# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## INTERIM CONDENSED FINANCIAL STATEMENTS
**(UNAUDITED)**

**SIX MONTHS ENDED JUNE 30, 2015 AND 2014**
**(In Canadian Dollars)**

**<u>Notice Under National Instrument 81-106 (para 2.12):</u>** The independent external auditor, Raymond Chabot Grant Thornton LLP, has not performed a review of these financial statements for the six months ended June 30, 2015 and 2014.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## INTERIM CONDENSED FINANCIAL STATEMENTS
## (UNAUDITED)
## SIX MONTHS ENDED JUNE 30, 2015 AND 2014

## CONTENTS

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION
**(UNAUDITED)**
**(In Canadian Dollars)**

| | As at June 30, 2015 $ | As at December 31, 2014 $ |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | - | 8,007 |
| Due from administrator in trust (Note 5) | 528,677 | 65,932 |
| Accrued interest receivable | 2,752,342 | 5,162,051 |
| Mortgage investments (Note 6) | 156,248,844 | 143,856,080 |
| Prepaid expenses | 12,677 | 17,005 |
| Properties held for sale under foreclosure (Note 7) | - | 789,680 |
| | 159,542,540 | 149,898,755 |
| **LIABILITIES** | | |
| Bank indebtedness (outstanding cheques) | 31,963 | - |
| Bank line of credit (Note 8) | 2,160,000 | 9,540,000 |
| Dividends payable | 257,864 | 289,510 |
| Accounts payable and accrued expenses | 86,911 | 66,154 |
| Prepaid mortgage payments | 564,351 | 1,701,452 |
| | 3,101,089 | 11,597,116 |
| **NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY** (Note 9) | 156,441,451 | 138,301,639 |
| **NUMBER OF SHARES ISSUED AND OUTSTANDING** (Note 9) | 5,214,712 | 4,610,052 |
| **NET ASSETS PER SHARE** | 30.00 | 30.00 |

**APPROVED ON BEHALF OF THE BOARD:**

___*Robert Barnes* (signed)_________ Director

___*Eric Dinelle* (signed)_________ Director

The accompanying notes are an integral part of these financial statements

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
## (UNAUDITED)
## (In Canadian Dollars)

| | Six months ended June 30, 2015 $ | Six months ended June 30, 2014 $ |
|---|---|---|
| **INTEREST INCOME** | 6,533,694 | 6,139,668 |
| **EXPENSES** | | |
| Administration and management fees (Note 10) | 1,644,807 | 1,432,845 |
| Audit fees | 23,748 | 24,839 |
| Director fees | 40,804 | 45,965 |
| General and operating expenses | 274,308 | 234,386 |
| Interest on credit line | 112,175 | 80,393 |
| Legal fees | 16,166 | 31,329 |
| Trustee fees | 46,888 | 43,120 |
| | 2,158,896 | 1,892,877 |
| **NET INVESTMENT INCOME** | 4,374,798 | 4,246,791 |
| Realized losses on mortgages | (64,849) | (112,293) |
| Allowance for impairment losses on mortgages | (150,000) | (197,555) |
| Change in fair value of properties held for sale under foreclosure | (20,479) | (4,000) |
| **NET INCOME AND COMPREHENSIVE INCOME** | 4,139,470 | 3,932,943 |
| **WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING** | 4,927,940 | 4,321,915 |
| **NET INCOME PER SHARE** | $ 0.84 | $ 0.91 |

The accompanying notes are an integral part of these financial statements

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## INTERIM CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
## (UNAUDITED)
## (In Canadian Dollars)

| | Six months ended June 30, 2015 $ | Six months ended June 30, 2014 $ |
|---|---|---|
| **NET ASSETS**, beginning of period | 138,301,639 | 123,080,459 |
| **Increase in net assets from operations** | 4,139,470 | 3,932,943 |
| **Share capital transactions** | | |
| Proceeds from issuance of shares for cash | 15,513,574 | 9,958,635 |
| Reinvested distributions | 2,679,662 | 2,707,957 |
| Cost of shares redeemed | (53,425) | (206,159) |
| | 18,139,811 | 12,460,433 |
| **Distributions to shareholders** | | |
| Dividends to shareholders | (4,139,469) | (3,932,943) |
| **NET ASSETS**, end of period | 156,441,451 | 135,540,892 |

The accompanying notes are an integral part of these financial statements

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

### INTERIM CONDENSED STATEMENTS OF CASH FLOW
### (UNAUDITED)
### (In Canadian Dollars)

| | Six months ended June 30, 2015 $ | Six months ended June 30, 2014 $ |
|---|---|---|
| **CASH FROM OPERATING ACTIVITIES** | | |
| Net income | 4,139,470 | 3,932,943 |
| **Items not requiring an outlay of cash:** | | |
| Allowance for impairment losses on mortgages | 150,000 | 197,555 |
| Realized losses on mortgages | 64,849 | 112,293 |
| **Changes in non-cash balances**: | | |
| (Increase)/decrease in due from administrator in trust | (462,745) | 860,765 |
| Decrease/(increase) in accrued interest receivable | 2,409,709 | (335,479) |
| Decrease in prepaid expenses | 4,328 | 9,111 |
| (Decrease)/increase in dividends payable | (31,646) | 53,396 |
| Increase in accounts payable and accrued expenses | 20,757 | 4,711 |
| (Decrease)/increase in prepaid mortgage payments | (1,137,101) | 1,821,116 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 5,178,100 | 6,660,411 |
| **FINANCING ACTIVITIES** | | |
| Proceeds from issuance of shares for cash | 15,513,574 | 9,958,635 |
| (Decrease)/increase in bank line of credit | (7,380,000) | 6,100,000 |
| Redemption of common shares | (53,425) | (206,159) |
| Cash dividends | (1,459,807) | (1,224,986) |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | 6,620,342 | 14,627,490 |
| **INVESTING ACTIVITIES** | | |
| Investment in mortgages | (41,659,492) | (46,003,678) |
| Repayment of mortgages | 29,051,879 | 24,559,556 |
| Proceeds from sale of properties held for sale under foreclosure | 769,201 | 176,788 |
| **NET CASH USED IN INVESTING ACTIVITIES** | (11,838,412) | (21,267,334) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | (39,970) | 20,567 |
| **CASH AND CASH EQUIVALENTS,** beginning of period | 8,007 | 2,291 |
| **CASH AND CASH EQUIVALENTS / (BANK INDEBTEDNESS),** end of period | (31,963) | 22,858 |

The accompanying notes are an integral part of these financial statements

**STATEMENT OF INVESTMENT PORTFOLIO**
**(UNAUDITED)**
**AS AT JUNE 30, 2015**
**(In Canadian Dollars)**

**INVESTMENT PORTFOLIO**

| | Percentage of Portfolio | Principal value $ | Amortized Cost $ | Fair Value $ |
|---|---|---|---|---|
| Private mortgages | 99.88 % | 157,015,641 | 156,248,844 | 156,248,844 |
| Cash & other assets | 1.50 % | | | 2,352,607 |
| Bank line of credit | (1.38)% | | | (2,160,000) |
| Net assets | 100.00 % | | | 156,441,451 |

**DISTRIBUTION OF MORTGAGES**

| Interest Rate | Number of Mortgages | Amortized Cost $ | Current Value $ |
|---|---|---|---|
| 5% or less | 2 | 1,841,563 | 1,841,563 |
| 6% | 6 | 6,268,814 | 6,268,814 |
| 7% | 59 | 15,757,147 | 15,757,147 |
| 8% | 83 | 15,592,934 | 15,592,934 |
| 9% | 116 | 32,708,949 | 32,708,949 |
| 10% | 127 | 35,092,657 | 35,092,657 |
| 11% | 32 | 11,167,877 | 11,167,877 |
| 12% | 95 | 37,818,903 | 37,818,903 |
| Totals | 520 | 156,248,844 | 156,248,844 |

Mortgages are 87% residential and 13% commercial and vacant land. All of the mortgages are uninsured conventional mortgages and substantially all mortgages are pre-payable with terms to maturity ranging from 1 to 2 years.

## 1. DESCRIPTION AND ORGANIZATION OF THE BUSINESS

Frontenac Mortgage Investment Corporation (the "Company") was incorporated on October 26, 2004 pursuant to the *Canada Business Corporations Act* and operates as a Canadian mortgage investment corporation as defined under the *Income Tax Act* of Canada. The registered head office of the Company is 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0. W.A. Robinson Asset Management Ltd. is the Company's manager (the "Manager").

## 2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim condensed financial statements have been prepared in accordance with International Accounting Standards 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") using policies expected to be in effect when the Company prepares its annual financial statements for the year ended December 31, 2015 and with National Instrument 81-106 Investment Funds Continuous Disclosure. These accounting policies have been used throughout all periods presented in the financial statements.

The unaudited interim condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2014.

These financial statements were approved by the Board of Directors on August 25, 2015.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(d) Use of estimates and judgements

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make assumptions and estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenue and expenses for the year, as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

**2. BASIS OF PRESENTATION** (Continued)

(d) Use of estimates and judgements (continued)

In making estimates and judgements, the Manager relies on external information and observable conditions where possible supplemented by internal analysis as required. Those estimates and judgements have been applied in a manner consistent with the prior period and there are no known trends, commitments, events, or certainties that are believed to materially affect the methodology or assumptions utilized in making those estimates in these financial statements. Actual amounts could differ from these estimates. Changes in estimates are recorded in the accounting period in which they are determined. Significant estimates used in determining the recorded amount for assets and liabilities in the financial statements are as follows:

(i) Mortgage investments:

The Company is required to make an assessment of the impairment of mortgage investments. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events have occured after its initial recognition that have a negative effect on the estimated future cash flows of that asset. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparative market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

(ii) Fair value measurements:

In accordance with IFRS, the Company must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making its fair value measurements. The following hierarchy has been used in determining and disclosing fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The Company's cash and cash equivalents are valued using Level 1 measures and the investment in properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. As explained in more detail in Note 8, management makes its determination of fair value of properties held for sale under foreclosure based on its assessment of the net realizable value of the property taking into consideration appraisals by qualified appraisers and purchase offers received from unrelated third parties.

These assumptions are limited by the availability of reliable comparative market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, measurements of fair value are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimates could vary.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Interest income on mortgage investments and other investment income are recognized on a time proportionate basis using the effective interest rate method. Interest is not accrued on mortgage investments that are identified as impaired.

(b) Cash and cash equivalents

The Company considers highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. Cash equivalents are initially recognized at their fair value plus any attributable transaction costs. Any changes in the fair value of the cash equivalents are recorded in the statement of comprehensive income for the period.

(c) Mortgage investments

Mortgage investments are financial instruments and are classified as loans and receivables. These investments are recognized initially at fair value plus any attributable transaction costs. Subsequent to intial recognition, the mortgage investments are measured at amortized costs using the effective interest rate method, less any impairment losses. The mortgage investments are assessed on each reporting period date to determine whether there is objective evidence of impairment. A financial asset is considered impaired only if objective evidence indicates that one or more events have occurred after its initial recognition that have a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of specific mortgage investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of an impairment to decrease, the decrease in impairment loss is reversed through profit or loss.

(d) Properties held for sale under foreclosure

When the Company obtains legal title of the underlying security of an impaired mortgage investment through foreclosure, the carrying value of the mortgage investment, which comprises of th outstanding principal amount, costs incurred, accrued interest, and a provision for mortgage impairment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale. The intention of the Company is to sell foreclosed properties as soon as possible in a commercially reasonable manner. At each reporting date, foreclosed properties held for sale are measured at fair value. Any unrealized changes in the fair value of the property held for sale under foreclosure are recorded in the statement of operations for the period. The carrying value of properties held for sale under foreclosure is determined by its estimated fair value net of selling expenses taking into consideration independent appraisals, assessement of market conditions, and other various factors.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income taxes

The Company is considered a mortgage investment corporation under the *Income Tax Act* (Canada). As such, the Company is entitled to deduct from its taxable income dividends paid to shareholders during the year or within 90 days of the end of the year to the extent that such dividends were not deducted previously. The Company 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 the Company is not subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company effectively being exempt from taxation and no provision for current or deferred income taxes is required.

(f) Prepaid mortgage payments

Some mortgagors may prepay or may be required to prepay a portion of their periodic payments. These prepaid mortgage payments are applied against the related mortgage receivable balance in the period for which they relate.

(g) Net assets

Net assets consists of issued and outstanding common shares of the Company and is classified as equity.

(h) Net assets per share

Net assets per share is calculated by dividing the net assets by the total number of issued and outstanding common shares at the end of the period.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial assets and liabilities

The Company's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as loans and receivables. The financial risks associated with the Company's mortgage investments and the Company's management of those risks are discussed in Note 6.

The Company's other financial assets consist of cash and cash equivalents, due from administrator in trust, and accrued interest receivable. The Company's financial liabilities consist of bank line of credit, dividends payable, accounts payable and accrued expenses. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or currency risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying value, unless otherwise noted.

The Company classifies its financial assets as one of the following: loans and receivables or fair value through profit or loss ("FVTPL"). Financial liabilities are classified as: held-for-trading or financial liabilities at amortized cost. The Company has designated its financial assets and financial liabilities as follows:

(i) Financial assets:

Cash and cash equivalents are classified as FVTPL. Due from administrator in trust, accrued interest receivable, and mortgage investments are classified as loans and receivables and recorded at cost.

Properties held for sale under foreclosure are classified as FVTPL as the Company's intention is to divest itself of these assets as soon as possible in a responsible and reasonable manner.

(ii) Financial liabilities:

Bank line of credit, dividends payable, and accounts payable and accrued expenses are classified as financial liabilities at amortized cost.

(j) Accounting pronouncements

At the date of authorization of these financial statements, certain new standards, and amendments to existing standards have been published by the International Accounting Standards Board ("IASB") that are not yet effective, and have not been adopted early by the Company. Information on those expected to be relevant to the Company's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations, and amendments not either adopted or listed below are not expected to have a material impact on the Company's financial statements.

(i) IFRS 9 Financial Instruments ("IFRS 9")

The IASB recently released IFRS 9 Financial Instruments (2014) ("IFRS 9") representing the completion of its project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets.

Management has yet to assess the impact of IFRS 9 on the Company's financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

## 4. CAPITAL STRUCTURE FINANCIAL POLICIES

The Company's definition of capital includes net assets and bank line of credit.

The Company's objective when managing its capital is to generate income while preserving, for its beneficial shareholders, capital for re-investment. As a mortgage investment corporation, the Company expects to derive its earnings principally from the receipt of mortgage interest payments and of interest or interest-like distributions on the cash reserves of the Company.

The Company achieves its investment objective by lending on the security of mortgages on real properties situated in Canada, primarily in Eastern Ontario. The mortgages transacted by the Company will not generally meet the underwriting criteria of conventional lenders and/or involve borrowers in rural areas generally not well serviced by major lenders. As a result, the Company's investments are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities.

In order to provide some liquidity to its shareholders, the Company is required to maintain approximately 5% of its net assets in cash or near cash assets and such levels of cash reserves have been adequate to meet the needs of normal share redemption levels during the year. Management regularly monitors its available cash and credit line facility to ensure that the 5% cash reserve is maintained. As at June 30, 2015 and December 31, 2014, the Company has maintained the 5% cash reserve. For unusual circumstances, the Company has redemption policies in place to restrict the payout of share redemption at levels to match the normal repayment of the mortgages receivable.

The company's capital management objectives and strategies are unchanged from prior years.

## 5. DUE FROM ADMINISTRATOR IN TRUST

As part of the mortgage underwriting and administration services provided to the Company, Pillar Financial Services Inc. (the "Administrator") collects repayments, both regular periodic payments and repayments of outstanding balances in full, from borrowers through the Administrator's electronic payments collection system. These repayments are electronically deposited into a trust account of the Administrator. Funds are deposited from the Administrator's trust account into the Company's bank account within a few business days once the funds have been confirmed cleared from the borrower.

## 6. MORTGAGE INVESTMENTS

There are 520 mortgages (December 31, 2014 - 470) held which are a combination of mainly first and second mortgages secured by residential and commercial property. Mortgage investments consist of the following:

| | **As at June 30, 2015** | **As at December 31, 2014** |
|---|---|---|
| | $ | $ |
| Mortgages | $157,015,641 | $144,472,877 |
| Allowance for impairment losses | (766,797) | (616,797) |
| | $156,248,844 | $143,856,080 |

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As at June 30, 2015, there are 14 mortgages totaling $13,784,000 (December 31, 2014 - 8 mortgages totaling $9,036,000) that are considered impaired by management. When the estimated realizable amounts for each of the impaired mortgages is greater than their carrying values, no allowance for mortgage impairment loss is made.

## 6. MORTGAGE INVESTMENTS (Continued)

The following table presents a continuity of the provision for impairment losses:

| | Six months ended June 30, 2015 | Six months ended June 30, 2014 |
|---|---|---|
| | $ | $ |
| Balance - beginning of period | 616,797 | 13,242 |
| Change in provision for impairment losses for year | 150,000 | 197,555 |
| Balance - end of period | 766,797 | 210,797 |

Principal repayments based on contractual maturity dates are as follows:

| | $ |
|---|---|
| Next 12 months to June 30, 2016 | 139,021,413 |
| Following 12 months to June 30, 2017 | 14,547,101 |
| Thereafter | 2,680,330 |
| Total | 156,248,844 |

Substantially all of the mortgages are issued with either 1 or 2 year terms, have fixed interest rates and can be paid in full before maturity. The weighted average interest rate of the mortgages as at June 30, 2015 was 9.48% (December 31, 2014 - 9.55%).

**Credit risk**

Credit risk arises from the possibility that mortgagors may experience financial difficulty and be unable to fulfill their mortgage commitments. The Company mitigates this risk by having well established lending policies in place that ensure mortgages are well secured and by limiting its exposure to any one mortgagor. The maximum exposure to credit risk at June 30, 2015 is the carrying values of its mortgage investments, including accrued interest receivable, which total $159,001,186 (December 31, 2014 - $149,036,048). The Company has recourse under these investments in the event of default by the borrower, in which case, the Company would have a claim against the underlying security.

There are no significant concentrations of credit risk as the average mortgage amount as at June 30, 2015 was $302,317 (December 31, 2014 - $307,427) and the largest mortgage was $10,924,298 (December 31, 2014 - $10,248,806).

**Fair Values**

The fair value of the mortgage investments approximates its carrying value as substantially all of the loans are short-term in nature and repayable in full at any time by the borrower without penalty.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As the Company and its borrowers are unrelated third parties under no compulsion to act, the initial terms of the mortgage represents their fair value at the time of mortgage origination. For subsequent reporting periods, as there are no quoted prices in an active market for the Company's mortgages, management makes its determination of fair value by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk.

## 6. MORTGAGE INVESTMENTS (Continued)

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they fall due. The Company's approach is to ensure that it will have sufficient cash and credit facilities to meet its liabilities when due, under normal and stressed circumstances. As at June 30, 2015, the Company's liabilities consisted of accounts payable and accrued expenses totaling all $86,911 (December 31, 2014 - $66,154) and dividends payable totaling $257,864 (December 31, 2014 - $289,510) all of which are due within normal trade terms of generally 30 days. The Company also has a bank line of credit that is repayable on demand and had a balance of $2,160,000 as at June 30, 2015 (December 31, 2014 - $9,540,000).

To mitigate its liquidity risk, the Company targets to maintain significant committed borrowing facilities from its bank for credit room within a range of 10% to 15% of net assets. As at June 30, 2015, the Company's committed borrowing facilities represented approximately 13% of net assets. In addition, the Company has policies in place that can restrict the total amount of share redemptions. Those restrictions permit share redemptions to be funded through the normal repayment of the mortgages receivable.

## 7. PROPERTIES HELD FOR SALE UNDER FORECLOSURE

As at June 30, 2015, there are no properties (December 31, 2014 - 1 property) held for sale under foreclosure as follows:

| | As at June 30, 2015 | As at December 31, 2014 |
|---|---|---|
| | $ | $ |
| Properties held for sale under foreclosure - at cost | - | 838,083 |
| Unrealized change in fair value of properties held for sale under foreclosure | - | (48,403) |
| Fair value - end of period | - | 789,680 |

The following table shows a reconciliation of the opening and closing balance of fair value of the properties held for sale under foreclosure:

| | Six months ended June 30, 2015 | Year ended December 31, 2014 |
|---|---|---|
| | $ | $ |
| Properties held for sale under foreclosure - beginning of period | 789,680 | 917,083 |
| Additions | - | 24,109 |
| Disposals | (789,680) | (187,512) |
| Unrealized change in fair value | - | 36,000 |
| Properties held for sale under foreclosure - end of period | - | 789,680 |

## 8. BANK LINE OF CREDIT

As at June 30, 2015, the Company had a revolving line of credit with a limit of $21,000,000 with a major Canadian chartered bank. It is secured by a General Security Agreement and a first ranking interest in the mortgages and is repayable on demand. The availability of funds may be cancelled or restricted by the bank at any time. The credit facility bears interest at bank prime rate of 3.00% (December 31, 2014 - 3.00%) plus 1%.

Financial covenants require the Company to maintain a minimum level of equity, debt to equity ratio and percentage of residential mortgages. The Company was in compliance with the bank's financial covenants for all periods covered in these financial statements.

## 9. CAPITAL STOCK

**Authorized capital:**
The authorized capital consists of an unlimited number of voting, non-cumulative common shares.

**Changes during the periods:**

| | Six months ended June 30, 2015 | | Year ended December 31, 2014 | |
|---|---|---|---|---|
| | Number of shares issued | $ | Number of shares issued | $ |
| Balance, beginning of period | 4,610,052 | 138,301,639 | 4,102,680 | 123,080,458 |
| Issued for cash | 517,119 | 15,513,574 | 637,215 | 19,116,464 |
| Issued through dividend reinvestment plan | 89,322 | 2,679,662 | 187,030 | 5,610,900 |
| Redeemed | (1,781) | (53,425) | (316,873) | (9,506,183) |
| Balance, end of period | 5,214,712 | 156,441,450 | 4,610,052 | 138,301,639 |

**Dividend reinvestment plan and direct share purchase plan**
Unless a shareholder elects to receive their dividends as a cash payment, the dividends paid to shareholders are automatically reinvested in the Company by the direct purchase of shares at the current market price.

**Redemptions**
Shareholders may only redeem common shares once per year, on November 30, except in certain unusual circumstances. During the period ended June 30, 2015, 1,781 common shares were redeemed for cash at the price of $30 per share for total proceeds of $53,425. During the period ended June 30, 2014, 6,872 common shares were redeemed for cash at the price of $30 per share for total proceeds of $206,159. For the year ended December 31, 2014, 316,873 common shares were redeemed for cash at the price of $30 per share for total proceeds of $9,506,183.

## 10. RELATED PARTIES

Pillar Financial Services Inc. ("Pillar") is the Administrator for the Company. Its responsibilities include originating loan transactions, underwriting the mortgages, collecting mortgage payments, and the internal audit and accounting for the Company.

W.A. Robinson Asset Management Ltd. ("W.A.") is the Manager for the Company and provides portfolio management advice and investment counsel to the Company.

**10 RELATED PARTIES** (Continued)

The companies are related in that they share common management. Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees paid to Pillar for the six months ended June 30, 2015 were $672,103 (six months ended June 30, 2014 - $672,103) and the total fees paid to W.A. for the six months ended June 30, 2015 were $759,476 (six months ended June 30, 2014 - $759,476) under these contracts. These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the parties.