FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

REPORT TO SHAREHOLDERS

FIRST QUARTER 2016
MARCH 31, 2016

OUR BUSINESS

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

The Corporation's primary investment objective is the preservation of shareholders' equity, while providing shareholders with a stable stream of dividends from the Corporation's investments. The Corporation achieves its investment objectives by pursuing a strategy of investing in loans in select niche real estate markets that are under-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 May 3, 2016 and should be read in conjunction with the unaudited condensed interim financial statements of the Corporation and the notes thereto for the three months ended March 31, 2016 and 2015, the audited financial statements of the Corporation and the notes thereto for the years ended December 31, 2015 and 2014, as well as Management's Discussion and Analysis, including the section on "Risks and Uncertainties", along with each of the quarterly reports for 2015 and 2014.

HIGHLIGHTS

INCREASE IN PROFIT

Income and profit (referred to herein as "Profit") for the quarter ended March 31, 2016 increased by approximately 3% to $5,014,757 compared to $4,847,865 for the same period in the previous year.

Basic weighted average profit per share for the first quarter ended March 31, 2016 was $0.246, which is 2.5% higher than the $0.240 per share reported for the three months ended March 31, 2015.

PORTFOLIO GROWTH

The Corporation's investment portfolio (the "Investment Portfolio") as at March 31, 2016 increased by $12.4 million to approximately $415.3 million compared to $402.9 million as at December 31, 2015 (before the impairment provision of $4.23 million for both period ends).

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 March 31, 2016 represents an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 9.58%, which is 903 basis points per annum over the average one year Government of Canada Treasury bill yield of 0.55%.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio totaled $411,033,986 as at March 31, 2016 (net of an impairment loss provision of $4,230,000) compared to $398,689,638 (net of an impairment loss provision of $4,230,000) as at December 31, 2015, representing an increase of approximately $12.4 million. The March 31, 2016 Investment Portfolio is comprised of 228 investments (255 as at December 31, 2015). The average gross investment size (excluding impairment loss provision) was approximately $1.8 million with 8 investments individually exceeding $7,500,000.

Amount	Number of Investments	%	Total Amount (before provision)	%
$0 - $2,500,000	176	77.2%	$ 147,075,541	35.4%
$2,500,001 - $5,000,000	31	13.6%	118,239,932	28.5%
$5,000,001 - $7,500,000	13	5.7%	69,780,056	16.8%
$7,500,001 +	8	3.5%	80,168,457	19.3%
	228	**100%**	**$ 415,263,986**	**100%**

Unadvanced committed funds under the existing Investment Portfolio amounted to $102,475,762 as at March 31, 2016 ($113,464,052 as at December 31, 2015). Generally, investments are shared with other syndicate partners to diversify risk.

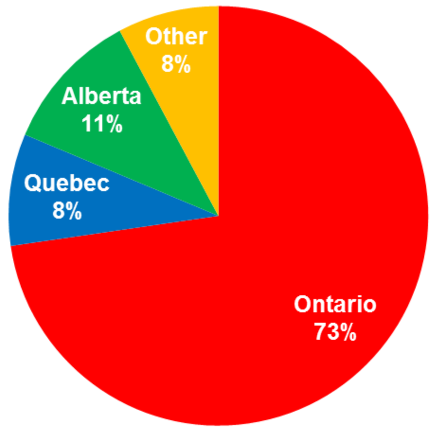
	Mar. 31, 2016		Dec. 31, 2015		% Change
Conventional First Mortgages	$ 290,846,993	70.1%	$ 283,869,955	70.5%	**2%**
Conventional Non-First Mortgages	49,418,976	11.9%	41,799,212	10.4%	**18%**
Related Investments	57,837,492	13.9%	59,422,966	14.7%	**(3%)**
Discounted Debt Investments	5,005,775	1.2%	5,022,775	1.2%	**(0%)**
Non-Conventional Mortgages	12,154,750	2.9%	12,804,730	3.2%	**(5%)**
Total Investments (at amortized cost)	**$ 415,263,986**	**100%**	**$ 402,919,638**	**100%**	**3%**
Less: Impairment Provision	(4,230,000)		(4,230,000)		**-**
Investment Portfolio	**$ 411,033,986**		**$ 398,689,638**		**3%**

The $12.4 million growth in the Investment Portfolio was achieved by the Corporation increasing the size of its investments in the conventional first mortgage and conventional non-first mortgage investment categories.

Conventional first mortgages increased by 2% and represented 70% of the Corporation's portfolio at March 31, 2016 compared to 71% at December 31, 2015. Conventional non-first mortgages increased by 18% and represented 12% of the Investment Portfolio compared to 10% at December 31, 2015. Related investments decreased by 3% and represented 14% of the Corporation's Investment Portfolio in comparison to 15% at December 31, 2015. Discounted debt investments represented 1% of the Investment Portfolio, which remained consistent as reported at December 31, 2015. Non-conventional mortgages decreased by 5% and represented 3% of the Investment Portfolio. The weighted average face interest rate on the Corporation's Investment Portfolio was 8.14% per annum as at March 31, 2016 compared to 8.19% per annum as at December 31, 2015.

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

The Corporation continues to focus its lending into core markets that can be monitored closely during evolving economic conditions. The mortgage portfolio has some geographic diversification with 27% of the investments in the portfolio secured by properties outside of Ontario.



The Corporation's investment portfolio as at March 31, 2016 included participation in 29 mortgage loans on real estate located in Alberta. The investment amount at March 31, 2016 totals $41.3 million, being 11% of the Corporations' mortgage investments, which is similar to the amount reported in the December 31, 2015 portfolio balance. The average investment size is $1.4 million. Of the 29 investments, 17 are individually less than $1 million. In the Alberta Portfolio, $39.4 million (95%) is secured on residential real estate while $1.9 million (5%) is secured on commercial real estate.

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

As at March 31, 2016, the Investment Portfolio continued to be heavily concentrated in short-term investments with 70% of the portfolio maturing by March 31, 2017. The short-term nature of the portfolio provides the Corporation with the ability to continually revolve the portfolio and adapt to changes in the real estate market.

RESULTS OF OPERATIONS

INTEREST AND FEES

For the first quarter ended March 31, 2016, interest and fees earned increased by 14% to $8,726,883 compared to $7,655,153 for the three months ended March 31, 2015. Interest and fees earned for the three months ended March 31, 2016 are broken down as follows:

Three Months Ended	**Mar. 31, 2016**	**%**	**Mar. 31, 2015**	**%**	**% Change**
Interest	$ 8,286,305	95%	$ 6,905,164	90%	**20%**
Commitment & Renewal Fees	314,242	4%	284,058	4%	**11%**
Special Income	126,336	1%	465,931	6%	**(73%)**
	$ 8,726,883	**100%**	**$ 7,655,153**	**100%**	**14%**

Interest income of $8,286,305 for the first quarter ended March 31, 2016 increased by 20% compared to the first quarter ended March 31, 2015. Interest income represents 95% of the

Corporation's revenues for the first quarter ended March 31, 2016. The year over year increase in interest income is generally a result of the Corporation holding a larger investment portfolio compared to the same period in 2015.

Recorded fee income, relating to commitment and renewal fees, for the first quarter ended March 31, 2016 increased by approximately 11% compared to the first quarter ended March 31, 2015. As at March 31, 2016, the Corporation had unearned commitment fee income of $770,287 (December 31, 2015 - $913,981). The Corporation's policy is to recognize commitment fees over the term of the related loan where such fees are individually greater than $4,000. The unrecognized component of the fees are recorded as unearned income on the Corporation's balance sheet. These fees have been received and are not refundable to borrowers.

Special income generated during the first quarter ended March 31, 2016 represented 1% of overall income earned compared to 6% during the same period in the previous year. Special income generated during the first quarter ended March 31, 2016 decreased by 73% when compared to the same period in the previous year. Special income relates to certain fees and interest generated from a number of the Corporation's non-conventional mortgages and the timing of earning of such income is not necessarily consistent in each period. The timing of the recognition and collection of special income is difficult to predict and the collection of a particular amount is not a reflection of the future collection of such income. Non-conventional mortgage investments can attract higher loss risk due to their subordinate ranking to other mortgage charges and/or high loan to value ratio. Consequently, this higher risk is compensated for by a higher rate of return. The Corporation remains very selective in cautiously sourcing high yielding, non-conventional mortgages that meet the Corporation's investment criteria.

CORPORATION MANAGER INTEREST ALLOCATION

The Corporation Manager, through an interest spread arrangement, received $773,174 for the quarter ended March 31, 2016 compared to $644,124 for the quarter ended March 31, 2015. The increase is generally due to the increase in the size of the Corporation's daily average Investment Portfolio over the comparable periods.

INTEREST EXPENSE

For the quarter ended March 31, 2016, interest expense increased by 37% to $2,752,391 compared to $2,003,679 during the three months ended March 31, 2015. Interest expense in is higher in 2016 when compared to the same period in the previous year as a result of the Corporation having a larger bank indebtedness and convertible debentures balance in 2016 versus 2015, offset by a decrease in loans payable interest expense resulting from a reduction in loans payable. The additional indebtedness that resulted in an increase in interest expense in 2016 allowed the Corporation to hold a larger investment portfolio, which generated additional interest income when compared to 2015. The Corporation completed the public offering of two convertible unsecured debentures in 2015, accounting for the increase in debenture interest expense. Interest expense is broken down as follows:

Three Months Ended	Mar. 31, 2016	%	Mar. 31, 2015	%	% Change
Bank Interest Expense	$ 396,248	14%	$ 237,655	12%	**67%**
Loans Payable Interest Expense	72,784	3%	227,964	11%	**-68%**
Debenture Interest Expense	2,283,359	83%	1,538,060	77%	**48%**
	$ 2,752,391	**100%**	**$ 2,003,679**	**100%**	**37%**

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

G&A expenses totaled $186,561 for the quarter ended March 31, 2016 compared to $159,485 for the quarter ended March 31, 2015.

INCOME & PROFIT ("PROFIT")

Profit for the quarter ended March 31, 2016 increased by 3% to $5,014,757 compared to $4,847,865 for the same period in the previous year.

Profit for the quarter ended March 31, 2016 represented an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 9.58% versus a previously reported return on shareholders' equity of 9.26% for the quarter ended March 31, 2015. This return on shareholders' equity represents 903 basis points per annum over the average one year Government of Canada Treasury bill yield of 0.55% 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 value at fair value.

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

The change in fair value of marketable securities and the debenture portfolio for the quarter ended March 31, 2016 was an increase of $219,789 compared to a decrease of $93,975 for the quarter ended March 31, 2015. Total comprehensive income for the period ended March 31, 2016 was $5,234,546 compared to $4,753,890 for the period ended March 31, 2015.

PROFIT PER SHARE

Basic weighted average profit per share for the quarter ended March 31, 2016 was $0.246, which is 2.5% higher than the $0.240 per share reported for the three months ended March 31, 2015.

QUARTERLY FINANCIAL INFORMATION

($ in millions except per unit amounts)	Mar. 31 2016	Dec. 31 2015	Sep. 30 2015	Jun. 30 2015	Mar. 31 2015	Dec. 31 2014	Sep. 30 2014	Jun. 30 2014
Operating revenue	$ 8.72	$ 9.64	$ 8.59	$ 8.12	$ 7.65	$ 7.70	$ 7.80	$ 7.52
Interest expense	2.75	2.42	2.55	2.37	2.00	1.94	2.10	1.82
Corporation manager interest allocation	0.77	0.77	0.76	0.71	0.64	0.64	0.72	0.63
General & administrative expenses	0.19	0.24	0.20	0.24	0.16	0.15	0.18	0.27
Impairment loss on investment portfolio	-	0.84	0.03	-	-	0.03	-	-
Profit	**$ 5.01**	**$ 5.37**	**$ 5.05**	**$ 4.80**	**$ 4.85**	**$ 4.94**	**$ 4.80**	**$ 4.80**
Profit per share								
- Basic	**$0.246**	**$0.265**	**$0.249**	**$0.237**	**$0.240**	**$0.245**	**$0.239**	**$0.239**
- Diluted	**$0.239**	**$0.258**	**$0.243**	**$0.231**	**$0.238**	**$0.243**	**$0.237**	**$0.237**
Dividends per share	**$0.234**	**$0.289**	**$0.234**	**$0.234**	**$0.234**	**$0.268**	**$0.234**	**$0.234**

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

DIVIDENDS

For the first quarter ended March 31, 2016, the Corporation declared dividends totaling $4,769,463 or $0.234 per share versus $4,724,328 or $0.234 per share for the quarter ended March 31, 2015. The per share amount of dividends did not change when compared to the same period in the previous year, however the quantum of dividends is higher as a result of an increase in the number of shares outstanding. The number of shares outstanding at March 31, 2016 was 20,394,564 compared to 20,243,034 at March 31, 2015.

Three Months Ended	**Mar. 31, 2016**	**Mar. 31, 2015**	**Change**
Cash Flow From Operating Activities (net of financing costs)	$ 5,577,201	$ 4,233,720	**32%**
Profit	$ 5,014,757	$ 4,847,865	**3%**
Declared Dividends	$ 4,769,463	$ 4,724,328	**1%**
Excess (Deficit) Cash Flow From Operating Activities Over Declared Dividends	$ 807,738	$ (490,608)	
Excess Profit Over Declared Dividends	$ 245,294	$ 123,537	

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses totaled $4,323,743 as at March 31, 2016 (comprised of interest receivable of $4,047,253, fees receivable of $20,169, special income receivable of $59,594, and prepaid expenses of $196,727) compared to $4,709,241 as at December 31, 2015.

MARKETABLE SECURITIES

The Corporation holds publicly traded units of two Canadian real estate investment trusts. The units were acquired through the exercise of warrants that were granted by the issuers as part of a loan facility in which the Corporation was a participant. The units generate distributions that are consistent with the Corporation's overall yield objective. The $2,097,634 balance reported on the Corporation's balance sheet as at March 31, 2016 represents the fair value of the marketable securities comprising the portfolio (December 31, 2015 – $1,949,106). The Corporation's purchase price for the units was $2,056,275. The approximate average interest yield on the cost of these investments is 8.5% per annum.

DEBENTURE PORTFOLIO INVESTMENT

The Corporation holds a small portfolio of publicly traded convertible debentures of Canadian real estate investment trusts. These investments, when purchased at the appropriate purchase price, generate interest income and yields that are consistent with the Corporation's overall yield objective. The $2,157,573 balance reported on the Corporation's balance sheet at March 31, 2016 (December 31, 2015 - $2,076,800) represents the fair value of the convertible debentures comprising the portfolio. The average yield to maturity on these investments is approximately 10%. The Corporation's purchase price for the debenture portfolio was $1,980,747.

LOAN ON DEBENTURE PORTFOLIO INVESTMENT

The Corporation holds a small portfolio of publicly traded convertible debentures of Canadian real estate investment trusts within its debenture portfolio investment. As a result of the very attractive leverage available on the portfolio from an interest rate stand point, the Corporation has a loan payable against the portfolio in the amount of $1,351,863 as at March 31, 2016 (December 31, 2015 - $1,420,073). The loan essentially represents a margin loan against the debenture portfolio at a current interest rate of 1% per annum and is open for repayment at any time.

BANK INDEBTEDNESS

Bank indebtedness increased by approximately $12.7 million to $54,443,483 compared to $41,713,128 at December 31, 2015. Funds obtained from the increase in bank indebtedness were used to increase the size of the investment portfolio.

LOANS PAYABLE

Loans payable, which are borrowings matched to specific mortgages at fixed interest rates, decreased to $6,057,539 as at March 31, 2016 compared to $7,093,535 as at December 31, 2015 and are secured by a first priority charge on specific mortgage investments. The loans payable have maturity dates matching those of the underlying mortgages. The loans are on a non-recourse basis and are asset specific, such that the Corporation will not be liable for any deficiency sustained by the lender on any specific loan.

CONVERTIBLE DEBENTURES

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

Ticker Symbol	Coupon	Issue Date	Maturity Date	Principal at Issue Date	Current Principal	Strike Price Per Share	Accounting Liability
FC.DB.A	5.75%	Oct. 13, 2010	Oct. 31, 2017	$ 31,443,000	$ 31,443,000	$ 15.90	$ 31,056,670
FC.DB.B	5.40%	Aug. 23, 2011	Feb. 28, 2019	25,738,000	25,738,000	$ 14.35	24,979,728
FC.DB.C	5.25%	Mar. 31, 2012	Mar. 31, 2019	20,485,000	20,485,000	$ 14.80	19,752,195
FC.DB.D	4.75%	Mar. 28, 2013	Mar. 31, 2020	20,000,000	20,000,000	$ 15.80	19,140,031
FC.DB.E	5.30%	Apr. 17, 2015	May. 31, 2022	25,000,000	25,000,000	$ 13.95	23,787,961
FC.DB.F	5.50%	Dec. 23, 2015	Dec. 31, 2022	23,000,000	23,000,000	$ 14.00	21,517,500
Total / Average	**5.36%**			**$ 145,666,000**	**$145,666,000**		**$ 140,234,085**

As at March 31, 2016, the current principal balance for the outstanding convertible debentures is $145,666,000. The recorded convertible debenture liability as at March 31, 2016 is $140,234,085 compared to $139,904,049 as at December 31, 2015. The weighted average effective interest rate is 5.36% per annum (5.36% as at December 31, 2015).

OTHER LIABILITIES

Other liabilities for the Corporation include the following:

Additional Liabilities	**Mar. 31, 2016**	**Dec. 31, 2015**	**% Change**
Accounts Payable and Accrued Liabilities	$ 2,228,542	$ 2,195,415	**2%**
Unearned Income	770,287	913,981	**(16%)**
Shareholders Dividend Payable	1,590,776	2,701,754	**(41%)**
Total	**$ 4,589,605**	**$ 5,811,150**	**(21%)**

Accounts payable and accrued liabilities increased by 2% to $2,228,542 as at March 31, 2016 compared to $2,195,415 as at December 31, 2015. Accounts payable and accrued liabilities include interest payable of $1,680,956 and accrued liabilities of $547,586.

Unearned income relating to commitment fees generated on the Corporation's mortgage investments decreased by 16% to $770,287 as at March 31, 2016 compared to $913,981 as at December 31, 2015. The Corporation's policy is to recognize commitment fees over the term of the related loan where such fees are individually greater than $4,000. The unrecognized component of the fees is recorded as unearned income on the Corporation's balance sheet.

SHAREHOLDERS' EQUITY

Shareholders' equity at March 31, 2016 totaled $212,936,361 compared to $211,482,850 as at December 31, 2015. The Corporation had 20,394,564 shares issued and outstanding as at March 31, 2016 compared to 20,313,943 as at December 31, 2015. The increase in shares is attributable to shares issued under the dividend reinvestment plan and stock option plan.

IMPAIRMENT LOSS

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

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

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

RELATED PARTY TRANSACTIONS

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

The Corporation Manager (a company related to officers and/or directors of the Corporation) receives an allocation of interest, referred to as Corporation Manager spread interest, calculated as 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the quarter ended March 31, 2016, the amount was $773,174 (March 31, 2015 - $644,124). Included in accounts payable and accrued liabilities of the Corporation at March 31, 2016 are amounts payable to the Corporation Manager of $266,845 (December 31, 2015 - $253,538).

The total directors' fees expensed for the quarter ended March 31, 2016 was $45,750 (March 31, 2015 - $40,875). Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation Manager.

The Mortgage Banker (a company related to officers and/or directors of the Corporation) receives certain fees directly from borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all the commitment and renewal fees generated from the Corporation's investments; and 25% of all the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income of the Corporation is net of the loan servicing fees paid to the Mortgage Banker of approximately $103,000 for the three months ended March 31, 2016 (March 31, 2015 - $86,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments.

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

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

A mortgage investment totaling $5,250,000 (December 31, 2015 - $5,250,000) was issued to a borrower controlled by an independent director of the Corporation. The investment was made by way of a participation in a direct loan to the entity controlled by the director. The investment is dealt with in accordance with the Corporation's existing investment and operating policies and is personally guaranteed by the director.

A mortgage investment totaling $1,082,657 (December 31, 2015 - $1,082,657) was issued to a borrower controlled by the same independent director set out above. The investment represents a participation in a first mortgage loan assumed by the entity controlled by the director. The director became involved in the borrower entity by virtue of his position as a second mortgage lender to the borrower that fell into default. The Corporation maintains an impairment provision against this mortgage investment of $200,000 at March 31, 2016 (December 31, 2015 - $200,000).

The Corporation also holds a mortgage investment totaling $4,303,000 at March 31, 2016 (classified as Discounted debt investment) that originated from the purchase of a mortgage loan from a schedule 1 bank at a discount to its original principal balance (December 31, 2015 - $4,303,000). The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that occurred after the purchase of the underlying Schedule 1 bank mortgage. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation. The Corporation maintains an impairment provision against this mortgage investment of $1,850,000 at March 31, 2016 (December 31, 2015 - $1,850,000). Any recoveries under the investment resulting from the sale of the secured real estate will be treated in the same fashion as that for all non-conventional mortgage investments held by the Corporation.

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

INCOME TAXES

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

CRITICAL ACCOUNTING ESTIMATES

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

The Investment Portfolio is classified as loans and receivables. Such investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage loans are measured at amortized cost using the effective interest method, less any impairment losses. The mortgage investments are assessed at each reporting date to determine whether there is objective evidence of impairment. An impairment loss in respect of the mortgage investments measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows and cash recoveries discounted at the asset's original effective interest rate. Losses are recognized in the statement of income and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or profit. Management is required to consider the estimated future cash flow recovery from the collateral securing the mortgage investments. The estimation of cash flow recovery is performed on an individual mortgage basis and is based on assumptions pertinent to each mortgage investment. Each mortgage analysis often has unique factors that are considered in determining the cash flow and realizable value of the underlying security. The estimates are based on historical experience and other assumptions that management believes are responsible and appropriate in the circumstances. Actual results may differ from these estimates.

FINANCIAL INSTRUMENTS

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

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

The fair values of loans payable approximate their carrying values due to the fact that the majority of the loans are: (i) repayable in full, at any time, upon the borrower under the underlying loan that secures the loan payable repaying their loan without penalty; and (ii) have floating interest rates linked to bank prime interest rate.

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

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

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

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

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

CONTRACTUAL OBLIGATIONS

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

	Total	Less than 1 year	1-3 years	4 - 6 years
Bank indebtedness	$ 54,443,483	$ 54,443,483	$ -	$ -
Accounts payable and accrued liabilities	2,228,542	2,228,542	-	-
Loan on debenture portfolio investment	1,351,863	1,420,073	-	-
Shareholder dividend payable	1,590,776	1,590,776	-	-
Loans payable	6,057,539	6,057,539	-	-
Convertible debentures	145,666,000	-	77,666,000	68,000,000
Subtotal - Liabilities	$ 211,338,203	$ 65,740,413	$ 77,666,000	$ 68,000,000
Future advances under portfolio	102,475,762	102,475,762	-	-
Liabilities and contractual obligations	$ 313,813,965	$ 168,216,175	$ 77,666,000	$ 68,000,000

SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies is described in note 3 of the Corporation's financial statements for the three months ended March 31, 2016 and year ended December 31, 2015.

LIQUIDITY AND CAPITAL RESOURCES

As a result of the Corporation's intent to qualify as a mortgage investment corporation, the Corporation intends to distribute no less than 100% of the taxable income of the Corporation, determined in accordance with the Income Tax Act (Canada), to its shareholders. The result is that growth in the Investment Portfolio can only be achieved through the raising of additional equity, issuing debt, and utilizing available borrowing capacity. As at March 31, 2016, the Corporation had not utilized its full leverage availability, being a maximum of 60% of its first mortgage investments. Unadvanced committed funds under the existing Investment Portfolio amounted to $102,475,762 as at March 31, 2016 (December 31, 2015 - $113,464,052). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments under the Investment Portfolio. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between mortgage advances and mortgage repayments. There are limitations in the availability of funds under the revolving line of credit, which is made up of a committed component and a demand component. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing investments and funding commitments.

RISKS AND UNCERTAINTIES

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

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

- *Economic conditions that would result in a significant decline in real estate values and corresponding loan losses.*
- *Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The existence of such liability can have a negative impact on the value of the underlying real property securing a mortgage. The Corporation does not own the real property securing its Investment Portfolio and thus would not attract the environmental liability that an owner would be exposed to. In rare circumstances where a mortgage is in default, the Corporation may take possession of real property and may become liable for environmental issues as a mortgagee in possession. The Corporation obtains phase 1 environmental reports for mortgages where the Mortgage Banker determines that such reports would be prudent given the nature of the underlying property.*
- *The inability to obtain borrowings and leverage, thus reducing yield enhancement.*
- *Dependence on the Corporation Manager and Mortgage Banker. The Corporation's earnings are impacted by the Mortgage Banker's ability to source and generate appropriate investments that provide sufficient yields while maintaining pre-determined risk parameters. The Corporation has also entered into long-term contracts with the Mortgage Banker and the Corporation Manager, as more particularly described in the AIF. The Corporation is exposed to adverse developments in the business and affairs of the Corporation Manager and Mortgage Banker, since the day to day activities of the Corporation are run by the Corporation Manager and since all of the Corporation's investments are originated by the Mortgage Banker.*
- *Portfolio face rate fluctuations. The interest rate earned on the Corporation's Investment Portfolio fluctuates given that (i) it continually revolves given that it is short term in nature; and (ii) the portfolio is predominately floating rate interest with floors.*
- *Interest rate risk. The Corporation's operating loan is floating rate and an increase in short term rates would increase the Corporation's cost of borrowing.*
- *No guaranteed return. There is no guarantee as to the return that an investment in Shares of the Corporation will earn.*
- *Qualification as a Mortgage Investment Corporation. Although the Corporation intends to qualify at all times as a mortgage investment corporation, no assurance can be provided in this regard. If for any reason the Corporation does not maintain its qualification as a mortgage investment corporation under the Tax Act, dividends paid by the Corporation on the Shares will cease to be deductible by the*

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

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

SUBSEQUENT EVENT

On April 19, 2016, the Corporation completed an offering of 1,710,000 common shares at a price of $12.90 per share for gross proceeds of approximately $22.1 million. On April 26, 2016, an additional 256,500 common shares were issued at a price of $12.90 per share, under the over-allotment option relating to the offering for an additional gross proceeds of approximately $3.3 million.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

CONTROLS AND PROCEDURES

The Corporation maintains appropriate information systems, procedures, and controls to ensure that information disclosed externally is complete, reliable, and timely. The Corporation's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operating effectiveness of the Corporation’s disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings) as at December 31, 2015 and March 31, 2016 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

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

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

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

FORWARD LOOKING INFORMATION

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

For the balance of 2016, we anticipate the Corporation will continue to exceed its stated objective of generating a return on its equity of 400 basis points over the average one year Government of Canada Treasury bill yields. We expect to continue to adjust the makeup of our investment portfolio as it revolves, taking into account the evolving market conditions and niches we source that provides the security and pricing on an efficient risk reward basis.

As each current investment is monetized, we will redeploy the capital into new investments, taking a cautious approach. We feel the attention given to our new investments will help mitigate the impact of changing market conditions. We will continue to pay very close attention to a number of factors, including the Alberta real estate market and the Canadian housing market in general, and will not invest in mortgages secured by illiquid and non-marketable properties. We will remain focused on bridge financing opportunities versus longer term debt investments, as we have proven we can manage that portfolio mix more effectively in uncertain markets.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

The accompanying unaudited condensed interim financial statements of Firm Capital Mortgage Investment Corporation for the three months ended March 31, 2016 have been prepared by and are the responsibility of management. These unaudited interim condensed financial statements, together with the accompanying notes, have been reviewed and approved by members of Firm Capital Mortgage Investment Corporation's audit committee. In accordance with National Instrument 51 - 102, Firm Capital Mortgage Investment Corporation discloses that these unaudited interim condensed financial statements have not been reviewed by Firm Capital Mortgage Investment Corporation's auditors.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Condensed Interim Balance Sheets

(in Canadian dollars)

As at	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Amounts receivable and prepaid expenses (note 4)	$ 4,323,743	$ 4,709,241
Marketable securities (note 5)	2,097,634	1,949,106
Debenture portfolio investment (note 5)	2,157,573	2,076,800
Investment portfolio (note 6)	411,033,986	398,689,638
Total assets	$ 419,612,936	$ 407,424,785
Liabilities		
Bank indebtedness (note 7)	$ 54,443,483	$ 41,713,128
Loan on debenture portfolio investment	1,351,863	1,420,073
Accounts payable and accrued liabilities	2,228,542	2,195,415
Unearned income	770,287	913,981
Shareholders dividends payable	1,590,776	2,701,754
Loans payable (note 8)	6,057,539	7,093,535
Convertible debentures (note 9)	140,234,085	139,904,049
Total liabilities	$ 206,676,575	$ 195,941,935
Shareholders' Equity		
Common shares	210,212,580	209,220,787
Equity component convertible debentures	2,484,000	2,484,000
Stock options	97,166	100,531
Contributed surplus	962	962
Deficit	(76,532)	(321,826)
Accumulated other comprehensive income (loss)	218,185	(1,604)
Total shareholders' equity	$ 212,936,361	$ 211,482,850
Commitments (note 6)		
Contingent liabilities (note 15)		
Total liabilities and shareholders' equity	$ 419,612,936	$ 407,424,785

See accompanying notes to unaudited condensed interim financial statements.

On behalf of the Directors:

ELI DADOUCH
Director

JONATHAN MAIR
Director

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Unaudited Condensed Interim Statements of Income

(in Canadian dollars)

	Three Months Ended	
	March 31, 2016	March 31, 2015
Interest and fees earned	$ 8,726,883	$ 7,655,153
	8,726,883	7,655,153
Corporation manager interest allocation (note 13)	773,174	644,124
Interest expense (note 14)	2,752,391	2,003,679
General and administrative expenses	186,561	159,485
	$ 3,712,126	$ 2,807,288
Income and profit for the period	$ 5,014,757	$ 4,847,865
Profit per share (note 11)		
Basic	$0.246	$0.240
Diluted	$0.239	$0.238

See accompanying notes to unaudited condensed interim financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Unaudited Condensed Interim Statements of Comprehensive Income

(in Canadian dollars)

	Three Months Ended	
	March 31, 2016	March 31, 2015
Income and profit for the period	$ 5,014,757	$ 4,847,865
Other comprehensive income:		
Unrealized gain (loss) on marketable securities and debenture investments	219,789	(93,975)
Total comprehensive income for the period	$ 5,234,546	$ 4,753,890

See accompanying notes to unaudited condensed interim financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION
Unaudited Condensed Interim Statements of Changes in Shareholders' Equity

(in Canadian dollars)

	Common shares	Equity component convertible debentures	Stock options	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Shareholders' equity
Balance at January 1, 2016	209,220,787	2,484,000	100,531	962	(321,826)	(1,604)	211,482,850
Proceeds from issuance of shares from dividend reinvestment	576,128	-	-	-	-	-	576,128
Exercise of stock options	415,665	-	(3,365)	-	-	-	412,300
Change in fair value of available for sale financial assets	-	-	-	-	-	219,789	219,789
Income and profit for the period	-	-	-	-	5,014,757	-	5,014,757
Dividends to shareholders	-	-	-	-	(4,769,463)	-	(4,769,463)
Balance at March 31, 2016	**210,212,580**	**2,484,000**	**97,166**	**962**	**(76,532)**	**218,185**	**212,936,361**
Shares issued and outstanding (note 10)	20,394,564						

	Common shares	Equity component convertible debentures	Stock options	Contributed surplus	Deficit	Adjusted other comprehensive income	Shareholders' equity
Balance at January 1, 2015	207,378,123	1,960,000	98,894	962	(321,826)	72,966	209,189,119
Proceeds from issuance of shares in new offering	980,000	-	-	-	-	-	980,000
Offering costs	(7,521)	-	-	-	-	-	(7,521)
Proceeds from issuance of shares from dividend reinvestment	9,251	-	-	-	-	-	9,251
Change in fair value of available for sale financial assets	-	-	-	-	-	(93,975)	(93,975)
Income and profit for the period	-	-	-	-	4,847,865	-	4,847,865
Dividends to shareholders	-	-	-	-	(4,724,328)	-	(4,724,328)
Balance at March 31, 2015	**208,359,853**	**1,960,000**	**98,894**	**962**	**(198,289)**	**(21,009)**	**210,200,411**
Shares issued and outstanding (note 10)	20,243,034						

See accompanying notes to unaudited condensed interim financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Unaudited Condensed Interim Statements of Cash Flows

(in Canadian dollars)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Cash provided by (used in):		
Operating activities:		
Income and profit for the period	$ 5,014,757	$ 4,847,865
Adjustments for:		
Financing costs (net of implicit interest rate and accrued interest)	2,422,355	1,771,441
Implicit interest rate in excess of coupon rate - convertible debentures	78,172	66,640
Deferred finance cost amortization - convertible debentures	251,864	165,598
Net change in non-cash operating items:		
Increase (decrease) in accrued interest payable	(42,523)	421,168
Decrease (increase) in amounts receivable and prepaid expenses	385,498	(979,909)
Increase (decrease) in accounts payable and accrued liabilities	33,127	(401,712)
Increase (decrease) in unearned income	(143,694)	114,070
Net cash flow from operating activities	$ 7,999,556	$ 6,005,161
Financing activities:		
Proceeds from issuance of shares in new offerings	-	980,000
Proceeds from issuance of shares from dividend reinvestment	576,128	9,251
Proceeds from exercise of stock options	412,300	-
Equity offering costs	-	(7,521)
Repayment of loans payable (net)	(1,035,996)	(5,695,789)
Funding (repayment) of loan on debenture portfolio	(68,210)	556,040
Cash interest paid (note 14)	(2,379,832)	(2,192,609)
Dividends to shareholders paid during the period	(5,880,441)	(5,403,545)
Net cash flow from financing activities	$ (8,376,051)	$ (11,754,173)
Investing activities:		
Funding of debenture portfolio investment	(9,512)	(641,420)
Funding of investments portfolio	(40,634,631)	(90,346,657)
Discharging of investments portfolio	28,290,283	60,754,626
Net cash flow used in investing activities	$ (12,353,860)	$ (30,233,451)
Net increase in bank indebtedness for the period	(12,730,355)	(35,982,463)
Bank indebtedness, beginning of period	(41,713,128)	(14,664,178)
Bank indebtedness, end of period	$ (54,443,483)	$ (50,646,641)
Cash flows from operating activities include:		
Interest received	$ 8,571,591	$ 6,560,536

See accompanying notes to unaudited condensed interim financial statements.

1. Organization of 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:

The unaudited condensed interim financial statements of the Corporation have been prepared by management in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The preparation of these unaudited condensed interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). The accompanying unaudited condensed interim financial statements should be read in conjunction with the notes to the Corporation's audited financial statements for the year ended December 31, 2015, since they do not contain all disclosures required by IFRS for annual financial statements. These unaudited condensed interim financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

These unaudited condensed interim financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through comprehensive income or available for sale (through accumulated other comprehensive income, which are measured at fair value. These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

These unaudited condensed interim financial statements were approved by the Board of Directors on May 3, 2016

3. Significant accounting policies:

The accounting policies applied by the Corporation in these unaudited condensed interim financial statements are the same as those applied by the Corporation in its financial statements for the year ended December 31, 2015.

New accounting policies:

(i) Disclosure Initiative: Amendments to IAS 1 ("IAS 1"):

The amendments to IAS 1 “Presentation of Financial Statements” were issued as part of the IASB’s major initiative to improve presentation and disclosure in financial reports. These amendments were implemented in the first quarter of 2016 and had no significant impact on the Company’s unaudited interim condensed financial statements.

Future changes in accounting policies:

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

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

(in Canadian dollars)

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

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

4. Amounts receivable and prepaid expenses:

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

	Mar. 31, 2016	Dec. 31, 2015
Interest receivable	$ 4,047,253	$ 4,332,539
Prepaid expenses	196,727	137,820
Fees receivable	20,169	238,882
Special income receivable	59,594	-
Amounts receivable and prepaid expenses	$ 4,323,743	$ 4,709,241

5. Marketable securities and debenture portfolio investments:

The Corporation holds units in publicly traded real estate investment trusts and debentures of publicly traded real estate investment trusts, which are classified as available for sale. The fair value of the units and debentures is based on the closing price of the investments, which are actively traded in the marketplace and any adjustments to fair value are reflected in the Statements of Comprehensive Income until the investments are disposed of or impaired, at which time the Corporation would record the change in fair value in the Statements of Income. The fair value of the units at March 31, 2016 is $2,097,634 (December 31, 2015 - $1,949,106). The fair value of the debentures at March 31, 2016 is $2,157,573 (December 31, 2015 - $2,076,800). For the period ended March 31, 2016, the Corporation recorded an unrealized gain of $219,789 (December 31, 2015 - an unrealized loss of $74,570) with a corresponding increase (decrease) in other comprehensive income.

6. Investment portfolio:

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

	Mar. 31, 2016		Dec. 31, 2015	
Conventional first mortgages	$ 290,846,993	70.1%	$ 283,869,955	70.5%
Conventional non-first mortgages	49,418,976	11.9%	41,799,212	10.4%
Related investments	57,837,492	13.9%	59,422,966	14.7%
Discounted debt investments	5,005,775	1.2%	5,022,775	1.2%
Non-conventional mortgages	12,154,750	2.9%	12,804,730	3.2%
Total investments (at amortized cost)	$ 415,263,986	100.00%	$ 402,919,638	100.00%
Impairment provision	(4,230,000)		(4,230,000)	
Investment portfolio	$ 411,033,986		$ 398,689,638	

As at March 31, 2016, $7,571,925 (December 31, 2015 - $8,866,920) of the mortgages within the conventional first mortgage portfolio have first priority syndicate participations totalling $6,057,539 (December 31, 2015 - $7,093,535) (recorded on the Corporation's balance sheets as loans payable (see note 8)). The Corporation's net investment in these mortgages is $1,514,386 (December 31, 2015 - $1,773,385).

(in Canadian dollars)

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

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

The loans comprising the Investment portfolio bear interest at the weighted average rate of 8.14% per annum (December 31, 2015 - 8.19% per annum) and mature between 2016 and 2020.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to $102,475,762 as at March 31, 2016 (December 31, 2015 - $113,464,052).

Principal repayments based on contractual maturity dates are as follows:

Balance of 2016	$ 227,101,021
2017	149,011,199
2018	38,535,548
2019	450,000
2020	166,218
	$ 415,263,986

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

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 bank participant is included in investment portfolio and recorded as loans payable (note 8). Any gross interest and fees earned on the bank participant’s interests and the related interest expense is recognized in income and profit.

As at March 31, 2016, the carrying value of the priority participants' interests in the Corporation's investment portfolio and loans payable is $6,057,539 (December 31, 2015 - $7,093,535).

7. Bank indebtedness:

The Corporation has entered into credit arrangements of which $54,443,483 has been drawn as at March 31, 2016 (December 31, 2015 - $41,713,128). Interest on bank indebtedness is predominantly charged at a formula rate that varies with bank prime and may have a component with a fixed interest rate established based on a formula linked to bankers' acceptance rates. The credit arrangement comprises a revolving operating facililty, a component of which is a demand facility and a component of which has a committed term to September 30, 2016. Bank indebtedness is secured by a general security agreement. The credit agreement contains certain financial covenants that must be maintained. As at March 31, 2016 and December 31, 2015, 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 and bear interest at a rate of 4.85% as at March 31, 2016 (December 31, 2015 - 4.85%). The Corporation's principal balance outstanding under the mortgages for which a first priority charge has been granted is $7,571,925 as at March 31, 2016 (December 31, 2015 - $8,866,920).

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

2016	$ 6,057,539

9. Convertible debentures:

	Three Months Ended March 31, 2016	Year Ended December 31, 2015
Liability component, beginning of period	$ 139,904,049	$ 93,746,796
Issued	-	45,077,995
Implicit interest rate in excess of coupon rate	78,172	281,723
Deferred finance cost amortization	251,864	797,535
Principal balance, end of period	$ 140,234,085	$ 139,904,049

The breakdown of the convertible debentures for the three months ended March 31, 2016 presented in the above table is as follows:

Convertible debenture	Balance, beginning of period	Issued	Implicit interest rate in excess of coupon rate	Deferred finance cost amortization	Balance, end of period	Maturity date
5.75%	$ 30,994,955	-	$ 9,000	$ 52,715	$ 31,056,670	Oct 31, 2017
5.40%	24,914,687	-	21,795	43,246	24,979,728	Feb 28, 2019
5.25%	19,693,717	-	24,933	33,545	19,752,195	Mar 31, 2019
4.75%	19,087,320	-	14,779	37,932	19,140,031	Mar 31, 2020
5.30%	23,748,170	-	(3,001)	42,792	23,787,961	May 31, 2022
5.50%	21,465,200	-	10,666	41,634	21,517,500	Dec 31, 2022
Total	$ 139,904,049	$ -	$ 78,172	$ 251,864	$ 140,234,085	

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

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

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

(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 March 31, 2016:

	# of shares		Amount
Balance, beginning of period	20,313,943	$	209,220,787
New shares issued during the period under Dividend Reinvestment Plan	45,621		576,128
Options exercised in the period	35,000		415,665
Balance, end of period	20,394,564	$	210,212,580

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

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

(b) Incentive option plan:

During the fourth quarter of 2013, the Corporation granted 1,040,000 options at an exercise price of $11.78 per share. These options fully vested upon granting.

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

As at March 31, 2016, of the 1,075,000 options granted, the total options excerised to date is 36,500 and the total amount options forfeited to date is 10,000.

Total options outstanding as at March 31, 2016 are 1,028,500 (December 31, 2015 - 1,063,500).

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

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

(in Canadian dollars)

11. Per share amounts:

Profit per share calculation:

The following table reconciles the numerators and denominators of the basic and diluted profit per share for the quarter ended March 31, 2016 and March 31, 2015.

Basic profit per share calculation:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Numerator for basic profit per share:		
Net income and profit for the period	$ 5,014,757	$ 4,847,865
Denominator for basic profit per share:		
Weighted average shares	20,365,544	20,170,643
Basic profit per share	$ 0.246	$ 0.240

Diluted profit per share calculation:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Numerator for diluted profit per share:		
Net income and profit for the period	$ 5,014,757	$ 4,847,865
Interest on convertible debentures	1,769,652	1,025,444
Net profit for diluted profit per share	$ 6,784,409	$ 5,873,309
Denominator for diluted profit per share:		
Weighted average shares	20,365,544	20,170,643
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average share price	86,979	28,027
Assuming debentures are converted	7,878,506	4,443,533
Diluted weighted average shares	28,331,029	24,642,203
Diluted profit per share:	$ 0.239	$ 0.238

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 three months ended March 31, 2016, the Corporation recorded dividends of $4,769,463 (2015 - $4,724,328) to its shareholders. Dividends were $0.234 per share (2015 - $0.234 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 three months ended March 31, 2016, this amount was $773,174 (2015 - $644,124) Included in accounts payable and accrued liabilities at March 31, 2016 are amounts payable to the Corporation's Manager of $266,846 (December 31, 2015 - $253,538).

The total directors' fee expensed for the three months ended March 31, 2016 was $45,750 (2015 - $40,875). The listing of the members of the Board of Directors is shown in the annual report for the year ended December 31, 2015. Key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The Directors held 430,946 shares in the Corporation as at March 31, 2016 (December 31, 2015 - 428,986).

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 $103,000 for the three months ended March 31, 2016 (2015 - $86,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments. The Corporation's share of commitment and renewal fees is recorded in income and for the three months ended March 31, 2016 was $314,242 (2015 - $284,058) and applicable special profit income for the three months ended March 31, 2016 was $126,336 (2015 - $465,931).

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

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

A mortgage investment totalling $5,250,000 (December 31, 2015 - $5,250,000) was issued to a borrower controlled by an independent director of the Corporation. The investment was made by way of a participation in a direct loan to the entity controlled by the director. The investment is dealt with in accordance with the Corporation's existing investment and operating policies and is personally guaranteed by the director.

A mortgage investment totalling $1,082,657 (December 31, 2015 - $1,082,657) was issued to a borrower controlled by the same independent director set out above. The investment represents a participation in a first mortgage loan assumed by an entity controlled by the director. The director became involved in the borrower entity by virtue of his position as a second mortgage lender to the borrower that fell into default. The Corporation maintains an impairment provision against this mortgage investment of $200,000 at March 31, 2016 (December 31, 2015 - $200,000).

The Corporation also holds a mortgage investment totalling $4,303,000 at March 31, 2016 (classified as Discounted debt investment) that originated from the purchase of a mortgage loan from a schedule 1 bank at a discount to its original principal balance (December 31, 2015 - $4,303,000). The Corporation’s investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that occurred after the purchase of the underlying Schedule 1 bank mortgage. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation. The Corporation maintains an impairment provision against this mortgage investment of $1,850,000 at March 31, 2016 (December 31, 2015 - $1,850,000). Any recoveries under the investment resulting from the sale of the secured real estate will be treated in the same fashion as that for all non-conventional mortgage investments held by the Corporation.

Key management compensation:

Aggregate compensation for key management personnel (including payments to related parties for their recovery of overhead costs), all consisting of short-term employee compensation, was $479,519 for the quarter ended March 31, 2016 (2015 - $463,888), all of which was paid by the Corporation's Manager and nil by the Corporation.

(in Canadian dollars)

14. Interest expense:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Bank interest expense	$ 396,248	$ 237,655
Loans payable interest expense	72,784	227,964
Debenture interest expense	2,283,359	1,538,060
Interest expense	**$ 2,752,391**	**$ 2,003,679**
Deferred finance cost amortization - convertible debentures	(251,864)	(165,598)
Implicit interest rate in excess of coupon rate - convertible debentures	(78,172)	(66,640)
Change in accrued interest payable	(42,523)	421,168
Cash interest paid	**$ 2,379,832**	**$ 2,192,609**

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 shareholder dividend payable approximate their carrying values due to their short-term maturities.

The fair value of the investment portfolio approximates its carrying value as the majority of the loans are repayable in full at any time without penalty and have floating interest rates. There is no quoted price in an active market for the mortgage and loan investments or mortgage syndication liabilities. The Corporation makes its determinations of fair value based 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 borrower under the underlying loan that secures the loan payable repaying their loan without penalty, and (ii) have floating interest rates linked to bank prime.

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

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

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

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

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

March 31, 2016	Level 1	Level 2	Level 3	Total
Debenture portfolio investment	$ 2,157,573	-	-	$ 2,157,573
Marketable securities	2,097,634	-	-	2,097,634
Convertible debentures	144,338,348	-	-	144,338,348

December 31, 2015	Level 1	Level 2	Level 3	Total
Debenture portfolio investment	$ 2,076,800	-	-	$ 2,076,800
Marketable securities	1,949,106	-	-	1,949,106
Convertible debentures	144,113,082	-	-	144,113,082

(in Canadian dollars)

17. Risk management:

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

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

(a) Interest rate risk:

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

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

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

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

	Carrying Value	-1%	+1%
Financial assets:			
Amounts receivable and prepaid expenses	4,323,743	-	-
Marketable securities	2,097,634	-	-
Debenture portfolio investment	2,157,573	-	-
Investment portfolio	411,033,986	-	97,379
Financial liabilities:			
Bank indebtedness	54,443,483	544,435	(544,435)
Loan on debenture portfolio investment	1,351,863	13,519	(13,519)
Accounts payable and accrued liabilities	2,228,542	-	-
Shareholders dividends payable	1,590,776	-	-
Loans payable	6,057,539	-	-
Convertible debentures	140,234,085	-	-
Total increase		$ 557,953	$ (460,574)

(b) Credit and operational risks:

Credit risk is the possibility that a borrower may be unable to honour their debt commitment as a result of a negative change in market conditions that could result in a loss to the Corporation.

The Corporation invests primarily in Canadian markets. Any instability in the real estate sector and an adverse change in economic conditions in Canada could result in declines in the value of real property securing the Corporation's investments. The Corporation mitigates this risk by adhering to the investment and operating policies set out in its Declaration of Corporation. The Corporation's maximum exposure to credit risk is represented by the fair values of amounts receivable and the investment portfolio.

(in Canadian dollars)

(c) Liquidity risk:

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

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

As at March 31, 2016, the Corporation had not utilized its full leverage availability, being a guideline of 60% of its first mortgage investments. Unadvanced committed funds under the existing investment portfolio amounted to $102,475,762 as at March 31, 2016 (December 31, 2015 - $113,464,052). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between investment advances and investment repayments. The bank borrowing line is a committed facility with a maturity date of September 30, 2016. If the loan is not renewed on September 30, 2016, the terms of the facility allow for the Corporation to repay the balance owed on September 30, 2016 within 12 months. In the current economic climate and capital market conditions, there are no assurances that the bank borrowing line will be renewed or that it could be replaced with another lender if not renewed. If it is not extended at maturity, repayments under the Corporation's investment portfolio would be utilized to repay the bank indebtedness. There are limitations in the availability of funds under the revolving line of credit. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing investments creates liquidity for ongoing investments and funding commitments. Loans payable relate to borrowings on specific investments within the Corporation's portfolio and only have to be repaid once the specific loan is paid out by the borrower.

If the Corporation is unable to continue to have access to its bank borrowing line and loans 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 March 31, 2016 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 6 years
Bank indebtedness	$ 54,443,483	$ 54,443,483	$ -	$ -
Accounts payable and accrued liabilities	2,228,542	2,228,542	-	-
Loan on debenture portfolio investment	1,351,863	1,351,863	-	-
Shareholders dividends payable	1,590,776	1,590,776	-	-
Loans payable	6,057,539	6,057,539	-	-
Convertible debentures	145,666,000	-	77,666,000	68,000,000
Subtotal - Liabilities	$ 211,338,203	$ 65,672,203	$ 77,666,000	$ 68,000,000
Future advances under portfolio	102,475,762	102,475,762	-	-
Liabilities and contractual obligations	$ 313,813,965	$ 168,147,965	$ 77,666,000	$ 68,000,000

Interest payments on loans payable (assuming outstanding amounts and the bank prime interest rate remain unchanged) would be $73,448 for less than 1 year and nil for 1 to 6 years. Interest payments on debentures (assuming the amounts remain unchanged) would be $7,813,287 for less than 1 year, $17,546,291 for 1 to 3 years and $7,230,000 for 4 to 6 years.

(d) Capital risk management:

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

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

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

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

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

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

18. Subsequent event:

On April 19, 2016, the Corporation completed an offering of 1,710,000 common shares at a price of $12.90 per share for gross proceeds of approximately $22.1 million. On April 26, 2016, an additional 256,500 common shares were issued at a price of $12.90 per share, under the over-allotment option relating to the offering for an additional gross proceeds of approximately $3.3 million.