First Commonwealth Mortgage Trust

2013 Annual Report

TO OUR SHAREHOLDERS:

The financial statements of First Commonwealth Mortgage Trust ("FCMT") for the years ending December 31, 2013 and December 31, 2012, audited by Melton & Melton, L.L.P. are set forth at the end of this report.

Starting in 2013, FCMT is consolidating financial statements with Hillsborough River Properties, LLC ("HRP"). This consolidation is driven by FCMT's majority interest in HRP. Additional details will be given below and a full explanation is included as part of the enclosed audit report.

FCMT's consolidated revenues in 2013 were $470,444, down 28% from the previous year. The FCMT consolidated 2013 loss was $1,300,329, compared to a loss of $842,750 in 2012. Out of the consolidated loss, FCMT's share was $920,997, which equates to a per share loss of $0.62. FCMT's losses can be mainly attributed to foreclosure expenses and losses in the consolidation process.

<u>Hillsborough River Properties, LLC</u>

FCMT and other loan participants were successful in negotiating a settlement agreement with other Heights of Tampa ("HOT") lenders. The proceeds of such settlement, including approximately $1 million in cash, lots aggregating around 5 acres and other rights and contingent payments, were conveyed to an existing Florida-based entity named Hillsborough River Properties, LLC ("HRP"). FCMT holds around 57% of the outstanding units in HRP. The purpose of HRP is to maximize the recovery on the transferred assets.

A number of our assets have been non-income producing as we worked through foreclosures on loans impacted by the post 2008 economic downturn. This negatively impacted revenues and earnings.

Having now gained control over the assets, we are working towards orderly liquidations. These actions will result in our ability to return these assets to an income producing status. Since property prices are trending upward, it also gives us an opportunity to recover losses we took as we wrote down the asset carrying values in prior periods. We are seeing improved conditions in all our lending markets.

We also reached another milestone in 2013. The cumulative amount of dividends paid to a shareholder who purchased shares at $10.00 in our initial offering in 1985 is $20.17 per share.

FCMT maintains a website www.fcmt.net that contains additional information about the Trust. Shareholder reports are posted on the website along with a history of dividend payments.

Shareholders can also contact the transfer agent below to change their mailing address, reregister shares, and arrange direct deposit of their dividends:

Wells Fargo Shareowner Services
1110 Centre Pointe Curve,
Suite 101
Mendota Heights, MN 55120-4100
Phone: (800) 468-9716 Fax: (651) 450-4033,

Robert A. Scharar
President
May 07, 2014

Robert A. Burns
Treasurer

SELECTED FINANCIAL DATA
10-YEAR SUMMARY

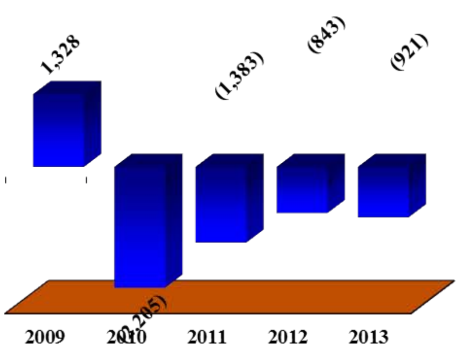
YEAR ENDED DECEMBER 31	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
REVENUES:										
INTEREST AND DIVIDENDS	$418,303	$529,550	$682,695	$ 925,327	$ 1,528,258	$ 1,391,789	$ 1,450,931	$ 1,671,581	$ 1,281,159	$ 1,451,632
SERVICE FEES & OTHER INCOME	52,141	128,647	6,254	7,929	21,607	44,402	93,252	49,152	84,429	51,612
	470,444	658,197	688,949	933,256	1,549,865	1,436,191	1,544,183	1,720,733	1,365,588	1,503,244
COST AND EXPENSES	1,391,441	1,500,947	2,071,983	3,138,197	221,852	219,378	275,175	289,445	353,734	745,674
NET INCOME	$ (920,997)	$ (842,750)	$ (1,383,034)	$ (2,204,941)	$ 1,328,014	$ 1,216,813	$ 1,269,008	$ 1,431,288	$ 1,011,854	$ 757,570

PER SHARE DATA										
NET INCOME	$ (0.62)	$ (0.57)	$ (0.93)	$ (1.48)	$ 0.89	$ 0.84	$ 0.91	$ 1.03	$ 0.73	$ 0.58
DIVIDENDS	$ 0.06	$ 0.08	$ 0.26	$ 0.50	$ 0.70	$ 0.86	$ 0.88	$ 0.88	$ 0.78	$ 0.88

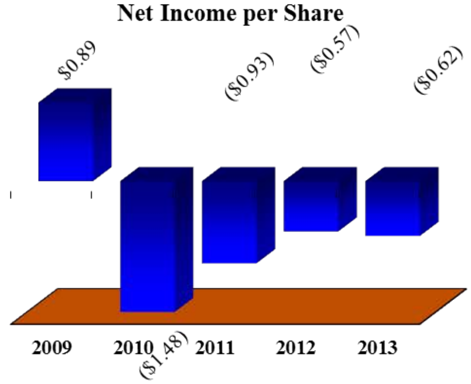
YEAR END DATA										
TOTAL ASSETS	$ 10,844,283	$ 11,105,430	$ 11,382,882	$ 11,718,581	$ 14,616,813	$ 14,294,804	$ 13,280,585	$ 13,364,650	$ 13,174,650	$ 13,398,297
SHAREHOLDERS' EQUITY	7,976,465	8,986,897	9,948,892	11,566,416	14,522,102	14,235,478	13,256,564	13,285,038	13,093,632	12,959,716
SHARES OUTSTANDING	1,490,571	1,490,571	1,490,571	1,490,571	1,490,571	1,490,571	1,391,571	1,391,571	1,391,571	1,381,571
BOOK VALUE PER SHARE	$ 5.35	$ 6.03	$ 6.67	$ 7.76	$ 9.74	$ 9.55	$ 9.53	$ 9.55	$ 9.41	$ 9.38

(1) Includes $0.087/share additional dividend paid in 2000

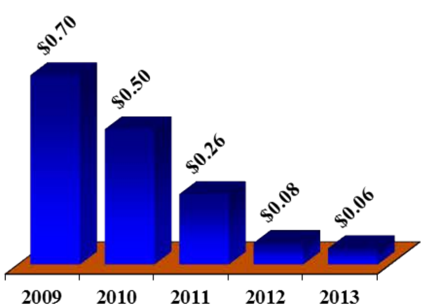
Net Income (000's)



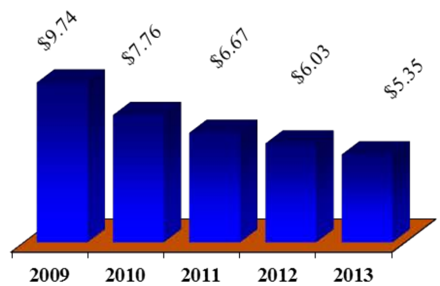
Net Income per Share



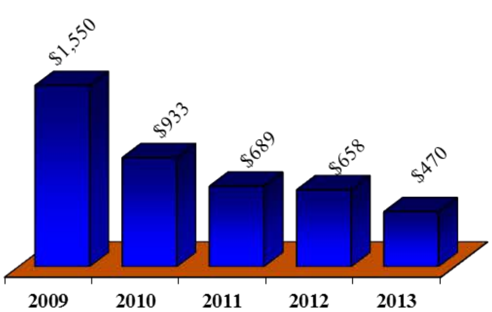
Dividends per Share



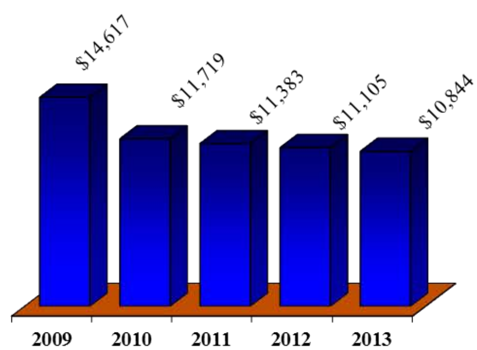
Book Value per Share



Revenues (000's)



Total Assets (000's)



FIRST COMMONWEALTH MORTGAGE TRUST
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE

YEARS ENDED DECEMBER 31, 2013 AND 2012

AND

INDEPENDENT AUDITOR'S REPORT

MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

FIRST COMMONWEALTH MORTGAGE TRUST AND SUBSIDIARY

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MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trust Managers of
First Commonwealth Mortgage Trust and Subsidiary

We have audited the accompanying consolidated financial statements of First Commonwealth Mortgage Trust and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 the auditor's 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, the auditor considers 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Commonwealth Mortgage Trust and Subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Melton & Melton, L.L.P.

Houston, Texas
May 1, 2014

6002 Rogerdale, Ste. 200 Houston, Texas 77072 Tel 281-759-1120 Fax 281-759-5500

FIRST COMMONWEALTH MORTGAGE TRUST AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2013 and 2012

ASSETS

	2013	2012
Mortgage Notes Receivable:		
Mortgage notes receivable	$ 5,210,763	$ 6,745,521
Discounts	(38,328)	(57,683)
Allowance for losses	-	(725,000)
	5,172,435	5,962,838
Cash and cash equivalents	677,143	507,219
Restricted cash and cash equivalents	2,744	1,887
Accrued interest receivable, net of allowance for losses of $0 and $491,750 at December 31, 2013 and 2012, respectively	343,971	203,601
Other receivables	110,411	492,603
Prepaid expenses	-	33,544
Land	3,880,745	3,078,040
Investments in affiliates	23,834	192,698
Other assets	633,000	633,000
	$ 10,844,283	**$ 11,105,430**

LIABILITIES AND EQUITY

	2013	2012
Liabilities:		
Accounts payable and other liabilities	$ 34,308	$ 1,680,888
Dividends payable	-	29,811
Note payable	314,586	407,834
Total liabilities	348,894	2,118,533
Equity:		
Shareholders' equity:		
Shares of beneficial interest, no par value, 20,000,000 shares authorized, 1,490,571 shares issued and outstanding	14,723,823	14,723,823
Accumulated deficit	(6,747,358)	(5,736,926)
Total shareholders' equity	7,976,465	8,986,897
Noncontrolling interest	2,518,924	-
Total equity	10,495,389	8,986,897
	$ 10,844,283	**$ 11,105,430**

(See Notes to Consolidated Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2013 and 2012

	2013	2012
Revenue:		
Interest income	$ 418,303	$ 529,550
Gain on foreclosure of mortgage note receivable	-	128,647
Gain on sale of land	19,877	-
Miscellaneous income	32,264	-
	470,444	658,197
Costs and Expenses:		
Management fees to affiliates	326,208	121,092
Professional fees	176,082	41,802
Interest expense	26,980	39,011
Impairment loss on mortgage notes receivable and accrued interest receivable	-	1,216,750
Loss on extinguishment of debt	554,135	-
Loss on foreclosure of mortgage notes receivable	414,718	-
Loss on sale of investment in affiliate	93,720	-
General and administrative	178,930	82,292
	1,770,773	1,500,947
Net loss	(1,300,329)	(842,750)
Net loss attributable to noncontrolling interest	(379,332)	-
Net loss attributable to First Commonwealth Mortgage Trust	**$ (920,997)**	**$ (842,750)**
Weighted average shares outstanding	**1,490,571**	**1,490,571**
Net loss per share, basic	**$ (0.62)**	**$ (0.57)**

(See Notes to Consolidated Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2013 and 2012

	Shares of Beneficial Interest					
	Shares Outstanding	**Amount**	**Accumulated Deficit**	**Total Shareholders' Equity**	**Noncontrolling Interest**	**Total Equity**
Balance, December 31, 2011	1,490,571	$ 14,723,823	$ (4,774,931)	$ 9,948,892	$ -	$ 9,948,892
Dividends	-	-	(119,245)	(119,245)	-	(119,245)
Net loss	-	-	(842,750)	(842,750)	-	(842,750)
Balance, December 31, 2012	1,490,571	14,723,823	(5,736,926)	8,986,897	-	8,986,897
Noncontrolling interest in the acquisition of a majority interest in Hillsborough River Properties, LLC	-	-	-	-	600,000	600,000
Proceeds from the sale of units in noncontrolling interest, less subscriptions receivable of $257,184	-	-	-	-	2,298,256	2,298,256
Dividends	-	-	(89,435)	(89,435)	-	(89,435)
Net loss	-	-	(920,997)	(920,997)	(379,332)	(1,300,329)
Balance, December 31, 2013	**1,490,571**	**$ 14,723,823**	**$ (6,747,358)**	**$ 7,976,465**	**$ 2,518,924**	**$ 10,495,389**

(See Notes to Consolidated Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Net loss	$ (1,300,329)	$ (842,750)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
(Gain) loss on foreclosure of mortgage notes receivable	414,718	(128,647)
Amortization of discounts	(19,355)	(25,426)
Loss on extinguishment of debt	554,135	-
Impairment loss on mortgage notes receivable and accrued interest receivable	-	1,216,750
Gain on sale of land	(19,877)	-
Loss on sale of investment in affiliate	93,720	-
Changes in operating assets and liabilities:		
Accrued interest receivable, net of participations	(135,562)	(105,514)
Other receivables	414,724	415,524
Prepaid expenses	33,544	(33,544)
Accounts payable and other liabilities	(27,072)	(825,255)
Total adjustments	1,308,975	513,888
Net cash provided by (used in) operating activities	8,646	(328,862)
Cash Flows from Investing Activities:		
Mortgage note originations	(160,000)	-
Principal collected on mortgage notes receivable, net of participations	354,594	313,513
Proceeds from foreclosure of mortgage notes receivable, net of participations	-	603,750
Advance to affiliate	(12,500)	-
Cash acquired from acquisition of investment in subsidiary	27,922	-
Proceeds from sale of investment in affiliate	40,500	-
Net cash provided by investing activities	250,516	917,263
Cash Flows from Financing Activities:		
Payments on note payable	(93,248)	(86,034)
Payments to affiliates	-	(28,000)
Proceeds from the sale of units in noncontrolling interest	123,256	-
Dividends paid	(119,246)	(89,434)
Net cash used in financing activities	(89,238)	(203,468)
Increase in cash and cash equivalents	169,924	384,933
Cash and Cash Equivalents, beginning of year	507,219	122,286
Cash and Cash Equivalents, end of year	**$ 677,143**	**$ 507,219**

(See Notes to Consolidated Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2013 and 2012

	2013	2012
Supplemental Information:		
Cash paid for interest	**$ 27,187**	**$ 39,467**
Non-Cash Investing and Financing Activities:		
Settlement of mortgage notes receivable:		
Asset write-off:		
Mortgage notes receivable	$ (1,450,000)	$ (7,275,000)
Participations payable	-	1,400,000
Allowance for losses	725,000	2,909,722
	(725,000)	(2,965,278)
Other liabilities due to participants for assets received	-	(1,620,865)
Assets received for settlement:		
Cash	-	603,750
Other receivables	-	400,000
Land	310,282	3,078,040
Other assets	-	633,000
	310,282	4,714,790
Gain (loss) on foreclosure of mortgage notes receivable	**$ (414,718)**	**$ 128,647**
Assets (liabilities) acquired, at fair value, in acquisition of the controlling interest in Hillsborough River Properties, LLC:		
Cash	$ 27,922	$ -
Accounts receivable	20,032	-
Land	552,546	-
Accounts payable	(500)	-
	$ 600,000	**$ -**
Sale of units in noncontrolling interest	$ 2,555,440	$ -
Less: Participation payables transferred from First Commonwealth Mortgage Trust	2,175,000	-
Subscriptions receivable	257,184	-
Cash received	**$ 123,256**	**$ -**
Issuance of mortgage note receivable on sale of investment in affiliate	**$ 34,644**	**$ -**
Issuance of mortgage note receivable on sale of land	**$ 80,000**	**$ -**
Restricted cash offset with accounts payable and accrued liabilities	**$ 2,744**	**$ 1,887**
Accrued dividends	**$ -**	**$ 29,811**

(See Notes to Consolidated Financial Statements)

FIRST COMMONWEALTH MORTGAGE TRUST AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

First Commonwealth Mortgage Trust ("FCMT") was organized on September 26, 1984 and commenced operations on June 27, 1985. FCMT is a Texas real estate investment trust with a termination date of December 31, 2030. FCMT is engaged primarily in the business of investing in loans collateralized by mortgages on real estate. These loans are principally collateralized in Texas, Florida, and Arizona.

On January 2, 2013, FCMT and mortgage participants assigned their contractual rights and benefits received in the September 13, 2012 Foreclosure Settlement Agreement ("Agreement") with Riverside Heights Holdings, LLC ("Riverside") to Hillsborough River Properties, LLC ("Hillsborough") in exchange for units in Hillsborough. Transferred rights and benefits include cash of $603,750; account receivable from Riverside of $400,000; title to land valued at $3,078,040; and other assets valued at $633,000 and cash and receivables from mortgage participants as well as the mortgage participant rights. In addition, FCMT settled debt with the mortgage participants resulting in a loss of $554,135. The settlement resulted in giving the mortgage participants additional rights in the assets transferred to Hillsborough for units. Effective January 3, 2013, FCMT became Hillsborough's managing member. Hillsborough is the development manager of the Heights of Tampa real estate in Florida. At December 31, 2013, FCMT held a 57.03% interest in Hillsborough.

FCMT and Hillsborough (together, the "Trust") report their accounts in the accompanying consolidated financial statements. FCA Corp ("FCA") is the Trust's compensated manager and is related to the Trust through common management.

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the consolidation of majority owned subsidiaries. The portion not owned by FCMT is recorded as a noncontrolling interest in equity. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

The Trust considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The Trust maintains cash balances in a bank, which at times, exceed federally insured limits. The Trust monitors the financial condition of the bank and has experienced no losses associated with this account.

Restricted Cash and Cash Equivalents

The Trust collects escrow deposits for property taxes related to property listed as collateral for one mortgage note. Included in accounts payable and other liabilities at December 31, 2013 and 2012 is $2,744 and $1,887, respectively, for deposits into the escrow account.

The balance of restricted cash and cash equivalents at December 31, 2013 and 2012 was $2,744 and $1,887, respectively.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgage Notes Receivable and Allowance for Losses

Mortgage notes receivable are carried at unpaid principal balances less allowance for losses. Management intends to hold mortgage notes receivable to maturity. Mortgage notes are principally collateralized by first mortgage loans on commercial or residential property and are due at various dates. Mortgage notes bear interest at rates ranging from 5% to 12%.

The allowance for losses is based on management's estimate of the amount required to maintain an allowance adequate to reflect the risks inherent in the mortgage note portfolio after giving consideration to existing economic conditions, loss experience in relation to outstanding mortgage notes, changes in the mortgage note portfolio, borrowers' performance in reducing mortgage note principal, adequacy of mortgage note collateral, and other relevant factors. A mortgage note is charged off against the allowance for losses when management determines the mortgage note is uncollectible. A mortgage note is placed on nonaccrual status when it becomes past due, as determined by management. Upon suspension of the accrual of interest, interest previously recognized but uncollected is reversed and charged against current income. Subsequent interest collected on the mortgage note is credited to principal if, in the opinion of management, collectibility of principal is doubtful; otherwise, the interest collected is recognized as revenue. Accrual of interest is resumed when a mortgage note is removed from nonaccrual status. Interest income is accrued based upon the principal amount outstanding. Commitment and origination fees are deferred and recognized as income using a method approximating the interest method over the life of the loan.

A mortgage note is considered impaired when it is probable that the scheduled principal or interest will not be collected. Impaired mortgage notes include mortgage notes that have been placed on nonaccrual status and are valued upon the present value of expected future cash flows discounted at the mortgage note's effective interest rate or collateral fair value, if the mortgage note is collateral dependent. If the measure of the impaired mortgage note is less than the recorded investment in the mortgage note, an impairment loss is included in the allowance for losses.

At December 31, 2012, the allowance for losses on mortgage notes receivable and accrued interest receivable was $725,000 and $491,750, respectively. Impairment loss for 2012 was $1,216,750. At December 31, 2013, and for the year then ended, there was no allowance for losses on mortgage notes receivable and accrued interest receivable and no impairment loss.

At December 31, 2012, mortgage notes receivable consist of a mortgage note for $1,450,000, which is past due ninety days or more, placed on nonaccrual status, and considered impaired. During 2013, foreclosure proceedings on this mortgage note were finalized. In conjunction with the 2013 foreclosure proceedings, the allowance for losses on the mortgage note was written off for $725,000; land of $310,282 was received; and a loss on foreclosure of mortgage notes receivable was recognized for $414,718. At December 31, 2013, there are no impaired mortgage notes. The average recorded investment in impaired loans for 2013 and 2012 is $725,000 and $3,125,000, respectively.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In 2012, foreclosure proceedings on other impaired mortgage notes totaling $5,875,000, net of participations payable of $1,400,000, were finalized. In conjunction with these foreclosure proceedings, the allowance for losses on the impaired mortgage notes was written off for $2,909,722; assets totaling $4,714,790 were received, of which $1,620,865 was allocated as a liability due the mortgage participants; and a gain on foreclosure of mortgage notes receivable was recognized for $128,647. Assets received consist of $603,750 in cash; $400,000 in other receivables; and $3,078,040 and $633,000 in land and other assets, respectively, recorded at fair value.

The change in the mortgage notes receivable allowance for losses during the years ended December 31, 2013 and 2012 is summarized as follows:

	2013	2012
Balance, beginning of year	$ 725,000	$ 2,909,722
Provision for mortgage note losses	-	725,000
Reduction for mortgage notes charged off	(725,000)	(2,909,722)
Balance, end of year	$ -	$ 725,000

The change in the accrued interest receivable allowance for losses during the years ended December 31, 2013 and 2012 is summarized as follows:

	2013	2012
Balance, beginning of year	$ 491,750	$ -
Provision for mortgage note losses	-	491,750
Reduction for mortgage notes charged off	(491,750)	-
Balance, end of year	$ -	$ 491,750

There were no commitments to lend additional funds to borrowers at December 31, 2013 or 2012.

At December 31, 2013 and 2012, three mortgage notes receivable represented approximately 56% and 53% of total mortgage notes receivable, net of participations payable, respectively. At December 31, 2012, one of the mortgage notes is on nonaccrual status. At December 31, 2013, there are no mortgage notes on nonaccrual status. Interest related to three and four mortgage notes was approximately 58% and 62% of interest income, respectively, for 2013 and 2012.

Land

Land received in foreclosure proceedings is held as investment property for future development and recorded at fair value on date of receipt. Gains or losses resulting from disposals of land are credited or charged to operations currently.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management reviews the carrying value of land for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. When required, impairment losses on land to be held and used or disposed of other than by sale are recognized based on the current fair value of the land. Land to be disposed of by sale is reported at the lower of its carrying amount or fair value less cost to sell. Management has determined that there is no impairment of land at December 31, 2013 or 2012.

Other Assets

Other assets consist of property rights granted in the Agreement (Note 1). Property rights consist of negotiations of a community development agreement to maximize the development potential of the Heights of Tampa, including the receipt of a conveyance for five lots within the development; $400,000 of infrastructure improvements to the development, financed by the City of Tampa or through tax increment revenue or financing; 50% of certain qualified expenditures, as defined in the Amended and Restated Tampa Heights Development Agreement; and 4% of the gross sales price of certain TH-TAW Building and Land Assemble properties, both conveyed and not conveyed to FCMT in foreclosure, adjusted for improvement and environmental clean-up costs. If the development is completed within ten years, FCMT will receive a first right of refusal to participate in the equity interests, up to 49%, of the entity formed to own and operate a boat marina facility of submerged lands located in close proximity to the TH-TAW Building.

The Trust reviews other assets for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. The Trust evaluates, at each balance sheet date, whether events and circumstances have occurred that indicates a possible impairment. The carrying value of other assets is considered impaired when the anticipated cumulative undiscounted cash flows of the asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the estimated fair value of other assets. The Trust has not incurred impairment losses on other assets.

Dividends Payable

Dividends payable at December 31, 2012 represent dividends declared by the Trust managers on November 14, 2012 to be paid on January 31, 2013 to shareholders of record at the close of business on January 11, 2013. There were no declared dividends in 2013 to be paid in 2014.

Net Loss per Share

Net loss per share is calculated by dividing net loss by the weighted average number of shares of beneficial interest outstanding during the year. The Trust has no items that give rise to anti-dilutive shares. Accordingly, basic and dilutive shares presented are the same.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the consolidated financial statements.

NOTE 2 - BUSINESS COMBINATION

On January 2, 2013, FCMT transferred land, other assets consisting of property rights, accounts receivable, and cash received in the Agreement to Hillsborough as well as mortgage participants rights in exchange for Hillsborough units. As a result of the transfer, Hillsborough will reimburse FCMT for reasonable attorney fees incurred in complying with obligations included in the Agreement, as identified in the Assignment of Contractual Rights between FCMT and Hillsborough. The following table summarizes the amounts of the assets and liabilities acquired, as well as the noncontrolling interest in Hillsborough before the transfer, and the consideration paid for Hillsborough units by FCMT and mortgage participants.

Assets (liabilities) of Hillsborough before the sale of units, at fair value:	
Cash	$ 27,922
Accounts receivable	20,032
Land	552,546
Accounts payable	(500)
Noncontrolling interest in Hillsborough	$ 600,000

On January 2, 2013 the following:

Consideration from FCMT and mortgage participants:	
Cash	$ 603,750
Accounts receivable	427,345
Land	3,078,040
Other assets	633,000
Mortgage participants rights, excluding rights in transferred assets	1,620,865
Cash from mortgage participants	123,256
Subscriptions receivable	257,184
	6,743,440
Units issued by Hillsborough	6,743,440
	$ -

NOTE 2 - BUSINESS COMBINATION (CONTINUED)

Cash and accounts receivable are recorded at their fair value, based on their short-term nature. Land and other assets included in consideration are based on the initial assumptions used to develop the estimates in 2012.

In 2013, as a result of transactions in the issuance of units in Hillsborough, FCMT settled with former mortgage participations resulting in a loss of $554,135. These mortgage participations were transferred to Hillsborough and used by the participants in purchasing units issued by Hillsborough. The total amount of participations used in purchasing Hillsborough units was $2,175,000. In addition to the use of participations payable, cash proceeds of $123,256 were received and Hillsborough assumed subscription receivables of $257,184.

NOTE 3 - INVESTMENTS IN AFFILIATES

The Trust participates with Holly Mortgage Trust ("Holly"), a Texas real estate investment trust, for the purpose of investing in second mortgages and equity participation mortgages. At December 31, 2013 and 2012, the Trust also owned 58,131 shares of beneficial interest in Holly, which comprised approximately 3.6% of the outstanding shares in Holly at December 31, 2013 and 2012. The investment is recorded using the cost method. The cost of this investment is $23,834 at December 31, 2013 and 2012.

At December 31, 2012, the Trust owned 168 partnership units of Global REIT, L.P. ("Global") recorded at cost of $168,864. During 2013, the units were sold to Holly for $75,144, and a loss of $93,720 was recognized in the consolidated statements of operations.

Investments with an aggregate cost of $23,834 and $192,698 at December 31, 2013 and 2012, respectively, were not evaluated for impairment because (a) the Trust did not estimate the fair value of those investments in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, *Financial Instruments*, and (b) the Trust did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments.

NOTE 4 - FAIR VALUE MEASUREMENTS

The Trust accounts for fair value in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, which clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Various inputs are used in determining the fair value of certain assets and liabilities. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, FASB ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

measurement. The three levels of the fair value hierarchy, including the types of Trust assets or liabilities that fall under each category and the valuation methodologies used to measure fair value, are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology are other than quoted market prices in active markets that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices that are in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable inputs (i.e. projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Impaired Mortgage Notes Receivable, net of Participations Payable: The fair value of impaired mortgage notes receivable is based on the estimated fair value of the underlying collateral. The value of the underlying collateral is determined by the property's county assessed values adjusted for surrounding land features, such as land assemblage, vacated alleys and streets, and river frontage; outstanding real estate taxes; and identified environmental or capital improvement issues.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The inputs and methodology used for valuing the Trust's assets and liabilities are not an indication of the risk associated with those assets. There have been no changes in the methodologies used at December 31, 2013 or 2012.

The following table sets forth by level, within the fair value hierarchy, the Trust's assets and liabilities at fair value measured on a nonrecurring basis as of December 31, 2012 (there were no fair value measurements at December 31, 2013):

Description	Level 1	Level 2	Level 3	Total
Impaired mortgage notes receivable, net of participations payable			$1,450,000	$1,450,000

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 nonrecurring measurements. The Trust's Board of Managers assesses and approves these policies and procedures. At least annually, management determines if the current valuation techniques used in fair value measurements are still appropriate and evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

NOTE 5 - NOTE PAYABLE

The Trust has a $500,000 note agreement with First National Bank & Trust Co. (the "bank"), collateralized by substantially all assets of the Trust. Principal is due on demand or in 60 monthly installments of $10,036, including interest at the bank's base rate but no less than 6%, maturing November 2016. At December 31, 2013 and 2012, $314,586 and $407,834, respectively, was outstanding under the note payable.

NOTE 6 - FEDERAL INCOME TAXES

The Trust operates in such a manner as to qualify as a "real estate investment trust" under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder. Under those sections, the Trust will not be taxed on that portion of its qualifying income distributed to shareholders so long as at least 90% of the Trust's otherwise taxable income is distributed to shareholders each year and other requirements of a qualified real estate investment trust are met. The Trust satisfied the income distribution requirements for the years ending December 31, 2013 and 2012. Management believes that all other requirements of a qualified real estate investment trust have been met.

The tax status of per-share dividend distributions declared attributable to the years presented is as follows:

	Years Ended December 31,	
	2013	2012
Ordinary income	0%	0%
Return of capital	100	100
	100%	100%

Management has evaluated the Trust's tax positions and concluded that the Trust has taken no uncertain tax positions that require adjustment to the consolidated financial statements. Tax-related interest and penalties are recorded in income tax expense in the consolidated statements of operations. The Trust incurred no tax-related interest or penalties in 2013 or 2012. The Trust is no longer subject to income tax examinations by federal and state tax authorities for years before 2010.

NOTE 7 - HILLSBOROUGH OPTIONS

Effective January 3, 2013, FCMT became the managing member of Hillsborough. As managing member, FCMT is authorized to issue options for a maximum of 2,900 units in Hillsborough for consideration determined by management, but no less than $50 per unit. The options expire on December 31, 2020 and require payment of $1,000 per unit, less consideration received on the issued options, as of the exercise date. Option holders will be admitted as non-managing members. During 2013, there were 1,200 option units granted with a weighted average grant date fair value of $91.60 per unit. Option units give the rights to the optionee to purchase units in Hillsborough. During 2013, there were no option units exercised, forfeited, or expired.

NOTE 8 - MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

Management fees to FCA were approximately $326,000 and $121,000 for the years ended December 31, 2013 and 2012, respectively. Prepaid management fees to FCA were approximately $32,000 at December 31, 2012. There were no prepaid management fees at December 31, 2013. The management fee for FCMT is based on 1.4% of the book value of its assets at the end of each prior fiscal year less accounting and certain board member fees. For 2013, the management fees for Hillsborough is $100,000 plus 1% of the gross sales proceeds of Hillsborough properties, adjusted for closing costs and $100,000 for consulting services related to the business combination (Note 2).

During 2013, the Trust entered into a 0.23% mortgage note receivable due from Holly of $34,644, which is included in mortgage notes receivable in the consolidated balance sheets. Interest income on the note amounted to $40 for 2013. During 2012, the Trust had mortgage participations totaling $7,275,000 with various affiliated business trusts that were included in the 2012 foreclosure proceedings (Note 1).

At December 31, 2013 and 2012, accounts receivable - affiliates, which are included in other receivables in the consolidated balance sheets, consists of:

	2013	2012
Global	$27,103	$27,103
Holly	12,500	-
	$39,603	$27,103

NOTE 9 - SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through May 1, 2014, the date the consolidated financial statements were available to be issued.

FIRST COMMONWEALTH MORTGAGE TRUST

BOARD OF TRUST MANAGERS

EXECUTIVE OFFICERS

Robert W. Scharar
President

Roberto P. Delgado
Vice President

Robert A. Burns
Treasurer

William B. LeVay
Secretary

All officers are employees of FCA Corp
and serve as officers of other entities.

TRANSFER AGENT

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