FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

MD&A

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED
DECEMBER 31, 2015

OUR BUSINESS

Firm Capital Mortgage Investment Corporation (the "Corporation") is a non-bank lender, investing predominantly in short-term residential and commercial real estate mortgage loans and real estate related debt investments. The Corporation operates as a mortgage investment corporation under the Income Tax Act (Canada). Mortgage investment corporations 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. The Corporation's more specific objective is to hold an Investment Portfolio that:

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

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

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

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

BASIS OF PRESENTATION

The Corporation has adopted International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board as its basis of financial reporting. The Corporation's functional and reporting currency is the Canadian dollar.

The following discussion is dated as of March 29, 2016 and should be read in conjunction with the audited financial statements of the Corporation and the notes thereto for the years ended December 31, 2015 and 2014, and Management's Discussion and Analysis, including the section on "Risks and Uncertainties", along with each of the quarterly reports for 2015 and 2014.

HIGHLIGHTS

INCREASED DIVIDENDS

For the fourth quarter and year ended December 31, 2015, the Corporation declared dividends totaling $0.289 and $0.991 per share versus $0.268 and $0.970 per share for the fourth quarter and year ended December 31, 2014. The December 2015 special dividend was 5.5 cents per share.

STRONG INCREASE IN PROFIT

Income and profit (referred to herein as "Profit") for the quarter ended December 31, 2015 increased by 9% to $5,376,207 as compared to $4,942,120 for the same period in the prior year. Profit for the year ended December 31, 2015 of $20,081,258 represents a 3% increase over the comparable year ended 2014 profit of $19,510,113.

Basic weighted average profit per share for the quarter ended December 31, 2015 was $0.265, which is 8% higher than the $0.245 per share reported for the three months ended December 31, 2014. Basic weighted average profit per share for the year ended December 31, 2015 was $0.991, which is slightly higher compared to the $0.976 per share reported for the year ended December 31, 2014.

SIGNIFICANT 17% YEAR OVER YEAR PORTFOLIO GROWTH

The Corporation's investment portfolio (the "Investment Portfolio"), as at December 31, 2015 increased by $60.1 million to approximately $402.9 million as compared to $342.8 million as at December 31, 2014 (before the impairment provision of $4.23 and $3.36 million respectively).

VERY SHORT TERM PORTFOLIO WITH HUGE ANNUAL TURNOVER

In 2015, the Investment Portfolio repayments totaled $285 million with new investments during the year totaling $345 million. This turn is the key to the Corporation's investment approach and the measure of its success.

RETURN ON EQUITY

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, 2015 represents an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 10.18%, representing return on shareholders' equity of 969 basis points per annum over the average one year Government of Canada Treasury bill yield of 0.49%.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio totaled $398,689,638 as at December 31, 2015 (net of an impairment loss provision of $4,230,000) as compared to $339,505,051 (net of an impairment loss provision of $3,360,000) as at December 31, 2014, representing an increase of approximately $59.2 million. The December 31, 2015 Investment Portfolio is comprised of 225 investments (177 as at December 31, 2014). The average gross investment size (excluding impairment loss provision) was approximately $1.8 million with 7 investments individually exceeding $7,500,000.

Amount	Number of Investments	%	Total Amount (before provision)	%
$0 - $2,500,000	176	78.2%	$ 154,014,751	38.2%
$2,500,001 - $5,000,000	31	13.8%	116,925,457	29.0%
$5,000,001 - $7,500,000	11	4.9%	59,954,595	14.9%
$7,500,001 +	7	3.1%	72,024,835	17.9%
	225	**100%**	**$ 402,919,638**	**100%**

Unadvanced committed funds under the existing Investment Portfolio amounted to $113,464,052 as at December 31, 2015 ($83,646,839 as at December 31, 2014). Generally, investments are shared with other syndicate partners to diversify risk.

	Dec 31, 2015		Dec 31, 2014		% Change
Conventional First Mortgages	$ 283,869,955	70.45%	$ 249,021,514	72.63%	**14%**
Conventional Non-First Mortgages	41,799,212	10.37%	30,551,339	8.91%	**37%**
Related Investments	59,422,966	14.75%	48,313,224	14.09%	**23%**
Discounted Debt Investments	5,022,775	1.25%	4,903,900	1.43%	**2%**
Non-Conventional Mortgages	12,804,730	3.18%	10,075,074	2.94%	**27%**
Total Investments (at amortized cost)	**$ 402,919,638**	**100.00%**	**$ 342,865,051**	**100.00%**	**18%**
Less: Impairment Provision	(4,230,000)		(3,360,000)		**26%**
Investment Portfolio	**$ 398,689,638**		**$ 339,505,051**		**17%**

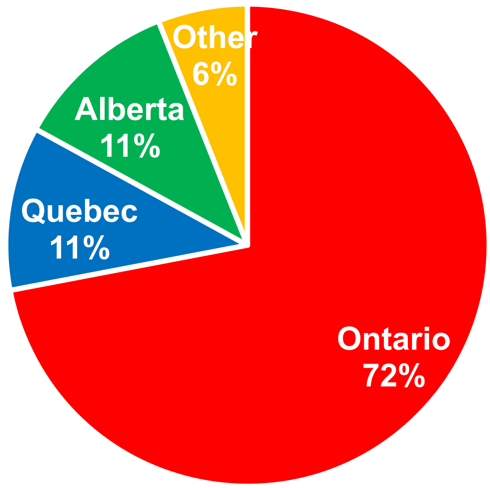
The $59.2 million growth in the Investment Portfolio was achieved by the Corporation increasing the size of its investments in all of its investment categories.

Conventional first mortgages increased by 14% and represented 71% of the Corporation's portfolio at December 31, 2015 as compared to 73% at December 31, 2014. Related investments increased by 23% and represented 15% of the Corporation's Investment Portfolio in comparison to 14% at December 31, 2014. Conventional non-first mortgages increased by 37% and represented 10% of the Investment Portfolio. Non-conventional mortgages increased by 27% and represented 3% of the Investment Portfolio. Discounted debt investments increased by 2% and represented 1% of the Investment Portfolio.

The weighted average face interest rate on the Corporation's Investment Portfolio was 8.19% per annum as at December 31, 2015 as compared to 8.29% per annum as at December 31, 2014.

The Corporation holds one mortgage investment totaling $4,303,000 at December 31, 2015 (classified as Discounted debt investment) that originated from the purchase of a mortgage loan from a schedule 1 bank at a discount to its original principal balance (December 31, 2014 - $5,250,0000) on which interest payment are not being received. The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that was occurred after the purchase of the underlying Schedule 1 bank mortgage. Recoveries under the investment resulting from sale of the secured real estate will be treated in the same fashion as that for all non conventional mortgage investments held by the Corporation.

The Corporation continues to focus its lending into core markets that can be monitored closely during evolving economic conditions. The mortgage portfolio has some geographic diversification with 28% of the investments in the portfolio secured by properties outside of Ontario.



The Corporation's investment portfolio as at December 31, 2015 included participation in 31 mortgage loans on real estate located in Alberta. The investment amount at December 31, 2015 totals $40.8 million, being 11% of the total Corporations' mortgage investments, down from 13% of the prior year end portfolio balance. The average investment size is $1.3 million. 20 of the 31 investments are individually less than $1 million. $38.9 million (95%) of the Alberta portfolio is secured on residential real estate while $1.9 million (5%) is secured on commercial real estate.

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, 2015, the Investment Portfolio continued to be heavily concentrated in short-term investments with 65% of the portfolio maturing by December 31, 2016. 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.

RESULTS OF OPERATIONS

INTEREST AND FEES

For the fourth quarter ended December 31, 2015, interest and fees earned increased by 25% to $9,641,484 as compared to $7,698,503 for the three months ended December 31, 2014. For the year ended December 31, 2015, interest and fees earned increased by 11% to $34,005,435 as compared to $30,691,450 for the year ended December 31, 2014. Interest and fees earned for the three months and year ended December 31, 2015 and December 31, 2014 are broken down as follows:

Three Months Ended	Dec. 31, 2015	%	Dec. 31, 2014	%	% Change
Interest	$ 9,008,247	93%	$ 6,933,857	90%	**30%**
Commitment & Renewal Fees	381,822	4%	570,215	7%	**(33%)**
Special Income	251,415	3%	194,431	3%	**29%**
	$ 9,641,484	**100%**	**$ 7,698,503**	**100%**	**25%**

Year Ended	Dec. 31, 2015	%	Dec. 31, 2014	%	% Change
Interest	$ 31,429,521	93%	$ 28,399,195	93%	**11%**
Commitment & Renewal Fees	1,410,513	4%	1,580,911	5%	**(11%)**
Special Income	1,165,401	3%	711,344	2%	**64%**
	$ 34,005,435	**100%**	**$ 30,691,450**	**100%**	**11%**

Interest income of $9,008,247 and $31,429,521 for the fourth quarter and year ended December 31, 2015 respectively increased by 30% and 11% as compared to the fourth quarter and year ended December 31, 2014. Interest income represents 93% and 93% of the Corporation’s revenues for the fourth quarter and year ended December 31, 2015 respectively. The year over year increase in annual interest income is generally a result of the Corporation holding a larger investment portfolio compared to the same period in 2014 partially offset by a reduction in the portfolio average interest rate.

Recorded fee income, relating to commitment and renewal fees, for the quarter ended December 31, 2015 decreased by approximately 33% compared to the quarter ended December 31, 2014. Recorded fee income for the year ended December 31, 2015 decreased by approximately 11% compared to the year ended December 31, 2014. As at December 31, 2015, the Corporation had unearned commitment fee income of $913,981 (December 31, 2014: $700,202). 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 are 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 quarter ended and year ended December 31, 2015 increased by 29% and 64% 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.

CORPORATION MANAGER INTEREST ALLOCATION

The Corporation Manager, through an interest spread arrangement, received $766,306 for the quarter ended December 31, 2015 as compared to $636,316 for the quarter ended December 31, 2014. For the year ended December 31, 2015, the Corporation Manager received $2,873,993 as compared to $2,586,438 for the year ended December 31, 2014. The increase is generally due to the increase in the size of the Corporation's daily average Investment Portfolio over the comparable periods.

INTEREST EXPENSE

For the quarter ended December 31, 2015, interest expense increased by 25% to $2,423,290 as compared to $1,936,125 during the three months ended December 31, 2014. For the year ended December 31, 2015, interest expense increased by 21% to $9,350,610 as compared to the year ended December 31, 2014 amount of $7,759,154. Interest expense in general is higher in the 2015 comparable periods as a result of the Corporation having larger bank indebtedness and convertible debentures in 2015 versus 2014. The additional indebtedness that resulted in an increase in interest expense in 2015 allowed the Corporation to hold a larger investment portfolio which generated additional interest income when compared to 2014. The Corporation completed the public offering of two convertible unsecured debentures in 2015, accounting for the increase in debenture interest expense. Interest expense is broken down as follows:

Three Months Ended	**Dec. 31, 2015**	**%**	**Dec. 31, 2014**	**%**	**% Change**
Bank Interest Expense	$ 348,447	14%	$ 126,742	7%	**175%**
Loan Payable Interest Expense	121,237	5%	268,575	14%	**(55%)**
Debenture Interest Expense	1,953,606	81%	1,540,808	79%	**27%**
	$ 2,423,290	**100%**	**$ 1,936,125**	**100%**	**25%**

Year Ended	**Dec. 31, 2015**	**%**	**Dec. 31, 2014**	**%**	**% Change**
Bank Interest Expense	$ 1,166,770	12%	$ 804,398	10%	**45%**
Loan Payable Interest Expense	920,995	10%	802,513	10%	**15%**
Debenture Interest Expense	7,262,845	78%	6,152,243	80%	**18%**
	$ 9,350,610	**100%**	**$ 7,759,154**	**100%**	**21%**

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

G&A expenses increased to $235,681 for the quarter ended December 31, 2015 as compared to $153,942 for the quarter ended December 31, 2014. G&A expenses increased to $829,574 for the year ended December 31, 2015 as compared to $805,745 for the year ended December 31, 2014.

INCOME & PROFIT ("PROFIT")

Profit for the quarter ended December 31, 2015 increased by 9% to $5,376,207 as compared to $4,942,120 for the same period in the prior year. Profit for the year ended December 31, 2015 of $20,081,258 represents a 3% increase over the comparable year ended 2014 year of $19,510,113.

Profit for the quarter ended December 31, 2015 represented an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 10.18% versus a previously reported return on shareholders' equity of 9.34% for the year ended December 31, 2014. This return on shareholders' equity represents 969 basis points per annum over the average one year Government of Canada Treasury bill yield of 0.49% and is well in excess of the Corporation's stated target yield objective of 400 basis points per annum over the average one year Government of Canada 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 and Debenture Portfolio Investment sections later herein, the Corporation has invested in units in publicly traded real estate investment trusts and debentures of publicly traded real estate investment trusts. The Corporation classifies these financial asset as available for sale and as such records the investments carrying value at fair value.

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

The change in fair value of marketable securities and the debenture portfolio for the year ended December 31, 2015 was a reduction of $74,570 compared to an increase of $72,966 for the year ended December 31, 2014. Total comprehensive income for the year ended December 31, 2015 was $20,006,688 compared to $19,583,079 for the year ended December 31, 2014.

PROFIT PER SHARE

Basic weighted average profit per share for the quarter ended December 31, 2015 was $0.265, which is 8% higher than the $0.245 per share reported for the three months ended December 31, 2014. Basic weighted average profit per share for the year ended December 31, 2015 was $0.991, which is 2% higher compared to the $0.976 per share reported for the year ended December 31, 2014.

QUARTERLY FINANCIAL INFORMATION

($ in millions except per unit amounts)	Dec. 31 2015	Sep. 30 2015	Jun. 30 2015	Mar. 31 2015	Dec. 31 2014	Sep. 30 2014	Jun. 30 2014	Mar. 31 2014
Operating revenue	$ 9.64	$ 8.59	$ 8.12	$ 7.65	$ 7.70	$ 7.80	$ 7.52	$ 7.68
Interest expense	2.42	2.55	2.37	2.00	1.94	2.10	1.82	1.91
Corporation manager interest allocation	0.77	0.76	0.71	0.64	0.64	0.72	0.63	0.60
General & administrative expenses	0.24	0.20	0.24	0.16	0.15	0.18	0.27	0.20
Impairment loss on investment portfolio	0.84	0.03	-	-	0.03	-	-	-
Profit	**$ 5.37**	**$ 5.05**	**$ 4.80**	**$ 4.85**	**$ 4.94**	**$ 4.80**	**$ 4.80**	**$ 4.97**
Profit per share								
- Basic	**$0.265**	**$0.249**	**$0.237**	**$0.240**	**$0.245**	**$0.239**	**$0.239**	**$0.253**
- Diluted	**$0.258**	**$0.243**	**$0.231**	**$0.238**	**$0.243**	**$0.237**	**$0.237**	**$0.248**
Dividends per share	**$0.289**	**$0.234**	**$0.234**	**$0.234**	**$0.268**	**$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, 2015, the Corporation declared dividends totaling $5,867,815 and $20,081,258 respectively or $0.289 and $0.991 per share versus $5,402,269 and $19,510,113 or $0.268 and $0.970 per share for the fourth quarter and year ended December 31, 2014. The per share amount of dividends increased quarter over quarter and also increased year over year. The number of shares outstanding at December 31, 2015 was 20,313,943 as compared to 20,162,266 at December 31, 2014.

Year Ended	**Dec 31, 2015**	**Dec 31, 2014**	**Change**
Cash Flow From Operating Activities (net of interest expense)	$ 20,055,780	$ 21,028,036	**(5%)**
Profit	$ 20,081,258	$ 19,510,113	**3%**
Declared Dividends	$ 20,081,258	$ 19,510,113	**3%**
Excess Cash Flow From Operating Activities Over (Under) Declared Dividends	$ (25,478)	$ 1,517,923	
Profit Over Declared Dividends	$ -	$ -	

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses totaled $4,709,241 as at December 31, 2015 (comprised of interest receivable of $4,332,539, fees receivable of $238,882 and prepaid expenses of $137,820) compared to $2,446,717 as at December 31, 2014. The year over year increase in interest receivable is essentially a result of the December 31, 2015 interest receivable balance including large interest receivables on four of the Corporation mortgage investments (the largest increase of the four being a non conventional mortgage) that were either small or nil as at December 31, 2014. The four mortgages are performing with the interest receivable amount on each being large as a result of the contractual payment terms allowing for the accrual of interest for periods of longer than a regular one month period.

MARKETABLE SECURITIES

The Corporation holds publicly traded units of two Canadian real estate investment trusts. The units were acquired through the exercise of warrants which were granted by the issuers as part of a loan facility in which the Corporation was a participant. The units generate distributions that are consistent with the Corporation's overall yield objective. The $1,949,106 balance reported on the Corporation's balance sheet as at December 31, 2015 represents the fair value of the marketable securities comprising the portfolio (December 31, 2014 – $2,221,756). The Corporation's purchase price for the units was $2,056,275. The approximate average interest yield on the cost of these investments is 8.5% per annum.

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 $2,076,800 balance reported on the Corporation's balance sheet at December 31, 2015 (December 31, 2014 - $687,758) represents the fair value of the convertible debentures comprising the portfolio. The average yield to maturity on these investments is 9.4%. The Corporation purchase price for the debenture portfolio was $1,971,235.

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 $1,420,073 as at December 31, 2015 (December 31, 2014 - $331,800). The loan essentially represents a margin loan against the debenture portfolio at a current interest rate of 1% per annum and is open for repayment at any time.

BANK INDEBTEDNESS

Bank indebtedness increased by approximately $27.0 million to $41,713,128 as compared to $14,664,178 at December 31, 2014. Funds obtained from the increase in bank indebtedness was used to increase the size of the investment portfolio.

LOANS PAYABLE

Loans payable, which are borrowings matched to specific mortgages at fixed interest rates decreased to $7,093,535 as at December 31, 2015 compared to $21,847,970 as at December 31, 2014 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, 2015, the Corporation has six series of convertible debentures outstanding, as outlined below:

Ticker Symbol	Coupon	Issue Date	Maturity Date	Principal at Issue Date	Current Principal	Strike Price Per Share	Accounting Liability
FC.DB.A	5.75%	Oct 13, 2010	Oct 31, 2017	$ 31,443,000	$ 31,443,000	$ 15.90	$ 30,994,955
FC.DB.B	5.40%	Aug 23, 2011	Feb 28, 2019	25,738,000	25,738,000	$ 14.35	24,914,687
FC.DB.C	5.25%	Mar 31, 2012	Mar 31, 2019	20,485,000	20,485,000	$ 14.80	19,693,717
FC.DB.D	4.75%	Mar 28, 2013	Mar 31, 2020	20,000,000	20,000,000	$ 15.80	19,087,320
FC.DB.E	5.30%	April 17, 2015	May 31, 2022	25,000,000	25,000,000	$ 13.95	23,748,170
FC.DB.F	5.50%	Dec. 23, 2015	Dec. 31, 2022	23,000,000	23,000,000	$ 14.00	21,465,200
Total / Average	**5.36%**			**$ 145,666,000**	**$145,666,000**		**$ 139,904,049**

As at December 31, 2015 the current principal balance for the outstanding convertible debentures is $145,666,000. The recorded convertible debenture liability as at December 31, 2015 is $139,904,049 compared to $93,746,796 as at December 31, 2014. The weighted average effective interest rate is 5.36% per annum (5.35% as at December 31, 2014).

On April 17, 2015, the Corporation closed a $25,000,000 aggregate principal amount of 5.30% convertible unsecured subordinated debentures due May 31, 2022. These debentures bear interest at a rate of 5.30% per annum, payable semi-annually in arrears on the last day of May and November in each year commencing on November 30, 2015. The debentures mature on May 31, 2022 and are convertible at the holder's option into common shares of the Corporation at a conversion price of $13.95 per Share.

On December 23, 2015, the Corporation closed a $23,000,000 aggregate principal amount of 5.50% convertible unsecured subordinated debentures due December 31, 2022. These debentures bear interest at a rate of 5.50% per annum, payable semi-annually in arrears on the last day of June and December in each year commencing on June 30, 2016. The debentures mature on December 31, 2022 and are convertible at the holder's option into common shares of the Corporation at a conversion price of $14.00 per Share.

OTHER LIABILITIES

Other liabilities for the Corporation include the following:

Additional Liabilities	Dec. 31, 2015	Dec. 31, 2014	% Change
Accounts Payable and Accrued Liabilities	$ 2,195,415	$ 2,123,043	**3%**
Unearned Income	913,981	700,202	**31%**
Shareholders Dividends Payable	2,701,754	2,258,174	**20%**
Total	**$ 5,811,150**	**$ 5,081,419**	**14%**

Accounts payable and accrued liabilities increased by 3% to $2,195,415 as at December 31, 2015 as compared to $2,213,043 as at December 31, 2014. Accounts payable and accrued liabilities include interest payable of $1,439,471 and accrued liabilities of $755,944.

Unearned income relating to commitment fees generated on the Corporation's mortgage investments increased by 31% to $913,981 as at December 31, 2015 as compared to $700,202 as at December 31, 2014. 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, 2015 totaled $211,482,850 compared to $209,189,119 as at December 31, 2014. The Corporation had 20,313,943 shares issued and outstanding as at December 31, 2015, compared to 20,162,266 as at December 31, 2014. The majority of the increase in shares is attributable to i) a private placement of 80,000 shares which was completed at the end of the first quarter of 2015 and ii) shares issued under the dividend reinvestment plan.

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 $4,230,000 as at December 31, 2015 (December 31, 2014 - $3,360,000) 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 represents approximately 1% of the Investment Portfolio balance. The impairment provision was increased by $840,000 in the fourth quarter of 2015 and by $870,000 during 2015.

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, 2015, this amount was $2,873,993 (December 31, 2014 - $2,586,438) and for the three months ended December 31, 2015, the amount was $766,306 (December 31, 2014 - $636,316). Included in accounts payable and accrued liabilities of the Corporation at December 31, 2015 are amounts payable to the Corporation Manager of $253,538 (December 31, 2014 - $215,420).

The total directors' fees paid for the year ended December 31, 2015 was $183,000 (December 31, 2014 - $171,625). Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation Manager.

The Mortgage Banker (a company related to officers and/or directors 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 $383,000 for the year ended December 31, 2015 (December 31, 2014 - $345,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments.

The Corporation 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.

A mortgage investment totaling $5,250,000 (December 31, 2014 - $5,250,000) was issued to a borrower controlled by an independent director of the Corporation. The investment was made by way of a participation in a direct loan to the entity controlled by the director. The investment is dealt with in accordance with the Corporation's existing investment and operating policies and is personally guaranteed by the director.

A mortgage investment totaling $1,082,657 (December 31, 2014 - $1,456,581) was issued to a borrower controlled by the same independent director set out above. The investment represents a participation in a first mortgage loan assumed by the entity controlled by the director. The director became involved in the borrower entity by virtue of his position as a second mortgage lender to the borrower that fell into default. During the year, the Corporation recorded an additional $45,000 provision against this mortgage investment (2014 – reduction in provision of $400,000) for a total allowance of $200,000 at December 31, 2015 (2014 - $155,000) on this mortgage investment.

The Corporation also holds a mortgage investment totaling $4,303,000 at December 31, 2015 (classified as Discounted debt investment) that originated from the purchase of a mortgage loan from a schedule 1 bank at a discount to its original principal balance (December 31, 2014 - $3,978,000). The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that was occurred after the purchase of the underlying Schedule 1 bank mortgage. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation. An impairment provision of $575,000 was recorded in the current year (2014 - $1,275,000) bringing the impairment allowance recorded on this loan to $1,850,000 as at December 31, 2015 (December 31, 2014 - $1,275,000). Recoveries under the investment resulting from sale of the secured real estate will be treated in the same fashion as that for all non conventional mortgage investments held by the Corporation.

Related party transactions are further discussed and detailed in the Corporation's AIF and in Note 13 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.

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 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 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, 2015 and December 31, 2014. 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, 2015 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 6 years
Bank indebtedness	$ 41,713,128	$ 41,713,128	$ -	$ -
Accounts payable and accrued liabilities	2,195,415	2,195,415	-	-
Loan on debenture portfolio investment	1,420,073	1,420,073	-	-
Shareholder dividend payable	2,701,754	2,701,754	-	-
Loans payable	7,093,535	7,093,535	-	-
Convertible debentures	145,666,000	-	31,443,000	114,223,000
Subtotal - Liabilities	200,789,905	$ 55,123,905	$ 31,443,000	$ 114,223,000
Future advances under portfolio	113,587,052	113,587,052	-	-
Liabilities and contractual obligations	314,376,957	$ 168,710,957	$ 31,443,000	$ 114,223,000

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, 2015 and 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, 2015, 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 $113,464,052 as at December 31, 2015 (December 31, 2014 - $83,646,839). 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.*
- *Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The existence of such liability can have a negative impact on the value of the underlying real property securing a mortgage. The Corporation does not own the real property securing its Investment Portfolio and thus would not attract the environmental liability that an owner would be exposed to. In rare circumstances where a mortgage is in default, the Corporation may take possession of real property and may become liable for environmental issues as a mortgagee in possession. The Corporation obtains phase 1 environmental reports for mortgages where the Mortgage Banker determines that such reports would be prudent given the nature of the underlying property.*
- *The inability to obtain borrowings and leverage, thus reducing yield enhancement.*
- *Dependence on the Corporation Manager and Mortgage Banker. The Corporation's earnings are impacted by the Mortgage Banker's ability to source and generate appropriate investments that provide sufficient yields while maintaining pre-determined risk parameters. The Corporation has also entered into long-term contracts with the Mortgage Banker and the Corporation Manager, as more particularly described in the AIF. The Corporation is exposed to adverse developments in the business and affairs of the Corporation Manager and Mortgage Banker, since the day to day activities of the Corporation are run by the Corporation Manager and since all of the Corporation's investments are originated by the Mortgage Banker.*
- *Portfolio face rate fluctuations. The interest rate earned on the Corporation's Investment Portfolio fluctuates given that (i) it continually revolves given that it is short term in nature; and (ii) the portfolio is predominately floating rate interest with floors.*
- *Interest rate risk. The Corporation's operating loan is floating rate and an increase in 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 Conventional Non-First Mortgage investments to a maximum of 30% of the Corporation's capital, subject to the Board of Directors' approval for any modifications to the operating policies.

- *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 EVENT

During January 2016, a Director of the Corporation exercised 35,000 options at a price of $11.78 per common shares for total gross proceeds of approximately $412,300.

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 interim condensed financial statements as at December 31, 2015 and 2014.

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, 2015 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, 2015 . 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, 2015 that would have materially affected or would be reasonably likely to materially affect the Corporation's internal controls over financial reporting.

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

FORWARD LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 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.

OUTLOOK

We have stated over the past few years that the Corporation's investment style has favored a defensive approach, reflecting the very mature nature of the real estate market from a valuations stand point. Our conservative approach resulted in the Corporation holding a relatively small Alberta investment portfolio, focused mainly on short term, first mortgages. Future changes in real estate values in any province do not overly concern us, as our current investment portfolio was created with this defensive operating strategy in mind. We have stated for a number of years that we are operating in an uncertain market with many inexperienced players involved in all aspects of the market.

As each current investment is monetized off the Corporation's balance sheet, we redeploy the capital into new investments, taking a cautious approach. In 2015 the Investment Portfolio repayments totaled $285 million with new investments during the year totaling $345 million resulting in a year end portfolio balance of $403 million. This turn is the key to our investment approach and the measure of its success. We feel the attention given to our new investments will help mitigate the impact of changing market conditions. We will continue to pay very close attention to a number of factors including the Alberta real estate market and the Canadian housing market in general and will not invest in mortgages secured by illiquid and non-marketable properties. The overabundance of capital in the market has provided an environment whereby borrowers request loan structures that incorporate either too much risk exposure or too little return for their loan parameters. The Corporation will not lend in these situations and will instead look for safer, innovative structured and niche transactions that will protect our Shareholders Equity.

We have always stated our focus is preservation of capital through disciplined investing. We achieve this by having a solid loan loss impairment provision of $4,230,000. This is a prudent provision that has increased by $870,000 in 2015. These provisions are required to maintain a strong balance sheet and stable dividends.

For the balance of 2016 we anticipate 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 in 1999.

FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

FINANCIAL STATEMENTS

YEAR ENDED
DECEMBER 31, 2015

KPMG

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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, 2015 and 2014, 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, 2015 and 2014, 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 29, 2016
Toronto, Canada

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Balance Sheets

(in Canadian dollars)

As at	December 31, 2015	December 31, 2014
Assets		
Amounts receivable and prepaid expenses (note 4)	$ 4,709,241	$ 2,446,717
Marketable securities (note 5)	1,949,106	2,221,756
Debenture portfolio investment (note 5)	2,076,800	687,758
Investment portfolio (note 6)	398,689,638	339,505,051
Total assets	$ 407,424,785	$ 344,861,282
Liabilities		
Bank indebtedness (note 7)	$ 41,713,128	$ 14,664,178
Loan on debenture portfolio investment	1,420,073	331,800
Accounts payable and accrued liabilities	2,195,415	2,123,043
Unearned income	913,981	700,202
Shareholders dividends payable	2,701,754	2,258,174
Loans payable (note 8)	7,093,535	21,847,970
Convertible debentures (note 9)	139,904,049	93,746,796
Total liabilities	$ 195,941,935	$ 135,672,163
Shareholders' Equity		
Common shares	209,220,787	207,378,123
Equity component convertible debentures	2,484,000	1,960,000
Stock options	100,531	98,894
Contributed surplus	962	962
Deficit	(321,826)	(321,826)
Accumulated other comprehensive income (loss)	(1,604)	72,966
Total shareholders' equity	$ 211,482,850	$ 209,189,119
Commitments (note 6)		
Contingent liabilities (note 15)		
Total liabilities and shareholders' equity	$ 407,424,785	$ 344,861,282

See accompanying notes to financial statements.

On behalf of the Directors:

(signed) "Eli Dadouch" *(signed) "Jonathan Mair"*

ELI DADOUCH
Director

JONATHAN MAIR
Director

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION
Statements of Income

Years ended December 31, 2015 and 2014

(in Canadian dollars)

	2015	2014
Interest and fees earned	$ 34,005,435	$ 30,691,450
	34,005,435	30,691,450
Corporation manager interest allocation (note 13)	2,873,993	2,586,438
Interest expense (note 14)	9,350,610	7,759,154
General and administrative expenses	829,574	805,745
Impairment loss on investment portfolio	870,000	30,000
	$ 13,924,177	$ 11,181,337
Income and profit for the year	$ 20,081,258	$ 19,510,113
Profit per share (note 11)		
Basic	$0.991	$0.976
Diluted	$0.970	$0.965

See accompanying notes to financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Comprehensive Income

Years ended December 31, 2015 and 2014

(in Canadian dollars)

		2015		2014
Income and profit for the year	$	20,081,258	$	19,510,113
Other comprehensive income:				
Unrealized gain (loss) on marketable securities and debenture investments		(74,570)		72,966
Total comprehensive income for the period	$	20,006,688	$	19,583,079

See accompanying notes to financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Changes in Shareholders' Equity

Years ended December 31, 2015 and 2014

(in Canadian dollars)

	Common shares	Equity component convertible debentures	Stock options	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Shareholders' equity
Balance at January 1, 2015	207,378,123	1,960,000	98,894	962	(321,826)	72,966	209,189,119
Proceeds from issuance of shares in new offering	980,000	-	-	-	-	-	980,000
Offering costs	(21,931)	-	-	-	-	-	(21,931)
Proceeds from issuance of shares from dividend reinvestment	884,595	-	-	-	-	-	884,595
Equity component of debentures issued during the year	-	524,000	-	-	-	-	524,000
Stock based compensation	-	-	1,637	-	-	-	1,637
Change in fair value of available for sale financial assets	-	-	-	-	-	(74,570)	(74,570)
Income and profit for the year	-	-	-	-	20,081,258	-	20,081,258
Dividends to shareholders	-	-	-	-	(20,081,258)	-	(20,081,258)
Balance at December 31, 2015	**209,220,787**	**2,484,000**	**100,531**	**962**	**(321,826)**	**(1,604)**	**211,482,850**
Shares issued and outstanding (note 10)	20,313,943						

	Common shares	Equity component convertible debentures	Stock options	Contributed surplus	Deficit	Adjusted 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						

See accompanying notes to financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Cash Flows

Years ended December 31, 2015 and 2014

(in Canadian dollars)

	2015	2014
Cash provided by (used in):		
Operating activities:		
Income and profit for the year	$ 20,081,258	$ 19,510,113
Adjustments for:		
Financing costs (net of implicit interest rate and accrued interest)	8,271,352	6,830,198
Implicit interest rate in excess of coupon rate - convertible debentures	281,723	257,362
Change in impairment loss on investment portfolio	870,000	30,000
Deferred finance cost amortization - convertible debentures	797,535	671,594
Share-based compensation	1,637	-
Net change in non-cash operating items:		
Increase in accrued interest payable	(279,261)	(56,803)
Decrease (increase) in amounts receivable and prepaid expenses	(2,262,524)	479,575
Increase in accounts payable and accrued liabilities	72,372	32,382
Increase in unearned income	213,779	47,011
Net cash flow from operating activities	$ 28,047,871	$ 27,801,432
Financing activities:		
Proceeds from issuance of shares in new offerings	980,000	23,655,500
Proceeds from issuance of shares from dividend reinvestment	884,595	982,369
Proceeds from exercise of stock options	-	17,670
Proceeds from convertible debentures issued	48,000,000	-
Debenture offering costs	(2,398,005)	-
Equity offering costs	(21,931)	(1,186,242)
Funding (repayment) of loans payable (net)	(14,754,435)	10,568,999
Funding of loan on debenture portfolio	1,088,273	39,642
Cash interest paid (note 14)	(7,992,091)	(6,773,395)
Dividends to shareholders paid during the period	(19,637,678)	(19,535,817)
Net cash flow from financing activities	$ 6,148,728	$ 7,768,726
Investing activities:		
Net disposals (purchases) of marketable securities	92,515	(2,148,790)
Funding of debenture portfolio investment	(1,283,477)	(81,742)
Funding of investments portfolio	(344,618,478)	(310,684,587)
Discharging of investments portfolio	284,563,891	307,446,021
Net cash flow used in investing activities	$ (61,245,549)	$ (5,469,098)
Net decrease (increase) in bank indebtedness for the period	(27,048,950)	30,101,060
Bank indebtedness, beginning of year	(14,664,178)	(44,765,238)
Bank indebtedness, end of year	$ (41,713,128)	$ (14,664,178)
Cash flows from operating activities include:		
Interest received	$ 29,286,963	$ 28,580,688

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 29, 2016.

(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 and debenture portfolio investments 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. 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 available for sale are subsequently measured at fair value using the bid/ask price, with gains and losses recognized in other comprehensive income. 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 less any costs of impairment.

(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) 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, 2018. Earlier application is permitted on a retrospective basis. The Corporation intends to adopt IFRS 15 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.

(in Canadian dollars)

(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 Corporation 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 Corporation intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the standard has not yet been determined.

4. Amounts receivable and prepaid expenses:

The following is a breakdown of amounts receivable and prepaid expenses as at December 31, 2015 and 2014:

		2015		**2014**
Interest receivable	$	4,332,539	$	2,189,982
Prepaid expenses		137,820		98,551
Fees receivable		238,882		158,184
Amounts receivable and prepaid expenses	$	4,709,241	$	2,446,717

5. Marketable securities and debenture portfolio investments:

The Corporation holds units in publicly traded real estate investment trusts and debentures of publicly traded real estate investment trusts which are classified as available for sale. The fair value of the units and debentures is based on the closing price of the investments which are actively traded in the market place and any adjustments to fair value are reflected in the Statements of Comprehensive Income until 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, 2015 is $1,949,106 (2014 - $2,221,756). The fair value of the debentures at December 31, 2015 is $2,076,800 (2014 - $687,758). For the year ended December 31, 2015 the Corporation recorded an unrealized loss of $74,570 (2014 - an unrealized gain of $72,966) with a corresponding decrease in other comprehensive income.

(in Canadian dollars)

6. Investment portfolio:

The following is a breakdown of the investment portfolio as at December 31, 2015 and 2014:

	2015		2014	
Conventional first mortgages	$ 283,869,955	70.45%	$ 249,021,514	72.63%
Conventional non-first mortgages	41,799,212	10.37%	30,551,339	8.91%
Related investments	59,422,966	14.75%	48,313,224	14.09%
Discounted debt investments	5,022,775	1.25%	4,903,900	1.43%
Non-conventional mortgages	12,804,730	3.18%	10,075,074	2.94%
Total investments (at amortized cost)	$ 402,919,638	100.00%	$ 342,865,051	100.00%
Impairment provision	(4,230,000)		(3,360,000)	
Investment portfolio	$ 398,689,638		$ 339,505,051	

As at December 31, 2015, $8,866,920 (2014 - $29,325,589) of the mortgages within the conventional first mortgage portfolio have first priority syndicate participations totalling $7,093,535 (2014 - $21,847,970)(recorded on the Corporation's balance sheets as loans payable (see note 8)). The Corporation's net investment in these mortgages is $1,773,385 (2014 - $7,477,619).

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 $4,230,000 as at December 31, 2015, (2014 - $3,360,000) 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 8.19% per annum (2014 - 8.29% per annum) and mature between 2016 and 2020.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to $113,464,052 as at December 31, 2015 (December 31, 2014 - $83,646,839).

Principal repayments based on contractual maturity dates are as follows:

2016	$ 262,638,131
2017	109,034,327
2018	30,629,582
2019	450,000
2020	167,598
	$ 402,919,638

(in Canadian dollars)

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

Priority mortgage participations:

The Corporation enters into participation arrangements with a bank with respect to certain mortgage investments from time to time, whereby such participant takes the senior position and the Corporation retains a subordinated position. Under these certain 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 held by the bank participant is included in investment portfolio and recorded as loans payable (note 8). Any gross interest and fees earned on the bank participants' interests and the related interest expense is recognized in income and profit.

As at December 31, 2015 the carrying value of the priority participants' interests in the Corporation's investment portfolio and loans payable is $7,093,535 (December 31, 2014 - $21,847,970).

7. Bank indebtedness:

The Corporation has entered into credit arrangements, of which $41,713,128 has been drawn as at December 31, 2015 (December 31, 2014 - $14,664,178). 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, 2016. Bank indebtedness is secured by a general security agreement. The credit agreement contains certain financial covenants that must be maintained. As at December 31, 2015 and 2014, 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 a rate of 4.85% as at December 31, 2015 (2014 - 4.75% to 5.89%). The Corporation's principal balance outstanding under the mortgages for which a first priority charge has been granted is $8,866,920 as at December 31, 2015 (2014 - $29,325,589).

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:

2016	$ 7,093,535

(in Canadian dollars)

9. Convertible debentures:

Year Ended	**2015**	**2014**
Liability component, beginning of year	$ 93,746,796	$ 92,817,840
Issued	45,077,995	-
Implicit interest rate in excess of coupon rate	281,723	257,362
Deferred finance cost amortization	797,535	671,594
Liability component, end of year	$ 139,904,049	$ 93,746,796

The breakdown of the convertible debentures for the year ended December 31, 2015 presented in the above table is as follows:

Convertible debenture	Balance, beginning of period	Issued	Implicit interest rate in excess of coupon rate	Deferred finance cost amortization	Balance, end of period	Maturity date
5.75%	$ 30,748,803	-	$ 34,711	$ 211,441	$ 30,994,955	Oct 31, 2017
5.40%	24,657,119	-	84,110	173,458	24,914,687	Feb 28, 2019
5.25%	19,462,971	-	96,197	134,549	19,693,717	Mar 31, 2019
4.75%	18,877,903	-	57,274	152,143	19,087,320	Mar 31, 2020
5.30%	-	23,618,421	8,380	121,369	23,748,170	May 31, 2022
5.50%	-	21,459,574	1,051	4,575	21,465,200	Dec 31, 2022
Total	$ 93,746,796	$ 45,077,995	$ 281,723	$ 797,535	$ 139,904,049	

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

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

(in Canadian dollars)

On April 17, 2015, the Corporation completed a public offering of 25,000 5.30% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $25,000,000. The debentures mature on May 31, 2022 and interest is paid semi-annually on May 31 and November 30. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $13.95. The debentures may not be redeemed by the Corporation prior to May 31, 2018. On or after May 31, 2018, but prior to May 31, 2019, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after May 31, 2019 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

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

Liability	$ 24,842,000
Equity	158,000
Principal	$ 25,000,000

On December 23, 2015, the Corporation completed a public offering of 23,000 5.50% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $23,000,000. The debentures mature on December 31, 2022 and interest is paid semi-annually on June 30 and December 31. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $14.00. The debentures may not be redeemed by the Corporation prior to December 31, 2018. On or after December 31, 2018, but prior to December 31, 2019, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after December 31, 2019 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

(in Canadian dollars)

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

Liability	$ 22,634,000
Equity	366,000
Principal	$ 23,000,000

As at December 31, 2015, debentures payable bear interest at the weighted average effective rate of 5.36% (2014 - 5.35%) per annum. Notwithstanding the carrying value of the convertible debentures, the principal balance outstanding to the debenture holders is $145,666,000 as at December 31, 2015 (2014 - $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, 2015:

	# of shares	Amount
Balance, beginning of year	20,162,266	$ 207,378,123
New shares from equity offering	80,000	980,000
Equity offering costs	-	(21,931)
New shares issued during the year under Dividend Reinvestment Plan	71,677	884,595
Balance, end of year	20,313,943	$ 209,220,787

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 exercied in the year	1,500	17,814
New shares issued during the year under Dividend Reinvestment Plan	79,745	982,369
Balance, end of year	20,162,266	$ 207,378,123

In the first quarter of 2015, the Corporation completed a private placement of 80,000 shares at $12.25 per share. In the first quarter of 2014, the Corporation completed a public offering of 1,955,000 shares at $12.10 per share.

(in Canadian dollars)

(b) Incentive option plan:

During 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 second quarter of 2015, the Corporation granted 35,000 options at an exercise price of $12.21 per share. These options fully vested upon granting.

As at December 31, 2015, of the 1,075,000 options granted, the total options excerised to date is 1,500 and the total amount options forfeited to date is 10,000.

Total options outstanding as at December 31, 2015 is 1,063,500 (December 31, 2014 - 1,028,500).

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

The Corporation has a dividend reinvestment plan and direct share purchase plan for its shareholders 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, 2015 and 2014.

Basic profit per share calculation:

	2015	2014
Numerator for basic profit per share:		
Net income and profit for the period:	$ 20,081,258	$ 19,510,113
Denominator for basic profit per share:		
Weighted average shares	20,253,665	19,995,523
Basic profit per share	$ 0.991	$ 0.976

Diluted profit per share calculation:

	2015	2014
Numerator for diluted profit per share:		
Net income and profit for the period:	$ 20,081,258	$ 19,510,113
Interest on convertible debentures	5,208,722	4,100,084
Net profit for diluted profit per share	$ 25,289,980	$ 23,610,197
Denominator for diluted profit per share:		
Weighted average shares	20,253,665	19,995,523
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average share price	52,264	34,199
Assuming debentures are converted	5,755,708	4,443,534
Diluted weighted average shares	26,061,637	24,473,256
Diluted profit per share	$ 0.970	$ 0.965

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, 2015, the Corporation recorded dividends of $20,081,258 (2014 - $19,510,113) to its shareholders. Dividends were $0.991 per share (2014 - $0.976 per share).

13. Related party transactions and balances:

The Corporation's Manager (a company related to officers and/or directors of the Corporation) 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, 2015, this amount was $2,873,993 (2014 - $2,586,438). Included in accounts payable and accrued liabilities at December 31, 2015 are amounts payable to the Corporation's Manager of $253,538 (2014 - $215,420).

The total directors' fee paid for the year was $183,000 (2014 - $171,625). 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. Key management personnel are also directors of the Corporation and receive compensation from the Corporation Manager. The Directors held 428,986 shares in the Corporation as at December 31, 2015 (2014 - 452,784).

During the year ended December 31, 2015, directors were awarded 35,000 (2014 - nil) options under the incentive option plan.

The Mortgage Banker (a company related to officers and/or directors of the Corporation) receives certain fees from the borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all of the commitment and renewal fees generated from the Corporation's investments; and 25% of all of the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income of the Corporation is net of the loan servicing fees paid to the Mortgage Banker of approximately $383,000 for the year ended December 31, 2015 (2014 - $345,000). 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, 2015 was $1,410,513 (2014 - $1,580,911) and applicable special profit income for the year ended December 31, 2015 was $1,165,401 (2014 - $711,344).

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.

A mortgage investment totalling $5,250,000 (December 31, 2014 - $5,250,000) was issued to a borrower controlled by an independent director of the Corporation. The investment was made by way of a participation in a direct loan to the entity controlled by the director. The investment is dealt with in accordance with the Corporation's existing investment and operating policies and is personally guaranteed by the director.

(in Canadian dollars)

A mortgage investment totalling $1,082,657 (December 31, 2014 - $1,456,581) was issued to a borrower controlled by the same independent director set out above. The investment represents a participation in a first mortgage loan assumed by an entity controlled by the director. The director became involved in the borrower entity by virtue of his position as a second mortgage lender to the borrower that fell into default. During the year, the Corporation recorded an additional $45,000 provision against this mortgage investment (2014 – reduction in provision of $400,000) for a total allowance of $200,000 at December 31, 2015 (2014 - $155,000) on this mortgage investment.

The Corporation also holds a mortgage investment totalling $4,303,000 at December 31, 2015 (classified as Discounted debt investment) that originated from the purchase of a mortgage loan from a schedule 1 bank at a discount to its original principal balance (December 31, 2014 - $3,978,000). The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that occurred after the purchase of the underlying Schedule 1 bank mortgage. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation. An impairment provision of $575,000 was recorded in the current year (2014 - $1,275,000) bringing the impairment allowance recorded on this loan to $1,850,000 as at December 31, 2015 (December 31, 2014 - $1,275,000). Recoveries under the investment resulting from sale of the secured real estate will be treated in the same fashion as that for all non conventional mortgage investments held by the Corporation.

Key management compensation:

Aggregate compensation for key management personnel (including payments to related parties for their recovery of overhead costs), (all consisting of short-term employee compensation) was $1,892,130 in 2015 (2014 - $1,809,285), all of which was paid by the Corporation's Manager and nil by the Corporation.

14. Interest expense:

		2015		2014
Bank interest expense	$	1,166,770	$	804,398
Loans payable interest expense		920,995		802,513
Debenture interest expense		7,262,845		6,152,243
Interest expense	$	9,350,610	$	7,759,154
Deferred finance cost amortization - convertible debentures		(797,535)		(671,594)
Implicit interest rate in excess of coupon rate - convertible debentures		(281,723)		(257,362)
Change in accrued interest		(279,261)		(56,803)
Cash interest paid	$	7,992,091	$	6,773,395

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.

(in Canadian dollars)

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, 2015 and 2014. 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:

2015	Level 1	Level 2	Level 3	Total
Debenture portfolio investment	$ 2,076,800	-	-	$ 2,076,800
Marketable securities	1,949,106	-	-	1,949,106
Convertible debentures	144,113,082	-	-	144,113,082

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

(in Canadian dollars)

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, 2015, 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	4,709,241	-	-
Marketable securities	1,949,106	-	-
Debenture portfolio investment	2,076,800	-	-
Investment portfolio	398,689,638	(10,827)	832,661
Financial liabilities:			
Bank indebtedness	41,713,128	417,131	(417,131)
Loan on debenture portfolio investment	1,420,073	14,201	(14,201)
Accounts payable and accrued liabilities	2,195,415	-	-
Shareholder dividend payable	2,701,754	-	-
Loans payable	7,093,535	-	-
Convertible debentures	139,904,049	-	-
Total increase		$ 420,505	$ 401,329

(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, 2015, 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 $113,464,052 as at December 31, 2015 (2014 - $83,646,839). 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, 2016. If the loan is not renewed on September 30, 2016, the terms of the facility allow for the Corporation to repay the balance owed on September 30, 2016 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.

(in Canadian dollars)

Contractual obligations as at December 31, 2015 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 6 years
Bank indebtedness	$ 41,713,128	$ 41,713,128	$ -	$ -
Accounts payable and accrued liabilities	2,195,415	2,195,415	-	-
Loan on debenture portfolio investment	1,420,073	1,420,073	-	-
Shareholder dividend payable	2,701,754	2,701,754	-	-
Loans payable	7,093,535	7,093,535	-	-
Convertible debentures	145,666,000	-	31,443,000	114,223,000
Subtotal - Liabilities	$ 200,789,905	$ 55,123,905	$ 31,443,000	$ 114,223,000
Future advances under portfolio	113,587,052	113,587,052	-	-
Liabilities and contractual obligations	$ 314,376,957	$ 168,710,957	$ 31,443,000	$ 114,223,000

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 $172,018 for less than 1 year and nil for 1 to 6 years. Interest payments on debentures (assuming the amounts remain unchanged) would be $7,813,287 for less than 1 year, $13,516,447 for 1 to 3 years and $9,444,090 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 guidelines and investment operating policies. The Corporation's guideline include the following: the Corporation (i) will not invest more than 10% of the amount of its capital in any single conventional first mortgage where the loan to value on such loan is less than 60%, (ii) will not invest more than 8% of the amount of its capital in any single conventional first mortgage where the loan to value on such loan is between 60% and 70%, (iii) will not invest more than 5% of the amount of its capital in any single conventional first mortgages where the loan to value on such loan exceeds 70%, (iv) will not invest more than 2.5% of the amount of its capital in any single non-conventional mortgage or conventional investment that 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:

During January 2016, a Director of the Corporation exercised 35,000 options at a price of $11.78 per common shares for total gross proceeds of approximately $412,300.