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These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or any securities laws of any state, territory or possession of the United States ("state securities laws"), and may only be offered or sold, directly or indirectly, within the United States pursuant to the registration requirements of the 1933 Act and applicable state securities laws or an exemption therefrom. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities in the United States of America, its territories or possessions. See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Firm Capital Mortgage Investment Corporation at 1244 Caledonia Road, Toronto, Ontario M6A 2X5, telephone (416) 635-0221 and are also available electronically at [www.sedar.com](http://www.sedar.com).

## SHORT FORM PROSPECTUS

New Issue

March 15, 2013



### FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

\$20,000,000

4.75% Convertible Unsecured Subordinated Debentures due March 31, 2020

This short form prospectus qualifies the distribution of \$20,000,000 aggregate principal amount of 4.75% convertible unsecured subordinated debentures (the "**Debentures**") due March 31, 2020 (the "**Maturity Date**") of Firm Capital Mortgage Investment Corporation (the "**Corporation**") at a price of \$1,000 per Debenture (the "**Offering**"). The Debentures will bear interest at an annual rate of 4.75% payable semi-annually on the last day of March and September of each year (or the immediately following business day if any interest payment date would not otherwise be a business day), commencing on September 30, 2013. The Debentures will be redeemable, in whole or in part, at the option of the Corporation on the terms described in this short form prospectus. See "Description of the Debentures".

The Corporation is a corporation formed and existing under the laws of Canada. The Corporation is a non-bank lender providing and investing in predominantly short term residential and commercial real estate financing. See "Summary Description of the Business". The registered and head office of the Corporation is located at 1244 Caledonia Road, Toronto, Ontario M6A 2X5.

#### **Debenture Conversion Privilege**

Each Debenture will be convertible into common shares of the Corporation ("**Shares**") at the option of the holder at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the Corporation for redemption of the Debentures, at a conversion price of \$15.80 per Share (the "**Conversion Price**"), being a conversion rate of approximately 63.2911 Shares per \$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the Indenture (as defined herein). Holders converting their Debentures will receive accrued and unpaid interest thereon from the last interest payment date to the date of conversion. Notwithstanding the foregoing, no Debentures may be converted during the five business days preceding the last day of March and September in each year, commencing September 30, 2013, as the registers of the Debenture Trustee (as defined herein) will be closed during such periods.

The Debentures will not be redeemable prior to March 31, 2016. On and after March 31, 2016, but prior to March 31, 2017, the Debentures will be redeemable, in whole or in part, at a price equal to the principal amount thereof, plus accrued and unpaid interest, at the Corporation's sole option on not more than 60 days' and not less than 30 days' prior notice, provided that the weighted average trading price of the Shares on the Toronto Stock Exchange (the "TSX") for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and after March 31, 2017 and prior to the Maturity Date, the Debentures will be redeemable, in whole or in part, at a price equal to the principal amount thereof, plus accrued and unpaid interest, at the Corporation's sole option on not more than 60 days' and not less than 30 days' prior notice.

Subject to regulatory approval and the conditions set out in the Indenture, 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 the principal amount of the Debentures that are to be redeemed or the principal amount of the Debentures that are to mature by issuing and delivering for each \$100 due, that number of freely tradeable Shares obtained by dividing the \$1,000 principal amount of the Debentures that is to be redeemed or that are to mature, as the case may be, by 95% of the weighted average trading price of the Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or maturity, as the case may be. Interest accrued and unpaid on the Debentures that are to be redeemed or that are to mature will be paid to holders of Debentures in cash or, subject to regulatory approval and provided that no Event of Default (as defined herein) has occurred and is continuing, Shares may be issued to the Debenture Trustee and sold, with the proceeds used to satisfy the obligations to pay interest on the Debentures. Further particulars concerning the attributes of the Debentures are set out under "Description of the Debentures".

The Corporation may also elect, from time to time, subject to any required regulatory approval and provided that no Event of Default has occurred and is continuing, to satisfy all or part of its interest payment obligations by delivering sufficient freely tradeable Shares to the Debenture Trustee for sale, in which event holders of Debentures will be entitled to receive, from the proceeds of the sale of the requisite number of Shares by the Debenture Trustee, a cash payment equal to the interest owed.

The TSX has conditionally approved the listing of the Debentures and the Shares issuable upon conversion, redemption or maturity of the Debentures listed on the TSX. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before June 4, 2013. The Debentures will be listed under the symbol FC.DB.D.

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**PRICE: \$1,000 per Debenture**

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	<b>Price to the Public</b>	<b>Underwriters' Fee</b>	<b>Net Proceeds to the Corporation<sup>(1)</sup></b>
Per Debenture	\$1,000	\$40 or 4.0%	\$960.00
Total <sup>(2)</sup>	\$20,000,000	\$800,000	\$19,200,000

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**Notes**

- (1) Before deducting the expenses of the Offering, estimated at \$200,000, which, together with the Underwriters' fee, the Corporation will pay from the proceeds of the Offering.
- (2) The Corporation has granted the Underwriters an over-allotment option exercisable in whole or in part by the Underwriters at any time up to 30 days after the Closing to purchase up to an additional \$3,000,000 aggregate principal amount of Debentures (the "**Over-Allotment Option**"), at a price of \$1,000 per Debenture (plus accrued interest from the initial closing of the Offering to the closing of the issuance of the Debentures on the exercise of the Over Allotment Option). If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to the Corporation" will be \$23,000,000, \$920,000 and \$22,080,000, respectively (excluding accrued interest paid in respect of such Debentures). This prospectus qualifies the grant of the Over-Allotment Option and the issuance of the Debentures on the exercise of the Over-Allotment Option. A purchaser who acquires Debentures forming part of the Underwriters' over-allocation position acquires those Debentures under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "Plan of Distribution".

<u>Underwriters' Position</u>	<u>Maximum Size of Number of Debentures Held</u>	<u>Exercise Period</u>	<u>Exercise Price</u>
Debenture Over-Allotment Option	\$3,000,000 aggregate principal amount of Debentures, if exercised in full (being 15% of the Debentures sold pursuant to the Offering)	30 days after the Closing	\$1,000 per Debenture

The issued and outstanding Shares are listed and posted for trading on the TSX under the symbol FC. **Investing in the Shares or the Debentures is subject to certain risks. There is no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures, and the extent of issuer regulation. See “Forward-Looking Statements” and “Risk Factors”.** On March 14, 2013, the closing price per Share on the TSX was \$13.70.

The offering price of the Debentures was determined by negotiation between the Corporation and TD Securities Inc., National Bank Financial Inc., Desjardins Securities Inc., Dundee Securities Ltd., Macquarie Capital Markets Canada Ltd., RBC Dominion Securities Inc., Scotia Capital Inc. and Canaccord Genuity Corp. (collectively, the “**Underwriters**”). See “Plan of Distribution”. The Underwriters, as principals, conditionally offer the Debentures offered under this short form prospectus, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under “Plan of Distribution” and subject to approval of certain legal matters relating to the qualification for distribution of the Debentures on behalf of the Corporation by Stikeman Elliott LLP and on behalf of the Underwriters by Gowling Lafleur Henderson LLP.

**TD Securities Inc. is, directly or indirectly, a subsidiary or affiliate of a Canadian chartered bank that is a lender to the Corporation. Consequently, the Corporation may be considered to be a connected issuer of TD Securities Inc. under applicable Canadian securities legislation.** The Corporation intends to use the net proceeds of the Offering to repay debt, to fund future mortgage investments and for general corporate purposes. See “Relationship Between the Corporation and a Certain Underwriter” and “Plan of Distribution”.

Subscriptions for Debentures offered under this short form prospectus will be received subject to rejection or allotment, in whole or in part, and the right is reserved to close the subscription books at any time without notice. In connection with this distribution the Underwriters may effect transactions that stabilize or maintain the market price of the Shares or the Debentures at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time. **In certain circumstances, the Underwriters may offer the Debentures at a price lower than the offering price specified in this short form prospectus.** See “Plan of Distribution”. It is expected that closing of the Offering will be held on or about March 28, 2013 or such other date as the Corporation and the Underwriters may agree upon. A certificate for the aggregate principal amount of the Debentures will be issued in registered form to The Canadian Depository for Securities Limited (“CDS”) and will be deposited with CDS on the date of closing of the Offering. No certificates evidencing the Debentures will be issued to purchasers, except in certain limited circumstances, and registration will be made in the depository service of CDS. Purchasers of the Debentures will receive only a customer confirmation from the Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Debentures is purchased. See “Description of the Debentures”.

**Shares are not “deposits” within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that Act or any other legislation.** A return on an investment in Shares in the event you receive Shares upon the conversion, redemption or repayment at maturity of the Debentures in accordance with their terms, is not comparable to the return on an investment in a fixed-income security. If you receive Shares on the conversion, redemption or maturity of the Debentures, the recovery of your initial investment in the Shares is at risk, and the anticipated return on your investment is based on certain performance assumptions. Although the Corporation intends to make distributions of its available cash to its shareholders (the

“**Shareholders**”), these cash distributions may be reduced or suspended. The actual amount distributed will depend on numerous factors disclosed in the Corporation’s continuous disclosure documents including the financial performance of the properties in its portfolio, its debt covenants and obligations, its working capital requirements and its future capital requirements. In addition, the market value of the Shares may decline if the Corporation is unable to meet its cash distribution targets in the future, and that decline may be significant. The after-tax return from an investment in Shares to Shareholders subject to Canadian income tax can be made up of both a return on and a return of capital. That composition may change over time, thus affecting a Shareholder’s after-tax return. Returns on capital are generally taxed as ordinary income in the hands of a Canadian-resident Shareholder. Returns of capital to a Canadian-resident Shareholder are generally tax-deferred (and reduce the Shareholder’s cost base in the Shares for tax purposes). Both types of returns are generally subject to tax withheld at source in the case of non-resident Shareholders. An investment in the Shares is subject to certain risk factors. Please see “Risk Factors”.

All monetary amounts used herein are in Canadian dollars, unless otherwise indicated.

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### DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Corporation filed with the securities commissions or similar authorities in each of the provinces of Canada, are specifically incorporated by reference in and form an integral part of this short form prospectus:

- (a) the Corporation's annual information form dated March 29, 2012 (the "AIF");
- (b) the Corporation's management information circular dated May 25, 2012 relating to the Corporation's annual meeting of shareholders held on June 26, 2012;
- (c) the Corporation's audited financial statements and the notes thereto for the years ended December 31, 2012 and 2011, together with the auditors' report thereon;
- (d) management's discussion and analysis of the Corporation's financial condition and results of operations for the year ended December 31, 2012; and
- (e) material change report filed by the Corporation on March 13, 2013 in connection with the Offering.

Any documents of the type referred to above as well as all other documents disclosing additional or updated information filed by the Corporation with the securities regulatory authorities in Canada after the date of this short form prospectus and prior to the termination of the Offering shall be deemed to be incorporated by reference into this short form prospectus, as prescribed by applicable securities laws.

**Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for the purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded.**

## FORWARD-LOOKING STATEMENTS

Included in this short form prospectus and documents incorporated by reference herein is certain forward-looking information, as such term is defined under applicable securities laws. This information relates to future events or future performance and reflects management's expectations and assumptions regarding the growth, results of operations, performance and business prospects and opportunities of the Corporation. Such forward-looking information reflects management's current beliefs and are based on information currently available to management of the Corporation and a number of assumptions that management believed were reasonable on the day such forward-looking information was presented. Refer, in particular, to the relevant sections of the documents incorporated by reference, for a discussion of certain assumptions management has made in presenting forward-looking information, which sections are incorporated by reference herein. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "intend", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. In particular, information regarding the Corporation's future operating results and economic performance is forward-looking information. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking information. See "Risk Factors".

Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described below, and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, among other things, changing external events and general uncertainties of the business. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and unitholder 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, interest rates remain relatively stable and the Corporation is able to invest in mortgages at rates consistent with rates historically achieved; adequate mortgage investment opportunities are presented to the Corporation; and adequate bank indebtedness and bank loans are available to the Corporation; as well as the factors identified throughout this short form prospectus and in particular, the "Risk Factors" section of this short form prospectus. The forward-looking statements contained in this short form prospectus represent the Corporation's expectations as of the date of this short form prospectus, and are subject to change after such date. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

## ELIGIBILITY FOR INVESTMENT

In the opinion of Stikeman Elliott LLP and Gowling Lafleur Henderson LLP, provided the Shares are listed on a "designated stock exchange" in Canada as defined in the *Income Tax Act* (Canada) (the "**Tax Act**") (which currently includes the TSX) on the Closing Date, the Debentures will, as at the Closing Date, and the Shares issuable on conversion, redemption or maturity of the Debentures would, if issued on such date, be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans ("**RRSPs**"), registered retirement income funds ("**RRIFs**"), deferred profit sharing plans ("**DPSPs**") (except, in the case of the Debentures, a DPSP for which the Corporation or a corporation with which the Corporation does not deal at arm's length is the employer), registered disability savings plans ("**DSPs**"), registered education savings plans ("**RESPs**") and tax-free savings accounts ("**TFSAs**" and collectively, "**Plans**"). Notwithstanding that the Shares and Debentures may be a qualified investment for a TFSA, an RRSP or a RRIF, the holder of a TFSA or the annuitant of an RRSP or RRIF, as the case may be, which acquires Shares and/or Debentures will be subject to a penalty tax under the Tax Act if such Shares and/or Debentures, as applicable, are a "prohibited investment" (within the meaning of the Tax Act) for the particular TFSA, RRSP or RRIF. Shares and Debentures will generally be a prohibited investment for a TFSA, an RRSP or RRIF if the holder of the TFSA, or annuitant of the RRSP or RRIF, as applicable, (i) does not deal at arm's length with the Corporation for purposes of the Tax Act; (ii) has a "significant interest" (within the meaning of the Tax Act) in the Corporation; or (iii) has a "significant interest" (within the meaning of the Tax Act) in a corporation, partnership or trust with which the Corporation does not deal at arm's length for the purposes of the Tax Act. Proposals to amend the Tax Act released on December 21, 2012 propose to delete the condition in (iii) above. In addition, pursuant to these proposals, Shares will not be prohibited

investments if they are “excluded property” as defined in the proposals. **Holders and annuitants should consult their own tax advisors to ensure that the Shares and/or Debentures would not be a prohibited investment for a trust governed by a TFSA, RRSP, or RRIF in their particular circumstances.**

## SUMMARY DESCRIPTION OF THE BUSINESS

### *Overview*

On January 1, 2011, Firm Capital Mortgage Investment Trust (the “**Trust**”), the predecessor entity to the Corporation, completed an approved plan of arrangement (the “**Arrangement**”) pursuant to which the Trust was reorganized into the Corporation. In this short form prospectus, for any period that ended prior to January 1, 2011, unless the context otherwise requires: (i) any reference to *Firm Capital Mortgage Investment Corporation* or *the Corporation* will be deemed to be a reference to its predecessor, Firm Capital Mortgage Investment Trust; (ii) any reference to a *Director* when made in reference to a director of the Corporation will be deemed to be a reference to a Trustee of Firm Capital Mortgage Investment Trust; (iii) any reference to *Shares* will be deemed to be a reference to units of Firm Capital Mortgage Investment Trust (“**Units**”); and (iv) any reference to *Shareholders* will be deemed to be a reference to holders of Units (“**Unitholders**”).

The Corporation is a non-bank lender providing and investing in predominantly short term residential and commercial real estate financing, and achieves its investment objectives by pursuing a strategy of investing in selected niche real estate finance markets that are under serviced by larger financial institutions. The Corporation invests in mortgages secured by all types of residential and commercial real property, subject to compliance with the Corporation’s investment policies. The types of properties that the Corporation finances includes residential houses, small multi-family residential properties comprised of six or fewer units, residential apartment buildings, mixed-use residential apartments and store-front properties, investment properties, land and development sites, development and construction projects. The Corporation also invests in all forms of short-term bridge financing for residential and commercial real estate (including, primarily, construction loans for such properties). The Corporation invests in various Non-Conventional Mortgages, either alone or in participation with other lenders, the principal types of which include: equity and participating mortgage loans; joint venture financing for builders and developers; mezzanine and subordinated mortgage debt for investment properties; partnership capital; and distressed mortgage debt purchases. “Non-Conventional Mortgages” means, without limitation, mortgage investments that exceed, or may exceed, 75% of the appraised value of the real property underlying such mortgages as determined by a qualified appraiser, such as mezzanine and subordinated debt, participating mortgages, discounted debt and joint venture mortgages.

The objectives of the Corporation are to: (i) preserve Shareholders’ equity; and (ii) to provide a return on Shareholders’ equity in excess of 400 basis points above the yield to maturity on one year Government of Canada treasury bills. The Corporation aims to provide Shareholders with stable and secure cash distributions from investments in mortgage loans in market segments which are underserved by large financial institutions and seeks to maximize yields, dividends and Share value through the sourcing and efficient management of its mortgage investments in such market segments. To achieve these objectives, the Corporation benefits from Firm Capital Corporation’s (the “**Mortgage Banker**”) experience in originating, underwriting, syndicating and servicing mortgage investments. All mortgage investments are subject to specific investment policies and the operation of the Corporation is subject to specific operating policies.

Upon and since the conversion, the Corporation has qualified, and intends to continue to qualify, as a “mortgage investment corporation” (“**MIC**”) under the Tax Act. As a MIC, the Corporation is entitled to deduct from its taxable income for a particular taxation year 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 MIC, the Corporation must continually meet all of the criteria enumerated in the relevant section of the Tax Act throughout such taxation year. Accordingly, the Corporation intends to distribute enough of its annual operations profit to its Shareholders through the payment of monthly dividends of available cash (“**Distributable Cash**”) so as to minimize or eliminate its own liability for tax under the Tax Act, see “Certain Canadian Federal Income Tax considerations”. Notwithstanding the forgoing, the decision to pay dividends is at the sole discretion of the board of directors of the Corporation. The Corporation currently pays regular monthly dividends of \$0.078 per Share.

In 2012, the Corporation paid aggregate distributions of Distributable Cash to the Shareholders of \$0.99 per Share. When in existence as the Trust, the Trust paid aggregate distributions of Distributable Cash to the Trust’s Unitholders of \$1.006 per Unit in 2010 and \$1.041 per Unit in 2009.

The board of directors of the Corporation (the “**Directors**”) are responsible for the general control and direction of the Corporation, FC Treasury Management Inc. (the “**Trust Manager**”) supervises the day-to-day management and operations of the Corporation and the Mortgage Banker originates and underwrites all mortgage investments on behalf of the Corporation and services the Corporation’s gross mortgage portfolio (the “**Mortgage Portfolio**”).

The Mortgage Banker has a continuous portfolio of committed mortgage investments that are presented to the Corporation from time to time for investment, pursuant to the right of first refusal granted to the Corporation in accordance with the mortgage banking agreement between the Corporation and the Mortgage Banker (the “**Committed Mortgages**”).

See “General Development of the Corporation” and “Narrative Description of the Activities of the Corporation” in the AIF incorporated by reference in this short form prospectus for a detailed description of the business of the Corporation and its investment strategy.

### **USE OF PROCEEDS**

The net proceeds to the Corporation from the Offering (after deducting the Underwriters’ fee of \$800,000 and before deducting the estimated expenses of this Offering of \$200,000) will be approximately \$19,200,000. If the Over-Allotment Option is exercised in full, the net proceeds to the Corporation (after deducting the Underwriters’ fee of \$920,000 and before deducting the estimated expenses of this Offering of \$200,000) will be approximately \$22,080,000.

The Corporation intends to use the net proceeds of the Offering to repay a portion of its indebtedness under the Operating Facility (as defined below under “Relationship Between the Corporation and a Certain Underwriter”), which as of March 14, 2013 had an outstanding balance owing of approximately \$24,000,000, and the remaining net proceeds, if any, for general corporate purposes. The Corporation’s indebtedness under the Operating Facility was used by the Corporation for the purpose of providing funding for general operating expenses of the Corporation and working capital for the Corporation including for the purpose of making advances under Committed Mortgages (as defined under “Summary Description of the Business”) and additional funding of existing mortgages.

### **EARNINGS COVERAGE RATIO**

The following earnings coverage ratio of the Corporation have been calculated on a consolidated basis for the twelve month period ended December 31, 2012 and set out the Corporation’s interest requirements on a consolidated basis after giving effect to the issue of the Debentures and the use of the proceeds therefrom, net of the issue costs to the Corporation.

	<b>12 Months Ended December 31, 2012 after giving effect to the issuance of the Debentures</b>
Interest requirements on all debt	<b>\$7,439,428</b>
Earnings before interest expense and taxes	<b>\$23,944,720</b>
<b>Earnings coverage<sup>(1)</sup></b>	<b>3.22</b>

**Notes**

(1) Earnings coverage is equal to net income before interest expense and taxes divided by interest expense on all debt. The ratio has been calculated after giving effect to the anticipated repayment of the Operating Facility.

### **CONSOLIDATED CAPITALIZATION**

There have been no material changes in the equity or loan capital structure of the Corporation since December 31, 2012.

After giving effect to the Offering and the use of proceeds as discussed herein, the following table sets forth the Corporation’s capitalization.



**As At December 31, 2012**

	<b>Actual</b>	<b>Pro Forma As Adjusted</b>
Bank Indebtedness <sup>(1)</sup>	<b>\$24,379,151</b>	<b>\$5,179,151</b>
Loans Payable	<b>\$9,045,731</b>	<b>\$9,045,731</b>
Convertible Debenture <sup>(2) (3)</sup>	<b>\$86,668,000</b>	<b>\$106,668,000</b>
Shareholders equity	<b>\$176,378,408</b>	<b>\$176,378,408</b>
<b>Total capitalization<sup>(4)</sup></b>	<b>\$296,471,290</b>	<b>\$297,271,290</b>

**Notes**

(1) The amount of bank indebtedness has been adjusted to reflect the Corporation's intention to use all of the net proceeds from the Offering to pay down the Operating Facility.

(2) Before deducting the Underwriter's Fee for the Offering. Excludes up to \$3,000,000 principal amount of Debentures which may be issued on exercise of the Over-Allotment Option. See "Plan of Distribution".

(3) Represents the face value of the Debentures without deducting the fair value of the conversion option (being the equity component of the Debentures). Under IFRS, the Debentures will be included as a liability, net of the fair value of the conversion feature, which will be included as equity, and net of issue costs. The equity portion is approximately \$440,000 (net of issue costs). The portion of the Debentures classified as a liability will be accreted by a charge to interest expense over the term of the Debentures to increase the carrying value of the liability up to the principal balance of the outstanding Debentures on the Maturity Date.

(4) Does not reflect the fair value of the conversion option of the Debentures (approximately \$440,000, net of issue costs).

**DESCRIPTION OF THE DEBENTURES**

The Debentures consist of \$20,000,000 aggregate principal amount of 4.75% convertible unsecured subordinated debentures due March 31, 2020. The following is a summary of the material attributes and characteristics of the Debentures and is subject to, and qualified in its entirety by, reference to the terms of a trust indenture dated April 24, 2006, as supplemented by a supplemental indenture dated October 13, 2010, a second supplemental indenture dated as of January 1, 2011, a third supplemental indenture dated as of August 23, 2011, a fourth supplemental indenture dated as of March 21, 2012, and a fifth supplemental indenture to be dated as of the Closing Date (collectively, the "**Indenture**"), in each case between the Corporation and Computershare Trust Company of Canada (the "**Debenture Trustee**"), as trustee. This summary does not purport to be complete and is subject to, and qualified in its entirety by the terms of, the Debentures and the Indenture. The Corporation may, from time to time, without the consent of the holders of the Debentures, issue additional debentures of the same series or of a different series under the Indenture, in addition to the Debentures offered hereby. When used in this short form prospectus under "Description of the Debentures", the following terms have the respective meanings set forth below:

"**Change of Control**" means the acquisition by any person, or group of persons acting jointly or in concert, of voting control or direction of an aggregate of 66 2/3% or more of the outstanding Shares, or securities convertible into or carrying the right to acquire 66 2/3% or more of the Shares;

"**Current Market Price**" means the volume weighted average trading price of the Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event;

"**Event of Default**" has the meaning given to it in the Indenture, and includes the occurrence and continuation of any one or more of the following events with respect to the Debentures: (a) failure for 10 days to pay interest on the Debentures when due; (b) failure to pay principal or premium, if any, when due on the Debentures, whether at maturity, upon redemption, by declaration or otherwise; (c) certain events of bankruptcy, insolvency or reorganization of the Corporation under bankruptcy or insolvency laws; or (d) default in the observance or performance of any material covenant or condition of the Indenture and continuance of such default for a period of 30 days after notice in writing has been given by the Debenture Trustee to the Corporation specifying such default and requiring the Corporation to rectify the same;

"**Interest Payment Date**" means the last day of March and September in each year; and

"**Share Interest Payment Election**" means an election by the Corporation to issue and solicit bids to sell sufficient Shares in order to raise funds to satisfy all or any part of its obligations to pay interest on the Debentures in accordance with the Indenture in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Shares.

**Debentures, Interest Rate and Maturity**

The Debentures to be issued pursuant to the Offering will be issued under the Indenture and will be in the aggregate principal amount of \$20,000,000 (plus any Debentures issued upon exercise of the Debenture Over-Allotment Option). The Corporation may, from time to time, without the consent of the holders of the Debentures,

issue additional debentures (“**Additional Debentures**”) of the same series or of a different series under the Indenture, in addition to the Debentures offered hereby.

The Debentures will be dated as of the closing of the Offering and will mature on March 31, 2020. The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof.

The Debentures will bear interest from and including the date of issue at 4.75% per annum, which will be payable semi-annually on the last day of March and September of each year commencing on September 30, 2013. The first interest payment will include interest accrued from the closing of the Offering to, but excluding September 30, 2013.

The principal amount of the Debentures will be payable in lawful money of Canada or, at the option of the Corporation and subject to applicable regulatory approval, by delivery of Shares as further described under “Payment upon Redemption or Maturity” and “Redemption and Purchase”. The interest on the Debentures will be payable in lawful money of Canada, and, at the option of the Corporation and subject to applicable regulatory approval, in accordance with the Share Interest Payment Election as described under “Share Interest Payment Election”.

The Debentures will be direct obligations of the Corporation and will not be secured by any mortgage, pledge, hypothecation or other charge and will be subordinated to other liabilities of the Corporation as described under “Subordination”. The Indenture does not and will not restrict the Corporation from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

### **Conversion Privilege**

The Debentures will be convertible into fully paid and non-assessable Shares at the option of the holder at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date fixed for redemption of the Debentures, at a conversion price of \$15.80 per Share (the “**Conversion Price**”), being a conversion rate of 63.2911 Shares for each \$1,000 principal amount of Debentures. No adjustment will be made for distributions on Shares issuable upon conversion; however, holders converting their Debentures will receive accrued and unpaid interest thereon for the period from the date of the latest interest payment date to, but excluding, the date of conversion. Notwithstanding the foregoing, no Debentures may be converted during the five business days preceding the last day of March and September in each year, commencing September 30, 2013, as the registers of the Debenture Trustee will be closed during such periods.

Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price upon the occurrence of certain events including: (a) the subdivision or consolidation of the outstanding Shares; (b) the distribution of Shares to holders of Shares by way of distribution or otherwise other than an issue of securities to holders of Shares who have elected to receive distributions in securities of the Corporation in lieu of receiving cash distributions paid in the ordinary course; (c) the issuance of options, rights or warrants to holders of Shares entitling them to acquire Shares or other securities convertible into Shares at less than 95% of the then current market price (as defined below) of the Shares; and (d) the distribution to all holders of Shares of any securities or assets (other than cash distributions and equivalent distributions in securities paid in lieu of cash distributions in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described in (b), (c) or (d) above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date. The Corporation will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

In the case of any reclassification or capital reorganization (other than a change resulting from consolidation or subdivision) of the Shares or in the case of any consolidation, combination or merger of the Corporation with or into any other entity, or in the case of any sale or conveyance of the properties and assets of the Corporation as, or substantially as, an entirety to any other entity, or a liquidation, dissolution or winding-up of the Corporation, the terms of the conversion privilege shall be adjusted so that each holder of a Debenture shall, after such reclassification, capital reorganization, consolidation, combination, merger, sale, conveyance, liquidation, dissolution or winding-up, be entitled to receive the number of Shares or other securities or other property on the exercise of the conversion right that such holder would be entitled to receive if on the effective date thereof, it had been the holder of the number of Shares into which the Debenture was convertible prior to the effective date of such reclassification, capital reorganization, consolidation, combination, merger, sale, conveyance, liquidation, dissolution or winding-up.

No fractional Shares will be issued on any conversion but in lieu thereof the Corporation shall satisfy fractional interests by a cash payment equal to the Current Market Price of any fractional interest. The term “current market price” will be defined in the Indenture to mean the weighted average trading price of the Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event.

### **Redemption and Purchase**

The Debentures will not be redeemable prior to March 31, 2016. On and after March 31, 2016, but prior to March 31, 2017, the Debentures will be redeemable, in whole or in part, at a price equal to the principal amount thereof, plus accrued and unpaid interest, at the Corporation’s sole option on not more than 60 days’ and not less than 30 days’ prior notice, provided that the Current Market Price on the date on which notice of redemption is given is not less than 125% of the Conversion Price. On or after March 31, 2017 and prior to the Maturity Date, the Debentures will be redeemable, in whole or in part, at a price equal to the principal amount thereof, plus accrued and unpaid interest, at the Corporation’s sole option on not more than 60 days’ and not less than 30 days’ prior notice.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a pro rata basis or in such other manner as the Debenture Trustee deems equitable, subject to the consent of the TSX.

Provided that no Event of Default has occurred and is continuing, the Corporation will have the right to purchase Debentures in the market, by tender or by private contract, subject to regulatory requirements.

### **Payment upon Redemption or Maturity**

On redemption or at maturity, the Corporation will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount required to repay the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon. The Corporation may, at its option, on not more than 60 days’ and not less than 40 days’ prior notice and subject to applicable regulatory approval and the conditions set out in the Indenture, elect to satisfy its obligation to repay all or any portion of the principal amount of the Debentures that are to be redeemed or that are to mature, as the case may be, by issuing and delivering freely-tradable Shares to the holders of the Debentures. The number of Shares to be issued in respect of each Debenture will be determined by dividing \$1,000 by 95% of the Current Market Price on the date fixed for redemption or maturity, as the case may be. No fractional Shares will be issued on redemption or maturity but in lieu thereof the Corporation shall satisfy fractional interests by a cash payment equal to the Current Market Price of any fractional interest.

### **Share Interest Payment Election**

The Corporation may elect, from time to time, subject to regulatory approval and that no Event of Default has occurred and is continuing, to satisfy its obligation to pay interest on the Debentures (the “**Interest Obligation**”) on the date it is payable under the Indenture (an “**Interest Payment Date**”), by issuing a sufficient number of Shares required to satisfy all or any part of the Interest Obligation in accordance with the Indenture (the “**Share Interest Payment Election**”). The Indenture provides that, upon such election, the Debenture Trustee (directly or indirectly) shall have the power to (a) accept delivery from the Corporation of Shares, (b) consummate sales of, such Shares, each as the Corporation shall direct in its absolute discretion, (c) invest the proceeds of such sales in short-term permitted government securities (as defined in the Indenture) that mature prior to the applicable Interest Payment Date, and use the proceeds received from such permitted government securities, together with any proceeds from the sale of Shares not invested as aforesaid, to satisfy the Interest Obligation, and (d) perform any other action necessarily incidental thereto.

The Indenture sets forth the procedures to be followed by the Corporation and the Debenture Trustee in order to effect the Share Interest Payment Election. If a Share Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Shares (plus any cash amount received by the Debenture Trustee from the Corporation attributable to any fractional Shares) in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the Corporation in respect of the Interest Obligation.

Neither the Corporation’s making of the Share Interest Payment Election nor the consummation of sales of Shares will (a) put the holders of the Debentures at risk of receiving on the applicable Interest Payment Date any amount less than the interest payable on such Interest Payment Date, or (b) entitle such holders to receive any Shares in satisfaction of the Interest Obligation.

## **Subordination**

The payment of the principal of, and interest on, the Debentures will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness of the Corporation and indebtedness to trade creditors of the Corporation, including indebtedness under the Corporation's present and future bank credit facilities and any other secured creditors. "Senior Indebtedness" of the Corporation is defined in the Indenture as the principal of and premium, if any, and interest on and other amounts in respect of all indebtedness of the Corporation (whether outstanding as at the date of the Indenture or thereafter incurred) other than indebtedness evidenced by the Debentures and all other existing and future debentures or other instruments of the Corporation which, by the terms of the instrument creating or evidencing the indebtedness, is expressed to be pari passu with, or subordinate in right of payment to, the Debentures. Subject to statutory or preferred exceptions or as may be specified by the terms of any particular securities, each Debenture issued under the Indenture will rank pari passu with each other Debenture, to the 6% Convertible Debentures (as defined herein), the 5.75% Convertible Debentures (as defined herein), the 5.40% Convertible Debentures (as defined herein), and the 5.25% Convertible Debentures (as defined herein), and with all other present and future subordinated and unsecured indebtedness of the Corporation except for sinking fund provisions (if any) applicable to different series of debentures or similar obligations of the Corporation. The Debentures will not limit the ability of the Corporation to incur additional indebtedness, including indebtedness that ranks senior to the Debentures, or from mortgaging, pledging or charging its properties to secure any indebtedness.

The Indenture will provide that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the Corporation, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Corporation, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the Corporation, then those holders of Senior Indebtedness, including any indebtedness to trade creditors, will receive payment in full before the holders of Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon. The Indenture will also provide that the Corporation will not make any payment, and the holders of the Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including, without any limitation, by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures or (b) at any time when an event of default has occurred under the Senior Indebtedness and is continuing and the notice of such event of default has been given by or on behalf of the holders of Senior Indebtedness to the Corporation, unless the Senior Indebtedness has been repaid in full.

The Debentures will also be effectively subordinated to claims of creditors of the Corporation's subsidiaries, except to the extent the Corporation is a creditor of such subsidiaries ranking at least pari passu with such other creditors.

## **Change of Control of the Corporation**

Within 30 days following the occurrence of a Change of Control, the Corporation shall make an offer in writing to purchase the Debentures then outstanding, in whole or in part, (the "**Debenture Offer**") at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest (the "**Debenture Offer Price**").

The Indenture contains notification and repurchase provisions requiring the Corporation to give written notice to the Debenture Trustee of the occurrence of a Change of Control within 30 days of such event together with the Debenture Offer. The Debenture Trustee will thereafter promptly mail to each holder of Debentures a notice of the Change of Control together with a copy of the Debenture Offer to repurchase all the outstanding Debentures.

If 90% or more of the aggregate principal amount of the Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered to the Corporation pursuant to the Debenture Offer, the Corporation will have the right and obligation to redeem all the remaining Debentures at the Debenture Offer Price. Notice of such redemption must be given by the Corporation to the Debenture Trustee within 10 days following the expiry of the Debenture Offer, and as soon as possible thereafter, by the Debenture Trustee to the holders of the Debentures not tendered pursuant to the Debenture Offer.

## **Events of Default**

The Indenture will provide that an Event of Default in respect of the Debentures will occur if any one or more of the following described events has occurred and is continuing with respect to the Debentures: (a) failure for

10 days to pay interest on the Debentures when due; (b) failure to pay principal or premium, if any, when due on the Debentures, whether at maturity, upon redemption, by declaration or otherwise; (c) certain events of bankruptcy, insolvency or reorganization of the Corporation under bankruptcy or insolvency laws; or (d) default in the observance or performance of any material covenant or condition of the Indenture and continuance of such default for a period of 30 days after notice in writing has been given by the Debenture Trustee to the Corporation specifying such default and requiring the Corporation to rectify the same. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall upon request of holders of not less than 25% of the principal amount of Debentures then outstanding, declare the principal of and interest on all outstanding Debentures to be immediately due and payable. In certain cases, the holders of more than 50% of the principal amount of the Debentures then outstanding may, on behalf of the holders of all Debentures, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

### **Offers for Debentures**

The Indenture will contain provisions to the effect that if an offer is made for the Debentures that would be a take-over bid within the meaning of the *Securities Act* (Ontario) for the Debentures and not less than 90% of the Debentures (other than Debentures held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Debentures held by the holders of Debentures who did not accept the offer on the terms offered by the offeror.

### **Modification**

The rights of the holders of the Debentures as well as any other series of debentures that may be issued under the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture will contain certain provisions that will make binding on all holders of Debentures resolutions passed at meetings of the holders of Debentures by votes cast thereat by holders of not less than 66 2/3% of the principal amount of the Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66 2/3% of the principal amount of the Debentures then outstanding. In certain cases, the modification will, instead or in addition, require assent by the holders of the required percentage of Debentures of each particularly affected series.

### **No Fractional Shares**

No fractional Shares will be issued on any conversion, but in lieu thereof, the Corporation shall satisfy fractional interests by a cash payment equal to the Current Market Price of each such fractional interest.

### **Book-Entry System for Debentures**

The Debentures will be issued in “book-entry only” form and must be purchased or transferred through a participant in the depository service of CDS (a “**Participant**”). On the closing of the Offering, the Debenture Trustee will cause the Debentures to be delivered to CDS and registered in the name of its nominee. The Debentures will be evidenced by a single book-entry only certificate. Registration of interests in and transfers of the Debentures will be made only through the depository service of CDS.

Except as described below, a purchaser acquiring a beneficial interest in the Debentures (a “**Beneficial Owner**”) will not be entitled to a certificate or other instrument from the Debenture Trustee or CDS evidencing that purchaser’s interest therein, and such purchaser will not be shown on the records maintained by CDS, except through a Participant. Such purchaser will receive a confirmation of purchase from the Underwriters or other registered dealer from whom Debentures are purchased.

Neither the Corporation nor the Underwriters will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Debentures held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Debentures; or (c) any advice or representation made by or with respect to CDS and contained in this short form prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and Beneficial Owners must look solely to Participants for the payment of the principal and interest on the Debentures paid by or on behalf of the Corporation to CDS.

As indirect holders of Debentures, investors should be aware that they (subject to the situations described below): (a) may not have Debentures registered in their name; (b) may not have physical certificates representing their interest in the Debentures; (c) may not be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (d) may be unable to pledge Debentures as security.

The Debentures will be issued to Beneficial Owners in fully registered and certificate form (the “**Debenture Certificates**”) only if: (a) they are required to be so issued by applicable law; (b) the book-entry only system ceases to exist; (c) the Corporation or CDS advises the Debenture Trustee that CDS is no longer willing or able to properly discharge its responsibilities as depositary with respect to the Debentures and the Corporation is unable to locate a qualified successor; (d) the Corporation, at its option, decides to terminate the book-entry only system through CDS; or (e) after the occurrence of an Event of Default, Participants acting on behalf of Beneficial Owners representing, in the aggregate, not less than 25% of the aggregate principal amount of the Debentures then outstanding advise CDS in writing that the continuation of a book-entry only system through CDS is no longer in their best interest, provided the Debenture Trustee has not waived the Event of Default in accordance with the terms of the Indenture.

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Debenture Trustee must notify CDS, for and on behalf of Participants and Beneficial Owners, of the availability through CDS of Debenture Certificates. Upon surrender by CDS of the single certificate representing the Debentures and receipt of instructions from CDS for the new registrations, the Debenture Trustee will deliver the Debentures in the form of Debenture Certificates and thereafter the Corporation will recognize the holders of such Debenture Certificates as debentureholders under the Indenture.

Interest on the Debentures will be paid directly to CDS while the book-entry only system is in effect. If Debenture Certificates are issued, interest will be paid by cheque drawn on the Corporation and sent by prepaid mail to the registered holder or by such other means as may become customary for the payment of interest. Payment of principal and premium, if any, including payment in the form of Shares if applicable, and the interest due, at maturity or on a redemption date, will be paid directly to CDS while the book-entry only system is in effect. If Debenture Certificates are issued, payment of principal, and premium, if any, including payment in the form of Shares, if applicable, and interest due at maturity or on a redemption date, will be paid upon surrender thereof at any office of the Debenture Trustee or as otherwise specified in the Indenture.

## **DESCRIPTION OF CAPITAL**

### **General**

The authorized capital of the Corporation consists of an unlimited number of Preferred Shares issuable in series (“**Preferred Shares**”) and an unlimited number of Shares, of which, as of March 14, 2013, no Preferred Shares and 17,425,545 Shares are outstanding.

### **Common Shares**

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

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

### **Preferred Shares**

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

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

### **Limitation on Ownership**

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

In the event that (i) the exercise by any holder of debentures of the Corporation, or (ii) as determined by the board of directors of the Corporation in its sole discretion, any other transaction affecting the shares of the Corporation (each a "**Triggering Transaction**"), if completed, would cause any Shareholder(s) (each an "**Automatic Repurchase Shareholder**"), either alone or together with Related Persons, to hold more than 25% of any class or series of the issued shares of the Corporation, that portion of the shares held by each Automatic Repurchase Shareholder which constitutes in excess of 24.9% of issued shares of any class or series of shares (the "**Repurchased Shares**") will, immediately prior to the completion of a Triggering Transaction, automatically be repurchased and cancelled by the Corporation (an "**Automatic Repurchase**") without any further action by the Corporation or the Automatic Repurchase Shareholder. The purchase price for any Repurchased Shares will be equal to the volume weighted average trading price of the particular class or series of shares for the five (5) consecutive trading days ending immediately preceding the date of the Triggering Transaction. The proceeds of any Automatic Repurchase, net of any applicable withholding tax, will be remitted to each applicable Automatic Repurchase Shareholder at the time of the Automatic Repurchase.

### **6% Convertible Unsecured Subordinated Debentures**

On April 24, 2006, the Trust issued \$25,000,000 principal amount of 6% convertible unsecured subordinated debentures (each, a "**6% Convertible Debenture**"). Each 6% Convertible Debenture pays interest at 6% per annum, payable semi-annually, and is convertible at the option of the holder at any time up to and including June 30, 2013, at a price of \$11.75 per Share (the "**6% Conversion Price**"). Each 6% Convertible Debenture ranks *pari passu* with each other 6% Convertible Debenture, and with all other present and future indebtedness of the Corporation except for sinking fund provisions (if any) applicable to different series of debentures or similar obligations of the Corporation. The 6% Convertible Debentures are subordinated in right of payment to the prior payment in full of all Senior Indebtedness (as defined in the trust indenture governing the 6% Convertible Debentures and trade creditors of the Corporation and are also effectively subordinated to claims of creditors of the Corporation's subsidiaries, except to the extent the Corporation is a creditor of such subsidiaries, ranking at least *pari passu* with such other creditors. On and after June 30, 2009, but prior to June 30, 2010, the 6% Convertible Debentures were redeemable at the Corporation's sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the current market price (as defined in the trust indenture governing the 6% Convertible Debentures) on the date on which the notice of redemption is given is not less than 125% of the 6% Conversion Price. On or after June 30, 2010, the 6% Convertible Debentures will be redeemable at the Corporation's sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest. The 6% Convertible Debentures mature on June 30, 2013. The Corporation may, at its option, elect to satisfy its obligation to

pay interest or to pay the principal amount of the 6% Convertible Debentures upon redemption or at maturity by issuing Shares.

#### **5.75% Convertible Unsecured Subordinated Debentures**

On October 13, 2010, the Trust issued \$27,500,000 principal amount of 5.75% convertible unsecured subordinated debentures (each, a “**5.75% Convertible Debenture**”) and on November 5, 2010, the Trust issued an additional \$3,943,000 principal amount of 5.75% Convertible Debentures. Each 5.75% Convertible Debenture pays interest at 5.75% per annum, payable semi-annually, and is convertible at the option of the holder at any time up to and including October 31, 2017, at a price of \$15.90 per share (the “**5.75% Conversion Price**”). Each 5.75% Convertible Debenture ranks *pari passu* with each other 5.75% Convertible Debenture, and with all other present and future indebtedness of the Corporation except for sinking fund provisions (if any) applicable to different series of debentures or similar obligations of the Corporation. The 5.75% Convertible Debentures are subordinated in right of payment to the prior payment in full of all Senior Indebtedness (as defined in the second supplemental trust indenture governing the 5.75% Convertible Debentures (the “**Second Supplemental Indenture**”)) and trade creditors of the Corporation and are also effectively subordinated to claims of creditors of the Corporation’s subsidiaries, except to the extent the Corporation is a creditor of such subsidiaries, ranking at least *pari passu* with such other creditors. On and after October 31, 2013, but prior to October 31, 2014, the 5.75% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the current market price (as defined in the Second Supplemental Indenture) on the date on which the notice of redemption is given is not less than 125% of the 5.75% Conversion Price. On or after October 31, 2014, the 5.75% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest. The 5.75% Convertible Debentures mature on October 31, 2017. The Corporation may, at its option, elect to satisfy its obligation to pay interest or to pay the principal amount of the 5.75% Convertible Debentures upon redemption or at maturity by issuing Shares.

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

#### **5.40% Convertible Unsecured Subordinated Debentures**

On August 23, 2011, the Corporation issued \$22,500,000 principal amount of 5.40% convertible unsecured subordinated debentures (each, a “**5.40% Convertible Debenture**”) and on August 31, 2011, the Corporation issued an additional \$3,238,000 principal amount of 5.40% Convertible Debentures. Each 5.40% Convertible Debenture pays interest at 5.40% per annum, payable semi-annually, and is convertible at the option of the holder at any time up to and including February 28, 2019, at a price of \$14.35 per share (the “**5.40% Conversion Price**”). Each 5.40% Convertible Debenture ranks *pari passu* with each other 5.40% Convertible Debenture, and with all other present and future indebtedness of the Corporation except for sinking fund provisions (if any) applicable to different series of debentures or similar obligations of the Corporation. The 5.40% Convertible Debentures are subordinated in right of payment to the prior payment in full of all Senior Indebtedness (as defined in the third supplemental trust indenture governing the 5.40% Convertible Debentures (the “**Third Supplemental Indenture**”)) and trade creditors of the Corporation and are also effectively subordinated to claims of creditors of the Corporation’s subsidiaries, except to the extent the Corporation is a creditor of such subsidiaries, ranking at least *pari passu* with such other creditors. On and after August 31, 2014, but prior to February 29, 2016, the 5.40% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the current market price (as defined in the Third Supplemental Indenture) on the date on which the notice of redemption is given is not less than 125% of the 5.40% Conversion Price. On or after February 29, 2016, the 5.40% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest. The 5.40% Convertible Debentures mature on February 28, 2019. The Corporation may, at its option, elect to satisfy its obligation to pay interest or to pay the principal amount of the 5.40% Convertible Debentures upon redemption or at maturity by issuing Shares.

#### **5.25% Convertible Unsecured Subordinated Debentures**

On March 21, 2012, the Corporation issued \$18,000,000 principal amount of 5.25% convertible unsecured subordinated debentures (each, a “**5.25% Convertible Debenture**”) and on March 28, 2012, the Corporation issued an additional \$2,485,000 principal amount of 5.25% Convertible Debentures. Each 5.25% Convertible Debenture



pays interest at 5.25% per annum, payable semi-annually, and is convertible at the option of the holder at any time up to and including March 31, 2019, at a price of \$14.80 per share (the “**5.25% Conversion Price**”). Each 5.25% Convertible Debenture ranks *pari passu* with each other 5.25% Convertible Debenture, and with all other present and future indebtedness of the Corporation except for sinking fund provisions (if any) applicable to different series of debentures or similar obligations of the Corporation. The 5.25% Convertible Debentures are subordinated in right of payment to the prior payment in full of all Senior Indebtedness (as defined in the fourth supplemental trust indenture governing the 5.25% Convertible Debentures (the “**Fourth Supplemental Indenture**”)) and trade creditors of the Corporation and are also effectively subordinated to claims of creditors of the Corporation’s subsidiaries, except to the extent the Corporation is a creditor of such subsidiaries, ranking at least *pari passu* with such other creditors. On and after March 31, 2015, but prior to March 31, 2016, the 5.25% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest, provided that the current market price (as defined in the Fourth Supplemental Indenture) on the date on which the notice of redemption is given is not less than 125% of the 5.25% Conversion Price. On or after March 31, 2016, the 5.25% Convertible Debentures will be redeemable at the Corporation’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest. The 5.25% Convertible Debentures mature on March 31, 2019. The Corporation may, at its option, elect to satisfy its obligation to pay interest or to pay the principal amount of the 5.25% Convertible Debentures upon redemption or at maturity by issuing Shares.

### PRIOR SALES

During the 12-month period prior to the date of this prospectus, the Corporation issued, pursuant to a short form prospectus, the 5.25% Convertible Debentures. On March 21, 2012, the Corporation issued, \$18,000,000 aggregate principal amount of 5.25% Convertible Debentures at a price of \$1,000 per debenture.

On March 28, 2012, the Corporation issued an additional \$2,485,000 principal amount 5.25% Convertible Debentures pursuant to the exercise of the over allotment option granted to the underwriters in connection with the Corporation’s March 21, 2012 offering of 5.25% Convertible Debentures.

The Corporation has not sold or issued any Shares during the twelve month period prior to the date hereof, except (i) 394,201 Shares on the conversion of the 6% Convertible Debentures, (ii) 107,266 Shares on the reinvestment of distributions under the Corporation’s DRIP and (iii) 1,541,000 Shares issued pursuant to a short form prospectus.

### TRADING PRICE AND VOLUME

The outstanding Shares are traded on the TSX under the trading symbol “FC”. The following table sets forth the reported minimum and maximum closing prices and total monthly trading volumes of the Shares of the Corporation as reported by the TSX for the periods indicated.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<b><u>2013</u></b>			
March 1 to 14	\$13.75	\$13.60	147,154
February	\$13.98	\$13.54	264,069
January	\$13.94	\$13.61	287,519
<b><u>2012</u></b>			
December	\$13.75	\$13.30	295,792
November	\$13.75	\$13.43	277,604
October	\$13.75	\$13.40	266,884
September	\$14.00	\$13.21	370,967
August	\$13.40	\$13.15	312,949
July	\$13.60	\$13.10	322,920
June	\$13.50	\$12.99	258,899
May	\$13.44	\$12.98	431,020
April	\$13.25	\$12.50	339,606
March	\$13.65	\$12.72	674,003

The outstanding 6% Convertible Debentures are traded on the TSX under the trading symbol “FC.DB”. The following table sets forth the reported minimum and maximum closing prices and total monthly trading volumes of the 6% Convertible Debentures as reported by the TSX for the periods indicated.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<b><u>2013</u></b>			
March 1 to 14	\$116.37	\$115.65	970
February	\$118.30	\$115.48	4,670
January	\$118.60	\$115.25	1,990
<b><u>2012</u></b>			
December	\$116.00	\$112.61	1,330
November	\$116.40	\$113.00	5,160
October	\$115.70	\$82.01	922
September	\$115.00	\$101.00	4,440
August	\$113.75	\$111.90	4,960
July	\$113.75	\$112.20	4,660
June	\$115.00	\$111.48	3,570
May	\$113.00	\$110.31	3,820
April	\$112.50	\$108.77	4,060
March	\$114.00	\$112.00	8,090

The outstanding 5.75% Convertible Debentures are traded on the TSX under the trading symbol “FC.DB.A”. The following table sets forth the reported minimum and maximum closing prices and total monthly trading volumes of the 5.75% Convertible Debentures as reported by the TSX for the periods indicated.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<b><u>2013</u></b>			
March 1 to 14	\$104.00	\$101.00	6,240
February	\$102.25	\$100.20	3,020
January	\$103.99	\$99.75	3,190
<b><u>2012</u></b>			
December	\$102.50	\$101.50	3,060
November	\$102.76	\$102.00	2,090
October	\$102.99	\$102.00	1,110
September	\$102.00	\$101.00	1,400
August	\$103.50	\$101.00	2,170
July	\$103.00	\$100.00	1,180
June	\$101.00	\$99.75	2,860
May	\$101.75	\$99.75	4,350
April	\$102.50	\$101.00	1,690
March	\$103.00	\$100.50	2,420

The outstanding 5.40% Convertible Debentures are traded on the TSX under the trading symbol “FC.DB.B”. The following table sets forth the reported minimum and maximum closing prices and total monthly trading volumes of the 5.40% Convertible Debentures as reported by the TSX for the periods indicated.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<b><u>2013</u></b>			
March 1 to 14	\$101.30	\$100.02	1,060

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
February	\$101.50	\$100.02	4,590
January	\$101.25	\$99.35	4,170
<b><u>2012</u></b>			
December	\$100.78	\$99.48	3,180
November	\$102.00	\$99.50	17,170
October	\$100.25	\$99.50	4,290
September	\$101.00	\$99.00	4,530
August	\$101.00	\$99.49	3,350
July	\$100.60	\$99.80	5,840
June	\$99.50	\$98.00	2,480
May	\$100.00	\$98.50	2,550
April	\$100.00	\$97.65	2,710
March	\$100.00	\$97.65	6,290

The outstanding 5.25% Convertible Debentures are traded on the TSX under the trading symbol “FC.DB.C”. The following table sets forth the reported minimum and maximum closing prices and total monthly trading volumes of the 5.25% Convertible Debentures as reported by the TSX for the periods indicated.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<b><u>2013</u></b>			
March 1 to 14	\$101.79	\$99.50	1,940
February	\$101.50	\$99.25	3,010
January	\$100.20	\$99.90	4,330
<b><u>2012</u></b>			
December	\$99.89	\$98.48	760
November	\$100.00	\$99.02	1,240
October	\$100.00	\$98.70	1,970
September	\$99.75	\$98.20	4,690
August	\$100.00	\$98.20	3,810
July	\$100.00	\$97.00	6,520
June	\$97.49	\$96.50	1,930
May	\$98.80	\$96.99	1,300
April	\$98.50	\$93.01	1,860
March	\$99.50	\$98.00	6,560

#### **PLAN OF DISTRIBUTION**

Pursuant to an agreement (the “**Underwriting Agreement**”) dated March 8, 2013 between the Corporation and the Underwriters, the Corporation has agreed to sell and the Underwriters have agreed to purchase on the closing of the Offering, all of the Debentures offered hereby at a price of \$1,000 per Debenture for a total consideration of \$20,000,000 payable in cash against delivery of a certificate representing the Debentures. The Underwriting Agreement provides for the Corporation to pay the Underwriters a fee of \$40 per Debenture (or 4% of the total gross proceeds of the Offering), being an aggregate commission of \$800,000, for their services performed in connection with the Offering, upon completion of the Offering.

The obligations of the Underwriters under the Underwriting Agreement are several and each underwriter may terminate its obligations at its discretion based upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all the Debentures if any of the Debentures are purchased under the Underwriting Agreement.

The Corporation has agreed to grant the Underwriters the Over-Allotment Option, exercisable in whole or in part at any time until 30 days after the Closing, to purchase up to an additional \$3,000,000 principal amount of Debentures at a price of \$1,000 per Debenture (plus accrued interest from the initial closing of the Debentures to the

closing of the issuance of Debentures on the exercise of the Over-Allotment Option) on the same terms as set out above solely to cover over-allotments, if any. The Corporation has agreed to pay to the Underwriters a fee of \$40 per Debenture (or 4% of the gross proceeds of the Offering), being an aggregate commission of \$920,000 in the event the Over-Allotment Option is exercised in full. This prospectus qualifies the grant of the Over-Allotment Option and the issuance of Debentures on the exercise of the Over-Allotment Option.

**There is no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. This may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. See “Risk Factors”.** The TSX has conditionally approved the listing of the Debentures and the Shares issuable upon conversion, redemption or maturity of the Debentures listed on the TSX. Listing is subject to the Corporation fulfilling all of the requirements of the TSX on or before June 4, 2013. The Debentures will be listed under the symbol FC.DB.D.

Subscriptions for Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that closing of the Offering will be held on or about March 28, 2013, or such other date as the Corporation and the Underwriters may agree upon. The Debentures will be issued in “book-entry only” form and must be purchased or transferred through a participant in the depository service of CDS. See “Description of the Debentures”.

This short form prospectus qualifies the distribution of the Debentures, the grant of the Over-Allotment Option and the issuance of Debentures on the exercise of the Over-Allotment Option.

Pursuant to policy statements of the relevant securities commissions, the Underwriters may not, throughout the period of distribution, bid for or purchase any Shares or Debentures. The policy statements allow certain exceptions to the foregoing prohibitions. The Underwriters may only avail themselves of such exceptions on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Shares or the Debentures. These exceptions include a bid or purchase permitted under the by-laws and rules of the TSX relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Pursuant to the first mentioned exception, in connection with this Offering the Underwriters may effect transactions which stabilize or maintain the market price of the Shares or the Debentures at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

After the Underwriters have made a reasonable effort to sell all of the Debentures offered under this short form prospectus at the price fixed herein, the Underwriters may subsequently reduce the offering price to investors, which offering price may be changed from time to time, in order to sell any Debentures remaining unsold. Any such reduction shall not affect the proceeds received by the Corporation.

The Debentures have not been and will not be registered under the United States’ Securities Act of 1933, as amended (the “**1933 Act**”), and, subject to certain exceptions, may not be offered or sold in the United States. The Underwriters have agreed that they will not offer or sell these securities within the United States. Until 40 days after the commencement of the offering of Debentures pursuant to this short form prospectus, an offer or sale of the Debentures within the United States by any dealer (whether or not participating in this offering) may violate the registration requirements of the 1933 Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the 1933 Act.

## **RELATIONSHIP BETWEEN THE CORPORATION AND A CERTAIN UNDERWRITER**

TD Securities Inc. (“**TD Securities**”), one of the Underwriters, is a subsidiary of a lender to the Corporation (the “**Bank**”) to which the Corporation is currently indebted under the terms of its revolving credit facility (the “**Operating Facility**”). On March 5, 2012, the Corporation and the Bank entered into an amending agreement that increased the size of the demand portion of the Operating Facility from \$50,000,000 to \$60,000,000. The term portion of the Operating Facility will remain at \$10,000,000, for a total Operating Facility of \$70,000,000. The indebtedness of the Corporation to the Bank is secured by substantially all of the assets of the Corporation. The Corporation will use the net proceeds of this Offering to reduce its indebtedness to the Bank under the Operating Facility. See “Use of Proceeds”. Consequently, the Corporation may be considered to be a connected issuer of TD Securities under applicable Canadian securities legislation. As at December 31, 2012, the Corporation was indebted to the Bank in respect of such credit facilities or financings in the aggregate amount of approximately \$24,379,151. As at the date of this short form prospectus, the Corporation is in compliance with the terms of its indebtedness and no breach of the Operating Facility has been waived by the Bank. Since the date that the Operating Facility was

established, the value of the Corporation's mortgage portfolio has increased from approximately \$46,000,000 to approximately \$275,000,000. The decision to distribute the Debentures and the determination of the terms of distribution, including the offering price of the Debentures, were made through negotiations between the Corporation and the Underwriters. The Bank did not have any involvement in such decision or determination. None of the Underwriters will receive any benefit from this Offering other than its respective portion of the Underwriters' fee payable by the Corporation.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Stikeman Elliott LLP, counsel to the Corporation, and Gowling Lafleur Henderson LLP, counsel to the Underwriters (together, the "**Counsel**"), the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable under the Tax Act to a holder that acquires Debentures under this Offering and to a holder that acquires Shares pursuant to a conversion, redemption or repayment at maturity of Debentures acquired by the holder under this Offering. This summary is only applicable to such a holder who, for purposes of the Tax Act and at all relevant times, is resident in Canada, holds any Shares and/or Debentures as capital property and deals at arm's length and is not affiliated with the Corporation (a "**Holder**"). Generally, Debentures and Shares will be considered to be capital property to a Holder provided that the Holder does not hold the Debentures or Shares, as applicable, in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade.

Certain Holders whose Debentures or Shares might not otherwise qualify as capital property may, in certain circumstances, be entitled to have such Debentures and Shares and any other "Canadian securities" (as defined in the Tax Act) owned by such Holder in the taxation year of the election and all subsequent taxation years deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Such Holders should consult their own tax advisors as to whether such election is available and advisable, having regard to their own particular circumstances.

This summary is not applicable to a Holder: (i) that is a "financial institution" (as defined in the Tax Act for purposes of the mark-to-market rules); (ii) that is a "specified financial institution" (as defined in the Tax Act); (iii) an interest in which is a tax shelter investment (as defined in the Tax Act); or (iv) who has elected to report its "Canadian tax results" (as defined in the Tax Act) in a currency other than Canadian dollars. Any such Holders should consult their own tax advisors with respect to an investment in the Debentures.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the "**Regulations**"), taking into account all proposed amendments to the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance prior to the date hereof (the "**Tax Proposals**"), and counsels' understanding of the current published administrative practices and assessing policies of the Canada Revenue Agency. The summary is not exhaustive of all possible income tax considerations and, except for the Tax Proposals, does not otherwise take into account or anticipate any changes in the law, whether by way of legislative, governmental or judicial action, or in the administrative practices or assessing policies of the Canada Revenue Agency, nor does it take into account tax laws of countries other than Canada or any relevant provincial tax legislation or considerations. **The income and other tax consequences of acquiring, holding or disposing of Debentures and/or Shares will vary depending on the particular circumstances of the holder thereof, including any province or territory in which the Holder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser. Consequently, prospective purchasers should consult their own tax advisors for advice with respect to the tax consequences to them of an investment in Debentures and/or Shares based on their particular circumstances.**

### **Qualification as a Mortgage Investment Corporation ("MIC")**

The Corporation intends to qualify as a MIC throughout its current taxation year and for all of its future taxation years. A MIC is generally able to operate as a flow through entity so that a Shareholder of a MIC is put in a similar position from an income tax perspective as if the investments made by the MIC had been made directly by the Shareholder. Accordingly, the two-tiered taxation normally applicable to Shareholders of a corporation in respect of dividends paid from that corporation's profits is generally avoided with shareholdings in a MIC.

The Tax Act imposes certain requirements in order for a corporation to qualify as a MIC in a taxation year. These requirements generally will be satisfied by the Corporation if, throughout the taxation year: the Corporation

was a Canadian corporation for the purposes of the Tax Act; the Corporation's only undertaking is the investing of its funds and it did not manage or develop real or immovable property; none of the Corporation's property consisted of specified types of foreign property; the Corporation had at all times at least 20 Shareholders; no Shareholder (together with Related Persons, see below) held directly or indirectly more than 25% of any class of the issued shares of the Corporation; certain dividend rights attach to Preferred Shares of the Corporation; the cost amount to the Corporation of certain residential mortgages, deposits and money was at least 50% of the cost amount to it of all of its property; not more than 25% of the cost amount to the Corporation of its property was attributable to real or immovable property or leasehold interests therein; and, in circumstances where at any time in the year the cost amount to the Corporation of its money and certain of its residential mortgages and deposits (such residential mortgages and deposits referred to herein as "Required Property") represented less than two-thirds of the aggregate cost amount to the Corporation of all of its property, the Corporation's liabilities may not exceed 75% of its assets (at cost amount). Where, however, throughout the year the cost amount to the Corporation of its money and Required Property represented two-thirds or more of the aggregate cost amount to the Corporation of all of its property, the Corporation's liabilities may not exceed 83.33% of its assets (at cost amount).

With respect to the requirement noted above that no Shareholder (together with Related Persons) may own more than 25% of the shares of any class of the Corporation, for these purposes "Related Persons" include a corporation and the person or persons that control the corporation, a parent corporation and its subsidiary corporation(s) and corporations that are part of the same corporate group, and an individual and that individual's spouse, common-law partner or child under 18 years of age. The rules in the Tax Act defining "related persons" are complex and holders should consult with their own tax advisors in this regard.

### **Taxation of the Corporation**

The Corporation is a "public corporation" for purposes of the Tax Act and as such is subject to tax at the full corporate rate on its taxable income. However, as long as the Corporation is a MIC, generally the Corporation is able to deduct in computing its income for a taxation year the amount of its income for that year that is distributed to its Shareholders. As long as the Corporation is a MIC, the Corporation is entitled to deduct in computing its income for a taxation year: (i) all taxable dividends, other than capital gains dividends, paid by the Corporation to its Shareholders during the year or within 90 days after the end of the year; and (ii) one-half of all capital gains dividends paid by the Corporation to its Shareholders during the period commencing 91 days after the commencement of the year and ending 90 days after the end of the year. The Corporation must elect to have the full amount of a dividend qualify as a capital gains dividend. The payment of capital gains dividends will allow the Corporation to flow capital gains it realizes through to its Shareholders.

The Corporation intends to pay dividends to the extent necessary to reduce its taxable income each year to nil so that it has no tax payable under Part I of the Tax Act and to elect to have dividends be capital gains dividends to the maximum extent allowable. Any dividends deemed to be paid by the Corporation on the redemption of the Shares will be deductible to it and will qualify for treatment as capital gains dividends on the same basis as other dividends.

### **Taxation of Holders of Debentures**

#### *Interest on Debentures*

A Holder of Debentures that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues (or is deemed to accrue) to it to the end of the particular taxation year (or if the Holder disposes of the Debentures in the year, that accrues or is deemed to accrue to it until the time of disposition) or that has become receivable by or is received by the Holder before the end of that taxation year, including on a conversion, redemption or repayment on maturity, except to the extent that such interest was included in computing the Holder's income for a preceding taxation year.

Any other Holder will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by such Holder in that taxation year (depending upon the method regularly followed by the Holder in computing income), including on a conversion, redemption or repayment on maturity, except to the extent that the interest was included in the Holder's income for a preceding taxation year. In addition, if at any time a Debenture should become an "investment contract", as defined in the Tax Act, in relation to a Holder, such Holder will be required to include in computing the Holder's income for a taxation year all interest (not otherwise required to be included in income) that accrues or is deemed to accrue on the Holder's Debentures to the

end of any “anniversary day”, as defined in the Tax Act, in that year to the extent such interest was not otherwise included in the Holder’s income for that year or a preceding year.

The fair market value of any premium paid by the Corporation to a Holder upon a repayment of Debentures before maturity (as a result of a Debenture Offer made in connection with a Change of Control or otherwise), whether such premium is paid in cash or in Shares, will generally be deemed to be interest received at that time by such Holder. The Holder will be required to include such premium in income to the extent that such premium can reasonably be considered to relate to, and does not exceed the value at the time of payment of the interest that, but for the repayment, would have been paid or payable by the Corporation on the Debentures for taxation years of the Corporation ending after the date of such repayment.

A Holder that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional tax, a portion of which is refundable, on certain investment income, including amounts in respect of interest.

#### *Exercise of Conversion Privilege*

The conversion of a Debenture into only Shares plus any cash in lieu of a fraction of a Share pursuant to a right of conversion will generally be deemed not to constitute a disposition of the Debenture pursuant to the Tax Act and, accordingly, the Holder will not realize a capital gain or capital loss on such conversion. The Corporation does not currently have a rights plan and the previous statement assumes that there is no rights plan in existence at the time of conversion.

A Holder’s aggregate cost of the Shares acquired on conversion of the Debentures where the Holder receives only Shares (plus cash in lieu of a fraction of a share) will be equal to the adjusted cost base of the Debentures converted, subject to the discussion below regarding cash in lieu of a fraction of a Share. For the purposes of determining the adjusted cost base of such Shares, the cost of the Shares will be averaged with the adjusted cost base of all other Shares held by a Resident Holder as capital property.

Under the current administrative practice of the CRA, a Holder who, upon conversion of the Debentures where the Holder receives only Shares (plus cash in lieu of a fraction of a share), receives cash not in excess of \$200 in lieu of a fraction of a Share may either treat this amount as proceeds of disposition of a portion of the Debentures thereby realizing a capital gain or capital loss, as discussed below under the heading “*Dispositions of Debentures*,” or alternatively may reduce the adjusted cost base of the Shares that the Holder acquires on the conversion by the amount of cash received.

#### *Redemption or Repayment of Debentures*

If the Corporation redeems a Debenture prior to maturity or repays a Debenture upon maturity and the Holder does not exercise the conversion privilege prior to such redemption or repayment, the Holder will be considered to have disposed of the Debenture for proceeds of disposition equal to the amount received by the Holder (other than the amount received or deemed to be received on account of interest) on such redemption or repayment. If the Holder receives Shares on redemption or repayment, the Holder will be considered to have realized proceeds of disposition equal to the aggregate of the fair market value of the Shares so received and the amount of any cash received in lieu of fractional Shares. The Holder may realize a capital gain or capital loss computed as described below under “*Dispositions of Debentures*”. The cost to the Holder of the Shares so received will also be equal to their fair market value at the time of acquisition, and must be averaged with the adjusted cost base of all other Shares held as capital property immediately before the time of redemption or repayment, as applicable, by the Holder for the purpose of calculating the adjusted cost base of such Shares.

#### *Dispositions of Debentures*

A disposition or deemed disposition of a Debenture by a Holder (including upon a redemption or repayment of a Debenture) will generally result in the Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition (adjusted as described below) net of any reasonable costs of disposition, exceed (or are less than) the Holder’s adjusted cost base thereof. Any such capital gain or capital loss will be treated, for tax purposes, in the same manner as capital gains and capital losses arising from a disposition of Shares which treatment is discussed below under “*Disposition of Shares*”.

Upon such a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition and not yet due will be included in computing the Holder’s income, except to the extent such amount was otherwise included in the Holder’s income, and will be excluded in computing the Holder’s proceeds of disposition of the Debenture. A Holder who has overaccrued interest income will generally be entitled to a

deduction in computing the Holder's income for a taxation year in which a Debenture is disposed of (including on conversion) for an amount equal to such overaccrued income.

A capital gain realized by a Holder who is an individual or trust (other than certain specified trusts) may give rise to a liability for alternative minimum tax.

A "Canadian-controlled private corporation" (as defined in the Tax Act) that disposes of Debentures may be liable to pay an additional tax, a portion of which is refundable, on certain investment income for the year, including amounts in respect of taxable capital gains.

## **Taxation of Shareholders**

### *Corporate Dividends*

The Corporation may pay a capital gains dividend on Shares. The receipt by a Holder of such a capital gains dividend (whether paid in cash or reinvested in Shares) will be treated as a capital gain of the Holder from a disposition in the year of capital property for the year in which the dividend is received. See below under the subheading "Disposition of Shares" for a description of the tax treatment of capital gains.

The Corporation may also pay ordinary dividends (i.e., dividends other than capital gains dividends) on the Shares. Ordinary dividends received by a Holder on Shares (whether paid in cash or reinvested in Shares) will be deemed by the Tax Act to have been received by the Holder as interest payable on a bond issued by the Corporation. Shareholders will therefore be required to include in their income as interest all amounts received as, or on account of, any ordinary dividends. The provisions of the Tax Act providing for interest accrual, the gross-up and dividend tax credit in respect of taxable dividends received by individuals from taxable Canadian corporations, and for the deduction generally available to corporations for inter-corporate dividends received, will not apply in respect of ordinary dividends. Similarly, the provisions of Part IV of the Tax Act will not be applicable to the receipt of ordinary dividends by a corporate Holder.

Where a Holder is a "Canadian-controlled private corporation" (as defined in the Tax Act), capital gains dividends and ordinary dividends received on the Shares will be subject to an additional tax, a portion of which is refundable.

### *Dispositions of Shares*

On the disposition or deemed disposition of a Share by a Holder, whether on redemption or otherwise, the Holder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition in respect of such Share, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Share to the Holder. A Holder's proceeds of disposition will not include an amount payable by the Corporation on the Share that is otherwise required to be included in the Holder's income (such as an amount designated as payable by the Corporation to a redeeming Holder out of capital gains of the Corporation as described above).

For the purpose of determining the adjusted cost base to a Holder of Shares, when a Share is acquired, the cost of the newly-acquired Share will be averaged with the adjusted cost base of all of the Shares owned by the Holder as capital property immediately before that acquisition. The adjusted cost base of a Share to a Holder will be the cost to the Holder of the Share, with certain adjustments. The cost to a Holder of Shares received on the conversion of Debentures will be as described above. Shares issued on the redemption or repayment of Debentures or in payment of interest on the Debentures will have a cost equal to the fair market value of the Shares on the date of redemption, repayment or payments as applicable.

One-half of the amount of any capital gain (a "**taxable capital gain**") realized by a Holder in a taxation year must be included in computing such Holder's income for that year, and one-half of any capital loss (an "**allowable capital loss**") realized by a holder in a taxation year must be deducted from any taxable capital gains realized by the holder in the year, subject to and in accordance with the provisions of the Tax Act. Allowable capital losses in excess of taxable capital gains realized in a taxation year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any following taxation year against taxable capital gains realized in such years, subject to and in accordance with the provisions of the Tax Act.



### *Alternative Minimum Tax*

In general terms, capital gains dividends, paid or payable, or deemed to be paid or payable, to a Holder who is an individual or trust (other than certain specified trusts), and capital gains realized on the disposition of Shares may increase the Holder's liability for alternative minimum tax.

## **RISK FACTORS**

An investment in the Shares and the Debentures being distributed under the Offering involves a number of risks. Before investing in Shares or Debentures, prospective purchasers should carefully read and consider the risks described below, in addition to those risk factors beginning on page 33 of the AIF which are incorporated by reference herein. The business, financial condition and results of operations of the Corporation could be materially adversely affected by any of these risks.

***The Debentures are unsecured, subordinated obligations of the Corporation and the likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the Corporation's financial condition and creditworthiness. The Indenture governing the Debentures contains limited covenant protection.***

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the Corporation's financial condition and creditworthiness. In addition, the Debentures are unsecured obligations of the Corporation and are subordinate in right of payment to all the Corporation's existing and future Senior Indebtedness (as defined under "Description of the Debentures – Subordination"). Therefore, if the Corporation becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the Corporation's assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Indenture does not prohibit or limit the ability of the Corporation to incur additional debt or liabilities (including Senior Indebtedness and secured indebtedness) or to make distributions except in respect of cash distributions where an Event of Default caused by the failure to pay interest when due has occurred and such default has not been cured or waived. The Indenture does not contain any provision specifically intended to protect holders of Debentures in the event of a future leveraged transaction involving the Corporation.

***The effect of certain transactions on the Debentures could substantially lessen or eliminate the value of the conversion privilege.***

In the case of certain transactions involving the Corporation that could occur in the future, the Debentures will become convertible into the securities, cash or property receivable by a holder of Shares in the kind and amount of securities, cash or property into which the Debentures were convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future. For example, if the Corporation were acquired in a cash merger, the Debentures would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on the Corporation's future prospects and other factors. See "Description of the Debentures – Conversion Privilege".

***The market price for the Corporation's Shares cannot be assured.***

The market price of the Shares may be adversely affected by a variety of factors relating to the Corporation's business, including fluctuations in the Corporation's operating and financial results, the results of any public announcements made by the Corporation and the Corporation's failure to meet analysts' expectations. In addition, from time to time, the stock market experiences significant price and volume volatility that may affect the market price of the Shares for reasons unrelated to the Corporation's performance. There can be no assurance that the market price of the Shares will not experience significant fluctuations in the future, including fluctuations that are unrelated to the Corporation's performance.

### ***Potential Dilution***

The Corporation's articles of incorporation and by-laws allow it to issue an unlimited number of Shares for such consideration and on such terms and conditions as shall be established by the board of directors of the Company, in many cases, without the approval of the Corporation's Shareholders. Except as described under the heading "Plan of Distribution", the Corporation may issue additional Shares in subsequent offerings (including

through the sale of securities convertible into or exchangeable for Shares) and on the exercise of stock options or other securities exercisable for Shares. The Corporation cannot predict the size of future issuances of Shares or the effect that future issuances and sales of Shares will have on the market price of the Shares. Issuances of a substantial number of additional Shares, or the perception that such issuances could occur, may adversely affect prevailing market prices for the Shares. With any additional issuance of Shares, investors will suffer dilution to their voting power and the Corporation may experience dilution in its earnings per share.

### ***Distributions***

Although the Corporation intends to make distributions of its available cash to Shareholders in accordance with its dividend policy, these cash distributions are not assured. The actual amount distributed to Shareholders will depend on numerous factors, including but not limited to the Corporation's financial performance, debt covenants and obligations, working capital requirements, composition of the Corporation's mortgage portfolio, availability of mortgage investments and fluctuations in interest rates that impact the aggregate yield on mortgage investments. The market value of the Shares may deteriorate if the Corporation is unable to meet its cash distribution targets in the future, and that deterioration may be material.

### ***Qualification as a MIC***

Although the Corporation intends to qualify at all times as a MIC, no assurance can be provided in this regard. If for any reason the Corporation does not maintain its qualification as a MIC under the Tax Act, 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 MICs 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.

## **INTEREST OF EXPERTS**

Certain legal matters relating to the sale of the Shares and the Debentures offered by this short form prospectus will be passed upon on the Corporation's behalf by Stikeman Elliott LLP and on behalf of the Underwriters by Gowling Lafleur Henderson LLP. As at the date hereof, the partners and associates of each of the aforementioned partnerships beneficially own, directly or indirectly, in the aggregate less than one per cent of the securities or other property of the Corporation.

## **AUDITORS**

The auditors of the Corporation are KPMG LLP, Chartered Accountants, Toronto, Ontario. Such firm is independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

## **TRANSFER AGENT AND REGISTRAR**

The register and transfer agent for the Shares is Computershare Trust Company of Canada, Toronto, Ontario.

## **STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

## AUDITORS' CONSENT

We have read the short form prospectus (the "**Prospectus**") dated March 15, 2013 relating to the sale and issue of 4.75% convertible unsecured subordinated debentures of Firm Capital Mortgage Investment Corporation (the "**Corporation**"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned Prospectus of our report to the shareholders of the Corporation on the financial statements of the Corporation, which comprise the balance sheets as at December 31, 2012 and 2011, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. Our report is dated March 14, 2013.

(signed) "*KPMG LLP*"

Chartered Accountants, Licensed Public Accountants

Toronto, Canada  
March 15, 2013

**CERTIFICATE OF FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**

Dated: March 15, 2013

This short form prospectus, together with the documents and information incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

**FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION**

By: (Signed) "Eli Dadouch"  
President and Chief Executive Officer

By: (Signed) "Jonathan Mair"  
Chief Financial Officer

On behalf of the Board of Directors

By: (Signed) "Anthony Heller"  
Director

By: (Signed) "Morris Fischtein"  
Director

**CERTIFICATE OF THE UNDERWRITERS**

Dated: March 15, 2013

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces of Canada.

**TD SECURITIES INC.**

By: (Signed) "John Mishra"

**NATIONAL BANK FINANCIAL INC.**

By: (Signed) "Glen Hirsh"

**DESJARDINS SECURITIES  
INC.**

By: (Signed) "Mark Edwards"

**DUNDEE SECURITIES LTD.**

By: (Signed) "Brad Cutsey"

**MACQUARIE CAPITAL  
MARKETS CANADA LTD.**

By: (Signed) "John Bartkiw"

**RBC DOMINION SECURITIES INC.**

By: (Signed) "William Wong"

**SCOTIA CAPITAL INC.**

By: (Signed) "Bryce Stewart"

**CANACCORD GENUITY CORP.**

By: (Signed) "Justin Bosa"





**Firm  
Capital**