



ANNUAL 2016 REPORT



DISCIPLINED INVESTING ● CAPITAL PRESERVATION

Firm Capital

Mortgage Investment Corporation



PROFILE

Firm Capital Mortgage Investment Corporation, through its Mortgage Banker, Firm Capital Corporation, is a non-bank lender providing residential and commercial real estate finance. The Corporation's investment objective is the "preservation of Shareholders' Equity", while providing Shareholders with a stable stream of monthly dividends from the Corporation's investments, targeting returns on equity in excess of 400 basis points over Government of Canada one year average treasury bill yields. The Corporation achieves its investment objectives by pursuing a strategy of growth through investments in select niche markets that are under-served by large lending institutions.

The shares are listed on the Toronto Stock Exchange, stock symbol – FC

MORTGAGE BANKER PROFILE

Boutique Mortgage Lenders®

Firm Capital Corporation is the Corporation's Mortgage Banker, acting as the Corporation's loan originator, underwriter, servicer, and syndicator. Since 1988, Firm Capital Corporation has been a non-bank lender providing construction, equity, and conventional real estate finance to the builder, developer, and real estate owner marketplace.

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Where Mortgage Deals Get Done®

LETTER TO SHAREHOLDERS

We are pleased to report to you on the 2016 results for Firm Capital Mortgage Investment Corporation (the "Corporation").

Over the course of 2016 the Corporation had investment repayments of \$245 million, which is equivalent to a 62% turnover in the portfolio. This turnover, coupled with \$290 million in new investments, resulted in year-over-year portfolio growth of 11%.

Managing risk and maintaining a strong balance sheet is our main priority. We mitigate risk by maintaining a diversified portfolio that has the majority of the investments shared with other syndicate partners. We are continuously monitoring all markets and rebalancing the portfolio to reflect the current environment and market conditions. During the year, Management was content to invest in lower yielding mortgage investments that met its' adjusted risk tolerance. In 2016, we were able to generate dividends to Shareholders of \$0.966 per share, while adding to the size of our loan loss provision by \$230,000, bringing the year-end balance up to \$4,460,000, representing 1% of the gross portfolio.

HIGHLIGHTS

DIVIDENDS

For the year ended December 31, 2016, the Corporation declared dividends totaling \$0.966 per share versus \$0.991 per share for the year ended December 31, 2015. The December 2016 special dividend was 3 cents per unit.

PROFIT

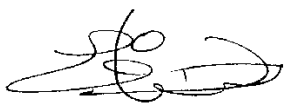
Income and profit (referred to herein as "Profit") for year ended December 31, 2016 of \$21,190,613 represents approximately a 6% increase compared to \$20,081,258 reported for the year ended December 31, 2015. Basic weighted average profit per share for the year ended December 31, 2016 was \$0.972, which is 2% lower compared to the \$0.991 per share reported for the year ended December 31, 2015.

DIVERSIFIED PORTFOLIO WITH A SIGNIFICANT 11% YEAR OVER YEAR GROWTH

The Corporation's Investment Portfolio at December 31, 2016 totaled \$444.3 million (before impairment provision) consisting of 245 separate investments. The average interest rate on the Corporation's investments at December 31, 2016 was 7.83% per annum. The Corporation's portfolio increased by \$45.6 million during the year. The Corporation's Alberta Mortgage Portfolio decreased from 31 investments as at December 31, 2015 to 13 at December 31, 2016, for a total of \$32.9 million.

VERY SHORT TERM PORTFOLIO WITH SIGNIFICANT ANNUAL TURNOVER

In 2016, the Investment Portfolio repayments totaled \$245 million with new investments during the year totaling \$290 million. This turn is the key to our investment approach and demonstrates the short term bridge financing nature of the portfolio.



ELI DADOUCH
President
Chief Executive Officer



JONATHAN MAIR
Senior Vice-President
Chief Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

OUR BUSINESS

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

The Corporation's primary investment objective is the preservation of shareholders' equity, while providing shareholders with a stable stream of dividends from the Corporation's investments. The Corporation achieves its investment objectives by pursuing a strategy of investing in loans in select niche real estate markets that are under-served by larger financial institutions. The Corporation's more specific objective is to hold an Investment Portfolio that:

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

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

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

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

BASIS OF PRESENTATION

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

The following discussion is dated as of March 21, 2017 and should be read in conjunction with the audited financial statements of the Corporation and the notes thereto for the years ended December 31, 2016 and 2015, along with each of the quarterly reports for 2016 and 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

HIGHLIGHTS

PROFIT

Income and profit (referred to herein as "Profit") for the year ended December 31, 2016 increased by approximately 6% to \$21,190,613 as compared to \$20,081,258 reported for the year ended December 31, 2015.

Basic weighted average profit per share for the three months ended December 31, 2016 was \$0.239 compared to \$0.265 per share reported for the same period in 2015. Basic weighted average profit for the year ended December 31, 2016 was \$0.972 compared to \$0.991 per share reported for the year ended December 31, 2015.

PORTFOLIO GROWTH

The Corporation's investment portfolio (the "Investment Portfolio") as at December 31, 2016 increased by \$45.8 million to approximately \$448.7 million compared to \$402.9 million as at December 31, 2015 (before the impairment provision of \$4.5 million and \$4.2 million respectively).

RETURN ON EQUITY

The Corporation continues to exceed its yield objective of producing a return on shareholders' equity in excess of 400 basis points over the average one year Government of Canada Treasury bill yield. Profit for the quarter ended December 31, 2016 represents an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 8.87%, representing return on shareholders' equity of 824 basis points per annum over the average one year Government of Canada Treasury bill yield of 0.63%.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio totaled \$444,294,633 as at December 31, 2016 (net of an impairment loss provision of \$4,460,000) compared to \$398,689,638 (net of an impairment loss provision of \$4,230,000) as at December 31, 2015, representing an increase of approximately \$45.8 million. The December 31, 2016 Investment Portfolio is comprised of 245 investments (225 as at December 31, 2015). The average gross investment size (excluding impairment loss provision) was approximately \$1.8 million with 11 investments individually exceeding \$7,500,000.

Amount	Number of Investments	%	Total Amount (before provision)	%
\$0 - \$2,500,000	192	78.4%	\$ 164,927,050	36.8%
\$2,500,001 - \$5,000,000	36	14.7%	125,766,186	28.0%
\$5,000,001 - \$7,500,000	6	2.4%	34,014,437	7.6%
\$7,500,001 +	11	4.5%	124,046,960	27.6%
	245	100.0%	\$ 448,754,633	100.0%

Unadvanced committed funds under the existing Investment Portfolio amounted to \$131,268,094 as at December 31, 2016 (\$113,464,052 as at December 31, 2015). Generally, investments are shared with other syndicate partners to diversify risk.

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Dec. 31, 2016		Dec. 31, 2015		% Change
Conventional First Mortgages	\$ 336,745,396	75.1%	\$ 283,869,955	70.5%	19%
Conventional Non-First Mortgages	46,265,981	10.3%	41,799,212	10.4%	11%
Related Investments	56,734,231	12.6%	59,422,966	14.7%	(5%)
Discounted Debt Investments	5,071,525	1.1%	5,022,775	1.2%	1%
Non-Conventional Mortgages	3,937,500	0.9%	12,804,730	3.2%	(69%)
Total Investments (at amortized cost)	\$ 448,754,633	100.0%	\$ 402,919,638	100.0%	11%
Less: Impairment Provision	(4,460,000)		(4,230,000)		5%
Investment Portfolio	\$ 444,294,633		\$ 398,689,638		11%

The \$45.8 million growth in the Investment Portfolio was achieved by the Corporation increasing the size of its investments in the conventional first mortgage and conventional non-first mortgage investment categories, offset by the decrease in investments in the related investments and non-conventional mortgages.

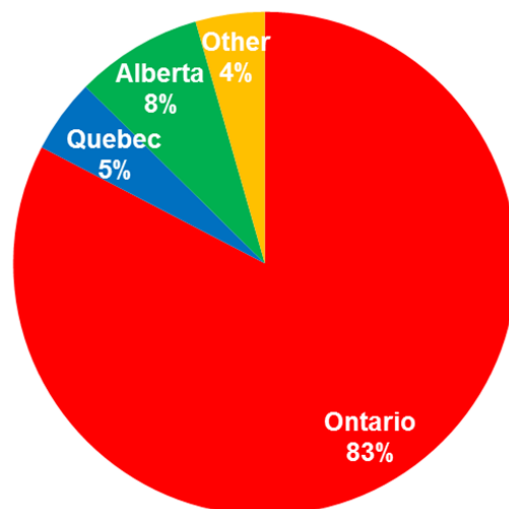
Conventional first mortgages increased by 19% and represented 75% of the Corporation's portfolio at December 31, 2016 compared to 71% at December 31, 2015. Conventional non-first mortgages increased by 11% and represented 10% of the Investment Portfolio at December 31, 2016 and December 31, 2015. Related investments decreased by 5% and represented 13% of the Corporation's Investment Portfolio in comparison to 15% at December 31, 2015. Discounted debt investments represented 1% of the Investment Portfolio, which remained consistent from December 31, 2015. Non-conventional mortgages decreased by 69% and represented 1% of the Investment Portfolio at December 31, 2016 and 3% at December 31, 2015.

The weighted average face interest rate on the Corporation's Investment Portfolio was 7.83% per annum as at December 31, 2016 compared to 8.19% per annum as at December 31, 2015.

The Corporation holds a mortgage investment totaling \$4,758,000 at December 31, 2016 (classified as Discounted debt investment) that originated from the purchase of a mortgage loan from a schedule 1 bank at a discount to its original principal balance (December 31, 2015 - \$4,303,000) on which interest payments are not being received. The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that occurred after the purchase of the mortgage. Recoveries under the investment resulting from the sale of the secured real estate will be treated in the same fashion as that for non-conventional mortgage investments held by the Corporation.

The Corporation continues to focus its lending into core markets that can be monitored closely during evolving economic conditions. The mortgage portfolio has some geographic diversification with 17% of the investments in the portfolio secured by properties outside of Ontario, a reduction from 28% as at December 31, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS



The Corporation's investment portfolio as at December 31, 2016 included participation in 13 mortgage loans on real estate located in Alberta, which is a significant decrease from the 31 investments held at December 31, 2015 and a decrease of 5 from September 30, 2016. The investment amount at December 31, 2016 totals \$32.9 million, being 8% of the Corporation's mortgage investments, down from 11% at December 31, 2015 and 9% at September 30, 2016. The average investment size is \$2.5 million. Of the 13 investments, 5 are individually less than \$1 million. In the Alberta Portfolio, \$32.7 million (99%) is secured on residential real estate, while \$0.2 million (1%) is secured on commercial real estate.

The Corporation has intentionally reduced its investment in small mortgages in Alberta and is content to maintain its investments in longer mortgages on more substantial real estate to larger borrowers. The Alberta portfolio has been rebalanced as a result of being paid out of the majority of the small mortgages to small borrowers.

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

As at December 31, 2016, the Investment Portfolio continued to be heavily concentrated in short-term investments with 67% of the portfolio maturing by December 31, 2017. The short-term nature of the portfolio provides the Corporation with the ability to continually revolve the portfolio and adapt to changes in the real estate market.

RESULTS OF OPERATIONS

INTEREST AND FEES

For the three months ended December 31, 2016, interest and fees earned decreased by 3% to \$9,332,738 compared to \$9,641,484 for the three months ended December 31, 2015. Interest and fees earned for the year ended December 31, 2016 increased by 6% to \$36,042,890 as compared to \$34,005,435 for the year ended December 31, 2015. Interest and fees earned for the three months and year ended December 31, 2016 and December 31, 2015 are broken down as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three Months Ended	Dec. 31, 2016		Dec. 31, 2015		% Change
		%		%	
Interest	\$ 8,702,983	93%	\$ 9,008,247	93%	(3%)
Commitment & Renewal Fees	456,277	5%	381,822	4%	19%
Special Income	173,478	2%	251,415	3%	(31%)
	\$ 9,332,738	100%	\$ 9,641,484	100%	(3%)

Year Ended	Dec. 31, 2016		Dec. 31, 2015		% Change
		%		%	
Interest	\$ 33,716,098	94%	\$ 31,429,521	93%	7%
Commitment & Renewal Fees	1,612,758	4%	1,410,513	4%	14%
Special Income	714,034	2%	1,165,401	3%	(39%)
	\$ 36,042,890	100%	\$ 34,005,435	100%	6%

Interest income of \$8,702,983 for the three months decreased by 3% when compared to the same three month period in the prior year. Interest income of \$33,716,098 for the year ended December 31, 2016 increased by 7% as compared to the year ended December 31, 2015. Interest income represents 93% of the Corporation's revenues for the three months ended December 31, 2016 and 94% for the year ended December 31, 2016. The year over year annual increase in interest income is a result of the Corporation holding a larger investment portfolio compared to the same period in the previous year, partially offset by the lower average face interest rate on the portfolio.

Fee income relating to commitment and renewal fees for the quarter ended December 31, 2016 increased by 19% compared to the quarter ended December 31, 2015. As at December 31, 2016, the Corporation had unearned commitment fee income of \$879,851 (December 31, 2015 - \$913,981). The Corporation's policy is to recognize commitment fees over the term of the related loan. The unrecognized component of the fees is recorded as unearned income on the Corporation's balance sheet. These fees have been received and are not refundable to borrowers.

Special income generated during the three months ended December 31, 2016 represented 2% of overall income earned compared to 3% during the same period in the previous year. Special income generated during the three months ended December 31, 2016 decreased by 31% when compared to the same period in the previous year. Special income generated during the year ended December 31, 2016 decreased by 39% when compared to the previous year. Special income relates to certain fees and interest generated from a number of the Corporation's non-conventional mortgages and the timing of earning of such income is not necessarily consistent in each period. The timing of the recognition and collection of special income is difficult to predict and the collection of a particular amount is not a reflection of the future collection of such income. Non-conventional mortgage investments can attract higher loss risk due to their subordinate ranking to other mortgage charges and/or high loan to value ratio. Consequently, this higher risk is compensated for by a higher rate of return. The Corporation remains very

MANAGEMENT'S DISCUSSION AND ANALYSIS

selective and cautious in sourcing high yielding, non-conventional mortgages that meet the Corporation's investment criteria.

CORPORATION MANAGER SPREAD INTEREST ALLOCATION

The Corporation Manager, through an interest spread arrangement, received \$828,631 for the three months ended December 31, 2016 compared to \$766,306 for the three months ended December 31, 2015. For the year ended December 31, 2016, the Corporation Manager received \$3,152,050 as compared to \$2,873,993 for the year ended December 31, 2015. The increase is generally due to the increase in the size of the Corporation's daily average Investment Portfolio over the comparable periods.

INTEREST EXPENSE

For the three months ended December 31, 2016, interest expense increased by 10% to \$2,673,178 as compared to \$2,423,290 for the three months ended December 31, 2015. For the year ended December 31, 2016, interest expense increased by 14% to \$10,628,040 as compared to the year ended December 31, 2015 amount of \$9,350,610. Interest expense is higher in 2016 when compared to the same period in the previous year generally as a result of the Corporation having larger convertible debentures outstanding in 2016 versus 2015, offset by a decrease in loans payable interest expense resulting from a reduction in loans payable. The additional indebtedness that resulted in an increase in interest expense in 2016 allowed the Corporation to hold a larger investment portfolio, which generated additional interest income when compared to 2015. The Corporation completed one public offering of convertible unsecured debentures in 2016 and two public offerings of convertible unsecured debentures during 2015, accounting for the increase in debenture interest expense. Interest expense is broken down as follows:

Three Months Ended	Dec. 31, 2016	%	Dec. 31, 2015	%	% Change
Bank Interest Expense	\$ 317,371	12%	\$ 348,447	14%	(9%)
Loan Payable Interest Expense	-	-	121,237	5%	(100%)
Debenture Interest Expense	2,355,807	88%	1,953,606	81%	21%
	\$ 2,673,178	100%	\$ 2,423,290	100%	10%

Year Ended	Dec. 31, 2016	%	Dec. 31, 2015	%	% Change
Bank Interest Expense	\$ 1,313,699	12%	\$ 1,166,770	12%	13%
Loan Payable Interest Expense	93,280	1%	920,995	10%	(90%)
Debenture Interest Expense	9,221,061	87%	7,262,845	78%	27%
	\$ 10,628,040	100%	\$ 9,350,610	100%	14%

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

G&A expenses decreased by 2% to \$232,078 for the three months ended December 31, 2016 compared to the \$235,681 reported for the three months ended December 31, 2015. G&A expenses increased by 2% to \$842,187 for the year ended December 31, 2016 compared to \$829,574 for the year ended December 31, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INCOME & PROFIT ("PROFIT")

Profit for the three months ended December 31, 2016 remained relatively consistent at \$5,368,851 as compared to \$5,376,207 for the same period in the prior year. Profit for the year ended December 31, 2016 of \$21,190,613 represents approximately a 6% increase compared to \$20,081,258 reported for the year ended December 31, 2015.

Profit for the quarter ended December 31, 2016 represented an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 8.87% versus a previously reported return on shareholders' equity of 10.18% for the quarter ended December 31, 2015. This return on shareholders' equity represents 824 basis points per annum over the average one year Government of Canada Treasury bill yield of 0.63% and is well in excess of the Corporation's stated target yield objective of 400 basis points per annum over the average one year Government of Canada Treasury bill yield. The above return on shareholders' equity is a non-IFRS financial measure and does not have any standardized meaning prescribed by IFRS and is, therefore, unlikely to be comparable to similar measures presented by other issuers. This non-IFRS measure provides useful information to the Corporation's shareholders as it provides a measure of return generated on the Corporation's equity base.

TOTAL COMPREHENSIVE INCOME

As discussed further in the Marketable Securities and Debenture Portfolio Investment sections later herein, the Corporation has invested in units of publicly traded real estate investment trusts and debentures of publicly traded real estate investment trusts. The Corporation classifies these financial assets as available for sale and as such records the investments' carrying values at fair value.

The statements of comprehensive income present the impact of the changes in fair value of the marketable securities and debenture portfolio.

The change in fair value of marketable securities and the debenture portfolio for the year ended December 31, 2016 was an increase of \$364,848 compared to a decrease of \$74,570 for the year ended December 31, 2015. Total comprehensive income for the year ended December 31, 2016 was \$21,555,461 compared to \$20,006,688 for the year ended December 31, 2015.

PROFIT PER SHARE

Basic weighted average profit per share for the three months ended December 31, 2016 was \$0.239, which is 9.8% lower than the \$0.265 per share reported for the three months ended December 31, 2015. Basic weighted average profit per share for the year ended December 31, 2016 was \$0.972, which is 2.0% lower compared to the \$0.991 per share reported for the year ended December 31, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

QUARTERLY FINANCIAL INFORMATION

	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
(\$ in millions except per unit amounts)	2016	2016	2016	2016	2015	2015	2015	2015
Operating revenue	\$ 9.33	\$ 8.99	\$ 8.99	\$ 8.72	\$ 9.64	\$ 8.59	\$ 8.12	\$ 7.65
Interest expense	2.67	2.59	2.62	2.75	2.42	2.55	2.37	2.00
Corporation manager spread interest allocation	0.83	0.78	0.77	0.77	0.77	0.76	0.71	0.64
General & administrative expenses	0.23	0.21	0.20	0.19	0.24	0.20	0.24	0.16
Impairment loss on investment portfolio	0.23	-	-	-	0.84	0.03	-	-
Profit	\$ 5.37	\$ 5.41	\$ 5.40	\$ 5.01	\$ 5.37	\$ 5.05	\$ 4.80	\$ 4.85
Profit per share								
- Basic	\$0.239	\$0.241	\$0.246	\$0.246	\$0.265	\$0.249	\$0.237	\$0.240
- Diluted	\$0.234	\$0.236	\$0.240	\$0.239	\$0.258	\$0.243	\$0.231	\$0.238
Dividends per share	\$0.264	\$0.234	\$0.234	\$0.234	\$0.289	\$0.234	\$0.234	\$0.234

Note:

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

DIVIDENDS

For the three months and year ended December 31, 2016, the Corporation declared dividends totaling \$5,933,751 and \$21,190,613 respectively, or \$0.264 and \$0.966 per share, versus \$5,867,815 and \$20,081,258, or \$0.289 and \$0.991 per share, for the three months and year ended December 31, 2015. The number of shares outstanding at December 31, 2016 was 22,490,489 compared to 20,313,943 at December 31, 2015.

Dividends for 2016 totaled \$21,190,613 (2015 - \$20,081,258), which is equivalent to the profit for 2016 of \$21,190,613 (2015 - \$20,081,258). The dividends paid for 2016 of \$0.966 (2015 - \$0.991) per share differ from the profit per share for 2016 of \$0.972 (2015 - \$0.991) as a result of the profit per share being calculated based on the weighted average number of shares outstanding during the year, which is impacted by the timing of when shares are issued during the year.

Year Ended	Dec. 31, 2016	Dec. 31, 2015	Change
Cash Flow From Operating Activities (net of cash interest paid)	\$ 22,654,466	\$ 20,055,780	13%
Profit	\$ 21,190,613	\$ 20,081,258	6%
Declared Dividends	\$ 21,190,613	\$ 20,081,258	6%
Excess Cash Flow From Operating Activities Over (Under) Declared Dividends	\$ 1,463,853	\$ (25,478)	
Profit Over Declared Dividends	\$ -	\$ -	

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses totaled \$4,723,191 as at December 31, 2016 (comprised of interest receivable of \$4,272,274, fees receivable of \$269,807, special income receivable of \$29,315, and prepaid expenses of \$151,795) compared to \$4,709,241 as at December 31, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARKETABLE SECURITIES

The Corporation holds publicly traded units of two Canadian real estate investment trusts. The units were acquired through the exercise of warrants that were granted by the issuers as part of a loan facility in which the Corporation was a participant. The units generate distributions that are consistent with the Corporation's overall yield objective. The \$2,200,329 balance reported on the Corporation's balance sheet as at December 31, 2016 represents the fair value of the marketable securities comprising the portfolio (December 31, 2015 – \$1,949,106). The Corporation's purchase price for the units was \$2,056,275. The approximate average interest yield on the cost of these investments is 8.5% per annum.

DEBENTURE PORTFOLIO INVESTMENT

The Corporation holds a small portfolio of publicly traded convertible debentures of Canadian real estate investment trusts. These investments, when purchased at the appropriate purchase price, generate interest income and yields that are consistent with the Corporation's overall yield objective. The \$2,199,937 balance reported on the Corporation's balance sheet at December 31, 2016 (December 31, 2015 - \$2,076,800) represents the fair value of the convertible debentures comprising the portfolio. The Corporation's purchase price for the debenture portfolio was \$1,980,747.

LOAN ON DEBENTURE PORTFOLIO INVESTMENT

The Corporation holds a small portfolio of publicly traded convertible debentures of Canadian real estate investment trusts within its debenture portfolio investment. As a result of the very attractive leverage available on the portfolio from an interest rate standpoint, the Corporation has a loan payable against the portfolio in the amount of \$1,295,184 as at December 31, 2016 (December 31, 2015 - \$1,420,073). The loan essentially represents a margin loan against the debenture portfolio at a current interest rate of 1% per annum and is open for repayment at any time.

BANK INDEBTEDNESS

Bank indebtedness increased by \$3,723,484 to \$45,436,612 for the fiscal year ended December 31, 2016 compared to \$41,713,128 for the fiscal year ended December 31, 2015. The increase in bank indebtedness is mainly a result of the utilization of funds to increase the size of the investment portfolio, offset by proceeds received from the issuance of shares and the debenture offering during the year.

LOANS PAYABLE

First priority charges on specific mortgage investments have been granted as security for the loans payable. The loans mature on dates consistent with those of the underlying mortgages. There are no loans outstanding as at December 31, 2016 (December 31, 2015 - \$7,093,535). The loans are on a non-recourse basis and bear interest at their contractual rates (December 31, 2015 – 4.85%).

CONVERTIBLE DEBENTURES

As at December 31, 2016, the Corporation has seven series of convertible debentures outstanding, as outlined below:

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ticker Symbol	Coupon	Issue Date	Maturity Date	Current Principal	Strike Price Per Share	Accounting Liability
FC.DB.A	5.75%	Oct. 13, 2010	Oct. 31, 2017	\$ 31,443,000	\$ 15.90	\$ 31,243,770
FC.DB.B	5.40%	Aug. 23, 2011	Feb. 28, 2019	25,738,000	\$ 14.35	25,177,718
FC.DB.C	5.25%	Mar. 31, 2012	Mar. 31, 2019	20,485,000	\$ 14.80	19,930,572
FC.DB.D	4.75%	Mar. 28, 2013	Mar. 31, 2020	20,000,000	\$ 15.80	19,300,141
FC.DB.E	5.30%	Apr. 17, 2015	May. 31, 2022	25,000,000	\$ 13.95	23,944,422
FC.DB.F	5.50%	Dec. 22, 2015	Dec. 31, 2022	23,000,000	\$ 14.00	21,676,254
FC.DB.G	5.20%	Dec. 21, 2016	Dec. 31, 2023	22,500,000	\$ 15.25	21,033,112
Total / Average	5.34%			\$168,166,000		\$ 162,305,989

As at December 31, 2016, the principal balance for the outstanding convertible debentures is \$168,166,000. The recorded convertible debenture liability as at December 31, 2016 is \$162,305,989 compared to \$139,904,049 as at December 31, 2015. The weighted average effective interest rate is 5.34% per annum (5.36% as at December 31, 2015).

OTHER LIABILITIES

Other liabilities for the Corporation include the following:

Additional Liabilities	Dec. 31, 2016	Dec. 31, 2015	% Change
Accounts Payable and Accrued Liabilities	\$ 2,101,630	\$ 2,195,415	(4%)
Unearned Income	879,851	913,981	(4%)
Shareholders Dividends Payable	2,428,973	2,701,754	(10%)
Total	\$ 5,410,454	\$ 5,811,150	(7%)

Accounts payable and accrued liabilities decreased by 4% to \$2,101,630 as at December 31, 2016 compared to \$2,195,415 as at December 31, 2015. Accounts payable and accrued liabilities include interest payable of \$1,413,450 and accrued liabilities of \$688,180.

Unearned income relating to commitment fees generated on the Corporation's mortgage investments decreased by 4% to \$879,851 as at December 31, 2016 compared to \$913,981 as at December 31, 2015. The Corporation's policy is to recognize commitment fees over the term of the related loan. The unrecognized component of the fees is recorded as unearned income on the Corporation's balance sheet.

SHAREHOLDERS' EQUITY

Shareholders' equity at December 31, 2016 totaled \$238,969,851 compared to \$211,482,850 as at December 31, 2015. The Corporation had 22,490,489 shares issued and outstanding as at December 31, 2016 compared to 20,313,943 as at December 31, 2015. The increase in shares is attributable to an offering of shares that was completed during the second quarter of 2016 and shares issued under the dividend reinvestment plan and stock option plan.

During the second quarter of 2016, the Corporation completed an equity offering of 1,710,000 common shares at a price of \$12.90 per share for gross proceeds of \$22,059,000. The over-allotment option was exercised in full and the Corporation issued an additional 256,500 shares at a price of \$12.90 per Share for gross proceeds of \$3,308,850. The total additional shares issued was 1,966,500.

MANAGEMENT'S DISCUSSION AND ANALYSIS

IMPAIRMENT LOSS

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

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

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or profit. The impairment provision stood at \$4,460,000 as at December 31, 2016 (December 31, 2015 - \$4,230,000) and represents the total amount of management's estimate of the shortfall between the Investment Portfolio principal balances and the estimated net realizable recovery from the collateral securing the loans. The impairment provision represents approximately 1% of the Investment Portfolio balance.

RELATED PARTY TRANSACTIONS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Corporation Manager (a company related to officers and/or directors of the Corporation) receives an allocation of interest, referred to as the Corporation Manager spread interest, calculated as 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the year ended December 31, 2016, the amount was \$3,152,050 (December 31, 2015 - \$2,873,993) and for the three months ended December 31, 2016, this amount was \$828,631 (December 31, 2015 - \$766,306). Included in accounts payable and accrued liabilities of the Corporation at December 31, 2016 are amounts payable to the Corporation Manager of \$275,563 (December 31, 2015 - \$253,538).

The total directors' fees expensed for the year ended December 31, 2016 was \$224,375 (December 31, 2015 - \$183,000). Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation Manager.

The Mortgage Banker (a company related to officers and/or directors of the Corporation) receives certain fees directly from the borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all the commitment and renewal fees generated from the Corporation's investments; and 25% of all the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income of the Corporation is net of the loan servicing fees paid to the Mortgage Banker of approximately \$420,000 for the year ended December 31, 2016 (December 31, 2015 - \$383,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments.

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

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

Three mortgage investments totaling \$4,850,000 (December 31, 2015 - one mortgage investment totaling \$5,250,000) were issued to a borrower controlled by an independent director of the Corporation. The investments were made by way of a participation in a direct loan to the entity controlled by the director. The investment is dealt in accordance with the Corporation's existing investment and operating policies and is personally guaranteed by the director. The Corporation recognized interest and fees earned of \$624,689 (December 31, 2015 - \$669,095) from these investments during the year.

A mortgage investment of nil (December 31, 2015 - \$1,082,657) was outstanding from a borrower controlled by the same independent director set out above. The investment represented a participation in a first mortgage loan assumed by an entity controlled by the director. The director became involved in the borrower entity by virtue of his position as a second mortgage lender to the borrower that fell into default. During the year, the mortgage was

MANAGEMENT'S DISCUSSION AND ANALYSIS

discharged in full and the Corporation recognized interest and fees earned of \$535,757 (December 31, 2015 - \$74,874) from this investment during the year.

The Corporation also holds a mortgage investment totaling \$4,628,000 at December 31, 2016 (classified as Discounted debt investment) that originated from the purchase of a mortgage loan from a schedule 1 bank at a discount to its original principal balance (December 31, 2015 - \$4,303,000). The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that occurred after the purchase of the underlying Schedule 1 bank mortgage. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation. The Corporation recognized interest and fees earned of nil (December 31, 2015 - nil) from this investment during the year. The impairment provision was reduced by \$660,000 in the current year (2015 - provision increase of \$575,000) bringing the impairment allowance recorded on this loan to \$1,190,000 as at December 31, 2016 (December 31, 2015 - \$1,850,000). Recoveries under the investment resulting from the sale of the secured real estate will be treated the same as for all non-conventional mortgage investments held by the Corporation.

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

INCOME TAXES

The Corporation qualifies as a mortgage investment corporation within the meaning of the Income Tax Act (Canada). As such, the Corporation is entitled to deduct from its taxable income dividends paid to shareholders during the year or within the first 90 days of the following taxation year. In order to maintain its status as a mortgage investment corporation, the Corporation must continually meet all criteria enumerated in the relevant section of the Income Tax Act (Canada) throughout such taxation year. The Corporation intends to maintain its status as a mortgage investment corporation and intends to distribute sufficient dividends in the year and in future years to ensure that the Corporation has no tax payable under the Income Tax Act (Canada). Accordingly, for financial statement reporting purposes, the tax deductibility of the Corporation's dividends results in the Corporation being effectively exempt from taxation and no provision for current or deferred income taxes is required.

CRITICAL ACCOUNTING ESTIMATES

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

The Investment Portfolio is classified as loans and receivables. Such investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage loans are measured at amortized cost using the effective interest method, less any impairment losses. The mortgage investments are assessed at each reporting date to determine whether there is objective evidence of impairment. An impairment loss in respect of the mortgage investments measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows and cash recoveries discounted at the asset's original effective interest rate. Losses are recognized in the statement of income and reflected in an allowance account against the

MANAGEMENT'S DISCUSSION AND ANALYSIS

mortgage investments. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or profit. Management is required to consider the estimated future cash flow recovery from the collateral securing the mortgage investments. The estimation of cash flow recovery is performed on an individual mortgage basis and is based on assumptions pertinent to each mortgage investment. Each mortgage analysis often has unique factors that are considered in determining the cash flow and realizable value of the underlying security. The estimates are based on historical experience and other assumptions that management believes are responsible and appropriate in the circumstances. Actual results may differ from these estimates.

FINANCIAL INSTRUMENTS

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

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

The fair values of loans payable approximate their carrying values due to the fact that the majority of the loans are: (i) repayable in full, at any time, upon the repayment of the underlying loan that secures the loan payable, and (ii) have floating interest rates linked to bank prime.

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

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

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

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

The tables in note 16 of the financial statements present the fair values of the Corporation's financial instruments as at December 31, 2016 and December 31, 2015. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTRACTUAL OBLIGATIONS

Contractual obligations as at December 31, 2016 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 6 years
Bank indebtedness	\$ 45,436,612	\$ 45,436,612	\$ -	\$ -
Accounts payable and accrued liabilities	2,101,630	2,101,630	-	-
Loan on debenture portfolio investment	1,295,184	1,295,184	-	-
Shareholder dividends payable	2,428,973	2,428,973	-	-
Convertible debentures	168,166,000	31,443,000	66,223,000	70,500,000
Subtotal - Liabilities	\$ 219,428,399	\$ 82,705,399	\$ 66,223,000	\$ 70,500,000
Future advances under portfolio	131,268,094	131,268,094	-	-
Liabilities and contractual obligations	\$ 350,696,493	\$ 213,973,493	\$ 66,223,000	\$ 70,500,000

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies is described in note 3 of the Corporation's financial statements for the year ended December 31, 2016 and year ended December 31, 2015.

LIQUIDITY AND CAPITAL RESOURCES

As a result of the Corporation's intent to qualify as a mortgage investment corporation, the Corporation intends to distribute no less than 100% of the taxable income of the Corporation, determined in accordance with the Income Tax Act (Canada), to its shareholders. The result is that growth in the Investment Portfolio can only be achieved through the raising of additional equity, issuing debt, and utilizing available borrowing capacity. As at December 31, 2016, the Corporation had not utilized its full leverage availability, being a maximum of 60% of its first mortgage investments. Unadvanced committed funds under the existing Investment Portfolio amounted to \$131,268,094 as at December 31, 2016 (December 31, 2015 - \$113,464,052). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments under the Investment Portfolio. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between mortgage advances and mortgage repayments. There are limitations in the availability of funds under the revolving line of credit, which is made up of a committed component and a demand component. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing investments and funding commitments.

RISKS AND UNCERTAINTIES

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

- *Credit risks: Credit risk is the possibility that a borrower under one of the mortgages comprising the investment portfolio, may be unable to honour their debt commitment as a result of a negative change in the borrowers' financial position or market conditions that could result in a loss to the Corporation. Any instability in the real estate sector or an adverse change in economic conditions in Canada could result in declines in the value of real property securing the Corporation's investments. There have been significant increases in real estate values in various sectors of the Canadian market over the past few years. A correction or revaluation of real estate in such sectors will result in a reduction in values of the real estate securing mortgage loans that comprise the Corporation's investment portfolio. This could result in impairments in the mortgage loans or loan losses in the event the real estate security has to be realized upon by the lender. The Corporation's maximum exposure to credit risk is represented by the fair values of amounts receivable and the investment portfolio.*
- *Under various federal, provincial, and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The existence of such liability can have a negative impact on the value of the underlying real property securing a mortgage. The Corporation does not own the real property securing its Investment Portfolio and thus would not attract the environmental liability that an owner would be exposed to. In rare circumstances where a mortgage is in default, the Corporation may take possession of real property and may become liable for environmental issues as a mortgagee in possession. The Corporation obtains phase 1 environmental reports for mortgages where the Mortgage Banker determines that such reports would be prudent given the nature of the underlying property.*
- *The inability to obtain borrowings and leverage, thus reducing yield enhancement.*
- *Dependence on the Corporation Manager and Mortgage Banker. The Corporation's earnings are impacted by the Mortgage Banker's ability to source and generate appropriate investments that provide sufficient yields while maintaining pre-determined risk parameters. The Corporation has also entered into long-term contracts with the Mortgage Banker and the Corporation Manager, as more particularly described in the AIF. The Corporation is exposed to adverse developments in the business and affairs of the Corporation Manager and Mortgage Banker, since the day to day activities of the Corporation are run by the Corporation Manager and since all of the Corporation's investments are originated by the Mortgage Banker.*
- *Portfolio face rate fluctuations. The interest rate earned on the Corporation's Investment Portfolio fluctuates given that (i) it continually revolves given that it is short term in nature; and (ii) the portfolio is predominately floating rate interest with floors.*
- *Interest rate risk. Interest rate risk is the risk that fair value of future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates.*
 - *(i) Interest income risk: A significant portion of the Corporation's investment portfolio comprise investments in short term mortgage loans that generally are repaid by the borrowers in under twenty-four months. The reinvestment of funds received from such repayments are invested at current market interest rates. As such, the weighted average interest rate applicable to the investment portfolio changes with time. This creates an ongoing risk that the weighted average interest rate on the investment portfolio will decrease, which will have a negative impact on the Corporation's interest income and net income.*
 - *(ii) Interest expense risk: The Corporation's floating-rate debt comprises bank indebtedness, loan on debenture portfolio investment, with each bearing interest based on bank prime and/or based on short term bankers' acceptance interest rates as a benchmark.*
- *No guaranteed return. There is no guarantee as to the return that an investment in Shares of the Corporation will earn.*
- *Qualification as a Mortgage Investment Corporation. Although the Corporation intends to qualify at all times as a mortgage investment corporation, no assurance can be provided in this regard. If for any reason the Corporation does not maintain its qualification as a mortgage investment corporation under the Tax Act, dividends paid by the Corporation on the Shares will cease to be deductible by the*

MANAGEMENT'S DISCUSSION AND ANALYSIS

Corporation in computing its income and will no longer be deemed by the rules in the Tax Act that apply to mortgage investment corporations to have been received by shareholders as bond interest or a capital gain, as the case may be. In consequence, the rules in the Tax Act regarding the taxation of public corporations and their shareholders should apply, with the result that the combined corporate and shareholder tax may be significantly greater.

- *Availability of investments.* Our ability to make investments in accordance with our objectives and investment policies depends upon the availability of suitable investments and the general economy and marketplace. Increased competition in the lending market place in which the Corporation operates from chartered banks or other public or private lending entities may impact the availability of suitable investments and achievable investment yields for the Corporation.
- *Limited sources of borrowing.* The Canadian financial marketplace is characterized as having a limited number of financial institutions that provide credit to entities such as ours. The limited availability of sources of credit may limit our ability to take advantage of leveraging opportunities to enhance the yield on our mortgage investments.
- *Specific investment risk for non-conventional mortgage and second mortgage investments.* Non-conventional and second mortgage investments attract higher loan loss risk due to their subordinate ranking to other mortgage charges and sometimes high loan to value ratio. Consequently, this higher risk is compensated for by a higher rate of return. In order to mitigate risk and maintain a well-diversified investment portfolio, the operating policies of the Corporation generally limit the amount of Conventional Non-First Mortgage investments to a maximum of 30% of the Corporation's capital, subject to the Board of Directors' approval for any modifications to the operating policies.
- *Specific investment risk for land mortgage investments.* Land mortgages pose a unique risk in the event of default in that the work-out period can be lengthy while the asset has no capacity to generate cash flow.
- *Reliance on Borrowers.* After the funding of an investment, we rely on borrowers to maintain adequate insurance and proper adherence to environmental regulations during the ongoing management of their properties.
- *Credit Risk.* The Investment portfolio is exposed to credit risk. Credit risk is the risk that a counterparty to a financial investment will fail to fulfill its obligations or Commitment, resulting in a financial loss to the corporation.

SUBSEQUENT EVENT

On March 21, 2017, the Corporation filed a final prospectus to sell, on a bought deal basis, 1,420,000 common shares at a price of \$14.10 per share for gross proceeds of \$20,022,000. The offering is scheduled to close on or about March 28, 2017. The Corporation has granted the underwriters an over-allotment option to purchase up to 213,000 common shares exercisable, in whole or in part, at any time until 30 days following the closing of the offering. If the over-allotment option is exercised in full, the gross proceeds of the offering will be \$23,025,300.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures, and controls to ensure that the information used internally by management and disclosed externally is complete, reliable, and timely. In addition, the Corporation's Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Corporation, and have reviewed and approved this MD&A as well as the audited financial statements as at December 31, 2016 and 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTROLS AND PROCEDURES

The Corporation maintains appropriate information systems, procedures, and controls to ensure that information disclosed externally is complete, reliable, and timely. The Corporation's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operating effectiveness of the Corporation's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2016 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

The Corporation has also established adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS for periods effective January 1, 2010. The Corporation's Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of, the design and operating effectiveness of the Corporation's internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2016. Based on that assessment, it was determined that the Corporation's internal controls over financial reporting were appropriately designed and were operating effectively.

The Corporation did not make any changes to the design of the Corporation's internal controls over financial reporting during the year ended December 31, 2016 that would have materially affected or would be reasonably likely to materially affect the Corporation's internal controls over financial reporting.

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

FORWARD LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2016 objectives and our strategies to achieve those objectives, as well as statements with respect to management's beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance, or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", or "continue", or similar expressions suggesting future outcomes or

MANAGEMENT'S DISCUSSION AND ANALYSIS

events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

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

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

OUTLOOK

Looking ahead into 2017, we will continue to focus on the quality and composition of the Corporation's evolving mortgage portfolio, with a focus on risk management and mitigation resulting from large year over year increases in real property values. The Mortgage Banker is aware of the significant increase in real estate valuations in certain geographical and asset segments and is factoring this into its mortgage underwriting and structuring. Future mortgage structuring at appropriate exposure levels is expected to result in lower achieved interest rates and an overall reduction in the portfolio average face interest rate, however, should provide for safer investments in the face of a possible market correction.

Management is focused on strengthening the balance sheet with a view to increasing Net Asset Value or NAV per share, which management believes to be a much more important metric than Earnings Per Share or EPS. This could mean lower EPS in the short term. However, management feels that the long-term benefit of increasing NAV outweighs lower earnings as a higher NAV will reduce over the long-term dilution in earnings and provide enhanced returns to patient investors, and maintains the Corporation's access to the public markets for capital.

From all published reports, recent real estate valuation increases have been extreme. The Mortgage Banker sees this every day in its lending practice. Combined with the disconcerting levels of cash liquidity in the market, this has fueled, in our view, irresponsible lending practices by many mortgage providers. These practices include over lending and/or providing capital to real estate not worthy of receiving such capital, all for the sake of putting at-risk capital to work in the credit marketplace. We will not participate in such behavior. We continue to seek safer lower yielding investments that provide both an adequate return as well as a degree of safety for

our shareholders. Firm Capital has always taken a contrarian approach to investing and this will continue into 2017 and beyond.

We operate under the mindset that our Shareholders understand our view is that of long term business performance and generation of Shareholder value over the long term as opposed to a short term focus on quarterly results.

While cautious, management is nonetheless optimistic about the opportunities 2017 presents, as the Corporation has been investing defensively for the past many years. Shareholders will benefit by seeing the continuation of a conservative investment portfolio yielding superior risk-adjusted returns.

Capitalism is about business performance and the generation of shareholder value over the long term as opposed to 'short-termism' and quarterly results. We subscribe to this mindset. Shareholders need to understand this mindset, as this has been our operating philosophy since going public in 1999.

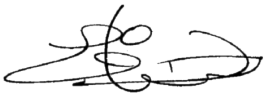
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and information included in this Annual Report have been prepared by the management of Firm Capital Mortgage Investment Corporation, which is responsible for their consistency, integrity and objectivity. The Corporation maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are consistent, efficient and of a high quality.

An independent auditor appointed by management, KPMG LLP, has audited the financial statements of Firm Capital Mortgage Investment Corporation in accordance with generally accepted auditing standards and has provided an independent professional opinion thereon.

Estimates are necessary in the preparation of financial statements because a precise determination of some assets and liabilities depends on future events.

The financial statements have been reviewed and approved by the Board of Directors and the Audit Committee. This Committee meets regularly with management and the auditors who have full and free access to the Committee.



ELI DADOUCH
President
Chief Executive Officer



JONATHAN MAIR
Senior Vice-President
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Firm Capital Mortgage Investment Corporation

We have audited the accompanying financial statements of Firm Capital Mortgage Investment Corporation, which comprise the balance sheets as at December 31, 2016 and 2015, the statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Firm Capital Mortgage Investment Corporation as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

March 21, 2017
Toronto, Canada

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Balance Sheets

(in Canadian dollars)

As at	December 31, 2016	December 31, 2015
Assets		
Amounts receivable and prepaid expenses (note 4)	\$ 4,723,191	\$ 4,709,241
Marketable securities (note 5)	2,200,329	1,949,106
Debenture portfolio investments (note 5)	2,199,937	2,076,800
Investment portfolio (note 6)	444,294,633	398,689,638
Total assets	\$ 453,418,090	\$ 407,424,785
Liabilities		
Bank indebtedness (note 7)	\$ 45,436,612	\$ 41,713,128
Loan on debenture portfolio investments (note 5)	1,295,184	1,420,073
Accounts payable and accrued liabilities	2,101,630	2,195,415
Unearned income	879,851	913,981
Shareholders dividends payable	2,428,973	2,701,754
Loans payable (note 8)	--	7,093,535
Convertible debentures (note 9)	162,305,989	139,904,049
Total liabilities	\$ 214,448,239	\$ 195,941,935
Shareholders' Equity		
Common shares (note 10)	\$ 236,031,386	\$ 209,220,787
Equity component of convertible debentures (note 9)	2,800,000	2,484,000
Stock options (note 10)	95,123	100,531
Contributed surplus	1,924	962
Deficit	(321,826)	(321,826)
Accumulated other comprehensive income (loss)	363,244	(1,604)
Total shareholders' equity	\$ 238,969,851	\$ 211,482,850
Commitments (note 6)		
Contingent liabilities (note 15)		
Total liabilities and shareholders' equity	\$ 453,418,090	\$ 407,424,785

See accompanying notes to financial statements.

On behalf of the Directors:

"Eli Dadouch"
ELI DADOUCH
Director

"Jonathan Mair"
JONATHAN MAIR
Director

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Income

Years ended December 31, 2016 and 2015

(in Canadian dollars)

	2016	2015
Interest and fees earned	\$ 36,042,890	\$ 34,005,435
	36,042,890	34,005,435
Corporation manager spread interest allocation (note 13)	3,152,050	2,873,993
Interest expense (note 14)	10,628,040	9,350,610
General and administrative expenses	842,187	829,574
Impairment loss on investment portfolio (note 6)	230,000	870,000
	\$ 14,852,277	\$ 13,924,177
Income and profit for the year	\$ 21,190,613	\$ 20,081,258
Profit per share (note 11)		
Basic	\$0.972	\$0.991
Diluted	\$0.950	\$0.970

See accompanying notes to financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Comprehensive Income

Years ended December 31, 2016 and 2015

(in Canadian dollars)

	2016	2015
Income and profit for the year	\$ 21,190,613	\$ 20,081,258
Other comprehensive income:		
Unrealized gain (loss) on marketable securities and debenture investments (note 5)	364,848	(74,570)
Total comprehensive income for the year	\$ 21,555,461	\$ 20,006,688

See accompanying notes to financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Changes in Shareholder's Equity

Years ended December 31, 2016 and 2015

in Canadian dollars

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Shareholders' equity
Balance at January 1, 2016	209,220,787	2,484,000	100,531	962	(321,826)	(1,604)	211,482,850
Proceeds from issuance of shares in new offering	25,367,850	-	-	-	-	-	25,367,850
Offering costs	(1,246,207)	-	-	-	-	-	(1,246,207)
Proceeds from issuance of shares from dividend reinvestment	2,139,684	-	-	-	-	-	2,139,684
Equity component of debentures issued during the year	-	316,000	-	-	-	-	316,000
Exercise of stock options	549,272	-	(4,446)	-	-	-	544,826
Forfeiture of stock options	-	-	(962)	962	-	-	-
Change in fair value of available for sale financial assets	-	-	-	-	-	364,848	364,848
Income and profit for the year	-	-	-	-	21,190,613	-	21,190,613
Dividends to shareholders	-	-	-	-	(21,190,613)	-	(21,190,613)
Balance at December 31, 2016	236,031,386	2,800,000	95,123	1,924	(321,826)	363,244	238,969,851
Shares issued and outstanding (note 10)	22,490,489						

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

See accompanying notes to financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Cash Flows

Years ended December 31, 2016 and 2015

(in Canadian dollars)

	2016	2015
Cash provided by (used in):		
Operating activities:		
Income and profit for the year	\$ 21,190,613	\$ 20,081,258
Adjustments for:		
Financing costs (net of implicit interest rate and deferred finance cost amortization)	9,252,322	8,271,352
Implicit interest rate in excess of coupon rate - convertible debentures	357,767	281,723
Change in impairment loss on investment portfolio	230,000	870,000
Deferred finance cost amortization - convertible debentures	1,017,951	797,535
Share-based compensation	--	1,637
Net change in non-cash operating items:		
Increase (decrease) in accrued interest payable	229,721	(279,261)
Decrease (increase) in amounts receivable and prepaid expenses	(13,950)	(2,262,524)
Increase (decrease) in accounts payable and accrued liabilities	(93,785)	72,372
Increase (decrease) in unearned income	(34,130)	213,779
Net cash flow from operating activities	\$ 32,136,509	\$ 28,047,871
Financing activities:		
Proceeds from issuance of shares in new offerings	25,367,850	980,000
Proceeds from issuance of shares from dividend reinvestment	2,139,684	884,595
Proceeds from exercise of stock options	544,826	--
Proceeds from convertible debentures issued	22,500,000	48,000,000
Debt offering costs	(1,157,778)	(2,398,005)
Equity offering costs	(1,246,207)	(21,931)
Repayment of loans payable (net)	(7,093,535)	(14,754,435)
Funding (repayment) of loan on debenture portfolio	(124,889)	1,088,273
Cash interest paid (note 14)	(9,482,043)	(7,992,091)
Dividends to shareholders paid during the year	(21,463,394)	(19,637,678)
Net cash flow from financing activities	\$ 9,984,514	\$ 6,148,728
Investing activities:		
Net disposals (purchases) of marketable securities	--	92,515
Funding of debenture portfolio investments	(9,512)	(1,283,477)
Funding of investment portfolio	(290,942,160)	(344,618,478)
Discharging of investment portfolio	245,107,165	284,563,891
Net cash flow used in investing activities	\$ (45,844,507)	\$ (61,245,549)
Net decrease (increase) in bank indebtedness for the year	(3,723,484)	(27,048,950)
Bank indebtedness, beginning of year	(41,713,128)	(14,664,178)
Bank indebtedness, end of year	\$ (45,436,612)	\$ (41,713,128)
Cash flows from operating activities include:		
Interest received	\$ 33,776,364	\$ 29,286,963

See accompanying notes to financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(in Canadian dollars)

1. Organization of the Corporation:

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

2. Basis of presentation:

(a) Statement of compliance:

The consolidated financial statements of the Corporation have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Board of Directors on March 21, 2017.

(b) Basis of measurement:

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

(c) Principles of consolidation

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries, which includes FC Finance Trust. Subsidiaries are fully consolidated from the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intercompany transactions and balances are eliminated upon consolidation.

(d) Functional and presentation currency:

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

(e) Critical estimates and judgements:

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

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

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(in Canadian dollars)

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

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

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

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

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

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

3. Significant accounting policies:

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

(a) Investment portfolio:

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

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

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(in Canadian dollars)

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

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

(b) Revenue recognition:

- (i) Interest and fee income: Interest income earned is accounted for using the effective interest method. Commitment fees received are amortized to profit and loss over the expected term of the investment.
- (ii) Non-conventional mortgages: Special profit and interest participations earned by the Corporation on non-conventional mortgages are recognized and included in interest and fees earned only once the receipt of such amounts are certain.

(c) Share-based compensation:

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

(d) Income taxes:

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

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(in Canadian dollars)

(e) Financial assets and liabilities:

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

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

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

Recognition and measurement of financial instruments:

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

(f) Derecognition of financial assets and liabilities:

(i) Financial assets:

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

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

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

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(in Canadian dollars)

(ii) Financial liabilities:

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

(g) Compound financial instruments:

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

(h) Share capital:

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

(i) Basic and diluted per share calculation:

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

(j) Accounting standards implemented in 2016:

Amendments to IAS 1 ("IAS 1"):

In 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements, as part of its major initiative to improve presentation and disclosure in financial reports. The Corporation implemented these amendments prospectively on January 1, 2016. There was no significant impact on the Corporation's consolidated financial statements as a result of the implementation of this amendment.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(in Canadian dollars)

(k) Future changes in accounting policies:

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

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. The new standard provides a comprehensive framework for recognition, measurement, and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts, and financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted on a retrospective basis. The Corporation intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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

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

4. Amounts receivable and prepaid expenses:

The following is a breakdown of amounts receivable and prepaid expenses as at December 31, 2016 and 2015:

	2016	2015
Interest receivable	\$ 4,272,274	\$ 4,332,539
Prepaid expenses	151,795	137,820
Fees receivable	269,807	238,882
Special income receivable	29,315	-
Amounts receivable and prepaid expenses	\$ 4,723,191	\$ 4,709,241

5. Marketable securities and debenture portfolio investments:

The Corporation holds units in publicly traded real estate investment trusts and debentures of publicly traded real estate investment trusts which are classified as available for sale. The fair value of the units and debentures is based on the closing price of the investments, which are actively traded in the marketplace and any adjustments to fair value are reflected in the Statements of Comprehensive Income until the investments are disposed of or impaired, at which time the Corporation would record the change in fair value in the Statements of Income. The fair value of the units at December 31, 2016 is \$2,200,329 (2015 - \$1,949,106). The fair value of the debentures at December 31, 2016 is \$2,199,937 (2015 - \$2,076,800). For the year ended December 31, 2016, the Corporation recorded an unrealized gain of \$364,848 (2015 - an unrealized loss of \$74,570) with a corresponding increase (decrease) in other comprehensive income.

The Corporation has a margin loan against the debenture portfolio and is open for repayment at any time. The current interest rate on this loan is equal to the Bank of Canada's overnight rate plus a spread. The effective rate is equal to 1% per annum.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(in Canadian dollars)

6. Investment portfolio:

The following is a breakdown of the investment portfolio as at December 31, 2016 and 2015:

	2016		2015	
Conventional first mortgages	\$ 336,745,396	75.04%	\$ 283,869,955	70.45%
Conventional non-first mortgages	46,265,981	10.31%	41,799,212	10.37%
Related investments	56,734,231	12.64%	59,422,966	14.75%
Discounted debt investments	5,071,525	1.13%	5,022,775	1.25%
Non-conventional mortgages	3,937,500	0.88%	12,804,730	3.18%
Total investments (at amortized cost)	\$ 448,754,633	100.00%	\$ 402,919,638	100.00%
Impairment provision	(4,460,000)		(4,230,000)	
Investment portfolio	\$ 444,294,633		\$ 398,689,638	

As at December 31, 2016, none (2015 - \$8,866,920) of the mortgages within the conventional first mortgage portfolio have first priority syndicate participations (2015 - \$7,093,535) (recorded on the Corporation's balance sheets as loans payable (see note 8)).

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

The investment portfolio is stated at amortized cost. The impairment provision in the amount of \$4,460,000 as at December 31, 2016 (2015 - \$4,230,000) represents the total amount of management's estimate of the shortfall between the investment principal balances and the estimated recoverable amount from the security under the loans.

The loans comprising the investment portfolio bear interest at the weighted average rate of 7.83% per annum (2015 - 8.19% per annum) and mature between 2017 and 2020.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to \$131,268,094 as at December 31, 2016 (2015 - \$113,464,052).

Principal repayments based on contractual maturity dates are as follows:

2017	\$ 301,400,622
2018	118,384,175
2019	25,988,499
2020	2,981,337
Thereafter	-
	\$ 448,754,633

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(in Canadian dollars)

Borrowers who have open loans have the option to repay principal at any time prior to the maturity date, upon providing written notice in advance.

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

The portion of such mortgage interests held by the bank participant is included in investment portfolio and recorded as loans payable (note 8). Any gross interest and fees earned on the bank participants' interests and the related interest expense is recognized in income and profit.

As at December 31, 2016, the carrying value of the priority participants' interests in the Corporation's investment portfolio and loans payable is nil (2015 - \$7,093,535).

7. Bank indebtedness:

The Corporation has entered into credit arrangements, of which \$45,436,612 has been drawn as at December 31, 2016 (2015 - \$41,713,128). Interest on bank indebtedness is predominantly charged at a formula rate that varies with bank prime and may have a component with a fixed interest rate established based on a formula linked to bankers' acceptance rates. The credit arrangement comprises a revolving operating facility, a component of which is a demand facility and a component of which has a committed term to September 30, 2017. Bank indebtedness is secured by a general security agreement. The credit agreement contains certain financial covenants that must be maintained. As at December 31, 2016 and 2015, the Corporation was in compliance with all financial covenants.

8. Loans payable:

First priority charges on specific mortgage investment have been granted as security for the loans payable. The loans mature on dates consistent with those of the underlying mortgages. There are no loans outstanding as at December 31, 2016 (2015 - \$7,093,535). The loans are on a non-recourse basis and bear interest at their contractual rates (2015 - 4.85%).

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Years ended December 31, 2016 and 2015

(in Canadian dollars)

9. Convertible debentures:

Year Ended	2016	2015
Liability component, beginning of year	\$ 139,904,049	\$ 93,746,796
Issued	21,026,222	45,077,995
Implicit interest rate in excess of coupon rate	357,767	281,723
Deferred finance cost amortization	1,017,951	797,535
Liability component, end of year	\$ 162,305,989	\$ 139,904,049

The breakdown of the convertible debentures for the year ended December 31, 2016 presented in the above table is as follows:

Convertible debenture	Balance, beginning of year	Issued	Implicit interest rate in excess of coupon rate	Deferred finance cost amortization	Balance, end of year	Maturity date
5.75%	\$ 30,994,955	-	\$ 36,795	\$ 212,020	\$ 31,243,770	Oct 31, 2017
5.40%	24,914,687	-	89,097	173,934	25,177,718	Feb 28, 2019
5.25%	19,693,717	-	101,937	134,918	19,930,572	Mar 31, 2019
4.75%	19,087,320	-	60,261	152,560	19,300,141	Mar 31, 2020
5.30%	23,748,170	-	24,142	172,110	23,944,422	May 31, 2022
5.50%	21,465,200	-	43,606	167,448	21,676,254	Dec 31, 2022
5.20%	-	21,026,222	1,929	4,961	21,033,112	Dec 31, 2023
Total	\$ 139,904,049	\$ 21,026,222	\$ 357,767	\$ 1,017,951	\$ 162,305,989	

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

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

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On December 21, 2016, the Corporation completed a public offering of 22,500 5.20% convertible unsecured subordinated debentures at a price of \$1,000 per debenture for gross proceeds of \$22,500,000. The debentures mature on December 31, 2023 and interest is paid semi-annually on June 30 and December 31. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of \$15.25 per share. The debentures may not be redeemed by the Corporation prior to December 31, 2019. On or after December 31, 2019, but prior to December 31, 2021, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after December 31, 2021 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

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

Liability	\$ 22,184,000
Equity	316,000
Principal	\$ 22,500,000

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

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

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

On December 22, 2015, the Corporation completed a public offering of 20,000 5.50% convertible unsecured subordinated debentures at a price of \$1,000 per debenture for gross proceeds of \$20,000,000. Additionally, pursuant to the exercise of the over-allotment option, an additional 3,000 5.50% convertible unsecured subordinated debentures were issued at a price of \$1,000 per debenture for gross proceeds of \$3,000,000. The debentures mature on December 31, 2022 and interest is paid semi-annually on June 30 and December 31. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of \$14.00 per share. The debentures may not be redeemed by the Corporation prior to December 31, 2018. On or after December 31, 2018, but prior to December 31, 2019, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after December 31, 2019 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

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

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

As at December 31, 2016, debentures payable bear interest at the weighted average effective rate of 5.34% (2015 - 5.36%) per annum. Notwithstanding the carrying value of the convertible debentures, the principal balance outstanding to the debenture holders is \$168,166,000 as at December 31, 2016 (2015 - \$145,666,000).

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10. Shareholders' equity:

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

(a) Shares issued and outstanding:

The following shares were issued and outstanding as at December 31, 2016:

	# of shares	Amount
Balance, beginning of year	20,313,943	\$ 209,220,787
New shares from equity offering	1,966,500	25,367,850
Equity offering costs	-	(1,246,207)
Options exercised in the year	46,250	549,272
New shares issued during the year under Dividend Reinvestment Plan	163,796	2,139,684
Balance, end of year	22,490,489	\$ 236,031,386

The following shares were issued and outstanding as at December 31, 2015:

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

During the second quarter of 2016, the Corporation completed an equity offering of 1,710,000 common shares at a price of \$12.90 per share for gross proceeds of \$22,059,000. The over-allotment option was exercised in full and the Corporation issued an additional 256,500 shares at a price of \$12.90 per share for gross proceeds of \$3,308,850. The total shares issued was 1,966,500.

In the first quarter of 2015, the Corporation completed a private placement of 80,000 shares at \$12.25 per share for gross proceeds of \$980,000.

(b) Incentive option plan:

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

As at December 31, 2016, of the 1,075,000 options granted, the total options exercised to date is 47,750 and the total amount of options forfeited to date is 20,000.

	# of options	Amount
Balance at December 31, 2014	1,028,500	\$ 98,894
Options granted	35,000	1,637
Balance at December 31, 2015	1,063,500	\$ 100,531
Options exercised	(46,250)	(4,446)
Options forfeited	(10,000)	(962)
Balance at December 31, 2016	1,007,250	\$ 95,123

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

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

11. Per share amounts:

Profit per share calculation:

The following tables reconciles the numerators and denominators of the basic and diluted profit per share for the years ended December 31, 2016 and 2015.

Basic profit per share calculation:

	2016	2015
Numerator for basic profit per share:		
Net income and profit for the year:	\$ 21,190,613	\$ 20,081,258
Denominator for basic profit per share:		
Weighted average shares	21,810,736	20,253,665
Basic profit per share	\$ 0.972	\$ 0.991

Diluted profit per share calculation:

	2016	2015
Numerator for diluted profit per share:		
Net income and profit for the year:	\$ 21,190,613	\$ 20,081,258
Interest on convertible debentures	7,164,273	5,208,722
Net profit for diluted profit per share	\$ 28,354,886	\$ 25,289,980
Denominator for diluted profit per share:		
Weighted average shares	21,810,736	20,253,665
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average share price	120,884	52,264
Assuming debentures are converted	7,922,849	5,755,708
Diluted weighted average shares	29,854,469	26,061,637
Diluted profit per share	\$ 0.950	\$ 0.970

12. Dividends:

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

For the year ended December 31, 2016, the Corporation recorded dividends of \$21,190,613 (2015 - \$20,081,258) to its shareholders. Dividends were \$0.966 per share (2015 - \$0.991 per share).

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13. Related party transactions and balances:

The Corporation's Manager (a company related to officers and/or directors of the Corporation) receives an allocation of interest, referred to as the Corporation Manager spread interest, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the year ended December 31, 2016, this amount was \$3,152,050 (2015 - \$2,873,993). Included in accounts payable and accrued liabilities at December 31, 2016 are amounts payable to the Corporation's Manager of \$275,563 (2015 - \$253,538).

The total directors' fees paid for the year was \$224,375 (2015 - \$183,000). This amount has been fully settled during the year. The listing of the members of the Board of Directors is shown in the annual report. Key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The Directors held 430,946 shares in the Corporation as at December 31, 2016 (2015 - 428,986).

During the year ended December 31, 2016, none of the directors were awarded options under the incentive option plan (2015 - 35,000).

The Mortgage Banker (a company related to officers and/or directors of the Corporation) receives certain fees from the borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all of the commitment and renewal fees generated from the Corporation's investments; and 25% of all of the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income of the Corporation is net of the loan servicing fees paid to the Mortgage Banker of approximately \$420,000 for the year ended December 31, 2016 (2015 - \$383,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments.

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

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

Three mortgage investments totaling \$4,850,000 (December 31, 2015 - one mortgage investment totaling \$5,250,000) were issued to a borrower controlled by an independent director of the Corporation. The investments were made by way of a participation in a direct loan to the entity controlled by the director. The investment is dealt with in accordance with the Corporation's existing investment and operating policies and is personally guaranteed by the director. The Corporation recognized interest and fees earned of \$624,689 (December 31, 2015 - \$669,095) from these investments during the year.

A mortgage investment of nil (December 31, 2015 - \$1,082,657) was outstanding from a borrower controlled by the same independent director set out above. The investment represented a participation in a first mortgage loan assumed by an entity controlled by the director. The director became involved in the borrower entity by virtue of his position as a second mortgage lender to the borrower that fell into default. During the year, the mortgage was discharged in full and the Corporation recognized interest and fees earned of \$535,757 (December 31, 2015 - \$74,874) from this investment during the year.

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The Corporation also holds a mortgage investment totaling \$4,628,000 at December 31, 2016 (classified as Discounted debt investment) that originated from the purchase of a mortgage loan from a schedule 1 bank at a discount to its original principal balance (December 31, 2015 - \$4,303,000). The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that occurred after the purchase of the underlying Schedule 1 bank mortgage. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation. The Corporation recognized interest and fees earned of nil (December 31, 2015 - nil) from this investment during the year. The impairment provision was reduced by \$660,000 in the current year (2015 - provision increase of \$575,000) bringing the impairment allowance recorded on this loan to \$1,190,000 as at December 31, 2016 (December 31, 2015 - \$1,850,000). Recoveries under the investment resulting from the sale of the secured real estate will be treated the same as for all non-conventional mortgage investments held by the Corporation.

Key management compensation:

Aggregate compensation for key management personnel (including payments to related parties for their recovery of overhead costs), all consisting of short-term employee compensation, was \$1,960,779 in 2016 (2015 - \$1,892,130), all of which was paid by the Corporation's Manager and nil by the Corporation.

14. Interest expense:

	2016	2015
Bank interest expense	\$ 1,313,699	\$ 1,166,770
Loans payable interest expense	93,280	920,995
Debenture interest expense	9,221,061	7,262,845
Interest expense	\$ 10,628,040	\$ 9,350,610
Deferred finance cost amortization - convertible debentures	(1,017,951)	(797,535)
Implicit interest rate in excess of coupon rate - convertible debentures	(357,767)	(281,723)
Change in accrued interest	229,721	(279,261)
Cash interest paid	\$ 9,482,043	\$ 7,992,091

15. Contingent liabilities:

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

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16. Fair value:

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

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

The fair values of loans payable approximate their carrying values due to the fact that the majority of the loans are: (i) repayable in full, at any time, upon the repayment of the underlying loan that secures the loan payable, and (ii) have floating interest rates linked to bank prime.

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

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

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

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

The tables below present the fair values of the Corporation's financial instruments as at December 31, 2016 and 2015. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

2016	Level 1	Level 2	Level 3	Total
Debenture portfolio investment	\$ 2,199,937	-	-	\$ 2,199,937
Marketable securities	2,200,329	-	-	2,200,329
Convertible debentures	168,831,871	-	-	168,831,871

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

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17. Risk management:

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

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

(a) Interest rate risk:

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

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

(i) Interest income risk:

A significant portion of the Corporation's investment portfolio comprise investments in short term mortgage loans that generally are repaid by the borrowers in under twenty-four months. The reinvestment of funds received from such repayments are invested at current market interest rates. As such, the weighted average interest rate applicable to the investment portfolio changes with time. This creates an ongoing risk that the weighted average interest rate on the investment portfolio will decrease which will have a negative impact on the Corporation's interest income and net profit.

(ii) Interest expense risk:

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

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At December 31, 2016, if interest rates at that date had been 100 basis points lower or higher, with all other variables held constant, comprehensive income and equity for the year would be affected as follows:

	Carrying Value	-1%	+1%
Financial assets:			
Amounts receivable and prepaid expenses	4,723,191	-	-
Marketable securities	2,200,329	-	-
Debenture portfolio investment	2,199,937	-	-
Investment portfolio	444,294,633	-	1,526,301
Financial liabilities:			
Bank indebtedness	45,436,612	454,366	(454,366)
Loan on debenture portfolio investment	1,295,184	12,952	(12,952)
Accounts payable and accrued liabilities	2,101,630	-	-
Shareholders dividend payable	2,428,973	-	-
Convertible debentures	162,305,989	-	-
Total increase		\$ 467,318	\$ 1,058,983

(b) Credit risks:

Credit risk is the possibility that a borrower under one of the mortgages comprising the investment portfolio, may be unable to honour their debt commitment as a result of a negative change in the borrowers' financial position or market conditions that could result in a loss to the Corporation.

Any instability in the real estate sector or an adverse change in economic conditions in Canada could result in declines in the value of real property securing the Corporation's investments. There have been significant increases in real estate values in various sectors of the Canadian market over the past few years. A correction or revaluation of real estate in such sectors will result in a reduction in values of the real estate securing mortgage loans that comprise the Corporation's investment portfolio. This could result in impairments in the mortgage loans or loan losses in the event the real estate security has to be realized upon by the lender. The Corporation's maximum exposure to credit risk is represented by the fair values of amounts receivable and the investment portfolio.

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(c) Liquidity risk:

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

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

As at December 31, 2016, the Corporation had not utilized its full leverage availability, being a guideline of 60% of its first mortgage investments. Unadvanced committed funds under the existing investment portfolio amounted to \$131,268,094 as at December 31, 2016 (2015 - \$113,464,052). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between investment advances and investment repayments. The bank borrowing line is a committed facility with a maturity date of September 30, 2017. If the loan is not renewed on September 30, 2017, the terms of the facility allow for the Corporation to repay the balance owed on September 30, 2017 within 12 months. In the current economic climate and capital market conditions, there are no assurances that the bank borrowing line will be renewed or that it could be replaced with another lender if not renewed. If it is not extended at maturity, repayments under the Corporation's investment portfolio would be utilized to repay the bank indebtedness. There are limitations in the availability of funds under the revolving line of credit. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing investments creates liquidity for ongoing investments and funding commitments. Loans payable relate to borrowings on specific investments within the Corporation's portfolio and only have to be repaid once the specific loan is paid out by the borrower.

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

Contractual obligations as at December 31, 2016 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 6 years
Bank indebtedness	\$ 45,436,612	\$ 45,436,612	\$ -	\$ -
Accounts payable and accrued liabilities	2,101,630	2,101,630	-	-
Loan on debenture portfolio investment	1,295,184	1,295,184	-	-
Shareholder dividend payable	2,428,973	2,428,973	-	-
Convertible debentures	168,166,000	31,443,000	66,223,000	70,500,000
Subtotal - Liabilities	\$ 219,428,399	\$ 82,705,399	\$ 66,223,000	\$ 70,500,000
Future advances under portfolio	131,268,094	131,268,094	-	-
Liabilities and contractual obligations	\$ 350,696,493	\$ 213,973,493	\$ 66,223,000	\$ 70,500,000

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

Interest payments on debentures (assuming the amounts remain unchanged) would be \$8,681,958 for less than 1 year, \$16,383,322 for 1 to 3 years and \$8,022,500 for 4 to 6 years.

(d) Capital risk management:

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

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

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

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

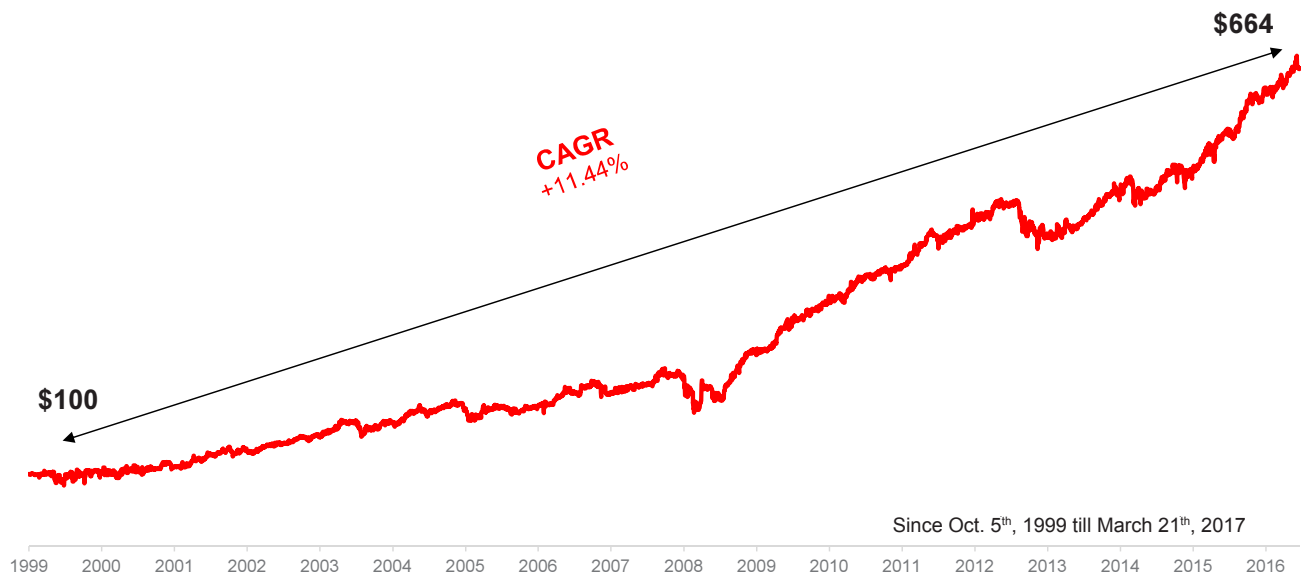
The Corporation is required by its bank lender to maintain various covenants, including minimum equity amount, interest coverage ratios, indebtedness as a percentage of the performing first mortgage portfolio size, and indebtedness to total assets. The Corporation is in compliance with all such bank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

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

18. Subsequent event:

On March 21, 2017, the Corporation filed a final prospectus to sell, on a bought deal basis, 1,420,000 common shares at a price of \$14.10 per share for gross proceeds of \$20,022,000. The offering is scheduled to close on or about March 28, 2017. The Corporation has granted the underwriters an over-allotment option to purchase up to 213,000 common shares exercisable, in whole or in part, at any time until 30 days following the closing of the offering. If the over-allotment option is exercised in full, the gross proceeds of the offering will be \$23,025,300

Total Return Since IPO



An investment in Firm Capital, since its initial public offering, has generated an attractive return for investors. Since the IPO in 1999, a \$100 investment in Firm Capital has appreciated to \$567.28 when factoring in full dividend reinvestment over the same period. The compounded annual growth rate or “CAGR” in Firm Capital Mortgage Investment Corporation shares, since 1999 has been in excess of 11.17%

DIVIDEND REINVESTMENT PLAN

Shareholders are reminded that they can participate in the Corporation's Dividend Reinvestment Plan and Share Purchase Plan. The plan allows participants to have their monthly dividend reinvested in additional shares.

SHARE PURCHASE PLAN

Once registered with the plan, participants have the right to purchase additional Shares at 5 day weighted average market price from the Corporation, totaling no greater than \$12,000 per year and no less than \$250.00 per month. Participating Shareholders pay no commission.

For further information, including answers to frequently asked questions about the program, please refer to our website: www.firmcapital.com. To enroll, please contact your investment advisor or, if you are a registered Shareholder, complete the Authorization Form located on our website and forward to our Transfer Agent, Computershare Trust Company of Canada, at the address noted on the website. You can also contact Investor Relations at the Corporation by calling 416-635-0221, who will assist you in enrolling in the program.

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CORPORATE DIRECTORY

Board of Directors

Stanley Goldfarb, FCPA, FCA ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
President
Goldfarb Management Services Limited

Morris Fischtein ⁽¹⁾⁽²⁾⁽³⁾
President
High City Holdings Limited

Anthony Heller ⁽¹⁾⁽²⁾⁽³⁾
President
Plazacorp Investments Limited

Larry Shulman, B. Comm., CPA, CA ⁽¹⁾⁽²⁾⁽³⁾
President
Rabbim Company Finance Inc.

Keith L. Ray, CPA, CA ⁽¹⁾⁽³⁾
President
Realvest Management

Geoffrey Bledin ⁽¹⁾⁽³⁾
Corporate Director

Joe Oliver ⁽¹⁾⁽³⁾
Corporate Director
Former Minister of Finance, Minister of
Natural Resources and Member of
Parliament

Eli Dadouch
President
Firm Capital Corporation

Jonathan Mair, CPA, CA
Vice-President, Mortgage Banking
and Chief Financial Officer
Firm Capital Corporation

Edward Gilbert, CPA, CA
Director, Mortgage Investments
Firm Capital Corporation

Officers & Senior Management

Eli Dadouch
President and
Chief Executive Officer

Jonathan Mair, CPA, CA
Senior Vice-President and
Chief Financial Officer

Joseph Fried
Secretary

Sandy Poklar, CPA, CA
Chief Operating Officer

Victoria Granovski, MFin
Manager, Credit and
Equity Capital

(1) Member of the Investment Committee

(2) Member of the Audit Committee

(3) Independent Directors

(4) Chairman of the Board, Investment Committee
and Audit Committee

Mortgage Banker

Firm Capital Corporation
www.firmcapital.com

Corporation Manager

FC Treasury Management Inc.

Registered Office

Firm Capital Mortgage
Investment Corporation
163 Cartwright Avenue
Toronto, Ontario
M6A 1V5
Telephone: 416-635-0221
Fax: 416-635-1713
Email: spoklar@firmcapital.com

Auditors

KPMG LLP

Transfer Agent

Computershare Trust Company of Canada

Legal Counsel

Miller Thomson LLP

Stock Exchange Listing

Shares Listed
TSX Symbol: **FC**
Debentures Listed
TSX Symbol: **FC.DB.A, FC.DB.B, FC.DB.C,
FC.DB.D, FC.DB.E, F.DB.F
F.DB.G**

Plan Eligibility

RRSP RRIF DPSP TFSA

Shareholder Dividend Reinvestment Plan

Firm Capital Mortgage Investment Corporation is offering Canadian Shareholders of the Corporation, an opportunity to increase their holdings by participating in the Corporation's Shareholder Dividend Reinvestment Plan.

If you are a Shareholder and would like to enroll or would like further information about the Plan, please contact Firm Capital Mortgage Investment Corporation, Attention: Sandy Poklar - Chief Operating Officer
Telephone
(416) 635-0221

Firm Capital

MORTGAGE INVESTMENT CORPORATION

REAL ESTATE FINANCING SOLUTIONS

Mortgage Banker Sample Transactions:

Construction Loan \$45,015,000 First Mortgage 18-storey, 220-unit condominium building MARKHAM, ON	Land Loan \$12,000,000 First Mortgage 12.64-acre, multi-family residential site BURLINGTON, ON	Infill Construction Loan \$2,225,000 First Mortgage 4,700 sq. ft. custom home OAKVILLE, ON	Bridge Loan \$4,750,000 First Mortgage 2 office buildings (10,193 & 29,505 sq. ft.) WATERLOO, ON
Inventory Loan \$3,800,000 First Mortgage 3 luxury townhomes OTTAWA, ON	Construction Loan \$9,000,000 First Mortgage 9-storey, 66-unit condominium building OTTAWA, ON	Land & Construction Loan \$8,000,000 First Mortgage 4 custom homes & 2 commercial buildings BRAMPTON, ON	Mezzanine Loan \$12,240,000 Second Mortgage 25-storey, 288-unit condominium building CALGARY, AB
Land Loan \$5,500,000 First Mortgage 2.0 acre infill residential development site RICHMOND HILL, ON	Land & Construction Loan \$7,265,000 First Mortgage 7 residential building lots MISSISSAUGA, ON	Bridge Loan \$3,500,000 First Mortgage 3 lakefront lots MUSKOKA LAKES, ON	Construction Loan \$20,367,400 First Mortgage 73 condo units MISSISSAUGA, ON

BOUTIQUE MORTGAGE LENDERS® PROVIDING REAL ESTATE CAPITAL FOR:

COMMERCIAL FINANCING

RESIDENTIAL FINANCING

BRIDGE FINANCING

STRUCTURED REAL ESTATE FINANCING