FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In Canadian Dollars)

NOTICE TO READER

Frontenac Mortgage Investment Corporation (the "Company") is re-filing its interim condensed financial statements for the six months ended June 30, 2018 and 2017 as a result of a review by staff of the Ontario Securities Commission (the "OSC") to correct and enhance certain disclosures made substantially related to the Company's adoption and implementation of *International Financial Reporting Standard 9 – Financial Instruments* ("IFRS 9"). These financial statements were amended to include enhanced disclosure in note 3(a)(i) Mortgage Investments of the processes employed in calculating the allowance for credit losses on its mortgage loan portfolio. The disclosures now include additional information on the method used to estimate the allowance for expected credit losses and more detailed information on the criteria used by management to determine whether an individual loan is considered to be in Stage 1, 2, or 3 for purposes of calculating the allowance. In addition, Note 6 Mortgage Investments was amended to include a detailed tabular breakdown of the components of the allowance for credit losses by mortgage type and classification groupings of each type into Stage 1, 2, or 3 for purposes of the allowance. Note 2(a) Basis of Presentation was amended to reflect approval of the Board of Directors of these amended financial statements on January 16, 2019. The original statements were approved by the Board of Directors for issuance on August 16, 2018 and filed on SEDAR on August 28. 2018.

All other information contained in these financial statements remain materially unchanged. There has been no change in the financial results reported.

Notice Under National Instrument 81-106 (para 2.12): The independent external auditor, MNP LLP, has not performed a review of these financial statements for the six months ended June 30, 2018 and 2017.

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INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2018 AND 2017

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FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

	As at June 30, 2018 $	As at December 31, 2017 $
ASSETS		
Due from administrator in trust (Note 5)	1,417,756	574,788
Accrued interest receivable	11,740,448	10,251,803
Mortgage investments (Note 6)	209,051,591	189,980,578
Prepaid expenses	9,710	16,200
	222,219,505	200,823,369
LIABILITIES		
Bank indebtedness (outstanding cheques)	34,646	79,627
Bank line of credit (Note 7)	22,550,000	16,580,000
Dividends payable	361,590	428,662
Accounts payable and accrued expenses	163,953	192,852
Prepaid mortgage payments	212,679	316,111
	23,322,868	17,597,252
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY (Note 8)	198,896,637	183,226,117
NUMBER OF SHARES ISSUED AND OUTSTANDING (Note 8)	6,662,955	6,141,401
NET ASSETS PER SHARE	29.85	29.84

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, 2018 $	Six months ended June 30, 2017 $
INTEREST INCOME	9,262,829	7,620,241
EXPENSES		
Administration and management fees (Note 9)	2,287,000	2,098,671
Audit fees	47,198	45,905
Director fees	63,651	51,386
General and operating expenses	172,477	242,142
Interest on bank line of credit	405,372	643
Legal fees	45,331	31,431
Provision for mortgage credit losses	54,167	79,624
Realized losses on mortgages	675,250	419,437
	3,750,446	2,969,239
NET INCOME AND COMPREHENSIVE INCOME	5,512,383	4,651,002
WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	6,562,361	6,550,707
NET INCOME PER SHARE	$ 0.84	$ 0.71

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, 2018 $	Six months ended June 30, 2017 $
NET ASSETS, beginning of period	183,226,117	191,904,019
Increase in net assets from operations	5,512,383	4,651,002
Share capital transactions		
Proceeds from issuance of shares for cash	13,104,441	5,484,090
Reinvested distributions	2,957,292	2,589,745
Cost of shares redeemed	(491,213)	(897,438)
	15,570,520	7,176,397
Distributions to shareholders		
Dividends to shareholders	(5,412,383)	(4,651,002)
NET ASSETS, end of period	198,896,637	199,080,416

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, 2018 $	Six months ended June 30, 2017 $
CASH FROM OPERATING ACTIVITIES		
Net income	5,512,383	4,651,002
Items not requiring an outlay of cash:		
Allowance for credit losses on mortgages	54,167	79,624
Realized losses on mortgages	675,250	419,437
Changes in non-cash balances:		
(Increase)/decrease in due from administrator in trust	(842,968)	876,485
Increase in accrued interest receivable	(1,488,645)	(1,720,237)
Decrease in prepaid expenses	6,490	19,226
Decrease in dividends payable	(67,072)	(54,244)
Decrease in accounts payable and accrued expenses	(28,899)	(66,812)
Decrease in prepaid mortgage payments	(103,432)	(9,102)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,717,274	4,195,379
FINANCING ACTIVITIES		
Proceeds from issuance of shares for cash	13,104,441	5,484,090
Increase in bank line of credit	5,970,000	-
Redemption of common shares	(491,213)	(897,438)
Cash dividends	(2,455,091)	(2,061,257)
NET CASH PROVIDED BY FINANCING ACTIVITIES	16,128,137	2,525,395
INVESTING ACTIVITIES		
Investment in mortgages	(57,993,155)	(38,601,178)
Repayment of mortgages	38,192,725	38,704,097
NET CASH PROVIDED BY INVESTING ACTIVITIES	(19,800,430)	102,919
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,981	6,823,693
CASH AND CASH EQUIVALENTS, beginning of period	(79,627)	8,026,202
CASH AND CASH EQUIVALENTS / (BANK INDEBTEDNESS), end of period	(34,646)	14,849,895
Additional information:		
Interest received	7,774,184	5,900,004
Interest paid	405,372	643

The accompanying notes are an integral part of these financial statements

STATEMENT OF INVESTMENT PORTFOLIO
(UNAUDITED)
AS AT JUNE 30, 2018
(In Canadian Dollars)

INVESTMENT PORTFOLIO

	Percentage of Portfolio	Principal value $	Amortized Cost $	Fair Value $
Private mortgages	105.11 %	212,605,953	209,051,591	209,051,591
Cash & other assets	6.23 %			12,395,046
Bank line of credit	(11.34)%			(22,550,000)
Net assets	100.00 %			198,896,637

DISTRIBUTION OF MORTGAGES

Interest Rate	Number of Mortgages	Amortized Cost $	Current Value $
5% or less	5	10,778,047	10,778,047
6%	-	-	-
7%	20	6,114,988	6,114,988
8%	116	38,679,068	38,679,068
9%	255	58,910,509	58,910,509
10%	242	64,318,748	64,318,748
11%	35	13,243,298	13,243,298
12%	35	17,006,933	17,006,933
Totals	708	209,051,591	209,051,591

Mortgages are 91.5% residential and 2.2% commercial and 6.3% 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 of the Company have been prepared by management in accordance with the International Accounting Standards (“IAS”) 34, Interim Financial Reporting as issued by the International Standards Board (“IASB”). The preparation of these unaudited interim condensed financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards (“IFRS”) and with National Instrument 81-106 Investment Funds Continuous Disclosure ("NI 81-106"). 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, 2017.

These financial statements were approved for issue by the Board of Directors on January 16, 2019.

(b) Change in Accounting Policy

Effective January 1, 2018 the Company adopted IFRS 9 Financial Instruments (“IFRS 9”) which replaced IAS 39 - Financial Instruments: Recognition and Measurement, which was the previous financial instrument accounting guidance. IFRS 9 addresses classification and measurement of financial assets and liabilities, as well as impairment of financial assets.

IFRS 9 was applied on a retrospective basis. As permitted, prior period comparative financial statements were not restated. They are reported under IAS 39 and are therefore not comparable to the information presented for 2018.

The adoption of IFRS 9 on January 1, 2018 resulted in changes in accounting policies for mortgages receivable which became effective January 1, 2018. It was opted for that any measurement difference in the carrying amounts on January 1, 2018 would be recognized through an adjustment to retained earnings on that date. As at January 1, 2018 management’s statistical analysis indicated that there was an immaterial difference and therefore no adjustment was required to be made to the allowance due primarily to the short-term duration of the financial assets held.

Financial liabilities continue to be recognized at fair value net of transaction costs and are subsequently measured at amortized cost. (see 3h ii)

Other financial assets have been and continue to be recognized consistent with the requirements of IFRS 9. (see 3h i)

(c) 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.

(d) Functional and presentation currency

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

2. BASIS OF PRESENTATION (Continued)

(e) Use of estimates and judgements

The preparation of financial statements in accordance with IFRS 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.

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 as to whether the credit risk of a mortgage has changed significantly since initial recognition and is also required to determine the impairment of mortgage investments. The Company considers a number of factors when assessing if there has been a significant increase in credit risk. Mortgages with payments over 30 days in arrears are immediately flagged as potentially being in Stage 2. Other factors that the Company considers when confirming if there has been a significant increase in credit risk include changes in the financial condition of the borrower, responsiveness of the borrower, and other borrower or property specific information that may be available. Mortgage investments are considered to be 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 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.

The Company has incorporated forward looking information through the use of an Autoregressive Distributed Lag (“ARDL”) model. ARDL models allow the Company to forecast various statistics and assess the material impact, or lack thereof, of certain information on its performance. Information was selected for inclusion in the model based on evidence that it materially explains the likelihood of mortgage impairment as well as operating statistics specific to the Company’s mortgage portfolio which proxy the lending environment in the Company’s target market. Specifically, the Company included information on borrower credit score, loan to value ratio, debt servicing ratio, borrower age, portfolio net cash position, current portfolio impairment levels, and current portfolio net return. National statistics and macroeconomic forecasts were not included as they are not statistically significant indicators of future performance due to the geographically restricted and relatively small size of the Company’s lending business.

IFRS 9 uses an expected credit loss ("ECL") model to determine the provision for credit losses.

The ECL allowances are calculated through three probability-weighted forward-looking scenarios including base, optimistic, and pessimistic, that measures the expected cash shortfalls on the financial assets related to default events either (i) over the next 12 months or (ii) over the expected life based on the maximum contractual period over which the Company is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Company is exposed to credit risk and where the credit losses would not be mitigated by management actions. The three scenarios are updated at each reporting date, and the probability weights and the associated scenarios are determined through a management review process that involves significant judgement and review by the Company's Finance and Risk management groups.

Upon initial recognition of financial assets, the Company recognizes a 12-month ECL allowance which represents the portion of lifetime ECL that result from default events that are possible within the next 12 months (Stage 1). If there has been a Significant Increase in Credit Risk ("SICR"), the Company then recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the financial asset (Stage 2). The SICR is determined through changes in the lifetime probability of default ("PD") since initial recognition of the financial assets, using a combination of borrower specific and account specific attributes with a presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This assessment considers all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Company's credit risk assessment. Criteria for assessing SICR are defined at a portfolio level and vary based on the risk of default at the origination of the portfolio. If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowances will revert back to be measured based on a 12-month ECL, and the financial asset will transfer from Stage 2 back to Stage 1. Stages 1 and 2 comprise all non-impaired financial assets.

Management developed a modeling of the Stage 2 estimate which requires a reassessment of the overall credit risk resulting from a SICR. The model developed for SICR assumes a complete degradation in credit quality as proxied by the borrower's Beacon Score. This enters into a logistic regression to estimate lifetime probability of default based on this new assumption. The lifetime probability of default estimate then enters into the Survival Analysis as a parameter to allow probability of default to be estimated over the remaining term to maturity.

In addition, management exercises expert credit judgements in assessing exposures that have experienced a SICR and in determining the amount of ECL allowances required at each reporting date by considering reasonable and supportable information that are not already included in the quantitative models. Expert credit judgements are performed by considering emergence of economic, environmental or political events, as well as expected changes to parameters, models or data that are not currently incorporated. Significant judgements made by management may impact the amount of ECL allowances recognized. ECL is calculated as the product of PD, loss given default ("LGD"), and exposure at default ("EAD"), and is calculated over the remaining expected life of the financial asset and discounted to the reporting date at the respective effective interest rate. PD measures the estimated likelihood of default over a given time period. PD estimates are updated for each scenario at each reporting date and is based on current information. LGD provides the estimate of loss when default occurs at a given time, and is determined based on historical write-off events, recovery payments, borrower specific attributes and direct costs. The estimate is updated at each reporting date for each scenario based on current information. EAD estimates the exposure at the future default date.

Financial assets with objective evidence of impairment as a result of loss events that have a negative impact on the estimated future cash flows are considered to be impaired requiring the recognition of lifetime ECL allowances. (Stage 3). Deterioration in credit quality is considered an objective evidence of impairment and includes observable data that comes to the attention of the Company, such as significant financial difficulty of the borrower. The Company defines default as when there is identification of objective evidence of impairment (which could, for example, be delinquency of 90 days or more). A financial asset is no longer considered impaired when past due amounts have been recovered, and the objective evidence of impairment is no longer present.

Financial assets are written off, either partially or in full against the related allowances for credit losses when the Company believes there are no reasonable expected future recoveries through payments or the sale of the related security. Any recoveries of amounts previously written off are credited against provision for credit losses in the statements of income.

Loan Modification

The Company defines loan modification as changes to the original contractual terms of the financial asset that represents a fundamental change to the contract or changes that may have a significant impact on the contractual cash flow of the asset. The Company derecognizes the original asset when the modification results in significant change or expiry in the original cash flows; a new asset is recognized based on the new contractual terms. The new asset is assessed for staging and SICR to determine the corresponding ECL measurement required at the date of modification. If the Company determines the modifications do not result in derecognition, then the asset will retain its original staging and SICR assessments."

(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. As explained in more detail in Note 6, management makes its determination of fair value of mortgages by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk.

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 calculated on the gross carrying amount for each mortgage receivable in Stage 1 and Stage 2 and interest is not accrued on the mortgage receivable identified as being in Stage 3.

(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

Mortgages receivable are a financial asset and are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method. The Company's business model is to hold mortgages receivable to collect cash flows that represent solely payments of principal and interest. Mortgages receivable are assessed for impairment at the end of each reporting period in accordance with IFRS 9 as outlined below and are presented net of provisions for mortgages losses on the interim statement of financial position.

IFRS 9 uses an ECL model to determine the provision for credit losses. The ECL model is forward looking and results in a provision for mortgage losses being recorded on the financial statements regardless if there has been a loss event. ECLs are the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received.

The ECL model uses a three-stage impairment approach based on changes in the credit risk of the financial asset since initial recognition. The three stages are as follows: Stage 1 – financial assets that have not experienced a significant increase in credit risk since initial recognition. Stage 2 – financial assets that have experienced a significant increase in credit risk between initial recognition and the reporting date. Stage 3 – financial assets for which there is objective evidence of impairment at the reporting date. The company considers a number of factors (see 2e i) when assessing if there has been a significant increase in credit risk.

The ECL model requires the recognition of credit losses equal to 12-month ECLs for Stage 1 financial assets and ECLs for the remaining life of the financial assets (lifetime expected credit losses) for financial assets classified as Stage 2 and 3. The lifetime expected credit losses represent the expected loss in value due to possible defaults events over the life of the financial instrument weighted by the likelihood of a loss. Three factors are primarily used to measure ECLs: probability of default, loss given default) and exposure at default . These factors are used to estimate the ECLs for mortgages receivable classified at Stage 1. When mortgages receivable are considered to have experienced a significant increase in credit risk (Stage 2) or are considered to be impaired (Stage 3), each loan category is assessed and the ECL estimated (on an individual basis for those mortgages in Stage 3). A loan 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 loan.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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.

(e) 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.

(f) Net assets

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

(g) 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.

(h) Financial assets and liabilities

The Company's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as measured at amortized cost. 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: measured at amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income (“FOCI”). Financial liabilities are classified as: FVTPL 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 measured at amortized cost.

(ii) Financial liabilities:

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

(i) 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"). 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 16 - Leases ("IFRS 16")

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement contains a Lease, SIC - 15 Operating Leases - Incentives and SIC - 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the condensed interim financial statements with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as a property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company is currently assessing the impact of IFRS 16 to its financial statements. Based on a preliminary assessment of the standard the Company does not expect this standard to have a significant impact on its financial statements.

(ii) IFRS 15 - Revenue from Contract with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, replacing the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers with the exception of revenue earned from contracts within the scope of other standards such as financial instruments, insurance contracts and leases. IFRS 15 became effective January 1, 2018. As mortgage investments are financial instruments, and therefore out of the scope for IFRS 15, IFRS 15 did not have a material impact on the Company's financial statements.

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 targets to maintain a cash reserve (consisting of cash, near cash investments, and the Company’s approved credit line) of approximately 5% of its net 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 sufficient cash reserves are maintained to meet shareholder redemption requests. As at June 30, 2018 the cash reserve was 3.9% (December 31, 2017 – 7.0%), which approximates the 5.0% target 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 (Continued)

There are 708 mortgages (December 31, 2017 - 638) held which are a combination of mainly first and second mortgages secured by residential, commercial property, and property under development. First mortgages represent 99% of outstanding mortgages (December 31, 2017 - 99%) Mortgage investments consist of the following:

	As at June 30, 2018 $	As at December 31, 2017 $
Mortgages	$212,605,953	$193,480,773
Allowance for credit losses	(3,554,362)	(3,500,195)
	$209,051,591	$189,980,578

Broken down by mortgage investments and allowance for credit losses as follows:

Gross investments at amortized cost	As at June 30, 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial	3,695,506	363,261	519,814	4,578,581
Residential	99,897,384	1,367,704	3,969,253	105,234,341
Residential construction	41,185,853	168,535	618,897	41,973,285
Residential developments	31,111,820		16,364,246	47,476,066
Vacant land	12,026,494	1,058,092	259,094	13,343,680
	187,917,057	2,957,592	21,731,304	212,605,953

Allowance for credit losses on loans	As at June 30, 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commercial	1,410			1,410
Residential	111,839	13,115	495,298	620,252
Residential construction	56,545	14,571		71,115
Residential developments	1,346		2,693,669	2,695,015
Vacant land	10,058	13,231	143,280	166,569
	181,198	40,917	3,332,247	3,554,362

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, 2018, there are 21 mortgages totaling $21,731,000 (December 31, 2017 - 24 mortgages totaling $7,930,000) 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 fair value of collateral held against impaired mortgages at June 30, 2018 was approximately $18,734,000 (December 31, 2017 - $3,549,000).

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

	Six months ended June 30, 2018	Six months ended June 30, 2017
	$	$
Balance - beginning of period	3,500,195	1,754,000
Change in provision for credit losses for period	54,167	79,624
Balance - end of period	3,554,362	1,833,624

Principal repayments based on contractual maturity dates are as follows:

	$
Next 12 months to June 30, 2019	193,968,000
Following 12 months to June 30, 2020	14,114,000
Thereafter	969,591
Total	209,051,591

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, 2018 was 9.13% (December 31, 2017 - 9.05%).

Mortgages past due but not impaired are as follows:

	June 30, 2018	December 31, 2017
	$	$
1 to 30 days	5,428,703	2,658,036
31 - 90 days	1,216,398	525,474
over 90 days	1,741,194	5,871,121
Total	8,386,295	9,054,631

6. MORTGAGE INVESTMENTS (Continued)

Credit risk

Credit risk Is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage lending activities. Fluctuations in real estate values may reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure. 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. This would include ensuring, at origination, that the value of the mortgage never exceeds 80% of the appraised value of the property. Due to the short term duration of the financial assets held, the quality of the collateral tends to be impacted more so by specific factors relating to the borrower, such as their ability to maintain the property, as opposed to market fluctuations. The maximum exposure to credit risk at June 30, 2018 is the carrying values of its mortgage investments, including accrued interest receivable, which total $220,792,039 (December 31, 2017 - $200,232,381). 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.

When it is determined that there is a shortfall resulting after the sale of the property held as collateral, the Company will instruct legal counsel to pursue the mortgagor and or, if applicable, the guarantor, provided there is reasonable assurance of recovery. Likewise, in some cases further collection action is taken against other parties involved in the mortgage transaction when it is reasonable to assume they may have been negligent in fulfilling their responsibilities. In all cases, the shortfall is written off immediately and any recoveries included into income when received.

There are no significant concentrations of credit risk as the average mortgage amount as at June 30, 2018 was $300,291 (December 31, 2017 - $304,013) and the largest mortgage was $13,432,040 (December 31, 2017 - $13,271,049).

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. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. Typically, the fair value of the Company's mortgage investments approximate their carrying amounts given the amounts consist of short-term loans that are repayable at the option of the borrower at any time without significant penalties.

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, 2018, the Company's financial obligations and commitments consisted of bank indebtedness in the amount of $34,646 (December 31, 2017 $79,627), accounts payable and accrued expenses totaling $163,953 (December 31, 2017 - $192,852) and dividends payable totaling $361,590 (December 31, 2017 - $428,662). Accounts payable and accrued expenses along with dividends payable are all 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 $22,550,000 as at June 30, 2018 (December 31, 2017 - $16,580,000).

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, 2018, the Company's committed borrowing facilities represented approximately 15% of net assets (December 31, 2017 - 15% 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. BANK LINE OF CREDIT

The Company has established a revolving line of credit with a major Canadian bank for an amount equal to 15% of the net assets of the Company subject to a maximum limit of $29,000,000. 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 3.45% (December 31, 2017 - 3.20%) 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.

8. CAPITAL STOCK

The beneficial interests of the Company are represented by a single class of shares, designated as common shares, which are unlimited in number and without par value. Each share carries a single vote at any meeting of shareholders and carries the right to participate pro rata in any dividends.

Changes during the periods to issued and outstanding shares of the Company:

	Six months ended June 30, 2018		Year ended December 31, 2017	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of period	6,141,401	183,226,117	6,396,798	191,904,019
Issued for cash	439,157	13,104,441	187,160	5,614,809
Issued through dividend reinvestment plan	98,859	2,957,292	172,746	5,182,391
Redeemed	(16,462)	(491,213)	(615,303)	(18,459,102)
Undistributed Net Earnings/(Additional Provision for Loss)		100,000		(1,016,000)
Balance, end of period	6,662,955	198,896,637	6,141,401	183,226,117

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, 2018, 16,462 common shares were redeemed for cash at the price of $29.84 per share for total proceeds of $491,213. During the period ended June 30, 2017, 29,915 common shares were redeemed for cash at the price of $30 per share for total proceeds of $897,438. For the year ended December 31, 2017, 615,303 common shares were redeemed for cash at the price of $30 per share for total proceeds of $18,459,102.

The Company had no potentially dilutive instruments as at June 30, 2018, December 31, 2017, or June 30, 2017.

9. 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.

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, 2018 were $1,073,680 (six months ended June 30, 2017 - $984,949) and the total fees paid to W.A. for the six months ended June 30, 2018 were $1,213,320 (six months ended June 30, 2017 - $1,113,722) 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.

10. ADJUSTMENT TO FINANCIAL STATEMENTS

The Company is re-filing its interim condensed financial statements for the six months ended June 30, 2018 and 2017 to correct and enhance certain disclosures made substantially related to the Company's adoption and implementation of *International Financial Reporting Standard 9 – Financial Instruments* ("IFRS 9"). These financial statements were amended to include enhanced disclosure in note 3(a)(i) Mortgage Investments of the processes employed in calculating the allowance for credit losses on its mortgage loan portfolio. The disclosures now include additional information on the method used to estimate the allowance for expected credit losses and more detailed information on the criteria used by management to determine whether an individual loan is considered to be in Stage 1, 2, or 3 for purposes of calculating the allowance. In addition, Note 6 Mortgage Investments was amended to include a detailed tabular breakdown of the components of the allowance for credit losses by mortgage type and classification groupings of each type into Stage 1, 2, or 3 for purposes of the allowance. Note 2(a) Basis of Presentation was amended to reflect approval of the Board of Directors of these amended financial statements on January 16, 2019. The original statements were approved by the Board of Directors for issuance on August 16, 2018 and filed on SEDAR on August 28. 2018.

All other information contained in these financial statements remain materially unchanged. There has been no change in the financial results reported.