



Consolidated Financial Statements



Year Ended
December 31, 2019

CANADA'S PREMIER NON-BANK LENDER™



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the shareholders of
Atrium Mortgage Investment Corporation:

The management of Atrium Mortgage Investment Corporation (Atrium) is responsible for the preparation, presentation and integrity of these consolidated financial statements, and the accompanying Management's Discussion and Analysis. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgements and estimates necessary to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management of Atrium is responsible to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced. We are required to design a system of internal controls and certify as to the design and operating effectiveness of internal controls over financial reporting. We have implemented a system of internal controls that we believe provides reasonable assurance in all material respects that transactions are authorized, assets are safeguarded and financial records are reliable for producing consolidated financial statements. Crowe Soberman LLP was appointed as the independent auditor by a vote of Atrium's shareholders to audit the consolidated financial statements; their report appears on the next page.

The board of directors, through the Audit Committee comprised solely of independent directors, is responsible for determining that management fulfills its responsibilities in the preparation of these consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders, and it meets regularly with senior and financial management to discuss internal controls and financial reporting matters. The independent auditors have unrestricted access to the Audit Committee.

These consolidated financial statements and accompanying Management's Discussion and Analysis have been approved by the board of directors based upon the review and recommendation of the Audit Committee.

Toronto, Canada
February 13, 2020

"Robert G. Goodall"
Robert G. Goodall
President and Chief Executive Officer

"Jennifer Scoffield"
Jennifer Scoffield
Chief Financial Officer



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Atrium Mortgage Investment Corporation

Opinion

We have audited the consolidated financial statements of Atrium Mortgage Investment Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of income and comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditors' report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Jonathan Breido.

Crowe Soberman LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 13, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

		December 31	
	Notes	2019	2018
Assets			
Mortgages receivable	5	\$ 727,325	\$ 682,721
Investment properties	6	16,201	17,007
Prepaid expenses		105	22
Total assets		<u>\$ 743,631</u>	<u>\$ 699,750</u>
Liabilities			
Borrowings under credit facility	7	\$ 123,449	\$ 147,846
Accounts payable and accrued liabilities	8	4,144	2,093
Accrued convertible debenture interest		956	1,011
Dividends payable		5,652	4,205
Convertible debentures	9	153,910	157,289
Total liabilities		<u>288,111</u>	<u>312,444</u>
Shareholders' equity			
Share capital		452,851	385,261
Deferred share incentive plan units		716	644
Equity component of convertible debentures		1,837	1,675
Contributed surplus		781	645
Deficit		(665)	(919)
Total shareholders' equity		<u>455,520</u>	<u>387,306</u>
Total liabilities and shareholders' equity		<u>\$ 743,631</u>	<u>\$ 699,750</u>

Commitments

7, 13(d)

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

Approved on behalf of the board of directors:

"Robert Goodall"
 Robert Goodall, Director

"Mark Silver"
 Mark Silver, Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars, except for number of common shares)

	Notes	Share capital		Deferred share incentive plan units	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
		Number	Amount					
Balance, December 31, 2017		33,252,139	\$ 345,325	\$ 802	\$ 1,322	\$ 645	\$ 970	\$ 349,064
Impact of adoption of IFRS 9	2(b)	—	—	—	—	—	(2,000)	(2,000)
Balance, restated at January 1, 2018		33,252,139	345,325	802	1,322	645	(1,030)	347,064
Shares issued by prospectus	10	2,760,000	34,500	—	—	—	—	34,500
Shares issued under dividend reinvestment plan	10	311,339	3,954	—	—	—	—	3,954
Shares issued under employee share purchase plan	10	12,109	155	—	—	—	—	155
Shares issued under deferred share incentive plan	11	38,020	450	(450)	—	—	—	—
Shares issued on debenture conversion	9	187,591	2,491	—	(12)	—	—	2,479
Issue costs		—	(1,614)	—	—	—	—	(1,614)
Share-based payments	11	—	—	292	—	—	—	292
Equity component of convertible debentures issued	9	—	—	—	383	—	—	383
Issue costs attributable to equity component of convertible debentures issued	9	—	—	—	(18)	—	—	(18)
Net income and comprehensive income		—	—	—	—	—	33,769	33,769
Dividends declared		—	—	—	—	—	(33,658)	(33,658)
Balance, December 31, 2018		36,561,198	\$ 385,261	\$ 644	\$ 1,675	\$ 645	\$ (919)	\$ 387,306
Shares issued by prospectus	10	4,679,300	61,777	—	—	—	—	61,777
Shares issued under dividend reinvestment plan	10	326,876	4,336	—	—	—	—	4,336
Shares issued under employee share purchase plan	10	10,520	145	—	—	—	—	145
Shares issued under deferred share incentive plan	11	19,669	248	(248)	—	—	—	—
Shares issued on debenture conversion	9	266,213	3,594	—	(36)	—	—	3,558
Maturity of convertible debentures	9	—	—	—	(136)	136	—	—
Issue costs		—	(2,510)	—	—	—	—	(2,510)
Share-based payments	11	—	—	320	—	—	—	320
Equity component of convertible debentures issued	9	—	—	—	351	—	—	351
Issue costs attributable to equity component of convertible debentures issued	9	—	—	—	(17)	—	—	(17)
Net income and comprehensive income		—	—	—	—	—	38,568	38,568
Dividends declared		—	—	—	—	—	(38,314)	(38,314)
Balance, December 31, 2019		<u>41,863,776</u>	<u>\$ 452,851</u>	<u>\$ 716</u>	<u>\$ 1,837</u>	<u>\$ 781</u>	<u>\$ (665)</u>	<u>\$ 455,520</u>

Dividends amounted to \$0.96 per share for the year ended December 31, 2019 (year ended December 31, 2018 – \$0.94).

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**(in thousands of Canadian dollars, except for per share amounts)**

	Notes	Years ended December 31	
		2019	2018
Revenues			
Mortgage interest and fees	8	\$ 66,095	\$ 58,316
Rental income	6	76	—
Total revenues		<u>66,171</u>	<u>58,316</u>
Operating expenses			
Mortgage servicing and management fees	8	6,996	6,279
Transfer agent, regulatory fees and investor relations		303	326
Share-based payments	8, 11	320	292
Professional fees		174	172
Directors' expense	8	198	202
Administration and general		91	150
Impairment loss on investment property		806	—
Provision for mortgage losses	5(b)	<u>1,490</u>	<u>1,800</u>
Total operating expenses		<u>10,378</u>	<u>9,221</u>
Income before financing costs		<u>55,793</u>	<u>49,095</u>
Financing costs			
Interest on convertible debentures	9	10,232	9,373
Interest and other bank charges	7	<u>6,993</u>	<u>5,953</u>
Total financing costs		<u>17,225</u>	<u>15,326</u>
Net income and comprehensive income for the year		<u>\$ 38,568</u>	<u>\$ 33,769</u>
Earnings per common share			
Basic	12	<u>\$ 0.97</u>	<u>\$ 0.95</u>
Diluted	12	<u>\$ 0.96</u>	<u>\$ 0.94</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Years ended December 31	
	2019	2018
Cash provided by (used in):		
Operating activities		
Net income and comprehensive income for the year	\$ 38,568	\$ 33,769
Adjustments to determine net cash flows		
provided by (used in) operating activities		
Share-based payments	320	292
Mortgage interest and fees earned	(66,095)	(58,316)
Mortgage interest and fees received	52,923	48,217
Interest on convertible debentures expensed	10,232	9,373
Interest and other bank charges expensed	6,993	5,953
Impairment loss on investment property	806	–
Provision for mortgage losses	1,490	1,800
Changes in operating assets and liabilities		
Prepaid expenses	(83)	17
Accounts payable and accrued liabilities	2,110	(370)
Additions to mortgage discount	46	–
Additions to unamortized origination fees	705	746
Cash provided by operating activities	<u>48,015</u>	<u>41,481</u>
Investing activities		
Cash advances of mortgages receivable	(271,759)	(306,025)
Cash repayments of mortgages receivable	238,086	240,404
Improvements and expenditures on investment properties	–	(297)
Cash used in investing activities	<u>(33,673)</u>	<u>(65,918)</u>
Financing activities		
Advances under credit facility	407,322	540,628
Repayments under credit facility	(431,715)	(537,452)
Interest and fees on convertible debentures paid	(8,876)	(9,715)
Interest and other bank charges paid	(7,056)	(5,671)
Issuance of common shares	61,921	34,655
Share capital issue costs	(2,510)	(1,614)
Issuance of convertible debentures	28,750	34,500
Convertible debenture issue costs	(1,369)	(1,626)
Repayment of convertible debentures	(28,278)	–
Cash dividends paid	(32,531)	(29,268)
Cash provided by (used in) financing activities	<u>(14,342)</u>	<u>24,437</u>
Increase (decrease) in cash	–	–
Cash, beginning of year	–	–
Cash, end of year	<u>\$ –</u>	<u>\$ –</u>

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

NOTE 1 – NATURE OF OPERATIONS

Atrium Mortgage Investment Corporation (the “company”) 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.B, AI.DB.C, AI.DB.D and AI.DB.E.

NOTE 2 – BASIS OF PRESENTATION**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as set out in Part I of the *CPA Canada Handbook – Accounting*. Except as described in Note 2(b), significant accounting policies have been consistently applied in the preparation of these consolidated financial statements, which were authorized for issuance by the board of directors on February 13, 2020.

(b) New and amended standards and interpretations

Effective January 1, 2018, the company adopted IFRS 9 *Financial Instruments* (IFRS 9), which replaced IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 was adopted retrospectively without restatement, as allowed under the standard’s transitional provisions. IFRS 9 addresses the measurement of financial assets and financial liabilities, including the impairment of financial assets and other commitments.

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 described in Notes 3(a), (b), (c), (d) and (e).

Adoption of IFRS 9 had no effect on the measurement of the company’s financial assets and financial liabilities, which continue to be measured at amortized cost subsequent to their initial recognition.

The effect on the allowance for credit losses on January 1, 2018 has been recognized as an adjustment to opening retained earnings (deficit) in the consolidated statements of changes in shareholders’ equity.

(c) Basis of measurement

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

(d) Functional and presentation currency

These 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 consolidated financial statements include the accounts of the company and Canadian Properties LP, which is considered to be a subsidiary for financial reporting 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 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 relate to:

- (a) determining whether the cash flows from the mortgages receivable represent solely payments of principal and interest (SPPI);
- (b) the measurement of impairment losses for mortgages receivable, in particular: measurement of credit risk to determine whether there has been a significant increase in credit risk since initial recognition; the assessment of when mortgages receivable become impaired and the incorporation of forward-looking information to determine expected credit losses; 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) Financial instrument assets – initial recognition and measurement**

Financial instrument assets are initially recognized when the company becomes a party to a contract. On initial recognition, the measurement category is determined, based on: (i) the business model under which the asset is held, and (ii) the contractual cash flow characteristics of the instrument.

Upon initial recognition, financial assets are measured as either:

- Fair value through profit and loss (FVTPL) – which is the required measurement classification for instruments that are held for trading and derivative assets;
- Amortized cost – if the instrument is held within a business model whose objective is to collect contractual cash flows and the cash flows represent SPPI;
- Fair value through other comprehensive income (FVOCI) – which is required for debt instruments held in a dual-purpose business model, to collect contractual cash flows and to sell the instruments and can be irrevocably elected at initial recognition provided they have not been designated as FVTPL and are not held for trading; or
- Designated as FVTPL – available on initial recognition provided certain criteria are met.

All of the company's mortgages receivable are held in a single business model. The company has concluded that its business model is to hold mortgages receivable to collect contractual cash flows for the following reasons:

- The performance of the mortgage portfolio is assessed on the basis of effective yield, and not on a fair value basis, whether realized or unrealized.
- Neither key management compensation nor remuneration paid to the company's manager is based on the fair values of mortgages receivable.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)**(a) Financial instrument assets – initial recognition and measurement (continued)**

- Historically the company has not sold, and in future has no expectations to sell, any of its mortgages receivable. While the company may decrease its interest in a syndicated mortgage receivable by transferring its interest, at its amortized cost carrying amount, to another lender in the syndicate, such transfers are consistent with the business model of holding mortgages receivable to collect contractual cash flows.

The returns earned by the company on its mortgages receivable are interest rates that are set at levels to provide an acceptable profit margin based on the time value of money and credit risk, although other basic lending risks (for example, the location and quality of the underlying collateral) may also be built-in. There are no factors that give rise to variation in the return on the company's mortgages receivable other than the time value of money, credit risk and other basic lending risks. Interest rates, or the credit spread for variable rate mortgages, are set for the full term of the loan, which is considered SPPI because the rate is still based on the time value of money and credit risk. The majority of the mortgages receivable can be prepaid after an initial closed period with no penalty, subject to the borrower providing advance written notice according to the terms of their mortgage so the return therefore represents SPPI.

Mortgages receivable are initially recognized at fair value and are subsequently carried at amortized cost using the effective interest method. See Note 3(d) Financial instruments – revenue recognition.

(b) Financial instrument liabilities – initial recognition and measurement

Financial liabilities are measured as either:

- FVTPL – which is required for any financial instrument liabilities that are held for trading and for derivative liabilities;
- Designated as FVTPL – available on initial recognition if either: the instrument includes one or more embedded derivatives and the host contract is not a financial asset; or if the designation meets certain criteria;
- Designated as at fair value – if the instrument does not meet the criteria and is designated as at FVTPL and is not otherwise required to be measured as FVTPL, it can still be irrevocably designated at initial recognition as at fair value, meaning that changes in fair value related to changes in own credit risk are presented in other comprehensive income and other changes in fair value are presented in net income; or
- Amortized cost – which is the default category and is also used for any host contract that is a financial instrument liability.

The company's borrowings under credit facility, accounts payable and accrued liabilities, dividends payable, accrued convertible debenture interest and the liability component of convertible debentures are measured at amortized cost. These financial instrument liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

(c) Financial instruments – impairment of assets

Loan commitments and letters of credit (collectively commitments) and mortgages receivable are assessed for impairment at the end of each reporting period using an expected credit loss (ECL) model. The ECL model uses a three-stage impairment approach based on changes in the credit risk of the commitment or mortgage receivable since initial recognition. The three stages are as follows:

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)**(c) Financial instruments – impairment of assets (continued)**

Credit stage and financial assets included	Impairment loss recognized
Stage 1 – commitments and mortgages receivable on initial recognition and existing assets that have not shown a significant increase in credit risk since initial recognition	12-month ECL – portion of lifetime ECLs that represent the ECL from possible default events within the next 12 months
Stage 2 – commitments and mortgages receivable that have experienced a significant increase in credit risk since initial recognition and up to the date of approval of the consolidated financial statements	Lifetime ECL – expected losses from possible default events over the expected life of the instrument, weighted by the likelihood of loss
Stage 3 – impaired commitments and mortgages receivable for which there is objective evidence of impairment at the date of approval of the consolidated financial statements	Lifetime ECL – expected losses from possible default events over the expected life of the instrument, weighted by the likelihood of loss

Credit quality is assessed at each reporting period and results in commitments and mortgages receivable being moved between stages, as necessary. Significant judgement is required when assessing evidence of credit impairment and estimating expected credit losses.

For commitments and mortgages receivable, the company considers a number of past events, current conditions and forward-looking information when assessing if there has been a significant increase or subsequent decrease in credit risk. There is a presumption in IFRS 9 that credit risk has increased significantly once payments are 30 days past due. However, for single-family residential mortgages receivable, the company's historical experience is that mortgages receivable can become 30 days past due, but be brought up to date by the borrower, therefore another additional risk factor also needs to be identified for the mortgages receivable to move to Stage 2. For single-family residential mortgages receivable that are not 30 days past due, a significant increase in credit risk may still be evidenced by the presence of one or more additional risk factors. For all other mortgages receivable, a significant increase in credit risk is considered to have occurred if payments are 30 days past due or if one or more additional risk factors is present.

The additional risk factors used in assessing credit risk include:

- changes in the financial condition of the borrower;
- responsiveness of the borrower;
- other borrower specific information that may be available, without consideration of collateral;
- current economic conditions: interest rates, housing prices, real estate market statistics and employment statistics; and
- supportable forward-looking information: macro-economic factors, such as forecast real estate values and interest rate forecasts.

Determining whether there has been a significant increase in credit risk since initial recognition, or a subsequent reduction in credit risk back to the level at initial recognition, requires the exercise of significant judgement.

The company considers a commitment or mortgage receivable to be impaired when there is objective evidence that one or more events have occurred that have an unfavourable impact on estimated future cash flows such that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

The company considers a commitment or mortgage receivable to be in default if payments are greater than 90 days past due for single-family residential mortgages receivable or 30 days past due for all other mortgages receivable, 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. These definitions are consistent with industry practice.

An ECL represents 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 company's application of the concept uses three inputs to measure ECLs for commitments and mortgages receivable classified as Stage 1: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These inputs are determined at each reporting period using historical data and current conditions.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)**(c) Financial instruments – impairment of assets (continued)**

Adjustments may be made to the probability of default if the effects of, for example, forecasts of housing prices, employment and interest rates, are expected to be significantly different over the term of the mortgage. The inputs for Stage 1 mortgages receivable are calculated separately for (i) single-family residential mortgages receivable and (ii) mortgages receivable on all other properties on the basis of differences in the credit risk of each. The ECL is assessed individually for each commitment and mortgage receivable classified as either Stage 2 or Stage 3. For mortgages receivable in these stages, forecast future information specific to the loan (for example, forecasts of real estate prices) is incorporated when assessing the cash flows expected to be received.

Mortgages receivable are presented on the consolidated statements of financial position net of the provision for mortgage losses. A loss on a mortgage receivable is written off against the related provision for mortgage losses when there is no reasonable expectation of further recovery, which is the point at which the underlying real property has been liquidated and claims against guarantors, if any, are unlikely to recover any further losses. For any mortgages receivable that have been written off but where guarantors are still being pursued for collection, no recovery is recognized until virtually certain of collection.

(d) Financial instruments - revenue recognition

Mortgage interest and fees revenues are recognized in the consolidated statements 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 Stages 1 and 2 and on the net carrying amount for mortgages receivable in Stage 3 (see Note 3(c) Financial instruments – impairment of assets).

The effective interest method derives the interest rate that discounts the estimated future cash receipts during the expected life of the mortgage receivable (which is the contractual life, if a shorter period is not expected) 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) Financial instruments – impairment of assets). 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.

(e) Financial instruments – derecognition

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.

(f) Investment properties

Investment properties are properties over which the company has taken title through exercise of its security interest. Such properties are accounted for under IAS 40 *Investment Property*. An investment property is recognized on the date of acquisition through foreclosure and is measured initially at cost, which is the book value of the respective mortgage receivable net of any related provision for mortgage losses, plus any directly attributable expenditures and transaction costs. Any costs subsequently incurred to complete the construction or development of a property are capitalized. After initial recognition, investment properties are measured using the cost model. Depreciation commences from the date the property is substantially complete and is recognized when the property's carrying amount exceeds its residual value. The carrying value of investment properties are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment property may exceed its recoverable amount.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)**(f) Investment properties (continued)**

If the higher of the fair value less cost of disposal and the value in use of an investment 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 consolidated statements of income and comprehensive income.

(g) 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 convertible 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 financial liability using the effective interest method, which applies a constant interest rate over the term of the debt. The value of the equity component is not remeasured subsequent to its initial measurement date.

(h) Income taxes

The company qualifies as a MIC 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 year by the weighted average number of common shares outstanding during the year. 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 the date of the grant.

NOTE 4 – RECENT ACCOUNTING PRONOUNCEMENTS

Various pronouncements have been issued by the International Accounting Standards Board (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 consolidated financial statements.

NOTE 5 – MORTGAGES RECEIVABLE**(a) Mortgage portfolio**

Property type	December 31, 2019			December 31, 2018		
	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
Low-rise residential	32	\$ 216,144	29.6%	38	\$ 232,713	34.0%
High-rise residential	15	174,544	23.9%	15	146,027	21.3%
Mid-rise residential	21	160,456	22.0%	20	139,708	20.4%
House and apartment	91	66,083	9.1%	101	64,230	9.4%
Condominium corporation	14	2,659	0.4%	14	2,533	0.4%
Residential portfolio	173	619,886	85.0%	188	585,211	85.5%
Commercial	19	109,859	15.0%	20	99,193	14.5%
Mortgage portfolio	<u>192</u>	<u>729,745</u>	<u>100.0%</u>	<u>208</u>	<u>684,404</u>	<u>100.0%</u>
Accrued interest receivable		3,780			3,122	
Mortgage discount		(224)			(221)	
Unamortized origination fees		(586)			(684)	
Provision for mortgage losses		(5,390)			(3,900)	
Mortgages receivable		<u>\$ 727,325</u>			<u>\$ 682,721</u>	

The mortgage portfolio has maturity dates between 2020 and 2030 with a weighted average remaining term of 8.7 months at December 31, 2019 (December 31, 2018 – 11.3 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 8.81% as at December 31, 2019 (8.85% as at December 31, 2018).

Within the mortgage portfolio, at December 31, 2019 there were 24 mortgages receivable aggregating \$108,055 (14.8% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage receivable (December 31, 2018 – 21 mortgages receivable aggregating \$74,399, 10.9% of the mortgage 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 year ended December 31, 2019.

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:

Year ended December 31, 2020	477,942	65.5%
2021	207,413	28.4%
2022	38,802	5.3%
2023	3,359	0.5%
2024	877	0.1%
Thereafter	<u>1,352</u>	<u>0.2%</u>
	<u>\$ 729,745</u>	<u>100.0%</u>

NOTE 5 – MORTGAGES RECEIVABLE (continued)**(b) Provision for mortgage losses**

The gross carrying amounts of mortgages receivable and provision for mortgage losses by property type are as follows:

As at December 31, 2019

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Low-rise residential	\$ 200,928	\$ 15,216	\$ –	\$ 216,144
High-rise residential	174,544	–	–	174,544
Mid-rise residential	160,456	–	–	160,456
House and apartment	65,154	929	–	66,083
Condominium corporation	2,659	–	–	2,659
Commercial	105,554	4,305	–	109,859
Mortgage portfolio	<u>\$ 709,295</u>	<u>\$ 20,450</u>	<u>\$ –</u>	<u>\$ 729,745</u>

Provision for mortgage losses

Low-rise residential	\$ 1,398	\$ 317	\$ –	\$ 1,715
High-rise residential	1,214	–	–	1,214
Mid-rise residential	1,116	–	–	1,116
House and apartment	251	–	–	251
Condominium corporation	18	–	–	18
Commercial	734	342	–	1,076
Mortgage portfolio	<u>\$ 4,731</u>	<u>\$ 659</u>	<u>\$ –</u>	<u>\$ 5,390</u>

As at December 31, 2018

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Low-rise residential	\$ 232,713	\$ –	\$ –	\$ 232,713
High-rise residential	146,026	–	–	146,026
Mid-rise residential	139,708	–	–	139,708
House and apartment	61,007	3,223	–	64,230
Condominium corporation	2,533	–	–	2,533
Commercial	95,245	3,949	–	99,194
Mortgage portfolio	<u>\$ 677,232</u>	<u>\$ 7,172</u>	<u>\$ –</u>	<u>\$ 684,404</u>

Provision for mortgage losses

Low-rise residential	\$ 1,395	\$ –	\$ –	\$ 1,395
High-rise residential	875	–	–	875
Mid-rise residential	837	–	–	837
House and apartment	207	–	–	207
Condominium corporation	15	–	–	15
Commercial	571	–	–	571
Mortgage portfolio	<u>\$ 3,900</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 3,900</u>

The provision for mortgage losses at December 31, 2019 is \$5,390 (December 31, 2018 – \$3,900) . Of this provision, \$4,731 (December 31, 2018 – \$3,900) represents management’s estimate of the ECLs on mortgages receivable in the company’s portfolio that have not experienced a significant increase in credit risk since initial recognition (Stage 1). The ECL was assessed individually for each mortgage receivable and commitment classified as Stage 2 and management estimated the ECL as \$659 at December 31, 2019 (December 31, 2018 – \$nil).

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.

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Opening balance, January 1, 2019	\$ 3,900	\$ –	\$ –	\$ 3,900
Provision for mortgage losses				
Transfers to Stage 1 ⁽¹⁾	–	–	–	–
Transfers to Stage 2 ⁽¹⁾	(98)	98	–	–
Transfers to Stage 3 ⁽¹⁾	–	–	–	–
Net remeasurement ⁽²⁾	612	563	–	1,175
Mortgage advances	1,854	–	–	1,854
Mortgage repayments	<u>(1,539)</u>	<u>–</u>	<u>–</u>	<u>(1,539)</u>
Balance, December 31, 2019	<u>\$ 4,729</u>	<u>\$ 661</u>	<u>\$ –</u>	<u>\$ 5,390</u>

(1) Transfers between stages which are presumed to occur before any corresponding remeasurement of the provision.

(2) Net remeasurement represents the change in the expected credit loss related to changes in model inputs or assumptions, including changes in macroeconomic conditions, and changes in measurement following a transfer between stages.

During the year ended December 31, 2019, the provision for mortgage losses for mortgages classified as Stage 1 increased primarily as a result of the overall increase in the mortgage portfolio. The provision for mortgage losses for mortgages classified as Stage 2 increased as a result of the transfer of mortgages receivable from Stage 1 to Stage 2 due to a significant increase in credit risk since initial recognition as well as an increase in the ECL of an existing Stage 2 mortgage. The ECL is assessed individually for Stage 2 mortgages.

	Year ended December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Opening balance, January 1, 2018	\$ 3,300	\$ –	\$ 5,900	\$ 9,200
Provision for mortgage losses				
Transfers to Stage 1 ⁽¹⁾	–	–	–	–
Transfers to Stage 2 ⁽¹⁾	(16)	16	–	–
Transfers to Stage 3 ⁽¹⁾	–	–	–	–
Net remeasurement ⁽²⁾	115	(16)	1,149	1,248
Mortgage advances	1,752	–	–	1,752
Mortgage repayments	(1,251)	–	–	(1,251)
Write-offs ⁽³⁾	–	–	(7,049)	(7,049)
Balance, December 31, 2018	<u>\$ 3,900</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 3,900</u>

(1) Transfers between stages which are presumed to occur before any corresponding remeasurement of the provision.

(2) Net remeasurement represents the change in the expected credit loss 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 \$7,100.

During the year ended December 31, 2018, the provision for mortgage losses for mortgages receivable classified as Stage 1 increased as a result of the overall increase in the mortgage portfolio. The decrease in the provision for mortgage losses for mortgages classified as Stage 3 was a result of the acquisition through a credit bid of a property on which the company had a mortgage that was classified as Stage 3 as at January 1, 2018 (See Note 6 – Investment properties).

NOTE 6 – INVESTMENT PROPERTIES

During the year ended December 31, 2018, the company acquired through a credit bid one property on which it held a mortgage.

	Years ended December 31	
	2019	2018
Balance, beginning of year	\$ 17,007	\$ 1,064
Property acquired through a credit bid during the year	–	15,208
Capital improvements and expenditures	–	735
Impairment	(806)	–
Balance, end of year	<u>\$ 16,201</u>	<u>\$ 17,007</u>

NOTE 6 – INVESTMENT PROPERTIES (continued)

Investment properties consist of two residential multi-unit rental properties, a four unit property in Leduc, Alberta and a 90 unit property in Regina, Saskatchewan. At December 31, 2019, as a result of the economic conditions in Saskatchewan affecting vacancy and rental rates, the company estimated that the carrying value of the Regina property exceeded its value in use, resulting in an impairment loss of \$806. The value in use was estimated using a net operating income analysis. This analysis included estimates of gross rental income, vacancy rates, operating and management expenses and capitalization rates. Increases (decreases) in gross rental income will result in a higher (lower) value in use of the investment property. Increases (decreases) in the vacancy rates, operating and management expenses or capitalization rates will result in a lower (higher) value in use of the investment property. At December 31, 2019, the company used a vacancy rate of 6.3% and a capitalization rate of 5.25% to estimate the fair value of the Regina property. The recoverable amount of this Regina property is estimated to be its value in use of \$15,100.

	<u>Years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Rental income		
Revenue from investment properties	\$ 852	\$ –
Property operating costs	<u>(776)</u>	<u>–</u>
Rental income	<u>\$ 76</u>	<u>\$ –</u>

NOTE 7 – CREDIT FACILITY

At December 31, 2019, the company had a credit facility from a syndicate of four Canadian financial institutions of \$210,000 (December 31, 2018 – \$210,000) at a formula rate that varies with bank prime and the market bankers' acceptance rate. At any time during the term of the credit facility, the company has the one-time right to increase the credit facility by up to \$30,000 (such that the total maximum availability would be up to \$240,000). The weighted average rate for the year ended December 31, 2019 was 4.07% (3.81% for the year ended December 31, 2018). 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 borrower of the company 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 January 2, 2019, has a term to January 11, 2021, 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 receivable 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 December 31, 2019 and December 31, 2018, the company was in compliance with these covenants.

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Credit facility		
Bankers' acceptances	\$ 113,000	\$ 136,000
Bank loan	10,490	12,490
Overdraft facility	447	(160)
Unamortized finance costs	<u>(488)</u>	<u>(484)</u>
Borrowings under credit facility	123,449	147,846
Letters of credit	<u>8,428</u>	<u>7,908</u>
Total credit facility utilization	<u>\$ 131,877</u>	<u>\$ 155,754</u>

Interest on the credit facility is included in financing costs and calculated using the effective interest method. Included in interest and other bank charges for the year ended December 31, 2019 is interest on the credit facility of \$6,703 and bank fees and amortization of financing costs of \$290 (December 31, 2018 – \$5,724 and \$229, respectively).

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 \$6,996 for the year ended December 31, 2019 (year ended December 31, 2018 – \$6,279). 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 \$565 (December 31, 2018 – \$529) 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.

Under an employee share purchase plan (ESPP) for the company's common shares, participants, including employees of CMCC, may contribute up to an annual maximum to the ESPP and CMCC matches 50% of the participants' contributions. The total amount matched by CMCC for the year ended December 31, 2019 was \$48 (year ended December 31, 2018 – \$52).

Certain of the company's mortgages receivable are shared with other investors. As at December 31, 2019, companies owned by a director and officer of the company had co-invested in one syndicated secured mortgage receivable. The total amount of the mortgage receivable is \$56,186 (December 31, 2018 – one syndicated mortgage receivable of \$50,484) of which the company's share is \$28,093 (December 31, 2018 – \$25,242).

As at December 31, 2019, the company had three mortgages receivable from borrowers over which a director and officer of the company has joint control (December 31, 2018 – two).

- A secured mortgage receivable loan with a total gross commitment of \$3,490 (December 31, 2018 – \$3,490), of which \$3,490 had been funded at December 31, 2019 (December 31, 2018 – \$3,394). During the year ended December 31, 2019, the company recognized net mortgage interest and fees of \$323 (year ended December 31, 2018 – \$288) from this mortgage receivable.
- A secured mortgage receivable loan with a total gross commitment of \$8,738 (December 31, 2018 – \$8,738). The company's share of the commitment is \$2,330 (December 31, 2018 – \$2,330), of which \$2,330 had been funded at December 31, 2019 (December 31, 2018 – \$2,330). During the year ended December 31, 2019, the company recognized net mortgage interest and fees of \$236 (year ended December 31, 2018 – \$228) from this mortgage receivable.
- A secured mortgage receivable loan with a total gross commitment of \$7,875 (December 31, 2018 – \$nil). The company's share of the commitment is \$1,500 (December 31, 2018 – \$nil), of which \$1,500 had been funded at December 31, 2019 (December 31, 2018 – \$nil). During the year ended December 31, 2019, the company recognized net mortgage interest and fees of \$120 (year ended December 31, 2018 – \$nil) from this mortgage receivable.

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

	Years ended December 31	
	2019	2018
Directors' fees	\$ 179	\$ 179
Share-based payments to directors (Note 11)	120	137
Share-based payments to officers (Note 11)	70	61
	<u>\$ 369</u>	<u>\$ 377</u>

Related party transactions are in the normal course of business and are recorded at the amount of consideration established and agreed to by the related parties.

NOTE 9 – CONVERTIBLE DEBENTURES

	Convertible debenture						Total
	5.60% ALDB.E	5.50% ALDB.D	5.30% ALDB.C	5.50% ALDB.B	6.25% ALDB.A	5.25% ALDB	
Year ended December 31, 2019							
Issued and outstanding							
face value	\$ 28,750	\$ 34,500	\$ 25,300	\$ 40,250	\$ —	\$ 29,914	\$ 158,714
Book value –							
Convertible debentures,							
beginning of year	\$ —	\$ 32,627	\$ 24,124	\$ 39,299	\$ 29,186	\$ 32,053	\$ 157,289
Conversion to shares	—	—	—	—	(990)	(2,568)	(3,558)
Issued	28,750	—	—	—	—	—	28,750
Equity component	(351)	—	—	—	—	—	(351)
Issue costs	(1,369)	—	—	—	—	—	(1,369)
Issue costs attributed to							
equity component	17	—	—	—	—	—	17
Repayment of							
convertible debenture	—	—	—	—	(28,278)	—	(28,278)
Accretion for the year	227	261	210	340	82	290	1,410
Convertible debentures,							
end of year	\$ 27,274	\$ 32,888	\$ 24,334	\$ 39,639	\$ —	\$ 29,775	\$ 153,910

On March 29, 2019, the company completed a public offering of 5.60% convertible debentures for gross proceeds of \$25,000. On April 16, 2019, the company received gross proceeds of \$3,750 from the exercise in full of the over-allotment option on the 5.60% convertible debentures.

	Convertible debenture						Total
	5.60% ALDB.E	5.50% ALDB.D	5.30% ALDB.C	5.50% ALDB.B	6.25% ALDB.A	5.25% ALDB	
Year ended December 31, 2018							
Issued and outstanding							
face value	\$ —	\$ 34,500	\$ 25,300	\$ 40,250	\$ 29,271	\$ 32,500	\$ 161,821
Book value –							
Convertible debentures,							
beginning of year	\$ —	\$ —	\$ 23,916	\$ 38,961	\$ 31,340	\$ 31,759	\$ 125,976
Conversion to shares	—	—	—	—	(2,479)	—	(2,479)
Issued	—	34,500	—	—	—	—	34,500
Equity component	—	(383)	—	—	—	—	(383)
Issue costs	—	(1,626)	—	—	—	—	(1,626)
Issue costs attributed to							
equity component	—	18	—	—	—	—	18
Accretion for the year	—	118	208	338	325	294	1,283
Convertible debentures,							
end of year	\$ —	\$ 32,627	\$ 24,124	\$ 39,299	\$ 29,186	\$ 32,053	\$ 157,289

	Convertible debenture					
	5.60% ALDB.E	5.50% ALDB.D	5.30% ALDB.C	5.50% ALDB.B	6.25% ALDB.A	5.25% ALDB
Maturity date	March 31, 2025	Dec. 31, 2025	June 30, 2024	Sept. 30, 2021	March 31, 2019	June 30, 2020
Initial term	6 years	7 years	7 years	7 years	5 years	7 years
Conversion at option of shareholder at:	\$14.75/share	\$15.60/share	\$14.94/share	\$14.65/share	\$13.30/share	\$13.50/share
Interest payment dates	March 31, Sept. 30	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 to	March 31, 2022 to March 31, 2024	Dec. 31, 2021 to Dec. 31, 2023	June 30, 2020 to June 30, 2022	Sept. 30, 2017 to Sept. 30, 2019	March 31, 2017 to March 31, 2018	June 30, 2016 to June 30, 2018
Redeemable at the company's option at par plus accrued interest and unpaid interest after	March 31, 2024	Dec. 31, 2023	June 30, 2022	Sept. 30, 2019	March 31, 2018	June 30, 2018

NOTE 9 – CONVERTIBLE DEBENTURES (continued)

Interest costs related to the convertible debentures are recorded in financing costs using the effective interest rate method. Interest on the convertible debentures is included in financing costs and consists of the following:

	Years ended December 31	
	2019	2018
Coupon rate interest on convertible debentures	\$ 8,818	\$ 8,072
Accretion and other costs	1,414	1,301
Interest on convertible debentures	<u>\$ 10,232</u>	<u>\$ 9,373</u>

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.

In February 2019, the company completed a public equity offering of 2,645,000 common shares, including the exercise in full of the over-allotment option, at a price of \$13.05 per share for gross proceeds of \$34,517.

In October 2019, the company completed a public equity offering of 1,288,000 common shares, including the exercise in full of the over-allotment option, and a non-brokered private placement of 746,300 common shares, all at a price of \$13.40 per share for gross proceeds of \$27,260.

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 year ended December 31, 2019, 326,876 common shares were issued under the Company's DRIP (year ended December 31, 2018 – 311,339), using reinvested dividends of \$4,336 (year ended December 31, 2018 – \$3,954). 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 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

	Years ended December 31					
	2019			2018		
	Deferred	Income	Total	Deferred	Income	Total
	share	deferred		share	deferred	
	units	share		units	share	
Balance, beginning of year	68,667	9,056	77,723	81,667	11,502	93,169
Units granted	22,000	–	22,000	22,000	–	22,000
Units cancelled	–	–	–	(3,000)	(331)	(3,331)
Units earned	–	2,820	2,820	–	3,905	3,905
Common shares issued	<u>(17,667)</u>	<u>(2,002)</u>	<u>(19,669)</u>	<u>(32,000)</u>	<u>(6,020)</u>	<u>(38,020)</u>
Balance, end of year	<u>73,000</u>	<u>9,874</u>	<u>82,874</u>	<u>68,667</u>	<u>9,056</u>	<u>77,723</u>

Share-based payments expense:

	Years ended December 31	
	2019	2018
September 1, 2019 grant	\$ 62	\$ –
September 1, 2018 grant	151	61
September 1, 2017 grant	53	132
September 1, 2016 grant	30	59
September 1, 2015 grant	12	24
September 1, 2014 grant	9	12
August 30, 2013 grant	3	4
	<u>\$ 320</u>	<u>\$ 292</u>

NOTE 11 – SHARE-BASED PAYMENTS (continued)

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 2017 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 3, 2019 (\$13.72) and September 1, 2018 (\$13.71).

NOTE 12 – EARNINGS PER SHARE

	Years ended December 31	
	2019	2018
Basic earnings per share –		
Numerator		
Net income and comprehensive income for the year	\$ 38,568	\$ 33,769
Denominator		
Weighted average common shares outstanding	<u>39,596,762</u>	<u>35,571,414</u>
Basic earnings per share	<u>\$ 0.97</u>	<u>\$ 0.95</u>
Diluted earnings per share –		
Numerator		
Net income and comprehensive income for the year	\$ 38,568	\$ 33,769
Interest on convertible debentures	<u>10,232</u>	<u>9,373</u>
Net income and comprehensive income for diluted earnings per share	<u>48,800</u>	<u>43,142</u>
Denominator		
Weighted average common shares outstanding	39,596,762	35,571,414
Convertible debentures	11,028,582	10,203,163
Deferred share incentive plan	72,790	64,648
Income deferred share units	<u>7,787</u>	<u>8,093</u>
Weighted average common shares outstanding – diluted basis	<u>50,705,921</u>	<u>45,847,318</u>
Diluted earnings per share	<u>\$ 0.96</u>	<u>\$ 0.94</u>

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, accrued convertible debenture interest and the liability component of convertible debentures. All financial liabilities are measured as other financial liabilities at amortized cost.

(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).

NOTE 13 – FINANCIAL INSTRUMENTS (continued)**(b) Fair value (continued)**

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 values 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, dividends payable and accrued convertible debenture interest carrying values approximate their fair values due to the short term nature of the items.

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.

	December 31	
	2019	2018
Convertible debentures		
Fair value	\$ 161,872	\$ 158,036
Less book value of equity component	(1,837)	(1,675)
	<u>\$ 160,035</u>	<u>\$ 156,361</u>
Book value of financial liability component	<u>\$ 153,910</u>	<u>\$ 157,289</u>

(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 maximum exposure to credit risk related to mortgages receivable, including letters of credit outstanding, at December 31, 2019 is \$736,570 (December 31, 2018 – \$691,534).

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 receivable 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. These credit policies and processes have been consistently applied throughout the two year period ended December 31, 2019.

All mortgages receivable are secured by the underlying real estate, plus other credit enhancements, which may include guarantees from the borrowers, personal guarantees from the borrower's shareholders and/or cross guarantees from related entities. The quality of the mortgage collateral is primarily driven by the location and type of underlying property and type of mortgage receivable. For further information, refer to Note 5(a) and to the "Investment Portfolio" section of the Management's Discussion and Analysis for the year ended December 31, 2019. The company foreclosed on one property during the 2018 year (See Note 6 – Investment properties). Management continuously monitors real estate values and considers there to have been no significant changes in the quality of the collateral underlying the remaining mortgage portfolio.

At December 31, 2019, the largest borrower group accounted for 11.3% of mortgages receivable (December 31, 2018 – 11.7%). See Note 5(a) and Note 5(b) for a breakdown of mortgages receivable and provision for mortgage losses by property type.

(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 receivable, 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 continuous 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.

NOTE 13 – FINANCIAL INSTRUMENTS (continued)**(d) Liquidity risk (continued)**

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, accrued convertible debenture interest 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.

December 31, 2019	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	\$123,937	\$129,473	\$ 5,388	\$124,085	\$ –	\$ –
Accounts payable and accrued liabilities	4,144	4,144	4,144	–	–	–
Accrued convertible debenture interest	956	956	956	–	–	–
Dividends payable	5,652	5,652	5,652	–	–	–
Convertible debentures ²	153,910	176,500	75,013	34,326	67,161	–
Total	288,599	316,725	91,153	158,411	67,161	–
Unadvanced mortgage commitments ³	–	93,879	93,879	–	–	–
Total contractual liabilities	\$288,599	\$410,604	\$185,032	\$158,411	\$ 67,161	\$ –

Notes:

(1) Includes interest assuming the outstanding balance is not repaid until maturity on January 11, 2021.

(2) The 5.25% debentures are assumed to be repaid in the first quarter of 2020; 5.50% 2021 debentures are assumed to be repaid in the first quarter of 2020; 5.30% debentures are assumed to be repaid June 30, 2022; 5.50% 2025 debentures are assumed to be repaid December 31, 2023 and 5.60% debentures are assumed to be repaid March 31, 2024.

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

As at December 31, 2019, 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 receivable 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 year ended December 31, 2019, income and comprehensive income would have been reduced (increased) by approximately \$1,596 during the year, 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) \$1,596.

(f) Currency risk

Currency risk is the risk that the value of financial assets and financial 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:

	December 31	
	2019	2018
Borrowings under credit facility	\$ 123,449	\$ 147,846
Convertible debentures	153,910	157,289
Total debt	<u>277,359</u>	<u>305,135</u>
Shareholders' equity	<u>455,520</u>	<u>387,306</u>
Capital employed	<u>\$ 732,879</u>	<u>\$ 692,441</u>

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 – Credit facility. There has been no change in the company's capital management objectives since the prior year.

NOTE 15 – SUBSEQUENT EVENTS

On January 13, 2020, the company issued 26,637 common shares (\$380) to shareholders under its dividend reinvestment plan.

On February 12, 2020, the company issued 26,428 common shares (\$380) to shareholders under its dividend reinvestment plan.

From January 1, 2020 to February 13, 2020, 208,515 common shares were issued upon conversions of \$2,815 of the 5.25% convertible debentures.