ATRIUM MORTGAGE
INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER ™

FINANCIAL STATEMENTS

(UNAUDITED)

THIRD QUARTER 2015
SEPTEMBER 30, 2015

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

(in thousands of Canadian dollars)	**Notes**	**September 30 2015**	**December 31 2014**
Assets			
Mortgages receivable	5	$ 459,033	$ 432,757
Prepaid expenses		570	370
		$ 459,603	$ 433,127
Liabilities			
Bank indebtedness	6	$ 366	$ 313
Operating line	6	104,025	79,985
Accounts payable and accrued liabilities		174	523
Accrued convertible debenture interest		427	1,093
Dividends payable	7	1,722	3,379
Due to related party	8	380	395
Convertible debentures	9	99,943	99,235
		207,037	184,923
Shareholders' equity			
Share capital		247,865	245,794
Contributed surplus and other equity		1,325	1,085
Equity component of convertible debentures		1,062	1,062
Retained earnings		2,314	263
		252,566	248,204
		$ 459,603	$ 433,127
Commitments	*6, 13*		

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the board of directors:

"Robert Goodall"
Robert Goodall, Director

"Mark Silver"
Mark Silver, Director

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(in thousands of Canadian dollars, except for number of common shares)

	Notes	Common shares Number	Common shares Amount	Contributed surplus and other equity	Equity component of convertible debentures	Retained earnings	Total
Balance, December 31, 2013		21,200,833	$ 210,659	$ 899	$ 398	$ 63	$ 212,019
Shares issued	10	3,036,000	34,610	–	–	–	34,610
Shares issued under dividend reinvestment plan	10	131,168	1,437	–	–	–	1,437
Shares issued under employee share purchase plan	10	9,859	110	–			110
Issue costs		–	(1,609)	–	–	–	(1,609)
Share-based payments	11	–	–	170	–	–	170
Shares subscribed		–	–	(26)	–	–	(26)
Equity component of convertible debentures issued	9	–	–	–	622	–	622
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(29)	–	(29)
Earnings and comprehensive income		–	–	–	–	15,648	15,648
Dividends declared		–	–	–	–	(14,124)	(14,124)
Balance, September 30, 2014		24,377,860	245,207	1,043	991	1,587	248,828
Shares issued under dividend reinvestment plan		44,683	517	–	–	–	517
Shares issued under employee share purchase plan		2,995	34	–	–	–	34
Shares issued under deferred share incentive plan		3,427	36	(36)	–	–	–
Share-based payments		–	–	78	–	–	78
Equity component of convertible debentures issued		–	–	–	75	–	75
Issue costs attributable to equity component of convertible debentures issued		–	–	–	(4)	–	(4)
Earnings and comprehensive income		–	–	–	–	5,389	5,389
Dividends declared		–	–	–	–	(6,713)	(6,713)
Balance, December 31, 2014		24,428,965	245,794	1,085	1,062	263	248,204
Shares issued under dividend reinvestment plan	10	166,853	1,970	–	–	–	1,970
Shares issued under employee share purchase plan	10	8,440	101	–	–	–	101
Share-based payments	11	–	–	240	–	–	240
Earnings and comprehensive income		–	–	–	–	17,503	17,503
Dividends declared	7	–	–	–	–	(15,452)	(15,452)
Balance, September 30, 2015		24,604,258	$ 247,865	$ 1,325	$ 1,062	$ 2,314	$ 252,566

The accompanying notes are an integral part of these financial statements.

CONDENSED INTERIM STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME (UNAUDITED)

(in thousands of Canadian dollars, except for per share amounts)

		Three months ended September 30		Nine months ended September 30	
	Notes	**2015**	**2014**	**2015**	**2014**
Revenues					
Mortgage interest and fees		$ 10,542	$ 9,096	$ 29,660	$ 25,037
Operating expenses					
Mortgage servicing and management fees	8	1,085	916	3,074	2,459
Transfer agent, regulatory fees and investor relations		92	50	218	194
Share-based payments	8, 11	76	60	240	170
Professional fees		34	28	97	96
Directors' expense	8	48	44	137	132
Administration and general		38	31	112	87
Provision for mortgage losses	5	600	504	1,212	1,080
		1,973	1,633	5,090	4,218
Income before financing costs		8,569	7,463	24,570	20,819
Financing costs					
Interest on convertible debentures		1,698	1,123	5,154	2,906
Interest and other bank charges		790	797	1,913	2,265
		2,488	1,920	7,067	5,171
Earnings and comprehensive income for the period		$ 6,081	$ 5,543	$ 17,503	$ 15,648
Earnings per common share					
Basic	12	$ 0.25	$ 0.23	$ 0.71	$ 0.69
Diluted	12	$ 0.24	$ 0.23	$ 0.70	$ 0.68

The accompanying notes are an integral part of these financial statements.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended September 30		Nine months ended September 30	
(in thousands of Canadian dollars)	**2015**	**2014**	**2015**	**2014**
Cash provided by (used in):				
Operating activities				
Earnings and comprehensive income for the period	$ 6,081	$ 5,543	$ 17,503	$ 15,648
Add (subtract) non-cash items				
Share-based payments	76	59	240	144
Interest capitalized on mortgages	(510)	(1,347)	(2,630)	(4,702)
Amortization of mortgage discount	(26)	(37)	(78)	(123)
Amortization of mortgage origination fees	(328)	(291)	(812)	(822)
Non-cash portion of interest on convertible debentures	237	158	708	409
Provision for mortgage losses	600	504	1,212	1,080
	6,130	4,589	16,143	11,634
Changes in operating assets and liabilities				
Cash held in trust	5,500	–	–	–
Accrued interest receivable	(136)	(197)	210	(600)
Prepaid expenses	(189)	78	(200)	171
Accounts payable and accrued liabilities	(31)	261	(349)	205
Accrued convertible debenture interest	(623)	(208)	(666)	463
Additions to mortgage discount	40	144	133	144
Additions to mortgage origination fees	140	295	943	1,026
	4,701	373	71	1,409
Cash provided by operating activities	10,831	4,962	16,214	13,043
Investing activities				
Advances of mortgages receivable	(58,859)	(72,652)	(215,845)	(214,625)
Repayment of mortgages receivable	37,085	43,417	190,591	88,287
Cash used in investing activities	(21,774)	(29,235)	(25,254)	(126,338)
Financing activities				
Bank indebtedness, net	296	(63)	53	(9)
Operating line advanced	92,550	178,250	431,315	429,445
Operating line repaid	(77,425)	(182,850)	(407,275)	(399,505)
Increase (decrease) in due to related party	51	44	(15)	129
Issuance of common shares	630	519	2,071	36,157
Common shares issue costs	–	–	–	(1,609)
Issuance of convertible debentures	–	35,000	–	66,801
Convertible debenture issue costs	–	(1,635)	–	(3,183)
Dividends paid	(5,159)	(4,992)	(17,109)	(14,931)
Cash provided by financing activities	10,943	24,273	9,040	113,295
Increase (decrease) in cash	–	–	–	–
Cash, beginning of period	–	–	–	–
Cash, end of period	$ –	$ –	$ –	$ –
Cash provided by operating activities includes:				
Interest received	$ 9,541	$ 7,224	$ 26,350	$ 18,788
Interest paid	$ 2,839	$ 1,197	$ 6,963	$ 4,030

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS

Atrium Mortgage Investment Corporation is a corporation domiciled in Canada, incorporated under the Ontario *Business Corporations Act*. The address of the company's registered head office and principal place of business is Suite 900, 20 Adelaide Street East, Toronto, Ontario M5C 2T6.

The company is a Mortgage Investment Corporation (MIC) as defined in Section 130.1(6) of the Canada *Income Tax Act* (ITA). Accordingly, the company is not taxed on income provided that its taxable income is paid to its shareholders in the form of dividends within 90 days after December 31 each year. Such dividends are generally treated by shareholders as interest income, so that each shareholder is in the same position as if the mortgage investments made by the company had been made directly by the shareholder.

The company's common shares are listed on the Toronto Stock Exchange (TSX) under the symbol AI and its convertible debentures are listed under the symbols AI.DB, AI.DB.A and AI.DB.B.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and follow International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB) as set out in Part I of the *CPA Canada Handbook – Accounting*. These condensed interim financial statements should be read in conjunction with the company's audited financial statements for the year ended December 31, 2014. Significant accounting policies have been consistently applied in the preparation of these condensed interim financial statements, which were authorized for issuance by the board of directors on October 21, 2015.

(b) Basis of measurement

These condensed interim financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

These condensed interim financial statements are presented in Canadian dollars, which is also the company's functional currency. Dollars are expressed in thousands except for per share amounts or where the context requires otherwise.

(d) Use of estimates and judgements

The preparation of condensed interim financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. The most subjective of these estimates relates to: (a) valuation of mortgages receivable, which is affected primarily by the provision for mortgage losses which is determined by management's estimate as to the counter party specific and the incurred but not identified provisions; and (b) the measurement of the liability and equity components of the convertible debentures which depend upon the estimated market interest rates for a comparable debenture without the convertibility feature. Management believes that its estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Mortgage interest and fees revenues are recognized in the statement of earnings and comprehensive income using the effective interest method. Mortgage interest and fees revenues include the company's share of any fees received, as well as the effect of any discount or premium on the mortgage.

The effective interest method derives the interest rate that discounts the estimated future cash payments and receipts during the expected life of the mortgage receivable (or, where appropriate, a shorter period) to its carrying amount. When calculating the effective interest rate, future cash flows are estimated considering all contractual terms of the financial instrument, but not future credit losses (see Note 3 (c)). The calculation of the effective interest rate includes all fees and transaction costs paid or received. Fees and transaction costs include incremental revenues and costs that are directly attributable to the acquisition or issuance of the mortgage.

(b) Financial assets – classification, initial recognition and measurement

Classification of financial assets depends upon the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. Mortgages receivable are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

All financial assets are reviewed for impairment quarterly, and written down when there is evidence of impairment.

(c) Mortgages receivable

A mortgage receivable, carried at amortized cost, is considered impaired when there is objective evidence at the end of the reporting period that there has been a deterioration of credit quality subsequent to its initial recognition to the extent that the company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest. The company assesses mortgages receivable for objective evidence of impairment both individually and collectively at each reporting period. The provision for mortgage losses is determined by taking into account the following factors:

- Delays in the collection of interest and principal
- The point at which management considers a loan to be in default (which is defined as 90 days for single family residential mortgages and 30 days for all other mortgages)
- Other known factors specific to the property, the borrower or the guarantor
- Economic and other real estate market conditions in the geographic area in which a borrower's project is located
- Management's judgement as to whether current economic and credit conditions are such that the inchoate or potential losses at the reporting date are likely to be higher or lower than the amounts suggested by historic experience
- Any other factors that apply to a particular mortgage or group of mortgages

Several of these factors involve estimates and judgements on the part of management in determining provisions for mortgage losses. The other key estimates used for quantifying the provision for mortgage losses are:

- The period of time expected to elapse between the contractual maturity or interest and principal repayment dates and the date at which recovery is estimated
- The amount expected to be ultimately recovered on impaired loans, taking into account the likelihood of different outcomes
- The value of underlying security, and whether the company expects to take possession of the property
- The amount of any legal and other third party costs estimated to be incurred

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Mortgages receivable (continued)

An impairment loss is calculated as the difference between the carrying amount of the mortgage receivable and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are charged to the statements of earnings and comprehensive income and are reflected in the provision for mortgage losses.

If there is no objective evidence of impairment for a counterparty specific mortgage receivable, it is included in a group of mortgages with similar credit risk characteristics and collectively assessed for impairment for losses incurred but not identified. For the purpose of determining groups of mortgages with similar credit risk characteristics, mortgages are grouped by category: commercial/mixed use, low-rise residential, house and apartment, construction, high-rise residential, mid-rise residential, and condominium corporations.

(d) Convertible debentures

Convertible debentures can be converted into common shares of the company at the option of the investor. They are compound financial instruments with two components: a financial liability, and a call option which is an equity instrument. The fair value of the liability component is measured as of the date that the debentures were issued, and the equity instrument is valued on that date based upon the difference between the fair value of the convertible debenture and the fair value of the liability component. The measurement of the fair value of the liability component is based upon market rates of interest on similar debt instruments without the conversion feature. Expenses of issue are allocated between the two components on a pro-rata basis. The book value of the debt is accreted up to its face value over the life of the debentures using the effective interest method, which applies a constant interest rate over the life of each debenture. The value of the equity component is not remeasured subsequent to its initial measurement date.

(e) Other financial liabilities

Other financial liabilities are non-derivative liabilities recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost using the effective interest method. The company has classified bank indebtedness, operating line, accounts payable and accrued liabilities, dividends payable, due to related party and the liability component of convertible debentures as other financial liabilities.

(f) Income taxes

The company qualifies as a Mortgage Investment Corporation under the ITA, and as such is not taxed on income provided that its taxable income is distributed to its shareholders in the form of dividends within 90 days after December 31 each year. It is the company's policy to pay such dividends to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

(g) Earnings per common share

Basic earnings per common share is calculated by dividing earnings during the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive items such as convertible debentures and deferred share incentive plans.

(h) Share-based payments

The company has an equity-settled share-based compensation plan for grants to eligible directors, officers, and senior management under its deferred share incentive plan. Grants are measured based upon the fair value of the awards granted, based on the volume-weighted average trading share price for the five trading days prior to date of the grant.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Various pronouncements have been issued by the IASB or IFRS Interpretations Committee (IFRIC) that will be effective for future accounting periods, most of which do not apply to the company; one that is applicable is summarized below.

IFRS 9 – Financial Instruments is a new standard on accounting for financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. The effective date has been tentatively set to be applicable for the company's December 31, 2018 financial statements. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is recorded at fair value through profit or loss. IFRS 9 requires an expected-loss impairment model (replacing the current incurred loss impairment model) that will require more timely recognition of expected losses and requires accounting for expected credit losses when financial instruments are first recognized and to accelerate the recognition of full lifetime expected losses. The potential impact of the new standard on the company's financial statements has not been determined.

5. MORTGAGES RECEIVABLE

(a) Mortgage portfolio

	September 30, 2015			December 31, 2014		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
Low-rise residential	25	$ 113,404	24.5%	23	$ 85,678	19.7%
House and apartment	117	80,052	17.3%	90	93,070	21.4%
Construction	16	66,894	14.5%	17	61,095	14.1%
High-rise residential	9	35,561	7.7%	8	44,048	10.1%
Mid-rise residential	8	17,554	3.8%	8	12,127	2.8%
Condominium corporation	20	4,568	1.0%	13	3,260	0.8%
Residential portfolio	195	318,033	68.8%	159	299,278	68.9%
Commercial/mixed use	31	144,118	31.2%	31	134,990	31.1%
Mortgage portfolio	226	462,151	100.0%	190	434,268	100.0%
Accrued interest receivable		1,966			2,177	
Mortgage discount		(520)			(465)	
Mortgage origination fees		(964)			(835)	
Provision for mortgage losses		(3,600)			(2,388)	
Mortgages receivable		$ 459,033			$ 432,757	

The mortgage portfolio has maturity dates between 2015 and 2030 with a weighted average term to maturity of 12.5 months at September 30, 2015 (December 31, 2014 – 13.7 months). The portfolio has a weighted average interest rate (which excludes lender fees paid to the company) of 8.77% for the period ended September 30, 2015 (8.74% for the period ended September 30, 2014).

Within the mortgage portfolio, at September 30, 2015 there were eleven loans aggregating $24,711 (5.4% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage (December 31, 2014 – six mortgages aggregating $9,823, 2.3% of the portfolio).

Principal repayments based on contractual maturity dates are as follows:

Three months ended December 31, 2015	$ 59,616	12.9%
Years ended December 31, 2016	259,681	56.2%
2017	94,731	20.5%
2018	43,689	9.5%
2019	61	0.0%
Thereafter	4,373	0.9%
	$ 462,151	100.0%

5. MORTGAGES RECEIVABLE (continued)

(b) Provision for mortgage losses

	September 30 2015	December 31 2014
Counterparty specific	$ –	$ –
Incurred but not identified	3,600	2,388
Provision for mortgage losses	$ 3,600	$ 2,388

	Nine months ended September 30, 2015		
	Counter-party specific	Incurred but not identified	Total
Balance, beginning of period	$ –	$ 2,388	$ 2,388
Increase in incurred but not identified for period	–	1,212	1,212
Balance, end of period	$ –	$ 3,600	$ 3,600

	Nine months ended September 30, 2014		
	Counter-party specific	Incurred but not identified	Total
Balance, beginning of period	$ 590	$ 561	$ 1,151
Mortgage settled during the period	(580)	–	(580)
Released to incurred but not identified	(10)	10	–
Increase in incurred but not identified for period	–	1,080	1,080
Balance, end of period	$ –	$ 1,651	$ 1,651

Four mortgages were in default at September 30, 2015, aggregating $4,851 (one was in default at December 31, 2014, aggregating $546, which has been subsequently brought up to date). The increase in the provision for mortgage losses during the period is based upon assessment of the factors described in Note 3(c).

6. CREDIT FACILITY

At September 30, 2015, the company had a credit facility from a syndicate of two Canadian financial institutions of $130,000 (December 31, 2014 – $100,000) at a formula rate that varies with bank prime and the market bankers' acceptance rate. Drawings under the credit facility may be by way of a bank loan (including bank indebtedness of up to $500), bankers' acceptances or letters of credit (LCs). LCs represent irrevocable assurances that the company's banks will make payments in the event that a customer cannot meet its obligations to third parties. LCs carry the same credit risk, recourse and collateral security requirements as mortgages extended to customers. The committed credit facility was effective September 25, 2015, has a term of two years, and is subject to certain conditions of drawdown and other covenants.

The credit facility is secured by a lien over all of the company's assets by means of a general security agreement. The amount that may be drawn down under the credit facility is determined by the aggregate value of mortgages that are acceptable to the lender. Under the terms of the credit facility, covenants must be met in respect of shareholders' equity, debt to total assets and interest coverage. At September 30, 2015 and December 31, 2014, the company was in compliance with these covenants.

Credit facility	September 30 2015	December 31 2014
Bankers' acceptances	$ 95,000	$ 57,000
Bank loan	9,025	22,985
Operating line	104,025	79,985
Bank indebtedness	366	313
Total borrowing under credit facility	104,391	80,298
Letters of credit	4,171	4,483
Total credit facility utilization	$ 108,562	$ 84,781

7. DIVIDENDS

The company follows a dividend policy so that it is non-taxable under the provisions of the ITA related to Mortgage Investment Corporations. Dividends amounted to $0.63 per share for the nine months ended September 30, 2015 (nine months ended September 30, 2014 – $0.62, year ended December 31, 2014 – $0.89).

	Nine months ended September 30 2015	Year ended December 31 2014
Dividends payable, beginning of period	$ 3,379	$ 2,473
Dividends declared	15,452	20,837
Dividends paid	(17,109)	(19,931)
Dividends payable, end of period	$ 1,722	$ 3,379

8. RELATED PARTY TRANSACTIONS

The company pays management and mortgage servicing fees to Canadian Mortgage Capital Corporation (CMCC), which is the manager of the company, and responsible for its day-to-day management. The majority beneficial owner and Chief Executive Officer (CEO) of the manager is also CEO of the company. The company incurred management and mortgage servicing fees of $3,074 for the nine months ended September 30, 2015 (nine months ended September 30, 2014 – $2,454) and $1,085 for the three months ended September 30, 2015 (three months ended September 30, 2014 – $916). The management agreement between the company and CMCC contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. Amounts due to related party are due to CMCC, in the normal course of business, are non-interest bearing and due on demand, and are paid within 30 days of each period end.

Key management includes directors and officers of the company. Compensation expenses for key management personnel include:

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Directors' fees	$ 44	$ 44	$ 132	$ 132
Share-based payments to directors (Note 11)	29	25	91	75
Share-based payments to officers (Note 11)	21	24	85	76
	$ 94	$ 93	$ 308	$ 283

Related party transactions are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. CONVERTIBLE DEBENTURES

	Nine months ended September 30, 2015			
	Convertible debenture 5.50% AI.DB.B	Convertible debenture 6.25% AI.DB.A	Convertible debenture 5.25% AI.DB	Total
Maturity date	Sept. 30, 2021	March 31, 2019	June 30, 2020	
Issued and outstanding				
Face value	$ 40,250	$ 31,801	$ 32,500	$ 104,551
Book value –				
Convertible debentures, beginning of period	$ 37,967	$ 30,374	$ 30,894	$ 99,235
Accretion for the period	247	247	214	708
Convertible debentures, end of period	$ 38,214	$ 30,621	$ 31,108	$ 99,943

	Year ended December 31, 2014			
	Convertible debenture 5.50% AI.DB.B	Convertible debenture 6.25% AI.DB.A	Convertible debenture 5.25% AI.DB	Total
Maturity date	Sept. 30, 2021	March 31, 2019	June 30, 2020	
Issued and outstanding				
Face value	$ 40,250	$ 31,801	$ 32,500	$ 104,551
Book value				
Convertible debentures, beginning of year	$ –	$ –	$ 30,611	$ 30,611
Issued	40,250	31,801	–	72,051
Equity component	(536)	(161)	–	(697)
Issue costs	(1,861)	(1,546)	–	(3,407)
Issue costs attributed to equity component	25	8	–	33
Convertible debentures	37,878	30,102	30,611	98,591
Accretion for the year	88	273	283	644
Convertible debentures, end of year	$ 37,967	$ 30,374	$ 30,894	$ 99,235

10. SHARE CAPITAL

The company is authorized to issue an unlimited number of common shares without par value. Common shares rank equally with each other and have no preference, conversion, exchange or redemption rights. Common shares participate pro rata with respect to any dividends paid, including distributions upon termination and dissolution.

The company has an optional dividend reinvestment plan (DRIP) for shareholders, whereby participants may reinvest cash dividends in additional common shares of the company at the volume weighted average price for five days prior to distribution, less a 2% discount. Shares issued under the DRIP are issued by the company from treasury.

Under the employee share purchase plan (ESPP), each participant may contribute up to an annual maximum to the ESPP, and CMCC (the manager) will match 50% of the participant's contribution. Thus, the company does not bear any of the cost of the ESPP, but is reimbursed by CMCC and the participants.

11. SHARE-BASED PAYMENTS

	September 1 2015 grant	September 1 2014 grant	August 30 2013 grant	August 29 2012 grant	Total
Deferred shares outstanding					
Year ended December 31, 2012	–	–	–	21,500	21,500
2013	–	–	21,000	–	21,000
2014	–	24,000	–	–	24,000
Nine months ended September 30, 2015	24,000	–	–	–	24,000
	24,000	24,000	21,000	21,500	90,500
Income deferred shares outstanding					
Year ended December 31, 2012	–	–	–	570	570
2013	–	–	502	1,478	1,980
2014	–	419	1,587	1,600	3,606
Nine months ended September 30, 2015	–	1,454	1,285	1,289	4,028
	–	1,873	3,374	4,937	10,184

Share compensation expense:	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
September 1, 2015 grant	$ 14	$ –	$ 14	$ –
September 1, 2014 grant	40	12	142	12
August 30, 2013 grant	16	31	54	102
August 29, 2012 grant	6	17	30	56
	$ 76	$ 60	$ 240	$ 170

Grants are provided to certain directors and employees under the company's deferred share incentive plan ("DSIP"). The deferred share units vest annually over three years. Common shares are issued to participants on the vesting date of each tranche of deferred share units, unless a participant elects to defer the issuance. In addition, income deferred share units are credited to holders of deferred share units based upon dividends paid on common shares. The fair value of share-based compensation was based upon the volume weighted average market price of the common shares five days prior to the grant date of September 1, 2015 ($11.58) and September 1, 2014 ($11.46).

12. EARNINGS PER SHARE

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Basic earnings per share –				
Numerator				
Earnings for the period	$ 6,081	$ 5,543	$ 17,503	$ 15,648
Denominator				
Weighted average common shares outstanding	24,577,527	24,354,241	24,520,227	22,723,256
Basic earnings per share	$ 0.25	$ 0.23	$ 0.71	$ 0.69

12. EARNINGS PER SHARE (continued)

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Diluted earnings per share – Numerator				
Earnings for the period	$ 6,081	$ 5,543	$ 17,503	$ 15,648
Interest on convertible debentures	1,698	1,123	5,154	2,906
Earnings for diluted earnings per share	7,779	6,666	22,657	18,554
Denominator				
Weighted average common shares outstanding	24,577,527	24,354,241	24,520,227	22,723,256
Convertible debentures	7,545,902	4,957,733	7,545,902	4,338,318
Deferred share incentive plan	71,326	49,344	66,137	44,765
Income deferred share units	7,358	2,812	6,065	2,646
Weighted average common shares outstanding – diluted basis	32,202,113	29,364,130	32,138,331	27,108,985
Diluted earnings per share	$ 0.24	$ 0.23	$ 0.70	$ 0.68

13. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets comprise mortgages receivable. All financial assets are classified as loans and receivables. Financial liabilities comprise bank indebtedness, operating line, accounts payable and accrued liabilities, dividends payable, due to related party and the liability component of convertible debentures. All financial liabilities are classified as other financial liabilities.

(b) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between arm's length market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. All financial assets are classified as loans and receivables and are recorded at amortized cost. Their carrying values approximate their fair value due to their relatively short-term maturities and because market interest rates have not fluctuated significantly since the date at which the loans were entered into. The fair value of the bank indebtedness and operating line approximates book value since it bears interest at floating rates. The accounts payable and accrued liabilities, dividends payable and due to related parties carrying value approximates their fair value due to the short term nature of the items. Mortgages receivable mature between 2015 and 2030 with a weighted average term to maturity at September 30, 2015 of 12.4 months (December 31, 2014 – 13.7 months). Fair value of mortgages receivable is established by Level 3 inputs.

The fair value of convertible debentures at the time of issue is established using Level 2 inputs. The fair value of convertible debentures has been determined based on the closing prices of the convertible debentures on the TSX on the respective dates.

13. FINANCIAL INSTRUMENTS (continued)

(b) Fair value (continued)

Convertible debentures	September 30 2015	December 31 2014
Fair value	$ 104,480	$ 104,507
Less book value of equity component	(1,062)	(1,062)
	$ 103,418	$ 103,445
Book value of financial liability component	$ 99,943	$ 99,235

The fair value of all other financial liabilities is estimated using level 3 inputs.

(c) Credit risk

The following asset is exposed to credit risk: mortgages receivable. Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment, resulting in a financial loss to the company.

The company controls the credit risk of mortgages receivable by maintaining strict credit policies including due diligence processes, credit limits, documentation requirements, review and approval of new mortgages by the board of directors or a subgroup thereof, quarterly review of the entire portfolio by the board of directors, and other credit policies approved by the board of directors. Credit risk is approved by the board of directors. At September 30, 2015 no single borrower accounted for more than 7.5% of mortgages receivable (December 31, 2014 – 7.9%). See Note 5(a) for a breakdown of mortgages by category.

(d) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its obligations when due. The primary sources of liquidity risk are the requirements to fund commitments for new mortgages, advances on existing mortgages, as well as obligations under the company's credit facility. The company's liquidity risk is managed on an ongoing basis in accordance with the policies and procedures in place that reduce the risk to an acceptable level. Policies and procedures include continual monitoring of expected cash flows, reviewing credit requirements with the company's bankers, issuing convertible debentures or common shares in the public markets from time to time as required, and staggering the maturities of convertible debentures when they are issued. From time to time the company has arranged temporary increases in its credit facility with its banks in order to manage liquidity requirements, and expects to be able to continue to do so in the future if required. The company's significant financial liabilities include bank indebtedness, operating line, accounts payable and accrued liabilities, dividends payable, due to related party and the liability component of convertible debentures. The bank indebtedness and operating line are drawn upon as required to discharge accounts payable and accrued liabilities as well as to pay out dividends on a monthly basis. The company's agreement with the lender is that the operating line will not be called provided that all covenants are met and that any significant excess cash is used to pay down the bank loan and indebtedness.

As at September 30, 2015, management considers that it has adequate procedures in place to manage liquidity risk.

Obligations at September 30, 2015	*Total*	*Less than 1 year*	*1-2 years*	*3-5 years*	*More than 5 years*
Bank indebtedness	$ 366	$ –	$ 366	$ –	$ –
Operating line	104,025	–	104,025		
Accounts payable and accrued liabilities	174	174	–	–	–
Accrued convertible debentures interest	427	427			
Dividends payable	1,722	1,722	–	–	–
Due to related party	380	380	–	–	–
Convertible debentures	104,551	–	–	64,301	40,250
Total	$ 211,645	$ 2,703	$ 104,391	$ 64,301	$ 40,250

13. FINANCIAL INSTRUMENTS (continued)

(e) Liquidity risk (continued)

The company has commitments to advance additional funds under existing mortgages of $84,691 and for new mortgages of $3,500 at September 30, 2015 (December 31, 2014 – $99,757 and $10,063 respectively). Generally, outstanding commitments are expected to be funded within the next 24 months. However, the experience of the company has been that a portion of the unfunded amounts on existing mortgages will never be drawn.

(f) Interest rate risk

The company is exposed to interest rate risk in that an increase in interest rates will result in increased interest expense due to its operating line and indebtedness being set at a variable rate but all mortgages being set at fixed rates. The financial structure of the company results in relatively moderate interest rate risk because most of the company's financing is through common shares and convertible debentures, with a moderate amount of borrowings under the credit facility that bear floating interest rates.

If interest rates on debt had been one percentage point higher (lower) during the period ended September 30, 2015, earnings would have been reduced (increased) by approximately $734 during the period, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. However, if new mortgage loans had been entered into at higher (lower) interest rates, the resulting reduction of earnings would have been less than (greater than) $734.

(g) Currency risk

Currency risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. The company is not currently exposed to significant currency risk as all assets and liabilities are denominated in Canadian funds.

14. CAPITAL MANAGEMENT

The company defines capital as total debt plus shareholders' equity, as shown below:

	September 30 2015	December 31 2014
Bank indebtedness	$ 366	$ 313
Operating line	104,025	79,985
Total borrowing under credit facility	104,391	80,298
Convertible debentures	99,943	99,235
Total debt	204,334	179,533
Shareholders' equity	252,566	248,204
Capital employed	$ 456,900	$ 427,737

The company's objectives for managing capital are to preserve shareholders' equity, provide shareholders with stable dividends, and to use leverage in a conservative manner to improve return to shareholders. The company finances growth of its portfolio by issuing common shares and debt. In addition, a small amount of equity is raised every month through a dividend reinvestment plan for shareholders.

As bank borrowings increase, the company could expect to raise further funds through public offerings of convertible debentures or common shares, and through private placements of debt. The company's bank indebtedness, bankers' acceptances and bank loan are subject to external covenants as set out in Note 6. There has been no change in the company's capital management objectives since the prior period.

15. SUBSEQUENT EVENTS

On October 13, 2015, the company issued 16,451 common shares ($186) to shareholders under its dividend reinvestment plan.