First National Mortgage Investment Fund

Interim Management Report of Fund Performance
Interim Financial Report
For the period ended June 30, 2015

First National Mortgage Investment Fund

Interim Management Report of Fund Performance for the period

January 1, 2015 to June 30, 2015

Fund:
First National Mortgage Investment Fund

Units:
Listed TSX: FNM.UN

Period:
January 1, 2015 to June 30, 2015

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 report or annual financial statements of the Fund. You can get a copy of the interim financial report and annual financial statements at your request, and at no cost, by calling 1-(800)-336-9528, by writing to us at (contact information above) or by visiting our website at www.stoneco.com or 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, 2015.
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

First National Mortgage Investment Fund (the "**Fund**") is a non-redeemable investment fund established under the laws of the Province of Ontario that issued units of the Fund (the "**Units**") at a price of $10.00 per Unit (the "**Offering**") settled on December 19, 2012.

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.

The Fund 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 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 FN Mortgage Investment Trust (the "**Mortgage Trust**"), an investment trust created to hold the Portfolio. As the Fund will partially settle the Forward Agreement to fund distributions, such distributions will be comprised primarily of returns of capital and capital gains and accordingly, such distributions are described as tax-advantaged.

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 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 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, 5,810,000 units were issued at $10 per Unit. On December 21, 2012, and subsequently on January 10, 2013, the Fund entered into forward agreements with the Mortgage Trust such that $54,759,247 of capital was raised by the Mortgage Trust. As at June 30, 2015, the total capital was $40,626,760 as a result of redemptions pursuant to the Fund's annual redemption privilege in June 2014 and 2015 totalling $13,931,428.

The Fund's net assets attributable to holders of redeemable units ("net assets") were $40.6 million as at June 30, 2015 which consisted of three significant components: a $37.5 million common share basket, the $ 9.1 million Forward Agreement which exchanges the value of those securities for the value of the Portfolio held by the Mortgage Trust and a $5.8 million payable in respect of the annual redemption privilege. After the Fund closed on December 19, 2012, the first portfolio of mortgages was purchased by the Mortgage Trust on December 28, 2012 and was fully invested by April 30, 2013. For the six months ended June 30, 2015, the Mortgage Trust earned interest revenue primarily from the Portfolio and had only small amounts of uninvested cash. The increase in net assets from operations earned by the Mortgage Trust for the six months ended June 30, 2015 was $1,881,801. This performance was reflected in the Statement of Comprehensive Income of the Fund in "Total Income" which totalled $1,881,924 for the six months ended June 30, 2015. Specifically, the Fund reported realized losses of $412,821 on the common share basket, an unrealized gain on the revaluation of the common share basket of $993,202, and an unrealized gain on the value of the Forward Agreement of $1,301,543. Together these represent the change in value of the net assets of the Mortgage Trust from January 1 to June 30, 2015 which accrues to the Fund through the Forward Agreement.

As at June 30, 2015, net assets per unit of the Fund's Class A units was $9.26 compared to $9.25 per unit as at December 31, 2014. For the six months ended June 30, 2015, the Fund's Class A units recorded a net increase in net assets attributable to redeemable units of $1,300,797 or approximately $0.31 per unit and distributed to those unitholders $1,246,938 or $0.30 per unit. As at June 30, 2015, net assets per unit of the Fund's Class H units was $10.12 compared to $10.08 per unit as at December 31, 2014. For the six months ended June 30, 2015, the Fund's Class H units recorded a net increase in net assets attributable to redeemable units of $266,569 or approximately $0.34 per unit and distributed to those unitholders $234,600 or $0.30 per unit. These returns are earned by virtue of the Forward Agreement, based on the performance of the Portfolio of the Mortgage Trust. The following Manager's Commentary relates to the Fund's exposure to the performance of the Portfolio held in the Mortgage Trust.

For the six months ended June 30, 2015, the Mortgage Trust invested its capital in eligible mortgages and used a $10 million revolving line of credit to invest in additional mortgages and add leverage to increase unitholder returns. As at June 30, 2015, the Mortgage Trust had mortgage assets of $48,407,497. The Mortgage Trust earned interest revenue from the Portfolio for the period as well as interest on cash balances as they arose with mortgage payments, particularly related to scheduled maturities. The statement of comprehensive income shows interest revenue of $2,471,619 and expenses of $589,818 for an increase in net assets attributable to redeemable units of $1,881,801. The increase results primarily from the return from the Portfolio, which yielded approximately 9.44% less the operating costs of the Mortgage Trust at the period end.

As at June 30, 2015, net assets per unit of the Mortgage Trust were $12.13 compared to the net assets per unit as at December 31, 2014 of $11.65. For the six months ended June 30, 2015, the Mortgage Trust recorded an increase in net assets from operations of $1,881,801, equivalent to $0.48 per unit.

The Mortgage Trust began the 2015 year with a portfolio of 43 mortgages with a carrying value of $54,500,650 and an effective average interest rate of 9.32%. During the six months ended June 30, 2015, the Mortgage Trust invested in 8 new mortgages, advanced additional principal on 2 existing mortgages and paid out 12 mortgages. The aggregate investment in the 10 advanced mortgages was $12,480,610 at an average effective interest rate of 8.17% whereas $17,566,738 was paid out at an average effective interest rate of 7.79%. As at June 30, 2015, the Portfolio consists of $48,407,497 [December 31, 2014 - $54,500,650] of first, subordinated first and second mortgages with an average term to maturity of 22 months [December 31, 2014 - 19 months]. The Mortgage Trust's return was driven primarily by interest income on these mortgages.

At June 30, 2015, the Mortgage Trust's capital was predominantly invested in mortgages receivable with $1,299,445 invested in cash and cash equivalents. In addition, the Mortgage Trust had an outstanding balance of $3.2 million under the credit facility at June 30, 2015, all of which was invested in income producing mortgages. The composition of the Portfolio at June 30, 2015 was consistent with the investment objectives and strategy of the Mortgage Trust. Portfolio capital was deployed primarily in floating rate loan positions. The whole portfolio had an average loan to value ratio of 72% [December 31, 2014 - 72%]. The mortgage receivables 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 Fund is offering.

In June 2015, the Fund announced that Class A unitholders tendered 2,008,638 units amounting to 48.3% of the 4,156,250 outstanding Class A units under the annual redemption privilege. As more than the maximum of 15% of the outstanding units were tendered, the Fund prorated redemptions received using a factor of 31.04% resulting in the acceptance of 623,475 Class A units. 1,385,163 of the tendered Class A units were subsequently returned to tendering unitholders. The tendered units accepted were priced at the net asset value ("NAV") per unit as at the close of business June 30, 2015 and the redemption payments were made in July 2015. No Class H units were tendered for annual redemption. A partial settlement pursuant to the forward agreement was transacted with the Mortgage Trust in order to raise the funds to fulfill the total obligation of $5,772,568 under the annual redemption privilege.

International Financial Reporting Standards

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"), using a transition date of January 1, 2013. The Fund adopted this basis of accounting on January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared the annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as defined in Part V of the CICA Handbook. The Fund has consistently applied the accounting policies used in the preparation of its IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect.

Related Party Transactions

The Manager and the Fund 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 Fund were not party to any other related party transactions during the six months ended June 30, 2015. The Independent Review Committee approved the Mortgage Trust's purchase of any mortgage where there was an identified conflict of interest with the Mortgage Investment Advisor.

The Mortgage Advisor and the Fund are also deemed to be related parties.

Financial Highlights

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

THE FUND'S NET ASSETS PER UNIT[1]

CLASS A

	June 30, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Net Assets, beginning of period [3]	**$9.25**	$9.26	$9.31	$9.32
Increase (decrease) from operations:				
Total revenue	**0.00**	0.00	0.00	0.00
Total expenses (excluding distributions)	**(0.06)**	(0.17)	(0.18)	(0.01)
Realized gains for the period	**(0.08)**	0.12	0.01	0.00
Unrealized gains for the period	**0.45**	0.64	0.67	0.00
Total increase (decrease) from operations [2]	**0.31**	0.59	0.50	(0.01)
Distributions:				
From net investment income (excluding dividends)	**0.00**	0.00	0.00	0.00
From dividends	**0.00**	0.00	0.00	0.00
From capital gains	**0.00**	0.00	0.00	0.00
Return of capital	**(0.30)**	(0.60)	(0.55)	0.00
Total Distributions[2]	**(0.30)**	(0.60)	(0.55)	0.00
Net Assets, end of period	**$9.26**	$9.25	$9.26	$9.31

CLASS H

	June 30, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Net Assets, beginning of period	**$10.08**	$9.96	$9.99	$10.00
Increase (decrease) from operations:				
Total revenue	**0.00**	0.00	0.00	0.00
Total expenses (excluding distributions)	**(0.07)**	(0.15)	(0.16)	(0.01)
Realized gains for the period	**(0.09)**	0.13	0.01	0.00
Unrealized gains for the period	**0.50**	0.74	0.67	0.00
Total increase (decrease) from operations [2]	**0.34**	0.72	0.52	(0.01)
Distributions:				
From net investment income (excluding dividends)	**0.00**	0.00	0.00	0.00
From dividends	**0.00**	0.00	0.00	0.00
From capital gains	**0.00**	0.00	0.00	0.00
Return of capital	**(0.30)**	(0.60)	(0.55)	0.00
Total Distributions[2]	**(0.30)**	(0.60)	(0.55)	0.00
Net Assets, end of period	**$10.12**	$10.08	$9.96	$9.99

Notes:

[1] This information is derived from the Fund's interim financial report that has been prepared in accordance with IFRS for June 30, 2015, December 31, 2014 and 2013. All other periods are in accordance with Canadian GAAP.

[2] Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) 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 less share issue expenses for Class A.

RATIOS AND SUPPLEMENTAL DATA

CLASS A

	June 30, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Total Net Asset Value [1]	**$32,709,053**	$38,429,816	$45,261,944	$42,835,672
Number of units outstanding [1]	**3,532,775**	4,156,500	4,890,000	4,600,000
Management expense ratio [2]	**0.74%**	1.14%	1.58%	8.37%
Management expense ratio Before waivers or absorptions	**0.74%**	1.14%	1.58%	8.37%
Trading expense ratio [3]	**0.79%**	0.71%	0.78%	0.81%
Portfolio turnover rate [4]	**N/A**	N/A	N/A	N/A
Net Asset Value per unit	**$9.26**	$9.25	$9.26	$9.31
Closing market price	**$8.65**	$8.20	$9.20	$10.00

CLASS H

	June 30, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Total Net Asset Value [1]	**$7,917,707**	$7,885,738	$9,163,930	$9,188,135
Number of units outstanding [1]	**782,000**	782,000	920,000	920,000
Management expense ratio [2]	**0.77%**	0.76%	0.76%	0.79%
Management expense ratio Before waivers or absorptions	**0.77%**	0.76%	0.76%	0.79%
Trading expense ratio [3]	**0.79%**	0.59%	0.78%	0.81%
Portfolio turnover rate [4]	**N/A**	N/A	N/A	N/A
Net Asset Value per unit	**$10.12**	$10.08	$9.96	$9.99
Closing market price	**N/A**	N/A	N/A	N/A

Notes:

[1] This information is provided as at the end of December except for 2015, which is at the end of June and has been prepared in accordance with IFRS for June 30, 2015, December 31, 2014 and 2013. All other periods are in accordance with Canadian GAAP.

[2] Management expense ratio is based on total expenses (excluding distributions, 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. The MER for the year ended December 31, 2013 and period ended December 31, 2012 includes agents' fees and other offering expenses, which are one-time expenses and therefore are not annualized. The MER for the year ended December 31, 2013 excluding agents' fees and offering expenses is 1.15% for the Class A units and 0.76% for the Class H units. The MER for the period ended December 31, 2012 excluding agents' fees and offering expenses is 1.18% for the Class A units and 0.79% for the Class H units.

[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 return is linked, by virtue of a forward agreement, to the performance of a portfolio comprised primarily of mortgages receivable and, consequently, the portfolio turnover rate does not apply to the Fund.

Management Fees

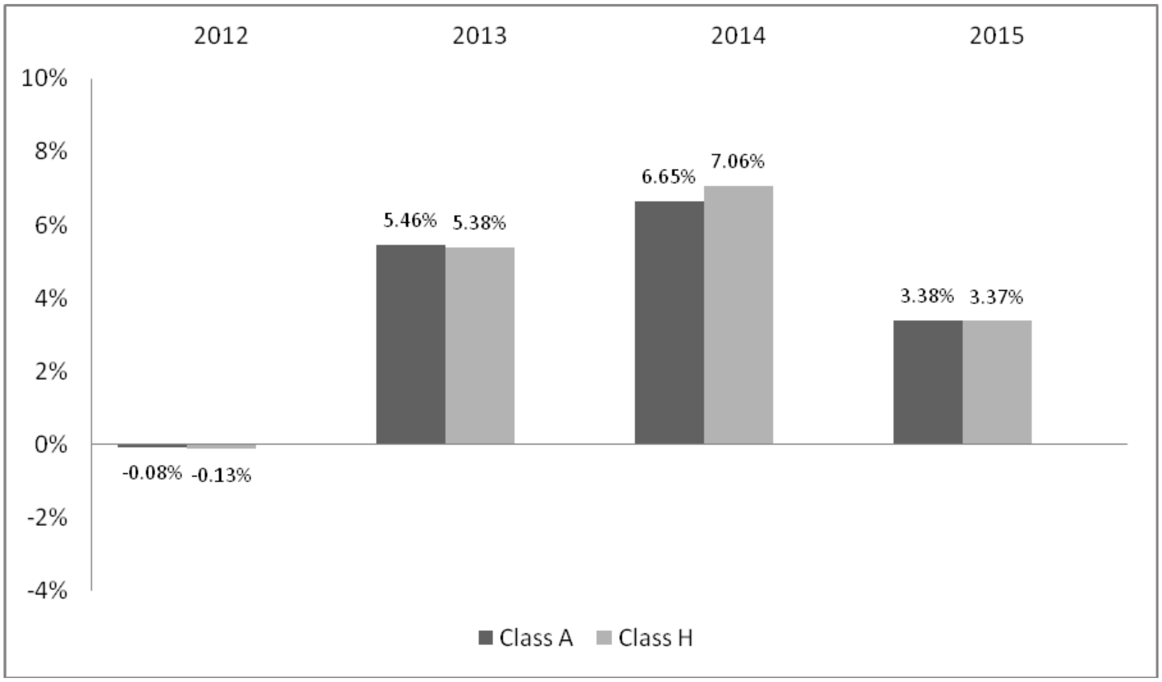
The Manager is responsible for providing or arranging for all investment advisory and portfolio management services (primarily through the Mortgage Advisor) required by the Fund including, without limitation, managing the Portfolio in a manner consistent with the investment objectives, guidelines and restrictions of the Fund and for arranging for the execution of all portfolio transactions. The Manager is also responsible for the operational and administrative functions of the Fund. As compensation for the management services rendered to the Fund, the Manager is entitled to receive an annual management fee from the Fund in an amount equal to 0.40% of the net asset value of the Fund, which is calculated daily and paid monthly in arrears. The Manager also receives an annual management fee 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. The Manager will pay to registered dealers a servicing fee equal to 0.40% annually of the net asset value of the Fund per unit for each unit held by clients of the registered dealers, calculated and paid at the end of each calendar quarter commencing on March 31, 2013, plus applicable taxes.

Past Performance

Please note that the performance information shown in this section assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. Also note that the performance information does not take into account sales, redemption, distributions or other optional charges that would have reduced returns on performance. The performance of the Fund in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns[1,2]

The bar chart below shows, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. The result for 2012 is not indicative of planned performance but a function of an abnormally short initial fiscal period from the IPO on December 19, 2012.



[1] Returns are based on Net Asset Value per unit

[2] Returns for 2015 are for the six month period January 1, 2015 to June 30, 2015.

Summary of Investment Portfolio

The Fund has entered into a forward agreement whereby the Fund obtains exposure to the performance of the Portfolio. Accordingly, these financial statements should be read in conjunction with the financial statements of FN Mortgage Investment Trust. 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, 2015. 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.

Top 25 INVESTMENT HOLDINGS AS AT June 30, 2015

Description	**Average Effective Interest Rate**	**% of Net Asset Value of FN Mortgage Investment Trust**
Cash		2.78%
$5,450,000 King City First Mortgage	10.00%	11.67%
$3,694,681 Levis Second Mortgage	12.08%	7.91%
$3,360,000 Brantford First Mortgage	6.50%	7.17%
$3,151,000 Calgary Second Mortgage	10.10%	6.69%
$2,971,000 Fort Saskatchewan Second Mortgage	12.41%	6.34%
$2,400,000 Waterloo First Mortgage	11.30%	5.14%
$2,327,168 Toronto First Mortgage	7.15%	4.98%
$1,900,000 Toronto Second Mortgage	9.11%	3.96%
$1,900,000 Montreal First Mortgage	5.72%	4.05%
$1,501,694 Toronto First Mortgage	9.30%	3.20%
$1,200,000 Saint John First Mortgage	5.75%	2.57%
$1,100,000 New Glasgow Second Mortgage	10.00%	2.36%
$1,065,000 Saskatoon First Mortgage	5.29%	2.27%
$1,060,872 Kitchener First Mortgage	6.73%	2.26%
$1,013,747 Calgary First Mortgage	9.46%	2.15%
$1,011,079 Montreal First Mortgage	6.60%	2.15%
$1,000,000 Ottawa Second Mortgage	9.74%	2.14%
$990,000 North Vancouver First Mortgage	12.50%	2.11%
$987,000 Edmonton First Mortgage	6.00%	2.11%
$980,000 Edmonton Second Mortgage	9.56%	2.07%
$921,315 Riviere-du-Loup First Mortgage	12.51%	1.96%
$900,000 Sarnia Second Mortgage	9.46%	1.92%
$890,000 North Vancouver First Mortgage	12.53%	1.90%
$819,250 Edmonton First Mortgage	11.10%	1.75%

Interim Financial Report of

First National Mortgage Investment Fund

For the period January 1, 2015 to June 30, 2015

NOTICE TO READER

These interim financial report and related notes for the six-month period ended June 30, 2015 have been prepared by the management of the Fund. The external auditors of the Fund have not audited or reviewed this interim financial report.

FIRST NATIONAL MORTGAGE INVESTMENT FUND

Statements of Financial Position (unaudited)

As at	Note	June 30, 2015 $	December 31, 2014 $
ASSETS			
Current Assets			
Cash	7	**2,055**	-
Common Share Basket	4	**37,508,394**	38,614,304
Forward Agreement	4	**9,187,210**	8,029,442
Other receivables		**5,104**	5,230
		46,702,763	46,648,976
LIABILITIES			
Current Liabilities			
Redemption payable	11	**5,774,623**	
Accounts payable and accrued liabilities	6	**54,468**	86,497
Distribution payable		**246,912**	246,925
		6,076,003	333,422
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			
Class A Units	5	**32,709,053**	38,429,816
Class H Units	5	**7,917,707**	7,885,738
		40,626,760	46,315,554
Outstanding Class A Units	5	**3,532,775**	4,156,500
Outstanding Class H Units	5	**782,000**	782,000
Net Assets attributable to holders of redeemable Class A Units per unit		**9.26**	9.25
Net Assets attributable to holders of redeemable Class H Units per unit		**10.12**	10.08

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

FIRST NATIONAL MORTGAGE INVESTMENT FUND

Statements of Comprehensive Income (unaudited)

For the six months ended June 30,	Note	2015 $	2014 $
INCOME			
Net realized loss on sale of Common Share Basket		**(412,821)**	(26,788)
Change in unrealized gain on revaluation of Common Share Basket	4	**993,202**	11,489,047
Change in unrealized value of Forward Agreement		**1,301,543**	(9,236,882)
TOTAL INCOME		**1,881,924**	2,225,377
EXPENSES			
Management fees	6	**104,138**	116,486
Forward Agreement fees	10	**142,209**	206,076
Dealer service fees	6	**(801)**	89,819
Security holder reporting fees		**27,935**	53,719
Independent review committee		**11,018**	10,942
Legal fees		**1,977**	20,391
Custodial fees		**13,194**	12,904
Audit fees		**14,888**	5,650
TOTAL EXPENSES		**314,558**	515,987
NET INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS		**1,567,366**	1,709,390
NET INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			
CLASS A UNIT		**1,300,797**	1,370,872
CLASS H UNIT		**266,569**	338,518
WEIGHTED AVERAGE NUMBER OF CLASS A UNITS		**4,153,010**	4,890,000
WEIGHTED AVERAGE NUMBER OF CLASS H UNITS		**782,000**	920,000
NET INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS			
PER CLASS A UNIT		**0.31**	0.28
PER CLASS H UNIT		**0.34**	0.37

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

FIRST NATIONAL MORTGAGE INVESTMENT FUND
Statements of changes in net assets attributable to holders of redeemable units (unaudited)

		Class A		Class H		Total
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS						
AS AT, December 31, 2013	**$**	**45,261,944**	**$**	**9,163,930**	**$**	**54,425,874**
Net increase in net assets attributable to holders of redeemable units		**1,370,872**		**338,518**		**1,709,390**
Distributions to holders of redeemable units (Note 8)		**(1,467,000)**		**(276,000)**		**(1,743,000)**
Redemption of redeemable units		**(6,774,899)**		**(1,383,961)**		**(8,158,860)**
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS						
AS AT, June 30, 2014	**$**	**38,390,917**	**$**	**7,842,487**	**$**	**46,233,404**
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS						
AS AT, July 1, 2014	**$**	**38,390,917**	**$**	**7,842,487**	**$**	**46,233,404**
Net increase in net assets attributable to holders of redeemable units		**1,285,849**		**277,851**		**1,563,700**
Distributions to holders of redeemable units (Note 8)		**(1,246,950)**		**(234,600)**		**(1,481,550)**
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS						
AS AT, December 31, 2014	**$**	**38,429,816**	**$**	**7,885,738**	**$**	**46,315,554**
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS						
AS AT, December 31, 2014	**$**	**38,429,816**	**$**	**7,885,738**	**$**	**46,315,554**
Net increase in net assets attributable to holders of redeemable units		**1,300,797**		**266,569**		**1,567,366**
Distributions to holders of redeemable units (Note 8)		**(1,246,938)**		**(234,600)**		**(1,481,538)**
Redemption of redeemable units		**(5,774,623)**		**-**		**(5,774,623)**
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS						
AS AT, June 30, 2015	**$**	**32,709,053**	**$**	**7,917,707**	**$**	**40,626,760**

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

FIRST NATIONAL MORTGAGE INVESTMENT FUND

Statements of Cash Flows (unaudited)

For the six months ended June 30,	Note	2015 $	2014 $
CASH FLOWS FROM OPERATIONS			
Increase in net assets attributable to holders of redeemable units		**1,567,366**	1,709,390
Adjustments for:			
Change in unrealized (gain) on revaluation of Common Share Basket	4	**(993,202)**	(11,489,047)
Change in unrealized value of Forward Agreement		**(1,301,543)**	9,236,882
Net realized loss on sale of a portion of Common Share Basket		**412,821**	26,788
Other receivables		**126**	(351)
Accounts payable and accrued liabilities	6	**(32,029)**	5,409
NET CASH USED IN OPERATING ACTIVITIES		**(346,461)**	(510,929)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Common Share Basket		**(2,985,934)**	-
Proceeds on sale of Common Share Basket		**4,815,988**	2,248,739
NET CASH PROVIDED BY INVESTING ACTIVITIES		**1,830,054**	2,248,739
CASH FLOWS FROM FINANCING ACTIVITIES			
Distributions paid to holders of redeemable units		**(1,481,538)**	(1,743,000)
NET CASH USED IN FINANCING ACTIVITIES		**(1,481,538)**	(1,743,000)
NET INCREASE (DECREASE) IN CASH		**2,055**	(5,190)
Cash, beginning of period		**-**	5,190
CASH, END OF PERIOD		**2,055**	-

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

FIRST NATIONAL MORTGAGE INVESTMENT FUND
Schedule of Investment Portfolio (unaudited)
As at June 30, 2015

Common Share Basket	Number of Shares	Average Cost	Fair Value	% of Net Assets
Equity Shares				
ATHABASCA OIL CORP	297,608	$ 3,249,585	$ 607,121	1.49%
CANFOR CORPORATION NEW	172,625	3,526,729	4,695,400	11.56%
CATAMARAN	66,165	3,244,055	5,050,375	12.43%
CELESTICA SUB-VTG	218,709	2,132,413	3,180,029	7.83%
CGI GRP CL A SUB-VTG	133,052	3,248,526	6,499,591	16.00%
DESCARTES SYSTEMS GROUP INC	155,519	2,915,981	3,118,156	7.68%
FIRST MAJESTIC SILVER	346,296	3,663,812	2,095,091	5.16%
LEGACY OIL + GAS INC	189,620	1,290,813	458,881	1.13%
LUNDIN MINING	433,443	2,052,778	2,223,563	5.47%
MEG ENERGY	140,695	4,390,538	2,870,178	7.06%
NEW GOLD INC	805,776	4,988,040	2,699,346	6.64%
TOURMALINE OIL CORP	106,894	3,247,048	4,010,663	9.87%
Total Common Share Basket Securities (Note 4)		**$ 37,950,318**	**$ 37,508,394**	**92.32%**

Forward Agreement	Location	Principal	Fair Value	
Fair Value of Forward Agreement				
First Mortgage	King City	5,450,000	5,450,000	
Second Mortgage	Levis	3,694,681	3,691,568	
First Mortgage	Brantford	3,360,000	3,348,761	
Second Mortgage	Calgary 1	3,151,000	3,122,449	
Second Mortgage	Fort Saskatchewan	2,971,000	2,958,916	
First Mortgage	Waterloo	2,400,000	2,398,019	
First Mortgage	Toronto 1	2,327,169	2,323,616	
Second Mortgage	Toronto 2	1,900,000	1,850,409	
First Mortgage	Montreal 1	1,900,000	1,891,923	
First Mortgage	Toronto 3	1,501,694	1,492,031	
First Mortgage	Saint John 1	1,200,000	1,200,000	
Second Mortgage	New Glasgow	1,100,000	1,100,000	
First Mortgage	Saskatoon	1,065,000	1,060,279	
First Mortgage	Kitchener	1,060,872	1,056,841	
First Mortgage	Calgary 2	1,013,747	1,006,054	
First Mortgage	Montreal 2	1,011,079	1,004,767	
Second Mortgage	Ottawa	1,000,000	997,561	
First Mortgage	North Vancouver 1	990,000	986,427	
First Mortgage	Edmonton 1	987,000	987,000	
Second Mortgage	Edmonton 2	980,000	967,582	
First Mortgage	Riviere-du-Loup	921,315	914,747	
Second Mortgage	Sarnia	900,000	895,854	
First Mortgage	North Vancouver 2	890,000	887,271	
First Mortgage	Edmonton 3	819,250	817,830	
First Mortgage	Tilsonburg	775,000	775,000	
Second Mortgage	Varennes	705,000	699,939	
First Mortgage	North Vancouver 3	640,800	637,157	
First Mortgage	Calgary 3	615,000	609,880	
Second Mortgage	Halifax 1	600,000	598,158	
First Mortgage	Halifax 2	592,650	586,757	
First Mortgage	Markham	484,498	478,594	
First Mortgage	Verdun	419,439	418,943	
First Mortgage	Hamilton	340,617	339,757	
Second Mortgage	Windsor	335,000	335,000	
First Mortgage	Saint John 2	315,384	315,384	
First Mortgage	Lethbridge	204,000	203,024	
Total fair value of mortgages		**$ 48,621,197**	**$ 48,407,497**	
Add cash of the Mortgage Trust			**1,299,445**	
Less revolving line of credit of the Mortgage Trust			**(3,200,000)**	
Add other net assets of the Mortgage Trust			**188,639**	
Less Common share basket			**(37,508,394)**	
Less accrued forward fees and other			**23**	
Fair value of forward contract			**$ 9,187,210**	**22.61%**
Cash (Note 3)			**2,055**	**0.01%**
Redemption payable			**(5,774,623)**	**-14.21%**
Other, net[1]			**(296,276)**	**-0.73%**
Total Net Assets			**$ 40,626,760**	**100.00%**

1 - Includes the common share basket, the forward contract and other assets and liabilities. The Manager does not generally view the common share basket as critical from an investor's perspective in understanding the economic risk of the Fund. For further information on the structure please refer to the Fund's prospectus filed on SEDAR.

1. NATURE OF OPERATIONS

First National Mortgage Investment Fund (the "Fund") was formed on November 27, 2012 and is a non-redeemable investment fund established under the laws of the Province of Ontario.

The Fund actively commenced operations on December 19, 2012, when it was capitalized beyond the initial $10 seed capital. 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.

The Fund has 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 FN Mortgage Investment Trust (the "Mortgage Trust"), a newly created investment trust, that holds the Portfolio. As the Fund will partially settle the Forward Agreement to fund distributions, such distributions will be comprised primarily of returns of capital and capital gains and accordingly, such distributions are described as tax advantaged.

The Fund completed an initial public offering 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 used to purchase a basket of common shares as described below. On January 7, 2013, the over-allotment option was exercised 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 used to purchase an additional basket of common shares. In total, 5,810,000 units have been issued at $10 per Unit. The Fund is managed by Stone Asset Management Limited (the "Manager") from its office at 36 Toronto Street, Toronto, Ontario. These financial statements were approved by the Manager on March 30, 2015.

Fund Investment Objectives

The Fund's investment objective with respect to the Unitholders is to provide tax-efficient quarterly distributions initially targeted to be 6% per annum which includes the return of the original price of $10 per unit to unitholders through monthly returns of capital. The Class A units are traded on the TSX under the symbol FNM.UN. The Class H units are not listed, held by First National, and are convertible to Class A units as described in Note 5(a). In all other respects, the Class H units have similar features to the Class A units.

The Class A units have no fixed maturity date and currently have a target distribution rate of $0.05 per unit per month or $0.60 per unit per annum. The Fund seeks to provide the unitholders with superior risk-adjusted returns in the form of either net asset value growth or tax-efficient distributions.

The Common Share Basket and Forward Agreement

The Fund obtained economic exposure to the Portfolio through the simultaneous purchase of a basket of Canadian common shares (the "Common Share Basket") and the execution of the Forward Agreement with a subsidiary of a major Canadian Schedule I bank. The Forward Agreement is designed to hedge the Fund's market risk to the Common Share Basket and to provide the economic return of the Portfolio net of any transaction and operating costs.

The Common Share Basket consists of highly liquid non-dividend paying Canadian common shares which are typical of structured transactions of this type.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"), using a transition date of January 1, 2013. The Fund adopted this basis of accounting on January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Financial assets and liabilities

The Fund classifies its financial assets as either financial instruments at fair value through profit or loss or loans and receivables. Financial liabilities are classified as either held at fair value through profit or loss or at amortized cost. The Fund determines the classification of financial assets and liabilities at initial recognition.

Financial assets and financial liabilities held at fair value through profit or loss

Financial instruments are classified in this category if they are held for trading (HFT) or if they are designated by the Fund at fair value through profit or loss (FVTPL) at inception. Derivatives are classified as HFT.

Financial instruments are classified as HFT if they are acquired principally for the purpose of selling in the short term. Financial assets and financial liabilities may be designated at FVTPL when:

[i] the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis; or
[ii] a group of financial assets and/or financial liabilities is managed and its performance evaluated on a fair value basis.

Because of the nature of the Fund's exposure to mortgages receivable through the Forward Agreement, it has elected to measure the Common Stock Basket at FVTPL. The Forward Agreement is a derivative and is classified as HFT. The Fund's accounting policies for measuring its assets are identical to those used in measuring net asset value (NAV) for transactions with the unitholders.

Financial assets and financial liabilities held at FVTPL are initially recognized at fair value. Subsequent gains and losses arising from changes in fair value are recognized directly in the statements of comprehensive income.

(b) Revenue recognition

Dividends arising from the Common Share Basket are recognized on the ex-dividend date.

(c) Cash

Cash and cash equivalents are comprised of cash held at the bank and treasury bills with a maturity of less than 90 days at the time of purchase. Management considers the carrying amount of cash and cash equivalents to equal their fair value.

(d) Common Share Basket

The Common Share Basket consists of non-dividend paying publicly listed equities which are valued at fair value using quoted market prices at the close on the reporting date. The Fund uses the last traded market price for the Common Share Basket where the last traded price falls within that day's bid-ask spread. Unrealized revaluation gains and losses are recognized in the statement of operations.

(e) Forward Agreement

The Forward Agreement is carried at fair value which is based on the valuation methodology as specified in the terms of the Forward Agreement. Effectively the Forward Agreement exchanges the value of the Common Share Basket for the net asset value of the Mortgage Trust. The net asset value of the Mortgage Trust relies predominantly on the value and performance of the Portfolio. The mortgages comprising the Portfolio are designated as FVTPL and are recorded at fair value which is measured initially as the mortgage or loan balance funded less any loan 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. Unrealized revaluation gains and losses on the Forward Agreement are recognized in the statements of comprehensive income.

(f) Accounts payable and accrued liabilities

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

(g) Securities Lending

The Fund is permitted to enter into securities lending as set out in the Fund's prospectus. These transactions involve the temporary exchange of securities for collateral together with a commitment to re-deliver the same securities at a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. Income from securities lending is included in the statements of comprehensive income and is recognized when earned.

(h) Income taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). All of the Fund's net income for tax purposes and net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result the Fund does not record income taxes or the tax benefit of any capital or non-capital losses. The Fund 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 Fund will not be liable for income tax under Part I of the Tax Act for each year other than such tax on net realized capital gains that will be recoverable by the Fund in respect of such year by reason of the carry forward of prior years' capital losses.

(i) Net assets attributable to holders of redeemable units

The Fund's obligation for net assets attributable to holders of redeemable units is classified as a liability and is presented in the Statements of Changes in Net Assets Attributable to Holders of Redeemable Units. The Fund's outstanding redeemable units' entitlements include a contractual obligation to distribute any net income and net realized capital gains annually in cash (at the request of the unit holder) and therefore the ongoing monthly and annual redemption feature is not the units' only contractual obligations. Consequently, the Fund's outstanding redeemable units are classified as financial liabilities in accordance with the requirements of IAS 32, *Financial Instruments: Presentation*. The Fund's obligations for net assets attributable to holders of redeemable units are presented at their redemption amounts.

4. COMMON SHARE BASKET

As explained in Note 1 the Fund obtains the economic exposure to the Portfolio through the combination of the Common Share Basket and the Forward Agreement. Although the Fund is the legal owner of the Common Share Basket, it considers itself perfectly hedged to the market performance of the Portfolio. The terms of the Forward Agreement provide that the Fund receives the value of units of the Mortgage Trust in exchange for the value of the Common Share Basket. For example, if the Common Share Basket has decreased in value, the Forward Agreement does not reduce the value of the units of the Mortgage Trust. The Forward Agreement provides the Fund with the net economic value of the Mortgage Trust which relies primarily on the performance of the Portfolio. In highly simplified terms, this relationship between the Common Share Basket, the Forward Agreement and the Mortgage Trust (which maintains the Portfolio), means the Fund's performance is directly linked to the performance of the mortgages managed by the Mortgage Trust less the cost of administering the Forward Agreement.

The Fund utilizes a forward agreement that is considered to be a tax advantaged strategy. On March 21, 2013, the Government of Canada introduced a budget proposal which effectively put an end to such tax advantaged strategies referred to as "character conversions". The Fund's forward contract expires on December 19, 2017, at which point, the Fund will either be wound up or will continue without the forward contract and the corresponding tax advantages.

The details of the Common Share Basket are described in the Schedule of Investment Portfolio. The change in value for the six months ended June 30, 2015 was an unrealized gain of $993,202 [2014 –$11,489,047]. There were realized losses of $412,821 [2014 - $26,788] related to sales of shares in the Common Share Basket related to settlements of the Forward Agreement in the six months ended June 30,2015.

5. NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

Authorized units:

Net assets attributable to holders of redeemable units comprises an unlimited number of Class A and Class H units (together "Fund Units").

The Fund is authorized to issue an unlimited number of units of an unlimited number of Classes, each of which represents an equal, undivided beneficial interest in the net assets of the Fund attributable to that Class. Commencing no earlier than 120 days after the initial issuance of Class A Units, a holder of Class H Units may convert Class H Units into Class A Units in any month on the second last Business Day of each month (the "Conversion Date") by delivering a notice to the Trustee and surrendering such Class H Units by 5:00 p.m. (Toronto time) at least 10 Business Days prior to the Conversion Date. For each Class H Unit so converted, a holder will receive that number of Class A Units that is equal to the NAV per Class H Unit as of the close of trading on the Conversion Date divided by the NAV per Class A Unit as of the close of trading on the Conversion Date. No fractions of Class A Units will be issued upon any conversion of Class H Units.

Outstanding Fund Units:

The following is a continuity of the redeemable units of the Fund:

Class A Units	June 30, 2015	December 31, 2014
Outstanding units, beginning of period	4,156,500	4,890,000
Redeemed under annual redemption privilege	(623,725)	(733,500)
Outstanding units, end of period	3,532,775	4,156,500

Class H Units	June 30, 2015	December 31, 2014
Outstanding units, beginning of period	782,000	920,000
Redeemed under annual redemption privilege	—	(138,000)
Outstanding units, end of period	782,000	782,000

6. FEES, OPERATING EXPENSES AND MORTGAGE PURCHASES

Management fees

Pursuant to the terms of the Management Agreement, the Fund pays the Manager an annual management fee of 0.40% of the Net Asset Value of the Fund (“NAV”) [plus applicable taxes]. For the six months ended June 30, 2015, the Fund expensed $104,138 [2014 - $116,486] in management fees including applicable taxes. As at June 30, 2015, $18,411[December 2014 - $18,963], including applicable taxes, in management fees was payable to the Manager.

Servicing fees

Prior to January 1, 2015, the Manager collected from the Fund a servicing fee (calculated and paid at the end of each calendar quarter) equal to 0.40% annually of the NAV of the Class A units payable to registered dealers. Effective January 1, 2015 the Manager eliminated the Fund’s obligation for future servicing fees.

Counterparty fees

The counterparty charges the Fund for its services in the execution of the Forward Agreement. The counterparty fee under the Forward Agreement is a fee not greater than 0.45% annually on the total assets plus a fee, which may vary, based on the value of the Common Share Basket, payable monthly in arrears. The latter fee is intended to compensate the counterparty for the costs of hedging its exposure under the Forward Agreement and is anticipated to be no greater than 0.30% annually.

Reimbursement of operating costs

The Fund also reimburses the Manager for costs, expenses and liabilities incurred by the Manager on behalf of the Fund including, but not limited to, third party expenses and recovery of allocated salaries. For the six months ended June 30, 2015, the Fund did not reimburse any amount for the recovery of mortgage administration costs.

Mortgage purchases

The Mortgage Trust purchases all of its mortgages receivable from the Mortgage Advisor. The Mortgage 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 of the Mortgage Trust as at June 30, 2015 were all bridged by the Mortgage Advisor prior to sale to the Mortgage Trust. The Fund’s independent review committee approved the Mortgage Advisor’s discretion to prefund such mortgages.

7. FINANCIAL INSTRUMENTS

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

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

The Fund's investments which include cash and cash equivalents, the Common Share Basket and the Forward Agreement are carried at fair value. The accounts payable and accrued liabilities are classified as other liabilities and carried at amortized cost.

(b) Fair value measurement:

The Fund uses a fair value hierarchy to categorize the inputs used in its valuation of assets and liabilities carried at fair value. The Fund 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, 2015 and December 31, 2014, cash and the Common Stock Basket were measured with Level 1 support and the Forward Agreement was measured using Level 3 inputs. There were no transfers between levels during the period January 1, 2014 to June 30, 2015.

	Financial instruments classified as HFT $	**Financial instruments designated as FVTPL** $	**Loans & receivables /financial liabilities at amortized cost** $	**Total carrying value as at June 30, 2015** $	**Fair value as at June 30, 2015** $
Financial assets					
Cash	**2,055**	**—**	**—**	**2,055**	**2,055**
Common Share Basket	**—**	**37,508,394**	**—**	**37,508,394**	**37,508,394**
Forward Agreement	**9,187,210**	**—**	**—**	**9,187,210**	**9,187,210**
Other receivables	**—**	**—**	**5,104**	**5,104**	**5,104**
Total financial assets	**9,189,265**	**37,508,394**	**5,104**	**46,702,763**	**46,702,763**
Financial liabilities					
Redemption payable	**—**	**—**	**5,774,623**	**5,774,623**	**5,774,623**
Accounts payable and accrued liabilities	**—**	**—**	**54,468**	**54,468**	**54,468**
Distribution payable	**—**	**—**	**246,912**	**246,912**	**246,912**
Total financial liabilities	**—**	**—**	**6,076,003**	**6,076,003**	**6,076,003**

	Financial instruments classified as HFT $	Financial instruments designated as FVTPL $	Loans & receivables /financial liabilities at amortized cost $	Total carrying value as at December 31, 2014 $	Fair value as at December 31, 2014 $
Financial assets					
Common Share Basket	—	38,614,304	—	38,614,304	38,614,304
Forward Agreement	8,029,442	—	—	8,029,442	8,029,442
Other receivables	—	—	5,230	5,230	5,230
Total financial assets	8,029,442	38,614,304	5,230	46,648,976	46,648,976
Financial liabilities					
Accounts payable and accrued liabilities	—	—	86,497	86,497	86,497
Distribution payable	—	—	246,925	246,925	246,925
Total financial liabilities	—	—	333,422	333,422	333,422

The following table presents changes in fair values, including realized losses of $412,821 [2014 – $26,788] of Fund's financial assets and financial liabilities for the six months ended June 30, 2015 and 2014, all of which have been classified as fair value through profit or loss:

	2015 $	**2014** $
Net realized loss on sale of shares in the Common Share Basket	**(412,821)**	(26,788)
Change in value of Common Share Basket	**993,202**	11,489,047
Change in value of Forward Agreement	**1,301,543**	(9,236,882)
	1,881,924	2,225,377

(c) Movement in Level 3 financial instruments measured at fair value

The following tables show the movement in Level 3 financial instruments in fair value hierarchy for the six months ended June 30, 2015 and the year ended December 31, 2014. The Fund classifies financial instruments to Level 3 when there is reliance on at least one significant unobservable input in the valuation models:

2015

	Opening Fair value $	**Investments** $	**Unrealized gain recorded in income** $	**Payment and amortization** $	**Fair value as at June 30, 2015** $
Financial assets					
Forward Agreement	**8,029,442**	**—**	**1,980,264**	**(822,496)**	**9,187,210**

2014

	Opening Fair value $	Investments $	Unrealized gain recorded in income $	Payment and amortization $	Fair value as at December 31, 2014 $
Financial assets					
Forward Agreement	1,466,412	—	6,935,274	(372,244)	8,029,442

There have been no transfers between categories since inception to June 30, 2015.

As described previously, the Forward Agreement exchanges the value of the Common Share Basket for the net asset value of the Mortgage Trust. The net asset value of the Mortgage Trust relies predominantly on the value and performance of the Portfolio. The Mortgage Trust uses various assumptions to value the FVTPL mortgages held in the Portfolio, which are set out in the tables below which affect the value of the Forward Agreement. Accordingly, FVTPL mortgages are subject to measurement uncertainty. The effect of variations between actual experience and assumptions will be recorded in future statements of comprehensive income. The primary unobservable input in determining the fair value of the Portfolio is the discount rate applied to the expected cash flow stream from the mortgages held in the Portfolio consisting of interest and principal repayments. As the bulk of the interest derived from the Portfolio is based on floating rates of interest calculated at spreads over bank prime rates, as opposed to fixed rates of interest, the Portfolio is not particularly sensitive to small changes in bank prime rates (Note 9). The annual discount rate disclosed below represents the weighted average discount rate applied to the Portfolio to arrive at the fair value. In this case the annual discount rate is effectively the weighted average yield of the mortgages receivable. Had the discount rate increased or decreased by 10% with all other variables held constant, the impact on fair value would be as follows:

	June 30, 2015	December 31, 2014
Carrying value of the Forward Agreement	**$9,187,210**	**$8,029,442**
Average remaining term [in months] of the Portfolio	**13**	**10**
Discount rate [annual rate] of the Portfolio	**7.9%**	**7.8%**
Impact on fair value of 10% increase	**($394,700)**	**($328,100)**
Impact on fair value of 10% decrease	**$400,200**	**$331,700**

In practice, the actual results may differ and the difference could be material.

8. DISTRIBUTIONS

An objective of the Fund is to provide unitholders with tax-efficient monthly distributions consisting of capital gains and returns of capital, currently targeted to be $0.05 per unit ($0.60 per annum to yield 6.0% on the initial subscription price of $10.00 per unit) to unitholders of record on the last business day of each month of the year. If, in any year after such distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, the Fund intends to make, on or before December 31 of that year, a special distribution of such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax under the Income Tax Act (Canada).

9. RISK MANAGEMENT AND CAPITAL MANAGEMENT

In the normal course of business the Fund is exposed to a variety of financial risks: credit risk, interest rate risk, credit risk, liquidity risk and market risk. The Fund 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 Fund's credit risk is mainly related to the value of the Forward Agreement. The Fund mitigates credit risk by dealing with a large reputable bank for its counterparty on the Forward Agreement. Although the Common Share Basket is susceptible to some credit risk, this risk is mitigated fully in the Forward Agreement which transfers this risk to the counterparty. The exposure obtained by the Fund through the Forward agreement is to mortgages receivable owned by the Mortgage Trust. The mortgage receivables' 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 statements of financial position. 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 mortgage cash flows cease. While the current portfolio of individual mortgages is relatively small, the real estate that underlies these assets is diverse in terms of geographical location, borrower exposure and the underlying type of real estate. This and the priority ranking of the Company'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 Fund is exposed to interest rate risk to the extent that the value of the Forward Agreement relies on the valuation of the Mortgage Portfolio in the Mortgage Trust. 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 atypical (mezzanine) nature. The Fund is also exposed to interest rate risk to the extent that significant amounts of cash at the Mortgage Trust level are not invested in mortgages but instead invested in cash or cash equivalents that earn floating rates of interest. As at June 30, 2015, the Mortgage Trust had $1,299,445 of its capital invested in cash or 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 $270,000 [December 31, 2014 - $145,000] for every 1% increment in interest rates.

Liquidity risk

Liquidity risk is the risk that the Fund 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 36 months in the future. The Fund 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 Fund is exposed varies depending on market conditions, expectations of future interest rates and credit spreads. As the mortgages in the Mortgage Trust typically rely on the development of the underlying real estate by the borrower in order to qualify for traditional mortgage financing, the portfolio is exposed to all the market risks associated with the market for commercial real estate in Canada.

10. SECURITIES LENDING

The Common Share Basket is subject to a securities lending program. Collateral received consists of equity securities that are included in the S&P/TSX 60 Index with market value of at least 102% of the market value of the loaned securities. As at June 30, 2015 the value of securities loaned was $37,508,394 [December 31, 2014 - $38,614,304] and collateral received from securities lending was $38,759,398 [December 31, 2014 - $39,505,845].

For the six months ended June 30, 2015, the Fund offset $38,828 [2014 - $35,615] of security lending revenue against the counterparty fees of $181,037 [2014 - $241,691] recorded in the statement of comprehensive income.

11. ANNUAL REDEMPTION

In June 2015, the Fund announced that Class A unitholders tendered 2,008,638 units amounting to 48.3% of the 4,156,250 outstanding Class A units under the annual redemption privilege. As more than the maximum of 15% of the outstanding units were tendered, the Fund prorated redemptions received using a factor of 31.04% resulting in the acceptance of 623,475 Class A units. 1,385,163 of the tendered Class A units were subsequently returned to tendering unitholders. The tendered units accepted were priced at the net asset value (“NAV”) per unit as at the close of business June 30, 2015 and the redemption payments were made in July 2015. No Class H units were tendered for annual redemption. A partial settlement pursuant to the forward agreement was transacted with the Mortgage Trust in order to raise the $5,774,623 to fulfill the total obligation of $5,772,568 under the annual redemption provision and $2,055 under the monthly redemption provision.

12. ACCOUNTING CHANGES EFFECTIVE IN FUTURE PERIODS

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets.

IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. The complete standard was issued in July 2014 to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. The effective date of IFRS 9 is January 1, 2018. The Fund is currently assessing the impact of IFRS 9.