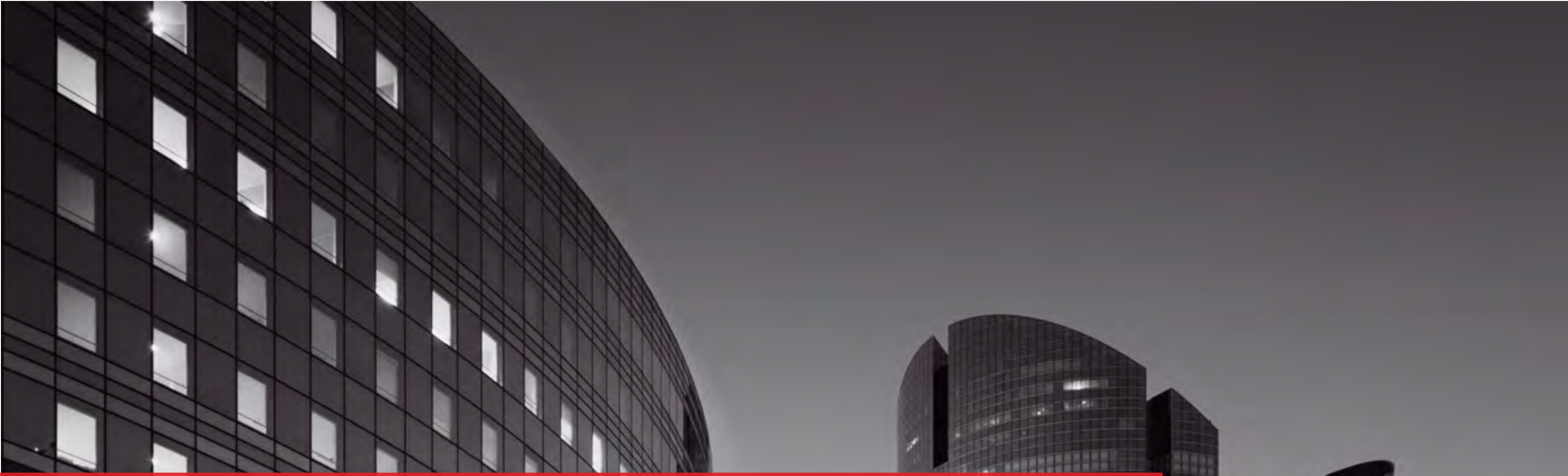

FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

REPORT TO SHAREHOLDERS

SECOND QUARTER
JUNE 30, 2018

OUR BUSINESS

Firm Capital Mortgage Investment Corporation (the "Corporation") is a non-bank lender, investing predominantly in short-term residential and commercial real estate mortgage loans and real estate related debt investments. The Corporation operates as a mortgage investment corporation under the Income Tax Act (Canada). Mortgage investment corporations have no income tax payable provided that they satisfy the requirements in subsection 130.1(6) of the Income Tax Act (Canada).

The Corporation's primary investment objective is the preservation of shareholders' equity, while providing shareholders with a stable stream of dividends from the Corporation's investments. The Corporation achieves its investment objectives by pursuing a strategy of investing in loans in select niche real estate markets that are under-serviced by larger financial institutions. The Corporation's more specific objective is to hold an investment portfolio that:

- (i) is widely diversified across many investments;
- (ii) is concentrated in first mortgages;
- (iii) reduces exposure as a result of participation in various loan syndicates; and
- (iv) is primarily short-term in nature.

Firm Capital Corporation (the "Mortgage Banker") is the Corporation's mortgage banker and acts as the Corporation's loan originator, underwriter, servicer, and syndicator. The Corporation's affairs are administered by FC Treasury Management Inc. (the "Corporation Manager").

The Corporation has in place a Dividend Reinvestment Plan ("DRIP") and a Share Purchase Plan (collectively, with the DRIP, the "Plans") that are available to its shareholders. The Plans allow participants to have their monthly cash dividends reinvested in additional common shares of the Corporation ("Shares") and grant participants the right to purchase additional Shares. Shareholders who wish to enroll or who would like further information about the Plans should contact Investor Relations at (416) 635-0221.

Additional information on the Corporation, its Plans, and its investment portfolio is available on the Corporation's web site at www.firmcapital.com. Additional information about the Corporation, including its Annual Information Form ("AIF"), can be found on the SEDAR website at www.sedar.com.

BASIS OF PRESENTATION

The Corporation has adopted International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, as its basis of financial reporting. The Corporation's functional and reporting currency is the Canadian dollar.

The following discussion is dated as of August 7, 2018 and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Corporation and the notes thereto for the three and six months ended June 30, 2018 and 2017, the audited financial statements of the Corporation and the notes thereto for the years ended December 31, 2017 and 2016, as well as Management's Discussion and Analysis, including the section on "Risks and Uncertainties", along with each of the quarterly reports for 2018 and 2017.

HIGHLIGHTS

PROFIT

Profit for the three months ended June 30, 2018 increased by approximately 9% to $6,286,873 as compared to $5,768,234 for the same period in the prior year. Profit for the six months ended June 30, 2018 was $12,722,319 which is largely in line with the $12,794,950 reported for the six months ended June 30, 2017. Profit for the six months ended June 30, 2017, included the recognition of a one time special income on one of the Corporation's non-conventional investments in the amount of $2,737,500. Total special income (other income) that occurred during the six months ended June 30, 2017 was $2,951,079 compared to $180,945 for the six months ended June 30, 2018.

INTEREST AND FEES REVENUE

Interest and fees revenue for the three months ended June 30, 2018 increased by approximately 22% to $11,548,152 as compared to $9,500,162 reported for the same period in 2017. Interest and fees revenue for the six months ended June 30, 2018 increased by approximately 26% to $23,210,072 as compared to $18,365,150 for the six months ended June 30, 2017. The increase is primarily derived from the growth in the investment portfolio over the same comparable period in 2017 and from an increase in the weighted average portfolio interest rate.

INVESTMENT PORTFOLIO

The Corporation's investment portfolio (the "Investment Portfolio") as at June 30, 2018 was $560.4 million which is largely in line with the $561.5 million as at December 31, 2017 (gross of impairment provision). The allowance for credit loss as at June 30, 2018 was $4.8 million (December 31, 2017 – $5.7 million).

The Investment Portfolio as at June 30, 2018 increased by approximately 14% in comparison to the second quarter of 2017 which had an Investment Portfolio of $489.5 million (gross of impairment provision).

RETURN ON EQUITY

The Corporation continues to exceed its yield objective of producing a return on shareholders' equity in excess of 400 basis points over the average one year Government of Canada Treasury bill yield. Profit for the quarter ended June 30, 2018 represents an annualized return on shareholders' equity (based on the month end average shareholders' equity during the quarter) of 8.82%, representing return on shareholders' equity of 716 basis points per annum over the average one year Government of Canada Treasury bill yield of 1.66%.

COMPLETION OF A CONVERTIBLE DEBENTURE OFFERING

On June 21, 2018, the Corporation completed a public offering of 25,000 5.40% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $25,000,000. The debentures mature on June 30, 2025 and interest is paid semi-annually. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $15.00.

INVESTMENT PORTFOLIO

The Corporation's Investment Portfolio totaled $555,563,230 as at June 30, 2018 (net of an impairment allowance of $4,800,000) and was largely in line with the $555,801,977 (net of an impairment loss provision of $5,700,000) as at December 31, 2017. The June 30, 2018 Investment Portfolio is comprised of 228 investments (251 as at December 31, 2017). The average gross investment size (excluding impairment loss allowance) was approximately $2.5

million with 24 investments individually exceeding $7.5 million. As at June 30, 2018, 203 out of 228 investments that comprise the Investment Portfolio individually represent less than 1% of the total Investment Portfolio of the Corporation with 171 of the 228 investments being less than $2.5 million.

	June 30, 2018			December 31, 2017			
Mortgage Amount	**Number**	**Total Amount (before provision)**	**% of Portfolio**	**Number**	**Total Amount (before provision)**	**% of Portfolio**	***% Change***
$0 - $2,500,000	171	$ 138,699,681	24.8%	197	$ 169,511,967	30.2%	*(18.2%)*
$2,500,001 - $5,000,000	26	90,152,559	16.1%	27	96,807,234	17.2%	*(6.9%)*
$5,000,001 - $7,500,000	7	39,220,580	7.0%	10	48,217,047	8.6%	*(18.7%)*
$7,500,001 +	24	292,290,410	52.1%	17	246,965,728	44.0%	*18.4%*
	228	**$ 560,363,230**	**100.0%**	**251**	**$ 561,501,977**	**100.0%**	***(0.2%)***

Unadvanced committed funds under the existing Investment Portfolio amounted to $84,167,542, as at June 30, 2018 ($91,953,643 as at December 31, 2017).

The allocation of the Investment Portfolio between the five main investment categories (as well as the weighted average interest rate) is as follows:

	June 30, 2018			December 31, 2017			
Investment Categories	***W.A Interest Rate***	**Outstanding amount**	**% of Portfolio**	***W.A Interest Rate***	**Outstanding amount**	**% of Portfolio**	***% Change***
Conventional First Mortgages	*7.96%*	$ 419,010,985	74.8%	*7.78%*	$ 427,591,758	76.1%	*(2.0%)*
Conventional Non-First Mortgages	*8.37%*	47,672,173	8.5%	*9.05%*	57,187,248	10.2%	*(16.6%)*
Related Investments	*9.67%*	81,174,782	14.5%	*9.73%*	69,636,557	12.4%	*16.6%*
Discounted Debt Investments*	-	5,349,275	1.0%	-	5,392,900	1.0%	*(0.8%)*
Non-Conventional Mortgages	*10.32%*	7,156,014	1.2%	*11.11%*	1,693,514	0.3%	*322.6%*
Total Investments	***8.19%***	**$ 560,363,230**	**100.0%**	***8.09%***	**$ 561,501,977**	**100.0%**	***(0.2%)***
Less: Impairment Allowance		(4,800,000)			(5,700,000)		
Investment Portfolio		**$ 555,563,230**			**$ 555,801,977**		***(0.0%)***

** The yield on Discounted Debt Investments will be determined upon final repayment of the investments.*

The $1.1 million decrease in the Investment Portfolio (before the impairment allowance of $4.8 million at June 30, 2018 and $5.7 million at December 31, 2017) was mainly due to the decrease in the size of the conventional first and conventional non-first mortgages, offset by the increase in the related investment category and non-conventional mortgages.

Conventional first mortgages decreased by 2.0% and represented 74.8% of the Corporation's portfolio as at June 30, 2018 and 76.1% as at December 31, 2017. Conventional non-first mortgages decreased by 16.6% as a result of the repayment of several conventional first mortgages and represented 8.5% of the investment Portfolio at June 30, 2018 and 10.2% December 31, 2017. Related investments increased by 16.6% as the result of the advancing of additional funds under one existing related investment and represented 14.5% of the Corporation's Investment Portfolio in comparison to 12.4% at December 31, 2017. Discounted debt investments decreased by 0.8% and represented 1.0% at June 30, 2018 and December 31, 2017 of the Investment Portfolio. Non-conventional mortgages increased by 322.6% as a result of the funding of a non-conventional mortgage in the second quarter of 2018 (which was subsequently fully repaid in July 2018) and represented 1.2% of the Investment Portfolio at June 30, 2018 and 0.3% at December 31, 2017.

The impairment allowance is $4,800,000 as at June 30, 2018 (December 31, 2017 - $5,700,000), of which $4,230,000 represents the total amount of management's estimate of the shortfall between the investment balances and the estimated recoverable amount from the security under the specific loans in default. As at June 30, 2018, the Corporation carries a collective allowance balance of $570,000 (December 31, 2017 - $400,000). The allowance for accrued interest receivable on loans in default is $1,652,256. Further details are described in the section Impairment Allowance.

The weighted average face interest rate on the Corporation's Investment Portfolio was 8.19% per annum as at June 30, 2018 compared to 8.09% per annum as at December 31, 2017.
The allocation of the Investment Portfolio between its seven types of investments is as follows:

	June 30, 2018			December 31, 2017			
Property Type		**Total Amount** (before provision)	**% of Portfolio**	**Number**	**Total Amount** (before provision)	**% of Portfolio**	***% Change***
Construction Mortgages	94	$ 142,958,884	25.5%	98	$ 172,550,850	30.7%	*(17.1%)*
Single Family	47	38,192,103	6.8%	62	47,697,780	8.5%	*(19.9%)*
Land	57	190,862,568	34.1%	53	156,749,455	27.9%	*21.8%*
Condo *(Including multi unit condo loans)*	10	41,078,452	7.3%	12	51,686,674	9.2%	*(20.5%)*
Multi Family Residential Mortgages	3	48,642,642	8.7%	3	45,701,051	8.1%	*6.4%*
Related Investments	14	81,174,782	14.5%	13	69,636,557	12.4%	*16.6%*
Other	3	17,453,798	3.1%	10	17,479,611	3.2%	*(0.1%)*
	228	**$ 560,363,230**	**100.0%**	**251**	**$ 561,501,977**	**100.0%**	***(0.2%)***

The Corporation continues to focus its lending into core markets that can be monitored closely during evolving economic conditions. The Investment Portfolio has some geographic diversification with 8.9% of the investments in the portfolio secured by properties outside of Ontario, compared to 13.3% as at December 31, 2017.

	June 30, 2018			December 31, 2017			
Geographic Segment	**Number**	**Total Amount** (before provision)	**% of Portfolio**	**Number**	**Total Amount** (before provision)	**% of Portfolio**	***% Change***
Greater Toronto Area	170	$ 303,977,733	63.5%	186	$ 323,167,700	65.7%	*(5.9%)*
Non-GTA Ontario	34	132,264,154	27.6%	36	103,225,547	21.0%	*28.1%*
Quebec	4	16,004,418	3.3%	4	26,357,552	5.4%	*(39.3%)*
Alberta	2	4,000,000	0.8%	7	17,877,234	3.6%	*(77.6%)*
Saskatchewan	2	11,398,292	2.4%	2	12,975,036	2.6%	*(12.2%)*
New Brunswick	1	8,500,000	1.8%	1	4,250,000	0.9%	*100.0%*
British Columbia	0	-	0.0%	1	875,000	0.2%	*(100.0%)*
Manitoba	1	3,043,850	0.6%	1	3,137,350	0.6%	*(3.0%)*
Portfolio ***(excluding Related Investments)***	**214**	**$ 479,188,447**	**100.0%**	**238**	**$ 491,865,420**	**100.0%**	
Related Investments	14	81,174,782		13	69,636,557		
	228	**$ 560,363,230**		**251**	**$ 561,501,977**		

The allocation of the Investment Portfolio between investments underlying the security type, is as follows:

	June 30, 2018				December 31, 2017				
Underlying Security Type	**Number**		**Total Amount (before provision)**	**% of Portfolio**	**Number**	**Total Amount (before provision)**	**% of Portfolio**	**% Change**
Residential	200	$	412,033,200	73.5%	221	$ 435,895,456	77.6%	(5.5%)
Commercial	14		67,155,248	12.0%	17	55,969,964	10.0%	20.0%
Related Investments	14		81,174,782	14.5%	13	69,636,557	12.4%	16.6%
	228	**$**	**560,363,230**	**100.0%**	**251**	**$ 561,501,977**	**100.0%**	**(0.2%)**

The residential category includes mortgages on single family dwellings, residential condominiums, residential land, residential construction, and multifamily residential.

The Corporation's strategy is to mitigate loan loss risk by focusing on those areas of mortgage lending that have historically withstood market corrections and retained their underlying real estate asset value while limiting its exposure to those real estate asset classes that do not.

The weighted average loan to value ratio on conventional mortgages (being the combined conventional first and conventional non-first mortgages) is approximately 60% based on the appraisals obtained at the time of funding each mortgage loan.

Included in related investments are two United States ("US") dollar denominated investments of $6,469,438 (US$4,913,000) (December 31, 2017 – $5,958,875 (US$4,750,000)). These investments are a participation by the Corporation in limited partnerships that have provided preferred equity to real estate entities in the US. Income recorded on this investment during the six months ended June 30, 2018 was $343,451 (US$268,000) (2017 – $nil) and are included in interest and fees income.

The Investment Portfolio as at June 30, 2018 had two investments with balances totaling $15,707,079 (December 31, 2017 – two investments with balances totaling $2,361,437) with contractual interest arrears greater than 60 days past due amounting to $326,660. Management has determined there to be no impairment requiring an allowance (December 31, 2017 – $35,188).

The Investment Portfolio as at June 30, 2018 includes six investments totaling $27,380,328 (December 31, 2017 – six investments of $28,901,947) with maturity dates that are past due and for which no extension or renewal was in place. As at June 30, 2018, three of the investments totaling $11,397,185 (December 31, 2017 – three investments of $12,918,805) have an allowance against them included in the Corporation's impairment allowance, and the remaining three investments, totaling $15,983,142 (December 31, 2017 – three investments of $15,983,142) are considered not to require an allowance.

As at June 30, 2018, the Investment Portfolio continued to be heavily concentrated in short-term investments with 57.1% of the portfolio maturing by December 31, 2018 and 88.4% maturing on or before December 31, 2019. The short-term nature of the portfolio provides the Corporation with the ability to continually revolve the portfolio and adapt to changes in the real estate market.

Principal repayments based on contractual maturity dates are as follows:

	June 30, 2018		
	Number	Total Amount (before provision)	% of Portfolio
Balance of 2018	114	$ 319,690,754	57.0%
2019	99	175,279,676	31.3%
2020	13	62,628,162	11.2%
2021	2	2,764,638	0.5%
	228	**$ 560,363,230**	**100.0%**

A significant number of the Corporation's investments are shared with other syndicate partners including several members of the Board of Directors and senior management of the Mortgage Banker and/or officers and directors of the Corporation. The Corporation ranks equally with other members of the syndicate as to receipt of principal, interest, and fees. As at June 30, 2018, 206 of the Corporation's 228 investments (investment amount of $548,740,611) are shared with other participants, and for 47 of which (investment amount of $202,552,431) the Corporation is a participant for less than 50 percent of the loan amount.

The Board of Directors and senior management co-invested approximately $90 million with the Corporation as at June 30, 2018.

The Mortgage Banker services the entire investment in which the Corporation is a participant, on behalf of all participants and except for the case of investments with a first priority syndicate participant, the Corporation ranks equally with other members of the syndicate as to receipt of principal, interest, and fees.

RESULTS OF OPERATIONS

INTEREST AND FEES

For the three months ended June 30, 2018, interest and fees earned increased by 21.1% to $11,644,341 compared to $9,615,856 for the three months ended June 30, 2017. For the six months ended June 30, 2018, interest and fees earned increased by 9.7% to $23,391,017 compared to $21,316,229 for the six months ended June 30, 2017. Interest and fees earned for the three and six months ended June 30, 2018 and June 30, 2017 are broken down as follows:

Three Months Ended	June 30, 2018	%	June 30, 2017	%	% Change
Interest	$ 11,028,485	94.7%	$ 9,036,800	94.0%	22.0%
Commitment & Renewal Fees	519,667	4.5%	463,362	4.8%	12.2%
Other Income	96,189	0.8%	115,694	1.2%	(16.9%)
	$ 11,644,341	**100%**	**$ 9,615,856**	**100%**	**21.1%**

Six Months Ended	June 30, 2018	%	June 30, 2017	%	% Change
Interest	$ 22,174,481	94.8%	$ 17,576,351	82.5%	26.2%
Commitment & Renewal Fees	1,035,591	4.4%	788,800	3.7%	31.3%
Other Income	180,945	0.8%	2,951,078	13.8%	(93.9%)
	$ 23,391,017	**100%**	**$ 21,316,229**	**100%**	**9.7%**

For the three months ended June 30, 2018 interest income was $11,028,485, an increase of 22.0% from $9,036,800 as reported for the same three month period in 2017. For the six months ended June 30, 2018 interest income was $22,174,481, an increase of 26.2% from $17,576,351 as reported for the same six month period in 2017. The increase in interest income is a result of the Corporation holding a larger Investment Portfolio and an increase in the weighted average interest rate earned on the Investment Portfolio over the comparable six month period in 2017. For the three months ended June 30, 2018 and June 30, 2017, interest income represents 94.7% and 94.0% of the Corporation's revenues, respectively. For the six months ended June 30, 2018 and June 30, 2017, interest income represents 94.8% and 82.5% of the Corporation's revenues, respectively.

For the three months ended June 30, 2018, fee income relating to commitment and renewal fees was $519,667, an increase of 12.2% from $463,362 as reported for the same three month period in the prior comparable period. For the six months ended June 30, 2018, fee income relating to commitment and renewal fees was $1,035,591, an increase of 31.3% from $788,800 as reported for the same six month period in the prior comparable period. As at June 30, 2018, the Corporation had deferred commitment fee revenue of $785,111 (December 31, 2017 – $910,822). The Corporation's policy is to recognize commitment fees over the term of the related loan. The unrecognized component of the fees is recorded as deferred revenue on the Corporation's balance sheet. These fees have been received and are not refundable to borrowers.

For the three and six months ended June 30, 2018, other income was $96,189 and $180,945 (June 30, 2017 – $115,694 and $2,951,078), respectively. Other income relates to certain fees and interest generated from a number of the Corporation's non-conventional mortgages and the timing of earning of such income is not necessarily consistent in each period. The timing of the recognition and collection of other income is difficult to predict and the collection of a particular amount is not a reflection of the future collection of such income. Non-conventional mortgage investments can attract higher loss risk due to their subordinate ranking to other mortgage charges and/or high loan to value ratio. Consequently, this higher risk is compensated for by a higher rate of return. The Corporation remains very selective in cautiously sourcing high yielding, non-conventional mortgages that meet the Corporation's investment criteria. Other income earned in the first quarter of 2017 was unusually high as a result of the recognition of $2,737,500 of special income earned on one of the Corporation's non-conventional investments.

CORPORATION MANAGER SPREAD INTEREST ALLOCATION

The Corporation Manager, through an interest spread arrangement, received $973,316 and $1,974,351 for the three and six months ended June 30, 2018, respectively, compared to $874,950 and $1,704,490 for the three and six months ended June 30, 2017. The increase is generally due to the increase in the size of the Corporation's daily average Investment Portfolio over the comparable period.

INTEREST EXPENSE

For the three months ended June 30, 2018, interest expense increased by 22.5% to $3,681,698 as compared to $3,006,142 for the three months ended June 30, 2017. For the six months ended June 30, 2018, interest expense increased by 23.6% to $7,428,858 as compared to $6,010,181 for the six months ended June 30, 2017. Interest expense is higher in 2018 when compared to the same periods in the previous year generally as a result of the Corporation having larger bank indebtedness and loans payable outstanding in 2018 versus 2017 and due to an increase in the interest rate payable on the bank indebtedness relating from increase in the prime rate. The additional indebtedness that resulted in an increase in interest expense in 2018 allowed the Corporation to hold a larger Investment Portfolio, which generated additional interest income when compared to 2017. Interest expense is broken down as follows:

Three Months Ended		**June 30, 2018**	**%**		**June 30, 2017**	**%**	**% Change**
Bank Interest Expense	$	471,306	12.8%	$	347,536	11.6%	35.6%
Loan Payable Interest Expense		632,970	17.2%		-	0.0%	-
Debenture Interest Expense		2,577,422	70.0%		2,658,606	88.4%	(3.1%)
	$	**3,681,698**	**100%**	**$**	**3,006,142**	**100%**	**22.5%**

Six Months Ended		**June 30, 2018**	**%**		**June 30, 2017**	**%**	**% Change**
Bank Interest Expense	$	1,005,230	13.5%	$	715,856	11.9%	40.4%
Loan Payable Interest Expense		1,316,025	17.7%		-	0.0%	-
Debenture Interest Expense		5,107,603	68.8%		5,294,325	88.1%	(3.5%)
	$	**7,428,858**	**100%**	**$**	**6,010,181**	**100%**	**23.6%**

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

For the three months ended June 30, 2018, G&A expenses decreased by $34,317 to $246,287 compared to the $280,604 for the three months ended June 30, 2017. For the six months ended June 30, 2018, G&A expenses increased by $10,723 to $507,745 compared to the $497,022 for the six months ended June 30, 2017.

IMPAIRMENT ALLOWANCE ON INVESTMENT PORTFOLIO

An impairment allowance of $452,256 and $752,256 was recorded for the three and six months ended June 30, 2018, respectively, compared to $nil and $625,000 for the three and six months ended June 30, 2017. Further details are described in the section Impairment Allowance.

INCOME & PROFIT ("PROFIT")

Profit for the three months ended June 30, 2018 was reported at $6,286,873 as compared to $5,768,234 for the same period in the prior year which represents an increase of approximately 9.0%. Profit for the six months ended June 30, 2018 was reported at $12,722,319 which is largely in line with the $12,794,950 for the six months ended June 30, 2017.

Profit for the quarter ended June 30, 2018 represented an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 8.82%. This return on shareholders' equity represents 716 basis points per annum over the average one-year Government of Canada Treasury bill yield of 1.66% and is well in excess of the Corporation's stated target yield objective of 400 basis points per annum over the average one year Government of Canada Treasury bill yield. The above return on shareholders' equity is a non-IFRS financial measure and does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. This non-IFRS measure provides useful information to the Corporation's shareholders as it provides a measure of return generated on the Corporation's equity base.

TOTAL COMPREHENSIVE INCOME

As discussed further in the Marketable Securities and Debenture Portfolio Investment sections later herein, the Corporation has invested in units of publicly traded real estate investment trusts and debentures of publicly traded real estate investment trusts. The Corporation classifies these financial assets as available for sale and as such records the investments' carrying values at fair value. Upon the adoption of IFRS 9 on January 1, 2018, the changes in the fair value of the marketable securities and the debenture portfolio are reflected in fair value through profit and loss (FVTPL).

The realized gains on disposal of marketable securities and debenture investments reclassified to income for the quarter ended June 30, 2018 were $nil compared to $314,074 for the quarter ended June 30, 2017. The realized gains on disposal of marketable securities and debenture investments reclassified to income for the six months ended June 30, 2018 were $nil compared to $315,414 for the six months ended June 30, 2017.

PROFIT PER SHARE

Basic weighted average profit per share for the three months ended June 30, 2018, was $0.241, which is 1.3% greater than the $0.238 per share reported for the three months ended June 30, 2017. Basic weighted average profit per share for the six months ended June 30, 2018, was $0.488, which is 10.6% lower than the $0.549 per share reported for the six months ended June 30, 2017. Profit for the six months ended June 30, 2017, included the recognition of a one time special income on one of the Corporation's non-conventional investments in the amount of $2,737,500. Total special income (other income) that occurred during the six months ended June 30, 2017 was $2,951,079 compared to $180,945 for the six months ended June 30, 2018.

Diluted weighted average profit per share for the three months ended June 30, 2018, was $0.237, which is 1.3% greater than the $0.234 per share reported for the three months ended June 30, 2017. Diluted weighted average profit per share for the six months ended June 30, 2018, was $0.477, which is 7.9% lower than the $0.518 per share reported for the six months ended June 30, 2017.

($ in millions except per unit amounts)	Jun. 30 2018	Mar. 31 2018	Dec. 31 2017	Sep. 30 2017	Jun. 30 2017	Mar. 31 2017	Dec. 31 2016	Sep. 30 2016
Operating revenue	$ 11.64	$ 11.74	$ 11.33	$ 10.92	$ 9.93	$ 11.70	$ 9.33	$ 8.99
Interest expense	3.68	3.75	3.60	3.63	3.01	3.00	2.67	2.59
Corporation manager spread interest allocation	0.97	1.00	0.99	0.94	0.87	0.83	0.83	0.78
General & administrative expenses	0.25	0.26	0.24	0.22	0.28	0.22	0.23	0.21
Impairment loss on investment portfolio	0.45	0.30	0.39	0.23	-	0.63	0.23	-
Profit	**$ 6.29**	**$ 6.43**	**$ 6.11**	**$ 5.90**	**$ 5.77**	**$ 7.02**	**$ 5.37**	**$ 5.41**
Profit per share								
- Basic	**$0.241**	**$0.247**	**$0.235**	**$0.241**	**$0.238**	**$0.311**	**$0.239**	**$0.241**
- Diluted	**$0.237**	**$0.241**	**$0.232**	**$0.237**	**$0.234**	**$0.284**	**$0.234**	**$0.236**
Dividends per share	**$0.234**	**$0.234**	**$0.304**	**$0.234**	**$0.234**	**$0.234**	**$0.264**	**$0.234**

Note:

Fourth quarter dividends include one-time payout of accumulated excess earnings throughout the year

DIVIDENDS

For the three and six months ended June 30, 2018, the Corporation declared dividends totaling $6,108,062 and $12,214,800, respectively, or $0.234 and $0.468 per share versus $5,675,617 and $11,074,012 or $0.234 and $0.468 per share for the three months and six months ended June 30, 2017. The number of shares outstanding at June 30, 2018 was 26,112,969, compared to 24,281,631 at June 30, 2017.

Six Months Ended	June 30, 2018	June 30, 2017	Change
Cash Flow From Operating Activities (net of interest expense)	$ 13,368,363	$ 11,374,611	**18%**
Profit	$ 12,722,319	$ 12,794,950	**(1%)**
Declared Dividends	$ 12,214,800	$ 11,074,012	**10%**
Excess Cash Flow From Operating Activities Over Declared Dividends	$ 1,153,563	$ 300,599	
Excess Profit Over Declared Dividends	$ 507,519	$ 1,720,938	

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses totaled $4,199,044 as at June 30, 2018 (comprised of interest receivable of $3,848,590 (being gross interest receivable of $5,500,846 less an allowance for uncollectable interest of $1,652,256), prepaid expenses of $166,991, fees receivable of $154,524, and other income receivable of $28,939), compared to $5,226,204 as at December 31, 2017. During the second quarter of 2018, the allowance pertaining to the interest receivable was reallocated from the Investment Portfolio to amounts receivable. The allowance for accrued interest receivable on loans in default is $1,652,256 (December 31, 2017 - $1,280,866).

MARKETABLE SECURITIES

The Corporation holds publicly traded units of one Canadian real estate investment trust. The units were acquired through the exercise of warrants that were granted by the issuers as part of a loan facility in which the Corporation was a participant. The units generate distributions that are consistent with the Corporation's overall yield objective. The $214,316 balance reported on the Corporation's balance sheet as at June 30, 2018 represents the fair value of the marketable securities comprising the portfolio (December 31, 2017 – $210,194). The Corporation's purchase price for the units was $175,025. The approximate average interest yield on the cost of these investments is 10.00% per annum.

BANK INDEBTEDNESS

As at June 30, 2018 and December 31, 2017, bank indebtedness was $44,725,930 and $60,268,468, respectively. The change in bank indebtedness was mainly derived from repayment of Banker's Acceptance borrowings and a draw on the short-term credit facility.

LOANS PAYABLE

As at June 30, 2018, the Corporation had loans payable of $42,297,693 (December 31, 2017 – $51,662,949). First priority charges on specific mortgage investments are granted as security for the loans payable. The loans mature on dates consistent with those of the underlying mortgages.

The loans are on a non-recourse basis and bear interest at their contractual rates. The Corporation's principal balance outstanding under the mortgages for which a priority charge has been granted was $56,025,032 at June 30, 2018 (December 31, 2017 – $67,694,104).

CONVERTIBLE DEBENTURES

As at June 30, 2018, the Corporation has eight series of convertible debentures outstanding, as outlined below:

Ticker Symbol	Coupon	Issue Date	Maturity Date	Current Principal	Strike Price Per Share	Carrying Value
FC.DB.B	5.40%	Aug. 23, 2011	Feb. 28, 2019	$ 25,738,000	$ 14.35	$ 25,580,839
FC.DB.C	5.25%	Mar. 31, 2012	Mar. 31, 2019	20,485,000	14.80	20,296,264
FC.DB.D	4.75%	Mar. 28, 2013	Mar. 31, 2020	20,000,000	15.80	19,624,066
FC.DB.E	5.30%	Apr. 17, 2015	May. 31, 2022	25,000,000	13.95	24,232,348
FC.DB.F	5.50%	Dec. 22, 2015	Dec. 31, 2022	23,000,000	14.00	21,996,338
FC.DB.G	5.20%	Dec. 21, 2016	Dec. 31, 2023	22,500,000	15.25	21,337,049
FC.DB.H	5.30%	Jun. 27, 2017	Aug. 31, 2024	26,500,000	15.25	25,173,032
FC.DB.I	5.40%	Jun. 21, 2018	Jun. 30, 2025	25,000,000	15.00	23,495,406
Total / Average	**5.28%**			**$ 188,223,000**		**$ 181,735,342**

As at June 30, 2018, the principal balance for the outstanding convertible debentures was $188,223,000. The recorded convertible debenture carrying value as at June 30, 2018 was $181,735,342, compared to $157,464,904 as at December 31, 2017. The weighted average effective interest rate is 5.28% per annum (5.26% as at December 31, 2017).

On June 21, 2018, the Corporation closed a $25,000,000 aggregate principal amount of 5.40% convertible unsecured subordinated debentures due June 30, 2025. These debentures bear interest at a rate of 5.40% per annum, payable semi-annually in arrears on the day of June and December each year commencing on December 31, 2018. The debentures mature on June 30, 2025 and are convertible at the holder's option into common shares of the Corporation at a conversion price of $15.00.

OTHER LIABILITIES

Other liabilities for the Corporation include the following:

Additional Liabilities	June 30, 2018	December 31, 2017	% Change
Accounts Payable and Accrued Liabilities	$ 2,507,571	$ 2,649,558	(5%)
Deferred Revenue	1,168,846	1,294,556	(10%)
Shareholders' Dividend Payable	2,036,812	3,857,518	(47%)
Total	**$ 5,713,229**	**$ 7,801,632**	**(27%)**

Accounts payable and accrued liabilities decreased by 5% to $2,507,571 as at June 30, 2018, compared to $2,649,558 as at December 31, 2017. Accounts payable and accrued liabilities include interest payable of $1,789,701 and accrued liabilities of $717,870.

Deferred revenue is comprised of commitment fees generated on the Corporation's mortgage investments and interest income received in advance. As at June 30, 2018, the portion related to commitment fees was $785,111 (December 31, 2017 – $910,821) and the portion related to interest income was $383,735 (December 31, 2017 – $383,735). The Corporation's policy is to recognize commitment fees over the term of the related loan. The unrecognized component of the fees is recorded as deferred revenue on the Corporation's balance sheet.

SHAREHOLDERS' EQUITY

Shareholders' equity at June 30, 2018 totaled $285,504,396 compared to $284,040,422 as at December 31, 2017. The Corporation had 26,112,969 shares issued and outstanding as at June 30, 2018 compared to 26,064,310 as at December 31, 2017. The increase in shares is attributable to shares issued as part of the At-The-Market ("ATM") share issue program and shares issued under the dividend reinvestment plan and stock option plan.

IMPAIRMENT ALLOWANCE

Investments consist of participation in mortgage loans and real estate related debt investments. Such investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the investments are measured at amortized cost using the effective interest method, less any impairment allowance. The Company assesses individually significant investments at each reporting date to determine whether there is objective evidence of impairment. An impairment allowance in respect of the investments measured at amortized cost is calculated as the difference between its carrying amount and the amount of the future cash flows estimated to be recovered on the loan security. Estimates and assumptions are made as to the gross sale proceeds that would be generated on the forced sale of the real property securing the related mortgage loan and reflect estimates of the current local market conditions. Estimates are made as to the costs of enforcing under the mortgage loan and of realizing on the real property. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment allowance. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Changes in the allowance are recognized in the statement of income and reflected in an impairment allowance against the investments. Interest on the impaired asset continues to be recognized to the extent it is deemed to be collectible.

The Investment Portfolio is stated at amortized cost. The impairment allowance in the amount of $4,800,000 as at June 30, 2018 (December 31, 2017 - $5,700,000), of which $4,230,000 represents the total amount of management's estimate of the shortfall between the investment balances and the estimated recoverable amount from the security under the specific loans.

The Corporation also assessed collectively for impairment to identify potential future losses, by grouping the Investment Portfolio with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Corporation used judgement to determine the amounts calculated. As at June 30, 2018, the Corporation carries an IFRS 9 provision balance of $570,000. As at December 31, 2017, there was a collective provision of $400,000.

During the second quarter of 2018, the allowance pertaining to the interest receivable was reallocated from the Investment Portfolio to amounts receivable. The allowance for accrued interest receivable on loans in default is $1,652,256 (December 31, 2017 - $1,280,866).
The allowance for credit loss is as follows:

	June 30, 2018	December 31, 2017
Conventional First Mortgages	$ 2,550,000	$ 3,620,866
Conventional Non-First Mortgages	-	-
Related Investments	-	-
Discounted Debt Investments	1,180,000	1,180,000
Non-Conventional Mortgages	500,000	499,134
Total Specific Provision	**$ 4,230,000**	**5,300,000**
Collective Provision	-	400,000
IFRS 9 Provision	570,000	-
Total Provision	**$ 4,800,000**	**5,700,000**

When a subsequent event causes the amount of impairment allowance to decrease, the decrease in impairment allowance is reversed through income or profit.

	As at June 30, 2018			
The changes to the allowance	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at January 1, 2018	$ 400,000	$ -	$ 5,300,000	$ 5,700,000
Allowance for credit losses	170,000	-	582,256	752,256
Allocation to interest receivable	-	-	(1,652,256)	(1,652,256)
Transfer to (from):				-
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Balance at June 30, 2018	**$ 570,000**	**$ -**	**$ 4,230,000**	**$ 4,800,000**

The Investment Portfolio is stated at amortized cost. The impairment allowance is $4,800,000 as at June 30, 2018, of which $4,230,000 represents the total amount of management's estimate of the shortfall between the investment balances and the estimated recoverable amount from the security under the specific loans in default. The Corporation also assessed collectively for impairment to identify potential future losses, by grouping the Investment Portfolio with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Corporation used judgement to determine the amounts calculated. As at June 30, 2018, the Corporation carries a collective allowance of $570,000. The allowance for accrued interest receivable on loans in default is $1,652,256.

RELATED PARTY TRANSACTIONS

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties and are measured at fair value.

The Corporation's Manager (a company related to officers and/or directors of the Corporation) receives an allocation of interest, referred to as the Corporation Manager spread interest, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the three months ended June 30, 2018, this amount was $973,316 (June 30, 2017 - $874,950). For the six months ended June 30, 2018, this amount was $1,974,351 (2017 - $1,704,490). Included in accounts payable and accrued liabilities at June 30, 2018 are amounts payable to the Corporation's Manager of $323,560 (December 31, 2017 - $341,367).

For the three months ended June 30, 2018, the total directors' fees expensed were $71,000 (2017 - $66,333). For the six months ended June 30, 2018, the total directors' fee expensed were $142,000 (2017 - $130,333). Key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The Directors held 481,834 shares in the Corporation as at June 30, 2018 (December 31, 2017 - 481,768).

For the three months ended June 30, 2018, no options were issued under the incentive option plan (2017 – $nil).

The Mortgage Banker (a company related to officers and/or directors of the Corporation) receives certain fees from the borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all of the commitment and renewal fees generated from the Corporation's investments; and 25% of all of the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income of the Corporation is net of the loan servicing fees paid to the Mortgage Banker of approximately $263,000 for the six months ended June 30, 2018 (2017 - $227,000) and approximately $130,000 for the three months ended June 30, 2018 (2017 - $117,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments.

The Corporation Management Agreement and Mortgage Banking Agreement contain provisions for the payment of termination fees to the Corporation Manager and Mortgage Banker in the event that the respective agreements are either terminated or not renewed.

A significant number of the Corporation's investments are shared with other investors of the Mortgage Banker, which may include members of management of the Mortgage Banker and/or officers or directors of the Corporation. The Corporation ranks equally with other members of the syndicate as to receipt of principal and income.

During the first quarter of 2018, the two mortgage investments totaling $1,400,000 (December 31, 2017- two mortgage investments totaling $1,400,000) that were issued to a borrower controlled by an independent director of the Corporation were fully repaid.

The Corporation holds a mortgage investment totaling $5,148,000 at June 30, 2018 (classified as discounted debt investment) that originated from the purchase of a mortgage loan from a Schedule 1 bank at a discount to its original principal balance (December 31, 2017 - $4,985,500). The Corporation's investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure that occurred after the purchase of the underlying Schedule 1 bank mortgage. The Corporation is a pari passu participant in the mortgage, having the same rights as all other participants in the loan. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation, and for this reason, the borrower is classified as a related party. For the three and six months ended June 30, 2018, the Corporation recognized interest and fees earned of $nil (June 30, 2017 - $nil) from this investment. The impairment provision recorded on this loan was $1,180,000 as at June 30, 2018 (December 31, 2017 - $1,180,000). Recoveries under the investment resulting from the sale of the secured real estate will be treated the same as for all non-conventional mortgage investments held by the Corporation.

Aggregate compensation paid to key management personnel (including payments to related parties for their recovery of overhead costs), all consisting of short-term employee compensation, was $549,934 for the three months ended June 30, 2018 (2017 - $513,054) and for the six months ended June 30, 2018 $1,102,383 (2017 - $1,011,454). All of this compensation was paid by the Corporation's Manager and not by the Corporation.

Related party transactions are further discussed and detailed in the Corporation's AIF and in Note 13 of the accompanying financial statements.

INCOME TAXES

The Corporation qualifies as a mortgage investment corporation within the meaning of the Income Tax Act (Canada). As such, the Corporation is entitled to deduct from its taxable income dividends paid to shareholders during the year or within the first 90 days of the following taxation year. In order to maintain its status as a mortgage investment corporation, the Corporation must continually meet all criteria enumerated in the relevant section of the Income Tax Act (Canada) throughout such taxation year. The Corporation intends to maintain its status as a mortgage investment corporation and intends to distribute sufficient dividends in the year and in future years to ensure that the Corporation has no tax payable under the Income Tax Act (Canada). Accordingly, for financial statement reporting purposes, the tax deductibility of the Corporation's dividends results in the Corporation being effectively exempt from taxation and no provision for current or deferred income taxes is required.

CRITICAL ACCOUNTING ESTIMATES

The determination of the impairment provision for the Investment Portfolio is a critical accounting estimate.

The Investment Portfolio is classified as loans and receivables. Such investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage loans are measured at amortized cost using the effective interest method, less any impairment losses. The investments are assessed at each reporting date to determine an impairment provision. Losses are recognized in the statement of income and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or profit. Management is required to consider the estimated future cash flow recovery from the collateral securing the mortgage investments. The estimation of cash flow recovery is performed on an individual mortgage basis and is based on assumptions pertinent to each mortgage investment. Each mortgage analysis often has unique factors that are considered in determining the cash flow and realizable value of the underlying security. The estimates are based on historical experience and other assumptions that management believes are responsible and appropriate in the circumstances. Actual results may differ from these estimates.

In addition to those estimates, assumptions and judgements listed in the consolidated financial statements for the year ended December 31, 2017, the Corporation has identified new judgement areas as a result of the adoption of IFRS 9 as follows:

CLASSIFICATION & MEASUREMENT OF FINANCIAL ASSETS

Mortgage investments and other loans are classified based on the business model for managing assets and the contractual cash flow characteristics of the asset. The Corporation exercises judgment in determining both the business model for managing the assets and whether cash flows comprise solely of principal and interest.

MEASUREMENT OF EXPECTED CREDIT LOSS

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination.

The determination of a significant increase in credit risk takes into account different factors and varies by nature of investment. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due as well as other criteria, such as watch list status and changes in weighted probability of default since origination.

The assessment of significant increase in credit risk requires experienced credit judgment. In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, the Corporation must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic inputs, such as house price indices.

FINANCIAL INSTRUMENTS

The fair values of amounts receivable and prepaid expenses, bank indebtedness, accounts payable and accrued liabilities, and shareholder dividends payable approximate their carrying values due to their short-term maturities.

The fair value of the Investment Portfolio approximates its carrying value as the majority of the loans are fully open for repayment at any time without penalty and have floating interest rates. There is no quoted price in an active market for the mortgage and loan investments or mortgage syndication liabilities. Management makes its determinations of fair value based on its assessment of the current lending market for mortgage and loan investments of same or similar terms. As a result, the fair value of mortgage and loan investments is based on Level 3 on the fair value hierarchy.

The fair values of loans payable approximate their carrying values due to the fact that the majority of the loans are: (i) repayable in full, at any time, upon the repayment of the underlying loan that secures the loan payable, and (ii) have floating interest rates linked to bank prime.

The fair value of convertible debentures, including their conversion option, has been determined based on the closing price of the debentures of the Corporation on the Toronto Stock Exchange for the respective date.
The fair value of the debenture portfolio investment has been determined based on the closing price of convertible debenture securities of the respective listed entities on the Toronto Stock Exchange for the respective date.

The fair value of marketable securities has been determined based on the closing price of the security of the respective listed entities on the Toronto Stock Exchange for the respective date.

The fair value of loans on the debenture portfolio approximates its carrying value due to the fact that it is fully open for repayment and has a floating rate of interest.

The tables in note 16 of the financial statements present the fair values of the Corporation's financial instruments as at June 30, 2018 and December 31, 2017. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

CONTRACTUAL OBLIGATIONS

Contractual obligations as at June 30, 2018 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 7 years
Bank indebtedness	$ 44,725,930	$ 44,725,930	$ -	$ -
Accounts payable and accrued liabilities	2,507,571	2,507,571	-	-
Shareholder dividends payable	2,036,812	2,036,812	-	-
Loans payable	42,297,693	36,429,310	5,868,383	-
Convertible debentures	188,223,000	46,223,000	20,000,000	122,000,000
Subtotal - Liabilities	$279,791,006	$131,922,623	$ 25,868,383	$122,000,000
Future advances under portfolio	84,167,542	84,167,542	-	-
Liabilities and contractual obligations	$363,958,548	$216,090,165	$ 25,868,383	$122,000,000

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are described in note 3 of the Corporation's financial statements for the three months ended June 30, 2018 and year ended December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

As a result of the Corporation's intent to qualify as a mortgage investment corporation, the Corporation intends to distribute no less than 100% of the taxable income of the Corporation, determined in accordance with the Income Tax Act (Canada), to its shareholders. The result is that growth in the Investment Portfolio can only be achieved through the raising of additional equity, issuing debt, and utilizing available borrowing capacity. As at June 30, 2018, the Corporation had not utilized its full leverage availability, being a maximum of 50% of its first mortgage investments. Unadvanced committed funds under the existing Investment Portfolio amounted to $84,167,542 as at June 30, 2018 (December 31, 2017 - $91,953,643). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments under the Investment Portfolio. The Corporation has a revolving line of credit with its principal banker to fund the timing differences between mortgage advances and mortgage repayments. There are limitations in the availability of funds under the revolving line of credit, which is made up of a committed component and a demand component. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing investments and funding commitments.

RISKS AND UNCERTAINTIES

The Corporation follows investment guidelines and operating policies. The board of directors, in its discretion, may amend or approve investments that exceed these guidelines and policies as investments are made. These policies govern such matters as: (i) restricting exposure per mortgage investment; (ii) requirements for director approvals; and (iii) implementation of operational risk management policies.

The Corporation's directors take an active role in approving each and every investment the Corporation makes. During the six months ended June 30, 2018, 67 investment approvals were sent to the board of directors (2017 – 98). The Corporation shall not make an investment, which exceed $1 million, unless approved by no less than three of the Independent Directors.
The Corporation is faced with the following ongoing risk factors, among others, that would affect shareholders' equity and the Corporation's ability to generate returns. A greater discussion of risk factors that affect the Corporation are included in the AIF under the section "Risk Factors", which section is incorporated herein by reference.

- *Economic conditions that would result in a significant decline in real estate values and corresponding loan losses.*
- *Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The existence of such liability can have a negative impact on the value of the underlying real property securing a mortgage. The Corporation does not own the real property securing its Investment Portfolio and thus would not attract the environmental liability that an owner would be exposed to. In rare circumstances where a mortgage is in default, the Corporation may take possession of real property and may become liable for environmental issues as a mortgagee in possession. The Corporation obtains phase 1 environmental*

reports for mortgages where the Mortgage Banker determines that such reports would be prudent given the nature of the underlying property.

- *The inability to obtain borrowings and leverage, thus reducing yield enhancement.*
- *Dependence on the Corporation Manager and Mortgage Banker. The Corporation's earnings are impacted by the Mortgage Banker's ability to source and generate appropriate investments that provide sufficient yields while maintaining pre-determined risk parameters. The Corporation has also entered into long-term contracts with the Mortgage Banker and the Corporation Manager, as more particularly described in the AIF. The Corporation is exposed to adverse developments in the business and affairs of the Corporation Manager and Mortgage Banker, since the day to day activities of the Corporation are run by the Corporation Manager and since all of the Corporation's investments are originated by the Mortgage Banker.*
- *Portfolio face rate fluctuations. The interest rate earned on the Corporation's Investment Portfolio fluctuates given that (i) it continually revolves given that it is short term in nature; and (ii) the portfolio is predominately floating rate interest with floors.*
- *Interest rate risk. The Corporation's operating loan is floating rate and an increase in short term rates would increase the Corporation's cost of borrowing.*
- *No guaranteed return. There is no guarantee as to the return that an investment in Shares of the Corporation will earn.*
- *Qualification as a Mortgage Investment Corporation. Although the Corporation intends to qualify at all times as a mortgage investment corporation, no assurance can be provided in this regard. If for any reason the Corporation does not maintain its qualification as a mortgage investment corporation under the Tax Act, dividends paid by the Corporation on the Shares will cease to be deductible by the Corporation in computing its income and will no longer be deemed by the rules in the Tax Act that apply to mortgage investment corporations to have been received by shareholders as bond interest or a capital gain, as the case may be. In consequence, the rules in the Tax Act regarding the taxation of public corporations and their shareholders should apply, with the result that the combined corporate and shareholder tax may be significantly greater.*
- *Availability of investments. Our ability to make investments in accordance with our objectives and investment policies depends upon the availability of suitable investments and the general economy and marketplace. Increased competition in the lending market place in which the Corporation operates from chartered banks or other public or private lending entities may impact the availability of suitable investments and achievable investment yields for the Corporation.*
- *Limited sources of borrowing. The Canadian financial marketplace is characterized as having a limited number of financial institutions that provide credit to entities such as ours. The limited availability of sources of credit may limit our ability to obtain additional leverage, if required.*
- *Demand loan bank indebtedness. A significant component of the Corporation's bank indebtedness is in the form of a demand facility, repayment of which can be demanded by the bank at any time.*
- *Specific investment risk for non-conventional mortgage and second mortgage investments. Non-conventional and second mortgage investments attract higher loan loss risk due to their subordinate ranking to other mortgage charges and sometimes high loan to value ratio. Consequently, this higher risk is compensated for by a higher rate of return. In order to mitigate risk and maintain a well-diversified Investment Portfolio, the operating policies of the Corporation generally limit the amount of Conventional Non-First Mortgage investments to a maximum of 30% of the Corporation's capital, subject to the Board of Directors' approval for any modifications to the operating policies.*
- *Reliance on Borrowers. After the funding of an investment, we rely on borrowers to maintain adequate insurance and proper adherence to environmental regulations during the ongoing management of their properties.*
- *Credit Risk. The Investment Portfolio is exposed to credit risk. Credit risk is the risk that a counterparty to a financial investment will fail to fulfill its obligations or Commitment, resulting in a financial loss to the corporation.*
- *Change in Legislation. There can be no assurance that certain laws applicable to the Corporation, including Canadian federal and provincial tax legislation, commodity and sales tax legislation, tax*

proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation thereof, will not change in a manner that will adversely affect the Corporation or fundamentally alter the tax consequences to shareholders acquiring, holding or disposing of Shares.

- *Currency risk. Currency risk is the risk that the fair value or future cash flows of the Corporation's foreign currency-denominated investments and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates. Consequently, the Company is subject to currency fluctuations that may impact its financial position and results of operations. The Corporation manages its currency risk on its investments by borrowing the same amount as the investment in the same currency. As a result, a change in exchange rate of the Canadian dollar against the U.S. dollar will not change the net income and comprehensive income and equity. As a result, a change in exchange rate of the Canadian dollar against the U.S. dollar will not result in a material change to the net income and comprehensive income and equity.*

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures, and controls to ensure that the information used internally by management and disclosed externally is complete, reliable, and timely. In addition, the Corporation's Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Corporation, and have reviewed and approved this MD&A as well as the unaudited interim condensed consolidated financial statements as at June 30, 2018 and 2017.

CONTROLS AND PROCEDURES

The Corporation maintains appropriate information systems, procedures, and controls to ensure that information disclosed externally is complete, reliable, and timely. The Corporation's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operating effectiveness of the Corporation's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2017 and June 30, 2018 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

The Corporation has also established adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS for periods effective January 1, 2010. The Corporation's Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision of, the design and operating effectiveness of the Corporation's internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at June 30, 2018. Based on that assessment, it was determined that the Corporation's internal controls over financial reporting were appropriately designed and were operating effectively.

The Corporation did not make any changes to the design of the Corporation's internal controls over financial reporting period ended June 30, 2018 that would have materially affected, or would be reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

FORWARD LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2018 objectives and our strategies to achieve those objectives, as well as statements with respect to management's beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance, or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", or "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties, including those described below in this MD&A under Risks and Uncertainties, which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters, and shareholder liability. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include the assumption that there is not a significant decline in the value of the general real estate market; market interest rates remain relatively stable; the Corporation is generally able to sustain the size of its Investment Portfolio; adequate investment opportunities are presented to the Corporation; and adequate bank indebtedness are available to the Corporation. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

All forward-looking statements in this MD&A are qualified by these cautionary statements. Except as required by applicable law, the Corporation undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

OUTLOOK

The Corporation will continue to focus on the composition of the Corporation’s portfolio, with a focus on risk management and exit strategies. The Mortgage Banker is aware of the significant historical increase in real estate valuations in certain geographical and asset segments, particularly over the past twelve months and is factoring this into its mortgage underwriting and transaction structuring.

We continue to seek investments that provide both an adequate return as well as the required degree of safety for our shareholders. Since 1999, we have taken a long term outlook with a focus on preservation of equity and not on short term returns. Our focus is on participating in investments that meet our investment criteria, even if that results in a reduction in the size of the portfolio.

We expect there to be a continuation of significant repayment of the investments within the portfolio and anticipate there could be a decrease in the Corporation’s Investment Portfolio if these repayments exceed new investments. The impact of this can be mitigated with higher interest rates on new investments, taking larger portions of investments and investing in additional single family residential mortgages.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Interim Condensed Consolidated Balance Sheets

(in Canadian dollars)

(Unaudited)

As at	June 30, 2018	December 31, 2017 (Audited)
Assets		
Amounts receivable and prepaid expenses (note 4)	$ 4,199,044	$ 5,226,204
Marketable securities (note 5)	214,316	210,194
Investment portfolio (note 6)	555,563,230	555,801,977
Total assets	$ 559,976,590	$ 561,238,375
Liabilities		
Bank indebtedness (note 7)	$ 44,725,930	$ 60,268,468
Accounts payable and accrued liabilities	2,507,571	2,649,558
Deferred revenue	1,168,846	1,294,556
Shareholders' dividends payable	2,036,812	3,857,518
Loans payable (note 8)	42,297,693	51,662,949
Convertible debentures (note 9)	181,735,342	157,464,904
Total liabilities	$ 274,472,194	$ 277,197,953
Shareholders' Equity		
Common shares (note 10)	$ 282,009,700	$ 281,377,245
Equity component of convertible debentures	3,104,000	2,780,000
Stock options (note 10)	93,556	93,556
Contributed surplus	76,276	76,276
Surplus / (Deficit)	220,864	(321,826)
Accumulated other comprehensive income	--	35,171
Total shareholders' equity	$ 285,504,396	$ 284,040,422
Commitments (note 6)		
Contingent liabilities (note 15)		
Total liabilities and shareholders' equity	$ 559,976,590	$ 561,238,375

See accompanying notes to interim condensed consolidated financial statements.

On behalf of the Directors:

"Eli Dadouch"	*"Jonathan Mair"*
ELI DADOUCH	JONATHAN MAIR
Director	Director

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Interim Condensed Consolidated Statements of Income

(in Canadian dollars)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues				
Interest and fees income	$ 11,548,152	$ 9,500,162	$ 23,210,072	$ 18,365,150
Other income	96,189	115,694	180,945	2,951,079
Realized gains on disposal of debenture portfolio investments (note 5)	--	239,278	--	240,618
Realized gains on disposal of marketable securities investments (note 5)	--	74,796	--	74,796
	11,644,341	9,929,930	23,391,017	21,631,643
Operating expenses				
Corporation manager spread interest allocation (note 13)	973,316	874,950	1,974,351	1,704,490
Interest expense (note 14)	3,681,698	3,006,142	7,428,858	6,010,181
General and administrative expenses	246,287	280,604	507,745	497,022
Unrealized foreign exchange gain	(977)	--	(977)	--
Realized foreign exchange loss	4,888	--	6,465	--
Impairment allowance on investment portfolio (notes 4 and 6)	452,256	--	752,256	625,000
	$ 5,357,468	$ 4,161,696	$ 10,668,698	$ 8,836,693
Income and profit for the period	$ 6,286,873	$ 5,768,234	$ 12,722,319	$ 12,794,950
Profit per share (note 11)				
Basic	$0.241	$0.238	$0.488	$0.546
Diluted	$0.237	$0.234	$0.477	$0.518

See accompanying notes to interim condensed consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Interim Condensed Consolidated Statements of Comprehensive Income

(in Canadian dollars)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Income and profit for the period	$ 6,286,873	$ 5,768,234	$ 12,722,319	$ 12,794,950
Other comprehensive income:				
Change in fair value of available for sale marketable securities and debenture investments (note 5)	--	33,439	--	127,828
Realized gains on disposal of marketable securities and debenture investments reclassified to income (note 5)	--	(314,074)	--	(315,414)
Total Comprehensive income for the period	$ 6,286,873	$ 5,487,599	$ 12,722,319	$ 12,607,364

See accompanying notes to interim condensed consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(in Canadian dollars)

(Unaudited)

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Surplus (Deficit)	Accumulated other comprehensive income	Shareholders' equity
Balance at December 31, 2017	$ 281,377,245	$ 2,780,000	$ 93,556	$ 76,276	($321,826)	$35,171	$ 284,040,422
Cumulative effect of adopting IFRS 9	-	-	-	-	35,171	(35,171)	-
Balance at January 1, 2018	$ 281,377,245	$ 2,780,000	$ 93,556	$ 76,276	($286,655)	-	$284,040,422
Issuance of shares	621,416	-	-	-	-	-	621,416
Offering costs	(10,437)	-	-	-	-	-	(10,437)
Proceeds from issuance of shares from dividend reinvestment	21,476	-	-	-	-	-	21,476
Equity component of debentures issued during the year (note 9)	-	324,000	-	-	-	-	324,000
Income and profit for the period	-	-	-	-	12,722,319	-	12,722,319
Dividends to shareholders	-	-	-	-	(12,214,800)	-	(12,214,800)
Balance at June 30, 2018	**$ 282,009,700**	**$ 3,104,000**	**$ 93,556**	**$ 76,276**	**$ 220,864**	**$ -**	**$ 285,504,396**
Shares issued and outstanding (note 10)	26,112,969						

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Surplus (Deficit)	Accumulated other comprehensive income (loss)	Shareholders' equity
Balance at January 1, 2017	$ 236,031,386	$ 2,800,000	$ 95,123	$ 1,924	($321,826)	$363,244	$ 238,969,851
Issuance of shares	23,025,300	-	-	-	-	-	23,025,300
Offering costs	(1,141,080)	-	-	-	-	-	(1,141,080)
Proceeds from issuance of shares from dividend reinvestment	653,838	-	-	-	-	-	653,838
Equity component of debentures issued during the year (note 9)	-	210,000	-	-	-	-	210,000
Exercise of stock options (note 10 (b))	1,306,377	-	453	-	-	-	1,306,830
Change in fair value of available for sale marketable securities and debenture investments (note 5)	-	-	-	-	-	127,828	127,828
Realized gains on disposal of marketable securities and debenture investments reclassified to income	-	-	-	-	-	(315,414)	(315,414)
Income and profit for the period	-	-	-	-	12,794,950	-	12,794,950
Dividends to shareholders	-	-	-	-	(11,074,012)	-	(11,074,012)
Balance at June 30, 2017	**$ 259,875,821**	**$ 3,010,000**	**$ 95,576**	**$ 1,924**	**1,399,112**	**175,658**	**264,558,091**
Shares issued and outstanding (note 10)	24,281,631						

See accompanying notes to interim condensed consolidated financial statements.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION
Interim Condensed Consolidated Statements of Cash Flows

(in Canadian dollars)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cash provided by (used in):				
Operating activities:				
Income and profit for the period	$ 6,286,873	$ 5,768,234	$ 12,722,319	$ 12,794,950
Adjustments for:				
Financing costs (net of implicit interest rate and deferred finance cost amortization)	3,286,218	2,609,390	6,648,151	5,223,532
Implicit interest rate in excess of coupon rate - convertible debentures (note 9)	104,574	101,821	206,658	202,029
Deferred finance cost amortization - convertible debentures (note 14)	290,907	294,930	574,050	584,619
Change in impairment allowance on investment portfolio	(1,200,000)	--	(900,000)	625,000
Change in allowance for credit losses (interest receivable)	1,652,256	--	1,652,256	--
Realized gains on disposal of debenture portfolio investments (note 5)	--	(239,278)	--	(240,618)
Realized gains on disposal of marketable securities investments (note 5)	--	(74,796)	--	(74,796)
Share-based compensation	--	11,030	--	11,030
Unrealized gain on marketable securities investments (note 5)	(3,664)	--	(4,122)	--
Net change in non-cash operating items:				
Accrued interest payable	(270,723)	554,188	9,996	16,024
Receivable and prepaid expenses	(201,813)	566,748	(625,096)	(2,484,662)
Accounts payable and accrued liabilities	268,065	(762,305)	(141,988)	(74,364)
Deferred revenue	32,387	51,257	(125,710)	15,399
Net cash flow from operating activities	$ 10,245,080	$ 8,881,219	20,016,514	$ 16,598,143
Financing activities:				
Issuance of shares in new offerings	196,125	--	621,416	23,025,300
Issuance of shares from dividend reinvestment	11,193	10,728	21,476	653,838
Exercise of stock options	--	1,236,900	--	1,295,800
Proceeds from convertible debentures issued (note 9)	25,000,000	26,500,000	25,000,000	26,500,000
Debenture offering costs (note 9)	(1,186,270)	(1,328,709)	(1,186,270)	(1,328,709)
Equity offering costs	(1,933)	--	(10,437)	(1,141,080)
Funding (repayment) of loans payable (net)	(5,910,235)	--	(9,365,256)	--
Repayment of loan on debenture portfolio	--	(1,065,723)	--	(1,295,184)
Cash interest paid (note 14)	(3,015,494)	(3,163,579)	(6,658,146)	(5,239,557)
Dividends to shareholders paid during the period (note 12)	(6,106,848)	(5,667,365)	(14,035,506)	(11,609,018)
Net cash flow from / (used in) financing activities	$ 8,986,538	$ 16,522,252	$ (5,612,723)	$ 30,861,390
Investing activities:				
Disposition of marketable securities	--	--	--	--
Disposition (acquisition) of debenture portfolio investments	--	2,055,161	--	2,221,366
Funding of investment portfolio	(90,726,830)	(89,618,406)	(133,208,062)	(147,929,590)
Discharging of investment portfolio	82,647,904	65,457,312	134,346,809	107,197,519
Net cash flow from / (used in) investing activities	$ (8,078,926)	$ (22,105,933)	$ 1,138,747	$ (38,510,705)
Net increase in cash flow for the period	11,152,692	3,297,538	$ 15,542,538	$ 8,948,828
Bank indebtedness, beginning of period	(55,878,622)	(39,785,322)	(60,268,468)	(45,436,612)
Bank indebtedness, end of period	$ (44,725,930)	$ (36,487,784)	$ (44,725,930)	$ (36,487,784)
Cash flows from operating activities include:				
Interest received	$ 10,680,513	$ 9,731,048	$ 21,388,828	$ 17,864,707

See accompanying notes to interim condensed consolidated financial statements.

1. Organization of Corporation:

Firm Capital Mortgage Investment Corporation (the "Corporation"), through its mortgage banker, Firm Capital Corporation, is a non-bank lender providing primarily residential and commercial short-term bridge and conventional real estate financing, including construction, mezzanine, and equity investments. The shares of the Corporation are listed on the Toronto Stock Exchange under the symbol "FC". The Corporation is a Canadian mortgage investment corporation and the registered office of the Corporation is 163 Cartwright Avenue, Toronto, Ontario, M6A 1V5. FC Treasury Management Inc. is the Corporation's manager (the "Corporation Manager"). The Corporation was incorporated pursuant to the laws of the Province of Ontario on October 22, 2010.

2. Basis of presentation:

The unaudited condensed interim consolidated financial statements of the Corporation have been prepared by management in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The preparation of these unaudited condensed interim consolidated financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). The accompanying unaudited condensed interim consolidated financial statements should be read in conjunction with the notes to the Corporation's audited consolidated financial statements for the year ended December 31, 2017, since they do not contain all disclosures required by IFRS for annual financial statements. These unaudited interim condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

These unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through comprehensive income or available for sale through other comprehensive income, which are measured at fair value. These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

These unaudited interim condensed consolidated financial statements were approved by the Board of Directors on August 7, 2018.

3. Significant accounting policies:

The significant accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the Corporation’s audited consolidated financial statements for the year ended December 31, 2017 as described in Note 3 of the Corporation’s consolidated financial statements, except for changes to the accounting for financial instruments resulting from the adoption of IFRS 9, Financial Instruments (IFRS 9). IFRS 9 has resulted in changes in accounting policies related to the classification and measurement and impairment of financial assets. The Corporation adopted IFRS 9 effective January 1, 2018, without restatement of comparative periods. Changes in accounting policies resulting from the adoption of IFRS 9 as of January 1, 2018 are described below:

Classification & Measurement of Financial Assets

Recognition and initial measurement

The Corporation on the date of origination or purchase recognizes loans, debt and equity securities, deposits and subordinated debentures at the fair value of consideration paid. Regular-way purchases and sales of financial assets are recognized on the settlement date. All other financial assets and liabilities are initially recognized on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The initial measurement of a financial asset or liability is at fair value plus transaction costs that are directly attributable to its purchase or issuance. For instruments measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss.

Financial assets include both debt and equity instruments.

Debt instruments

Debt instruments, including loans and debt securities, are classified into one of the following measurement categories:

(i) Amortized cost;
(ii) Fair value through other comprehensive income (FVOCI); or
(iii) Fair value through profit or loss (FVTPL) for trading related assets.

Classification of debt instruments is determined based on:

(i) The business model under which the asset is held; and
(ii) The contractual cash flow characteristics of the instrument.

Business model assessment

Business model assessment involves determining whether financial assets are managed in order to generate cash flows from collection of contractual cash flows. The Corporation takes into consideration the following factors:

(i) How the performance of assets in a portfolio is evaluated and reported;
(ii) The risks that affect the performance of assets held within a business model and how those risks are managed; and
(iii) Whether the assets held for trading purposes.

Cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments.

Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In performing this assessment, the Corporation takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement. If the Corporation identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments measured at amortized cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization is included in Interest income in the Consolidated Statement of Income.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (ACL) in the Interim Condensed Consolidated Balance Sheets.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive Income (OCI), unless the instrument is designated in a fair value hedge relationship.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Interim Condensed Consolidated Balance Sheets, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI with a corresponding charge to Provision for impairment allowance in the Consolidated Statement of Income. The accumulated allowance recognized in OCI is recycled to the Consolidated Statement of Income upon derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are solely payments of principal and interest. These instruments are measured at fair value in the Interim Condensed Consolidated Balance Sheets, with transaction costs recognized immediately in the Consolidated Statement of Income as part of Non-interest income. Realized and unrealized gains and losses are recognized as part of Non-interest income in the Consolidated Statement of Income.

Equity instruments

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase. For equity instruments measured at FVTPL, changes in fair value are recognized as part of other income in the Consolidated Statement of Income.

The Corporation can elect to classify non-trading equity instruments at FVOCI. This election will be used for certain equity investments for strategic or longer term investment purposes. The FVOCI election is made upon initial recognition on an instrument-by instrument basis and once made is irrevocable.

Impairment

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – Where there has not been a significant increase in credit risk (SIR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SIR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Measurement of expected credit loss

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Macroeconomic factors

In its models, the Corporation relies on forward looking information as economic inputs, such as house price indices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement.

Assessment of significant increase in credit risk (SIR)

At each reporting date, the Corporation assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macro- economic factors, management judgement and delinquency and monitoring.

The common assessments for SIR on investment portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Presentation of allowance for credit losses in the Statement of Financial Position

(i) Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the financial assets;
(ii) Debt instruments measured at fair value through other comprehensive income: no allowance is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the allowance determined is presented in the accumulated other comprehensive income.

Definition of default

The Corporation considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

(i) significant financial difficulty of the borrower;
(ii) default or delinquency in interest or principal payments;
(iii) high probability of the borrower entering a phase of bankruptcy or a financial reorganization;
(iv) measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Corporation considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

(in Canadian dollars)

Transition to IFRS 9

Reconciliation of IAS 39 to IFRS 9

The following table provides the impact from the transition to IFRS 9 on the Interim Condensed Consolidated Balance Sheets at transition date, January 1, 2018. The impact consists of reclassification and remeasurement.

Reclassification and remeasurement

These adjustments reflect the movement of balances between categories and changes to carrying values of the items on the Interim Condensed Consolidated Balance Sheets with an impact to shareholder's equity.

As at January 1, 2018	Note	IAS 39 Measurement basis	IAS 39 Carrying amount	Reclassification	Remeasurement	IFRS 9 Carrying amount	IFRS 9 Measurement basis
Assets							
Amounts receivable and prepaid expenses	4	Loans and receivables	$ 5,226,204	$ -	$ -	$ 5,226,204	Amortized cost
Marketable securities	5	Available for sale	210,194	-	-	210,194	FVTPL
Investment portfolio	6	Loans and receivables	555,801,977	(6,518,875)	-	549,283,102	Amortized cost
Investment portfolio	6	Loans and receivables	-	6,518,875	-	6,518,875	FVTPL
Total assets			$ 561,238,375	$ -	$ -	$ 561,238,375	
Liabilities							
Bank indebtedness	7	Other Liabilities	$ 60,268,468	-	-	$ 60,268,468	Amortized cost
Accounts payable and accrued liabilities		Other Liabilities	2,649,558	-	-	2,649,558	Amortized cost
Deferred revenue		Other Liabilities	1,294,556	-	-	1,294,556	Amortized cost
Shareholders' dividends payable		Other Liabilities	3,857,518	-	-	3,857,518	Amortized cost
Loans payable	8	Other Liabilities	51,662,949	-	-	51,662,949	Amortized cost
Convertible debentures	9	Other Liabilities	157,464,904	-	-	157,464,904	Amortized cost
Total liabilities			$ 277,197,953	$ -	$ -	$ 277,197,953	
Shareholders' Equity							
Common shares	10		$ 281,377,245	-	-	$ 281,377,245	
Equity component of convertible debentures			2,780,000	-	-	2,780,000	
Stock options	10		93,556	-	-	93,556	
Contributed surplus			76,276	-	-	76,276	
Deficit			(321,826)	35,171	-	(286,655)	
Accumulated other comprehensive income			35,171	(35,171)	-	-	
Total shareholders' equity			$ 284,040,422	$ -	$ -	$ 284,040,422	
Total liabilities and shareholders' equity			$ 561,238,375	$ -	$ -	$ 561,238,375	

(in Canadian dollars)

Recognition of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitment and financial guarantee contracts in accordance with IAS 39 Provisions, Contingent Liabilities and Contingent Assets as at December 31, 2017 to the opening allowance for credit losses as at January 1, 2018:

	Impairment allowance under IAS 39 as at December 31, 2017	Remeasurement	Impairment allowance under IFRS 9 as at January 1, 2018
Investment portfolio	$ 5,700,000	$ -	$ 5,700,000
Total	$ 5,700,000	$ -	$ 5,700,000

4. Amounts receivable and prepaid expenses:

The following is a breakdown of amounts receivable and prepaid expenses as at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Interest receivable	$ 5,500,846	$ 4,715,194
Prepaid expenses	166,991	233,836
Fees receivable	154,524	254,097
Special profit income receivable	28,939	23,077
Allowance for credit losses	(1,652,256)	-
Amounts receivable and prepaid expenses	$ 4,199,044	$ 5,226,204

5. Marketable securities and debenture portfolio investments:

The Corporation holds units in publicly traded real estate investment trusts and debentures of publicly traded real estate investment trusts, which are classified as available for sale. The fair value of the units and debentures is based on the closing price of the investments, which are actively traded in the marketplace and any adjustments to fair value are reflected in the Statements of Comprehensive Income until the investments are disposed of or impaired, at which time the Corporation would record the change in fair value in the Statements of Income. The fair value of the marketable securites at June 30, 2018 is $214,316 (December 31, 2017 - $210,194). For the three months ended June 30, 2018, the Corporation recorded an unrealized gain of $3,664 (June 30, 2017 - an unrealized gain of $33,439). For the six months ended June 30, 2018, the Corporation recorded an unrealized gain of $4,122 (June 30, 2017 - an unrealized gain of $127,828). For 2017, the corresponding increases (decreases) are reflected in other comprehensive income. Upon the adoption of IFRS 9 on January 1, 2018, the corresponding increases (decreases) are reflected through FVTPL in other income.

For the three and six months ended June 30, 2018, the Corporation recorded realized gains on disposal of marketable securities and debenture investments reclassified to income of $nil (June 30, 2017 - $314,074) and $nil (June 30, 2017 - $315,414), respectively.

As at June 30, 2018, the Corporation did not hold any debenture portfolio investments (December 31, 2017 - $nil).

The Corporation had a margin loan against the debenture portfolio which was fully paid out in the second quarter of 2017. The current interest rate on this loan is equal to the Bank of Canada's overnight rate plus a spread. The effective rate is equal to 1.5% per annum.

(in Canadian dollars)

6. Investment portfolio:

The following is a breakdown of the investment portfolio as at June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	IFRS 9		IAS 39	
Conventional first mortgages	$ 419,010,985	74.7%	$ 427,591,758	76.1%
Conventional non-first mortgages	47,672,173	8.5%	57,187,248	10.2%
Related investments	74,145,345	13.2%	69,636,557	12.4%
Discounted debt investments	5,349,275	1.0%	5,392,900	1.0%
Non-conventional mortgages	7,156,015	1.3%	1,693,514	0.3%
Total investments (at amortized cost)	553,333,793		$ 561,501,977	
Impairment allowance	(4,800,000)		(5,700,000)	
Total investments (at amortized cost), net	548,533,793		555,801,977	
Related investments (at FVTPL)	7,029,437	1.4%	-	
Total investments (at FVTPL)	7,029,437			
Investment portfolio	$ 555,563,230	100%	$ 555,801,977	100%
By geography:				
Canada	$ 549,093,792	98.8%	$ 549,843,102	98.9%
United States	6,469,438	1.2%	5,958,875	1.1%
Total	$ 555,563,230	100%	$ 555,801,977	100%

The amounts for the period ended June 30, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated.

Included in total investments (at FVTPL) are two United States ("US") dollar denominated investments of $6,469,437 (US$4,913,000) (December 31, 2017 - $5,958,875 (US$4,750,000)). The investments are a participation by the Corporation in limited partnerships that have provided preferred equity to real estate entities in the US. Income recorded on these investments during the six months ended June 30, 2018 was $343,451 (US$268,000) (June 30, 2017 - $nil) and are included in interest and fees income. Additionally, there was a $560,000 (December 31, 2017 - $560,000) investment in one construction project.

As at June 30, 2018, $56,025,032 (December 31, 2017 - $67,694,104) of the mortgages within the conventional first mortgage portfolio have first priority syndicate participations totaling $42,297,693 (December 31, 2017 - $51,662,949) (recorded on the Corporation's balance sheets as loans payable) (see note 8). The Corporation's net investment in these mortgages is $13,727,339 (December 31, 2017 - $16,031,155).

Conventional first mortgages are loans secured by a first priority mortgage charge with loan to values not exceeding 75%. Conventional non-first mortgages are loans with mortgage charges not registered in first priority with loan to values not exceeding 75%. Related investments are loans that may not necessarily be secured by mortgage charge security. Discounted debt investments are loans purchased from arms-length third parties at a discount to their face value. Non-conventional mortgages are loans that in some cases have loan to values that exceed or may exceed 75% and are investments that are the source of all special profit participation earned by the Corporation.

(in Canadian dollars)

The amounts for the period ended June 30, 2018 have been prepared in accordance with IFRS 9. The following is a breakdown of the investment portfolio:

	June 30, 2018		
	Gross carrying amount	Allowance for credit losses	Net carrying amount
Conventional first mortgages	$ 419,010,985	$ 3,000,595	$ 416,010,390
Conventional non-first mortgages	47,672,173	-	47,672,173
Related investments	81,174,782	-	81,174,782
Discounted debt investments	5,349,275	1,180,000	4,169,275
Non-conventional mortgages	7,156,015	619,405	6,536,610
Total investment portfolio (at amortized cost)	$ 560,363,230	$ 4,800,000	$ 555,563,230

Included in the total allowance for credit losses of $4,800,000 is a collective allowance of $570,000.

The amounts for the period ended December 31, 2017 have been prepared in accordance with IAS 39; prior period amounts have not been restated. The following is a breakdown of the investment portfolio:

	December 31, 2017		
	Gross carrying amount	Allowance for credit losses	Net carrying amount
Conventional first mortgages	$ 427,591,758	$ 3,620,866	$ 423,970,892
Conventional non-first mortgages	57,187,248	-	57,187,248
Related investments	69,636,557	-	69,636,557
Discounted debt investments	5,392,900	1,180,000	4,212,900
Non-conventional mortgages	1,693,514	499,134	1,194,380
Collective provision	-	400,000	(400,000)
Total	$ 561,501,977	$ 5,700,000	$ 555,801,977

The following is a breakdown of the allowance for credit losses of the investment portfolio as at June 30, 2018:

	June 30, 2018		
	Gross impaired loans	Allowance for credit losses	Net
Conventional first mortgages	$ 34,070,175	$ 3,000,595	$ 31,069,580
Conventional non-first mortgages	-	-	-
Related investments	-	-	-
Discounted debt investments	5,148,000	1,180,000	3,968,000
Non-conventional mortgages	1,513,514	619,405	894,109
Total investment portfolio	$ 40,731,689	$ 4,800,000	$ 35,931,689
By geography:			
Canada	$ 40,731,689	$ 4,800,000	$ 35,931,689
United States	-	-	-
Total	$ 40,731,689	$ 4,800,000	$ 35,931,689

The amounts for the period ended June 30, 2018 have been prepared in accordance with IFRS 9; prior period amounts have not been restated.

(in Canadian dollars)

The following is a breakdown of the allowance for credit losses of the investment portfolio as at December 31, 2017:

	December 31, 2017		
	Gross carrying amount	Allowance for credit losses	Net carrying amount
Conventional first mortgages	$ 22,983,809	$ 3,620,866	$ 19,362,943
Conventional non-first mortgages	-	-	-
Related investments	-	-	-
Discounted debt investments	4,985,500	1,180,000	3,805,500
Non-conventional mortgages	1,000,000	499,134	500,866
Collective provision	-	400,000	(400,000)
Total	$ 28,969,309	$ 5,700,000	$ 23,269,309
By geography:			
Canada	$ 28,969,309	$ 5,700,000	$ 23,269,309
United States	-	-	-
Total	$ 28,969,309	$ 5,700,000	$ 23,269,309

The following table presents the gross investments at amortized cost as at June 30, 2018:

Gross investments at amortized cost	As at June 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	$ 351,119,191	$ 46,523,105	$ 21,368,689	$ 419,010,985
Conventional non-first mortgages	47,672,173		-	47,672,173
Related investments	74,145,345	-	-	74,145,345
Discounted debt investments	201,275	-	5,148,000	5,349,275
Non-conventional mortgages	6,156,015	-	1,000,000	7,156,015
Total	$ 479,293,999	$ 46,523,105	$ 27,516,689	$ 553,333,793
By geography:				
Canada	$ 479,293,999	$ 46,523,105	$ 27,516,689	$ 553,333,793
United States	-	-	-	-
Total	$ 479,293,999	$ 46,523,105	$ 27,516,689	$ 553,333,793

The following table presents the allowance for credit losses on loans as at June 30, 2018:

Allowances for credit losses on loans	As at June 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	$ 450,000	$ -	$ 2,550,000	$ 3,000,000
Conventional non-first mortgages	-	-	-	-
Related investments	-	-	-	-
Discounted debt investments	-	-	1,180,000	1,180,000
Non-conventional mortgages	120,000	-	500,000	620,000
Total	$ 570,000	$ -	$ 4,230,000	$ 4,800,000
By geography:				
Canada	$ 570,000	$ -	$ 4,230,000	$ 4,800,000
United States	-	-	-	-
Total	$ 570,000	$ -	$ 4,230,000	$ 4,800,000

(in Canadian dollars)

The following table presents the changes to the allowance for credit losses on loans as at June 30, 2018:

The changes to the allowance	As at June 30, 2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	$ 400,000	$ -	$ 5,300,000	$ 5,700,000
Allowance for credit losses	170,000		582,256	752,256
Allocation to interest receivable	-	-	(1,652,256)	(1,652,256)
Transfer to (from):				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Balance at June 30, 2018	$ 570,000	$ -	$ 4,230,000	$ 4,800,000

The investment portfolio is stated at amortized cost. The impairment allowance is $4,800,000 as at June 30, 2018, of which $4,230,000 represents the total amount of management's estimate of the shortfall between the investment balances and the estimated recoverable amount from the security under the specific loans in default. The Corporation also assessed collectively for impairment to identify potential future losses, by grouping the investment portfolio with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Corporation used judgement to determine the amounts calculated. As at June 30, 2018, the Corporation carries a collective allowance of $570,000. The allowance for accrued interest receivable on loans in default is $1,652,256.

The loans comprising the Investment portfolio bear interest at the weighted average rate of 8.19% per annum (December 31, 2017 - 8.09% per annum) and mature between 2018 and 2021.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to $84,167,542 as at June 30, 2018 (December 31, 2017 - $91,953,643).

Principal repayments based on contractual maturity dates are as follows:

Balance of 2018	$ 319,690,754
2019	175,279,676
2020	62,628,162
2021	2,550,000
2022	214,638
	$ 560,363,230

Borrowers who have open loans generally have the option on notice to repay principal at any time prior to the maturity date without penalty, subject to written notice, according to each mortgage loan.

The Corporation enters into participation agreements with respect to certain mortgage investments from time to time, whereby the other participating investors take the senior position and the Corporation retains a subordinated position. Under these certain participation agreements, the Corporation has retained a residual portion of the credit and/or default risk as a result of holding the subordinated interest in the mortgage and has therefore not met the de-recognition criteria described in the notes to the annual financial statements.

The portion of such mortgage interests held by the priority participant is included in investment portfolio and recorded as loans payable (note 8). Any gross interest and fees earned on the priority participant's interests and the related interest expense is recognized in income and profit.

As at June 30, 2018, the carrying value of the priority participants' interests in the Corporation's investment portfolio and loans payable was $42,297,693 (December 31, 2017 - $51,662,949).

The investment portfolio as at June 30, 2018 had two investments amounting to $15,707,079 (December 31, 2017 - two investments amounting to $2,361,437) with contractual interest arrears greater than 60 days past due amounting to $326,660 (December 31, 2017 - $35,188), for which no impairment was in place (2017 - $nil).

The investment portfolio as at June 30, 2018 includes 6 investments totaling $27,380,328 (December 31, 2017 - six investments totaling $28,901,947) with maturity dates that are past due and for which no extension or renewal was in place. As at June 30, 2018, three of the investments totaling $11,397,185 (December 31, 2017 - three investment of $12,918,805) are considered to be impaired and are included in the Corporation's impairment provision, and the remaining three investments, totaling $15,983,142 (December 31, 2017 - $15,983,142) are considered not to be impaired.

As at June 30, 2018, 206 of the Corporations' 228 investments (investment amount of $548,740,611) are shared with other participants.

The Mortgage Banker services the entire investment in which the Corporation is a participant, on behalf of all participants and except for the case of investments with a first priority syndicate participant, the Corporation ranks equally with other members of the syndicate as to receipt of principal, interest and income.

7. Bank indebtedness:

The Corporation has entered into credit arrangements of which $44,725,930 has been drawn as at June 30, 2018 (December 31, 2017 - $60,268,468). Interest on bank indebtedness is predominantly charged at a rate that varies with bank prime and may have a component with a fixed interest rate established based on a formula linked to bankers' acceptance rates. The credit arrangement comprises a revolving operating facililty, a component of which is a demand facility and a component of which has a committed term to September 30, 2018 (as further detailed in note 17 (c)). Bank indebtedness is secured by a general security agreement. The credit agreement contains certain financial covenants that must be maintained. As at June 30, 2018 and December 31, 2017, the Corporation was in compliance with all financial covenants.

(in Canadian dollars)

8. Loans payable:

First priority charges on specific mortgage investments have been granted as security for the loans payable. The loans mature on dates consistent with those of the underlying mortgages. The loans are on a non-recourse basis and bear interest at the weighted average effective rate of 5.59% as at June 30, 2018 (December 31, 2017 – 5.34%). The Corporation's principal balance outstanding under the mortgages for which a first priority charge has been granted is $56,025,032 as at June 30, 2018 (December 31, 2017 - $67,694,104).

The loans are repayable at the earlier of the contractual expiry date of the underlying mortgage investments and the date the underlying mortgage is repaid. Repayments based on contractual maturity dates are as follows:

2018	$ 25,429,310
2019	16,868,383
	$ 42,297,693

9. Convertible debentures:

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Carrying value, beginning of period	$ 157,464,904	$ 162,305,989
Issued	23,489,730	24,961,290
Conversions of debentures to shares	-	(21,278,427)
Repayments upon maturity	-	(10,164,573)
Implicit interest rate in excess of coupon rate	206,658	415,179
Deferred finance cost amortization	574,050	1,225,446
Carrying value, end of period	$ 181,735,342	$ 157,464,904

The breakdown of the convertible debentures for the six months ended June 30, 2018 presented in the above table is as follows:

Convertible debenture	Balance, beginning of period	Issued	Conversions	Implicit interest rate in excess of coupon rate	Deferred finance cost amortization	Repayments upon Redemption	Balance, end of period	Maturity date
5.40%	$ 25,445,554	$ -	$ -	$ 49,269	$ 86,016	$ -	$ 25,580,839	Feb 28, 2019
5.25%	20,173,140	-	-	56,403	66,721	-	20,296,264	Mar 31, 2019
4.75%	19,515,688	-	-	32,932	75,446	-	19,624,066	Mar 31, 2020
5.30%	24,136,563	-	-	10,671	85,114	-	24,232,348	May 31, 2022
5.50%	21,889,426	-	-	24,103	82,809	-	21,996,338	Dec 31, 2022
5.20%	21,235,666	-	-	19,748	81,635	-	21,337,049	Dec 31, 2023
5.30%	25,068,867	-	-	12,477	91,688	-	25,173,032	Aug 31, 2024
5.40%	-	23,489,730	-	1,055	4,621	-	23,495,406	Jun 30, 2025
Total	$ 157,464,904	$ 23,489,730	$ -	$ 206,658	$ 574,050	$ -	$ 181,735,342	

(in Canadian dollars)

On June 21, 2018, the Corporation completed a public offering of 25,000 5.40% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $25,000,000, less issuance costs of $1,186,270. The debentures mature on June 30, 2025 and interest is paid semi-annually on the last day of June and December of each year. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $15.00. The debentures may not be redeemed by the Corporation prior to June 30, 2021. On or after June 30, 2021, but prior to June 30, 2023, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after June 30, 2023 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

The convertible debentures were allocated into liability and equity components on the date of issuance as follows:

Liability	$ 24,676,000
Equity	324,000
Principal	$ 25,000,000

The breakdown of the convertible debentures for the year ended December 31, 2017 presented in the above table is as follows:

Convertible debenture	Balance, beginning of period	Issued	Conversions	Implicit interest rate in excess of coupon rate	Deferred finance cost amortization	Repayments upon maturity	Balance, end of period	Maturity date
5.75%	$ 31,243,770	$ -	$(21,278,427)	$ 32,423	$ 166,807	$ (10,164,573)	$ -	Oct 31, 2017
5.40%	25,177,718	-	-	94,378	173,458	-	25,445,554	Feb 28, 2019
5.25%	19,930,572	-	-	108,019	134,549	-	20,173,140	Mar 31, 2019
4.75%	19,300,141	-	-	63,404	152,143	-	19,515,688	Mar 31, 2020
5.30%	23,944,422	-	-	20,501	171,640	-	24,136,563	May 31, 2022
5.50%	21,676,254	-	-	46,181	166,991	-	21,889,426	Dec 31, 2022
5.20%	21,033,112	-	-	37,930	164,624	-	21,235,666	Dec 31, 2023
5.30%	-	24,961,290	-	12,343	95,234	-	25,068,867	Aug 31, 2024
Total	$ 162,305,989	$24,961,290	$(21,278,427)	$ 415,179	$ 1,225,446	$ (10,164,573)	$ 157,464,904	

(in Canadian dollars)

On June 27, 2017, the Corporation completed a public offering of 26,500 5.30% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $26,500,000, less issuance costs of $1,328,710. The debentures mature on August 31, 2024 and interest is paid semi-annually on the last day of February and August of each year. The debentures are convertible at the option of the holder at any time prior to the maturity date at a conversion price of $15.25. The debentures may not be redeemed by the Corporation prior to August 31, 2020. On or after August 31, 2020, but prior to August 31, 2022, the debentures are redeemable at a price equal to the principal, plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' notice, provided that the weighted average trading price of the shares on the Toronto Stock Exchange for the 20 consecutive trading days ending 5 trading days preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after August 31, 2022 and prior to the maturity date, the debentures are redeemable at a price equal to the principal amount plus accrued and unpaid interest, at the Corporation's option on not more than 60 days' and not less than 30 days' prior notice. On redemption or at maturity, the Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice, elect to satisfy its obligation to pay all or a portion of the principal of the debenture by issuing that number of shares of the Corporation obtained by dividing the principal amount being repaid by 95% of the weighted average trading price of the shares for the 20 consecutive trading days ending on the fifth day preceding the redemption or maturity date.

The convertible debentures were allocated into liability and equity components on the date of issuance as follows:

Liability	$	26,290,000
Equity		210,000
Principal	$	26,500,000

As at June 30, 2018, debentures payable bear interest at the weighted average effective rate of 5.28% per annum (December 31, 2017 - 5.26% per annum). Notwithstanding the carrying value of the convertible debentures, the principal balance outstanding to the debenture holders is $188,223,000 as at June 30, 2018 (December 31, 2017 - $163,223,000).

On September 20, 2017, the Corporation completed an early redemption of its 5.75% convertible unsecured subordinated debentures, which were scheduled to mature on October 31, 2017. This series of convertible unsecured subordinated debentures had a conversion price of $15.90 per share. As part of the early redemption, the holders of the debentures were provided an option to convert at 95% of the weighted average market price per share for the preceding 20 trading days ending on the fifth trading day preceding the redemption date (being September 13, 2017). Of the outstanding $31,443,000 principal, $21,278,427 was converted to 1,759,944 common shares at a price of $12.09 per share and the remaining balance of $10,164,573 was repaid in cash.

(in Canadian dollars)

10. Shareholders' equity:

The beneficial interest in the Corporation is represented by a single class of shares that are unlimited in number. Each share carries a single vote at any meeting of shareholders and carries the right to participate pro rata in any dividends.

(a) Shares issued and outstanding:

The following shares were issued and outstanding as at June 30, 2018:

	# of shares	Amount
Balance, beginning of period	26,064,310	$ 281,377,245
At-the-market program	47,000	621,416
Equity offering costs	-	(10,437)
New shares issued during the period under Dividend Reinvestment Plan	1,659	21,476
Balance, end of period	26,112,969	$ 282,009,700

The following shares were issued and outstanding as at December 31, 2017:

	# of shares	Amount
Balance, beginning of period	22,490,489	$ 236,031,386
New shares from equity offering	1,633,000	23,025,300
New shares from debenture conversion (note 9)	1,759,944	21,278,427
Debenture equity conversion	-	155,648
Equity offering costs	-	(1,345,374)
Options exercised in the year	131,000	1,555,776
New shares issued during the year under Dividend Reinvestment Plan	49,877	676,082
Balance, end of period	26,064,310	$ 281,377,245

During the six months ended June 30, 2018, the Corporation issued 47,000 shares at a weighted average price of $13.22 per share for gross proceeds of $621,416 from its At-The-Market ("ATM") program as previously announced.

During the third quarter of 2017, the Corporation completed an early redemption of 5.75% convertible unsecured subordinated debentures due October 31, 2017. Of the outstanding $31,443,000 principal, $21,278,427 was converted to common shares at a price of $12.09 per share, which equaled to 95% of the weighted average market price per share for the preceding 20 trading days ending on the fifth trading day preceding the redemption date. The remaining balance of $10,164,573 was repaid in cash.

During the first quarter of 2017, the Corporation completed an equity offering of 1,420,000 common shares at a price of $14.10 per share for gross proceeds of $20,022,000. The over-allotment option was exercised in full and the Corporation issued an additional 213,000 shares at a price of $14.10 per share for gross proceeds of $3,003,300. The total shares issued was 1,633,000.

(in Canadian dollars)

(b) Incentive option plan:

During the six months ended June 30, 2018, no options were granted or exercised.

	# of options	Amount
Balance at December 31, 2016	1,007,250	$ 95,123
Options granted	70,000	11,030
Options exercised	(131,000)	(12,597)
Balance at December 31, 2017 and June 30, 2018	946,250	$ 93,556

During the six months ended June 30, 2018, no options were granted or exercised.

During the year of 2017, 131,000 options were exercised, of which 125,000 options were exercised by officers of the Corporation and 70,000 options were granted at an exercise price of $13.15 per share (these options were fully vested upon granting).

(c) Dividend reinvestment plan and direct share purchase plan:

The Corporation has a dividend reinvestment plan and direct share purchase plan for its shareholders that allows participants to reinvest their monthly cash dividends or purchase additional shares of the Corporation at a share price equivalent to the weighted average price of shares for the preceding five-day period.

11. Per share amounts:

Profit per share calculation:

The following table reconciles the numerators and denominators of the basic and diluted profit per share for the three months ended June 30, 2018 and June 30, 2017.

Basic profit per share calculation:

	Three months ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Numerator for basic profit per share:				
Net income and profit for the period	6,286,873	$ 5,768,234	$ 12,722,319	$ 12,794,950
Denominator for basic profit per share:				
Weighted average shares	26,099,069	24,245,060	26,093,935	23,421,852
Basic profit per share	$ 0.241	$ 0.238	$ 0.488	0.546

(in Canadian dollars)

Diluted profit per share calculation:

	Three months ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Numerator for diluted profit per share:				
Net income and profit for the period	$ 6,286,873	$ 5,768,234	$ 12,722,319	$ 12,794,950
Interest on convertible debentures	2,577,422	2,125,967	5,107,603	5,294,325
Net profit for diluted profit per share	$ 8,864,295	$ 7,894,201	$ 17,829,922	$ 18,089,275
Denominator for diluted profit per share:				
Weighted average shares	26,099,069	24,245,060	26,093,935	23,421,852
Net shares that would be issued:				
Assuming the proceeds from options are used to repurchase units at the average share price	92,200	97,624	92,200	116,906
Assuming debentures are converted	11,274,771	9,353,916	11,183,702	11,369,865
Diluted weighted average shares	37,466,040	33,696,600	37,369,837	34,908,623
Diluted profit per share:	$ 0.237	$ 0.234	$ 0.477	$ 0.518

12. Dividends:

The Corporation intends to make dividend payments to the shareholders on a monthly basis on or about the 15th day of each following month. The operating policies of the Corporation set out that the Corporation intends to distribute to shareholders within 90 days after the year end at least 100% of the net income of the Corporation determined in accordance with the Income Tax Act (Canada), subject to certain adjustments.

For the three months ended June 30, 2018, the Corporation recorded dividends of $6,108,062 (2017 - $5,675,617) to its shareholders. Dividends were $0.234 per share (2017 - $0.234 per share). For the six months ended June 30, 2018, the Corporation recorded dividends of $12,214,800 (2017 - $11,074,012) to its shareholders. Dividends were $0.468 per share (2017 - $0.468 per share).

13. Related party transactions and balances:

The Corporation's Manager (a company related to officers and/or directors of the Corporation) receives an allocation of interest, referred to as the Corporation Manager spread interest, calculated at 0.75% per annum of the Corporation's daily outstanding performing investment balances. For the three months ended June 30, 2018, this amount was $973,316 (June 30, 2017 - $874,950). For the six months ended June 30, 2018, this amount was $1,974,351 (2017 - $1,704,490). Included in accounts payable and accrued liabilities at June 30, 2018 are amounts payable to the Corporation's Manager of $323,560 (December 31, 2017 - $341,367).

For the three months ended June 30, 2018, the total directors' fees expensed were $71,000 (2017 - $66,333). For the six months ended June 30, 2018, the total directors' fee expensed was $142,000 (2017 - $130,333). Key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The Directors held 481,834 shares in the Corporation as at June 30, 2018 (December 31, 2017 - 481,768).

For the six months ended June 30, 2018, no options were issued under the incentive option plan (2017 - 70,000 options).

The Mortgage Banker (a company related to officers and/or directors of the Corporation) receives certain fees from the borrowers as follows: loan servicing fees equal to 0.10% per annum on the principal amount of each of the Corporation's investments; 75% of all of the commitment and renewal fees generated from the Corporation's investments; and 25% of all of the special profit income generated from the non-conventional investments after the Corporation has yielded a 10% per annum return on its investments. Interest and fee income of the Corporation is net of the loan servicing fees paid to the Mortgage Banker of approximately $263,000 for the six months ended June 30, 2018 (2017 - $227,000) and approximately $130,000 for the three months ended June 30, 2018 (2017 - 117,000). The Mortgage Banker also retains all overnight float interest and incidental fees and charges payable by borrowers on the Corporation's investments.

The Corporation's Management Agreement and Mortgage Banking Agreement contains provisions for the payment of termination fees to the Corporation Manager and Mortgage Banker in the event that the respective agreements are either terminated or not renewed.

A significant number of the Corporation's investments are shared with other investors of the Mortgage Banker, which may include members of management of the Mortgage Banker and/or Officers or directors of the Corporation. The Corporation ranks equally with other members of the syndicate as to receipt of principal and income.

During the first quarter of 2018, the two mortgage investments totaling $1,400,000 (December 31, 2017- two mortgage investments totaling $1,400,000) that were issued to a borrower controlled by an independent director of the Corporation were fully repaid.

The Corporation holds a mortgage investment totaling $5,148,000 at June 30, 2018 (classified as discounted debt investment) that originated from the purchase of a mortgage loan from a Schedule 1 bank at a discount to its original principal balance (December 31, 2017 - $4,985,500). The Corporation’s investment is by way of a participation in a mortgage loan to the entity that took title to the real estate following the completion of the enforcement foreclosure that occurred after the purchase of the underlying Schedule 1 bank mortgage. The Corporation is a pari passu participant in the mortgage, having the same rights as all other participants in the loan. The entity that holds title to the real estate as agent is related to the other participants in the mortgage loan investment, including entities related to certain directors of the Corporation, and for this reason, the borrower is classified as a related party. For the three and six months ended June 30, 2018, the Corporation recognized interest and fees earned of $nil (June 30, 2017 - $nil) from this investment. The impairment provision recorded on this loan was $1,180,000 as at June 30, 2018 (December 31, 2017 - $1,180,000). Recoveries under the investment resulting from the sale of the secured real estate will be treated the same as for all non-conventional mortgage investments held by the Corporation.

Key management compensation:

Aggregate compensation paid to key management personnel (including payments to related parties for their recovery of overhead costs), all consisting of short-term employee compensation, was $549,934 for the three months ended June 30, 2018 (2017 - $513,054) and for the six months ended $1,102,383 (2017 - $1,011,454). All of which was paid by the Corporation's Manager and not by the Corporation.

(in Canadian dollars)

14. Interest expense:

	Three months ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Bank interest expense	$ 471,306	$ 347,536	$ 1,005,230	$ 715,856
Loans payable interest expense	632,970	-	1,316,025	-
Debenture interest expense	2,577,422	2,658,606	5,107,603	5,294,325
Interest expense	**$ 3,681,698**	**$ 3,006,142**	**$ 7,428,858**	**$ 6,010,181**
Deferred finance cost amortization - convertible debentures	(290,907)	(294,930)	(574,050)	(584,619)
Implicit interest rate in excess of coupon rate - convertible debentures	(104,574)	(101,821)	(206,658)	(202,029)
Change in accrued interest payable	(270,723)	554,188	9,996	16,024
Cash interest paid	**$ 3,015,494**	**$ 3,163,579**	**$ 6,658,146**	**$ 5,239,557**

15. Contingent liabilities:

The Corporation is involved in certain litigation arising out of the ordinary course of investing in loans. Although such matters cannot be predicted with certainty, management believes the claims are without merit and does not consider the Corporation's exposure to such litigation to have a material impact on these financial statements.

16. Fair value:

The fair values of amounts receivable and prepaid expenses, bank indebtedness, accounts payable and accrued liabilities, and shareholders dividends payable approximate their carrying values due to their short-term maturities.

The fair value of the investment portfolio approximates its carrying value as the majority of the loans are repayable in full at any time without penalty and generally have floating interest rates. There is no quoted price in an active market for the mortgage and loan investments or mortgage syndication liabilities. The Corporation makes its determinations of fair value based on its assessment of the current lending market for mortgage and loan investments of same or similar terms. As a result, the fair value of mortgage and loan investments is based on Level 3 of the fair value hierarchy.

The fair values of loans payable approximate their carrying values due to the fact that the majority of the loans are: (i) repayable in full, at any time, upon the repayment of the underlying loan that secures the loan payable, and (ii) have floating interest rates linked to bank prime.

The fair value of convertible debentures, including their conversion option, has been determined based on the closing price of the debentures of the Corporation on the Toronto Stock Exchange for the respective date.

The fair value of marketable securities has been determined based on the closing price of the security of the respective listed entities on the Toronto Stock Exchange for the respective date.

The fair value of debenture portfolio investment has been determined based on the closing price of convertible debenture securities of the respective listed entities on the Toronto Stock Exchange for the respective date.

The fair value of loans on the debenture portfolio approximates its carrying value due to the fact that it is fully open for repayment and has a floating rate of interest.

(in Canadian dollars)

The tables below present the fair values of the Corporation's financial instruments as at June 30, 2018 and December 31, 2017. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

June 30, 2018	Level 1	Level 2	Level 3	Total
Marketable securities	$ 214,316	-	-	$ 214,316
Convertible debentures	186,418,800	-	-	186,418,800

December 31, 2017	Level 1	Level 2	Level 3	Total
Marketable securities	$ 210,194	-	-	$ 210,194
Convertible debentures	164,306,323	-	-	164,306,323

17. Risk management:

The Corporation is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition, and operating results. Many of these risk factors are beyond the Corporation's direct control. The Corporation Manager and Board of Directors play an active role in monitoring the Corporation's key risks and in determining the policies that are best suited to manage these risks. There has been no change in the process since the previous year.

The Corporation's business activities, including its use of financial instruments, exposes the Corporation to various risks, the most significant of which are interest rate risk, credit and operational risks, and liquidity risk.

(a) Interest rate risk:

Interest rate risk is the risk that fair value of future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates.

The Corporation’s operations are subject to interest rate fluctuations. The interest rate on the majority of the investments is set at the greater of a floor rate and a formula linked to bank prime. The floor interest rate mitigates the effect of a drop in short-term market interest rates on existing investments while the floating component linked to bank prime allows for increased interest earnings on a component of the investments where short-term market rates increase.

(i) Interest income risk:

A significant portion of the Corporation's investment portfolio comprise investments in short term mortgage loans that generally are repaid by the borrowers in under twenty-four months. The reinvestment of funds received from such repayments are invested at current market interest rates. As such, the weighted average interest rate applicable to the investment portfolio changes with time. This creates an ongoing risk that the weighted average interest rate on the investment portfolio will decrease, which will have a negative impact on the Corporation's interest income and net profit.

(in Canadian dollars)

(ii) Interest expense risk:

The Corporation's floating-rate debt comprises bank indebtedness, and loan on debenture portfolio investment, with each bearing interest based on bank prime and/or based on short term bankers' acceptance interest rates as a benchmark.

At June 30, 2018, if interest rates at that date had been 100 basis points lower or higher, with all other variables held constant, comprehensive income and equity for the year would be affected as follows:

	Carrying Value	-1%	+1%
Financial assets:			
Amounts receivable and prepaid expenses	$ 4,199,044	-	-
Marketable securities	214,316	-	-
Investment portfolio	555,563,230	(582,945)	3,839,077
Financial liabilities:			
Bank indebtedness	44,725,930	447,259	(447,259)
Accounts payable and accrued liabilities	2,507,571	-	-
Shareholders dividends payable	2,036,812	-	-
Loans payable	42,297,693	-	-
Convertible debentures	$ 181,735,342	-	-
Total increase		$ (135,686)	$ 3,391,818

(b) Credit and operational risks:

Credit risk is the possibility that a borrower under one of the mortgages comprising the investment portfolio, may be unable to honour their debt commitment as a result of a negative change in the borrowers' financial position or market conditions that could result in a loss to the Corporation.

Any instability in the real estate sector or an adverse change in economic conditions in Canada could result in declines in the value of real property securing the Corporation's investments. There have been significant increases in real estate values in various sectors of the Canadian market over the past few years. A correction or revaluation of real estate in such sectors will result in a reduction in values of the real estate securing mortgage loans that comprise the Corporation's investment portfolio. This could result in impairments in the mortgage loans or loan losses in the event the real estate security has to be realized upon by the lender. The Corporation's maximum exposure to credit risk is represented by the fair values of amounts receivable and the investment portfolio.

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting its financial obligations as they become due.

The Corporation's liquidity requirements relate to its obligations under its bank indebtedness, loans payable, convertible debentures, and its obligations to make future advances under its existing portfolio. Liquidity risk is managed by ensuring that the sum of (i) availability under the Corporation's bank borrowing line, (ii) the sourcing of other borrowing facilities, and (iii) projected repayments under the existing investment portfolio, exceeds projected needs (including funding of further advances under existing and new investments).

(in Canadian dollars)

As at June 30, 2018, the Corporation had not utilized its full leverage availability, being a guideline of 50% of its first mortgage investments. Unadvanced committed funds under the existing investment portfolio amounted to $84,167,542 as at June 30, 2018 (December 31, 2017 - $91,953,643). These commitments are anticipated to be funded from the Corporation's credit facility and borrower repayments. The Corporation has a demand revolving line of credit of $70 million and a committed revolving line of credit with its principal banker to fund the timing differences between investment advances and investment repayments. The committed line of $20 million is a committed facility with a maturity date of September 30, 2018. If the committed line is not renewed on September 30, 2018, the terms of the facility allow for the Corporation to repay the balance owed on September 30, 2018 within 12 months. In the current economic climate and capital market conditions, there are no assurances that the bank borrowing line will be renewed or that it could be replaced with another lender if not renewed. If it is not extended at maturity, repayments under the Corporation's investment portfolio would be utilized to repay the bank indebtedness. There are limitations in the availability of funds under the revolving line of credit. The Corporation's investments are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing investments creates liquidity for ongoing investments and funding commitments. Loans payable relate to borrowings on specific investments within the Corporation's portfolio and only have to be repaid once the specific loan is paid out by the borrower.

If the Corporation is unable to continue to have access to its bank borrowing line and loans payable, the size of the Corporation's investment portfolio will decrease and the income historically generated through holding a larger portfolio by utilizing leverage will not be earned.

Contractual obligations as at June 30, 2018 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 7 years
Bank indebtedness	$ 44,725,930	$ 44,725,930	$ -	$ -
Accounts payable and accrued liabilities	2,507,571	2,507,571	-	-
Shareholders dividends payable	2,036,812	2,036,812	-	-
Loans payable	42,297,693	36,429,310	5,868,383	-
Convertible debentures	188,223,000	46,223,000	20,000,000	122,000,000
Subtotal - Liabilities	$ 279,791,006	$ 131,922,623	$ 25,868,383	$ 122,000,000
Future advances under portfolio	84,167,542	84,167,542	-	-
Liabilities and contractual obligations	$ 363,958,548	$ 216,090,165	$ 25,868,383	$ 122,000,000

The bank indebtedness and loans payable are liabilities resulting from the funding of the Corporation's investments. Repayment of investments results in a direct and corresponding pay down of the bank indebtedness and/or loans payable. The obligations for future advances under the Corporation's investment portfolio are anticipated to be funded from the Corporation's credit facility and borrower repayments. Upon funding of same, the funded amount forms part of the Corporation's investments.

Interest payments on debentures (assuming the amounts remain unchanged) would be $9,197,665 for less than 1 year, $13,741,500 for 1 to 3 years and $15,884,667 for 4 to 7 years.

(d) Capital risk management:

The Corporation defines capital as being the funds raised through the issuance of publicly traded securities of the Corporation. The Corporation's objectives when managing capital/equity are:

- to safeguard the Corporation's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and
- to provide an adequate return to shareholders by obtaining an appropriate amount of debt, commensurate with the level of risk.

The Corporation manages the capital/equity structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Corporation may issue new shares or convertible debentures or repay bank indebtedness (if any) and loans payable.

The Corporation's investment guidelines, which can be varied at the discretion of the Board of Directors, incorporate various guidelines and investment operating policies. The Corporation's guidelines include the following: the Corporation (i) will not invest more than 10% of the amount of its capital in any single conventional first mortgage where the loan to value on such loan is less than 60%, (ii) will not invest more than 8% of the amount of its capital in any single conventional first mortgage where the loan to value on such loan is between 60% and 70%, (iii) will not invest more than 5% of the amount of its capital in any single conventional first mortgages where the loan to value on such loan exceeds 70%, (iv) will not invest more than 2.5% of the amount of its capital in any single non-conventional mortgage or conventional investment that is not a first mortgage, and (v) will only borrow funds in order to acquire or invest in investments in amounts up to 60% of the book value of the Corporation's portfolio of conventional first mortgages. Capital is defined as the sum of shareholders' equity plus the face amount of convertible debentures.

The Corporation is required by its bank lender to maintain various covenants, including minimum equity amount, interest coverage ratios, indebtedness as a percentage of the performing first mortgage portfolio size, and indebtedness to total assets. The Corporation is in compliance with all such bank covenants.

(e) Currency risk:

Currency risk is the risk that the fair value or future cash flows of the Corporation's foreign currency-denominated investments and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates. Consequently, the Company is subject to currency fluctuations that may impact its financial position and results of operations. The Corporation manages its currency risk on its investments by borrowing the same amount as the investment in the same currency. As a result, a change in exchange rate of the Canadian dollar against the U.S. dollar will not result in a material change to the net income and comprehensive income and equity.