ATRIUM®

MORTGAGE INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER ™

ANNUAL REPORT 2017

YEAR ENDED
DECEMBER 31, 2017

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About Atrium Mortgage Investment Corporation

Safety – Consistency – Yield

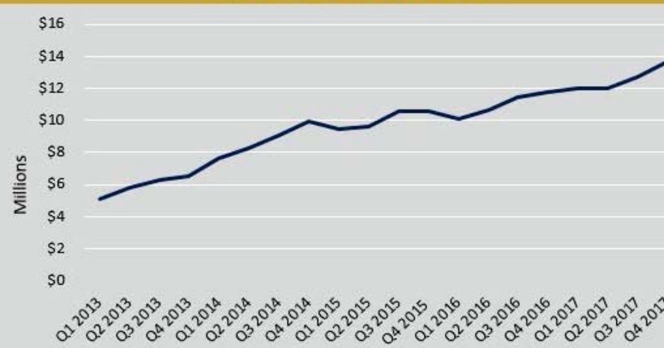
Atrium lends in major urban centres and where the stability and liquidity of real estate is high. As a mortgage lender, we fill the lending gap that results from the limited number of financial institutions operating in Canada. Our loan portfolio is high quality but we are able to charge higher rates than the banks because we offer flexibility, creativity and excellent service. Our mortgages are secured by all types of residential, multi-residential and commercial real property located in Canada, and must all be in strict compliance with our investment policies.

Atrium has a 17-year track record of success and consistency in achieving our strategic objectives: to grow in a controlled manner by focusing on real estate sectors with the lowest risk profiles.

Since commencing operations in 2001, our investment objectives have been to preserve our shareholders' equity and provide our shareholders with stable and secure dividends from our investments in mortgage loans within the criteria permitted for a Mortgage Investment Corporation (MIC). Working within conservative risk parameters, we endeavour to maximize income and dividends through careful underwriting and efficient management of our mortgage investments.

We were listed on the Toronto Stock Exchange in 2012; since then we have increased our regular dividend every year. Our regular dividend is paid monthly, currently at a rate of $0.075 per share per month.

Year	Regular dividend	Bonus dividend	Total dividends paid	Earnings per share (basic)
2013	$0.80	$0.05	$0.85	$0.85
2014	$0.82	$0.07	$0.89	$0.91
2015	$0.84	$0.09	$0.93	$0.94
2016	$0.86	$0.10	$0.96	$0.97
2017	$0.88	$0.04	$0.92	$0.95
2018	$0.90	to be determined		



FOR IMMEDIATE RELEASE

ATRIUM MORTGAGE INVESTMENT CORPORATION ACHIEVES RECORD REVENUES AND EARNINGS IN 2017

TORONTO: February 8, 2018 – Atrium Mortgage Investment Corporation (TSX: AI, AI.DB, AI.DB.A, AI.DB.B, AI.DB.C) today released its financial results for the year ended December 31, 2017.

Highlights

- **Record revenues of $50.4 million, up 14.3% from prior year**
- **Earnings of $29.1 million, up 11.3% from prior year**
- **$0.95 basic and $0.94 diluted earnings per share for the year ended December 31, 2017**
- **$0.04 per share special dividend to shareholders of record December 31, 2017**
- **$0.92 total dividends per share in 2017**
- **2018 regular monthly dividend increased to $0.90 per annum**
- **Mortgage portfolio increased 18.1% year-over-year to $632 million at December 31, 2017**
- **High quality mortgage portfolio**
  - **81.8% of portfolio in first mortgages**
  - **85.9% of loan portfolio is less than 75% loan to value**
  - **average loan-to-value is 61.5%**

"Overall, I am pleased with Atrium's performance in 2017. We had a record level of loan advances during the year of $353.7 million, which resulted in an 18% growth in our portfolio. Our new loans continue to be strategically diversified by real estate sector. We continue to lend conservatively, with a high percentage of first mortgages and an overall portfolio loan-to-value ratio below historic levels," said Rob Goodall, CEO of Atrium.

"Once again we would like to thank our real estate clients for their continued loyalty, and our shareholders for their continuing support. We are proud to state that Atrium continues to be regarded as **Canada's premier non-bank lender**™."

Interested parties are invited to participate in a conference call with management on Friday, February 9, 2018 at 4:00 p.m. EST. Please refer to the call-in information at the end of this news release.

Results of operations

Atrium achieved record results, as its assets grew to $627.9 million, and revenues for the year were $50.4 million, an increase of 14.3% from the prior year. For the year ended December 31, 2017, earnings were $29.1 million, an increase of 11.3% from the prior year.

Basic and diluted earnings per common share were $0.95 and $0.94, respectively, for the year ended December 31, 2017, compared with $0.97 basic and $0.95 diluted earnings per common share in the previous year.

The company had $626.8 million of mortgages receivable as at December 31, 2017, an increase of 18.1% from the previous year. During the year, $353.7 million of mortgages were advanced, and $263.2 million of mortgages were repaid.

The weighted average interest rate on the mortgage portfolio was 8.44% at December 31, 2017, compared with 8.34% at September 30, 2017 and 8.50% at December 31, 2016.

Condensed Statements of Earnings and Comprehensive Income

($000s, except per share amounts)

	Year ended December 31 2017	Year ended December 31 2016	Year ended December 31 2015
Revenue	$ 50,359	$ 44,042	$ 40,206
Mortgage servicing and management fees	(5,470)	(4,661)	(4,173)
Other expenses	(1,251)	(1,221)	(1,187)
Provision for mortgage losses	(1,850)	(1,519)	(1,912)
Income before financing costs	41,788	36,641	32,934
Financing costs	(12,729)	(10,521)	(9,597)
Earnings and total comprehensive income	$ 29,059	$ 26,120	$ 23,337
Basic earnings per share	$ 0.95	$ 0.97	$ 0.94
Diluted earnings per share	$ 0.94	$ 0.95	$ 0.93

For further information on the financial results, please refer to Atrium's financial statements for the year ended December 31, 2017, and its management's discussion and analysis for the same period, available on SEDAR at www.sedar.com, and on the company's website at www.atriummic.com.

Mortgage portfolio

($000s)

Mortgage category (outstanding amounts in 000s)	December 31, 2017 Number	Outstanding amount	% of Portfolio	December 31, 2016 Number	Outstanding amount	% of Portfolio
Low-rise residential	36	$ 234,343	37.1%	30	$ 135,701	25.4%
House and apartment	120	86,287	13.6%	102	99,456	18.6%
Construction	8	64,828	10.3%	8	49,345	9.2%
High-rise residential	7	44,949	7.1%	7	53,182	9.9%
Mid-rise residential	4	31,471	5.0%	5	28,787	5.4%
Condominium corporation	14	2,887	0.4%	16	3,548	0.7%
Residential portfolio	189	464,765	73.5%	168	370,019	69.2%
Commercial/mixed use	27	167,622	26.5%	29	165,231	30.8%
Mortgage portfolio	216	632,387	100.0%	197	535,250	100.0%
Accrued interest receivable		2,537			2,126	
Mortgage discount		(262)			(360)	
Unamortized origination fees		(706)			(626)	
Provision for mortgage losses		(7,200)			(5,800)	
Mortgages receivable		$ 626,756			$ 530,590	

A summary of mortgages by size is presented below.

($000s)	December 31, 2017			December 31, 2016		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
$0 - $2,500,000	161	$ 105,386	16.7%	145	$ 102,656	19.2%
$2,500,001 - $5,000,000	19	69,755	11.0%	24	89,340	16.7%
$5,000,001 - $7,500,000	10	60,555	9.6%	5	29,972	5.6%
$7,500,001 - $10,000,000	5	42,920	6.8%	8	69,688	13.0%
$10,000,001 +	21	353,771	55.9%	15	243,594	45.5%
	216	$ 632,387	100.0%	197	$ 535,250	100.0%

As of December 31, 2017, the average outstanding mortgage balance was $2.9 million (December 31, 2016 – $2.7 million), and the median outstanding mortgage balance was $0.8 million (December 31, 2016 – $0.8 million).

Conference call

Interested parties are invited to participate in a conference call with management on Friday, February 9, 2018 at 4:00 p.m. EST.

To participate or listen to the conference call live, please call 1 (888) 241-0551 or (647) 427-3415.

For a replay of the conference call (available until February 22, 2018) please call 1 (855) 859-2056, Conference ID 9998449.

About Atrium

Canada's Premier Non-Bank Lender™

Atrium is a non-bank provider of residential and commercial mortgages that lends in major urban centres in Canada where the stability and liquidity of real estate are high. Atrium's objectives are to provide its shareholders with stable and secure dividends and preserve shareholders' equity by lending within conservative risk parameters.

Atrium is a Mortgage Investment Corporation (MIC) as defined in the *Income Tax Act*. Accordingly, Atrium is not taxed on income provided that its taxable income is paid to its shareholders in the form of dividends within 90 days after December 31 each year. Such dividends are generally treated by shareholders as interest income, so that each shareholder is in the same position as if the mortgage investments made by the company had been made directly by the shareholder. For further information, please refer to regulatory filings available at www.sedar.com or Atrium's website at www.atriummic.com.

For additional information, please contact

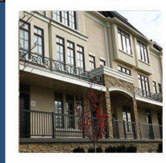
Robert G. Goodall
President and Chief Executive Officer

Jennifer Scoffield
Chief Financial Officer

(416) 607-4200
ir@atriummic.com
www.atriummic.com

ATRIUM®

MORTGAGE INVESTMENT CORPORATION



CANADA'S PREMIER NON-BANK LENDER™

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED
DECEMBER 31, 2017

Management's Discussion and Analysis

December 31, 2017

Our business

Atrium is a mortgage lender filling the lending gap that results from the limited number of financial institutions operating in Canada. We lend in major urban centres and where the stability and liquidity of real estate are high. Our loan portfolio is high quality but we are able to charge higher rates than the banks because we offer flexibility, creativity and excellent service. Our mortgages are secured by all types of residential, multi-residential and commercial real estate located in Canada, and must all be in strict compliance with our investment policies. Atrium has a 17-year track record of success and consistency in achieving our strategic objectives: to grow in a controlled manner by focusing on real estate sectors with the lowest risk profiles.

Our objective is to invest in a diverse portfolio of predominantly first mortgages that are relatively short-term, to provide our shareholders with stable and secure dividends while preserving shareholders' equity, all within the parameters mandated for a Mortgage Investment Corporation (MIC). Working within conservative risk parameters, we endeavour to maximize income and dividends through careful underwriting and efficient management of our mortgage investments.

Information herein is current as of February 8, 2018.

Highlights

Atrium continues to demonstrate strength and stability. For the year ended December 31 2017, we had record revenues of $50.4 million, up 14.3% from the prior year. Earnings were a record $29.1 million, or $0.95 basic per share, compared with $26.1 million, or $0.97 basic per share in the prior year.

During 2017, we issued 5.8 million common shares for gross proceeds of $69.1 million, including the full amount of the overallotment options for both issuances. In addition, during June, 2017, we issued a new series of 5.30% convertible debentures maturing June 30, 2024 for gross proceeds of $25.3 million, including full exercise of the overallotment option.

We declared a regular dividend of $0.07333 per share for each month in the year, a total of $0.88 for the year to date compared to $0.86 for the comparative period. In addition we declared a special dividend of $0.04, for a total dividend of $0.92 for 2017, compared to $0.96 for the previous year. For 2018, our board has set the regular dividend rate at $0.90 per annum.

Since listing on the Toronto Stock Exchange in 2012, we have increased our regular dividend every year:

Year	*Regular dividend*	*Bonus dividend*	*Total dividends paid*	*Earnings per share (basic)*
2013	$0.80	$0.05	$0.85	$0.85
2014	$0.82	$0.07	$0.89	$0.91
2015	$0.84	$0.09	$0.93	$0.94
2016	$0.86	$0.10	$0.96	$0.97
2017	$0.88	$0.04	$0.92	$0.95
2018	$0.90	to be determined		

We had $627 million of mortgages receivable as at December 31, 2017, an increase of 18.1% from December 31, 2016. During the year, $353.7 million of mortgages were advanced and $263.2 million of mortgages were repaid. The portfolio has a weighted average remaining term of 12.4 months.

Our focus continues to be lending in the major metropolitan areas of Ontario and British Columbia.

Record revenues

Revenues $50.4 million increased 14.3% from prior year

Earnings per share $0.95 basic

Strong, high quality mortgage portfolio

82% first mortgages

86% less than 75% loan-to-value

Mortgages receivable $627 million, up 18.1% from prior year

We focus on first mortgages with high liquidity and low loan-to-value ratios

Investment portfolio

Our mortgage portfolio consisted of 216 mortgage loans and aggregated $632 million at December 31, 2017, an increase of 18.1% from December 31, 2016.

	December 31, 2017			December 31, 2016		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
Low-rise residential	36	$ 234,343	37.1%	30	$ 135,701	25.4%
House and apartment	120	86,287	13.6%	102	99,456	18.6%
Construction	8	64,828	10.3%	8	49,345	9.2%
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Mid-rise residential	4	31,471	5.0%	5	28,787	5.4%
Condominium corporation	14	2,887	0.4%	16	3,548	0.7%
Residential portfolio	189	464,765	73.5%	168	370,019	69.2%
Commercial/mixed use	27	167,622	26.5%	29	165,231	30.8%
Mortgage portfolio	216	632,387	100.0%	197	535,250	100.0%
Accrued interest receivable		2,537			2,126	
Mortgage discount		(262)			(360)	
Unamortized origination fees		(706)			(626)	
Provision for mortgage losses		(7,200)			(5,800)	
Mortgages receivable		$ 626,756			$ 530,590	

A summary of our mortgages by size is presented below.

	December 31, 2017			December 31, 2016		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
$0 - $2,500,000	161	$ 105,386	16.7%	145	$ 102,656	19.2%
$2,500,001 - $5,000,000	19	69,755	11.0%	24	89,340	16.7%
$5,000,001 - $7,500,000	10	60,555	9.6%	5	29,972	5.6%
$7,500,001 - $10,000,000	5	42,920	6.8%	8	69,688	13.0%
$10,000,001 +	21	353,771	55.9%	15	243,594	45.5%
	216	$ 632,387	100.0%	197	$ 535,250	100.0%

As of December 31, 2017, the average outstanding mortgage balance was $2.9 million (December 31, 2016 – $2.7 million), and the median outstanding mortgage balance was $0.8 million (December 31, 2016 – $0.8 million).

The tables below show our mortgage portfolio by location of the underlying property and type of mortgage. The weighted average interest rates shown exclude the lender fees paid by the borrower, which reflect the yield to Atrium including any mortgage discount or premium.

We are continuing to reduce our exposure in Alberta; 93.8% of the remaining Alberta loans are first mortgages. In that market our exposure is further mitigated by not lending to office, high-rise condominiums or to hotels.

	December 31, 2017				
Location of underlying property	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average loan to value**	**Weighted average interest rate**
(outstanding amounts in 000s)					
Greater Toronto Area	159	$ 397,293	62.8%	62.5%	8.51%
Non-GTA Ontario	35	26,383	4.2%	65.9%	8.54%
Saskatchewan	2	17,107	2.7%	100.0%	8.06%
Alberta	5	22,518	3.6%	59.4%	8.87%
British Columbia	15	169,086	26.7%	54.7%	8.24%
	216	$ 632,387	100.0%	61.5%	8.44%

	December 31, 2016				
Location of underlying property	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average loan to value**	**Weighted average interest rate**
(outstanding amounts in 000s)					
Greater Toronto Area	148	$ 350,026	65.4%	63.9%	8.47%
Non-GTA Ontario	24	16,009	3.0%	65.4%	8.91%
Saskatchewan	2	12,375	2.3%	97.1%	8.50%
Alberta	11	37,032	6.9%	62.0%	9.24%
British Columbia	12	119,808	22.4%	55.6%	8.27%
	197	$ 535,250	100.0%	62.7%	8.50%

We have an exceptionally high proportion of our portfolio invested in first mortgages (81.8%), which is one of our core strategies.

At December 31, 2017, the weighted average loan-to-value ratio in our mortgage portfolio was 61.5%, with 85.9% of the portfolio below 75% loan-to-value. (At December 31, 2016, the weighted average loan-to-value ratio in our mortgage portfolio was 62.7%, with 88.4% of the portfolio below 75% loan-to-value.)

	December 31, 2017			
Type of mortgage	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average interest rate**
(dollars in 000s)				
First mortgages				
Conventional	144	$ 467,583	73.9%	8.07%
Non-Conventional	8	46,672	7.4%	8.00%
Other	14	2,887	0.5%	7.49%
	166	517,142	81.8%	8.06%
Second and third mortgages				
Conventional	44	72,609	11.5%	9.78%
Non-conventional	6	42,636	6.7%	10.76%
	50	115,245	18.2%	10.14%
	216	$ 632,387	100.0%	8.44%

	December 31, 2016			
Type of mortgage	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average interest rate**
(dollars in 000s)				
First mortgages				
Conventional	131	$ 392,096	73.2%	8.13%
Non-Conventional	12	36,670	6.9%	8.94%
Other	16	3,548	0.7%	7.56%
	159	432,314	80.8%	8.19%
Second and third mortgages				
Conventional	31	77,611	14.5%	9.40%
Non-conventional	7	25,325	4.7%	10.79%
	38	102,936	19.2%	9.74%
	197	$ 535,250	100.0%	8.50%

Conventional mortgages are those with a loan-to-value of less than or equal to 75%, which is the industry standard for determining that a mortgage is conventional. Non-conventional mortgages are those with a loan-to-value in excess of 75%.

The weighted average term remaining for our mortgage portfolio at December 31, 2017 is 12.4 months (December 31, 2016 – 12.8 months).

Our business

In Canada there is a lending gap due to the limited number of financial institutions operating. Our business is to help fill that gap by focusing on loans that cannot be placed with larger financial institutions but represent an acceptable underwriting risk. Our borrowers benefit from our efficient, thorough and fast underwriting process. We lend in major urban centres where the stability and liquidity of real estate are at the highest levels.

Our policy is that the weighted average loan-to-value ratio of our mortgage portfolio, as a whole, at the time of underwriting each loan in our portfolio, will not exceed 75%. At December 31, 2017, the weighted average loan-to-value ratio of the mortgage portfolio was considerably lower than that, at 61.5%, compared to 62.7% at December 31, 2016.

A typical loan in our portfolio has an interest rate of 7.75% to 10% per annum, a one or two-year term and monthly interest-only mortgage payments.

Our lending parameters are as follows:

- Mortgages on residential and commercial properties up to a maximum of 75% of appraised value.
- Loans on single family residences up to 75% of appraised value.
- Mortgages on income-producing real estate up to a maximum of 85% of appraised value.
- Construction loans up to a maximum of 90% of cost.
- Loans to condominium corporations.

Mortgage loan amounts are generally $300,000 to $30 million. The largest single mortgage in our mortgage portfolio as at December 31, 2017 was $32.3 million (December 31, 2016 – $27.5 million). For loan amounts in excess of $30 million, we generally co-lend with a financial institution or private lender. The parameters listed above are our maximum mortgage lending parameters.

Our investment policies, which may be changed by our board of directors, are as follows:

- We may invest only in residential mortgages, commercial mortgages, commercial mortgage backed securities and certain related investments.
- All investments must be mortgages on the security of real property situated within Canada, loans to condominium corporations, or certain permitted interim investments.
- Commercial mortgages may not constitute more than 50% of our total assets at any time.
- The term of the mortgage may generally be no greater than ten years.
- Mortgages are subject to the following geographic limits at the time of funding: Ontario – maximum 80% of total mortgages; Alberta – maximum 15% of total mortgages; British Columbia – maximum of 35% of total mortgages
- No single borrower may account for more than 15% of our total assets.
- All mortgages are supported by external appraisals by a qualified appraiser. All mortgages, except mortgages secured by one to six residential units, are also supported by environmental audits.
- The maximum initial loan-to-value ratio of an individual mortgage is 85% including any prior ranking encumbrances, and the weighted average loan-to-value ratio of our mortgage portfolio at the time of underwriting each loan may not exceed 75%.
- Our ratio of debt to equity must be less than 1:1.
- We do not invest directly in real property, although real property may be acquired by foreclosing on a mortgage.
- A mortgage investment of: (i) $2,000,000 or more requires approval of the board; (ii) between $1,000,000 and $2,000,000 requires approval of three members of the board, including at least two independent directors; and (iii) $1,000,000 or less requires approval of any one member of the board. For loans previously approved, the approval of one member of the board is required for changes to the loan that do not exceed the approved amount by more than $200,000 and/or for minor technical amendments that do not change other underwriting considerations, provided the loan-to-value ratio increases by less than 5% and the ratio is 75% or less. We may invest in interim investments that are guaranteed by the Government of Canada or of a province or territory of Canada or deposits or certificates of deposits, acceptances and other similar instruments issued, endorsed or guaranteed by a Schedule I Bank in any amount without prior board approval.
- We may not make unsecured loans to, nor invest in securities issued by, our manager or its affiliates, nor make loans to the directors or officers of the manager.
- We may not make any investment, or incur any indebtedness, that would result in our not qualifying as a MIC.

Our objective is to invest in a diverse portfolio of predominantly first mortgages that are relatively short-term, to provide our shareholders with stable and secure dividends while preserving shareholders' equity, all within the parameters mandated for a MIC. Working within conservative risk parameters, we endeavour to maximize income and dividends through the sourcing and efficient management of our mortgage investments.

We are a non-bank lender and invest in mortgages secured by all types of residential, multi-residential and commercial real property located in Canada, subject to compliance with our investment policies. The types of properties that we finance include residential houses, small multi-family residential properties comprised of six or fewer units, residential apartment buildings, mixed-use properties and store-front retail properties, commercial properties, residential and commercial land development sites and construction projects. We also provide short-term bridge financing for real estate developers. Our strategy is to grow in a controlled manner by diversifying geographically, and focusing on real estate sectors with the lowest risk profiles.

We qualify as a MIC and are restricted from any activity that would result in us failing to qualify as a MIC. In order to qualify as a MIC, we must satisfy the requirements in subsection 130.1(6) of the *Income Tax Act* (Canada) ("ITA") throughout the taxation year. Among the requirements are:

- We can only invest or manage funds and cannot manage or develop real property.
- We cannot own debts secured on real property situated outside Canada, debts owing by non-residents unless such debts were secured on real property situated in Canada, shares of the capital stock of corporations not resident in Canada, or real property situated outside of Canada or any leasehold interest in such property.
- No shareholder (together with related persons, as defined in the ITA) may at any time own, directly or indirectly, more than 25% of our common shares.
- The cost for tax purposes of cash on hand, debts secured on specified residential properties, and funds on deposit with a Canada Deposit Insurance Fund or Régie de l'assurance-dépôts du Québec-insured institution or credit union must constitute at least 50% of the cost of all of our property.
- The cost for tax purposes of any interests in real property (including leaseholds but excepting real or immovable property acquired by foreclosure after default by the mortgagor) may not exceed 25% of the cost of all of our property.
- There are certain restrictions as to our maximum debt-to-equity ratio.

We are managed by Canadian Mortgage Capital Corporation (the "manager" or "CMCC"), which is our exclusive manager and arranges and services our mortgage loans and otherwise directs our affairs and manages our business. For explanations as to some of the terms used herein, please refer to our Annual Information Form for the year ended December 31, 2017, which is available at www.sedar.com.

Results of Operations

(In this section, dollars are in thousands of Canadian dollars, except per share amounts)

Financial summary

	Year ended December 31 2017	Year ended December 31 2016	Year ended December 31 2015
Revenue	$ 50,359	$ 44,042	$ 40,206
Mortgage servicing and management fees	(5,470)	(4,661)	(4,173)
Other expenses	(1,251)	(1,221)	(1,187)
Provision for mortgage losses	(1,850)	(1,519)	(1,912)
Income before financing costs	41,788	36,641	32,934
Financing costs	(12,729)	(10,521)	(9,597)
Earnings and total comprehensive income	$ 29,059	$ 26,120	$ 23,337
Basic earnings per share	$ 0.95	$ 0.97	$ 0.94
Diluted earnings per share	$ 0.94	$ 0.95	$ 0.93
Dividends declared	$ 28,545	$ 25,918	$ 23,346
Mortgages receivable, end of year	$ 626,756	$ 530,590	$ 448,099
Total assets, end of year	$ 627,859	$ 531,856	$ 448,153
Shareholder' equity, end of year	$ 349,064	$ 278,540	$ 274,984

Summary of quarterly results *(unaudited)*

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenue	13,656	12,668	12,069	11,966	11,776	11,459	10,691	10,116
Mortgage servicing and management fees	(1,501)	(1,385)	(1,292)	(1,292)	(1,298)	(1,185)	(1,112)	(1,066)
Other expenses	(389)	(274)	(303)	(285)	(377)	(287)	(286)	(271)
Provision for mortgage losses	(402)	(400)	(745)	(303)	(550)	(350)	(319)	(300)
Income before financing costs	11,364	10,609	9,729	10,086	9,551	9,637	8,974	8,479
Financing costs	(3,477)	(3,397)	(2,927)	(2,928)	(2,791)	(2,832)	(2,541)	(2,357)
Net income and comprehensive income	$ 7,887	$ 7,212	$ 6,802	$ 7,158	$ 6,760	$ 6,805	$ 6,433	$ 6,122
Basic earnings per share	$ 0.24	$ 0.24	$ 0.23	$ 0.25	$ 0.25	$ 0.25	$ 0.24	$ 0.23
Diluted earnings per share	$ 0.23	$ 0.23	$ 0.23	$ 0.24	$ 0.24	$ 0.25	$ 0.24	$ 0.23
Dividends declared	$ 8,640	$ 6,866	$ 6,635	$ 6,404	$ 8,534	$ 5,809	$ 5,794	$ 5,781

Results of operations – three months ended December 31, 2017

For the three months ended December 31, 2017, mortgage interest and fees revenues aggregated $13,656, compared to $11,776 in the comparative period, an increase of 16.0%, as a result of the growth of our mortgage portfolio. The weighted average interest rate on our mortgage portfolio was 8.44% at December 31, 2017, compared with 8.50% at the previous year end, December 31, 2016.

Operating expenses, excluding the provision for mortgage losses, for the three months ended December 31, 2017 were $1,890, compared to $1,675 in the comparative period, an increase of 12.8%, due to the growth of the mortgage portfolio. The provision for mortgage losses was $402 in the quarter to bring the total reserve to $7,200.

Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $1,501 for the three months ended December 31, 2017, compared with $1,298 in the prior year period. This increase was due to the increase in the size of the mortgage portfolio. Financing costs for the three months ended December 31, 2017 were $3,477, compared to $2,791 in the same period of 2016, an increase of 24.6%. This increase is due to the increased use of our bank line of credit compared to the comparable period, issuance of a convertible debenture during the year, as well as an increase in our operating line to $210,000 in the fourth quarter of 2017.

Net income for the three months ended December 31, 2017 was $7,887, an increase of 16.7% from net income of $6,760 for the same period in the prior year. Basic and diluted earnings per common share were $0.24 and $0.23, respectively, for the three months ended December 31, 2017, compared with $0.25 basic and $0.24 diluted, for the comparable period in the previous year. Earnings per share has decreased slightly from the comparative periods due to the two public offering issuances of shares completed in 2017.

During the three months ended December 31, 2017, we funded mortgages aggregating $85,616. Of those advances, $71,136 were first mortgages, representing 83.1% of the total loans funded. British Columbia advances were $23,629, advances of $248 were on properties in Alberta, $1,429 were non-GTA Ontario, $2,142 were on properties in Saskatchewan and the remaining $58,168 were for mortgages on properties located in the Greater Toronto Area. There were $82,008 of repayments during the period. The total portfolio increased from $628,779 to $632,387 during the three-month period.

Results of operations – Year ended December 31, 2017

For the year ended December 31, 2017, mortgage interest and fees revenue aggregated $50,359, compared to $44,042 in the comparative period, an increase of 14.3%, as a result of the growth of our mortgage portfolio. The weighted average interest rate on our mortgage portfolio was 8.44% at December 31, 2017, compared with 8.50% at December 31, 2016.

Operating expenses, excluding the provision for mortgage losses, for the year ended December 31, 2017 were $6,721, compared to $5,882 in the comparative period, an increase of 14.3%, due to the growth of the mortgage portfolio. The provision for mortgage losses was $1,850 for the year ended December 31, 2017, to bring the total reserve to $7,200.

Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $5,470 for the year ended December 31, 2017, compared with $4,661 in the prior year. This increase was due to the increase in the size of the mortgage portfolio. Financing costs for the year ended December 31, 2017 were $12,729, compared to $10,521 in 2016, an increase of 21.0%. This increase is due to the increased use of our bank line of credit compared to the comparable period, issuance of a convertible debenture during the year, as well as an increase in our operating line to $210,000 in the fourth quarter of 2017.

Net income for the year ended December 31 2017 was $29,059, an increase of 11.3% from net income of $26,120 for the prior year. Basic and diluted earnings per common share were $0.95 and $0.94, respectively, for the year ended December 31, 2017, compared with $0.97 basic and $0.95 diluted, for the previous year.

During the year ended December 31, 2017, we funded mortgages aggregating $374,456. Of those advances,

$309,565 were first mortgages, representing 82.7% of the total loans funded. British Columbia advances were $94,430, advances of $2,782 were on properties in Alberta, $16,628 were on properties in non-GTA Ontario, $4,854 were on properties in Saskatchewan and the remaining $255,762 were for mortgages on properties located in the Greater Toronto Area. There were $276,869 of repayments during the period. The total portfolio increased from $535,250 to $632,387during the year.

Liquidity and capital resources

At December 31, 2017, we had borrowings under credit facility (excluding unamortized finance costs) of $145,154. The credit facility, currently authorized for up to $210,000 (December 31, 2016 – $160,000), is provided by a syndicate of four major chartered banks, drawn through a combination of bankers' acceptances and bank loans to minimize our borrowing costs. At any time during the term of the credit facility, we have the one-time right to increase the credit facility by up to $30 million (such that the total maximum availability would be up to $240 million). We were in compliance with the covenants in the credit facility as at December 31, 2017, and we expect to remain in compliance with such covenants going forward.

We also have four series of convertible debentures outstanding, with a total book value of $125,976 at December 31, 2017, and a face value (and maturity value) of $129,816. (For additional information on the operating credit facility and the debentures, please refer to notes 7 and 9, respectively, of our accompanying consolidated 2017 financial statements.)

The growth in our mortgage portfolio has been financed by the issuance of common shares, of convertible debt, and through the operating credit facility. We expect to be able to generate sufficient funds for future growth in net mortgage loan investments by utilizing those three sources of funds. As at December 31, 2017, total debt (consisting of borrowings under operating credit facility and convertible debentures) was 43.7% of total assets (December 31, 2016 – 46.4%). Our policy and our banking arrangements both require that total debt not exceed 50% of total assets.

Changes in financial position

During the year ended December 31, 2017, we completed two public offerings, issuing a total of 5,827,050 common shares for gross proceeds of $69.1 million, including the full amount of the overallotment options for both issuances. Additionally, in June, 2017, we issued 5.30% convertible debentures maturing June 30, 2024 for gross proceeds of $25.3 million, which included the full amount of the overallotment option. These three issuances provided net cash proceeds (after issue costs) of $89,819. Cash used in financing activities included net repayment of the operating facility of $571, dividends paid of $25,948 and interest paid of $10,414, resulting in net cash provided by financing activities of $53,028.

Cash used in investing activities during the year ended December 31, 2017 consisted primarily of advances on mortgage loan investments of $353,730, less repayments received of $263,223, for net cash invested in mortgage loan investments of $90,507. This net cash outflow was reduced by net cash inflows of $140 from sundry activities. Thus, the use of cash for investing activities was primarily to support growth in our mortgage portfolio.

Borrowings under our operating credit facility decreased to $145,154 at December 31, 2017, from $145,725 at December 31, 2016, as a result of the issuances of shares and convertible debentures completed during the period, as described above, net of the effect of the increase in our mortgage portfolio.

Accounts payable and accrued liabilities were $1,960 at December 31, 2017 compared to $1,101 at December 31, 2016. This increase is due to timing differences of payments at year end. Dividends payable were $3,769 at December 31, 2017 down from $4,653 at December 31, 2016. The decrease was primarily due to the decrease in the accrual of the special dividend from December 31, 2017 to December 31, 2016.

Share capital increased to $345,325 at December 31, 2017 from $275,785 at December 31, 2016 due to issuances of our common shares completed during the first and third quarters.

Contractual obligations

Contractual obligations due at December 31, 2017 were as follows:

December 31, 2017	Total obligation	Within 1 year	1 to 3 years	3 to 5 years	More than 5 years
Borrowings under credit facility	145,154	–	145,154	–	–
Accounts payable and accrued liabilities	1,960	1,960	–	–	–
Accrued convertible debenture interest	2,636	2,636	–	–	–
Dividends payable	3,769	3,769	–	–	–
Convertible debentures	129,816	–	64,266	40,250	25,300
Total contractual obligations	283,335	8,365	209,420	40,250	25,300

We have commitments to advance additional funds under existing mortgages of $65,005 and for new mortgages of $9,489 at December 31, 2017 (December 31, 2016 – $51,320 and $4,468 respectively). Generally, outstanding commitments are expected to be funded within the next 24 months. However, our experience has been that a portion of the unfunded amounts on existing mortgages will never be drawn.

Off-balance sheet arrangements

As at December 31, 2017, we had $3,640 (December 31, 2016 – $4,176) of letters of credit (LCs) outstanding which were issued under our operating credit facility. The maximum available by way of LCs under our operating credit facility is $10,000. LCs represent irrevocable assurances that our banks will make payments in the event that a customer cannot meet its obligations to third parties. LCs carry the same credit risk, recourse and collateral security requirements as mortgages extended to customers.

Transactions with related parties

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and are measured at fair value.
The manager is responsible for our day-to-day activities. We incurred management and mortgage servicing fees from a subsidiary of the manager of $5,470 for the year ended December 31, 2017 (year ended December 31, 2016 – $4,661). Mr. Robert G. Goodall is a director and part of the key management personnel of the manager, received compensation from the manager, and is also a director of Atrium. The management agreement between us and the manager contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. The manager also acts as broker for our mortgages. The manager receives origination fees from the borrowers of up to 1% of the amount being funded; origination fees in excess of 1% are split equally between the manager and Atrium.

Certain of our mortgages are shared with other investors. As at December 31, 2017, companies owned by a director and officer of the company had co-invested in one syndicated mortgage. The total amount of the mortgage is $45,360 (December 31, 2016 – one syndicated mortgage of $40,756) of which the company's share is $22,680 (December 31, 2016 – $20,378).

As at December 31, 2017, the company had two mortgages receivable which a director and officer of the company has joint control over the borrowers of these mortgages. (December 31, 2016 – nil).

- A mortgage loan with a total gross commitment of $3,490, of which $3,071 had been funded at December 31, 2017. During the year ended December 31, 2017, the company recognized net mortgage interest and fees of $19 from this mortgage receivable.
- A mortgage loan with a total gross commitment of $8,738. The company's share of the commitment is $2,330, of which $2,330 had been funded at December 31, 2017. During the year ended December 31, 2017, the company recognized net mortgage interest and fees of $105 from this mortgage receivable

Critical accounting estimates and policies

Our consolidated annual financial statements for the year ended December 31, 2017 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the CPA Canada *Handbook*. Management makes certain estimates and relies upon certain assumptions related to reporting our assets and liabilities as well as results of operations in conformity with Canadian generally accepted accounting principles. Actual results will differ from these estimates and assumptions.

The preparation of consolidated financial statements in accordance with IFRS requires us to make estimates and assumptions and to apply judgement. The most subjective of these are the valuation of mortgages receivable including the provision for mortgage losses, as well as the measurement of the liability and equity components of our convertible debentures. We believe that our estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter. The more significant accounting policies are set out below.

Revenue recognition

Mortgage interest and fees revenues are recognized in the consolidated statements of income and comprehensive income using the effective interest method. Mortgage interest and fees revenues include our share of any fees received, as well as the effect of any discount or premium on the mortgage.

The effective interest method derives the interest rate that discounts the estimated future cash payments and receipts during the expected life of the mortgage receivable (or, where appropriate, a shorter period) to its carrying amount. When calculating the effective interest rate, future cash flows are estimated considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and transaction costs paid or received. Fees and transaction costs include incremental revenues and costs that are directly attributable to the acquisition or issuance of the mortgage.

Mortgages receivable

A mortgage receivable, carried at amortized cost, is considered impaired when there is objective evidence that there has been a deterioration of credit quality subsequent to its initial recognition to the extent that we no longer have reasonable assurance as to the timely collection of the full amount of principal and interest.

We assess mortgages receivable for objective evidence of impairment both individually and collectively each reporting period. The provision for mortgage losses is determined by taking into account the following factors:

- Delays in the collection of interest and principal
- The point at which we consider a loan to be in default (which we define as 90 days for single family residential mortgages and 30 days for all other mortgages)
- Other known factors specific to the property, the borrower or the guarantor
- Economic and other real estate market conditions in the geographic area in which a borrower's project is located
- Our judgement as to whether current economic and credit conditions are such that the actual inchoate or potential losses at the reporting date are likely to be higher or lower than the amounts suggested by historic experience
- Any other factors that apply to a particular mortgage or group of mortgages

Several of these factors involve estimates and judgements on the part of management in determining the provisions for mortgage losses. The other key estimates used for quantifying the provision for mortgage losses are:

- The period of time expected to elapse between the contractual maturity or interest and principal repayment dates and the date at which recovery is estimated
- The amount expected to be ultimately recovered on impaired loans, taking into account the probability of different outcomes, where necessary
- The value of underlying security, and whether Atrium expects to take possession of the property
- The amount of any legal and other third-party costs estimated to be incurred

An impairment loss is calculated as the difference between the carrying amount of the mortgage receivable and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are charged to the statements of income and comprehensive income and are reflected in the provision for mortgage losses.

If there is no objective evidence of impairment for a counterparty specific mortgage receivable, it is included in a group of mortgages with similar credit risk characteristics and collectively assessed for impairment for losses incurred but not identified. For the purpose of determining the group of mortgages with similar credit risk characteristic, mortgages are grouped by the location of the underlying property and by other risk characteristics.

Convertible debentures

The convertible debentures can be converted into our common shares at the option of the investor. They are compound financial instruments with two components: a financial liability, and a call option which is an equity instrument. The fair value of the liability component is measured as of the date that the debentures were issued, and the equity instrument is valued on that date based upon the difference between the fair value of the debenture and the fair value of the liability component.

The measurement of the fair value of the liability component is based upon market rates of interest on similar debt instruments without the conversion feature. Expenses of issue are allocated between the two components on a *pro-rata* basis. The book value of the debt is accreted up to its face value over the life of the debentures using the effective interest method, which provides for the application of a constant interest rate over the life of the debenture. The value of the equity component is not re-measured subsequent to its initial measurement date.

Income taxes

We are, and intend to maintain our status as, a MIC, and as such are not taxed on income provided that it flows through to our shareholders as dividends during the year or within 90 days after December 31 each year. It is our policy to pay such dividends to our shareholders to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

Future changes in accounting policies

Various pronouncements have been issued by the IASB or IFRS Interpretations Committee (IFRIC) that will be effective for future accounting periods, most of which do not apply to us; one that is applicable is summarized below.

IFRS 9 – Financial Instruments is a new standard on accounting for financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. We intend to adopt IFRS 9 effective January 1, 2018. It includes requirements for classification and measurement of financial assets and liabilities, as well as impairment of financial assets. IFRS 9 uses an expected-loss impairment model based upon forward looking information that will result in earlier recognition of expected losses.

Classification and Measurement of Financial Assets and Liabilities

IFRS 9 requires that our business model and a financial instrument's contractual cash flows determine its classification and measurement in the financial statements. Upon initial recognition, each financial asset will be classified as either fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent solely principal and interest. Otherwise it is recorded at FVTPL.

Based upon an initial analysis of the business model and contractual cash flow characteristics of its financial assets, we have determined that our financial assets will continue to be measured at amortized cost and be subject to the IFRS 9 impairment rules.

Impairment of Financial Assets

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI, and off-balance-sheet lending commitments such as loan commitments and letters of credit (which are collectively referred to in this note as financial assets).

The determination of the provision for mortgage losses will move from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are recorded upon initial recognition of the financial asset based upon expectations of potential credit losses at that time. Under IFRS 9, we will recognize a loss allowance equal to 12-month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1), representing the expected credit losses from default events that are possible within the next 12 months.

IFRS 9 requires the recognition of credit losses over the remaining life of the financial assets (lifetime expected credit losses) that are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3). The lifetime expected credit losses represent the expected value of possible default events over the life of a financial instrument. We consider information that allows us to identify whether the credit risk of financial assets has significantly increased. This process includes considering forward-looking information, including macro-economic factors and the outstanding balance upon default. Financial assets will be transferred to Stage 2 if 30 days past due (90 days for single family residential mortgages). Credit impaired financial assets are transferred to Stage 3 when there is objective information that the assets are credit impaired. To determine whether a financial asset is credit impaired, an event must be identified that has a detrimental impact on the estimated future cash flows.

Interest revenue is calculated on the gross carrying amount for financial assets in Stage 1 and 2 and on the net

carrying amount for financial assets in Stage 3.

Atrium has elected under the transitional provisions of IFRS 9 not to restate comparative figures and will recognize any measurement difference between the previous carrying amount and the new carrying amount as at January 1, 2018 through an adjustment to opening retained earnings. Based on current estimates, the adoption of IFRS 9 is expected to result in a reduction of retained earnings at January 1, 2018 of approximately $2,000. This is due to increases in the provision for mortgage losses under the new impairment requirements. We continue to refine certain aspects of our impairment analysis leading up to our 2018 first quarter reporting.

Controls and procedures

Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument (NI) 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*.

We designed the DC&P and ICFR, the latter of which was using the framework in *Internal Control – Integrated Framework* (published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and as revised in 2013) to provide reasonable assurance that material information relating to us is made known to our CEO and CFO during the reporting period; and information required to be disclosed by us in our filings under securities legislation is recorded, processed, summarized and reported within the required time periods; and provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

Our CEO and CFO evaluated the design effectiveness of the DC&P and ICFR, as defined by NI 52-109, as of December 31, 2017. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of that date. NI 52-109 also requires Canadian public companies to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. No such change to ICFR has occurred during the most recently completed quarter.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Because of the inherent limitations in any control system, no evaluation of control can provide absolute assurance that all control weaknesses including, for example, any instances of fraud, have been detected. Inherent limitations include: (i) that management's assumptions and judgements could ultimately prove to be incorrect as conditions and circumstances vary; (ii) the impact of any undetected errors; and (iii) controls may be circumvented through the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of control is also based upon assumptions as to the likelihood of future events and there is no assurance that any design will succeed in achieving its goals under future conditions.

Outstanding share data

Our authorized capital consists of an unlimited number of common shares, of which 33,252,139 were issued and outstanding at December 31, 2017, and 33,275,485 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,407,408, 2,388,422, 2,747,440 and 1,693,440 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.25%, 6.25%, 5.50% and the 5.30% convertible debentures, using the conversion price of $13.50, $13.30, $14.65, and $14.94 respectively, for each common share.

We also have an employee share purchase plan, a deferred share incentive plan and a dividend reinvestment plan pursuant to which common shares are issued from time to time.

Risks and uncertainties

We are subject to many risks and uncertainties that may limit our ability to execute our strategies and achieve our objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while others cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general real estate market, interest rates changing markedly, being unable to make mortgage loans at rates consistent with rates historically achieved, not having adequate mortgage loan opportunities presented to us, and not having adequate sources of bank finance available.

Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. In rare circumstances where a mortgage is in default, we may take possession of real property and may become liable for environmental issues as a mortgagee in possession. As part of the due diligence performed in respect of our mortgage loan investments, we obtain a Phase I environmental audit on the underlying real property provided as security for a mortgage, unless the manager has determined that a Phase I environmental audit is not necessary.

Please also refer to "Forward-looking information," below, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2017 which is incorporated herein by reference and is available at www.sedar.com and at www.atriummic.com.

Forward-looking information

From time to time in our public communications we provide forward-looking statements. Such statements are disclosures regarding possible events, conditions, results of operations or changes in financial position that are based upon assumptions and expectations. These are not based upon historical facts but are with respect to management's beliefs, estimates, and intentions. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans" or "continue" or similar expressions suggesting future outcomes or events. Forward-looking statements regarding earnings, possible mortgage losses, and mortgage portfolio growth are based upon assumptions regarding performance of the economy in general and real estate markets in particular. Forward-looking statements generally assume that our revenues and expenses continue to follow current trends, and that current trends in our mortgage portfolio growth continue.

All forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A or elsewhere. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and the general economic environment. For other risks and uncertainties, please refer to "Risks and uncertainties" above, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2017 which is available at www.sedar.com and at www.atriummic.com. That list is not exhaustive, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. We will not publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, unless required to do so by law.

Responsibility of management and the board of directors

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our audit committee and board of directors provide an oversight role with respect to our public financial disclosures, and have reviewed and approved this MD&A and the annual financial statements.

Dividend Reinvestment Plan

A Dividend Reinvestment Plan (DRIP) is available to holders of our common shares. The DRIP allows participants to have their monthly cash dividends reinvested in additional common shares, at a discount of 2% from the market price. Shareholders who wish to enroll or who would like further information about the DRIP should contact their broker or our agent for the DRIP, Computershare Trust Company of Canada, at 1 (800) 564-6253 or www.computershare.com.

Additional information

Additional information about Atrium, including our Annual Information Form for the year ended December 31, 2017, is available on SEDAR at www.sedar.com. You may also obtain further information about us from our website at www.atriummic.com, by telephone at (416) 607-4200, or by email at info@atriummic.com.

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CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED
DECEMBER 31, 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the shareholders of
Atrium Mortgage Investment Corporation:

The management of Atrium Mortgage Investment Corporation is responsible for the preparation, presentation and integrity of these consolidated financial statements, and the accompanying Management's Discussion and Analysis. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgements and estimates necessary to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management of Atrium is responsible to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced. We are required to design a system of internal controls and certify as to the design and operating effectiveness of internal controls over financial reporting. We have implemented a system of internal controls that we believe provides reasonable assurance in all material respects that transactions are authorized, assets are safeguarded and financial records are reliable for producing consolidated financial statements. Crowe Soberman LLP was appointed as the independent auditor by a vote of Atrium's shareholders to audit the consolidated financial statements; their report appears on the next page.

The Board of Directors, through the Audit Committee comprised solely of independent directors, is responsible for determining that management fulfills its responsibilities in the preparation of these consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders, and it meets regularly with senior and financial management to discuss internal controls and financial reporting matters. The independent auditors have unrestricted access to the Audit Committee.

These consolidated financial statements and accompanying Management's Discussion and Analysis have been approved by the Board of Directors based upon the review and recommendation of the Audit Committee.

Toronto, Canada
February 8, 2018

"Robert G. Goodall"	*"Jennifer Scoffield"*
Robert G. Goodall	Jennifer Scoffield
President and Chief Executive Officer	Chief Financial Officer

Crowe Soberman™

Crowe Soberman LLP
Member Crowe Horwath International
2 St. Clair Avenue East, Suite 1100
Toronto, ON M4T 2T5
416.964.7633
416.964.6454 Fax
www.crowesoberman.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Atrium Mortgage Investment Corporation

We have audited the accompanying consolidated financial statements of Atrium Mortgage Investment Corporation and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of income and comprehensive income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Atrium Mortgage Investment Corporation and its subsidiary as at December 31, 2017 and December 31, 2016, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Crowe Soberman LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 8, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Notes	December 31 2017	December 31 2016
Assets			
Mortgages receivable	5	$ 626,756	$ 530,590
Foreclosed properties	6	1,064	1,223
Prepaid expenses		39	43
		$ 627,859	$ 531,856
Liabilities			
Borrowings under credit facility	7	$ 144,454	$ 145,414
Accounts payable and accrued liabilities	8	1,960	1,101
Accrued convertible debenture interest		2,636	1,050
Dividends payable		3,769	4,653
Convertible debentures	9	125,976	101,098
		278,795	253,316
Shareholders' equity			
Share capital		345,325	275,785
Deferred share incentive plan units		802	592
Equity component of convertible debentures		1,322	1,062
Contributed surplus		645	645
Retained earnings		970	456
		349,064	278,540
		$ 627,859	$ 531,856
Commitments	*7, 13(d)*		

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

Approved on behalf of the board of directors:

"Robert Goodall"	*"Mark Silver"*
Robert Goodall, Director	Mark Silver, Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars, except for number of common shares)

	Notes	Common shares Number	Common shares Amount	Deferred share incentive plan units	Equity component of convertible debentures	Contributed surplus	Retained earnings	Total
Balance, December 31, 2015		26,834,574	$ 272,698	$ 325	$ 1,062	$ 645	$ 254	$ 274,984
Shares issued under dividend reinvestment plan	10	249,243	2,857	–	–	–	–	2,857
Shares issued under employee share purchase plan	10	12,325	146	–	–	–	–	146
Shares issued under deferred share incentive plan	11	6,930	97	(97)	–	–	–	–
Shares converted	9	2,631	35	–	–	–	–	35
Issue costs		–	(48)	–	–	–	–	(48)
Share-based payments	11	–	–	364	–	–	–	364
Net income and comprehensive income		–	–	–	–	–	26,120	26,120
Dividends declared		–	–	–	–	–	(25,918)	(25,918)
Balance, December 31, 2016		27,105,703	275,785	592	1,062	645	456	278,540
Shares issued by prospectus		5,827,050	69,051	–	–	–	–	69,051
Shares issued under dividend reinvestment plan	10	293,622	3,481	–	–	–	–	3,481
Shares issued under employee share purchase plan	10	11,620	142	–	–	–	–	142
Shares issued under deferred share incentive plan	11	14,144	161	(161)	–	–	–	–
Issue costs		–	(3,295)	–	–	–	–	(3,295)
Share-based payments	11	–	–	371	–	–	–	371
Equity component of convertible debentures issued	9	–	–	–	274	–	–	274
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(14)	–	–	(14)
Net income and comprehensive income		–	–	–	–	–	29,059	29,059
Dividends declared		–	–	–	–	–	(28,545)	(28,545)
Balance, December 31, 2017		33,252,139	$ 345,325	$ 802	$ 1,322	$ 645	$ 970	$ 349,064

Dividends amounted to $0.920 per share for the year ended December 31, 2017 (year ended December 31, 2016 – $0.96)

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands of Canadian dollars, except for per share amounts)

	Notes	Years ended December 31 2017	2016
Revenues			
Mortgage interest and fees		$ 50,359	$ 44,042
Operating expenses			
Mortgage servicing and management fees	8	5,470	4,661
Transfer agent, regulatory fees and investor relations		322	297
Share-based payments	8, 11	371	364
Professional fees		128	153
Directors' expense	8	195	217
Administration and general		216	190
Loss from sale of foreclosed property	6	19	–
Provision for mortgage losses	5(b)	1,850	1,519
		8,571	7,401
Income before financing costs		41,788	36,641
Financing costs			
Interest on convertible debentures		7,734	6,906
Interest and other bank charges		4,995	3,615
		12,729	10,521
Net income and comprehensive income for the year		$ 29,059	$ 26,120
Earnings per common share			
Basic	12	$ 0.95	$ 0.97
Diluted	12	$ 0.94	$ 0.95

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Years ended December 31	
	2017	**2016**
Cash provided by (used in):		
Operating activities		
Net income and comprehensive income for the year	$ 29,059	$ 26,120
Adjustments to determine net cash flows from (used in) operating activities –		
Share-based payments	371	364
Mortgage interest and fees earned	(50,359)	(44,042)
Mortgage interest and fees received	41,977	34,904
Interest on convertible debentures expensed	7,734	6,906
Interest and other bank charges expensed	4,995	3,615
Provision for mortgage losses	1,850	1,519
Loss on disposition of foreclosed property	19	–
	35,646	29,386
Changes in operating assets and liabilities –		
Prepaid expenses	4	11
Accounts payable and accrued liabilities	816	32
Additions to mortgage discount	–	15
Additions to unamortized origination fees	873	740
	1,693	798
Cash provided by operating activities	37,339	30,184
Investing activities		
Cash advances of mortgages receivable	(353,730)	(286,031)
Cash repayments of mortgages receivable	263,223	209,225
Improvements to foreclosed properties	(399)	(44)
Proceeds from disposition of foreclosed assets	539	–
Cash used in investing activities	(90,367)	(76,850)
Financing activities		
Advances under credit facility	557,729	359,776
Repayments under credit facility	(558,300)	(281,005)
Interest on convertible debentures paid	(5,073)	(5,953)
Interest and other bank charges paid	(5,341)	(3,542)
Issuance of common shares	69,193	146
Share capital issue costs	(3,295)	(54)
Issuance of convertible debentures	25,300	–
Convertible debenture issue costs	(1,237)	–
Dividends paid	(25,948)	(22,702)
Cash provided by financing activities	53,028	46,666
Increase (decrease) in cash	–	–
Cash, beginning of year	–	–
Cash, end of year	$ –	$ –

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

NOTE 1 – NATURE OF OPERATIONS

Atrium Mortgage Investment Corporation is a corporation domiciled in Canada, incorporated under the Ontario *Business Corporations Act*. The address of the company's registered head office and principal place of business is Suite 900, 20 Adelaide Street East, Toronto, Ontario M5C 2T6.

The company is a Mortgage Investment Corporation (MIC) as defined in Section 130.1(6) of the Canada *Income Tax Act* (ITA). Accordingly, the company is not taxed on income provided that its taxable income is paid to its shareholders in the form of dividends within 90 days after December 31 each year. Such dividends are generally treated by shareholders as interest income, so that each shareholder is in the same position as if the mortgage investments made by the company had been made directly by the shareholder.

The company's common shares are listed on the Toronto Stock Exchange (TSX) under the symbol AI and its convertible debentures are listed under the symbols AI.DB, AI.DB.A, AI.DB.B and AI.DB.C.

NOTE 2 – BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as set out in Part I of the *CPA Canada Handbook – Accounting*. Significant accounting policies have been consistently applied in the preparation of these consolidated financial statements, which were authorized for issuance by the board of directors on February 8, 2018.

(b) Basis of measurement

These consolidated financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is also the company's functional currency. Dollars are expressed in thousands except for per share amounts or where the context requires otherwise.

(d) Principles of consolidation

These consolidated financial statements include the accounts of the company and CMCC Sisyphus LP, which is considered to be a subsidiary for accounting purposes. Consolidation commenced the date the company obtained control and continues until control ceases. Atrium has consolidated the subsidiary from August 5, 2016, the date of its formation. All transactions and balances between the company and the subsidiary have been eliminated, including unrealized gains and losses, if any.

(e) Use of estimates and judgements

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. The most subjective of these estimates relates to: (a) valuation of mortgages receivable, which is affected primarily by the provision for mortgage losses, and (b) the measurement of the liability and equity components of the convertible debentures which depend upon the estimated market interest rates for a comparable debenture without the convertibility feature. Management believes that its estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Mortgage interest and fees revenues are recognized in the statement of income and comprehensive income using the effective interest method. Mortgage interest and fees revenues include the company's share of any fees received, as well as the effect of any discount or premium on the mortgage.

The effective interest method derives the interest rate that discounts the estimated future cash receipts during the expected life of the mortgage receivable (or, where appropriate, a shorter period) to its carrying amount. When calculating the effective interest rate, future cash flows are estimated considering all contractual terms of the financial instrument, but not future credit losses (see Note 3 (d)). The calculation of the effective interest rate includes all fees and transaction costs paid or received. Fees and transaction costs include incremental revenues and costs that are directly attributable to the acquisition or issuance of the mortgage.

(b) Financial assets – classification, initial recognition and measurement

Classification of financial assets depends upon the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. Mortgages receivable are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

All financial assets are reviewed for impairment quarterly, and written down when there is evidence of impairment.

(c) Financial instruments – derecognition of financial assets and liabilities

Financial assets are derecognized when the contractual rights to receive cash flows from the asset expire. When the company exercises its security and takes title to the underlying real estate, a mortgage receivable is derecognized on the date of foreclosure. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled, or expires.

(d) Mortgages receivable

A mortgage receivable, carried at amortized cost, is considered impaired when there is objective evidence at the end of the reporting period that there has been a deterioration of credit quality subsequent to its initial recognition to the extent that the company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest. The company assesses mortgages receivable for objective evidence of impairment at each reporting period. The provision for mortgage losses is determined by taking into account the following factors:

- Delays in the collection of interest and principal
- The point at which management considers a loan to be in default (which is defined as 90 days for single family residential mortgages and 30 days for other mortgages)
- Other known factors specific to the property, the borrower or the guarantor
- Economic and other real estate market conditions in the geographic area in which a borrower's project is located
- Management's judgement as to whether current economic and credit conditions are such that the inchoate or potential losses at the reporting date are likely to be higher or lower than the amounts suggested by historic experience
- Any other factors that apply to a particular mortgage or group of mortgages

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Mortgages receivable (continued)

Several of these factors involve estimates and judgements on the part of management in determining provisions for mortgage losses. The other key estimates used for quantifying the provision for mortgage losses are:

- The period of time expected to elapse between the contractual maturity or interest and principal repayment dates and the date at which recovery is estimated
- The amount expected to be ultimately recovered on impaired loans, taking into account the likelihood of different outcomes
- The value of underlying security, and whether the company expects to take possession of the property
- The amount of any legal and other third party costs estimated to be incurred

An impairment loss is calculated as the difference between the carrying amount of the mortgage receivable and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are charged to the statements of income and comprehensive income and are reflected in the provision for mortgage losses.

If there is no objective evidence of impairment for a specific mortgage receivable, it is included in a group of mortgages with similar credit risk characteristics and collectively assessed for impairment for losses incurred but not identified. For the purpose of determining groups of mortgages with similar credit risk characteristics, mortgages are grouped by the location of the underlying property and by other risk characteristics.

(e) Foreclosed properties

Foreclosed properties are properties over which the company has taken title through exercise of its security interest. Such properties are accounted for under the cost model of IAS 40, Investment Property. A foreclosed property is initially recognized at cost on the date of foreclosure, which is the book value of the respective mortgage net of any related provision for mortgage loss. Any costs subsequently incurred to complete the construction or development of a foreclosed property are capitalized. Depreciation is recorded from the date the property is substantially complete. If the higher of the fair value and the value in use of a foreclosed property (its recoverable amount) is less than its carrying amount, then an impairment loss is recognized for the excess. Any impairment loss, or gain or loss realized on disposal is recognized in the statement of income and comprehensive income.

(f) Convertible debentures

Convertible debentures can be converted into common shares of the company at the option of the investor. They are compound financial instruments with two components: a financial liability, and a call option which is an equity instrument. The fair value of the liability component is measured as of the date that the debentures were issued, and the equity instrument is valued on that date based upon the difference between the fair value of the convertible debenture and the fair value of the liability component. The measurement of the fair value of the liability component is based upon market rates of interest on similar debt instruments without the conversion feature. Expenses of issue are allocated between the two components on a pro-rata basis. The book value of the debt is accreted up to its face value over the life of the debentures using the effective interest method, which applies a constant interest rate over the life of each debenture. The value of the equity component is not remeasured subsequent to its initial measurement date.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Other financial liabilities

Other financial liabilities are non-derivative liabilities recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost using the effective interest method. The company has classified borrowings under credit facility, accounts payable and accrued liabilities, dividends payable and the liability component of convertible debentures as other financial liabilities.

(h) Income taxes

The company qualifies as a Mortgage Investment Corporation under the ITA, and as such is not taxed on income provided that its taxable income is distributed to its shareholders in the form of dividends within 90 days after December 31 each year. It is the company's policy to pay such dividends to remain non-taxable. Accordingly, no provision for current or deferred income taxes is required.

(i) Earnings per common share

Basic earnings per common share is calculated by dividing earnings during the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by adjusting the income and comprehensive income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive items such as convertible debentures and deferred share incentive plans.

(j) Share-based payments

The company has an equity-settled share-based compensation plan for grants to eligible directors, officers, and senior management under its deferred share incentive plan. Grants are measured based upon the fair value of the awards granted, using the volume-weighted average trading share price for the five trading days prior to date of the grant.

NOTE 4 – RECENT ACCOUNTING PRONOUNCEMENTS

Various pronouncements have been issued by the IASB or IFRS Interpretations Committee (IFRIC) that will be effective for future accounting periods, most of which do not apply to the company; one that is applicable is summarized below.

IFRS 9 – Financial Instruments is a new standard on accounting for financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. The company intends to adopt IFRS 9 effective January 1, 2018. It includes requirements for classification and measurement of financial assets and liabilities, as well as impairment of financial assets. IFRS 9 uses an expected-loss impairment model based upon forward looking information that will result in earlier recognition of expected losses.

Classification and Measurement of Financial Assets and Liabilities

IFRS 9 requires that the company's business model and a financial instrument's contractual cash flows determine its classification and measurement in the financial statements. Upon initial recognition, each financial asset will be classified as either fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent solely principal and interest. Otherwise it is recorded at FVTPL.

Based upon an analysis of the business model and contractual cash flow characteristics of its financial assets, Atrium has determined that its financial assets will continue to be measured at amortized cost and be subject to the IFRS 9 impairment requirements.

Impairment of Financial Assets

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI, and off-balance-sheet lending commitments such as loan commitments and letters of credit (which are collectively referred to in this note as financial assets).

NOTE 4 – RECENT ACCOUNTING PRONOUNCEMENTS (continued)

The determination of the provision for mortgage losses will move from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are recorded upon initial recognition of the financial asset based upon expectations of future credit losses at that time. Under IFRS 9, Atrium will recognize a loss allowance equal to 12-month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1), representing the expected credit losses from default events that are possible within the next 12 months.

IFRS 9 requires the recognition of credit losses for the remaining life of the financial assets (lifetime expected credit losses) that are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3). The lifetime expected credit losses represent the expected loss in value due to possible default events over the life of a financial instrument weighted by the likelihood of a loss. To identify whether the credit risk of a financial asset has significantly increased since initial recognition, management will consider forward-looking information, including macro-economic factors as well as information related to the specific borrower, including the outstanding balance upon default. Financial assets will be transferred to Stage 2 if 30 days past due (90 days for single family residential mortgages). Credit impaired financial assets will be transferred to Stage 3 when there is objective information that the assets are credit impaired. To determine whether a financial asset is credit impaired, an event must be identified that has a detrimental impact on the estimated future cash flows.

Interest revenue is calculated on the gross carrying amount for financial assets in Stage 1 and 2 and on the net carrying amount for financial assets in Stage 3.

Atrium has elected under the transitional provisions of IFRS 9 not to restate comparative figures and will recognize any measurement difference between the previous carrying amount and the new carrying amount as at January 1, 2018 through an adjustment to opening retained earnings. Based on current estimates, the adoption of IFRS 9 is expected to result in a reduction of retained earnings at January 1, 2018 of approximately $2,000. This is due to increases in the provision for mortgage losses under the new impairment requirements. We continue to refine certain aspects of our impairment analysis leading up to our 2018 first quarter reporting.

NOTE 5 – MORTGAGES RECEIVABLE

(a) Mortgage portfolio

	December 31, 2017			December 31, 2016		
Mortgage category	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
Low-rise residential	36	$ 234,343	37.1%	30	$ 135,701	25.4%
House and apartment	120	86,287	13.6%	102	99,456	18.6%
Construction	8	64,828	10.3%	8	49,345	9.2%
High-rise residential	7	44,949	7.1%	7	53,182	9.9%
Mid-rise residential	4	31,471	5.0%	5	28,787	5.4%
Condominium corporation	14	2,887	0.4%	16	3,548	0.7%
Residential portfolio	189	464,765	73.5%	168	370,019	69.2%
Commercial/mixed use	27	167,622	26.5%	29	165,231	30.8%
Mortgage portfolio	216	632,387	100.0%	197	535,250	100.0%
Accrued interest receivable		2,537			2,126	
Mortgage discount		(262)			(360)	
Unamortized origination fees		(706)			(626)	
Provision for mortgage losses		(7,200)			(5,800)	
Mortgages receivable		$ 626,756			$ 530,590	

The mortgage portfolio has maturity dates between 2018 and 2030 with a weighted average remaining term of 12.4 months at December 31, 2017 (December 31, 2016 – 12.8 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 8.44% as at December 31, 2017 (8.50% as at December 31, 2016).

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(a) Mortgage portfolio (continued)

Within the mortgage portfolio, at December 31, 2017 there were 13 loans aggregating $40,550 (6.4% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage (December 31, 2016 – 11 mortgages aggregating $28,688, 5.4% of the portfolio). Additional analysis of the mortgage portfolio, including by location of underlying property and type of mortgage, is set out in the "Investment Portfolio" section of the Management's Discussion and Analysis for the year ended December 31, 2017.

Principal repayments based on contractual maturity dates are as follows:

Years ended December 31, 2018	$ 382,341	60.5%
2019	173,468	27.4%
2020	51,034	8.1%
2021	22,680	3.6%
2022	335	0.1%
Thereafter	2,529	0.3%
	$ 632,387	100.0%

(b) Provision for mortgage losses

	Years ended December 31	
	2017	2016
Balance, beginning of year	$ 5,800	$ 4,300
Mortgages settled during the year	(450)	(19)
Provision for mortgage losses	1,850	1,519
Balance, end of year	$ 7,200	$ 5,800

The increase in the provision for mortgage losses during the year is based upon assessment of the factors described in Note 3(d). Also, see Note 13(c).

NOTE 6 – FORECLOSED PROPERTIES

In the prior year, the company foreclosed on two properties which were the underlying security for mortgages receivable. The properties were recognized at cost of $1,179 on the dates of foreclosure. During the year ended December 31, 2017 the company disposed of one foreclosed property with a book value of $558 resulting in a net loss of $19. The book value at December 31, 2017 and December 31, 2016 approximates fair value.

	Years ended December 31	
	2017	2016
Balance, beginning of year	$ 1,223	$ –
Properties foreclosed on during the year	–	1,179
Capital improvements	399	44
Disposition of foreclosed property	(558)	–
Balance, end of year	$ 1,064	$ 1,223

NOTE 7 – CREDIT FACILITY

At December 31, 2017, the company had a credit facility from a syndicate of four Canadian financial institutions of $210,000 (December 31, 2016 – $160,000) at a formula rate that varies with bank prime and the market bankers' acceptance rate. The weighted average rate for the year ended December 31, 2017 was 3.12% (2.94% for the year ended December 31, 2016). Drawings under the credit facility may be by way of a bank loan (including an overdraft facility of up to $500), bankers' acceptances or letters of credit (LCs). LCs represent irrevocable assurances that the company's banks will make payments in the event that a customer cannot meet its obligations to third parties. LCs carry the same credit risk, recourse and collateral security requirements as mortgages extended to customers. The committed credit facility was effective November 28, 2017, has a term to January 11, 2020, and is subject to certain conditions of drawdown and other covenants.

NOTE 7 – CREDIT FACILITY (continued)

The credit facility is secured by a lien over all of the company's assets by means of a general security agreement. The amount that may be drawn down under the credit facility is determined by the aggregate value of mortgages that are acceptable to the lender. Under the terms of the credit facility, covenants must be met in respect of shareholders' equity, debt to total assets and interest coverage. At December 31, 2017 and December 31, 2016, the company was in compliance with these covenants.

	December 31	
Credit facility	**2017**	**2016**
Bankers' acceptances	$ 125,000	$ 137,000
Bank loan	19,900	8,550
Overdraft facility	254	175
Unamortized finance costs	(700)	(311)
Borrowings under credit facility	144,454	145,414
Letters of credit	3,640	4,176
Total credit facility utilization	$ 148,094	$ 149,590

NOTE 8 – RELATED PARTY TRANSACTIONS

The company pays management and mortgage servicing fees to Canadian Mortgage Capital Corporation (CMCC), which is the manager of the company, and responsible for its day-to-day management. The majority beneficial owner and Chief Executive Officer (CEO) of the manager is also CEO of the company. The company incurred management and mortgage servicing fees of $5,470 for the year ended December 31, 2017 (year ended December 31, 2016 – $4,661). The management agreement between the company and CMCC contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. Amounts due to related party of $1,021 (December 31, 2016 – $522) are included in accounts payable and accrued liabilities and are due to CMCC, are in the normal course of business, are non-interest bearing, due on demand and are paid within 30 days of each period end.

Certain of our mortgages are shared with other investors. As at December 31, 2017, companies owned by a director and officer of the company had co-invested in one syndicated mortgage. The total amount of the mortgage is $45,360 (December 31, 2016 – one syndicated mortgage of $40,756) of which the company's share is $22,680 (December 31, 2016 – $20,378).

As at December 31, 2017, the company had two mortgages receivable which a director and officer of the company has joint control over the borrowers of these mortgages. (December 31, 2016 – nil).

- A mortgage loan with a total gross commitment of $3,490, of which $3,071 had been funded at December 31, 2017. During the year ended December 31, 2017, the company recognized net mortgage interest and fees of $19 from this mortgage receivable.
- A mortgage loan with a total gross commitment of $8,738. The company's share of the commitment is $2,330, of which $2,330 had been funded at December 31, 2017. During the year ended December 31, 2017, the company recognized net mortgage interest and fees of $105 from this mortgage receivable.

Key management includes directors and officers of the company. Compensation expenses for key management personnel include:

	Years ended December 31	
	2017	**2016**
Directors' fees	$ 179	$ 179
Share-based payments to directors (Note 11)	136	142
Share-based payments to officers (Note 11)	106	84
	$ 421	$ 405

Related party transactions are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

NOTE 9 – CONVERTIBLE DEBENTURES

	Convertible debenture				
	5.30% AI.DB.C	5.50% AI.DB.B	6.25% AI.DB.A	5.25% AI.DB	Total
Year ended December 31, 2017					
Issued and outstanding face value	$ 25,300	$ 40,250	$ 31,766	$ 32,500	$ 129,816
Book value –					
Convertible debentures, beginning of year	$ –	$ 38,627	$ 31,003	$ 31,468	$ 101,098
Issued	25,300	–	–	–	25,300
Equity component	(274)	–	–	–	(274)
Issue costs	(1,237)	–	–	–	(1,237)
Issue costs attributed to equity component	14	–	–	–	14
Accretion for the year	113	334	337	291	1,075
Convertible debentures, end of year	$ 23,916	$ 38,961	$ 31,340	$ 31,759	$ 125,976
Year ended December 31, 2016					
Issued and outstanding face value	$ –	$ 40,250	$ 31,766	$ 32,500	$ 104,551
Book value –					
Convertible debentures, beginning of year	$ –	$ 38,295	$ 30,705	$ 31,180	$ 100,180
Conversion to shares	–	–	(35)	–	(35)
Accretion for the year	–	332	333	288	953
Convertible debentures, end of year	$ –	$ 38,627	$ 31,003	$ 31,468	$ 101,098

	Convertible debenture			
	5.30% AI.DB.C	5.50% AI.DB.B	6.25% AI.DB.A	5.25% AI.DB
Maturity date	June 30, 2024	Sept. 30, 2021	March 31, 2019	June 30, 2020
Initial term	7 years	7 years	5 years	7 years
Conversion at option of shareholder at	$ 14.94/share	$ 14.65/share	$ 13.30/share	$ 13.50/share
Interest payment dates	June 30, Dec. 31	March 31, Sept. 30	March 31, Sept. 30	June 30, Dec. 31
Redeemable at the company's option at par plus accrued interest, provided the weighted average trading price of common shares is not less than 125% of the conversion price from	June 30, 2020	Sept. 30, 2017	March 31, 2017	June 30, 2016
to	June 30, 2022	Sept. 30, 2019	March 31, 2018	June 30, 2018
Redeemable at the company's option at par plus accrued interest and unpaid interest after	June 30, 2022	Sept. 30, 2019	March 31, 2018	June 30, 2018

NOTE 10 – SHARE CAPITAL

The company is authorized to issue an unlimited number of common shares without par value. Common shares rank equally with each other and have no preference, conversion, exchange or redemption rights. Common shares participate pro rata with respect to any dividends paid, including distributions upon termination and dissolution. (See Note 15 – Subsequent events.)

The company has an optional dividend reinvestment plan (DRIP) for shareholders, whereby participants may reinvest cash dividends in additional common shares of the company at the volume weighted average price for five days prior to distribution, less a 2% discount. Shares issued under the DRIP are issued by the company from treasury.

Under the employee share purchase plan (ESPP), each participant may contribute up to an annual maximum to the ESPP, and CMCC (the manager) matches 50% of the participant's contribution. Thus, the company does not bear any of the cost of the ESPP, as it is reimbursed by CMCC and the participants.

NOTE 11 – SHARE-BASED PAYMENTS

	Year ended December 31, 2017			Year ended December 31, 2016		
	Deferred share units	Income deferred share units	Total	Deferred share units	Income deferred share units	Total
Balance, beginning of year	68,917	8,448	77,365	52,417	4,426	56,843
Units granted	24,000	–	24,000	22,500	–	22,500
Units earned	–	5,948	5,948	–	4,952	4,952
Common shares issued	(11,250)	(2,894)	(14,144)	(6,000)	(930)	(6,930)
Balance, end of year	81,667	11,502	93,169	68,917	8,448	77,365

Share compensation expense:	Years ended December 31 2017	2016
September 1, 2017 grant	$ 79	$ –
September 1, 2016 grant	171	62
September 1, 2015 grant	82	169
September 1, 2014 grant	31	87
August 30, 2013 grant	7	44
August 29, 2012 grant	1	2
	$ 371	$ 364

Grants are provided to directors and certain employees of the manager under the company's deferred share incentive plan ("DSIP"). The deferred share units vest annually over three years. Common shares are issued to participants on the vesting date of each tranche of deferred share units, unless a participant elects to defer the issuance. In addition, income deferred share units ("IDSU") are credited to holders of deferred share units granted before 2017 based upon dividends paid on common shares. The fair value of share-based compensation was based upon the volume weighted average market price of the common shares five days prior to the grant date of September 1, 2017 ($12.26) and September 1, 2016 ($12.47).

NOTE 12 – EARNINGS PER SHARE

	Years ended December 31 2017	2016
Basic earnings per share –		
Numerator		
Net income and comprehensive income for the year	$ 29,059	$ 26,120
Denominator		
Weighted average common shares outstanding	30,633,314	26,975,544
Basic earnings per share	$ 0.95	$ 0.97

NOTE 12 – EARNINGS PER SHARE (continued)

	Years ended December 31	
	2017	**2016**
Diluted earnings per share –		
Numerator		
Net income and comprehensive income for the year	$ 29,059	$ 26,120
Interest on convertible debentures	7,734	6,906
Net income and comprehensive income for diluted earnings per share	36,793	33,026
Denominator		
Weighted average common shares outstanding	30,633,314	26,975,544
Convertible debentures	8,475,621	7,545,176
Deferred share incentive plan	73,815	59,524
Income deferred share units	8,150	4,441
Weighted average common shares outstanding – diluted basis	39,190,900	34,584,684
Diluted earnings per share	$ 0.94	$ 0.95

NOTE 13 – FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets comprise mortgages receivable. All financial assets are classified as loans and receivables. Financial liabilities comprise borrowings under credit facility, accounts payable and accrued liabilities, dividends payable and the liability component of convertible debentures. All financial liabilities are classified as other financial liabilities.

(b) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between arm's length market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. All financial assets are classified as loans and receivables and are recorded at amortized cost. Their carrying values approximate their fair value due to their relatively short-term maturities and because market interest rates have not fluctuated significantly since the date at which the loans were entered into. The fair value of borrowings under credit facility approximates book value since it bears interest at floating rates. The accounts payable and accrued liabilities and dividends payable carrying value approximates their fair value due to the short term nature of the items.

The fair value of convertible debentures at the time of issue is established using Level 2 inputs. The fair value of convertible debentures has been determined based on the closing prices of the convertible debentures on the TSX on the respective dates.

	December 31	
Convertible debentures	**2017**	**2016**
Fair value	$ 131,134	$ 105,192
Less book value of equity component	(1,322)	(1,062)
	$ 129,812	$ 104,130
Book value of financial liability component	$ 125,976	$ 101,098

NOTE 13 – FINANCIAL INSTRUMENTS (continued)

(c) Credit risk

Mortgages receivable and issued letters of credit are exposed to credit risk. Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment, resulting in a financial loss to the company.

The company mitigates the credit risk by maintaining strict credit policies including due diligence processes, credit limits, documentation requirements, review and approval of new mortgages by the board of directors or a subgroup thereof, quarterly review of the entire portfolio by the board of directors, and other credit policies approved by the board of directors. Credit risk is approved by the board of directors. At December 31, 2017, the largest borrower group accounted for 9.0% of mortgages receivable (December 31, 2016 – 9.4%). See Note 5(a) for a breakdown of mortgages by category.

(d) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its obligations when due. The primary sources of liquidity risk are the requirements to fund commitments for new mortgages, advances on existing mortgages, as well as obligations under the company's credit facility. The company's liquidity risk is managed on an ongoing basis in accordance with the policies and procedures in place that reduce the risk to an acceptable level. Policies and procedures include continual monitoring of expected cash flows, reviewing credit requirements with the company's bankers, issuing convertible debentures or common shares in the public markets from time to time as required, and staggering the maturities of convertible debentures when they are issued. From time to time the company has arranged temporary increases in its credit facility with its banks in order to manage liquidity requirements, and expects to be able to continue to do so in the future if required. The company's significant financial liabilities include borrowings under credit facility, accounts payable and accrued liabilities, dividends payable and the liability component of convertible debentures. The borrowings under credit facility are drawn upon as required to discharge accounts payable and accrued liabilities as well as to pay out dividends on a monthly basis. The company's agreement with the lender is that the operating line will not be called provided that all covenants are met and that any significant excess cash is used to pay down the borrowings under credit facility.

December 31, 2017	Carrying value	Contractual cash flow	Within 1 year	1 to 3 years	3 to 5 years
Borrowings under credit facility[1]	$145,154	$155,102	$4,788	$150,314	$ –
Accounts payable and accrued liabilities	1,960	1,960	1,960	–	–
Dividends payable	3,769	3,769	3,769	–	–
Convertible debentures[2]	125,976	141,073	69,170	44,592	27,311
Total	276,859	301,904	79,687	194,906	27,311
Unadvanced mortgage commitments[3]	–	74,494	74,494	–	–
Total contractual liabilities	$276,859	$376,398	$154,181	$194,906	$ 27,311

Notes:

(1) Includes interest assuming the outstanding balance is not repaid until maturity on January 11, 2020.

(2) The 5.25% debentures are assumed to be repaid June 30, 2018; 6.25% debentures are assumed to be repaid March 31, 2018; 5.50% debentures are assumed to be repaid September 30, 2019 and 5.3% debentures are assumed to be repaid June 30, 2022.

(3) Unadvanced mortgage commitments include additional funds on existing mortgage and new mortgage commitments. The experience of the company has been that a portion of the unfunded amounts on existing mortgages will never be drawn.

As at December 31, 2017, management considers that it has adequate procedures in place to manage liquidity risk.

NOTE 13 – FINANCIAL INSTRUMENTS (continued)

(e) Interest rate risk

The company is exposed to interest rate risk in that an increase in interest rates will result in increased interest expense due to its borrowings under credit facility being set at a variable rate but all mortgages being set at fixed rates. The financial structure of the company results in relatively moderate interest rate risk because a majority of the company's financing is through common shares and convertible debentures, with a moderate amount of borrowings under the credit facility that bear floating interest rates.

If interest rates on debt had been one percentage point higher (lower) during the year ended December 31, 2017, income and comprehensive income would have been reduced (increased) by approximately $1,424 during the year, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. However, if new mortgage loans had been entered into at higher (lower) interest rates, the resulting reduction of income and comprehensive income would have been less than (greater than) $1,424.

(f) Currency risk

Currency risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. The company is not exposed to currency risk as all assets and liabilities are denominated in Canadian funds.

NOTE 14 – CAPITAL MANAGEMENT

The company defines capital as total debt plus shareholders' equity, as shown below:

	December 31	
	2017	2016
Borrowings under credit facility	$ 144,454	$ 145,414
Convertible debentures	125,976	101,098
Total debt	270,430	246,512
Shareholders' equity	349,064	278,540
Capital employed	$ 619,494	$ 525,052

The company's objectives for managing capital are to preserve shareholders' equity, provide shareholders with stable dividends, and to use leverage in a conservative manner to improve return to shareholders. The company finances growth of its portfolio by issuing common shares and debt. In addition, a small amount of equity is raised every month through a dividend reinvestment plan for shareholders and the employee share purchase plan.

As bank borrowings increase, the company could expect to raise further funds through public offerings of convertible debentures or common shares, and through private placements of debt. The borrowings under credit facility are subject to external covenants as set out in Note 7. There has been no change in the company's capital management objectives since the prior year.

NOTE 15 – SUBSEQUENT EVENTS

On January 12, 2018, the company issued 23,346 common shares ($287) to shareholders under its dividend reinvestment plan.

Corporate Directory

Board of Directors

Mark L. Silver
Chair of the Board,
Atrium Mortgage
Investment Corporation
President, Optus Capital Corporation

Robert G. Goodall
CEO and President,
Atrium Mortgage
Investment Corporation

Peter P. Cohos [2,4]
President,
Copez Properties Ltd.

Robert H. DeGasperis
President,
Metrus Properties Inc.

Andrew Grant [4]
President,
PCI Group

Nancy H. O. Lockhart [2,3]
Director,
Barrick Gold Corporation
Chair of the
Board of Directors,
Gluskin Sheff + Associates
Director,
Loblaw Companies Ltd.

David M. Prussky [1]
Director

1. Chair of Audit Committee
2. Member of Audit Committee
3. Chair of Compensation, Nominating and Governance Committee
4. Member of Compensation, Nominating and Governance Committee

Management

Robert G. Goodall
CEO and President

Jennifer Scoffield CPA, CA
CFO and Secretary

Bram Rothman
Managing Director – Ontario

Richard Munroe
Managing Director – Ontario

Pete Ivanovic
Managing Director – Ontario

Phil Fiuza
Managing Director –
Ontario, Residential

Daniel Stewart
Managing Director –
Alberta and Saskatchewan

Marianne Dobslaw
Managing Director –
British Columbia

Transfer Agent

Computershare Trust Co. of Canada
100 University Ave.
9th Floor, North Tower
Toronto, ON M5J 2Y1
T. (800) 564-6253

For 5.3% Convertible debentures
AST Trust Company
1 Toronto St.
Suite 1200
Toronto, ON M5C 2V6
T. (800) 387-0825

Auditors

Crowe Soberman LLP
1100 – 2 St. Clair Ave. E.
Toronto, ON M4T 2T5
T. (416) 964-7633

Share Listing

Common shares,
TSX: AI

Convertible debentures 5.25%,
TSX: AI.DB

Convertible debentures 6.25%,
TSX: AI.DB.A

Convertible debentures 5.5%,
TSX: AI.DB.B

Convertible debentures 5.3%,
TSX: AI.DB.C

Atrium® offers a dividend reinvestment plan (DRIP) so that shareholders may automatically reinvest their dividends in new shares of Atrium at a 2% discount from market price and with no commissions. This provides an easy way to realize the benefits of compound growth of their investment in Atrium. Shareholders can enroll in the DRIP program by contacting their investment advisor or Computershare

20 Adelaide Street East - Suite 900
Toronto, Ontario M5C 2T6

T 416 867 1053
F 416 867 1303

W info@atriummic.com