



Annual Report 2019



December 31, 2019

**CANADA'S PREMIER NON-BANK
LENDER™**

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About Atrium Mortgage Investment Corporation

Safety – Consistency – Yield

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

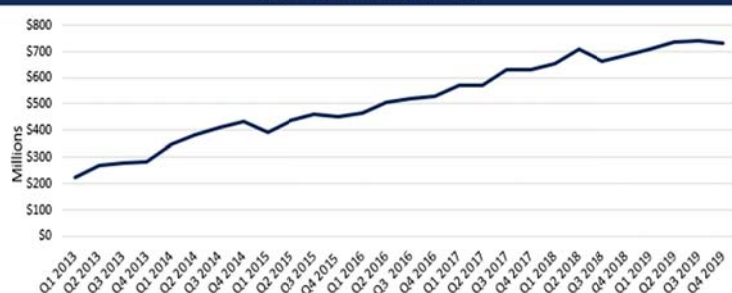
Atrium has a 19-year track record of success and consistency in achieving our strategic objectives: to grow in a controlled manner by focusing on real estate sectors with the lowest risk profiles.

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 | \$0.06 | \$0.96 | \$0.97 |
| 2020 | \$0.90 | to be determined | | |

MORTGAGE PORTFOLIO



QUARTERLY REVENUES





FOR IMMEDIATE RELEASE

**ATRIUM MORTGAGE INVESTMENT CORPORATION
ACHIEVES RECORD REVENUES
AND NET INCOME IN 2019**

TORONTO: February 13, 2020 – Atrium Mortgage Investment Corporation (TSX: AI, AI.DB, AI.DB.B, AI.DB.C, AI.DB.D, AI.DB.E) today released its financial results for the year ended December 31, 2019.

Highlights

- **Record revenues of \$66.2 million, up 13.5% from the prior year**
- **Record net income of \$38.6 million, up 14.2% from the prior year**
- **\$0.97 basic and \$0.96 diluted earnings per share for the year ended December 31, 2019**
- **\$0.06 per share special dividend to shareholders of record December 31, 2019**
- **Mortgage portfolio of \$729.7 million, 6.6% increase from December 31, 2018**
- **High quality mortgage portfolio**
 - **81.9% of portfolio in first mortgages**
 - **92.0% of portfolio is less than 75% loan to value**
 - **average loan-to-value is 59.5%**

“I am pleased with our record annual revenue and net income in 2019. Our earnings per share of \$0.97 matched our highest earnings since we went public in 2012. Our weighted average loan to value for the portfolio as at December 31, 2019 was only 59.5%, the lowest level in over seven years. During 2019, we completed a public offering of convertible debentures, two public offerings of shares and a non-brokered private placement of shares, all of which had very strong demand. These results are a tribute to our entire management team.” said Rob Goodall, CEO of Atrium.

Interested parties are invited to participate in a conference call with management on Friday, February 14, 2020 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, 2020) please call 1 (855) 859-2056. Conference ID 6384827.

Results of operations

Atrium ended the year with assets of \$743.6 million, and revenues grew to a record \$66.2 million, an increase of 13.5% from the prior year. Net income for 2019 was \$38.6 million, an increase of 14.2% from the prior year.

Basic and diluted earnings per common share were \$0.97 and \$0.96, respectively, for the year ended December 31, 2019, compared with \$0.95 basic and \$0.94 diluted in the prior year.

The company had \$727.3 million of mortgages receivable as at December 31, 2019, an increase of 6.5% from December 31, 2018. During the year ended December 31, 2019, \$271.8 million of mortgage principal was advanced, and \$238.1 million was repaid.

The weighted average interest rate on the mortgage portfolio at December 31, 2019 was 8.81%, compared to 8.85% at December 31, 2018.

Financial summary

Condensed Statements of Earnings and Comprehensive Income

| | Year ended December 31 2019 | Year ended December 31 2018 | Year ended December 31 2017 |
|---|--------------------------------------|--------------------------------------|--------------------------------------|
| Revenue | \$ 66,171 | \$ 58,316 | \$ 50,359 |
| Mortgage servicing and management fees | (6,996) | (6,279) | (5,470) |
| Other expenses | (1,086) | (1,142) | (1,251) |
| Impairment loss on investment property | (806) | - | - |
| Provision for mortgage losses | (1,490) | (1,800) | (1,850) |
| Income before financing costs | 55,793 | 49,095 | 41,788 |
| Financing costs | (17,225) | (15,326) | (12,729) |
| Earnings and total comprehensive income | <u>\$ 38,568</u> | <u>\$ 33,769</u> | <u>\$ 29,059</u> |
| Basic earnings per share | \$ 0.97 | \$ 0.95 | \$ 0.95 |
| Diluted earnings per share | \$ 0.96 | \$ 0.94 | \$ 0.94 |
| Dividends declared | \$ 38,314 | \$ 33,658 | \$ 28,545 |
| Mortgages receivable, end of year | \$ 727,325 | \$ 682,721 | \$ 626,756 |
| Total assets, end of year | \$ 743,631 | \$ 699,750 | \$ 627,859 |
| Shareholders' equity, end of year | \$ 455,520 | \$ 387,306 | \$ 349,064 |

Analysis of mortgage portfolio

| <u>Mortgage amount</u> (outstanding amounts in 000s) | <u>December 31, 2019</u> | | | <u>December 31, 2018</u> | | |
|---|--------------------------|-------------------------------|---------------------------|--------------------------|-------------------------------|---------------------------|
| | <u>Number</u> | <u>Outstanding amount</u> | <u>% of Portfolio</u> | <u>Number</u> | <u>Outstanding amount</u> | <u>% of Portfolio</u> |
| \$0 - \$2,500,000 | 123 | \$ 84,043 | 11.5% | 145 | \$ 103,128 | 15.1% |
| \$2,500,001 - \$5,000,000 | 25 | 91,707 | 12.6% | 26 | 98,176 | 14.3% |
| \$5,000,001 - \$7,500,000 | 15 | 91,685 | 12.6% | 8 | 48,118 | 7.0% |
| \$7,500,001 - \$10,000,000 | 6 | 53,373 | 7.3% | 7 | 61,394 | 9.0% |
| \$10,000,001 + | 23 | 408,937 | 56.0% | 22 | 373,588 | 54.6% |
| | <u>192</u> | <u>\$ 729,745</u> | <u>100.0%</u> | <u>208</u> | <u>\$ 684,404</u> | <u>100.0%</u> |

| <u>Location of underlying property</u> (outstanding amounts in 000s) | <u>December 31, 2019</u> | | | | |
|---|--------------------------------|-------------------------------|-----------------------------------|---|---|
| | <u>Number of mortgages</u> | <u>Outstanding amount</u> | <u>Percentage outstanding</u> | <u>Weighted average loan to value</u> | <u>Weighted average interest rate</u> |
| Greater Toronto Area | 153 | \$ 509,299 | 69.8% | 64.1% | 8.85% |
| Non-GTA Ontario | 20 | 20,625 | 2.8% | 57.6% | 8.33% |
| Alberta | 4 | 15,141 | 2.1% | 64.0% | 8.80% |
| British Columbia | 15 | 184,680 | 25.3% | 46.9% | 8.77% |
| | <u>192</u> | <u>\$ 729,745</u> | <u>100.0%</u> | <u>59.5%</u> | <u>8.81%</u> |

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% |
| | <u>208</u> | <u>\$ 684,404</u> | <u>100.0%</u> | <u>61.1%</u> | <u>8.85%</u> |

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, 2019, 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 Friday, February 14, 2020 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, 2020) please call 1 (855) 859-2056. Conference ID 6384827.

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.

For additional information, please contact

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www.atriummic.com

Jennifer Scoffield
Chief Financial Officer



MD&A



Management's Discussion And Analysis

Year Ended
December 31, 2019

CANADA'S PREMIER NON-BANK LENDER™

Management's Discussion and Analysis

December 31, 2019

Our business

Atrium is a mortgage lender filling the lending gap that results from the limited number of financial institutions operating in Canada. We lend in major urban centres and where the stability and liquidity of real estate are high. Our loan portfolio is high quality but we are able to charge higher rates than the banks because we offer flexibility, creativity and excellent service. Our mortgages are secured by all types of residential, multi-residential and commercial real estate located in Canada, and must all be in strict compliance with our investment policies. Atrium has a 19-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, 2020.

Highlights

Atrium continues to demonstrate strength and stability. For the year ended December 31, 2019, we had record revenues of \$66.2 million, up 13.5% from the prior year. Net income was a record of \$38.6 million compared with \$33.8 million in the prior year. Basic and diluted earnings per share were \$0.97 and \$0.96, respectively, compared with \$0.95 basic and \$0.94 diluted earnings per share in the prior year.

During the year, we completed two issuances of common shares for gross proceeds of \$61.8 million. We also issued a new series of 5.60% convertible debentures maturing March 31, 2025 for gross proceeds of \$28.75 million, including the full amount of the over-allotment option.

We declared a regular dividend of \$0.075 per share for each month in the year, a total of \$0.90 for 2019, consistent with dividends of \$0.90 for the prior year. In addition, we declared a special dividend of \$0.06, for a total dividend of \$0.96 for 2019, compared to \$0.94 for the previous year. For 2020 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:

| <i>Year</i> | <i>Regular dividend</i> | <i>Special dividend</i> | <i>Total dividends paid</i> | <i>Earnings per share (basic)</i> |
|-------------|-------------------------|-------------------------|-----------------------------|-----------------------------------|
| 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 | \$0.06 | \$0.96 | \$0.97 |
| 2020 | \$0.90 | to be determined | | |

We had \$727.3 million of mortgages receivable as at December 31, 2019, an increase of 6.5% from December 31, 2018. During the year, \$271.8 million of mortgage principal was advanced and \$238.1 million was repaid. The portfolio has a weighted average remaining term of 8.7 months.

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

Revenues \$66.2 million, increased 13.5% from prior year

Earnings per share \$0.97 basic

Strong, high quality mortgage portfolio

81.9% first mortgages

92.0% less than 75% loan-to-value

Mortgages receivable \$727.3 million, up 6.5% since year-end

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

Investment portfolio

Our mortgage portfolio consisted of 192 mortgage loans and aggregated \$729.7 million at December 31, 2019, an increase of 6.6% from December 31, 2018.

| Property Type | December 31, 2019 | | | December 31, 2018 | | |
|--------------------------------------|--------------------------|---------------------------|-----------------------|--------------------------|---------------------------|-----------------------|
| | Number | Outstanding amount | % of Portfolio | Number | Outstanding amount | % of Portfolio |
| (outstanding amounts in 000s) | | | | | | |
| Low-rise residential ¹ | 32 | \$ 216,144 | 29.6% | 38 | \$ 232,713 | 34.0% |
| High-rise residential ¹ | 15 | 174,544 | 23.9% | 15 | 146,027 | 21.3% |
| Mid-rise residential ¹ | 21 | 160,456 | 22.0% | 20 | 139,708 | 20.4% |
| House and apartment ² | 91 | 66,083 | 9.1% | 101 | 64,230 | 9.4% |
| Condominium corporation ³ | 14 | 2,659 | 0.4% | 14 | 2,533 | 0.4% |
| Residential portfolio | 173 | 619,886 | 85.0% | 188 | 585,211 | 85.5% |
| Commercial ⁴ | 19 | 109,859 | 15.0% | 20 | 99,193 | 14.5% |
| Mortgage portfolio | <u>192</u> | <u>729,745</u> | <u>100.0%</u> | <u>208</u> | <u>684,404</u> | <u>100.0%</u> |
| Accrued interest receivable | | 3,780 | | | 3,122 | |
| Mortgage discount | | (224) | | | (221) | |
| Unamortized origination fees | | (586) | | | (684) | |
| Provision for mortgage losses | | (5,390) | | | (3,900) | |
| Mortgages receivable | | <u>\$ 727,325</u> | | | <u>\$ 682,721</u> | |

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.

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

| Loan type | December 31, 2019 | | | December 31, 2018 | | |
|-------------------------------|--------------------------|---------------------------|-----------------------|--------------------------|---------------------------|-----------------------|
| | Number | Outstanding amount | % of Portfolio | Number | Outstanding amount | % of Portfolio |
| (outstanding amounts in 000s) | | | | | | |
| Term loans | 177 | \$ 589,967 | 80.9% | 199 | \$ 609,099 | 89.0% |
| Construction loans | 15 | 139,778 | 19.1% | 9 | 75,305 | 11.0% |
| | <u>192</u> | <u>\$ 729,745</u> | <u>100.0%</u> | <u>208</u> | <u>\$ 684,404</u> | <u>100.0%</u> |

A summary of our mortgages by size is presented below.

| Mortgage amount | December 31, 2019 | | | December 31, 2018 | | |
|-------------------------------|--------------------------|---------------------------|-----------------------|--------------------------|---------------------------|-----------------------|
| | Number | Outstanding amount | % of Portfolio | Number | Outstanding amount | % of Portfolio |
| (outstanding amounts in 000s) | | | | | | |
| \$0 - \$2,500,000 | 123 | \$ 84,043 | 11.5% | 145 | \$ 103,128 | 15.1% |
| \$2,500,001 - \$5,000,000 | 25 | 91,707 | 12.6% | 26 | 98,176 | 14.3% |
| \$5,000,001 - \$7,500,000 | 15 | 91,685 | 12.6% | 8 | 48,118 | 7.0% |
| \$7,500,001 - \$10,000,000 | 6 | 53,373 | 7.3% | 7 | 61,394 | 9.0% |
| \$10,000,001 + | 23 | 408,937 | 56.0% | 22 | 373,588 | 54.6% |
| | <u>192</u> | <u>\$ 729,745</u> | <u>100.0%</u> | <u>208</u> | <u>\$ 684,404</u> | <u>100.0%</u> |

As of December 31, 2019, the average outstanding mortgage balance was \$3.8 million (December 31, 2018 – \$3.3 million), and the median outstanding mortgage balance was \$0.9 million (December 31, 2018 – \$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. The majority of all new loans funded in 2019 were at floating rates. As at December 31, 2019, 68.9% of our portfolio was priced at floating rates with rate floors, up from 61.9% at December 31, 2018.

| December 31, 2019 | | | | | |
|--|----------------------------|---------------------------|-------------------------------|---------------------------------------|---------------------------------------|
| Location of underlying property | Number of mortgages | Outstanding amount | Percentage outstanding | Weighted average loan to value | Weighted average interest rate |
| <i>(outstanding amounts in 000s)</i> | | | | | |
| Greater Toronto Area | 153 | \$ 509,299 | 69.8% | 64.1% | 8.85% |
| Non-GTA Ontario | 20 | 20,625 | 2.8% | 57.6% | 8.33% |
| Alberta | 4 | 15,141 | 2.1% | 64.0% | 8.80% |
| British Columbia | 15 | 184,680 | 25.3% | 46.9% | 8.77% |
| | <u>192</u> | <u>\$ 729,745</u> | <u>100.0%</u> | <u>59.5%</u> | <u>8.81%</u> |
| December 31, 2018 | | | | | |
| Location of underlying property | Number of mortgages | Outstanding amount | Percentage outstanding | Weighted average loan to value | Weighted average interest rate |
| <i>(outstanding amounts in 000s)</i> | | | | | |
| 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% |
| | <u>208</u> | <u>\$ 684,404</u> | <u>100.0%</u> | <u>61.1%</u> | <u>8.85%</u> |

We have an exceptionally high proportion of our portfolio invested in first mortgages (81.9%), which is one of our core strategies.

At December 31, 2019, the weighted average loan-to-value ratio in our mortgage portfolio was 59.5%, with 92.0% of the portfolio below 75% loan-to-value. (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.)

| December 31, 2019 | | | | |
|--------------------------------------|----------------------------|---------------------------|-------------------------------|---------------------------------------|
| Type of mortgage | Number of mortgages | Outstanding amount | Percentage outstanding | Weighted average interest rate |
| <i>(outstanding amounts in 000s)</i> | | | | |
| First mortgages | | | | |
| Conventional | 146 | \$ 590,707 | 81.0% | 8.47% |
| Non-Conventional | 1 | 4,305 | 0.6% | 8.50% |
| Other | 14 | 2,658 | 0.3% | 7.39% |
| | <u>161</u> | <u>597,670</u> | <u>81.9%</u> | <u>8.47%</u> |
| Second and third mortgages | | | | |
| Conventional | 28 | 77,871 | 10.7% | 10.05% |
| Non-conventional | 3 | 54,204 | 7.4% | 10.81% |
| | <u>31</u> | <u>132,075</u> | <u>18.1%</u> | <u>10.36%</u> |
| | <u>192</u> | <u>\$ 729,745</u> | <u>100.0%</u> | <u>8.81%</u> |

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

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, 2019 is 8.7 months (December 31, 2018 – 11.3 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, 2019, the weighted average loan-to-value ratio of the mortgage portfolio was considerably lower than that, at 59.5%, compared to 61.1% at December 31, 2018.

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, 2019 was \$43.0 million (December 31, 2018 – \$41.1 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, 2019, 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 2019 | Year ended December 31 2018 | Year ended December 31 2017 |
|---|--------------------------------------|--------------------------------------|--------------------------------------|
| Revenue | \$ 66,171 | \$ 58,316 | \$ 50,359 |
| Mortgage servicing and management fees | (6,996) | (6,279) | (5,470) |
| Other expenses | (1,086) | (1,142) | (1,251) |
| Impairment loss on investment property | (806) | – | – |
| Provision for mortgage losses | (1,490) | (1,800) | (1,850) |
| Income before financing costs | 55,793 | 49,095 | 41,788 |
| Financing costs | (17,225) | (15,326) | (12,729) |
| Earnings and total comprehensive income | <u>\$ 38,568</u> | <u>\$ 33,769</u> | <u>\$ 29,059</u> |
| Basic earnings per share | \$ 0.97 | \$ 0.95 | \$ 0.95 |
| Diluted earnings per share | \$ 0.96 | \$ 0.94 | \$ 0.94 |
| Dividends declared | \$ 38,314 | \$ 33,658 | \$ 28,545 |
| Mortgages receivable, end of year | \$ 727,325 | \$ 682,721 | \$ 626,756 |
| Total assets, end of year | \$ 743,631 | \$ 699,750 | \$ 627,859 |
| Shareholders' equity, end of year | \$ 455,520 | \$ 387,306 | \$ 349,064 |

Summary of quarterly results (unaudited)

| | <u>Q4 2019</u> | <u>Q3 2019</u> | <u>Q2 2019</u> | <u>Q1 2019</u> | <u>Q4 2018</u> | <u>Q3 2018</u> | <u>Q2 2018</u> | <u>Q1 2018</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue | \$ 17,116 | \$ 16,712 | \$ 16,565 | \$ 15,778 | \$ 14,850 | \$ 15,476 | \$ 14,616 | \$ 13,374 |
| Mortgage servicing and management fees | (1,816) | (1,743) | (1,757) | (1,680) | (1,554) | (1,661) | (1,610) | (1,454) |
| Other expenses | (267) | (285) | (265) | (269) | (294) | (279) | (317) | (252) |
| Impairment loss on investment property | (806) | – | – | – | – | – | – | – |
| Provision for mortgage losses | (300) | (390) | (400) | (400) | (537) | (563) | (400) | (300) |
| Income before financing costs | 13,927 | 14,294 | 14,143 | 13,429 | 12,465 | 12,973 | 12,289 | 11,368 |
| Financing costs | (4,196) | (4,359) | (4,476) | (4,194) | (3,928) | (4,273) | (3,684) | (3,441) |
| Net income and comprehensive income | <u>\$ 9,731</u> | <u>\$ 9,935</u> | <u>\$ 9,667</u> | <u>\$ 9,235</u> | <u>\$ 8,537</u> | <u>\$ 8,700</u> | <u>\$ 8,605</u> | <u>\$ 7,927</u> |
| Basic earnings per share | \$ 0.23 | \$ 0.25 | \$ 0.25 | \$ 0.24 | \$ 0.23 | \$ 0.24 | \$ 0.24 | \$ 0.24 |
| Diluted earnings per share | \$ 0.23 | \$ 0.25 | \$ 0.24 | \$ 0.24 | \$ 0.23 | \$ 0.24 | \$ 0.24 | \$ 0.24 |
| Dividends declared | \$ 11,906 | \$ 8,890 | \$ 8,870 | \$ 8,648 | \$ 9,677 | \$ 8,164 | \$ 8,140 | \$ 7,677 |

Results of operations – Three months ended December 31, 2019

For the three months ended December 31, 2019, mortgage interest and fees revenues aggregated \$16,916, compared to \$14,850 in the comparative period, an increase of 13.9%. Virtually all our revenues are mortgage interest, therefore, the increase in revenue is due to the growth of our mortgage portfolio from the comparative quarter. The increase was offset slightly by a small reduction in the weighted average interest rate during the quarter compared to the fourth quarter of 2018. 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 8.81% at December 31, 2019, compared with 8.85% at the previous year end, December 31, 2018. We generated rental income of \$200 for the three months ended December 31, 2019 as we continue to lease up the 90-unit residential rental property that was acquired through a credit bid in November 2018.

Operating expenses, excluding the provision for mortgage losses and impairment loss on investment property, for the three months ended December 31, 2019 were \$2,083, compared to \$1,848 in the comparative period, an increase of 12.7%. This increase is due to an increase in mortgage servicing and management fees. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated \$1,816 for the three months ended December 31, 2019, compared with \$1,554 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 \$300 in the quarter to bring the total provision to \$5,390 at December 31, 2019 compared to \$537 in the prior year period for a total provision of \$3,900 at December 31, 2018. At December 31, 2019, as a result of the economic conditions in Saskatchewan affecting vacancy and rental rates, we estimated that the carrying value of the 90-unit residential rental property located in Regina, Saskatchewan exceeded its value in use, resulting in an impairment loss of \$806 for the quarter ended December 31, 2019.

Financing costs for the three months ended December 31, 2019 were \$4,196, compared to \$3,928 in the same period of 2018, an increase of 6.8%. Coupon rate interest on convertible debentures was \$2,174 for the three months ended December 31, 2019 compared to \$2,251 for the comparative period. This decrease was a result of interest savings from the 6.25% convertible debentures being repaid on March 31, 2019 and replaced with 5.6% convertible debentures. Accretion and other costs were \$341 for the three months ended December 31, 2019 compared to \$348 for the comparative period. Interest expense on the credit facility was \$1,610 for the three months ended December 31, 2019, up from \$1,256 for the comparative period. This increase is due to an increase in the average credit facility balance between the quarters due to a higher mortgage portfolio balance in the fourth quarter of 2019 compared to the fourth quarter of 2018, as well as the variation in the timing of repayments and advances during the periods. Interest rates were higher during the quarter ended December 31, 2019 compared to the quarter ended December 31, 2018 which also contributed to the increase in interest expense on the credit facility. Bank fees and amortization of financing costs for the three months ended December 31, 2019 were \$71, down from \$73 in the same period of 2018.

Net income and comprehensive income for the three months ended December 31, 2019 was \$9,731, an increase of 14.0% from net income and comprehensive income of \$8,537 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, 2019, compared with \$0.23 basic and diluted for the comparable period in the previous year. Earnings per share stayed the same as a result of the increase in earnings for the quarter which was offset by a greater number of shares outstanding due to the issuance of common shares completed in February and October 2019 and conversions of convertible debentures into common shares between September 2018 and December 2019.

During the three months ended December 31, 2019, we funded mortgages receivable aggregating \$124,495. Of those advances, \$97,364 were first mortgages, representing 78.2% of the total loans funded. British Columbia advances were \$20,914, advances of \$313 were on properties in Alberta, \$3,527 were non-GTA Ontario and the remaining \$99,741 were for mortgages on properties located in the Greater Toronto Area. There were \$134,216 of repayments during the period.

Results of operations – Year ended December 31, 2019

For the year ended December 31, 2019, mortgage interest and fees revenues aggregated \$66,095, compared to \$58,316 in the prior year, an increase of 13.3%. Virtually all our revenues are mortgage interest, therefore, the increase is due to the growth of our mortgage portfolio and changes in the weighted average interest rate over the year. 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 year, the types of properties on which mortgage loans are advanced and/or repaid in the year, 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 year and whether the mortgage loans advanced and/or repaid during the year are conventional or non-conventional mortgages. The weighted average interest rate on our mortgage portfolio was 8.81% at December 31, 2019, compared with 8.85% at the previous year end, December 31, 2018. We generated rental income of \$76 for the year ended December 31, 2019 as we continue to lease up the 90-unit residential rental property that was acquired through a credit bid in November 2018.

Operating expenses, excluding the provision for mortgage losses and impairment loss on investment property, for the year ended December 31, 2019 were \$8,082, compared to \$7,421 in the prior year, an increase of 8.9%. This increase is due to an increase in mortgage servicing and management fees, which was partially offset by a decrease in transfer agent, regulatory fees and investor relations expenses. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated \$6,996 for the year ended December 31, 2019, compared with \$6,279 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. Transfer agent, regulatory fees and investor relations expenses were lower for the year ended December 31, 2019 compared to 2018 as we are no longer using a third party investor relations firm. The provision for mortgage losses was \$1,490 in the year to bring the total provision to \$5,390 at December 31, 2019 compared to \$1,800 in the prior year period to bring the total provision to \$3,900 at December 31, 2018. The provision for mortgage losses expensed in 2018 was higher as a result of a higher provision required for a mortgage on a property classified as Stage 3 from January 1, 2018 through to November 9, 2018, when the property was acquired through a credit bid. At December 31, 2019, as a result of the economic conditions in the Saskatchewan affecting vacancy and rental rates, we estimated that

the carrying value of the 90-unit residential rental property located in Regina, Saskatchewan exceeded its value in use, resulting in an impairment loss of \$806 for the year ended December 31, 2019.

Financing costs for the year ended December 31, 2019 were \$17,225, compared to \$15,326 in the prior year, an increase of 12.4%. Coupon rate interest on convertible debentures was \$8,818 for the year ended December 31, 2019 compared to \$8,072 for the prior year. This increase was a result of there being five series of convertible debentures outstanding during the year ended December 31, 2019 compared to four series outstanding for the entire the year ended December 31, 2018 and a fifth series issued in July 2018. The increase was offset somewhat by interest savings from the 6.25% convertible debentures being repaid on March 31, 2019 and replaced with 5.6% convertible debentures. Accretion and other costs were \$1,414 for the year ended December 31, 2019 compared to \$1,301 for the prior year. Interest expense on the credit facility for the year ended December 31, 2019 was \$6,703, up from \$5,724 in 2018. This increase is due to increases in interest rates over the past two years, as well as an increase in the average credit facility balance due to the increase in the mortgage portfolio balance and variations in the timing of repayments and advances during the years. Bank fees and amortization of financing costs for the year ended December 31, 2019 were \$290, up from \$229 in the prior year.

Net income and comprehensive income for the year ended December 31, 2019 was \$38,568, an increase of 14.2% from net income and comprehensive income of \$33,769 for the prior year. Basic and diluted earnings per common share were \$0.97 and \$0.96, respectively, for the year ended December 31, 2019, compared with \$0.95 basic and \$0.94 diluted for the prior year. Basic and diluted earnings per share increased over the prior year due to the increase in earnings for the year, which were somewhat offset by a greater number of shares outstanding as a result of the public offering issuances of shares completed in March 2018, February 2019 and October 2019, as well as conversions of convertible debentures into shares between September 2018 and December 2019.

During the year ended December 31, 2019, we funded mortgages aggregating \$291,621. Of those advances, \$251,858 were first mortgages, representing 86.4% of the total loans funded. British Columbia advances were \$63,719, advances of \$1,180 were on properties in Alberta, \$8,175 were non-GTA Ontario and the remaining \$218,546 were for mortgages on properties located in the Greater Toronto Area. There were \$246,279 of repayments during the year.

Liquidity and capital resources

At December 31, 2019, we had borrowings under credit facility (excluding unamortized finance costs) of \$123,937. The credit facility, currently authorized for up to \$210,000 (December 31, 2018 – \$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, 2019, and we expect to remain in compliance with such covenants going forward.

At December 31, 2019, we had five series of convertible debentures outstanding, with a total book value of \$153,910, and a face value (and maturity value) of \$158,714. For additional information on the operating credit facility and the debentures, please refer to notes 7 and 9, respectively, of our accompanying consolidated financial statements.

During the year ended December 31, 2019, we completed two public common share offerings and one private common share offering resulting in the issuance of a total of 4,679,300 common shares for gross proceeds of \$61,777, including the exercise in full of the over-allotment option on both public issuances.

In March and April, 2019, we completed an issuance of a new series of 5.60% convertible debentures maturing March 31, 2025 for gross proceeds of \$28,750, including the exercise in full of the over-allotment option.

On March 31, 2019, our 6.25% convertible debentures matured and were repaid in cash.

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, 2019, total debt was 38.8% of total assets (December 31, 2018 – 44.7%). Our policy and our banking arrangements both require that total debt not exceed 50.0% of total assets.

Changes in financial position

During the year ended December 31, 2019, we completed two public offerings and one private offering of common shares, issuing a total of 4,679,300 common shares for gross proceeds of \$61,777, including the full amount of the over-allotment option on both public issuances. We also completed a public offering of 5.60% convertible debentures maturing March 31, 2025 for gross proceeds of \$28,750, including the full amount of the over-allotment option. The net proceeds of these three public offerings were used to repay our indebtedness under our credit facility, which was in turn used to repay our 6.25% convertible debentures that matured on March 31, 2019 and fund current mortgage

loans. Cash used in financing activities also included net repayments of the operating facility of \$24,393, dividends paid of \$32,531 and interest paid of \$15,932, resulting in net cash used in financing activities of \$14,342.

Cash used in investing activities during the year ended December 31, 2019 consisted primarily of advances of principal on mortgage loan investments of \$271,759, less principal repayments received of \$238,086, for net cash used in mortgage loan investments of \$33,673 to support the growth in our mortgage portfolio.

Borrowings under our operating credit facility decreased to \$123,937 at December 31, 2019, from \$148,330 at December 31, 2018, due to proceeds received from the issuance of common shares and convertible debentures, which was offset by the growth in our portfolio and repayment of our 6.25% convertible debentures.

Accounts payable and accrued liabilities, including accrued convertible debenture interest, were \$5,100 at December 31, 2019 compared to \$3,104 at December 31, 2018. This increase is due to timing differences in payments. Dividends payable were \$5,652 at December 31, 2019 up from \$4,205 at December 31, 2018. The increase is due to the larger bonus dividend accrual at December 31, 2019 compared to the prior year.

Share capital increased to \$452,851 at December 31, 2019 from \$385,261 at December 31, 2018, primarily due to the two public offerings of common shares completed in 2019.

Contractual obligations

Contractual obligations due at December 31, 2019 were as follows:

| December 31, 2019 | Total obligation | Within 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
|--|-------------------------|----------------------|---------------------|---------------------|--------------------------|
| Borrowings under credit facility | \$123,937 | \$ – | \$123,937 | \$ – | \$ – |
| Accounts payable and accrued liabilities | 4,144 | 4,144 | – | – | – |
| Accrued convertible debenture interest | 956 | 956 | – | – | – |
| Dividends payable | 5,652 | 5,652 | – | – | – |
| Convertible debentures | 158,714 | 29,914 | 40,250 | 25,300 | 63,250 |
| Total contractual obligations | \$293,403 | \$ 40,666 | \$164,187 | \$ 25,300 | \$ 63,250 |

We have commitments to advance additional funds under existing mortgages of \$64,932 and for new mortgages of \$28,947 at December 31, 2019 (December 31, 2018 – \$75,601, \$33,450). 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, 2019, we had \$8,428 (December 31, 2018 – \$7,908) 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, 2019 was \$20,000 (December 31, 2018 – \$10,000). LCs represent irrevocable assurances that our banks will make payments in the event that a borrower of the company 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 \$6,996 for the year ended December 31, 2019 (year ended December 31, 2018 – \$6,279). 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, 2019, 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 \$56,186 (December 31, 2018 – one syndicated mortgage of \$50,484) of which the company's share is \$28,093 (December 31, 2018 – \$25,242).

As at December 31, 2019, the company had three mortgages receivable from borrowers over which a director and officer of the company (Robert G. Goodall) has joint control (December 31, 2018 – two).

- A secured mortgage loan with a total gross commitment of \$3,490 (December 31, 2018 – \$3,490), of which \$3,490 had been funded at December 31, 2019 (December 31, 2018 – \$3,394). During the year ended December 31, 2019, the company recognized net mortgage interest and fees of \$323 (year ended December 31, 2018 – \$288) from this mortgage receivable.
- A secured mortgage loan with a total gross commitment of \$8,738 (December 31, 2018 – \$8,738). The company's share of the commitment is \$2,330 (December 31, 2018 – \$2,330), of which \$2,330 had been funded at December 31, 2019 (December 31, 2018 – \$2,330). During the year ended December 31, 2019, the company recognized net mortgage interest and fees of \$236 (year ended December 31, 2018 – \$228) from this mortgage receivable.
- A secured mortgage loan with a total gross commitment of \$7,875 (December 31, 2018 – \$nil). The company's share of the commitment is \$1,500 (December 31, 2018 – \$nil), of which \$1,500 had been funded at December 31, 2019 (December 31, 2018 – \$nil). During the year ended December 31, 2019, the company recognized net mortgage interest and fees of \$120 (year ended December 31, 2018 – \$nil) from this mortgage receivable.

Critical accounting estimates and policies

Our consolidated annual financial statements for the year ended December 31, 2019 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 year. Revisions to accounting estimates are recognized in the year 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 consolidated financial statements for the year ended December 31, 2019.

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 (i) that material information relating to us is made known to our CEO and CFO during the reporting period; (ii) that information required to be disclosed by us in our filings under securities legislation is recorded, processed, summarized and reported within the required time periods; (iii) 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, 2019. 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 41,863,776 were issued and outstanding at December 31, 2019, and 42,125,356 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,007,333, 2,747,440, 1,693,440, 2,211,540 and 1,949,152 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.25%, 5.50% (September 2021), 5.30%, 5.50% (December 2025) and the 5.60% convertible debentures, using the conversion price of \$13.50, \$14.65, \$14.94, \$15.60 and \$14.75 respectively, for each common share.

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

Risks and uncertainties

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

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

Please also refer to "Forward-looking information," below, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2019 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", "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, 2019 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 consolidated financial statements as at December 31, 2019.

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, 2019, 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, 2019

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, 2020

"Robert G. Goodall"
Robert G. Goodall
President and Chief Executive Officer

"Jennifer Scoffield"
Jennifer Scoffield
Chief Financial Officer



Crowe Soberman | Canada

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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, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, 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.

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.



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- 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 Jonathan Breido.

Crowe Soberman LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 13, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

| | | December 31 | |
|--|--------------|--------------------|-------------------|
| | Notes | 2019 | 2018 |
| Assets | | | |
| Mortgages receivable | 5 | \$ 727,325 | \$ 682,721 |
| Investment properties | 6 | 16,201 | 17,007 |
| Prepaid expenses | | 105 | 22 |
| Total assets | | <u>\$ 743,631</u> | <u>\$ 699,750</u> |
| Liabilities | | | |
| Borrowings under credit facility | 7 | \$ 123,449 | \$ 147,846 |
| Accounts payable and accrued liabilities | 8 | 4,144 | 2,093 |
| Accrued convertible debenture interest | | 956 | 1,011 |
| Dividends payable | | 5,652 | 4,205 |
| Convertible debentures | 9 | 153,910 | 157,289 |
| Total liabilities | | <u>288,111</u> | <u>312,444</u> |
| Shareholders' equity | | | |
| Share capital | | 452,851 | 385,261 |
| Deferred share incentive plan units | | 716 | 644 |
| Equity component of convertible debentures | | 1,837 | 1,675 |
| Contributed surplus | | 781 | 645 |
| Deficit | | (665) | (919) |
| Total shareholders' equity | | <u>455,520</u> | <u>387,306</u> |
| Total liabilities and shareholders' equity | | <u>\$ 743,631</u> | <u>\$ 699,750</u> |

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 | | Deferred share incentive plan units | Equity component of convertible debentures | Contributed surplus | Retained earnings (deficit) | Total shareholders' equity |
|---|-------|-------------------|-------------------|-------------------------------------|--|---------------------|-----------------------------|----------------------------|
| | | Number | Amount | | | | | |
| 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 | 10 | 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 |
| Shares issued by prospectus | 10 | 4,679,300 | 61,777 | — | — | — | — | 61,777 |
| Shares issued under dividend reinvestment plan | 10 | 326,876 | 4,336 | — | — | — | — | 4,336 |
| Shares issued under employee share purchase plan | 10 | 10,520 | 145 | — | — | — | — | 145 |
| Shares issued under deferred share incentive plan | 11 | 19,669 | 248 | (248) | — | — | — | — |
| Shares issued on debenture conversion | 9 | 266,213 | 3,594 | — | (36) | — | — | 3,558 |
| Maturity of convertible debentures | 9 | — | — | — | (136) | 136 | — | — |
| Issue costs | | — | (2,510) | — | — | — | — | (2,510) |
| Share-based payments | 11 | — | — | 320 | — | — | — | 320 |
| Equity component of convertible debentures issued | 9 | — | — | — | 351 | — | — | 351 |
| Issue costs attributable to equity component of convertible debentures issued | 9 | — | — | — | (17) | — | — | (17) |
| Net income and comprehensive income | | — | — | — | — | — | 38,568 | 38,568 |
| Dividends declared | | — | — | — | — | — | (38,314) | (38,314) |
| Balance, December 31, 2019 | | <u>41,863,776</u> | <u>\$ 452,851</u> | <u>\$ 716</u> | <u>\$ 1,837</u> | <u>\$ 781</u> | <u>\$ (665)</u> | <u>\$ 455,520</u> |

Dividends amounted to \$0.96 per share for the year ended December 31, 2019 (year ended December 31, 2018 – \$0.94).

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 | |
|--|--------------|--------------------------------|------------------|
| | | 2019 | 2018 |
| Revenues | | | |
| Mortgage interest and fees | 8 | \$ 66,095 | \$ 58,316 |
| Rental income | 6 | 76 | — |
| Total revenues | | <u>66,171</u> | <u>58,316</u> |
| Operating expenses | | | |
| Mortgage servicing and management fees | 8 | 6,996 | 6,279 |
| Transfer agent, regulatory fees and investor relations | | 303 | 326 |
| Share-based payments | 8, 11 | 320 | 292 |
| Professional fees | | 174 | 172 |
| Directors' expense | 8 | 198 | 202 |
| Administration and general | | 91 | 150 |
| Impairment loss on investment property | | 806 | — |
| Provision for mortgage losses | 5(b) | <u>1,490</u> | <u>1,800</u> |
| Total operating expenses | | <u>10,378</u> | <u>9,221</u> |
| Income before financing costs | | <u>55,793</u> | <u>49,095</u> |
| Financing costs | | | |
| Interest on convertible debentures | 9 | 10,232 | 9,373 |
| Interest and other bank charges | 7 | <u>6,993</u> | <u>5,953</u> |
| Total financing costs | | <u>17,225</u> | <u>15,326</u> |
| Net income and comprehensive income for the year | | <u>\$ 38,568</u> | <u>\$ 33,769</u> |
| Earnings per common share | | | |
| Basic | 12 | <u>\$ 0.97</u> | <u>\$ 0.95</u> |
| Diluted | 12 | <u>\$ 0.96</u> | <u>\$ 0.94</u> |

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 | |
|--|--------------------------------|--------------------|
| | <u>2019</u> | <u>2018</u> |
| Cash provided by (used in): | | |
| Operating activities | | |
| Net income and comprehensive income for the year | \$ 38,568 | \$ 33,769 |
| Adjustments to determine net cash flows | | |
| provided by (used in) operating activities | | |
| Share-based payments | 320 | 292 |
| Mortgage interest and fees earned | (66,095) | (58,316) |
| Mortgage interest and fees received | 52,923 | 48,217 |
| Interest on convertible debentures expensed | 10,232 | 9,373 |
| Interest and other bank charges expensed | 6,993 | 5,953 |
| Impairment loss on investment property | 806 | – |
| Provision for mortgage losses | 1,490 | 1,800 |
| Changes in operating assets and liabilities | | |
| Prepaid expenses | (83) | 17 |
| Accounts payable and accrued liabilities | 2,110 | (370) |
| Additions to mortgage discount | 46 | – |
| Additions to unamortized origination fees | 705 | 746 |
| Cash provided by operating activities | <u>48,015</u> | <u>41,481</u> |
| Investing activities | | |
| Cash advances of mortgages receivable | (271,759) | (306,025) |
| Cash repayments of mortgages receivable | 238,086 | 240,404 |
| Improvements and expenditures on investment properties | – | (297) |
| Cash used in investing activities | <u>(33,673)</u> | <u>(65,918)</u> |
| Financing activities | | |
| Advances under credit facility | 407,322 | 540,628 |
| Repayments under credit facility | (431,715) | (537,452) |
| Interest and fees on convertible debentures paid | (8,876) | (9,715) |
| Interest and other bank charges paid | (7,056) | (5,671) |
| Issuance of common shares | 61,921 | 34,655 |
| Share capital issue costs | (2,510) | (1,614) |
| Issuance of convertible debentures | 28,750 | 34,500 |
| Convertible debenture issue costs | (1,369) | (1,626) |
| Repayment of convertible debentures | (28,278) | – |
| Cash dividends paid | (32,531) | (29,268) |
| Cash provided by (used in) financing activities | <u>(14,342)</u> | <u>24,437</u> |
| Increase (decrease) in cash | – | – |
| Cash, beginning of year | – | – |
| Cash, end of year | <u>\$ –</u> | <u>\$ –</u> |

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.B, AI.DB.C, AI.DB.D and AI.DB.E.

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, 2020.

(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), (d) and (e).

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 (deficit) 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 Canadian Properties 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 receivable.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)**(a) Financial instrument assets – initial recognition and measurement (continued)**

- 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.

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 receivable 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:

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)**(c) Financial instruments – impairment of assets (continued)**

| 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 consolidated 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 consolidated financial statements | Lifetime ECL – expected losses from possible default events over the expected life of the instrument, weighted by the likelihood of loss |

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 receivable, the company's historical experience is that mortgages receivable 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 mortgages receivable to move to Stage 2. For single-family residential mortgages receivable 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 receivable or 30 days past due for all other mortgages receivable, 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)**(c) Financial instruments – impairment of assets (continued)**

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) single-family residential mortgages receivable 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 receivable 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.

(d) Financial instruments - revenue recognition

Mortgage interest and fees revenues are recognized in the consolidated statements of income and comprehensive income using the effective interest method. Mortgage interest and fees revenues include 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) Financial instruments – impairment of assets).

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) Financial instruments – impairment of assets). 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) Investment properties

Investment 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*. An investment property is recognized on the date of acquisition through foreclosure and is measured initially at cost, which is the book value of the respective mortgage receivable net of any related provision for mortgage losses, plus any directly attributable expenditures and transaction costs. Any costs subsequently incurred to complete the construction or development of a property are capitalized. After initial recognition, investment 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. The carrying value of investment properties are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment property may exceed its recoverable amount.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)**(f) Investment properties (continued)**

If the higher of the fair value less cost of disposal and the value in use of an investment 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 consolidated statements of income and comprehensive income.

(g) 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.

(h) 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.

(i) Earnings per common share

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

(j) Share-based payments

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

| Property type | December 31, 2019 | | | December 31, 2018 | | |
|-------------------------------|--------------------------|---------------------------|-----------------------|--------------------------|---------------------------|-----------------------|
| | Number | Outstanding amount | % of Portfolio | Number | Outstanding amount | % of Portfolio |
| Low-rise residential | 32 | \$ 216,144 | 29.6% | 38 | \$ 232,713 | 34.0% |
| High-rise residential | 15 | 174,544 | 23.9% | 15 | 146,027 | 21.3% |
| Mid-rise residential | 21 | 160,456 | 22.0% | 20 | 139,708 | 20.4% |
| House and apartment | 91 | 66,083 | 9.1% | 101 | 64,230 | 9.4% |
| Condominium corporation | 14 | 2,659 | 0.4% | 14 | 2,533 | 0.4% |
| Residential portfolio | 173 | 619,886 | 85.0% | 188 | 585,211 | 85.5% |
| Commercial | 19 | 109,859 | 15.0% | 20 | 99,193 | 14.5% |
| Mortgage portfolio | <u>192</u> | <u>729,745</u> | <u>100.0%</u> | <u>208</u> | <u>684,404</u> | <u>100.0%</u> |
| Accrued interest receivable | | 3,780 | | | 3,122 | |
| Mortgage discount | | (224) | | | (221) | |
| Unamortized origination fees | | (586) | | | (684) | |
| Provision for mortgage losses | | (5,390) | | | (3,900) | |
| Mortgages receivable | | <u>\$ 727,325</u> | | | <u>\$ 682,721</u> | |

The mortgage portfolio has maturity dates between 2020 and 2030 with a weighted average remaining term of 8.7 months at December 31, 2019 (December 31, 2018 – 11.3 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 8.81% as at December 31, 2019 (8.85% as at December 31, 2018).

Within the mortgage portfolio, at December 31, 2019 there were 24 mortgages receivable aggregating \$108,055 (14.8% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage receivable (December 31, 2018 – 21 mortgages receivable aggregating \$74,399, 10.9% of the mortgage 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, 2019.

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:

| | | |
|------------------------------|-------------------|---------------|
| Year ended December 31, 2020 | 477,942 | 65.5% |
| 2021 | 207,413 | 28.4% |
| 2022 | 38,802 | 5.3% |
| 2023 | 3,359 | 0.5% |
| 2024 | 877 | 0.1% |
| Thereafter | <u>1,352</u> | <u>0.2%</u> |
| | <u>\$ 729,745</u> | <u>100.0%</u> |

NOTE 5 – MORTGAGES RECEIVABLE (continued)**(b) Provision for mortgage losses**

The gross carrying amounts of mortgages receivable and provision for mortgage losses by property type are as follows:

As at December 31, 2019

| Gross carrying amount | Stage 1 | Stage 2 | Stage 3 | Total |
|------------------------------|-------------------|------------------|----------------|-------------------|
| Low-rise residential | \$ 200,928 | \$ 15,216 | \$ – | \$ 216,144 |
| High-rise residential | 174,544 | – | – | 174,544 |
| Mid-rise residential | 160,456 | – | – | 160,456 |
| House and apartment | 65,154 | 929 | – | 66,083 |
| Condominium corporation | 2,659 | – | – | 2,659 |
| Commercial | 105,554 | 4,305 | – | 109,859 |
| Mortgage portfolio | <u>\$ 709,295</u> | <u>\$ 20,450</u> | <u>\$ –</u> | <u>\$ 729,745</u> |

Provision for mortgage losses

| | | | | |
|-------------------------|-----------------|---------------|-------------|-----------------|
| Low-rise residential | \$ 1,398 | \$ 317 | \$ – | \$ 1,715 |
| High-rise residential | 1,214 | – | – | 1,214 |
| Mid-rise residential | 1,116 | – | – | 1,116 |
| House and apartment | 251 | – | – | 251 |
| Condominium corporation | 18 | – | – | 18 |
| Commercial | 734 | 342 | – | 1,076 |
| Mortgage portfolio | <u>\$ 4,731</u> | <u>\$ 659</u> | <u>\$ –</u> | <u>\$ 5,390</u> |

As at December 31, 2018

| Gross carrying amount | 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 | <u>\$ 677,232</u> | <u>\$ 7,172</u> | <u>\$ –</u> | <u>\$ 684,404</u> |

Provision for mortgage losses

| | | | | |
|-------------------------|-----------------|-------------|-------------|-----------------|
| 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 | <u>\$ 3,900</u> | <u>\$ –</u> | <u>\$ –</u> | <u>\$ 3,900</u> |

The provision for mortgage losses at December 31, 2019 is \$5,390 (December 31, 2018 – \$3,900) . Of this provision, \$4,731 (December 31, 2018 – \$3,900) represents management’s estimate of the ECLs on mortgages receivable 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 \$659 at December 31, 2019 (December 31, 2018 – \$nil).

NOTE 5 – MORTGAGES RECEIVABLE (continued)**(b) Provision for mortgage losses (continued)**

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

| | Year ended December 31, 2019 | | | |
|-------------------------------------|-------------------------------------|----------------|----------------|-----------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Opening balance, January 1, 2019 | \$ 3,900 | \$ – | \$ – | \$ 3,900 |
| Provision for mortgage losses | | | | |
| Transfers to Stage 1 ⁽¹⁾ | – | – | – | – |
| Transfers to Stage 2 ⁽¹⁾ | (98) | 98 | – | – |
| Transfers to Stage 3 ⁽¹⁾ | – | – | – | – |
| Net remeasurement ⁽²⁾ | 612 | 563 | – | 1,175 |
| Mortgage advances | 1,854 | – | – | 1,854 |
| Mortgage repayments | (1,539) | – | – | (1,539) |
| Balance, December 31, 2019 | <u>\$ 4,729</u> | <u>\$ 661</u> | <u>\$ –</u> | <u>\$ 5,390</u> |

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

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

During the year ended December 31, 2019, the provision for mortgage losses for mortgages classified as Stage 1 increased primarily as a result of the overall increase in the mortgage portfolio. The provision for mortgage losses for mortgages classified as Stage 2 increased as a result of the transfer of mortgages receivable from Stage 1 to Stage 2 due to a significant increase in credit risk since initial recognition as well as an increase in the ECL of an existing Stage 2 mortgage. The ECL is assessed individually for Stage 2 mortgages.

| | Year ended December 31, 2018 | | | |
|-------------------------------------|-------------------------------------|----------------|----------------|-----------------|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Opening balance, January 1, 2018 | \$ 3,300 | \$ – | \$ 5,900 | \$ 9,200 |
| Provision for mortgage losses | | | | |
| Transfers to Stage 1 ⁽¹⁾ | – | – | – | – |
| Transfers to Stage 2 ⁽¹⁾ | (16) | 16 | – | – |
| Transfers to 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 | <u>\$ 3,900</u> | <u>\$ –</u> | <u>\$ –</u> | <u>\$ 3,900</u> |

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

(2) Net remeasurement represents the change in the expected credit loss 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 receivable 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 – Investment properties).

NOTE 6 – INVESTMENT PROPERTIES

During the year ended December 31, 2018, the company acquired through a credit bid one property on which it held a mortgage.

| | Years ended December 31 | |
|--|--------------------------------|------------------|
| | 2019 | 2018 |
| Balance, beginning of year | \$ 17,007 | \$ 1,064 |
| Property acquired through a credit bid during the year | – | 15,208 |
| Capital improvements and expenditures | – | 735 |
| Impairment | (806) | – |
| Balance, end of year | <u>\$ 16,201</u> | <u>\$ 17,007</u> |

NOTE 6 – INVESTMENT PROPERTIES (continued)

Investment properties consist of two residential multi-unit rental properties, a four unit property in Leduc, Alberta and a 90 unit property in Regina, Saskatchewan. At December 31, 2019, as a result of the economic conditions in Saskatchewan affecting vacancy and rental rates, the company estimated that the carrying value of the Regina property exceeded its value in use, resulting in an impairment loss of \$806. The value in use was estimated using a net operating income analysis. This analysis included estimates of gross rental income, vacancy rates, operating and management expenses and capitalization rates. Increases (decreases) in gross rental income will result in a higher (lower) value in use of the investment property. Increases (decreases) in the vacancy rates, operating and management expenses or capitalization rates will result in a lower (higher) value in use of the investment property. At December 31, 2019, the company used a vacancy rate of 6.3% and a capitalization rate of 5.25% to estimate the fair value of the Regina property. The recoverable amount of this Regina property is estimated to be its value in use of \$15,100.

| | Years ended December 31 | |
|------------------------------------|--------------------------------|-------------|
| | 2019 | 2018 |
| Rental income | | |
| Revenue from investment properties | \$ 852 | \$ – |
| Property operating costs | (776) | – |
| Rental income | <u>\$ 76</u> | <u>\$ –</u> |

NOTE 7 – CREDIT FACILITY

At December 31, 2019, the company had a credit facility from a syndicate of four Canadian financial institutions of \$210,000 (December 31, 2018 – \$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, the company has 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, 2019 was 4.07% (3.81% for the year ended December 31, 2018). 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 borrower of the company 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 January 2, 2019, has a term to January 11, 2021, and is subject to certain conditions of drawdown and other covenants.

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 receivable 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, 2019 and December 31, 2018, the company was in compliance with these covenants.

| | December 31 | |
|-----------------------------------|--------------------|-------------------|
| | 2019 | 2018 |
| Credit facility | | |
| Bankers' acceptances | \$ 113,000 | \$ 136,000 |
| Bank loan | 10,490 | 12,490 |
| Overdraft facility | 447 | (160) |
| Unamortized finance costs | (488) | (484) |
| Borrowings under credit facility | 123,449 | 147,846 |
| Letters of credit | 8,428 | 7,908 |
| Total credit facility utilization | <u>\$ 131,877</u> | <u>\$ 155,754</u> |

Interest on the credit facility is included in financing costs and calculated using the effective interest method. Included in interest and other bank charges for the year ended December 31, 2019 is interest on the credit facility of \$6,703 and bank fees and amortization of financing costs of \$290 (December 31, 2018 – \$5,724 and \$229, respectively).

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 \$6,996 for the year ended December 31, 2019 (year ended December 31, 2018 – \$6,279). 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 \$565 (December 31, 2018 – \$529) 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 participants' contributions. The total amount matched by CMCC for the year ended December 31, 2019 was \$48 (year ended December 31, 2018 – \$52).

Certain of the company's mortgages receivable are shared with other investors. As at December 31, 2019, companies owned by a director and officer of the company had co-invested in one syndicated secured mortgage receivable. The total amount of the mortgage receivable is \$56,186 (December 31, 2018 – one syndicated mortgage receivable of \$50,484) of which the company's share is \$28,093 (December 31, 2018 – \$25,242).

As at December 31, 2019, the company had three mortgages receivable from borrowers over which a director and officer of the company has joint control (December 31, 2018 – two).

- A secured mortgage receivable loan with a total gross commitment of \$3,490 (December 31, 2018 – \$3,490), of which \$3,490 had been funded at December 31, 2019 (December 31, 2018 – \$3,394). During the year ended December 31, 2019, the company recognized net mortgage interest and fees of \$323 (year ended December 31, 2018 – \$288) from this mortgage receivable.
- A secured mortgage receivable loan with a total gross commitment of \$8,738 (December 31, 2018 – \$8,738). The company's share of the commitment is \$2,330 (December 31, 2018 – \$2,330), of which \$2,330 had been funded at December 31, 2019 (December 31, 2018 – \$2,330). During the year ended December 31, 2019, the company recognized net mortgage interest and fees of \$236 (year ended December 31, 2018 – \$228) from this mortgage receivable.
- A secured mortgage receivable loan with a total gross commitment of \$7,875 (December 31, 2018 – \$nil). The company's share of the commitment is \$1,500 (December 31, 2018 – \$nil), of which \$1,500 had been funded at December 31, 2019 (December 31, 2018 – \$nil). During the year ended December 31, 2019, the company recognized net mortgage interest and fees of \$120 (year ended December 31, 2018 – \$nil) from this mortgage receivable.

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

| | Years ended December 31 | |
|---|--------------------------------|---------------|
| | 2019 | 2018 |
| Directors' fees | \$ 179 | \$ 179 |
| Share-based payments to directors (Note 11) | 120 | 137 |
| Share-based payments to officers (Note 11) | 70 | 61 |
| | <u>\$ 369</u> | <u>\$ 377</u> |

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 | | | | | | Total |
|-------------------------------------|-----------------------|-----------------|-----------------|-----------------|-----------------|---------------|------------|
| | 5.60% ALDB.E | 5.50% ALDB.D | 5.30% ALDB.C | 5.50% ALDB.B | 6.25% ALDB.A | 5.25% ALDB | |
| Year ended December 31, 2019 | | | | | | | |
| Issued and outstanding | | | | | | | |
| face value | \$ 28,750 | \$ 34,500 | \$ 25,300 | \$ 40,250 | \$ — | \$ 29,914 | \$ 158,714 |
| Book value – | | | | | | | |
| Convertible debentures, | | | | | | | |
| beginning of year | \$ — | \$ 32,627 | \$ 24,124 | \$ 39,299 | \$ 29,186 | \$ 32,053 | \$ 157,289 |
| Conversion to shares | — | — | — | — | (990) | (2,568) | (3,558) |
| Issued | 28,750 | — | — | — | — | — | 28,750 |
| Equity component | (351) | — | — | — | — | — | (351) |
| Issue costs | (1,369) | — | — | — | — | — | (1,369) |
| Issue costs attributed to | | | | | | | |
| equity component | 17 | — | — | — | — | — | 17 |
| Repayment of | | | | | | | |
| convertible debenture | — | — | — | — | (28,278) | — | (28,278) |
| Accretion for the year | 227 | 261 | 210 | 340 | 82 | 290 | 1,410 |
| Convertible debentures, | | | | | | | |
| end of year | \$ 27,274 | \$ 32,888 | \$ 24,334 | \$ 39,639 | \$ — | \$ 29,775 | \$ 153,910 |

On March 29, 2019, the company completed a public offering of 5.60% convertible debentures for gross proceeds of \$25,000. On April 16, 2019, the company received gross proceeds of \$3,750 from the exercise in full of the over-allotment option on the 5.60% convertible debentures.

| | Convertible debenture | | | | | | Total |
|-------------------------------------|-----------------------|-----------------|-----------------|-----------------|-----------------|---------------|------------|
| | 5.60% ALDB.E | 5.50% ALDB.D | 5.30% ALDB.C | 5.50% ALDB.B | 6.25% ALDB.A | 5.25% ALDB | |
| 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 | | | | | |
|---|----------------------------------|--------------------------------|--------------------------------|----------------------------------|----------------------------------|--------------------------------|
| | 5.60% ALDB.E | 5.50% ALDB.D | 5.30% ALDB.C | 5.50% ALDB.B | 6.25% ALDB.A | 5.25% ALDB |
| Maturity date | March 31, 2025 | Dec. 31, 2025 | June 30, 2024 | Sept. 30, 2021 | March 31, 2019 | June 30, 2020 |
| Initial term | 6 years | 7 years | 7 years | 7 years | 5 years | 7 years |
| Conversion at option of shareholder at: | \$14.75/share | \$15.60/share | \$14.94/share | \$14.65/share | \$13.30/share | \$13.50/share |
| Interest payment dates | March 31, Sept. 30 | 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 to | March 31, 2022 March 31, 2024 | Dec. 31, 2021 Dec. 31, 2023 | June 30, 2020 June 30, 2022 | Sept. 30, 2017 Sept. 30, 2019 | March 31, 2017 March 31, 2018 | June 30, 2016 June 30, 2018 |
| Redeemable at the company's option at par plus accrued interest and unpaid interest after | March 31, 2024 | Dec. 31, 2023 | June 30, 2022 | Sept. 30, 2019 | March 31, 2018 | June 30, 2018 |

NOTE 9 – CONVERTIBLE DEBENTURES (continued)

Interest costs related to the convertible debentures are recorded in financing costs using the effective interest rate method. Interest on the convertible debentures is included in financing costs and consists of the following:

| | Years ended December 31 | |
|--|--------------------------------|-----------------|
| | 2019 | 2018 |
| Coupon rate interest on convertible debentures | \$ 8,818 | \$ 8,072 |
| Accretion and other costs | 1,414 | 1,301 |
| Interest on convertible debentures | <u>\$ 10,232</u> | <u>\$ 9,373</u> |

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.

In February 2019, the company completed a public equity offering of 2,645,000 common shares, including the exercise in full of the over-allotment option, at a price of \$13.05 per share for gross proceeds of \$34,517.

In October 2019, the company completed a public equity offering of 1,288,000 common shares, including the exercise in full of the over-allotment option, and a non-brokered private placement of 746,300 common shares, all at a price of \$13.40 per share for gross proceeds of \$27,260.

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, 2019, 326,876 common shares were issued under the Company's DRIP (year ended December 31, 2018 – 311,339), using reinvested dividends of \$4,336 (year ended December 31, 2018 – \$3,954). Shares issued under the DRIP are issued by the company from treasury (See Note 15 – 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

| | Years ended December 31 | | | | | |
|----------------------------|--------------------------------|--------------------------------------|-----------------|----------------------------|--------------------------------------|-----------------|
| | 2019 | | | 2018 | | |
| | Deferred share units | Income deferred share units | Total | Deferred share units | Income deferred share units | Total |
| Balance, beginning of year | 68,667 | 9,056 | 77,723 | 81,667 | 11,502 | 93,169 |
| Units granted | 22,000 | – | 22,000 | 22,000 | – | 22,000 |
| Units cancelled | – | – | – | (3,000) | (331) | (3,331) |
| Units earned | – | 2,820 | 2,820 | – | 3,905 | 3,905 |
| Common shares issued | <u>(17,667)</u> | <u>(2,002)</u> | <u>(19,669)</u> | <u>(32,000)</u> | <u>(6,020)</u> | <u>(38,020)</u> |
| Balance, end of year | <u>73,000</u> | <u>9,874</u> | <u>82,874</u> | <u>68,667</u> | <u>9,056</u> | <u>77,723</u> |

Share-based payments expense:

| | Years ended December 31 | |
|-------------------------|--------------------------------|---------------|
| | 2019 | 2018 |
| September 1, 2019 grant | \$ 62 | \$ – |
| September 1, 2018 grant | 151 | 61 |
| September 1, 2017 grant | 53 | 132 |
| September 1, 2016 grant | 30 | 59 |
| September 1, 2015 grant | 12 | 24 |
| September 1, 2014 grant | 9 | 12 |
| August 30, 2013 grant | 3 | 4 |
| | <u>\$ 320</u> | <u>\$ 292</u> |

NOTE 11 – SHARE-BASED PAYMENTS (continued)

Grants are provided to directors and certain employees of the manager under the company’s deferred share incentive plan (“DSIP”). The deferred share units vest annually over three years. Common shares are issued to participants on the vesting date of each tranche of deferred share units, unless a participant elects to defer the issuance. In addition, income deferred share units (“IDSU”) are credited to holders of deferred share units granted before 2017 based upon dividends paid on common shares. The fair value of share-based compensation was based upon the volume weighted average market price of the common shares five days prior to the grant date of September 3, 2019 (\$13.72) and September 1, 2018 (\$13.71).

NOTE 12 – EARNINGS PER SHARE

| | Years ended December 31 | |
|--|--------------------------------|-------------------|
| | 2019 | 2018 |
| Basic earnings per share – | | |
| Numerator | | |
| Net income and comprehensive income for the year | \$ 38,568 | \$ 33,769 |
| Denominator | | |
| Weighted average common shares outstanding | <u>39,596,762</u> | <u>35,571,414</u> |
| Basic earnings per share | <u>\$ 0.97</u> | <u>\$ 0.95</u> |
| Diluted earnings per share – | | |
| Numerator | | |
| Net income and comprehensive income for the year | \$ 38,568 | \$ 33,769 |
| Interest on convertible debentures | <u>10,232</u> | <u>9,373</u> |
| Net income and comprehensive income for diluted earnings per share | <u>48,800</u> | <u>43,142</u> |
| Denominator | | |
| Weighted average common shares outstanding | 39,596,762 | 35,571,414 |
| Convertible debentures | 11,028,582 | 10,203,163 |
| Deferred share incentive plan | 72,790 | 64,648 |
| Income deferred share units | <u>7,787</u> | <u>8,093</u> |
| Weighted average common shares outstanding – diluted basis | <u>50,705,921</u> | <u>45,847,318</u> |
| Diluted earnings per share | <u>\$ 0.96</u> | <u>\$ 0.94</u> |

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.

(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).

NOTE 13 – FINANCIAL INSTRUMENTS (continued)**(b) Fair value (continued)**

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 values 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 approximate 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 | |
|---|--------------------|-------------------|
| | 2019 | 2018 |
| Convertible debentures | | |
| Fair value | \$ 161,872 | \$ 158,036 |
| Less book value of equity component | (1,837) | (1,675) |
| | <u>\$ 160,035</u> | <u>\$ 156,361</u> |
| Book value of financial liability component | <u>\$ 153,910</u> | <u>\$ 157,289</u> |

(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, 2019 is \$736,570 (December 31, 2018 – \$691,534).

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 receivable 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, 2019.

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 receivable. 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, 2019. The company foreclosed on one property during the 2018 year (See Note 6 – Investment 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, 2019, the largest borrower group accounted for 11.3% of mortgages receivable (December 31, 2018 – 11.7%). See Note 5(a) and Note 5(b) for a breakdown of mortgages receivable and provision for mortgage losses by property type.

(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 receivable, 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.

NOTE 13 – FINANCIAL INSTRUMENTS (continued)**(d) Liquidity risk (continued)**

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, 2019 | 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 | \$123,937 | \$129,473 | \$ 5,388 | \$124,085 | \$ – | \$ – |
| Accounts payable and accrued liabilities | 4,144 | 4,144 | 4,144 | – | – | – |
| Accrued convertible debenture interest | 956 | 956 | 956 | – | – | – |
| Dividends payable | 5,652 | 5,652 | 5,652 | – | – | – |
| Convertible debentures ² | 153,910 | 176,500 | 75,013 | 34,326 | 67,161 | – |
| Total | 288,599 | 316,725 | 91,153 | 158,411 | 67,161 | – |
| Unadvanced mortgage commitments ³ | – | 93,879 | 93,879 | – | – | – |
| Total contractual liabilities | \$288,599 | \$410,604 | \$185,032 | \$158,411 | \$ 67,161 | \$ – |

Notes:

(1) Includes interest assuming the outstanding balance is not repaid until maturity on January 11, 2021.

(2) The 5.25% debentures are assumed to be repaid in the first quarter of 2020; 5.50% 2021 debentures are assumed to be repaid in the first quarter of 2020; 5.30% debentures are assumed to be repaid June 30, 2022; 5.50% 2025 debentures are assumed to be repaid December 31, 2023 and 5.60% debentures are assumed to be repaid March 31, 2024.

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

As at December 31, 2019, management considers that it has adequate procedures in place to manage liquidity risk.

(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 receivable 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, 2019, income and comprehensive income would have been reduced (increased) by approximately \$1,596 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) \$1,596.

(f) Currency risk

Currency risk is the risk that the value of financial assets and financial 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 | |
|----------------------------------|--------------------|-------------------|
| | 2019 | 2018 |
| Borrowings under credit facility | \$ 123,449 | \$ 147,846 |
| Convertible debentures | 153,910 | 157,289 |
| Total debt | <u>277,359</u> | <u>305,135</u> |
| Shareholders' equity | <u>455,520</u> | <u>387,306</u> |
| Capital employed | <u>\$ 732,879</u> | <u>\$ 692,441</u> |

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 – Credit facility. There has been no change in the company's capital management objectives since the prior year.

NOTE 15 – SUBSEQUENT EVENTS

On January 13, 2020, the company issued 26,637 common shares (\$380) to shareholders under its dividend reinvestment plan.

On February 12, 2020, the company issued 26,428 common shares (\$380) to shareholders under its dividend reinvestment plan.

From January 1, 2020 to February 13, 2020, 208,515 common shares were issued upon conversions of \$2,815 of the 5.25% convertible debentures.

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. DeGasperi
President,
Metrus Properties Inc.

Andrew Grant⁴
President,
PCI Group

Maish Kagan²
President,
Canal Group

Nancy H. O. Lockhart^{2,3}
Director, George Weston Ltd.
Director, Choice Properties REIT

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 Scofield^{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

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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 5.50%,
TSX: AI.DB.B

Convertible debentures 5.30%,
TSX: AI.DB.C

Convertible debentures 5.50%,
TSX: AI.DB.D

Convertible debentures 5.60%,
TSX: AI.DB.E



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