Interim Consolidated Financial Statements

ATRIUM®
MORTGAGE INVESTMENT CORPORATION

Third Quarter
September 30, 2018

CANADA'S PREMIER NON-BANK LENDER™

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of Canadian dollars)

	Notes	September 30 2018	December 31 2017
Assets			
Mortgages receivable	5	$ 654,248	$ 626,756
Foreclosed properties	6	1,063	1,064
Prepaid expenses		256	39
		$ 655,567	$ 627,859
Liabilities			
Borrowings under credit facility	7	$ 103,514	$ 144,454
Accounts payable and accrued liabilities	8	1,815	1,960
Accrued convertible debenture interest		3,220	2,636
Dividends payable		2,728	3,769
Convertible debentures	9	158,443	125,976
		269,720	278,795
Shareholders' equity			
Share capital		382,732	345,325
Deferred share incentive plan units		566	802
Equity component of convertible debentures		1,682	1,322
Contributed surplus		645	645
Retained earnings		222	970
		385,847	349,064
		$ 655,567	$ 627,859
Commitments	*7, 13(d)*		

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

Approved on behalf of the board of directors:

"Robert Goodall"	*"Mark Silver"*
Robert Goodall, Director	Mark Silver, Director

INTERIM CONSOLIDATED 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	Deferred share incentive plan units	Equity component of convertible debentures	Contributed surplus	Retained earnings	Total
Balance, December 31, 2016		27,105,703	$ 275,785	$ 592	$ 1,062	$ 645	$ 456	$ 278,540
Shares issued by prospectus		5,827,050	69,051	–	–	–	–	69,051
Shares issued under dividend reinvestment plan	10	222,699	2,629	–	–	–	–	2,629
Shares issued under employee share purchase plan	10	8,451	102	–	–	–	–	102
Shares issued under deferred share incentive plan	11	14,144	161	(161)	–	–	–	–
Issue costs		–	(3,269)	–	–	–	–	(3,269)
Share-based payments	11	–	–	255	–	–	–	255
Equity component of convertible debentures issued	9	–	–	–	274	–	–	274
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(14)	–	–	(14)
Net income and comprehensive income		–	–	–	–	–	21,172	21,172
Dividends declared		–	–	–	–	–	(19,905)	(19,905)
Balance, September 30, 2017		33,178,047	344,459	686	1,322	645	1,723	348,835
Shares issued under dividend reinvestment plan	10	70,923	852	–	–	–	–	852
Shares issued under employee share purchase plan	10	3,169	40	–	–	–	–	40
Issue costs		–	(26)	–	–	–	–	(26)
Share-based payments	11	–	–	116	–	–	–	116
Net income and comprehensive income		–	–	–	–	–	7,887	7,887
Dividends declared		–	–	–	–	–	(8,640)	(8,640)
Balance, December 31, 2017		33,252,139	345,325	802	1,322	645	970	349,064
Shares issued by prospectus		2,760,000	34,500	–	–	–	–	34,500
Shares issued under dividend reinvestment plan	10	236,678	2,970	–	–	–	–	2,970
Shares issued under employee share purchase plan	10	9,078	118	–	–	–	–	118
Shares issued under deferred share incentive plan	11	38,020	450	(450)	–	–	–	–
Shares issued on debenture conversion	9	74,058	983	–	(5)	–	–	978
Issue costs		–	(1,614)	–	–	–	–	(1,614)
Share-based payments	11	–	–	214	–	–	–	214
Equity component of convertible debentures issued	9	–	–	–	383	–	–	383
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(18)	–	–	(18)
Impact of adoption of IFRS 9	2(b)	–	–	–	–	–	(2,000)	(2,000)
Net income and comprehensive income		–	–	–	–	–	25,232	25,232
Dividends declared		–	–	–	–	–	(23,980)	(23,980)
Balance, September 30, 2018		36,369,973	$ 382,732	$ 566	$ 1,682	$ 645	$ 222	$ 385,847

Dividends amounted to $0.675 per share for the nine months ended September 30, 2018 (nine months ended September 30, 2017 – $0.660, year ended December 31, 2017 – $0.92)

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

INTERIM CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

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

	Notes	Three months ended September 30 2018	Three months ended September 30 2017	Nine months ended September 30 2018	Nine months ended September 30 2017
Revenues					
Mortgage interest and fees		$ 15,476	$ 12,668	$ 43,466	$ 36,703
Operating expenses					
Mortgage servicing and management fees	8	1,661	1,385	4,725	3,969
Transfer agent, regulatory fees and investor relations		70	76	249	218
Share-based payments	8, 11	72	83	214	255
Professional fees		60	34	142	110
Directors' expense	8	49	38	149	136
Administration and general		28	43	94	124
Loss from sale of foreclosed property	6	–	–	–	19
Provision for mortgage losses	5(b)	563	400	1,263	1,448
		2,503	2,059	6,836	6,279
Income before financing costs		12,973	10,609	36,630	30,424
Financing costs					
Interest on convertible debentures		2,551	2,102	6,773	5,630
Interest and other bank charges		1,722	1,295	4,625	3,622
		4,273	3,397	11,398	9,252
Net income and comprehensive income for the period		$ 8,700	$ 7,212	$ 25,232	$ 21,172
Earnings per common share					
Basic	12	$ 0.24	$ 0.24	$ 0.72	$ 0.71
Diluted	12	$ 0.24	$ 0.23	$ 0.71	$ 0.70

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands of Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2018	**2017**	**2018**	**2017**
Cash provided by (used in):				
Operating activities				
Net income and comprehensive income for the period	$ 8,700	$ 7,212	$ 25,232	$ 21,172
Adjustments to determine net cash flows from (used in) operating activities –				
Share-based payments	72	83	214	255
Mortgage interest and fees earned	(15,476)	(12,668)	(43,466)	(36,703)
Mortgage interest and fees received	12,776	10,721	33,960	29,638
Interest on convertible debentures expensed	2,551	2,102	6,773	5,630
Interest and other bank charges expensed	1,722	1,295	4,625	3,622
Provision for mortgage losses	563	400	1,263	1,448
Loss on disposition of foreclosed property	–	–	–	19
	10,908	9,145	28,601	25,081
Changes in operating assets and liabilities –				
Prepaid expenses	(178)	25	(217)	4
Accounts payable and accrued liabilities	(52)	378	(157)	355
Additions to unamortized origination fees	125	338	384	713
	(105)	741	10	1,072
Cash provided by operating activities	10,803	9,886	28,611	26,153
Investing activities				
Cash advances of mortgages receivable	(56,538)	(105,002)	(197,618)	(273,392)
Cash repayments of mortgages receivable	105,870	50,689	175,985	185,469
Improvements to foreclosed properties	–	(200)	–	(201)
Proceeds from disposition of foreclosed assets	–	–	–	539
Cash provided by (used in) investing activities	49,332	(54,513)	(21,633)	(87,585)
Financing activities				
Advances under credit facility	166,799	142,750	373,683	454,126
Repayments under credit facility	(249,710)	(123,863)	(414,902)	(456,450)
Interest on convertible debentures paid	(1,556)	–	(5,252)	(2,973)
Interest and other bank charges paid	(1,374)	(1,336)	(4,333)	(3,722)
Issuance of common shares	37	34,537	34,618	69,153
Share capital issue costs	–	(1,621)	(1,614)	(3,269)
Issuance of convertible debentures	34,500	–	34,500	25,300
Convertible debenture issue costs	(1,627)	–	(1,627)	(1,237)
Cash dividends paid	(7,204)	(5,840)	(22,051)	(19,496)
Cash provided by (used in) financing activities	(60,135)	44,627	(6,978)	61,432
Increase (decrease) in cash	–	–	–	–
Cash, beginning of period	–	–	–	–
Cash, end of period	$ –	$ –	$ –	$ –

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

NOTE 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, AI.DB.B, AI.DB.C and AI.DB.D.

NOTE 2 – BASIS OF PRESENTATION

(a) Statement of compliance

These interim consolidated 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 interim consolidated financial statements should be read in conjunction with the company's audited financial statements for the year ended December 31, 2017. Except as indicated in Note 2(b), significant accounting policies have been consistently applied in the preparation of these interim consolidated financial statements. These statements were authorized for issuance by the board of directors on October 25, 2018.

(b) Change in accounting policy

Effective January 1, 2018, the company adopted IFRS 9 *Financial Instruments* (IFRS 9), which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses classification and measurement of financial assets and liabilities, as well as impairment of financial assets. As a result of the application of IFRS 9, the company changed its accounting policies for financial assets and mortgages receivable effective January 1, 2018. As permitted by the transition provisions of IFRS 9, prior periods have not been restated. The company's financial assets continue to be measured at amortized cost, therefore, no reclassifications were required. Measurement differences in the carrying amounts on January 1, 2018 have been recognized through an adjustment to retained earnings on that date. See Notes 3(b), 3(d) and 5(b). Financial liabilities continue to be recognized initially at fair value net of transaction costs, and are subsequently measured at amortized cost (see Note 3(g)).

(c) Basis of measurement

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

(d) Functional and presentation currency

These interim consolidated 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.

(e) Principles of consolidation

These interim consolidated financial statements include the accounts of the company and CMCC Sisyphus LP, which is considered to be a subsidiary for accounting purposes. Consolidation commenced the date the company obtained control and continues until control ceases. Atrium has consolidated the subsidiary from August 5, 2016, the date of its formation. All transactions and balances between the company and the subsidiary have been eliminated, including unrealized gains and losses, if any.

NOTE 2 – BASIS OF PRESENTATION (continued)

(f) Use of estimates and judgements

The preparation of interim consolidated 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) determining whether the cash flows from the mortgages represent solely payments of principal and interest (SPPI), (b) the provision for mortgage losses (significant increase in credit risk, measurement of expected credit losses, forward looking information, expert credit judgement), and (c) 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Mortgage interest and fees revenues are recognized in the statement of income 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. Interest revenue is calculated on the gross carrying amount for mortgages receivable in Stage 1 and 2 and on the net carrying amount for mortgages receivable in Stage 3 (see Note 3(d)).

The effective interest method derives the interest rate that discounts the estimated future cash 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(d)). 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

The company’s business model and a financial instrument’s contractual cash flows determine its classification and measurement in the financial statements. Upon initial recognition, each financial asset will be classified as either fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). 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 SPPI. Otherwise it is recorded at FVTPL.

All financial assets are reviewed for impairment quarterly, and written down when there is evidence of impairment. A financial asset is considered to be impaired when there is objective evidence that the present value of all contractual cash flows due under the original terms of the contract are less than the present value of cash flows expected to be received. (see Note 3(d)).

(c) Financial instruments – derecognition of financial assets and liabilities

Financial assets are derecognized when the contractual rights to receive cash flows from the asset expire. When the company exercises its security and takes title to the underlying real estate, a mortgage receivable is derecognized on the date of foreclosure. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled, or expires.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Mortgages receivable and provision for mortgage losses

Mortgages receivable are a financial asset initially recognized at fair value and are subsequently carried at amortized cost using the effective interest method. The company's business model is to hold mortgages receivable to collect contractual cash flows that represent solely payments of principal and interest. Mortgages receivable are assessed for impairment at the end of each reporting period in accordance with IFRS 9 as outlined below and are presented net of provisions for mortgage losses on the interim consolidated statement of financial position.

IFRS 9 uses an expected credit loss (ECL) model to determine impairment. The impairment requirements in IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI, and off-balance-sheet lending commitments such as loan commitments and letters of credit (which are collectively referred to in this note as financial assets). The ECL model is forward looking and results in a provision for mortgage losses being recorded on all financial assets regardless of whether there has been a loss event. ECLs are the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received.

The ECL model uses a three-stage impairment approach based on changes in the credit risk of the financial asset since initial recognition. The three stages are as follows: Stage 1 – financial assets that have not experienced a significant increase in credit risk since initial recognition, Stage 2 – financial assets that have experienced a significant increase in credit risk between initial recognition and the reporting date, and Stage 3 – financial assets for which there is objective evidence of impairment at the reporting date. The company considers a number of factors when assessing if there has been a significant increase in credit risk, including the number of days past due, changes in the financial condition of the borrower, responsiveness of the borrower and other borrower specific information that may be available, without consideration of collateral. The company also considers past events, current market conditions including interest rates, housing prices, real estate market statistics and employment statistics, and supportable forward-looking information, including macro-economic factors, such as housing price and interest rate forecasts.

The ECL model requires the recognition of credit losses equal to 12-month ECLs for Stage 1 financial assets and ECLs for the remaining life of the financial assets (lifetime expected credit losses) for financial assets classified as Stage 2 and 3. The lifetime expected credit losses represent the expected loss in value due to possible default events over the life of a financial instrument weighted by the likelihood of a loss. Three factors are primarily used to measure ECLs: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These factors are used to estimate the ECLs for mortgages receivable classified as Stage 1. When mortgages receivable are considered to have experienced a significant increase in credit risk (Stage 2) or are considered to be impaired (Stage 3), each loan is assessed and the ECL estimated individually for each mortgage. The company considers a loan to be in default if it is greater than 30 days past due (90 days for single-family residential mortgages) or if an event of default has occurred under the terms of the mortgage commitment, including non-payment of property taxes, a material adverse change in the financial position of the borrower and/or guarantors or a material adverse change in the property given as security. Expert credit judgement is required when assessing evidence of credit impairment and estimating expected credit losses.

A loss on a mortgage is written off against the related provision for mortgage losses when there is no reasonable expectation of recovery. This generally occurs when all security has been realized, when all reasonable collection efforts have been exhausted or when a loan is sold.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreclosed properties

Foreclosed properties are properties over which the company has taken title through exercise of its security interest. Such properties are accounted for under the cost model of IAS 40, Investment Property. A foreclosed property is initially recognized at cost on the date of foreclosure, which is the book value of the respective mortgage net of any related provision for mortgage loss. Any costs subsequently incurred to complete the construction or development of a foreclosed property are capitalized. Depreciation is recorded from the date the property is substantially complete. If the higher of the fair value and the value in use of a foreclosed property (its recoverable amount) is less than its carrying amount, then an impairment loss is recognized for the excess. Any impairment loss, or gain or loss realized on disposal is recognized in the statement of income and comprehensive income.

(f) 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.

(g) 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 borrowings under credit facility, accounts payable and accrued liabilities, dividends payable and the liability component of convertible debentures as other financial liabilities.

(h) 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 deferred income taxes is required.

(i) 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 income and comprehensive income 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.

(j) 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, using the volume-weighted average trading share price for the five trading days prior to date of the grant.

NOTE 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. The company closely monitors new accounting standards as well as amendments to existing standards and assesses what impact, if any, they will have on the consolidated financial statements. None of the standards issued to date are expected to have a material effect on the financial statements.

NOTE 5 – MORTGAGES RECEIVABLE

(a) Mortgage portfolio

	September 30, 2018			December 31, 2017		
Mortgage category	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
Low-rise residential	33	$ 203,532	30.7%	36	$ 234,343	37.1%
Mid-rise residential	14	113,273	17.1%	4	31,471	5.0%
House and apartment	97	101,872	15.4%	120	86,287	13.6%
Construction	8	73,868	11.1%	8	64,828	10.3%
High-rise residential	8	36,918	5.6%	7	44,949	7.1%
Condominium corporation	14	2,624	0.4%	14	2,887	0.4%
Residential portfolio	174	532,087	80.3%	189	464,765	73.5%
Commercial	24	130,217	19.7%	27	167,622	26.5%
Mortgage portfolio	198	662,304	100.0%	216	632,387	100.0%
Accrued interest receivable		2,774			2,537	
Mortgage discount		(231)			(262)	
Unamortized origination fees		(499)			(706)	
Provision for mortgage losses		(10,100)			(7,200)[1]	
Mortgages receivable		$ 654,248			$ 626,756	

[1]Presented under IAS 39

The mortgage portfolio has maturity dates between 2018 and 2030 with a weighted average remaining term of 11.0 months at September 30, 2018 (December 31, 2017 – 12.4 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 8.83% as at September 30, 2018 (8.44% as at December 31, 2017, 8.34% as at September 30, 2017).

Within the mortgage portfolio, at September 30, 2018 there were 17 loans aggregating $56,157 (8.5% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage (December 31, 2017 – 13 mortgages aggregating $40,550, 6.4% of the portfolio). Additional analysis of the mortgage portfolio, including by location of underlying property and type of mortgage, is set out in the "Investment Portfolio" section of the Management's Discussion and Analysis for the quarter ended September 30, 2018.

A majority of the mortgages receivable have an initial closed period, after which the borrower may repay the principal at any time prior to maturity, without penalty, subject to providing advance written notice according to the terms of their mortgage.

Principal repayments based on contractual maturity dates are as follows:

Three months ended December 31, 2018	$ 138,167	20.9%
Years ended December 31, 2019	321,908	48.6%
2020	156,899	23.7%
2021	38,529	5.8%
2022	287	0.1%
Thereafter	6,514	0.9%
	$ 662,304	100.0%

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(b) Provision for mortgage losses

The expected credit loss model uses a three-stage impairment approach that is based on changes in the credit quality of the mortgage receivable since initial recognition. The provision for mortgage losses for the period is the sum of the ECLs for all mortgages in the portfolio. Probability of default (PD), loss given default (LGD) and exposure at default (EAD) are used to estimate the ECLs from default events that are possible within the next 12 months for mortgages receivable classified as Stage 1. These variables are determined using historical data and current and future expected conditions are taken into consideration at each reporting period. Stage 1 mortgages receivable are grouped into two categories to estimate Stage 1 ECLs, (i) mortgages on single family residences and (ii) mortgages on commercial and all other residential properties. When mortgages receivable are considered to have experienced a significant increase in credit risk (Stage 2) or are considered to be impaired (Stage 3), each loan is reviewed on an individual basis and the ECL estimated individually for each mortgage. Lifetime ECLs are estimated for mortgages with a significant increase in credit risk or that are considered to be impaired.

Gross carrying amount	**As at September 30, 2018**			
Mortgage category	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Low-rise residential	$ 203,532	$ –	$ –	$ 203,532
Mid-rise residential	113,273	–	–	113,273
House and apartment	100,299	1,573	–	101,872
Construction	52,913	–	20,955	73,868
High-rise residential	36,918	–	–	36,918
Condominium corporation	2,624	–	–	2,624
Commercial	126,353	3,864	–	130,217
Mortgage portfolio	$ 635,912	$ 5,437	$ 20,955	$ 662,304

Provision for mortgage losses	**As at September 30, 2018**			
Mortgage category	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Low-rise residential	$ 1,135	$ –	$ –	$ 1,135
Mid-rise residential	631	–	–	631
House and apartment	424	–	–	424
Construction	295	–	6,690	6,985
High-rise residential	206	–	–	206
Condominium corporation	15	–	–	15
Commercial	704	–	–	704
Mortgage portfolio	$ 3,410	$ –	$ 6,690	$ 10,100

The provision for mortgage losses at September 30, 2018 is $10,100, of which $6,690 represents management's estimate of the expected credit losses on those specific loans where there is objective evidence of impairment (Stage 3). The balance of $3,410 is a provision for mortgage losses on the balance of our portfolio on mortgages that have not experienced a significant increase in credit risk since initial recognition (Stage 1).

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(b) Provision for mortgage losses (continued)

The changes in the provision for mortgage losses are shown in the following table.

IFRS 9		Nine months ended September 30, 2018			
		Stage 1	Stage 2	Stage 3	Total
IAS 39 balance, December 31, 2017	$ 7,200				
Transition adjustment (Note 2(b))	2,000				
IFRS 9 opening balance, January 1, 2018	$ 9,200	$ 3,300	$ –	$ 5,900	$ 9,200
Provision for mortgage losses					
Transfers to (from) Stage 1 [1]		(12)	–	–	(12)
Transfers to (from) Stage 2 [1]		–	12	–	12
Transfers to (from) Stage 3 [1]		–	–	–	–
Net remeasurement [2]		(125)	(12)	1,149	1,012
Mortgage advances		1,109	–	–	1,109
Mortgage repayments		(862)	–	–	(862)
Write-offs [3]		–	–	(359)	(359)
Balance, September 30, 2018		$ 3,410	$ –	$ 6,690	$ 10,100

(1) Transfers between stages which are presumed to occur before any corresponding remeasurement of the provision.
(2) Net remeasurement represents the change in the allowance related to changes in model inputs or assumptions, including changes in macroeconomic conditions, and changes in measurement following a transfer between stages.
(3) Represents write-offs against prior period provision for mortgage losses. Actual loss incurred was $363.

During the nine month period ended September 30, 2018, the provision for mortgage losses for mortgages classified as Stage 1 increased as a result of the overall increase in the mortgage portfolio. The increase in the provision for mortgage losses for mortgages classified as Stage 3 was a result of a combination of an increase in the outstanding balance of the mortgages and an increase in the expected credit loss for these mortgages. At January 1, 2018, upon adoption of IFRS 9, the gross carrying amounts of the mortgage portfolio were classified as follows: Stage 1 - $605,089, Stage 2 - $10,191 and Stage 3 - $17,107.

IAS 39	Nine months ended September 30 2017
Balance, beginning of period	$ 5,800
Mortgages settled during the period	(448)
Provision for mortgage losses	1,448
Balance, end of period	$ 6,800

NOTE 6 – FORECLOSED PROPERTIES

In 2016, the company foreclosed on two properties which were the underlying security for mortgages receivable. The properties were recognized at cost of $1,179 on the dates of foreclosure. During the year ended December 31, 2017 the company disposed of one foreclosed property with a book value of $558 resulting in a net loss of $19. The book value at September 30, 2018 and December 31, 2017 approximates fair value.

	Nine months ended September 30 2018	Year ended December 31 2017
Balance, beginning of period	$ 1,064	$ 1,223
Capital improvements (reimbursements)	(1)	399
Disposition of foreclosed property	–	(558)
Balance, end of period	$ 1,063	$ 1,064

NOTE 7 – CREDIT FACILITY

At September 30, 2018, the company had a credit facility from a syndicate of four Canadian financial institutions of $210,000 (December 31, 2017 – $210,000) at a formula rate that varies with bank prime and the market bankers' acceptance rate. The annualized weighted average rate for the period ended September 30, 2018 was 3.83% (3.12% for the year ended December 31, 2017). Drawings under the credit facility may be by way of a bank loan (including an overdraft facility 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 November 28, 2017, has a term to January 11, 2020, 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, 2018 and December 31, 2017, the company was in compliance with these covenants.

Credit facility	**September 30 2018**	**December 31 2017**
Bankers' acceptances	$ 85,000	$ 125,000
Bank loan	18,450	19,900
Overdraft facility	485	254
Unamortized finance costs	(421)	(700)
Borrowings under credit facility	103,514	144,454
Letters of credit	7,807	3,640
Total credit facility utilization	$ 111,321	$ 148,094

NOTE 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 $4,725 for the nine months ended September 30, 2018 (nine months ended September 30, 2017 – $3,969). 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 of $543 (December 31, 2017 – $1,021) are included in accounts payable and accrued liabilities and are due to CMCC, are in the normal course of business, are non-interest bearing, due on demand and are paid within 30 days of each period end.

Certain of our mortgages are shared with other investors. As at September 30, 2018, companies owned by a director and officer of the company had co-invested in one syndicated mortgage. The total amount of the mortgage is $49,151 (December 31, 2017 – one syndicated mortgage of $45,360) of which the company's share is $24,575 (December 31, 2017 – $22,680).

NOTE 8 – RELATED PARTY TRANSACTIONS (continued)

As at September 30, 2018, the company had two mortgages receivable which a director and officer of the company has joint control over the borrowers of these mortgages. (December 31, 2017 – two).

- A mortgage loan with a total gross commitment of $3,490 (December 31, 2017 – $3,490), of which $3,309 (December 31, 2017 – $3,071) had been funded at September 30, 2018. During the nine months ended September 30, 2018, the company recognized net mortgage interest and fees of $214 (nine months ended September 30, 2017 – $nil) from this mortgage receivable.
- A mortgage loan with a total gross commitment of $8,738 (December 31, 2017 – $8,738). The company's share of the commitment is $2,330 (December 31, 2017 – $2,330), of which $2,330 had been funded at September 30, 2018 (December 31, 2017 – $2,330). During the nine months ended September 30, 2018, the company recognized net mortgage interest and fees of $169 (nine months ended September 30, 2017 – $50) from this mortgage receivable.

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	
	2018	2017	2018	2017
Directors' fees	$ 45	$ 45	$ 134	$ 135
Share-based payments to directors (Note 11)	29	33	107	103
Share-based payments to officers (Note 11)	15	19	44	59
	$ 89	$ 97	$ 285	$ 297

Related party transactions 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.

NOTE 9 – CONVERTIBLE DEBENTURES

	Convertible debenture					
	5.50% AI.DB.D	5.30% AI.DB.C	5.50% AI.DB.B	6.25% AI.DB.A	5.25% AI.DB	Total
Nine months ended September 30, 2018						
Issued and outstanding face value	$ 34,500	$ 25,300	$ 40,250	$ 30,781	$ 32,500	$ 163,331
Book value – Convertible debentures, beginning of period	$ –	$ 23,916	$ 38,961	$ 31,340	$ 31,759	$ 125,976
Conversion to shares	–	–	–	(978)	–	(978)
Issued	34,500	–	–	–	–	34,500
Equity component	(383)	–	–	–	–	(383)
Issue costs	(1,627)	–	–	–	–	(1,627)
Issue costs attributed to equity component	18	–	–	–	–	18
Accretion for the period	53	155	253	255	221	937
Convertible debentures, end of period	$ 32,561	$ 24,071	$ 39,214	$ 30,617	$ 31,980	$ 158,443

NOTE 9 – CONVERTIBLE DEBENTURES (continued)

	Convertible debenture					
	5.50% AI.DB.D	5.30% AI.DB.C	5.50% AI.DB.B	6.25% AI.DB.A	5.25% AI.DB	Total
Nine months ended September 30, 2017						
Issued and outstanding face value	$ –	$ 25,300	$ 40,250	$ 31,766	$ 32,500	$ 129,816
Book value – Convertible debentures, beginning of period	$ –	$ –	$ 38,627	$ 31,003	$ 31,468	$ 101,098
Issued	–	25,300	–	–	–	25,300
Equity component	–	(274)	–	–	–	(274)
Issue costs	–	(1,237)	–	–	–	(1,237)
Issue costs attributed to equity component	–	14	–	–	–	14
Accretion for the period	–	61	251	252	218	782
Convertible debentures, end of period	$ –	$ 23,864	$ 38,878	$ 31,255	$ 31,686	$ 125,683

	Convertible debenture				
	5.50% AI.DB.D	5.30% AI.DB.C	5.50% AI.DB.B	6.25% AI.DB.A	5.25% AI.DB
Maturity date	Dec. 31, 2025	June 30, 2024	Sept. 30, 2021	March 31, 2019	June 30, 2020
Initial term	7 years	7 years	7 years	5 years	7 years
Conversion at option of shareholder at:	$15.60/share	$14.94/share	$14.65/share	$13.30/share	$13.50/share
Interest payment dates	June 30, Dec. 31	June 30, Dec. 31	March 31, Sept. 30	March 31, Sept. 30	June 30, Dec. 31
Redeemable at the company's option at par plus accrued interest, provided the weighted average trading price of common shares is not less than 125% of the conversion price from	Dec. 31, 2021	June 30, 2020	Sept. 30, 2017	March 31, 2017	June 30, 2016
to	Dec. 31, 2023	June 30, 2022	Sept. 30, 2019	March 31, 2018	June 30, 2018
Redeemable at the company's option at par plus accrued interest and unpaid interest after	Dec. 31, 2023	June 30, 2022	Sept. 30, 2019	March 31, 2018	June 30, 2018

NOTE 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. During the three and nine months ended September 30, 2018, 72,521 and 236,678 common shares were issued under the Company's DRIP (September 30, 2017 – 67,652 and 222,699), using reinvested dividends of $947 and $2,970 (September 30, 2017 – $806 and $2,629). Shares issued under the DRIP are issued by the company from treasury. (See Note 15 – Subsequent events.)

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

NOTE 11 – SHARE-BASED PAYMENTS

	Nine months ended September 30, 2018			Year ended December 31, 2017		
	Deferred share units	Income deferred share units	Total	Deferred share units	Income deferred share units	Total
Balance, beginning of period	81,667	11,502	93,169	68,917	8,448	77,365
Units granted	22,000	–	22,000	24,000	–	24,000
Units cancelled	(3,000)	(331)	(3,331)	–	–	–
Units earned	–	3,223	3,223	–	5,948	5,948
Common shares issued	(32,000)	(6,020)	(38,020)	(11,250)	(2,894)	(14,144)
Balance, end of period	68,667	8,374	77,041	81,667	11,502	93,169

Share compensation expense:	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
September 1, 2018 grant	$ 15	$ –	$ 15	$ –
September 1, 2017 grant	30	15	115	15
September 1, 2016 grant	16	40	50	138
September 1, 2015 grant	7	19	21	68
September 1, 2014 grant	3	7	9	27
August 30, 2013 grant	1	2	4	7
August 29, 2012 grant	–	–	–	–
	$ 72	$ 83	$ 214	$ 255

Grants are provided to directors and certain employees of the manager 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 ("IDSU") are credited to holders of deferred share units granted before 2018 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, 2018 ($13.71) and September 1, 2017 ($12.26).

NOTE 12 – EARNINGS PER SHARE

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Basic earnings per share –				
Numerator				
Net income and comprehensive income for the period	$ 8,700	$ 7,212	$ 25,232	$ 21,172
Denominator				
Weighted average common shares outstanding	36,257,306	30,346,140	35,273,120	29,750,169
Basic earnings per share	$ 0.24	$ 0.24	$ 0.72	$ 0.71

NOTE 12 – EARNINGS PER SHARE (continued)

	Three months ended September 30		Nine months ended September 30	
	2018	**2017**	**2018**	**2017**
Diluted earnings per share –				
Numerator				
Net income and comprehensive income for the period	$ 8,700	$ 7,212	$ 25,232	$ 21,172
Interest on convertible debentures	2,551	2,102	6,773	5,630
Net income and comprehensive income for diluted earnings per share	11,251	9,314	32,005	26,802
Denominator				
Weighted average common shares outstanding	36,257,306	30,346,140	35,273,120	29,750,169
Convertible debentures	11,022,011	9,236,711	9,833,999	8,215,396
Deferred share incentive plan	62,019	72,172	69,983	70,446
Income deferred share units	8,244	8,473	8,618	7,952
Weighted average common shares outstanding – diluted basis	47,349,580	39,663,496	45,185,720	38,043,963
Diluted earnings per share	$ 0.24	$ 0.23	$ 0.71	$ 0.70

NOTE 13 – FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets comprise mortgages receivable and are classified and measured at amortized cost. Financial liabilities comprise borrowings under credit facility, accounts payable and accrued liabilities, dividends payable 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 and measured 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 borrowings under credit facility approximates book value since it bears interest at floating rates. The accounts payable and accrued liabilities and dividends payable carrying value approximates their fair value due to the short term nature of the items.

NOTE 13 – FINANCIAL INSTRUMENTS (continued)

(b) Fair value (continued)

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.

Convertible debentures	**September 30 2018**	**December 31 2017**
Fair value	$ 165,864	$ 131,134
Less book value of equity component	(1,682)	(1,322)
	$ 164,182	$ 129,812
Book value of financial liability component	$ 158,443	$ 125,976

(c) Credit risk

Mortgages receivable and issued letters of credit are exposed to credit risk. 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 mitigates the credit risk by maintaining strict credit policies including due diligence processes, credit limits, documentation requirements, review and approval of new and renewed 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, 2018, the largest borrower group accounted for 11.9% of mortgages receivable (December 31, 2017 – 9.0%). See Note 5(a) and Note 5(b) for a breakdown of mortgages and provision 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 borrowings under credit facility, accounts payable and accrued liabilities, dividends payable and the liability component of convertible debentures. The borrowings under credit facility 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 borrowings under credit facility.

NOTE 13 – FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk (continued)

September 30, 2018	Carrying value	Contractual cash flow	Within 1 year	1 to 3 years	3 to 5 years	More than 5 years
Borrowings under credit facility[1]	$103,935	$109,562	$ 4,405	$105,157	$ –	$ –
Accounts payable and accrued liabilities	1,815	1,815	1,815	–	–	–
Accrued convertible debenture interest	3,220	3,220	3,220	–	–	–
Dividends payable	2,728	2,728	2,728	–	–	–
Convertible debentures[2]	158,443	180,536	108,984	6,477	30,101	34,974
Total	270,141	297,861	121,152	111,634	30,101	34,974
Unadvanced mortgage commitments[3]	–	82,500	82,500	–	–	–
Total contractual liabilities	$270,141	$380,361	$203,652	$111,634	$ 30,101	$ 34,974

Notes:

(1) Includes interest assuming the outstanding balance is not repaid until maturity on January 11, 2020.

(2) The 5.25% debentures are assumed to be repaid Oct 1, 2018; 6.25% debentures are assumed to be repaid Oct 1, 2018; 5.50% debentures are assumed to be repaid September 30, 2019, 5.3% debentures are assumed to be repaid June 30, 2022 and 5.50% debentures are assumed to be repaid December 31, 2023

(3) Unadvanced mortgage commitments include additional funds on existing mortgage and new mortgage commitments. The experience of the company has been that a portion of the unadvanced amounts on existing mortgages will never be drawn.

As at September 30, 2018, management considers that it has adequate procedures in place to manage liquidity risk.

(e) 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 borrowings under credit facility being set at a variable rate and mortgages are set at a combination of fixed and variable rates. The financial structure of the company results in relatively moderate interest rate risk because a majority 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, 2018, income and comprehensive income would have been reduced (increased) by approximately $1,529 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 income and comprehensive income would have been less than (greater than) $1,529.

(f) 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 exposed to currency risk as all assets and liabilities are denominated in Canadian funds.

NOTE 14 – CAPITAL MANAGEMENT

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

	September 30 2018	December 31 2017
Borrowings under credit facility	$ 103,514	$ 144,454
Convertible debentures	158,443	125,976
Total debt	261,957	270,430
Shareholders' equity	385,847	349,064
Capital employed	$ 647,804	$ 619,494

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 and the employee share purchase plan.

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 borrowings under credit facility are subject to external covenants as set out in Note 7. There has been no change in the company's capital management objectives since the prior period.

NOTE 15 – SUBSEQUENT EVENTS

On October 12, 2018, the company issued 24,131 common shares ($321) to shareholders under its dividend reinvestment plan.

On September 1, 2018, the company submitted a conditional offer through a credit bid to purchase a property on which the company currently holds a mortgage, with the option that it be transferred to a nominee on closing. The offer was accepted by the receiver and on October 12, 2018 was approved by the court. This transaction has not yet closed. The net impact of this transaction is estimated to be a reduction of mortgages receivable and an increase to foreclosed properties of approximately $14,265.