Annual Report 2018

Year Ended
December 31, 2018

CANADA'S PREMIER NON-BANK LENDER™

Table of Contents

1 Earnings Press Release
5 Management's Discussion and Analysis
21 Interim Consolidated Financial Statements
49 Corporate Directory

About Atrium Mortgage Investment Corporation

Safety – Consistency – Yield

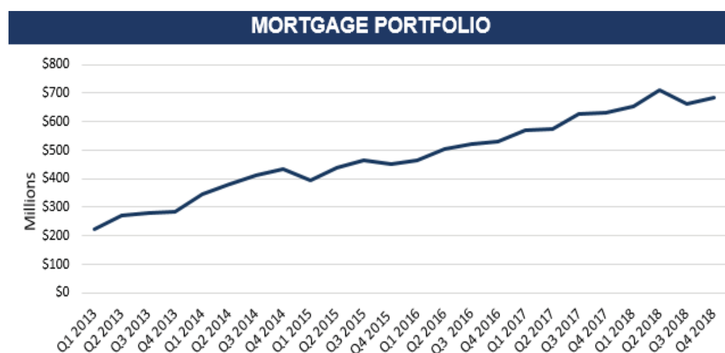
Atrium lends in major urban centres and where the stability and liquidity of real estate is high. As a mortgage lender, we fill the lending gap that results from the limited number of financial institutions operating in Canada. Our loan portfolio is high quality but we are able to charge higher rates 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.

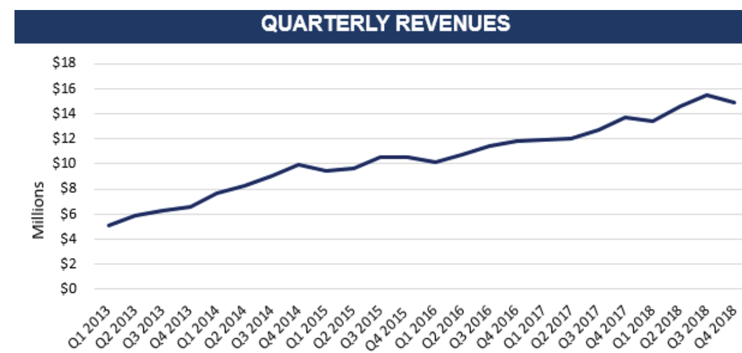
Atrium has an 18-year track record of success and consistency in achieving our strategic objectives: to grow in a controlled manner by focusing on real estate sectors with the lowest risk profiles.

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. 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	$0.04	$0.94	$0.95
2019	$0.90	to be determined		





FOR IMMEDIATE RELEASE

ATRIUM MORTGAGE INVESTMENT CORPORATION ACHIEVES RECORD REVENUES AND NET INCOME IN 2018

TORONTO: February 13, 2019 – Atrium Mortgage Investment Corporation (TSX: AI, AI.DB, AI.DB.A, AI.DB.B, AI.DB.C, AI.DB.D) today released its financial results for the year ended December 31, 2018.

Highlights

- **Record revenues of $58.3 million, up 15.8% from prior year**
- **Record net income of $33.8 million, up 16.2% from prior year**
- **$0.95 basic and $0.94 diluted earnings per share for the year ended December 31, 2018**
- **$0.04 per share special dividend to shareholders of record December 31, 2018**
- **$0.94 total dividends per share paid to shareholders in 2018**
- **Mortgage portfolio increased to $684.4 million, 8.2% increase from prior year**
- **High quality mortgage portfolio**
  - **84.1% of portfolio in first mortgages**
  - **88.6% of portfolio is less than 75% loan to value**
  - **average loan-to-value is 61.1%**

"2018 was another good year for Atrium and represented a sixth consecutive year of portfolio growth and record income. We ended the year with a mortgage portfolio balance of $684.4 million, up 8.2% from the beginning of the year and up 3.3% from Q3 2018. We had annual revenue of $58.3 million and net income of $33.8 million. We increased our weighted average interest rate from 8.44% in 2017 to 8.85% at the end of this year. Notwithstanding those impressive results, we continued our practice of lending conservatively, with an average portfolio loan to value of 61.1%. We would like to thank our new and existing shareholders for the strong demand on the recent public offering of our common shares completed on February 8, 2019. We will continue to work hard to earn your continued support," said Rob Goodall, CEO of Atrium.

"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 Thursday, February 14, 2019 at 4:00 p.m. ET to discuss the results. 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 27, 2019) please call 1 (855) 859-2056, Conference ID 4959418.

Results of operations

Atrium ended the year with assets of $699.8 million, and revenues grew to a record $58.3 million, an increase of 15.8% from the prior year. Net income for 2018 was $33.8 million, an increase of 16.2% from the prior year.

Basic and diluted earnings per common share were $0.95 and $0.94, respectively, for the year ended December 31, 2018, compared with $0.95 basic and $0.94 diluted earnings per common share in the prior year.

The company had $682.7 million of mortgages receivable as at December 31, 2018, an increase of 8.9% from December 31, 2017. During the year, $306.0 million of mortgages were advanced, and $240.4 million of mortgages were repaid.

The weighted average interest rate on the mortgage portfolio increased to 8.85% at December 31, 2018, compared with 8.44% at December 31, 2017.

Financial summary

Condensed Statements of Earnings and Comprehensive Income

	Year ended December 31 2018	Year ended December 31 2017	Year ended December 31 2016
Revenue	$ 58,316	$ 50,359	$ 44,042
Mortgage servicing and management fees	(6,279)	(5,470)	(4,661)
Other expenses	(1,142)	(1,251)	(1,221)
Provision for mortgage losses	(1,800)	(1,850)	(1,519)
Income before financing costs	49,095	41,788	36,641
Financing costs	(15,326)	(12,729)	(10,521)
Earnings and total comprehensive income	$ 33,769	$ 29,059	$ 26,120
Basic earnings per share	$ 0.95	$ 0.95	$ 0.97
Diluted earnings per share	$ 0.94	$ 0.94	$ 0.95
Dividends declared	$ 33,658	$ 28,545	$ 25,918
Mortgages receivable, end of year	$ 682,721	$ 626,756	$ 530,590
Total assets, end of year	$ 699,750	$ 627,859	$ 531,856
Shareholder' equity, end of year	$ 387,306	$ 349,064	$ 278,540

Analysis of mortgage portfolio

(dollars in 000s)

	December 31, 2018			December 31, 2017		
Property type	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
Low-rise residential	38	$ 232,713	34.0%	39	$ 256,581	40.6%
High-rise residential	15	146,027	21.3%	10	81,939	13.0%
Mid-rise residential	20	139,708	20.4%	6	37,071	5.9%
House and apartment	101	64,230	9.4%	120	86,287	13.6%
Condominium corporation	14	2,533	0.4%	14	2,887	0.4%
Residential portfolio	188	585,211	85.5%	189	464,765	73.5%
Commercial	20	99,193	14.5%	27	167,622	26.5%
Mortgage portfolio	208	684,404	100.0%	216	632,387	100.0%

Location of underlying property	December 31, 2018 Number of mortgages	Outstanding amount	Percentage outstanding	Weighted average loan to value	Weighted average interest rate
(outstanding amounts in 000s)					
Greater Toronto Area	162	$ 431,334	63.0%	65.5%	8.94%
Non-GTA Ontario	26	29,160	4.3%	57.9%	8.28%
Alberta	3	15,698	2.3%	52.5%	8.83%
British Columbia	17	208,212	30.4%	53.1%	8.76%
	208	$ 684,404	100.0%	61.1%	8.85%

Location of underlying property	December 31, 2017 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%

For further information on the financial results, and further analysis of the company's mortgage portfolio, please refer to Atrium's consolidated financial statements and its management's discussion and analysis for the year ended December 31, 2018, available on SEDAR at www.sedar.com, and on the company's website at www.atriummic.com.

Conference call

Interested parties are invited to participate in a conference call with management on Thursday, February 14, 2019 at 4:00 p.m. ET to discuss the results. 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 27, 2019) please call 1 (855) 859-2056, Conference ID 4959418.

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 Canada *Income Tax Act*, so 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 about Atrium, please refer to regulatory filings available at www.sedar.com or investor information on Atrium's website at www.atriummic.com.

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Jennifer Scoffield
Chief Financial Officer

MD&A

Management's Discussion And Analysis

Year Ended
December 31, 2018

CANADA'S PREMIER NON-BANK LENDER™

Management's Discussion and Analysis

December 31, 2018

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 an 18-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 13, 2019.

Highlights

Atrium continues to demonstrate strength and stability. For the year ended December 31, 2018, we had record revenues of $58.3 million, up 15.8% from the prior year. Net income was a record $33.8 million compared with $29.1 million for the prior year. Basic and diluted earnings per share were $0.95 and $0.94 respectively, compared with $0.95 and $0.94 basic and diluted earnings per share in the prior year.

During 2018, we issued common shares for gross proceeds of $34.5 million, including full exercise of the overallotment option. In addition, during 2018, we issued a new series of 5.50% convertible debentures maturing December 31, 2025 for gross proceeds of $34.5 million, including full exercise of the overallotment option.

We declared a regular dividend of $0.075 per share for each month in the year, a total of $0.90 for the year to date compared to $0.88 for the prior year. In addition, we declared a special dividend of $0.04, for a total dividend of $0.94 for 2018, compared to $0.92 for the previous year. For 2019, our board of directors has set the regular dividend rate at $0.90 per annum.

Our regular and special dividends since listing on the Toronto Stock Exchange in 2012 are as follows:

Year	*Regular dividend*	*Special 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	$0.04	$0.94	$0.95
2019	$0.90	to be determined		

We had $682.7 million of mortgages receivable as at December 31, 2018, an increase of 8.9% from December 31, 2017. During the year, $306.0 million of mortgages were advanced and $240.4 million of mortgages were repaid. The portfolio has a weighted average remaining term of 11.3 months.

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

Revenues $58.3 million increased 15.8% from prior year

Earnings per share $0.95 basic

Strong, high quality mortgage portfolio

84.1% first mortgages

88.6% less than 75% loan-to-value

Mortgages receivable $682.7 million, up 8.9% from prior year

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

Investment portfolio

Our mortgage portfolio consisted of 208 mortgage loans and aggregated $684.4 million at December 31, 2018, an increase of 8.2% from December 31, 2017.

	December 31, 2018			December 31, 2017[5]		
Property Type	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
Low-rise residential[1]	38	$ 232,713	34.0%	39	$ 256,581	40.6%
High-rise residential[1]	15	146,027	21.3%	10	81,939	13.0%
Mid-rise residential[1]	20	139,708	20.4%	6	37,071	5.9%
House and apartment[2]	101	64,230	9.4%	120	86,287	13.6%
Condominium corporation[3]	14	2,533	0.4%	14	2,887	0.4%
Residential portfolio	188	585,211	85.5%	189	464,765	73.5%
Commercial[4]	20	99,193	14.5%	27	167,622	26.5%
Mortgage portfolio	208	684,404	100.0%	216	632,387	100.0%
Accrued interest receivable		3,122			2,537	
Mortgage discount		(221)			(262)	
Unamortized origination fees		(684)			(706)	
Provision for mortgage losses		(3,900)			(7,200)[6]	
Mortgages receivable		$ 682,721			$ 626,756	

1) *Mortgage loans on properties where the near-term business plan, as vetted by the lender, is to intensify the property into low-rise residential (detached, semi-detached, townhomes and/or multi-unit residential buildings up to 4 storeys), mid-rise residential (multi-unit residential buildings from 5-14 storeys and stacked townhomes) or high-rise residential (multi-unit residential buildings over 14 storeys).*
2) *Mortgage loans on existing single-family or multi-family residential homes and apartment buildings.*
3) *Mortgage loans to residential condominium corporations for guest suites, superintendent suites and green loans.*
4) *Mortgage loans on properties where the existing real estate is currently, or the proposed development project after rezoning will be, mixed use, commercial or industrial.*
5) *Comparative figures have been reclassified to conform with the current year presentation (See Note 15 to the December 31, 2018 consolidated financial statements)*
6) *Measured under IAS 39*

A summary of our mortgages by loan type is presented below.

	December 31, 2018			December 31, 2017		
Loan type	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
Term loans	199	$ 609,099	89.0%	207	$ 549,818	86.9%
Construction loans	9	75,305	11.0%	9	82,569	13.1%
	208	$ 684,404	100.0%	216	$ 632,387	100.0%

A summary of our mortgages by size is presented below.

	December 31, 2018			December 31, 2017		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
$0 - $2,500,000	145	$ 103,128	15.1%	161	$ 105,386	16.7%
$2,500,001 - $5,000,000	26	98,176	14.3%	19	69,755	11.0%
$5,000,001 - $7,500,000	8	48,118	7.0%	10	60,555	9.6%
$7,500,001 - $10,000,000	7	61,394	9.0%	5	42,920	6.8%
$10,000,001 +	22	373,588	54.6%	21	353,771	55.9%
	208	$ 684,404	100.0%	216	$ 632,387	100.0%

As of December 31, 2018, the average outstanding mortgage balance was $3.3 million (December 31, 2017 – $2.9 million), and the median outstanding mortgage balance was $0.8 million (December 31, 2017 – $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. Almost all new loans funded in Q3 and Q4 2018 were at floating rates. As at December 31, 2018, 61.9% of our portfolio was priced at floating rates, up from 15% at December 31, 2017.

We are continuing to reduce our exposure in Alberta; 100% 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, 2018				
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	162	$ 431,334	63.0%	65.5%	8.94%
Non-GTA Ontario	26	29,160	4.3%	57.9%	8.28%
Alberta	3	15,698	2.3%	52.5%	8.83%
British Columbia	17	208,212	30.4%	53.1%	8.76%
	208	$ 684,404	100.0%	61.1%	8.85%

	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%

We have an exceptionally high proportion of our portfolio invested in first mortgages (84.1%), which is one of our core strategies.

At December 31, 2018, the weighted average loan-to-value ratio in our mortgage portfolio was 61.1%, with 88.6% of the portfolio below 75% loan-to-value. (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.)

	December 31, 2018			
Type of mortgage	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average interest rate**
(dollars in 000s)				
First mortgages				
Conventional	150	$ 549,039	80.2%	8.59%
Non-Conventional	3	24,047	3.5%	7.67%
Other	14	2,533	0.4%	7.46%
	167	575,619	84.1%	8.55%
Second and third mortgages				
Conventional	33	54,460	8.0%	10.03%
Non-conventional	8	54,325	7.9%	10.85%
	41	108,785	15.9%	10.44%
	208	$ 684,404	100.0%	8.85%

Type of mortgage	December 31, 2017			
	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%

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, 2018 is 11.3 months (December 31, 2017 – 12.4 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, 2018, the weighted average loan-to-value ratio of the mortgage portfolio was considerably lower than that, at 61.1%, compared to 61.5% at December 31, 2017.

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, 2018 was $41.1 million (December 31, 2017 – $32.3 million). For loan amounts in excess of $30 million, we generally co-lend with a financial institution or private lender.

Our investment policies, which may be changed by our board of directors ("board"), 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 unsecured 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, commercial properties and store-front retail properties, commercial properties and residential and commercial land development sites. We also finance construction projects and 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, 2018, 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 2018	Year ended December 31 2017	Year ended December 31 2016
Revenue	$ 58,316	$ 50,359	$ 44,042
Mortgage servicing and management fees	(6,279)	(5,470)	(4,661)
Other expenses	(1,142)	(1,251)	(1,221)
Provision for mortgage losses	(1,800)	(1,850)	(1,519)
Income before financing costs	49,095	41,788	36,641
Financing costs	(15,326)	(12,729)	(10,521)
Earnings and total comprehensive income	$ 33,769	$ 29,059	$ 26,120
Basic earnings per share	$ 0.95	$ 0.95	$ 0.97
Diluted earnings per share	$ 0.94	$ 0.94	$ 0.95
Dividends declared	$ 33,658	$ 28,545	$ 25,918
Mortgages receivable, end of year	$ 682,721	$ 626,756	$ 530,590
Total assets, end of year	$ 699,750	$ 627,859	$ 531,856
Shareholders' equity, end of year	$ 387,306	$ 349,064	$ 278,540

Summary of quarterly results *(unaudited)*

	Q4 2018	*Q3 2018*	*Q2 2018*	*Q1 2018*	*Q4 2017*	*Q3 2017*	*Q2 2017*	*Q1 2017*
Revenue	$ 14,850	$ 15,476	$ 14,616	$ 13,374	$ 13,656	$ 12,668	$ 12,069	$ 11,966
Mortgage servicing and management fees	(1,554)	(1,661)	(1,610)	(1,454)	(1,501)	(1,385)	(1,292)	(1,292)
Other expenses	(294)	(279)	(317)	(252)	(389)	(274)	(303)	(285)
Provision for mortgage losses	(537)	(563)	(400)	(300)	(402)	(400)	(745)	(303)
Income before financing costs	12,465	12,973	12,289	11,368	11,364	10,609	9,729	10,086
Financing costs	(3,928)	(4,273)	(3,684)	(3,441)	(3,477)	(3,397)	(2,927)	(2,928)
Net income and comprehensive income	$ 8,537	$ 8,700	$ 8,605	$ 7,927	$ 7,887	$ 7,212	$ 6,802	$ 7,158
Basic earnings per share	$ 0.23	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.23	$ 0.25
Diluted earnings per share	$ 0.23	$ 0.24	$ 0.24	$ 0.24	$ 0.23	$ 0.23	$ 0.23	$ 0.24
Dividends declared	$ 9,677	$ 8,164	$ 8,140	$ 7,677	$ 8,640	$ 6,866	$ 6,635	$ 6,404

Results of operations – three months ended December 31, 2018

For the three months ended December 31, 2018, mortgage interest and fees revenues aggregated $14,850, compared to $13,656 in the comparative period, an increase of 8.7%. Virtually all our revenues are mortgage interest, therefore, the increase is due to the growth of our mortgage portfolio and an increase in the weighted average interest rate. A variety of factors affect the changes in the weighted average interest rate of our mortgage portfolio from quarter to quarter. No single factor is determinative or material for the mortgage portfolio as a whole, however, such factors include, but are not limited to, changes in prime rate of interest, the dollar amount of mortgages advanced and/or repaid in the period, the types of properties on which mortgage loans are advanced and/or repaid in the period, the location of the underlying properties on which mortgage loans are advanced and/or repaid, the types of mortgage loans advanced and/or repaid during the period and whether the mortgage loans advanced and/or repaid during the period are conventional or non-conventional mortgages. The weighted average interest rate on our mortgage portfolio was 8.85% at December 31, 2018, compared with 8.44% at the previous year end, December 31, 2017.

Operating expenses, excluding the provision for mortgage losses, for the three months ended December 31, 2018 were $1,848, compared to $1,890 in the comparative period, a decrease of 2.2%. This decrease is due to a decrease in share based payments and investor relation expenses which were partially offset by an increase in mortgage servicing and management fees. Share based payments were higher in the fourth quarter of 2017 as a result of a one-time charge to account for vesting of deferred share units for an officer who left the company. Investor relations expenses were lower in the current quarter as we used fewer consultants during the period. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $1,554 for the three months ended December 31, 2018, compared with $1,501 in the prior year period. This increase was due to the increase in the size of the mortgage portfolio, as mortgage servicing fees are calculated and paid monthly based on the mortgage portfolio balance outstanding during the month. The provision for mortgage losses was $537 in the quarter to bring the total provision

to $3,900 compared to $402 in the prior year period to bring the total provision to $7,200.

Financing costs for the three months ended December 31, 2018 were $3,928, compared to $3,477 in the same period of 2017, an increase of 13.0%. Interest on convertible debentures was $2,600 for the three months ended December 31, 2018 compared to $2,104 for the comparative period. This increase was a result of the new convertible debenture issuance completed in July 2018 which was not outstanding during the comparative period. Interest and other bank charges for the three months ended December 31, 2018 were $1,328, down from $1,373 in the same period of 2017. This decrease is due to a decrease in the average credit facility balance between the quarters due to the variation in the timing of repayments and advances during the periods. This decrease was partially offset by the increase in interest rates from December 31, 2017 to December 31, 2018, as well as the amortization of fees incurred to increase our credit facility to $210,000 in the fourth quarter of 2017.

Net income and comprehensive income for the three months ended December 31, 2018 was $8,537, an increase of 8.2% from net income and comprehensive income of $7,887 for the same period in the prior year. Basic and diluted earnings per common share were $0.23, for the three months ended December 31, 2018, compared with $0.24 basic and $0.23 diluted for the comparable period in the previous year. The small decrease in basic earnings per share from the comparative period is due to the increase in earnings for the quarter being offset by a greater number of shares outstanding as a result of the public offering issuances of shares completed in March 2018 as well as conversions of convertible debentures into shares during the quarter.

During the three months ended December 31, 2018, we funded mortgages aggregating $114,155. Of those advances, $99,663 were first mortgages, representing 87.3% of the total loans funded. British Columbia advances were $21,502, advances of $86 were on properties in Alberta, $9,425 were non-GTA Ontario, $991 were on properties in Saskatchewan and the remaining $82,151 were for mortgages on properties located in the Greater Toronto Area. There were $70,110 of repayments during the period.

Results of operations – Year ended December 31, 2018

For the year ended December 31, 2018, mortgage interest and fees revenues aggregated a record $58,316, compared to $50,359 in the comparative period, an increase of 15.8%. Virtually all our revenues are mortgage interest, therefore, the increase is due to the growth of our mortgage portfolio and an increase in the weighted average interest rate. A variety of factors affect the changes in the weighted average interest rate of our mortgage portfolio from year to year. No single factor is determinative or material for the mortgage portfolio as a whole, however, such factors include, but are not limited to, changes in prime rate of interest, the dollar amount of mortgages advanced and/or repaid in the period, the types of properties on which mortgage loans are advanced and/or repaid in the period, the location of the underlying properties on which mortgage loans are advanced and/or repaid, the types of mortgage loans advanced and/or repaid during the period and whether the mortgage loans advanced and/or repaid during the period are conventional or non-conventional mortgages. The weighted average interest rate on our mortgage portfolio was 8.85% at December 31, 2018, compared with 8.44% at the previous year end, December 31, 2017.

Operating expenses, excluding the provision for mortgage losses, for the year ended December 31, 2018 were $7,421, compared to $6,721 in the comparative period, an increase of 10.4%. This increase is primarily due to an increase in mortgage servicing and management fees and professional fees, which were partially offset by decreases in share based payments and administration and general expense. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $6,279 for the year ended December 31, 2018, compared with $5,470 in the prior year period. This increase was due to the increase in the size of the mortgage portfolio during the period, as mortgage servicing fees are calculated and paid monthly based on the mortgage portfolio balance outstanding during the month. Professional fees were higher during 2018 due to an increase in audit and legal fees. Share based payments were lower for the year ended December 31, 2018 as a result of a one-time charge to account for vesting of deferred share units for an officer who left the company in 2017. Administration and general expenses decreased as a result of reduced overhead in our Alberta office. The provision for mortgage losses was $1,800 in the year to bring the total provision to $3,900 compared to $1,850 in the previous period to bring the total provision to $7,200.

Financing costs for the year ended December 31, 2018 were $15,326, compared to $12,729 in the same period of 2017, an increase of 20.4%. Interest on convertible debenture was $9,373 for the year ended December 31, 2018 compared to $7,734 for the comparative period. This increase was a result of the new convertible debenture issuance completed in July 2018 which was not outstanding during the comparative period as well as the convertible debenture offering completed in June 2017 that was outstanding for the full year ended December 31, 2018 and only a portion of the comparative period. Interest and other bank charges for the year ended December 31, 2018 were $5,953, up from $4,995 in the same period of 2017. This increase is due to the increased utilization of our bank line of credit compared to the comparable period, an increase in interest rates, as well as the amortization of fees charged to increase our operating line to $210,000 in the fourth quarter of 2017.

Net income and comprehensive income for the year ended December 31, 2018 was a record $33,769, an increase of 16.2% from net income and comprehensive income of $29,059 for the same period in the prior year. Basic and

diluted earnings per common share were $0.95 and $0.94, respectively, for the year ended December 31, 2018, compared with $0.95 basic and $0.94 diluted, for the comparable period in the previous year. Earnings per share was consistent with the comparative period due to the increase in earnings for the year being offset by a higher number of shares outstanding as a result of the two public offering issuances of shares completed in September 2017 and March 2018 as well as conversions of convertible debentures into shares during the year.

During the year ended December 31, 2018, we funded mortgages aggregating $329,453. Of those advances, $270,682 were first mortgages, representing 82.2% of the total loans funded. British Columbia advances were $104,561, advances of $372 were on properties in Alberta, $14,247 were non-GTA Ontario, $4,838 were on properties in Saskatchewan and the remaining $205,435 were for mortgages on properties located in the Greater Toronto Area. There were $255,128 of repayments during the period.

Liquidity and capital resources

At December 31, 2018, we had borrowings under credit facility (excluding unamortized finance costs) of $148,330. The credit facility, currently authorized for up to $210,000 (December 31, 2017 – $210,000), 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 $30,000 (such that the total maximum availability would be up to $240,000). We were in compliance with the covenants in the credit facility as at December 31, 2018, and we expect to remain in compliance with such covenants going forward.

At December 31, 2018, we had five series of convertible debentures outstanding, with a total book value of $157,289, and a face value (and maturity value) of $161,821. (For additional information on the operating credit facility and the debentures, please refer to notes 7 and 9, respectively, of our accompanying consolidated 2018 financial statements.)

During the year ended December 31, 2018, we completed a bought deal public offering and issued 2,400,000 common shares for gross proceeds of $30,000. The full amount of the overallotment option was exercised, resulting in the issuance of an additional 360,000 common shares for gross proceeds of $4,500.

The growth in our mortgage portfolio has been financed by the issuance of common shares, issuance 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, 2018, total debt (consisting of borrowings under operating credit facility and convertible debentures) was 44.0% of total assets (December 31, 2017 – 43.7%). 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, 2018, we completed one public offering of common shares, issuing a total of 2,760,000 common shares for gross proceeds of $34,500, including the full amount of the overallotment option. Additionally, in July 2018, we completed a public offering of 5.50% convertible debentures maturing December 31, 2025 for gross proceeds of $34,500, which included the full amount of the overallotment option. The net proceeds of these two public offerings were used to repay our indebtedness under our credit facility and fund current mortgage loans. Cash used in financing activities also included net advances of the operating facility of $3,176, dividends paid of $29,268 and interest paid of $15,386, resulting in net cash provided by financing activities of $24,437.

Cash used in investing activities during the year ended December 31, 2018 consisted primarily of advances on mortgage loan investments of $306,025, less repayments received of $240,404, for net cash invested in mortgage loan investments of $65,621 to support the growth in our mortgage portfolio.

Borrowings under our operating credit facility increased to $148,330 at December 31, 2018, from $145,154 at December 31, 2017, due to the growth in our portfolio which was offset somewhat by proceeds received from the issuances of shares and convertible debentures during the period, as described above.

Accounts payable and accrued liabilities, including accrued convertible debenture interest, were $3,104 at December 31, 2018 compared to $4,596 at December 31, 2017. This decrease is due to timing differences in the convertible debenture interest payment dates. Dividends payable were $4,205 at December 31, 2018 up from $3,769 at December 31, 2017. The increase is due to an increased number of shares outstanding at December 31, 2018 and a higher regular monthly dividend for December 2018 compared to December 2017.

Share capital increased to $385,261 at December 31, 2018 from $345,325 at December 31, 2017 due to issuances of our common shares completed during 2018.

Contractual obligations

Contractual obligations due at December 31, 2018 were as follows:

December 31, 2018	Total obligation	Within 1 year	1 to 3 years	3 to 5 years	More than 5 years
Borrowings under credit facility	$148,330	$ –	$148,330	$ –	$ –
Accounts payable and accrued liabilities	2,093	2,093	–	–	–
Accrued convertible debenture interest	1,011	1,011	–	–	–
Dividends payable	4,205	4,205	–	–	–
Convertible debentures	161,821	29,271	72,750	–	59,800
Total contractual obligations	$317,460	$ 36,580	$221,080	$ –	$ 59,800

We have commitments to advance additional funds under existing mortgages of $75,601 and for new mortgages of $33,450 at December 31, 2018 (December 31, 2017 – $65,005, $9,489). 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, 2018, we had $7,908 (December 31, 2017 – $3,640) 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 at December 31, 2018 was $10,000. This maximum was increased to $20,000 as part of an amendment to the credit facility completed on January 2, 2019. 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 $6,279 for the year ended December 31, 2018 (year ended December 31, 2017 – $5,470). 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 between the manager and Atrium.

Certain of our mortgages are shared with other investors. As at December 31, 2018, companies owned by a director and officer of the company (Robert G. Goodall) had co-invested in one syndicated secured mortgage. The total amount of the mortgage is $50,484 (December 31, 2017 – one syndicated mortgage of $45,360) of which the company's share is $25,242 (December 31, 2017 – $22,680).

As at December 31, 2018, the company had two mortgages receivable from borrowers over which a director and officer of the company (Robert G. Goodall) has joint control. (December 31, 2017 – two).

- A secured mortgage loan with a total gross commitment of $3,490 (December 31, 2017 – $3,490), of which $3,394 (December 31, 2017 – $3,071) had been funded at December 31, 2018. During the year ended December 31, 2018, the company recognized net mortgage interest and fees of $288 (year ended December 31, 2017 – $19) from this mortgage receivable.
- A secured mortgage loan with a total gross commitment of $8,738 (December 31, 2017 – $8,738). The company's share of the commitment is $2,330 (December 31, 2017 – $2,330), of which $2,330 had been funded at December 31, 2018 (December 31, 2017 – $2,330). During the year ended December 31, 2018, the company recognized net mortgage interest and fees of $228 (year ended December 31, 2017 – $105) from this mortgage receivable.

Critical accounting estimates and policies

Our consolidated annual financial statements for the year ended December 31, 2018 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the CPA Canada *Handbook*. 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 relate to:

(a) determining whether the cash flows from the mortgages receivable represent solely payments of principal and interest (SPPI);

(b) the measurement of impairment losses for mortgages receivable, in particular: measurement of credit risk to determine whether there has been a significant increase in credit risk since initial recognition; the assessment of when mortgages receivable become impaired and the incorporation of forward-looking information to determine expected credit losses; and

(c) 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.

We believe that management's 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.

Mortgages receivable

Mortgages receivable are a financial asset and are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method. All our mortgages receivable are held in a single business model. We have concluded that our business model is to hold mortgages receivable to collect contractual cash flows that represent solely payments of principal and interest.

Mortgages receivable and commitments are assessed for impairment at the end of each reporting period using an expected credit loss (ECL) model. The ECL model uses a three-stage impairment approach based on changes in the credit risk of the commitment or mortgage receivable since initial recognition. Credit quality is assessed at each reporting period and results in commitments and mortgages receivable being moved between stages, as necessary. Significant credit judgement is required when assessing evidence of credit impairment and estimating expected credit losses. For commitments and mortgages receivable, the company considers a number of past events, current conditions and forward-looking information when assessing if there has been a significant increase or subsequent decrease in credit risk. The company considers a commitment or mortgage receivable to be impaired when there is objective evidence that one or more events have occurred that have an unfavourable impact on estimated future cash flows such that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

An ECL represents the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received. The company's application of the concept uses three inputs to measure ECLs for commitments and mortgages receivable classified as Stage 1: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These inputs are determined at each reporting period using historical data and current conditions. Adjustments may be made to the probability of default if the effects of, for example, forecasts of housing prices, employment and interest rates, are expected to be significant over the term of the mortgage. The inputs for Stage 1 mortgages receivable are calculated separately for (i) mortgages receivable on single-family residences and (ii) mortgages receivable on all other properties on the basis of differences in the credit risk of each. The ECL is assessed individually for each commitment and mortgage receivable classified as either Stage 2 or Stage 3. For mortgages receivable in these stages, forecast future information specific to the loan (for example, forecasts of real estate prices) is incorporated when assessing the cash flows expected to be received.

Mortgages receivable are presented on the consolidated statements of financial position net of the provision for mortgage losses. A loss on a mortgage is written off against the related provision for mortgage losses when there is no reasonable expectation of further recovery, which is the point at which the underlying real property has been liquidated and claims against guarantors, if any, are unlikely to recover any further losses. For any mortgages receivable that have been written off but where guarantors are still being pursued for collection, no recovery is recognized until it is virtually certain of collection. For further information see Note 3 (a) and (c) of our 2018 consolidated annual financial statements.

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 our share of any fees received, as well as the effect of any discount or premium on the mortgage. Interest revenue is calculated on the gross carrying amount for mortgages receivable in Stages 1 and 2 and on the net carrying amount for mortgages receivable in Stage 3.

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. 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.

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 financial liability using the effective interest method, which provides for the application of a constant interest rate over the term of the debt. 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 International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) that will be effective for future accounting periods. The company closely monitors new accounting standards as well as amendments to existing standards and assesses what impact, if any, they will have on the consolidated financial statements.

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 consolidated 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, 2018. 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 36,561,198 were issued and outstanding at December 31, 2018, and 39,281,177 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,407,408, 2,200,827, 2,747,440, 1,693,440 and 2,211,540 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.25%, 6.25%, 5.50% (September 2021), 5.30% and the 5.50% (December 2025) convertible debentures, using the conversion price of $13.50, $13.30, $14.65, $14.94 and $15.60 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.

Subsequent to December 31, 2018, we announced we had entered into an underwriting agreement with a syndicate of underwriters to purchase 2,300,000 common shares of Atrium at a price of $13.05 per share for gross proceeds of $30,015. We also granted to the underwriters an over-allotment option to purchase up to an additional 345,000 common shares at the issue price. We received gross proceeds of $34,517 on February 8, 2019 which included exercise of the overallotment option in full.

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, 2018 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, 2018 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 unaudited interim consolidated financial statements as at December 31, 2018.

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, 2018, 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.

Consolidated Financial Statements

Year Ended
December 31, 2018

CANADA'S PREMIER NON-BANK LENDER™

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the shareholders of
Atrium Mortgage Investment Corporation:

The management of Atrium Mortgage Investment Corporation (Atrium) 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 13, 2019

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Atrium Mortgage Investment Corporation

Opinion

We have audited the consolidated financial statements of Atrium Mortgage Investment Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of income and comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditors' report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Chandor Gauthier.

Crowe Soberman LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 13, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Notes	December 31 2018	December 31 2017
Assets			
Mortgages receivable	5	$ 682,721	$ 626,756
Foreclosed properties	6	17,007	1,064
Prepaid expenses		22	39
Total assets		$ 699,750	$ 627,859
Liabilities			
Borrowings under credit facility	7	$ 147,846	$ 144,454
Accounts payable and accrued liabilities	8	2,093	1,960
Accrued convertible debenture interest		1,011	2,636
Dividends payable		4,205	3,769
Convertible debentures	9	157,289	125,976
Total liabilities		312,444	278,795
Shareholders' equity			
Share capital		385,261	345,325
Deferred share incentive plan units		644	802
Equity component of convertible debentures		1,675	1,322
Contributed surplus		645	645
Retained earnings (deficit)		(919)	970
Total shareholders' equity		387,306	349,064
Total liabilities and shareholders' equity		$ 699,750	$ 627,859
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"
Robert Goodall, Director

"Mark Silver"
Mark Silver, Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Notes	Share capital Number	Share capital Amount	Deferred share incentive plan units	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Total
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
Impact of adoption of IFRS 9	2(b)	–	–	–	–	–	(2,000)	(2,000)
Balance, restated at January 1, 2018		33,252,139	345,325	802	1,322	645	(1,030)	347,064
Shares issued by prospectus		2,760,000	34,500	–	–	–	–	34,500
Shares issued under dividend reinvestment plan	10	311,339	3,954	–	–	–	–	3,954
Shares issued under employee share purchase plan	10	12,109	155	–	–	–	–	155
Shares issued under deferred share incentive plan	11	38,020	450	(450)	–	–	–	–
Shares issued on debenture conversion	9	187,591	2,491	–	(12)	–	–	2,479
Issue costs		–	(1,614)	–	–	–	–	(1,614)
Share-based payments	11	–	–	292	–	–	–	292
Equity component of convertible debentures issued	9	–	–	–	383	–	–	383
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(18)	–	–	(18)
Net income and comprehensive income		–	–	–	–	–	33,769	33,769
Dividends declared		–	–	–	–	–	(33,658)	(33,658)
Balance, December 31, 2018		36,561,198	$ 385,261	$ 644	$ 1,675	$ 645	$ (919)	$ 387,306

Dividends amounted to $0.94 per share for the year ended December 31, 2018 (year ended December 31, 2017 – $0.92).

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 2018	2017
Revenues			
Mortgage interest and fees		$ 58,316	$ 50,359
Operating expenses			
Mortgage servicing and management fees	8	6,279	5,470
Transfer agent, regulatory fees and investor relations		326	322
Share-based payments	8, 11	292	371
Professional fees		172	128
Directors' expense	8	202	195
Administration and general		150	216
Loss from sale of foreclosed property	6	–	19
Provision for mortgage losses	5(b)	1,800	1,850
Total operating expenses		9,221	8,571
Income before financing costs		49,095	41,788
Financing costs			
Interest on convertible debentures		9,373	7,734
Interest and other bank charges		5,953	4,995
Total financing costs		15,326	12,729
Net income and comprehensive income for the year		$ 33,769	$ 29,059
Earnings per common share			
Basic	12	$ 0.95	$ 0.95
Diluted	12	$ 0.94	$ 0.94

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	
	2018	**2017**
Cash provided by (used in):		
Operating activities		
Net income and comprehensive income for the year	$ 33,769	$ 29,059
Adjustments to determine net cash flows provided by (used in) operating activities		
Share-based payments	292	371
Mortgage interest and fees earned	(58,316)	(50,359)
Mortgage interest and fees received	48,217	41,977
Interest on convertible debentures expensed	9,373	7,734
Interest and other bank charges expensed	5,953	4,995
Provision for mortgage losses	1,800	1,850
Loss on disposition of foreclosed property	–	19
Changes in operating assets and liabilities		
Prepaid expenses	17	4
Accounts payable and accrued liabilities	(370)	816
Additions to unamortized origination fees	746	873
Cash provided by operating activities	41,481	37,339
Investing activities		
Cash advances of mortgages receivable	(306,025)	(353,730)
Cash repayments of mortgages receivable	240,404	263,223
Improvements and expenditures on foreclosed properties	(297)	(399)
Proceeds from disposition of foreclosed assets	–	539
Cash used in investing activities	(65,918)	(90,367)
Financing activities		
Advances under credit facility	540,628	557,729
Repayments under credit facility	(537,452)	(558,300)
Interest on convertible debentures paid	(9,715)	(5,073)
Interest and other bank charges paid	(5,671)	(5,341)
Issuance of common shares	34,655	69,193
Share capital issue costs	(1,614)	(3,295)
Issuance of convertible debentures	34,500	25,300
Convertible debenture issue costs	(1,626)	(1,237)
Cash dividends paid	(29,268)	(25,948)
Cash provided by financing activities	24,437	53,028
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 (the "company") 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, AI.DB.C and AI.DB.D.

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*. Except as described in Note 2(b), 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 13, 2019.

(b) New and amended standards and interpretations

Effective January 1, 2018, the company adopted IFRS 9 *Financial Instruments* (IFRS 9), which replaced IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 was adopted retrospectively without restatement, as allowed under the standard's transitional provisions. IFRS 9 addresses the measurement of financial assets and financial liabilities, including the impairment of financial assets and other commitments.

As a result of the application of IFRS 9, the company changed its accounting policies for financial assets and mortgages receivable effective January 1, 2018, as described in Notes 3(a), (b), (c) and (d). The IAS 39 accounting policies for financial instruments that were applied prior to January 1, 2018 are included in Note 3(f).

Adoption of IFRS 9 had no effect on the measurement of the company's financial assets and financial liabilities, which continue to be measured at amortized cost subsequent to their initial recognition.

The effect on the allowance for credit losses on January 1, 2018 has been recognized as an adjustment to opening retained earnings in the consolidated statements of changes in shareholders' equity.

(c) Basis of measurement

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

(d) 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.

(e) 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 financial reporting 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.

NOTE 2 – BASIS OF PRESENTATION (continued)

(f) 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 relate to:

(a) determining whether the cash flows from the mortgages receivable represent solely payments of principal and interest (SPPI);

(b) the measurement of impairment losses for mortgages receivable, in particular: measurement of credit risk to determine whether there has been a significant increase in credit risk since initial recognition; the assessment of when mortgages receivable become impaired and the incorporation of forward-looking information to determine expected credit losses; and

(c) 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) Financial instrument assets – initial recognition and measurement

Financial instrument assets are initially recognized when the company becomes a party to a contract. On initial recognition, the measurement category is determined, based on: (i) the business model under which the asset is held, and (ii) the contractual cash flow characteristics of the instrument.

Upon initial recognition, financial assets are measured as either:

- Fair value through profit and loss (FVTPL) – which is the required measurement classification for instruments that are held for trading and derivative assets;
- Amortized cost – if the instrument is held within a business model whose objective is to collect contractual cash flows and the cash flows represent SPPI;
- Fair value through other comprehensive income (FVOCI) – which is required for debt instruments held in a dual-purpose business model, to collect contractual cash flows and to sell the instruments and can be irrevocably elected at initial recognition provided they have not been designated as FVTPL and are not held for trading; or
- Designated as FVTPL – available on initial recognition provided certain criteria are met.

All of the company's mortgages receivable are held in a single business model. The company has concluded that its business model is to hold mortgages receivable to collect contractual cash flows for the following reasons:

- The performance of the mortgage portfolio is assessed on the basis of effective yield, and not on a fair value basis, whether realized or unrealized.
- Neither key management compensation nor remuneration paid to the company's manager is based on the fair values of mortgages.
- Historically the company has not sold, and in future has no expectations to sell, any of its mortgages receivable. While the company may decrease its interest in a syndicated mortgage receivable by transferring its interest, at its amortized cost carrying amount, to another lender in the syndicate, such transfers are consistent with the business model of holding mortgages receivable to collect contractual cash flows.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instrument assets – initial recognition and measurement (continued)

The returns earned by the company on its mortgages receivable are interest rates that are set at levels to provide an acceptable profit margin based on the time value of money and credit risk, although other basic lending risks (for example, the location and quality of the underlying collateral) may also be built-in. There are no factors that give rise to variation in the return on the company's mortgages other than the time value of money, credit risk and other basic lending risks. Interest rates, or the credit spread for variable rate mortgages, are set for the full term of the loan, which is considered SPPI because the rate is still based on the time value of money and credit risk. The majority of the mortgages receivable can be prepaid after an initial closed period with no penalty, subject to the borrower providing advance written notice according to the terms of their mortgage so the return therefore represents SPPI.

Mortgages receivable are initially recognized at fair value and are subsequently carried at amortized cost using the effective interest method. See Note 3 (d) Financial instruments – revenue recognition.

(b) Financial instrument liabilities – initial recognition and measurement

Financial liabilities are measured as either:

- FVTPL – which is required for any financial instrument liabilities that are held for trading and for derivative liabilities;
- Designated as FVTPL – available on initial recognition if either: the instrument includes one or more embedded derivatives and the host contract is not a financial asset; or if the designation meets certain criteria;
- Designated as at fair value – if the instrument does not meet the criteria and is designated as at FVTPL and is not otherwise required to be measured as FVTPL, it can still be irrevocably designated at initial recognition as at fair value, meaning that changes in fair value related to changes in own credit risk are presented in other comprehensive income and other changes in fair value are presented in net income; or
- Amortized cost – which is the default category and is also used for any host contract that is a financial instrument liability.

The company's borrowings under credit facility, accounts payable and accrued liabilities, dividends payable, accrued convertible debenture interest and the liability component of convertible debentures are measured at amortized cost. These financial instrument liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

(c) Financial instruments – impairment of assets

Loan commitments and letters of credit (collectively commitments) and mortgages receivable are assessed for impairment at the end of each reporting period using an expected credit loss (ECL) model. The ECL model uses a three-stage impairment approach based on changes in the credit risk of the commitment or mortgage receivable since initial recognition. The three stages are as follows:

Credit Stage and financial assets included	Impairment loss recognized
Stage 1 – commitments and mortgages receivable on initial recognition and existing assets that have not shown a significant increase in credit risk since initial recognition	12-month ECL – portion of lifetime ECLs that represent the ECL from possible default events within the next 12 months
Stage 2 – commitments and mortgages receivable that have experienced a significant increase in credit risk since initial recognition and up to the date of approval of the financial statements	Lifetime ECL – expected losses from possible default events over the expected life of the instrument, weighted by the likelihood of loss
Stage 3 – impaired commitments and mortgages receivable for which there is objective evidence of impairment at the date of approval of the financial statements	Lifetime ECL – expected losses from possible default events over the expected life of the instrument, weighted by the likelihood of loss

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments – impairment of assets (continued)

Credit quality is assessed at each reporting period and results in commitments and mortgages receivable being moved between stages, as necessary. Significant judgement is required when assessing evidence of credit impairment and estimating expected credit losses.

For commitments and mortgages receivable, the company considers a number of past events, current conditions and forward-looking information when assessing if there has been a significant increase or subsequent decrease in credit risk. There is a presumption in IFRS 9 that credit risk has increased significantly once payments are 30 days past due. However, for single-family residential mortgages, the company's historical experience is that mortgages can become 30 days past due, but be brought up to date by the borrower, therefore another additional risk factor also needs to be identified for the mortgage to move to Stage 2. For single-family mortgages that are not 30 days past due, a significant increase in credit risk may still be evidenced by the presence of one or more additional risk factors. For all other mortgages receivable, a significant increase in credit risk is considered to have occurred if payments are 30 days past due or if one or more additional risk factors is present.

The additional risk factors used in assessing credit risk include:

- changes in the financial condition of the borrower;
- responsiveness of the borrower;
- other borrower specific information that may be available, without consideration of collateral;
- current economic conditions: interest rates, housing prices, real estate market statistics and employment statistics; and
- supportable forward-looking information: macro-economic factors, such as forecast real estate values and interest rate forecasts.

Determining whether there has been a significant increase in credit risk since initial recognition, or a subsequent reduction in credit risk back to the level at initial recognition, requires the exercise of significant judgement.

The company considers a commitment or mortgage receivable to be impaired when there is objective evidence that one or more events have occurred that have an unfavourable impact on estimated future cash flows such that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

The company considers a commitment or mortgage receivable to be in default if payments are greater than 90 days past due for single-family residential mortgages or 30 days past due for all other mortgages, or if an event of default has occurred under the terms of the mortgage commitment, including: non-payment of property taxes, a material adverse change in the financial position of the borrower and/or guarantors or a material adverse change in the property given as security. These definitions are consistent with industry practice.

An ECL represents the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received. The company's application of the concept uses three inputs to measure ECLs for commitments and mortgages receivable classified as Stage 1: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These inputs are determined at each reporting period using historical data and current conditions. Adjustments may be made to the probability of default if the effects of, for example, forecasts of housing prices, employment and interest rates, are expected to be significantly different over the term of the mortgage. The inputs for Stage 1 mortgages receivable are calculated separately for (i) mortgages receivable on single-family residences and (ii) mortgages receivable on all other properties on the basis of differences in the credit risk of each. The ECL is assessed individually for each commitment and mortgage receivable classified as either Stage 2 or Stage 3. For mortgages receivable in these stages, forecast future information specific to the loan (for example, forecasts of real estate prices) is incorporated when assessing the cash flows expected to be received.

Mortgages receivable are presented on the statements of financial position net of the provision for mortgage losses. A loss on a mortgage is written off against the related provision for mortgage losses when there is no reasonable expectation of further recovery, which is the point at which the underlying real property has been liquidated and claims against guarantors, if any, are unlikely to recover any further losses. For any mortgages receivable that have been written off but where guarantors are still being pursued for collection, no recovery is recognized until virtually certain of collection.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments - revenue recognition

Mortgage interest and fees revenues are recognized in the statements 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. Interest revenue is calculated on the gross carrying amount for mortgages receivable in Stages 1 and 2 and on the net carrying amount for mortgages receivable in Stage 3 (see Note 3(c)).

The effective interest method derives the interest rate that discounts the estimated future cash receipts during the expected life of the mortgage receivable (which is the contractual life, if a shorter period is not expected) 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(c)). 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.

(e) Financial instruments – derecognition

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.

(f) Financial instruments – IAS 39 accounting policy, applied prior to January 1, 2018

Financial assets – classification, initial recognition and measurement (IAS 39)
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.

Financial instruments – derecognition of financial assets and liabilities (IAS 39)
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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments – IAS 39 accounting policy, applied prior to January 1, 2018 (continued)

Mortgages receivable (IAS 39)
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 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;
- 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; and
- 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 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; and
- 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.

Other financial liabilities (IAS 39)
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, accrued convertible debenture interest and the liability component of convertible debentures as other financial liabilities.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 IAS 40 *Investment Property*. A foreclosed property is recognized on the date of foreclosure and is measured initially at cost, which is the book value of the respective mortgage net of any related provision for mortgage loss, plus any directly attributable expenditures and transaction costs. Any costs subsequently incurred to complete the construction or development of a foreclosed property are capitalized. After initial recognition, foreclosed properties are measured using the cost model. Depreciation commences from the date the property is substantially complete and is recognized when the property's carrying amount exceeds its residual value. 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 statements of income and comprehensive income.

(h) 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 convertible 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 financial liability using the effective interest method, which applies a constant interest rate over the term of the debt. The value of the equity component is not remeasured subsequent to its initial measurement date.

(i) Income taxes

The company qualifies as a MIC 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.

(j) 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.

(k) 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 the date of the grant.

NOTE 4 – RECENT ACCOUNTING PRONOUNCEMENTS

Various pronouncements have been issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) that will be effective for future accounting periods. The company closely monitors new accounting standards as well as amendments to existing standards and assesses what impact, if any, they will have on the consolidated financial statements. None of the standards issued to date are expected to have a material effect on the consolidated financial statements.

NOTE 5 – MORTGAGES RECEIVABLE

(a) Mortgage portfolio

	December 31, 2018			December 31, 2017[1]		
Property type	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
Low-rise residential	38	$ 232,713	34.0%	39	$ 256,581	40.6%
High-rise residential	15	146,027	21.3%	10	81,939	13.0%
Mid-rise residential	20	139,708	20.4%	6	37,071	5.9%
House and apartment	101	64,230	9.4%	120	86,287	13.6%
Condominium corporation	14	2,533	0.4%	14	2,887	0.4%
Residential portfolio	188	585,211	85.5%	189	464,765	73.5%
Commercial	20	99,193	14.5%	27	167,622	26.5%
Mortgage portfolio	208	684,404	100.0%	216	632,387	100.0%
Accrued interest receivable		3,122			2,537	
Mortgage discount		(221)			(262)	
Unamortized origination fees		(684)			(706)	
Provision for mortgage losses		(3,900)			(7,200)[2]	
Mortgages receivable		$ 682,721			$ 626,756	

[1]*Comparative figures have been reclassified to conform with the current year presentation (Note 15)*

[2]*Measured under IAS 39*

The mortgage portfolio has maturity dates between 2019 and 2030 with a weighted average remaining term of 11.3 months at December 31, 2018 (December 31, 2017 – 12.4 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 8.85% as at December 31, 2018 (8.44% as at December 31, 2017).

Within the mortgage portfolio, at December 31, 2018 there were 21 loans aggregating $74,399 (10.9% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage (December 31, 2017 – 13 mortgages aggregating $40,550, 6.4% 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, 2018.

A majority of the mortgages receivable have an initial closed period, after which the borrower may repay the principal at any time prior to maturity, without penalty, subject to providing advance written notice according to the terms of their mortgage.

Principal repayments based on contractual maturity dates are as follows:

Years ended December 31, 2019	$ 372,958	54.5%
2020	238,837	34.9%
2021	65,894	9.6%
2022	271	0.1%
2023	4,468	0.7%
Thereafter	1,976	0.2%
	$ 684,404	100.0%

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(b) Provision for mortgage losses

The gross carrying amounts of mortgages receivable and expected credit loss by property type are as follows:

Gross carrying amount	As at December 31, 2018			
Property type	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Low-rise residential	$ 232,713	$ –	$ –	$ 232,713
High-rise residential	146,026	–	–	146,026
Mid-rise residential	139,708	–	–	139,708
House and apartment	61,007	3,223	–	64,230
Condominium corporation	2,533	–	–	2,533
Commercial	95,245	3,949	–	99,194
Mortgage portfolio	$ 677,232	$ 7,172	$ –	$ 684,404

Provision for mortgage losses	As at December 31, 2018			
Property type	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Low-rise residential	$ 1,395	$ –	$ –	$ 1,395
High-rise residential	875	–	–	875
Mid-rise residential	837	–	–	837
House and apartment	207	–	–	207
Condominium corporation	15	–	–	15
Commercial	571	–	–	571
Mortgage portfolio	$ 3,900	$ –	$ –	$ 3,900

The provision for mortgage losses at December 31, 2018 is $3,900. This provision represents management's estimate of the ECLs on mortgages in the company's portfolio that have not experienced a significant increase in credit risk since initial recognition (Stage 1). The ECL was assessed individually for each mortgage receivable and commitment classified as Stage 2 and management estimated the ECL as $nil, primarily due to the mortgage collateral held.

The changes in the provision for mortgage losses are shown in the following table.

IFRS 9		Year ended December 31, 2018			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
IAS 39 balance, December 31, 2017	$ 7,200				
Transition adjustment (Note 2(b))	2,000				
IFRS 9 opening balance, January 1, 2018	$ 9,200	$ 3,300	$ –	$ 5,900	$ 9,200
Provision for mortgage losses					
Transfers to (from) Stage 1 [1]		(16)	–	–	(16)
Transfers to (from) Stage 2 [1]		–	16	–	16
Transfers to (from) Stage 3 [1]		–	–	–	–
Net remeasurement [2]		115	(16)	1,149	1,248
Mortgage advances		1,752	–	–	1,752
Mortgage repayments		(1,251)	–	–	(1,251)
Write-offs [3]		–	–	(7,049)	(7,049)
Balance, December 31, 2018		$ 3,900	$ –	$ –	$ 3,900

(1) Transfers between stages which are presumed to occur before any corresponding remeasurement of the provision.

(2) Net remeasurement represents the change in the allowance related to changes in model inputs or assumptions, including changes in macroeconomic conditions, and changes in measurement following a transfer between stages.

(3) Represents write-offs against prior period provision for mortgage losses. Actual loss incurred was $7,100.

During the year ended December 31, 2018, the provision for mortgage losses for mortgages classified as Stage 1 increased as a result of the overall increase in the mortgage portfolio. The decrease in the provision for mortgage losses for mortgages classified as Stage 3 was a result of the acquisition through a credit bid of a property on which the company had a mortgage that was classified as Stage 3 as at January 1, 2018 (See Note 6 – Foreclosed properties). At January 1, 2018, upon adoption of IFRS 9, the gross carrying amounts of the mortgage portfolio were classified as follows: Stage 1– $605,089, Stage 2– $10,191 and Stage 3– $17,107.

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(b) Provision for mortgage losses (continued)

IAS 39	Year ended December 31 2017
Balance, beginning of year	$ 5,800
Mortgages settled during the year	(450)
Provision for mortgage losses	1,850
Balance, end of year	$ 7,200

NOTE 6 – FORECLOSED PROPERTIES

On September 1, 2018, the company submitted a conditional offer through a credit bid to purchase a property on which the company held a mortgage, with the option that it be transferred to a nominee on closing. The offer was accepted by the receiver and on October 12, 2018 was approved by the court. The transaction closed on November 9, 2018.

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, 2018 and December 31, 2017 approximates fair value.

	Years ended December 31	
	2018	2017
Balance, beginning of year	$ 1,064	$ 1,223
Property acquired through a credit bid during the year	15,208	–
Capital improvements and expenditures	735	399
Disposition of foreclosed property	–	(558)
Balance, end of year	$ 17,007	$ 1,064

NOTE 7 – CREDIT FACILITY

At December 31, 2018, the company had a credit facility from a syndicate of four Canadian financial institutions of $210,000 (December 31, 2017 – $210,000) at a formula rate that varies with bank prime and the market bankers' acceptance rate. At any time during the term of the credit facility, we have the one-time right to increase the credit facility by up to $30,000 (such that the total maximum availability would be up to $240,000). The weighted average rate for the year ended December 31, 2018 was 3.81% (3.12% for the year ended December 31, 2017). 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 (See Note 16 – Subsequent events).

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, 2018 and December 31, 2017, the company was in compliance with these covenants.

	December 31	
Credit facility	**2018**	**2017**
Bankers' acceptances	$ 136,000	$ 125,000
Bank loan	12,490	19,900
Overdraft facility	(160)	254
Unamortized finance costs	(484)	(700)
Borrowings under credit facility	147,846	144,454
Letters of credit	7,908	3,640
Total credit facility utilization	$ 155,754	$ 148,094

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 $6,279 for the year ended December 31, 2018 (year ended December 31, 2017 – $5,470). 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 $529 (December 31, 2017 – $1,021) 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.

Under an employee share purchase plan (ESPP) for the company's common shares, participants, including employees of CMCC, may contribute up to an annual maximum to the ESPP and CMCC matches 50% of the participant's contribution. The total amount matched by CMCC for the year ended December 31, 2018 was $52 (year ended December 31, 2017 – $47).

Certain of the company's mortgages receivable are shared with other investors. As at December 31, 2018, companies owned by a director and officer of the company had co-invested in one syndicated secured mortgage. The total amount of the mortgage is $50,484 (December 31, 2017 – one syndicated mortgage of $45,360) of which the company's share is $25,242 (December 31, 2017 – $22,680).

As at December 31, 2018, the company had two mortgages receivable from borrowers over which a director and officer of the company has joint control (December 31, 2017 – two).

- A secured mortgage loan with a total gross commitment of $3,490 (December 31, 2017 – $3,490), of which $3,394 (December 31, 2017 – $3,071) had been funded at December 31, 2018. During the year ended December 31, 2018, the company recognized net mortgage interest and fees of $288 (year ended December 31, 2017 – $19) from this mortgage receivable.
- A secured mortgage loan with a total gross commitment of $8,738 (December 31, 2017 – $8,738). The company's share of the commitment is $2,330 (December 31, 2017 – $2,330), of which $2,330 had been funded at December 31, 2018 (December 31, 2017 – $2,330). During the year ended December 31, 2018, the company recognized net mortgage interest and fees of $228 (year ended December 31, 2017 – $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	
	2018	**2017**
Directors' fees	$ 179	$ 179
Share-based payments to directors (Note 11)	137	136
Share-based payments to officers (Note 11)	61	106
	$ 377	$ 421

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

NOTE 9 – CONVERTIBLE DEBENTURES

	Convertible debenture					
	5.50% AI.DB.D	5.30% AI.DB.C	5.50% AI.DB.B	6.25% AI.DB.A	5.25% AI.DB	Total
Year ended December 31, 2018						
Issued and outstanding face value	$ 34,500	$ 25,300	$ 40,250	$ 29,271	$ 32,500	$ 161,821
Book value –						
Convertible debentures, beginning of year	$ –	$ 23,916	$ 38,961	$ 31,340	$ 31,759	$ 125,976
Conversion to shares	–	–	–	(2,479)	–	(2,479)
Issued	34,500	–	–	–	–	34,500
Equity component	(383)	–	–	–	–	(383)
Issue costs	(1,626)	–	–	–	–	(1,626)
Issue costs attributed to equity component	18	–	–	–	–	18
Accretion for the year	118	208	338	325	294	1,283
Convertible debentures, end of year	$ 32,627	$ 24,124	$ 39,299	$ 29,186	$ 32,053	$ 157,289

	Convertible debenture					
	5.50% AI.DB.D	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

NOTE 9 – CONVERTIBLE DEBENTURES (continued)

	Convertible debenture				
	5.50% AI.DB.D	**5.30% AI.DB.C**	**5.50% AI.DB.B**	**6.25% AI.DB.A**	**5.25% AI.DB**
Maturity date	Dec. 31, 2025	June 30, 2024	Sept. 30, 2021	March 31, 2019	June 30, 2020
Initial term	7 years	7 years	7 years	5 years	7 years
Conversion at option of shareholder at:	$15.60/share	$14.94/share	$14.65/share	$13.30/share	$13.50/share
Interest payment dates	June 30, Dec. 31	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	Dec. 31, 2021	June 30, 2020	Sept. 30, 2017	March 31, 2017	June 30, 2016
to	Dec. 31, 2023	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	Dec. 31, 2023	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.

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. During the year ended December 31, 2018, 311,339 common shares were issued under the Company's DRIP (December 31, 2017 – 293,622), using reinvested dividends of $3,954 (December 31, 2018 – $3,481). Shares issued under the DRIP are issued by the company from treasury (See Note 16 – Subsequent events).

Under the employee share purchase plan (ESPP), each participant may contribute up to an annual maximum to the ESPP, and CMCC 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, 2018			December 31, 2017		
	Deferred share units	Income deferred share units	Total	Deferred share units	Income deferred share units	Total
Balance, beginning of year	81,667	11,502	93,169	68,917	8,448	77,365
Units granted	22,000	–	22,000	24,000	–	24,000
Units cancelled	(3,000)	(331)	(3,331)	–	–	–
Units earned	–	3,905	3,905	–	5,948	5,948
Common shares issued	(32,000)	(6,020)	(38,020)	(11,250)	(2,894)	(14,144)
Balance, end of year	68,667	9,056	77,723	81,667	11,502	93,169

NOTE 11 – SHARE-BASED PAYMENTS (continued)

Share-based payments expense:	Years ended December 31	
	2018	2017
September 1, 2018 grant	$ 61	$ –
September 1, 2017 grant	132	79
September 1, 2016 grant	59	171
September 1, 2015 grant	24	82
September 1, 2014 grant	12	31
August 30, 2013 grant	4	7
August 29, 2012 grant	–	1
	$ 292	$ 371

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 2018 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, 2018 ($13.71) and September 1, 2017 ($12.26).

NOTE 12 – EARNINGS PER SHARE

	Years ended December 31	
	2018	2017
Basic earnings per share –		
Numerator		
Net income and comprehensive income for the year	$ 33,769	$ 29,059
Denominator		
Weighted average common shares outstanding	35,571,414	30,633,314
Basic earnings per share	$ 0.95	$ 0.95
Diluted earnings per share –		
Numerator		
Net income and comprehensive income for the year	$ 33,769	$ 29,059
Interest on convertible debentures	9,373	7,734
Net income and comprehensive income for diluted earnings per share	43,142	36,793
Denominator		
Weighted average common shares outstanding	35,571,414	30,633,314
Convertible debentures	10,203,163	8,475,621
Deferred share incentive plan	64,648	73,815
Income deferred share units	8,093	8,150
Weighted average common shares outstanding – diluted basis	45,847,318	39,190,900
Diluted earnings per share	$ 0.94	$ 0.94

NOTE 13 – FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets comprise mortgages receivable and are classified and measured at amortized cost. Financial liabilities comprise borrowings under credit facility, accounts payable and accrued liabilities, dividends payable, accrued convertible debenture interest and the liability component of convertible debentures. All financial liabilities are measured as other financial liabilities at amortized cost.

NOTE 13 – FINANCIAL INSTRUMENTS (continued)

(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 and measured 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, dividends payable and accrued convertible debenture interest carrying values approximates their fair values 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	**2018**	**2017**
Fair value	$ 158,036	$ 131,134
Less book value of equity component	(1,675)	(1,322)
	$ 156,361	$ 129,812
Book value of financial liability component	$ 157,289	$ 125,976

(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 maximum exposure to credit risk related to mortgages receivable, including letters of credit outstanding, at December 31, 2018 is $691,534 (2017 - $631,364).

The company mitigates the credit risk by maintaining strict credit policies including due diligence processes, credit limits, documentation requirements, review and approval of new and renewed 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. These credit policies and processes have been consistently applied throughout the two year period ended December 31, 2018.

All mortgages receivable are secured by the underlying real estate, plus other credit enhancements, which may include guarantees from the borrowers, personal guarantees from the borrower's shareholders and/or cross guarantees from related entities. The quality of the mortgage collateral is primarily driven by the location and type of underlying property and type of mortgage. For further information, refer to Note 5(a) and to the "Investment Portfolio" section of the Management's Discussion and Analysis for the year ended December 31, 2018. The company foreclosed on one property during the year (2017 – none) (See Note 6 – Foreclosed properties). Management continuously monitors real estate values and considers there to have been no significant changes in the quality of the collateral underlying the remaining mortgage portfolio.

At December 31, 2018, the largest borrower group accounted for 11.7% of mortgages receivable (December 31, 2017 – 9.0%). See Note 5(a) and Note 5(b) for a breakdown of mortgages and provision by property type.

NOTE 13 – FINANCIAL INSTRUMENTS (continued)

(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 continuous 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, accrued convertible debenture interest 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, 2018	Carrying value	Contractual cash flow	Within 1 year	1 to 3 years	3 to 5 years	More than 5 years
Borrowings under credit facility[1]	$148,330	$154,390	$ 5,898	$148,492	$ –	$ –
Accounts payable and accrued liabilities	2,093	2,093	2,093	–	–	–
Accrued convertible debenture interest	1,011	1,011	1,011	–	–	–
Dividends payable	4,205	4,205	4,205	–	–	–
Convertible debentures[2]	157,289	177,662	106,920	6,477	64,265	–
Total	312,928	339,361	120,127	154,969	64,265	–
Unadvanced mortgage commitments[3]	–	109,051	109,051	–	–	–
Total contractual liabilities	$312,928	$448,412	$229,178	$154,969	$ 64,265	$ –

Notes:

(1) Includes interest assuming the outstanding balance is not repaid until maturity on January 11, 2020 (See Note 16 – Subsequent events).

(2) The 5.25% debentures are assumed to be repaid January 1, 2019; 6.25% debentures are assumed to be repaid January 1, 2019; 5.50% debentures are assumed to be repaid September 30, 2019, 5.30% debentures are assumed to be repaid June 30, 2022 and 5.50% debentures are assumed to be repaid December 31, 2023.

(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 unadvanced amounts on existing mortgages will never be drawn.

As at December 31, 2018, 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 and mortgages are set at a combination of fixed and variable 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, 2018, income and comprehensive income would have been reduced (increased) by approximately $1,435 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) $1,435.

(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	
	2018	**2017**
Borrowings under credit facility	$ 147,846	$ 144,454
Convertible debentures	157,289	125,976
Total debt	305,135	270,430
Shareholders' equity	387,306	349,064
Capital employed	$ 692,441	$ 619,494

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 – COMPARATIVE RECLASSIFICATION

The presentation of the table in Note 5(a) as at December 31, 2017 has been reclassified in order to improve the usefulness of the information presented. Comparative figures have been reclassified to conform to the new presentation. Previously, the table was titled "Mortgage category" and included a category named "Construction". In the new "Property type" table, mortgages previously categorized as Construction have been reallocated to the applicable property types.

The effect of the change on the comparative figures is as follows:

	December 31, 2017					
	As originally reported			As reclassified		
Property type	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
Low-rise residential	36	$ 234,343	37.1%	39	$ 256,581	40.6%
Construction	8	64,828	10.3%	–	–	–%
High-rise residential	7	44,949	7.1%	10	81,939	13.0%
Mid-rise residential	4	31,471	5.0%	6	37,071	5.9%

NOTE 16 – SUBSEQUENT EVENTS

On January 2, 2019 the company amended its credit facility with a syndicate of four Canadian financial institutions extending the term from January 11, 2020 to January 11, 2021.

On January 11, 2019, the company issued 26,163 common shares ($333) to shareholders under its dividend reinvestment plan.

On February 12, 2019, the company issued 26,260 common shares ($335) to shareholders under its dividend reinvestment plan.

On January 30, 2019, the company announced it had entered into an underwriting agreement with a syndicate of underwriters to purchase 2,300,000 common shares of Atrium at a price of $13.05 per share for gross proceeds of $30,015. The company also granted to the underwriters an over-allotment option to purchase up to an additional 345,000 common shares at the issue price, exercisable in whole or in part at any time for a period of up to 30 days following the closing of the offering. Gross proceeds of $34,517 were received by the company on February 8, 2019 which included exercise of the overallotment option in full.

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 [1,4]
President,
Copez Properties Ltd.

Robert H. DeGasperis
President,
Metrus Properties Inc.

Andrew Grant [4]
President,
PCI Group

Maish Kagan [2]
President,
Canal Group

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

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

Phil Fiuza
Managing Director –
Ontario, Residential

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% (AI.DB.C) and 5.5% (AI.DB.D) 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

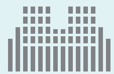
Convertible debentures 6.25%,
TSX: AI.DB.A

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

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

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

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



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