


ANNUAL 2017 REPORT





BUILDING RELATIONSHIPS

DISCIPLINED INVESTING • CAPITAL PRESERVATION

Firm Capital
Mortgage Investment Corporation

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-serviced 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 2017 results for Firm Capital Mortgage Investment Corporation (the "Corporation").

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 investor partners. We are continually monitoring all markets and rebalancing the portfolio to reflect the current environment and market conditions. In 2017, we were able to generate dividends to Shareholders of $1.006 per share, while adding to the size of our loan loss provision by $1,240,000, bringing the year-end balance up to $5,700,000, representing 1% of the Corporation's assets.

HIGHLIGHTS

DIVIDENDS

For the year ended December 31, 2017, the Corporation declared dividends totaling $1.006 per share versus $0.996 per share for the year ended December 31, 2016. The December 2017 special dividend was 7 cents per unit.

PROFIT

Income and profit (referred to herein as "Profit") for year ended December 31, 2017 of $24,821,438 represents approximately a 17% increase compared to $21,190,613 reported for the year ended December 31, 2016. Basic weighted average profit per share for the year ended December 31, 2017 was $1.019, which is 5% higher compared to the $0.972 per share reported for the year ended December 31, 2016.

DIVERSIFIED PORTFOLIO WITH A SIGNIFICANT 25% YEAR OVER YEAR GROWTH

The Corporation's Investment Portfolio at December 31, 2017 totaled $561.5 million (before impairment provision) consisting of 251 separate investments. The average interest rate on the Corporation's investments at December 31, 2017 was 8.09% per annum. The Corporation's portfolio increased by $112.7 million during the year. The Alberta Mortgage Portfolio decreased from 13 investments as at December 31, 2016 to 7 investments at December 31, 2017, for a total of $17.8 million.

VERY SHORT TERM PORTFOLIO WITH SIGNIFICANT ANNUAL TURNOVER

In 2017, the Investment Portfolio repayments totaled $262 million with new investments during the year totaling $375 million. This turn is the key to our investment approach and demonstrates the short term bridge financing nature of the portfolio.

2018 OUTLOOK

We encourage Shareholders to read the Management Discussion and Analysis in this report and our Outlook for 2018.

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 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-serviced by larger financial institutions. The Corporation's more specific objective is to hold an Investment Portfolio that:

(i) is widely diversified across many investments;
(ii) is concentrated in first mortgages;
(iii) 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 20, 2018 and should be read in conjunction with the audited financial statements of the Corporation and the notes thereto for the years ended December 31, 2017 and 2016, along with each of the quarterly reports for 2017 and 2016.

HIGHLIGHTS

PROFIT

Income and profit (referred to herein as "Profit") for the three months ended December 31, 2017 of $6,122,600 represents approximately a 14% increase compared to $5,368,851 for the same period in the prior year. Profit for the year ended December 31, 2017 of $24,821,438 represents approximately a 17% increase compared to $21,190,613 reported for the year ended December 31, 2016.

Basic weighted average profit per share for the three months ended December 31, 2017 was $0.235, which is 1.7% lower than the $0.239 per share reported for the three months ended December 31, 2016. Basic weighted average profit per share for the year ended December 31, 2017 was $1.019, which is 4.8% higher compared to the $0.972 per share reported for the year ended December 31, 2016.

SIGNIFICANT PORTFOLIO GROWTH

The Corporation's investment portfolio (the "Investment Portfolio") as at December 31, 2017 increased by $112.8 million to approximately $561.5 million compared to $448.7 million as at December 31, 2016 (before the impairment provision of $5.7 million and $4.5 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, 2017 represents an annualized return on shareholders' equity (based on the average of the month end shareholders' equity in the quarter) of 8.58%, representing return on shareholders' equity of 705 basis points per annum over the average one year Government of Canada Treasury bill yield of 1.53%.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio totaled $555,801,977 as at December 31, 2017 (net of an impairment loss provision of $5,700,000) compared to $444,294,633 (net of an impairment loss provision of $4,460,000) as at December 31, 2016, representing an increase of approximately $111.5 million. The December 31, 2017 Investment Portfolio is comprised of 251 investments (245 as at December 31, 2016). The average gross investment size (excluding impairment loss provision) was approximately $2.2 million with 17 investments individually exceeding $7,500,000.

	December 31, 2017			December 31, 2016			
Mortgage Amount	**Number**	**Total Amount (before provision)**	**% of Portfolio**	**Number**	**Total Amount (before provision)**	**% of Portfolio**	**% Change**
$0 - $2,500,000	197	$ 169,511,967	30.2%	192	$ 164,927,050	36.8%	2.8%
$2,500,001 - $5,000,000	27	96,807,234	17.2%	36	125,766,186	28.0%	(23.0%)
$5,000,001 - $7,500,000	10	48,217,047	8.6%	6	34,014,437	7.6%	41.8%
$7,500,001 +	17	246,965,728	44.0%	11	124,046,960	27.6%	99.1%
	251	**$ 561,501,977**	**100.0%**	**245**	**$ 448,754,633**	**100.0%**	**25.1%**

Unadvanced committed funds under the existing Investment Portfolio amounted to $91,953,643 as at December 31, 2017 ($131,268,094 as at December 31, 2016). The vast majority of the Corporation's investments are shared with other syndicate partners, the advantage of which include risk diversification.

The allocation of the Investment Portfolio between the five main investment categories (as well as the weighted average interest rate) is as follows:

	December 31, 2017			December 31, 2016			
	Weighted average interest rate	Outstanding amount	Percentage outstanding	*Weighted average interest rate*	Outstanding amount	Percentage outstanding	% Change
Conventional First Mortgages	*7.78%*	$ 427,591,758	76.1%	*7.53%*	$ 336,745,396	75.1%	27%
Conventional Non-First Mortgages	*9.05%*	57,187,248	10.2%	*8.71%*	46,265,981	10.3%	24%
Related Investments	*9.73%*	69,636,557	12.4%	*8.62%*	56,734,231	12.6%	23%
Discounted Debt Investments*	-	5,392,900	1.0%	-	5,071,525	1.1%	6%
Non-Conventional Mortgages	*11.11%*	1,693,514	0.3%	*10.76%*	3,937,500	0.9%	(57%)
Total Investments **(at amortized cost)**	***8.09%***	**$ 561,501,977**	**100.0%**	***7.83%***	**$ 448,754,633**	**100.0%**	25%
Less: Impairment Provision		(5,700,000)			(4,460,000)		
Investment Portfolio		**$ 555,801,977**			**$ 444,294,633**		25%

** The yield on Discounted Debt Investments will be determined upon final repayment of the investments.*

The $112.8 million growth in the Investment Portfolio was essentially achieved by the Corporation increasing the size of its investments in the conventional first mortgage, conventional non-first mortgage, and related investments categories, offset by the decrease in investments in the non-conventional mortgages.

Conventional first mortgages increased by 27% and represented 76% of the Corporation's portfolio at December 31, 2017 compared to 75% at December 31, 2016. Conventional non-first mortgages increased by 24% and represented 10% of the Investment Portfolio at December 31, 2017 and December 31, 2016. Related investments increased by 23% and represented 12% of the Corporation's Investment Portfolio in comparison to 13% at December 31, 2016. Discounted debt investments represented 1% of the Investment Portfolio, which remained consistent from December 31, 2016. Non-conventional mortgages decreased by 57% and represented less than 1% of the Investment Portfolio at December 31, 2017 and December 31, 2016.

The weighted average face interest rate on the Corporation's Investment Portfolio was 8.09% per annum as at December 31, 2017 compared to 7.83% per annum as at December 31, 2016.

The allocation of the Investment Portfolio between its seven types of investments is as follows:

	December 31, 2017			December 31, 2016			
Property Type	**Number**	**Total Amount** (before provision)	**% of Portfolio**	**Number**	**Total Amount** (before provision)	**% of Portfolio**	**% Change**
Construction Mortgages	98	$ 172,550,850	30.7%	83	$ 139,028,716	31.0%	24.1%
Single Family	62	47,697,780	8.5%	60	41,733,220	9.3%	14.3%
Land	53	156,749,455	27.9%	59	134,905,245	30.1%	16.2%
Condo *(Including multi unit condo loans)*	12	51,686,674	9.2%	15	39,301,579	8.8%	31.5%
Multi Family Residential Mortgages	3	45,701,051	8.1%	3	15,223,878	3.4%	200.2%
Related Investments	13	69,636,557	12.4%	14	56,734,231	12.6%	22.7%
Other	10	17,479,611	3.1%	11	21,827,764	4.9%	(19.9%)
	251	**$ 561,501,977**	**100.0%**	**245**	**$ 448,754,633**	**100.0%**	**25.1%**

The Corporation continues to focus its lending into core markets that can be monitored closely during evolving economic conditions. The mortgage investment portfolio has some geographic diversification with 13% of the investments in the portfolio (excluding Related Investments) secured by properties outside of Ontario, a reduction from 18% as at December 31, 2016.

	December 31, 2017				December 31, 2016				
Geographic Segment	**Number**		**Total Amount (before provision)**	**% of Portfolio**	**Number**		**Total Amount (before provision)**	**% of Portfolio**	**% Change**
Greater Toronto Area	186	$	323,167,700	65.7%	177	$	276,764,285	70.6%	16.8%
Non-GTA Ontario	36		103,225,547	21.0%	32		45,257,712	11.5%	128.1%
Quebec	4		26,357,552	5.4%	3		19,164,055	4.9%	37.5%
Alberta	7		17,877,234	3.6%	13		32,911,862	8.4%	(45.7%)
Saskatchewan	2		12,975,036	2.6%	2		9,255,088	2.4%	40.2%
New Brunswick	1		4,250,000	0.9%	2		1,609,300	0.4%	164.1%
British Columbia	1		875,000	0.2%	1		3,500,000	0.9%	(75.0%)
Manitoba	1		3,137,350	0.6%	1		3,558,100	0.9%	(11.8%)
Portfolio *(excluding Related Investments)*	**238**	**$**	**491,865,420**	**100%**	**231**	**$**	**392,020,402**	**100%**	**25.5%**
Related Investments	13		69,636,557		14		56,734,231		
	251	**$**	**561,501,977**		**245**	**$**	**448,754,633**		

The Corporation's investment portfolio as at December 31, 2017 included participation in 7 mortgage loans on real estate located in Alberta, which is a decrease from the 13 investments held at December 31, 2016. The investment amount at December 31, 2017 totals $17.9 million, being 3.6% of the Corporation's mortgage investments, down from 8.4% at December 31, 2016. The average investment size is $2.5 million. The Corporation has intentionally reduced its investment in mortgages in Alberta.

The allocation of the Investment Portfolio between investment underlying security type, is as follows:

	December 31, 2017				December 31, 2016				
Underlying Security Type	**Number**		**Total Amount (before provision)**	**% of Portfolio**	**Number**		**Total Amount (before provision)**	**% of Portfolio**	**% Change**
Residential	221	$	435,895,456	77.6%	208	$	327,862,224	73.1%	33.0%
Commercial	17		55,969,964	10.0%	23		64,158,178	14.3%	(12.8%)
Related Investments	13		69,636,557	12.4%	14		56,734,231	12.6%	22.7%
	251	**$**	**561,501,977**	**100.0%**	**245**	**$**	**448,754,633**	**100.0%**	**25.1%**

The residential category includes mortgages on single family dwellings, residential condominiums, residential land, residential construction, and multifamily residential.

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.

The weighted average loan to value ratio on conventional mortgages (being the combined conventional first and conventional non-first mortgages) is approximately 60% based on the appraisals obtained at the time of funding each mortgage loan.

Included in related investments is one United States ("US") dollar denominated investment of $5,958,875 (US$4,750,000) (2016 - nil). The investment is a participation by the Corporation in a limited partnership that has provided preferred equity to a real estate entity in the US. Income recorded on this investment during the year was $71,267 (US$55,896) (2016 - nil) and is included in interest and fees earned.

The Corporation holds a mortgage investment totaling $4,985,500 at December 31, 2017 (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, 2016 - $4,628,000) 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 investment portfolio as at December 31, 2017 includes two investments totalling $2,361,437 with contractual interest arrears greater than 60 days past due, for which no impairment provision is in place (2016 - nil). Both investments were subsequently brought current by the borrowers.

The investment portfolio as at December 31, 2017 includes six investments totalling $28,901,947 (2016 – one investment of $756,040) with maturity dates that are past due and for which no extension or renewal was in place. As at December 31, 2017, three of the investments totalling $12,918,805 (2016 – one investment of $756,040) are considered to be impaired and are included in the Corporation's impairment provision, and the remaining three investments, totaling $15,983,142 (2016 – nil) are considered not to be impaired.

As at December 31, 2017, the Investment Portfolio continued to be heavily concentrated in short-term investments with 74% of the portfolio maturing by December 31, 2018. 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.

Principal repayments based on contractual maturity dates are as follows:

	December 31, 2017		
	Number	Total Amount (before provision)	% of Portfolio
Year ended December 31, 2018	193	$ 413,693,664	74%
2019	51	125,337,505	22%
2020	7	22,470,808	4%
	251	$ 561,501,977	100%

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, interest, and fees. As at December 31, 2017, 210 of the Corporation's 251 investments (investment amount of $500,989,958) are shared with other participants, 46 of which (investment amount of $123,424,719), the Corporation is a participant for less than 50 percent of the loan amount.

The Mortgage Banker services the entire investment in which the Corporation is a participant, on behalf of all participants and except for the case of investments with a first priority syndicate participant, the Corporation ranks equally with other members of the syndicate as to receipt of principal, interest and fees.

RESULTS OF OPERATIONS

INTEREST AND FEES

For the three months ended December 31, 2017, interest and fees earned increased by 21% to $11,333,133 compared to $9,332,738 for the three months ended December 31, 2016. Interest and fees earned for the year ended December 31, 2017 increased by 20% to $43,423,269 as compared to $36,042,890 for the year ended December 31, 2016. Interest and fees earned for the three months and year ended December 31, 2017 and December 31, 2016 are broken down as follows:

Three Months Ended	Dec. 31, 2017	%	Dec. 31, 2016	%	% Change
Interest	$ 10,741,397	95%	$ 8,702,983	93%	**23%**
Commitment & Renewal Fees	529,350	4%	456,277	5%	**16%**
Special Income	62,386	1%	173,478	2%	**(64%)**
	$ 11,333,133	**100%**	**$ 9,332,738**	**100%**	**21%**

Year Ended	Dec. 31, 2017	%	Dec. 31, 2016	%	% Change
Interest	$ 38,519,968	89%	$ 33,716,098	94%	**14%**
Commitment & Renewal Fees	1,831,202	4%	1,612,758	4%	**14%**
Special Income	3,072,099	7%	714,034	2%	**330%**
	$ 43,423,269	**100%**	**$ 36,042,890**	**100%**	**20%**

Interest income of $10,741,397 for the three months increased by 23% when compared to the same three month period in the prior year. Interest income of $38,519,968 for the year ended December 31, 2017 increased by 14% as compared to the year ended December 31, 2016. Interest income represents 95% of the Corporation's revenues for the three months ended December 31, 2017 and 89% for the year ended December 31, 2017. The increase in interest income in 2017 compared to 2016 is a result of the Corporation holding a larger investment portfolio compared to the same period in the previous year, and an increase in the weighted average portfolio interest rate.

Fee income relating to commitment and renewal fees of $529,350 for the three months ended December 31, 2017 increased by 16% compared to the same three month period in the prior year. Fee income relating to commitment and renewal fees of $1,831,202 for the year ended December 31, 2017 increased by 14% as compared to the year ended December 31, 2016. As at December

31, 2017, the Corporation had unearned commitment fee income of $1,294,556 (December 31, 2016 - $879,851). 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, 2017 was $62,386 compared to $173,478 during the same period in the previous year. Special income generated during the year ended December 31, 2017 of $3,072,099 was $2,358,065 higher than the special income earned previous year. $2,737,500 of special income was earned on one of the Corporation's non-conventional investments in 2017. Special income relates to certain fees and interest generated from a number of the Corporation's non-conventional mortgages and the timing of earning of such income is not necessarily consistent in each period. The timing of the recognition and collection of special income is difficult to predict and the collection of a particular amount is not a reflection of the future collection of such income. Non-conventional mortgage investments can attract higher loss risk due to their subordinate ranking to other mortgage charges and/or high loan-to-value ratio. Consequently, this higher risk is compensated for by a higher rate of return. The Corporation remains very selective in cautiously sourcing high yielding, non-conventional mortgages that meet the Corporation's investment criteria.

REALIZED GAIN ON DISPOSAL OF MARKETABLE SECURITIES AND DEBENTURE PORTFOLIO INVESTMENTS

During the year ended December 31, 2017, the Corporation sold part of its marketable securities investments for proceeds of $2,099,067. The Corporation realized a total gain on disposal of marketable security investments of $217,817 and this amount was reclassified from accumulated other comprehensive income to the statement of income. During the year ended December 31, 2017, the Corporation sold its entire debenture portfolio investments for proceeds of $2,221,366. The Corporation realized a total gain on disposal of debenture portfolio investments of $240,618 and this amount was reclassified from accumulated other comprehensive income to the statement of income.

CORPORATION MANAGER SPREAD INTEREST ALLOCATION

The Corporation Manager, through an interest spread arrangement, received $992,162 for the three months ended December 31, 2017 compared to $828,631 for the three months ended December 31, 2016. For the year ended December 31, 2017, the Corporation Manager received $3,639,094 as compared to $3,152,050 for the year ended December 31, 2016. The increase is generally due to the increase in the size of the Corporation's Investment Portfolio over the comparable periods.

INTEREST EXPENSE

For the three months ended December 31, 2017, interest expense increased by 34% to $3,588,973 as compared to $2,673,178 for the three months ended December 31, 2016. For the year ended December 31, 2017, interest expense increased by 24% to $13,223,349 as compared to the year ended December 31, 2016 amount of $10,628,040. Interest expense is higher in 2017 when compared to the same period in the previous year generally as a result of the Corporation having a higher balance of convertible debentures outstanding in 2017 versus 2016, an increase in loans payable interest expense resulting from an increase in loans payable, and higher interest rates. The additional indebtedness that resulted in an increase in interest expense in 2017 allowed the Corporation to hold a larger investment portfolio, which generated additional interest income when compared to 2016. The Corporation completed one public offering of convertible unsecured debentures in June 2017. Interest expense is broken down as follows:

Three Months Ended	Dec. 31, 2017	%	Dec. 31, 2016	%	% Change
Bank Interest Expense	$ 381,928	11%	$ 317,371	12%	**20%**
Loan Payable Interest Expense	671,989	19%	-		-
Debenture Interest Expense	2,535,056	70%	2,355,807	88%	**8%**
	$ 3,588,973	**100%**	**$ 2,673,178**	**100%**	**34%**

Year Ended	Dec. 31, 2017	%	Dec. 31, 2016	%	% Change
Bank Interest Expense	$ 1,372,878	10%	$ 1,313,699	12%	**5%**
Loan Payable Interest Expense	1,005,264	8%	93,280	1%	**978%**
Debenture Interest Expense	10,845,207	82%	9,221,061	87%	**18%**
	$ 13,223,349	**100%**	**$ 10,628,040**	**100%**	**24%**

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

G&A expenses increased by 4% to $240,398 for the three months ended December 31, 2017 compared to the $232,078 reported for the three months ended December 31, 2016. G&A expenses increased by 14% to $956,883 for the year ended December 31, 2017 compared to $842,187 for the year ended December 31, 2016.

IMPAIREMENT LOSS ON INVESTMENT PORTFOLIO

An impairment loss of $388,000 was recorded for three months ended December 31, 2017 compared to $230,000 for the three months ended December 31, 2016. An impairment loss of $1,240,000 was recorded for the year ended December 31, 2017 compared to $230,000 for the year ended December 31, 2016. The recording of the impairment loss is a result of the Corporation's increasing its impairment provision during the respective period.

INCOME & PROFIT ("PROFIT")

Profit for the three months ended December 31, 2017 of $6,122,600 represents approximately a 14% increase compared to $5,368,851 for the same period in the prior year. Profit for the year ended December 31, 2017 of $24,821,438 represents approximately a 17% increase compared to $21,190,613 reported for the year ended December 31, 2016.

Profit for the quarter ended December 31, 2017 represented an annualized return on shareholders' equity (based on the average of the month end shareholders' equity in the quarter) of 8.58% versus a previously reported return on shareholders' equity of 8.87% for the quarter ended December 31, 2016. This return on shareholders' equity represents 705 basis points per annum over the average one year Government of Canada Treasury bill yield of 1.53% 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 realized gain on marketable securities and the debenture portfolio reclassified to income for the quarter ended December 31, 2017 was nil (2016 - nil). The realized gain on marketable securities and the debenture portfolio reclassified to income for the year ended December 31, 2017 was $458,435 compared to nil for the year ended December 31, 2016. The fair value of marketable securities and debenture portfolio decreased by $5,495 for the quarter ended December 31, 2017 and $71,742 for the quarter ended December 31, 2017. The change in value of marketable securities and debenture portfolio was $130,362 for the year ended December 31, 2017 and $364,848 for the year ended December 31, 2016. Total comprehensive income for the three months ended December 31, 2017 was $6,117,165 compared to $5,297,109 for the three months ended December 31, 2016. Total comprehensive income for the year ended December 31, 2017 was $24,493,365 compared to $21,555,461 for the year ended December 31, 2016.

PROFIT PER SHARE

Basic weighted average profit per share for the three months ended December 31, 2017 was $0.235, which is 1.7% lower than the $0.239 per share reported for the three months ended December 31, 2016. Basic weighted average profit per share for the year ended December 31, 2017 was $1.019, which is 4.8% higher compared to the $0.972 per share reported for the year ended December 31, 2016.

Diluted weighted average profit per share for the three months ended December 31, 2017 was $0.232 which is slightly lower compared to the $0.234 per share reported for the three months ended December 31, 2016. Diluted weighted average profit per share for the year ended December 31, 2017 was $0.984 which is 3.6% higher compared to the $0.950 per share reported for the year ended December 31, 2016.

QUARTERLY FINANCIAL INFORMATION

($ in millions except per unit amounts)	Dec. 31 2017	Sep. 30 2017	Jun. 30 2017	Mar. 31 2017	Dec. 31 2016	Sep. 30 2016	Jun. 30 2016	Mar. 31 2016
Operating revenue	$ 11.33	$ 10.92	$ 9.93	$ 11.70	$ 9.33	$ 8.99	$ 8.99	$ 8.72
Interest expense	3.60	3.63	3.01	3.00	2.67	2.59	2.62	2.75
Corporation manager spread interest allocation	0.99	0.94	0.87	0.83	0.83	0.78	0.77	0.77
General & administrative expenses	0.24	0.22	0.28	0.22	0.23	0.21	0.20	0.19
Impairment loss on investment portfolio	0.39	0.23	-	0.63	0.23	-	-	-
Profit	**$ 6.11**	**$ 5.90**	**$ 5.77**	**$ 7.02**	**$ 5.37**	**$ 5.41**	**$ 5.40**	**$ 5.01**
Profit per share								
- Basic	**$0.235**	**$0.241**	**$0.238**	**$0.311**	**$0.239**	**$0.241**	**$0.246**	**$0.246**
- Diluted	**$0.232**	**$0.237**	**$0.234**	**$0.284**	**$0.234**	**$0.236**	**$0.240**	**$0.239**
Dividends per share	**$0.304**	**$0.234**	**$0.234**	**$0.234**	**$0.264**	**$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, 2017, the Corporation declared dividends totaling $7,923,428 and $24,821,438 respectively or $0.304 and $1.006 per share versus $5,933,751 and $21,190,613 or $0.264 and $0.966 per share for the three months and year ended December 31, 2016. The number of shares outstanding at December 31, 2017 was 26,064,310 compared to 22,490,489 at December 31, 2016.

Dividends for 2017 totaled $24,821,438 (2016 - $21,190,613) which is equivalent to the profit for 2017 of $24,821,438 (2016 - $21,190,613). The dividends paid for 2017 of $1.006 (2016 - $0.966) per share differ from the profit per share for 2017 of $1.019 (2016 - $0.972) as a result of the profit per share being calculated based on the weighted average number of shares outstanding during the year, while dividend on shares are paid based on the actual shares outstanding.

Year Ended	**Dec. 31, 2017**	**Dec. 31, 2016**	**Change**
Cash Flow From Operating Activities (net of cash interest paid)	$ 27,714,278	$ 22,654,466	**22%**
Profit	$ 24,821,438	$ 21,190,613	**17%**
Declared Dividends	$ 24,821,438	$ 21,190,613	**17%**
Excess Cash Flow From Operating Activities Over Declared Dividends	$ 2,892,840	$ 1,463,853	
Profit Over Declared Dividends	$ -	$ -	

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses totaled $5,226,204 as at December 31, 2017 (comprised of interest receivable of $4,715,194, fees receivable of $254,097, special income receivable of $23,077 and prepaid expenses of $233,836) compared to $4,723,191 as at December 31, 2016.

MARKETABLE SECURITIES

The Corporation holds units in publicly traded real estate investment trust. 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 $210,194 balance reported on the Corporation's balance sheet as at December 31, 2017 represents the fair value of the marketable securities comprising the portfolio (December 31, 2016 – $2,200,329). The Corporation's purchase price for the units was $175,025.

During 2017, the Corporation sold majority of its marketable securities investments. Details on the proceeds of the sale and realized gains are provided in the Realized Gain and Disposal of Marketable Securities and Debenture Portfolio Investments section earlier herein.

DEBENTURE PORTFOLIO INVESTMENT

As of December 31, 2017, the Corporation did not hold any publicly traded convertible debentures of Canadian real estate investment trusts as compared to a portfolio of $2,199,937 held as of December 31, 2016. During 2017, the Corporation sold its debenture portfolio investments. Details on the proceeds of the sale and realized gains are provided in the Realized Gain on Disposal of Marketable Securities and Debenture Portfolio Investments section earlier herein.

LOAN ON DEBENTURE PORTFOLIO INVESTMENT

The Corporation did not hold any publicly traded convertible debentures of Canadian real estate investment trusts as of December 31, 2017 (December 31, 2016 - $2,199,937). As a result, the Corporation had no loan payable against the portfolio at December 31, 2017 (December 31, 2016 - $1,295,184).

BANK INDEBTEDNESS

Bank indebtedness increased by $14,831,856 to $60,268,468 at December 31, 2017 compared to $45,436,612 at December 31, 2016. The increase in bank indebtedness is mainly a result of the utilization of funds to increase the size of the investment portfolio.

LOANS PAYABLE

As at December 31, 2017, the Corporation had loans payable of $51,662,949 (December 31, 2016 – nil). First priority charges on specific mortgage investments are granted as security for the loans payable. The loans mature on dates consistent with those of the underlying mortgages. The loans are on a non-recourse basis and bear interest at their contractual rates. The Corporation's principal balance outstanding under the mortgages for which a priority charge has been granted is $67,694,104 at December 31, 2017 (December 31, 2016 - nil).

CONVERTIBLE DEBENTURES

As at December 31, 2017, the Corporation has seven series of convertible debentures outstanding, as outlined below:

Ticker Symbol	Coupon	Issue Date	Maturity Date	Current Principal	Strike Price Per Share	Accounting Liability
FC.DB.B	5.40%	Aug. 23, 2011	Feb. 28, 2019	$ 25,738,000	$ 14.35	$ 25,445,554
FC.DB.C	5.25%	Mar. 31, 2012	Mar. 31, 2019	20,485,000	14.80	20,173,140
FC.DB.D	4.75%	Mar. 28, 2013	Mar. 31, 2020	20,000,000	15.80	19,515,688
FC.DB.E	5.30%	Apr. 17, 2015	May. 31, 2022	25,000,000	13.95	24,136,563
FC.DB.F	5.50%	Dec. 22, 2015	Dec. 31, 2022	23,000,000	14.00	21,889,426
FC.DB.G	5.20%	Dec. 21, 2016	Dec. 31, 2023	22,500,000	15.25	21,235,666
FC.DB.H	5.30%	Jun. 27, 2017	Aug. 31, 2024	26,500,000	15.25	25,068,867
Total / Average	**5.26%**			**$ 163,223,000**		**$ 157,464,904**

As at December 31, 2017, the principal balance for the outstanding convertible debentures is $163,223,000. The recorded convertible debenture liability as at December 31, 2017 is $157,464,904 compared to $162,305,989 as at December 31, 2016. The weighted average effective interest rate is 5.26% per annum (5.34% as at December 31, 2016).

On September 20, 2017, the Corporation completed an early redemption of its 5.75% convertible unsecured subordinated debentures, which were scheduled to mature on October 31, 2017. This series of convertible unsecured subordinated debentures had a conversion price of $15.90 per share. As part of the early redemption, the holders of the debentures were provided an option to convert at 95% of the weighted average market price per share for the preceding 20 trading days ending on the fifth trading day preceding the redemption date (being September 13, 2017). Of the outstanding $31,443,000 principal, $21,278,427 was converted to 1,759,944 common shares at a price of $12.09 per share and the remaining balance of $10,164,573 was repaid in cash.

OTHER LIABILITIES

Other liabilities for the Corporation include the following:

Additional Liabilities	Dec. 31, 2017	Dec. 31, 2016	% Change
Accounts Payable and Accrued Liabilities	$ 2,649,558	$ 2,101,630	**26%**
Unearned Income	1,294,556	879,851	**47%**
Shareholders Dividend Payable	3,857,518	2,428,973	**59%**
Total	**$ 7,801,632**	**$ 5,410,454**	**44%**

Accounts payable and accrued liabilities increased by 26% to $2,649,558 as at December 31, 2017 compared to $2,101,630 as at December 31, 2016. Accounts payable and accrued liabilities include interest payable of $1,924,364 and accrued liabilities of $725,194.

Unearned income relating to commitment fees generated on the Corporation's mortgage investments increased by 47% to $1,294,556 as at December 31, 2017 compared to $879,851 as at December 31, 2016. 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.

SHAREHOLDERS' EQUITY

Shareholders' equity at December 31, 2017 totaled $284,040,422 compared to $238,969,851 as at December 31, 2016. The Corporation had 26,064,310 shares issued and outstanding as at December 31, 2017 compared to 22,490,489 as at December 31, 2016. The increase in shares is attributable to an offering of shares that was completed during the first quarter of 2017, early redemption and cancellation of its outstanding 5.75% convertible unsecured subordinated debentures, shares issued under the dividend reinvestment plan and stock option plan.

On March 28, 2017, the Corporation completed an equity offering of 1,420,000 common shares at a price of $14.10 per share for gross proceeds of $20,022,000. The over-allotment option was exercised in full and the Corporation issued an additional 213,000 shares at a price of $14.10 per Share for gross proceeds of $3,003,300. The total additional shares issued was 1,633,000.

On June 27, 2017, the Corporation closed a $26,500,000 aggregate principal amount of 5.30% convertible unsecured subordinated debentures due August 31, 2024. These debentures bear interest at a rate of 5.30% per annum, payable semi-annually in arrears on the last day of February and August in each year commencing on August 31, 2017. The debentures mature on August 31, 2024 and are convertible at the holder's option into common shares of the Corporation at a conversion price of $15.25 per Share.

On September 20, 2017, the Corporation completed the early redemption and cancellation of its outstanding 5.75% convertible unsecured subordinated debentures, which were scheduled to mature on October 31, 2017. Of the outstanding $31,443,000 principal, $21,278,427 was converted to 1,759,944 common shares at a price of $12.09 per share, which equaled to 95% of the weighted average market price per share for the preceding 20 trading days ending on the fifth trading day preceding the redemption date (being September 13, 2017). The remaining balance of $10,164,573 was repaid in cash.

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.

The investment portfolio is stated at amortized cost. The impairment provision in the amount of $5,700,000 as at December 31, 2017 (2016 - $4,460,000), of which $5,300,000 represents the total amount of management's estimate of the shortfall between the investment balances plus accrued interest and the estimated recoverable amount from the security under the loans broken down as follows:

	December 31, 2017	December 31, 2016
Conventional First Mortgages	$ 3,620,866	$ 3,270,000
Conventional Non-First Mortgages	-	-
Related Investments	-	-
Discounted Debt Investments	1,180,000	1,190,000
Non-Conventional Mortgages	499,134	-
Total Specific Provision	**$ 5,300,000**	**$ 4,460,000**
ADD: Collective Provision	400,000	-
Total Provision	**$ 5,700,000**	**$ 4,460,000**

The $5,300,000 comprises a provision against principal of $4,019,134 (December 31, 2016 - $3,684,386) and interest receivable on mortgages in default of $1,280,866 (December 31, 2016 - $775,614).

The Corporation also assessed collectively for impairment to identify potential future losses, by grouping the investment portfolio with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Corporation used judgement to determine the amounts calculated. As at December 31, 2017, the Corporation carries a collective impairment loss provision balance of $400,000 (December 31, 2016 - nil).

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 $5,700,000 as at December 31, 2017 (December 31, 2016 - $4,460,000) 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 Corporation's assets.

RELATED PARTY TRANSACTIONS

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

The Corporation'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, 2017, this amount was $3,639,094 (2016 - $3,152,050). Included in accounts payable and accrued liabilities at December 31, 2017 are amounts payable to the Corporation's Manager of $341,367 (2016 - $275,563).

The total directors' fees paid for the year was $272,333 (2016 - $224,375). 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 481,768 shares in the Corporation as at December 31, 2017 (2016 - 430,946).

During the year ended December 31, 2017, two directors were awarded 70,000 options under the incentive option plan (2016 - nil).

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 $485,000 for the year ended December 31, 2017 (2016 - $420,000). 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.

Two mortgage investments totaling $1,400,000 (December 31, 2016 - three mortgage investments totaling $4,850,000) 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 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 $3,232,768 (December 31, 2016 - $961,475) from these investments during the year.

The Corporation holds a mortgage investment totaling $4,985,500 at December 31, 2017 (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, 2016 - $4,628,000). 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 that occurred after the purchase of the underlying Schedule 1 bank mortgage. The Corporation is a pari passu participant in the mortgage, having the same rights as all other participants in the loan. 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, and for this reason, the borrower is classified as a related party. The Corporation recognized interest and fees earned of nil (December 31, 2016 - nil) from this investment during the year. The impairment provision recorded on this loan was $1,180,000 as at December 31, 2017 (December 31, 2016 - $1,190,000). 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.

Aggregate compensation paid to key management personnel (including payments to related parties for their recovery of overhead costs), all consisting of short-term employee compensation, was $2,083,453 in 2017 (2016 - $1,960,779), all of which was paid by the Corporation's Manager and nil by the Corporation.

INCOME TAXES

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

CRITICAL ACCOUNTING ESTIMATES

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

The Investment Portfolio is classified as loans and receivables. Such investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage loans are measured at amortized cost using the effective interest method, less any impairment losses. The mortgage investments are assessed at each reporting date to determine whether there is objective evidence of impairment. An impairment loss in respect of the mortgage investments measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows and cash recoveries discounted at the asset's original effective interest rate. Losses are recognized in the statement of income and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or profit. Management is required to consider the estimated future cash flow recovery from the collateral securing the mortgage investments. The estimation of cash flow recovery is performed on an individual mortgage basis and is based on assumptions pertinent to each mortgage investment. Each mortgage analysis often has unique factors that are considered in determining the cash flow and realizable value of the underlying security. The estimates are based on historical experience and other assumptions that management believes are responsible and appropriate in the circumstances. Actual results may differ from these estimates. In addition, the Corporation also assessed collectively for impairment to identify potential future losses, by grouping the investment portfolio with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Corporation used judgement to determine the amounts calculated.

As December 31, 2017, the Corporation carries a collective impairment loss provision balance of $400,000 (December 31, 2016 - nil).

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, 2017 and December 31, 2016. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

CONTRACTUAL OBLIGATIONS

Contractual obligations as at December 31, 2017 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 6 years
Bank indebtedness	$ 60,268,468	$ 60,268,468	$ -	$ -
Accounts payable and accrued liabilities	2,649,558	2,649,558	-	-
Shareholder dividends payable	3,857,518	3,857,518	-	-
Loans payable	51,662,949	30,773,760	20,889,189	-
Convertible debentures	163,223,000	-	66,223,000	97,000,000
Subtotal - Liabilities	$281,661,493	$ 97,549,304	$ 87,112,189	$97,000,000
Future advances under portfolio	91,953,643	91,953,643	-	-
Liabilities and contractual obligations	$373,615,136	$189,502,947	$ 87,112,189	$97,000,000

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies is described in note 3 of the Corporation's financial statements for the year ended December 31, 2017 and year ended December 31, 2016.

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, 2017, the Corporation had not utilized its full leverage availability, being a maximum of 50% of its first mortgage investments. Unadvanced committed funds under the existing Investment Portfolio amounted to $91,953,643 as at December 31, 2017 (December 31, 2016 - $131,268,094). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments under the Investment Portfolio. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between mortgage advances and mortgage repayments. There are limitations in the availability of funds under the revolving line of credit, which is made up of a committed component and a demand component. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing investments and funding commitments.

RISKS AND UNCERTAINTIES

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

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

- *Economic conditions that would result in a significant decline in real estate values and corresponding loan losses.*

- *Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The existence of such liability can have a negative impact on the value of the underlying real property securing a mortgage. The Corporation does not own the real property securing its Investment Portfolio and thus would not attract the environmental liability that an owner would be exposed to. In rare circumstances where a mortgage is in default, the Corporation may take possession of real property and may become liable for environmental issues as a mortgagee in possession. The Corporation obtains phase 1 environmental reports for mortgages where the Mortgage Banker determines that such reports would be prudent given the nature of the underlying property.*
- *The inability to obtain borrowings and leverage, thus reducing yield enhancement.*
- *Dependence on the Corporation Manager and Mortgage Banker. The Corporation's earnings are impacted by the Mortgage Banker's ability to source and generate appropriate investments that provide sufficient yields while maintaining pre-determined risk parameters. The Corporation has also entered into long-term contracts with the Mortgage Banker and the Corporation Manager, as more particularly described in the AIF. The Corporation is exposed to adverse developments in the business and affairs of the Corporation Manager and Mortgage Banker, since the day to day activities of the Corporation are run by the Corporation Manager and since all of the Corporation's investments are originated by the Mortgage Banker.*
- *Portfolio face rate fluctuations. The interest rate earned on the Corporation's Investment Portfolio fluctuates given that (i) it continually revolves given that it is short term in nature; and (ii) the portfolio is predominately floating rate interest with floors.*
- *Interest rate risk. The Corporation's operating loan is floating rate and an increase in short term rates would increase the Corporation's cost of borrowing.*
- *No guaranteed return. There is no guarantee as to the return that an investment in Shares of the Corporation will earn.*
- *Qualification as a Mortgage Investment Corporation. Although the Corporation intends to qualify at all times as a mortgage investment corporation, no assurance can be provided in this regard. If for any reason the Corporation does not maintain its qualification as a mortgage investment corporation under the Tax Act, dividends paid by the Corporation on the Shares will cease to be deductible by the Corporation in computing its income and will no longer be deemed by the rules in the Tax Act that apply to mortgage investment corporations to have been received by shareholders as bond interest or a capital gain, as the case may be. In consequence, the rules in the Tax Act regarding the taxation of public corporations and their shareholders should apply, with the result that the combined corporate and shareholder tax may be significantly greater.*
- *Availability of investments. Our ability to make investments in accordance with our objectives and investment policies depends upon the availability of suitable investments and the general economy and marketplace. Increased competition in the lending market place in which the Corporation operates from chartered banks or other public or private lending entities may impact the availability of suitable investments and achievable investment yields for the Corporation.*
- *Limited sources of borrowing. The Canadian financial marketplace is characterized as having a limited number of financial institutions that provide credit to entities such as ours. The limited availability of sources of credit may limit our ability to obtain additional leverage, if required.*
- *Demand loan bank indebtedness. A significant component of the Corporation's bank indebtedness is in the form of a demand facility, repayment of which can be demanded by the bank at any time.*
- *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.*

- *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.*
- *Change in Legislation. There can be no assurance that certain laws applicable to the Corporation, including Canadian federal and provincial tax legislation, commodity and sales tax legislation, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation thereof, will not change in a manner that will adversely affect the Corporation or fundamentally alter the tax consequences to shareholders acquiring, holding or disposing of Shares.*
- *Currency risk. Currency risk is the risk that the fair value or future cash flows of the Corporation's foreign currency-denominated investments and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates. Consequently, the Company is subject to currency fluctuations that may impact its financial position and results of operations. The Corporation manages its currency risk on its investments by borrowing the same amount as the investment in the same currency. As a result, a change in exchange rate of the Canadian dollar against the U.S. dollar will not change the net income and comprehensive income and equity. As a result, a change in exchange rate of the Canadian dollar against the U.S. dollar will not result in a material change to the net income and comprehensive income and equity.*

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, 2017 and 2016.

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, 2017 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. 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, 2017. 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, 2017 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 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 2018, we will continue to focus on the quality and composition of the Corporation's evolving mortgage portfolio, with a focus on risk management. The Mortgage Banker is aware of the significant historical increase in real estate valuations in certain geographical and asset segments and is factoring this into its mortgage underwriting and structuring. This is a long-term view to preservation of capital held by management.

Management is focused on maintaining a strong balance sheet, which management believes to be more important than focusing on earnings per share.

The high levels of cash liquidity in the market in our view fueled aggressive lending practices by many mortgage providers. These practices include overlending and/or providing capital to real estate not worthy of receiving such capital, all for the sake of putting capital to work in the credit marketplace. We continue to seek investments that provide both an adequate return as well as the required degree of safety for our shareholders. Firm Capital has always taken a contrarian approach to investing and this will continue into 2018 and beyond. We will focus on participating in investments that might require more manpower in credit underwriting and structuring.

While cautious, management is nonetheless optimistic about the opportunities 2018 presents, as the Corporation has been investing defensively for the past many years. In addition, the 30 years of origination history of the Mortgage Banker provides it with a vast amount of transactions to look at before one is selected.

The Mortgage Banker has found that, to be successful over the long term, we need to: stick to the asset classes we know; stick to large liquid markets in this environment; ensure the portfolio of investments is very widely diversified; and lend at what we perceive to be valuation discount to market value.

MANAGEMENT'S RESPONSIBILTY 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 consolidated financial statements of Firm Capital Mortgage Investment Corporation, which comprise the consolidated balance sheets as at December 31, 2017 and 2016, the consolidated 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Firm Capital Mortgage Investment Corporation as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 20, 2018
Toronto, Canada

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION
Consolidated Balance Sheets

(in Canadian dollars)

As at		December 31, 2017		December 31, 2016
Assets				
Amounts receivable and prepaid expenses (note 4)	$	5,226,204	$	4,723,191
Marketable securities (note 5)		210,194		2,200,329
Debenture portfolio investments (note 5)		--		2,199,937
Investment portfolio (note 6)		555,801,977		444,294,633
Total assets	$	561,238,375	$	453,418,090
Liabilities				
Bank indebtedness (note 7)	$	60,268,468	$	45,436,612
Loan on debenture portfolio investments (note 5)		--		1,295,184
Accounts payable and accrued liabilities		2,649,558		2,101,630
Unearned income		1,294,556		879,851
Shareholders' dividends payable		3,857,518		2,428,973
Loans payable (note 8)		51,662,949		--
Convertible debentures (note 9)		157,464,904		162,305,989
Total liabilities	$	277,197,953	$	214,448,239
Shareholders' Equity				
Common shares (note 10)	$	281,377,245	$	236,031,386
Equity component of convertible debentures		2,780,000		2,800,000
Stock options (note 10)		93,556		95,123
Contributed surplus		76,276		1,924
Deficit		(321,826)		(321,826)
Accumulated other comprehensive income		35,171		363,244
Total shareholders' equity	$	284,040,422	$	238,969,851
Commitments (note 6)				
Contingent liabilities (note 15)				
Total liabilities and shareholders' equity	$	561,238,375	$	453,418,090

See accompanying notes to consolidated 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, 2017 and 2016

(in Canadian dollars)

		2017		2016
Interest and fees earned	$	43,423,269	$	36,042,890
Realized gains on disposal of debenture portfolio investments (note 5)		240,618		--
Realized gains on disposal of marketable securities investments (note 5)		217,817		--
		43,881,704		36,042,890
Corporation manager spread interest allocation (note 13)		3,639,094		3,152,050
Interest expense (note 14)		13,223,349		10,628,040
General and administrative expenses		956,883		842,187
Unrealized foreign exchange loss		940		--
Impairment loss on investment portfolio (note 6)		1,240,000		230,000
	$	19,060,266	$	14,852,277
Income and profit for the year	$	24,821,438	$	21,190,613
Profit per share (note 11)				
Basic		$1.019		$0.972
Diluted		$0.984		$0.950

See accompanying notes to consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Comprehensive Income

Years ended December 31, 2017 and 2016

(in Canadian dollars)

	2017	2016
Income and profit for the year	$ 24,821,438	$ 21,190,613
Other comprehensive income:		
Change in fair value of available for sale marketable securities and debenture investments (note 5)	130,362	364,848
Realized gains on disposal of marketable securities and debenture investments reclassified to income (note 5)	(458,435)	--
Total Comprehensive income for the year	$ 24,493,365	$ 21,555,461

See accompanying notes to consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Changes in Shareholder's Equity

Years ended December 31, 2017 and 2016

(in Canadian dollars)

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Surplus (Deficit)	Accumulated other comprehensive income	Shareholders' equity
Balance at January 1, 2017	$ 236,031,386	$ 2,800,000	$ 95,123	$ 1,924	($321,826)	$ 363,244	$ 238,969,851
Issuance of shares	44,303,727	-	-	-	-	-	44,303,727
Offering costs	(1,345,374)	-	-	-	-	-	(1,345,374)
Proceeds from issuance of shares from dividend reinvestment	676,082	-	-	-	-	-	676,082
Conversion and redemption of debentures	155,648	(230,000)		74,352			-
Equity component of debentures issued during the year (note 9)	-	210,000	-	-	-	-	210,000
Stock based compensation (note 10 (b))	-	-	11,030	-	-	-	11,030
Exercise of stock options (note 10 (b))	1,555,776	-	(12,597)	-	-	-	1,543,179
Change in fair value of available for sale marketable securities and debenture investments (note 5)	-	-	-	-	-	130,362	130,362
Realized gains on disposal of marketable securities and debenture investments reclassified to income (note 5)	-	-	-	-	-	(458,435)	(458,435)
Income and profit for the year	-	-	-	-	24,821,438	-	24,821,438
Dividends to shareholders	-	-	-	-	(24,821,438)	-	(24,821,438)
Balance at December 31, 2017	**$ 281,377,245**	**$ 2,780,000**	**$ 93,556**	**$ 76,276**	**(321,826)**	**$ 35,171**	**$ 284,040,422**
Shares issued and outstanding (note 10)	26,064,310						

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	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
Issuance of shares	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 (note 9)	-	316,000	-	-	-	-	316,000
Exercise of stock options (note 10 (b))	549,272	-	(4,446)	-	-	-	544,826
Forfeiture of stock options	-	-	(962)	962	-	-	-
Change in fair value of available for sale marketable securities and debenture investments (note 5)	-	-	-	-	-	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						

See accompanying notes to consolidated financial statements.

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FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Statements of Cash Flows

Years ended December 31, 2017 and 2016

(in Canadian dollars)

		2017		2016
Cash provided by (used in):				
Operating activities:				
Income and profit for the year	$	24,821,438	$	21,190,613
Adjustments for:				
Financing costs (net of implicit interest rate and deferred finance cost amortization)		11,582,725		9,252,322
Implicit interest rate in excess of coupon rate - convertible debentures (note 14)		415,179		357,767
Deferred finance cost amortization - convertible debentures (note 14)		1,225,446		1,017,951
Change in impairment loss on investment portfolio		1,240,000		230,000
Realized gains on disposal of debenture portfolio investments (note 5)		(240,618)		--
Realized gains on disposal of marketable securities investments (note 5)		(217,817)		--
Share-based compensation		11,030		--
Net change in non-cash operating items:				
Increase (decrease) in accrued interest payable		(386,246)		229,721
Decrease in amounts receivable and prepaid expenses		(503,013)		(13,950)
Increase (decrease) in accounts payable and accrued liabilities		547,928		(93,785)
Increase (decrease) in unearned income		414,705		(34,130)
Net cash flow from operating activities		38,910,757	$	32,136,509
Financing activities:				
Proceeds from issuance of shares in new offerings		23,025,300		25,367,850
Proceeds from issuance of shares from dividend reinvestment		676,082		2,139,684
Proceeds from exercise of stock options		1,543,179		544,826
Proceeds from convertible debentures issued (note 9)		26,500,000		22,500,000
Repayment of convertible debentures (note 9)		(10,164,573)		--
Debenture offering costs		(1,328,710)		(1,157,778)
Equity offering costs		(1,345,374)		(1,246,207)
Funding (repayment) of loans payable (net)		51,662,949		(7,093,535)
Repayment of loan on debenture portfolio		(1,295,184)		(124,889)
Cash interest paid (note 14)		(11,196,478)		(9,482,043)
Dividends to shareholders paid during the year (note 12)		(23,392,893)		(21,463,394)
Net cash flow from financing activities	$	54,684,298	$	9,984,514
Investing activities:				
Disposition of marketable securities		2,099,067		--
Disposition (acquisition) of debenture portfolio investments		2,221,366		(9,512)
Funding of investment portfolio		(374,838,421)		(290,942,160)
Discharging of investment portfolio		262,091,077		245,107,165
Net cash flow used in investing activities	$	(108,426,911)	$	(45,844,507)
Net increase in bank indebtedness for the year		(14,831,856)		(3,723,484)
Bank indebtedness, beginning of year		(45,436,612)		(41,713,128)
Bank indebtedness, end of year	$	(60,268,468)	$	(45,436,612)
Cash flows from operating activities include:				
Interest received	$	38,077,048	$	33,776,364
Supplementary cash flow information:				
Conversions of debenture to shares (note 9)	$	21,278,427	$	-

See accompanying notes to consolidated financial statements.

Years ended December 31, 2017 and 2016
(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 20, 2018.

(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:

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.

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 including interest and the present value 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.

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.

(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.

(e) Financial assets and liabilities:

Financial assets include the Corporation's amounts receivable and prepaid expenses, marketable securities, debenture portfolio investments, and investment portfolio. Financial liabilities include bank indebtedness, loan on debenture portfolio investments, 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. 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.

(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) Foreign currency translation:

Transaction amounts denominated in foreign currencies are translated into Canadian dollar equivalents at the rates of exchange prevailing at the time of the transactions. Carrying values of monetary assets and liabilities are translated at exchange rates prevailing at the dates of the consolidated statements of financial position. Foreign exchange gains and losses on the receipts of payments from translations are included in realized gain/loss on foreign exchange in the consolidated statements of income and comprehensive income. All unrealized foreign exchange gains and losses on monetary assets and liabilities are included in unrealized foreign exchange gain/loss in the consolidated statements of income and comprehensive income.

(k) Accounting standards implemented in 2017:

(i) Annual Improvements to IFRS (2014 - 2016) Cycle

On December 8, 2016, the IASB issued narrow-scope amendments to IFRS 12 Disclosures of Interests in Other Entities ("IFRS 12") as part of its annual improvements process. A clarification was made that IFRS 12 also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017. Upon adoption of the amendment, the Corporation's financial statements were not materially impacted.

(ii) IAS 7 Statement of Cash Flows ("IAS 7")

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows ("IAS 7") which will require specific disclosures for movements in liabilities arising from finanacing activities on the statement of cash flows. The amendments apply prospectively for annual periods beginning on or after January 1, 2017. The Corporation has adopted the amendments to comply with the requirements.

(l) Future changes in accounting policies:

Various pronouncements have been issued by the IASB or IFRS Interpretations Committee (IFRIC) that will be effective for future accounting periods. The standards that are applicable to the Corporation are summarized below.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments ("IFRS 9") replacing IAS 39, Financial Instruments Recognition and Measurements. The Corporation will adopt IFRS 9 effective January 1, 2018, the mandatory effective date. IFRS 9 must be applied retrospectively with some exceptions.

(i) Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Upon initial recognition, each financial asset will be classified as either FVTPL, amortized cost, or FVOCI. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent solely principal and interest. Otherwise it is recorded at FVTPL.

(ii) Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

The new ECL model will require an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event.

Under IFRS 9, loss allowances will be measured on either of the following bases:

• 12-month ECLs: These are ECLs that result from possible default events within the 12 months after the reporting date; and

• lifetime ECLs: These are ECLs that result from possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Corporation believes that impairment losses are likely to become more volatile for assets in the scope of the IFRS 9 impairment model.

(iii) Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognized in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

• the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

• the remaining amount of change in the fair value is presented in profit or loss.

The Corporation has not designated any financial liabilities as FVTPL and the Corporation has no current intention to do so.

(v) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs. The Corporation plans to implement the system and control changes that it believes will be necessary to capture the required data.

(vi) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below:

• The Corporation plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at January 1, 2018;

The Corporation has evaluated the impact of this standard on each of its financial instruments. Based upon the Corporation's existing financial instruments and related accounting policies at December 31, 2017, the principal areas impacted are: classification of financial assets and impairment of financial assets. As at December 31, 2017, the Corporation identified two investments of $6,518,875 which will be reclassified from amortized cost to FVTPL as these investments do not meet the 'solely for payments of principal and interest' requirement. The estimated fair value of these investments is not materially different from their amortized cost carrying value. In addition, the Corporation has estimated the adoption of new ECL model will not lead to a material change in the Corporation's shareholders' equity.

(in Canadian dollars)

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

In May 2014, the IASB issued IFRS 15 which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers. It does not apply to insurance contracts, financial instruments, or lease contracts, which fall within the scope of other IFRSs. The new standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with earlier application permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue: Barter Transaction Involving Advertising Services. The Corporation intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Corporation does not expect the new standard to have a material impact on the consolidated financial statements.

4. Amounts receivable and prepaid expenses:

The following is a breakdown of amounts receivable and prepaid expenses as at December 31, 2017 and 2016:

	2017	2016
Interest receivable	$ 4,715,194	$ 4,272,274
Prepaid expenses	233,836	151,795
Fees receivable	254,097	269,807
Special income receivable	23,077	29,315
Amounts receivable and prepaid expenses	$ 5,226,204	$ 4,723,191

5. Marketable securities and debenture portfolio investments:

The Corporation holds units in publicly traded real estate investment trusts (marketable securities), which are classified as available for sale. The fair value of the marketable securities 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 records the change in fair value in the Statements of Income. The fair value of the marketable securities at December 31, 2017 is $210,194 (2016 - $2,200,329). The fair value of the debentures portfolio at December 31, 2017 is nil (2016 - $2,199,937).

For the year ended December 31, 2017, the available for sale marketable securities and debenture investments increased in fair value by $130,362 (December 31, 2016 - an unrealized gain of $364,848) with a corresponding increase in other comprehensive income.

Total cumulative realized gain on disposal of marketable securities and debenture portfolio investments reclassified from accumulated other comprehensive income to statements of income for the year ended December 31, 2017 is $458,435 (2016 - nil).

(in Canadian dollars)

During the year, the Corporation sold its entire debenture portfolio investments for proceeds of $2,221,366 (2016 - acquisition of $9,512). The Corporation realized a total gain on disposal of debenture portfolio investments of $240,618 (2016 - nil) and this amount was reclassified from accumulated other comprehensive income to the statements of income.

During the year, the Corporation sold a portion of its marketable securities investments for proceeds of $2,099,067 (2016 - nil). The Corporation realized a total gain on disposal of marketable security investments of $217,817 (2016 - nil) and this amount was reclassified from accumulated other comprehensive income to the statements of income.

The Corporation had a margin loan against the debenture portfolio which was fully paid out in the second quarter of 2017. 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 1.5% per annum (2016 - 1% per annum).

In aggregate, the gains on disposal of the debenture portfolio and marketable securities were $458,435 for the year ended December 31, 2017 (2016 - nil).

6. Investment portfolio:

The following is a breakdown of the investment portfolio between the five main investment categories as at December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016		
	Weighted average interest rate	Outstanding amount	Percentage outstanding	*Weighted average interest rate*	Outstanding amount	Percentage outstanding
Conventional First Mortgages	*7.78%*	$ 427,591,758	76.1%	*7.53%*	$ 336,745,396	75.1%
Conventional Non-First Mortgages	*9.05%*	57,187,248	10.2%	*8.71%*	46,265,981	10.3%
Related Investments	*9.73%*	69,636,557	12.4%	*8.62%*	56,734,231	12.6%
Discounted Debt Investments*	-	5,392,900	1.0%	-	5,071,525	1.1%
Non-Conventional Mortgages	*11.11%*	1,693,514	0.3%	*10.76%*	3,937,500	0.9%
Total Investments (at amortized cost)	***8.09%***	**$ 561,501,977**	**100.0%**	***7.83%***	**$ 448,754,633**	**100.0%**
Less: Impairment Provision		(5,700,000)			(4,460,000)	
Investment Portfolio		**$ 555,801,977**			**$ 444,294,633**	

** The yield on Discounted Debt Investments will be determined upon final repayment of the investments.*

Included in related investments is one United States ("US") dollar denominated investment of $5,958,875 (US$4,750,000) (2016 - nil). The investment is a participation by the Corporation in a limited partnership that has provided preferred equity to a real estate entity in the US. Income recorded on this investment during the year is $71,267 (US$55,896) (2016 - nil) and is included in interest and fees earned.

(in Canadian dollars)

As at December 31, 2017, $67,694,104 (2016 - nil) of the mortgages within the conventional first mortgage portfolio have first priority syndicate participations (2016 - nil) (recorded on the Corporation's balance sheets as loans payable (see note 8)). The Corporation's net investment in these mortgages is $16,031,155 (2016 - nil).

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 (i) a bond, debenture, note or other evidence of indebtedness, or a share, unit or other evidence of ownership in an entity, or (ii) a loan that is not 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 is $5,700,000 as at December 31, 2017 (2016 - $4,460,000), of which $5,300,000 represents the total amount of management's estimate of the shortfall between the investment balances plus accrued interest and the estimated recoverable amount from the security under the loans. The $5,300,000 comprises a provision against principal of $4,019,134 (December 31, 2016 - $3,684,386) and accrued interest receivable on mortgages in default of $1,280,866 (December 31, 2016 - $775,614).

The Corporation also assessed collectively for impairment to identify potential future losses, by grouping the investment portfolio with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Corporation used judgement to determine the amounts calculated. As at December 31, 2017, the Corporation carries a collective impairment loss provision balance of $400,000 (December 31, 2016 - nil).

The loans comprising the investment portfolio bear interest at the weighted average rate of 8.09% per annum (2016 - 7.83% per annum) and mature between 2018 and 2020.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to $91,953,643 as at December 31, 2017 (2016 - $131,268,094).

Principal repayments based on contractual maturity dates are as follows:

2018	$ 413,693,664
2019	125,337,505
2020	22,470,808
Thereafter	-
	$ 561,501,977

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 agreements with respect to certain mortgage investments from time to time, whereby the other participating investors take the senior position and the Corporation retains a subordinated position. Under these certain participation agreements, the Corporation has retained a residual portion of the credit and/or default risk as a result of holding the subordinated interest in the mortgage and has therefore not met the de-recognition criteria described in the notes to the annual financial statements.

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

As at December 31, 2017, the carrying value of the priority participants' interests in the Corporation's investment portfolio and loans payable is $51,662,949 (2016 - nil).

The investment portfolio as at December 31, 2017 includes two investments totalling $2,361,437 with contractual interest arrears greater than 60 days past due, for which no impairment provision is in place (2016 - nil). Both investments were subsequently brought current by the borrowers.

The investment portfolio as at December 31, 2017 includes six investments totalling $28,901,947 (2016 - one investment of $756,040) with maturity dates that are past due and for which no extension or renewal was in place. As at December 31, 2017, three of the investments totalling $12,918,805 (2016 - one investment of $756,040) are considered to be impaired and are included in the Corporation's impairment provision, and the remaining three investments, totaling $15,983,142 (2016 - nil) are considered not to be impaired.

As at December 31, 2017, 210 of the Corporations' 251 investments (investment amount of $500,989,958) are shared with other participants.

The Mortgage Banker services the entire investment in which the Corporation is a participant, on behalf of all participants and except for the case of investments with a first priority syndicate participant, the Corporation ranks equally with other members of the syndicate as to receipt of principal, interest and income.

7. Bank indebtedness:

The Corporation has entered into credit arrangements, of which $60,268,468 has been drawn as at December 31, 2017 (2016 - $45,436,612). Interest on bank indebtedness is predominantly charged at a formula rate that varies with bank prime and may have a component with a fixed interest rate established based on a formula linked to bankers' acceptance rates. The credit arrangement comprises a revolving operating facililty, a component of which is a demand facility and a component of which has a committed term to September 30, 2018 (as further detailed in note 17(c)). Bank indebtedness is secured by a general security agreement. The credit agreement contains certain financial covenants that must be maintained. As at December 31, 2017 and 2016, the Corporation was in compliance with all financial covenants.

(in Canadian dollars)

8. Loans payable:

First priority charges on specific mortgage investments have been granted as security for the loans payable. The loans mature on dates consistent with those of the underlying mortgages. The loans are on a non-recourse basis to the Corporation and bear interest at a rate of 5.34% as at December 31, 2017 (2016 - nil). The Corporation's principal balance outstanding under the mortgages for which a first priority charge has been granted is $67,694,104 as at December 31, 2017 (December 31, 2016 - nil).

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

2018	30,773,760
2019	20,889,189
	$ 51,662,949

9. Convertible debentures:

Year Ended, December 31	2017	2016
Carrying value, beginning of year	$ 162,305,989	$ 139,904,049
Issued	24,961,290	21,026,222
Conversions of debentures to shares	(21,278,427)	-
Repayments upon maturity	(10,164,573)	-
Implicit interest rate in excess of coupon rate	415,179	357,767
Deferred finance cost amortization	1,225,446	1,017,951
Carrying value, end of year	$ 157,464,904	$ 162,305,989

The breakdown of the convertible debentures for the year ended December 31, 2017 presented in the above table is as follows:

Convertible debenture	Balance, beginning of year	Issued	Conversions	Implicit interest rate in excess of coupon rate	Deferred finance cost amortization	Repayments upon Redemption	Balance, end of year	Maturity date
5.75%	$ 31,243,770	-	$(21,278,427)	$ 32,423	$ 166,807	$ (10,164,573)	$ -	Oct 31, 2017
5.40%	25,177,718	-		94,378	173,458		25,445,554	Feb 28, 2019
5.25%	19,930,572	-		108,019	134,549		20,173,140	Mar 31, 2019
4.75%	19,300,141	-		63,404	152,143		19,515,688	Mar 31, 2020
5.30%	23,944,422	-		20,501	171,640		24,136,563	May 31, 2022
5.50%	21,676,254	-		46,181	166,991		21,889,426	Dec 31, 2022
5.20%	21,033,112	-		37,930	164,624		21,235,666	Dec 31, 2023
5.30%	-	24,961,290		12,343	95,234		25,068,867	Aug 31, 2024
Total	$ 162,305,989	$ 24,961,290	$(21,278,427)	$ 415,179	$ 1,225,446	$ (10,164,573)	$ 157,464,904	

Years ended December 31, 2017 and 2016

(in Canadian dollars)

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	Conversions	Implicit interest rate in excess of coupon rate	Deferred finance cost amortization	Repayments upon maturity	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	

On June 27, 2017, the Corporation completed a public offering of 26,500 5.30% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $26,500,000, less issuance costs of $1,328,710. The debentures mature on August 31, 2024 and interest is paid semi-annually on the last day of February and August of each year. 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. The debentures may not be redeemed by the Corporation prior to August 31, 2020. On or after August 31, 2020, but prior to August 31, 2022, 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 August 31, 2022 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	$ 26,290,000
Equity	210,000
Principal	$ 26,500,000

(in Canadian dollars)

On September 20, 2017, the Corporation completed an early redemption of its 5.75% convertible unsecured subordinated debentures, which were scheduled to mature on October 31, 2017. This series of convertible unsecured subordinated debentures had a conversion price of $15.90 per share. As part of the early redemption, the holders of the debentures were provided an option to convert at 95% of the weighted average market price per share for the preceding 20 trading days ending on the fifth trading day preceding the redemption date (being September 13, 2017). Of the outstanding $31,443,000 principal, $21,278,427 was converted to 1,759,944 common shares at a price of $12.09 per share and the remaining balance of $10,164,573 was repaid in cash.

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

As at December 31, 2017, debentures payable bear interest at the weighted average effective rate of 5.26% per annum (December 31, 2016 - 5.34% per annum). Notwithstanding the carrying value of the convertible debentures, the principal balance outstanding to the debenture holders is $163,223,000 as at December 31, 2017 (December 31, 2016 - $168,166,000).

(in Canadian dollars)

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, 2017:

	# of shares	Amount
Balance, beginning of year	22,490,489	$ 236,031,386
New shares issued from equity offering	1,633,000	23,025,300
New shares issued from debenture conversion (note 9)	1,759,944	21,278,427
Debenture equity conversion	-	155,648
Equity offering costs	-	(1,345,374)
Options exercised in the year	131,000	1,555,776
New shares issued during the year under Dividend Reinvestment Plan	49,877	676,082
Balance, end of year	26,064,310	$ 281,377,245

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
New shares issued from debenture conversion (note 9)	-	-
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

During the third quarter of 2017, the Corporation completed an early redemption of 5.75% convertible unsecured subordinated debentures due October 31, 2017. Of the outstanding $31,443,000 principal, $21,278,427 was converted to common shares at a price of $12.09 per share, which equaled to 95% of the weighted average market price per share for the preceding 20 trading days ending on the fifth trading day preceding the redemption date. The remaining balance of $10,164,573 was repaid in cash.

During the first quarter of 2017, the Corporation completed an equity offering of 1,420,000 common shares at a price of $14.10 per share for gross proceeds of $20,022,000. The over-allotment option was exercised in full and the Corporation issued an additional 213,000 shares at a price of $14.10 per share for gross proceeds of $3,003,300. The total shares issued were 1,633,000.

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 were 1,966,500.

(in Canadian dollars)

(b) Incentive option plan:

During the second quarter of 2017, the Corporation granted 70,000 options to directors of the Corporation at an exercise price of $13.15 per share. These options fully vested upon granting.

During the year of 2017, 131,000 options were exercised, of which 125,000 options were exercised by officers of the Corporation.

During the year of 2016, 46,250 options were exercised, of which 35,000 options were exercised by officers of the Corporation.

	# of options		Amount
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
Options issued	70,000		11,030
Options exercised	(131,000)		(12,597)
Balance at December 31, 2017	946,250	$	93,556

(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, 2017 and 2016.

Basic profit per share calculation:

		2017		**2016**
Numerator for basic profit per share:				
Net income and profit for the year	$	24,821,438	$	21,190,613
Denominator for basic profit per share:				
Weighted average shares		24,362,355		21,810,736
Basic profit per share	$	1.019	$	0.972

Years ended December 31, 2017 and 2016
(in Canadian dollars)

Diluted profit per share calculation:

	2017	2016
Numerator for diluted profit per share:		
Net income and profit for the year:	$ 24,821,438	$ 21,190,613
Interest on convertible debentures	9,334,991	7,164,273
Net profit for diluted profit per share	$ 34,156,429	$ 28,354,886
Denominator for diluted profit per share:		
Weighted average shares	24,362,355	21,810,736
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average share price	88,948	120,884
Assuming debentures are converted	10,248,953	7,922,849
Diluted weighted average shares	34,700,256	29,854,469
Diluted profit per share	$ 0.984	$ 0.950

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, 2017, the Corporation recorded dividends of $24,821,438 (2016 - $21,190,613) to its shareholders. Dividends were $1.006 per share (2016 - $0.966 per share).

13. Related party transactions and balances:

The Corporation's Manager (a company related to officers and/or directors of the Corporation) receives an allocation of interest, referred to as the Corporation Manager spread interest, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the year ended December 31, 2017, this amount was $3,639,094 (2016 - $3,152,050). Included in accounts payable and accrued liabilities at December 31, 2017 are amounts payable to the Corporation's Manager of $341,367 (2016 - $275,563).

The total directors' fees paid for the year was $272,333 (2016 - $224,375). 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 481,768 shares in the Corporation as at December 31, 2017 (2016 - 430,946).

During the year ended December 31, 2017, two directors were awarded 70,000 options under the incentive option plan (2016 - nil).

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 $485,000 for the year ended December 31, 2017 (2016 - $420,000). 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.

Two mortgage investments totaling $1,400,000 (December 31, 2016 - three mortgage investments totaling $4,850,000) 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 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 $3,232,768 (December 31, 2016 - $961,475) from these investments during the year.

The Corporation holds a mortgage investment totaling $4,985,500 at December 31, 2017 (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, 2016 - $4,628,000). 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 that occurred after the purchase of the underlying Schedule 1 bank mortgage. The Corporation is a pari passu participant in the mortgage, having the same rights as all other participants in the loan. 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, and for this reason, the borrower is classified as a related party. The Corporation recognized interest and fees earned of nil (December 31, 2016 - nil) from this investment during the year. The impairment provision recorded on this loan was $1,180,000 as at December 31, 2017 (December 31, 2016 - $1,190,000). 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 paid to key management personnel (including payments to related parties for their recovery of overhead costs), all consisting of short-term employee compensation, was $2,083,453 in 2017 (2016 - $1,960,779), all of which was paid by the Corporation's Manager and nil by the Corporation.

Years ended December 31, 2017 and 2016

(in Canadian dollars)

14. Interest expense:

	2017	2016
Bank interest expense	$ 1,372,878	$ 1,313,699
Loans payable interest expense	1,005,264	93,280
Debenture interest expense	10,845,207	9,221,061
Interest expense	$ 13,223,349	$ 10,628,040
Deferred finance cost amortization - convertible debentures	(1,225,446)	(1,017,951)
Implicit interest rate in excess of coupon rate - convertible debentures	(415,179)	(357,767)
Change in accrued interest	(386,246)	229,721
Cash interest paid	$ 11,196,478	$ 9,482,043

15. Contingent liabilities:

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

16. Fair value:

The fair values of amounts receivable and prepaid expenses, bank indebtedness, accounts payable and accrued liabilities, and 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.

(in Canadian dollars)

The tables below present the fair values of the Corporation's financial instruments as at December 31, 2017 and 2016. 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:

2017	Level 1	Level 2	Level 3	Total
Debenture portfolio investment	$ -	-	-	$ -
Marketable securities	210,194	-	-	210,194
Convertible debentures	164,306,323	-	-	164,306,323

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

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.

(in Canadian dollars)

(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.

At December 31, 2017, 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	5,226,204	-	-
Marketable securities	210,194	-	-
Investment portfolio	555,801,977	(252,771)	3,059,859
Financial liabilities:			
Bank indebtedness	60,268,468	602,685	(602,685)
Accounts payable and accrued liabilities	2,649,558	-	-
Shareholders dividend payable	3,857,518	-	-
Loans payable	51,662,949	-	-
Convertible debentures	157,464,904	-	-
Total increase		$ 349,914	$ 2,457,174

(b) Credit and operational 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.

(c) Liquidity risk:

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

Years ended December 31, 2017 and 2016

(in Canadian dollars)

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, 2017, the Corporation had not utilized its full leverage availability, being a guideline of 50% of its first mortgage investments. Unadvanced committed funds under the existing investment portfolio amounted to $91,953,643 as at December 31, 2017 (2016 - $131,268,094). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments. The Corporation has a demand revolving line of credit of $70 million and a committed revolving line of credit with its principal banker to fund the timing differences between investment advances and investment repayments. The committed line of $20 million is a committed facility with a maturity date of September 30, 2018. If the comitted line is not renewed on September 30, 2018, the terms of the facility allow for the Corporation to repay the balance owed on September 30, 2018 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, 2017 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 7 years
Bank indebtedness	$ 60,268,468	$ 60,268,468	$ -	$ -
Accounts payable and accrued liabilities	2,649,558	2,649,558	-	-
Shareholder dividend payable	3,857,518	3,857,518	-	-
Loans payable	51,662,949	30,773,760	20,889,189	-
Convertible debentures	163,223,000	-	66,223,000	97,000,000
Subtotal - Liabilities	$ 281,661,493	$ 97,549,304	$ 87,112,189	$ 97,000,000
Future advances under portfolio	91,953,643	91,953,643	-	-
Liabilities and contractual obligations	$ 373,615,136	$ 189,502,947	$ 87,112,189	$ 97,000,000

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

Interest payments on debentures (assuming the amounts remain unchanged) would be $8,579,815 for less than 1 year, $12,017,008 for 1 to 3 years and $13,066,917 for 4 to 7 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.

(in Canadian dollars)

e) Currency risk:

Currency risk is the risk that the fair value or future cash flows of the Corporation's foreign currency-denominated investments and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates. Consequently, the Company is subject to currency fluctuations that may impact its financial position and results of operations. The Corporation manages its currency risk on its investments by borrowing the same amount as the investment in the same currency. As a result, a change in exchange rate of the Canadian dollar against the U.S. dollar will not result in a material change to the net income and comprehensive income and equity.

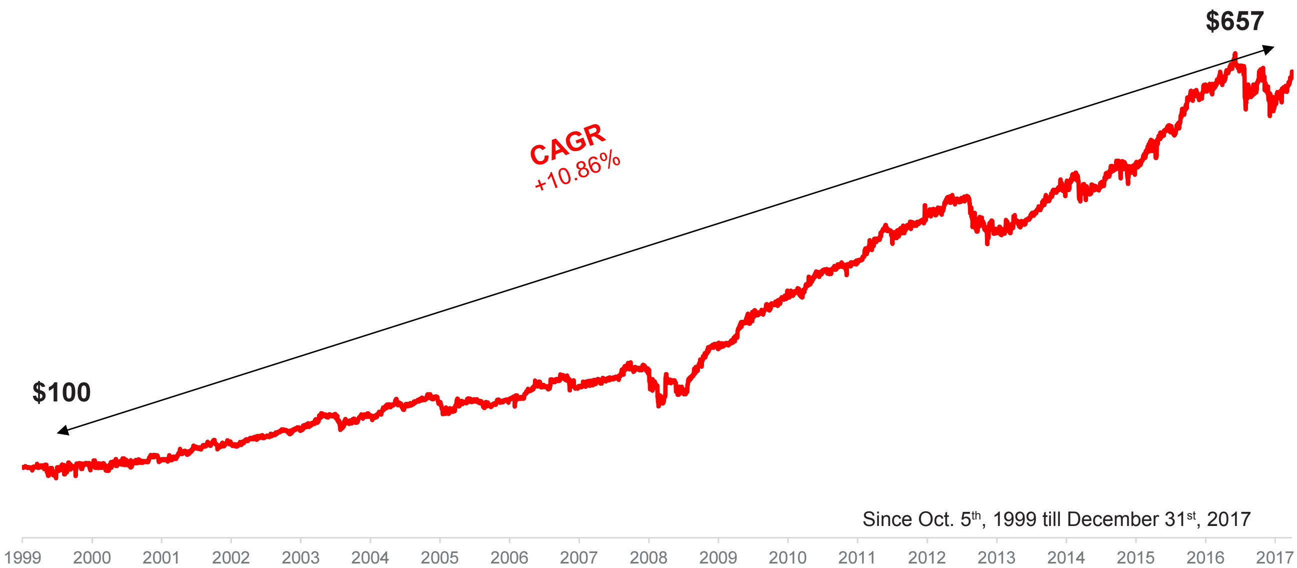
18. Supplementary information:

The following table reconciles the changes in cash flows from financing activities for loan on debenture portfolio investments, loans payable and convertible debentures:

	Loan on Debenture Portfolio Investments	Loans Payable	Convertible Debentures
Balance, beginning of the year	1,295,184	-	162,305,989
Financing cash flow activities:			
Repayment of loan on debenture portfolio	(1,295,184)	-	-
Proceeds from loans payable	-	51,662,949	-
Proceeds from convertible debentures issued	-	-	26,500,000
Debenture offering costs	-	-	(1,328,710)
Repayment of convertible debentures	-	-	(10,164,573)
Total cash flow from financing activities	(1,295,184)	51,662,949	15,006,717
Financing non-cash activities:			
Convertible debenture equity (note 9)	-	-	(210,000)
Conversion of debenture to shares (note 9 & 10)	-	-	(21,278,427)
Implicit interest rate in excess of coupon rate (note 14)	-	-	415,179
Deferred finance cost amortization (note 14)	-	-	1,225,446
Total non-cash flow financing activities	-	-	(19,847,802)
Balance, end of the year	-	51,662,949	157,464,904

Total Return Since IPO

Firm Capital
MORTGAGE INVESTMENT CORPORATION



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 $657.00 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 10.86%

DIVIDEND REINVESTMENT PLAN

Shareholders are reminded that they can participate in the Corporations 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.

MORTGAGE INVESTMENT CORPORATION

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

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

Victoria Granovski, MFin
Director, Firm Capital Mortgage
Investment Corporation

The Honourable Joe Oliver, P.C.(1)(3)
Former Minister of Finance, Minister of
Natural Resources and Member of
Parliament

The Honourable Francis (Frank)
Newbould, Q.C.(1)(3)
Former Justice at the Ontario Superior
Court of Justice

Officers & Senior Management

Eli Dadouch
President and
Chief Executive Officer

Jonathan Mair, CPA, CA (5)
Chief Operating Officer, and
Executive Vice President

Joseph Fried
Secretary

Sandy Poklar, CPA, CA (5)
Executive Vice President and
Managing Director Finance

Boris Baril, CPA, CA (5)
Chief Financial Officer

Victoria Granovski, MFin
Senior Vice President, Credit
and Equity Capital
Firm Capital Mortgage
Investment Corporation

Mortgage Banker

Firm Capital Corporation
www.firmcapital.com

Corporation Manager

FC Treasury Management Inc.

Registered Office

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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, FC.DB.B, FC.DB.C, FC.DB.D, FC.DB.E, F.DB.F FC.DB.G, FC.DB.H**

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

(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
(5) Effective April 1, 2018

Firm Capital
MORTGAGE INVESTMENT CORPORATION

REAL ESTATE FINANCING SOLUTIONS

Mortgage Banker Sample Transactions:

Land Loan **$147,000,000** **First Mortgage** 893,404 sq. ft. mixed-use building **TORONTO, ON**	**Inventory Loan** **$17,500,000** **First Mortgage** 64 condominium units **MONTREAL, QC**	**Construction Loan** **$67,100,000** **First Mortgage** Mixed-use condo project **TORONTO, ON**	**Land & Construction Loan** **$17,380,000** **First Mortgage** 38 townhome units & 5 commercial/retail units **PICKERING, ON**
Infill Construction Loan **$1,765,000** **Second Mortgage** 3,486 sq. ft. custom home **TORONTO, ON**	**Bridge Loan** **$3,200,000** **First Mortgage** 2 office buildings **WATERLOO, ON**	**Inventory Loan** **$13,250,000** **First Mortgage** 30 condominium units **TORONTO, ON**	**Mezzanine Equity Loan** **$15,400,000** **Partial Interest** 544,000 sq. ft. retail centre **VANCOUVER, B.C.**
Infill Construction Loan **$4,000,000** **First Mortgage** 4 single family custom homes **TORONTO, ON**	**Land Loan** **$24,500,000** **First Mortgage** 20 acre future residential development site **OAKVILLE, ON**	**Infill Construction Loan** **$1,575,000** **First Mortgage** 3,448 sq. ft. custom home **TORONTO, ON**	**Land Loan** **$10,675,000** **First Mortgage** Future residential development site **TORONTO, ON**

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