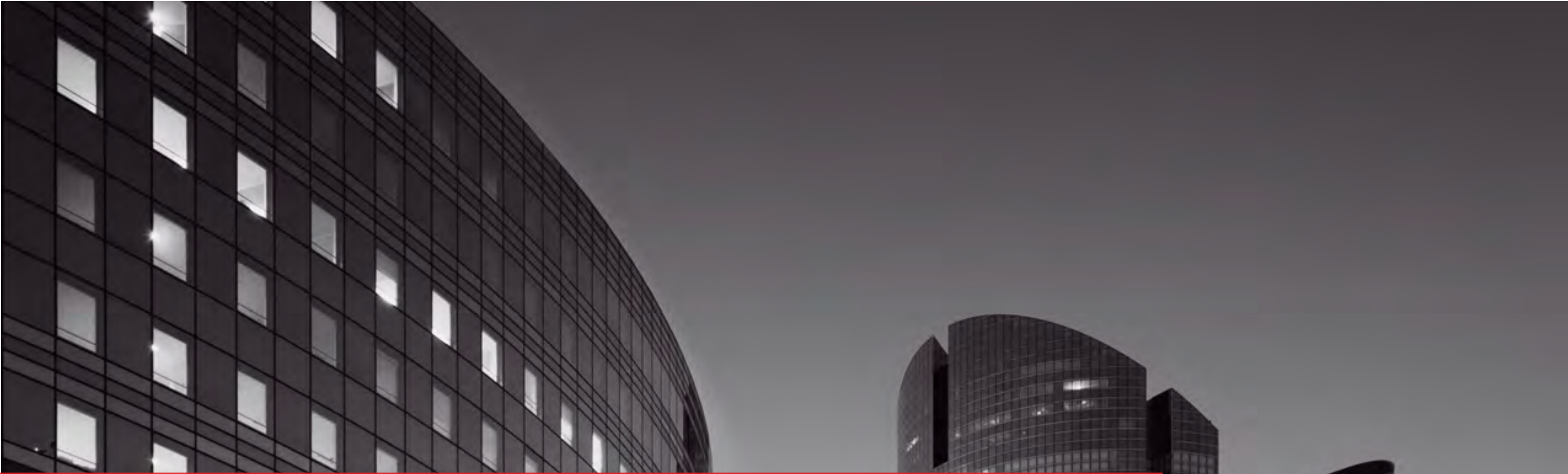

FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

REPORT TO SHAREHOLDERS

SECOND QUARTER
JUNE 30, 2019

FIRM CAPITAL
MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

SECOND QUARTER
JUNE 30, 2019

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

Interim Condensed Consolidated Balance Sheets

(in Canadian dollars)

(Unaudited)

As at		June 30, 2019		December 31, 2018
Assets				
Amounts receivable and prepaid expenses (note 4)	$	4,844,163	$	3,875,248
Marketable securities (note 5)		216,149		199,204
Investment portfolio (note 6)		533,935,552		515,994,509
Total assets	$	538,995,864	$	520,068,961
Liabilities				
Bank indebtedness (note 7)	$	55,881,328	$	32,704,070
Accounts payable and accrued liabilities		1,494,082		2,018,504
Deferred revenue		1,046,438		1,179,220
Shareholders' dividends payable		2,195,513		3,346,374
Loans payable (note 8)		5,935,743		14,718,382
Convertible debentures (note 9)		160,322,273		179,994,433
Total liabilities	$	226,875,377	$	233,960,983
Shareholders' Equity				
Common shares (note 10)	$	307,571,335	$	282,362,724
Equity component of convertible debentures		2,564,000		3,254,000
Stock options (note 10)		87,306		91,633
Contributed surplus		1,376,276		686,276
Surplus / (Deficit)		521,570		(286,655)
Total shareholders' equity	$	312,120,487	$	286,107,978
Commitments (note 6)				
Contingent liabilities (note 15)				
Total liabilities and shareholders' equity	$	538,995,864	$	520,068,961

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 and Comprehensive Income

(in Canadian dollars)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenues				
Interest and fees income	$ 12,007,811	$ 11,548,152	$ 23,789,496	$ 23,210,072
Other income	205,125	96,189	286,263	$ 180,945
	12,212,936	11,644,341	24,075,759	23,391,017
Operating expenses				
Corporation manager spread interest allocation (note 13)	1,013,414	973,316	1,962,858	1,974,351
Interest expense (note 14)	3,367,218	3,681,698	6,971,686	7,428,858
General and administrative expenses	280,876	250,198	529,058	513,233
Provision for impairment on investment portfolio and interest receivable (note 6)	504,411	452,256	976,263	752,256
	$ 5,165,919	$ 5,357,468	$ 10,439,865	$ 10,668,698
Net income and comprehensive income for the period	$ 7,047,017	$ 6,286,873	$ 13,635,894	$ 12,722,319
Profit per share (note 11)				
Basic	$0.251	$0.241	$0.498	$0.488
Diluted	$0.244	$0.237	$0.485	$0.477

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 January 1, 2019	$ 282,362,724	$ 3,254,000	$ 91,633	$ 686,276	($286,655)	-	$286,107,978
Issuance of shares	25,840,716	-	-	-	-	-	25,840,716
Offering costs	(1,185,587)	-	-	-	-	-	(1,185,587)
Proceeds from issuance of shares from dividend reinvestment	19,055	-	-	-	-	-	19,055
Conversion and redemption of debentures	-	(690,000)	-	690,000	-	-	-
Exercise of stock options (note 10 (b))	534,427	-	(4,327)	-	-	-	530,100
Net income and comprehensive income for the period	-	-	-	-	13,635,894	-	13,635,894
Dividends to shareholders (note 12)	-	-	-	-	(12,827,669)	-	(12,827,669)
Balance at June 30, 2019	**$ 307,571,335**	**$ 2,564,000**	**$ 87,306**	**$ 1,376,276**	**521,570**	**$ -**	**$ 312,120,487**
Shares issued and outstanding (note 10)	**28,147,599**						

	Common shares	Equity component of convertible debentures	Stock options	Contributed surplus	Surplus (Deficit)	Accumulated other comprehensive income (loss)	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
Net income and comprehensive income for the period	-	-	-	-	12,722,319	-	12,722,319
Dividends to shareholders (note 12)	-	-	-	-	(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**						

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, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Cash provided by (used in):				
Operating activities:				
Income and profit for the period	$ 7,047,017	$ 6,286,873	$ 13,635,894	$ 12,722,319
Adjustments for:				
Financing costs (net of implicit interest rate and deferred finance cost amortization)	2,990,122	3,286,218	6,158,847	6,648,151
Implicit interest rate in excess of coupon rate - convertible debentures (note 9)	84,572	104,574	197,824	206,658
Deferred finance cost amortization - convertible debentures (note 14)	292,525	290,907	615,015	574,050
Provision for impairment on investment portfolio and interest receivable	504,411	452,256	976,263	752,256
Share-based compensation	--	--	(4,327)	--
Unrealized (gain)/loss on marketable securities investments (note 5)	2,748	(3,664)	(16,944)	(4,122)
Net change in non-cash operating items:				
Accrued interest payable	1,166,400	(270,723)	408,552	9,996
Receivable and prepaid expenses	136,017	(201,813)	(1,415,178)	(625,096)
Accounts payable and accrued liabilities	(1,267,051)	268,065	(524,422)	(141,988)
Deferred revenue	(125,347)	32,387	(132,782)	(125,710)
Net cash flow from operating activities	$ 10,831,414	$ 10,245,080	$ 19,898,742	$ 20,016,514
Financing activities:				
Issuance of shares in new offerings	2,767,116	196,125	25,840,716	621,416
Issuance of shares from dividend reinvestment	10,156	11,193	19,055	21,476
Exercise of stock options	--	--	534,427	--
Proceeds from convertible debentures issued (note 9)	--	25,000,000	--	25,000,000
Repayment of convertible debentures (note 9)	--	--	(20,485,000)	--
Debenture offering costs (note 9)	--	(1,186,269)	--	(1,186,270)
Equity offering costs	(123,374)	(1,933)	(1,185,587)	(10,437)
Funding (repayment) of loans payable (net)	(7,607,108)	(5,910,235)	(8,782,639)	(9,365,256)
Cash interest paid (note 14)	(4,156,522)	(3,015,495)	(6,567,399)	(6,658,146)
Dividends to shareholders paid during the period (note 12)	(6,553,711)	(6,106,848)	(13,978,530)	(14,035,506)
Net cash flow from (used in) financing activities	$ (15,663,443)	$ 8,986,538	$ (24,604,957)	$ (5,612,723)
Investing activities:				
Funding of investment portfolio	(37,158,302)	(90,726,830)	(88,889,480)	(133,208,062)
Discharging of investment portfolio	47,400,186	82,647,904	70,418,437	134,346,809
Net cash flow from (used in) investing activities	$ 10,241,884	$ (8,078,926)	$ (18,471,043)	$ 1,138,747
Net increase (decrease) in cash flow for the period	5,409,855	11,152,692	$ (23,177,258)	$ 15,542,538
Bank indebtedness, beginning of period	(61,291,183)	(55,878,622)	(32,704,070)	(60,268,468)
Bank indebtedness, end of period	$ (55,881,328)	$ (44,725,930)	$ (55,881,328)	$ (44,725,930)
Cash flows from operating activities include:				
Interest received	$ 11,553,722	$ 10,680,513	$ 21,287,356	$ 21,388,828

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 (the "Mortgage Banker), 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 Canada on October 22, 2010.

2. Basis of presentation:

The unaudited interim condensed 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 interim condensed 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, 2018, 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 statement were approved by the Board of Directors on August 1, 2019.

3. Significant accounting policies:

The significant accounting policies used in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those as described in, note 3 of, the Corporation’s audited consolidated financial statements for the year ended December 31, 2018.

(in Canadian dollars)

4. Amounts receivable and prepaid expenses:

The following is a breakdown of amounts receivable and prepaid expenses as at June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
Interest receivable, net of impairment provision	$ 4,596,596	$ 3,472,030
Prepaid expenses	124,005	128,701
Fees receivable	99,687	254,881
Special profit income receivable	23,875	19,636
Amounts receivable and prepaid expenses	$ 4,844,163	$ 3,875,248

Interest receivable is net of the impairment provision of $2,863,588 (December 31, 2018 - $2,417,325) note 6.

5. Marketable securities:

The Corporation holds units in publicly traded real estate investment trusts, which are classified as fair value through profit and loss ("FVTPL"). The fair value of the units 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 other income. The fair value of the marketable securities at June 30, 2019 is $216,149 (December 31, 2018 - $199,204). For the three months ended June 30, 2019, the Corporation recorded an unrealized loss of $2,748 (2018 - an unrealized gain of $3,664). For the six months ended June 30, 2019, the Corporation recorded an unrealized gain of $16,944 (2018 - an unrealized gain of $4,122). This is reflected in other income.

6. Investment portfolio:

The following is a breakdown of the investment portfolio as at June 30, 2019 and December 31, 2018:

	June 30, 2019		December 31, 2018	
Conventional first mortgages	$ 404,473,657	75.0%	$ 399,214,814	76.6%
Conventional non-first mortgages	46,128,385	8.6%	41,808,791	8.0%
Related investments	59,388,387	11.0%	54,023,423	10.4%
Discounted debt investments	5,390,900	1.0%	5,336,525	1.1%
Non-conventional mortgages	4,074,757	0.8%	4,324,757	0.8%
Total investments (at amortized cost)	519,456,086	96.4%	$ 504,708,310	96.9%
Provision for impairment	(5,480,000)		(4,950,000)	
Total investments (at amortized cost), net	513,976,086		499,758,310	
Related investments (at FVTPL)	19,959,466	3.8%	16,236,199	3.1%
Total investments (at FVTPL)	19,959,466		16,236,199	
Investment portfolio	$ 533,935,552	100%	$ 515,994,509	100%
By geography:				
Canada	$ 519,218,861	97.2%	$ 504,909,133	97.9%
United States	14,716,691	2.8%	11,085,376	2.1%
Total	$ 533,935,552	100%	$ 515,994,509	100%

Included in conventional first mortgages are three United States ("US") dollar denominated investments (at amortized cost) of $5,857,225 (US$4,475,605) (December 31, 2018 - $5,709,177 (US$4,185,000)).

(in Canadian dollars)

Included in related investments (classified at FVTPL) are three US dollar denominated investments of $8,859,466 (US$6,769,669), (December 31, 2018 - two US dollar denominated investments of $5,376,199 (US$3,940,917)). These investments are a participation by the Corporation in limited partnerships that have provided equity to real estate entities in the US.

For the three months ended June 30, 2019, income recorded on the US investments (at amortized cost and FVTPL) was $327,114 (US$244,860), (2018 - $174,406 (US$134,479). For the six months ended June 30, 2019, income recorded on the US investments was $628,194 (US$472,414), (2018 - $343,451 (US$268,000)). Which is included in interest and fees income.

Related investments (classified as FVTPL) also include two Canadian investments (December 31, 2018 - two investments) of $11,100,000 (December 31, 2018 - $10,860,000).

As at June 30, 2019, $13,172,600 (December 31, 2018 - $18,672,764) of the mortgages within the conventional first mortgage portfolio have first priority syndicate participations totaling $5,935,743 (December 31, 2018 - $14,718,382) (recorded on the Corporation's balance sheets as loans payable) (see note 8). The Corporation's net investment in this mortgage is $7,236,857 (December 31, 2018 - $3,954,382).

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.

The following is a breakdown of the investment portfolio as at June 30, 2019:

	June 30, 2019		
	Gross carrying amount	Provision for impairment	Net carrying amount
Conventional first mortgages	$ 404,473,657	$ 4,870,000	$ 399,603,657
Conventional non-first mortgages	46,128,385	23,000	46,105,385
Related investments	79,347,853	-	79,347,853
Discounted debt investments	5,390,900	300,000	5,090,900
Non-conventional mortgages	4,074,757	287,000	3,787,757
Total investment portfolio	$ 539,415,552	$ 5,480,000	$ 533,935,552

Included in the total provision for impairment of $5,480,000 is a collective allowance of $753,000.

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

	December 31, 2018		
	Gross carrying amount	Provision for impairment	Net carrying amount
Conventional first mortgages	$ 399,214,814	$ 3,978,000	$ 395,236,814
Conventional non-first mortgages	41,808,791	-	41,808,791
Related investments	70,259,622	-	70,259,622
Discounted debt investments	5,336,525	860,000	4,476,525
Non-conventional mortgages	4,324,757	112,000	4,212,757
Total	$ 520,944,509	$ 4,950,000	$ 515,994,509

Included in the total provision for impairment of $4,950,000 is a collective allowance of $1,015,000.

(in Canadian dollars)

The following is a breakdown of the provision for impairment credit losses of the investment portfolio as at June 30, 2019:

	June 30, 2019		
	Gross impaired loans	Provision for impairment	Net
Conventional first mortgages	$ 39,086,189	$ 4,870,000	$ 34,216,189
Conventional non-first mortgages	600,000	23,000	577,000
Related investments	-	-	-
Discounted debt investments	5,213,000	300,000	4,913,000
Non-conventional mortgages	3,818,000	287,000	3,531,000
Total investment portfolio	$ 48,717,189	$ 5,480,000	$ 43,237,189
By geography:			
Canada	$ 48,717,189	$ 5,480,000	$ 43,237,189
United States	-	-	-
Total	$ 48,717,189	$ 5,480,000	$ 43,237,189

The following is a breakdown of the provision for impairment credit losses of the investment portfolio as at December 31, 2018:

	December 31, 2018		
	Gross carrying amount	Provision for impairment	Net carrying amount
Conventional first mortgages	$ 36,352,685	$ 3,978,000	$ 32,374,685
Conventional non-first mortgages	-	-	-
Related investments	-	-	-
Discounted debt investments	5,148,000	860,000	4,288,000
Non-conventional mortgages	1,938,000	112,000	1,826,000
Total	$ 43,438,685	$ 4,950,000	$ 38,488,685
By geography:			
Canada	$ 43,438,685	$ 4,950,000	$ 38,488,685
United States	-	-	-
Total	$ 43,438,685	$ 4,950,000	$ 38,488,685

(in Canadian dollars)

The following table presents the gross investments at amortized cost as at June 30, 2019:

Gross investments at amortized cost	As at June 30, 2019			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	$ 349,096,787	$ 27,077,745	$ 28,299,126	$ 404,473,658
Conventional non-first mortgages	44,461,719	1,666,666	-	46,128,385
Related investments	59,388,387	-	-	59,388,387
Discounted debt investments	177,900	-	5,213,000	5,390,900
Non-conventional mortgages	3,074,757	-	1,000,000	4,074,757
Total	$ 456,199,550	$ 28,744,411	$ 34,512,126	$ 519,456,086
By geography:				
Canada	$ 450,342,325	$ 28,744,411	$ 34,512,126	$ 513,598,862
United States	5,857,225	-	-	5,857,225
Total	$ 456,199,550	$ 28,744,411	$ 34,512,126	$ 519,456,086

The following table presents the provision for credit losses on loans as at June 30, 2019:

Provision for impairment of credit losses on loans	As at June 30, 2019			
	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	$ 443,000	$ -	$ 4,427,000	$ 4,870,000
Conventional non-first mortgages	23,000	-	-	23,000
Related investments	-	-	-	-
Discounted debt investments	-	-	300,000	300,000
Non-conventional mortgages	287,000	-	-	287,000
Total	$ 753,000	$ -	$ 4,727,000	$ 5,480,000
By geography:				
Canada	$ 753,000	$ -	$ 4,727,000	$ 5,480,000
United States	-	-	-	-
Total	$ 753,000	$ -	$ 4,727,000	$ 5,480,000

The following table presents the changes to the provision for credit losses on loans as at June 30, 2019:

The changes to the provision	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	$ 685,000	$ -	$ 4,265,000	$ 4,950,000
Provision for credit losses	68,000	-	462,000	530,000
Transfer to (from):				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Balance at June 30, 2019	$ 753,000	$ -	$ 4,727,000	$ 5,480,000

The loans comprising the investment portfolio are stated at amortized cost and FVTPL. The provison for impairment is $5,480,000 as at June 30, 2019, of which $4,727,000 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, 2019, the Corporation carries a collective allowance of $753,000.

The loans comprising the Investment portfolio bear interest at the weighted average rate of 8.55% per annum (December 31, 2018 - 8.58% per annum) and mature between 2019 and 2022.

The unadvanced funds under the existing investment portfolio (which are commitments of the Corporation) amounted to $57,406,395 as at June 30, 2019 (December 31, 2018 - $89,188,507).

(in Canadian dollars)

Principal repayments based on contractual maturity dates as at June 30, 2019, are as follows:

Balance of 2019	$	304,167,368
2020		207,913,452
2021		20,614,549
2022		6,720,183
	$	539,415,552

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 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 participants' interests and the related interest expense is recognized in income and profit.

As at June 30, 2019, the carrying value of the priority participants' interests in the Corporation's investment portfolio and loans payable was $5,935,743 (December 31, 2018 - $14,718,382).

With respect to loans with no provision, the Investment Portfolio as at June 30, 2019 had two investments with balances totaling $3,301,937 (December 31, 2018 – two investments with balances totaling $1,474,000) with contractual interest arrears greater than 60 days past due amounting to $91,037 (December 31, 2018 – $48,727). Management has determined that no provision for impairment is required (December 31, 2018 – $nil).

The investment portfolio as at June 30, 2019 includes seventeen investments totaling $35,960,658 (December 31, 2018 - thirteen investments totaling $19,735,486) with maturity dates that are past due and for which no extension or renewal was in place. Seven of the seventeen investments were paid out during July 2019, reducing the balance by $10,260,979 (December 31, 2018 - four investments totaling $4,076,794), and an additional five investments totaling $16,837,189 (December 31, 2018 - four investments totaling $10,629,767) have an allowance against them included in the Corporation's provision for impairment. The remaining five investments with maturity dates that are past due, and for which no extension or renewal was in place, totaling $8,862,490 (December 31, 2018 - five investments totaling $5,028,925) have been determined to not require a provision.

As at June 30, 2019, 203 of the Corporations' 225 investments (investment amount of $517,732,947) 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 pari passu with other members of the syndicate as to receipt of principal, interest and fees.

(in Canadian dollars)

7. Bank indebtedness:

The Corporation has entered into credit arrangements of which $55,881,328 has been drawn as at June 30, 2019 (December 31, 2018 - $32,704,070). 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 had a committed term to December 31, 2018 and has been extended to December 31, 2019 (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, 2019 and December 31, 2018, the Corporation was in compliance with all financial covenants.

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 6.10% as at June 30, 2019 (December 31, 2018 – 6.09%). The Corporation's principal balance outstanding under the mortgages for which a first priority charge has been granted is $13,172,600 as at June 30, 2019 (December 31, 2018 - $18,672,754).

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:

2019	$	5,935,743

(in Canadian dollars)

9. Convertible debentures:

		Six Months Ended June 30, 2019				Year Ended December 31, 2018
Carrying value, beginning of the period	$	179,994,433			$	157,464,906
Issued		-				46,546,839
Repayments upon maturity		(20,485,000)				(25,738,000)
Implicit interest rate in excess of coupon rate		197,824				437,426
Deferred finance cost amortization		615,016				1,283,262
Carrying value, end of the period	$	160,322,273	$	-	$	179,994,433

The continuity of the convertible debentures for the six months ended June 30, 2019:

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
5.25%	20,422,154	$ -	$ -	29,668	33,177	$ (20,485,000)	$ -	Mar 31, 2019
4.75%	19,734,544	-	-	34,467	75,446	-	19,844,457	Mar 31, 2020
5.30%	24,329,835	-	-	11,260	85,114	-	24,426,209	May 31, 2022
5.50%	22,105,324	-	-	25,526	82,809	-	22,213,659	Dec 31, 2022
5.20%	21,440,326	-	-	20,844	81,635	-	21,542,805	Dec 31, 2023
5.30%	25,279,056	-	-	13,168	91,688	-	25,383,912	Aug 31, 2024
5.40%	23,599,710		-	19,694	83,644	-	23,703,048	Jun 30, 2025
5.50%	23,083,484			43,198	81,501	-	23,208,183	Jan 31, 2026
Total	$ 179,994,433	$ -	$ -	$ 197,824	$ 615,015	$ (20,485,000)	$ 160,322,273	

As at June 30, 2019, debentures payable bear interest at the weighted average effective rate of 5.29% per annum (December 31, 2018 - 5.29% per annum). Notwithstanding the carrying value of the convertible debentures, the principal balance outstanding to the debenture holders is $167,000,000 as at June 30, 2019 (December 31, 2018 - $187,485,000).

On March 29, 2019, the Corporation completed the redemption of its 5.25% convertible unsecured subordinated debentures. It was a cash redemption of the aggregate principal amount of $20,485,000 and all accrued interest to the time of Redemption Date.

The continuity of the convertible debentures for the year ended December 31, 2018:

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
5.40%	$ 25,445,554	$ -	$ -	$ 90,947	$ 201,497	$ (25,738,000)	$ -	Feb 28, 2019
5.25%	20,173,140	-	-	114,465	134,549	-	20,422,154	Mar 31, 2019
4.75%	19,515,688	-	-	66,713	152,143	-	19,734,544	Mar 31, 2020
5.30%	24,136,563	-	-	21,632	171,640	-	24,329,835	May 31, 2022
5.50%	21,889,426	-	-	48,907	166,991	-	22,105,324	Dec 31, 2022
5.20%	21,235,666	-	-	40,036	164,624	-	21,440,326	Dec 31, 2023
5.30%	25,068,867	-	-	25,294	184,895	-	25,279,056	Aug 31, 2024
5.40%	-	23,489,730	-	20,328	89,652	-	23,599,710	Jun 30, 2025
5.50%	-	23,057,109	-	9,104	17,271	-	23,083,484	Jan 31, 2026
Total	$ 157,464,904	$46,546,839	$ -	$ 437,426	$ 1,283,262	$ (25,738,000)	$ 179,994,433	

(in Canadian dollars)

On November 23, 2018, the Corporation completed a public offering of 25,000 5.50% convertible unsecured subordinated debentures at a price of $1,000 per debenture for gross proceeds of $25,000,000, less issuance costs of $1,182,887. The debentures mature on January 31, 2026 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 $14.60. The debentures may not be redeemed by the Corporation prior to January 31, 2022. On or after January 31, 2022, but prior to January 31, 2024, 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 January 31, 2024 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	$	24,240,000
Equity		760,000
Principal	$	25,000,000

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

(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, 2019:

	# of shares		Amount
Balance, beginning of period	26,143,544	$	282,362,724
New shares from equity offering	1,748,000		23,073,600
Private Placement equity offering	209,630		2,767,116
Equity offering costs	-		(1,185,587)
Options exercised in the period	45,000		534,427
New shares issued during the period under Dividend Reinvestment Plan	1,425		19,055
Balance, end of period	28,147,599	$	307,571,335

The following shares were issued and outstanding as at December 31, 2018:

	# of shares		Amount
Balance, beginning of year	26,064,310	$	281,377,245
New shares from equity offering	55,600		735,818
Equity offering costs	-		(35,382)
Options exercised in the year	20,000		237,523
New shares issued during the year under Dividend Reinvestment Plan	3,634		47,520
Balance, end of year	26,143,544	$	282,362,724

On May 15, 2019, the Corporation completed a non-brokered private placement of 209,630 common shares at a price of $13.20 per share for gross proceeds of $2,767,116.

On March 1, 2019, the Corporation completed an equity offering of 1,520,000 common shares at a price of $13.20 per share for gross proceeds of $20,064,000. The over-allotment option was exercised in full and the Corporation issued an additional 228,000 shares at a price of $13.20 per share for gross proceeds of $3,009,600. The total shares issued were 1,748,000.

(in Canadian dollars)

During 2018, the Corporation issued 55,600 shares at a weighted average price of $13.23 per share for gross proceeds of $735,818 from its At-The-Market ("ATM") program as previously announced.

(b) Incentive option plan:

	# of options		Amount
Balance at December 31, 2018	926,250	$	91,633
Options exercised	(45,000)		(4,327)
Balance at June 30, 2019	881,250	$	87,306

During the three month ended June 30, 2019, the Corporation did not grant any options (2018 - nil).

During the first quarter of 2019, 45,000 options were exercised by a director of the Corporation (2018 - nil).

During the year ended December 31, 2018, 20,000 options were exercised by an officer of the Corporation.

(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 and six months ended June 30, 2019 and 2018.

Basic profit per share calculation:

	Three months ended				Six Months Ended		
		June 30, 2019		**June 30, 2018**	**June 30, 2019**		**June 30, 2018**
Numerator for basic profit per share:							
Net income and profit for the period		7,047,017	$	6,286,873	$ 13,635,894	$	12,722,319
Denominator for basic profit per share:							
Weighted average shares		28,044,665		26,099,069	27,401,989		26,093,935
Basic profit per share	$	0.251	$	0.241	$ 0.498		0.488

(in Canadian dollars)

Diluted profit per share calculation:

	Three months ended		Six Months Ended	
	June 30, 2019	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Numerator for diluted profit per share:				
Net income and profit for the period	$ 7,047,017	$ 6,286,873	$ 13,635,894	$ 12,722,319
Interest on convertible debentures	2,589,170	2,577,422	5,171,943	5,107,603
Net profit for diluted profit per share	$ 9,636,187	$ 8,864,295	$ 18,807,837	$ 17,829,922
Denominator for diluted profit per share:				
Weighted average shares	28,044,665	26,099,069	27,401,989	26,093,935
Net shares that would be issued:				
Assuming the proceeds from options are used to repurchase units at the average share price	112,341	92,200	103,602	92,200
Assuming debentures are converted	11,292,905	11,274,771	11,292,905	11,183,702
Diluted weighted average shares	39,449,911	37,466,040	38,798,496	37,369,837
Diluted profit per share:	$ 0.244	$ 0.237	$ 0.485	$ 0.477

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, 2019, the Corporation recorded dividends of $6,570,121 (2018 - $6,108,062) to its shareholders. Dividends were $0.234 per share (2018 - $0.234 per share). For the six months ended June 30, 2019, the Corporation recorded dividends of $12,827,669 (2018 - $12,214,800) to its shareholders. Dividends were $0.468 per share (2018 - $0.468 per share).

13. Related party transactions and balances:

The Corporation's Manager (a company related to certain 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 month ended June 2019 this amount was $1,013,414 (2018 - $973,316). For the six months ended June 30,2019, this amount was $ 1,962,858 (2018 - $1,974,351). Included in accounts payable and accrued liabilities at June 30, 2019 are amounts payable to the Corporation's Manager of $355,048 (December 31, 2018 - $314,105).

For the three months ended June 30, 2019, the total directors' fee expensed was $82,500 (2018 - $71,000). For the six months ended June 30,2019 the total directors' fee expenses were $ 153,500 (2018 - $142,000) Certain key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The Directors and Officers held 543,567 shares in the Corporation as at June 30, 2019 (December 31, 2018 - 495,437).

For the six months ended June 30, 2019, no directors were awarded options (2018 - nil).

For the six months ended June 30, 2019, no options were issued under the incentive option plan (2018 - nil).

The Mortgage Banker (a company related to certain 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 $262,000 for the six months ended June 30, 2019 (2018 - $263,000) and approximately $135,000 for the three months ended June 30, 2019 (2018 - $130,000). 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 Spread Interest Agreement and Mortgage Banking Agreement contain, respectively, 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 that were issued to a borrower controlled by an independent director of the Corporation were fully repaid.

The Corporation holds a mortgage investment totaling $5,213,000 at June 30, 2019 (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, 2018 - $5,148,000). 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, 2019, the Corporation recognized interest and fees earned of $nil (2018 - $nil) from this investment. The impairment provision recorded on this loan was $300,000 as at June 30, 2019 (December 31, 2018 - $860,000).

Key management compensation:

Aggregate compensation paid to key management personnel (including payments to related parties for their recovery of overhead costs), consisted of short-term employee compensation, was $550,262 for the three months ended June 30, 2019 (2018 - $549,934) and for the six months ended June 30, 2019 was $1,084,095 (2018 - $1,102,383). 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, 2019	June 30, 2018	**June 30, 2019**	**June 30, 2018**
Bank interest expense	$ 640,242	$ 471,306	$ 1,113,078	$ 1,005,230
Loans payable interest expense	137,805	632,970	354,954	1,316,025
Debenture interest expense	2,589,171	2,577,422	5,503,653	5,107,603
Interest expense	**$ 3,367,218**	**$ 3,681,698**	**$ 6,971,686**	**$ 7,428,858**
Deferred finance cost amortization - convertible debentures	(292,525)	(290,907)	(615,015)	(574,050)
Implicit interest rate in excess of coupon rate - convertible debentures	(84,572)	(104,574)	(197,824)	(206,658)
Change in accrued interest payable	1,166,400	(270,723)	408,552	9,996
Cash interest paid	**$ 4,156,522**	**$ 3,015,495**	**$ 6,567,399**	**$ 6,658,146**

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, 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 following table presents the changes in related investments (at FVTPL) as at June 30, 2019

Changes to related investments at FVTPL	
Balance at January 1, 2019	$ 16,236,200
Funding of investments	3,942,401
Discharging of investments	-
Unrealized foreign exchange	(219,135)
Balance at June 30, 2019	$ 19,959,466

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.

(in Canadian dollars)

The tables below present the fair values of the Corporation's financial instruments as at June 30, 2019 and December 31, 2018. 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, 2019	Level 1	Level 2	Level 3	Total
Marketable securities	$ 216,149	-	-	$ 216,149
Convertible debentures	168,745,500	-	-	168,745,500

December 31, 2018	Level 1	Level 2	Level 3	Total
Marketable securities	$ 199,204	-	-	$ 199,204
Convertible debentures	182,566,500	-	-	182,566,500

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, 2019, 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	$ 4,844,163	-	-
Marketable securities	216,149	-	-
Investment portfolio	533,935,552	(887,384)	4,368,564
Financial liabilities:			
Bank indebtedness	55,881,328	558,813	(558,813)
Accounts payable and accrued liabilities	1,494,082	-	-
Shareholders dividends payable	2,195,513	-	-
Loans payable	5,935,743	-	-
Convertible debentures	$ 160,322,273	-	-
Total increase		$ (328,571)	$ 3,809,751

(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 the 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, 2019, 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 $57,406,395 as at June 30, 2019 (December 31, 2018 - $89,188,507). 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 extended to September 30, 2019. If the committed line is not renewed on September 30, 2019, the terms of the facility allow for the Corporation to repay the balance owed on September 30, 2019 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, 2019 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 7 years
Bank indebtedness	$ 55,881,328	$ 55,881,328	$ -	$ -
Accounts payable and accrued liabilities	1,494,082	1,494,082	-	-
Shareholders dividends payable	2,195,513	2,195,513	-	-
Loans payable	5,935,743	5,935,743	-	-
Convertible debentures	167,000,000	-	68,000,000	99,000,000
Subtotal - Liabilities	$ 232,506,666	$ 65,506,666	$ 68,000,000	$ 99,000,000
Future advances under portfolio	57,406,395	57,406,395	-	-
Liabilities and contractual obligations	$ 289,913,061	$ 122,913,061	$ 68,000,000	$ 99,000,000

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 $8,602,000 for less than 1 year, $15,668,583 for 1 to 3 years and $14,407,667 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 Corporation 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 1% change in the exchange rate of the Canadian dollar against the U.S. dollar will not result in a significant change to the net income and comprehensive income and equity.

FIRM CAPITAL MORTGAGE INVESTMENT CORPORATION

CAPITAL PRESERVATION • DISCIPLINED INVESTING

MD&A

MANAGEMENT DISCUSSION AND ANALYSIS

SECOND QUARTER
JUNE 30, 2019

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 are able to 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 Management's Discussion and Analysis ("MD&A") is dated as of August 1, 2019 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, 2019 and 2018, the audited financial statements of the Corporation and notes thereto for the years ended December 31, 2018 and 2017, as well as the Management's Discussion and Analysis, including the section on "Risk and Uncertainties", along with each of the quarterly reports for 2019 and 2018.

HIGHLIGHTS

PROFIT

Profit for the three months ended June 30, 2019 increased by 12.1% to $7,047,017 as compared to $6,286,873 reported for the same period in 2018. Profit for the six months ended June 30, 2019 increased by 7.2% to $13,635,894 as compared to $12,722,319 reported for the six months ended June 30, 2018.

INTEREST INCOME

Interest income for the three months ended June 30, 2019 increased by 4.8% to $11,553,722 as compared to $11,028,485 reported for the same period in 2018. The increase is a result of a higher weighted average portfolio interest rate and a marginally larger average portfolio size over the comparable three months. Interest income for the six months ended June 30, 2019 increased by 3.1% to $22,858,184 as compared to $22,174,481 for the six months ended June 30, 2018. The increase is a result of a higher weighted average portfolio interest rate, offset by a marginally smaller average portfolio size over the comparable six months.

INVESTMENT PORTFOLIO

The Corporation’s investment portfolio (the “Investment Portfolio”) increased by $18.5 million to $539.4 million as at June 30, 2019, in comparison to $520.9 million as at December 31, 2018 (gross of impairment provision). The allowance for credit losses as at June 30, 2019 was $5.48 million (December 2018 - $4.95 million).

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, 2019 represents an annualized return on shareholders’ equity (based on the month end average shareholders’ equity in the quarter) of 9.06%, representing a return on shareholders’ equity of 739 basis points per annum over the average one-year Government of Canada Treasury bill yield of 1.67%.

EQUITY OFFERING

On May 15, 2019, the Corporation completed a non-brokered private placement of 209,630 Shares at a price of $13.20 per Share for gross proceeds of $2,767,116.

INVESTMENT PORTFOLIO

The Corporation’s Investment Portfolio was $533,935,552 as at June 30, 2019 (net of the provision for impairment of $5,480,00) and was $515,994,509 as at December 31, 2018 (net of the provision for impairment of $4,950,000). The Investment Portfolio is comprised of 225 investments (231 as at December 31, 2018). The average gross investment size (excluding the provision for impairment) was approximately $2.4 million, with 11 investments individually exceeding $10.0 million. As at June 30, 2019, 171 of the 225 investments are individually less than $2.5 million.

	June 30, 2019			December 31, 2018			
Mortgage Amount	Number	Total Amount (before provision)	% of Portfolio	Number	Total Amount (before provision)	% of Portfolio	*% Change*
$0 - $2,500,000	171	$ 164,061,541	30.4%	181	$ 165,349,152	31.7%	*(0.8%)*
$2,500,001 - $5,000,000	31	104,129,689	19.3%	27	94,921,879	18.2%	*9.7%*
$5,000,001 - $7,500,000	5	33,160,692	6.1%	6	37,775,714	7.3%	*(12.2%)*
$7,500,001 - $10,000,000	7	62,307,049	11.6%	8	71,888,737	13.8%	*(13.3%)*
$10,000,001 +	11	175,756,581	32.6%	9	151,009,027	29.0%	*16.4%*
	225	**$ 539,415,552**	**100%**	**231**	**$ 520,944,509**	**100%**	***3.5%***

Unadvanced committed funds under the existing Investment Portfolio amounted to $57 million as at June 30, 2019 (December 31, 2018 – $89 million).

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, 2019			December 31, 2018			
Investment Categories	*W.A Interest Rate*	Outstanding amount	% of Portfolio	*W.A Interest Rate*	Outstanding amount	% of Portfolio	*% Change*
Conventional First Mortgages	*8.52%*	$ 404,473,658	75.0%	*8.47%*	$ 399,214,814	76.6%	*1.3%*
Conventional Non-First Mortgages	*9.10%*	$ 46,128,385	8.6%	*9.21%*	41,808,791	8.0%	*10.3%*
Related Investments	*8.91%*	$ 79,347,853	14.7%	*9.44%*	70,259,622	13.5%	*12.9%*
Discounted Debt Investments*	-	$ 5,390,900	1.0%	-	5,336,525	1.0%	*1.0%*
Non-Conventional Mortgages	*9.09%*	$ 4,074,757	0.7%	*9.23%*	4,324,757	0.9%	*(5.8%)*
Total Investments	***8.55%***	**$ 539,415,552**	**100%**	***8.58%***	**$ 520,944,509**	**100%**	
Less: Impairment Allowance		(5,480,000)			(4,950,000)		
Investment Portfolio		**$ 533,935,552**			**$ 515,994,509**		***3.5%***

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

The $18.5 million increase in the Investment Portfolio (before the provision for impairment) was mainly due to the increase in the size of the conventional first mortgages, conventional non-first mortgages, related investments and discounted debt, offset by a slight decrease in the non-conventional mortgages.

Conventional first mortgages increased by 1.3% and represented 75.0% of the Investment Portfolio as at June 30, 2019 (76.6% as at December 31, 2018). Conventional non-first mortgages increased by 10.3% and represented 8.6% of the Investment Portfolio at June 30, 2019 (8.0% as at December 31, 2018). Both conventional first mortgages and conventional non-first mortgages increased as a result of investment funding in these categories exceeding repayments. Related investments increased by 12.9% and represented 14.7% of the Investment Portfolio as at June 30, 2019 (13.5% as at December 31, 2018). Discounted debt investments increased by 1.0% and represented 1.0% of the Investment Portfolio, as at June 30, 2019 and December 31, 2018. Non-conventional mortgages decreased by 5.8% and represented 0.7% of the Investment Portfolio as at June 30, 2019 (0.9% as at December 31, 2018).

The related investment category is a basket of investments that are all participating in debt investments to a variety of third-party borrowers. Such debt investments are not secured by mortgage charges, and instead have other forms of security or recourse.

The timing for recognition and collection of accrued interest and special profit on non-conventional mortgages is difficult to estimate given the nature of such instruments. As such, the Corporation will recognize revenue when amounts are determinable, and management is reasonably assured of their collection. One such investment has progressed well with management's expectation, and income will be recorded when the recognition criteria is met.

The weighted average face interest rate on the Corporation's Investment Portfolio was 8.55% per annum as at June 30, 2019, compared to 8.58% per annum as at December 31, 2018.

The provision for impairment is $5,480,000 as at June 30, 2019 (December 31, 2018 - $4,950,000), of which $4,727,000 (December 31, 2018 – $4,265,000) 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. As at June 30, 2019, the Corporation carries a collective provision balance of $753,000 (December 31, 2018 - $685,000).

The allocation of the Investment Portfolio between its seven types of investments is as follows:

	June 30, 2019			December 31, 2018			
Property Type		**Total Amount** (before provision)	**% of Portfolio**	**Number**	**Total Amount** (before provision)	**% of Portfolio**	***% Change***
Construction Mortgages	74	$ 113,546,636	21.1%	81	$ 112,395,511	21.6%	*1.0%*
Single Family	59	56,796,110	10.5%	57	51,468,471	9.9%	*10.4%*
Land	56	182,631,977	33.9%	58	182,614,627	35.1%	*0.0%*
Condo *(Including multi unit condo loans)*	6	32,562,340	5.9%	8	40,628,403	7.8%	*(19.9%)*
Multi Family Residential Mortgages	6	54,294,458	10.1%	4	43,010,019	8.3%	*26.2%*
Related Investments	14	79,347,853	14.7%	14	70,259,622	13.5%	*12.9%*
Other	10	20,236,178	3.8%	9	20,567,856	3.9%	*(1.6%)*
	225	**$ 539,415,552**	**100%**	**231**	**$ 520,944,509**	**100%**	***3.5%***

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 9.1% of the investments in the portfolio secured by properties outside of Ontario, compared to 8.5% as at December 31, 2018.

	June 30, 2019			December 31, 2018			
Geographic Segment	**Number**	**Total Amount** (before provision)	**% of Portfolio**	**Number**	**Total Amount** (before provision)	**% of Portfolio**	***% Change***
Greater Toronto Area	173	$ 377,514,712	82.1%	180	$ 367,681,451	81.6%	*2.7%*
Non-GTA Ontario	24	40,992,833	8.8%	25	44,750,797	9.9%	*(8.4%)*
Quebec	5	9,620,907	2.1%	3	8,634,670	1.9%	*11.4%*
Alberta	2	4,000,000	0.9%	2	4,000,000	0.9%	-
Saskatchewan	2	10,538,172	2.3%	2	10,914,942	2.4%	*(3.5%)*
Other	5	17,401,075	3.8%	5	14,703,027	3.3%	*18.4%*
Portfolio ***(excluding Related Investments)***	**211**	**$ 460,067,699**	**100.0%**	**217**	**$ 450,684,887**	**100.0%**	
Related Investments	14	79,347,853		14	70,259,622		
	225	**$ 539,415,552**		**231**	**$ 520,944,509**		

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

	June 30, 2019			December 31, 2018			
Underlying Security Type	**Number**	**Total Amount** (before provision)	**% of Portfolio**	**Number**	**Total Amount** (before provision)	**% of Portfolio**	***% Change***
Residential	195	$ 392,805,010	72.8%	203	$ 392,109,235	75.3%	*0.2%*
Commercial	16	67,262,689	12.5%	14	58,575,652	11.2%	*14.8%*
Related Investments	14	79,347,853	14.7%	14	70,259,622	13.5%	*12.9%*
	225	**$ 539,415,552**	**100%**	**231**	**$ 520,944,509**	**100%**	***3.5%***

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 conventional first mortgages are three United States ("US") dollar denominated investments (at amortized cost) of $5,857,225 (US$4,475,605) (December 31, 2018 - $5,709,177 (US$4,185,000)).

Included in related investments (classified at fair value through profit and loss ("FVTPL")) are three US dollar denominated investments of $8,859,466 (US$6,769,669), (December 31, 2018 - two US dollar denominated investments of $5,376,199 (US$3,940,917)). These investments are a participation by the Corporation in limited partnerships that have provided equity to real estate entities in the US.

For the three months ended June 30, 2019, income recorded on the US investments (at amortized cost and FVTPL) was $327,114 (US$244,860), (2018 - $174,406 (US$134,479). For the six months ended June 30, 2019, income recorded on the US investments was $628,194 (US$472,414), (2018 - $343,451 (US$268,000)). These amounts are included in interest and fees income.

Related investments (classified as FVTPL) also include two Canadian investments (December 31, 2018 - two investments) of $11,100,000 (December 31, 2018 - $10,860,000).

The Investment Portfolio as at June 30, 2019 had two investments with balances totaling $3,301,937 (December 31, 2018 – two investments with balances totaling $1,474,000) with contractual interest arrears greater than 60 days past due and with no provision amounting to $91,037 (December 31, 2018 – $48,727). Management has determined that no provision for impairment is required (December 31, 2018 – $nil).

The investment portfolio as at June 30, 2019 includes seventeen investments totaling $35,960,658 (December 31, 2018 - thirteen investments totaling $19,735,486) with maturity dates that are past due and for which no extension or renewal was in place. Seven of the seventeen investments were paid out during July 2019, reducing the balance by $10,260,979 (December 31, 2018 - four investments totaling $4,076,794), and an additional five investments totaling $16,837,189 (December 31, 2018 - four investments totaling $10,629,767) have an allowance against them included in the Corporation's provision for impairment. The remaining five investments with maturity dates that are past due, and for which no extension or renewal was in place, totaling $8,862,490 (December 31, 2018 - five investments totaling $5,028,925) have been determined to not require a provision.

As at June 30, 2019, the Investment Portfolio continued to be heavily concentrated in short-term investments, with 56.4% of the portfolio maturing by December 31, 2019 and 94.9% maturing on or before December 31, 2020. 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. Renewals are offered to borrowers when deemed appropriate.

Principal repayments of the Investment Portfolio based on contractual maturity dates are as follows:

	June 30, 2019			
	Number		**Total Amount** (before provision)	**% of Portfolio**
Balance of 2019	118	$	304,167,368	56.5%
2020	98	$	207,913,452	38.5%
2021	6	$	20,614,550	3.8%
2022	3	$	6,720,182	1.2%
	225	**$**	**539,415,552**	**100%**

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, 2019, 203 of the Corporation's 225 investments (investment amount of $517,732,947) are shared with other participants, and for 37 of which (investment amount of $138,419,455) the Corporation is a participant for less than 50% percent of the loan amount.

Certain members of the Board of Directors and senior management and their related entities co-invested approximately $80 million with the Corporation alongside its June 30, 2019, Investment Portfolio.

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 (i.e. Loans Payable), the Corporation ranks pari passu with other members of the syndicate as to receipt of principal, interest, and fees.

RESULTS OF OPERATIONS

INTEREST AND FEES AND OTHER INCOME

For the three months ended June 30, 2019, interest and fees and other income earned increased by approximately 4.9% to $12,212,936 compared to $11,644,341 for the three months ended June 30, 2018. During the three months ended June 30, 2019, the weighted average interest rate was higher, and the average Investment Portfolio size was marginally larger over the comparable quarter. For the six months ended June 30, 2019, interest and fees earned increased by 2.9% to $24,075,759 compared to $23,391,017 for the six months ended June 30,2018. During the six months ended June 30, 2019, the weighted average interest rate was higher while and the average Investment Portfolio size was marginally smaller over the comparable period.

Interest and fees earned for the three and six months ended June 30, 2019 and June 30, 2018 are broken down as follows:

Three Months Ended		June 30, 2019	%		June 30, 2018	%	%
Interest	$	11,553,722	94.6%	$	11,028,485	94.7%	4.8%
Commitment & Renewal Fees		454,089	3.7%		519,667	4.5%	(12.6%)
Other Income		205,125	1.7%		96,189	0.8%	113.3%
	$	**12,212,936**	**100.0%**	**$**	**11,644,341**	**100.0%**	**4.9%**

Six Months Ended		June 30, 2019	%		June 30, 2018	%	%
Interest	$	22,858,184	94.9%	$	22,174,481	94.8%	3.1%
Commitment & Renewal Fees		931,313	3.9%		1,035,591	4.4%	(10.1%)
Other Income		286,263	1.2%		180,945	0.8%	58.2%
	$	**24,075,759**	**100.0%**	**$**	**23,391,017**	**100.0%**	**2.9%**

For the three months ended June 30, 2019, interest income was $11,553,722, an increase of 4.8% over the $11,028,485 reported for the comparable period in 2018. For the six months ended June 30, 2019, interest income was $22,858,184, an increase of 3.1% over the $22,174,481 as reported for the same six months period in 2018.

For the three months ended June 30, 2019, commitment and renewal fees were $454,089, a decrease of 12.6% from $519,667 reported for the comparable period in 2018. For the six months ended June 30, 2019, fee income relating to commitment and renewal fees was $931,313, a decrease of 10.1% over the $1,035,591, reported for the same six-month comparable period in 2018.

As at June 30, 2019, the Corporation had deferred commitment fee revenue of $662,703 (December 31, 2018 – $795,485). 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, 2019, other income was $205,125 and $286,263 (June 30,2018 - $96,189 and $180,945), respectively.

CORPORATION MANAGER SPREAD INTEREST ALLOCATION

The Corporation Manager, through an interest spread arrangement, received for the three months ended June 30, 2019, $1,013,414 (2018 – $973,316). The spread interest increase related to the marginal increase in the size of the Corporation's average Investment Portfolio over the comparable period in 2018.

For the six months ended June 30, 2019, $1,962,858 (2018 – $1,974,351), was received. The marginal decrease in the spread interest relates to the marginally smaller size of the Corporation's average Investment Portfolio over the comparable period in 2018.

INTEREST EXPENSE

For the three months ended June 30, 2019, interest expense decreased by 8.5% to $3,367,218 as compared to $3,681,698 for the three months ended June 30, 2018. For the six months ended June 30, 2019, interest expense decreased by 6.2% to $6,971,686 as compared to $7,428,858 for the six months ended June 30, 2019. As at June 30, 2019, the amount of the loans payable and convertible debentures was lower, while bank indebtedness was higher than the comparable period in 2018.

Interest expense is broken down as follows:

Three Months Ended	**June 30, 2019**	**%**	**June 30, 2018**	**%**	**%**
Bank Interest Expense	$ 640,242	19.0%	$ 471,306	12.8%	35.8%
Loan Payable Interest Expense	137,805	4.1%	632,970	17.2%	(78.2%)
Debenture Interest Expense	2,589,171	76.9%	2,577,422	70.0%	0.5%
	$ 3,367,218	**100.0%**	**$ 3,681,698**	**100.0%**	**(8.5%)**

Six Months Ended	**June 30, 2019**	**%**	**June 30, 2018**	**%**	**%**
Bank Interest Expense	$ 1,113,078	16.0%	$ 1,005,230	13.5%	10.7%
Loan Payable Interest Expense	354,954	5.1%	1,316,025	17.7%	(73.0%)
Debenture Interest Expense	5,503,653	78.9%	5,107,603	68.8%	7.8%
	$ 6,971,686	**100.0%**	**$ 7,428,858**	**100.0%**	**(6.2%)**

GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

For the three months ended June 30, 2019, G&A expenses increased by $30,678 to $280,876 compared to the $250,198 for the three months ended June 30, 2018. For the six months ended June 30, 2019, G&A expenses increased by $15,825 to $529,058 compared to the $513,233 for the six months ended June 30,2018.

THE PROVISION FOR IMPAIRMENT ON INVESTMENT PORTFOLIO AND INTEREST RECEIVABLE

The provision for impairment for the three months ended June 30, 2019 was $504,411 (2018 – $452,256). For the six months ended June 30, 2019, the provision for impairment was $976,263 (2018 – $752,256). Further details are described in the Provision for Impairment section.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for the three months ended June 30, 2019 was reported at $7,047,017 (2018 – $6,286,873), which represents an increase of 12.1%. Net income and comprehensive income for the six months ended June 30,2019, was reported at $13,635,894 (2018 – $12,722,319), which represents an increase of 7.2%.

Profit for the quarter ended June 30, 2019 represented an annualized return on shareholders' equity (based on the month end average shareholders' equity in the quarter) of 9.06%. This return on shareholders' equity represents 739 basis points per annum over the average one-year Government of Canada Treasury bill yield of 1.67% 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.

PROFIT PER SHARE

Basic weighted average profit per share for the three months ended June 30, 2019, was $0.251 (2018 – $0.241), an increase of 4.1% over the comparable quarter. Basic weighted average profit per share for the six months ended June 30, 2019 was $0.498 (2018 – $0.488), an increase of 2.0% over the comparable period.

Diluted weighted average profit per share for the three months ended June 30, 2019, was $0.244, (2018 – 0.237), an increase of 3.0% over the comparable quarter. Diluted weighted average profit per share for the six months ended June 30, 2019 was 0.485 (2018 – $0.477), an increase of 1.6% over the comparable period.

QUARTERLY FINANCIAL INFORMATION

($ in millions except per unit amounts)	Jun. 30 2019	Mar. 31 2019	Dec. 31 2018	Sep. 30 2018	Jun. 30 2018	Mar. 31 2018	Dec. 31 2017	Sep. 30 2017
Operating revenue	$ 12.21	$ 11.86	$ 11.53	$ 12.39	$ 11.64	$ 11.74	$ 11.33	$ 10.92
Interest expense	3.37	3.60	3.67	3.81	3.68	3.75	3.60	3.63
Corporation manager spread interest allocatio	1.01	0.95	0.99	0.96	0.97	1.00	0.99	0.94
General & administrative expenses	0.28	0.24	0.31	0.23	0.25	0.26	0.24	0.22
Impairment loss on investment portfolio	0.50	0.47	0.46	0.46	0.45	0.30	0.39	0.23
Profit	**$ 7.05**	**$ 6.60**	**$ 6.10**	**$ 6.93**	**$ 6.29**	**$ 6.43**	**$ 6.11**	**$ 5.90**
Profit per share								
- Basic	**$0.251**	**$0.246**	**$0.233**	**$0.265**	**$0.241**	**$0.247**	**$0.235**	**$0.241**
- Diluted	**$0.244**	**$0.241**	**$0.231**	**$0.253**	**$0.237**	**$0.241**	**$0.232**	**$0.237**
Dividends per share	**$0.234**	**$0.234**	**$0.284**	**$0.234**	**$0.234**	**$0.234**	**$0.304**	**$0.234**

DIVIDENDS

For the three and six months ended June 30, 2019, the Corporation declared dividends on the Shares totaling $6,570,121 and $12,827,669, respectively, or $0.234 and $0.468 per share versus $6,108,062 and $12,214,800 respectively, or $0.234 and $0.468 per Share for the three and six months ended June 30, 2018. The number of Shares outstanding at June 30, 2019 was 28,147,599, compared to 26,112,969 at June 30, 2018.

Six Months Ended	June 30, 2019	June 30, 2018	Change
Cash Flow From Operating Activities (net of cash interest paid)	$ 13,331,343	$ 13,358,368	**(0.2%)**
Profit	$ 13,635,894	$ 12,722,319	**7.2%**
Declared Dividends	$ 12,827,669	$ 12,214,800	**5.0%**
Excess Cash Flow From Operating Activities Over Declared Dividends	$ 503,674	$ 1,143,568	
Profit Over Declared Dividends	$ 808,225	$ 507,519	

CHANGES IN FINANCIAL POSITION

AMOUNTS RECEIVABLE & PREPAID EXPENSES

The amounts receivable and prepaid expenses totaled $4,844,163 as at June 30, 2019, comprised of interest receivable (net of impairment provision) of $4,596,596, prepaid expenses of $124,005, fees receivable of $99,687, and other income receivable of $23,875, compared to $3,875,248 as at December 31, 2018.

MARKETABLE SECURITIES

The Corporation holds publicly traded units of a Canadian real estate investment trust. The units were acquired through the exercise of warrants that were granted by the issuer 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 $216,149 balance reported on the Corporation's balance sheet as at June 30, 2019 represents the fair value of the marketable securities comprising the portfolio (December 31, 2018 – $199,204). 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, 2019 and December 31, 2018, bank indebtedness was $55,881,328 and $32,704,070, respectively.

LOANS PAYABLE

As at June 30, 2019, the Corporation had loans payable of $5,935,743 (December 31, 2018 – $14,718,382). 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 $13,172,600 as at June 30, 2019 (December 31, 2018 – $18,672,754).

CONVERTIBLE DEBENTURES

As at June 30, 2019, the Corporation has seven 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.D	4.75%	Mar. 28, 2013	Mar. 31, 2020	20,000,000	15.80	19,844,457
FC.DB.E	5.30%	Apr. 17, 2015	May. 31, 2022	25,000,000	13.95	24,426,209
FC.DB.F	5.50%	Dec. 22, 2015	Dec. 31, 2022	23,000,000	14.00	22,213,659
FC.DB.G	5.20%	Dec. 21, 2016	Dec. 31, 2023	22,500,000	15.25	21,542,805
FC.DB.H	5.30%	Jun. 27, 2017	Aug. 31, 2024	26,500,000	15.25	25,383,912
FC.DB.I	5.40%	Jun. 21, 2018	Jun. 30, 2025	25,000,000	15.00	23,703,048
FC.DB.J	5.50%	Nov. 23, 2018	Jan. 31, 2026	25,000,000	14.60	23,208,183
Total / Average	**5.29%**			**$ 167,000,000**		**$ 160,322,273**

As at June 30, 2019, the principal balance for the outstanding convertible debentures was $167,000,000. The recorded convertible debenture carrying value as at June 30, 2019 was $160,322,273, compared to $179,994,443 as at December 31, 2018. The weighted average effective interest rate of the convertible debentures is 5.29% per annum (December 31, 2018 – 5.29%).
On March 29, 2019, the Corporation completed the redemption of its 5.25% convertible unsecured subordinated debentures, through a cash redemption of the aggregate principal amount of $20,485,000 and all accrued interest to the time of redemption.

On December 27, 2018, the Corporation completed an early redemption of its 5.40% convertible unsecured subordinated debentures, which were scheduled to mature on February 28, 2019, through a cash redemption of the aggregate principal amount of $25,738,000 and all accrued interest to the time of redemption date.

On November 23, 2018, the Corporation completed the issuance of $25,000,000 aggregate principal amount of 5.50% convertible unsecured subordinated debentures due January 31, 2026. These debentures bear interest at a rate of 5.50% 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 January 31, 2026 and are convertible at the holder's option into Shares at a conversion price of $14.60.

On June 21, 2018, the Corporation completed the issuance of $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 Shares at a conversion price of $15.00.

OTHER LIABILITEIS

Other liabilities for the Corporation include the following:

Additional Liabilities	June 30, 2019	December 31, 2018	% Change
Accounts Payable and Accrued Liabilities	$ 1,494,082	$ 2,018,504	(26%)
Deferred Revenue	1,046,438	1,179,220	(11%)
Shareholders Dividend Payable	2,195,513	3,346,374	(34%)
Total	**$ 4,736,033**	**$ 6,544,098**	**(28%)**

Accounts payable and accrued liabilities decreased by 26% to $1,494,082 as at June 30, 2019, compared to $2,018,506 as at December 31, 2018. Accounts payable and accrued liabilities include interest payable of $926,659 and accrued liabilities of $567,423.

Deferred revenue is comprised of commitment fees generated on the Corporation’s mortgage investments and interest income received in advance. As at June 30, 2019, the portion related to commitment fees was $662,703 (December 31, 2018 – $795,485) and the portion related to interest income was $383,735 (December 31, 2018 – $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, 2019 totaled $312,120,487 compared to $286,107,978 as at December 31, 2018. The Corporation had 28,147,599 Shares issued and outstanding as at June 30, 2019 compared to 26,143,544 Shares as at December 31, 2018. The increase in Shares is attributable the equity offering completed in the first quarter of 2019, a private placement completed in the second quarter of 2019 and Shares issued under the DRIP and the stock option plan.

On May 15, 2019, the Corporation completed a private placement of 209,630 Shares at a price of $13.20 per Share for gross proceeds of $2,767,116.

On March 1, 2019, the Corporation completed an equity offering of 1,520,000 Shares at a price of $13.20 per Share for gross proceeds of $20,064,000. The over-allotment option was exercised in full and the Corporation issued an additional 228,000 Shares at a price of $13.20 per share for gross proceeds of $3,009,600. The total Shares issued was 1,748,000.

PROVISION FOR IMPAIRMENT

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 provision for impairment. The Corporation assesses individually significant investments at each reporting date to determine whether there is objective evidence of impairment. The provision for impairment 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 provision for impairment. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision. Changes in the provision for impairment are recognized in the statement of income and reflected in the provision for impairment against the investments. Interest on the impaired asset continues to be recognized to the extent it is deemed to be collectible.

The provision for credit losses is as follows:

The changes to the allowance	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	685,000	-	4,265,000	4,950,000
Provision for credit losses	68,000	-	462,000	530,000
Allocation of credit losses to interest receivable	-	-	-	-
Transfer to (from):	-	-	-	-
Non-Conventional Mortgages	-	-	-	-
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Balance at June 30, 2019	**753,000**	**-**	**4,727,000**	**5,480,000**

The loans comprising the Investment Portfolio are stated at amortized cost and FVTPL. The provision for impairment is $5,480,000 as at June 30, 2019, of which $4,727,000 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 provision 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, 2019, the Corporation carries a collective impairment provision of $753,000 (December 31, 2018 – $685,000).

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 certain 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, 2019, this amount was $1,013,414 (2018 - $973,316). For the six months ended June 30, 2019, the amount was $1,962,858 (2018- $1,974,351). Included in accounts payable and accrued liabilities at June 30, 2019 are amounts payable to the Corporation's Manager of $355,048 (December 31, 2018 - $314,105).

For the three months ended June 30, 2019, total directors' fees expensed was $82,500 (2018 - $71,000). For the six months ended June 30, 2019, total directors' fees were $153,500 (2018 - $142,000). Key management personnel are also directors of the Corporation and receive compensation from the Corporation's Manager. The Directors and Officers of the Corporation held 543,567 Shares in the Corporation as at June 30, 2019 (December 31, 2018 - 495,437).

For the three months ended June 30, 2019, the Corporation did not grant any options (2018 – nil) under its stock options plan.

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 $262,000 for the six months ended June 30, 2019 (2018 - $263,000) and approximately $135,000 for the three months ended June 30, 2019 (2018 - $130,000). 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 Spread Interest Agreement and Mortgage Banking Agreement contain, respectively, 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 that were issued to a borrower controlled by an independent director of the Corporation were fully repaid.
The Corporation holds a mortgage investment totaling $5,213,000 at June 30, 2019 (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, 2018 - $5,148,000). 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, 2019, the Corporation recognized interest and fees earned of $nil (2018 - $nil) from this investment. The impairment provision recorded on this loan was $300,000 as at June 30, 2019 (December 31, 2018 - $860,000).

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 $550,262 for the three months ended June 30, 2019 (2018 - $549,934) and for the six months ended June 30, 2019 was $1,084,095 (2018 - $1,102,383), all of which 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 interim condensed consolidated 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 the provision 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, 2018, 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 consist 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 Corporation 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 provision 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 the 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 marketable securities has been determined based on the closing price of the security of the respective entity listed on the Toronto Stock Exchange for the respective date.

The tables in note 16 of the accompanying interim condenses consolidated financial statements present the fair values of the Corporation's financial instruments as at June 30, 2019 and December 31, 2018. 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, 2019 are due as follows:

	Total	Less than 1 year	1-3 years	4 - 7 years
Bank indebtedness	$ 55,881,328	$ 55,881,328	$ -	$ -
Accounts payable and accrued liabilities	1,494,082	1,494,082	-	-
Shareholder dividends payable	2,195,513	2,195,513	-	-
Loans payable	5,935,743	5,935,743	-	-
Convertible debentures	167,000,000	-	68,000,000	99,000,000
Subtotal - Liabilities	$232,506,666	$ 65,506,666	$ 68,000,000	$ 99,000,000
Future advances under portfolio	57,406,395	57,406,395	-	-
Liabilities and contractual obligations	$289,913,061	$122,913,061	$ 68,000,000	$ 99,000,000

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are described in note 3 of the Corporation's financial statements for the three months ended June 30, 2019 and year ended December 31, 2018.

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, 2019, 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 $57 million as at June 30, 2019 (December 31, 2018 - $89 million). 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 the investments that the Corporation makes. During the second quarter of 2019, 21 investment approvals were sent to the Board of Directors. During fiscal 2018, 170 investment approvals were sent to the Board of Directors. The Corporation shall not make an investment, which exceeds $2 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 Canadian Income Tax Act (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.*
- *Investment portfolio size. The investment portfolio size (and income generated thereon) can fluctuate and will decrease when repayments exceed new advances. 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. Repayments of investments can be significant given the open prepayment provision associated with most investments.*
- *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.*
- *Liquidity risk. Liquidity risk is the risk the Corporation will not be able to meet its financial obligations as they come due. The Corporation's approach to managing liquidity risk is to ensure, to the extent*

possible, that it always has sufficient liquidity to meet its liabilities when they come due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's credit worthiness. The Corporation manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. If the Corporation is unable to continue to have access to its loans and mortgages syndications and revolving operating facility, the size of the Corporation's loan and mortgage investments will decrease, and the income historically generated through holding larger investments by utilizing leverage will not be earned.

- *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 Corporation 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, 2019 and 2018.

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, 2018 and June 30, 2019 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, 2019. 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, 2019 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 2019 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 above 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 disciplined investment decisions, that factor in the significant historical increase in real estate valuations in certain geographical and asset segments, and the changing environment for property prices in some sectors and locations.

It is reasonable to assume that this approach will ultimately result in a decrease in the Corporation's Investment Portfolio, since repayments could exceed new advances, in a market where the Mortgage Banker rejects many potential investments as a result of not meeting its stringent investment criteria. Over time, the Corporation expects to be able to deploy capital based on these tighter criteria.