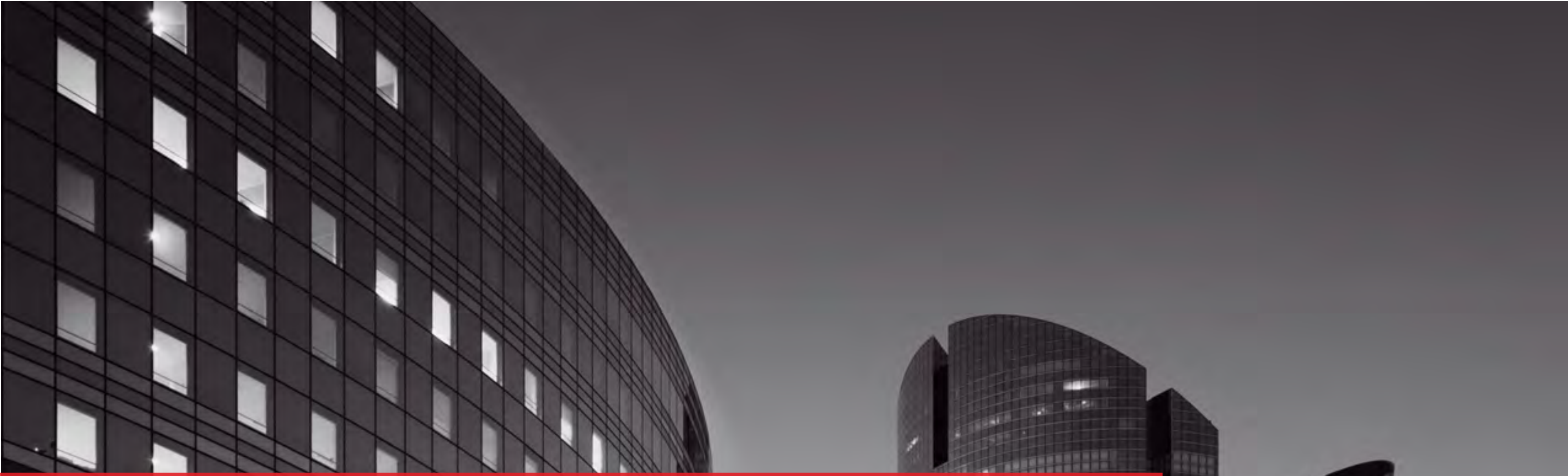


FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

REPORT TO SHAREHOLDERS

FIRST QUARTER
MARCH 31, 2017

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 2, 2017 and should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Corporation and the notes thereto for the three months ended March 31, 2017 and 2016, the audited financial statements of the Corporation and the notes thereto for the years ended December 31, 2016 and 2015, as well as Management's Discussion and Analysis, including the section on "Risks and Uncertainties", along with each of the quarterly reports for 2016 and 2015.

HIGHLIGHTS

PROFIT

Income and profit (referred to herein as "Profit") for the quarter ended March 31, 2017 increased by approximately 40% to $7,026,716 as compared to $5,014,757 reported for the same period in 2016. The increase is primarily derived from special income as described further below.

Basic weighted average profit per share for the three months ended March 31, 2017 was $0.311 or 26% increase, compared to $0.246 per share reported for the same period in 2016. The increase is primarily derived from special income as described further below.

SIGNIFICANT SPECIAL INCOME

Special income recorded in the quarter ended March 31, 2017 totaled $2,835,385 as compared to $126,336 for the same period last year. $2,737,500 of special income was recognized in the quarter from one of the Corporation's non-conventional mortgage investments. Collection of the special income component of this $3,450,000 investment has been determined to be fully collectable, with receipt of the full principal investment amount, accrued interest and $2,737,500 of special income expected before the end of the year.

PORTFOLIO GROWTH

The Corporation's investment portfolio (the "Investment Portfolio") as at March 31, 2017 increased by $16.58 million to approximately $465.33 million compared to $448.75 million as at December 31, 2016 (before the impairment provision of $5.09 million and $4.46 million respectively).

RETURN ON EQUITY

The Corporation continues to exceed its yield objective of producing a return on shareholders' equity in excess of 400 basis points over the average one year Government of Canada Treasury bill yield. Profit for the quarter ended March 31, 2017 represents an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 11.37%, representing return on shareholders' equity of 1,074 basis points per annum over the average one year Government of Canada Treasury bill yield of 0.63%.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio totaled $460,240,609 as at March 31, 2017 (net of an impairment loss provision of $5,085,000) compared to $444,294,633 (net of an impairment loss provision of $4,460,000) as at December 31, 2016, representing an increase of approximately $16.18 million. The March 31, 2017 Investment Portfolio is comprised of 248 investments (245 as at December 31, 2016). The average gross investment size (excluding impairment loss provision) was approximately $1.88 million with 12 investments individually exceeding $7,500,000. 228 out of the 248 investments that comprise the investment portfolio, individually represent less than 1% of the total Investment Portfolio of the Corporation with 194 of the 248 investments being less than $2.5 million.

Amount	Number of Investments	%	Total Amount (before provision)	%
$0 - $2,500,000	194	78%	$ 161,866,557	36%
$2,500,001 - $5,000,000	38	15%	137,137,750	29%
$5,000,001 - $7,500,000	4	2%	25,415,031	5%
$7,500,001 +	12	5%	140,906,271	30%
	248	**100%**	**$ 465,325,609**	**100%**

Unadvanced committed funds under the existing Investment Portfolio amounted to $112,648,584 as at March 31, 2017 ($131,268,094 as at December 31, 2016). Generally, investments are shared with other syndicate partners to diversify risk.

	Mar. 31, 2017		Dec. 31, 2016		% Change
Conventional First Mortgages	$ 334,855,403	72%	$ 336,745,396	75%	**(1%)**
Conventional Non-First Mortgages	56,735,354	12%	46,265,981	10%	**23%**
Related Investments	64,082,313	14%	56,734,231	13%	**13%**
Discounted Debt Investments	5,201,525	1%	5,071,525	1%	**3%**
Non-Conventional Mortgages	4,451,014	1%	3,937,500	1%	**13%**
Total Investments (at amortized cost)	**$ 465,325,609**	**100%**	**$ 448,754,633**	**100%**	**4%**
Less: Impairment Provision	(5,085,000)		(4,460,000)		**14%**
Investment Portfolio	**$ 460,240,609**		**$ 444,294,633**		**4%**

The $16.58 million growth in the Investment Portfolio (before the impairment provision of $5.09 million as at March 31, 2017 and $4.46 million as at December 31, 2016) was mainly achieved by the Corporation increasing the size of its investments in the conventional non-first mortgage, related investments, and non-conventional mortgages investment categories, offset slightly by the decrease in the conventional first mortgage investment category.

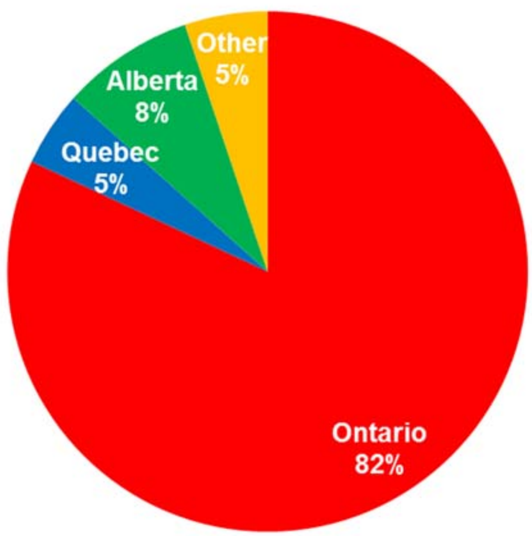
Conventional first mortgages decreased by 1% and represented 72% of the Corporation's portfolio at March 31, 2017 compared to 75% at December 31, 2016. Conventional non-first mortgages increased by 23% and represented 12% of the Investment Portfolio at March 31, 2017 and 10% December 31, 2016. Related investments increased by 13% and represented 14% of the Corporation's Investment Portfolio in comparison to 13% at December 31, 2016. Discounted debt investments increased by 3% and represented 1% at March 31, 2017 and 1% December 31, 2016 of the Investment Portfolio. Non-conventional mortgages increased by 13% and represented 1% of the Investment Portfolio at March 31, 2017 and 1% at December 31, 2016.

The weighted average face interest rate on the Corporation's Investment Portfolio was 7.85% per annum as at March 31, 2017 compared to 7.83% per annum as at December 31, 2016.

The Corporation holds a mortgage investment totaling $4,758,000 at March 31, 2017 (classified as Discounted debt investment) that originated from the purchase of a mortgage loan from a schedule 1 bank at a discount to its original principal balance (December 31, 2016 - $4,628,000) on which interest payments are not being received. The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that occurred after the purchase of the mortgage. Recoveries under the investment resulting from the sale of the secured real estate will be treated in the same fashion as that for non-conventional mortgage investments held by the Corporation.

The Corporation holds a $3,450,000 non-conventional mortgage investment which has a special income fee payment due under it on payout of $2,737,500. The investment originated in 2011 as a $5,250,000 investment and was partially paid down by $1,800,000 in 2016. The characteristics of the investment are now such that full collection of the principal, accrued interest and full special income amount are considered to be certain. The $2,737,500 of special income was recorded as a receivable by the Corporation as at March 31, 2017. It is anticipated that the Corporation will be in receipt of the full pay out proceeds of the investment by the end of 2017.

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 18% of the investments in the portfolio secured by properties outside of Ontario, a 1% increase from 17% as at December 31, 2016.



The Corporation's investment portfolio as at March 31, 2017 included participation in 12 mortgage loans on real estate located in Alberta. The Corporation continues to decrease its portfolio size from the 13 investments held at December 31, 2016 and 29 investments held at March 31, 2016. The investment amount at March 31, 2017 totals $33.26 million, being 8% of the Corporations' mortgage investments and $32.91 million or 8% at December 31, 2016. The average investment size is $2.77 million. The entire Alberta Portfolio is secured on residential real estate.

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

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

As at March 31, 2017, the Investment Portfolio continued to be heavily concentrated in short-term investments with 67% of the portfolio maturing by March 31, 2018. The short-term nature of the portfolio provides the Corporation with the ability to continually revolve the portfolio and adapt to changes in the real estate market.

Two of the Corporations' first mortgage investments on properties located in Quebec to the same borrower group have been in payment default since May 2016. The Mortgage Banker has enforced the security under the two loans and has listed the properties for sale pursuant to a court order. No acceptable offers have been received to date. The Corporations has recognized a loan loss provision of $985,358 relating to the mortgage investment balance of $3,076,792 including interest and fees incurred on the loans of $225,358.

RESULTS OF OPERATIONS

INTEREST AND FEES

For the three months ended March 31, 2017, interest and fees earned increased by 31% to $11,475,015 compared to $8,726,883 for the three months ended March 31, 2016. Interest and fees earned for the three months ended March 31, 2017 and March 31, 2016 are broken down as follows:

Three Months Ended	Mar. 31, 2017	%	Mar. 31, 2016	%	% Change
Interest	$ 8,539,551	73%	$ 8,286,305	95%	**3%**
Commitment & Renewal Fees	325,437	3%	314,242	4%	**4%**
Special Income	2,835,385	24%	126,336	1%	**2,144%**
	$ 11,700,373	**100%**	**$ 8,726,883**	**100%**	**34%**

Interest income of $8,539,551 as reported for the three month period ended March 31, 2017 increase by 3% when compared to the same three month period in the prior year. Interest income represents 73% of the Corporation's revenues for the three months ended March 31, 2017 and 95% for the three months ended March 31, 2016.

Fee income relating to commitment and renewal fees for the quarter ended March 31, 2017 increased by 4% compared to the quarter ended March 31, 2016. As at March 31, 2017, the Corporation had unearned commitment fee income of $843,993 (December 31, 2016 - $879,851). The Corporation's policy is to recognize commitment fees over the term of the related loan. The unrecognized component of the fees is recorded as unearned income on the Corporation's balance sheet. These fees have been received and are not refundable to borrowers.

Special income recorded in the quarter ended March 31, 2017 totaled $2,835,385 as compared to $126,336 for the same period last year. $2,737,500 of special income was recognized in the quarter from one of the Corporation's non-conventional mortgage investments. Collection of the special income component of this $3,450,000 investment has been determined to be fully collectable, with receipt of the full principal investment amount, accrued interest and $2,737,500 of special income expected before the end of the 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 SPREAD INTEREST ALLOCATION

The Corporation Manager, through an interest spread arrangement, received $829,540 for the three months ended March 31, 2017, compared to $773,174 for the three months ended March 31, 2016. The increase is generally due to the increase in the size of the Corporation's daily average Investment Portfolio over the comparable periods.

INTEREST EXPENSE

For the three months ended March 31, 2017, interest expense increased by 9% to $3,004,039 as compared to $2,752,391 for the three months ended March 31, 2016. Interest expense is higher in 2017 when compared to the same period in the previous year generally as a result of the Corporation having larger convertible debentures outstanding in 2017 versus 2016, 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 2017 allowed the Corporation to hold a larger investment portfolio, which generated additional interest income when compared to 2016. The Corporation completed one public offering of convertible unsecured debentures in 2016, accounting for the increase in debenture interest expense. Interest expense is broken down as follows:

Three Months Ended	**Mar. 31, 2017**	**%**	**Mar. 31, 2016**	**%**	**% Change**
Bank Interest Expense	$ 368,320	12%	$ 396,248	14%	**-7%**
Loans Payable Interest Expense	-	0%	72,784	3%	**-100%**
Debenture Interest Expense	2,635,719	88%	2,283,359	83%	**15%**
	$ 3,004,039	**100%**	**$ 2,752,391**	**100%**	**9%**

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

G&A expenses increased by $29,857 to $216,418 for the three months ended March 31, 2017, compared to the $186,561 reported for the three months ended March 31, 2016.

INCOME & PROFIT ("PROFIT")

Profit for the three months ended March 31, 2017 was reported at $7,026,716 as compared to $5,014,757 for the same period in the prior year which represents an increase of 40%.

Profit for the quarter ended March 31, 2017 represented an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 11.37% versus a previously reported return on shareholders' equity of 9.58% for the quarter ended March 31, 2016. This return on shareholders' equity represents 1,074 basis points per annum over the average one year Government of Canada Treasury bill yield of 0.63% and is well in excess of the Corporation's stated target yield objective of 400 basis points per annum over the average one year Government of Canada Treasury bill yield. The above return on shareholders' equity is a non-IFRS financial measure and does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. This non-IFRS measure provides useful information to the Corporation's shareholders as it provides a measure of return generated on the Corporation's equity base.

In the first quarter of 2017, the Corporation recognized special income of $2,737,500 on one of its non-conventional mortgages and increased its total loan loss provision by $625,000. The Profit for the quarter when excluding these two items is $4,914,216 which is equivalent to $0.218 per share based on the weighted average number of shares outstanding during the period.

TOTAL COMPREHENSIVE INCOME

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

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

The change in fair value of marketable securities and the debenture portfolio for the quarter ended March 31, 2017 was an increase of $93,049 compared to an increase of $219,789 for the quarter ended March 31, 2016.

PROFIT PER SHARE

Basic weighted average profit per share for the three months ended March 31, 2017 was $0.311, which is 26% higher than the $0.246 per share reported for the three months ended March 31, 2016.

QUARTERLY FINANCIAL INFORMATION

($ in millions except per unit amounts)	Mar. 31 2017	Dec. 31 2016	Sep. 30 2016	Jun. 30 2016	Mar. 31 2016	Dec. 31 2015	Sep. 30 2015	Jun. 30 2015
Operating revenue	$ 11.70	$ 9.33	$ 8.99	$ 8.99	$ 8.72	$ 9.64	$ 8.59	$ 8.12
Interest expense	3.00	2.67	2.59	2.62	2.75	2.42	2.55	2.37
Corporation manager spread interest allocation	0.83	0.83	0.78	0.77	0.77	0.77	0.76	0.71
General & administrative expenses	0.22	0.23	0.21	0.20	0.19	0.24	0.20	0.24
Impairment loss on investment portfolio	0.63	0.23	-	-	-	0.84	0.03	-
Profit	**$ 7.02**	**$ 5.37**	**$ 5.41**	**$ 5.40**	**$ 5.01**	**$ 5.37**	**$ 5.05**	**$ 4.80**
Profit per share								
- Basic	**$0.311**	**$0.239**	**$0.241**	**$0.246**	**$0.246**	**$0.265**	**$0.249**	**$0.237**
- Diluted	**$0.284**	**$0.234**	**$0.236**	**$0.240**	**$0.239**	**$0.258**	**$0.243**	**$0.231**
Dividends per share	**$0.234**	**$0.264**	**$0.234**	**$0.234**	**$0.234**	**$0.289**	**$0.234**	**$0.234**

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

DIVIDENDS
For the three months ended March 31, 2017, the Corporation declared dividends totaling $5,398,395, or $0.234 per share versus $4,769,463 or $0.234 per share for the three months ended March 31, 2016. The number of shares outstanding at March 31, 2017 was 24,175,838, compared to 20,394,564 at March 31, 2016.

Three Months Ended	**Mar. 31, 2017**	**Mar. 31, 2016**	**Change**
Cash Flow From Operating Activities (net of cash interest paid)	$ 5,640,946	$ 5,619,724	**0%**
Profit	$ 7,026,716	$ 5,014,757	**40%**
Declared Dividends	$ 5,398,395	$ 4,769,463	**13%**
Excess Cash Flow From Operating Activities Over Declared Dividends	$ 242,551	$ 850,261	
Profit Over Declared Dividends	$ 1,628,321	$ 245,294	

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES
The amounts receivable and prepaid expenses totaled $7,774,601 as at March 31, 2017 (comprised of interest receivable of $4,678,166, special income receivable of $2,766,490, fees receivable of $134,731 and prepaid expenses of $195,214), compared to $4,723,191 as at December 31, 2016.

The Corporation holds a $3,450,000 non-conventional mortgage investment, which has a special income fee payment due under it on payout of $2,737,500. The investment originated in 2011 as a $5,250,000 investment and was partially paid down by $1,800,000 in 2016. The characteristics of the investment are now such that full collection of the principal, accrued interest, and full special income amount are considered to be certain. The $2,737,500 of special income was recorded as a receivable by the Corporation as at March 31, 2017. It is anticipated that the Corporation will be in receipt of the full pay out proceeds of the investment by the end of 2017.

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 $2,282,545 balance reported on the Corporation's balance sheet as at March 31, 2017 represents the fair value of the marketable securities comprising the portfolio (December 31, 2016 – $2,200,329). The Corporation's purchase price for the units was $2,056,275. The approximate average interest yield on the cost of these investments is 8.55% 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 $2,045,906 balance reported on the Corporation's balance sheet at March 31, 2017 (December 31, 2016 - $2,199,937) represents the fair value of the convertible debentures comprising the portfolio. During the quarter ended March 31, 2017, the Corporation sold part of its debenture portfolio investments for proceeds of $166,205. The carrying value of the investment sold at the time of sale was $164,865 and the Corporation realized a gain on sale of $1,340. The Corporation's purchase price for the remaining debenture portfolio is $1,836,682.

LOAN ON DEBENTURE PORTFOLIO INVESTMENT

The Corporation holds a small portfolio of publicly traded convertible debentures of Canadian real estate investment trusts within its debenture portfolio investment. As a result of the very attractive leverage available on the portfolio from an interest rate standpoint, the Corporation has a loan payable against the portfolio in the amount of $1,065,723 as at March 31, 2017 (December 31, 2016 - $1,295,184). 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 decreased by $5,651,290 to $39,785,322 as at March 31, 2017 compared to $45,436,612 as reported at December 31, 2016. The decrease in bank indebtedness is mainly a result of the receipt of the proceeds from the issuance of shares during the first quarter of 2017 offset by the utilization of funds to increase the size of the investment portfolio.

CONVERTIBLE DEBENTURES

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

Ticker Symbol	**Coupon**	**Issue Date**	**Maturity Date**	**Current Principal**	**Strike Price Per Share**	**Accounting Liability**
FC.DB.A	5.75%	Oct. 13, 2010	Oct. 31, 2017	$ 31,443,000	$ 15.90	$ 31,305,445
FC.DB.B	5.40%	Aug. 23, 2011	Feb. 28, 2019	25,738,000	$ 14.35	25,243,576
FC.DB.C	5.25%	Mar. 31, 2012	Mar. 31, 2019	20,485,000	$ 14.80	19,990,170
FC.DB.D	4.75%	Mar. 28, 2013	Mar. 31, 2020	20,000,000	$ 15.80	19,353,206
FC.DB.E	5.30%	Apr. 17, 2015	May. 31, 2022	25,000,000	$ 13.95	23,991,766
FC.DB.F	5.50%	Dec. 22, 2015	Dec. 31, 2022	23,000,000	$ 14.00	21,728,728
FC.DB.G	5.20%	Dec. 21, 2016	Dec. 31, 2023	22,500,000	$ 15.25	21,082,995
Total / Average	**5.34%**			**$168,166,000**		**$ 162,695,886**

As at March 31, 2017, the principal balance for the outstanding convertible debentures is $168,166,000. The recorded convertible debenture liability as at March 31, 2017 is $162,695,886, compared to $162,305,989 as at December 31, 2016. The weighted average effective interest rate is 5.34% per annum (5.34% as at December 31, 2016).

OTHER LIABILITIES
Other liabilities for the Corporation include the following:

Additional Liabilities	Mar. 31, 2017	Dec. 31, 2016	% Change
Accounts Payable and Accrued Liabilities	$ 2,789,571	$ 2,101,630	**33%**
Unearned Income	843,993	879,851	**(4%)**
Shareholders Dividend Payable	1,885,715	2,428,973	**(22%)**
Total	**$ 5,519,279**	**$ 5,410,454**	**2%**

Accounts payable and accrued liabilities increased by 33% to $2,789,571 as at March 31, 2017, compared to $2,101,630 as at December 31, 2016. Accounts payable and accrued liabilities include interest payable of $1,951,615 and accrued liabilities of $837,956.

Unearned income relating to commitment fees generated on the Corporation's mortgage investments decreased by 4% to $843,993 as at March 31, 2017 compared to $879,851 as at December 31, 2016. The Corporation's policy is to recognize commitment fees over the term of the related loan. The unrecognized component of the fees is recorded as unearned income on the Corporation's balance sheet.

SHAREHOLDERS' EQUITY
Shareholders' equity at March 31, 2017 totaled $263,277,451 compared to $238,969,851 as at December 31, 2016. The Corporation had 24,175,838 shares issued and outstanding as at March 31, 2017 compared to 22,490,489 as at December 31, 2016. The increase in shares is attributable to an offering of shares that was completed during the first quarter of 2017 and shares issued under the dividend reinvestment plan and stock option plan.

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

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

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 $5,085,000 as at March 31, 2017 (December 31, 2016 - $4,460,000) and represents the total amount of management's estimate of the shortfall between the Investment Portfolio principal balances and the estimated net realizable recovery from the collateral securing the loans. The impairment provision represents approximately 1% of the Investment Portfolio balance.

Two of the Corporations' first mortgage investments on properties located in Quebec to the same borrower group have been in payment default since May 2016. The Mortgage Banker has enforced the security under the two loans and has listed the properties for sale pursuant to a court order. No acceptable offers have been received to date. The Corporations has recognized a loan loss provision of $985,358 relating to the mortgage investment balance of $3,076,792 including interest and fees incurred on the loans of $225,358.

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 the Corporation Manager spread interest, calculated as 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the three months ended March 31, 2017, the amount was $829,540 (March 31, 2016 - $773,174). Included in accounts payable and accrued liabilities of the Corporation at March

31, 2017 are amounts payable to the Corporation Manager of $288,115 (December 31, 2016 - $275,563).

The total directors' fees expensed for the three months ended March 31, 2017 was $64,000 (March 31, 2016 - $45,750). Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation Manager.

The Mortgage Banker (a company related to officers and/or directors of the Corporation) receives certain fees directly from the borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all the commitment and renewal fees generated from the Corporation's investments; and 25% of all the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income of the Corporation is net of the loan servicing fees paid to the Mortgage Banker of approximately $111,000 for the three months ended March 31, 2017 (March 31, 2016 - $103,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments.

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

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

Three mortgage investments totaling $4,850,000 (December 31, 2016 - three mortgages investment totaling $4,850,000) were issued to a borrower controlled by an independent director of the Corporation. The investments were made by way of a participation in a direct loan to the entity controlled by the director. The investment is dealt with in accordance with the Corporation's existing investment and operating policies and is personally guaranteed by the director. The Corporation recognized interest and fees earned of $2,903,187 (March 31, 2016 - $162,964) from these investments during the period.

The Corporation also holds a mortgage investment totaling $4,758,000 as at March 31, 2017 (classified as Discounted debt investment) that originated from the purchase of a mortgage loan from a schedule 1 bank at a discount to its original principal balance (December 31, 2016 - $4,628,000). The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that occurred after the purchase of the underlying Schedule 1 bank mortgage. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation. The Corporation recognized interest and fees earned of nil (March 31, 2016 - nil) from this investment during the period. The impairment provision recorded on this loan to $1,190,000 as at March 31, 2017 (December 31, 2016 - $1,190,000). Recoveries under the investment resulting from the sale of the secured real estate will be treated the same as for all non-conventional mortgage investments held by the Corporation.

Related party transactions are further discussed and detailed in the Corporation's AIF and in Note 12 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 fully open for repayment at any time without penalty and have floating interest rates. There is no quoted price in an active market for the mortgage and loan investments or mortgage syndication liabilities. Management makes its determinations of fair value based on its assessment of the current lending market for mortgage and loan investments of same or similar terms. As a result, the fair value of mortgage and loan investments is based on Level 3 on the fair value hierarchy.

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

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

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

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

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

The tables in note 15 of the financial statements present the fair values of the Corporation's financial instruments as at March 31, 2017 and December 31, 2016. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

CONTRACTUAL OBLIGATIONS

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

	Total	Less than 1 year	1-3 years	4 - 6 years
Bank indebtedness	$ 39,785,322	$ 39,785,322	$ -	$ -
Accounts payable and accrued liabilities	2,789,571	2,789,571	-	-
Loan on debenture portfolio investment	1,065,723	1,065,723	-	-
Shareholder dividends payable	1,885,715	1,885,715	-	-
Convertible debentures	168,166,000	31,443,000	66,223,000	70,500,000
Subtotal - Liabilities	$ 213,692,331	$ 76,969,331	$ 66,223,000	$ 70,500,000
Future advances under portfolio	112,648,584	112,648,584	-	-
Liabilities and contractual obligations	$ 326,340,915	$ 189,617,915	$ 66,223,000	$ 70,500,000

SIGNIFICANT ACCOUNTING POLICIES

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

SUBSEQUENT EVENT

During April 2017, an officer of the Corporation exercised 45,000 options at a price of $11.78 per common share for total gross proceeds of approximately $530,100

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, 2017, 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 $112,648,584 as at March 31, 2017 (December 31, 2016 - $131,268,094). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments under the Investment Portfolio. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between mortgage advances and mortgage repayments. There are limitations in the availability of funds under the revolving line of credit, which is made up of a committed component and a demand component. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing investments and funding commitments.

RISKS AND UNCERTAINTIES

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

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

- *Credit risks: Credit risk is the possibility that a borrower under one of the mortgages comprising the investment portfolio, may be unable to honour their debt commitment as a result of a negative change in the borrowers' financial position or market conditions that could result in a loss to the Corporation. Any instability in the real estate sector or an adverse change in economic conditions in Canada could result in declines in the value of real property securing the Corporation's investments. There have been significant increases in real estate values in various sectors of the Canadian market over the past few years. A correction or revaluation of real estate in such sectors will result in a reduction in values of the real estate securing mortgage loans that comprise the Corporation's investment portfolio. This could result in impairments in the mortgage loans or loan losses in the event the real estate security has to be realized upon by the lender. The Corporation's maximum exposure to credit risk is represented by the fair values of amounts receivable and the investment portfolio.*

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

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 unaudited condensed interim consolidated financial statements as at March 31, 2017 and 2016.

CONTROLS AND PROCEDURES

The Corporation maintains appropriate information systems, procedures, and controls to ensure that information disclosed externally is complete, reliable, and timely. The Corporation's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operating effectiveness of the Corporation's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2016 and March 31, 2017 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

The Corporation has also established adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS 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, 2017. Based on that assessment, it was determined that the Corporation's internal controls over financial reporting were appropriately designed and were operating effectively.

The Corporation did not make any changes to the design of the Corporation's internal controls over financial reporting period ended March 31, 2017 that would have materially affected or would be reasonably likely to materially affect the Corporation's internal controls over financial reporting.

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

FORWARD LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2017 objectives and our strategies to achieve those objectives, as well as statements with respect to management's beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance, or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “outlook”, “objective”, “may”, “will”, “expect”, “intent”, “estimate”, “anticipate”, “believe”, “should”, “plans”, or “continue”, or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

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

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

OUTLOOK

Looking ahead in 2017, we will continue to focus on risk management in light of the large year over year increases in real property values. The Mortgage Banker is aware of the significant increase in real estate valuations in certain geographical and asset segments and is factoring this into its mortgage underwriting and structuring. Future mortgage structuring at appropriate exposure levels is expected to result in lower achieved interest rates and an overall reduction in the portfolio average face interest rate, as preservation of the shareholders' equity is of primary concern in these times.

We operate under the mindset that our Shareholders understand our view being one of long term business performance and stability over the long term as opposed to a short term focus on quarterly results.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Condensed Interim Consolidated Balance Sheets

(in Canadian dollars)

(Unaudited)

As at		March 31, 2017		December 31, 2016 (audited)
Assets				
Amounts receivable and prepaid expenses (note 4)	$	7,774,601	$	4,723,191
Marketable securities (note 5)		2,282,545		2,200,329
Debenture portfolio investments (note 5)		2,045,906		2,199,937
Investment portfolio (note 6)		460,240,609		444,294,633
Total assets	$	472,343,661	$	453,418,090
Liabilities				
Bank indebtedness (note 7)	$	39,785,322	$	45,436,612
Loan on debenture portfolio investments (note 5)		1,065,723		1,295,184
Accounts payable and accrued liabilities		2,789,571		2,101,630
Unearned income		843,993		879,851
Shareholders' dividends payable		1,885,715		2,428,973
Convertible debentures (note 8)		162,695,886		162,305,989
Total liabilities	$	209,066,210	$	214,448,239
Shareholders' Equity				
Common shares (note 9)	$	258,618,097	$	236,031,386
Equity component of convertible debentures		2,800,000		2,800,000
Stock options (note 9)		94,642		95,123
Contributed surplus		1,924		1,924
Surplus / (Deficit)		1,306,495		(321,826)
Accumulated other comprehensive income		456,293		363,244
Total shareholders' equity	$	263,277,451	$	238,969,851
Commitments (note 6)				
Contingent liabilities (note 14)				
Total liabilities and shareholders' equity	$	472,343,661	$	453,418,090

See accompanying notes to condensed interim consolidated financial statements.

On behalf of the Directors:

"Eli Dadouch"
ELI DADOUCH
Director

"Jonathan Mair'
JONATHAN MAIR
Director

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Condensed Interim Consolidated Statements of Income

(in Canadian dollars)

(Unaudited)

	Three Months Ended	
	March 31, 2017	March 31, 2016
Interest and fees earned	$ 11,700,373	$ 8,726,883
Gain on debenture portfolio investments (note 5)	1,340	--
	11,701,713	8,726,883
Corporation manager spread interest allocation (note 12)	829,540	773,174
Interest expense (note 13)	3,004,039	2,752,391
General and administrative expenses	216,418	186,561
Impairment loss on investment portfolio (note 6)	625,000	--
	$ 4,674,997	$ 3,712,126
Income and profit for the period	$ 7,026,716	$ 5,014,757
Profit per share (note 10)		
Basic	$0.311	$0.246
Diluted	$0.284	$0.239

See accompanying notes to condensed interim consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION
Condensed Interim Consolidated Statements of Comprehensive Income

(in Canadian dollars)
(Unaudited)

	Three Months Ended	
	March 31, 2017	**March 31, 2016**
Income and profit for the period	$ 7,026,716	$ 5,014,757
Other comprehensive income:		
Unrealized gain on marketable securities and debenture investments (note 5)	93,049	219,789
Total comprehensive income for the period	$ 7,119,765	$ 5,234,546

See accompanying notes to condensed interim consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(in Canadian dollars)

(Unaudited)

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Surplus	Accumulated other comprehensive income	Shareholders' equity
Balance at January 1, 2017	236,031,386	2,800,000	95,123	1,924	(321,826)	363,244	238,969,851
Proceeds from issuance of shares in new offering	23,025,300	-	-	-	-	-	23,025,300
Offering costs	(1,141,080)	-	-	-	-	-	(1,141,080)
Proceeds from issuance of shares from dividend reinvestment	643,110	-	-	-	-	-	643,110
Exercise of stock options (note 9 (b))	59,381	-	(481)	-	-	-	58,900
Change in fair value of available for sale financial assets	-	-	-	-	-	93,049	93,049
Income and profit for the period	-	-	-	-	7,026,716	-	7,026,716
Dividends to shareholders	-	-	-	-	(5,398,395)	-	(5,398,395)
Balance at March 31, 2017	**258,618,097**	**2,800,000**	**94,642**	**1,924**	**1,306,495**	**456,293**	**263,277,451**
Shares issued and outstanding (note 9)	24,175,838						

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Shareholders' equity
Balance at January 1, 2016	209,220,787	2,484,000	100,531	962	(321,826)	(1,604)	211,482,850
Proceeds from issuance of shares from dividend reinvestment	576,128	-	-	-	-	-	576,128
Exercise of stock options (note 9 (b))	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 9)	20,394,564						

See accompanying notes to condensed interim consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Condensed Interim Consolidated Statements of Cash Flows

(in Canadian dollars)

(Unaudited)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash provided by (used in):		
Operating activities:		
Income and profit for the period	$ 7,026,716	$ 5,014,757
Adjustments for:		
Financing costs (net of implicit interest rate and deferred finance cost amortization)	2,614,142	2,422,355
Implicit interest rate in excess of coupon rate - convertible debentures	100,208	78,172
Change in impairment loss on investment portfolio	625,000	--
Deferred finance cost amortization - convertible debentures	289,689	251,864
Gain on sale of debenture portfolio investments	(1,340)	--
Net change in non-cash operating items:		
Increase (decrease) in accrued interest payable	(538,164)	(42,523)
Decrease (increase) in amounts receivable and prepaid expenses	(3,051,410)	385,498
Increase (decrease) in accounts payable and accrued liabilities	687,941	33,127
Increase (decrease) in unearned income	(35,858)	(143,694)
Net cash flow from operating activities	$ 7,716,924	$ 7,999,556
Financing activities:		
Proceeds from issuance of shares in new offerings	23,025,300	--
Proceeds from issuance of shares from dividend reinvestment	643,110	576,128
Proceeds from exercise of stock options	58,900	412,300
Equity offering costs	(1,141,080)	--
Repayment of loans payable (net)	--	(1,035,996)
Funding (repayment) of loan on debenture portfolio	(229,461)	(68,210)
Cash interest paid (note 13)	(2,075,978)	(2,379,832)
Dividends to shareholders paid during the period	(5,941,653)	(5,880,441)
Net cash flow from financing activities	$ 14,339,138	$ (8,376,051)
Investing activities:		
Sale (funding) of debenture portfolio investments	166,205	(9,512)
Funding of investment portfolio	(58,311,184)	(40,634,631)
Discharging of investment portfolio	41,740,207	28,290,283
Net cash flow used in investing activities	$ (16,404,772)	$ (12,353,860)
Net decrease (increase) in bank indebtedness for the period	5,651,290	(12,730,355)
Bank indebtedness, beginning of period	(45,436,612)	(41,713,128)
Bank indebtedness, end of period	$ (39,785,322)	$ (54,443,483)
Cash flows from operating activities include:		
Interest received	$ 8,133,659	$ 8,571,591

See accompanying notes to condensed interim consolidated 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 consolidated 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 consolidated financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). The accompanying unaudited condensed interim consolidated financial statements should be read in conjunction with the notes to the Corporation's audited consolidated financial statements for the year ended December 31, 2016, since they do not contain all disclosures required by IFRS for annual financial statements. These unaudited condensed interim consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

These unaudited condensed interim consolidated 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 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 consolidated financial statements were approved by the Board of Directors on May 2, 2017

3. Significant accounting policies:

The accounting policies applied by the Corporation in these unaudited condensed interim consolidated financial statements are the same as those applied by the Corporation in its financial statements for the year ended December 31, 2016.

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, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
Interest receivable	$ 4,678,166	$ 4,272,274
Prepaid expenses	195,214	151,795
Fees receivable	134,731	269,807
Special income receivable	2,766,490	29,315
Amounts receivable and prepaid expenses	$ 7,774,601	$ 4,723,191

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, 2017 is $2,282,545 (December 31, 2016 - $2,200,329). The fair value of the debentures at March 31, 2017 is $2,045,906 (December 31, 2016 - $2,199,937). For the three months ended March 31, 2017, the Corporation recorded an unrealized gain of $93,049 (March 31, 2016 - an unrealized gain of $219,789) with a corresponding increase in other comprehensive income.

During the three months ended March 31, 2017, the Corporation sold part of its debenture portfolio investments for proceeds of $166,205. The carrying value of the investment sold at the time of sale was $164,865 and the Corporation realized a gain on sale of $1,340.

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

6. Investment portfolio:

The following is a breakdown of the investment portfolio as at March 31, 2017 and December 31, 2016:

	March 31, 2017		December 31, 2016	
Conventional first mortgages	$ 334,855,403	72%	$ 336,745,396	75%
Conventional non-first mortgages	56,735,354	12%	46,265,981	10%
Related investments	64,082,313	14%	56,734,231	13%
Discounted debt investments	5,201,525	1%	5,071,525	1%
Non-conventional mortgages	4,451,014	1%	3,937,500	1%
Total investments (at amortized cost)	$ 465,325,609	100%	$ 448,754,633	100%
Impairment provision	(5,085,000)		(4,460,000)	
Investment portfolio	$ 460,240,609		$ 444,294,633	

(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 $5,085,000 as at March 31, 2017 (December 31, 2016 - $4,460,000) 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 specific loans. The Corporation also assessed collectively for impairment. As at March 31, 2017, the Corporation has recognized a collective impairment of $nil (2016 - $nil).

The loans comprising the Investment portfolio bear interest at the weighted average rate of 7.85% per annum (December 31, 2016 - 7.83% per annum) and mature between 2017 and 2021.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to $112,648,584 as at March 31, 2017 (December 31, 2016 - $131,268,094).

Principal repayments based on contractual maturity dates are as follows:

Balance of 2017	$ 21,278,198
2018	291,114,321
2019	143,059,219
2020	8,413,871
2021	1,460,000
	$ 465,325,609

Borrowers who have open loans have the option to repay principal at any time prior to the maturity date without penalty.

7. Bank indebtedness:

The Corporation has entered into credit arrangements of which $39,785,322 has been drawn as at March 31, 2017 (December 31, 2016 - $45,436,612). Interest on bank indebtedness is predominantly charged at a formula rate that varies with bank prime and may have a component with a fixed interest rate established based on a formula linked to bankers' acceptance rates. The credit arrangement comprises a revolving operating facililty, a component of which is a demand facility and a component of which has a committed term to September 30, 2017. Bank indebtedness is secured by a general security agreement. The credit agreement contains certain financial covenants that must be maintained. As at March 31, 2017 and December 31, 2016, the Corporation was in compliance with all financial covenants.

(in Canadian dollars)

8. Convertible debentures:

	Three Months Ended March 31, 2017	Year Ended December 31, 2016
Liability component, beginning of period	$ 162,305,989	$ 139,904,049
Issued	-	21,026,222
Implicit interest rate in excess of coupon rate	100,208	357,767
Deferred finance cost amortization	289,689	1,017,951
Principal balance, end of period	$ 162,695,886	$ 162,305,989

The breakdown of the convertible debentures for the three months ended March 31, 2017 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%	$ 31,243,770	-	$ 9,539	$ 52,136	$ 31,305,445	Oct 31, 2017
5.40%	25,177,718	-	23,087	42,771	25,243,576	Feb 28, 2019
5.25%	19,930,572	-	26,421	33,177	19,990,170	Mar 31, 2019
4.75%	19,300,141	-	15,550	37,515	19,353,206	Mar 31, 2020
5.30%	23,944,422	-	5,022	42,322	23,991,766	May 31, 2022
5.50%	21,676,254	-	11,298	41,176	21,728,728	Dec 31, 2022
5.20%	21,033,112	-	9,291	40,592	21,082,995	Dec 31, 2023
Total	$ 162,305,989	$ -	$ 100,208	$ 289,689	$ 162,695,886	

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

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

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

(in Canadian dollars)

9. 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, 2017:

	# of shares		Amount
Balance, beginning of period	22,490,489	$	236,031,386
New shares from equity offering	1,633,000		23,025,300
Equity offering costs			(1,141,080)
Options exercised in the period	5,000		59,381
New shares issued during the period under Dividend Reinvestment Plan	47,349		643,110
Balance, end of period	24,175,838	$	258,618,097

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

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

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

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

(b) Incentive option plan:

As at March 31, 2017, of the 1,075,000 options granted, the total options excerised to date is 52,750 and the total amount of options forfeited to date is 20,000.

	# of options		Amount
Balance at December 31, 2015	1,063,500	$	100,531
Options exercised	(46,250)		(4,446)
Options forfeited	(10,000)		(962)
Balance at December 31, 2016	1,007,250	$	95,123
Options exercised	(5,000)		(481)
Balance at March 31, 2017	1,002,250	$	94,642

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

The Corporation has a dividend reinvestment plan and direct share purchase plan for its shareholders that 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)

10. 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 three months ended March 31, 2017 and March 31, 2016.

Basic profit per share calculation:

	Three Months Ended	
	March 31, 2017	March 31, 2016
Numerator for basic profit per share:		
Net income and profit for the period	$ 7,026,716	$ 5,014,757
Denominator for basic profit per share:		
Weighted average shares	22,589,499	20,365,544
Basic profit per share	$ 0.311	$ 0.246

Diluted profit per share calculation:

	Three Months Ended	
	March 31, 2017	March 31, 2016
Numerator for diluted profit per share:		
Net income and profit for the period	$ 7,026,716	$ 5,014,757
Interest on convertible debentures	2,635,719	1,769,652
Net profit for diluted profit per share	$ 9,662,435	$ 6,784,409
Denominator for diluted profit per share:		
Weighted average shares	22,589,499	20,365,544
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average share price	160,848	86,979
Assuming debentures are converted	11,331,462	7,878,506
Diluted weighted average shares	34,081,809	28,331,029
Diluted profit per share:	$ 0.284	$ 0.239

11. Dividends:

The Corporation intends to make dividend payments to the shareholders on a monthly basis on or about the 15th day of each following 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, 2017, the Corporation recorded dividends of $5,398,395 (2016 - $4,769,463) to its shareholders. Dividends were $0.234 per share (2016 - $0.234 per share).

12. 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, 2017, this amount was $829,540 (2016 - $773,174). Included in accounts payable and accrued liabilities at March 31, 2017 are amounts payable to the Corporation's Manager of $288,115 (December 31, 2016 - $275,563).

The total directors' fee expensed for the three months ended March 31, 2017 was $64,000 (2015 - $45,750). The listing of the members of the Board of Directors is shown in the annual report for the year ended December 31, 2016. 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, 2017 (December 31, 2016 - 430,946).

During the period ended March 31, 2017, none of the directors were awarded options under the incentive option plan (2016 - nil).

The Mortgage Banker (a company related to officers and/or directors of the Corporation) receives certain fees from the borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all of the commitment and renewal fees generated from the Corporation's investments; and 25% of all of the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income of the Corporation is net of the loan servicing fees paid to the Mortgage Banker of approximately $111,000 for the three months ended March 31, 2017 (2016 - $103,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments.

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

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

Three mortgage investments totaling $4,850,000 (December 31, 2016 - three mortgages investment totaling $4,850,000) were issued to a borrower controlled by an independent director of the Corporation. The investments were made by way of a participation in a direct loan to the entity controlled by the director. The investment is dealt with in accordance with the Corporation's existing investment and operating policies and is personally guaranteed by the director. The Corporation recognized interest and fees earned of $2,903,187 (March 31, 2016 - $162,964) from these investments during the period.

The Corporation also holds a mortgage investment totaling $4,758,000 at March 31, 2017 (classified as Discounted debt investment) that originated from the purchase of a mortgage loan from a schedule 1 bank at a discount to its original principal balance (December 31, 2016 - $4,628,000). The Corporation’s investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that occurred after the purchase of the underlying Schedule 1 bank mortgage. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation. The Corporation recognized interest and fees earned of nil (March 31, 2016 - nil) from this investment during the period. The impairment provision recorded on this loan to $1,190,000 as at March 31, 2017 (December 31, 2016 - $1,190,000). Recoveries under the investment resulting from the sale of the secured real estate will be treated the same as for all non-conventional mortgage investments held by the Corporation.

Key management compensation:

Aggregate compensation for key management personnel (including payments to related parties for their recovery of overhead costs), all consisting of short-term employee compensation, was $498,400 for the quarter ended March 31, 2017 (2015 - $479,519), all of which was paid by the Corporation's Manager and nil by the Corporation.

(in Canadian dollars)

13. Interest expense:

	Three Months Ended	
	March 31, 2017	March 31, 2016
Bank interest expense	$ 368,320	$ 396,248
Loans payable interest expense	-	72,784
Debenture interest expense	2,635,719	2,283,359
Interest expense	**$ 3,004,039**	**$ 2,752,391**
Deferred finance cost amortization - convertible debentures	(289,689)	(251,864)
Implicit interest rate in excess of coupon rate - convertible debentures	(100,208)	(78,172)
Change in accrued interest payable	(538,164)	(42,523)
Cash interest paid	**$ 2,075,978**	**$ 2,379,832**

14. 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.

15. Fair value:

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

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

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

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

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

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

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

(in Canadian dollars)

The tables below present the fair values of the Corporation's financial instruments as at March 31, 2017 and December 31, 2016. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

March 31, 2017	Level 1	Level 2	Level 3	Total
Debenture portfolio investment	$ 2,045,906	-	-	$ 2,045,906
Marketable securities	2,282,545	-	-	2,282,545
Convertible debentures	170,079,288	-	-	170,079,288

December 31, 2016	Level 1	Level 2	Level 3	Total
Debenture portfolio investment	$ 2,199,937	-	-	$ 2,199,937
Marketable securities	2,200,329	-	-	2,200,329
Convertible debentures	168,831,871	-	-	168,831,871

16. Risk management:

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

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

(a) Interest rate risk:

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

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

(i) Interest income risk:

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

(ii) Interest expense risk:

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

(in Canadian dollars)

At March 31, 2017, if interest rates at that date had been 100 basis points lower or higher, with all other variables held constant, comprehensive income and equity for the year would be affected as follows:

	Carrying Value	-1%	+1%
Financial assets:			
Amounts receivable and prepaid expenses	7,774,601	-	-
Marketable securities	2,282,545	-	-
Debenture portfolio investment	2,045,906	-	-
Investment portfolio	460,240,609	-	1,476,510
Financial liabilities:			
Bank indebtedness	39,785,322	397,853	(397,853)
Loan on debenture portfolio investment	1,065,723	10,657	(10,657)
Accounts payable and accrued liabilities	2,789,571	-	-
Shareholders dividends payable	1,885,715	-	-
Convertible debentures	162,695,886	-	-
Total increase		$ 408,510	$ 1,068,000

(b) Credit and operational risks:

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

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

(c) Liquidity risk:

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

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).

(in Canadian dollars)

As at March 31, 2017, 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 $112,648,584 as at March 31, 2017 (December 31, 2016 - $131,268,094). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between investment advances and investment repayments. The bank borrowing line is a committed facility with a maturity date of September 30, 2017. If the loan is not renewed on September 30, 2017, the terms of the facility allow for the Corporation to repay the balance owed on September 30, 2017 within 12 months. In the current economic climate and capital market conditions, there are no assurances that the bank borrowing line will be renewed or that it could be replaced with another lender if not renewed. If it is not extended at maturity, repayments under the Corporation's investment portfolio would be utilized to repay the bank indebtedness. There are limitations in the availability of funds under the revolving line of credit. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing investments creates liquidity for ongoing investments and funding commitments. Loans payable relate to borrowings on specific investments within the Corporation's portfolio and only have to be repaid once the specific loan is paid out by the borrower.

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

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

	Total	Less than 1 year	1-3 years	4 - 6 years
Bank indebtedness	$ 39,785,322	$ 39,785,322	$ -	$ -
Accounts payable and accrued liabilities	2,789,571	2,789,571	-	-
Loan on debenture portfolio investment	1,065,723	1,065,723	-	-
Shareholders dividends payable	1,885,715	1,885,715	-	-
Convertible debentures	168,166,000	31,443,000	66,223,000	70,500,000
Subtotal - Liabilities	$ 213,692,331	$ 76,969,331	$ 66,223,000	$ 70,500,000
Future advances under portfolio	112,648,584	112,648,584	-	-
Liabilities and contractual obligations	$ 326,340,915	$ 189,617,915	$ 66,223,000	$ 70,500,000

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

Interest payments on debentures (assuming the amounts remain unchanged) would be $8,229,965 for less than 1 year, $15,529,494 for 1 to 3 years and $7,082,500 for 4 to 6 years.

(d) Capital risk management:

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

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

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

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

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

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

17. Subsequent event:

During April 2017, an officer of the Corporation exercised 45,000 options at a price of $11.78 per common share for total gross proceeds of approximately $530,100