FN Mortgage Investment Trust

Interim Management Report of Fund Performance
Interim Unaudited Financial Statements
For the period ended January 1 – June 30, 2013

FN Mortgage Investment Trust

Interim Management Report of Fund Performance for the period

January 1, 2013 to June 30, 2013

Fund:
FN Mortgage Investment Trust (the "Mortgage Trust")

Securities:
Unlisted Trust units

Period:
January 1, 2013 to June 30, 2013

Manager:
Stone Asset Management Limited
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Notes:

1. This Interim Management Report of Fund Performance contains financial highlights but does not contain the complete Interim Financial Statements of the Mortgage Trust. You can get a copy of the Interim Financial Statements at your request, and at no cost, by contacting us (contact information above) or on SEDAR at www.sedar.com. Security holders may also contact us to request a free copy of First National Mortgage Investment Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

2. This report may contain forward looking statements. Forward looking statements involve risks and uncertainties and are predictive in nature and actual results could differ materially from those contemplated by the forward looking statements.

3. Unless otherwise indicated all information is as at June 30, 2013.

4. None of the websites that are referred to in this Interim Management Report of Fund Performance, nor any of the information on any such websites, are incorporated by reference in this Interim Management Report of Fund Performance.

Investment Objectives and Strategies

The FN Mortgage Investment Trust (the "**Mortgage Trust**) was created to provide economic exposure to a diversified portfolio (the "**Portfolio**") of mortgages which will be for the benefit of the First National Mortgage Investment Fund through a forward agreement. The investment objectives of the Mortgage Trust are to:

(i) preserve capital.

The Mortgage Trust was created to obtain exposure to a diversified portfolio (the "**Portfolio**") of Mortgages originated by First National Financial LP (the "**Mortgage Advisor**" or "**First National**"), a wholly owned subsidiary of First National Financial Corporation.

The Mortgage Trust will seek to accomplish its investment objectives through prudent investments in short term Mortgages (typically 12-36 months) primarily on multi-unit residential and commercial mortgages across Canada. Mortgages will be secured primarily by income producing Real Property where the principal and interest can be serviced from cash flow generated by the underlying Real Property.

Results of Operations

The First National Mortgage Investment Fund (the "Investment Fund") completed an initial public offering ("IPO") of 5,520,000 units (4,600,000 Class A units and 920,000 Class H units, together the "Unit Offering") on December 19, 2012, raising $55,200,000 in gross proceeds. The proceeds of the offering, net of underwriters' fees of $2,415,000 and $690,000 of other offering expenses on the Class A units, were use to purchase a basket of common shares as described below. The Investment Fund's over-allotment option was exercised on January 7, 2013, such that an additional 290,000 Units were issued for $2,900,000 million in gross proceeds. The proceeds of the offering, net of underwriters' fees of $152,250 and $43,500 of other offering expenses, were use to purchase an additional basket of common shares. In total, 58,100,000 units were issued at $10 per Unit. On December 21, 2012, and subsequently on January 10, 2013, the Investment Fund entered into forward agreements with the Mortgage Trust such that $54,759,247 of capital was raised by the Mortgage Trust.

Although the initial forward agreement was entered into on December 21, 2012, because of timing on the settlement of the transaction and statutory holidays in the period, the first portfolio of mortgages was purchased by the Mortgage Trust on December 28, 2012 for approximately $22.8 million. In the six month period ended June 30, 2013 the Mortgage Trust invested the remaining funds raised on the IPO. In May 2013 the Mortgage Trust entered into a credit facility with a Canadian Bank. This $10 million revolving line of credit allows the Mortgage Trust to invest in additional mortgages and add leverage to increase unitholder returns. As at June 30, 2013, the Mortgage Trust had mortgages receivable of $57,063,776. The Mortgage Trust earned interest revenue from the Portfolio for the six month period as well as interest on cash balances invested prior to full investment of IPO proceeds. The statement of operations showed interest revenue of $2,089,392 and expenses of $398,875 for a net increase in net assets from operations of $1,690,517. The gain results primarily from the return from the Portfolio yielding approximately 9.43% over the operating costs of the Mortgage Trust.

As at June 30, 2013, net assets per unit of the Mortgage Trust was $10.31 compared to the NAV as at December 31, 2012 of $10.00. For the period ended June 30, 2013, the Mortgage Trust recorded a net increase in net assets from operations of $1,690,517, about $0.31 per unit.

During the period ended June 30, 2013, the Mortgage Trust invested in 20 mortgages with an aggregate carrying value of $43,443,022 with an average effective interest rate of 9.29%. As at June 30, 2013, the Portfolio consists of $57,063,776 of first, subordinated first, second and third mortgages with an average term to maturity of seventeen months. The Mortgage Trust's return was driven primarily by interest income on these mortgages.

The six month period began with an asset mix weighted more heavily toward cash as there was insufficient time to originate the mortgages as specified in the prospectus. At December 31, 2012, there was $29,201,949 invested in cash and cash equivalents awaiting investment in appropriate mortgage assets. At June 30, 2013, the assets were virtually all invested in mortgages receivable.

The composition of the Portfolio at June 30, 2013 was consistent with the investment objectives and strategy of the Mortgage Trust. Portfolio capital was deployed primarily in floating rate loan positions with an average loan to value ratio of 70.1% that are typically with large borrowers with whom the Mortgage Advisor has a history of experience.

Recent Developments

Global macroeconomic concerns continue to dominate financial headlines and weigh on investor sentiment. The Manager expects these issues will continue to draw attention for some time with markets intermittently focusing on the latest developments resulting in periods of higher volatility. The Mortgage Advisor believes this volatility will keep interest rates low in Canada. Accordingly, real estate financing will continue to be cheap in comparison to the typical interest rate environment in Canada over the past twenty-five years. This environment will provide incentive for real estate developers to take on new transactions and require the type of mortgage lending which the Mortgage Trust is offering. In June 2013, favorable economic indicators took some pressure off North American central banks to maintain interest rates at the current low rates. The message, particularly in the United States, was for a reduction in government activity designed to keep interest rates low. In response, bond markets sold off as investors demanded higher returns and bond yields increased by 0.50% in the month. Subsequent to June 30, 2013, markets lost momentum and the increase in interest rates has abated.

International Financial Reporting Standards

On December 12, 2011, the Canadian Accounting Standards Board (''AcSB'') made a decision to extend the deferral of the adoption of International Financial Reporting Standards (''IFRS'') by investment companies for an additional year to January 1, 2014. This extends the previous two-year deferral of IFRS to three years as compared to other publicly accountable entities. Consequently, IFRS will be applicable to the Mortgage Trust for the fiscal year beginning January 1, 2014. At the transition date the prior fiscal year financial statements will require restatement to IFRS for comparative purposes.

The deferral is to provide time for the International Accounting Standards Board (''IASB'') to finalize its guidance on investment entities such that a final standard could be issued after January 1, 2013, the previously established changeover date for investment companies in Canada.

The Mortgage Trust has reviewed the existing body of IFRS against its current policies under Canadian GAAP and has noted certain policy differences, the most notable is the requirement to consolidate the financial results of the Investment Fund with Mortgage Trust. Currently, investment entities would have to follow the consolidation requirements as set out in IFRS 10 Consolidated Financial Statements because IFRS does not differentiate between them and other entities. As a result, they would have to consolidate their financial statements with that of an entity they are investing in if they control that entity. As part of a project on consolidated financial statements, the IASB published an Exposure Draft (''ED'') for Investment Entities on August 25, 2011, that proposes an exception to the principle in IFRS that an entity consolidates all controlled entities. Instead, the ED would require an entity that meets the criteria to be an investment entity to measure all controlled investments at fair value, with changes recognized in profit or loss. On October 31, 2012 the IASB finalized IFRS 10; under IFRS 10 Investment Entities are exempt from consolidating financial statements provided that the entity meets the criteria of an Investment Entity. The Manager has reviewed the guidance and has determined that the Mortgage Trust qualifies for the exemption from consolidation given that the Mortgage Trust has the following typical characteristics of an Investment Entity. The Mortgage Trust has more than one investment in its portfolio as well as multiple investors who are not related parties of the Mortgage Trust, and finally the Mortgage Trust assigns ownership interest in the form of securities.

Apart from this, other major changes identified include the addition of a statement of cash flows and the classification of unitholder's equity (puttable instruments) as a liability unless certain conditions are met, as well as more extensive note disclosure requirements. These changes will not have an impact on the Mortgage Trust's results of operations or financial position.

The process of evaluating the potential impact of IFRS on the financial statements is ongoing, as the IASB and the AcSB continue to issue new standards and recommendations.

Related Party Transactions

The Manager and the Mortgage Trust are deemed to be related parties. Please refer to the section titled ''Management Fees'', which outlines the fees paid to the Manager. The Manager and the Mortgage Trust were not party to any other related party transactions during the period ended June 30, 2013. The Independent Review Committee approved the Fund's purchase of any mortgage where there was an identified conflict of interest with the Mortgage Investment Advisor.

Financial Highlights

The following tables show selected key financial information about the Mortgage Trust and are intended to help you understand the Mortgage Trust's financial performance since inception.

THE MORTGAGE TRUST'S NET ASSETS PER UNIT[1]

	For the period ended June 30 2013	For the period ended December 31 2012
Net Assets, beginning of period [3]	**$10.00**	**$10.00**
Increase (decrease) from operations:		
Total revenue	**0.39**	**0.01**
Total expenses	**(0.08)**	**(0.01)**
Unrealized gains (losses) for the period	**0.00**	**0.00**
Total increase from operations [2]	**0.31**	**0.00**
Distributions:		
From income (excluding dividends)	**0.00**	**0.00**
From dividends	**0.00**	**0.00**
From capital gains	**0.00**	**0.00**
Return of capital	**0.00**	**0.00**
Total Distributions	**0.00**	**0.00**
Net Assets, end of period	**$10.31**	**$10.00**

Notes:

[1] This information is derived from the Mortgage Trust's unaudited interim financial statements.

[2] Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase from operations is based on the weighted average number of units outstanding over the financial period.

[3] For 2012, the net assets per unit reflect the issue price of $10.00 on December 21, 2012.

RATIOS AND SUPPLEMENTAL DATA

	2013	2012
Total Net Asset Value [1]	**$54,869,388**	**$52,031,128**
Number of units outstanding [1]	**5,322,654**	**5,205,500**
Management expense ratio [2]	**1.47%**	**2.73%**
Management expense ratio before waivers or absorptions	**1.47%**	**2.73%**
Trading expense ratio [3]	0.00%	0.00%
Portfolio turnover rate [4]	0.00%	0.00%
Net Asset Value per unit	**$10.31**	**$10.00**

Notes:

[1] This information is provided as at December 31 for 2012 and as at June 30 for 2013.

[2] Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and, except as stated in the following sentence, is expressed as an annualized percentage of daily average net asset value during the period.

[3] The trading expense ratio represents total commissions, forward agreement fees and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

[4] The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Management Fees

The Manager is responsible for providing or arranging for all investment advisory and portfolio management services (primarily through the Mortgage Advisor) required by the Mortgage Trust including, without limitation, managing the Portfolio in a manner consistent with the investment objectives, guidelines and restrictions of the Mortgage Trust and for arranging for the execution of all portfolio transactions. The Manager is also responsible for the operational and administrative functions of the Mortgage Trust. As compensation for the management services rendered to the Mortgage Trust, the Manager is entitled to receive an annual management fee from the Mortgage Trust in an amount equal to 0.95% of the net asset value of the Mortgage Trust, which is calculated daily and paid monthly in arrears. From these fees, the Mortgage Advisor is compensated.

Past Performance

Year-by year returns are not provided, in accordance with security regulations, since the Mortgage Trust has not been in existence for a period of more than one year.

Summary of Investment Portfolio

The First National Mortgage Investment Fund has entered into a forward agreement whereby it obtains exposure to the performance of the Portfolio. Accordingly, these financial statements should be read in conjunction with the financial statements of the First National Mortgage Investment Fund. The Management Report of Fund Performance and Financial Statements for FN Mortgage Investment Trust are available to securityholders and can be attained by visiting our website at www.stoneco.com • info@stone.com or by writing to Stone Asset Management Limited, 36 Toronto Street, Suite 710,Toronto, Ontario,M5C 2C5, or on SEDAR at www.sedar.com.

The following is a summary of FN Mortgage Investment Trust's portfolio as at June 30, 2013. This is a summary only and will change due to ongoing portfolio transactions in the Mortgage Trust. A quarterly update will be available on www.stoneco.com.

ALL INVESTMENT HOLDINGS AS AT JUNE 30, 2013

Description	Average Effective Interest Rate	% of Net Asset Value of FN Mortgage Investment Trust
Cash		0.42%
$5,450,000 King City 1st Mortgage	10.54%	9.87%
$5,450,000 Ottawa 2nd Mortgage	10.47%	9.85%
$4,382,293 Winnipeg 1st Mortgage	9.37%	7.87%
$3,988,048 Moncton 1st Mortgage	6.75%	7.24%
$3,922,856 Hamilton 1st Mortgage	7.32%	7.13%
$3,631,617 Calgary 1st Mortgage	10.29%	6.59%
$3,447,272, Multi-Location 1st Mortgage	6.25%	6.26%
$3,360,000 Brantford 1st Mortgage	6.25%	6.12%
$3,200,000 Toronto 1st Mortgage	13.97%	5.80%
$3,030,525 Waterloo 2nd Mortgage	11.01%	5.48%
$2,300,000 Toronto 1st Mortgage	5.91%	4.18%
$2,238,668 Calgary 1st Mortgage	7.59%	4.06%
$1,848,000 Edmonton 1st Mortgage	7.12%	3.36%
$1,800,000 Dartmouth 2nd Mortgage	14.00%	3.25%
$1,402,500 Hamilton 1st Mortgage	15.43%	2.49%
$1,252,000 Regina 1st Mortgage	14.84%	2.24%
$1,200,824 Guelph 1st Mortgage	9.60%	2.18%
$1,200,000 Brampton 2nd Mortgage	11.00%	2.16%
$1,000,000 Brantford 2nd Mortgage	10.50%	1.81%
$997,708 Lloydminster 2nd Mortgage	9.67%	1.80%
$936,000 Montreal 1st Mortgage	5.75%	1.70%
$798,170 Mississauga 3rd Mortgage	9.50%	1.44%
$463,440 Riverview 1st Mortgage	7.86%	0.83%
$161,000 Regina 1st Mortgage	15.25%	0.29%

Interim Financial Statements of

FN Mortgage Investment Trust

For the period January 1, 2013 to June 30, 2013

NOTICE TO READER:

These interim financial statements and related notes for the six-month period ended June 30, 2013 have been prepared by the management of the Mortgage Trust. The external auditors of the Mortgage Trust have not audited or reviewed these interim financial statements.

FN MORTGAGE INVESTMENT TRUST
Statements of Net Assets

As at	June 30, 2013 (unaudited) $	December 31, 2012 (audited) $
ASSETS		
Cash and cash equivalents (Note 7)	**228,079**	**29,201,949**
Mortgages receivable (Note 3 and 7)	**57,063,776**	**22,837,434**
Interest receivable	**383,208**	**46,266**
Deferred costs and sundry receivables	**169,248**	**-**
	57,844,311	**52,085,649**
LIABILITIES		
Bank indebtedness (Note 4)	**2,908,955**	**-**
Accounts payable and accrued liabilities	**65,968**	**54,521**
	2,974,923	**54,521**
NET ASSETS, REPRESENTING EQUITY OF THE UNITHOLDER		
Unitholder's equity	**54,869,388**	**52,031,128**
	54,869,388	**52,031,128**
NUMBER OF UNITS OUTSTANDING	**5,322,654**	**5,205,500**
Net Assets per Unit (Under GAAP and NI-81-106)	**10.31**	**10.00**

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

Approved on behalf of Stone Asset Management Limited:

Richard G. Stone
Director

James Elliott
Director

FN MORTGAGE INVESTMENT TRUST

Statement of Operations (unaudited)

For the period from January 1, 2013 to June 30, 2013*

	$
REVENUE	
Interest income on mortgages receivable	**2,089,392**
	2,089,392
EXPENSES	
Management fees	**291,233**
Interest and finance	**28,885**
Legal	**22,713**
Custodial	**22,712**
Audit	**21,051**
Securityholder reporting	**12,281**
	398,875
NET INCREASE IN NET ASSETS FROM OPERATIONS	**1,690,517**

Statement of Changes in Net Assets

For the period from January 1, 2013 to June 30, 2013

Net assets beginning of period	**52,031,128**
270,440.887 units issued pursuant to over-allotment on subscription (Note 1)	**2,704,247**
Net increase in net assets from operations	**1,690,517**
Redemption of Units pursuant to Forward Contract	**(1,556,504)**
UNITHOLDER'S EQUITY, END OF PERIOD	**54,869,388**
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING IN PERIOD	**5,403,992**
NET CHANGE IN NET ASSETS FROM OPERATIONS PER UNIT	**0.31**

* As the Mortgage Trust was formed on December 21, 2012 there are no comparative figures for the current period.

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

FN MORTGAGE INVESTMENT TRUST
Statement of Investment Portfolio (unaudited)
As at June 30, 2013

Mortgages Receivable	Location	Principal	Fair Value**	% of Net Assets
First Mortgage*	King City	$ 5,450,000	$ 5,413,565	9.87%
Second Mortgage*	Ottawa	5,450,000	5,405,670	9.85%
First Mortgage*	Winnipeg	4,382,293	4,320,278	7.87%
First Mortgage*	Moncton	3,988,048	3,970,084	7.24%
First Mortgage*	Hamilton	3,922,856	3,910,640	7.13%
First Mortgage	Calgary 1	3,631,617	3,616,581	6.59%
First Mortgage*	Multi-Location	3,447,272	3,433,703	6.26%
First Mortgage*	Brantford	3,360,000	3,360,000	6.12%
First Mortgage*	Toronto 2	3,200,000	3,183,345	5.80%
Second Mortgage*	Waterloo	3,030,525	3,007,566	5.48%
First Mortgage*	Toronto	2,300,000	2,295,813	4.18%
First Mortgage*	Calgary 2	2,238,668	2,225,362	4.06%
First Mortgage*	Edmonton	1,848,000	1,841,013	3.36%
Second Mortgage	Dartmouth	1,800,000	1,781,893	3.25%
First Mortgage	Hamilton 2	1,402,500	1,367,911	2.49%
First Mortgage*	Regina	1,252,000	1,229,449	2.24%
First Mortgage*	Guelph	1,200,824	1,194,373	2.18%
Second Mortgage*	Brampton	1,200,000	1,183,763	2.16%
Second Mortgage*	Brantford 2	1,000,000	993,269	1.81%
Second Mortgage*	Lloydminster	997,708	990,216	1.80%
First Mortgage*	Montreal	936,000	933,090	1.70%
Third Mortgage*	Mississauga	798,170	791,779	1.44%
First Mortgage*	Riverview	463,440	457,156	0.83%
First Mortgage*	Regina 2	161,000	157,257	0.29%
Total Mortgage Portfolio (par and fair value) (Note 3)			**$ 57,063,776**	**104.00%**
Cash and cash equivalents			**228,079**	**0.41%**
Other, net assets			**486,488**	**0.89%**
less: bank indebtedness			**(2,908,955)**	**-5.30%**
Total net assets			**$ 54,869,388**	**100.00%**

* Mortgages prepayable without penalty

** As at June 30, 2013, fair value has been determined to be the same as the historical cost of the mortgages, there is no unrealized gains or losses on the receivables

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

1. NATURE OF OPERATIONS

FN Mortgage Investment Trust (the "Mortgage Trust") is a special purpose trust formed on November 27, 2012 under the laws of the Province of Ontario.

The Mortgage Trust actively commenced operations on December 21, 2012, when it was capitalized with $52,055,000 of unit capital pursuant to the execution of a forward agreement contract between a bank counterparty and the First National Mortgage Investment Fund (the "Fund") in conjunction with the closing of the Fund. The investment objectives of the Fund are to: (i) provide holders of the Units ("Unitholders") with tax-advantaged monthly cash distributions; and (ii) preserve capital. On January 10, 2013, pursuant to the exercise of the over-allotment option, an additional $2,704,247 of unit capital of the Mortgage Trust was subscribed for by the bank counterparty under the forward agreement.

The Mortgage Trust and Fund have been created to obtain exposure to a diversified portfolio (the "Portfolio") of mortgages originated by First National Financial LP (the "Mortgage Investment Advisor" or "First National"), a wholly owned subsidiary of First National Financial Corporation. The Fund obtains economic exposure to the Portfolio through a forward agreement (the "Forward Agreement"). The return to the Fund will, by virtue of the Forward Agreement, be based on the performance of the Mortgage Trust which holds the Portfolio. In order to provide the cash flow required by the Fund to pay distributions and its operating costs, the Fund will partially settle the Forward Agreement on a monthly basis with the Mortgage Trust.

The Fund completed an initial public offering of 5,520,000 Units (the "Unit Offering") on December 19, 2012, raising $55,200,000 in gross proceeds. The over-allotment option was exercised on January 7, 2013, such that an additional 290,000 Units were issued for $2,900,000 million in gross proceeds. In total, 58,100,000 units were issued at $10 per Unit.

The Fund contemporaneously entered into the Forward Agreement and increased it subsequent to year end with the exercising of the over-allotment option, such that the net proceeds of the Fund's public offering were invested in the Mortgage Trust. The Mortgage Trust will seek to accomplish its investment objectives through prudent investments in short term mortgages (typically 12-36 months) primarily on multi-unit residential and commercial mortgages across Canada. Mortgages will be secured primarily by income producing real property where the principal and interest can be serviced from cash flow generated by the underlying real property. In general, mortgages generate income through a rate of interest that is typically payable periodically throughout the terms of the mortgages, as well as commitment fees which generally are paid at the time of initial funding.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

(a) Revenue recognition

Interest income – Interest income is recognized at the effective rate and accrued as it is earned until such time as a mortgage is classified as non-performing. When a loan is non-performing, the accrual of interest is discontinued.

(b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash held at the bank and treasury bills. Management considers the carrying amount of cash and cash equivalents to equal their fair value.

(c) Mortgages receivable

Mortgages and loans are designated as “held-for-trading” and are recorded at fair value which is measured initially as the mortgage or loan balance funded less any fees received from the borrower not already recognized in income. Interest income is recorded on the accrual basis provided that the loan or mortgage is not impaired. An impaired loan is any loan, where, in the Mortgage Investment Advisor’s opinion, there has been a deterioration of credit quality to the extent that the Mortgage Trust no longer has reasonable assurance as to the timely collection of the full amount of principal and interest. As the mortgages and loans do not trade in actively quoted markets, the Mortgage Investment Advisor estimates the fair value based upon: market interest rates, credit spreads for similar products, and the specific creditworthiness and status of the borrower. The Mortgage Investment Advisor will consider, but is not limited to considering, the following as part of the creditworthiness and status of a borrower: payment history, value of underlying property securing the loan or mortgage, overall economic conditions, status of construction (if applicable) and other conditions specific to the property or building.

(d) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other liabilities, all of which are carried at amortized cost.

(e) Income taxes

The Mortgage Trust will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including interest, dividends and net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. The Manager has advised counsel that the Mortgage Trust intends to make distributions to Unitholders and to deduct, in computing its income in each taxation year, such amount as will be sufficient to ensure that the Mortgage Trust will not be liable for income tax under Part I of the Tax Act.

(f) Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(g) Changes in Accounting Policies and Recent Pronouncements

The Canadian Institute of Chartered Accountants ("CICA") replaced Canadian GAAP for publicly accountable enterprises with International Financial Reporting Standards ("IFRS") effective January 1, 2011 other than for investment companies as defined in the CICA Handbook, for which transition to IFRS has been deferred to January 2014. As a result, the Fund will adopt IFRS for the fiscal period beginning January 1, 2014, and will issue its first interim financial statements in accordance with IFRS, including comparative IFRS information for the previous fiscal period, for the interim period ending June 30, 2014. The impact of the changeover to IFRS will include the presentations of Statements of Cash Flow; in addition there will be changes to the presentation of Statement of Net Assets around the disclosure of unitholders' equity as per IAS 32 "Financial Instruments Disclosure and Presentation". IAS 32 requires unitholders' equity to be classified as a liability unless certain conditions are met. The Manager has presently determined that the impact of IFRS will be limited to additional note disclosure and modifications to existing presentation. Such assessments may change as a result of issuance of new standards.

3. MORTGAGES RECEIVABLE

As at June 30, 2013, mortgage and loan investments consist primarily of commercial first and second mortgages held for various terms, the majority of which mature within two years.

Mortgages receivable consist of the following*:*

	June 30, 2013 $	**December 31, 2012** $
First Mortgages	32,160,703	15,910,649
Subordinated First Mortgages	10,748,917	4,966,785
Second Mortgages	12,372,161	1,960,000
Third Mortgages	1,781,995	—
Carrying value of mortgage portfolio	57,063,776	22,837,434

Mortgage receivables are carried at fair value. The interest yield on the mortgages ranges from 5.75% to 15.43% with an average rate of 9.43%. The mortgages have terms from 12 to 24 months with an average term of 17 months with a weighted average maturity date of June 24, 2014. Although some of the mortgages are prepayable without penalty prior to maturity, the contractual maturity of these mortgages is summarized as follows:

Maturity profile	**June 30, 2013**	
	Fair value $	Average Effective Interest rate
Next 12 months	28,035,363	9.51%
12 to 24 months	29,028,413	9.35%
	57,063,776	9.43%

As at June 30, 2013, all mortgages were performing. A non-performing mortgage is 90 days in arrears on its interest payments. As at June 30, 2013 there are no arrears on any of the mortgages.

4. BANK INDEBTEDNESS

In May 2013, the Mortgage Trust entered into a two year term revolving line of credit for $10,000,000 with a Canadian bank. The drawn portion bears interest at variable rates of interest based on prime and bankers' acceptance rates. The credit facility is secured by a general security agreement over all assets of the Mortgage Trust and an assignment of all mortgages held by the Mortgage Trust.

5. UNITHOLDERS' EQUITY

(a) Unitholders' capital

Authorized units:

Unitholders capital comprises an unlimited number of units ("Units").

The Mortgage Trust is authorized to issue an unlimited number of transferable Units of a single class, each of which represents an equal, undivided beneficial interest in the net assets of the Mortgage Trust. Each Unit will entitle the holder thereof to require the Mortgage Trust to redeem the Unit at the Net Asset Value per Unit at the end of any business day.

Outstanding Units:

The following is a continuity of the unitholders capital of the Fund:

	Units	$
Issued on initial investment, December 21, 2012	5,205,500.000	52,055,000
Issued pursuant to over-allotment option in 2013	270,440.887	2,704,247
As at June 30, 2013	5,475,940.887	54,759,247

6. MANAGEMENT FEES AND MORTGAGE PURCHASES

Management fees

Pursuant to the terms of the Management Agreement, the Mortgage Trust pays the Manager an annual management fee of 0.95% of the Net Asset Value of the Mortgage Trust ("Net Asset Value") plus applicable taxes. For the period ended June 30, 2013, the Mortgage Trust expensed $291,233 in management fees including taxes. As at June 30, 2013, $48,358 in management fees including taxes was due to the Manager.

Mortgage purchases

The Mortgage Trust purchases mortgages receivable from the Mortgage Investment Advisor. The Mortgage Investment Advisor may, as part of selecting mortgages for the Mortgage Trust, “prefund” or bridge the mortgage funding and register the mortgage with the Mortgage Trust’s custodian, remaining as beneficial owner prior to formal submission to the Mortgage Trust. The mortgage receivables as at June 30, 2013 were all bridged by the Mortgage Investment Advisor prior to sale to the Mortgage Trust. The Fund’s independent review committee approved the sale of these mortgage receivables to the Mortgage Trust.

7. FINANCIAL INSTRUMENTS

The Mortgage Trust has classified the significant impacts of its financial instruments as follows:

(a) Financial instruments – carrying values and fair values:

The Mortgage Trust’s instruments which include cash and cash equivalents, mortgages receivable and interest receivable are carried at fair value. Bank indebtedness and accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost.

(b) Fair value measurement:

The Mortgage Trust uses a fair value hierarchy to categorize the inputs used in its valuation of assets and liabilities carried at fair value. The Mortgage Trust uses unadjusted quoted market prices (Level 1), models using observable market information as inputs (Level 2) and models using unobservable market information (Level 3) in its valuation of assets and liabilities carried at fair value. As at June 30, 2013, cash and interest receivable are measured with Level 1 support and Mortgages receivable are measured using Level 3 inputs. There were no transfers between levels in the period ended June 30, 2013.

(c) Changes in fair value measurement for instruments categorized in Level 3

The following table presents the changes in fair value measurements for instruments included in Level 3 of the fair value hierarchy set out in Section 3862 of the CICA Handbook as described in Note 1:

	Opening Fair value $	**Investments** $	**Unrealized gain (loss) recorded in income** $	**Payment and amortization** $	**Fair value as at June 30, 2013** $
Financial assets					
Mortgages receivable	**22,837,434**	**43,443,022**	**—**	**9,216,680**	**57,063,776**

8. RISK MANAGEMENT AND CAPITAL MANAGEMENT

In the normal course of business the Mortgage Trust is exposed to a variety of financial risks: credit risk, interest rate risk, liquidity risk and market risk. The Mortgage Trust is not exposed to any currency risk.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. The Mortgage Trust's credit risk is mainly lending-related in the form of mortgage default. The Mortgage Trust uses stringent underwriting criteria and experienced adjudicators to mitigate this risk. The Mortgage Trust's approach to managing credit risk is based on the consistent application of a detailed set of credit policies and prudent arrears management.

The maximum credit exposures of the financial assets are their carrying values as reflected on the statement of net assets. The Mortgage Trust does not have significant concentration of credit risk within any particular geographic region or group of customers.

The Mortgage Trust is at risk that the underlying mortgages default and the servicing cash flows cease. While the current portfolio of individual mortgages is small, the real estate that underlies these assets is diverse in terms of geographical location, borrower exposure and the underlying type of real estate. Each mortgage has a different borrower such that the Mortgage Trust's credit risk is not concentrated to a single borrower. This diversity and the priority ranking of the Mortgage Trust's rights mitigate the potential size of any single credit loss.

Interest rate risk

Interest rate risk arises when changes in interest rates affect the fair value of financial instruments. The Mortgage Trust is exposed to interest rate risk to the extent that the value of the Mortgage Portfolio is dependent on market rates of interest. The mortgages in the portfolio are valued at fair value. As interest rates change, the value of the portion of the portfolio that consists of fixed rate mortgages may vary. Typically, as interest rates rise, the value of fixed rate mortgages decrease. The Mortgage Trust's mortgages may not vary directly with changes in interest rates due to their somewhat unusual (mezzanine) nature. The Fund is also exposed to interest rate risk to the extent that significant amounts the Mortgage Trust's cash is not invested in mortgages but instead invested in cash or cash equivalents that earn floating rates of interest. As at June 30, 2013, the Mortgage Trust had $228,079 of its capital invested in cash and cash equivalents.

The Mortgage Portfolio is not particularly sensitive to small changes in risk-free interest rates and, generally, the Mortgage Portfolio is more sensitive to changes in credit spreads. Management has designed internal valuation models which rely on significant unobservable inputs and management estimates including interest rate and credit spread assumptions. These valuation models indicate that a 1% increase or decrease in combined interest rates and credit spreads will not have any significant affect on the fair value of the Mortgage Portfolio. Changes in excess of a 1% change will increase/decrease the value portfolio by approximately $200,000 for every 1% increment in interest rates.

Liquidity risk

Liquidity risk is the risk that the Mortgage Trust will be unable to meet its financial obligations as they come due. The mortgages receivable which comprise the mortgage portfolio are illiquid and have maturities of up to 24 months in the future. The Mortgage Trust manages liquidity risk under normal operating activities by ensuring sufficient cash flow from fees and interest is generated to cover expenses and distributions. Generally the mortgage portfolio has a relative short maturity duration and maturities will be spread out within a three year period.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and credit spreads. The level of market risk to which the Mortgage Trust is exposed varies depending on market conditions, expectations of future interest rates and credit spreads. As the mortgages typically rely on the development of the underlying real estate by the borrower in order to qualify for traditional mortgage financing, there are all the market risks associated with the market for commercial real estate in Canada associated with the portfolio.