Interim Consolidated

Financial Statements

Third Quarter
September 30, 2022

CANADA'S PREMIER NON-BANK LENDER™

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of Canadian dollars)

	Notes	September 30 2022	December 31 2021
Assets			
Cash		$ 5,940	$ –
Mortgages receivable	5	850,920	759,225
Investment properties	6	14,302	1,101
Investment property held for sale	6	–	15,033
Prepaid expenses		140	128
Total assets		$ 871,302	$ 775,487
Liabilities			
Borrowings under credit facility	7	$ 226,929	$ 177,931
Accounts payable and accrued liabilities	8, 12	3,876	3,020
Accrued convertible debenture interest		1,241	554
Dividends payable		3,239	6,206
Convertible debentures	9	155,555	117,609
Total liabilities		390,840	305,320
Shareholders' equity			
Share capital	10	470,420	465,491
Deferred share incentive plan units		598	866
Equity component of convertible debentures		3,786	2,222
Contributed surplus		1,588	1,588
Retained earnings		4,070	–
Total shareholders' equity		480,462	470,167
Total liabilities and shareholders' equity		$ 871,302	$ 775,487
Commitments	*7, 14(d)*		

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

Approved on behalf of the board of directors:

"Robert Goodall"
Robert Goodall, Director

"Mark Silver"
Mark Silver, Director

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(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, 2020		42,411,853	$ 460,065	$ 716	$ 1,470	$ 1,083	$ (447)	$ 462,887
Shares issued under dividend reinvestment plan	10	245,768	3,327	–	–	–	–	3,327
Shares issued under employee share purchase plan	10	10,058	142	–	–	–	–	142
Shares issued under deferred share incentive plan	11	12,567	160	(160)	–	–	–	–
Shares issued on debenture conversion	9	31,738	469	–	(6)	–	–	463
Maturity of convertible debentures	9	–	–	–	(505)	505	–	–
Share-based payments	11	–	–	225	–	–	–	225
Net income and comprehensive income		–	–	–	–	–	31,054	31,054
Dividends declared		–	–	–	–	–	(28,726)	(28,726)
Balance, September 30, 2021		42,711,984	$ 464,163	$ 781	$ 959	$ 1,588	$ 1,881	$ 469,372
Shares issued under dividend reinvestment plan	10	91,569	1,279	–	–	–	–	1,279
Shares issued under employee share purchase plan	10	3,461	49	–	–	–	–	49
Share-based payments	11	–	–	85	–	–	–	85
Equity component of convertible debentures issued	9	–	–	–	1,327	–	–	1,327
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(64)	–	–	(64)
Net income and comprehensive income		–	–	–	–	–	10,739	10,739
Dividends declared		–	–	–	–	–	(12,620)	(12,620)
Balance, December 31, 2021		42,807,014	$ 465,491	$ 866	$ 2,222	$ 1,588	$ –	$ 470,167
Shares issued under dividend reinvestment plan	10	335,952	4,251	–	–	–	–	4,251
Shares issued under employee share purchase plan	10	12,011	146	–	–	–	–	146
Shares issued under deferred share incentive plan	11	41,614	532	(532)	–	–	–	–
Share-based payments	11	–	–	264	–	–	–	264
Equity component of convertible debentures issued	9	–	–	–	1,640	–	–	1,640
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(76)	–	–	(76)
Net income and comprehensive income		–	–	–	–	–	33,099	33,099
Dividends declared		–	–	–	–	–	(29,029)	(29,029)
Balance, September 30, 2022		43,196,591	$ 470,420	$ 598	$ 3,786	$ 1,588	$ 4,070	$ 480,462

Dividends amounted to $0.675 per share for the nine months ended September 30, 2022 (nine months ended September 30, 2021 – $0.675; year ended December 31, 2021 – $0.97).

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

INTERIM CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

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

		Three months ended September 30		Nine months ended September 30	
	Notes	**2022**	**2021**	**2022**	**2021**
Revenues					
Mortgage interest and fees	8	$ 20,393	$ 15,669	$ 54,902	$ 47,886
Rental income	6	241	201	310	582
Total revenues		20,634	15,870	55,212	48,468
Operating expenses					
Mortgage servicing and management fees	8	2,056	1,792	6,395	5,463
Transfer agent, regulatory fees and investor relations		61	61	235	275
Share-based payments	8, 11	81	76	253	225
Professional fees		72	46	184	155
Directors' expense	8, 12	62	62	187	186
Administration and general		42	33	106	241
Adjustment to fair value of deferred share units	8, 12	(26)	5	(137)	51
Impairment of investment property held for sale	6	–	–	1,832	–
Recovery of prior mortgage loss		–	–	(1,000)	–
Provision for mortgage losses	5(b)	1,114	400	684	1,269
Total operating expenses		3,462	2,475	8,739	7,865
Income before financing costs		17,172	13,395	46,473	40,603
Financing costs					
Interest on convertible debentures	9	2,572	1,406	7,152	5,585
Interest and other financing charges	7, 12	2,774	1,434	6,222	3,964
Total financing costs		5,346	2,840	13,374	9,549
Net income and comprehensive income for the period		$ 11,826	$ 10,555	$ 33,099	$ 31,054
Earnings per common share					
Basic	13	$ 0.27	$ 0.25	$ 0.77	$ 0.73
Diluted	13	$ 0.27	$ 0.25	$ 0.76	$ 0.73

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

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands of Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2022	**2021**	**2022**	**2021**
Cash provided by (used in):				
Operating activities				
Net income and comprehensive income for the period	$ 11,826	$ 10,555	$ 33,099	$ 31,054
Adjustments to determine net cash flows provided by (used in) operating activities				
Share-based payments	92	76	264	225
Mortgage interest and fees earned	(20,393)	(15,669)	(54,902)	(47,886)
Mortgage interest and fees received	13,490	11,379	43,874	44,440
Interest on convertible debentures expensed	2,572	1,406	7,152	5,585
Interest and other financing charges expensed	2,774	1,434	6,222	3,964
Adjustment to fair value of deferred share units	(26)	5	(137)	51
Impairment of investment property held for sale	–	–	1,832	–
Provision for mortgage losses	1,114	400	684	1,269
Recovery of prior mortgage loss	–	–	(1,000)	–
Changes in operating assets and liabilities				
Prepaid expenses	(49)	16	(12)	(123)
Accounts payable and accrued liabilities	(649)	147	949	703
Additions to unamortized origination fees	152	113	697	317
Cash provided by operating activities	10,903	9,862	38,722	39,599
Investing activities				
Cash advances of mortgages receivable	(91,013)	(118,585)	(454,539)	(304,848)
Cash repayments of mortgages receivable	57,429	67,324	373,491	287,726
Recovery of acquisition costs in investment properties	–	–	–	67
Cash provided by investing activities	(33,584)	(51,261)	(81,048)	(17,055)
Financing activities				
Advances under credit facility	102,950	191,205	499,396	557,312
Repayments under credit facility	(65,700)	(140,200)	(450,050)	(506,250)
Interest and fees on convertible debentures paid	(1,917)	(3)	(5,344)	(4,093)
Interest and other financing charges paid	(2,692)	(1,318)	(6,526)	(3,645)
Issuance of common shares	51	47	146	142
Issuance of convertible debentures	–	–	40,250	–
Repayment of convertible debentures	–	–	–	(39,785)
Convertible debenture issue costs	–	–	(1,861)	–
Cash dividends paid	(8,336)	(8,332)	(27,745)	(26,225)
Cash provided by (used in) financing activities	24,356	41,399	48,266	(22,544)
Increase in cash	1,675	–	5,940	–
Cash, beginning of period	4,265	–	–	–
Cash, end of period	$ 5,940	$ –	$ 5,940	$ –

The accompanying notes are an integral part of these interim 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.C, AI.DB.D, AI.DB.E, AI.DB.F and AI.DB.G.

NOTE 2 – BASIS OF PRESENTATION

(a) Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and follow International Accounting Standard (IAS) 34 *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB) as set out in Part I of the *CPA Canada Handbook – Accounting*. These interim consolidated financial statements should be read in conjunction with the company's audited consolidated financial statements for the year ended December 31, 2021. Significant accounting policies have been consistently applied in the preparation of these interim consolidated financial statements, which were authorized for issuance by the board of directors on November 8, 2022.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Principles of consolidation

These interim 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. The company 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.

(e) Use of estimates and judgements

The preparation of interim consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period.

NOTE 2 – BASIS OF PRESENTATION (continued)

(e) Use of estimates and judgements (continued)

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;
(c) the measurement of fair value, costs of disposal and the value in use of investment properties;
(d) 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;
(e) the measurement of fair value less costs to sell of the investment property held for sale; and
(f) the measurement of fair value of the purchased or originated credit-impaired financial assets reflecting the lifetime expected credit losses.

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.

Economic uncertainties that began from the onset of the COVID-19 pandemic continue to persist. This has resulted in a challenge of reliably estimating the impact on financial results and condition of the company in future periods. Accordingly, there is inherently more uncertainty associated with the estimates, judgements and assumptions made by management in the preparation of the interim consolidated financial statements. It is not possible to forecast with certainty the extent to which the economic impact will affect the company's operations and financial results in the near-term and long-term. Areas of the company's business that could potentially be adversely impacted include, but are not limited to, mortgage interest rates, mortgage interest and fees revenue, rental income, allowance for mortgage losses and valuation of investment properties and investment property held for sale. Management continues to monitor and assess the impacts of these economic uncertainties on its estimates, judgements and assumptions.

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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instrument assets – initial recognition and measurement (continued)

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.
- Historically the company has not sold, and in the 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.

The company's cash and mortgages receivable are measured at amortized cost. These financial assets 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.

Purchased or originated credit-impaired financial assets are initially recognized at fair value and are subsequently carried at amortized cost using the credit-adjusted effective interest rate.

(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, except for the liability for the deferred share unit plan, 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. The liability for the deferred share unit plan is measured at FVTPL. This financial instrument liability is initially and subsequently measured at fair value. Gains and losses arising from changes in fair value are recorded in net income and comprehensive income in the period in which they arise.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(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:

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 interim 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 interim 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 *Financial Instruments* (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 are 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments – impairment of assets (continued)

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.

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. In response to COVID-19, the ECL methodology was modified to include a post-model overlay adjustment to account for the uncertainty and difficulty in forecasting future economic conditions which continue to persist. The financial reports of other lenders and financial institutions were reviewed to inform and modify the company's estimates and determine the overlay adjustment.

Mortgages receivable are presented on the interim consolidated statements of financial position net of the allowance for mortgage losses. A loss on a mortgage receivable is written off against the related allowance 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.

Purchased or originated credit-impaired financial assets are identified as credit-impaired at the time of origination based on specific characteristics of the asset, including financial difficulty of the borrower or issuer, borrower credit history or a past due event. Originated credit-impaired financial assets are accounted for based on the present value of expected cash flows as opposed to their contractual cash flows. Any changes in expected cash flows over the life of the originated credit-impaired financial asset are recognized in net income and comprehensive income.

(d) Financial instruments - revenue recognition

Mortgage interest and fees revenues are recognized in the interim consolidated statements of income and comprehensive income using the effective interest method, except mortgage interest and fees revenue on purchased or originated credit-impaired financial assets. 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.

Mortgage interest and fees revenues on purchased or originated credit-impaired financial assets is recognized in the interim consolidated statements of income and comprehensive income using the credit-adjusted effective interest rate, reflecting the expected credit losses, to the amortized cost of the financial assets from initial recognition.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 International Accounting Standard (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 allowance 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.

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 interim consolidated statements of income and comprehensive income.

(g) Investment properties held for sale

Investment properties held for sale are properties that are available immediately for sale with the intention to sell the property within one year. Such properties are accounted for under IFRS 5 *Non-current Assets Held For Sale and Discontinued Operations.* A property is transferred from investment properties to investment properties held for sale when a plan to sell the property is initiated, the property is actively marketed for sale and management believes a sale is highly probable. Management measures investment properties held for sale at the lower of its carrying amount and fair value less costs to sell.

(h) 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.

(i) 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Earnings per common share

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

(k) 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 price of the company's common shares on the TSX for the five trading days prior to the date of the grant.

(l) Deferred share unit plan

The company has a cash-settled deferred share unit plan for non-executive directors pursuant to which each non-executive director is required to receive one-half of their director compensation in the form of deferred share units. Each non-executive director can elect to receive the remaining one-half of their director compensation in deferred share units or cash or a combination thereof. The deferred share units represent a financial liability as they can only be settled in cash when the non-executive directors cease to serve in any capacity with the company. As such, the deferred share units are initially recognized at their fair value, using the volume-weighted average trading price of the company's common shares on the TSX for the five trading days prior to the last day of the reporting period, as directors' expense with a corresponding amount recorded in accounts payable and accrued liabilities. The liability is subsequently remeasured to its fair value at each period end with the change in fair value during the period recognized as an operating expense.

NOTE 4 – RECENT ACCOUNTING PRONOUNCEMENTS

Various pronouncements have been issued by the IASB or IFRS Interpretations Committee 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 interim consolidated financial statements. None of the standards issued to date are expected to have a material effect on the interim consolidated financial statements.

NOTE 5 – MORTGAGES RECEIVABLE

(a) Mortgage portfolio

	September 30, 2022			December 31, 2021		
Property type	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
High-rise residential	21	$ 300,850	35.1%	18	$ 234,847	30.6%
Mid-rise residential	31	243,816	28.5%	34	253,507	33.0%
Low-rise residential	13	121,128	14.1%	15	122,569	16.0%
House and apartment	141	101,084	11.8%	101	70,944	9.3%
Condominium corporation	14	2,302	0.3%	13	1,752	0.2%
Residential portfolio	220	769,180	89.8%	181	683,619	89.1%
Commercial	24	87,675	10.2%	16	83,512	10.9%
Mortgage portfolio	244	856,855	100.0%	197	767,131	100.0%
Accrued interest receivable		4,204			3,098	
Mortgage discount		(104)			(135)	
Unamortized origination fees		(559)			(430)	
Allowance for mortgage losses		(9,476)			(10,439)	
Mortgages receivable		$ 850,920			$ 759,225	

The mortgage portfolio has maturity dates between 2022 and 2032 with a weighted average remaining term of 11.1 months at September 30, 2022 (December 31, 2021 – 12.0 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 10.04% as at September 30, 2022 (8.26% as at December 31, 2021; 8.42% as at September 30, 2021).

Within the mortgage portfolio, at September 30, 2022, there were 39 mortgages receivable aggregating to $234,867 (27.4% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage receivable (December 31, 2021 – 27 mortgages receivable aggregating $170,832; 22.3% 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 three and nine month period ended September 30, 2022.

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

Principal repayments based on contractual maturity dates are as follows:

Three months ending December 31, 2022	$ 88,677	10.3%
Years ending December 31, 2023	525,241	61.4%
2024	182,875	21.3%
2025	58,596	6.8%
2026	–	0.0%
Thereafter	1,466	0.2%
	$ 856,855	100.0%

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(b) Allowance for mortgage losses

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

As at September 30, 2022

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 300,850	$ –	$ –	$ 300,850
Mid-rise residential	243,816	–	–	243,816
Low-rise residential	114,911	6,217	–	121,128
House and apartment	99,930	1,154	–	101,084
Condominium corporation	2,302	–	–	2,302
Commercial	87,675	–	–	87,675
Mortgage portfolio	$ 849,484	$ 7,371	$ –	$ 856,855

Allowance for mortgage losses	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 3,467	$ –	$ –	$ 3,467
Mid-rise residential	2,937	–	–	2,937
Low-rise residential	1,557	31	–	1,588
House and apartment	652	2	–	654
Condominium corporation	11	–	–	11
Commercial	819	–	–	819
Mortgage portfolio	$ 9,443	$ 33	$ –	$ 9,476

As at December 31, 2021

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 234,847	$ –	$ –	$ 234,847
Mid-rise residential	216,259	37,248	–	253,507
Low-rise residential	110,709	6,147	5,713	122,569
House and apartment	69,379	1,565	–	70,944
Condominium corporation	1,752	–	–	1,752
Commercial	83,512	–	–	83,512
Mortgage portfolio	$ 716,458	$ 44,960	$ 5,713	$ 767,131

Allowance for mortgage losses	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 2,124	$ –	$ –	$ 2,124
Mid-rise residential	2,564	151	–	2,715
Low-rise residential	1,574	25	2,803	4,402
House and apartment	499	2	–	501
Condominium corporation	7	–	–	7
Commercial	690	–	–	690
Mortgage portfolio	$ 7,458	$ 178	$ 2,803	$ 10,439

The allowance for mortgage losses at September 30, 2022 is $9,476 (December 31, 2021 – $10,439). Of this allowance, $9,443 (December 31, 2021 – $7,458) 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 3 and management estimated the ECL as $33 for mortgages receivable classified as Stage 2 and $nil for Stage 3 at September 30, 2022 (December 31, 2021 – $178 and $2,803, respectively).

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(b) Allowance for mortgage losses (continued)

The changes in the allowance for mortgage losses are shown in the following table:

	Nine months ended September 30, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balance, January 1, 2022	$ 7,458	$ 178	$ 2,803	$ 10,439
Allowance for mortgage losses				
Transfers to Stage 1 [1]	1	(1)	–	–
Transfers to Stage 2 [1]	(1)	1	–	–
Transfers to Stage 3 [1]	–	–	–	–
Net remeasurement [2]	1,470	7	(1,156)	321
Mortgage advances	2,014	–	–	2,014
Mortgage repayments	(1,499)	(152)	–	(1,651)
Write-off	–	–	(1,647)	(1,647)
Balance, September 30, 2022	$ 9,443	$ 33	$ –	$ 9,476

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

(2) Net remeasurement represents the change in the expected credit loss related to changes in model inputs or assumptions, including changes in macro-economic conditions, and changes in measurement following a transfer between stages. It also includes post-model overlays and adjustments as a result of economic uncertainties.

During the nine month period ended September 30, 2022, the allowance for mortgage losses for mortgages classified as Stage 1 increased due to an increase in the mortgage portfolio balance as well as changes in assumptions in the expected credit loss model and post-model adjustment due to economic uncertainty. The allowance for mortgage losses classified as Stage 2 decreased due to a decrease in the balances of loans in this stage and changes in assumptions in the expected credit loss model. The allowance for mortgage losses classified as Stage 3 decreased due to the partial repayment and write-off of a loan classified as Stage 3. The ECL is assessed individually for Stage 2 and Stage 3 mortgages receivable.

Generally, the company continues to seek recovery on amounts that were written off during the reporting period, unless the company no longer has the right to collect or has exhausted all reasonable collection efforts. During the second quarter of 2022, the company wrote off $1,647 on one loan previously provided for and included in the Stage 3 allowance for mortgage losses. The company negotiated a settlement agreement with the borrower and guarantors on this loan that provides for a recovery over time of the amount written off. This settlement agreement has been accounted for as an originated credit-impaired financial asset.

	Nine months ended September 30, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balance, January 1, 2021	$ 7,005	$ 211	$ 1,934	$ 9,150
Allowance for mortgage losses				
Transfers to Stage 1 [1]	24	(24)	–	–
Transfers to Stage 2 [1]	(28)	28	–	–
Transfers to Stage 3 [1]	–	–	–	–
Net remeasurement [2]	457	12	744	1,213
Mortgage advances	1,253	–	–	1,253
Mortgage repayments	(1,196)	(1)	–	(1,197)
Balance, September 30, 2021	$ 7,515	$ 226	$ 2,678	$ 10,419

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

(2) Net remeasurement represents the change in the expected credit loss related to changes in model inputs or assumptions, including changes in macro-economic conditions, and changes in measurement following a transfer between stages. It also includes post-model overlays and adjustments as a result of economic uncertainties.

During the nine month period ended September 30, 2021, the allowance for mortgage losses for mortgages classified as Stage 1 increased as a result of an increase in the mortgage portfolio balance, changes in assumptions in the expected credit loss model and a post-model adjustment made as a result of the continued economic uncertainty of the worldwide COVID-19 pandemic. The allowance for mortgage losses classified as Stage 2 increased due to an increase in the balances of loans in this stage and changes in assumptions in the expected credit loss model. The allowance for mortgage losses classified as Stage 3 increased due to changes in assumptions in the expected credit loss model. The ECL is assessed individually for Stage 2 and Stage 3 mortgages receivable.

NOTE 6 – INVESTMENT PROPERTIES AND INVESTMENT PROPERTY HELD FOR SALE

	Nine months ended September 30, 2022			Year ended December 31, 2021		
	Investment properties	Investment property held for sale	Total	Investment properties	Investment property held for sale	Total
Beginning of period						
Gross carrying amount	$ 1,101	$ 15,033	$ 16,134	$ 17,007	$ –	$ 17,007
Impairment	–	–	–	(806)	–	(806)
Balance, beginning of period	1,101	15,033	16,134	16,201	–	16,201
Recovery of acquisition costs	–	–	–	(67)	–	(67)
Impairment	–	(1,832)	(1,832)	–	–	–
Reclassification[1]	13,201	(13,201)	–	(15,033)	15,033	–
Balance, end of period	$ 14,302	$ –	$ 14,302	$ 1,101	$ 15,033	$ 16,134

(1) Reclassification included cumulative impairment of $2,638 at September 30, 2022 and $806 at December 31, 2021.

Investment properties consist of a four unit property in Leduc, Alberta and a 90 unit property in Regina, Saskatchewan. In the nine month period ended September 30, 2022, the company made the decision to delist the 90 unit property in Regina, Saskatchewan from the sales market due to a higher than usual vacancy rate at the beginning of the period and to allow for the completion of maintenance work on the property. After considering the above and other real estate transactions under negotiation in Regina, Saskatchewan at that time, as well as, the economic conditions in Saskatchewan, the company estimated that the carrying value of the Regina, Saskatchewan property exceeded its recoverable amount by $1,832, an impairment was recognized, and the Regina, Saskatchewan property was reclassified as investment property at its carrying value of $13,201. The value in use was estimated using a third-party valuation that considered a net operating income analysis, including estimates of gross rental income, vacancy rates, operating and management expenses and capitalization rates, as well as, available market evidence and comparable transactions. 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.

Investment property held for sale at December 31, 2021 consisted of one residential 90 unit rental property in Regina, Saskatchewan. This property was classified as held for sale at that time after the company listed it for sale on July 5, 2021 and a realtor began actively marketing it in a manner typical for properties of this nature. As at September 30, 2022, the property is not being actively marketed for sale and the property is classified as an investment property.

	Three months ended September 30		Nine months ended September 30	
Rental income	**2022**	**2021**	**2022**	**2021**
Revenue	$ 312	$ 272	$ 864	$ 854
Property operating costs	(71)	(71)	(554)	(272)
Rental income	$ 241	$ 201	$ 310	$ 582

NOTE 7 – CREDIT FACILITY

At September 30, 2022, the company had a credit facility from a syndicate of four Canadian financial institutions of $290,000 (December 31, 2021 – $240,000) at a formula rate that varies with bank prime and the market bankers' acceptance rate. On May 10, 2022, the company entered into an amendment to its existing credit facility in order to, among other things, extend the maturity date, increase the accordion option from $30,000 to $60,000 and reduce the applicable margin rates. On June 22, 2022, the company entered into an amendment to the existing credit facility and exercised the accordion option, increasing the credit facility by $50,000 (such that the total maximum availability is $290,000). At any time during the term of the credit facility, the company has the right to increase the credit facility by up to $60,000 (such that the total maximum availability would be up to $350,000). Drawings under the credit facility may be by way of a bank loan (including an overdraft facility of up to $5,000 (December 31, 2021 – $5,000)), 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 December 1, 2020, has a term to March 11, 2024, 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. At September 30, 2022, the maximum balance available to be drawn on the credit facility was $290,000 (December 31, 2021 – $240,000). Under the terms of the credit facility, covenants must be met in respect of shareholders' equity, debt to total assets and interest coverage. At September 30, 2022 and December 31, 2021, the company was in compliance with these covenants.

The annualized weighted average interest rate for the nine months ended September 30, 2022 was 3.91% (2.86% for the year ended December 31, 2021).

Credit facility	**September 30 2022**	**December 31 2021**
Bankers' acceptances	$ 190,000	$ 121,000
Bank loan	37,750	53,600
Overdraft facility	–	3,804
Unamortized and prepaid financing costs	(821)	(473)
Borrowings under credit facility	226,929	177,931
Letters of credit	11,905	8,182
Total credit facility utilization	$ 238,834	$ 186,113

Interest on the credit facility is included in financing costs and calculated using the effective interest method. Included in interest and other financing charges for the three and nine month period ended September 30, 2022 is interest on the credit facility of $2,614 and $5,851 (three and nine months ended September 30, 2021 – $1,345 and $3,710) and bank fees and amortization of financing costs of $150 and $339 (three and nine months ended September 30, 2021 – $83 and $237).

NOTE 8 – RELATED PARTY TRANSACTIONS

The company pays mortgage servicing and management 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. During the three and nine month period ended September 30, 2022 the company incurred mortgage servicing and management fees of $2,017 and $5,885 (three and nine month period ended September 30, 2021 – $1,792 and $5,463). 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 $723 (December 31, 2021 – $631) 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.

During the nine month period ended September 30, 2022 CMCC reimbursed the company for share-based payments. See Note 11 – Share-based payments.

NOTE 8 – RELATED PARTY TRANSACTIONS (continued)

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 nine month period ended September 30, 2022 was $49 (nine month period ended September 30, 2021 – $47).

Certain of the company's mortgages receivable are shared with other investors. As at September 30, 2022, companies owned by a director and or officer of the company were co-invested in one syndicated mortgage receivable of $22,000, of which the company's share was $21,000, of which $19,750 had been funded (December 31, 2021 – the company was not co-invested in any syndicated mortgage receivables with companies owned by a director and or and officer of the company).

As at September 30, 2022, the company had two mortgages receivable (December 31, 2021 – four) from borrowers over which a director and or officer of the company has joint control, with the company's share of the gross commitments totaling $8,000 (December 31, 2021 – $23,190), of which $7,835 had been funded at September 30, 2022 (December 31, 2021 – $19,342). During the three and nine month period ended September 30, 2022, the company recognized net mortgage interest and fees of $303 and $1,091 (three and nine month period ended September 30, 2021 – $184 and $485) from four (September 31, 2021 – three) mortgages receivable from borrowers over which a director and or officer of the company has joint control.

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

	Three months ended September 30		Nine months ended September 30	
	2022	**2021**	**2022**	**2021**
Directors' fees [(1)] (Note 12)	$ 62	$ 63	$ 187	$ 187
Share-based payments to directors (Note 11)	30	28	90	82
Share-based payments to officers (Note 11)	25	18	74	52
	$ 117	$ 109	$ 351	$ 321

(1) The cumulative adjustment for the fair value of deferred share units issued under the deferred share unit plan was $(60) as at September 30, 2022 (year ended December 31, 2021 – $76) (see Note 12 – Deferred Share Unit Plan).

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					
	5.10% AI.DB.G	**5.00% AI.DB.F**	**5.60% AI.DB.E**	**5.50% AI.DB.D**	**5.30% AI.DB.C**	**Total**
Nine month period ended September 30, 2022						
Issued and outstanding face value	$ 40,250	$ 34,500	$ 28,750	$ 34,500	$ 25,300	$ 163,300
Book value –						
Convertible debentures, beginning of period	$ –	$ 31,608	$ 27,827	$ 33,416	$ 24,758	$ 117,609
Issued	40,250	–	–	–	–	40,250
Equity component	(1,640)	–	–	–	–	(1,640)
Issue costs	(1,861)	–	–	–	–	(1,861)
Issue costs attributed to equity component	76	–	–	–	–	76
Accretion for the period	251	298	210	201	161	1,121
Convertible debentures, end of period	$ 37,076	$ 31,906	$ 28,037	$ 33,617	$ 24,919	$ 155,555

On March 18, 2022, the company completed a public offering of 5.10% convertible debentures for gross proceeds of $35,000. On March 23, 2022, the company received gross proceeds of $5,250 from the exercise in full of the over-allotment option on the 5.10% convertible debentures.

NOTE 9 – CONVERTIBLE DEBENTURES (continued)

	Convertible debenture					
Year ended December 31, 2021	**5.00% AI.DB.F**	**5.60% AI.DB.E**	**5.50% AI.DB.D**	**5.30% AI.DB.C**	**5.50% AI.DB.B**	**Total**
Issued and outstanding face value	$ 34,500	$ 28,750	$ 34,500	$ 25,300	$ –	$ 123,050
Book value –						
Convertible debentures, beginning of year	$ –	$ 27,549	$ 33,151	$ 24,545	$ 39,982	$ 125,227
Conversion to shares	–	–	–	–	(463)	(463)
Issued	34,500	–	–	–	–	34,500
Equity component	(1,327)	–	–	–	–	(1,327)
Issue costs	(1,663)	–	–	–	–	(1,663)
Issue costs attributed to equity component	64	–	–	–	–	64
Repayment of convertible debenture	–	–	–	–	(39,785)	(39,785)
Accretion for the year	34	278	265	213	266	1,056
Convertible debentures, end of year	$ 31,608	$ 27,827	$ 33,416	$ 24,758	$ –	$ 117,609

On June 30, 2021, the company redeemed early all of the outstanding 5.50% 2021 convertible debentures for cash. The redemption totalled an aggregate principal amount of $39,785 plus all accrued and unpaid interest.

On November 30, 2021, the company completed a public offering of 5.00% convertible debentures for gross proceeds of $30,000. On December 6, 2021, the company received gross proceeds of $4,500 from the exercise in full of the over-allotment option on the 5.00% convertible debentures.

	Convertible debenture					
	5.10% AI.DB.G	**5.00% AI.DB.F**	**5.60% AI.DB.E**	**5.50% AI.DB.D**	**5.30% AI.DB.C**	**5.50% AI.DB.B**
Maturity date	March 31, 2029	Dec. 31, 2028	March 31, 2025	Dec. 31, 2025	June 30, 2024	Sept. 30, 2021
Initial term	7 years	7 years	6 years	7 years	7 years	7 years
Conversion at option of shareholder at:	$16.75/share	$17.50/share	$14.75/share	$15.60/share	$14.94/share	$14.65/share
Interest payments date:	March 31, Sept. 30	June 30, Dec. 31	March 31, Sept. 30	June 30, Dec. 31	June 30, Dec. 31	March 31, Sept. 30
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 conversion price from:	March 31, 2025	Dec. 31, 2024	March 31, 2022	Dec, 31, 2021	June 30, 2020	Sept. 30, 2017
to:	March 31, 2027	Dec. 31, 2026	March 31, 2024	Dec. 31, 2023	June 30, 2022	Sept. 30, 2019
Redeemable at the company's option at par plus accrued interest and unpaid interest after:	March 31, 2027	Dec. 31, 2026	March 31, 2024	Dec. 31, 2023	June 30, 2022	Sept. 30, 2019

Interest costs related to the convertible debentures are recorded in financing costs using the effective interest method and consist of the following:

	Three months ended September 30		Nine months ended September 30	
	2022	**2021**	**2022**	**2021**
Coupon rate interest on convertible debentures	$ 2,151	$ 1,212	$ 6,018	$ 4,740
Accretion and other costs	421	194	1,134	845
Interest on convertible debentures	$ 2,572	$ 1,406	$ 7,152	$ 5,585

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.

NOTE 10 – SHARE CAPITAL (continued)

The company has an optional dividend reinvestment plan (DRIP) for shareholders, whereby participants may reinvest cash dividends in additional common shares of the company at the volume-weighted average price for five days prior to distribution, less a 2% discount. During the three and nine month period ended September 30, 2022, 118,407 and 335,952 common shares were issued under the company's DRIP (three and nine month period ended September 30, 2021 – 88,694 and 245,768), using reinvested dividends of $1,360 and $4,251 (three and nine month period ended September 30, 2021 – $1,262 and $3,327). Shares issued under the DRIP are issued by the company from treasury. On April 29, 2020, in response to the market disruption caused by the COVID-19 pandemic, the company announced the suspension of its DRIP commencing with the dividend payable on May 12, 2020. On January 14, 2021, the company announced the reinstatement of its dividend reinvestment plan commencing with the dividend payable on February 12, 2021.

On June 16, 2022, the company announced that the TSX had accepted a notice filed by the company of its intention to make a normal course issuer bid ("NCIB") with respect to its common shares. The notice provides that the company may purchase up to 3,000,000 common shares during the twelve month period commencing June 24, 2022 and ending on June 23, 2023. The company did not purchase any common shares under the NCIB from the period June 24, 2022 to September 30, 2022.

Under the 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

Grants are provided to directors and certain employees of the manager under the company's deferred share incentive plan ("DSIP"). The DSIP units vest annually over three years. Common shares are issued to participants on the vesting date of each tranche of the DSIP units, unless a participant elects to defer the issuance. In addition, income deferred share incentive plan ("IDSIP") units are credited to holders of DSIP 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 1, 2022 ($13.31), August 11, 2022 ($11.92), and September 2, 2021 ($14.49).

	Nine months ended September 30, 2022			Year ended December 31, 2021		
	DSIP units	IDSIP units	Total	DSIP units	IDSIP units	Total
Balance, beginning of period	82,983	13,636	96,619	72,400	11,343	83,743
Units granted	41,000	–	41,000	23,350	–	23,350
Units earned	–	2,012	2,012	–	2,293	2,293
Units cancelled	(567)	–	(567)	(200)	–	(200)
Common shares issued	(35,850)	(5,764)	(41,614)	(12,567)	–	(12,567)
Balance, end of period	87,566	9,884	97,450	82,983	13,636	96,619

NOTE 11 – SHARE-BASED PAYMENTS (continued)

Share-based payments expense:	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
September 1, 2022 grant	$ 16	$ –	$ 16	$ –
August 11, 2022 grant[(1)]	11	–	11	–
September 2, 2021 grant	39	17	143	17
September 1, 2020 grant	13	29	47	103
September 3, 2019 grant	6	17	22	59
September 1, 2018 grant	–	6	–	22
September 1, 2016 grant	1	2	6	7
September 1, 2015 grant	3	2	9	7
September 1, 2014 grant	2	2	7	7
August 30, 2013 grant	1	1	3	3
	$ 92	$ 76	$ 264	$ 225

(1) During the three and nine month period ended September 30, 2022, CMCC reimbursed the company for share-based expenses of $11 and $11 related to grants under the company's DSIP (three and nine month period ended September 30, 2021 – $nil and $nil).

NOTE 12 – DEFERRED SHARE UNIT PLAN

The board of directors established a deferred share unit plan ("DSUP") effective January 1, 2020 pursuant to which each non-executive director is required to receive one-half of their director compensation in the form of deferred share units ("DSUs"). Each non-executive director can elect to receive the remaining one-half of their director compensation in DSUs or cash or a combination thereof. DSUs are credited to the director DSUP accounts quarterly, in arrears, in an amount equal to the non-executive director's remuneration elected to be paid in DSUs divided by the fair market value of the common shares on the last day of the quarter. The fair market value is equal to the volume-weighted average trading price of the company's common shares on the TSX for the five trading days immediately preceding that day. Dividend equivalents are credited to a non-executive director's DSUP account as if dividends were paid on each DSU held by a non-executive director on the dividend record date and reinvested in additional DSUs at the fair market value on the dividend payment date.

DSUs can only be exercised when the non-executive director ceases to serve in any capacity with the company. Payment will be made, at the election of the non-executive director, in either cash or common shares of the company purchased in the market, net of applicable taxes or other amounts required to be withheld or deducted, based on the fair market value of the company's common shares on or about the date of the payment. Amounts owed in relation to this plan of $595 (December 31, 2021 – $539) are included in accounts payable and accrued liabilities. DSU compensation expense is recognized in directors' expense, dividends earned on outstanding DSUs are recognized in interest and other financing charges and the adjustment to fair value of units issued under the DSUP is recognized as an operating expense.

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Directors' fees paid in DSUs	$ 54	$ 54	$ 161	$ 162
Dividends on DSUs	11	7	32	18
Adjustment to fair value of DSUs	(26)	5	(137)	51
	$ 39	$ 66	$ 56	$ 231

	Nine months ended September 30 2022	Year ended December 31 2021
Outstanding DSUs, beginning of period	38,080	21,072
Granted	13,248	15,186
Reinvested	2,472	1,822
Balance, end of period	53,800	38,080

NOTE 13 – EARNINGS PER SHARE

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Basic earnings per share –				
Numerator				
Net income and comprehensive income for the period	$ 11,826	$ 10,555	$ 33,099	$ 31,054
Denominator				
Weighted average common shares outstanding	43,116,584	42,653,334	42,986,669	42,539,174
Basic earnings per share	$ 0.27	$ 0.25	$ 0.77	$ 0.73
Diluted earnings per share –				
Numerator				
Net income and comprehensive income for the period	$ 11,826	$ 10,555	$ 33,099	$ 31,054
Interest on convertible debentures	2,572	1,406	7,152	5,585
Net income and comprehensive income for diluted earnings per share	14,398	11,961	40,251	36,639
Denominator				
Weighted average common shares outstanding	43,116,584	42,653,334	42,986,669	42,539,174
Convertible debentures	10,228,549	5,854,133	9,545,043	7,675,028
Deferred share incentive plan	81,024	77,458	81,490	74,104
Income deferred share units	12,983	12,817	13,895	12,263
Weighted average common shares outstanding – diluted basis	53,439,140	48,597,742	52,627,097	50,300,569
Diluted earnings per share	$ 0.27	$ 0.25	$ 0.76	$ 0.73

NOTE 14 – FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets comprise mortgages receivable and cash 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. The liability for the deferred share unit plan is measured at FVTPL. All other financial liabilities are measured 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 14 – 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 due to the fact that the majority of the mortgages receivable have floating interest rates. The fair value of borrowings under credit facility approximates book value since it bears interest at floating rates. The accounts payable and accrued liabilities, excluding the liability for the deferred share units, dividends payable and accrued convertible debenture interest carrying values approximates their fair values due to the short-term nature of the items. The liability for the deferred share units is measured at fair value using Level 1 inputs. The deferred share units are measured at fair value on the day they are credited to the directors' DSUP accounts, with fair value equal to the volume-weighted average trading price of the company's common shares on the TSX for the five trading days immediately preceding that day, and are remeasured using fair value at each reporting date.

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

Convertible debentures	September 30 2022	December 31 2021
Fair value	$ 152,880	$ 125,173
Less book value of equity component	(3,786)	(2,222)
	$ 149,094	$ 122,951
Book value of financial liability component	$ 155,555	$ 117,609

(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 September 30, 2022 is $863,492 (December 31, 2021 – $767,972).

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 September 30, 2022.

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 shareholder(s) 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) – Mortgage portfolio and to the "Investment Portfolio" section of the Management's Discussion and Analysis for the three and nine month period ended September 30, 2022. 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 September 30, 2022, the largest borrower group accounted for 5.44% of mortgages receivable (December 31, 2021 – 7.0%). See Note 5(a) – Mortgage portfolio and Note 5(b) – Allowance for mortgage losses for a breakdown of mortgages receivable and the allowance for mortgage losses by property type.

NOTE 14 – FINANCIAL INSTRUMENTS (continued)

(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.

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.

As at September 30, 2022, management considers that it has adequate procedures in place to manage liquidity risk.

September 30, 2022	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]	$227,750	$240,994	$ 9,154	$231,840	$ –	$ –
Accounts payable and accrued liabilities	3,876	3,876	3,876	–	–	–
Accrued convertible debenture interest	1,241	1,241	1,241	–	–	–
Dividends payable	3,239	3,239	3,239	–	–	–
Convertible debentures[2]	155,555	184,656	32,586	72,085	79,985	–
Total	391,661	434,006	50,096	303,925	79,985	–
Unadvanced mortgage commitments[3]	–	102,734	102,734	–	–	–
Total contractual liabilities	$391,661	$536,740	$152,830	$303,925	$79,985	$ –

Notes:

(1) Includes interest assuming the outstanding balance is not repaid until maturity on March 11, 2024.

(2) The 5.30% debentures are assumed to be repaid in the fourth quarter of 2022; 5.50% debentures are assumed to be repaid December 31, 2023; 5.60% debentures are assumed to be repaid March 31, 2024; 5.00% debentures are assumed to be repaid December 31, 2026; and the 5.10% debentures are assumed to be repaid March 31, 2027.

(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.

(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 floating 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 three and nine month period ended September 30, 2022, income and comprehensive income would have been reduced (increased) by approximately $519 and $1,487 respectively during the period, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. However, if new mortgage loans had been entered into at higher (lower) interest rates, the resulting reduction of three and nine month income and comprehensive income would have been less than (greater than) $519 and $1,487.

NOTE 14 – FINANCIAL INSTRUMENTS (continued)

(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 financial assets and financial liabilities are denominated in Canadian funds.

NOTE 15 – CAPITAL MANAGEMENT

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

	September 30 2022	December 31 2021
Borrowings under credit facility	$ 226,929	$ 177,931
Convertible debentures	155,555	117,609
Total debt	382,484	295,540
Shareholders' equity	480,462	470,167
Capital employed	$ 862,946	$ 765,707

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 the employee share purchase plan and through a dividend reinvestment plan for shareholders. The dividend reinvestment plan was suspended on April 29, 2020. On January 14, 2021, the company announced the reinstatement of its dividend reinvestment plan commencing with the dividend payable on February 12, 2021 to shareholders of record on January 29, 2021.

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 16 – SUBSEQUENT EVENTS

On October 12, 2022, the company issued 44,661 common shares ($469) to shareholders under its dividend reinvestment plan.

On November 4, 2022, the company entered into an amendment to its existing credit facility in order to add another Canadian financial institution to its lending syndicate and to exercise the accordion option, increasing the facility by $25 million such that the total maximum is $315 million. At any time during the term of the credit facility, the company has the right to increase the credit facility by up to an additional $35 million (such that the total maximum availability would be up to $350 million).