Interim Consolidated

Financial Statements

Second Quarter
June 30, 2023

CANADA'S PREMIER NON-BANK LENDER™

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(in thousands of Canadian dollars)

	Notes	June 30 2023	December 31 2022
Assets			
Mortgages receivable	5	$ 817,421	$ 860,374
Investment properties	6	14,302	14,302
Prepaid expenses		194	104
Total assets		$ 831,917	$ 874,780
Liabilities			
Borrowings under credit facility	7	$ 178,463	$ 222,994
Accounts payable and accrued liabilities	8, 12	3,466	6,125
Accrued convertible debenture interest		916	916
Dividends payable		3,277	13,217
Convertible debentures	9	156,785	155,964
Total liabilities		342,907	399,216
Shareholders' equity			
Share capital	10	476,046	471,882
Deferred share incentive plan units		960	712
Equity component of convertible debentures		3,786	3,786
Contributed surplus		1,588	1,588
Retained earnings (deficit)		6,630	(2,404)
Total shareholders' equity		489,010	475,564
Total liabilities and shareholders' equity		$ 831,917	$ 874,780
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 Number	Share capital Amount	Deferred share incentive plan units	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance, December 31, 2021		42,807,014	$ 465,491	$ 866	$ 2,222	$ 1,588	$ –	$ 470,167
Shares issued under dividend reinvestment plan	10	217,545	2,891	–	–	–	–	2,891
Shares issued under employee share purchase plan	10	7,404	95	–	–	–	–	95
Shares issued under deferred share incentive plan	11	16,431	213	(213)	–	–	–	–
Share-based payments	11	–	–	172	–	–	–	172
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		–	–	–	–	–	21,273	21,273
Dividends declared		–	–	–	–	–	(19,323)	(19,323)
Balance, June 30, 2022		43,048,394	$ 468,690	$ 825	$ 3,786	$ 1,588	$ 1,950	$ 476,839
Shares issued under dividend reinvestment plan	10	253,382	2,775	–	–	–	–	2,775
Shares issued under employee share purchase plan	10	9,036	98	–	–	–	–	98
Shares issued under deferred share incentive plan	11	25,183	319	(319)	–	–	–	–
Share-based payments	11	–	–	206	–	–	–	206
Net income and comprehensive income		–	–	–	–	–	25,059	25,059
Dividends declared		–	–	–	–	–	(29,413)	(29,413)
Balance, December 31, 2022		43,335,995	$ 471,882	$ 712	$ 3,786	$ 1,588	$ (2,404)	$ 475,564
Shares issued under dividend reinvestment plan	10	354,040	4,066	–	–	–	–	4,066
Shares issued under employee share purchase plan	10	8,553	98	–	–	–	–	98
Share-based payments	11	–	–	248	–	–	–	248
Net income and comprehensive income		–	–	–	–	–	28,641	28,641
Dividends declared		–	–	–	–	–	(19,607)	(19,607)
Balance, June 30, 2023		43,698,588	$ 476,046	$ 960	$ 3,786	$ 1,588	$ 6,630	$ 489,010

Dividends amounted to $0.45 per share for the six month period ended June 30, 2023 (six month period ended June 30, 2022 – $0.45; year ended December 31, 2022 – $1.13).

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 June 30		Six months ended June 30	
	Notes	2023	2022	2023	2022
Revenues					
Mortgage interest and fees	8	$ 23,319	$ 18,274	$ 46,829	$ 34,509
Rental income (loss)	6	229	(73)	426	69
Total revenues		23,548	18,201	47,255	34,578
Operating expenses					
Mortgage servicing and management fees	8	2,052	2,461	4,106	4,339
Transfer agent, regulatory fees and investor relations		69	79	169	174
Share-based payments	8, 11	97	85	185	172
Professional fees		109	69	169	112
Directors' expense	8, 12	88	63	159	125
Administration and general		37	32	78	64
Adjustment to fair value of deferred share units	8, 12	(68)	(116)	16	(111)
Impairment of investment property held for sale	6	–	–	–	1,832
Recovery of prior mortgage loss		–	(200)	(157)	(1,000)
Provision for (recovery of) mortgage losses	5(b)	690	583	1,642	(430)
Total operating expenses		3,074	3,056	6,367	5,277
Income before financing costs		20,474	15,145	40,888	29,301
Financing costs					
Interest on convertible debentures	9	2,574	2,551	5,141	4,580
Interest and other financing charges	7, 12	3,471	1,919	7,106	3,448
Total financing costs		6,045	4,470	12,247	8,028
Net income and comprehensive income for the period		$ 14,429	$ 10,675	$ 28,641	$ 21,273
Earnings per common share					
Basic	13	$ 0.33	$ 0.25	$ 0.66	$ 0.50
Diluted	13	$ 0.32	$ 0.25	$ 0.63	$ 0.50

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 June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Cash provided by (used in):				
Operating activities				
Net income and comprehensive income for the period	$ 14,429	$ 10,675	$ 28,641	$ 21,273
Adjustments to determine net cash flows provided by (used in) operating activities				
Share-based payments	128	85	248	172
Mortgage interest and fees earned	(23,319)	(18,274)	(46,829)	(34,509)
Mortgage interest and fees received	21,200	15,866	41,633	30,384
Interest on convertible debentures expensed	2,574	2,551	5,141	4,580
Interest and other financing charges expensed	3,471	1,919	7,106	3,448
Adjustment to fair value of deferred share units	(68)	(116)	16	(111)
Impairment of investment property held for sale	–	–	–	1,832
Provision for (recovery of) mortgage losses	690	583	1,642	(430)
Recovery of prior mortgage loss	–	(200)	(157)	(1,000)
Changes in operating assets and liabilities				
Prepaid expenses	(4)	114	(90)	37
Accounts payable and accrued liabilities	(436)	1,080	(2,738)	1,599
Additions to unamortized origination fees	117	267	136	544
Cash provided by operating activities	18,782	14,550	34,749	27,819
Investing activities				
Cash advances of mortgages receivable	(62,640)	(223,861)	(127,889)	(363,525)
Cash repayments of mortgages receivable	86,550	199,508	174,417	316,062
Cash provided by (used in) investing activities	23,910	(24,353)	46,528	(47,463)
Financing activities				
Advances under credit facility	67,415	190,000	126,980	396,446
Repayments under credit facility	(96,000)	(187,500)	(171,750)	(384,350)
Interest and fees on convertible debentures paid	(2,488)	(2,622)	(4,320)	(3,427)
Interest and other financing charges paid	(3,319)	(2,326)	(6,804)	(3,835)
Issuance of common shares	48	47	98	95
Issuance of convertible debentures	–	–	–	40,250
Convertible debenture issue costs	–	–	–	(1,861)
Cash dividends paid	(8,348)	(8,322)	(25,481)	(19,409)
Cash provided by (used in) financing activities	(42,692)	(10,723)	(81,277)	23,909
Increase (decrease) in cash	–	(20,526)	–	4,265
Cash, beginning of period	–	24,791	–	–
Cash, end of period	$ –	$ 4,265	$ –	$ 4,265

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, 2022. Material 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 August 3, 2023.

(b) New and amended standards and interpretations

Effective January 1, 2023, the company adopted the narrow-scope amendments to IAS 1, *Presentation of Financial Statements*, IFRS Practice Statement 2, *Making Materiality Judgements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments require the disclosure of material accounting policy information rather than disclosing significant accounting policies, and clarify how to distinguish changes in accounting policies from changes in accounting estimates. These amendments had no material impact on the interim consolidated financial statements.

(c) Basis of measurement

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

(d) Functional and presentation currency

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

(e) Principles of consolidation

These interim consolidated financial statements include the accounts of the company and 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.

NOTE 2 – BASIS OF PRESENTATION (continued)

(f) Use of estimates and judgements

The preparation of interim consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the reporting date and the reported amounts of revenues 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;
(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; and
(e) 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 (loss), allowance for mortgage losses and valuation of investment properties. Management continues to monitor and assess the impacts of these economic uncertainties on its estimates, judgements and assumptions.

NOTE 3 – MATERIAL 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:

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

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

- 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 mortgage, 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.

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.

(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 – MATERIAL 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 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.

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 – MATERIAL 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. The ECL methodology was modified to include an overlay adjustment to account for the uncertainty and difficulty in forecasting future economic conditions which began at the onset of the COVID-19 pandemic and 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 revenue 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 revenue 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 revenue on purchased or originated credit-impaired financial assets are 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.

(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.

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

(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 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) 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 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 plan.

(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 that vest over a number of years. 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.

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

(k) 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

	As at June 30, 2023			As at December 31, 2022		
Property type	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
High-rise residential	19	$ 279,332	33.9%	20	$ 300,989	34.7%
Mid-rise residential	27	216,913	26.3%	30	225,281	26.0%
Low-rise residential	13	129,371	15.7%	14	128,244	14.8%
House and apartment	139	102,490	12.4%	158	108,124	12.5%
Condominium corporation	11	1,980	0.2%	12	2,189	0.3%
Residential portfolio	209	730,086	88.5%	234	764,827	88.3%
Commercial	21	94,521	11.5%	26	101,435	11.7%
Mortgage portfolio	230	824,607	100.0%	260	866,262	100.0%
Accrued interest receivable		5,572			5,418	
Mortgage discount		(79)			(94)	
Unamortized origination fees		(331)			(506)	
Allowance for mortgage losses		(12,348)			(10,706)	
Mortgages receivable		$ 817,421			$ 860,374	

The mortgage portfolio has maturity dates between 2023 and 2032 with a weighted average remaining term of 10.6 months at June 30, 2023 (December 31, 2022 – 10.9 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 11.27% as at June 30, 2023 (8.90% as at June 30, 2022; and 10.77% as at December 31, 2022).

Within the mortgage portfolio, at June 30, 2023, there were 31 mortgages receivable aggregating to $210,174 (25.5% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage receivable (December 31, 2022 – 38 mortgages receivable aggregating to $231,318; 26.7% 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 six month period ended June 30, 2023.

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(a) Mortgage portfolio (continued)

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:

Six months ending December 31, 2023	$ 328,477	39.8%
Years ending December 31, 2024	308,185	37.4%
2025	110,491	13.4%
2026	76,067	9.2%
2027	–	0.0%
Thereafter	1,387	0.2%
	$ 824,607	100.0%

(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 June 30, 2023

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 233,297	$ 46,035	$ –	$ 279,332
Mid-rise residential	216,913	–	–	216,913
Low-rise residential	108,609	20,762	–	129,371
House and apartment	92,172	10,318	–	102,490
Condominium corporation	1,980	–	–	1,980
Commercial	94,521	–	–	94,521
Mortgage portfolio	$ 747,492	$ 77,115	$ –	$ 824,607

Allowance for mortgage losses	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 3,640	$ 156	$ –	$ 3,796
Mid-rise residential	3,288	–	–	3,288
Low-rise residential	1,662	1,536	–	3,198
House and apartment	875	28	–	903
Condominium corporation	5	–	–	5
Commercial	1,158	–	–	1,158
Mortgage portfolio	$ 10,628	$ 1,720	$ –	$ 12,348

As at December 31, 2022

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 300,989	$ –	$ –	$ 300,989
Mid-rise residential	225,281	–	–	225,281
Low-rise residential	104,578	23,666	–	128,244
House and apartment	105,798	2,326	–	108,124
Condominium corporation	2,189	–	–	2,189
Commercial	101,435	–	–	101,435
Mortgage portfolio	$ 840,270	$ 25,992	$ –	$ 866,262

Allowance for mortgage losses	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 3,454	$ –	$ –	$ 3,454
Mid-rise residential	2,597	–	–	2,597
Low-rise residential	1,335	1,734	–	3,069
House and apartment	786	5	–	791
Condominium corporation	7	–	–	7
Commercial	788	–	–	788
Mortgage portfolio	$ 8,967	$ 1,739	$ –	$ 10,706

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(b) Allowance for mortgage losses (continued)

The allowance for mortgage losses at June 30, 2023 is $12,348 (December 31, 2022 – $10,706). Of this allowance, $10,628 (December 31, 2022 – $8,967) 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 $1,720 for mortgages receivable classified as Stage 2 and $nil for Stage 3 at June 30, 2023 (December 31, 2022 – $1,739 and $nil, respectively).

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

	Six months ended June 30, 2023			
	Stage 1	Stage 2	Stage 3	Total
Opening balance, January 1, 2023	$ 8,967	$ 1,739	$ –	$ 10,706
Allowance for mortgage losses				
Transfers to Stage 1 (1)	1,675	(1,675)	–	–
Transfers to Stage 2 (1)	(227)	227	–	–
Transfers to Stage 3 (1)	–	–	–	–
Net remeasurement (2)	291	1,458	–	1,749
Mortgage advances	381	–	–	381
Mortgage repayments	(459)	(29)	–	(488)
Balance, June 30, 2023	$ 10,628	$ 1,720	$ –	$ 12,348

(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 overlay adjustments as a result of economic uncertainties.

During the six months ended June 30, 2023, the allowance for mortgage losses for mortgages classified as Stage 1 increased due to changes in assumptions in the expected credit loss model and overlay adjustment due to economic uncertainties. The allowance for mortgage losses classified as Stage 2 decreased due to a lower ECL assessment of the individual loans at period end compared to the beginning of the period. The ECL is assessed individually for Stage 2 and Stage 3 mortgages receivable.

	Six months ended June 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)	–	–	–	–
Transfers to Stage 3 (1)	–	–	–	–
Net remeasurement (2)	565	5	(1,156)	(586)
Mortgage advances	1,549	–	–	1,549
Mortgage repayments	(1,241)	(152)	–	(1,393)
Write-off	–	–	(1,647)	(1,647)
Balance, June 30, 2022	$ 8,332	$ 30	$ –	$ 8,362

(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 the economic uncertainty related to the worldwide COVID-19 pandemic.

During the six months ended June 30, 2022, the allowance for mortgage losses for mortgages classified as Stage 1 increased due to an increase in the mortgage portfolio balance and changes in assumptions in the expected credit loss model. 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 during the quarter of the loan classified as Stage 3 at March 31, 2022. The ECL is assessed individually for Stage 2 and Stage 3 mortgages receivable.

NOTE 6 – INVESTMENT PROPERTIES AND INVESTMENT PROPERTY HELD FOR SALE

	Six months ended June 30, 2023			Year ended December 31, 2022		
	Investment properties	Investment property held for sale	Total	Investment properties	Investment property held for sale	Total
Beginning of period						
Gross carrying amount	$ 14,302	$ –	$ 14,302	$ 1,101	$ 15,033	$ 16,134
Impairment	–	–	–	–	–	–
Balance, beginning of period	14,302	–	14,302	1,101	15,033	16,134
Recovery of acquisition costs	–	–	–	–	–	–
Impairment	–	–	–	–	(1,832)	(1,832)
Reclassification[1]	–	–	–	13,201	(13,201)	–
Balance, end of period	$ 14,302	$ –	$ 14,302	$ 14,302	$ –	$ 14,302

(1) Reclassification included cumulative impairment of $2,638.

Investment properties consist of a four unit property in Leduc, Alberta and a 90 unit property in Regina, Saskatchewan. During the six month period ended June 30, 2023, the value in use was estimated using a net operating income analysis. The 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.

During the year ended December 31, 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.

	Three months ended June 30		Six months ended June 30	
Rental income (loss)	**2023**	**2022**	**2023**	**2022**
Revenue	$ 332	$ 286	$ 655	$ 552
Property operating costs	(103)	(359)	(229)	(483)
Rental income (loss)	$ 229	$ (73)	$ 426	$ 69

NOTE 7 – CREDIT FACILITY

At June 30, 2023, the company had a credit facility from a syndicate of five Canadian financial institutions of $315,000 (December 31, 2022 – $315,000) 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 right to increase the credit facility by up to an additional $35,000 (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, 2022 – $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.

NOTE 7 – CREDIT FACILITY (continued)

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 June 30, 2023, the maximum balance available to be drawn on the credit facility was $315,000 (December 31, 2022 – $315,000). Under the terms of the credit facility, covenants must be met in respect of shareholders' equity, debt to total assets and interest coverage. At June 30, 2023 and December 31, 2022, the company was in compliance with these covenants.

The annualized weighted average interest rate for the six months period ended June 30, 2023 was 6.84% (4.57% for the year ended December 31, 2022).

Credit facility	**June 30 2023**	**December 31 2022**
Bankers' acceptances	$ 175,000	$ 210,000
Bank loan	2,000	11,000
Overdraft facility	2,189	2,959
Unamortized and prepaid financing costs	(726)	(965)
Borrowings under credit facility	178,463	222,994
Letters of credit[1]	9,452	12,158
Total credit facility utilization	$ 187,915	$ 235,152

(1) $601 of cash was received, and is recorded in accounts payable and accrued liabilities, for letters of credit on mortgages that are discharged (December 31, 2022 – $3,551).

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 six month period ended June 30, 2023 is interest on the credit facility of $3,375 and $6,894 (three and six month period ended June 30, 2022 – $1,800 and $3,238) and bank fees and amortization of financing costs of $81 and $169 (three and six month period ended June 30, 2022 – $109 and $189).

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 six month period ended June 30, 2023, the company incurred mortgage servicing and management fees of $2,033 and $4,047 (three and six month period ended June 30, 2022 – $1,990 and $3,868). 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 $788 (December 31, 2022 – $717) 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 six month period ended June 30, 2023, CMCC reimbursed the company for a portion of share-based payments (see Note 11 – Share-based payments).

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 six month period ended June 30, 2023 was $33 (six month period ended June 30, 2022 – $32).

Certain of the company's mortgages receivable are shared with other investors. As at June 30, 2023, companies owned by a director and/or officer of the company were not co-invested in any syndicated mortgage receivable (December 31, 2022 – one syndicated mortgage receivable of $22,000, of which the company's share was $21,000, of which $19,750 had been funded).

As at June 30, 2023, the company had nil mortgages receivable (December 31, 2022 – two) 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 $nil (December 31, 2022 – $9,200), of which $nil had been funded at June 30, 2023 (December 31, 2022 – $8,350). During the three and six month period ended June 30, 2023, the company recognized net mortgage interest and fees of $62 and $377 (June 30, 2022 – three mortgages receivable; three and six month period ended June 30, 2022 – $275 and $512) from borrowers over which a director and or officer of the company has joint control.

NOTE 8 – RELATED PARTY TRANSACTIONS (continued)

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

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Directors' fees [(1)] (Note 12)	$ 71	$ 63	$ 142	$ 125
Share-based payments to directors (Note 11)	38	30	76	60
Share-based payments to officers (Note 11)	18	19	39	39
	$ 127	$ 112	$ 257	$ 224

(1) The cumulative adjustment for the fair value of deferred share units issued under the deferred share unit plan was $(67) as at June 30, 2023 (year ended December 31, 2022 – $(83)) (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
Six month period ended June 30, 2023						
Issued and outstanding face value	$ 40,250	$ 34,500	$ 28,750	$ 34,500	$ 25,300	$ 163,300
Book value –						
Convertible debentures, beginning of period	$ 37,194	$ 32,006	$ 28,108	$ 33,683	$ 24,973	$ 155,964
Accretion for the period	236	201	141	135	108	821
Convertible debentures, end of period	$ 37,430	$ 32,207	$ 28,249	$ 33,818	$ 25,081	$ 156,785

	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
Year ended December 31, 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	369	398	281	267	215	1,530
Convertible debentures, end of period	$ 37,194	$ 32,006	$ 28,108	$ 33,683	$ 24,973	$ 155,964

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				
	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
Maturity date	March 31, 2029	Dec. 31, 2028	March 31, 2025	Dec. 31, 2025	June 30, 2024
Initial term	7 years	7 years	6 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
Interest payments date:	March 31, Sept. 30	June 30, Dec. 31	March 31, Sept. 30	June 30, Dec. 31	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 conversion price from:	March 31, 2025	Dec. 31, 2024	March 31, 2022	Dec, 31, 2021	June 30, 2020
to:	March 31, 2027	Dec. 31, 2026	March 31, 2024	Dec. 31, 2023	June 30, 2022
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

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 June 30		Six months ended June 30	
	2023	2022	2023	2022
Coupon rate interest on convertible debentures	$ 2,163	$ 2,145	$ 4,320	$ 3,867
Accretion and other costs	411	406	821	713
Interest on convertible debentures	$ 2,574	$ 2,551	$ 5,141	$ 4,580

NOTE 10 – SHARE CAPITAL

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

The company has an optional dividend reinvestment plan (DRIP) for shareholders, whereby participants may reinvest cash dividends in additional common shares of the company at the volume-weighted average price for five days prior to distribution, less a 2% discount. During the three and six month period ended June 30, 2023, 127,931 and 354,040 common shares were issued under the company's DRIP (three and six month period ended June 30, 2022 – 105,238 and 217,545), using reinvested dividends of $1,463 and $4,066 (three and six month period ended June 30, 2022 – $1,342 and $2,891). Shares issued under the DRIP are issued by the company from treasury.

On June 13, 2023, 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 4,176,336 common shares during the twelve month period commencing June 24, 2023 and ending on June 23, 2024. The company did not purchase any common shares under the NCIB during the period ended June 30, 2023.

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 dates of September 1, 2022 ($13.31) and August 11, 2022 ($11.92).

NOTE 11 – SHARE-BASED PAYMENTS (continued)

	Six months ended June 30, 2023			Year ended December 31, 2022		
	DSIP units	IDSIP units	Total	DSIP units	IDSIP units	Total
Balance, beginning of period	87,566	10,368	97,934	82,983	13,636	96,619
Units granted	–	–	–	41,000	–	41,000
Units earned	–	1,385	1,385	–	2,496	2,496
Units cancelled	–	–	–	(567)	–	(567)
Common shares issued	–	–	–	(35,850)	(5,764)	(41,614)
Balance, end of period	87,566	11,753	99,319	87,566	10,368	97,934

Share-based payments expense:	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
September 1, 2022 grant	$ 58	$ –	$ 106	$ –
August 11, 2022 grant(1)	–	–	–	–
September 2, 2021 grant	26	52	49	104
September 1, 2020 grant	7	17	14	34
September 3, 2019 grant	–	8	–	16
September 1, 2018 grant	–	–	–	–
September 1, 2016 grant	1	2	2	5
September 1, 2015 grant	2	3	6	6
September 1, 2014 grant	2	2	5	5
August 30, 2013 grant	1	1	3	2
	$ 97	$ 85	$ 185	$ 172

(1) During the three and six month period ended June 30, 2023, CMCC reimbursed the company for share-based payment expenses of $31 and $63, respectively related to grants under the company's DSIP (three and six month period ended June 30, 2022 – $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 value of the common shares on the last day of the quarter. The fair 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 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 value of the company's common shares on or about the date of the payment. Amounts owed in relation to this plan of $822 (December 31, 2022 – $642) 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 June 30		Six months ended June 30	
	2023	2022	2023	2022
Directors' fees paid in DSUs	$ 60	$ 54	$ 120	$ 108
Dividends on DSUs	15	10	43	21
Adjustment to fair value of DSUs	(68)	(116)	16	(111)
	$ 7	$ (52)	$ 179	$ 18

NOTE 12 – DEFERRED SHARE UNIT PLAN (continued)

	Six months ended June 30 2023	Year ended December 31 2022
Outstanding DSUs, beginning of period	60,358	38,080
Granted	10,478	18,663
Reinvested	3,678	3,615
Balance, end of period	74,514	60,358

NOTE 13 – EARNINGS PER SHARE

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Basic earnings per share –				
Numerator				
Net income and comprehensive income for the period	$ 14,429	$ 10,675	$ 28,641	$ 21,273
Denominator				
Weighted average common shares outstanding	43,633,144	42,979,296	43,536,960	42,920,636
Basic earnings per share	$ 0.33	$ 0.25	$ 0.66	$ 0.50
Diluted earnings per share –				
Numerator				
Net income and comprehensive income for the period	$ 14,429	$ 10,675	$ 28,641	$ 21,273
Interest on convertible debentures	2,574	2,551	5,141	4,580
Net income and comprehensive income for diluted earnings per share	17,003	13,226	33,782	25,853
Denominator				
Weighted average common shares outstanding	43,633,144	42,979,296	43,536,960	42,920,636
Convertible debentures	10,228,549	10,228,549	10,228,549	9,197,626
Deferred share incentive plan	87,566	80,485	87,566	81,727
Income deferred share units	11,523	14,711	11,149	14,359
Weighted average common shares outstanding – diluted basis	53,960,782	53,303,041	53,864,224	52,214,348
Diluted earnings per share	$ 0.32	$ 0.25	$ 0.63	$ 0.50

NOTE 14 – 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. The liability for the deferred share unit plan included in accounts payable and accrued liabilities is measured at FVTPL. All other financial liabilities are measured at amortized cost.

NOTE 14 – FINANCIAL INSTRUMENTS (continued)

(b) Fair value

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

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. All financial assets are classified and measured at amortized cost. Their carrying values approximate their fair 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 unit plan, dividends payable and accrued convertible debenture interest carrying values approximate their fair values due to the short-term nature of the items. The liability for the deferred share unit plan 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	**June 30 2023**	**December 31 2022**
Fair value	$ 150,942	$ 144,982
Less book value of equity component	(3,786)	(3,786)
	$ 147,156	$ 141,196
Book value of financial liability component	$ 156,785	$ 155,964

(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 June 30, 2023 is $827,283 (December 31, 2022 – $873,132).

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 June 30, 2023.

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 six month period ended June 30, 2023. Management continuously monitors real estate values to ensure that the quality of the collateral underlying the remaining mortgage portfolio remains adequate.

At June 30, 2023, the largest borrower group accounted for 6.03% of the mortgage portfolio (December 31, 2022 – 5.74%). 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, fund loan activity, 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 June 30, 2023, management considers that it has adequate procedures in place to manage liquidity risk.

As at June 30, 2023	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]	$179,189	$188,106	$188,106	$ –	$ –	$ –
Accounts payable and accrued liabilities[2]	3,466	3,466	3,466	–	–	–
Accrued convertible debenture interest	916	916	916	–	–	–
Dividends payable	3,277	3,277	3,277	–	–	–
Convertible debentures[3]	156,785	179,194	94,485	7,556	77,153	–
Total	343,633	374,959	290,250	7,556	77,153	–
Unadvanced mortgage commitments[4]	–	112,589	112,589	–	–	–
Total contractual liabilities	$343,633	$487,548	$402,839	$ 7,556	$77,153	$ –

Notes:

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

(2) For purposes of contractual cash flows, the DSUs owing to non-executive directors are assumed to be repaid within the third quarter of 2023.

(3) The 5.30% debentures are assumed but not required to be repaid in the third quarter of 2023; 5.50% debentures are assumed but not required to be repaid December 31, 2023; 5.60% debentures are assumed but not required to be repaid March 31, 2024; 5.00% debentures are assumed but not required to be repaid December 31, 2026; and the 5.10% debentures are assumed but not required to be repaid March 31, 2027.

(4) 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 the 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 month period ended June 30, 2023, income and comprehensive income would have been reduced (increased) by approximately $968 during the period, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. However, if new mortgage loans had been entered into at higher (lower) interest rates, the resulting reduction of income and comprehensive income would have been less than (greater than) $968.

NOTE 15 – CAPITAL MANAGEMENT

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

	June 30 2023	December 31 2022
Borrowings under credit facility	$ 178,463	$ 222,994
Convertible debentures	156,785	155,964
Total debt	335,248	378,958
Shareholders' equity	489,010	475,564
Capital employed	$ 824,258	$ 854,522

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.

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 July 12, 2023, the company issued 45,850 common shares ($488) to shareholders under its dividend reinvestment plan.

Subsequent to period end, the company accepted a conditional offer to sell the 90 unit property in Regina, Saskatchewan. Net proceeds for the transaction are expected to approximate the carrying amount of the property as at June 30, 2023. Assuming all conditions are met, the sale transaction is anticipated to be completed before the end of the third quarter. This property was classified as an investment property as at June 30, 2023 and December 31, 2022.