



# Annual Report 2020



December 31, 2020

**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.

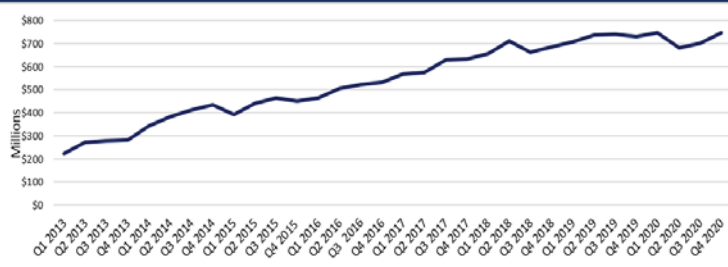
Atrium has a 19-year track record of success and consistency in achieving our strategic objectives: to grow in a controlled manner by focusing on real estate sectors with the lowest risk profiles.

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.

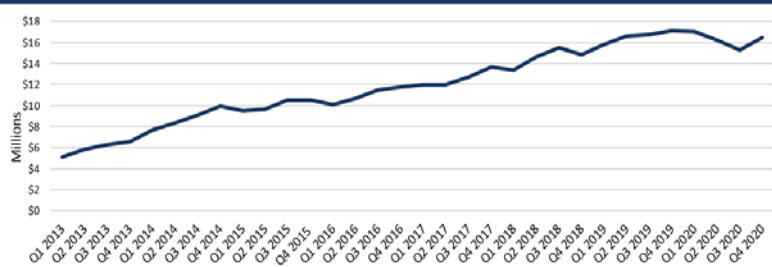
We were listed on the Toronto Stock Exchange in 2012. Our regular dividend is paid monthly, currently at a rate of \$0.075 per share per month.

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	\$0.02	\$0.92	\$0.93
2021	\$0.90	to be determined		

MORTGAGE PORTFOLIO



QUARTERLY REVENUES





## **FOR IMMEDIATE RELEASE**

### **ATRIUM MORTGAGE INVESTMENT CORPORATION ANNOUNCES YEAR END RESULTS AND SPECIAL DIVIDEND**

TORONTO: February 9, 2021 – Atrium Mortgage Investment Corporation (TSX: AI, AI.DB.B, AI.DB.C, AI.DB.D, AI.DB.E) today released its financial results for the year ended December 31, 2020.

#### **Highlights**

- **Mortgage portfolio of \$745.3 million, 2.1% increase from prior year**
- **High quality mortgage portfolio**
  - **81.7% of portfolio in first mortgages**
  - **91.4% of portfolio is less than 75% loan to value**
  - **average loan-to-value is 61.0%**
- **Revenues of \$65.0 million**
- **Net income of \$39.2 million**
- **\$0.93 basic and diluted earnings per share for the year ended December 31, 2020**
- **\$0.02 per share special dividend to shareholders of record December 31, 2020**

“We are very pleased with our 2020 results. Our mortgage portfolio grew by 6.5%, or \$45.5 million, in Q4 on the strength of a record dollar volume of new loan originations. Our mortgage portfolio continues to show strong resilience to the economic downturn caused by COVID-19 and we continue to have very little exposure to the hardest hit sectors- retail, hospitality and long-term care/retirement homes. The mortgage portfolio ended the year with an average loan to value of 61.0%. Atrium earned net income of \$39.2 million in 2020, a record for the company, and up 1.6% from the prior year. Earnings per share exceed our total dividends for the year, even after expensing a \$3.8 million loan loss provision in 2020. Atrium increased its aggregate loan loss provision to 1.23% of our mortgage portfolio, which will help protect the balance sheet from the continuing impact of COVID-19 in 2021,” said Rob Goodall, CEO of Atrium. “Lastly, we are in the process of significantly increasing the size of our loan origination team and feel optimistic about our ability to grow our portfolio in 2021.”

#### **Conference call**

Interested parties are invited to participate in a conference call with management Wednesday, February 10, 2021 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, conference ID 5157028. For a replay of the conference call (available until February 23, 2021) please call 1 (855) 859-2056, conference ID 5157028.

#### **Results of operations**

Atrium ended the year with assets of \$755.3 million, up from \$743.6 million at the end of 2019. Revenues were \$65.0 million, a decrease of 1.7% from the prior year. Net income for 2020 was a record \$39.2 million, an increase of 1.6% from the prior year. Revenues fell slightly as a result of a lower weighted average interest rate in 2020 due to the drop in the Prime Rate in March 2020, coupled with a lower mortgage

portfolio balance in the second quarter of 2020 as we scaled back lending at the beginning of the COVID-19 pandemic. Net income increase as a result of lower interest expenses due to the repayment of convertible debentures and a lower weighted average cost of borrowing on our credit facility in 2020 compared to 2019. These lower interest expenses were offset largely by the higher provision for mortgage losses. Atrium's allowance for mortgage losses at December 31, 2020 totaled \$9.2 million, or 1.23% of the mortgage portfolio.

Basic and diluted earnings per common share were \$0.93 for the year ended December 31, 2020, compared with \$0.97 basic and \$0.96 diluted earnings per common share for the prior year.

Mortgages receivable as at December 31, 2020 were \$739.0 million, an increase of 1.6% from December 31, 2019. During the year ended December 31, 2020, \$271.3 million of mortgage principal was advanced and \$254.7 million was repaid. The weighted average interest rate on the mortgage portfolio at December 31, 2020 was 8.65%, compared to 8.81% at December 31, 2019.

Atrium collected 98% of the mortgage interest due in January, which is in line with historical collection rates.

## Financial summary

### Consolidated Condensed Statements of Income and Comprehensive Income

	Year ended December 31 2020	Year ended December 31 2019	Year ended December 31 2018
Revenue	\$ 65,019	\$ 66,171	\$ 58,316
Mortgage servicing and management fees	(7,036)	(6,996)	(6,279)
Other expenses	(1,410)	(1,086)	(1,142)
Impairment loss on investment property	-	(806)	-
Provision for mortgage losses	(3,760)	(1,490)	(1,800)
Income before financing costs	52,813	55,793	49,095
Financing costs	(13,625)	(17,225)	(15,326)
Net income and comprehensive income	<u>\$ 39,188</u>	<u>\$ 38,568</u>	<u>\$ 33,769</u>
Basic earnings per share	\$ 0.93	\$ 0.97	\$ 0.95
Diluted earnings per share	\$ 0.93	\$ 0.96	\$ 0.94
Dividends declared	\$ 38,970	\$ 38,314	\$ 33,658
Mortgages receivable, end of year	\$ 739,025	\$ 727,325	\$ 682,721
Total assets, end of year	\$ 755,315	\$ 743,631	\$ 699,750
Shareholders' equity, end of year	\$ 462,887	\$ 455,520	\$ 387,306

### Analysis of mortgage portfolio

<u>Property Type</u>	<u>December 31, 2020</u>			<u>December 31, 2019</u>		
	<u>Number</u>	<u>Outstanding amount</u>	<u>% of Portfolio</u>	<u>Number</u>	<u>Outstanding amount</u>	<u>% of Portfolio</u>
(outstanding amounts in 000s)						
Mid-rise residential	25	\$ 199,525	26.8%	23	\$ 177,242	24.3%
Low-rise residential	21	174,362	23.4%	32	216,144	29.6%
High-rise residential	16	170,074	22.8%	13	157,758	21.6%
House and apartment	63	45,522	6.1%	91	66,083	9.1%
Condominium corporation	13	2,165	0.3%	14	2,659	0.4%
Residential portfolio	138	591,648	79.4%	173	619,886	85.0%
Commercial	20	153,666	20.6%	19	109,859	15.0%
Mortgage portfolio	<u>158</u>	<u>\$ 745,314</u>	<u>100.0%</u>	<u>192</u>	<u>\$ 729,745</u>	<u>100.0%</u>

**December 31, 2020**

<u>Location of underlying property</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	119	\$ 548,447	73.6%	63.2%	8.68%
Non-GTA Ontario	21	21,706	2.9%	64.7%	8.32%
British Columbia	16	163,685	22.0%	51.0%	8.57%
Alberta	2	11,476	1.5%	98.5%	8.94%
	<u>158</u>	<u>\$ 745,314</u>	<u>100.0%</u>	<u>61.0%</u>	<u>8.65%</u>

**December 31, 2019**

<u>Location of underlying property</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%
British Columbia	15	184,680	25.3%	46.9%	8.77%
Alberta	4	15,141	2.1%	64.0%	8.80%
	<u>192</u>	<u>\$ 729,745</u>	<u>100.0%</u>	<u>59.5%</u>	<u>8.81%</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, 2020, available on SEDAR at [www.sedar.com](http://www.sedar.com), and on the company's website at [www.atriummic.com](http://www.atriummic.com).

**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](http://www.sedar.com) or investor information on Atrium's website at [www.atriummic.com](http://www.atriummic.com).

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Jennifer Scoffield  
 Chief Financial Officer





# MD&A



## Management's Discussion And Analysis

Year Ended  
December 31, 2020

**CANADA'S PREMIER NON-BANK LENDER™**

## Management's Discussion and Analysis

December 31, 2020

### 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 20-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 9, 2021.

### Highlights

Atrium continues to demonstrate strength and stability. For the year ended December 31, 2020, we had revenues of \$65.0 million, down 1.7% from the prior year. Net income was \$39.2 million compared with \$38.6 million in the prior year. Basic and diluted earnings per share were \$0.93, compared with \$0.97 basic and \$0.96 diluted earnings per share in the prior year.

We declared a regular dividend of \$0.075 per share for each month in the year, a total of \$0.90 for 2020, consistent with dividends of \$0.90 for the prior year. In addition, we declared a special dividend of \$0.02, for a total dividend of \$0.92 for 2020, compared to \$0.96 for the previous year. For 2021, 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	\$0.02	\$0.92	\$0.93
2021	\$0.90	to be determined		

We had \$739.0 million of mortgages receivable as at December 31, 2020, an increase of 1.6% from December 31, 2019. During the year, \$271.3 million of mortgage principal was advanced and \$254.7 million was repaid. The portfolio has a weighted average remaining term of 9.7 months.

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

Revenues \$65.0 million, decreased 1.7% from prior year

Earnings per share \$0.93 basic

Strong, high quality mortgage portfolio

81.7% first mortgages

91.4% less than 75% loan-to-value

Mortgages receivable \$739.0 million, up 1.6% from prior year

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



## Investment portfolio

Our mortgage portfolio consisted of 158 mortgage loans and aggregated \$745.3 million at December 31, 2020, an increase of 2.1% from December 31, 2019.

<b>Property Type</b>	<b>December 31, 2020</b>			<b>December 31, 2019</b>		
	<b>Number</b>	<b>Outstanding amount</b>	<b>% of Portfolio</b>	<b>Number</b>	<b>Outstanding amount</b>	<b>% of Portfolio</b>
(outstanding amounts in 000s)						
Mid-rise residential <sup>1,5</sup>	25	\$ 199,525	26.8%	23	\$ 177,242	24.3%
Low-rise residential <sup>1</sup>	21	174,362	23.4%	32	216,144	29.6%
High-rise residential <sup>1,5</sup>	16	170,074	22.8%	13	157,758	21.6%
House and apartment <sup>2</sup>	63	45,522	6.1%	91	66,083	9.1%
Condominium corporation <sup>3</sup>	13	2,165	0.3%	14	2,659	0.4%
Residential portfolio	138	591,648	79.4%	173	619,886	85.0%
Commercial <sup>4</sup>	20	153,666	20.6%	19	109,859	15.0%
Mortgage portfolio	158	745,314	100.0%	192	729,745	100.0%
Accrued interest receivable		3,458			3,780	
Mortgage discount		(181)			(224)	
Unamortized origination fees		(416)			(586)	
Allowance for mortgage losses		(9,150)			(5,390)	
Mortgages receivable		\$ 739,025			\$ 727,325	

- 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 5-20 storeys and stacked townhomes) or high-rise residential (multi-unit residential buildings over 20 storeys).
- 2) Mortgage loans on existing single-family or multi-family residential homes and apartment buildings.
- 3) Mortgage loans to residential condominium corporations for guest suites, superintendent suites and green loans.
- 4) Mortgage loans on properties where the existing real estate is currently, or the proposed development project after rezoning will be, mixed use, commercial or industrial.
- 5) Comparative figures have been reclassified to conform to the revised definition of high-rise and mid-rise residential property types. Mortgage loans on properties where the near-term business plan, as vetted by the lender, is to intensify the property into high-rise residential is now defined as multi-unit residential buildings over 20 storeys and mid-rise residential is now defined as multi-unit residential buildings from 5-20 storeys and stacked townhomes. Previously, 14 storeys had been used as the upper limit for mid-rise and over 14 storeys for high-rise. The company believes the revised definition more accurately reflects the distinction between mid-rise and high-rise buildings. These figures as at December 31, 2019, as reported previously were \$160,456 for mid-rise residential and \$174,544 for high-rise residential.

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

<b>Loan type</b>	<b>December 31, 2020</b>			<b>December 31, 2019</b>		
	<b>Number</b>	<b>Outstanding amount</b>	<b>% of Portfolio</b>	<b>Number</b>	<b>Outstanding amount</b>	<b>% of Portfolio</b>
(outstanding amounts in 000s)						
Term loans	144	\$ 624,089	83.7%	177	\$ 589,967	80.9%
Construction loans	14	121,225	16.3%	15	139,778	19.1%
	158	\$ 745,314	100.0%	192	\$ 729,745	100.0%

A summary of our mortgages by size is presented below.

<b>Mortgage amount</b>	<b>December 31, 2020</b>			<b>December 31, 2019</b>		
	<b>Number</b>	<b>Outstanding amount</b>	<b>% of Portfolio</b>	<b>Number</b>	<b>Outstanding amount</b>	<b>% of Portfolio</b>
(outstanding amounts in 000s)						
\$0 - \$2,500,000	86	\$ 50,405	6.8%	123	\$ 84,043	11.5%
\$2,500,001 - \$5,000,000	28	105,560	14.2%	25	91,707	12.6%
\$5,000,001 - \$7,500,000	14	85,335	11.4%	15	91,685	12.6%
\$7,500,001 - \$10,000,000	3	26,165	3.5%	6	53,373	7.3%
\$10,000,001 +	27	477,849	64.1%	23	408,937	56.0%
	158	\$ 745,314	100.0%	192	\$ 729,745	100.0%

As of December 31, 2020, the average outstanding mortgage balance was \$4.7 million (December 31, 2019 – \$3.8 million), and the median outstanding mortgage balance was \$1.3 million (December 31, 2019 – \$0.9 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. As at December 31, 2020, 62.3% of our portfolio was priced at floating rates, the majority with rate floors, down from 68.9% at December 31, 2019.

<b>December 31, 2020</b>					
<b>Location of underlying property</b> (outstanding amounts in 000s)	<b>Number of mortgages</b>	<b>Outstanding amount</b>	<b>Percentage outstanding</b>	<b>Weighted average loan to value</b>	<b>Weighted average interest rate</b>
Greater Toronto Area	119	\$ 548,447	73.6%	63.2%	8.68%
Non-GTA Ontario	21	21,706	2.9%	64.7%	8.32%
British Columbia	16	163,685	22.0%	51.0%	8.57%
Alberta	<u>2</u>	<u>11,476</u>	<u>1.5%</u>	<u>96.5%</u>	<u>8.94%</u>
	<u>158</u>	<u>\$ 745,314</u>	<u>100.0%</u>	<u>61.0%</u>	<u>8.65%</u>

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

We have an exceptionally high proportion of our portfolio invested in first mortgages (81.7%), which is one of our core strategies.

At December 31, 2020, the weighted average loan-to-value ratio in our mortgage portfolio was 61.0%, with 91.4% of the portfolio below 75% loan-to-value. (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.)

<b>December 31, 2020</b>				
<b>Type of mortgage</b> (outstanding amounts in 000s)	<b>Number of mortgages</b>	<b>Outstanding amount</b>	<b>Percentage outstanding</b>	<b>Weighted average interest rate</b>
<b>First mortgages</b>				
Conventional	121	\$ 596,270	80.0%	8.30%
Non-Conventional	1	10,041	1.4%	9.00%
Other	<u>13</u>	<u>2,165</u>	<u>0.3%</u>	<u>7.32%</u>
	<u>135</u>	<u>608,476</u>	<u>81.7%</u>	<u>8.31%</u>
<b>Second and third mortgages</b>				
Conventional	20	82,868	11.1%	9.84%
Non-conventional	<u>3</u>	<u>53,970</u>	<u>7.2%</u>	<u>10.65%</u>
	<u>23</u>	<u>136,838</u>	<u>18.3%</u>	<u>10.16%</u>
	<u>158</u>	<u>\$ 745,314</u>	<u>100.0%</u>	<u>8.65%</u>

<u>Type of mortgage</u>	<b>December 31, 2019</b>			
	<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	146	\$ 590,707	81.0%	8.47%
Non-Conventional	1	4,305	0.6%	8.50%
Other	<u>14</u>	<u>2,658</u>	<u>0.3%</u>	<u>7.39%</u>
	<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	<u>3</u>	<u>54,204</u>	<u>7.4%</u>	<u>10.81%</u>
	<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>

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, 2020 is 9.7 months (December 31, 2019 – 8.7 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, 2020, the weighted average loan-to-value ratio of the mortgage portfolio was considerably lower than that, at 61.0%, compared to 59.5% at December 31, 2019.

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, 2020 was \$43.0 million (December 31, 2019 – \$43.0 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, 2020, which is available at [www.sedar.com](http://www.sedar.com).

## Recent Developments

In March 2020, the World Health Organization declared COVID-19 a global pandemic. The resulting public health and emergency measures put in place to combat the spread of the virus resulted in a world-wide economic slowdown. To date, the company has not experienced material changes in the collection of interest and repayments of principal, however, there is no certainty this will continue going forward.

Atrium's mortgage portfolio showed strong resilience to the economic downturn throughout 2020. After growing the portfolio to over \$746 million in the first quarter of 2020, we scaled back lending in the second quarter of 2020 in order to assess the initial impact of COVID-19 on the real estate and financial markets, and to increase our liquidity so we would be in a position to cautiously resume lending later in the year. In the third quarter of 2020, we began to actively seek new lending opportunities, which resulted in a record dollar volume of new loan originations in the fourth quarter of 2020. We continue to lend defensively, focusing on lower leverage first mortgages on high-quality properties and strong borrowers. We are currently in the process of significantly increasing the size of our loan origination team and feel optimistic about our ability to grow our mortgage portfolio in 2021.

The Bank of Canada reduced interest rates three times in March 2020, resulting in a drop of 1.5% over a 25 day span. At the time, approximately 73% of our mortgage portfolio was priced at floating rates, the majority of which had rate floors. These rate floors helped protect us from the rapid, significant drop in interest rates, with our weighted average interest rate decreasing 21 basis points, from 8.81% as at December 31, 2019 to 8.60% as at March 31, 2020. The weighted average interest rate on our portfolio was 8.55% as at June 30, 2020, 8.53% as at September 30, 2020 and ended the year at 8.65%. These lower weighted average interest rates contributed to the decline in interest revenue for the year ended December 31, 2020. As noted above, in this current market, our focus is on high quality properties and borrowers as opposed to higher yields.

The decrease in interest rates had a positive impact on our interest expenses for the year. The annualized weighted average interest rate on our credit facility for the year ended December 31, 2020 was 3.04%, down from 4.07% for the prior year. Scaling back our lending in the second quarter of 2020, coupled with strong repayments that quarter, allowed us to repay our 5.25% convertible debentures in full in May 2020 and repay a portion of our credit facility, both of which contributed to lower financing costs in 2020.

On December 1, 2020, we renewed our credit facility, extending the term to January 11, 2023 and increased the facility from \$210 million to \$240 million. This strengthened our balance sheet and provides us with increased liquidity to grow our portfolio in an accretive manner. The two year term ensures that the credit facility will be available to us throughout the pandemic.

Our mortgage interest collection rates throughout 2020 were consistent with historical collection rates. As of February 9, 2021, we collected 98% of the interest due in January.

The increase in our allowance for mortgage losses during the year was a direct response to the economic uncertainty caused by the pandemic. We expensed a loan loss provision of \$3.76 million for the year ended December 31, 2020, resulting in an allowance for mortgage losses of \$9.15 million as at December 31, 2020. This is in line with the Canadian chartered banks who all significantly increased their allowance for loan losses in 2020. We use an expected credit loss model to determine our provision for mortgage losses. In response to COVID-19, this methodology was modified to include a post-model overlay adjustment to account for the uncertainty and difficulty in forecasting future economic conditions. The financial reports of other lenders and financial institutions were reviewed to inform and modify our estimates and assist in determining this overlay adjustment.

Fortunately, we have very limited exposure to the retail, hospitality, long-term care and retirement home sectors which have been some of the hardest hit sectors during the pandemic.

In April 2020, in response to the market disruption caused by the pandemic, we suspended our dividend reinvestment plan ("DRIP"). The DRIP was reinstated on January 14, 2021. In May 2020, we filed a notice for a normal course issuer bid ("NCIB") under which we may purchase up to 4,000,000 common shares if we believe the market price of our shares is attractive and the purchase would be an appropriate use of corporate funds and in our best interest. To date, we have not purchased any shares under the NCIB.

The duration and impact of COVID-19 continues to be unknown and it is not possible to reliably estimate the impact that the length and severity of this pandemic will have on interest rates, capital markets and the financial results and condition of the company in future periods. We believe our conservative lending approach and our focus on high quality properties and borrowers will enable our portfolio to remain resilient during these challenging times.

## Results of Operations

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

### Financial summary

	Year ended December 31 2020	Year ended December 31 2019	Year ended December 31 2018
Revenue	\$ 65,019	\$ 66,171	\$ 58,316
Mortgage servicing and management fees	(7,036)	(6,996)	(6,279)
Other expenses	(1,410)	(1,086)	(1,142)
Impairment loss on investment property	–	(806)	–
Provision for mortgage losses	<u>(3,760)</u>	<u>(1,490)</u>	<u>(1,800)</u>
Income before financing costs	52,813	55,793	49,095
Financing costs	<u>(13,625)</u>	<u>(17,225)</u>	<u>(15,326)</u>
Net income and comprehensive income	<u>\$ 39,188</u>	<u>\$ 38,568</u>	<u>\$ 33,769</u>
Basic earnings per share	\$ 0.93	\$ 0.97	\$ 0.95
Diluted earnings per share	\$ 0.93	\$ 0.96	\$ 0.94
Dividends declared	\$ 38,970	\$ 38,314	\$ 33,658
Mortgages receivable, end of year	\$ 739,025	\$ 727,325	\$ 682,721
Total assets, end of year	\$ 755,315	\$ 743,631	\$ 699,750
Shareholders' equity, end of year	\$ 462,887	\$ 455,520	\$ 387,306

### Summary of quarterly results (unaudited)

	<u>04 2020</u>	<u>03 2020</u>	<u>02 2020</u>	<u>01 2020</u>	<u>04 2019</u>	<u>03 2019</u>	<u>02 2019</u>	<u>01 2019</u>
Revenue	\$ 16,467	\$ 15,254	\$ 16,241	\$ 17,057	\$ 17,116	\$ 16,712	\$ 16,565	\$ 15,796
Mortgage servicing and management fees	(1,904)	(1,655)	(1,700)	(1,777)	(1,816)	(1,743)	(1,757)	(1,680)
Other expenses	(385)	(341)	(335)	(349)	(267)	(285)	(265)	(287)
Impairment loss on investment property	–	–	–	–	(806)	–	–	–
Provision for mortgage losses	<u>(910)</u>	<u>(850)</u>	<u>(1,000)</u>	<u>(1,000)</u>	<u>(300)</u>	<u>(390)</u>	<u>(400)</u>	<u>(400)</u>
Income before financing costs	13,268	12,408	13,206	13,931	13,927	14,294	14,143	13,429
Financing costs	<u>(3,241)</u>	<u>(2,932)</u>	<u>(3,385)</u>	<u>(4,067)</u>	<u>(4,196)</u>	<u>(4,359)</u>	<u>(4,476)</u>	<u>(4,194)</u>
Net income and comprehensive income	<u>\$ 10,027</u>	<u>\$ 9,476</u>	<u>\$ 9,821</u>	<u>\$ 9,864</u>	<u>\$ 9,731</u>	<u>\$ 9,935</u>	<u>\$ 9,667</u>	<u>\$ 9,235</u>
Basic earnings per share	\$ 0.24	\$ 0.22	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.25	\$ 0.25	\$ 0.24
Diluted earnings per share	\$ 0.24	\$ 0.22	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.25	\$ 0.24	\$ 0.24
Dividends declared	\$ 10,391	\$ 9,539	\$ 9,536	\$ 9,504	\$ 11,906	\$ 8,890	\$ 8,870	\$ 8,648

### Results of operations – Three months ended December 31, 2020

For the three months ended December 31, 2020, mortgage interest and fees revenues aggregated \$16,257, compared to \$16,916 in the comparative period, a decrease of 3.9%. Virtually all our revenues are mortgage interest, therefore, the decrease in revenue is due to the decrease in the weighted average interest rate which was partially offset by the increase in our mortgage portfolio from the comparative quarter. 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 8.65% at December 31, 2020, compared with 8.81% at December 31, 2019. We generated net rental income of \$210 for the three months ended December 31, 2020 from our two investment properties compared to net rental income of \$200 for the three months ended December 31, 2019.

Operating expenses, excluding the provision for mortgage losses, for the three months ended December 31, 2020 were \$2,289, compared to \$2,083 in the comparative period, an increase of 9.9%. This increase is primarily due to a increase in mortgage servicing and management fees, professional fees and directors' expense. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated \$1,904 for the three months ended December 31, 2020, compared with \$1,816 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. Professional fees increased as a result of higher audit and legal costs



during the quarter compared to the prior year period. Directors' expense increased by \$10, or 19.2% as a result of the increase in director fees for 2020. We incurred a fair value adjustment on deferred share units of \$28 resulting from the new deferred share unit plan that became effective on January 1, 2020. The provision for mortgage losses was \$910 in the quarter, bringing the total allowance to \$9,150 at December 31, 2020 compared to \$300 in the prior year period for a total allowance of \$5,390 at December 31, 2019. In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The duration and economic impact of COVID-19 continues to be uncertain. This continued economic uncertainty has resulted in an increase to the provision for mortgage losses for the quarter ended December 31, 2020.

Financing costs for the three months ended December 31, 2020 were \$3,241, compared to \$4,196 in the same period of 2019, a decrease of 22.8%. Coupon rate interest on convertible debentures was \$1,766 for the three months ended December 31, 2020 compared to \$2,174 for the comparative period. This decrease was a result of interest savings from the repayment of the 5.25% convertible debentures on May 4, 2020. Accretion and other costs were \$274 for the three months ended December 31, 2020 compared to \$341 for the comparative period. Interest expense on the credit facility was \$1,113 for the three months ended December 31, 2020, down from \$1,610 for the comparative period. This decrease is due to a lower weighted average cost of borrowing in the fourth quarter of 2020 compared to the fourth quarter of 2019. Prime rate and the rates for bankers' acceptances were lower in the fourth quarter of 2020 than they were in the comparable period, both of which contributed to the lower interest expense on the credit facility.

Net income and comprehensive income for the three months ended December 31, 2020 was \$10,027, an increase of 3.0% from net income and comprehensive income of \$9,731 for the same period in the prior year. Basic and diluted earnings per common share were \$0.24 for the three months ended December 31, 2020, compared with \$0.23 basic and diluted earnings per share for the comparable period in the previous year. The increase in net income and earnings per share in the current period were a result of the decrease in financing costs, as described above, which was somewhat offset by a higher provision for mortgage losses in the current quarter due to the continued uncertainty around the impact of COVID-19.

During the three months ended December 31, 2020, we funded mortgages receivable aggregating \$131,024. Of those advances, \$88,661 were first mortgages, representing 67.7% of the total loans funded. British Columbia advances were \$10,004, advances of \$245 were on properties in Alberta, \$2,180 were non-GTA Ontario and the remaining \$118,595 were for mortgages on properties located in the Greater Toronto Area. There were \$85,482 of repayments during the period.

## Results of operations – Year ended December 31, 2020

For the year ended December 31, 2020, mortgage interest and fees revenues aggregated \$64,362, compared to \$66,095 in the prior year, a decrease of 2.6%. Virtually all our revenues are mortgage interest, therefore, the decrease in revenue is due to lower weighted average interest rates during the year compared to the prior year as well as a lower average balance in our mortgage portfolio during the current year compared to the comparative 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 8.65% at December 31, 2020, compared to 8.81% at December 31, 2019. We generated net rental income of \$657 for the year ended December 31, 2020 from our two investment properties compared to net rental income of \$76 for the year ended December 31, 2019.

Operating expenses, excluding the provision for mortgage losses and impairment loss on investment property, for the year ended December 31, 2020 were \$8,446, compared to \$8,082 in the comparative year, an increase of 4.5%. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated \$7,036 for the year ended December 31, 2020, compared with \$6,996 in the prior year. This increase is a result of a higher average mortgage portfolio balance over the course of the current year, as mortgage servicing fees are calculated and paid monthly based on the mortgage portfolio balance outstanding during the month. Professional fees rose by \$103, or 59.2% due to increased audit and legal fees during the year. Directors' expense increased by \$60, or 30.3%, due to the increase in director fees for 2020. We incurred a fair value adjustment on deferred share units of \$44 resulting from the new deferred share unit plan that became effective on January 1, 2020 whereby independent directors are required to receive at least 50% of their fees in deferred share units. The provision for mortgage losses was \$3,760 in the year, bringing the total allowance to \$9,150 at December 31, 2020 compared to \$1,490 in the prior year for a total allowance of \$5,390 at December 31, 2019. In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The duration and economic impact of COVID-19 continues to be uncertain. This continued economic uncertainty has resulted in a higher provision for mortgage losses for the year ended December 31, 2020.

Financing costs for the year ended December 31, 2020 were \$13,625, compared to \$17,225 in the prior year, a

decrease of 20.9%. Coupon rate interest on convertible debentures was \$7,521 for the year ended December 31, 2020 compared to \$8,818 for the prior year. This decrease was a result of interest savings from the 6.25% convertible debentures being repaid at maturity on March 31, 2019 and replaced with 5.6% convertible debentures, as well as, the repayment of the 5.25% convertible debentures on May 4, 2020. Accretion and other costs were \$1,211 for the year ended December 31, 2020 compared to \$1,414 for the prior year. Interest expense on the credit facility was \$4,586 for the year December 31, 2020, down from \$6,703 for the prior year. This decrease is due to a lower weighted average cost of borrowing in the year compared to 2019 as well as a decrease in the average credit facility balance between the years. Prime rate decreased three times in March 2020 and the rates for bankers' acceptances were lower in 2020 than they were in the prior year, both of which contributed to the lower interest expense on the credit facility. In October 2019, we completed an issuance of common shares, the proceeds of which were used to pay down the credit facility.

Net income and comprehensive income for the year ended December 31, 2020 was \$39,188, an increase of 1.6% from net income and comprehensive income of \$38,568 for the prior year. Basic and diluted earnings per common share were \$0.93 for the year ended December 31, 2020, compared with \$0.97 basic and \$0.96 diluted for the prior year. Earnings per share decreased as there were a greater number of shares outstanding during 2020 due to the issuances of common shares completed in February and October 2019 and conversions of convertible debentures into common shares between November 2019 and February 2020.

During the year December 31, 2020, we funded mortgages receivable aggregating \$290,873. Of those advances, \$233,612 were first mortgages, representing 80.3% of the total loans funded. British Columbia advances were \$29,935, advances of \$1,204 were on properties in Alberta, \$7,459 were non-GTA Ontario and the remaining \$252,275 were for mortgages on properties located in the Greater Toronto Area. There were \$275,304 of repayments during the year.

## Liquidity and capital resources

At December 31, 2020, we had borrowings under credit facility (excluding unamortized finance costs) of \$160,439. The credit facility, currently authorized for up to \$240,000 (December 31, 2019 – \$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 \$270,000). We were in compliance with the covenants in the credit facility as at December 31, 2020, and we expect to remain in compliance with such covenants going forward.

At December 31, 2020, we had four series of convertible debentures outstanding, with a total book value of \$125,227, and a face value (and maturity value) of \$128,800. 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.

The growth in our mortgage portfolio since inception 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, 2020, total debt was 38.7% of total assets (December 31, 2019 – 38.8%). Our policy and our banking arrangements both require that total debt not exceed 50.0% of total assets.

## Changes in financial position

Cash generated from investing activities during the year ended December 31, 2020 consisted of principal repayments received of \$254,726, less advances of principal on mortgage loan investments of \$271,280 for net cash advances of mortgage loan investments of \$16,554 to facilitate the increase in the line of credit.

Borrowings under our operating credit facility increased to \$160,439 at December 31, 2020, from \$123,937 at December 31, 2019, due to the net advances on our portfolio and the repayment of the 5.25% series of convertible debentures in May 2020.

Accounts payable and accrued liabilities, including accrued convertible debenture interest, were \$3,518 at December 31, 2020 compared to \$5,100 at December 31, 2019. This decrease is due to timing differences in payments. Dividends payable were \$4,029 at December 31, 2020 down from \$5,652 at December 31, 2019. The decrease is due to the decrease in the special dividend accrual at December 31, 2020 compared to December 31, 2019.

Share capital increased to \$460,065 at December 31, 2020 from \$452,851 at December 31, 2019, primarily due to the conversion of convertible debentures in the first quarter of 2020.



## Contractual obligations

Contractual obligations due at December 31, 2020 were as follows:

<b>December 31, 2020</b>	<b>Total obligation</b>	<b>Within 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>More than 5 years</b>
Borrowings under credit facility	\$171,067	\$ 5,235	\$165,832	\$ –	\$ –
Accounts payable and accrued liabilities	2,562	2,562	–	–	–
Accrued convertible debenture interest	956	956	–	–	–
Dividends payable	4,029	4,029	–	–	–
Convertible debentures	128,800	40,250	–	88,550	–
<b>Total contractual obligations</b>	<b>\$307,414</b>	<b>\$ 53,032</b>	<b>\$165,832</b>	<b>\$ 88,550</b>	<b>\$ –</b>

We have commitments to advance additional funds under existing mortgages of \$81,378 and for new mortgages of \$2,717 at December 31, 2020 (December 31, 2019 – \$64,932, \$28,947, respectively). Generally, outstanding commitments are expected to be funded within the next 24 months. However, our experience has been that a portion of the unfunded amounts on existing mortgages will never be drawn.

## Off-balance sheet arrangements

As at December 31, 2020, we had \$13,397 (December 31, 2019 – \$8,428) 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, 2020 was \$25,000 (December 31, 2019 – \$20,000). 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 \$7,036 for the year ended December 31, 2020 (year ended December 31, 2019 – \$6,996). 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, 2020, companies owned by a director and officer of the company had co-invested in one syndicated secured mortgage receivable of \$36,878, of which the company's share was \$26,341, of which \$25,534 had been funded at December 31, 2020 (December 31, 2019 – one syndicated mortgage receivable of \$56,186, of which the company's share was \$28,093, of which \$28,093 had been funded).

As at December 31, 2020, the company had two mortgages receivables (December 31, 2019 – three) from borrowers over which a director and officer of the company has joint control, with the company's share of the gross commitments totaling \$10,040 (December 31, 2019 – \$7,320), of which \$6,842 had been funded at December 31, 2020 (December 31, 2019 – \$7,320). During the year ended December 31, 2020, the company recognized net mortgage interest and fees of \$821 (year ended December 31, 2019 – \$679) from these mortgage receivables.

## Critical accounting estimates and policies

Our consolidated financial statements for the year ended December 31, 2020 are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and International Financial Reporting Standards (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;
- (c) the measurement of fair value, cost of disposal and the value in use of investment properties; and
- (d) the measurement of the liability and equity components of the convertible debentures which depend upon the estimated market interest rates for a comparable debenture without the convertibility feature.

We believe that management's estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In March 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which resulted in a series of public health and emergency measures being put in place to combat the spread of the virus. These measures have caused material disruption to businesses in Canada and globally resulting in an economic slowdown. The duration and impact of COVID-19 continues to be unknown and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the company in future periods. To date, the company has not experienced material changes in the collection of interest and repayments of principal, however, there is no certainty this will continue going forward.

Accordingly, there is inherently more uncertainty associated with the estimates, judgements and assumptions made by management in the preparation of the consolidated financial statements. It is not possible to forecast with certainty the extent to which the economic impact of COVID-19 will affect the company's operations and financial results in the near term and long-term. Areas of the company's business that could potentially be adversely impacted include, but are not limited to, mortgage interest rates, mortgage interest and fees revenue, rental income, allowance for mortgage losses and valuation of investment properties.

#### *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. In response to COVID-19, the ECL methodology was modified to include a post-model overlay adjustment to account for the uncertainty and difficulty in forecasting future economic conditions.

Mortgages receivable are presented on the consolidated statements of financial position net of the allowance for mortgage losses. A loss on a mortgage is written off against the related allowance 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, 2020.

#### *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 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 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, 2020. 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 year.

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 42,411,853 were issued and outstanding at December 31, 2020, and 42,411,853 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 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 5.50% (September 2021), 5.30%, 5.50% (December 2025) and the 5.60% convertible debentures, using the conversion price of \$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. The dividend reinvestment plan was suspended on April 29, 2020 and reinstated on January 14, 2021.

## 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, 2020 which is incorporated herein by reference and is available at [www.sedar.com](http://www.sedar.com) and at [www.atriummic.com](http://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, 2020 which is available at [www.sedar.com](http://www.sedar.com) and at [www.atriummic.com](http://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, 2020.

## **Dividend Reinvestment Plan**

We have a Dividend Reinvestment Plan (DRIP) which 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.

On April 29, 2020, in response to the market disruption caused by the COVID-19 pandemic, we suspended the DRIP commencing with the dividends scheduled to be paid on May 12, 2020 to shareholders of record on April 30, 2020. On January 14, 2021, we announced the reinstatement of the DRIP commencing with the dividend payable on February 12, 2021 to shareholders of record on January 29, 2021.

## **Additional information**

Additional information about Atrium, including our Annual Information Form for the year ended December 31, 2020, is available on SEDAR at [www.sedar.com](http://www.sedar.com). You may also obtain further information about us from our website at [www.atriummic.com](http://www.atriummic.com), by telephone at (416) 607-4200, or by email at [info@atriummic.com](mailto:info@atriummic.com).





# Consolidated Financial Statements



Year Ended  
December 31, 2020

**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 were appointed as the independent auditors 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 9, 2021

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

"Jennifer Scoffield"  
Jennifer Scoffield  
Chief Financial Officer





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## INDEPENDENT AUDITORS' REPORT

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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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, 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.

### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Allowance for credit losses**

Refer to Note 2(e) Use of estimates and judgements and Note 5(b) Mortgages receivable, Allowance for mortgage losses.

The Group's allowance for credit losses on its consolidated statement of financial position is determined 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 financial instruments since initial recognition. The 12-month ECL of financial instruments classified in Stage 1, that have not shown a significant increase in credit risk (SICR) since initial recognition, are estimated based on the probability of default, loss given default and exposure at default. The ECL is assessed individually for each financial instrument that has experienced a SICR and are accordingly classified as either Stage 2 or Stage 3. During the the year, the ECL model was modified to include a post-model overlay to adjust for the uncertainty and economic conditions as a result of the COVID-19 pandemic. The ECL is determined by evaluating a range of possible outcomes, incorporating the time value of money and supportable information about past events, current conditions and future economic forecasts.

Auditing the allowance for credit losses was complex and identified as a key audit matter because of the significant judgments and estimates required in the model, the high degree of measurement uncertainty and the forward-looking nature of the assumptions made for variables used in measuring the ECL.

Our audit work included: Obtaining an understanding of management's ECL model and methodology. Assessing mortgages receivable identified by management as having experienced a SICR. Assessing the Group's mortgage portfolio for potential mortgages receivable that experienced a SICR not identified by management. Use of a specialist to assess management's estimates relating to underlying valuations of mortgages receivable security. Testing the inputs used in management's model and recalculating the Group's ECL.

### **Valuation of investment properties**

Refer to Note 2(e) Use of estimates and judgements and Note 6 Investment properties.

The Group's investment properties consist of two multi-unit residential rental properties and are measured using the cost model. The carrying value of the 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. The higher of the fair value less cost of disposal and the value in use is used in calculating the recognized impairment loss. The value in use is estimated using both comparables and a third-party valuation that considers a net operating income analysis, as well as available market evidence and comparable transactions. This analysis includes estimates of gross rental income, vacancy rates, operating and management expenses and capitalization rates.

Auditing the valuation of investment properties was complex and identified as a key audit matter because of the significant judgments and estimates required, the high degree of measurement uncertainty and the forward-looking nature of the assumptions made for variables used in the higher of the fair value less cost of disposal and the value in use calculations.

Our audit work included: Obtaining an understanding of the third-party valuation model and methodology, testing the inputs used in the calculation and the use of a specialist to assess the model, methodology and assumptions.

### ***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



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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.



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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 9, 2021

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(in thousands of Canadian dollars)

		<b>December 31</b>	
	<u>Notes</u>	<u>2020</u>	<u>2019</u>
<b>Assets</b>			
Mortgages receivable	5	\$ 739,025	\$ 727,325
Investment properties	6	16,201	16,201
Prepaid expenses		89	105
Total assets		<u>\$ 755,315</u>	<u>\$ 743,631</u>
<b>Liabilities</b>			
Borrowings under credit facility	7	\$ 159,654	\$ 123,449
Accounts payable and accrued liabilities	8, 12	2,562	4,144
Accrued convertible debenture interest		956	956
Dividends payable		4,029	5,652
Convertible debentures	9	<u>125,227</u>	<u>153,910</u>
Total liabilities		<u>292,428</u>	<u>288,111</u>
<b>Shareholders' equity</b>			
Share capital		460,065	452,851
Deferred share incentive plan units		716	716
Equity component of convertible debentures		1,470	1,837
Contributed surplus		1,083	781
Deficit		<u>(447)</u>	<u>(665)</u>
Total shareholders' equity		<u>462,887</u>	<u>455,520</u>
Total liabilities and shareholders' equity		<u>\$ 755,315</u>	<u>\$ 743,631</u>

*Commitments*

7, 14(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	Deficit	Total shareholders' equity
		Number	Amount					
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		41,863,776	\$ 452,851	\$ 716	\$ 1,837	\$ 781	\$ (665)	\$ 455,520
Shares issued under dividend reinvestment plan	10	140,436	1,731	–	–	–	–	1,731
Shares issued under employee share purchase plan	10	17,682	187	–	–	–	–	187
Shares issued under deferred share incentive plan	11	24,259	317	(317)	–	–	–	–
Shares issued on debenture conversion	9	365,700	4,979	–	(65)	–	–	4,914
Maturity of convertible debentures	9	–	–	–	(302)	302	–	–
Share-based payments	11	–	–	317	–	–	–	317
Net income and comprehensive income		–	–	–	–	–	39,188	39,188
Dividends declared		–	–	–	–	–	(38,970)	(38,970)
Balance, December 31, 2020		<u>42,411,853</u>	<u>\$ 460,065</u>	<u>\$ 716</u>	<u>\$ 1,470</u>	<u>\$ 1,083</u>	<u>\$ (447)</u>	<u>\$ 462,887</u>

Dividends amounted to \$0.92 per share for the year ended December 31, 2020 (year ended December 31, 2019 – \$0.96).

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

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

	Notes	Years ended December 31	
		2020	2019
<b>Revenues</b>			
Mortgage interest and fees	8	\$ 64,362	\$ 66,095
Rental income	6	657	76
Total revenues		<u>65,019</u>	<u>66,171</u>
<b>Operating expenses</b>			
Mortgage servicing and management fees	8	7,036	6,996
Transfer agent, regulatory fees and investor relations		323	303
Share-based payments	8, 11	317	320
Professional fees		277	174
Directors' expense	8, 12	258	198
Administration and general		191	91
Impairment loss on investment property	6	–	806
Adjustment to fair value of deferred share units	8, 12	44	–
Provision for mortgage losses	5(b)	<u>3,760</u>	<u>1,490</u>
Total operating expenses		<u>12,206</u>	<u>10,378</u>
Income before financing costs		<u>52,813</u>	<u>55,793</u>
<b>Financing costs</b>			
Interest on convertible debentures	9	8,732	10,232
Interest and other financing charges	7, 12	<u>4,893</u>	<u>6,993</u>
Total financing costs		<u>13,625</u>	<u>17,225</u>
Net income and comprehensive income for the year		<u>\$ 39,188</u>	<u>\$ 38,568</u>
<b>Earnings per common share</b>			
Basic	13	<u>\$ 0.93</u>	<u>\$ 0.97</u>
Diluted	13	<u>\$ 0.93</u>	<u>\$ 0.96</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands of Canadian dollars)**

	<b>Years ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net income and comprehensive income for the year	\$ 39,188	\$ 38,568
Adjustments to determine net cash flows		
provided by (used in) operating activities		
Share-based payments	317	320
Mortgage interest and fees earned	(64,362)	(66,095)
Mortgage interest and fees received	64,881	52,923
Interest on convertible debentures expensed	8,732	10,232
Interest and other financing charges expensed	4,893	6,993
Impairment loss on investment property	–	806
Adjustment to fair value of deferred share units	44	–
Provision for mortgage losses	3,760	1,490
Changes in operating assets and liabilities		
Prepaid expenses	16	(83)
Accounts payable and accrued liabilities	(1,639)	2,110
Additions to mortgage discount	–	46
Additions to unamortized origination fees	575	705
Cash provided by operating activities	<u>56,405</u>	<u>48,015</u>
<b>Investing activities</b>		
Cash advances of mortgages receivable	(271,280)	(271,759)
Cash repayments of mortgages receivable	<u>254,726</u>	<u>238,086</u>
Cash used in investing activities	<u>(16,554)</u>	<u>(33,673)</u>
<b>Financing activities</b>		
Advances under credit facility	558,687	407,322
Repayments under credit facility	(522,185)	(431,715)
Interest and fees on convertible debentures paid	(7,524)	(8,876)
Interest and other financing charges paid	(5,177)	(7,056)
Issuance of common shares	187	61,921
Share capital issue costs	–	(2,510)
Issuance of convertible debentures	–	28,750
Convertible debenture issue costs	–	(1,369)
Repayment of convertible debentures	(24,977)	(28,278)
Cash dividends paid	<u>(38,862)</u>	<u>(32,531)</u>
Cash used in financing activities	<u>(39,851)</u>	<u>(14,342)</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.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*. 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 9, 2021.

**(b) Basis of measurement**

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

**(c) Functional and presentation currency**

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

**(d) Principles of consolidation**

These consolidated financial statements include the accounts of the company and 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. The company has consolidated the subsidiary from August 5, 2016, the date of its formation. All transactions and balances between the company and the subsidiary have been eliminated, including unrealized gains and losses, if any.

**(e) Use of estimates and judgements**

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the reporting date and the reported amounts of revenues 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;
- (c) the measurement of fair value, costs of disposal and the value in use of investment properties; and

**NOTE 2 – BASIS OF PRESENTATION (continued)****(e) Use of estimates and judgements (continued)**

- (d) 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.

In March 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus (“COVID-19”) as a pandemic which resulted in a series of public health and emergency measures being put in place to combat the spread of the virus. These measures have caused material disruption to businesses in Canada and globally resulting in an economic slowdown. The duration and impact of COVID-19 continues to be unknown and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the company in future periods. To date, the company has not experienced material changes in the collection of interest and repayments of principal, however, there is no certainty this will continue going forward.

Accordingly, there is inherently more uncertainty associated with the estimates, judgements and assumptions made by management in the preparation of the consolidated financial statements. It is not possible to forecast with certainty the extent to which the economic impact of COVID-19 will affect the company’s operations and financial results in the near term and long-term. Areas of the company’s business that could potentially be adversely impacted include, but are not limited to, mortgage interest rates, mortgage interest and fees revenue, rental income, allowance for mortgage losses and valuation of investment properties.

**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.
- Historically the company has not sold, and in the future has no expectations to sell, any of its mortgages receivable. While the company may decrease its interest in a syndicated mortgage receivable by transferring its interest, at its amortized cost carrying amount, to another lender in the syndicate, such transfers are consistent with the business model of holding mortgages receivable to collect contractual cash flows.

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

The returns earned by the company on its mortgages receivable are interest rates that are set at levels to provide an acceptable profit margin based on the time value of money and credit risk, although other basic lending risks (for example, the location and quality of the underlying collateral) may also be built-in. There are no factors that give rise to variation in the return on the company's mortgages 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, except for the liability for the deferred share unit plan, 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. The liability for the deferred share unit plan is measured at FVTPL. This financial instrument liability is initially and subsequently measured at fair value. Gains and losses arising from changes in fair value are recorded in net income and comprehensive income in the period in which they arise.

**(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 *Financial Instruments* (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 are 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. In response to COVID-19, the ECL methodology was modified to include a post-model overlay adjustment to account for the uncertainty and difficulty in forecasting future economic conditions. The financial reports of other lenders and financial institutions were reviewed to inform and modify the company's estimates and determine the overlay adjustment.

Mortgages receivable are presented on the consolidated statements of financial position net of the allowance for mortgage losses. A loss on a mortgage receivable is written off against the related allowance 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.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)****(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 allowance 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.

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 period by the weighted average number of common shares outstanding during the period. 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 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)****(k) Deferred share unit plan**

The company has a cash-settled deferred share unit plan for non-executive directors pursuant to which each non-executive director is required to receive one-half of their director compensation in the form of deferred share units. Each non-executive director can elect to receive the remaining one-half of their director compensation in deferred share units or cash or a combination thereof. The deferred share units represent a financial liability as they can only be settled in cash when the non-executive directors cease to serve in any capacity with the company. As such, the deferred share units are initially recognized at their fair value, using the volume-weighted average trading price of the company's common shares on the TSX for the five trading days prior to the last day of the reporting period, as directors' expense with a corresponding amount recorded in accounts payable and accrued liabilities. The liability is subsequently remeasured to its fair value at each period end with the change in fair value during the period recognized as an operating expense.

**NOTE 4 – RECENT ACCOUNTING PRONOUNCEMENTS**

Various pronouncements have been issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee 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**

<b>Property type</b>	<b>December 31, 2020</b>			<b>December 31, 2019</b>		
	<b>Number</b>	<b>Outstanding amount</b>	<b>% of Portfolio</b>	<b>Number</b>	<b>Outstanding amount</b>	<b>% of Portfolio</b>
Mid-rise residential <sup>(1)</sup>	25	\$ 199,525	26.8%	23	\$ 177,242	24.3%
Low-rise residential	21	174,362	23.4%	32	216,144	29.6%
High-rise residential <sup>(1)</sup>	16	170,074	22.8%	13	157,758	21.6%
House and apartment	63	45,522	6.1%	91	66,083	9.1%
Condominium corporation	13	2,165	0.3%	14	2,659	0.4%
Residential portfolio	138	591,648	79.4%	173	619,886	85.0%
Commercial	20	153,666	20.6%	19	109,859	15.0%
Mortgage portfolio	<u>158</u>	<u>745,314</u>	<u>100.0%</u>	<u>192</u>	<u>729,745</u>	<u>100.0%</u>
Accrued interest receivable		3,458			3,780	
Mortgage discount		(181)			(224)	
Unamortized origination fees		(416)			(586)	
Allowance for mortgage losses		<u>(9,150)</u>			<u>(5,390)</u>	
Mortgages receivable		<u>\$ 739,025</u>			<u>\$ 727,325</u>	

(1) Comparative figures have been reclassified to conform to the revised definition of high-rise residential and mid-rise residential property types. Additional information is set out in the "Investment Portfolio" section of the Management's Discussion and Analysis for the year ended December 31, 2020.

The mortgage portfolio has maturity dates between 2021 and 2030 with a weighted average remaining term of 9.7 months at December 31, 2020 (December 31, 2019 – 8.7 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 8.65% as at December 31, 2020 (8.81% as at December 31, 2019).

Within the mortgage portfolio, at December 31, 2020 there were 20 mortgages receivable aggregating to \$123,218 (16.5% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage receivable (December 31, 2019 – 24 mortgages receivable aggregating \$108,055, 14.8% 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, 2020.

**NOTE 5 – MORTGAGES RECEIVABLE (continued)****(a) Mortgage portfolio (continued)**

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

Principal repayments based on contractual maturity dates are as follows:

Years ending December 31, 2021	\$ 503,047	67.5%
2022	137,614	18.5%
2023	102,784	13.7%
2024	743	0.1%
2025	442	0.1%
Thereafter	684	0.1%
	<u>\$ 745,314</u>	<u>100.0%</u>

**(b) Allowance for mortgage losses**

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

**As at December 31, 2020**

<b><u>Gross carrying amount</u></b>	<b><u>Stage 1</u></b>	<b><u>Stage 2</u></b>	<b><u>Stage 3</u></b>	<b><u>Total</u></b>
Mid-rise residential	\$ 162,030	\$ 37,495	\$ –	\$ 199,525
Low-rise residential	164,321	–	10,041	174,362
High-rise residential	170,074	–	–	170,074
House and apartment	30,940	14,582	–	45,522
Condominium corporation	2,165	–	–	2,165
Commercial	153,666	–	–	153,666
Mortgage portfolio	<u>\$ 683,196</u>	<u>\$ 52,077</u>	<u>\$ 10,041</u>	<u>\$ 745,314</u>

**Allowance for mortgage losses**

Mid-rise residential	\$ 2,200	\$ 154	\$ –	\$ 2,354
Low-rise residential	1,698	–	1,934	3,632
High-rise residential	1,764	–	–	1,764
House and apartment	384	57	–	441
Condominium corporation	9	–	–	9
Commercial	950	–	–	950
Mortgage portfolio	<u>\$ 7,005</u>	<u>\$ 211</u>	<u>\$ 1,934</u>	<u>\$ 9,150</u>



**NOTE 5 – MORTGAGES RECEIVABLE (continued)****(b) Allowance for mortgage losses (continued)****As at December 31, 2019**

<b>Gross carrying amount</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Mid-rise residential <sup>(1)</sup>	\$ 177,242	\$ –	\$ –	\$ 177,242
Low-rise residential	200,928	15,216	–	216,144
High-rise residential <sup>(1)</sup>	157,758	–	–	157,758
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>

**Allowance for mortgage losses**

Mid-rise residential <sup>(1)</sup>	\$ 1,233	\$ –	\$ –	\$ 1,233
Low-rise residential	1,398	317	–	1,715
High-rise residential <sup>(1)</sup>	1,097	–	–	1,097
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>

(1) Comparative figures have been reclassified to conform to the revised definition of high-rise residential and mid-rise residential property types. Additional information is set out in the “Investment Portfolio” section of the Management’s Discussion and Analysis for the year ended December 31, 2020.

The allowance for mortgage losses at December 31, 2020 is \$9,150 (December 31, 2019 – \$5,390). Of this allowance, \$7,005 (December 31, 2019 – \$4,731) 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 Stages 2 and 3 and management estimated the ECL as \$211 for mortgages receivable classified as Stage 2 and \$1,934 for those classified as Stage 3 at December 31, 2020 (December 31, 2019 – \$659 and \$nil, respectively).

The changes in the allowance for mortgage losses are shown in the following table:

	<b>Year ended December 31, 2020</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Opening balance, January 1, 2020	\$ 4,729	\$ 661	\$ –	\$ 5,390
Allowance for mortgage losses				
Transfers to Stage 1 <sup>(1)</sup>	110	(110)	–	–
Transfers to Stage 2 <sup>(1)</sup>	(378)	378	–	–
Transfers to Stage 3 <sup>(1)</sup>	–	(410)	410	–
Net remeasurement <sup>(2)</sup>	2,453	(301)	1,921	4,073
Mortgage advances	1,483	–	–	1,483
Mortgage repayments	(1,394)	(5)	(397)	(1,796)
Balance, December 31, 2020	<u>\$ 7,003</u>	<u>\$ 213</u>	<u>\$ 1,934</u>	<u>\$ 9,150</u>

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

(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. It also includes post-model overlays and adjustments as a result of the economic uncertainty related to the worldwide COVID-19 pandemic.

During the year ended December 31, 2020, the allowance for mortgage losses for mortgages classified as Stage 1 increased as a result of an increase in the portfolio and a post model adjustment made as a result of the economic uncertainty of the worldwide COVID-19 pandemic. The allowance for mortgage losses for mortgages classified as Stage 2 decreased as a result of transfers of mortgages receivable between Stage 2 and Stages 1 and 3 due to changes in credit risk and estimates of ECL of the mortgages receivable included in Stage 2 at December 31, 2020. The allowance for mortgage losses classified as Stage 3 increased due to the transfer of a mortgage receivable from Stage 2 to Stage 3 due to management’s estimate of impairment. The ECL is assessed individually for Stage 2 and Stage 3 mortgages.

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

	<b>Year ended December 31, 2019</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Opening balance, January 1, 2019	\$ 3,900	\$ –	\$ –	\$ 3,900
Allowance for mortgage losses				
Transfers to Stage 1 <sup>(1)</sup>	–	–	–	–
Transfers to Stage 2 <sup>(1)</sup>	(98)	98	–	–
Transfers to Stage 3 <sup>(1)</sup>	–	–	–	–
Net remeasurement <sup>(2)</sup>	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 allowance for mortgage losses for mortgages classified as Stage 1 increased primarily as a result of the overall increase in the mortgage portfolio. The allowance 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.

**NOTE 6 – INVESTMENT PROPERTIES**

	<b>Years ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Gross carrying amount	\$ 17,007	\$ 17,007
Impairment	(806)	(806)
Net carrying amount	<u>\$ 16,201</u>	<u>\$ 16,201</u>

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 third-party valuation that considered a net operating income analysis, including estimates of gross rental income, vacancy rates, operating and management expenses and capitalization rates, as well as, available market evidence and comparable transactions. 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. The recoverable amount of this Regina property is estimated to be its value in use of \$15,100.

	<b>Years ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Rental income</b>		
Revenue from investment properties	\$ 1,132	\$ 852
Property operating costs	(475)	(776)
Rental income	<u>\$ 657</u>	<u>\$ 76</u>

**NOTE 7 – CREDIT FACILITY**

At December 31, 2020, the company had a credit facility from a syndicate of four Canadian financial institutions of \$240,000 (December 31, 2019 – \$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 \$270,000). The annualized weighted average rate for the year ended December 31, 2020 was 3.04% (4.07% for the year ended December 31, 2019). Drawings under the credit facility may be by way of a bank loan (including an overdraft facility of up to \$5,000 (December 31, 2019 – \$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 December 1, 2020, has a term to January 11, 2023, 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, 2020 and December 31, 2019, the company was in compliance with these covenants.

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Credit facility</b>		
Bankers' acceptances	\$ 147,000	\$ 113,000
Bank loan	9,450	10,490
Overdraft facility	3,989	447
Unamortized finance costs	<u>(785)</u>	<u>(488)</u>
Borrowings under credit facility	159,654	123,449
Letters of credit	<u>13,397</u>	<u>8,428</u>
Total credit facility utilization	<u>\$ 173,051</u>	<u>\$ 131,877</u>

Interest on the credit facility is included in financing costs and calculated using the effective interest method. Included in interest and other financing charges for the year ended December 31, 2020 is interest on the credit facility of \$4,586 (December 31, 2019 – \$6,703) and bank fees and amortization of financing costs of \$299 (December 31, 2019 – \$290).

**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 mortgage servicing and management fees of \$7,036 for the year ended December 31, 2020 (year ended December 31, 2019 – \$6,996). 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 \$549 (December 31, 2019 – \$565) 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, 2020 was \$62 (year ended December 31, 2019 – \$48).

Certain of the company's mortgages receivable are shared with other investors. As at December 31, 2020, companies owned by a director and officer of the company had co-invested in one syndicated secured mortgage receivable of \$36,878, of which the company's share was \$26,341, of which \$25,534 had been funded at December 31, 2020 (December 31, 2019 – one syndicated mortgage receivable of \$56,186, of which the company's share was \$28,093, of which \$28,093 had been funded).

**NOTE 8 – RELATED PARTY TRANSACTIONS (continued)**

As at December 31, 2020, the company had two mortgages receivables (December 31, 2019 – three) from borrowers over which a director and officer of the company has joint control, with the company's share of the gross commitments totaling \$10,040 (December 31, 2019 – \$7,320), of which \$6,842 had been funded at December 31, 2020 (December 31, 2019 – \$7,320). During the year ended December 31, 2020, the company recognized net mortgage interest and fees of \$821 (year ended December 31, 2019 – \$679) from these mortgage receivables.

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

	<b>Years ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Directors' fees <sup>(1)</sup> (Note 12)	\$ 249	\$ 179
Share-based payments to directors (Note 11)	117	120
Share-based payments to officers (Note 11)	72	70
	<u>\$ 438</u>	<u>\$ 369</u>

(1) The cumulative adjustment for the fair value of deferred share units issued under the deferred share unit plan was \$44 for the year ended December 31, 2020 (year ended December 31, 2019 - \$nil) (see Note 12 – Deferred Share Unit Plan)

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**

	<b>Convertible debenture</b>					<b>Total</b>
	<b>5.60% AIDB.E</b>	<b>5.50% AIDB.D</b>	<b>5.30% AIDB.C</b>	<b>5.50% AIDB.B</b>	<b>5.25% AIDB</b>	
<b>Year ended December 31, 2020</b>						
Issued and outstanding						
face value	\$ 28,750	\$ 34,500	\$ 25,300	\$ 40,250	\$ —	\$ 128,800
Book value –						
Convertible debentures,						
beginning of year	\$ 27,274	\$ 32,888	\$ 24,334	\$ 39,639	\$ 29,775	\$ 153,910
Conversion to shares	—	—	—	—	(4,914)	(4,914)
Repayment of						
convertible debenture	—	—	—	—	(24,977)	(24,977)
Accretion for the year	275	263	211	343	116	1,208
Convertible debentures,						
end of year	<u>\$ 27,549</u>	<u>\$ 33,151</u>	<u>\$ 24,545</u>	<u>\$ 39,982</u>	<u>\$ —</u>	<u>\$ 125,227</u>

	<b>Convertible debenture</b>						<b>Total</b>
	<b>5.60% AIDB.E</b>	<b>5.50% AIDB.D</b>	<b>5.30% AIDB.C</b>	<b>5.50% AIDB.B</b>	<b>6.25% AIDB.A</b>	<b>5.25% AIDB</b>	
<b>Year ended December 31, 2019</b>							
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	<u>\$ 27,274</u>	<u>\$ 32,888</u>	<u>\$ 24,334</u>	<u>\$ 39,639</u>	<u>\$ —</u>	<u>\$ 29,775</u>	<u>\$ 153,910</u>

**NOTE 9 – CONVERTIBLE DEBENTURES (continued)**

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.

	<b>Convertible debenture</b>					
	<b>5.60%</b> <b>ALDB.E</b>	<b>5.50%</b> <b>ALDB.D</b>	<b>5.30%</b> <b>ALDB.C</b>	<b>5.50%</b> <b>ALDB.B</b>	<b>6.25%</b> <b>ALDB.A</b>	<b>5.25%</b> <b>ALDB</b>
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	March 31, 2022	Dec. 31, 2021	June 30, 2020	Sept. 30, 2017	March 31, 2017	June 30, 2016
to	March 31, 2024	Dec. 31, 2023	June 30, 2022	Sept. 30, 2019	March 31, 2018	June 30, 2018
Redeemable at the company's option at par plus accrued interest and unpaid interest after	March 31, 2024	Dec. 31, 2023	June 30, 2022	Sept. 30, 2019	March 31, 2018	June 30, 2018

On May 4, 2020, the company redeemed early all of the outstanding 5.25% convertible debentures for cash. The redemption totalled an aggregate principal amount of \$24,977 plus all accrued and unpaid interest.

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:

	<b>Years ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Coupon rate interest on convertible debentures	\$ 7,521	\$ 8,818
Accretion and other costs	1,211	1,414
Interest on convertible debentures	<u>\$ 8,732</u>	<u>\$ 10,232</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, 2020, 140,436 common shares were issued under the company's DRIP (year ended December 31, 2019 – 326,876), using reinvested dividends of \$1,731 (year ended December 31, 2019 – \$4,336). Shares issued under the DRIP are issued by the company from treasury. On April 29, 2020, in response to the market disruption caused by the COVID-19 pandemic, the company announced the suspension of its DRIP commencing with the dividend payable on May 12, 2020 to shareholders of record on April 30, 2020. See Note 16 – Subsequent events.

**NOTE 10 – SHARE CAPITAL (continued)**

On May 5, 2020, the company announced that the TSX had accepted a notice filed by the company of its intention to make a normal course issuer bid (“NCIB”) with respect to its common shares. The notice provides that the company may purchase up to 4,000,000 common shares during the twelve month period commencing May 11, 2020 and ending on May 10, 2021. During the year ended December 31, 2020, the company did not purchase any common shares under the NCIB.

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**

Grants are provided to directors and certain employees of the manager under the company’s deferred share incentive plan (“DSIP”). The DSIP units vest annually over three years. Common shares are issued to participants on the vesting date of each tranche of the DSIP units, unless a participant elects to defer the issuance. In addition, income deferred share incentive plan (“IDSIP”) units are credited to holders of DSIP units granted before 2017 based upon dividends paid on common shares. The fair value of share-based compensation was based upon the volume weighted average market price of the common shares five days prior to the grant date of September 1, 2020 (\$10.87) and September 3, 2019 (\$13.72).

	<b>Years ended December 31</b>					
	<b>2020</b>			<b>2019</b>		
	<u>DSIP</u>	<u>IDSIP</u>	<u>Total</u>	<u>DSIP</u>	<u>IDSIP</u>	<u>Total</u>
	<u>units</u>	<u>units</u>		<u>units</u>	<u>units</u>	
Balance, beginning of year	73,000	9,874	82,874	68,667	9,056	77,723
Units granted	22,600	–	22,600	22,000	–	22,000
Units earned	–	2,728	2,728	–	2,820	2,820
Units cancelled	(200)	–	(200)	–	–	–
Common shares issued	<u>(23,000)</u>	<u>(1,259)</u>	<u>(24,259)</u>	<u>(17,667)</u>	<u>(2,002)</u>	<u>(19,669)</u>
Balance, end of year	<u>72,400</u>	<u>11,343</u>	<u>83,743</u>	<u>73,000</u>	<u>9,874</u>	<u>82,874</u>

Share-based payments expense:

	<b>Years ended December 31</b>	
	<b>2020</b>	<b>2019</b>
September 1, 2020 grant	\$ 50	\$ –
September 3, 2019 grant	151	62
September 1, 2018 grant	67	151
September 1, 2017 grant	18	53
September 1, 2016 grant	9	30
September 1, 2015 grant	10	12
September 1, 2014 grant	9	9
August 30, 2013 grant	<u>3</u>	<u>3</u>
	<u>\$ 317</u>	<u>\$ 320</u>

**NOTE 12 – DEFERRED SHARE UNIT PLAN**

The board of directors established a deferred share unit plan (“DSUP”) effective January 1, 2020 pursuant to which each non-executive director is required to receive one-half of their director compensation in the form of deferred share units (“DSUs”). Each non-executive director can elect to receive the remaining one-half of their director compensation in DSUs or cash or a combination thereof. DSUs are credited to the director DSUP accounts quarterly, in arrears, in an amount equal to the non-executive director’s remuneration elected to be paid in DSUs divided by the fair market value of the common shares on the last day of the quarter. The fair market value is equal to the volume-weighted average trading price of the company’s common shares on the TSX for the five trading days immediately preceding that day. Dividend equivalents are credited to a non-executive director’s DSUP account as if dividends were paid on each DSU held by a non-executive director on the dividend record date and reinvested in additional DSUs at the fair market value on the dividend payment date.

**NOTE 12 – DEFERRED SHARE UNIT PLAN (continued)**

DSUs can only be exercised when the non-executive director ceases to serve in any capacity with the company. Payment will be made, at the election of the non-executive director, in either cash or common shares of the company purchased in the market, net of applicable taxes or other amounts required to be withheld or deducted, based on the fair market value of the company's common shares on or about the date of the payment. Amounts owed in relation to this plan of \$267 (December 31, 2019 – \$nil) are included in accounts payable and accrued liabilities. DSU compensation expense is recognized in directors' expense, dividends earned on outstanding DSUs are recognized in interest and other financing charges and the adjustment to fair value of units issued under the DSUP is recognized as an operating expense.

	<b>Years ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Directors fees paid in DSUs	\$ 215	–
Dividends on DSUs	8	–
Adjustment to fair value of DSUs	44	–
	<u>\$ 267</u>	<u>\$ –</u>

	<b>Years ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Outstanding DSUs, beginning of year	–	–
Granted	20,368	–
Reinvested	704	–
Balance, end of year	<u>21,072</u>	<u>–</u>

**NOTE 13 – EARNINGS PER SHARE**

	<b>Years ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Basic earnings per share –		
Numerator		
Net income and comprehensive income for the year	\$ 39,188	\$ 38,568
Denominator		
Weighted average common shares outstanding	<u>42,323,737</u>	<u>39,596,762</u>
Basic earnings per share	<u>\$ 0.93</u>	<u>\$ 0.97</u>
Diluted earnings per share –		
Numerator		
Net income and comprehensive income for the year	\$ 39,188	\$ 38,568
Interest on convertible debentures	<u>8,732</u>	<u>10,232</u>
Net income and comprehensive income for diluted earnings per share	<u>47,920</u>	<u>48,800</u>
Denominator		
Weighted average common shares outstanding	42,323,737	39,596,762
Convertible debentures	9,270,149	11,028,582
Deferred share incentive plan	70,886	72,790
Income deferred share units	<u>10,328</u>	<u>7,787</u>
Weighted average common shares outstanding – diluted basis	<u>51,675,100</u>	<u>50,705,921</u>
Diluted earnings per share	<u>\$ 0.93</u>	<u>\$ 0.96</u>

**NOTE 14 – 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. The liability for the deferred share unit plan is measured at FVTPL. All other financial liabilities are measured at amortized cost.



**NOTE 14 – FINANCIAL INSTRUMENTS (continued)****(b) Fair value**

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

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. All financial assets are classified and measured at amortized cost. Their carrying values approximate their fair 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, excluding the liability for the deferred share units, dividends payable and accrued convertible debenture interest carrying values approximate their fair values due to the short-term nature of the items. The liability for the deferred share units is measured at fair value using Level 1 inputs. The deferred share units are measured at fair market value on the day they are credited to the directors' DSUP accounts, with fair value equal to the volume-weighted average trading price of the company's common shares on the TSX for the five trading days immediately preceding that day, and are remeasured using fair market value at each reporting date.

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.

	<b>Years ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Convertible debentures</b>		
Fair value	\$ 130,250	\$ 161,872
Less book value of equity component	(1,471)	(1,837)
	<u>\$ 128,779</u>	<u>\$ 160,035</u>
Book value of financial liability component	<u>\$ 125,227</u>	<u>\$ 153,910</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, 2020 is \$753,019 (December 31, 2019 – \$736,570).

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, 2020.

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 shareholder(s) 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, 2020. 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.

**NOTE 14 – FINANCIAL INSTRUMENTS (continued)****(c) Credit risk (continued)**

At December 31, 2020, the largest borrower group accounted for 10.9% of mortgages receivable (December 31, 2019 – 11.3%). See Note 5(a) and Note 5(b) for a breakdown of mortgages receivable and the allowance 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.

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.

<b>December 31, 2020</b>	<b>Carrying value</b>	<b>Contractual cash flow</b>	<b>Within 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>More than 5 years</b>
Borrowings under credit facility <sup>1</sup>	\$160,439	\$171,067	\$5,235	\$165,832	\$ –	\$ –
Accounts payable and accrued liabilities	2,562	2,562	2,562	–	–	–
Accrued convertible debenture interest	956	956	956	–	–	–
Dividends payable	4,029	4,029	4,029	–	–	–
Convertible debentures <sup>2</sup>	125,227	141,737	45,099	67,485	29,153	–
<b>Total</b>	<b>293,213</b>	<b>320,351</b>	<b>57,881</b>	<b>233,317</b>	<b>29,153</b>	<b>–</b>
Unadvanced mortgage commitments <sup>3</sup>	–	84,095	84,095	–	–	–
<b>Total contractual liabilities</b>	<b>\$293,213</b>	<b>\$404,446</b>	<b>\$141,976</b>	<b>\$233,317</b>	<b>\$ 29,153</b>	<b>\$ –</b>

*Notes:*

(1) Includes interest assuming the outstanding balance is not repaid until maturity on January 11, 2023.

(2) The 5.50% 2021 debentures are assumed to be repaid in the first quarter of 2021; 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, 2020, management considers that it has adequate procedures in place to manage liquidity risk.

**NOTE 14 – FINANCIAL INSTRUMENTS (continued)****(e) Interest rate risk**

The company is exposed to interest rate risk in that an increase in interest rates will result in increased interest expense due to its borrowings under credit facility being set at a variable rate and mortgages 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, 2020, income and comprehensive income would have been reduced (increased) by approximately \$1,366 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) \$1,366.

**(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 financial assets and financial liabilities are denominated in Canadian funds.

**NOTE 15 – CAPITAL MANAGEMENT**

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Borrowings under credit facility	\$ 159,654	\$ 123,449
Convertible debentures	<u>125,227</u>	<u>153,910</u>
Total debt	284,881	277,359
Shareholders' equity	<u>462,887</u>	<u>455,520</u>
Capital employed	<u>\$ 747,768</u>	<u>\$ 732,879</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 the employee share purchase plan and through a dividend reinvestment plan for shareholders. The dividend reinvestment plan was suspended on April 29, 2020. See Note 16 – Subsequent events.

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 16 – SUBSEQUENT EVENTS**

On January 14, 2021, the company announced the reinstatement of its dividend reinvestment plan commencing with the dividend payable on February 12, 2021 to shareholders of record on January 29, 2021.

As at February 9, 2021, the company had collected 98% of the mortgage interest due in January, which is in line with historical collection rates.

# 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**<sup>1,4</sup>

President,  
Copez Properties Ltd.

**Robert H. DeGasperi**

President,  
Metrus Properties Inc.

**Andrew Grant**<sup>4</sup>

President,  
PCI Developments

**Maish Kagan**<sup>2</sup>

President,  
Canal Group

**Nancy H. O. Lockhart**<sup>2,3</sup>

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**<sup>CPA, CA</sup>

CFO and Secretary

**Bram Rothman**

Managing Director – Ontario

**Richard Munroe**

Managing Director – Ontario

**Phil Fiuza**

Managing Director –  
Ontario, Residential

**Marianne Dobslaw**

Managing Director –  
British Columbia

## Transfer Agent

**Computershare Trust Co.  
of Canada**

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

*For 5.30% (AI.DB.C), 5.50%  
(AI.DB.D), and 5.60% (AI.DB.E)  
Convertible Debentures*

**AST Trust Company**

1 Toronto St., Suite 1200  
Toronto, ON M5C 2V6  
T. (800) 387-0825

## Auditors

**Crowe Soberman LLP**

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

## Share Listing

Common shares,  
TSX: AI

Convertible debentures 5.50%,  
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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