2014

Firm Capital

MORTGAGE INVESTMENT CORPORATION

Fourth Quarter Report To Shareholders

December 31, 2014

Disciplined Investing . Capital Preservation

www.firmcapital.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

Advisory: *Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2015 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 MD&A under Risks and Uncertainties, which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and shareholder liability. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include that there is not a significant decline in the value of the general real estate market, market interest rates remain relatively stable and the Corporation is generally able to sustain the size of its Investment Portfolio; adequate investment opportunities are presented to the Corporation, and adequate bank indebtedness and bank loans are available to the Corporation. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

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

INTRODUCTION

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

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

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

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

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

BASIS OF PRESENTATION

For fiscal years beginning on or after January 1, 2011, Canadian public companies are required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. The Corporation has adopted IFRS as issued by the International Accounting Standards Board as its basis of financial reporting commencing with the interim unaudited financial statements for the three months ended March 31, 2011.

The Corporation's reporting currency is the Canadian dollar.

The following discussion is dated as of March 24, 2015 and should be read in conjunction with the audited financial statements of the Corporation and the notes thereto for the years ended December 31, 2014 and 2013, and Management's Discussion and Analysis, including the section on "Risks and Uncertainties", along with each of the quarterly reports for 2014 and 2013.

FINANCIAL HIGHLIGHTS

Income and profit (referred to herein as "Profit") for the three months ended December 31, 2014 increased by 12% to $4,942,120 as compared to $4,405,596 for the same period last year. Basic weighted average profit per share for the fourth quarter ended December 31, 2014 was $0.245, which is higher compared to $0.243 per share reported for the fourth quarter ended December 31, 2013.

Profit for the year ended December 31, 2014 increased by 11% to $19,510,113, as compared to $17,607,877 for the year ended December 31, 2013. Basic weighted average profit per share for the year ended December 31, 2014 was $0.976, which is lower than $0.987 per share reported for the year ended December 31, 2013. The Corporation distributed 100% of it is profits for 2014.

The Corporation's Investment Portfolio as defined herein as at December 31, 2014 increased by $3 million to approximately $339.5 million as compared to $336.3 million as at December 31, 2013 (both net of the impairment provision of $3.36 million and $3.33 million, respectively) and remains well diversified.

The Corporation continues to exceed its yield objective of producing a return on shareholders' equity in excess of 400 basis points over the average one year Government of Canada treasury bill yield. Profit for the quarter ended December 31, 2014 represents an annualized return on shareholders' equity (based on the month end average shareholders' equity) of 9.34%, representing return on shareholders' equity of 835 basis points per annum over the average Government of Canada one year treasury bill yield of 0.99%.

INVESTMENT PORTFOLIO

The Corporation's investment portfolio, which is comprised of mortgage and debt investments (the "Investment Portfolio"), totaled $339,505,051 as of December 31, 2014 (net of impairment loss

provision of $3,360,000) as compared to $336,296,485 (net of impairment loss provision of $3,330,000) as at December 31, 2013, representing an increase of approximately $3 million. The December 31, 2014 Investment Portfolio is comprised of 177 investments (146 as at December 31, 2013). The average gross investment size (excluding impairment loss provision) was approximately $1.9 million with 5 investments individually exceeding $7,500,000.

Amount	Number of Investments	%	Total Amount (before provision)	%
$0 - $2,500,000	130	73.5%	$ 123,562,319	36.0%
$2,500,001 - $5,000,000	29	16.4%	$ 89,762,646	26.2%
$5,000,001 - $7,500,000	13	7.3%	$ 70,300,000	20.5%
$7,500,001 +	5	2.8%	$ 59,240,086	17.3%
	177	**100%**	**$ 342,865,051**	**100%**

Unadvanced committed funds under the existing Investment Portfolio amounted to $83,646,839 as at December 31, 2014 ($87,303,906 as at December 31, 2013). Generally, investments are shared with other syndicate partners to diversify risk.

	Dec 31, 2014		Dec 31, 2013		% Change
Conventional First Mortgages	$ 249,021,514	72.7%	$ 217,909,340	64.2%	**14%**
Related Investments	48,313,224	14.1%	58,124,384	17.1%	**(17%)**
Conventional Non-First Mortgages	30,551,339	8.9%	30,597,843	9.0%	**(0%)**
Non-Conventional Mortgages	10,075,074	2.9%	27,984,768	8.2%	**(64%)**
Discounted Debt Investments	4,903,900	1.4%	5,010,150	1.5%	**(2%)**
Total Investments (at amortized cost)	**$ 342,865,051**	**100%**	**$ 339,626,485**	**100%**	**1%**
Less: Impairment Provision	(3,360,000)		(3,330,000)		**1%**
Investment Portfolio	**$ 339,505,051**		**$ 336,296,485**		**1%**

During 2014, the Corporation shifted its Investment Portfolio towards a higher concentration of conventional first mortgages by reducing the relative size of its related investments and non-conventional mortgages.

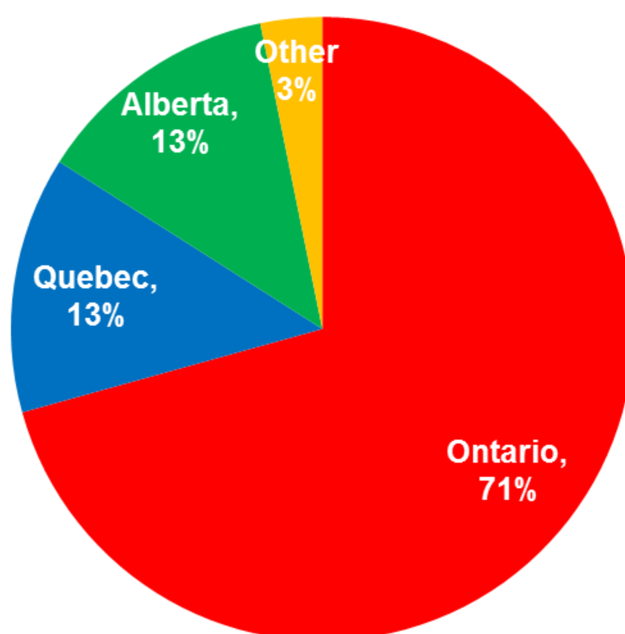
Conventional first mortgages increased by 14% and represented 73% of the Corporation's portfolio at December 31, 2014 as compared to 64% at December 31, 2013. Related investments decreased by 17% and represented 14% of the Corporation's Investment Portfolio in comparison to 17% at December 31, 2013. Conventional non-first mortgages remained unchanged and represented 9% of the Investment Portfolio. Non-conventional mortgages decreased by 64% and represented 3% of the Investment Portfolio in comparison to 8% of the Investment Portfolio at December 31, 2013. Discounted debt investments decreased by 2% and represented 1% of the Investment Portfolio.

As at December 31, 2014, approximately 87% of the Corporation's Investment Portfolio was invested in conventional first mortgages and related investments, as compared to 81% as at December 31, 2013. The growth in the Investment Portfolio took place in the conventional first mortgage category which has resulted in a reduction in the portfolio average interest rate.

The weighted average face interest rate on the Corporation's Investment Portfolio was 8.29% as at December 31, 2014 as compared to 8.58% as at December 31, 2013.

The Corporation's Investment Portfolio as at December 31, 2014 continues to include one mortgage investment totaling $3,978,000, on which interest payments are not being received. The investment originated as a mortgage loan purchased from a Schedule A Bank. The original mortgage loan was a non-performing loan and was acquired at a discount to its principal outstanding balance, on the premise that upon ultimate realization of the security under the loan, accrued interest and a component of the discount could be realized.

The Corporation continues to focus its lending into core markets that can be monitored closely during evolving economic conditions. The portfolio has some geographic diversification with 29% of the investments in the portfolio secured by properties outside of Ontario.



The Corporation's strategy is to mitigate loan loss risk by focusing on those areas of mortgage lending that have historically withstood market corrections and retained their underlying real estate asset value, while limiting its exposure to those real estate asset classes that do not.

As at December 31, 2014, the Investment Portfolio continued to be heavily concentrated in short-term investments with 63% of the portfolio maturing by December 31, 2015. The short-term nature of the portfolio provides the Corporation with the ability to continually revolve the portfolio and adapt to changes in the real estate market.

We remain focused on our primary objective of preserving shareholders' equity by creating a portfolio that:

(i) is widely diversified across many investments;
(ii) is concentrated in first mortgages;

(iii) has reduced exposure as a result of participation in various loan syndicates; and
(iv) is primarily short-term in nature.

RESULTS OF OPERATIONS

INTEREST AND FEES

For the fourth quarter ended December 31, 2014, interest and fees earned increased by 4% to $7,698,503 as compared to $7,405,703 for the fourth quarter ended December 31, 2013. For the year ended December 2014, interest and fees earned increased by 8% to $30,691,450 as compared to $28,471,071 for the year ended December 31, 2013. Interest and fees earned for the three months and year ended December 31, 2014 and December 31, 2013 are broken down as follows:

Three Months Ended	Dec. 31, 2014	%	Dec. 31, 2013	%	% Change
Interest	$ 6,933,857	90%	$ 6,774,433	92%	**2%**
Commitment & Renewal Fees	570,215	7%	404,683	5%	**41%**
Special Income	194,431	3%	226,587	3%	**(14%)**
	$ 7,698,503	**100%**	**$ 7,405,703**	**100%**	**4%**

Year Ended	Dec. 31, 2014	%	Dec. 31, 2013	%	% Change
Interest	$ 28,399,195	93%	$ 25,702,608	90%	**10%**
Commitment & Renewal Fees	1,580,911	5%	1,430,351	5%	**11%**
Special Income	711,344	2%	1,338,112	5%	**(47%)**
	$ 30,691,450	**100%**	**$ 28,471,071**	**100%**	**8%**

Interest income of $6,933,857 and $28,399,195 for the fourth quarter ended and year ended December 31, 2014, respectively, increased by 2% and 10% as compared to the fourth quarter ended and year ended December 31, 2013. Interest income represents 90% and 93% of the Corporation's revenues for the fourth quarter ended and year ended December 31, 2014, respectively. The year over year increase in interest income is generally a result of the Corporation holding a larger average Investment Portfolio compared to the same period in 2013, partially offset by a decline in the average portfolio interest rate.

Recorded fee income, relating to commitment and renewal fees, for the quarter ended December 31, 2014 increased by approximately 41% over the quarter ended December 31, 2013. Recorded fee income for the year ended December 31, 2014 increased by approximately 11%. As at December 31, 2014, the Corporation had unearned commitment fee income of $700,202 (December 31, 2013: $653,191). The Corporation's policy is to recognize commitment fees over the term of the related loan where such fees are individually greater than $4,000. The unrecognized component of the fees is recorded as unearned income on the Corporation's balance sheet. These fees have been received and are not refundable to borrowers.

Special income generated during the fourth quarter ended and year ended December 31, 2014 decreased by 14% and 47% respectively when compared to the same periods in the prior year.

Special income relates to certain fees and interest generated from a number of the Corporation's non-conventional mortgages and the timing of earning of such income is not necessarily consistent in each period. The timing of the recognition and collection of special income is difficult to predict and the collection of a particular amount is not a reflection of the future collection of such income. Non-conventional mortgage investments can attract higher loss risk due to their subordinate ranking to other mortgage charges and/or high loan to value ratio. Consequently, this higher risk is compensated for by a higher rate of return. The Corporation remains very selective in cautiously sourcing high yielding non-conventional mortgages that meet the Corporation's investment criteria. Current real estate values and market returns available on most non-conventional mortgage investment opportunities make them unattractive to the Corporation, and as such, the size of the investment category has declined.

CORPORATION MANAGER INTEREST ALLOCATION

The Corporation Manager, through an interest spread arrangement, received $636,316 for the quarter ended December 31, 2014 as compared to $611,984 for the quarter ended December 31, 2013. For the year ended December 31, 2014, the Corporation Manager received $2,586,438 as compared to $2,268,228 for the year ended December 31, 2013. This increase is generally due to the increase in the size of the Corporation's daily average Investment Portfolio over the comparable periods.

The Corporation's earnings are impacted by the Mortgage Banker's ability to source and generate appropriate mortgage and loan investments that provide sufficient yields, while adhering to pre-determined risk guidelines.

INTEREST EXPENSE

For the quarter ended December 31, 2014, interest expense did not change significantly at $1,936,125 as compared to $1,928,908 for the quarter ended December 31, 2013. For the year ended December 31, 2014, interest expense increased by 5% to $7,759,154 as compared to the year ended December 31, 2013 amount of $7,420,281. Interest expense, in general, is higher in the 2014 comparable period as a result of the Corporation having larger loan payables in 2014 versus 2013 offset by lower bank interest expense and is broken down as follows:

Three Months Ended	**Dec. 31, 2014**	**%**	**Dec. 31, 2013**	**%**	**% Change**
Bank Interest Expense	$ 126,742	7%	$ 296,343	15%	**(57%)**
Loan Payable Interest Expense	268,575	14%	100,491	5%	**167%**
Debenture Interest Expense	1,540,808	79%	1,532,074	80%	**1%**
	$ 1,936,125	**100%**	**$ 1,928,908**	**100%**	**-**

Year Ended	**Dec. 31, 2014**	**%**	**Dec. 31, 2013**	**%**	**% Change**
Bank Interest Expense	$ 804,398	10%	$ 802,749	11%	**-**
Loan Payable Interest Expense	802,513	10%	406,154	5%	**98%**
Debenture Interest Expense	6,152,243	80%	6,211,378	84%	**(1%)**
	$ 7,759,154	**100%**	**$ 7,420,281**	**100%**	**5%**

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

G&A expenses decreased to $153,942 for the quarter ended December 31, 2014 as compared to $309,215 for the quarter ended December 31, 2013. For the year ended December 31, 2014, G&A expenses decreased to $805,745 as compared to $1,024,685. In the fourth quarter of 2013, the Corporation recognized a non-cash $100,000 compensation expense in G&A expenses relating to the granting of options. This onetime expense accounts for $100,000 of the reduction in the G&A expense when comparing 2013 to 2014.

INCOME & PROFIT ("PROFIT")

Profit for the quarter ended December 31, 2014 increased by 12% to $4,942,120 when compared to $4,405,596 for the same period in the prior year. Profit for the year ended December 31, 2014 of $19,510,113 represented an 11% increase over the year ended 2013 of $17,607,877.

Profit for the year ended December 31, 2014 represented an annualized return on shareholders' equity (based on the month end average shareholders' equity) of 9.34% versus a previously reported return on shareholders' equity of 9.63% for the year ended December 31, 2013. This return on shareholders' equity represents 835 basis points per annum over the average Government of Canada one year treasury bill yield of 0.99% and is well in excess of the Corporation's stated target yield objective of 400 basis points per annum over the average Government of Canada one year treasury bill yield. The above return on shareholders' equity is a non-IFRS financial measure and does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. This non-IFRS measure provides useful information to the Corporation's shareholders as it provides a measure of return generated on the Corporation's equity base.

TOTAL COMPREHENSIVE INCOME

As discussed further in the Marketable Securities section later herein, commencing in the third quarter of 2014 the Corporation now holds a marketable securities portfolio. The Corporation classifies this financial asset as available for sale and as such records the portfolios carrying value at fair value.

Commencing in the third quarter of 2014, the Corporation began to include in its financial statements a separate statements of income and a separate statements of comprehensive income. The statements of comprehensive income presents the impact of the changes in fair value of the marketable securities.

The change in fair value of marketable securities for the year ended December 31, 2014 was $72,966 (compared to nil for the year ended 2013). The total comprehensive income for the fourh quarter and year ended December 31, 2014 was $4,770,007 and $19,583,079, respectively, compared to $4,405,596 and $17,607,877, respectively, for the fourth quarter and year ended 2013.

PROFIT PER SHARE

Basic weighted average profit per share for the fourth quarter ended December 31, 2014 was $0.245, which is higher compared to $0.243 per share reported for the fourth quarter ended December 31, 2013. Basic weighted average profit per share for the year ended December 31,

2014 was $0.976, which is comparable to $0.987 per share reported for the year ended December 31, 2013. The decrease in 2014 profit per share as compared to 2013 is a result of the increase in the average number of shares outstanding in 2014 exceeding the increase in profit for 2014. Profit for the year ended December 31, 2014 increased by 11% over the year ended 2013, while the weighted average number of outstanding shares increased by 12%.

QUARTERLY FINANCIAL INFORMATION

($ in millions except per unit amounts)	Dec. 31 2014	Sep. 30 2014	Jun. 30 2014	Mar. 31 2014	Dec. 31 2013	Sep. 30 2013	Jun. 30 2013	Mar. 31 2013
Operating Revenue	$ 7.70	$ 7.80	$ 7.52	$ 7.68	$ 7.41	$ 7.06	$ 7.38	$ 6.62
Interest Expense	1.94	2.10	1.82	1.91	1.93	1.78	1.99	1.72
Corporation manager interest allocation	0.64	0.72	0.63	0.60	0.61	0.56	0.57	0.52
Expenses & Finance Costs	0.15	0.18	0.27	0.20	0.31	0.24	0.29	0.19
Impairment loss on investment portfolio	0.03	-	-	-	0.15	-	-	-
Profit	**$ 4.94**	**$ 4.80**	**$ 4.80**	**$ 4.97**	**$ 4.41**	**$ 4.48**	**$ 4.53**	**$ 4.19**
Profit Per Share								
- Basic	**$0.245**	**$0.239**	**$0.239**	**$0.253**	**$ 0.243**	**$ 0.247**	**$ 0.257**	**$ 0.240**
- Diluted	**$0.243**	**$0.237**	**$0.237**	**$0.248**	**$ 0.246**	**$ 0.244**	**$ 0.251**	**$ 0.229**
Dividends Per Share	**$0.268**	**$0.234**	**$0.234**	**$0.234**	**$ 0.282**	**$ 0.234**	**$ 0.234**	**$ 0.234**

Note:
Fourth quarter dividends include one-time payout of accumulated excess earnings throughout the year

DIVIDENDS

For the fourth quarter and year ended December 31, 2014, the Corporation declared dividends totaling $5,402,269 and $19,510,113, respectively, or $0.268 and $0.970 per share versus $5,111,513 and $17,607,877 or $0.282 and $0.984 per share for the fourth quarter and year ended December 31, 2013. While the quantum of dividends paid for the year ended December 31, 2014 is higher compared to the prior year, the increase in the number of shares outstanding resulted in a decrease in dividends per share. The number of shares outstanding at December 31, 2014 was 20,162,266 as compared to 18,126,021 at December 31, 2013.

Year Ended	Dec 31, 2014	Dec 31, 2013	Change
Cash Flow From Operating Activities (net of interest expense)	$ 20,971,233	$ 19,190,936	**9%**
Profit	$ 19,510,113	$ 17,607,877	**11%**
Declared Dividends	$ 19,510,113	$ 17,607,877	**11%**
Excess Cash Flow From Operating Activities Over Declared Dividends	$ 1,461,120	$ 1,583,059	
Excess Profit Over Declared Dividends	$ -	$ -	

AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses totaled $2,446,717 as at December 31, 2014 (comprised mostly of accrued interest receivable) compared to $2,926,292 as at December 31, 2013, representing a decrease of 16%. The decrease is a result of the collection of interest during 2014 of interest on several of the Corporation's mortgage investments that were contractually accruing to pay out and had a large accrued balance receivable as at December 31, 2013.

MARKETABLE SECURITIES

During the year ended December 31, 2014, the Corporation acquired publicly traded units of two Canadian real estate investment trusts. The units were acquired through the exercise of warrants that were granted by the issuer as part of a loan facility to the issuer in which the Corporation was a participant. The units generate distributions that are consistent with the Corporation's overall yield objective. The $2,221,756 balance reported on the Corporation's balance sheet ended December 31, 2014 represents the fair value of the marketable securities comprising the portfolio (December 31, 2013 balance – nil). The Corporation's purchase price for the units was $2,148,790.

DEBENTURE PORTFOLIO INVESTMENT

The Corporation holds a small portfolio of publicly traded convertible debentures of Canadian real estate investment trusts. These investments, when purchased at the appropriate purchase price, generate interest income and yields that are consistent with the Corporation's overall yield objective. The $687,758 balance reported on the Corporation's balance sheet ended December 31, 2014 represents the fair value of the convertible debentures comprising the portfolio, and increased as compared to the $606,016 reported as at December 31, 2013.

BANK INDEBTEDNESS

Bank indebtedness decreased by approximately $30.1 million to $14,664,178 as compared to $44,765,238 as at December 31, 2013. The reduction in bank indebtedness during the year ended December 31, 2014 is primarily a result of (i) the receipt of the net proceeds from the issuance of equity during the year of approximately $23.6 million; (ii) the receipt of funds from increasing loans payable of approximately $10.6 million; and (iii) funds from miscellaneous other items of $1 million, offset by (i) the use of $3 million to increase the Investment Portfolio; and (ii) the use of $2.1 million for the purchase of marketable securities.

LOAN ON DEBENTURE PORTFOLIO INVESTMENT

The Corporation holds a small portfolio of publicly traded convertible debentures of Canadian real estate investment trusts within its debenture portfolio investment. As a result of the very attractive leverage available on the portfolio from an interest rate stand point, the Corporation has a loan payable against the portfolio in the amount of $331,800 as at December 31, 2014 (December 31, 2013 - $292,158). The loan essentially represents a margin loan against the debenture portfolio and is open for repayment at any time.

LOANS PAYABLE

Loans payable, which are borrowings matched to specific mortgages at fixed interest rates increased to $21,847,970 as at December 31, 2014 compared to $11,278,971 as at December 31, 2013 and are secured by a first priority charge on specific mortgage investments. The loans payable have maturity dates matching those of the underlying mortgages. The loans are on a non-recourse basis and are asset specific, such that the Corporation will not be liable for any deficiency sustained by the lender on any specific loan.

CONVERTIBLE DEBENTURES

As at December 31, 2014, the Corporation has four series of convertible debentures outstanding, as outlined below:

Ticker Symbol	Coupon	Issue Date	Maturity Date	Principal at Issue Date	Strike Price Per Share	Accounting Liability
FC.DB.A	5.75%	Oct 13, 2010	Oct 31, 2017	31,443,000	$ 15.90	30,748,803
FC.DB.B	5.40%	Aug 23, 2011	Feb 28, 2019	25,738,000	$ 14.35	24,657,119
FC.DB.C	5.25%	Mar 31, 2012	Mar 31, 2019	20,485,000	$ 14.80	19,462,971
FC.DB.D	4.75%	Mar 28, 2013	Mar 31, 2020	20,000,000	$ 15.80	18,877,903
Total / Average	**5.35%**			**$ 97,666,000**		**$ 93,746,796**

As at December 31, 2014, the current principal balance for the outstanding convertible debentures is $97,666,000. The recorded convertible debenture liability ended December 31, 2014 is $93,746,796 compared to $92,817,840 as at December 31, 2013. The weighted average effective interest rate is 5.35% per annum (5.35% as at December 31, 2013).

OTHER LIABILITIES

Other liabilities for the Corporation include the following:

Additional Liabilities	Dec. 31, 2014	Dec. 31, 2013	% Change
Accounts Payable and Accrued Liabilities	$ 2,123,043	$ 2,090,661	**2%**
Unearned Income	700,202	653,191	**7%**
Shareholder Dividend Payable	2,258,174	2,283,878	**(1%)**
Total	**$ 5,081,419**	**$ 5,027,730**	**1%**

Accounts payable and accrued liabilities of $2,123,043 as at December 31, 2014 was 2% higher in comparison to December 31, 2013. Accounts payable and accrued liabilities include interest payable on the Corporation's outstanding convertible debentures, loans payable and bank indebtedness of $1,362,151 and accrued liabilities of $743,894.

Unearned income relating to commitment fees generated on the Corporation's mortgage investments increased by 7% to $700,202 as at December 31, 2014 as compared to $653,191 as at December 31, 2013. The Corporation's policy is to recognize commitment fees over the term of the related loan where such fees are individually greater than $4,000. The unrecognized component of the fees is recorded as unearned income on the Corporation's balance sheet.

SHAREHOLDERS EQUITY

Shareholders' equity at December 31, 2014 totaled $209,189,119 compared to $185,646,856 as at December 31, 2013. The Corporation had 20,162,266 Shares issued and outstanding as at December 31, 2014, compared to 18,126,021 as at December 31, 2013. The majority of this increase is due to the issuance of 1,955,000 Shares at a price of $12.10 per Share on January 28, 2014 pursuant to a public offering of the Corporation's Shares, including the exercise of the underwriters' over-allotment option, for aggregate gross proceeds to the Corporation of $23,655,500. Proceeds net of offering costs totaled $22,469,258.

IMPAIRMENT LOSS

Investments consist of participation in mortgage loans and real estate related debt investments. Such investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage loans are measured at amortized cost using

the effective interest method, less any impairment losses. The Company assesses individually significant investments at each reporting date to determine whether there is objective evidence of impairment. An impairment loss in respect of the investments measured at amortized cost is calculated as the difference between its carrying amount and the amount of the future cash flows estimated to be recovered on the loan security. Estimates and assumptions are made as to the gross sale proceeds that would be generated on the forced sale of the real property securing the related mortgage loan and reflect estimates of the current local market conditions. Estimates are made as to the costs of enforcing under the mortgage loan and of realizing on the real property. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Losses are recognized in the statement of income and reflected in an impairment provision against the investments. Interest on the impaired asset continues to be recognized to the extent it is deemed to be collectable.

Investments that have been assessed individually and found not to be impaired and all individually insignificant mortgages are then assessed collectively in groups of mortgages with similar risk characteristics, to determine whether a collective allowance should be recorded due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account (i) data from the Investment Portfolio (such as borrower financial position, loan defaults and arrears, loan to value ratios, etc.); (ii) economic data (including current real estate prices for various real estate asset categories); and (iii) actual historical loan losses. Modeling and projections based on historical loan losses have not been done given that no actual loan losses have been incurred. The impact of the assumed theoretical declines in real estate values on the collective loan category is also considered. The conclusion of this assessment is that zero collective allowance is required to be taken.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or profit. The impairment provision stood at $3,360,000 as at December 31, 2014 (December 31, 2013 - $3,330,000) and represents the total amount of management's estimate of the shortfall between the Investment Portfolio principal balances and the estimated net realizable recovery from the collateral securing the loans. The impairment provision of $3,360,000 as at December 31, 2014, represents approximately 1% of the Investment Portfolio balance.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is complete, reliable and timely. In addition, the Corporation's Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Corporation, and have reviewed and approved this MD&A as well as the audited financial statements as at December 31, 2014 and 2013.

CONTROLS AND PROCEDURES

The Corporation maintains appropriate information systems, procedures and controls to ensure that information disclosed externally is complete, reliable, and timely. The Corporation's Chief

Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of the design and operating effectiveness of the Corporation's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2014 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

The Corporation has also established adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS for periods effective January 1, 2010. The Corporation's Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision, of the design and operating effectiveness of the Corporation's internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2014 . Based on that assessment, it was determined that the Corporation's internal controls over financial reporting were appropriately designed and were operating effectively.

The Corporation did not make any changes to the design of the Corporation's internal controls over financial reporting during the year ended December 31, 2014 that would have materially affected or would be reasonably likely to materially affect the Corporation's internal controls over financial reporting.

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

RELATED PARTY TRANSACTIONS

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

The Corporation Manager (a company related to officers and/or directors of the Corporation) receives an allocation of interest, referred to as Corporation Manager spread interest, calculated as 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the year ended December 31, 2014, this amount was $2,586,438 (2013 - $2,268,228) and for the three months ended December 31, 2014, this amount was $636,316 (2013 - $611,984). Included in accounts payable and accrued liabilities of the Corporation ended December 31, 2014 are amounts payable to the Corporation Manager of $194,431 (December 31, 2013 - $208,649).

The total directors' fees paid for the year ended December 31, 2014 was $171,625 (December 31, 2013 - $163,500). Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation Manager.

During the year ended December 31, 2014, directors were awarded nil options (2013 – 815,000 options) under the Corporation's incentive option plan.

The Mortgage Banker (a company related to the president of the Corporation) receives certain fees directly from borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all the commitment and renewal fees generated from the Corporation's investments; and 25% of all the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income is net of the loan servicing fees paid to the Mortgage Banker of approximately $345,000 for the year ended December 31, 2014 (December 31, 2013 - $302,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments. The Corporation's share of commitment and renewal fees recorded in income for the year ended December 31, 2014 was $1,580,911 (2013 - $1,430,351) and for the quarter ended December 31, 2014 was $570,215 (2013 - $404,683) and applicable special profit income for the year ended December 31, 2014 was $711,344 (2013 - $1,338,112) and for the quarter ended December 31, 2014 $204,655 (2013 – $226,587).

The Corporation Management Agreement and Mortgage Banking Agreement contain provisions for the payment of termination fees to the Corporation Manager and Mortgage Banker in the event that the respective agreements are either terminated or not renewed.

Several of the Corporation's investments are shared with other investors of the Mortgage Banker, which may include members of management of the Mortgage Banker and/or officers or directors of the Corporation. The Corporation ranks equally with other members of the syndicate as to receipt of principal and income.

Mortgages totaling $10,684,581 (December 31, 2013 - $18,397,287) are outstanding to borrowers controlled by an independent director of the Corporation. Each investment is dealt with in accordance with the Corporation's existing investment and operating guidelines.

Related party transactions are further discussed and detailed in the AIF and in Note 12 of the accompanying financial statements.

INCOME TAXES

The Corporation qualifies as a mortgage investment corporation within the meaning of the Income Tax Act (Canada). As such, the Corporation is entitled to deduct from its taxable income dividends paid to shareholders during the year or within the first 90 days of the following taxation year. In order to maintain its status as a mortgage investment corporation, the Corporation must continually meet all criteria enumerated in the relevant section of the Income Tax Act (Canada) throughout such taxation year. The Corporation intends to maintain its status as a mortgage investment corporation and intends to distribute sufficient dividends in the year and in future years to ensure that the Corporation has no tax payable under the Income Tax Act (Canada).

Accordingly, for financial statement reporting purposes, the tax deductibility of the Corporation's dividends results in the Corporation being effectively exempt from taxation and no provision for current or deferred income taxes is required.

ENVIRONMENTAL MATTERS

Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The existence of such liability can have a negative impact on the value of the underlying real property securing a mortgage. The Corporation does not own the real property securing its Investment Portfolio and thus would not attract the environmental liability that an owner would be exposed to. In rare circumstances where a mortgage is in default, the Corporation may take possession of real property and may become liable for environmental issues as a mortgagee in possession. The Corporation obtains phase 1 environmental reports for mortgages where the Mortgage Banker determines that such reports would be prudent given the nature of the underlying property.

CRITICAL ACCOUNTING ESTIMATES

The determination of the impairment provision for the Investment Portfolio is a critical accounting estimate.

The Investment Portfolio is classified as loans and receivables. Such investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition the mortgage loans are measured at amortized cost using the effective interest method, less any impairment losses. The mortgage investments are assessed at each reporting date to determine whether there is objective evidence of impairment. An impairment loss in respect of the mortgage investments measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows and cash recoveries discounted at the asset's original effective interest rate. Losses are recognized in the statement of income and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or profit. Management is required to consider the estimated future cash flow recovery from the collateral securing the mortgage investments. The estimation of cash flow recovery is performed on an individual mortgage basis and is based on assumptions pertinent to each mortgage investment. Each mortgage analysis often has unique factors that are considered in determining the cash flow and realizable value of the underlying security. The estimates are based on historical experience and other assumptions that management believes are responsible and appropriate in the circumstances. Actual results may differ from these estimates.

FINANCIAL INSTRUMENTS

The fair values of amounts receivable and prepaid expenses, bank indebtedness, accounts payable and accrued liabilities and shareholder dividends payable approximate their carrying values due to their short-term maturities.

The fair value of the Investment Portfolio approximates its carrying value as the majority of the loans are repayable in full at any time without penalty, and have floating interest rates. There is no quoted price in an active market for the mortgage and loan investments or mortgage

syndication liabilities. Management makes its determinations of fair value based on its assessment of the current lending market for mortgage and loan investments of same or similar terms. As a result, the fair value of mortgage and loan investments is based on Level 3 on the fair value hierarchy.

The fair values of loans payable approximate their carrying values due to the fact that the majority of the loans are: (i) repayable in full, at any time upon the borrower under the underlying loan that secures the loan payable, repaying their loan without penalty; and (ii) have floating interest rates linked to bank prime interest rate.

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

The fair value of the debenture portfolio investment has been determined based on the closing price of convertible debenture securities of the respective listed entities on the Toronto Stock Exchange for the respective date.

The fair value of loans on the debenture portfolio approximates its carrying value due to the fact that it is fully open for repayment and has a floating rate of interest.

The tables in note 16 to the financial statements present the fair values of the Corporation's financial instruments as at December 31, 2014 and 2013. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

CONTRACTUAL OBLIGATIONS

Contractual obligations as at December 31, 2014 are due as follows:

	Total	Less than 1 Year	1 - 3 Years	4 - 6 Years
Bank Indebtedness	$ 14,664,178	$ 14,664,178	-	-
Accounts Payable & Accrued Liabilities	2,123,043	2,123,043	-	-
Loan on Debenture Portfolio Investment	331,800	331,800	-	-
Shareholder Dividend Payable	2,258,174	2,258,174	-	-
Loans Payable	21,847,970	-	21,847,970	-
Convertible Debentures	97,666,000	-	31,443,000	66,223,000
Total Liabilities	$ 138,891,165	$ 19,377,195	$ 53,290,970	$ 66,223,000
Future Advances Under Investment Portfolio	83,646,839	83,646,839	-	-
Contractual Obligations	**$ 222,538,004**	**$ 103,024,034**	**$ 53,290,970**	**$ 66,223,000**

SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies is described in note 3 of the Corporation's financial statements for the year ended December 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

As a result of the Corporation's intent to qualify as a mortgage investment corporation, the Corporation intends to distribute no less than 100% of the taxable income of the Corporation, determined in accordance with the Income Tax Act (Canada), to its shareholders. The result is that growth in the Investment Portfolio can only be achieved through the raising of additional equity, issuing debt and utilizing available borrowing capacity. As at December 31, 2014, the Corporation had not utilized its full leverage availability, being a maximum of 60% of its first mortgage investments. Un-advanced committed funds under the existing Investment Portfolio amounted to $83,646,839 as at December 31, 2014 ($87,303,906 as at December 31, 2013). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments under the Investment Portfolio. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between mortgage advances and mortgage repayments. There are limitations in the availability of funds under the revolving line of credit which is made up of a committed component and a demand component. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing investments and funding commitments.

RISKS AND UNCERTAINTIES

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

The Corporation is faced with the following ongoing risk factors, among others, that would affect shareholders' equity and the Corporation's ability to generate returns. A greater discussion of risk factors that affect the Corporation are included in the AIF under the section "Risk Factors", which section is incorporated herein by reference.

- *Economic conditions that would result in a significant decline in real estate values and corresponding loan losses.*
- *The inability to obtain borrowings and leverage, thus reducing yield enhancement.*
- *Dependence on the Corporation Manager and Mortgage Banker.* The Corporation's earnings are impacted by the Mortgage Banker's ability to source and generate appropriate investments that provide sufficient yields while maintaining pre-determined risk parameters. The Corporation has also entered into long-term contracts with the Mortgage Banker and the Corporation Manager, as more particularly described in the AIF. The Corporation is exposed to adverse developments in the business and affairs of the Corporation Manager and Mortgage Banker, since the day to day activities of the Corporation are run by the Corporation Manager and since all of the Corporation's investments are originated by the Mortgage Banker.
- *Portfolio face rate fluctuations.* The interest rate earned on the Corporation's Investment Portfolio fluctuates given that (i) it continually revolves given that it is short term in nature; and (ii) the portfolio is predominately floating rate interest with floors.
- *Interest rate risk.* The Corporation's operating loan is floating rate and an increase in short term rates would increase the Corporation's cost of borrowing.
- *No guaranteed return.* There is no guarantee as to the return that an investment in Shares of the Corporation will earn.
- *Qualification as a Mortgage Investment Corporation.* Although the Corporation intends to qualify at all times as a mortgage investment corporation, no assurance can be provided in this regard. If for any

reason the Corporation does not maintain its qualification as a mortgage investment corporation under the Tax Act, dividends paid by the Corporation on the Shares will cease to be deductible by the Corporation in computing its income and will no longer be deemed by the rules in the Tax Act that apply to mortgage investment corporations to have been received by shareholders as bond interest or a capital gain, as the case may be. In consequence, the rules in the Tax Act regarding the taxation of public corporations and their shareholders should apply, with the result that the combined corporate and shareholder tax may be significantly greater.

- *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 general economy and marketplace. Increased competition in the lending market place in which the Corporation operates from chartered banks or other public or private lending entities may impact the availability of suitable investments and achievable investment yields for the Corporation.
- *Limited sources of borrowing*. The Canadian financial marketplace is characterized as having a limited number of financial institutions that provide credit to entities such as ours. The limited availability of sources of credit may limit our ability to take advantage of leveraging opportunities to enhance the yield on our mortgage investments.
- *Specific investment risk for non-conventional mortgage and second mortgage investments*. Non-conventional and second mortgage investments attract higher loan loss risk due to their subordinate ranking to other mortgage charges and sometimes high loan to value ratio. Consequently, this higher risk is compensated for by a higher rate of return. In order to mitigate risk and maintain a well-diversified investment portfolio, the operating policies of the Corporation generally limit the amount of non-first mortgage investments to a maximum of 30% of the Corporation's capital, subject to the Board of Directors' approval for any modifications to the operating policies.
- *Specific 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.
- *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.

SUBSEQUENT EVENTS

On March 23, 2015, the Corporation completed a private placement of 80,000 common shares at a subscription price of $12.25 per share resulting in gross proceeds of $980,000.

OUTLOOK

The investment strategy implemented for 2014 permitted us to meet our preservation of capital objectives. We see very little change for 2015 other than paying very close attention to economic changes due to energy price issues in Canada and the resulting impact on real estate. For the balance of 2015, we anticipate that the Corporation will continue to exceed its stated objective of generating a return on its equity of 400 basis points over the average one year Government of Canada treasury bill yields. We have exceeded this stated objective since going public.

We are pleased with the current average yield on our Investment Portfolio, given the shift made during 2014 in our Investment Portfolio towards a higher concentration of conventional first mortgages. We have shifted towards a higher concentration of conventional first mortgages as these investments have lower risk profiles. We continue to be concerned with the impact the current market overabundance of capital may have on real estate valuations, plus the added risk factors resulting from the dramatic price reduction in oil and its impact.

In 2015, we hope to; (i) increase our related investment and conventional non-first mortgage investments categories by focusing on investments to large players in the market; (ii) attempt to seek out market niches that others are not focused on; and (iii) reach out to our deep pool of long standing repeat clients who are financially strong and can address economic market changes. The additional yield achievable on related investments and conventional non-first mortgages will offset lower yields that the Corporation is content to take on conventional first mortgages where risk profiles of certain conventional first mortgages warrant lower interest rates.

The overabundance of capital in the market has resulted in borrowers requesting loan structures that incorporate either too much risk exposure or too little return for the loan parameters. The Corporation will not lend in these situations.

Financial Statements of

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Years ended December 31, 2014 and 2013

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Firm Capital Mortgage Investment Corporation

We have audited the accompanying financial statements of Firm Capital Mortgage Investment Corporation, which comprise the balance sheets as at December 31, 2014 and 2013, the statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Firm Capital Mortgage Investment Corporation as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 24, 2015
Toronto, Canada

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KPMG Canada provides services to KPMG LLP

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Balance Sheets

(in Canadian dollars)

As at	Dec. 31, 2014	Dec. 31, 2013
Assets		
Amounts receivable and prepaid expenses (note 4)	$ 2,446,717	$ 2,926,292
Marketable securities (note 5)	2,221,756	--
Debenture portfolio investment	687,758	606,016
Investment portfolio (note 6)	339,505,051	336,296,485
Total assets	$ 344,861,282	$ 339,828,793
Liabilities		
Bank indebtedness (note 7)	$ 14,664,178	$ 44,765,238
Loan on debenture portfolio investment	331,800	292,158
Accounts payable and accrued liabilities	2,123,043	2,090,661
Unearned income	700,202	653,191
Shareholder dividend payable	2,258,174	2,283,878
Loans payable (note 8)	21,847,970	11,278,971
Convertible debentures (note 9)	93,746,796	92,817,840
Total liabilities	135,672,163	154,181,937
Shareholders' Equity		
Common shares	207,378,123	183,908,682
Equity component convertible debentures	1,960,000	1,960,000
Stock options	98,894	100,000
Contributed surplus	962	-
Deficit	(321,826)	(321,826)
Accumulated other comprehensive income	72,966	--
Total shareholders' equity	209,189,119	185,646,856
Commitments (note 6)		
Contingent liabilities (note 15)		
Total liabilities and shareholders' equity	$ 344,861,282	$ 339,828,793

See accompanying notes to financial statements.

On behalf of the Directors:

(Signed) Eli Dadouch	*(Signed) Jonathan Mair*
ELI DADOUCH	JONATHAN MAIR
Director	Director

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Income

Years ended December 31, 2014 and 2013

(in Canadian dollars)

		2014		2013
Interest and fees earned	$	30,691,450	$	28,471,071
		30,691,450		28,471,071
Corporation manager interest allocation (note 13)		2,586,438		2,268,228
Interest expense (note 14)		7,759,154		7,420,281
General and administrative expenses		805,745		1,024,685
Impairment loss on investment portfolio		30,000		150,000
		11,181,337		10,863,194
Income and profit for the year	$	19,510,113	$	17,607,877
Profit per share (note 11)				
Basic		$0.976		$0.987
Diluted		$0.965		$0.970

See accompanying notes to financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Comprehensive Income

Years ended December 31, 2014 and 2013

(in Canadian dollars)

		2014		2013
Income and profit for the year	$	19,510,113	$	17,607,877
Other comprehensive income:				
Change in unrealized gain on marketable securities		72,966		-
Total comprehensive income for the year	$	19,583,079	$	17,607,877

See accompanying notes to financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Changes in Shareholders' Equity

Years ended December 31, 2014 and 2013

(in Canadian dollars)

	Common Shares	Equity component convertible debentures	Stock options	Contributed surplus	Deficit	Accumulated other comprehensive income	Shareholders' equity
Balance at January 1, 2014	183,908,682	1,960,000	100,000	-	(321,826)	-	185,646,856
Proceeds from issuance of shares in new offering	23,655,500	-	-	-	-	-	23,655,500
Offering costs	(1,186,242)	-	-	-	-	-	(1,186,242)
Proceeds from issuance of shares from dividend reinvestment	982,369	-	-	-	-	-	982,369
Exercise of stock options	17,814	-	(144)	-	-	-	17,670
Forfeiture of stock options	-	-	(962)	962	-	-	-
Change in fair value of available for sale financial assets	-	-	-	-	-	72,966	72,966
Income and profit for the year	-	-	-	-	19,510,113	-	19,510,113
Dividends to shareholders	-	-	-	-	(19,510,113)	-	(19,510,113)
Balance at December 31, 2014	**207,378,123**	**1,960,000**	**98,894**	**962**	**(321,826)**	**72,966**	**209,189,119**
Shares issued and outstanding (note 10)	20,162,266						

	Common Shares	Equity component convertible debentures	Stock options	Contributed surplus	Deficit	Adjusted other comprehensive income	Shareholders' equity
Balance at January 1, 2013	174,982,358	1,717,876	-	-	(321,826)	-	176,378,408
Proceeds from issuance of shares from dividend reinvestment	1,613,306		-	-	-	-	1,613,306
Conversion of debentures	7,313,018	(187,876)	-	-	-	-	7,125,142
Equity component of debentures issued during the year	-	430,000	-	-	-	-	430,000
Stock based compensation	-	-	100,000	-	-	-	100,000
Income and profit for the year	-	-	-	-	17,607,877	-	17,607,877
Dividends to shareholders	-	-	-	-	(17,607,877)	-	(17,607,877)
Balance at December 31, 2013	**183,908,682**	**1,960,000**	**100,000**	**-**	**(321,826)**	**-**	**185,646,856**
Shares issued and outstanding (note 10)	18,126,021						

See accompanying notes to financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Cash Flows

Years ended December 31, 2014 and 2013

(in Canadian dollars)

	2014	2013
Cash provided by (used in):		
Operating activities:		
Total income and profit for the year	$ 19,510,113	$ 17,607,877
Adjustments for:		
Financing costs (net of implicit interest rate and accrued interest)	6,830,198	6,436,289
Implicit interest rate in excess of coupon rate - convertible debentures	257,362	263,454
Change in impairment loss on investment portfolio	30,000	150,000
Deferred finance cost amortization - convertible debentures	671,594	720,538
Share-based compensation	-	100,000
Net change in non-cash operating items:		
Increase in accrued interest	(56,803)	(233,303)
Decrease in amounts receivable and prepaid expenses	479,575	99,765
Increase in accounts payable and accrued liabilities	32,382	349,469
Increase in unearned income	47,011	133,136
Net cash flow from operating activities	$ 27,801,432	$ 25,627,225
Financing activities:		
Proceeds from issuance of shares in new offerings	23,655,500	-
Proceeds from issuance of shares from dividend reinvestment	982,369	1,613,306
Proceeds from exercise of stock options	17,670	-
Proceeds from convertible debenture issued	-	20,000,000
Repayment of convertible debentures	-	(2,255,000)
Debenture offering costs	-	(1,054,583)
Offering costs	(1,186,242)	-
Funding/(repayment) of loans payable (net)	10,568,999	2,233,240
Funding of loan on debenture portfolio	39,642	292,158
Cash interest paid (note 14)	(6,773,395)	(6,202,986)
Dividends to shareholders paid during the year	(19,535,817)	(17,624,217)
Net cash flow from (used in) financing activities	$ 7,768,726	$ (2,998,082)
Investing activities:		
Net purchases of marketable securities	(2,148,790)	-
Funding of debenture portfolio investment	(81,742)	(606,016)
Funding of investments portfolio	(310,684,587)	(255,545,132)
Discharging of investments portfolio	307,446,021	213,135,918
Net cash flow used in investing activities	$ (5,469,098)	$ (43,015,230)
Net decrease (increase) in bank indebtedness for the year	30,101,060	(20,386,087)
Bank indebtedness, beginning of year	(44,765,238)	(24,379,151)
Bank indebtedness, end of year	$ (14,664,178)	$ (44,765,238)
Cash flows from operating activities include:		
Interest received	$ 28,580,688	$ 26,003,753

See accompanying notes to financial statements.

1. Organization of the Corporation:

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

2. Basis of presentation:

(a) Statement of compliance:

The financial statements of the Corporation have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and were approved by the Board of Directors on March 24, 2015.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss ("FVTPL") or available for sale (through accumulated other comprehensive income), which are measured at fair value.

(c) Functional and presentation currency:

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

(d) Critical estimates and judgements:

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

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Revisions to accounting estimates are recognized in the year in which estimates are revised. Those estimates and judgements have been applied in a manner consistent with prior years and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgements in these audited financial statements. The significant estimates and judgements used in determining the recorded amount for assets and liabilities in the financial statements are as follows:

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

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

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

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

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

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

3. Summary of significant accounting policies:

The Corporation's accounting policies and its standards of financial disclosure set out below are in accordance with IFRS and have been applied consistently to all periods presented in these financial statements.

(a) Investment portfolio:

The investment portfolio is classified as loans and receivables. Such investments are recognized initially at cost plus any directly attributable transaction costs. Subsequent to initial recognition, the investment loans are measured at amortized cost using the effective interest method, less any impairment provisions.

The investments are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of an asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company assesses individually significant investments at each reporting date to determine whether there is objective evidence of impairment. An impairment loss in respect of the investments measured at amortized cost is calculated as the difference between its carrying amount and the amount of the future cash flows estimated to be recovered on the loan security. Estimates and assumptions are made as to the gross sale proceeds that would be generated on the forced sale of the real property securing the related mortgage loan, and reflect estimates of the current local market conditions. Estimates are made as to the costs of enforcing under the mortgage loan and of realizing on the real property. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Losses are recognized in the statement of income and reflected in an impairment provision against the investments. Interest on the impaired asset continues to be recognized to the extent it is deemed to be collectable.

Investments that have been assessed individually and found not to be impaired and all individually insignificant mortgages are then assessed collectively, in groups of mortgages with similar risk characteristics, to determine whether a collective allowance should be recorded due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account (i) data from the investment portfolio (such as borrower financial position, loan defaults and arrears, loan to value ratios, etc.), (ii) economic data (including current real estate prices for various real estate asset categories), and (iii) actual historical loan losses. Modeling and projections based on historical loan losses have not been done given that no actual loan losses have been incurred. The impact of the assumed theoretical declines in real estate values on the collective loan category is also considered. The conclusion of this assessment is that zero collective allowance is required to be taken.

(b) Revenue recognition:

(i) Interest and fee income: Interest income is accounted for on the accrual basis. Commitment fees received are amortized over the expected term of the investment.

(ii) Non-conventional mortgages: Special profit and interest participations earned by the Corporation on non-conventional mortgages are recognized and included in interest and fees earned only once the receipt of such amounts is certain.

(c) Share-based compensation:

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

(d) Income taxes:

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

(e) Financial assets and liabilities:

Financial assets include the Corporation's amounts receivable and prepaid expenses, marketable securities, debenture portfolio investment, and investment portfolio. Financial liabilities include bank indebtedness, loan on debenture portfolio investment, accounts payable and accrued liabilities, shareholder dividend payable, loans payable, and convertible debentures.

The Corporation classifies its financial assets into the following categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, and available for sale. Marketable securities have been designated as available for sale. Internal reporting and performance measurement of these investments are on a fair value basis and are based on prices as quoted in an active public marketplace. Debenture portfolio investments have been designated as at FVTPL because the Corporation manages these investments on a fair value basis in accordance with its investment strategy. Internal reporting and performance measurement of these investments are on a fair value basis. Amounts receivable and investment portfolio are classified as loans and receivables.

The Corporation classifies its financial liabilities into the other liabilities category.

Recognition and measurement of financial instruments

The Corporation determines the classification of its financial assets and liabilities at initial recognition. Financial instruments are recognized initially at fair value and in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs. Financial assets classified as at FVTPL are subsequently measured at fair value using the bid/ask price, with gains and losses recognized in profit or loss. Financial instruments classified as loans and receivables or other liabilities are subsequently measured at amortized cost.

(f) Derecognition of financial assets and liabilities:

(i) Financial assets:

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

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

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

(ii) Financial liabilities:

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

(g) Compound financial instruments:

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

(h) Share capital:

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

(i) Basic and diluted per share calculation:

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

(j) New accounting policies:

On January 1, 2014, the Corporation adopted the following accounting policies as described below:

IAS 32, Financial Instruments: Presentation ("IAS 32"):

Offsetting financial assets and financial liabilities

Effective January 1, 2014 the MIC adopted the accounting amendments to IAS 32 “Financial Instruments: Presentation” issued by IASB

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to offset if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The MIC has applied the amendments to IAS 32 in its financial statements retrospectively. The change had no significant impact on the presentation of the MIC’s financial assets and financial liabilities.

(k) Future changes in accounting policies:

(i) IFRS 15 Revenue from Contracts with Customers ("IFRS 15"):

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

(ii) IFRS 9, Financial instruments ("IFRS 9"):

In July 2014, the IASB issued the complete IFRS 9, replacing IAS 39, Financial Instruments – Recognition and Measurement. IFRS 9 introduces new requirements for classification and measurement, impairment and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(iii) Disclosure Initiative: Amendments to IAS 1 ("IAS 1"):

In December 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

4. Amounts receivable and prepaid expenses:

The following is a breakdown of amounts receivable and prepaid expenses as at December 31, 2014 and 2013:

	2014	2013
Interest receivable	$ 2,189,982	$ 2,371,476
Prepaid expenses	98,551	117,002
Fees receivable	158,184	224,083
Special income receivable	-	157,500
Accounts receivable	-	56,231
Amounts receivable and prepaid expenses	$ 2,446,717	$ 2,926,292

5. Marketable securities:

The Corporation holds investments in real estate investment trust units which are classified as available for sale. The fair value of the units is based on the closing price of the units which are actively traded in the market place and any adjustments to fair value are reflected in the Statements of Comprehensive Income untl the investments are disposed of or impaired, at which time the Corporation would record the change in fair value in the Statements of Income. The fair value of the units at December 31, 2014 is $2,221,756 (2013 - nil). For the year ended December 31, 2014 the Corporation recorded an unrealized gain of $72,966 (2013 - nil) with a corresponding increase in other comprehensive income.

6. Investment portfolio:

The following is a breakdown of the investment portfolio as at December 31, 2014 and 2013:

	2014		2013	
Conventional first mortgages	$ 249,021,514	72.63%	$ 217,909,340	64.16%
Conventional non-first mortgages	30,551,339	8.91%	30,597,843	9.01%
Related investments	48,313,224	14.09%	58,124,384	17.11%
Discounted debt investments	4,903,900	1.43%	5,010,150	1.48%
Non-conventional mortgages	10,075,074	2.94%	27,984,768	8.24%
Total investments (at amortized cost)	$ 342,865,051	100.00%	$ 339,626,485	100.00%
Impairment provision	(3,360,000)		(3,330,000)	
Investment portfolio	$ 339,505,051		$ 336,296,485	

Note 1: $29,325,589 (2013 - $17,264,353) of the mortgages within the conventional first mortgage portfolio have first priority syndicate participations totalling $21,847,970 (2013 - $11,278,971)(recorded on the Corporation's balance sheets as loans payable (see note 8)). The Corporation's net investment in these mortgages is $7,477,619 (2013 - $5,985,382).

Conventional first mortgages are loans secured by a first priority mortgage charge with loan to values not exceeding 75%. Conventional non-first mortgages are loans with mortgage charges not registered in first priority with loan to values not exceeding 75%. Related investments are loans that may not necessarily be secured by mortgage charge security. Discounted debt investments are loans purchased from arms-length third parties at a discount to their face value. Non-conventional mortgages are loans that in some cases have loan to values that exceed or may exceed 75% and are investments that are the source of all special profit participation earned by the Corporation.

The investment portfolio is stated at amortized cost. The impairment provision in the amount of $3,360,000 as at December 31, 2014, (2013 - $3,330,000) represents the total amount of management's estimate of the shortfall between the investment principal balances and the estimated recoverable amount from the security under the loans.

The loans comprising the investment portfolio bear interest at the weighted average rate of 8.29% per annum (2013 - 8.58% per annum) and mature between 2015 and 2018.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to $83,646,839 as at December 31, 2014 (December 31, 2013 - $87,303,906).

Principal repayments based on contractual maturity dates are as follows:

2015	$	206,220,753
2016		106,579,298
2017		29,467,500
2018		597,500
2019		-
	$	342,865,051

Borrowers who have open loans have the option to repay principal at any time prior to the maturity date.

Mortgage syndications:

The Corporation enters into participation agreements with respect to certain mortgage investments from time to time, whereby the other participating investors take the senior position and the Corporation retains a subordinated position. Under certain of these participation agreements, the Corporation has retained a residual portion of the credit and/or default risk as a result of holding the subordinated interest in the mortgage and has therefore not met the derecognition criteria described in note 3(f).

The portion of such mortgage interests which have been transferred to other participating investors is included in investment portfolio and recorded as loans payable (note 8). Any interest and fees earned on the transferred participation interests and the related interest expense is recognized in income and profit.

As at December 31, 2014 the carrying value of the transferred participating interests in the Corporations investment portfolio and loans payable is $21,847,970 (December 31, 2013 - $11,278,971).

7. Bank indebtedness:

The Corporation has entered into credit arrangements, of which $14,664,178 has been drawn as at December 31, 2014 (December 31, 2013 - $44,765,238). Interest on bank indebtedness is predominantly charged at a formula rate that varies with bank prime and may have a component with a fixed interest rate established based on a formula linked to bankers' acceptance rates. The credit arrangement comprises a revolving operating facililty, a component of which is a demand facility and a component of which has a committed term to September 30, 2015. Bank indebtedness is secured by a general security agreement. The credit agreement contains certain financial covenants that must be maintained. As at December 31, 2014 and 2013, the Corporation was in compliance with all financial covenants.

8. Loans payable:

First priority charges on specific mortgage investments have been granted as security for the loans payable. The loans mature on dates consistent with those of the underlying mortgages. The loans are on a non-recourse basis and bear interest at rates ranging from 4.75% to 5.89% as at December 31, 2014 (2013 - 4.60% to 6.45%). The Corporation's principal balance outstanding under the mortgages for which a first priority charge has been granted is $29,325,589 as at December 31, 2014 (2013 - $17,264,353).

The loans are repayable at the earlier of the contractual expiry date of the underlying mortgage investment and the date the underlying mortgage is repaid. Repayments based on contractual maturity dates are as follows:

2015	$	17,530,470
2016		4,317,500
2017		-
2018		-
2019		-
	$	21,847,970

9. Convertible debentures:

Year Ended	2014	2013
Liability component, beginning of year	$ 92,817,840	$ 82,698,573
Issued	-	18,515,417
Conversions of debentures to shares	-	(7,125,142)
Repayments upon maturity	-	(2,255,000)
Implicit interest rate in excess of coupon rate	257,362	263,454
Deferred finance cost amortization	671,594	720,538
Liability component, end of year	$ 93,746,796	$ 92,817,840

The breakdown of the convertible debentures for the year ended December 31, 2014 presented in the above table is as follows:

Convertible debenture	5.75%	5.40%	5.25%	4.75%	Total
Principal balance,	$ 30,504,616	$ 24,404,258	$ 19,237,642	$ 18,671,324	$ 92,817,840
Implicit interest rate in excess of coupon rate	32,743	79,403	90,780	54,436	257,362
Deferred finance cost amortization	211,444	173,458	134,549	152,143	671,594
Principal balance, end of year	$ 30,748,803	$ 24,657,119	$ 19,462,971	$ 18,877,903	$ 93,746,796
Maturity Date	Oct 31, 2017	Feb 28, 2019	Mar 31, 2019	Mar 31, 2020	

The breakdown of the convertible debentures for the year ended December 31, 2013 is as follows:

Convertible debenture	6.00%	5.75%	5.40%	5.25%	4.75%	Total
Principal balance, beginning of year	$ 9,263,022	$ 30,262,286	$ 24,155,841	$ 19,017,424	$ -	$ 82,698,573
Issued	-	-	-	-	18,515,417	18,515,417
Conversions	(7,125,142)	-	-	-	-	(7,125,142)
Implicit interest rate in excess of coupon rate	32,328	30,887	74,959	85,669	39,611	263,454
Deferred finance cost amortization	84,792	211,443	173,458	134,549	116,296	720,538
Repayments	(2,255,000)	-	-	-	-	(2,255,000)
Principal balance, end of year	$ -	$ 30,504,616	$ 24,404,258	$ 19,237,642	$ 18,671,324	$ 92,817,840
Maturity Date	Jun 30, 2013	Oct 31, 2017	Feb 28, 2019	Mar 31, 2019	Mar 31, 2020	

In 2014, nil (2013 - $6,747,000) of the 6.00% debentures were converted by the debenture holders to nil shares of the Corporation (2013 - 574,204).

In the first quarter of 2013, the Corporation completed a public offering of 20,000, 4.75% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $20,000,000. The debentures mature on March 31, 2020 and interest is paid semi-annually on March 31 and September 30. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $15.80. The debentures may not be redeemed by the Corporation prior to March 31, 2016. On or after March 31, 2016, but prior to March 31, 2017, the debentures are redeemable at a price equal to the principal, plus accrued interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2017 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

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

Liability	$	19,570,000
Equity		430,000
Principal	$	20,000,000

As at December 31, 2014, debentures payable bear interest at the weighted average effective rate of 5.35% (2013 - 5.35%) per annum. Notwithstanding the carrying value of the convertible debentures, the principal balance outstanding to the debenture holders is $97,666,000 as at December 31, 2014 (2013 - $97,666,000).

10. Shareholders' equity:

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

(a) Shares issued and outstanding:

The following shares were issued and outstanding as at December 31, 2014:

	# of shares		Amount
Balance, beginning of year	18,126,021	$	183,908,682
New shares from equity offering	1,955,000		23,655,500
Equity offering costs	-		(1,186,242)
Options exercised in the year	1,500		17,625
New shares issued during the year under Dividend Reinvestment Plan	79,745		982,414
Balance, end of year	20,162,266	$	207,377,979

The following shares were issued and outstanding as at December 31, 2013:

	# of shares		Amount
Balance, beginning of year	17,425,884	$	174,982,358
New shares from conversion of debentures	574,204		7,313,018
New shares issued during the year under Dividend Reinvestment Plan	125,933		1,613,306
Balance, end of year	18,126,021	$	183,908,682

In the first quarter of 2014, the Corporation completed a public offering of 1,955,000 shares at $12.10 per share.

(b) Incentive option plan:

In the fourth quarter of 2013, the Corporation granted 1,040,000 options at an exercise price of $11.78 per share. These options fully vested upon granting. During the year ended December 31, 2013, the Corporation recognized a $100,000 compensation expense in the statements of comprehensive income under general and administrative expenses. Fair value of these options was determined using the Black-Scholes option pricing model with the following assumptions:

Average expected option holding period	10 years
Average expected volatility rate	12.04%
Average dividend yield	8.31%
Average risk-free interest rate	3.01%

The average expected option holding period is estimated to be the full life of the respective option contract.

Expected volatility is based on the historical volatility of the Corporation's shares (and comparable companies). The risk-free interest rate is the yield on zero-coupon Government of Canada bonds of a term consistent with the assumed option life.

As at December 31, 2014, 1,500 options were exercised, 10,000 options were forfeited and 1,028,500 remained outstanding (2013 - 1,040,000).

(c) Dividend reinvestment plan and direct share purchase plan:

The Corporation has a dividend reinvestment plan and direct share purchase plan for its shareholders which allows participants to reinvest their monthly cash dividends in additional shares of the Corporation at a share price equivalent to the weighted average price of shares for the preceding five-day period.

11. Per share amounts:

Profit per share calculation:

The following tables reconciles the numerators and denominators of the basic and diluted profit per share for the years ended December 31, 2014 and 2013.

Basic profit per share calculation:

	2014	2013
Numerator for basic profit per share:		
Profit	$ 19,510,113	$ 17,607,877
Denominator for basic profit per share:		
Weighted average shares	19,995,523	17,841,342
Basic profit per share	$ 0.976	$ 0.987

Diluted profit per share calculation:

	2014	2013
Numerator for diluted profit per share:		
Profit	$ 19,510,113	$ 17,607,877
Interest on convertible debentures	4,100,084	3,808,078
Net profit for diluted profit per share	$ 23,610,197	$ 21,415,955
Denominator for diluted profit per share:		
Weighted average shares	19,995,523	17,841,342
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average unit price	34,199	1,314
Assuming debentures are converted	4,443,534	4,232,563
Diluted weighted average shares	24,473,256	22,075,219
Diluted profit per share	$ 0.965	$ 0.970

12. Dividends:

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

For the year ended December 31, 2014, the Corporation recorded dividends of $19,510,113 (2013 - $17,607,877) to its shareholders. Dividends were $0.976 per share (2013 - $0.987 per share).

13. Related party transactions and balances:

The Corporation's Manager (a company related to each of Eli Dadouch, Jonathan Mair and Edward Gilbert) receives an allocation of interest, referred to as the Corporation Manager spread interest, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the year ended December 31, 2014, this amount was $2,586,438 (2013 - $2,268,228). Included in accounts payable and accrued liabilities at December 31, 2014 are amounts payable to the Corporation's Manager of $215,420 (2013 - $208,649).

The total directors' fee paid for the year was $171,625 (2013 - $163,500). This amount has been fully settled during the year. The listing of the members of the Board of Directors is shown in the annual report. The key management personnel are also directors of the Corporation and receive compensation from the Corporation Manager. The directors held 452,784 shares in the Corporation as at December 31, 2014 (2013 - 420,231).

During the year ended December 31, 2014, directors were awarded nil (2013 - 815,000) options under the incentive option plan.

The Mortgage Banker (a company related to the President of the Corporation, Eli Dadouch) receives certain fees from the borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all of the commitment and renewal fees generated from the Corporation's investments; and 25% of all of the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income is net of the loan servicing fees paid to the Mortgage Banker of approximately $345,000 for the year ended December 31, 2014 (2013 - $302,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments. The Corporation's share of commitment and renewal fees is recorded in income and for the year ended December 31, 2014 was $1,580,911 (2013 - $1,430,351) and applicable special profit income for the year ended December 31, 2014 was $711,344 (2013 - $1,338,112).

The Corporation's Management Agreement and Mortgage Banking Agreement contains provisions for the payment of termination fees to the Corporation Manager and Mortgage Banker in the event that the respective agreements are either terminated or not renewed.

Several of the Corporation's investments are shared with other investors of the Mortgage Banker, which may include members of management of the Mortgage Banker and/or Officers or directors of the Corporation. The Corporation ranks equally with other members of the syndicate as to receipt of principal and income.

Mortgage investments totalling $10,684,581 (December 31, 2013 - $18,397,287) were issued to borrowers controlled by certain directors of the Corporation. Each investment is dealt with in accordance with the Corporation's existing investment and operating policies and is personally guaranteed by the related directors.

Key management compensation:

Aggregate compensation for key management personnel (all consisting of short-term employee compensation) was $1,809,285 in 2014 (2013 - $1,452,016), all of which was paid by the Mortgage Banker and nil by the Corporation.

14. Interest expense:

	2014	2013
Bank interest expense	$ 804,398	$ 802,749
Loans payable interest expense	802,513	406,154
Debenture interest expense	6,152,243	6,211,378
Interest expense	$ 7,759,154	$ 7,420,281
Deferred finance cost amortization - convertible debentures	(671,594)	(720,538)
Implicit interest rate in excess of coupon rate - convertible debentures	(257,362)	(263,454)
Change in accrued interest	(56,803)	(233,303)
Cash interest paid	$ 6,773,395	$ 6,202,986

15. Contingent liabilities:

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

16. Fair value:

The fair values of amounts receivable and prepaid expenses, bank indebtedness, accounts payable and accrued liabilities and shareholder dividend payable approximate their carrying values due to their short-term maturities.

The fair value of the investment portfolio approximates its carrying value as the majority of the loans are repayable in full at any time without penalty, and have floating interest rates. There is no quoted price in an active market for the mortgage and loan investments or mortgage syndication liabilities. The Corporation makes its determinations of fair value based or its assessment of the current lending market for mortgage and loan investments of same or similar terms. As a result the fair value of mortgage and loan investments is based on Level 3 of the fair value hierarchy.

The fair values of loans payable approximate their carrying values due to the fact that the majority of the loans are: (i) repayable in full, at any time upon the borrower under the underlying loan that secures the loan payable repaying their loan without penalty, and (ii) have floating interest rates linked to bank prime.

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

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

The fair value of debenture portfolio investment has been determined based on the closing price of convertible debenture securities of the respective listed entities on the Toronto Stock Exchange for the respective date.

The fair value of loans on the debenture portfolio approximates its carrying value due to the fact that it is fully open for repayment and has a floating rate of interest.

The tables below present the fair values of the Corporation's financial instruments as at December 31, 2014 and 2013. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

2014	Level 1	Level 2	Level 3
Debenture portfolio investment	$ 687,758	-	-
Marketable securities	2,221,756	-	-
Convertible debentures	97,287,525	-	-
	$ 100,197,039	-	-

2013	Level 1	Level 2	Level 3
Debenture portfolio investment	$ 606,016	-	-
Convertible debentures	90,682,028	-	-
	$ 91,288,044	-	-

17. Risk management:

The Corporation is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results. Many of these risk factors are beyond the Corporation's direct control. The Corporation Manager and Board of Directors play an active role in monitoring the Corporation's key risks and in determining the policies that are best suited to manage these risks. There has been no change in the process since the previous year.

The Corporation's business activities, including its use of financial instruments, exposes the Corporation to various risks, the most significant of which are interest rate risk, credit and operational risks, and liquidity risk.

(a) Interest rate risk:

Interest rate risk is the risk that fair value of future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates.

The Corporation's operations are subject to interest rate fluctuations. The interest rate on the majority of the investments is set at the greater of a floor rate and a formula linked to bank prime. The floor interest rate mitigates the effect of a drop in short-term market interest rates while the floating component linked to bank prime allows for increased interest earnings where short-term market rates increase.

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

At December 31, 2014, if interest rates at that date had been 100 basis points lower or higher, with all other variables held constant, comprehensive income and equity for the year would be affected as follows:

	Carrying Value	-1%	+1%
Financial assets:			
Amounts receivable and prepaid expenses	2,446,717	-	-
Marketable securities	2,221,756	-	-
Debenture portfolio investment	687,758	-	-
Investment portfolio	339,505,051	(95,683)	1,121,936
Financial liabilities:			
Bank indebtedness	14,664,178	146,642	(146,642)
Loan on debenture portfolio investment	331,800	3,318	(3,318)
Accounts payable and accrued liabilities	2,123,043	-	-
Shareholder dividend payable	2,258,174	-	-
Loans payable	21,847,970	74,675	(74,675)
Convertible debentures	93,746,796	-	-
Total increase		$ 128,952	$ 897,301

(b) Credit and operational risks:

Credit risk is the possibility that a borrower may be unable to honour its debt commitment as a result of a negative change in market conditions that could result in a loss to the Corporation.

The Corporation invests primarily in Canadian markets. Any instability in the real estate sector and an adverse change in economic conditions in Canada could result in declines in the value of real property securing the Corporation's investments. The Corporation mitigates this risk by adhering to the investment and operating policies set out in its Declaration of Corporation. The Corporation's maximum exposure to credit risk is represented by the fair values of amounts receivable and the investment portfolio.

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting its financial obligations as they become due.

The Corporation's liquidity requirements relate to its obligations under its bank indebtedness, loans payable, convertible debentures and its obligations to make future advances under its existing portfolio. Liquidity risk is managed by ensuring that the sum of (i) availability under the Corporation's bank borrowing line, (ii) the sourcing of other borrowing facilities, and (iii) projected repayments under the existing investment portfolio, exceeds projected needs (including funding of further advances under existing and new investments).

As at December 31, 2014, the Corporation had not utilized its full leverage availability, being a guideline of 60% of its first mortgage investments. Unadvanced committed funds under the existing investment portfolio amounted to $83,646,839 as at December 31, 2014 (2013 - $87,303,906). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between investment advances and investment repayments. The bank borrowing line is a committed facility with a maturity date of September 30, 2015. If the loan is not renewed on September 30, 2015, the terms of the facility allow for the Corporation to repay the balance owed on September 30, 2015 within 12 months. In the current economic climate and capital market conditions, there are no assurances that the bank borrowing line will be renewed or that it could be replaced with another lender if not renewed. If it is not extended at maturity, repayments under the Corporation's investment portfolio would be utilized to repay the bank indebtedness. There are limitations in the availability of funds under the revolving line of credit. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing investments creates liquidity for ongoing investments and funding commitments. Loans payable relate to borrowings on specific investments within the Corporation's portfolio and only have to be repaid once the specific loan is paid out by the borrower.

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

Contractual obligations as at December 31, 2014 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 6 years
Bank indebtedness	$ 14,664,178	$ 14,664,178	$ -	$ -
Accounts payable and accrued liabilities	2,123,043	2,123,043	-	-
Loan on debenture portfolio investment	331,800	331,800	-	-
Shareholder dividend payable	2,258,174	2,258,174	-	-
Loans payable	21,847,970	-	21,847,970	-
Convertible debentures	97,666,000	-	31,443,000	66,223,000
Subtotal - Liabilities	$ 138,891,165	$ 19,377,195	$ 53,290,970	$ 66,223,000
Future advances under portfolio	83,646,839	83,646,839	-	-
Liabilities and contractual obligations	$ 222,538,004	$ 103,024,034	$ 53,290,970	$ 66,223,000

The bank indebtedness and loans payable are liabilities resulting from the funding of the Corporation's investments. Repayment of investments results in a direct and corresponding pay down of the bank indebtedness and/or loans payable. The obligations for future advances under the Corporation's investment portfolio are anticipated to be funded from the Corporation's credit facility and borrower repayments. Upon funding of same, the funded amount forms part of the Corporation's investments.

Interest payments on loans payable (assuming outstanding amounts and the bank prime interest rate remain unchanged) would be $1,075,187 for less than 1 year, $2,150,374 for 1 to 3 years and $3,225,561 for 4 to 6 years. Interest payments on debentures (assuming the amounts remain unchanged) would be $5,223,287 for less than 1 year, $10,144,420 for 1 to 3 years and $4,855,158 for 4 to 6 years.

(d) Capital risk management:

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

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

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

The Corporation's investment guidelines, which can be varied at the discretion of the Board of Directors, incorporate various guideline restrictions and investment operating policies. The Corporation's guideline states that the Corporation (i) will not invest more than 10% of the amount of its capital in any single conventional first mortgage where the loan to value on such loan is less than 60%, (ii) will not invest more than 8% of the amount of its capital in any single conventional first mortgage where the loan to value on such loan is between 60% and 70%, (iii) will not invest more than 5% of the amount of its capital in any single conventional first mortgages where the loan to value on such loan exceeds 70%, (iv) will not invest more than 2.5% of the amount of its capital in any single non-conventional mortgage or conventional investment that it is not a first mortgage, and (v) will only borrow funds in order to acquire or invest in investments in amounts up to 60% of the book value of the Corporation's portfolio of conventional first mortgages.

The Corporation is required by its bank lender to maintain various covenants, including minimum equity amount, interest coverage ratios, indebtedness as a percentage of the performing first mortgage portfolio size and indebtedness to total assets. The Corporation has complied with all such bank covenants.

All of the Corporation's operations and investments are denominated in Canadian dollars, resulting in no direct foreign exchange risk.

18. Subsequent event:

On March 24, 2015, the Corporation completed a private placement of 80,000 common shares at a subscription price of $12.25 per share resulting in gross proceeds of $980,000.