the Corporation except for sinking fund provisions (if any) applicable to different series of debentures or similar obligations of the Corporation. The 5.40% Convertible Debentures are subordinated in right of payment to the prior payment in full of all Senior Indebtedness (as defined in the third supplemental trust indenture governing the 5.40% Convertible Debentures (the “**Third Supplemental Indenture**”)) and trade creditors of the Corporation, and are also effectively subordinated to claims of creditors of the Corporation’s subsidiaries, except to the extent the Corporation is a creditor of such subsidiaries, ranking at least *pari passu* with such other creditors. On and after August 31, 2014, but prior to February 29, 2016, the 5.40% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the current market price (as defined in the Third Supplemental Indenture) on the date on which the notice of redemption is given is not less than 125% of the 5.40% Conversion Price. On or after February 29, 2016, the 5.40% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest. The 5.40% Convertible Debentures mature on February 28, 2019. The Corporation may, at its option, elect to satisfy its obligation to pay interest or to pay the principal amount of the 5.40% Convertible Debentures upon redemption or at maturity by issuing Shares.

On March 21, 2012, the Corporation issued \$20,485,000 principal amount of 5.25% convertible unsecured subordinated debentures (each, a “**5.25% Convertible Debenture**”). Each 5.25% Convertible Debenture pays interest at 5.25% per annum, payable semi-annually, and is convertible at the option of the holder at any time up to and including March 31, 2019, at a price of \$14.80 per unit (the “**5.25% Conversion Price**”). Each 5.25% Convertible Debenture ranks *pari passu* with each other 5.25% Convertible Debenture, and with all other present and future indebtedness of the Corporation except for sinking fund provisions (if any) applicable to different series of debentures or similar obligations of the Corporation. The 5.25% Convertible Debentures are subordinated in right of payment to

the prior payment in full of all Senior Indebtedness (as defined in the third supplemental trust indenture governing the 5.25% Convertible Debentures (the “**Fourth Supplemental Indenture**”)) and trade creditors of the Corporation, and are also effectively subordinated to claims of creditors of the Corporation’s subsidiaries, except to the extent the Corporation is a creditor of such subsidiaries, ranking at least *pari passu* with such other creditors. On and after March 31, 2015, but prior to March 31, 2016, the 5.25% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the current market price (as defined in the Fourth Supplemental Indenture) on the date on which the notice of redemption is given is not less than 125% of the 5.25% Conversion Price. On or after March 31, 2016, the 5.25% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest. The 5.25% Convertible Debentures mature on March 31, 2019. The Corporation may, at its option, elect to satisfy its obligation to pay interest or to pay the principal amount of the 5.25% Convertible Debentures upon redemption or at maturity by issuing Shares.

On March 28, 2013, the Corporation issued \$20,000,000 principal amount of 4.75% convertible unsecured subordinated debentures (each, a “**4.75% Convertible Debenture**”). Each 4.75% Convertible Debenture pays interest at 4.75% per annum, payable semi-annually, and is convertible at the option of the holder at any time up to and including March 31, 2020, at a price of \$15.80 per unit (the “**4.75% Conversion Price**”). Each 4.75% Convertible Debenture ranks *pari passu* with each other 4.75% Convertible Debenture, and with all other present and future indebtedness of the Corporation except for sinking fund provisions (if any) applicable to different series of debentures or similar obligations of the Corporation. The 4.75% Convertible Debentures are subordinated in right of payment to the prior payment in full of all Senior Indebtedness (as defined in the third supplemental trust indenture governing the 4.75% Convertible Debentures (the “**Fifth Supplemental Indenture**”)) and trade creditors of the Corporation, and are also effectively subordinated to claims of creditors of the Corporation’s subsidiaries, except to the extent the Corporation is a creditor of such subsidiaries, ranking at least *pari passu* with such other creditors. On and after March 31, 2015, but prior to March 31, 2016, the 4.75% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the current market price (as defined in the Fourth Supplemental Indenture) on the date on which the notice of redemption is given is not less than 125% of the 4.75% Conversion Price. On or after March 31, 2016, the 4.75% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest. The 4.75% Convertible Debentures mature on March 31, 2019. The Corporation may, at its option, elect to satisfy its obligation to pay interest or to pay the principal amount of the 4.75% Convertible Debentures upon redemption or at maturity by issuing Shares.

ITEM 5 - MANAGEMENT OF THE CORPORATION

General

Our investment policies and operations are subject to the control and direction of the Directors, a majority of whom must be Independent Directors. The Directors are responsible for the general control and direction of the Corporation. The Mortgage Banker originates and underwrites all mortgage investments on behalf of the Corporation and services the Investment Portfolio. The Corporation Manager supervises the day-to-day management and operations of the Corporation.

The Mortgage Banker

The Mortgage Banker is a corporation incorporated under the laws of the Province of Ontario and acts as our loan originator, underwriter, servicer and syndicator. The Mortgage Banker has been in the business of originating, underwriting, servicing and syndicating mortgage loans since 1988 and is licensed by FSCO as a mortgage broker. As we are not licensed under the MBLAA, we cannot carry on the business of lending money on the security of real estate or dealing in mortgages. We must therefore conduct our mortgage investment activities under contract with a licensed mortgage broker such as the Mortgage Banker. See “Narrative Description of the Activities of the Corporation - Licensing and Legislative Regime”.

The reluctance of large institutional lenders to enter into the niche markets in which we invest has made available high quality investment opportunities in the market niches in which the Mortgage Banker has specialized over the past 25 years. The Mortgage Banker is well known in the non-bank real estate lending industry in Ontario and it sources potential transactions principally through a network of licensed mortgage brokers, repeat borrowers and its reputation.

The Mortgage Banker diligently seeks out, reviews and presents to us mortgage investment opportunities which are consistent with our investment and operating policies and objectives, and services such mortgages on our behalf. The Mortgage Banker has successfully originated, underwritten and serviced mortgage investments on behalf of, and syndicated mortgage investments with, numerous investor clients and financial institutions over the past 25 years. The underwriting, investment and operating policies adopted by the Mortgage Banker have proven to be well-suited to the market serviced by the Mortgage Banker and form the basis for our investment and operating policies. See “Narrative Description of the Activities of the Corporation - Investment and Operating Guidelines”.

Mortgage Banking Agreement

Effective January 1, 2011, the Trust assigned its interest in the Mortgage Banking Agreement to the Corporation and was subsequently amended on June 26, 2012. Pursuant to the Mortgage Banking Agreement, the Mortgage Banker is required, among other things, to (i) identify mortgage investment opportunities for us, (ii) provide the Directors and the Investment Committee with information relating to proposed acquisitions, dispositions, financing and mortgage investments, and (iii) service and administer the Investment Portfolio on behalf of, and solely in the best interests and for the benefit of, the Corporation and the Shareholders.

The Mortgage Banker is required to service the Investment Portfolio in the same manner in which, and with the same care, skill, prudence and diligence with which, it services and administers similar mortgage loans for other similar third-party portfolios, giving due consideration to customary and usual standards of practice of prudent institutional, residential and commercial mortgage loan servicers used with respect to loans comparable to the Investment Portfolio. It must also exercise reasonable business judgment in accordance with applicable law to maximize recovery under the Investment Portfolio, but without regard to: (a) any other relationship that the Mortgage Banker or any affiliate or associate of the Mortgage Banker may have with borrowers or any affiliate or associate of such borrowers; (b) the Mortgage Banker’s obligation to incur servicing expenses with respect to the Investment Portfolio; (c) the Mortgage Banker’s right to receive compensation for its services under the Mortgage Banking Agreement or with respect to any particular transaction; or (d) the ownership, servicing or management for others by the Mortgage Banker of any other mortgage loans or property (the standard described in this paragraph is herein referred to as the “**Servicing Standard**”).

The Mortgage Banking Agreement provides that we have a right of first refusal on any mortgage investment opportunities presented to, or originated by, the Mortgage Banker, subject to the Firm Syndication Interest and the FM/MB Minimum Interest. In addition, the Mortgage Banker will not refer mortgage investment opportunities to us for consideration where such investments do not fall within our objectives or investment policies and may, in its discretion, refer to us for consideration mortgage investments of a principal amount less than \$50,000. See “Directors and Officers - Non-Competition Arrangements”.

The Firm Syndication Interest provides the Mortgage Banker with an opportunity to invest (for the benefit of its clients, other than us), on a *pari passu* basis, in our mortgage investments. This provides the Mortgage Banker with an incentive to source high-yielding investments for us while providing us with an increased opportunity to reduce risk through syndication.

The Mortgage Banking Agreement provides that the Mortgage Banker will not have any liability to us or to our Shareholders for taking any action or refraining from taking any action in good faith or for errors in judgment. The foregoing provision would not protect the Mortgage Banker for the breach of any of its representations or warranties in the Mortgage Banking Agreement, or from any liability by reason of fraud, bad faith or negligence in the performance of its duties under the Mortgage Banking Agreement.

The Mortgage Banking Agreement also requires the Mortgage Banker to administer deposits and trust accounts for reserves under deposit trust agreements in respect of the Investment Portfolio in accordance with the standard of care applicable to its servicing duties under the Mortgage Banking Agreement.

The Mortgage Banking Agreement is terminable by us on 24 months’ notice delivered at any time following October 6, 2022 upon approval of 66.67% of the votes cast by the Shareholders at a meeting of the Shareholders called for such purpose after that date. The term of the Mortgage Banking Agreement will automatically be extended through October 6, 2027 if the requisite approval of Shareholders to terminate the Mortgage Banking Agreement described above is not obtained by January 6, 2023. The Mortgage Banking Agreement may be terminated by a two-thirds majority of the Independent Directors at any time for cause, which includes (i) a continuing material default by the

Mortgage Banker thereunder that has, or may reasonably be expected to have, a material adverse effect on the operations and financial condition of the Corporation; (ii) a material default by the Mortgage Banker under the Non-Competition Agreement; or (iii) any act on the part of the Mortgage Banker constituting bad faith, wilful malfeasance, gross negligence or reckless disregard of its duties. In addition, any change of control of the Mortgage Banker will be subject to approval of a majority of the Directors and we will have the right of first opportunity to acquire the Mortgage Banking Agreement in the event of such a change of control or should the Mortgage Banker wish to sell its rights under the agreement. The Mortgage Banking Agreement may be terminated by the Mortgage Banker on six months' prior notice to us.

The Mortgage Banking Agreement provides that upon the termination or non-renewal of the Mortgage Banking Agreement for any reason, we will pay, in addition to any other amounts otherwise payable, a termination fee to the Mortgage Banker equal to 2% of the greater of:

- (a) \$82,827,597 (being our assets under administration on April 30, 2002, the date on which the 2002 annual and special meeting of Unitholders was held);
- (b) our assets under administration on the date that is 12 months prior to the receipt by the Mortgage Banker of termination or non-renewal; and
- (c) our assets under administration on the date on which the Mortgage Banker receives notice of termination or non-renewal.

The termination fee plus any fees otherwise payable to the Mortgage Banker under the Mortgage Banking Agreement will be payable immediately upon receipt by the Mortgage Banker of notice of termination or non-renewal and can be satisfied by the payment of cash, in interests in mortgages or in some combination thereof, at the discretion of the Mortgage Banker. If requested by the Mortgage Banker, the termination fee, as well as any other payments owed by us to the Mortgage Banker, will be secured by way of a fixed and floating charge over, and security interest in, all of the property and assets owned or later acquired by us.

The termination fee payable to the Mortgage Banker upon receipt by the Mortgage Banker of notice of termination or non-renewal is in addition to, and not in substitution of, any amounts payable by us to the Mortgage Banker upon the termination or non-renewal of the Mortgage Banking Agreement.

The Mortgage Banking Agreement provides that upon the agreement being terminated by us other than for cause (including, without limitation, if the activities of the Corporation are not carried on in the normal course consistent with past practice, or if we propose to distribute our capital (other than ordinary distributions of capital which are consistent with past practice and that portion of the distributions, if any, in connection with the amortization of our initial public offering costs)) or upon a breach of the agreement by us, we will be required to pay the Mortgage Banker any amounts which would have been earned by the Mortgage Banker under the Mortgage Banking Agreement for the duration of the term of the agreement (including notice periods), based on the fees earned by, and any other amounts payable to, the Mortgage Banker during the most recently completed fully operational four quarters immediately prior to the termination triggering event, in addition to payment of the termination fee. These fees consist of (i) originating, commitment, profit on mortgage investments and discharge fees, (ii) servicing fees, (iii) statement fees, (iv) NSF fees, (v) tax escrow account fees, (vi) advance fees, (vii) overnight float/interest on trust accounts, (viii) enforcement fees, and (ix) other borrower paid service and administrative fees resulting from us being a lender to such borrowers. In lieu of termination of the Mortgage Banking Agreement (other than for cause) as set out above, at the option of the Mortgage Banker, it may cause us to acquire the Mortgage Banking Agreement for a purchase price equal to the amount that the Mortgage Banker would have received had the agreement been terminated other than for cause. The Mortgage Banker will have the option to take payments for the amounts payable on breach or termination in cash, interest in mortgages or any combination thereof and to obtain a security interest in the Corporation's property and assets in respect of such obligations.

Mortgage Banker's Fees

In consideration for the services provided to us by the Mortgage Banker, the Mortgage Banker is paid spread income equal to 0.10% per annum on the principal amount of each mortgage investment (other than syndicated loans). In respect of syndicated loans, the spread income consists of the amount paid by the syndicate in consideration for servicing by the Mortgage Banker of each syndicated loan. The fees payable in consideration for servicing syndicated

loans will not exceed 0.10% of the principal amount of the investment in the syndicated loan per annum and will be payable as to 1/12 monthly based on the receipt of interest payments from borrowers. In addition, servicing fees on syndicated loans are approved by the Investment Committee on a transactional basis. In addition to such fees, the Mortgage Banker is entitled to retain any overnight float interest on all accounts maintained by the Mortgage Banker in connection with its originating and servicing of our mortgage investments.

The Mortgage Banker remits to us 25% of all commitment fees and renewal fees it receives from borrowers on mortgages it originates for us. In addition, the Mortgage Banker remits to us 75% of any participation fees and special profit made on discounted debt that the Mortgage Banker receives in respect of all Mortgages it originates for us (with a 10% annual preferential return to be given to us on our investment amount prior to the Mortgage Banker receiving its share of such fees). The Mortgage Banker retains 100% of all other fees payable by borrowers.

Under the Mortgage Banking Agreement, the Mortgage Banker is responsible for employment expenses of its personnel, rent and other office expenses, and expenses of our Directors and officers who are directors, officers or employees of the Mortgage Banker or an affiliate of the Mortgage Banker (except expenses incurred in attending meetings of the Directors).

Under the terms of the Stock Option Plan, options to purchase Shares reserved for issuance under the Stock Option Plan may be granted to directors, officers and members of the management team of the Mortgage Banker. See "Directors and Officers – Stock Option Plan".

The Corporation Manager

The Corporation Manager is a corporation incorporated under the laws of the Province of Ontario on April 16, 1999. Effective January 1, 2011, the Trust assigned its interest in the Corporation Management Agreement to the Corporation and was subsequently amended on June 26, 2012. Pursuant to the Corporation Management Agreement, the Corporation Manager is to provide for the supervision of our day-to-day management and operations.

Corporation Manager's Duties

Among its other duties, the Corporation Manager is responsible for the following:

- arranging financing and raising capital for us as required;
- providing advice and assistance on our behalf in connection with our dealings with investment dealers, institutions and investors regarding sales of our securities;
- conducting day-to-day relations on our behalf with other persons, including brokers, consultants, lenders, accountants, lawyers, appraisers, insurers and insurance agents and lenders;
- maintaining our books and financial records; and
- providing office space and equipment and the necessary clerical and secretarial personnel for the administration of our day-to-day affairs.

Amounts to which Corporation Manager is Entitled

The Corporation Manager is entitled to an annual amount of spread interest income received on investments, equal to the greater of \$150,000 and 0.75% of our first \$500 million of invested mortgages. Under the Corporation Management Agreement, the amount of annual spread interest income to which the Corporation Manager shall be entitled in respect of investments greater than \$500 million shall be proposed by the Corporation Manager to the Shareholders for their approval by Special Resolution. The Corporation Manager is not entitled to spread interest income in respect of our cash balances or mortgage loans held by us in respect of which interest payments are in arrears for 30 days or more, but excluding mortgage loans in respect of which any default thereunder was subsequently remedied in accordance with the terms of such loans. In fiscal 2014, the Corporation Manager received spread interest income equal to \$2,586,438.

Under the terms of the Stock Option Plan, options to purchase Shares reserved for issuance under the Stock Option Plan may be granted to directors, officers and employees of the Corporation Manager. See “Directors and Officers – Stock Option Plan”.

Under the Corporation Management Agreement, the Corporation Manager is responsible for employment expenses of its personnel, rent and other office expenses, and expenses of the Directors and officers of the Corporation who are directors, officers or employees of the Corporation Manager or an affiliate of the Corporation Manager (except expenses incurred in attending meetings of the Directors).

In addition to the amounts and expenses to which the Corporation Manager is entitled, we are responsible for all of the Corporation Manager’s expenses (other than expenses of the Corporation Manager as set out in the Corporation Management Agreement), including the following:

- (a) remuneration of, and other expenses associated with, the Credit Manager and the performance of his or her duties (see “Management of the Corporation – Internalized Credit Management”);
- (b) fees and expenses connected with the acquisition, disposition and ownership of our mortgage investments or other investments;
- (c) insurance as considered necessary by the Directors;
- (d) expenses in connection with payments of distributions of Shares;
- (e) expenses in connection with communications to Shareholders and the other bookkeeping and clerical work necessary in maintaining relations with Shareholders;
- (f) fees and expenses payable under the Mortgage Banking Agreement (not otherwise payable by borrowers);
- (g) all fees, expenses, taxes and other costs incurred in connection with the issuance, distribution, transfer and qualification for distribution to the public of Shares and other required governmental filings; and
- (h) all costs and expenses in connection with the incorporation, organization and maintenance of corporations formed to hold mortgages, investments or other assets of the Corporation.

The Corporation Management Agreement is terminable by us on 24 months’ notice delivered at any time following October 6, 2022, upon approval of 66.67% of the votes cast by the Shareholders at a meeting of the Shareholders called for such purpose after that date. The term of the Corporation Management Agreement will automatically be extended through October 6, 2027 if the requisite approval of Shareholders to terminate the Corporation Management Agreement described above is not obtained by January 6, 2023. The Corporation Management Agreement may be terminated by a two-thirds majority of the Independent Directors at any time for cause, which includes (i) a continuing material default by the Corporation Manager under the Corporation Management Agreement that has, or may reasonably be expected to have, a material adverse effect on the operating and financial condition of the Corporation, or (ii) any act on the part of the Corporation Manager constituting bad faith, wilful malfeasance, gross negligence or reckless disregard of its duties. In addition, any change of control of the Corporation Manager will be subject to the approval of a majority of the Directors, and we have the right of first opportunity to acquire control of the Corporation Manager. We also have the right of first opportunity to acquire the Corporation Management Agreement should the Corporation Manager wish to sell its rights under the agreement. The Corporation Management Agreement may be terminated by the Corporation Manager on six months’ prior notice to us.

The Corporation Management Agreement provides that upon the agreement being terminated by us other than for cause (including, without limitation, if our activities are not carried on in the normal course consistent with past practice, or if we propose to distribute our capital (other than ordinary distributions of capital which are consistent with past practice and that portion of the distributions, if any, in connection with the amortization of our initial public offering costs)) or a breach by us of the Corporation Management Agreement, we will be required to pay the Corporation Manager any amounts which would have been earned by the Corporation Manager under the Corporation

Management Agreement for the duration of the term of the agreement (including notice periods), based on the amounts to which the Corporation Manager was entitled during the most recently completed fully operational four quarters immediately prior to the occurrence of the termination or breach. In lieu of termination of the Corporation Management Agreement other than for cause as set out above, at the option of the Corporation Manager, it may cause us to acquire the Corporation Management Agreement for a purchase price equal to the amount that the Corporation Manager would have received had the agreement been terminated other than for cause. The Corporation Manager will have the option to take payments for the amounts payable on termination or breach in cash, interest in mortgages or any combination thereof and to obtain a security interest in our property and assets in respect of such obligations.

Members of management of the Corporation Manager and/or the Mortgage Banker and/or their respective associates are required to acquire and maintain the FM/MB Minimum Interest, being a minimum 10% *pari passu* interest in each Non-Conventional Mortgage in which we acquire an interest, so that management has an economic interest in any Non-Conventional Mortgage in which we invest. This further aligns the interests of the Corporation Manager and the Mortgage Banker with those of the Corporation.

Internalized Credit Management

Our current internal Credit Manager was appointed by the Independent Directors on October 7th, 2013. The Credit Manager is in charge of ensuring compliance with our investment and operating policies and reports directly to the Chairman of the Board of Directors (who is an Independent Director). The Independent Directors are empowered to give credit direction to the Credit Manager, terminate and replace this individual's employment contract if appropriate, and delegate to this individual the responsibility for ensuring that our underwriting reviews are consistent with our investment and operating policies. The Credit Manager is responsible for, among other matters:

- (a) submitting underwriting proposals received from the Mortgage Banker to the Investment Committee (and/or the Directors considering the investment, as applicable) for review and consideration;
- (b) ensuring ongoing compliance by the Mortgage Banker with our investment and operating policies and reporting regularly to the Chairman of the Board of Directors and the Investment Committee on the status of such compliance;
- (c) initiating and conducting such investigational work as may be instructed by the Directors or the Investment Committee; and
- (d) overseeing compliance by the Directors, the Investment Committee and the Audit Committee with regulatory requirements.

The Credit Manager may not be an employee of the Corporation Manager or the Mortgage Banker, but, from time to time, the Corporation Manager may, with the consent of a majority of the Independent Directors, appoint a Credit Manager who may be an employee of the Corporation Manager on an interim basis during any period when the Independent Directors are actively seeking a successor Credit Manager to replace a Vice President for any reason.

A portion of the Credit Manager's compensation may be paid directly by the Corporation Manager or the Mortgage Banker.

The Credit Manager works with the Mortgage Banker in overseeing mortgage investment management for the Investment Portfolio.

Employees

As at December 31, 2014, the Corporation had one employee.

ITEM 6 - DIRECTORS AND OFFICERS

Directors and Officers of the Corporation

The articles of incorporation provide that the Corporation may have between three and twelve Directors. The Directors are responsible for supervising the activities and managing the affairs of the Corporation. The number of Directors is currently set at nine.

Generally, Directors will be appointed at each annual meeting of the Shareholders to hold office for a term expiring at the close of the next annual meeting.

Six of the Directors are Independent Directors. The names of the Independent Directors as of the date of this Annual Information Form are listed below:

- Geoffrey Bledin;
- Morris Fischtein;
- Stanley Goldfarb;
- Anthony Heller;
- Keith Ray; and
- Lawrence Shulman.

So long as FC Treasury Management Inc. is the Corporation Manager, it will be entitled to appoint three Directors to a board consisting of eight or more Directors and two Directors to a board consisting of fewer than eight Directors. The remaining Directors must be Independent Directors elected annually by resolution passed by a majority of the votes cast at a meeting of the Shareholders. Certain decisions respecting the Investment Portfolio, the acquisition of mortgages and any non-arm's length transactions can only be made by Independent Directors. The Corporation Manager's appointees to the board of Directors are currently Eli Dadouch, Jonathan Mair and Edward Gilbert. A Director appointed by the Corporation Manager may only be replaced by a successor appointed by the Corporation Manager. A Director elected to fill a vacancy will be elected for the remaining term of the Director whom he or she is succeeding.

The Corporation's policies provide for the appointment by the Directors of an Audit Committee and an Investment Committee. All of the members of the Investment Committee and a majority of the members of the Audit Committee must be Independent Directors. The approval of a majority of the members of the Investment Committee is required prior to the Corporation making an investment in, or acquisition of, a mortgage with a cost to the Corporation of \$1,000,000 or more, but not for the renewal of any Mortgage. The approval of any three Directors, at least one of whom must be an Independent Director, is required prior to the Corporation making an investment in, or acquisition of, a mortgage with a cost to the Corporation of less than \$1,000,000. As part of such approval process, the Directors involved in making an investment decision are provided with a full underwriting report, consisting of a thorough credit assessment of the mortgage investment and the security provided therefore; an appraisal prepared by a Qualified Appraiser; a Phase I Environmental Audit, where deemed necessary by the Mortgage Banker and/or the Directors involved; and an evaluation of the prospective borrower and the proposed real estate collateral. See "Narrative Description of the Activities of the Corporation - Investment and Operating Guidelines".

The following table sets out the name and municipality of residence, the office held with the Corporation and the principal occupation over the past five years of each Director and officer of the Corporation.

Name and Municipality of Residence	Office	Principal Occupation	Year First became a Director and/or Officer
Stanley Goldfarb, FCPA, FCA ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ Toronto, Ontario, Canada	Chairman of the Board of Directors and a Director	Chief Executive Officer of Goldfarb Management Services Limited (a private investment management company)	1999

Name and Municipality of Residence	Office	Principal Occupation	Year First became a Director and/or Officer
Eli Dadouch Toronto, Ontario, Canada	Chief Executive Officer, President and a Director	President and director of the Mortgage Banker, the Corporation Manager and FCMIC (a mortgage investment company)	1999
Jonathan Mair, CPA, CA Toronto, Ontario, Canada	Chief Financial Officer, Senior Vice-President and a Director	Vice-President, Mortgage Banking, of the Mortgage Banker and Senior Vice-President and Chief Financial Officer of the Corporation Manager	1999
Sandy Poklar, CPA, CA Toronto, Ontario, Canada	Chief Operating Officer	COO and Managing Director, Capital Markets & Strategic Developments for Firm Capital Corporation. CFO & Trustee, Firm Capital Property Trust	2013
Joseph Fried Toronto, Ontario, Canada	General Counsel and Secretary	Lawyer, Meyer, Wassenaar & Banach (a law firm)	1999
Geoffrey Bledin ⁽¹⁾⁽³⁾ Antigua, West Indies	Director	Corporate Director	2008
Morris Fischtein ⁽¹⁾⁽²⁾⁽³⁾ Toronto, Ontario	Director	President, High City Holdings Limited (a construction, development and property management company) and Beacon Mortgage Corporation (a mortgage investment corporation)	2000
Edward Gilbert, CPA, CA Toronto, Ontario, Canada	Director	Trustee of H&R Real Estate Investment Trust	1999
Anthony Heller ⁽¹⁾⁽²⁾⁽³⁾ Toronto, Ontario	Director	President, Plazacorp Investments Limited (a real estate development company)	1999
Keith Ray, CPA, CA ⁽¹⁾⁽³⁾ Toronto, Ontario, Canada	Director	CEO of Realvest Management (a company that manages real estate related investments)	2014
Lawrence Shulman, CPA, CA ⁽¹⁾⁽²⁾⁽³⁾ Toronto, Ontario, Canada	Director	Investment manager; financial advisor	2006

Notes:

- (1) Member of the Investment Committee.
- (2) Member of the Audit Committee.
- (3) Independent Director.
- (4) Chairman of the Investment Committee and the Audit Committee.

The Directors and officers of the Corporation, as a group, collectively own, directly or indirectly, or exercise control or direction over an aggregate of 452,784 Shares, representing approximately 2% of the outstanding Shares.

The following are brief biographies of the Directors and officers of the Corporation, including the nature and extent of their experience in the mortgage and real estate industries and their principal occupations during the last five years.

Stanley Goldfarb, FCPA, FCA is Chief Executive Officer of Goldfarb Management Services Limited (a private investment management company). Mr. Goldfarb is also President, Treasurer and a director of Consolidated HCI Holdings Inc. (a publicly traded real estate investment and development company), a Chairman of Firm Capital

Property Trust (a publicly traded REIT) a director of The Goldfarb Corporation and was a founding partner of Goldfarb, Shulman, Patel and Co., Chartered Accountants (a chartered accountant firm that is now part of Pricewaterhouse Coopers LLP), where he practiced from 1959 to January 1999. Mr. Goldfarb has been a chartered accountant since 1957.

Eli Dadouch has been President of the Mortgage Banker, FCPI (a property management company) and Firm Capital Mortgage Corporation (a mortgage investment company) since 1988., Vice Chair & Co-Chief Investment Officer of Firm Capital Property Trust (a publicly traded REIT) Mr. Dadouch is also the President and a director of FCMIC.

Jonathan Mair, CPA, CA has been the Vice-President, Mortgage Banking, of the Mortgage Banker since 1997, and a Trustee and Co-Chief Investment Officer of Firm Capital Property Trust (a publicly traded REIT). Prior to that, Mr. Mair was a Vice-President of KPMG Inc. (a financial advisory services firm) specializing in the management and debt restructuring of mortgage lending institutions and mortgage portfolios from 1993 to 1997. Mr. Mair has been a chartered accountant since 1991.

Sandy Poklar, CPA, CA is currently the Chief Operating Officer and Managing Director, Capital Markets & Strategic Developments for the Mortgage Banker, Chief Operating Officer for FCMIC and the Chief Financial Officer and Trustee for Firm Capital Property Trust (a publicly traded REIT). Sandy is currently a Trustee for True North Commercial REIT (a publicly traded REIT) and was a Director of Genesis Land Development Corporation (a publicly traded real estate company). Prior to joining Firm Capital, Sandy was employed at Macquarie Capital and TD Securities where he was a Vice President and an Associate in their Real Estate Investment Banking Groups, respectively. Sandy is a chartered accountant and has his ICD.D designation.

Joseph Fried has been the head of the commercial real estate department at the law firm Meyer, Wassenaar & Banach since 1993. Prior to that, Mr. Fried was a partner with the law firm Bratty & Partners from 1986 to 1993. Mr. Fried has been a member of the Law Society of Upper Canada since 1976 and has substantial experience in mortgage lending and enforcement work acting for both institutional and private investors. From 1981 to early 1990, Mr. Fried was a director of The Municipal Savings & Loan Corporation (a loan and trust company) and Municipal Financial Corporation (the holding body corporate of The Municipal Savings & Loan Corporation and The Municipal Trust Company), and he sat on the audit committee and was Chairman of the investment committee of Municipal Financial Corporation from 1986 to early 1990. For the past fifteen years, Mr. Fried has co-ordinated and advised the Mortgage Banker on mortgage security work, enforcement work and investor matters.

Geoffrey Bledin was the past President and Chief Executive Officer of The Equitable Trust Company from 1990 to 2007 (a deposit taking institution that specializes in residential and commercial real estate lending). Prior to 1990 Mr. Bledin was a partner at Price Waterhouse. Mr. Bledin is also a Trustee of Firm Capital Property Trust (a publicly traded REIT)

Morris Fischtein has been the President of High City Holdings Limited (a construction, development and property management company) since 1970 and the President of Beacon Mortgage Corporation (a mortgage investment corporation) since 1995. From 1977 to 1993, Mr. Fischtein was President of Security Trust (an Ontario registered trust company engaged in mortgage lending).

Edward Gilbert, CPA, CA has been the Chief Operating Officer of the Corporation from 1995 until his retirement in 2012. He has been a director of the Corporation since 1995. Mr. Gilbert is a trustee of H&R Real Estate Investment Trust (a publicly traded real estate investment trust) and has been a chartered accountant since 1969.

Anthony Heller has been the President of Plazacorp Investments Limited (a residential and commercial real estate development firm), which is currently building over 500 residential condominium units in the City of Toronto and which has developed numerous commercial plazas in Ontario, since 1977. Mr. Heller is a director of FCMIC.

Keith Ray, CPA, CA has been, since 2007, the Chief Executive Officer of Realvest Management, a privately owned company that manages investments for its own account, primarily related to real estate. Mr. Ray has a breadth of experience with various real estate companies, including both private companies and public REITs. For 27 years until his retirement in 2007, Mr. Ray was a partner at KPMG LLP and a predecessor firm where he served as audit partner and relationship partner for a wide variety of public and private companies, mostly in the real estate industry. Currently, he sits on the board of directors of two other reporting issuers, Delavaco Residential Properties Corp. and

Cliffside Capital Ltd. Mr. Ray's community involvement includes sitting on the board of UJA Federation of Greater Toronto where he is currently the Treasurer and Chair of the Budget and Finance Committee and former Chair of the Audit Committee. In addition Mr. Ray sits on the Audit Committee of Sinai Health System (formerly Mount Sinai Hospital).

Lawrence Shulman, CPA, CA graduated with a Bachelor of Commerce degree from the University of Toronto in 1961 and has been a Chartered Accountant since 1964. From that time, up until his retirement in June 2006, he has been a senior partner of Goldfarb, Shulman, Patel & Co. LLP, an accounting firm that is now part of Pricewaterhouse Coopers LLP. Goldfarb, Shulman, Patel & Co. LLP, which had a staff of 75 professionals and support personnel, concentrated its practice in the land development and construction company areas. As well, they offered a full range of services and were affiliated with other accounting firms around the world. Mr. Shulman has lectured extensively in income taxes and estate planning and has had significant experience in advising real estate developers and construction company executives, both local and non-resident. He currently manages, on behalf of clients, portfolios of investment funds in excess of \$30 million and has acted as the financial advisor on the sale of numerous corporations, including a large multi-national corporation with sales approaching \$100 million annually. Over the years Mr. Shulman has worked with many professional and religious organizations, both in administrative and fundraising roles. He currently serves as a Trustee for Firm Capital Property Trust (a publicly traded REIT) and President of the New Gamebridge Beach Cottage Association.

Independent Director Matters

The following matters require only the approval of a majority of the Independent Directors to become effective:

- an acquisition of or investment in a mortgage in which the Corporation Manager or Mortgage Banker or a party which is non-arm's length with the Corporation Manager or the Mortgage Banker has any interest (other than a Firm Syndication Interest or a FM/MB Minimum Interest; see "Management of the Corporation – The Mortgage Banker - Mortgage Banking Agreement" and "Management of the Corporation - The Corporation Manager");
- a material change to the Corporation Management Agreement or the Mortgage Banking Agreement including renewals thereof and the fees payable thereunder;
- the grant of options under the Stock Option Plan;
- any changes in compensation of the Directors or officers of the Corporation;
- the enforcement of any agreement entered into by the Corporation with a Director who is not an Independent Director, with the Corporation Manager or Mortgage Banker or with a party which is non-arm's length with the Corporation Manager or Mortgage Banker;
- the filling of a vacancy occurring among the Independent Directors;
- the entering into of any arrangement in which the Corporation Manager (other than pursuant to the Corporation Management Agreement), the Mortgage Banker (other than pursuant to the Mortgage Banking Agreement), a Director who is not an Independent Director, or a director or officer of the Corporation Manager or the Mortgage Banker has a material interest;
- a decision relating to a claim by or against any of the Corporation Manager, the Mortgage Banker or any affiliate or associate of any of the foregoing;
- a decision relating to a claim in which the interests of the Corporation Manager, the Mortgage Banker or any affiliate or associate of any of the foregoing differ from the interests of the Corporation; and
- the making of certain investments (see "Narrative Description of the Activities of the Corporation - Investment and Operating Guidelines – Investment Guidelines").

Investment Committee

The Investment Committee must be composed of all of the Independent Directors. Our Investment Committee currently consists of Stanley Goldfarb, Geoffrey Bledin, Morris Fischtein, Anthony Heller, and Lawrence Shulman and is responsible for the following:

- (a) reviewing all investments of the Corporation on at least an annual basis;
- (b) adjudicating and advising on transactions involving potential conflicts of interest or any other transactions which may be detrimental to the interests of the Shareholders;
- (c) the approval or rejection of investments in, and acquisitions of, mortgages with a cost to the Corporation of \$1,000,000 or greater (other than the renewal of any Mortgage); and
- (d) dealing with such other matters as may be referred to the Investment Committee by the Directors.

The Chairman of the Investment Committee, Stanley Goldfarb, is required to be the Chairman of the Board of Directors and the Audit Committee.

Audit Committee

We have established an Audit Committee comprised of Stanley Goldfarb, Anthony Heller, Morris Fischtein and Lawrence Shulman, each of whom is independent and financially literate (as such terms are defined in National Instrument 52-110 – *Audit Committees*). The Chairman of the Audit Committee is required to be the Chairman of the Board of Directors and the Investment Committee. The Audit Committee reviews financial statements and payments to the Corporation Manager pursuant to the Corporation Management Agreement. Mr. Heller has outstanding indebtedness to the Corporation as described in “Interest of Directors and Others in Material Transactions”, below, and in our management information circular for the year ended December 31, 2014 under “Indebtedness of Directors and Executive Officers”. This indebtedness does not constitute a relationship which could reasonably interfere with the exercise of Mr. Heller’s independent judgment given the loan to value of these mortgages and the de minimus value of the mortgaged property relative to his net worth.

The Audit Committee’s Terms of Reference provide that the Audit Committee shall pre-approve all non-audit services provided by the independent auditor. A copy of the Audit Committee’s Terms of Reference is attached hereto as Schedule “A”.

The following is a brief summary of the education or experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee, including any education or experience that has provided the member with an understanding of the accounting principles used by us to prepare our annual and interim financial statements:

Name of Audit Committee Member	Relevant Education and Experience
Stanley Goldfarb (Chairman)	Mr. Goldfarb obtained his Chartered Accountant designation in 1957 and started his own chartered accounting firm in 1959. The public accounting firm he started 50 years ago was known as Goldfarb, Shulman, Patel & Co. LLP, and is now retired from public accounting.
Anthony Heller	Mr. Heller has had extensive experience in the real estate business. He is currently the President of Plazacorp Investments Limited, which is an active real estate development company focusing on new and loft conversion condominiums in Toronto.
Morris Fischtein	Mr. Fischtein has over 30 years of audit-related experience, holding many positions that exposed him to financial statements and financial reporting including the position of President of the Security Trust Company (a provincially chartered trust company). Mr. Fischtein also served on the Security Trust Company’s Audit Committee for over 10 years and oversaw its functioning and reporting.
Lawrence Shulman	Mr. Shulman obtained a Bachelor of Commerce degree in 1961 and a Chartered Accountant designation in 1964. From that time, up until his retirement in June 2006, he was a senior partner in the public accounting firm of Goldfarb, Shulman, Patel & Co.

LLP, which is now part of Pricewaterhouse Coopers LLP. Mr. Shulman has lectured extensively on income tax and estate planning, and currently manages, on behalf of clients, portfolios of investment funds in excess of \$30 million. He has also acted as the financial advisor on the sale of numerous corporations, including a large multi-national corporation with sales approaching \$100 million annually.

The table below provides for greater disclosure of the services provided and fees earned by the Corporation's external auditor over the two most recently completed fiscal years (excluding HST and disbursement).

Type of Work	Fees – Fiscal 2014	Fees – Fiscal 2013
Audit fees	\$68,500	\$65,000
Audit-related fees	\$4,500	\$4,500
Tax fees	\$15,500	\$8,100
All other fees	\$5,000	\$30,500
Total	\$93,500	\$108,100

Audit Services

Audit fees were paid for professional services rendered by the auditors for the audit of our annual financial statements as well as services provided in connection with statutory and regulatory filings. Audit-related fees included services in connection with IFRS compliance. Tax fees were paid for tax compliance, tax advice and tax planning professional services. Other fees were paid for prospectus reviews relating to the issuance of Shares and Convertible Debentures.

Remuneration of Directors and Officers

A non-Independent Director does not receive any remuneration from the Corporation for serving as a Director. In fiscal 2014, the Chairman of the Board of Directors received remuneration from the Corporation in the aggregate amount of \$82,500 in respect of base remuneration and for acting as Chairman of the Board of Directors, Chairman of the Investment Committee, Chairman of the Audit Committee and Chairman of the annual meeting of Shareholders, for performing his duties as a member of the Investment Committee, and for participating in meetings of the Directors. In fiscal 2014, each other Independent Director received remuneration from the Corporation in the aggregate amount of \$19,500 (which amount was prorated in the event a Director was not a Director for the full fiscal year) in respect of base remuneration and for performing his duties as a member of the Investment Committee and participating in meetings of the Directors, with the exception of the Independent Directors (other than the Chairman) who sat on the Audit Committee in fiscal 2014, each of whom received an additional \$1,000 for serving on the Audit Committee. The Directors' compensation is subject to such amendments as the Independent Directors may determine from time to time, and the Directors are entitled to reimbursement of their out-of-pocket expenses incurred in acting as a Director. The Directors may also be entitled to additional remuneration from the Corporation for the performance of additional services and special projects for the Corporation. The amount of any such remuneration shall be determined by the Independent Directors. Our Directors and officers are entitled to participate in our Stock Option Plan.

Stock Option Plan

The Corporation adopted the 2010 Stock Option Plan, which was approved by a majority of the votes cast by Unitholders who attended the special meeting of Unitholders held on November 30, 2010. Participation in the Stock Option Plan is restricted to (i) the Directors and the officers and employees of the Corporation or any subsidiary of the Corporation, (ii) persons who provide services to the Corporation including the Corporation Manager and the Mortgage Banker and their respective officers and employees, and (iii) personal holding companies or family trusts of any persons referred to in (i) and (ii), all as selected by the Independent Directors. Options granted under the Stock Option Plan are exercisable at a price not less than the market price of the Shares at the time of grant. The maximum

number of Shares reserved for issuance pursuant to the Stock Option Plan (other than in respect of options that have been exercised or have expired) is 2,008,140 Shares.

As at December 31, 2014, there were 1,028,500 outstanding options to purchase Shares under the Stock Option Plan. The following table sets out in detail all options issued and outstanding under the Stock Option Plan.

	<u>Amount</u>	<u>Grant Date</u>	<u>Expiry Date</u>	<u>Exercise Price</u>
Options	1,028,500	Nov 11, 2013	Nov 11, 2023	\$11.78

Non-Competition Arrangements

On October 6, 1999, the date of closing of the initial public offering of the Trust, each member of the Restricted Group entered into the Non-Competition Agreement with the Trust which restricts certain activities by them in the mortgage lending industry.

Under the terms of the Non-Competition Agreement, the Restricted Group is not permitted to start a rival fund (holding investments similar to or in competition with those investments held or to be held by the Corporation), or acquire an interest (other than a Firm Syndication Interest and any FM/MB Minimum Interest) in a mortgage without first offering to the Corporation the opportunity to acquire an interest therein and receiving notice from the Corporation that it does not intend to acquire an interest in any such investment. The above restrictions do not apply to the Restricted Group's interest in FCMIC or to other investments made by the individuals comprising the Restricted Group or their affiliates prior to closing of the Trust's initial public offering on October 6, 1999.

The Non-Competition Agreement applies to the Restricted Group for the term of the Mortgage Banking Agreement and any renewal or extension thereof.

In addition to the Non-Competition Agreement, key employees of the Corporation Manager and Mortgage Banker were required as a condition of their employment with the Corporation Manager and/or the Mortgage Banker, as the case may be, to enter into a covenant not to compete with the Corporation Manager, the Mortgage Banker or the Corporation during the term of their employment.

Interest of Directors and Others in Material Transactions

Several of our mortgages are shared with other investors, including Directors and/or officers of the Corporation. We rank equally with other members of the syndicate as to receipt of principal and interest in respect of such mortgages.

Eli Dadouch, Edward Gilbert, Jonathan Mair and Joseph Fried, each of whom is a Director and/or officer of the Corporation, are also directors, officers and/or are related to entities that own directly or indirectly an interest in the Corporation Manager, which is a party to the Corporation Management Agreement described under "Management of the Corporation – The Corporation Manager". Eli Dadouch and Jonathan Mair, each of whom is a Director and/or officer of the Corporation, are also directors and/or officers of the Mortgage Banker. The Mortgage Banker is indirectly controlled by an entity which is related to Eli Dadouch. Pursuant to a licensing agreement between the Corporation and the Mortgage Banker providing for the licensing of the use by the Corporation of the words "Firm Capital" in its name, the Corporation is required to remove the words "Firm Capital" from its name and to cease to use any identifying words, letters, symbols or marks used by the Mortgage Banker upon the termination of the Mortgage Banking Agreement.

We have made various loans secured by mortgages to entities controlled by Anthony Heller, a Director, of which \$6,706,581 was outstanding as at December 31, 2014. Such mortgage investments have been made on commercially reasonable terms and are secured against real property situated in the Province of Ontario.

Director Term Limits and Other Mechanisms of Board Renewal

The board believes that the need to have highly experienced directors who (i) are familiar with the business of the Corporation, (ii) possess highly developed specialized skill sets in real estate, finance, taxation, mortgage underwriting analysis and accounting and (iii) are knowledgeable about the Corporation as a whole takes precedence when assessing management and its recommendations. The board has not adopted director term limits or other mechanisms of board renewal for the following reasons:

- After considering the Director profile at the Corporation, the Board of Directors determined that a term limit was not appropriate in the context of the Corporation. The Corporation invests in mortgages secured by all types of residential and commercial real property, subject to compliance with our investment policies. As such, this form of investment activity requires highly developed and specialized skill sets in real estate, finance, taxation, mortgage underwriting analysis and accounting requiring years of experience. We consider such experience to be a major asset of the Corporation and a contributing factor to our success, and does not taint independence;
- the Corporation has found that having long standing Directors on its Board does not negatively impact its effectiveness, and instead positively contributes to boardroom dynamics. As such, the Corporation has for many years enjoyed a consistently engaged Board of Directors. This is reflective in the consistent returns the Corporation has delivered to Shareholders since its IPO in 1999 in the form of dividends and capital appreciation;
- the imposition of Director term limits on a board implicitly discounts the value of experience and continuity amongst members of the Board of Directors and runs the risk of excluding experienced and potentially valuable board members of the Board of Directors as a result of an arbitrary determination;
- Directors with the level of understanding of the issuer's business, history and culture acquired through long service on the Board of Directors provide additional value to the Corporation and its Shareholders;
- term limits run the risk of acting as a substitute for proper board self-assessment and renewal and undermines Shareholders' voting rights to select their Board of Directors; and
- there is little empirical evidence that a Director's ability to act independently of management declines after any specific period of service.

Policies Regarding the Representation of Women on the Board

The Corporation has not adopted a written policy relating to the identification and nomination of women Directors to the Corporation's Board of Directors. The Corporation has not adopted such a policy, written or otherwise, because the Board does not consider diversity of race, ethnicity, gender, age and cultural background as requirements to be a Director of the Corporation. When vacancies on the Board arise, the Corporation focuses on nominating Directors with highly developed and specialized skill sets in real estate, finance, mortgage underwriting analysis and accounting, regardless of their race, ethnicity, gender, age and cultural background. These requirements are necessary to ensure that the Corporation continues to deliver consistent returns to Shareholders as it has since its IPO in 1999 and no written policy relating to the identification and nomination of women Directors to the Corporation's Board of Directors will ensure this outcome.

Consideration of the Representation of Women in the Director Identification and Selection Process

In identifying and nominating candidates for election or re-election to the Board of Directors, the Directors do not consider the level of representation of women on the Board of Directors. The Corporation does not consider the level of representation of women on the Board of Directors because in considering individuals as potential Directors, the Corporation at all times seeks the most qualified persons, regardless of their race, ethnicity, gender, age and cultural background. The Corporation believes that this approach enables it to make decisions regarding the composition of the Board of Directors and senior management team based on what is in the best interests of the Corporation and its Shareholders.

Consideration of the Representation of Women in Executive Officer Appointments

In appointing executive officers to the management team, the Corporation does not consider the level of representation of women in executive officer positions. The Corporation does not consider the level of representation of women in executive officer positions because in considering individuals as members of senior management, the Corporation at all times seeks the most qualified persons, regardless of their race, ethnicity, gender, age and cultural

background. The Corporation believes that this approach enables it to make decisions regarding the compositions of the board and senior management team based on what is in the best interests of the Corporation and its shareholders. As at December 31, 2014, the Corporation had only one employee, the internal Credit Manager, who is female.

Issuer's Targets Regarding the Representation of Women on the Board and in Executive Officer Positions

The Corporation has not adopted a target regarding women on the Corporation's Board of Directors. The Corporation has not adopted a target for women on the Board of Directors because the Corporation does not believe that any Director nominee should be chosen nor excluded solely because of their race, ethnicity, gender, age and cultural background. When board vacancies arise, the Corporation focuses on nominating Directors with highly developed and specialized skill sets in real estate, finance, mortgage underwriting analysis and accounting, regardless of their race, ethnicity, gender, age and cultural background. These requirements are necessary to ensure that the Corporation continues to deliver consistent returns to Shareholders as it has since its IPO in 1999 and no adoption of a target relating to the representation of women on the Board of the Corporation will ensure this outcome.

The Corporation has not adopted a target regarding women in executive officer positions. The Corporation has not adopted a target for women in executive officer positions because the Corporation does not believe that any candidate for an executive officer position should be chosen nor excluded solely or largely because of their race, ethnicity, gender, age and cultural background. In selecting candidates, the Corporation considers the skills, expertise and background that would complement the existing management team. As at December 31, 2014, the Corporation had only one employee, the internal Credit Manager, who is female. In general, executive officers are recruited solely based on their ability to contribute to the Corporation.

Number of Women on the Board and in Executive Officer Positions

As of the date of this AIF, there are no women on the Corporation's Board of Directors or who hold executive officer positions.

ITEM 7 - RISK FACTORS

There are certain risks inherent in an investment in the Shares and in the activities of the Corporation, including those risks discussed in the section entitled "Risks and Uncertainties" in management's discussion and analysis ("MD&A") contained in our 2014 disclosure documents, which MD&A is incorporated herein by reference and which is available on SEDAR at www.sedar.com, as well as the risks set forth below, which investors should carefully consider before investing in Shares.

Liquidity and Price Fluctuation

We are a corporation and our Shares are listed on the TSX. We cannot predict the prices at which the Shares will trade and there can be no assurance that an active trading market in the Shares will be sustained.

Dependence on the Corporation Manager and the Mortgage Banker

Because our day-to-day activities are managed and administered by the Corporation Manager and the source of all of our investments is through the Mortgage Banker, we are exposed to adverse developments in the business and affairs of the Corporation Manager and Mortgage Banker, to their respective management and financial strength, to their ability to operate their respective businesses profitably, and to the Mortgage Banker's ability to retain its mortgage broker license issued to it under the MBLAA. Although we have a right of first refusal on any mortgage investment opportunity presented or made available to the Mortgage Banker where such investments fall within certain objectives and investment policies, our arrangement with the Mortgage Banker is exclusive, such that we are unable to seek the services provided by the Mortgage Banker from third parties. In addition, to maintain our status as a "mortgage investment corporation" under the Tax Act, we are limited in the types of investments we may make. The termination of the Corporation Management Agreement and/or Mortgage Banking Agreement would have a material adverse affect on our business, financial condition and results of operation. See "Management of the Corporation – The Mortgage Banker" and "Management of the Corporation – The Corporation Manager".

Potential Conflicts of Interest

We are subject to various potential conflicts of interest because the Corporation Manager and the Mortgage Banker are controlled by insiders of the Corporation and because the Mortgage Banker and certain members of management of the Mortgage Banker (and/or their associates) may make mortgage investments similar to those which are made by us (including pursuant to the Firm Syndication Interest and the FM/MB Minimum Interest). See “Directors and Officers - Interest of Directors and Others in Material Transactions”. We have entered into the Non-Competition Agreement with the Restricted Group, which addresses certain conflicts of interest. See “Directors and Officers - Non-Competition Arrangements”.

The Directors may from time to time deal with parties with whom the Corporation may be dealing, or may be seeking investments similar to those desired by the Corporation. We have conflict of interest policies requiring the Directors to disclose material interests in material contracts and transactions and to refrain from voting thereon.

Dilution

The number of Shares we are authorized to issue is unlimited. The Directors have the discretion to issue additional Shares in other circumstances, including under the Stock Option Plan. Any issuance of Shares may have a dilutive effect on existing Shareholders.

No Guaranteed Return

There is no guarantee that an investment in Shares will earn any positive return in the short- or long-term. Moreover, the interest rates being charged for mortgages reflect the general level of interest rates and, as interest rates fluctuate, our management expects that the aggregate yield on mortgage investments will also change.

Nature of the Investments

Investments in mortgages are affected by general economic conditions, local real estate markets, demand for leased premises, fluctuation and occupancy rates, operating expenses and various other factors. The value of a real estate property may ultimately depend on the credit and financial stability of the tenants. Investments in mortgages are relatively illiquid. Such illiquidity will tend to limit our ability to vary our portfolio promptly in response to changing economic or investment conditions.

Environmental Matters

We may from time to time take possession, through enforcement proceedings, of properties that secured defaulted mortgage loans to recover our investment in such mortgage loans. Prior to taking possession of properties which secure a mortgage investment, we assess the potential environmental liability associated with such investment and determine whether it is significant, having regard to the value of the property. If we subsequently decide to take possession of the property, we could be subject to environmental liabilities in connection with such real property, which could exceed the value of the property. As part of the due diligence performed in respect of our mortgage investments, we obtain a Phase I Environmental Audit on the underlying real property provided as security for a mortgage, unless the Investment Committee has determined that a Phase I Environmental Audit is not necessary. However, there can be no assurance that such Phase I Environmental Audits will reveal any or all existing or potential environmental liabilities necessary to effectively insulate us from potential liability for a materially adverse environmental condition at any mortgaged property. If hazardous substances are discovered on a property which we have taken possession of, we may be required to remove such substances and clean up the property. We may also be liable to tenants and other users of neighbouring properties and may find it difficult to resell the property prior to or following such clean-up.

Availability of Investments

Our ability to make investments in accordance with our objectives and investment policies depends upon the availability of suitable investments and the amount of funds available. There can be no assurance that the yields on the Mortgages in the Investment Portfolio will be representative of yields to be obtained on our future mortgage investments. An inability to find suitable investments may have an adverse effect on our ability to sustain the level of distributions paid in fiscal 2014.

Reliance on the Directors

In assessing the risk of an investment in Shares, potential investors should be aware that they will be relying on the good faith, experience and judgement of the Directors. Although investments made by us are carefully chosen by the Directors, there can be no assurance that such investments will earn a positive return in the short- or long-term or that losses may not be suffered by us from such investments.

Borrowing

We are entitled to, and may, incur indebtedness secured by our assets to purchase mortgages or for ongoing mortgage investments. Such indebtedness may not exceed 60% of the book value of our Conventional First Mortgage portfolio. There can be no assurance that such a strategy will enhance returns and in fact the strategy may reduce returns.

The security which we are required to furnish may include an assignment of our mortgages to a third party lender. If we are unable to service our debt to such lender, a loss could result if the lender exercises its rights of foreclosure and sale.

Limited Sources of Borrowing

The Canadian financial marketplace is characterized by 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 take advantage of leveraging opportunities to enhance the yield on our mortgage investments. We limit our exposure to the potential scarcity of such funds by continuously seeking out new sources of credit, and we have also entered into the Operating Facility and received other loans from various financial institutions (see “Narrative Description of the Activities of the Corporation - Investment Strategy – Borrowing Strategy”). These loans are liabilities resulting from the funding of our mortgage investments. Repayment of mortgage investments results in a direct and corresponding pay down of these loans. The obligations for future mortgage advances under the Corporation’s Investment Portfolio are anticipated to be funded from the Corporation’s credit facility and borrower mortgage repayments. Upon funding of mortgage advances, the funded amount forms part of the Mortgages. If payment under these loans is demanded, including as a result of our failing to meet certain financial covenants under these loans, and there is not a corresponding repayment of our mortgage investments, or if we are unable to find sources of credit to fund our mortgage investments, there would be an adverse effect on our ability to pay dividends and there could also be a material adverse effect on our business, financial condition and results of operations.

Renewal of Mortgages Comprising the Investment Portfolio

There can be no assurances that any of the Mortgages comprising the Investment Portfolio can or will be renewed at the same interest rates and terms, or in the same amounts as are currently in effect. With respect to each mortgage comprising the Investment Portfolio, it is possible that the mortgagor, the mortgagee or both, will elect not to renew such mortgage. In addition, if the Mortgages are renewed, the principal balance of such renewals, the interest rates and the other terms and conditions of such Mortgages will be subject to negotiations between the mortgagors and the mortgagees at the time of renewal.

Composition of the Investment Portfolio

The composition of the Investment Portfolio may vary widely from time to time and may be concentrated by type of security, industry or geography, resulting in the Investment Portfolio being less diversified than anticipated. A lack of diversification may result in us being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of security, industry or geography.

Subordinated and Subsequent Debt Financing

Secondary financing which may be carried on by us is generally considered to be riskier than primary financing because we will not have a first-ranking charge on the underlying property. When a charge on real property is in a position other than first-ranking, it is possible for the holder of a prior charge on the property, if the borrower is in default under the terms of its obligations to such holder, to take a number of actions against the borrower and ultimately against the real property to realize on the security given for the loan. Such actions may include a foreclosure

action, the exercising of a giving-in-payment clause, or an action forcing the sale of the real property. A foreclosure action or the exercise of a giving-in-payment clause may have the ultimate effect of depriving any person having a charge other than a first-ranking charge on the real property of the security of such real property. If an action is taken to sell the real property and sufficient proceeds are not realized from such sale to pay off creditors who have prior charges on the property, the holder of a subsequent charge may lose its investment or part thereof to the extent of the deficiency unless the holder can otherwise recover such deficiency from other property owned by the debtor. We may remedy a default under the terms of a prior charge on a property or satisfy the obligations of a borrower towards the holder of a prior-ranking charge if required to protect our investment, subject to the approval of a majority of the Independent Directors.

Investment Risk for Land Mortgage Investments

Land mortgages pose a unique risk in the event of default in that the work-out period can be lengthy while the asset has no capacity to generate cash flow. As a result, we limit the amount of land mortgage investments we make, and when possible, structure transactions with interest payment reserve accounts.

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. We mitigate the insurance risk by monitoring the policies in place and attempting to have borrowers rectify any deficiencies.

Qualification as a Mortgage Investment Corporation

Although the Corporation intends to qualify at all times as a MIC, no assurance can be provided in this regard. If for any reason the Corporation does not maintain its qualification as a MIC under the Tax Act, taxable dividends and capital gains dividends paid by the Corporation on the Shares will cease to be fully or partly deductible by the Corporation in computing its income, and such dividends will no longer be deemed by the rules in the Tax Act that apply to MICs to have been received by Shareholders as bond interest or a capital gain, as the case may be. As a consequence, the rules in the Tax Act regarding the taxation of public corporations and their Shareholders should apply, with the result that the combined rate of corporate and Shareholder tax could, in certain circumstances, be significantly greater.

ITEM 8 - MARKET FOR SECURITIES

Our Shares, 5.75% Convertible Debentures, 5.40% Convertible Debentures, 5.25% Convertible Debentures and 4.75% Convertible Debentures are posted and listed for trading on the TSX under the symbols "FC", "FC.DB.A", "FC.DB.B", "FC.DB.C" and "FC.DB.D" respectively. The monthly price ranges and total monthly trading volumes for the Shares and Convertible Debentures during 2014 were as follows:

Shares

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
	\$	\$	
2014	12.58	12.09	6,129,415
January	12.33	11.77	852,369
February	11.96	11.68	720,399
March	12.04	11.75	668,938
April	12.15	11.96	479,070
May.....	12.34	12.07	448,307
June.....	12.60	12.16	485,811
July	12.73	12.22	478,363
August	12.86	12.45	357,921
September.....	12.92	12.12	437,698
October	12.87	12.30	470,691
November.....	13.25	12.72	311,709
December.....	12.90	11.91	418,139

5.75% Convertible Debentures

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
	\$	\$	
2014	102.51	101.11	28,000
January.....	102.00	99.00	2,440
February	102.00	101.00	1,070
March	101.90	100.06	1,740
April	102.00	101.00	1,780
May.....	102.00	101.26	2,610
June.....	102.00	100.10	7,510
July	103.00	101.50	1,710
August	103.98	102.50	640
September.....	103.50	102.51	1,140
October	103.00	100.40	5,550
November.....	102.25	102.00	810
December.....	102.50	102.01	1,000

5.40% Convertible Debentures

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
	\$	\$	
2014	100.46	98.14	23,230
January.....	100.00	93.00	2,450
February	100.00	98.50	1,520
March	97.01	96.00	930
April	98.45	95.00	1,000
May.....	99.20	99.01	5,970
June.....	101.00	99.01	1,210
July	102.20	99.56	940
August	101.55	100.35	1,100
September.....	101.95	100.50	2,950
October	101.87	99.50	2,470
November.....	101.75	100.00	630
December.....	100.50	97.25	2,060

5.25% Convertible Debentures

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
	\$	\$	
2014	99.42	97.35	18,860
January.....	97.75	92.61	2,200
February	97.00	94.80	480
March	97.25	95.50	2,350
April	98.00	97.00	2,330
May.....	98.78	98.10	770
June.....	98.40	97.00	1,880
July	101.00	98.50	890
August	101.50	98.25	1,240
September.....	101.20	100.00	940
October	101.20	99.50	1,780
November.....	101.00	99.99	1,970
December.....	100.00	97.00	2,030

4.75% Convertible Debentures

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
	\$	\$	
2014	95.79	93.89	65,180
January.....	91.00	88.65	910
February	90.05	89.50	30,320
March	91.75	90.08	9,730
April	95.00	91.56	2,470
May.....	96.85	93.50	2,030
June.....	97.80	94.75	2,610
July	97.80	96.00	2,790
August	97.50	96.00	3,580
September.....	97.35	96.05	4,010
October	97.28	96.00	2,760
November.....	98.25	97.28	2,770
December.....	98.82	97.25	1,200

ITEM 9 - MATERIAL CONTRACTS

The material contracts entered into by the Corporation during the recently most completed financial year, or by the Trust prior to the most recently completed financial year (but after January 1, 2002) that are still in effect are as follows:

- The Mortgage Banking Agreement (see “Management of the Corporation – The Mortgage Banker”);
- The Corporation Management Agreement (see “Management of the Corporation – The Corporation Manager”);
- The Indenture, Supplemental Indenture, Second Supplemental Indenture, Third Supplemental Indenture, Fourth Supplemental Indenture and Fifth Supplemental Indenture (see “Description of Capital Structure – Convertible Debentures”);
- The Operating Facility (see “Narrative Description of the Activities of the Corporation - Investment Strategy - Borrowing Strategy”); and
- The Stock Option Plan (see “Directors and Officers - Stock Option Plan”).

ITEM 10 - EXPERTS

KPMG LLP, the Corporation's auditor, has been named as having prepared a certified statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 – *Continuous Disclosure Obligations* by the Corporation during, or relating to the Corporation's fiscal year ended December 31, 2014. KPMG is independent of the Corporation in accordance with the auditor's rules of professional conduct in a jurisdiction of Canada.

ITEM 11 - TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our Shares is Computershare Trust Company of Canada at its principal office in the City of Toronto.

ITEM 12 - LEGAL PROCEEDINGS

We are involved in certain litigation arising out of the ordinary course of investing in mortgages. Although such matters cannot be predicted with certainty, we believe that the claims currently outstanding are without merit. To the best of our knowledge, there were no legal proceedings to which the Corporation is or was a party, or to which any of the Corporation's property is subject, during the Corporation's fiscal year ended December 31, 2014, nor are any such proceedings currently contemplated, that involve an amount that is 10% or more of the Corporation's current assets.

ITEM 13 - ADDITIONAL INFORMATION

Additional information, including Directors' and officers' remuneration and indebtedness, the executive compensation for named executive officers of the Corporation, principal holders of the Corporation's securities, and interests of insiders in material transactions, as applicable, is contained in the Corporation's management information circular for its most recent annual meeting of Shareholders. Additional financial information is provided in the financial statements and MD&A of the Corporation for the year ended December 31, 2014. A copy of the management information circular, financial statements and MD&A may be obtained upon request from the Corporation, and those documents and other information in respect of the Corporation are also available on SEDAR at www.sedar.com.

SCHEDULE "A"

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

OF

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

(the "Corporation")

PURPOSE

The purpose of the Audit Committee (the "Committee") is to assist the board of directors of the Corporation (the "Board") in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to shareholders of the Corporation and others, the systems of corporate financial controls which management and the Board have established, and the audit process.

More specifically the purpose of the Committee is to satisfy itself that:

- (a) The Corporation's annual financial statements are fairly presented in accordance International Financial Reporting Standards? and to recommend to the Board whether the annual financial statements should be approved.
- (b) The information contained in the Corporation's quarterly financial statements, annual report to shareholders and other financial publications, such as management's discussion and analysis, is complete and accurate in all material respects, and to recommend to the Board whether these materials should be approved.
- (c) The Corporation has appropriate systems of internal control over the safeguarding of assets and financial reporting to ensure compliance with legal and regulatory requirements.
- (d) The external audit functions have been effectively carried out and that any matter which the independent auditors wish to bring to the attention of the Board has been addressed. The Committee will also recommend to the Board the re-appointment or appointment of auditors and their remuneration and will be responsible for overseeing the work of the auditors, including the resolution of disagreements between management and the auditors regarding financial reporting.

COMPOSITION AND TERMS OF OFFICE

- (a) Following each annual meeting of shareholders of the Corporation, the Board shall appoint not less than three directors to serve on the Committee, all three of whom shall be Independent Directors and Financially Literate (as such terms are defined by applicable legislation and stock exchange requirements).
- (b) The chair of the Committee shall be appointed by the Board and shall not be an officer or employee of the Corporation or its affiliates.
- (c) Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member upon ceasing to be a director of the Corporation. Each member of the Committee shall hold office until the close of the next annual meeting of shareholders of the Corporation or until the member resigns or is replaced, whichever first occurs.
- (d) The Committee will meet at least four times per year. The meetings will be scheduled to permit timely review of the interim and annual financial statements. Additional meetings may be held as deemed necessary by the chair of the Committee or as requested by any member of the Committee or by the internal or external auditors. At least 48 hours' notice shall be given in advance of any meeting of the Committee.

- (e) If all members consent, and proper notice has been given or waived, a member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.
- (f) A quorum for the transaction of business at all meetings of the Committee shall be a majority of the members of the Committee. Questions arising at any meeting shall be determined by a majority of votes of the members of the Committee present, and in case of an equality of votes the Chair of the Committee shall have a second casting vote.
- (g) The Committee may invite such directors, officers and employees of the Corporation as it may see fit from time to time to attend meetings of the Committee and assist in the discussion and consideration of the business of the Committee, but without voting rights.
- (h) The Committee shall keep regular minutes of proceedings and shall cause them to be recorded in books kept for that purpose, and shall report the same to the Board at such times as the Board may, from time to time, require.
- (i) Supporting schedules and information reviewed by the Committee will be available for examination by any director upon request to the Secretary of the Committee.
- (j) The Committee shall choose as its secretary such person as it deems appropriate.
- (k) The external auditors shall be given notice of, and shall have the right to appear before and to be heard at, every meeting of the Committee, and shall appear before the Committee when requested to do so by the Committee.

DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the Board:

(a) Financial Reporting Control Systems

The Committee shall:

- (i) review reports from senior officers of the Corporation outlining any significant changes in financial risks facing the Corporation;
- (ii) accept reports directly from the external auditors;
- (iii) review the management letter of the external auditors and the Corporation's responses to suggestions made;
- (iv) annually review the terms of reference of the Committee;
- (v) review any new appointments to senior positions of the Corporation with financial reporting responsibilities;
- (vi) establish and periodically assess adequate procedures for the review of disclosures of financial information extracted or derived from the Corporation's financial statements; and
- (vii) obtain assurance from the external auditors regarding the overall control environment and the adequacy of accounting system controls.

(b) Interim Financial Statements

The Committee shall:

- (i) review interim financial statements with officers of the Corporation prior to their release and recommend their approval to the Board; this will include a detailed review of quarterly and year-to-date results;
- (ii) review narrative comments accompanying interim financial statements; and
- (iii) review earnings press releases.

(c) **Annual Financial Statements and Other Financial Information**

The Committee shall:

- (i) review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements;
- (ii) obtain summaries of significant transactions, and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration;
- (iii) obtain draft annual financial statements in advance of the Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by officers of the Corporation;
- (iv) review a summary provided by the Corporation's legal counsel of the status of any material pending or threatened litigation, claims and assessments;
- (v) discuss the annual financial statements and the auditors' report thereon in detail with officers of the Corporation and the auditors;
- (vi) review the annual report and other annual financial reporting documents including management's discussion and analysis and press releases;
- (vii) provide to the Board a recommendation as to whether the annual financial statements should be approved;
- (viii) review insurance coverage including directors' and officers' liability coverage;
- (ix) review payments to the Corporation Manager pursuant to the Corporation Management Agreement (as such terms are defined in the amended and restated trust management agreement dated as of June 9, 2010 and assigned to the Corporation as of January 1, 2012) and report thereon to the Board; and
- (x) approve and implement procedures for reviewing financial information extracted or derived from the financial statements and periodically assess the adequacy of those procedures.

(d) **External Audit Terms of Reference, Reports, Planning and Appointment**

The Committee shall:

- (i) review the audit plan with the external auditors;
- (ii) discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters;

- (iii) obtain confirmation from the external auditor that it ultimately is accountable, and will report directly, to the Audit Committee and the Board;
- (iv) oversee the work of the external auditor, including the resolution of any disagreements between management and the external auditor regarding financial reporting;
- (v) establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters;
- (vi) pre-approve all non-audit services provided by the independent auditors;
- (vii) review and approve the hiring policies regarding partners, employees and former partners and employees of the independent auditors or former auditors;
- (viii) recommend to the Board each year the retention or replacement of the external auditors, and if there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition;
- (ix) annually review and recommend for approval to the Board the terms of engagement and the remuneration of the external auditor;
- (x) review the qualification, performance and independence of the external auditors;
- (xi) request and review any correspondence from the Ontario Securities Commission; and
- (xii) have the authority to set and pay the compensation for any advisors employed by the Committee.

ACCOUNTABILITY

- (a) The Committee shall report to the Board at its next regular meeting all such action it has taken since the previous report.
- (b) The Committee is empowered to investigate any activity of the Corporation and all employees are to co-operate as requested by the Committee. The Committee may retain persons having special expertise to assist it in fulfilling its responsibilities.
- (c) The Committee is authorized to request the presence at any meeting, but without voting rights, of a representative from the external auditors, senior management, legal counsel or anyone else who could contribute substantively to the subject of the meeting and assist in the discussion and consideration of the business of the Committee, including directors, officers and employees of the Corporation.