

Q3 2024

Financial Statements

Interim
Consolidated

September 30, 2024



ATRIUM

MORTGAGE INVESTMENT
CORPORATION

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

	<u>Notes</u>	<u>September 30,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
Assets			
Mortgages receivable	5	\$ 902,318	\$ 876,733
Investment property	6	1,101	1,101
Accounts receivable	8	76	–
Prepaid expenses		<u>67</u>	<u>43</u>
Total assets		<u>\$ 903,562</u>	<u>\$ 877,877</u>
Liabilities			
Borrowings under credit facility	7	\$ 263,799	\$ 216,989
Accounts payable and accrued liabilities	8, 12	8,413	4,109
Accrued convertible debenture interest		906	916
Dividends payable		3,339	16,047
Convertible debentures	9	<u>133,495</u>	<u>157,610</u>
Total liabilities		<u>409,952</u>	<u>395,671</u>
Shareholders' equity			
Share capital	10	484,936	478,903
Deferred share incentive plan units		1,045	943
Equity component of convertible debentures		3,526	3,786
Contributed surplus		1,848	1,588
Retained earnings (deficit)		<u>2,255</u>	<u>(3,014)</u>
Total shareholders' equity		<u>493,610</u>	<u>482,206</u>
Total liabilities and shareholders' equity		<u>\$ 903,562</u>	<u>\$ 877,877</u>

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, 2022		43,335,995	\$ 471,882	\$ 712	\$ 3,786	\$ 1,588	\$ (2,404)	\$ 475,564
Shares issued under dividend reinvestment plan	10	490,664	5,536	–	–	–	–	5,536
Shares issued under employee share purchase plan	10	13,568	152	–	–	–	–	152
Shares issued under deferred share incentive plan	11	17,116	223	(223)	–	–	–	–
Share-based payments	11	–	–	352	–	–	–	352
Net income and comprehensive income		–	–	–	–	–	39,633	39,633
Dividends declared		–	–	–	–	–	(29,461)	(29,461)
Balance, September 30, 2023		43,857,343	\$ 477,793	\$ 841	\$ 3,786	\$ 1,588	\$ 7,768	\$ 491,776
Shares issued under dividend reinvestment plan	10	140,523	1,433	–	–	–	–	1,433
Shares purchased under normal course issuer bid	10	(37,527)	(378)	–	–	–	–	(378)
Shares issued under employee share purchase plan	10	5,142	55	–	–	–	–	55
Share-based payments	11	–	–	102	–	–	–	102
Net income and comprehensive income		–	–	–	–	–	11,852	11,852
Dividends declared		–	–	–	–	–	(22,634)	(22,634)
Balance, December 31, 2023		43,965,481	\$ 478,903	\$ 943	\$ 3,786	\$ 1,588	\$ (3,014)	\$ 482,206
Shares issued under dividend reinvestment plan	10	518,037	5,667	–	–	–	–	5,667
Shares issued under employee share purchase plan	10	14,985	167	–	–	–	–	167
Shares issued under deferred share incentive plan	11	16,749	209	(209)	–	–	–	–
Shares issued on debenture conversion	9	474	7	–	–	–	–	7
Maturity of convertible debentures	9	–	–	–	(260)	260	–	–
Issue cost		–	(17)	–	–	–	–	(17)
Share-based payments	11	–	–	311	–	–	–	311
Net income and comprehensive income		–	–	–	–	–	35,175	35,175
Dividends declared		–	–	–	–	–	(29,906)	(29,906)
Balance, September 30, 2024		44,515,726	\$ 484,936	\$ 1,045	\$ 3,526	\$ 1,848	\$ 2,255	\$ 493,610

Dividends declared amounted to \$0.675 per share for the nine month period ended September 30, 2024 (nine month period ended September 30, 2023 – \$0.675; year ended December 31, 2023 \$1.19).

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

INTERIM CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

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

	Notes	Three months ended September 30		Nine months ended September 30	
		2024	2023	2024	2023
Revenues					
Mortgage interest and fees	8	\$ 24,501	\$ 25,211	\$ 74,608	\$ 72,040
Rental income	6	13	201	29	627
Total revenues		<u>24,514</u>	<u>25,412</u>	<u>74,637</u>	<u>72,667</u>
Operating expenses					
Mortgage servicing and management fees	8	2,168	2,153	6,414	6,259
Transfer agent, regulatory fees and investor relations		50	56	174	225
Share-based payments	8, 11	73	78	244	263
Professional fees		81	24	199	193
Directors' expense	8, 12	71	71	233	230
Administration and general		38	36	108	114
Adjustment to fair value of deferred share units	8, 12	101	(24)	106	(8)
Recovery of prior mortgage loss		–	(220)	(183)	(377)
Provision for mortgage losses	5(b)	<u>3,488</u>	<u>5,442</u>	<u>11,707</u>	<u>7,084</u>
Total operating expenses		<u>6,070</u>	<u>7,616</u>	<u>19,002</u>	<u>13,983</u>
Income before financing costs		<u>18,444</u>	<u>17,796</u>	<u>55,635</u>	<u>58,684</u>
Financing costs					
Interest on convertible debentures	9	2,186	2,578	7,337	7,719
Interest and other financing charges	7, 12	<u>4,653</u>	<u>4,226</u>	<u>13,123</u>	<u>11,332</u>
Total financing costs		<u>6,839</u>	<u>6,804</u>	<u>20,460</u>	<u>19,051</u>
Net income and comprehensive income for the period		<u>\$ 11,605</u>	<u>\$ 10,992</u>	<u>\$ 35,175</u>	<u>\$ 39,633</u>
Earnings per common share					
Basic	13	<u>\$ 0.26</u>	<u>\$ 0.25</u>	<u>\$ 0.79</u>	<u>\$ 0.91</u>
Diluted	13	<u>\$ 0.26</u>	<u>\$ 0.25</u>	<u>\$ 0.79</u>	<u>\$ 0.88</u>

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		Nine months ended	
	September 30		September 30	
	2024	2023	2024	2023
Cash provided by (used in):				
Operating activities				
Net income and comprehensive income for the period	\$ 11,605	\$ 10,992	\$ 35,175	\$ 39,633
Adjustments to determine net cash flows provided by (used in) operating activities				
Share-based payments	93	104	311	352
Mortgage interest and fees earned	(24,501)	(25,211)	(74,608)	(72,040)
Mortgage interest and fees received	18,950	25,024	67,713	66,657
Interest on convertible debentures expensed	2,186	2,578	7,337	7,719
Interest and other financing charges expensed	4,653	4,226	13,123	11,332
Adjustment to fair value of deferred share units	101	(24)	106	(8)
Provision for mortgage losses	3,488	5,442	11,707	7,084
Recovery of prior mortgage loss	–	(220)	(183)	(377)
Gain on disposition of investment property	–	(74)	–	(74)
Changes in operating assets and liabilities				
Accounts receivable	(76)	–	(76)	–
Prepaid expenses	–	161	(24)	71
Accounts payable and accrued liabilities	427	304	3,687	(2,434)
Additions to unamortized origination fees	89	137	331	273
Cash provided by operating activities	<u>17,015</u>	<u>23,439</u>	<u>64,599</u>	<u>58,188</u>
Investing activities				
Cash advances of mortgages receivable	(58,237)	(115,259)	(232,590)	(243,148)
Cash repayments of mortgages receivable	42,294	63,749	202,045	238,166
Proceeds from disposition of investment property	–	13,275	–	13,275
Cash provided by (used in) investing activities	<u>(15,943)</u>	<u>(38,235)</u>	<u>(30,545)</u>	<u>8,293</u>
Financing activities				
Advances under credit facility	102,000	106,857	224,401	233,837
Repayments under credit facility	(60,333)	(77,000)	(178,613)	(248,750)
Interest and fees on convertible debentures paid	(4,315)	(1,841)	(6,154)	(6,161)
Interest and other financing charges paid	(4,593)	(4,901)	(11,590)	(11,705)
Issuance of common shares	60	54	167	152
Repayment of convertible debenture	(25,300)	–	(25,300)	–
Share capital issue cost	(17)	–	(17)	–
Cash dividends paid	(8,574)	(8,373)	(36,948)	(33,854)
Cash provided by (used in) financing activities	<u>(1,072)</u>	<u>14,796</u>	<u>(34,054)</u>	<u>(66,481)</u>
Increase (decrease) in cash	–	–	–	–
Cash, beginning of period	–	–	–	–
Cash, end of period	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

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 1010, 18 King Street East, Toronto, Ontario M5C 1C4.

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.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 Standard 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, 2023. 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 November 13, 2024.

(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.

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;

NOTE 2 – BASIS OF PRESENTATION (continued)**(e) Use of estimates and judgements (continued)**

- (c) the measurement of fair value, costs of disposal and the value in use of investment property;
- (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 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 have 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, allowance for mortgage losses and valuation of investment property. Management continues to monitor and assess the impacts of these economic uncertainties on its estimates, judgements and assumptions.

NOTE 3 – MATERIAL ACCOUNTING POLICY INFORMATION**(a) Financial instrument assets – initial recognition and measurement**

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

Upon initial recognition, financial assets are measured as either:

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

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

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

NOTE 3 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)**(a) Financial instrument assets – initial recognition and measurement (continued)**

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:

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

NOTE 3 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)**(c) Financial instruments – impairment of assets (continued)**

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
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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.

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.

NOTE 3 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)**(c) Financial instruments – impairment of assets (continued)**

The ECL methodology was modified to include an overlay adjustment to account for the uncertainty and difficulty in forecasting future economic conditions. The financial reports of other lenders and financial institutions are 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 collection is virtually certain.

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.

(f) Investment property

Investment property is a property over which the company has taken title through exercise of its security interest. Such property is 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.

NOTE 3 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)**(f) Investment property (continued)**

Any costs subsequently incurred to complete the construction or development of a property are capitalized. After initial recognition, an investment property is 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 a property is 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 it's 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 carrying amount 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.

(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.

NOTE 3 – MATERIAL ACCOUNTING POLICY INFORMATION (continued)**(k) Deferred share unit plan (continued)**

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. In particular, IFRS 18, *Presentation and Disclosure in Financial Statements* was issued in April 2024 and applies to an annual reporting period beginning on or after January 1, 2027. This new standard introduces changes to the structure of the statement of profit or loss, disclosure requirements around management defined performance measures and introduces enhanced principles on aggregation and disaggregation which focus on grouping items based on their shared characteristics. Management is evaluating the impact of the new standard in preparation for its adoption on January 1, 2027. In addition, the IASB, has issued amendments to the classification and measurement of financial instruments in May 2024 with amendments to IFRS 9 and IFRS 7 *Financial Instruments: disclosures*, this amendment applies to an annual reporting period beginning on or after January 1, 2026. Management is evaluating the impact of the amendment relating to the derecognition of a financial liability and classification of financial assets in preparation for its adoption on January 1, 2026.

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

Property type	As at September 30, 2024			As at December 31, 2023		
	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
High-rise residential	18	\$ 302,307	32.6%	22	\$ 323,340	36.2%
Mid-rise residential	22	163,075	17.6%	25	208,289	23.3%
Low-rise residential	14	166,082	17.9%	14	153,561	17.2%
House and apartment	206	145,057	15.7%	153	117,943	13.2%
Condominium corporation	7	1,339	0.1%	10	1,786	0.2%
Residential portfolio	267	777,860	83.9%	224	804,919	90.1%
Commercial	20	148,437	16.1%	19	88,640	9.9%
Mortgage portfolio	287	926,297	100.0%	243	893,559	100.0%
Accrued interest receivable		6,212			6,049	
Mortgage discount		(52)			(68)	
Unamortized origination fees		(217)			(207)	
Allowance for mortgage losses		(29,922)			(22,600)	
Mortgages receivable		\$ 902,318			\$ 876,733	

The mortgage portfolio has maturity dates between 2024 and 2032 with a weighted average remaining term of 7.5 months at September 30, 2024 (December 31, 2023 – 9.2 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 10.52% as at September 30, 2024 (11.49% as at September 30, 2023; 11.42% as at December 31, 2023).

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(a) Mortgage portfolio (continued)

Within the mortgage portfolio, at September 30, 2024, there were 20 mortgages receivable aggregating to \$143,516 (15.5% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage receivable (December 31, 2023 – 26 mortgages receivable aggregating to \$187,789; 21.0% 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, 2024.

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, 2024	\$ 301,694	32.6%
Years ending December 31, 2025	448,041	48.4%
2026	152,137	16.4%
2027	23,180	2.5%
2028	–	0.0%
Thereafter	<u>1,245</u>	<u>0.1%</u>
	<u>\$ 926,297</u>	<u>100.0%</u>

(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, 2024

<u>Gross carrying amount</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
High-rise residential	\$ 251,397	\$ –	\$ 50,910	\$ 302,307
Mid-rise residential	133,917	20,079	9,079	163,075
Low-rise residential	139,564	12,488	14,030	166,082
House and apartment	130,235	11,423	3,399	145,057
Condominium corporation	1,339	–	–	1,339
Commercial	<u>140,116</u>	<u>5,471</u>	<u>2,850</u>	<u>148,437</u>
Mortgage portfolio	<u>\$ 796,568</u>	<u>\$ 49,461</u>	<u>\$ 80,268</u>	<u>\$ 926,297</u>

Allowance for mortgage losses

High-rise residential	\$ 2,915	\$ –	\$ 2,406	\$ 5,321
Mid-rise residential	1,751	2,157	2,936	6,844
Low-rise residential	1,533	136	6,420	8,089
House and apartment	1,288	95	1,014	2,397
Condominium corporation	9	–	–	9
Commercial	<u>1,564</u>	<u>2,848</u>	<u>2,850</u>	<u>7,262</u>
Mortgage portfolio	<u>\$ 9,060</u>	<u>\$ 5,236</u>	<u>\$ 15,626</u>	<u>\$ 29,922</u>

As at December 31, 2023

<u>Gross carrying amount</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
High-rise residential	\$ 275,271	\$ 48,069	\$ –	\$ 323,340
Mid-rise residential	171,586	36,703	–	208,289
Low-rise residential	104,368	12,450	36,743	153,561
House and apartment	105,009	12,934	–	117,943
Condominium corporation	1,786	–	–	1,786
Commercial	<u>76,809</u>	<u>11,831</u>	<u>–</u>	<u>88,640</u>
Mortgage portfolio	<u>\$ 734,829</u>	<u>\$ 121,987</u>	<u>\$ 36,743</u>	<u>\$ 893,559</u>

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

<u>Allowance for mortgage losses</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
High-rise residential	\$ 3,313	\$ 5,156	\$ –	\$ 8,469
Mid-rise residential	2,605	1,120	–	3,725
Low-rise residential	1,526	49	6,857	8,432
House and apartment	830	38	–	868
Condominium corporation	7	–	–	7
Commercial	1,052	47	–	1,099
Mortgage portfolio	<u>\$ 9,333</u>	<u>\$ 6,410</u>	<u>\$ 6,857</u>	<u>\$ 22,600</u>

The allowance for mortgage losses at September 30, 2024 is \$29,922 (December 31, 2023 – \$22,600). Of this allowance, \$9,060 (December 31, 2023 – \$9,333) 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). Management estimated the ECL as \$5,236 for mortgages receivable classified as Stage 2 and \$15,626 for mortgages receivable classified as Stage 3 at September 30, 2024 (December 31, 2023 – \$6,410 and \$6,857, respectively).

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

	<u>Nine months ended September 30, 2024</u>			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Opening balance, January 1, 2024	\$ 9,333	\$ 6,410	\$ 6,857	\$ 22,600
Allowance for mortgage losses				
Transfers to Stage 1 ⁽¹⁾	60	(60)	–	–
Transfers to Stage 2 ⁽¹⁾	(23)	83	(60)	–
Transfers to Stage 3 ⁽¹⁾	(18)	(7,542)	7,560	–
Net remeasurement ⁽²⁾	(563)	6,408	5,702	11,547
Mortgage advances	1,157	43	14	1,214
Mortgage repayments	(886)	(89)	(79)	(1,054)
Write-off	–	(17)	(4,368)	(4,385)
Balance, September 30, 2024	<u>\$ 9,060</u>	<u>\$ 5,236</u>	<u>\$ 15,626</u>	<u>\$ 29,922</u>

(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 nine months ended September 30, 2024, the allowance for mortgage losses for mortgages classified as Stage 1 decreased due to changes in assumptions in the expected credit loss model and overlay adjustments due to economic uncertainties which was partially offset by an increase in mortgages classified in Stage 1. The allowance for mortgage losses classified as Stage 2 decreased due to the transfer of mortgages classified as Stage 2 into Stage 3 partially offset by a higher ECL assessment of the individual loans classified as Stage 2 at period end compared to the beginning of the period. The allowance for mortgage losses classified as Stage 3 increased due to the transfer of mortgages classified as Stage 2 into Stage 3 and a higher ECL assessment of the individual loans classified as Stage 3 partially offset by a write-off of mortgages.

	<u>Nine months ended September 30, 2023</u>			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Opening balance, January 1, 2023	\$ 8,967	\$ 1,739	\$ –	\$ 10,706
Allowance for mortgage losses				
Transfers to Stage 1 ⁽¹⁾	1,676	(1,676)	–	–
Transfers to Stage 2 ⁽¹⁾	(345)	345	–	–
Transfers to Stage 3 ⁽¹⁾	(8)	(1,529)	1,537	–
Net remeasurement ⁽²⁾	635	3,481	2,900	7,016
Mortgage advances	745	4	–	749
Mortgage repayments	(650)	(31)	–	(681)
Balance, September 30, 2023	<u>\$ 11,020</u>	<u>\$ 2,333</u>	<u>\$ 4,437</u>	<u>\$ 17,790</u>

(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.

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(b) Allowance for mortgage losses (continued)

During the nine months ended September 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 adjustments due to economic uncertainties that were partially offset by a decrease in mortgages classified as Stage 1. The allowance for mortgage losses classified as Stage 2 increased due to a higher ECL assessment of the individual loans at period end compared to the beginning of the period. The allowance for mortgage losses classified as Stage 3 increased because there were no loans classified as Stage 3 at the beginning of the period. The ECL is assessed individually for Stage 2 and Stage 3 mortgages receivable.

NOTE 6 – INVESTMENT PROPERTY

	Nine months ended September 30, 2024	Year ended December 31, 2023
Balance, beginning of period	\$ 1,101	\$ 14,302
Disposition	–	(13,201)
Balance, end of period	<u>\$ 1,101</u>	<u>\$ 1,101</u>

Investment property consists of a four unit property in Leduc, Alberta. During the nine month period ended September 30, 2024, the value in use was estimated using available market evidence and comparable transactions. During the year ended December 31, 2023, the company sold the 90 unit property in Regina, Saskatchewan. Net sales proceeds were \$13,275, resulting in a gain on disposition of \$74.

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Rental income				
Revenue	\$ 20	\$ 227	\$ 60	\$ 882
Gain on disposition of investment property	–	74	–	74
Property operating costs	(7)	(100)	(31)	(329)
Rental income	<u>\$ 13</u>	<u>\$ 201</u>	<u>\$ 29</u>	<u>\$ 627</u>

NOTE 7 – CREDIT FACILITY

As at September 30, 2024, the company had a credit facility from a syndicate of six Canadian financial institutions of \$340,000 (December 31, 2023 – \$315,000) at a formula rate that varies with bank prime and the market Term Canadian Overnight Repo Rate Average (CORRA) rate. On June 4, 2024, the company entered into an amendment to its credit facility to, among other things, add Royal Bank of Canada as a lender, increase the maximum balance available by \$25,000 to \$340,000, and replace draws using bankers' acceptances with Term CORRA loans. 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 \$60,000 (such that the total maximum availability would be up to \$400,000). Drawings under the credit facility may be by way of a bank loan (including an overdraft facility of up to \$5,000 (December 31, 2023 – \$5,000)), Term CORRA loans 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 July 31, 2025, 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. As at September 30, 2024, the maximum balance available to be drawn on the credit facility was \$340,000 (December 31, 2023 – \$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. As at September 30, 2024 and December 31, 2023, the company met these covenants.

The annualized weighted average interest rate for the nine month period ended September 30, 2024 was 7.22% (7.06% for the nine month period ended September 30, 2023; 7.19% for the year ended December 31, 2023).

NOTE 7 – CREDIT FACILITY (continued)

	As at September <u>30, 2024</u>	As at December <u>31, 2023</u>
Credit facility		
Term CORRA and bankers' acceptances ⁽¹⁾	\$ 240,000	\$ 205,000
Bank loan	23,000	11,000
Overdraft facility	1,069	2,281
Unamortized and prepaid financing costs	<u>(270)</u>	<u>(1,292)</u>
Borrowings under credit facility	263,799	216,989
Letters of credit ⁽²⁾	<u>11,885</u>	<u>12,171</u>
Total credit facility utilization	<u>\$ 275,684</u>	<u>\$ 229,160</u>

(1) Effective June 4, 2024, draws under the credit facility using Term CORRA loans replaced draws using bankers' acceptances as part of the amendment of the credit facility.

(2) \$4,426 of cash was received, and is recorded in accounts payable and accrued liabilities, for letters of credit on mortgages that are discharged (December 31, 2023 – \$601).

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, 2024 is interest on the credit facility of \$4,543 and \$12,732 (three and nine month period ended September 30, 2023 – \$4,106 and \$11,000) and bank fees and amortization of financing costs of \$86 and \$298 (three and nine month period ended September 30, 2023 – \$103 and \$272, respectively).

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, 2024, the company incurred mortgage servicing and management fees of \$2,168 and \$6,409 (three and nine month period ended September 30, 2023 – \$2,137 and \$6,184). 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 \$1,677 (December 31, 2023 – \$1,320) 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.

Amounts due from related party of \$19 (December 31, 2023 – \$nil) are included in accounts receivable and are due from CMCC, are in the normal course of business, are non-interest bearing, due on demand and are to be repaid within 30 days of each period end.

During the nine month period ended September 30, 2024, CMCC reimbursed the company for 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 nine month period ended September 30, 2024 was \$56 (nine month period ended September 30, 2023 – \$51).

During the three and nine month period ended September 30 2024, the company recognized net mortgage interest and fees of \$nil and \$nil (three and nine month period ended September 30, 2023 – \$nil and \$377) 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:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Directors' fees ⁽¹⁾ (Note 12)	\$ 71	\$ 71	\$ 213	\$ 213
Share-based payments				
to directors (Note 11)	32	36	98	112
Share-based payments				
to officers (Note 11)	<u>24</u>	<u>19</u>	<u>72</u>	<u>58</u>
	<u>\$ 127</u>	<u>\$ 126</u>	<u>\$ 383</u>	<u>\$ 383</u>

(1) The cumulative adjustment for the fair value of deferred share units issued under the deferred share unit plan was \$(7) as at September 30, 2024 (year ended December 31, 2023 – \$(112)) (see Note 12 – Deferred Share Unit Plan).

NOTE 8 – RELATED PARTY TRANSACTIONS (continued)

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 debentures					Total
	5.10% AIDB.G	5.00% AIDB.F	5.60% AIDB.E	5.50% AIDB.D	5.30% AIDB.C	
<u>Nine month period ended September 30, 2024</u>						
Issued and outstanding face value	\$ 40,250	\$ 34,500	\$ 28,743	\$ 34,500	\$ —	\$ 137,933
Carrying amount –						
Convertible debentures, beginning of period	\$ 37,667	\$ 32,409	\$ 28,391	\$ 33,953	\$ 25,190	\$ 157,610
Conversion of shares	—	—	(7)	—	—	(7)
Repayment of convertible debenture	—	—	—	—	(25,300)	(25,300)
Accretion for the period	359	305	214	204	110	1,192
Convertible debentures, end of period	\$ 38,026	\$ 32,714	\$ 28,598	\$ 34,157	\$ —	\$ 133,495

	Convertible debentures					Total
	5.10% AIDB.G	5.00% AIDB.F	5.60% AIDB.E	5.50% AIDB.D	5.30% AIDB.C	
<u>Year ended December 31, 2023</u>						
Issued and outstanding face value	\$ 40,250	\$ 34,500	\$ 28,750	\$ 34,500	\$ 25,300	\$ 163,300
Carrying amount –						
Convertible debentures, beginning of year	\$ 37,194	\$ 32,006	\$ 28,108	\$ 33,683	\$ 24,973	\$ 155,964
Accretion for the year	473	403	283	270	217	1,646
Convertible debentures, end of year	\$ 37,667	\$ 32,409	\$ 28,391	\$ 33,953	\$ 25,190	\$ 157,610

	Convertible debentures			
	5.10% AIDB.G	5.00% AIDB.F	5.60% AIDB.E	5.50% AIDB.D
Maturity date	March 31, 2029	Dec. 31, 2028	March 31, 2025	Dec. 31, 2025
Initial term	7 years	7 years	6 years	7 years
Conversion at option of shareholder at:	\$16.75/share	\$17.50/share	\$14.75/share	\$15.60/share
Interest payments date:	March 31, Sept. 30	June 30, Dec. 31	March 31, Sept. 30	June 30, Dec. 31
Redeemable at the company's option at par plus accrued interest, provided the weighted average trading price of common shares is not less than 125% of conversion price from:	March 31, 2025	Dec. 31, 2024	March 31, 2022	Dec. 31, 2021
to:	March 31, 2027	Dec. 31, 2026	March 31, 2024	Dec. 31, 2023
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

The 5.30% convertible debenture matured on June 30, 2024, and the aggregate principal amount of \$25,300 plus all accrued and unpaid interest was repaid in full on the first subsequent business day. On repayment of the 5.30% convertible debenture, the \$260 equity component of convertible debentures associated with this convertible debenture was recorded to contributed surplus.

NOTE 9 – CONVERTIBLE DEBENTURES (continued)

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		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Coupon rate interest				
on convertible debentures	\$ 1,820	\$ 2,156	\$ 6,134	\$ 6,476
Accretion and other costs	366	422	1,203	1,243
Interest on convertible debentures	<u>\$ 2,186</u>	<u>\$ 2,578</u>	<u>\$ 7,337</u>	<u>\$ 7,719</u>

NOTE 10 – SHARE CAPITAL

The company is authorized to issue an unlimited number of common shares without par value. Common shares rank equally with each other and have no preference, conversion, exchange or redemption rights.

Common shares participate pro-rata with respect to any dividends paid, including distributions upon termination and dissolution.

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, 2024, 129,793 and 518,037 common shares were issued under the company's DRIP (three and nine month period ended September 30, 2023 – 136,624 and 490,664), using reinvested dividends of \$1,418 and \$5,667 (three and nine month period ended September 30, 2023 – \$1,470 and \$5,536). Shares issued under the DRIP are issued by the company from treasury.

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. On June 13, 2023, the company announced that the TSX had approved renewal of the NCIB to purchase up to 4,176,336 common shares during the twelve month period commencing June 24, 2023 and ending on June 23, 2024. On June 17, 2024, the company announced that the TSX had approved renewal of the NCIB to purchase up to 4,232,634 common shares during the twelve month period commencing June 24, 2024 and ending on June 23, 2025. During the nine month period ended September 30, 2024, the company did not purchase any common shares under the NCIB for a total cost of \$nil (nine month period ended September 30, 2023 nil and \$nil, respectively; year ended December 31, 2023 – 37,527 and \$378, respectively).

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, 2024 (\$11.65), September 28, 2024 (\$11.54), September 1, 2023 (\$11.17) and September 29, 2023 (\$10.71).

NOTE 11 – SHARE-BASED PAYMENTS (continued)

	Nine months ended			Year ended		
	September 30, 2024			December 31, 2023		
	DSIP units	IDSIP units	Total	DSIP units	IDSIP units	Total
Balance, beginning of period	101,400	12,802	114,202	87,566	10,368	97,934
Units granted	28,500	–	28,500	30,950	–	30,950
Units earned	–	2,311	2,311	–	2,434	2,434
Units cancelled	(1,183)	–	(1,183)	–	–	–
Common shares issued	(16,749)	–	(16,749)	(17,116)	–	(17,116)
Balance, end of period	<u>111,968</u>	<u>15,113</u>	<u>127,081</u>	<u>101,400</u>	<u>12,802</u>	<u>114,202</u>

Share-based payments expense:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
September 28, 2024 grant ⁽¹⁾	\$ –	\$ –	\$ –	\$ –
September 1, 2024 grant	15	–	15	–
September 29, 2023 grant ⁽¹⁾	–	–	–	–
September 1, 2023 grant	32	14	126	14
September 1, 2022 grant	15	37	57	143
August 11, 2022 grant ⁽¹⁾	–	–	–	–
September 2, 2021 grant	5	17	21	66
September 1, 2020 grant	–	4	–	18
September 1, 2016 grant	1	1	4	3
September 1, 2015 grant	2	2	9	8
September 1, 2014 grant	2	2	8	7
August 30, 2013 grant	1	1	4	4
	<u>\$ 73</u>	<u>\$ 78</u>	<u>\$ 244</u>	<u>\$ 263</u>

(1) During the three and nine month period ended September 30, 2024, CMCC reimbursed the company for share-based expenses of \$21 and \$67 related to grants under the company's DSIP (three and nine month period ended September 30, 2023 – \$26 and \$89).

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 \$1,312 (December 31, 2023 – \$932) 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.

NOTE 12 – DEFERRED SHARE UNIT PLAN (continued)

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Directors' fees paid in DSUs	\$ 60	\$ 61	\$ 180	\$ 181
Dividends on DSUs	24	17	93	60
Adjustment to fair value of DSUs	101	(24)	106	(8)
	<u>\$ 185</u>	<u>\$ 54</u>	<u>\$ 379</u>	<u>\$ 233</u>

	Nine months ended September 30,	Year ended December 31,
	2024	2023
Outstanding DSUs, beginning of period	89,225	60,358
Granted	16,177	21,876
Reinvested	8,239	6,991
Balance, end of period	<u>113,731</u>	<u>89,225</u>

NOTE 13 – EARNINGS PER SHARE

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Basic earnings per share –				
Numerator				
Net income and comprehensive income for the period	\$ 11,605	\$ 10,992	\$ 35,175	\$ 39,633
Denominator				
Weighted average common shares outstanding	<u>44,436,112</u>	<u>43,774,576</u>	<u>44,271,399</u>	<u>43,617,036</u>
Basic earnings per share	<u>\$ 0.26</u>	<u>\$ 0.25</u>	<u>\$ 0.79</u>	<u>\$ 0.91</u>
Diluted earnings per share –				
Numerator				
Net income and comprehensive income for the period	\$ 11,605	\$ 10,992	\$ 35,175	\$ 39,633
Interest on convertible debentures	2,186	2,578	7,337	7,719
Net income and comprehensive income for diluted earnings per share	<u>13,791</u>	<u>13,570</u>	<u>42,512</u>	<u>47,352</u>
Denominator				
Weighted average common shares outstanding	44,436,112	43,774,576	44,271,399	43,617,036
Convertible debentures	8,534,634	10,228,549	9,659,604	10,228,549
Deferred share incentive plan	108,323	92,874	103,565	89,356
Income deferred share units	<u>14,837</u>	<u>12,018</u>	<u>14,147</u>	<u>11,441</u>
Weighted average common shares outstanding – diluted basis	<u>53,093,906</u>	<u>54,108,017</u>	<u>54,048,715</u>	<u>53,946,382</u>
Diluted earnings per share	<u>\$ 0.26</u>	<u>\$ 0.25</u>	<u>\$ 0.79</u>	<u>\$ 0.88</u>

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.

	As at September	As at December
	<u>30, 2024</u>	<u>31, 2023</u>
Convertible debentures		
Fair value	\$ 136,336	\$ 146,408
Less carrying amount of equity component	<u>(3,527)</u>	<u>(3,786)</u>
	<u>\$ 132,809</u>	<u>\$ 142,622</u>
Carrying amount of financial liability component	<u>\$ 133,495</u>	<u>\$ 157,610</u>

(c) Credit risk

Mortgages receivable and issued letters of credit are exposed to credit risk. Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment, resulting in a financial loss to the company. The maximum exposure to credit risk related to mortgages receivable, including letters of credit outstanding, at September 30, 2024 is \$914,472 (December 31, 2023 – \$889,179).

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, 2024.

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 month period ended September 30, 2024. Management continuously monitors real estate values to ensure that the quality of the collateral underlying the remaining mortgage portfolio remains adequate.

As at September 30, 2024, the largest borrower group accounted for 7.47% of the mortgage portfolio (December 31, 2023 – 6.82%). 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 the credit facility.

As at September 30, 2024, management considers that it has adequate procedures in place to manage liquidity risk.

As at September 30, 2024	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⁾	\$264,069	\$280,210	\$280,210	\$ –	\$ –	\$ –
Accounts payable and accrued liabilities ⁽²⁾	8,413	8,413	8,413	–	–	–
Accrued convertible debenture interest	906	906	906	–	–	–
Dividends payable	3,339	3,339	3,339	–	–	–
Convertible debentures ⁽³⁾	133,495	147,882	67,897	79,985	–	–
Total	410,222	440,750	360,765	79,985	–	–
Unadvanced mortgage commitments ⁽⁴⁾	–	35,940	35,940	–	–	–
Total contractual liabilities	\$410,222	\$476,690	\$396,705	\$79,985	\$ –	\$ –

Notes:

(1) Includes interest at the annualized weighted average interest rate of the credit facility and assumes the outstanding balance is not repaid until maturity on July 31, 2025.

(2) For purposes of contractual cash flows, the DSUs owing to non-executive directors are assumed to be repaid within the fourth quarter of 2024.

(3) The 5.50% debentures are assumed but not required to be repaid in the fourth quarter of 2024; 5.60% debentures are assumed but not required to be repaid in the fourth quarter of 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.

NOTE 14 – FINANCIAL INSTRUMENTS (continued)

(e) Interest rate risk (continued)

If interest rates on debt had been one percentage point higher (lower) during the three and nine month period ended September 30, 2024, income and comprehensive income would have been reduced (increased) by approximately \$648 and \$1,738, 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 one percentage point higher (lower) interest rates, the resulting reduction of income and comprehensive income would have been less than (greater than) \$648 and \$1,738, respectively.

(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:

	As at September 30, 2024	As at December 31, 2023
Borrowings under credit facility	\$ 263,799	\$ 216,989
Convertible debentures	<u>133,495</u>	<u>157,610</u>
Total debt	397,294	374,599
Shareholders' equity	<u>493,610</u>	<u>482,206</u>
Capital employed	<u>\$ 890,904</u>	<u>\$ 856,805</u>

The company's objectives for managing capital are to preserve shareholders' equity, provide shareholders with stable dividends, and to use leverage in a conservative manner to improve return to shareholders. The company finances growth of its portfolio by issuing common shares and debt. In addition, a small amount of equity is raised every month through 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 period.

NOTE 16 – SUBSEQUENT EVENTS

On October 4, 2024, the company completed a public offering of common shares issuing 2,185,000 common shares at a price of \$11.45 per share for gross proceeds of \$25,018. The company incurred share issuance costs of approximately \$1,234. The net proceeds received from the share issuance were used to pay down the company's indebtedness under credit facility.

On October 11, 2024, the company issued 42,873 common shares for \$475 to shareholders under its dividend reinvestment plan.

On October 25, 2024 the company completed a public offering of common shares via its over-allotment option issuing 327,750 common shares at a price of \$11.45 per share for gross proceeds of \$3,753. The company incurred share issuance costs of approximately \$150. The net proceeds received from the share issuance were used to pay down the company's indebtedness under credit facility.

On November 13, 2024, the company issued 44,710 common shares for \$485 to shareholders under its dividend reinvestment plan.