Condensed Interim Financial Statements

For the three-month and six-month periods ended June 30, 2013 and 2012
(Expressed in Canadian dollars)

(Unaudited)

ATRIUM MORTGAGE INVESTMENT CORPORATION
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)

(Expressed in Canadian dollars)	Notes	June 30 2013	December 31 2012
Assets			
Cash		$ 226,435	$ 10,628,383
Mortgages receivable	5	269,895,625	201,954,951
Accounts receivable		10,230	–
Prepaid expenses		15,146	19,577
		$ 270,147,436	$ 212,602,911
Liabilities			
Bankers' acceptances	6	$ 20,000,000	$ –
Bank loan	6	8,379,500	–
Accounts payable		336,682	180,800
Accrued liabilities		320,571	279,768
Dividends payable	7	1,408,617	1,826,813
Due to related party	8	175,197	205,605
Convertible debentures	9	28,110,757	–
		58,731,324	2,492,986
Shareholders' equity			
Share capital		209,925,152	209,383,307
Contributed surplus		779,412	693,199
Equity component of convertible debentures		360,527	
Retained earnings		351,021	33,419
		211,416,112	210,109,925
		$ 270,147,436	$ 212,602,911
Commitments	*5, 6*		

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

Approved on behalf of the board of directors:

"Rob Goodall" Rob Goodall, Director

"Mark Silver" Mark Silver, Director

ATRIUM MORTGAGE INVESTMENT CORPORATION
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(Expressed in Canadian dollars)

	Notes	Common shares Number	Common shares Amount	Contributed surplus	Equity component of convertible debentures	Retained earnings	Total
Balance, December 31, 2011		14,357,437	$ 142,141,036	$ 645,023	$ –	$ 60,353	$ 142,846,412
Shares issued	10	805,800	8,058,000	–	–	–	8,058,000
Shares issued under dividend reinvestment plan	10	32,372	323,725	–	–	–	323,725
Issue costs	10	–	(132,950)	–	–	–	(132,950)
Earnings and comprehensive income		–	–	–	–	6,709,114	6,709,114
Dividends declared		–	–	–	–	(6,481,202)	(6,481,202)
Balance, June 30, 2012		15,195,609	150,389,811	645,023	–	288,265	151,323,099
Shares issued		5,837,400	62,285,058	–	–	–	62,285,058
Shares issued under dividend reinvestment plan		45,528	464,150	–	–	–	464,150
Issue costs		–	(3,755,712)	–	–	–	(3,755,712)
Share based payments		–	–	48,176	–	–	48,176
Earnings and comprehensive income		–	–	–	–	6,649,213	6,649,213
Dividends declared		–	–	–	–	(6,904,059)	(6,904,059)
Balance, December 31, 2012		21,078,537	209,383,307	693,199	–	33,419	210,109,925
Shares issued under dividend reinvestment plan	10	50,617	541,845	–	–	–	541,845
Share based payments	11	–	–	72,263	–	–	72,263
Shares subscribed	12	–	–	13,950	–	–	13,950
Equity component of convertible debentures issued	9	–	–	–	380,000	–	380,000
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(19,473)	–	(19,473)
Earnings and comprehensive income		–	–	–	–	8,760,301	8,760,301
Dividends declared	7	–	–	–	–	(8,442,699)	(8,442,699)
Balance, June 30, 2013		21,129,154	$ 209,925,152	$ 779,412	$ 360,527	$ 351,021	$ 211,416,112

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

ATRIUM MORTGAGE INVESTMENT CORPORATION
CONDENSED INTERIM STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(Unaudited)

(Expressed in Canadian dollars)		**Three months ended June 30**		**Six months ended June 30**	
	Notes	**2013**	**2012**	**2013**	**2012**
Revenues					
Mortgage interest and fees		$ 5,844,550	$ 4,141,626	$ 10,934,063	$ 8,244,300
Operating expenses					
Mortgage servicing and management fees	8	609,778	366,201	1,127,919	723,890
Interest and other bank charges		369,186	235,770	498,608	467,052
Interest on convertible debentures		60,376	–	60,376	–
Accounting, audit and legal fees		44,214	97,105	127,845	154,830
Transfer agent, TSX fees and investor relations		41,648	–	127,450	–
Directors expense	8	27,266	–	55,720	–
Administration and general		22,224	30,401	40,580	72,265
Share based payments	8, 11	36,132	–	72,264	–
Expenses for the non-offering prospectus and the related TSX listing		–	54,679	–	117,149
Provision for mortgage losses		63,000	–	63,000	–
		1,273,824	784,156	2,173,762	1,535,186
Earnings and comprehensive income for the period		$ 4,570,726	$ 3,357,470	$ 8,760,301	$ 6,709,114
Earnings per common share					
Basic	13	$ 0.22	$ 0.22	$ 0.42	$ 0.45
Diluted	13	$ 0.22	$ 0.22	$ 0.41	$ 0.45

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

ATRIUM MORTGAGE INVESTMENT CORPORATION
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

(Expressed in Canadian dollars)	**Six months ended June 30 2013**	**June 30 2012**
Cash provided by (used in):		
Operating activities		
Earnings and comprehensive income for the period	$ 8,760,301	$ 6,709,114
Add (subtract) non-cash items		
Share based payments	86,213	–
Interest capitalized to mortgages	(1,011,901)	(980,323)
Amortization of mortgage discount	(101,904)	(25,097)
Amortization of mortgage origination fees	(376,481)	(340,209)
Non-cash portion of interest on convertible debentures	8,595	–
Provision for mortgage losses	63,000	–
	7,427,823	5,363,485
Changes in operating assets and liabilities		
Accrued interest receivable	1,150,867	(641,792)
Accounts receivable	(10,230)	(13,600)
Prepaid expenses	4,431	–
Accounts payable	155,882	12,090
Accrued liabilities	40,803	57,855
Additions to mortgage discount	160,800	143,865
Additions to mortgage origination fees	530,534	339,869
Cash provided by operating activities	9,460,910	5,261,772
Investing activities		
Advances on mortgages receivable	(105,566,553)	(44,768,767)
Repayment of mortgages receivable	37,210,964	36,997,809
Cash used by investing activities	(68,355,589)	(7,770,958)
Financing activities		
Bankers' acceptances advanced	55,800,000	–
Bankers' acceptances repaid	(35,800,000)	–
Bank loan advanced	113,129,500	49,900,000
Bank loan repaid	(104,750,000)	(50,900,000)
Increase (decrease) in due to related party	(30,408)	76,396
Issuance of common shares	541,845	8,381,725
Share issue costs	–	(132,950)
Proceeds from issuance of convertible debentures	30,000,000	–
Convertible debenture issue costs	(1,537,311)	–
Dividends paid	(8,860,895)	(6,123,012)
Cash provided by financing activities	48,492,731	1,202,159
Decrease in cash	(10,401,948)	(1,307,027)
Cash, beginning of period	10,628,383	1,315,017
Cash, end of period	$ 226,435	$ 7,990
Cash provided by operating activities includes:		
Interest received	$ 8,153,534	$ 6,256,880
Interest paid	$ 446,658	$ 413,671

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 symbol "AI.DB."

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). These condensed interim financial statements should be read in conjunction with the company's audited financial statements for the year ended December 31, 2012. In particular, the company's significant accounting policies as presented in Note 3 of the financial statements for the year ended December 31, 2012, have been consistently applied in the preparation of these condensed interim financial statements. These condensed interim financial statements were authorized for issuance by the board of directors on July 25, 2013.

(b) Basis of measurement

These condensed interim financial statements were 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.

(d) Use of estimates and judgements

The preparation of 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 the valuation of mortgages receivable, and the provision for mortgage losses as well as the measurement of the liability and equity components of the convertible debentures. 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

The company's accounting policies and its standards of financial disclosure set out below are in accordance with IFRS and have been applied consistently.

(a) Revenue recognition

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

The effective interest method discounts the estimated future cash payments and receipts through the expected life of the mortgage receivable to its carrying amount. When estimating future cash flows, the contractual terms of the mortgage are considered although possible future credit losses are ignored (see note 3(c)).

(b) Financial assets – classification, recognition and measurement

Classification of financial assets depends on the purpose for which the financial assets were acquired or incurred. Management determines the classification of financial assets at initial recognition. All of the company's financial assets are classified as loans and receivables.

All financial assets are subject to review for impairment quarterly and written down when there is evidence of impairment.

Loans and receivables
Classification
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category consist of cash, accounts receivable and mortgages receivable.

Recognition and measurement
Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. At each reporting date, management considers whether any reserves for credit impairment or due to changes in market interest rates are required.

(c) Mortgages receivable

A mortgage receivable, carried at amortized cost, is considered impaired when there is objective evidence 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. Provision for mortgage losses represents management's best estimate of impairment in mortgages receivable at each reporting date. Judgement is required as to the timing of designating a mortgage as impaired and the amount of any provision required. If there is no objective evidence of impairment for an individual 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.

The company reviews mortgages receivable quarterly for impairment. 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 statement of earnings and comprehensive income and reflected in the provision for mortgage losses. When a subsequent event causes the amount of impairment loss to decrease, the provision for mortgage losses is reversed through the statement of earnings and comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Convertible debentures

The 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 provides for the application of a constant interest rate over the life of the 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, bankers' acceptances, bank loan payable, accounts payable, accrued liabilities, dividends payable, due to related parties and 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 paid 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

Earnings per common share is calculated by dividing earnings during the period by the weighted average number of common shares outstanding during the period adjusted for any dilutive items.

(h) Share based payments

The company has an equity-settled share based compensation plan for grants to eligible directors, officers, senior management and consultants under its deferred share incentive plan. No awards have been issued to consultants. Grants are measured based upon the fair value of the awards granted, based on the share price at the time of the grant.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Certain pronouncements have been issued by the IASB or IFRIC (IFRS Interpretations Committee) that will be effective for future accounting periods. Many of these are not applicable to the company and so are not listed below. The pronouncement listed below is effective for accounting periods beginning after January 1, 2015. Adopting this new pronouncement will not have a material impact on the company's financial statements. The following is a brief summary of the new standard:

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

IFRS 9 – Financial Instruments: Classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after January 1, 2015. 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.

5. MORTGAGES RECEIVABLE

	June 30, 2013			December 31, 2012		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
Mixed use real estate/commercial	23	94,569,057	34.9%	15	$ 69,334,931	34.4%
Low rise residential	17	59,297,326	21.9%	8	24,302,272	12.1%
House and apartment	45	55,473,388	20.5%	31	43,061,190	21.3%
High rise residential	4	25,036,000	9.2%	4	23,686,000	11.8%
Construction	7	20,452,139	7.6%	4	15,087,981	7.5%
Midrise residential	5	13,262,632	4.9%	5	24,381,184	12.1%
Condominium corporation	11	2,760,170	1.0%	10	1,629,664	0.8%
Mortgage portfolio	112	270,850,712	100.0%	77	201,483,222	100.0%
Accrued interest receivable		1,438,774			2,589,639	
Mortgage discount*		(444,406)			(385,508)	
Mortgage origination fees*		(798,788)			(644,735)	
Provision for mortgage losses		(1,150,667)			(1,087,667)	
Mortgages receivable		$ 269,895,625			$201,954,951	

* Net of accumulated amortization

The total portfolio bears interest at a weighted average yield of 8.70% (December 31, 2012 – 8.93%) and mature between 2013 and 2022 with a weighted average term to maturity of 13.3 months (2012 – 13.0 months)

The company has committed to advance additional funds under both existing and new mortgages aggregating $51,194,218 at June 30, 2013 (December 31, 2012 – $34,949,643).

Principal repayments based on contractual maturity dates are as follows:

Year ending December 31, 2013	$ 77,819,884
2014	119,472,424
2015	52,884,591
2016	18,122,693
2017	203,620
Thereafter	2,347,500
	$ 270,850,712

5. MORTGAGES RECEIVABLE (continued)

Provision for mortgage losses

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Balance, beginning of period	$ 1,087,667	$ 894,376	$ 1,087,667	$ 894,376
Increase in provision during the period	63,000	–	63,000	–
Balance, end of period	$ 1,150,667	$ 894,376	$ 1,150,667	$ 894,376

6. LINE OF CREDIT

The company has a line of credit facility from a major Canadian financial institution of $50,000,000 (December 31, 2012 – $50,000,000). Advances may be obtained under the credit facility by way of a maximum $500,000 overdraft at a rate of prime plus 1.5%, a bank loan at a rate of prime plus 1.5% per annum or bankers' acceptances at the BA rate on date of drawdown plus a stamping fee of 2.5% per annum. The credit facility is repayable upon demand and subject to certain conditions of drawdown and other covenants. The standby fee on the unused portion of the facility is 0.50% per annum.

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 June 30, 2013, the company was in compliance with these covenants.

The company has letters of credit (LCs) outstanding under the credit facility as at June 30, 2013 of $2,332,458 (December 31, 2012 – $357,458) which have been committed to clients. The LCs reduce the maximum availability under the credit facility by the amount of the LCs drawn. The maximum available by way of LCs under the credit facility is $5 million. LCs represent irrevocable assurances that the company's bank 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.

	June 30, 2013		December 31, 2012	
Line of credit	**Interest rate**	**Amount**	**Interest rate**	**Amount**
Bankers' acceptances	3.72%	20,000,000	–	nil
Bank loan	4.50%	8,379,500	–	nil
Total borrowing under credit facility		28,379,500		nil
Letters of credit		2,332,458		357,458
Total line of credit utilization		**30,711,958**		**357,458**

7. DIVIDENDS

The company follows a dividend policy so that it is non-taxable under the provisions of the *Income Tax Act* related to Mortgage Investment Corporations. Dividends amounted to $0.20 per share for the three months ended June 30, 2013 (June 30, 2012 - $0.22) and $0.40 per share for the six months ended June 30, 2013 (June 30, 2012 – $0.43).

	Six months ended June 30 2013	Year ended December 31 2012
Dividends payable, beginning of period	$ 1,826,813	$ 2,984,844
Dividends declared during the period	8,442,699	12,963,690
Special dividend declared, payable to shareholders of record December 31, 2012	–	421,571
Dividends paid during the period	(8,860,895)	(14,543,292)
Dividends payable, end of period	$ 1,408,617	$ 1,826,813

8. RELATED PARTY TRANSACTIONS

The company pays management and mortgage servicing fees to Canadian Mortgage Servicing Corporation (“CMSC”), a subsidiary of Canadian Mortgage Capital Corporation (“CMCC”) the manager of the company, which is responsible for the day to day management of the company. The majority beneficial owner and CEO of the manager is also CEO of the company. The company incurred management and mortgage servicing fees from CMSC of $1,121,849 for the six months ended June 30, 2013 (six months ended June 30, 2012 – $723,890). Unpaid amounts are in the normal course of business, non-interest bearing and due on demand. Due to related parties is due to CMCC and its subsidiaries.

Guarantees aggregating $4,542,000 at June 30, 2013 (December 31, 2012 – $8,290,000) have been provided on mortgages owned by the company from a major development company of which one of the directors of the company is a director and officer. No guarantees fees have been paid in the period.

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

	Six months ended	
	June 30 2013	June 30 2012
Fees to directors	$ 55,720	$ –
Share based payments to directors (note 11)	35,292	–
Share based payments to officers (note 11)	36,972	–
	$ 127,984	$ –

Related party transactions are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, which represents fair value in the opinion of management.

9. CONVERTIBLE DEBENTURES

	Six months ended June 30 2013	Year ended December 31 2012
Issued, June 18, 2013	$ 30,000,000	$ –
Equity component	(380,000)	–
Issue costs	(1,537,311)	–
Issue costs attributed to equity component	19,473	–
Convertible debentures, opening	28,102,162	–
Accretion for the period	8,595	–
Convertible debentures, end of period	$ 28,110,757	$ –

On June 18, 2013, the company completed a public offering of $30,000,000, 5.25%, unsecured convertible debenture due June 30, 2020 with a conversion price of $13.50. The interest on the debentures is payable on June 30 and December 31 each year. The debentures may not be redeemed by the company before June 30, 2016. After June 30, 2016 and prior to June 30, 2018, the debentures may be redeemed, in whole or in part, from time to time at the company's option at par plus accrued interest provided that the weighted average trading price of the common shares is not less than 125% of the conversion price. After June 30, 2018, the company may, at its option, redeem the debenture, in whole or in part, at par plus accrued and unpaid interest.

On issuance, the company recorded a liability of $28,102,162, net of equity component of $380,000 and issue costs attributable to debt of $1,517,838 (see note 16 – Subsequent events).

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 market price less a 2% discount. Shares issued under the DRIP are issued by the company from treasury.

	Common shares	
	Number	Amount
Shares issued –		
DRIP, January 29, 2013	6,580	$ 70,801
DRIP, February 26, 2013	6,814	73,732
DRIP, March 21, 2013	1,785	19,106
DRIP, March 27, 2013	8,889	95,120
DRIP, April 15, 2013	8,515	91,877
DRIP, May 15, 2013	8,806	94,498
DRIP, June 14, 2013	9,228	96,711
Total shares issued six months ended June 30, 2013	50,617	$ 541,845
Private placement	–	$ –
DRIP	50,617	541,845
Total shares issued six months ended June 30, 2013	50,617	$ 541,845

10. SHARE CAPITAL (continued)

	Common shares	
	Number	Amount
Shares issued –		
DRIP, January 31, 2012	14,720	$ 147,201
Private placement, February 15, 2012	805,800	8,058,000
DRIP, April 30, 2012	17,652	176,524
Total shares issued six months ended June 30, 2012	838,172	$ 8,381,725
Private placement	805,800	$ 8,058,000
DRIP	32,372	323,725
Total shares issued six months ended June 30, 2012	838,172	$ 8,381,725

Issue costs for the February 15, 2012 private placement aggregated $132,950.

11. SHARE BASED PAYMENTS

On August 29, 2012 the board granted 21,500 deferred share units to directors and officers. Common shares are issued to participants on the vesting date of each tranche of deferred share units, unless a participant elects to defer the issue. In addition, income deferred share units are credited to holders of deferred share units based upon dividends paid on common shares. At June 30, 2013 and December 31, 2012 none of the related common shares were issuable, nor were any income deferred share units issuable.

The total value of the share based compensation was $236,500 on the date of grant. Share based compensation expense recognized during the six month period ended June 30, 2013 was $72,263 (June 30, 2012 – $nil), with a corresponding credit to contributed surplus. The fair value of share based compensation was based upon the market price of the common shares on the grant date of $11.00.

12. EMPLOYEE SHARE PURCHASE PLAN

On February 21, 2013 the board of directors approved an employee share purchase plan (ESPP). Each participant may contribute up to a maximum of $10,000 per annum to the ESPP and CMCC will match 50% of the participant's contribution to the ESPP. Thus, the company does not bear any of the cost of the ESPP, but is reimbursed by CMCC and the participant. As at June 30, 2013, $13,933 (1,332 common shares) had been subscribed for but were unissued by the company.

13. EARNINGS PER SHARE

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Basic earnings per share –				
Numerator				
Earnings for the period	$ 4,570,726	$ 3,357,470	$ 8,760,301	$ 6,709,114
Denominator				
Weighted average common shares outstanding	21,115,790	15,189,790	21,101,222	14,976,489
Basic earnings per share	$ 0.22	$ 0.22	$ 0.42	$ 0.45

13. EARNINGS PER SHARE (continued)

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Diluted earnings per share –				
Numerator				
Earnings for the period	$ 4,570,726	$ 3,357,470	$ 8,760,301	$ 6,709,114
Interest on convertible debentures	51,781	–	51,781	–
Earnings for diluted EPS	4,622,507	3,357,470	8,812,082	6,709,114
Denominator				
Weighted average common shares outstanding	21,115,790	15,189,790	21,101,022	14,976,489
Deferred share incentive plan	21,500	–	21,500	–
Convertible debentures	293,040	–	147,330	–
Weighted average common shares outstanding – diluted basis	21,430,331	15,189,790	21,269,851	14,976,489
Diluted earnings per share	$ 0.22	$ 0.22	$ 0.41	$ 0.45

14. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets comprise cash, accounts receivable and mortgages receivable. All financial assets are classified as loans and receivables. Financial liabilities comprise bank indebtedness, bankers' acceptances, bank loan payable, accounts payable, accrued liabilities, dividends payable, due to related party and 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 bankers' acceptances and bank loan approximates book value since they are repayable at any time and bear interest at floating rates. Mortgages receivable mature between 2013 and 2022 with a weighted average term to maturity of 13.3 months (2012 – 13.0 months). Fair value of mortgages receivable is established by level 3 inputs. The fair value of convertible debentures approximates book value and is established using level 2 inputs. Other financial assets and liabilities are established using level 3 inputs.

14. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk

The following assets are exposed to credit risk: cash, accounts receivable and 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 credit risk for cash is very low because the company maintains cash balances with a major Schedule I chartered bank. The credit risk for accounts receivable is low because it primarily represents funds held on our behalf in a lawyer's trust account.

The company controls the credit risk of mortgages receivable by maintaining strict credit policies including 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. In the prior year ultimate approval of credit risk was by a non-board credit committee. Credit risk is approved by the board of directors. No single borrower accounts for more than 10.4% of mortgages receivable. The company's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at June 30, 2013 and December 31, 2012 is represented by the respective carrying amounts of the relevant financial assets in the condensed interim statements of financial position.

(d) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its obligations when due. The company's liquidity risk is managed on an ongoing basis by CMCC in accordance with the policies and procedures in place. The company's significant financial liabilities include bank loan and indebtedness, accounts payable, accrued liabilities, dividends payable, and convertible debentures. The bank indebtedness, bankers' acceptances and bank loan payable is drawn on to discharge accounts payable as well as to pay out dividends on a monthly basis. The company's agreement with the lender is that the bank loan 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 June 30, 2013, management considers that the company does not have significant exposure to liquidity risk as the line of credit is not fully utilized and the company is in compliance with all covenants.

(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 bank loan 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 relatively small amount of bank debt and bankers' acceptances that bear floating interest rates.

If interest rates on debt had been one percentage point higher during the three months ended June 30, 2013, earnings would have been reduced by approximately $70,000 during that quarter, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. If new mortgage loans had been entered into at higher interest rates, the reduction of earnings would have been less than $70,000. If interest rates on debt had been one percentage point lower during the three months ended June 30, 2013, earnings would have been increased by approximately $70,000 during that quarter, assuming that no changes had been made to the interest rates at which new loans were entered into. Had new loans been entered into at lower interest rates, the potential increase in earnings in that quarter would have been less than $70,000.

14. FINANCIAL INSTRUMENTS (continued)

(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 currently exposed to significant currency risk as almost all assets and liabilities are denominated in Canadian funds.

(g) Changes to risk exposure and management of risk exposure

During the quarter, the company issued 5.25% convertible debentures with a face value of $30,000,000 (see note 9), which had the effect of altering its risk exposure profile to be less sensitive to changes in general market interest rates. The effect will be favourable if general interest rates increase, and adverse if general interest rates decline.

15. CAPITAL RISK MANAGEMENT

The company defines capital as total debt plus shareholders' equity. Total debt is comprised of bankers' acceptances, bank loan payable and convertible debentures as shown below.

	June 30 2013	December 31 2012
Bankers' acceptances	$ 20,000,000	$ –
Bank loan payable	8,379,500	–
Convertible debentures	28,110,757	–
Shareholder's equity	211,416,112	210,109,925
Capital employed	$ 267,906,369	$ 210,109,925

The company's objectives for managing capital are to:

- preserve shareholders' equity
- provide shareholders with stable dividends
- use leverage in a conservative manner to improve return to shareholders

The company manages capital by using small amounts of financial leverage to improve its 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.

Once borrowings aggregate above a certain level, the company would expect to raise more funds through common share offerings. The company's bank loan and bankers' acceptances are subject to external covenants as set out in note 6. There has been no change in the company's capital risk management objectives since the prior period.

16. SUBSEQUENT EVENTS

On July 9, 2013, the underwriters of the convertible debenture (note 9) exercised their overallotment option resulting in the issuance of a further $2,500,000 principal amount of 5.25% convertible debentures.

On July 15, 2013 the company issued 9,208 common shares ($94,108) under its dividend reinvestment plan.