FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

REPORT TO SHAREHOLDERS

FIRST QUARTER 2018
MARCH 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

OUR BUSINESS

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

The Corporation's primary investment objective is the preservation of shareholders' equity, while providing shareholders with a stable stream of dividends from the Corporation's investments. The Corporation achieves its investment objectives by pursuing a strategy of investing in loans in select niche real estate markets that are under-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 8, 2018 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, 2018 and 2017, the audited financial statements of the Corporation and the notes thereto for the years ended December 31, 2017 and 2016, as well as Management's Discussion and Analysis, including the section on "Risks and Uncertainties", along with each of the quarterly reports for 2017 and 2018.

HIGHLIGHTS

PROFIT

Profit for the three months ended March 31, 2018 was $6,434,989 as compared to $7,026,716 for the same period in the prior year. The Profit for the first quarter of 2017 included the recognition of a one time special income on one of the Corporation's non conventional investments in the amount of $2,737,500. The total special income (other income) for the first quarter of 2017 was $2,835,385 compared to $84,299 for the first quarter of 2018.

INTEREST AND FEES REVENUE

Interest and fees revenue for the quarter ended March 31, 2018 increased by approximately 32% to $11,661,920 as compared to $8,864,988 reported for the same period in 2017. The increase is primarily derived from the growth in the investment portfolio over the comparable quarter for the same period in 2017 and from an increase in the weighted average portfolio interest rate.

INVESTMENT PORTFOLIO

The Corporation's investment portfolio (the "Investment Portfolio") as at March 31, 2018 decreased by $9.22 million to approximately $552.28 million compared to $561.50 million as at December 31, 2017 (gross of impairment provision). The impairment provision as at March 31, 2018 was $6.0 million (December 31, 2017 – $5.7 million).

The Investment Portfolio as at March 31, 2018 increased by approximately 19% in comparison to the first quarter of 2017 which had an Investment Portfolio of $465.33 million (gross of impairment provision).

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, 2018 represents an annualized return on shareholders' equity (based on the month end average shareholders' equity during the quarter) of 9.04%, representing return on shareholders' equity of 744 basis points per annum over the average one year Government of Canada Treasury bill yield of 1.60%.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio totaled $546,284,304 as at March 31, 2018 (net of an impairment loss provision of $6,000,000) compared to $555,801,977 (net of an impairment loss provision of $5,700,000) as at December 31, 2017, representing a decrease of approximately $9.52 million. The March 31, 2018 Investment Portfolio is comprised of 242 investments (251 as at December 31, 2017). The average gross investment size (excluding impairment loss provision) was approximately $2.28 million with 17 investments individually exceeding $7,500,000. 220 out of 242 investments that comprise the investment portfolio individually represent less than 1% of the total Investment Portfolio of the Corporation with 187 of the 242 investments being less than $2.5 million.

	March 31, 2018			December 31, 2017			
Mortgage Amount	**Number**	**Total Amount (before provision)**	**% of Portfolio**	**Number**	**Total Amount (before provision)**	**% of Portfolio**	**% Change**
$0 - $2,500,000	187	$ 160,792,997	29.1%	197	$ 169,511,967	30.2%	(5.1%)
$2,500,001 - $5,000,000	29	$ 104,498,448	18.9%	27	96,807,234	17.2%	7.9%
$5,000,001 - $7,500,000	9	$ 53,036,648	9.6%	10	48,217,047	8.6%	10.0%
$7,500,001 +	17	$ 233,956,211	42.4%	17	246,965,728	44.0%	(5.3%)
	242	**$ 552,284,304**	**100.0%**	**251**	**$ 561,501,977**	**100.0%**	**(1.6%)**

Unadvanced committed funds under the existing Investment Portfolio amounted to $97,451,618, as at March 31, 2018 ($91,953,643 as at December 31, 2017). The vast majority of the Corporation's investments are shared with other syndicate partners, the advantage of which include risk diversification.

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

	March 31, 2018			December 31, 2017			
	Weighted average interest rate	Outstanding amount	Percentage outstanding	*Weighted average interest rate*	Outstanding amount	Percentage outstanding	% Change
Conventional First Mortgages	*7.91%*	$ 420,924,791	76.1%	*7.78%*	$ 427,591,758	76.1%	(1.6%)
Conventional Non-First Mortgages	*9.28%*	52,226,730	9.5%	*9.05%*	57,187,248	10.2%	(8.7%)
Related Investments	*9.86%*	72,089,994	13.1%	*9.73%*	69,636,557	12.4%	3.5%
Discounted Debt Investments*	-	5,349,275	1.0%	-	5,392,900	1.0%	(0.8%)
Non-Conventional Mortgages	*11.36%*	1,693,514	0.3%	*11.11%*	1,693,514	0.3%	(0.0%)
Total Investments	***8.23%***	**$ 552,284,304**	**100.0%**	***8.09%***	**$ 561,501,977**	**100.0%**	**(1.6%)**
Less: Impairment Provision		(6,000,000)			(5,700,000)		
Investment Portfolio		**$ 546,284,304**			**$ 555,801,977**		**(1.7%)**

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

The $9.22 million decrease in the Investment Portfolio (before the impairment provision of $6.0 million at March 31, 2018 and $5.7 million at December 31, 2017) was mainly due to the decrease in the size of the conventional first and conventional non-first mortgages, offset slightly by the increase in the related investment category.

Conventional first mortgages decreased by 1.6% and represented 76.1% of the Corporation's portfolio at March 31, 2018 and at December 31, 2017. Conventional non-first mortgages decreased by 8.7% and represented 9.5% of the Investment Portfolio at March 31, 2018 and 10.2% December 31, 2017. Related investments increased by 3.5% and represented 13.1% of the Corporation's Investment Portfolio in comparison to 12.4% at December 31, 2017. Discounted debt investments decreased by 0.8% and represented 1.0% at March 31, 2018 and December 31, 2017 of the Investment Portfolio. Non-conventional mortgages did not increase nor decrease and represented 0.3% of the Investment Portfolio at March 31, 2018 and at December 31, 2017.

The weighted average face interest rate on the Corporation's Investment Portfolio was 8.23% per annum as at March 31, 2018 compared to 8.09% per annum as at December 31, 2017.

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

	March 31, 2018			December 31, 2017			
Property Type	**Number**	**Total Amount (before provision)**	**% of Portfolio**	**Number**	**Total Amount (before provision)**	**% of Portfolio**	**% Change**
Construction Mortgages	95	$ 170,857,711	30.9%	98	$ 172,550,850	30.7%	(1.0%)
Single Family	54	41,187,269	7.5%	62	47,697,780	8.5%	(13.6%)
Land	58	163,813,454	29.7%	53	156,749,455	27.9%	4.5%
Condo *(Including multi unit condo loans)*	10	41,913,683	7.6%	12	51,686,674	9.2%	(18.9%)
Multi Family Residential Mortgages	5	50,916,793	9.2%	3	45,701,051	8.1%	11.4%
Related Investments	14	72,089,994	13.1%	13	69,636,557	12.4%	3.5%
Other	6	11,505,400	2.0%	10	17,479,611	3.2%	(34.2%)
	242	**$ 552,284,304**	**100.0%**	**251**	**$ 561,501,977**	**100.0%**	**(1.6%)**

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 11.8% of the investments in the portfolio secured by properties outside of Ontario, compared to 13.3% as at December 31, 2017.

	March 31, 2018			December 31, 2017			
Geographic Segment	**Number**	**Total Amount** (before provision)	**% of Portfolio**	**Number**	**Total Amount** (before provision)	**% of Portfolio**	**% Change**
Greater Toronto Area	177	$ 314,802,947	65.6%	186	$ 323,167,700	65.7%	(2.6%)
Non-GTA Ontario	36	108,496,707	22.6%	36	103,225,547	21.0%	5.1%
Quebec	4	21,631,212	4.5%	4	26,357,552	5.4%	(17.9%)
Alberta	6	16,992,234	3.5%	7	17,877,234	3.6%	(5.0%)
Saskatchewan	2	12,652,360	2.6%	2	12,975,036	2.6%	(2.5%)
New Brunswick	1	1,700,000	0.4%	1	4,250,000	0.9%	(60.0%)
British Columbia	1	875,000	0.2%	1	875,000	0.2%	-
Manitoba	1	3,043,850	0.6%	1	3,137,350	0.6%	(3.0%)
Portfolio ***(excluding Related Investments)***	**228**	**$ 480,194,310**	**100.0%**	**238**	**$ 491,865,420**	**100.0%**	
Related Investments	14	72,089,994		13	69,636,557		
	242	**$ 552,284,304**		**251**	**$ 561,501,977**		

The Corporation's investment portfolio as at March 31, 2018 included participation in six mortgage loans on real estate located in Alberta. The Corporation continues to decrease its portfolio size from the seven investments held at December 31, 2017 and 12 investments held at March 31, 2017. The investment amount at March 31, 2018 totals $16.99 million, being 3.5% of the Corporations' mortgage investments and $17.88 million or 3.6% at December 31, 2017. The entire Alberta Portfolio is secured on residential real estate with an average investment size of $2.83 million.

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

	March 31, 2018			December 31, 2017			
Underlying Security Type	**Number**	**Total Amount** (before provision)	**% of Portfolio**	**Number**	**Total Amount** (before provision)	**% of Portfolio**	**% Change**
Residential	214	$ 424,095,105	76.8%	221	$ 435,895,456	77.6%	(2.7%)
Commercial	14	56,099,205	10.2%	17	55,969,964	10.0%	0.2%
Related Investments	14	72,089,994	13.0%	13	69,636,557	12.4%	3.5%
	242	**$ 552,284,304**	**100.0%**	**251**	**$ 561,501,977**	**100.0%**	**(1.6%)**

The residential category includes mortgages on single family dwellings, residential condominiums, residential land, residential construction, and multifamily residential.
The Corporation's strategy is to mitigate loan loss risk by focusing on those areas of mortgage lending that have historically withstood market corrections and retained their underlying real estate asset value while limiting its exposure to those real estate asset classes that do not.

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

Included in related investments is one United States ("US") dollar denominated investment of $6,124,650 (US$4,750,000) (December 31, 2017 – $5,958,875 (US$4,750,000)). The investment is a participation by the Corporation in a limited partnership that has provided preferred equity to a real estate entity in the US. Income recorded on this investment during the quarter was $169,045 (US$133,521) (2017 – nil) and is included in interest and fees.

The Corporation holds a mortgage investment totaling $5,148,000 at March 31, 2018 (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, 2017 – $4,985,500) on which interest payments are not being received. The Corporation’s investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure of the real estate that occurred after the purchase of the mortgage. Recoveries under the investment resulting from the sale of the secured real estate will be treated in the same fashion as that for non-conventional mortgage investments held by the Corporation.

The investment portfolio as at March 31, 2018 had no investments with contractual interest arrears greater than 60 days past due, for which no impairment provision is in place (December 31, 2017 – $2,361,437).

The investment portfolio as at March 31, 2018 includes eight investments totaling $32,389,271 (2017 – six investments of $28,901,947) with maturity dates that are past due and for which no extension or renewal was in place. As at March 31, 2018, three of the investments totaling $12,596,128 (2017 – three investments of $12,918,805) are considered to be impaired and are included in the Corporation’s impairment provision, and the remaining five investments, totaling $19,793,142 (2017 – three investments of $15,983,142) are considered not to be impaired.

As at March 31, 2018, the Investment Portfolio continued to be heavily concentrated in short-term investments with 68.5% of the portfolio maturing by December 31, 2018. The short-term nature of the portfolio provides the Corporation with the ability to continually revolve the portfolio and adapt to changes in the real estate market.

Principal repayments based on contractual maturity dates are as follows:

	March 31, 2018		
	Number	**Total Amount (before provision)**	**% of Portfolio**
Balance of 2018	160	$ 378,309,262	68.5%
2019	75	147,015,614	26.6%
2020	6	21,009,428	3.8%
2021	1	5,950,000	1.1%
	242	**$ 552,284,304**	**100.0%**

A significant number of the Corporation’s investments are shared with other investors of the Mortgage Banker, which may include members of management of the Mortgage Banker and/or officers or directors of the Corporation. The Corporation ranks equally with other members of the syndicate as to receipt of principal, interest, and fees. As at March 31, 2018, 211 of the Corporation’s 242 investments (investment amount of $535,494,612) are shared with other participants, 52 of which (investment amount of $205,595,561), the Corporation is a participant for less than 50 percent of the loan amount.

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

RESULTS OF OPERATIONS

INTEREST AND FEES

For the three months ended March 31, 2018, interest and fees earned increased by 0.4% to $11,746,219 compared to $11,700,373 for the three months ended March 31, 2017. Interest and fees earned for the three months ended March 31, 2018 and March 31, 2017 are broken down as follows:

Three Months Ended		March 31, 2018	%		March 31, 2017	%	% Change
Interest	$	11,145,995	94.9%	$	8,539,551	73.0%	30.5%
Commitment & Renewal Fees		515,925	4.4%		325,437	2.8%	58.5%
Other Income		84,299	0.7%		2,835,385	24.2%	(97.0%)
	$	**11,746,219**	**100.0%**	**$**	**11,700,373**	**100.0%**	**0.4%**

For the three months ended March 31, 2018 interest income was $11,145,995, an increase of 31% from $8,539,551 as reported for the same three month period in the prior comparable period. The increase in interest income is a result of (i) The Corporation holding a larger investment portfolio during the first quarter of 2018 compared to 2017 and (ii) an increase in the weighted average interest rate earned on the investment portfolio over the comparable quarter. For the three months ended March 31, 2018 and March 31, 2017, interest income represents 95% and 73% of the Corporation's revenues, respectively.

For the three months ended March 31, 2018, fee income relating to commitment and renewal fees was $515,925, an increase of 59% from $325,437 as reported for the same three month period in the prior comparable period. As at March 31, 2018, the Corporation had deferred commitment fee revenue of $752,724 (December 31, 2017 – $910,822). 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 deferred revenue on the Corporation's balance sheet. These fees have been received and are not refundable to borrowers.

For the three months ended March 31, 2018, other income was $84,299 (March 31, 2017 – $2,835,385). Other 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 other 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. Other income earned in the first quarter of 2017 was unusually high as a result of the recognition of $2,737,500 of special income earned on one of the Corporation's non-conventional investments.

CORPORATION MANAGER SPREAD INTEREST ALLOCATION

The Corporation Manager, through an interest spread arrangement, received $1,001,035 for the three months ended March 31, 2018, compared to $829,540 for the three months ended March 31, 2017. The increase is generally due to the increase in the size of the Corporation's daily average Investment Portfolio over the comparable period.

INTEREST EXPENSE

For the three months ended March 31, 2018, interest expense increased by 25% to $3,747,160 as compared to $3,004,039 for the three months ended March 31, 2017. Interest expense is higher in 2018 when compared to the same period in the previous year generally as a result of the Corporation having larger loans payable outstanding in 2018 versus 2017. The additional indebtedness that resulted in an increase in interest expense in 2018 allowed the Corporation to hold a larger investment portfolio, which generated additional interest income when compared to 2017. Interest expense is broken down as follows:

Three Months Ended		**March 31, 2018**	**%**		**March 31, 2017**	**%**	**% Change**
Bank Interest Expense	$	533,924	14.3%	$	368,320	12.3%	45.0%
Loan Payable Interest Expense		683,055	18.2%		-		-
Debenture Interest Expense		2,530,181	67.5%		2,635,719	87.7%	(4.0%)
	$	**3,747,160**	**100.0%**	**$**	**3,004,039**	**100.0%**	**24.7%**

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

G&A expenses increased by $45,040 to $261,458 for the three months ended March 31, 2018, compared to the $216,418 reported for the three months ended March 31, 2017.

IMPAIRMENT LOSS ON INVESTMENT PORTFOLIO

An impairment loss of $300,000 was recorded for three months ended March 31, 2018 compared to $625,000 for the three months ended March 31, 2017. The recording of the impairment loss is a result of the Corporation's increasing its impairment provision.

INCOME & PROFIT ("PROFIT")

Profit for the three months ended March 31, 2018 was reported at $6,434,989 as compared to $7,026,716 for the same period in the prior year which represents a decrease of approximately 8%.

Profit for the quarter ended March 31, 2018 represented an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 9.04%. This return on shareholders' equity represents 744 basis points per annum over the average one-year Government of Canada Treasury bill yield of 1.60% and is well in excess of the Corporation's stated target yield objective of 400 basis points per annum over the average one year Government of Canada Treasury bill yield. The above return on shareholders' equity is a non-IFRS financial measure and does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. This non-IFRS measure provides useful information to the Corporation's shareholders as it provides a measure of return generated on the Corporation's equity base.

TOTAL COMPREHENSIVE INCOME

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

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

The change in fair value of marketable securities and the debenture portfolio for the quarter ended March 31, 2018 was a decrease of $458 compared to an increase of $94,389 for the quarter ended March 31, 2017.

PROFIT PER SHARE

Basic weighted average profit per share for the three months ended March 31, 2018, was $0.247, which is 21% lower than the $0.311 per share reported for the three months ended March 31, 2017.

Diluted weighted average profit per share for the three months ended March 31, 2018, was $0.241, which is 15% lower than the $0.284 per share reported for the three months ended March 31, 2017.

QUARTERLY FINANCIAL INFORMATION

($ in millions except per unit amounts)	Mar. 31 2018	Dec. 31 2017	Sep. 30 2017	Jun. 30 2017	Mar. 31 2017	Dec. 31 2016	Sep. 30 2016	Jun. 30 2016
Operating revenue	$ 11.74	$ 11.33	$ 10.92	$ 9.93	$ 11.70	$ 9.33	$ 8.99	$ 8.99
Interest expense	3.75	3.60	3.63	3.01	3.00	2.67	2.59	2.62
Corporation manager spread interest allocation	1.00	0.99	0.94	0.87	0.83	0.83	0.78	0.77
General & administrative expenses	0.26	0.24	0.22	0.28	0.22	0.23	0.21	0.20
Impairment loss on investment portfolio	0.30	0.39	0.23	-	0.63	0.23	-	-
Profit	**$ 6.43**	**$ 6.11**	**$ 5.90**	**$ 5.77**	**$ 7.02**	**$ 5.37**	**$ 5.41**	**$ 5.40**
Profit per share								
- Basic	**$0.247**	**$0.235**	**$0.241**	**$0.238**	**$0.311**	**$0.239**	**$0.241**	**$0.246**
- Diluted	**$0.241**	**$0.232**	**$0.237**	**$0.234**	**$0.284**	**$0.234**	**$0.236**	**$0.240**
Dividends per share	**$0.234**	**$0.304**	**$0.234**	**$0.234**	**$0.234**	**$0.264**	**$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, 2018, the Corporation declared dividends totaling $6,106,738, or $0.234 per share versus $5,398,395 or $0.234 per share for the three months ended March 31, 2017. The number of shares outstanding at March 31, 2018 was 26,097,413, compared to 24,175,838 at March 31, 2017.

Three Months Ended	March 31, 2018	March 31, 2017	Change
Cash Flow From Operating Activities (net of cash interest paid)	$ 6,128,783	$ 5,640,946	**9%**
Profit	$ 6,434,989	$ 7,026,716	**(8%)**
Declared Dividends	$ 6,106,738	$ 5,398,395	**13%**
Excess Cash Flow From Operating Activities Over Declared Dividends	$ 22,045	$ 242,551	
Profit Over Declared Dividends	$ 328,251	$ 1,628,321	

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses totaled $5,649,487 as at March 31, 2018 (comprised of interest receivable of $5,152,876, prepaid expenses of $233,945, fees receivable of $234,445, and other income receivable of $28,221), compared to $5,226,204 as at December 31, 2017.

MARKETABLE SECURITIES

The Corporation holds publicly traded units of one Canadian real estate investment trust. The units were acquired through the exercise of warrants that were granted by the issuers as part of a loan facility in which the Corporation was a participant. The units generate distributions that are consistent with the Corporation's overall yield objective. The $209,737 balance reported on the Corporation's balance sheet as at March 31, 2018 represents the fair value of the marketable securities comprising the portfolio (December 31, 2017 – $210,194). The Corporation's purchase price for the units was $175,025. The approximate average interest yield on the cost of these investments is 10.00% per annum.

BANK INDEBTEDNESS

As at March 31, 2018 and December 31, 2017, bank indebtedness was $55,878,622 and $60,268,468, respectively.

LOANS PAYABLE

As at March 31, 2018, the Corporation had loans payable of $48,207,928 (December 31, 2017 – 51,662,949). First priority charges on specific mortgage investments are granted as security for the loans payable. The loans mature on dates consistent with those of the underlying mortgages. The loans are on a non-recourse basis and bear interest at their contractual rates. The Corporation's principal balance outstanding under the mortgages for which a priority charge has been granted was $63,601,686 at March 31, 2018 (December 31, 2017 – $67,694,104).

CONVERTIBLE DEBENTURES

As at March 31, 2018, the Corporation has seven series of convertible debentures outstanding, as outlined below:

Ticker Symbol	Coupon	Issue Date	Maturity Date	Current Principal	Strike Price Per Share	Accounting Liability
FC.DB.B	5.40%	Aug. 23, 2011	Feb. 28, 2019	$ 25,738,000	$ 14.35	$ 25,512,782
FC.DB.C	5.25%	Mar. 31, 2012	Mar. 31, 2019	20,485,000	14.80	20,234,314
FC.DB.D	4.75%	Mar. 28, 2013	Mar. 31, 2020	20,000,000	15.80	19,569,564
FC.DB.E	5.30%	Apr. 17, 2015	May. 31, 2022	25,000,000	13.95	24,184,185
FC.DB.F	5.50%	Dec. 22, 2015	Dec. 31, 2022	23,000,000	14.00	21,942,567
FC.DB.G	5.20%	Dec. 21, 2016	Dec. 31, 2023	22,500,000	15.25	21,286,065
FC.DB.H	5.30%	Jun. 27, 2017	Aug. 31, 2024	26,500,000	15.25	25,120,654
Total / Average	**5.26%**			**$ 163,223,000**		**$ 157,850,131**

As at March 31, 2018, the principal balance for the outstanding convertible debentures is $163,223,000. The recorded convertible debenture liability as at March 31, 2018 is $157,850,131, compared to $157,464,904 as at December 31, 2017. The weighted average effective interest rate is 5.26% per annum (5.26% as at December 31, 2017).

OTHER LIABILITIES

Other liabilities for the Corporation include the following:

Additional Liabilities	March 31, 2018	December 31, 2017	% Change
Accounts Payable and Accrued Liabilities	$ 2,239,506	$ 2,649,558	(15%)
Deferred Revenue	1,136,459	1,294,556	(12%)
Shareholders Dividend Payable	2,035,598	3,857,518	(47%)
Total	**$ 5,411,563**	**$ 7,801,632**	**(31%)**

Accounts payable and accrued liabilities decreased by 15% to $2,239,506 as at March 31, 2018, compared to $2,649,558 as at December 31, 2017. Accounts payable and accrued liabilities include interest payable of $1,557,912 and accrued liabilities of $681,594.

Deferred revenue (the majority of which relates to commitment fees generated on the Corporation's mortgage investments) decreased by 12% to $1,136,459 as at March 31, 2018 compared to $1,294,556 as at December 31, 2017. 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 deferred revenue on the Corporation's balance sheet.

SHAREHOLDERS' EQUITY

Shareholders' equity at March 31, 2018 totaled $284,795,284 compared to $284,040,422 as at December 31, 2017. The Corporation had 26,097,413 shares issued and outstanding as at March 31, 2018 compared to 26,064,310 as at December 31, 2017. The increase in shares is attributable to shares issued as part of the At-The-Market ("ATM") share issue program and shares issued under the dividend reinvestment plan and stock option plan.

IMPAIRMENT LOSS

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

The investment portfolio is stated at amortized cost. The impairment provision in the amount of $6,000,000 as at March 31, 2018 (December 31, 2017 - $5,700,000), of which $5,482,505 represents the total amount of management's estimate of the shortfall between the investment balances plus accrued interest and the estimated recoverable amount from the security under the loans broken down as follows:

	March 31, 2018		December 31, 2017	
	Outstanding amount		Outstanding amount	
Conventional First Mortgages	$	3,819,497	$	3,620,866
Conventional Non-First Mortgages		-		-
Related Investments		-		-
Discounted Debt Investments		1,180,000		1,180,000
Non-Conventional Mortgages		483,008		499,134
Total Specific Provision	**$**	**5,482,505**	**$**	**5,300,000**
Collective Provision		-		400,000
IFRS 9 Provision		517,495		-
Total Provision	**$**	**6,000,000**	**$**	**5,700,000**

The $5,482,505 comprises a provision against principal of $3,903,008 (December 31, 2017 – $4,019,134) and interest receivable on mortgages in default of $1,579,497 (December 31, 2017 – $1,280,866).

The Corporation also assessed collectively for impairment to identify potential future losses, by grouping the investment portfolio with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Corporation used judgement to determine the amounts calculated. As at March 31, 2018, the Corporation carries an IFRS 9 provision balance of $517,495. As at December 31, 2017, there was a collective provision of $400,000.

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 increased to $6,000,000 as at March 31, 2018 (December 31, 2017 – $5,700,000) and represents the total amount of management’s estimate of the shortfall between the Investment Portfolio principal balances and the estimated net realizable recovery from the collateral securing the loans. The impairment provision represents approximately 1% of the Investment Portfolio balance.

RELATED PARTY TRANSACTIONS

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

The Corporation'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, this amount was $1,001,035 (March 31, 2017 – $829,540). Included in accounts payable and accrued liabilities at March 31, 2018 are amounts payable to the Corporation's Manager of $346,942 (December 31, 2017 – $341,367).

For the three months ended March 31, 2018, the total directors' fees expensed were $71,000 (2017 – $64,000). Key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. As at March 31, 2018, the Directors held 481,834 shares in the Corporation (December 31, 2017 – 481,768).

For the three months ended March 31, 2018, no options were issued under the incentive option plan (2017 – 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 $133,000 for the three month ended March 31, 2018 (2017 – $111,000). 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.

During the three months ended March 31, 2018, two mortgage investments totaling $1,400,000 (December 31, 2017- two mortgages investment totaling $1,400,000) that were issued to a borrower controlled by an independent director of the Corporation were fully repaid.

The Corporation holds a mortgage investment totaling $5,148,000 at March 31, 2018 (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, 2017 – $4,985,500). The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure that occurred after the purchase of the underlying Schedule 1 bank mortgage. The Corporation is a pari passu participant in the mortgage, having the same rights as all other participants in the loan. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation, and for this reason, the borrower is classified as a related party. For the three months ended March 31, 2018, the Corporation recognized interest and fees earned of nil (March 31, 2017 – nil) from this investment. The impairment provision recorded on this loan was $1,180,000 as at March 31, 2018 (December 31, 2017 – $1,180,000). 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.

For the three months ended March 31, 2018, aggregate compensation paid to key management personnel (including payments to related parties for their recovery of overhead costs), all consisting of short-term employee compensation, was $552,449 (2017 – $498,400), all of which was paid by the Corporation's Manager and nil by the Corporation.

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

INCOME TAXES

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

CRITICAL ACCOUNTING ESTIMATES

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

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

In addition to those estimates, assumptions and judgements listed in the consolidated financial statements for the year ended December 31, 2017, the Corporation has identified new judgement areas as a result of the adoption of IFRS 9 as follows:

CLASSIFICATION & MEASUREMENT OF FINANCIAL ASSETS

Mortgage investments and other loans are classified based on the business model for managing assets and the contractual cash flow characteristics of the asset. The Corporation exercises judgment in determining both the business model for managing the assets and whether cash flows comprise solely of principal and interest.

MEASUREMENT OF EXPECTED CREDIT LOSS

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination.

The determination of a significant increase in credit risk takes into account different factors and varies by nature of investment. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due as well as other criteria, such as watch list status and changes in probability-weighted probability of default since origination.

The assessment of significant increase in credit risk requires experienced credit judgment. In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, the Corporation must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic inputs, such as house price indices.

FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

The tables in note 16 of the financial statements present the fair values of the Corporation's financial instruments as at March 31, 2018 and December 31, 2017. 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, 2018 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 6 years
Bank indebtedness	$ 55,878,622	$ 55,878,622	$ -	$ -
Accounts payable and accrued liabilities	2,239,506	2,239,506	-	-
Shareholder dividends payable	2,035,598	2,035,598	-	-
Loans payable	48,207,928	39,239,227	8,968,701	-
Convertible debentures	163,223,000	25,738,000	40,485,000	97,000,000
Subtotal - Liabilities	$271,584,654	$125,130,953	$ 49,453,701	$97,000,000
Future advances under portfolio	97,451,618	97,451,618	-	-
Liabilities and contractual obligations	$369,036,272	$222,582,571	$ 49,453,701	$97,000,000

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are described in note 3 of the Corporation's financial statements for the three months ended March 31, 2018 and year ended December 31, 2017.

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, 2018, the Corporation had not utilized its full leverage availability, being a maximum of 50% of its first mortgage investments. Unadvanced committed funds under the existing Investment Portfolio amounted to $97,451,618 as at March 31, 2018 (December 31, 2017 - $91,953,643). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments under the Investment Portfolio. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between mortgage advances and mortgage repayments. There are limitations in the availability of funds under the revolving line of credit, which is made up of a committed component and a demand component. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing investments and funding commitments.

RISKS AND UNCERTAINTIES

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

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

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

Conventional Non-First Mortgage investments to a maximum of 30% of the Corporation's capital, subject to the Board of Directors' approval for any modifications to the operating policies.

- *Reliance on Borrowers. After the funding of an investment, we rely on borrowers to maintain adequate insurance and proper adherence to environmental regulations during the ongoing management of their properties.*
- *Credit Risk. The Investment portfolio is exposed to credit risk. Credit risk is the risk that a counterparty to a financial investment will fail to fulfill its obligations or Commitment, resulting in a financial loss to the corporation.*
- *Change in Legislation. There can be no assurance that certain laws applicable to the Corporation, including Canadian federal and provincial tax legislation, commodity and sales tax legislation, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation thereof, will not change in a manner that will adversely affect the Corporation or fundamentally alter the tax consequences to shareholders acquiring, holding or disposing of Shares.*
- *Currency risk. Currency risk is the risk that the fair value or future cash flows of the Corporation's foreign currency-denominated investments and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates. Consequently, the Company is subject to currency fluctuations that may impact its financial position and results of operations. The Corporation manages its currency risk on its investments by borrowing the same amount as the investment in the same currency. As a result, a change in exchange rate of the Canadian dollar against the U.S. dollar will not change the net income and comprehensive income and equity. As a result, a change in exchange rate of the Canadian dollar against the U.S. dollar will not result in a material change to the net income and comprehensive income and equity.*

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures, and controls to ensure that the information used internally by management and disclosed externally is complete, reliable, and timely. In addition, the Corporation's Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Corporation, and have reviewed and approved this MD&A as well as the unaudited condensed interim consolidated financial statements as at March 31, 2018 and 2017.

CONTROLS AND PROCEDURES

The Corporation maintains appropriate information systems, procedures, and controls to ensure that information disclosed externally is complete, reliable, and timely. The Corporation's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operating effectiveness of the Corporation's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2017 and March 31, 2018 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, 2018. 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, 2018 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 2018 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

The Corporation will continue to focus on the composition of the Corporation's portfolio, with a focus on risk management and exit strategies. The Mortgage Banker is aware of the significant historical increase in real estate valuations in certain geographical and asset segments and is factoring this into its mortgage underwriting and structuring.

We continue to seek investments that provide both an adequate return as well as the required degree of safety for our shareholders. Our focus is on participating in investments that meet our investment criteria, even if that results in a reduction in the size of the portfolio.

The thirty years of origination history of the Mortgage Banker provides it with a vast amount of transactions to look at before one is selected.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Condensed Interim Consolidated Balance Sheets

(in Canadian dollars)

(Unaudited)

As at		**March 31, 2018**		**December 31, 2017**
				(Audited)
Assets				
Amounts receivable and prepaid expenses (note 4)	$	5,649,487	$	5,226,204
Marketable securities (note 5)		209,737		210,194
Investment portfolio (note 6)		546,284,304		555,801,977
Total assets	$	552,143,528	$	561,238,375
Liabilities				
Bank indebtedness (note 7)	$	55,878,622	$	60,268,468
Accounts payable and accrued liabilities		2,239,506		2,649,558
Deferred revenue		1,136,459		1,294,556
Shareholders' dividends payable		2,035,598		3,857,518
Loans payable (note 8)		48,207,928		51,662,949
Convertible debentures (note 9)		157,850,131		157,464,904
Total liabilities	$	267,348,244	$	277,197,953
Shareholders' Equity				
Common shares (note 10)	$	281,804,314	$	281,377,245
Equity component of convertible debentures		2,780,000		2,780,000
Stock options (note 10)		93,556		93,556
Contributed surplus		76,276		76,276
Surplus / (Deficit)		6,425		(321,826)
Accumulated other comprehensive income		34,713		35,171
Total shareholders' equity	$	284,795,284	$	284,040,422
Commitments (note 6)				
Contingent liabilities (note 15)				
Total liabilities and shareholders' equity	$	552,143,528	$	561,238,375

See accompanying notes to condensed interim consolidated financial statements.

On behalf of the Directors:

"Eli Dadouch"	*"Jonathan Mair"*
ELI DADOUCH	JONATHAN MAIR
Director	Director

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Condensed Interim Consolidated Statements of Income

(in Canadian dollars)

(Unaudited)

		March 31, 2018		March 31, 2017
Revenues				
Interest and fees	$	11,661,920	$	8,864,988
Other income		84,299		2,835,385
Realized gains on disposal of debenture portfolio investments (note 5)		--		1,340
		11,746,219		11,701,713
Operating expenses				
Corporation manager spread interest allocation (note 13)		1,001,035		829,540
Interest expense (note 14)		3,747,160		3,004,039
General and administrative expenses		261,458		216,418
Realized foreign exchange loss		1,577		--
Impairment loss on investment portfolio (note 6)		300,000		625,000
	$	5,311,230	$	4,674,997
Income and profit for the period	$	6,434,989	$	7,026,716
Profit per share (note 11)				
Basic		$0.247		$0.311
Diluted		$0.241		$0.284

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)

	March 31, 2018	March 31, 2017
Income and profit for the period	$ 6,434,989	$ 7,026,716
Other comprehensive income:		
Change in fair value of available for sale marketable securities and debenture investments (note 5)	(458)	94,389
Realized gains on disposal of marketable securities and debenture investments reclassified to income (note 5)	--	(1,340)
Total Comprehensive income for the period	$ 6,434,531	$ 7,119,765

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 (Deficit)	Accumulated other comprehensive income	Shareholders' equity
Balance at January 1, 2018	$ 281,377,245	$ 2,780,000	$ 93,556	$ 76,276	($321,826)	35,171	284,040,422
Issuance of shares	425,291	-	-	-	-	-	425,291
Offering costs	(8,505)	-	-	-	-	-	(8,505)
Proceeds from issuance of shares from dividend reinvestment	10,283	-	-	-	-	-	10,283
Change in fair value of available for sale marketable securities and debenture investments (note 5)	-	-	-	-	-	(458)	(458)
Income and profit for the period	-	-	-	-	6,434,989	-	6,434,989
Dividends to shareholders	-	-	-	-	(6,106,738)	-	(6,106,738)
Balance at March 31, 2018	**$ 281,804,314**	**$ 2,780,000**	**$ 93,556**	**$ 76,276**	**6,425**	**$ 34,713**	**$ 284,795,284**
Shares issued and outstanding (note 10)	26,097,413						

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Surplus (Deficit)	Accumulated other comprehensive income (loss)	Shareholders' equity
Balance at January 1, 2017	$ 236,031,386	$ 2,800,000	$ 95,123	$ 1,924	($321,826)	363,244	$ 238,969,851
Issuance of shares	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 10 (b))	59,381	-	(481)	-	-	-	58,900
Change in fair value of available for sale marketable securities and debenture investments (note 5)	-	-	-	-	-	94,389	94,389
Realized gains on disposal of marketable securities and debenture investments reclassified to income	-	-	-	-	-	(1,340)	(1,340)
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 10)	24,175,838						

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, 2018	March 31, 2017
Cash provided by (used in):		
Operating activities:		
Income and profit for the period	$ 6,434,989	$ 7,026,716
Adjustments for:		
Financing costs (net of implicit interest rate and deferred finance cost amortization)	3,361,933	2,614,142
Implicit interest rate in excess of coupon rate - convertible debentures (note 9)	102,084	100,208
Deferred finance cost amortization - convertible debentures (note 14)	283,143	289,689
Change in impairment loss on investment portfolio	300,000	625,000
Realized gains on disposal of debenture portfolio investments (note 5)	--	(1,340)
Net change in non-cash operating items:		
Accrued interest payable	280,719	(538,164)
Receivable and prepaid expenses	(423,283)	(3,051,410)
Accounts payable and accrued liabilities	(410,053)	687,941
Deferred revenue	(158,097)	(35,858)
Net cash flow from operating activities	9,771,435	$ 7,716,924
Financing activities:		
Issuance of shares in new offerings	425,291	23,025,300
Issuance of shares from dividend reinvestment	10,283	643,110
Exercise of stock options	--	58,900
Equity offering costs	(8,505)	(1,141,080)
Funding (repayment) of loans payable (net)	(3,455,021)	--
Repayment of loan on debenture portfolio	--	(229,461)
Cash interest paid (note 14)	(3,642,652)	(2,075,978)
Dividends to shareholders paid during the period (note 12)	(7,928,658)	(5,941,653)
Net cash flow from financing activities	$ (14,599,262)	$ 14,339,138
Investing activities:		
Disposition (acquisition) of debenture portfolio investments	--	166,205
Funding of investment portfolio	(42,481,232)	(58,311,184)
Discharging of investment portfolio	51,698,905	41,740,207
Net cash flow used in investing activities	$ 9,217,673	$ (16,404,772)
Net increase in cash flow for the period	$ 4,389,846	$ 5,651,290
Bank indebtedness, beginning of period	(60,268,468)	(45,436,612)
Bank indebtedness, end of period	$ (55,878,622)	$ (39,785,322)

Cash flows from operating activities include:

Interest received	$ 10,708,315	$ 8,133,659

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, 2017, 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 8, 2018.

3. Significant accounting policies:

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those used in the Corporation’s audited consolidated financial statements for the year ended December 31, 2017 as described in Note 3 of the Corporation’s consolidated financial statements, except for changes to the accounting for financial instruments resulting from the adoption of IFRS 9, Financial Instruments (IFRS 9). IFRS 9 has resulted in changes in accounting policies related to the classification and measurement and impairment of financial assets. The Corporation adopted IFRS 9 effective January 1, 2018, without restatement of comparative periods. Changes in accounting policies resulting from the adoption of IFRS 9 as of January 1, 2018 are described below:

Classification & Measurement of Financial Assets

Recognition and initial measurement

The Corporation on the date of origination or purchase recognizes loans, debt and equity securities, deposits and subordinated debentures at the fair value of consideration paid. Regular-way purchases and sales of financial assets are recognized on the settlement date. All other financial assets and liabilities are initially recognized on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The initial measurement of a financial asset or liability is at fair value plus transaction costs that are directly attributable to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss.

Financial assets include both debt and equity instruments.

Debt instruments

Debt instruments, including loans and debt securities, are classified into one of the following measurement categories:
(i) Amortized cost;
(ii) Fair value through other comprehensive income (FVOCI); or
(iii) Fair value through profit or loss (FVTPL) for trading related assets.

Classification of debt instruments is determined based on:
(i) The business model under which the asset is held; and
(ii) The contractual cash flow characteristics of the instrument.

Business model assessment

Business model assessment involves determining whether financial assets are managed in order to generate cash flows from collection of contractual cash flows. The Corporation takes into consideration the following factors:

(i) How the performance of assets in a portfolio is evaluated and reported;

(ii) The risks that affect the performance of assets held within a business model and how those risks are managed; and

(iii) Whether the assets held for trading purposes.

Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments.

Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In performing this assessment, the Corporation takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement. If the Corporation identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments measured at amortized cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization is included in Interest income in the Consolidated Statement of Income.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (ACL) in the Condensed Interim Consolidated Balance Sheets.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive Income (OCI), unless the instrument is designated in a fair value hedge relationship.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Condensed Interim Consolidated Balance Sheets, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognised in OCI with a corresponding charge to Provision for impairment losses in the Consolidated Statement of Income. The accumulated allowance recognised in OCI is recycled to the Consolidated Statement of Income upon derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. These instruments are measured at fair value in the Condensed Interim Consolidated Balance Sheets, with transaction costs recognized immediately in the Consolidated Statement of Income as part of Non-interest income. Realized and unrealized gains and losses are recognized as part of Non-interest income in the Consolidated Statement of Income.

Equity instruments

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase. For equity instruments measured at FVTPL, changes in fair value are recognized as part of Non-interest income in the Consolidated Statement of Income.

The Corporation can elect to classify non-trading equity instruments at FVOCI. This election will be used for certain equity investments for strategic or longer term investment purposes. The FVOCI election is made upon initial recognition on an instrument-by instrument basis and once made is irrevocable.

Impairment

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – Where there has not been a significant increase in credit risk (SIR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SIR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Measurement of expected credit loss

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Macroeconomic factors

In its models, the Corporation relies on forward looking information as economic inputs, such as house price indices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement.

Assessment of significant increase in credit risk (SIR)

At each reporting date, the Corporation assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macro- economic factors, management judgement and delinquency and monitoring.

The common assessments for SIR on investment portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Presentation of allowance for credit losses in the Statement of Financial Position

(i) Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the financial assets;

(ii) Debt instruments measured at fair value through other comprehensive income: no allowance is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the allowance determined is presented in the accumulated other comprehensive income.

Definition of default

The Corporation considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

(i) significant financial difficulty of the borrower;

(ii) default or delinquency in interest or principal payments;

(iii) high probability of the borrower entering a phase of bankruptcy or a financial reorganization;

(iv) measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Corporation considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

(in Canadian dollars)

Transition to IFRS 9

Reconciliation of IAS 39 to IFRS 9

The following table provides the impact from the transition to IFRS 9 on the Condensed Interim Consolidated Balance Sheets at transition date, January 1, 2018. The impact consists of reclassification and remeasurement.

Reclassification and remeasurement

These adjustments reflect the movement of balances between categories and changes to carrying values of the items on the Condensed Interim Consolidated Balance Sheets with an impact to shareholder's equity.

As at January 1, 2018	Note	IAS 39 Measurement basis	IAS 39 Carrying amount	Reclassification	Remeasurement	IFRS 9 Carrying amount	IFRS 9 Measurement basis
Assets							
Amounts receivable and prepaid expenses	4	Loans and receivables	$ 5,226,204	$ -	$ -	$ 5,226,204	Amortized cost
Marketable securities	5	Available for sale	210,194	-	-	210,194	FVTPL
Investment portfolio	6	Loans and receivables	555,801,977	(6,518,875)	-	549,283,102	Amortized cost
Investment portfolio	6	Loans and receivables	-	6,518,875	-	6,518,875	FVTPL
Total assets			$ 561,238,375	$ -	$ -	$ 561,238,375	
Liabilities							
Bank indebtedness	7	Other Liabilities	$ 60,268,468	-	-	$ 60,268,468	Amortized cost
Accounts payable and accrued liabilities		Other Liabilities	2,649,558	-	-	2,649,558	Amortized cost
Deferred revenue		Other Liabilities	1,294,556	-	-	1,294,556	Amortized cost
Shareholders' dividends payable		Other Liabilities	3,857,518	-	-	3,857,518	Amortized cost
Loans payable	8	Other Liabilities	51,662,949	-	-	51,662,949	Amortized cost
Convertible debentures	9	Other Liabilities	157,464,904	-	-	157,464,904	Amortized cost
Total liabilities			$ 277,197,953	$ -	$ -	$ 277,197,953	
Shareholders' Equity							
Common shares	10		$ 281,377,245	-	-	$ 281,377,245	
Equity component of convertible debentures			2,780,000	-	-	2,780,000	
Stock options	10		93,556	-	-	93,556	
Contributed surplus			76,276	-	-	76,276	
Impact of adoption of IFRS 9			-	-	-	-	
Deficit			(321,826)	-	-	(321,826)	
Accumulated other comprehensive income			35,171	-	-	35,171	
Total shareholders' equity			$ 284,040,422	$ -	$ -	$ 284,040,422	
Total liabilities and shareholders' equity			$ 561,238,375	$ -	$ -	$ 561,238,375	

(in Canadian dollars)

Recognition of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the closing impairment loss allowance for financial assets in accordance with IAS 39 and provisions for loan commitment and financial guarantee contracts in accordance with IAS 39 Provisions, Contingent Liabilities and Contingent Assets as at December 31. 2017 to the opening allowance for credit losses as at January 1, 2018:

	Impairment allowance under IAS 39 as at December 31, 2017	Remeasurement	Impairment allowance under IFRS 9 as at January 1, 2018
Investment portfolio	$ 5,700,000	$ -	$ 5,700,000
Total	$ 5,700,000	$ -	$ 5,700,000

4. Amounts receivable and prepaid expenses:

The following is a breakdown of amounts receivable and prepaid expenses as at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Interest receivable	$ 5,152,876	$ 4,715,194
Prepaid expenses	233,945	233,836
Fees receivable	234,445	254,097
Special profit income receivable	28,221	23,077
Amounts receivable and prepaid expenses	$ 5,649,487	$ 5,226,204

5. Marketable securities and debenture portfolio investments:

The Corporation holds units in publicly traded real estate investment trusts (marketable securities), which are classified as available for sale. The fair value of the marketable securities is based on the closing price of the investments, which are actively traded in the marketplace and any adjustments to fair value are reflected in the Statements of Comprehensive Income until the investments are disposed of or impaired, at which time the Corporation records the change in fair value in the Statements of Income. The fair value of the marketable securities at March 31, 2018 is $209,737 (December 31, 2017 - $210,194). For the three months ended March 31, 2018, the available for sale marketable securities decreased in fair value by $458 (March 31, 2017 - unrealized gain of $94,389) with a corresponding decrease in other comprehensive income.

As at March 31, 2018, the Corporation did not hold any debenture portfolio investments (December 31, 2017 - nil).

The Corporation had a margin loan against the debenture portfolio which was fully paid out in the second quarter of 2017. The current interest rate on this loan is equal to the Bank of Canada's overnight rate plus a spread. The effective rate is equal to 1.5% per annum.

(in Canadian dollars)

6. Investment portfolio:

The following is a breakdown of the investment portfolio as at March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	IFRS 9		IAS 39	
Conventional first mortgages	$ 420,924,791	76.1%	$ 427,591,758	76.1%
Conventional non-first mortgages	52,226,730	9.5%	57,187,248	10.2%
Related investments	65,405,344	11.8%	69,636,557	12.4%
Discounted debt investments	5,349,275	1.0%	5,392,900	1.0%
Non-conventional mortgages	1,693,514	0.3%	1,693,514	0.3%
Total investments (at amortized cost)	545,599,654		$ 561,501,977	
Impairment provision	(6,000,000)		(5,700,000)	
Total investments (at amortized cost), net	539,599,654		555,801,977	
Related investments (at FVTPL)	6,684,650	1.3%		
Total investments (at FVTPL)	6,684,650			
Investment portfolio	$ 546,284,304	100%	$ 555,801,977	100%
By geography:				
Canada	$ 540,159,654	98.9%	$ 549,843,102	98.9%
United States	6,124,650	1.1%	5,958,875	1.1%
Total	$ 546,284,304	100%	$ 555,801,977	100%

The amounts for the period ended March 31, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated.

Included in total investments (at FVTPL) is one United States ("US") dollar denominated investment of $6,124,650 (US$4,750,000) (December 31, 2017 - $5,958,875 (US$4,750,000)). The investment is a participation by the Corporation in a limited partnership that has provided preferred equity to a real estate entity in US. Income recorded on this investment during the period is $169,045 (US$133,521) (March 31, 2017 - nil) and is included in interest and fees. Additionally, there is a $560,000 (December 31, 2017 - $560,000) investment in one construction project.

As at March 31, 2018, $63,601,686 (December 31, 2017 - $67,694,104) of the mortgages within the conventional first mortgage portfolio have first priority syndicate participations totaling $48,207,928 (December 31, 2017 - $51,662,949) (recorded on the Corporation's balance sheets as loans payable) (see note 8). The Corporation's net investment in these mortgages is $15,393,758 (December 31, 2017 - $16,031,155).

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 amounts for the period ended March 31, 2018 have been prepared in accordance with IFRS 9. The following is a breakdown of the investment portfolio:

	March 31, 2018		
($ millions)	Gross carrying amount	Allowance for credit losses	Net carrying amount
Conventional first mortgages	$ 420,924,791	$ 4,336,992	$ 416,587,799
Conventional non-first mortgages	52,226,730	-	52,226,730
Related investments	72,089,994	-	72,089,994
Discounted debt investments	5,349,275	1,180,000	4,169,275
Non-conventional mortgages	1,693,514	483,008	1,210,506
Total investment portfolio (at amortized cost)	$ 552,284,304	$ 6,000,000	$ 546,284,304

The amounts for the period ended December 31, 2017 have been prepared in accordance with IAS 39; prior period amounts have not been restated. The following is a breakdown of the investment portfolio:

	December 31, 2017		
($ millions)	Gross carrying amount	Allowance for credit losses	Net carrying amount
Conventional first mortgages	$ 427,591,758	$ 3,620,866	$ 423,970,892
Conventional non-first mortgages	57,187,248	-	57,187,248
Related investments	69,636,557	-	69,636,557
Discounted debt investments	5,392,900	1,180,000	4,212,900
Non-conventional mortgages	1,693,514	499,134	1,194,380
Collective provision		400,000	(400,000)
Total	$ 561,501,977	$ 5,700,000	$ 555,801,977

The following is a breakdown of the allowance for credit losses of the investment portfolio as at March 31, 2018:

	March 31, 2018		
($ millions)	Gross impaired loans	Allowance for credit losses	Net
Conventional first mortgages	$ 32,228,619	$ 4,336,992	$ 27,891,627
Conventional non-first mortgages	-	-	-
Related investments	-	-	-
Discounted debt investments	5,148,000	1,180,000	3,968,000
Non-conventional mortgages	1,000,000	483,008	516,992
Total investment portfolio	$ 38,376,619	$ 6,000,000	$ 32,376,619
By geography:			
Canada	$ 38,376,619	$ 6,000,000	$ 32,376,619
United States	-	-	-
Total	$ 38,376,619	$ 6,000,000	$ 32,376,619

The amounts for the period ended March 31, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated.

The following is a breakdown of the allowance for credit losses of the investment portfolio as at December 31, 2017:

	December 31, 2017		
($ millions)	Gross carrying amount	Allowance for credit losses	Net carrying amount
Conventional first mortgages	$ 22,983,809	$ 3,620,866	$ 19,362,943
Conventional non-first mortgages	-	-	-
Related investments	-	-	-
Discounted debt investments	4,985,500	1,180,000	3,805,500
Non-conventional mortgages	1,000,000	499,134	500,866
Collective provision		400,000	(400,000)
Total	$ 28,969,309	$ 5,700,000	$ 23,269,309
By geography:			
Canada	$ 28,969,309	$ 5,700,000	$ 23,269,309
United States	-	-	-
Total	$ 28,969,309	$ 5,700,000	$ 23,269,309

The following table presents the gross carrying amount of loans as at March 31, 2018:

Gross carrying amount	As at March 31, 2018			
($ millions)	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	$ 330,692,564	$ 67,664,595	$ 22,567,632	$ 420,924,791
Conventional non-first mortgages	48,886,878	3,339,852	-	52,226,730
Related investments	65,405,344	-	-	65,405,344
Discounted debt investments	201,275	-	5,148,000	5,349,275
Non-conventional mortgages	693,514	-	1,000,000	1,693,514
Total	$ 445,879,575	$ 71,004,447	$ 28,715,632	$ 545,599,654
By geography:				
Canada	$ 445,879,575	$ 71,004,447	$ 28,715,632	$ 545,599,654
United States	-	-	-	-
Total	$ 445,879,575	$ 71,004,447	$ 28,715,632	$ 545,599,654

The following table presents the allowance for credit losses on loans as at March 31, 2018:

Allowances for credit losses on loans	As at March 31, 2018			
($ millions)	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	$ 517,495	$ -	$ 3,819,497	$ 4,336,992
Conventional non-first mortgages	-	-	-	-
Related investments	-	-	-	-
Discounted debt investments	-	-	1,180,000	1,180,000
Non-conventional mortgages	-	-	483,008	483,008
Total	$ 517,495	$ -	$ 5,482,505	$ 6,000,000
By geography:				
Canada	$ 517,495	$ -	$ 5,482,505	$ 6,000,000
United States	-	-	-	-
Total	$ 517,495	$ -	$ 5,482,505	$ 6,000,000

The following table presents the changes to the allowance for credit losses on loans as at March 31, 2018:

The changes to the allowance	As at March 31, 2018			
($ millions)	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	$ 400,000	$ -	$ 5,300,000	$ 5,700,000
Provision for credit losses	117,495	-	182,505	300,000
Transfer to (from):	-	-	-	-
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Balance, end of period	$ 517,495	$ -	$ 5,482,505	$ 6,000,000

The investment portfolio is stated at amortized cost. The impairment provision is $6,000,000 as at March 31, 2018 (December 31, 2017 - $5,700,000), of which $5,482,505 represents the total amount of management's estimate of the shortfall between the investment balances and the estimated recoverable amount from the security under the specific loans. The $5,482,505 comprises a provision against principal of $3,903,008 (December 31, 2017 - $4,019,134) and accrued interest receivable on mortgages in default of $1,579,497 (December 31, 2017 - $1,280,866).

The Corporation also assessed collectively for impairment to identify potential future losses, by grouping the investment portfolio with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Corporation used judgement to determine the amounts calculated. As at March 31, 2018, the Corporation carries a collective impairment loss provision balance of $517,495 (December 31, 2017 - $400,000).

The loans comprising the Investment portfolio bear interest at the weighted average rate of 8.23% per annum (December 31, 2017 - 8.09% per annum) and mature between 2018 and 2021.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to $97,451,618 as at March 31, 2018 (December 31, 2017 - $91,953,643).

Principal repayments based on contractual maturity dates are as follows:

Balance of 2018	$ 378,309,262
2019	147,015,614
2020	21,009,428
2021	5,950,000
	$ 552,284,304

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

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

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

As at March 31, 2018, the carrying value of the priority participants' interests in the Corporation's investment portfolio and loans payable is $48,207,928 (December 31, 2017 - $51,662,949).

The investment portfolio as at March 31, 2018 had no investments with contractual interest arrears greater than 60 days past due (December 31, 2017 - totaling $2,361,437), for which no impairment is in place (2017 - nil).

The investment portfolio as at March 31, 2018 includes eight investments totaling $32,389,271 (December 31, 2017 - six investments totaling $28,901,947) with maturity dates that are past due and for which no extension or renewal was in place. As at March 31, 2018, three of the investments totaling $12,596,128 (December 31, 2017 - three investment of $12,918,805) are considered to be impaired and are included in the Corporation's impairment provision, and the remaining five investments, totaling $19,793,142 (December 31, 2017 - $15,983,142) are considered not to be impaired.

As at March 31, 2018, 211 of the Corporations' 242 investments (investment amount of $535,494,612) are shared with other participants.

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

7. Bank indebtedness:

The Corporation has entered into credit arrangements of which $55,878,622 has been drawn as at March 31, 2018 (December 31, 2017 - $60,268,468). Interest on bank indebtedness is predominantly charged at a rate that varies with bank prime and may have a component with a fixed interest rate established based on a formula linked to bankers' acceptance rates. The credit arrangement comprises a revolving operating facililty, a component of which is a demand facility and a component of which has a committed term to September 30, 2018 (as further detailed in note 17 (c)). Bank indebtedness is secured by a general security agreement. The credit agreement contains certain financial covenants that must be maintained. As at March 31, 2018 and December 31, 2017, the Corporation was in compliance with all financial covenants.

(in Canadian dollars)

8. Loans payable:

First priority charges on specific mortgage investments have been granted as security for the loans payable. The loans mature on dates consistent with those of the underlying mortgages. The loans are on a non-recourse basis and bear interest at a rate of 5.59% as at March 31, 2018 (December 31, 2017 – 5.34%). The Corporation's principal balance outstanding under the mortgages for which a first priority charge has been granted is $63,601,686 as at March 31, 2018 (December 31, 2017 - $67,694,104).

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

2018	$ 28,239,227
2019	19,968,701
	$ 48,207,928

9. Convertible debentures:

	Three Months Ended March 31, 2018	Year Ended December 31, 2017
Liability component, beginning of period	$ 157,464,904	$ 162,305,989
Issued	-	24,961,290
Conversions of debentures to shares	-	(21,278,427)
Repayments upon maturity	-	(10,164,573)
Implicit interest rate in excess of coupon rate	102,084	415,179
Deferred finance cost amortization	283,143	1,225,446
Carrying value, end of period	$ 157,850,131	$ 157,464,904

The breakdown of the convertible debentures for the three months ended March 31, 2018 presented in the above table is as follows:

Convertible debenture	Balance, beginning of period	Issued	Conversions	Implicit interest rate in excess of coupon rate	Deferred finance cost amortization	Repayments upon Redemption	Balance, end of period	Maturity date
5.40%	$ 25,445,554	$ -	$ -	$ 24,458	$ 42,771	$ -	$ 25,512,783	Feb 28, 2019
5.25%	20,173,140	-	-	27,997	33,176	-	20,234,313	Mar 31, 2019
4.75%	19,515,688	-	-	16,361	37,515	-	19,569,564	Mar 31, 2020
5.30%	24,136,563	-	-	5,300	42,322	-	24,184,185	May 31, 2022
5.50%	21,889,426	-	-	11,965	41,176	-	21,942,567	Dec 31, 2022
5.20%	21,235,666	-	-	9,807	40,592	-	21,286,065	Dec 31, 2023
5.30%	25,068,867	-	-	6,196	45,591	-	25,120,654	Aug 31, 2024
Total	$ 157,464,904	$ -	$ -	$ 102,084	$ 283,143	$ -	$ 157,850,131	

(in Canadian dollars)

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

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

On June 27, 2017, the Corporation completed a public offering of 26,500 5.30% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $26,500,000, less issuance costs of $1,328,710. The debentures mature on August 31, 2024 and interest is paid semi-annually on the last day of February and August of each year. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $15.25. The debentures may not be redeemed by the Corporation prior to August 31, 2020. On or after August 31, 2020, but prior to August 31, 2022, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after August 31, 2022 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

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

Liability	$ 26,290,000
Equity	210,000
Principal	$ 26,500,000

As at March 31, 2018, debentures payable bear interest at the weighted average effective rate of 5.26% per annum (December 31, 2017 - 5.26% per annum). Notwithstanding the carrying value of the convertible debentures, the principal balance outstanding to the debenture holders is $163,223,000 as at March 31, 2018 (December 31, 2017 - $163,223,000).

(in Canadian dollars)

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

10. Shareholders' equity:

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

(a) Shares issued and outstanding:

The following shares were issued and outstanding as at March 31, 2018:

	# of shares		Amount
Balance, beginning of period	26,064,310	$	281,377,245
At-the-market program	32,300		425,291
Equity offering costs	-		(8,505)
New shares issued during the period under Dividend Reinvestment Plan	803		10,283
Balance, end of period	26,097,413	$	281,804,314

The following shares were issued and outstanding as at December 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
New shares from debenture conversion (note 9)	1,759,944		21,278,427
Debenture equity conversion	-		155,648
Equity offering costs	-		(1,345,374)
Options exercised in the year	131,000		1,555,776
New shares issued during the year under Dividend Reinvestment Plan	49,877		676,082
Balance, end of period	26,064,310	$	281,377,245

During the first quarter of 2018, the Corporation issued 32,300 shares at a weighted average price of $13.17 per share for gross proceeds of $425,291 from its At-The-Market ("ATM") program, previously announced.

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

(in Canadian dollars)

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

(b) Incentive option plan:

During the three months ended March 31, 2018, no options were granted or exercised.

	# of options		Amount
Balance at December 31, 2016	1,007,250	$	95,123
Options issued	70,000		11,030
Options exercised	(131,000)		(12,597)
Balance at December 31, 2017 and March 31, 2018	946,250	$	93,556

During the year of 2017, 131,000 options were exercised, of which 125,000 options were exercised by officers of the Corporation and 70,000 options were granted at an exercise price of $13.15 per share (these options were fully vested upon granting).

(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 or purchase additional shares of the Corporation at a share price equivalent to the weighted average price of shares for the preceding five-day period.

11. Per share amounts:

Profit per share calculation:

The following table reconciles the numerators and denominators of the basic and diluted profit per share for the three months ended March 31, 2018 and March 31, 2017.

Basic profit per share calculation:

	Three Months Ended			
		March 31, 2018		March 31, 2017
Numerator for basic profit per share:				
Net income and profit for the period	$	6,434,989	$	7,026,716
Denominator for basic profit per share:				
Weighted average shares		26,088,744		22,589,499
Basic profit per share	$	0.247		0.311

(in Canadian dollars)

Diluted profit per share calculation:

	Three Months Ended	
	March 31, 2018	March 31, 2017
Numerator for diluted profit per share:		
Net income and profit for the period	$ 6,434,989	$ 7,026,716
Interest on convertible debentures	2,530,181	2,635,719
Net profit for diluted profit per share	$ 8,965,170	$ 9,662,435
Denominator for diluted profit per share:		
Weighted average shares	26,088,744	22,589,499
Net shares that would be issued:		
Assuming the proceeds from options are used to repurchase units at the average share price	78,095	160,848
Assuming debentures are converted	11,091,621	11,331,462
Diluted weighted average shares	37,258,460	34,081,809
Diluted profit per share:	$ 0.241	$ 0.284

12. 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, 2018, the Corporation recorded dividends of $6,106,738 (2017 - $5,398,395) to its shareholders. Dividends were $0.234 per share (2017 - $0.234 per share).

13. Related party transactions and balances:

The Corporation's Manager (a company related to officers and/or directors of the Corporation) receives an allocation of interest, referred to as the Corporation Manager spread interest, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the three months ended March 31, 2018, this amount was $1,001,035 (March 31, 2017 - $829,540). Included in accounts payable and accrued liabilities at March 31, 2018 are amounts payable to the Corporation's Manager of $346,942 (December 31, 2017 - $341,367).

For the three months ended March 31, 2018, the total directors' fees expensed were $71,000 (2017 - $64,000). Key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The Directors held 481,834 shares in the Corporation as at March 31, 2018 (December 31, 2017 - 481,768).

For the three months ended March 31, 2018, no options were issued under the incentive option plan (2017 - 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 $133,000 for the three months ended March 31, 2018 (2017 - $111,000). 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.

During the three months ended March 31, 2018, the two mortgage investments totaling $1,400,000 (December 31, 2017- two mortgage investments totaling $1,400,000) that were issued to a borrower controlled by an independent director of the Corporation were fully repaid.

The Corporation holds a mortgage investment totaling $5,148,000 at March 31, 2018 (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, 2017 - $4,985,500). The Corporation’s investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure that occurred after the purchase of the underlying Schedule 1 bank mortgage. The Corporation is a pari passu participant in the mortgage, having the same rights as all other participants in the loan. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation, and for this reason, the borrower is classified as a related party. For the three months ended March 31, 2018, the Corporation recognized interest and fees earned of nil (March 31, 2017 - nil) from this investment. The impairment provision recorded on this loan was $1,180,000 as at March 31, 2018 (December 31, 2017 - $1,180,000). Recoveries under the investment resulting from the sale of the secured real estate will be treated the same as for all non-conventional mortgage investments held by the Corporation.

Key management compensation:

Aggregate compensation paid to key management personnel (including payments to related parties for their recovery of overhead costs), all consisting of short-term employee compensation, was $552,449 for the three months ended March 31, 2018 (2017 - $498,400), all of which was paid by the Corporation's Manager and nil by the Corporation.

(in Canadian dollars)

14. Interest expense:

	Three Months Ended	
	March 31, 2018	March 31, 2017
Bank interest expense	$ 533,924	$ 368,320
Loans payable interest expense	683,055	-
Debenture interest expense	2,530,181	2,635,719
Interest expense	**$ 3,747,160**	**$ 3,004,039**
Deferred finance cost amortization - convertible debentures	(283,143)	(289,689)
Implicit interest rate in excess of coupon rate - convertible debentures	(102,084)	(100,208)
Change in accrued interest payable	280,719	(538,164)
Cash interest paid	**$ 3,642,652**	**$ 2,075,978**

15. Contingent liabilities:

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

16. Fair value:

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

The fair value of the investment portfolio approximates its carrying value as the majority of the loans are repayable in full at any time without penalty and generally 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, 2018 and December 31, 2017. 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, 2018		Level 1	Level 2	Level 3		Total
Marketable securities	$	209,737	-	-	$	209,737
Convertible debentures		163,865,894	-	-		163,865,894

December 31, 2017		Level 1	Level 2	Level 3		Total
Marketable securities	$	210,194	-	-	$	210,194
Convertible debentures		164,306,323	-	-		164,306,323

17. Risk management:

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

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

(a) Interest rate risk:

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

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

(i) Interest income risk:

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

(ii) Interest expense risk:

The Corporation's floating-rate debt comprises bank indebtedness, and 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, 2018, if interest rates at that date had been 100 basis points lower or higher, with all other variables held constant, comprehensive income and equity for the year would be affected as follows:

	Carrying Value	-1%	+1%
Financial assets:			
Amounts receivable and prepaid expenses	$ 5,649,487	-	-
Marketable securities	209,737	-	-
Investment portfolio	546,284,304	(709,041)	3,571,015
Financial liabilities:			
Bank indebtedness	55,878,622	558,786	(558,786)
Accounts payable and accrued liabilities	2,239,506	-	-
Shareholders dividends payable	2,035,598	-	-
Loans payable	48,207,928	-	-
Convertible debentures	$ 157,850,131	-	-
Total increase		$ (150,255)	$ 3,012,229

(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, 2018, the Corporation had not utilized its full leverage availability, being a guideline of 50% of its first mortgage investments. Unadvanced committed funds under the existing investment portfolio amounted to $97,451,618 as at March 31, 2018 (December 31, 2017 - $131,268,094). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments. The Corporation has a demand revolving line of credit of $70 million and a committed revolving line of credit with its principal banker to fund the timing differences between investment advances and investment repayments. The committed line of $20 million is a committed facility with a maturity date of September 30, 2018. If the committed line is not renewed on September 30, 2018, the terms of the facility allow for the Corporation to repay the balance owed on September 30, 2018 within 12 months. In the current economic climate and capital market conditions, there are no assurances that the bank borrowing line will be renewed or that it could be replaced with another lender if not renewed. If it is not extended at maturity, repayments under the Corporation's investment portfolio would be utilized to repay the bank indebtedness. There are limitations in the availability of funds under the revolving line of credit. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing investments creates liquidity for ongoing investments and funding commitments. Loans payable relate to borrowings on specific investments within the Corporation's portfolio and only have to be repaid once the specific loan is paid out by the borrower.

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

Contractual obligations as at March 31, 2018 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 7 years
Bank indebtedness	$ 55,878,622	$ 55,878,622	$ -	$ -
Accounts payable and accrued liabilities	2,239,506	2,239,506	-	-
Shareholders dividends payable	2,035,598	2,035,598	-	-
Loans payable	48,207,928	39,239,227	8,968,701	-
Convertible debentures	163,223,000	25,738,000	40,485,000	97,000,000
Subtotal - Liabilities	$ 271,584,654	$ 125,130,953	$ 49,453,701	$ 97,000,000
Future advances under portfolio	97,451,618	97,451,618	-	-
Liabilities and contractual obligations	$ 369,036,272	$ 222,582,571	$ 49,453,701	$ 97,000,000

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

Interest payments on debentures (assuming the amounts remain unchanged) would be $8,463,993 for less than 1 year, $11,279,000 for 1 to 3 years and $11,775,792 for 4 to 7 years.

(d) Capital risk management:

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

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

The Corporation manages the capital/equity structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Corporation may issue new shares or convertible debentures 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 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.

(e) Currency risk:

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