Annual Report
2022

December 31, 2022

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.

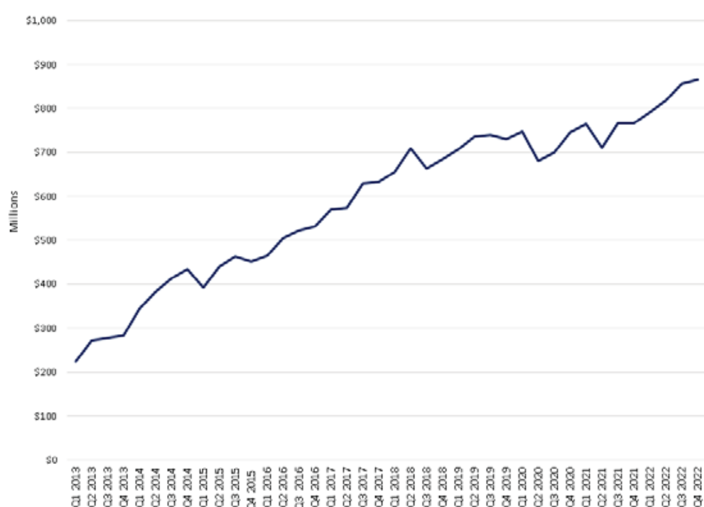
Atrium has a 21-year track record of success and consistency in achieving our strategic objectives: to grow in a controlled manner by focusing on real estate sectors with the lowest risk profiles.

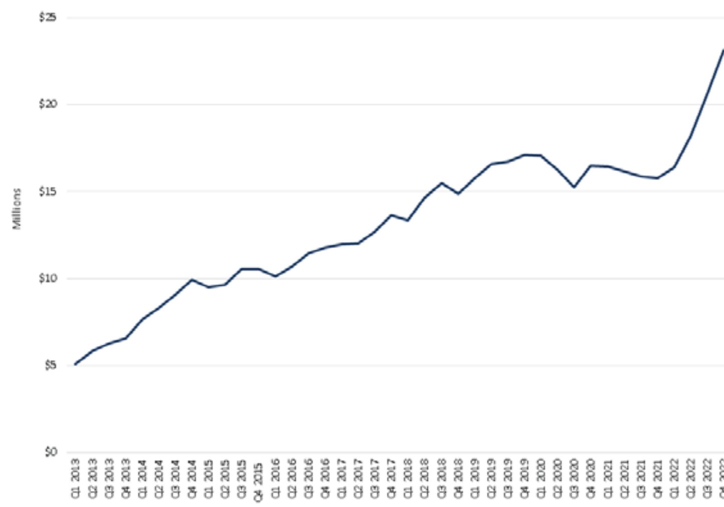
Since commencing operations in 2001, our investment objectives have been to preserve our shareholders' equity and provide our shareholders with stable and secure dividends from our investments in mortgage loans within the criteria permitted for a Mortgage Investment Corporation (MIC). Working within 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.

Our dividends since 2017 are as follows:

Year	Regular dividend	Special dividend	Total dividends paid	Earnings per share (basic)
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	$0.07	$0.97	$0.98
2022	$0.90	$0.23	$1.13	$1.08
2023	$0.90	to be determined		





FOR IMMEDIATE RELEASE

ATRIUM MORTGAGE INVESTMENT CORPORATION
ANNOUNCES HIGHEST QUARTERLY AND ANNUAL NET INCOME IN ITS HISTORY
AND A RECORD SPECIAL DIVIDEND

TORONTO: February 14, 2023 – Atrium Mortgage Investment Corporation (TSX: AI, AI.DB.C, AI.DB.D, AI.DB.E, AI.DB.F, AI.DB.G) today released its financial results for the year ended December 31, 2022.

Highlights

- **Record annual basic and diluted earnings per share since going public 10 years ago of $1.08 and $1.06, respectively, compared to $0.98 basic and diluted per share in the prior year**
- **Record quarterly basic and diluted earnings per share since going public of $0.31 and $0.30, respectively, compared to $0.25 basic and diluted per share in the comparative period**
- **Record net income of $46.3 million, up 10.9% from prior year**
- **Record gross mortgage portfolio of $866.3 million, an 12.9% increase from December 31, 2021**
- **$0.23 per share special dividend to shareholders of record on December 30, 2022**
- **High quality mortgage portfolio**
  - **92.5% of portfolio in first mortgages**
  - **97.1% of portfolio is less than 75% loan to value**
  - **average loan-to-value of 59.4%**

"2022 proved to be a record year for Atrium in terms of portfolio growth and earnings. Our EPS of $1.08 was the highest in our company's history as a publicly traded company. The mortgage portfolio of $866 million was almost $100 million larger than last year, which reflects the increased size and quality of our underwriting teams in Toronto and Vancouver. Over the course of the year, we repositioned the portfolio to benefit from rising short term rates and by year end over 75% of the portfolio had prime-based pricing, compared to 60% at the start of the year. Most importantly, we continued to lend on a disciplined basis through conservative underwriting, active portfolio management, and a focus on high quality borrowers in large urban centers. As a result, the mortgage portfolio was defensively positioned at year end with a weighted average portfolio loan to value of 59.4%, only 1.1% of the portfolio in default, and first mortgages representing 92.5% of the portfolio. Our primary focus in 2023 will be maintaining a resilient mortgage portfolio that can withstand an economic slowdown and soft real estate market conditions" said Robert Goodall, CEO of Atrium.

Results of operations

For the year ended December 31, 2022, Atrium reported record assets of $874.8 million, up from $775.5 million at the end of 2021. Revenues were $78.4 million, an increase of 22.0% from the prior year. Net income for 2022 was $46.3 million, an increase of 10.9% from the prior year. Atrium's allowance for mortgage losses at December 31, 2022 totaled $10.7 million, or 1.24% of the gross mortgage portfolio.

Basic and diluted earnings per common share were $1.08 and $1.06, respectively, for the year ended December 31, 2022, compared with $0.98 basic and diluted earnings per common share in the prior year, an increase of 10.2% (basic). Basic and diluted earnings per common share were $0.31 and $0.30, respectively, for the fourth quarter compared to $0.25 basic and diluted in the comparative quarter.

The board of directors declared a special dividend of $0.23 for 2022, resulting in a total dividend of $1.13 per common share paid to shareholders in the year, compared to $0.97 for the prior year.

Mortgages receivable as at December 31, 2022 was a record $860.4 million, up from $759.2 million as at December 31, 2021. During the year ended December 31, 2022, $517.6 million of mortgage principal was advanced and $429.8 million was repaid. The weighted average interest rate on the mortgage portfolio at December 31, 2022 was 10.77%, compared to 8.26% at December 31, 2021.

Financial summary

Consolidated Statements of Income and Comprehensive Income

(000s, except per share amounts)		**Year ended December 31 2022**		**Year ended December 31 2021**		**Year ended December 31 2020**
Revenue	$	78,371	$	64,235	$	65,019
Mortgage servicing and management fees		(8,526)		(7,241)		(7,036)
Other expenses		(1,098)		(1,382)		(1,410)
Impairment loss on investment property held for sale		(1,832)		–		–
Recovery of prior mortgage losses		1,050		–		–
Provision for mortgage losses		(1,914)		(1,289)		(3,760)
Income before financing costs		66,051		54,323		52,813
Financing costs		(19,719)		(12,530)		(13,625)
Net income and comprehensive income	$	46,332	$	41,793	$	39,188
Basic earnings per share	$	1.08	$	0.98	$	0.93
Diluted earnings per share	$	1.06	$	0.98	$	0.93
Dividends declared	$	48,736	$	41,346	$	38,970
Mortgages receivable, end of year	$	860,374	$	759,225	$	739,025
Total assets, end of year	$	874,780	$	775,487	$	755,315
Shareholders' equity, end of year	$	475,564	$	470,167	$	462,887

Analysis of mortgage portfolio

	As at December 31, 2022				**As at December 31, 2021**			
Property Type	**Number**		**Outstanding amount**	**% of Portfolio**	**Number**		**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)								
High-rise residential	20	$	300,989	34.7%	18	$	234,847	30.6%
Mid-rise residential	30		225,281	26.0%	34		253,507	33.0%
Low-rise residential	14		128,244	14.8%	15		122,569	16.0%
House and apartment	158		108,124	12.5%	101		70,944	9.3%
Condominium corporation	12		2,189	0.3%	13		1,752	0.2%
Residential portfolio	234		764,827	88.3%	181		683,619	89.1%
Commercial	26		101,435	11.7%	16		83,512	10.9%
Mortgage portfolio	260	$	866,262	100.0%	197	$	767,131	100.0%

Location of underlying property	Number of mortgages	Outstanding amount	Percentage outstanding	Weighted average loan to value	Weighted average interest rate
	As at December 31, 2022				
(outstanding amounts in 000s)					
Greater Toronto Area	169	$ 598,207	69.0%	59.7%	11.04%
Non-GTA Ontario	61	38,950	4.5%	68.7%	8.25%
British Columbia	28	220,727	25.5%	56.4%	10.41%
Alberta	2	8,378	1.0%	71.2%	12.55%
	260	$ 866,262	100.0%	59.4%	10.77%

Location of underlying property	Number of mortgages	Outstanding amount	Percentage outstanding	Weighted average loan to value	Weighted average interest rate
	As at December 31, 2021				
(outstanding amounts in 000s)					
Greater Toronto Area	126	$ 472,851	61.6%	62.3%	8.34%
Non-GTA Ontario	44	33,361	4.4%	67.4%	7.65%
British Columbia	25	253,771	33.1%	56.7%	8.17%
Alberta	2	7,148	0.9%	94.4%	8.90%
	197	$ 767,131	100.0%	60.9%	8.26%

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, 2022, available on SEDAR at www.sedar.com, and on the company's website at www.atriummic.com.

Conference call

Interested parties are invited to participate in a conference call with management Wednesday, February 15, 2023 at 4:00 p.m. ET to discuss the results. To participate or listen to the conference call live, please call 1 (888) 886-7786 or (416) 764-8658, conference ID 01171657. For a replay of the conference call (available until February 28, 2023) please call 1 (877) 674-6060, conference ID 171657#.

About Atrium

Canada's Premier Non-Bank Lender™

Atrium is a non-bank provider of residential and commercial mortgages that lends in major urban centres in Canada where the stability and liquidity of real estate are high. Atrium's objectives are to provide its shareholders with stable and secure dividends and preserve shareholders' equity by lending within conservative risk parameters. Atrium is a Mortgage Investment Corporation (MIC) as defined in the Canada *Income Tax Act*, so is not taxed on income provided that its taxable income is paid to its shareholders in the form of dividends within 90 days after December 31 each year. Such dividends are generally treated by shareholders as interest income, so that each shareholder is in the same position as if the mortgage investments made by the company had been made directly by the shareholder. For further information about Atrium, please refer to regulatory filings available at www.sedar.com or investor information on Atrium's website at www.atriummic.com.

For additional information, please contact

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John Ahmad
Chief Financial Officer

MD&A

Management's Discussion And Analysis

Year Ended
December 31, 2022

CANADA'S PREMIER NON-BANK LENDER™

Management's Discussion and Analysis

December 31, 2022

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 21-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 14, 2023.

Highlights

Atrium continues to demonstrate strength and stability. For the year ended December 31, 2022, we had revenues of $78.4 million compared to $64.2 million in the prior year, an increase of 22.0%. Net income was $46.3 million compared with $41.8 million in the prior year, an increase of 10.9%. Basic and diluted earnings per share were $1.08 and $1.06, respectively, compared with $0.98 basic and diluted earnings per share in the prior year, an increase of 10.2% basic and 8.2% diluted.

We declared a regular dividend of $0.075 per share for each month in the year, a total of $0.90 for 2022, consistent with dividends of $0.90 for the prior year. In addition, we declared a special dividend of $0.23, for a total dividend of $1.13 for 2022, compared to $0.97 for the previous year. For 2023, our board of directors has set the regular dividend rate at $0.90 per annum.

Our regular and special dividends for the past five years are as follows:

Year	*Regular dividend*	*Special dividend*	*Total dividends paid*	*Earnings per share (basic)*
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	$0.07	$0.97	$0.98
2022	$0.90	$0.23	$1.13[1]	$1.08
2023	$0.90	to be determined		

1) *The difference between dividends paid and earnings per share is largely due to a timing difference created by an impairment and provision for accounting that is excluded from the calculation of taxable income.*

We had $860.4 million of mortgages receivable as at December 31, 2022, an increase of 13.3% from December 31, 2021. During the year, $517.6 million of mortgage principal was advanced and $429.8 million was repaid. The portfolio has a weighted average remaining term of 10.9 months.

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

Revenues of $78.4 million, increase of 22.0% over prior year

Earnings per share $1.08 basic and $1.06 diluted

Strong, high quality mortgage portfolio

92.5% first mortgages

97.1% less than 75% loan-to-value

Mortgages receivable $860.4 million, up 13.3% from prior year

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

Investment portfolio

Our mortgage portfolio consisted of 260 mortgage loans and aggregated $866.3 million at December 31, 2022, an increase of 12.9% from December 31, 2021.

Property Type	As at December 31, 2022 Number	Outstanding amount	% of Portfolio	As at December 31, 2021 Number	Outstanding amount	% of Portfolio
(outstanding amounts in 000s)						
High-rise residential[1]	20	$ 300,989	34.7%	18	$ 234,847	30.6%
Mid-rise residential[1]	30	225,281	26.0%	34	253,507	33.0%
Low-rise residential[1]	14	128,244	14.8%	15	122,569	16.0%
House and apartment[2]	158	108,124	12.5%	101	70,944	9.3%
Condominium corporation[3]	12	2,189	0.3%	13	1,752	0.2%
Residential portfolio	234	764,827	88.3%	181	683,619	89.1%
Commercial[4]	26	101,435	11.7%	16	83,512	10.9%
Mortgage portfolio	260	866,262	100.0%	197	767,131	100.0%
Accrued interest receivable		5,418			3,098	
Mortgage discount		(94)			(135)	
Unamortized origination fees		(506)			(430)	
Allowance for mortgage losses		(10,706)			(10,439)	
Mortgages receivable		$ 860,374			$ 759,225	

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.*

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

Loan type	As at December 31, 2022 Number	Outstanding amount	% of Portfolio	As at December 31, 2021 Number	Outstanding amount	% of Portfolio
(outstanding amounts in 000s)						
Term loans	252	$ 809,722	93.5%	189	$ 695,374	90.7%
Construction loans	8	56,540	6.5%	8	71,757	9.3%
	260	$ 866,262	100.0%	197	$ 767,131	100.0%

A summary of our mortgages by size is presented below.

Mortgage amount	As at December 31, 2022 Number	Outstanding amount	% of Portfolio	As at December 31, 2021 Number	Outstanding amount	% of Portfolio
(outstanding amounts in 000s)						
$0 - $2,500,000	182	$ 121,213	14.0%	124	$ 80,031	10.5%
$2,500,001 - $5,000,000	26	101,884	11.8%	27	109,831	14.3%
$5,000,001 - $7,500,000	19	118,391	13.6%	19	115,401	15.0%
$7,500,001 - $10,000,000	7	58,103	6.7%	3	26,215	3.4%
$10,000,001 +	26	466,671	53.9%	24	435,653	56.8%
	260	$ 866,262	100.0%	197	$ 767,131	100.0%

As of December 31, 2022, the average outstanding mortgage balance was $3.3 million (December 31, 2021 – $3.9 million), and the median outstanding mortgage balance was $0.8 million (December 31, 2021 – $0.8 million).

The tables below show our mortgage portfolio by location of the underlying property and type of mortgage. The weighted average interest rates shown exclude the lender fees paid by the borrower, which reflect the yield to Atrium. As at December 31, 2022, 75.4% of our portfolio was priced at floating rates, the majority with rate floors, up from 60.0% at December 31, 2021.

	As at December 31, 2022				
Location of underlying property	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average loan to value**	**Weighted average interest rate**
(outstanding amounts in 000s)					
Greater Toronto Area	169	$ 598,207	69.0%	59.7%	11.04%
Non-GTA Ontario	61	38,950	4.5%	68.7%	8.25%
British Columbia	28	220,727	25.5%	56.4%	10.41%
Alberta	2	8,378	1.0%	71.2%	12.55%
	260	$ 866,262	100.0%	59.4%	10.77%

	As at December 31, 2021				
Location of underlying property	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average loan to value**	**Weighted average interest rate**
(outstanding amounts in 000s)					
Greater Toronto Area	126	$ 472,851	61.6%	62.3%	8.34%
Non-GTA Ontario	44	33,361	4.4%	67.4%	7.65%
British Columbia	25	253,771	33.1%	56.7%	8.17%
Alberta	2	7,148	0.9%	94.4%	8.90%
	197	$ 767,131	100.0%	60.9%	8.26%

We have an exceptionally high proportion of our portfolio invested in first mortgages (92.5%), which is one of our core strategies.

As at December 31, 2022, the weighted average loan-to-value ratio in our mortgage portfolio was 59.4%, with 97.1% of the portfolio below 75% loan-to-value (At December 31, 2021, the weighted average loan-to-value ratio in our mortgage portfolio was 60.9%, with 99.3% of the portfolio below 75% loan-to-value.).

	As at December 31, 2022			
Type of mortgage	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average interest rate**
(outstanding amounts in 000s)				
First mortgages				
Conventional	229	$ 780,133	90.1%	10.74%
Non-Conventional	8	18,956	2.1%	10.49%
Other	12	2,189	0.3%	7.48%
	249	801,278	92.5%	10.72%
Second and third mortgages				
Conventional	10	57,624	6.7%	11.61%
Non-conventional	1	7,360	0.8%	9.50%
	11	64,984	7.5%	11.37%
	260	$ 866,262	100.0%	10.77%

	As at December 31, 2021			
Type of mortgage	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average interest rate**
(outstanding amounts in 000s)				
First mortgages				
Conventional	169	$ 694,055	90.5%	8.16%
Non-Conventional	1	5,713	0.7%	9.00%
Other	13	1,752	0.2%	7.25%
	183	701,520	91.4%	8.17%
Second and third mortgages				
Conventional	14	65,611	8.6%	9.26%
Non-conventional	–	–	–%	–%
	14	65,611	8.6%	9.26%
	197	$ 767,131	100.0%	8.26%

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, 2022 is 10.9 months (December 31, 2021 – 12.0 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, 2022, the weighted average loan-to-value ratio of the mortgage portfolio was considerably lower than that, at 59.4%, compared to 60.9% at December 31, 2021.

A typical loan in our portfolio has an interest rate of 6.99% to 12.99% per annum, a one or two-year term and monthly interest-only mortgage payments. Pricing on new loans during the fourth quarter typically range between 8.99% to 12.99%.

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, 2022 was $44.8 million (December 31, 2021 – $40.8 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 45% 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) $4,000,000 or more requires approval of the board; (ii) between $2,000,000 and $4,000,000 requires approval of three members of the board, including at least two independent directors; and (iii) $2,000,000 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 (i) for changes to the loan that do not exceed the approved amount by more than the greater of (a) $200,000 or (b) 2% of the previously approved loan amount; or (ii) for minor technical amendments that do not change other underwriting considerations, provided in all cases that 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, 2022, which is available at www.sedar.com.

Recent Developments

Atrium ended the year with a gross mortgage portfolio of $866.3 million at December, 31, 2022 which was the highest balance in the company's history. This represented an increase of $99.1 million or 12.9% over the prior year despite challenging market conditions that manifested in the latter half of the year. The gross mortgage portfolio grew $9.4 million over the fourth quarter due to $63.1 million of new originations and $56.3 million of repayments. The slowdown in the residential, commercial and multi-family residential real estate markets put downward pressure on origination volumes in the fourth quarter. Current market conditions also reduced turnover in the portfolio due to fewer refinancing options for borrowers as big banks became more restrictive. Real estate markets overall remained plagued with uncertainties around interest rates, inflation and an impending economic slowdown resulting in less capital deployment into new development projects.

The weighted average interest rate on the mortgage portfolio was a record 10.77% at December 31, 2022. The weighted average interest rate increased from 10.04% at the end of the third quarter and 8.26% over the prior year. These increases were largely driven by interest rate increases instituted by the Bank of Canada which totaled 400bps over the course of the year, including 100bps over the fourth quarter. The portfolio was also successfully repositioned towards floating rates given the changing interest rate environment. 75.4% of the portfolio was priced at floating rates at December 31, 2022 versus 60.0% in the prior year with the majority of loans having rate floors in place. The business remains increasingly well positioned to benefit from higher interest rates on a go forward basis, including the most recent Bank of Canada rate increase of 25bps announced on January 25, 2023.

Stage 2 loans remained relatively low at 3.0% of the gross mortgage portfolio at December 31, 2022. This represented a modest increase over the previous quarter but was down significantly from the prior year. $26.0 million of mortgages were classified as stage 2 at year end compared to $7.4 million at September 30, 2022 and $45.0 million at December 31, 2021. One impaired loan was sold and closed in April 2022 and although we incurred a loss, it was considerably less than previously estimated. Overall, credit quality of the portfolio remained strong at year end with a high proportion of first mortgages (92.5%), no impaired or Stage 3 loans, and a low portfolio LTV of 59.4% which is down from 60.9% in the prior year. Our primary focus is centered on protecting our capital through disciplined underwriting and proactive portfolio management. Management continues to focus on high quality properties, developers, and geographies as opposed to moving up the risk curve to chase higher yields.

The weighted average rate on our debt facility was 6.25% in the fourth quarter and 4.57% for the year compared to 2.86% in the prior year. These increases were again driven by interest rate increases enacted by the Bank of Canada but the impact on the business was mitigated by the fact that our prime-based credit facility represented only 26.2% of our sources of capital at year end. During the fourth quarter, we amended our credit facility by adding another major Canadian Financial Institution to our syndicate and exercised the accordion option to increase the maximum available facility to $315 million. The company has the right to increase the credit facility by up to an additional $35 million (such that the total maximum availability would be up to $350 million). Our lending syndicate now includes three of the top six banks in Canada. During the first quarter of 2022, we also issued a new series of 5.10% convertible debentures maturing March 31, 2029 for gross proceeds of $40.25 million, including the exercise in full of the overallotment option. The fixed rate on the debentures has proven to be accretive in a rising interest rate environment.

The provision for mortgages losses was $1.2 million in the fourth quarter which increased the allowance for mortgage losses to $10.7 million or 1.24% of the gross mortgage portfolio versus 1.11% in the previous quarter. This allowance is entirely for Stage 1 and 2 loans as there were no Stage 3 or impaired loans at year end. The increase of the allowance over the previous quarter was largely due to an increase in Stage 2 loans which were identified as experiencing a material increase in credit risk. Overall allowance levels, however, are mainly driven by weak macroeconomic factors as evidenced by declines in real estate values, persistent inflation, elevated interest rates, and a potential recession on the horizon. Steep declines in market activity and real estate prices from the peak in the first quarter combined with higher cap rates in commercial markets signal heightened credit risk for all lenders including Atrium. Management believes that real estate markets will contain an elevated level of risk until economic uncertainties subside.

Overall, 2022 was a strong year for Atrium in terms of portfolio growth and record earnings. It was also a year of stark change as real estate market conditions started strong out of the gate but progressively weakened due to rapid interest rate increases and inflationary pressures. The mid-to-long term demand fundamentals that support growth in residential real estate markets have not changed. Housing shortages and demographic trends will provide strong momentum once economic uncertainties subside. The commercial markets outside of the office sector remain fundamentally solid as well but have come under valuation pressure due to higher interest rate levels. Management remains focused on positioning the business to navigate through current headwinds that will likely persist for the coming quarters. The business remains focused on mitigating risk through disciplined underwriting standards that are aligned to the current market environment and active portfolio management. The focus will remain on low LTVs and lending in major urban centers in Ontario and BC where liquidity is high and our market knowledge and relationships are deepest. The business has capacity to grow but will do so in a very prudent manner should the right risk-reward opportunities arise.

Results of Operations

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

Financial summary

	Year ended December 31 2022	Year ended December 31 2021	Year ended December 31 2020
Revenue	$ 78,371	$ 64,235	$ 65,019
Mortgage servicing and management fees	(8,526)	(7,241)	(7,036)
Other expenses	(1,098)	(1,382)	(1,410)
Impairment loss on investment property held for sale	(1,832)	–	–
Recovery of prior mortgage losses	1,050	–	–
Provision for mortgage losses	(1,914)	(1,289)	(3,760)
Income before financing costs	66,051	54,323	52,813
Financing costs	(19,719)	(12,530)	(13,625)
Net income and comprehensive income	$ 46,332	$ 41,793	$ 39,188
Basic earnings per share	$ 1.08	$ 0.98	$ 0.93
Diluted earnings per share	$ 1.06	$ 0.98	$ 0.93
Dividends declared	$ 48,736	$ 41,346	$ 38,970
Mortgages receivable, end of year	$ 860,374	$ 759,225	$ 739,025
Total assets, end of year	$ 874,780	$ 775,487	$ 755,315
Shareholders' equity, end of year	$ 475,564	$ 470,167	$ 462,887

Summary of quarterly results *(unaudited)*

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Revenue	$ 23,159	$ 20,634	$ 18,201	$ 16,377	$ 15,767	$ 15,870	$ 16,147	$ 16,451
Mortgage servicing and management fees	(2,131)	(2,056)	(2,461)	(1,878)	(1,778)	(1,792)	(1,775)	(1,896)
Other expenses	(270)	(292)	(212)	(324)	(249)	(283)	(388)	(462)
Impairment of investment property held for sale	–	–	–	(1,832)	–	–	–	–
Recover of prior mortgage losses	50	–	200	800	–	–	–	–
Recovery of (provision for) mortgage losses	(1,230)	(1,114)	(583)	1,013	(20)	(400)	–	(869)
Income before financing costs	19,578	17,172	15,145	14,156	13,720	13,395	13,984	13,224
Financing costs	(6,345)	(5,346)	(4,470)	(3,558)	(2,981)	(2,840)	(3,359)	(3,350)
Net income and comprehensive income	$ 13,233	$ 11,826	$ 10,675	$ 10,598	$ 10,739	$ 10,555	$ 10,625	$ 9,874
Basic earnings per share	$ 0.31	$ 0.27	$ 0.25	$ 0.25	$ 0.25	$ 0.25	$ 0.25	$ 0.23
Diluted earnings per share	$ 0.30	$ 0.27	$ 0.25	$ 0.25	$ 0.25	$ 0.25	$ 0.25	$ 0.23
Dividends declared	$ 19,707	$ 9,706	$ 9,675	$ 9,648	$ 12,620	$ 9,601	$ 9,575	$ 9,550

Results of operations – Three months ended December 31, 2022

For the three months ended December 31, 2022, mortgage interest and fees revenues aggregated $22,961, compared to $15,650 in the comparative period, an increase of 46.7%. Virtually all our revenues are mortgage interest; therefore, the increase in revenue is due to a higher weighted average interest rate in the current quarter and a higher mortgage portfolio balance this quarter compared to the fourth quarter of 2021. The higher weighted average interest rate was driven by higher benchmark market rates compared to the prior year. A variety of other factors can 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, the timing of changes in the prime rate of interest, the timing and 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 10.77% at December 31, 2022, compared with 8.26% at December 31, 2021. We generated a net rental income of $198 for the three months ended December 31, 2022 from our investment properties compared to net rental income of $117 for the three months ended December 31, 2021 as a result of an improvement in the vacancy rate in the current quarter.

Operating expenses, excluding the provision for mortgage losses, impairment of investment properties held for sale and recovery of prior mortgage losses for the three months ended December 31, 2022 were $2,401, compared to $2,027 in the comparative period, an increase of 18.5%. This increase is primarily due to an increase in mortgage servicing and management fees and increase in professional fees and is partially offset by the adjustment to fair value

of unit-based compensation. Mortgage servicing and management fees paid (that is, the management fee plus HST) aggregated $2,131 for the three months ended December 31, 2022, compared with $1,778 in the comparative period. This increase was due to an increase in the mortgage portfolio balance in the current quarter as well as timing variations in mortgage fundings between the quarters, as mortgage servicing fees are calculated and paid monthly based on the mortgage portfolio balance outstanding during the month. Other expenses include a fair value adjustment on deferred share units of ($22) compared to a fair value adjustment of ($19) in the comparative quarter due to fluctuations in the share price between the quarters. The recovery of prior mortgage losses was ($50) in the quarter compared to $nil in the comparative period. The provision for mortgage losses was $1,230 in the quarter, for a total allowance of $10,706 at December 31, 2022 compared to a provision of $20 in the comparative period and a total allowance of $10,439 at December 31, 2021.

Financing costs for the three months ended December 31, 2022 were $6,345, compared to $2,981 in the same period of 2021, an increase of 112.8%. Coupon rate interest on convertible debentures was $2,156 for the three months ended December 31, 2022 compared to $1,363 for the comparative period. This increase was a result of more convertible debentures being outstanding in the current period. The book value of convertible debentures as at December 31, 2022 was $155,964, compared to $117,609 as at December 31, 2021. Accretion and other costs were $413 for the three months ended December 31, 2022 compared to $225 for the comparative period. Interest expense on the credit facility was $3,612 for the three months ended December 31, 2022, up from $1,302 for the comparative period. This increase is due to a higher balance drawn on the credit facility during the current quarter and a higher weighted average cost of borrowing in the fourth quarter of 2022 (6.25%) compared to the fourth quarter of 2021 (2.89%) as a result of increases in the prime rate and banker's acceptance rates between the periods.

Net income and comprehensive income for the three months ended December 31, 2022 was $13,233, an increase of 23.2% from net income and comprehensive income of $10,739 for the same period in the prior year. Basic and diluted earnings per common share were $0.31 and $0.30, respectively, for the three months ended December 31, 2022, compared with $0.25 basic and diluted earnings per share for the comparable period in the comparative period.

During the three months ended December 31, 2022, we funded mortgages receivable aggregating $70,966. Of those advances, $69,827 were first mortgages, representing 98.4% of the total loans funded. British Columbia advances were $20,223, advances of $38 were on properties in Alberta, $7,795 were non-GTA Ontario and the remaining $42,910 were for mortgages on properties located in the Greater Toronto Area. There were $61,559 of repayments during the period.

Results of operations – Year ended December 31, 2022

For the year ended December 31, 2022, mortgage interest and fees revenues aggregated $77,863, compared to $63,536 in the prior year, an increase of 22.5%. Virtually all our revenues are mortgage interest; therefore, the increase in revenue is due to a higher weighted average interest rate in the current period and a higher mortgage portfolio balance this period compared to the prior year. The higher weighted average interest rate was driven by higher benchmark market rates compared to the prior year. A variety of other factors can 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, the timing of changes in the prime rate of interest, the timing and 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 10.77% at December 31, 2022, compared with 8.26% at December 31, 2021. We generated net rental income of $508 for the year ended December 31, 2022 from our investment properties compared to net rental income of $699 for the year ended December 31, 2021. This decrease in rental revenue was primarily a result of repairs made to one of the properties in the second quarter of 2022.

Operating expenses, excluding the provision for mortgage losses, impairment of investment properties held for sale and recovery from prior mortgage losses for the year ended December 31, 2022 were $9,624, compared to $8,623 in the prior year, an increase of 11.6%. This increase is primarily due to the increase in mortgage servicing and management fees and is partially offset by the adjustment to fair value of unit-based compensation and the decrease in administration and general expenses. Mortgage servicing and management fees paid (that is, the management fee plus HST) aggregated $8,526 for the year ended December 31, 2022, compared with $7,241 in the comparative year. This increase was due to an increase in the mortgage portfolio balance in the current year as well as timing variations in mortgage fundings between the periods, as mortgage servicing fees are calculated and paid monthly based on the mortgage portfolio balance outstanding during the month. Other expenses include a fair value adjustment on deferred share units of ($160) compared to a fair value adjustment of $32 in the prior year due to fluctuations in the share price during the quarters. Administration and general costs for the year were $142 compared to $278 in the prior year as a result of costs incurred in the comparative year to settle a contract dispute. As a result of the economic conditions in Saskatchewan affecting vacancy and rental rates and other market information, the company estimated that the

carrying value of the Regina property exceeded its recoverable amount at March 31, 2022, resulting in an impairment of investment properties held for sale of $1,832. The recovery of prior mortgage losses was ($1,050) in the year compared to $nil in the comparative period. The provision for mortgage losses was $1,914 in the year, for a total allowance of $10,706 at December 31, 2022 compared to a provision of $1,289 in the comparative year for a total allowance of $10,439 at December 31, 2021. The property securing the Stage 3 mortgage that was outstanding at the prior year end was sold in the current year. The agreed upon sales price was higher than the estimate used in the expected credit loss model at December 31, 2021 which contributed to the reversal of a portion of the allowance on this mortgage. Additionally, we negotiated a settlement with guarantors to recover a portion of a losses incurred on two loans that were impaired in prior years. To date, a total of $1,050 has been received under these settlements.

Financing costs for the year ended December 31, 2022 were $19,719, compared to $12,530 in the prior year, an increase of 57.4%. Coupon rate interest on convertible debentures was $8,174 for the year ended December 31, 2022 compared to $6,103 for the prior year. This increase was a result of more convertible debentures being outstanding in the current year. Accretion and other costs were $1,547 for the year ended December 31, 2022 compared to $1,070 for the comparative year. Interest expense on the credit facility was $9,463 for the year ended December 31, 2022, up from $5,012 for the comparative year. This increase is due to a higher balance drawn on the credit facility during the current period and a higher weighted average cost of borrowing in the year ended December 31, 2022 (4.57%) compared to the year ended December 31, 2021 (2.86%) as a result of increases in the prime rate and banker's acceptance rates between the periods.

Net income and comprehensive income for the year ended December 31, 2022 was $46,332, an increase of 10.9% from net income and comprehensive income of $41,793 in the prior year. Basic and diluted earnings per common share were $1.08 and $1.06, respectively, for the year ended December 31, 2022, compared with $0.98 basic and diluted earnings per share for the previous year.

During the year ended December 31, 2022, we funded mortgages receivable aggregating $545,814. Of those advances, $465,888 were first mortgages, representing 85.4% of the total loans funded. British Columbia advances were $94,933, advances of $7,030 were on properties in Alberta, $29,454 were non-GTA Ontario and the remaining $414,397 were for mortgages on properties located in the Greater Toronto Area. There were $445,036 of repayments during the year.

Liquidity and capital resources

At December 31, 2022, we had borrowings under the credit facility (excluding unamortized and prepaid financing costs) of $223,959. The credit facility, currently authorized for up to $315,000 (December 31, 2021 – $240,000), is provided by a syndicate of five major chartered banks, drawn through a combination of bankers' acceptances and bank loans to minimize our borrowing costs. On May 10, 2022, the company entered into an amendment to its existing credit facility in order to, among other things, extend the maturity date, increase the accordion option from $30,000 to $60,000 and reduce the applicable margin rates. On June 22, 2022, the company entered into an amendment to the existing credit facility and exercised the accordion option, increasing the credit facility by $50,000 (such that the total maximum availability is $290,000). At any time during the term of the credit facility, the company had the right to increase the credit facility by up to $60,000 (such that the total maximum availability would be up to $350,000). On November 4, 2022, the company entered into another amendment to its existing credit facility in order to add another Canadian financial institution to its lending syndicate and to exercise the accordion option, increasing the facility by $25,000 such that the total maximum is $315,000. At any time during the term of the credit facility, the company has the right to increase the credit facility by up to an additional $35,000 (such that the total maximum availability would be up to $350,000).

At December 31, 2022, we had five series of convertible debentures outstanding, with a total book value of $155,964, and a face value (and maturity value) of $163,300. 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, 2022, total debt was 45.6% of total assets (December 31, 2021 – 39.4%). Our policy and our banking arrangements both require that total debt not exceed 50.0% of total assets.

Changes in financial position

Cash used in investing activities during the year ended December 31, 2022 consisted of principal repayments received of $429,790, less advances of principal on mortgage loan investments of $517,601 for net cash advances of mortgage loan investments of $87,811.

Borrowings under our operating credit facility (excluding unamortized and prepaid financing costs) increased to $223,959 at December 31, 2022, from $178,404 at December 31, 2021, due to the increase in our mortgage portfolio.

Accounts payable and accrued liabilities, including accrued convertible debenture interest, were $7,041 at December 31, 2022 compared to $3,574 at December 31, 2021. Dividends payable were $13,217 at December 31, 2022, up from $6,206 at December 31, 2021 as the December 31, 2022 balance included the special dividend for 2022 that will paid on February 28, 2023 of $0.23 per share compared to $0.07 per share in 2021.

Share capital increased to $471,882 at December 31, 2022 from $465,491 at December 31, 2021, primarily due to the issuance of common shares under the dividend reinvestment plan.

Contractual obligations

Contractual obligations due at December 31, 2022 were as follows:

As at December 31, 2022	Total obligation	Within 1 year	1 to 3 years	3 to 5 years	More than 5 years
Borrowings under credit facility	$236,644	$ 10,599	$226,045	$ –	$ –
Accounts payable and accrued liabilities	6,125	6,125	–	–	–
Accrued convertible debenture interest	916	916	–	–	–
Dividends payable	13,217	13,217	–	–	–
Convertible debentures	197,808	8,627	102,584	7,556	79,041
Total contractual obligations	$454,710	$ 39,484	$328,629	$ 7,556	$ 79,041

We have commitments to advance additional funds under existing mortgages of $76,625 and for new mortgages of $1,693 at December 31, 2022 (December 31, 2021 – $100,592, $6,598, 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, 2022, we had $12,158 (December 31, 2021 – $8,182) 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, 2022 was $25,000 (December 31, 2021 – $25,000). 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. $3,551 of cash was received, and is recorded in accounts payable and accrued liabilities for letters of credit on mortgages that are discharged (December 31, 2021 – $601).

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 $7,977 (including HST) for the year ended December 31, 2022 (year ended December 31, 2021 – $7,241). 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.

During the year ended December 31, 2022 CMCC reimbursed the company for share-based payments of $42 related to grants under the company's DSIP (year ended December 31, 2021 – $nil).

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, 2022 was $64 (year ended December 31, 2021 – $64).

Certain of the company's mortgages receivable are shared with other investors. As at December 31, 2022, companies owned by a director and or officer of the company were co-invested in one syndicated mortgage receivable of $22,000, of which the company's share was $21,000 and $19,750 had been funded (December 31, 2021 – the company was not co-invested in any syndicated mortgage receivables with companies owned by a director and or officer of the company).

As at December 31, 2022, the company had two mortgages receivable (December 31, 2021 – four) from borrowers over which a director and or officer of the company has joint control, with the company's share of the gross commitments totaling $9,200 (December 31, 2021 – $23,190), of which $8,350 had been funded at December 31, 2022 (December 31, 2021 – $19,342). During the year ended December 31, 2022, the company recognized net mortgage interest and fees of $1,428 (year ended December 31, 2021 –$808) from four (December 31, 2021 – four) mortgage receivables from borrowers over which a director and or officer of the company has joint control.

Critical accounting estimates and policies

Our consolidated financial statements for the year ended December 31, 2022 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;
(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;
(e) the measurement of fair value less costs to sell of the investment property held for sale; and
(f) the measurement of fair value of the purchased or originated credit-impaired financial assets reflecting the lifetime expected credit losses.

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.

Economic uncertainties that began from the onset of the COVID-19 pandemic continue to persist. This has resulted in a challenge of reliably estimating the impact on financial results and condition of the company in future periods. 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 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 and investment property held for sale. Management continues to monitor and assess the impacts of these economic uncertainties on its estimates, judgements and assumptions.

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 SPPI.

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 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 an overlay adjustment to account for the uncertainty and difficulty in forecasting future economic conditions which continue to persist.

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, 2022.

Revenue recognition

Mortgage interest and fees revenues are recognized in the statement of income and comprehensive income using the effective interest method, except mortgage interest and fees revenue on purchased or originated credit-impaired financial assets. 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.

Mortgage interest and fees revenue on purchased or originated credit-impaired financial assets is recognized in the consolidated statements of income and comprehensive income using the credit-adjusted effective interest rate, reflecting the expected credit losses, to the financial asset from initial recognition.

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. Most of the standards are not expected to have a material impact to the company but one standard that is applicable and currently being evaluated is summarized below.

Amendment to IAS 1 and IFRS Practice Statement 2
In February 2021, the International Accounting Standards Board issued narrow-scope amendments to IAS 1, Presentation of Financial Statements, IFRS Practice Statement 2, Making Materiality Judgements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The amendments require the disclosure of material accounting policy information rather than disclosing significant accounting policies, and clarify how to distinguish changes in accounting policies from changes in accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023, although earlier application was permitted. We are currently assessing the impacts of the amended standards but do not expect a significant impact to our financial disclosures.

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, 2022. 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 43,335,995 were issued and outstanding at December 31, 2022, and 43,423,743 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 1,693,440, 2,211,540, 1,949,152, 1,971,430 and 2,402,986 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.30%, 5.50%, 5.60%, 5.00% and the 5.10% convertible debentures, using the conversion price of $14.94, $15.60, $14.75, $17.50 and $16.75 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 debt or equity financing 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, 2022 which is incorporated herein by reference and is available at www.sedar.com and at www.atriummic.com.

Forward-looking information

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

All forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A or elsewhere. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and the general economic environment. For other risks and uncertainties, please refer to "Risks and uncertainties" above, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2022 which is available at www.sedar.com and at www.atriummic.com. That list is not exhaustive, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

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

Responsibility of management and the board of directors

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our audit committee and board of directors provide an oversight role with respect to our public financial disclosures, and have reviewed and approved this MD&A and the consolidated financial statements as at December 31, 2022.

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, 2022, is available on SEDAR at www.sedar.com. You may also obtain further information about us from our website at www.atriummic.com, by telephone at (416) 867-1053, or by email at info@atriummic.com.

Consolidated Financial Statements

Year Ended
December 31, 2022

CANADA'S PREMIER NON-BANK LENDER™

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the shareholders of
Atrium Mortgage Investment Corporation:

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 14, 2023

"Robert Goodall"	*"John Ahmad"*
Robert Goodall	John Ahmad
President and Chief Executive Officer	Chief Financial Officer

Crowe

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Atrium Mortgage Investment Corporation

Opinion
We have audited the consolidated financial statements of Atrium Mortgage Investment Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, 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, 2022 and December 31, 2021, 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 statements 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. The ECL model was modified to include a post-model overlay to adjust for the uncertainty of future economic conditions. 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 ECL model, the high degree of measurement uncertainty and the forward-looking nature of the assumptions made for variables used in measuring the ECL.

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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 and investment property held for sale.

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 Group's 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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

- 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.

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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 14, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Notes	December 31 2022	December 31 2021
Assets			
Mortgages receivable	5	$ 860,374	$ 759,225
Investment properties	6	14,302	1,101
Investment property held for sale	6	–	15,033
Prepaid expenses		104	128
Total assets		$ 874,780	$ 775,487
Liabilities			
Borrowings under credit facility	7	$ 222,994	$ 177,931
Accounts payable and accrued liabilities	8, 12	6,125	3,020
Accrued convertible debenture interest		916	554
Dividends payable		13,217	6,206
Convertible debentures	9	155,964	117,609
Total liabilities		399,216	305,320
Shareholders' equity			
Share capital	10	471,882	465,491
Deferred share incentive plan units		712	866
Equity component of convertible debentures		3,786	2,222
Contributed surplus		1,588	1,588
Retained earnings (deficit)		(2,404)	–
Total shareholders' equity		475,564	470,167
Total liabilities and shareholders' equity		$ 874,780	$ 775,487
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 Number	Share capital Amount	Deferred share incentive plan units	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance, December 31, 2020		42,411,853	$ 460,065	$ 716	$ 1,470	$ 1,083	$ (447)	$ 462,887
Shares issued under dividend reinvestment plan	10	337,337	4,606	–	–	–	–	4,606
Shares issued under employee share purchase plan	10	13,519	191	–	–	–	–	191
Shares issued under deferred share incentive plan	11	12,567	160	(160)	–	–	–	–
Shares issued on debenture conversion	9	31,738	469	–	(6)	–	–	463
Maturity of convertible debentures	9	–	–	–	(505)	505	–	–
Share-based payments	11	–	–	310	–	–	–	310
Equity component of convertible debentures issued	9	–	–	–	1,327	–	–	1,327
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(64)	–	–	(64)
Net income and comprehensive income		–	–	–	–	–	41,793	41,793
Dividends declared		–	–	–	–	–	(41,346)	(41,346)
Balance, December 31, 2021		42,807,014	$ 465,491	$ 866	$ 2,222	$ 1,588	$ –	$ 470,167
Shares issued under dividend reinvestment plan	10	470,927	5,666	–	–	–	–	5,666
Shares issued under employee share purchase plan	10	16,440	193	–	–	–	–	193
Shares issued under deferred share incentive plan	11	41,614	532	(532)	–	–	–	–
Share-based payments	11	–	–	378	–	–	–	378
Equity component of convertible debentures issued	9	–	–	–	1,640	–	–	1,640
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(76)	–	–	(76)
Net income and comprehensive income		–	–	–	–	–	46,332	46,332
Dividends declared		–	–	–	–	–	(48,736)	(48,736)
Balance, December 31, 2022		43,335,995	$ 471,882	$ 712	$ 3,786	$ 1,588	$ (2,404)	$ 475,564

Dividends amounted to $1.13 per share for the year ended December 31, 2022 (year ended December 31, 2021 – $0.97).

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 2022	2021
Revenues			
Mortgage interest and fees	8	$ 77,863	$ 63,536
Rental income	6	508	699
Total revenues		78,371	64,235
Operating expenses			
Mortgage servicing and management fees	8	8,526	7,241
Transfer agent, regulatory fees and investor relations		292	334
Share-based payments	8, 11	336	310
Professional fees		233	180
Directors' expense	8, 12	255	248
Administration and general		142	278
Adjustment to fair value of deferred share units	8, 12	(160)	32
Impairment of investment property held for sale	6	1,832	–
Recovery of prior mortgage loss		(1,050)	–
Provision for mortgage losses	5(b)	1,914	1,289
Total operating expenses		12,320	9,912
Income before financing costs		66,051	54,323
Financing costs			
Interest on convertible debentures	9	9,721	7,173
Interest and other financing charges	7, 12	9,998	5,357
Total financing costs		19,719	12,530
Net income and comprehensive income for the year		$ 46,332	$ 41,793
Earnings per common share			
Basic	13	$ 1.08	$ 0.98
Diluted	13	$ 1.06	$ 0.98

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Years ended December 31	
	2022	**2021**
Cash provided by (used in):		
Operating activities		
Net income and comprehensive income for the year	$ 46,332	$ 41,793
Adjustments to determine net cash flows provided by (used in) operating activities		
Share-based payments	378	310
Mortgage interest and fees earned	(77,863)	(63,536)
Mortgage interest and fees received	62,858	74,563
Interest on convertible debentures expensed	9,721	7,173
Interest and other financing charges expensed	9,998	5,357
Adjustment to fair value of deferred share units	(160)	32
Impairment of investment property held for sale	1,832	–
Provision for mortgage losses	1,914	1,289
Recovery of prior mortgage loss	(1,050)	–
Changes in operating assets and liabilities		
Prepaid expenses	24	(39)
Accounts payable and accrued liabilities	3,283	372
Additions to unamortized origination fees	803	571
Cash provided by operating activities	58,070	67,885
Investing activities		
Cash advances of mortgages receivable	(517,601)	(469,999)
Cash repayments of mortgages receivable	429,790	436,911
Recovery of acquisition costs in investment properties	–	67
Cash used in investing activities	(87,811)	(33,021)
Financing activities		
Advances under credit facility	569,855	783,415
Repayments under credit facility	(524,300)	(765,450)
Interest and fees on convertible debentures paid	(7,829)	(6,518)
Interest and other financing charges paid	(10,508)	(4,991)
Issuance of common shares	193	191
Repayment of convertible debentures	–	(39,785)
Issuance of convertible debentures	40,250	34,500
Convertible debenture issue costs	(1,861)	(1,663)
Cash dividends paid	(36,059)	(34,563)
Cash provided by (used in) financing activities	29,741	(34,864)
Increase in cash	–	–
Cash, beginning of year	–	–
Cash, end of year	$ –	$ –

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

NOTE 1 – NATURE OF OPERATIONS

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

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

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

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 14, 2023.

(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;

(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;

NOTE 2 – BASIS OF PRESENTATION (continued)

(e) Use of estimates and judgements (continued)

(e) the measurement of fair value less costs to sell of the investment property held for sale; and
(f) the measurement of fair value of the purchased or originated credit-impaired financial assets reflecting the lifetime expected credit losses.

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.

Economic uncertainties that began from the onset of the COVID-19 pandemic continue to persist. This has resulted in a challenge of reliably estimating the impact on financial results and condition of the company in future periods. 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 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. Management continues to monitor and assess the impacts of these economic uncertainties on its estimates, judgements and assumptions.

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.

Purchased or originated credit-impaired financial assets are initially recognized at fair value and are subsequently carried at amortized cost using the credit-adjusted effective interest rate.

(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 an overlay adjustment to account for the uncertainty and difficulty in forecasting future economic conditions which continue to persist. 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.

Purchased or originated credit-impaired financial assets are identified as credit-impaired at the time of origination based on specific characteristics of the asset, including financial difficulty of the borrower or issuer, borrower credit history or a past due event. Originated credit-impaired financial assets are accounted for based on the present value of expected cash flows as opposed to their contractual cash flows. Any changes in expected cash flows over the life of the originated credit-impaired financial asset are recognized in net income and comprehensive income.

(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, except mortgage interest and fees revenue on purchased or originated credit-impaired financial assets. 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.

Mortgage interest and fees revenues on purchased or originated credit-impaired financial assets is recognized in the consolidated statements of income and comprehensive income using the credit-adjusted effective interest rate, reflecting the expected credit losses, to the amortized cost of the financial assets from initial recognition.

(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 International Accounting Standard (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) Investment properties held for sale

Investment properties held for sale are properties that are available immediately for sale with the intention to sell the property within one year. Such properties are accounted for under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* A property is transferred from investment properties to investment properties held for sale when a plan to sell the property is initiated, the property is actively marketed for sale and management believes a sale is highly probable. Management measures investment properties held for sale at the lower of its carrying amount and fair value less costs to sell.

(h) Convertible debentures

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

(i) Income taxes

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

(j) Earnings per common share

Basic earnings per common share is calculated by dividing earnings during the 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 plan.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Share-based payments

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

(l) 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. Most of the standards are not expected to have a material impact to the company but one standard that is applicable and currently being evaluated is summarized below.

In February 2021, the IASB issued narrow-scope amendments to IAS 1, *Presentation of Financial Statements*, IFRS Practice Statement 2, *Making Materiality Judgements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments require the disclosure of material accounting policy information rather than disclosing significant accounting policies, and clarify how to distinguish changes in accounting policies from changes in accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023, although earlier application was permitted. We are currently assessing the impacts of the amended standards but do not expect a significant impact to our financial disclosures.

NOTE 5 – MORTGAGES RECEIVABLE

(a) Mortgage portfolio

	As at December 31, 2022			As at December 31, 2021		
Property type	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
High-rise residential	20	$ 300,989	34.7%	18	$ 234,847	30.6%
Mid-rise residential	30	225,281	26.0%	34	253,507	33.0%
Low-rise residential	14	128,244	14.8%	15	122,569	16.0%
House and apartment	158	108,124	12.5%	101	70,944	9.3%
Condominium corporation	12	2,189	0.3%	13	1,752	0.2%
Residential portfolio	234	764,827	88.3%	181	683,619	89.1%
Commercial	26	101,435	11.7%	16	83,512	10.9%
Mortgage portfolio	260	866,262	100.0%	197	767,131	100.0%
Accrued interest receivable		5,418			3,098	
Mortgage discount		(94)			(135)	
Unamortized origination fees		(506)			(430)	
Allowance for mortgage losses		(10,706)			(10,439)	
Mortgages receivable		$ 860,374			$ 759,225	

The mortgage portfolio has maturity dates between 2023 and 2032 with a weighted average remaining term of 10.9 months at December 31, 2022 (December 31, 2021 – 12.0 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 10.77% as at December 31, 2022 (8.26% as at December 31, 2021).

Within the mortgage portfolio, at December 31, 2022, there were 38 mortgages receivable aggregating to $231,318 (26.7% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage receivable (December 31, 2021 – 27 mortgages receivable aggregating $170,832; 22.3% 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, 2022.

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, 2023	$ 552,620	63.8%
2024	202,430	23.4%
2025	72,466	8.4%
2026	37,306	4.3%
2027	–	0.0%
Thereafter	1,440	0.1%
	$ 866,262	100.0%

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(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, 2022

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 300,989	$ –	$ –	$ 300,989
Mid-rise residential	225,281	–	–	225,281
Low-rise residential	104,578	23,666	–	128,244
House and apartment	105,798	2,326	–	108,124
Condominium corporation	2,189	–	–	2,189
Commercial	101,435	–	–	101,435
Mortgage portfolio	$ 840,270	$ 25,992	$ –	$ 866,262

Allowance for mortgage losses	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 3,454	$ –	$ –	$ 3,454
Mid-rise residential	2,597	–	–	2,597
Low-rise residential	1,335	1,734	–	3,069
House and apartment	786	5	–	791
Condominium corporation	7	–	–	7
Commercial	788	–	–	788
Mortgage portfolio	$ 8,967	$ 1,739	$ –	$ 10,706

As at December 31, 2021

Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 234,847	$ –	$ –	$ 234,847
Mid-rise residential	216,259	37,248	–	253,507
Low-rise residential	110,709	6,147	5,713	122,569
House and apartment	69,379	1,565	–	70,944
Condominium corporation	1,752	–	–	1,752
Commercial	83,512	–	–	83,512
Mortgage portfolio	$ 716,458	$ 44,960	$ 5,713	$ 767,131

Allowance for mortgage losses	Stage 1	Stage 2	Stage 3	Total
High-rise residential	$ 2,124	$ –	$ –	$ 2,124
Mid-rise residential	2,564	151	–	2,715
Low-rise residential	1,574	25	2,803	4,402
House and apartment	499	2	–	501
Condominium corporation	7	–	–	7
Commercial	690	–	–	690
Mortgage portfolio	$ 7,458	$ 178	$ 2,803	$ 10,439

The allowance for mortgage losses at December 31, 2022 is $10,706 (December 31, 2021 – $10,439). Of this allowance, $8,967 (December 31, 2021 – $7,458) represents management's estimate of the ECLs on mortgages receivable in the company's portfolio that have not experienced a significant increase in credit risk since initial recognition (Stage 1). The ECL was assessed individually for each mortgage receivable and commitment classified as Stage 2 and 3 and management estimated the ECL as $1,739 for mortgages receivable classified as Stage 2 and $nil for Stage 3 at December 31 2022 (December 31, 2021 – $178 and $2,803, respectively).

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(b) Allowance for mortgage losses (continued)

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

	Year ended December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
Opening balance, January 1, 2022	$ 7,458	$ 178	$ 2,803	$ 10,439
Allowance for mortgage losses				
Transfers to Stage 1 (1)	2	(2)	–	–
Transfers to Stage 2 (1)	(84)	84	–	–
Transfers to Stage 3 (1)	–	–	–	–
Net remeasurement (2)	1,072	1,628	(1,156)	1,544
Mortgage advances	2,210	–	–	2,210
Mortgage repayments	(1,691)	(149)	–	(1,840)
Write-off	–	–	(1,647)	(1,647)
Balance, December 31, 2022	$ 8,967	$ 1,739	$ –	$ 10,706

(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 macro-economic conditions, and changes in measurement following a transfer between stages. It also includes overlay adjustments as a result of economic uncertainties.

During the year ended December 31, 2022, the allowance for mortgage losses for mortgages classified as Stage 1 increased due to an increase in the mortgage portfolio balance as well as changes in assumptions in the expected credit loss model and overlay adjustment due to economic uncertainties. The allowance for mortgage losses classified as Stage 2 increased due to a higher ECL assessment of the individual loans at year end compared to the prior year. The allowance for mortgage losses classified as Stage 3 decreased due to the partial repayment and write-off of a loan classified as Stage 3. The ECL is assessed individually for Stage 2 and Stage 3 mortgages receivable.

Generally, the company continues to seek recovery on amounts that were written off during the reporting period, unless the company no longer has the right to collect or has exhausted all reasonable collection efforts. During the second quarter of 2022, the company wrote off $1,647 on one loan previously provided for and included in the Stage 3 allowance for mortgage losses. The company negotiated a settlement agreement with the borrower and guarantors on this loan that provides for a recovery over time of the amount written off. This settlement agreement has been accounted for as an originated credit-impaired financial asset.

	Year ended December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Opening balance, January 1, 2021	$ 7,005	$ 211	$ 1,934	$ 9,150
Allowance for mortgage losses				
Transfers to Stage 1 (1)	22	(22)	–	–
Transfers to Stage 2 (1)	(28)	28	–	–
Transfers to Stage 3 (1)	–	–	–	–
Net remeasurement (2)	374	11	869	1,254
Mortgage advances	1,895	–	–	1,895
Mortgage repayments	(1,810)	(50)	–	(1,860)
Balance, December 31, 2021	$ 7,458	$ 178	$ 2,803	$ 10,439

(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 macro-economic 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, 2021, the allowance for mortgage losses for mortgages classified as Stage 1 increased as a result of an increase in the mortgage portfolio balance, changes in assumptions in the expected credit loss model and a post-model adjustment made as a result of the continued economic uncertainty of the worldwide COVID-19 pandemic. The allowance for mortgage losses classified as Stage 2 decreased due to a decrease in the balances of loans in this stage and changes in assumptions in the expected credit loss model. The allowance for mortgage losses classified as Stage 3 increased due to changes in assumptions in the expected credit loss model. The ECL is assessed individually for Stage 2 and Stage 3 mortgages receivable.

NOTE 6 – INVESTMENT PROPERTIES AND INVESTMENT PROPERTY HELD FOR SALE

	Years ended December 31					
	2022			2021		
	Investment properties	Investment property held for sale	Total	Investment properties	Investment property held for sale	Total
Beginning of year						
Gross carrying amount	$ 1,101	$ 15,033	$ 16,134	$ 17,007	$ –	$ 17,007
Impairment	–	–	–	(806)	–	(806)
Balance, beginning of year	1,101	15,033	16,134	16,201	–	16,201
Recovery of acquisition costs	–	–	–	(67)	–	(67)
Impairment	–	(1,832)	(1,832)	–	–	–
Reclassification[1]	13,201	(13,201)	–	(15,033)	15,033	–
Balance, end of year	$ 14,302	$ –	$ 14,302	$ 1,101	$ 15,033	$ 16,134

(1) Reclassification included cumulative impairment of $2,638 at December 31, 2022 and $806 at December 31, 2021.

Investment properties consist of a four unit property in Leduc, Alberta and a 90 unit property in Regina, Saskatchewan. During the year ended December 31, 2022, the company made the decision to delist the 90 unit property in Regina, Saskatchewan from the sales market due to a higher than usual vacancy rate at the beginning of the period and to allow for the completion of maintenance work on the property. After considering the above and other real estate transactions under negotiation in Regina, Saskatchewan at that time, as well as, the economic conditions in Saskatchewan, the company estimated that the carrying value of the Regina, Saskatchewan property exceeded its recoverable amount by $1,832, an impairment was recognized, and the Regina, Saskatchewan property was reclassified as investment property at its carrying value of $13,201. 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.

Investment property held for sale at December 31, 2021 consisted of one residential 90 unit rental property in Regina, Saskatchewan. This property was classified as held for sale at that time after the company listed it for sale on July 5, 2021 and a realtor began actively marketing it in a manner typical for properties of this nature. As at December 31, 2022, the property is not being actively marketed for sale and the property is classified as an investment property.

	Years ended December 31	
Rental income	**2022**	**2021**
Revenue	$ 1,181	$ 1,078
Property operating costs	(673)	(379)
Rental income	$ 508	$ 699

NOTE 7 – CREDIT FACILITY

At December 31, 2022, the company had a credit facility from a syndicate of five Canadian financial institutions of $315,000 (December 31, 2021 – $240,000) at a formula rate that varies with bank prime and the market bankers' acceptance rate. On May 10, 2022, the company entered into an amendment to its existing credit facility in order to, among other things, extend the maturity date, increase the accordion option from $30,000 to $60,000 and reduce the applicable margin rates. On June 22, 2022, the company entered into an amendment to the existing credit facility and exercised the accordion option, increasing the credit facility by $50,000 (such that the total maximum availability is $290,000). At any time during the term of the credit facility, the company had the right to increase the credit facility by up to $60,000 (such that the total maximum availability would be up to $350,000). On November 4, 2022, the company entered into another amendment to its existing credit facility in order to add another Canadian financial institution to its lending syndicate and to exercise the accordion option, increasing the facility by $25,000 such that the total maximum is $315,000. At any time during the term of the credit facility, the company has the right to increase the credit facility by up to an additional $35,000 (such that the total maximum availability would be up to $350,000). Drawings under the credit facility may be by way of a bank loan (including an overdraft facility of up to $5,000 (December 31, 2021 – $5,000)), 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 March 11, 2024, 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. At December 31, 2022, the maximum balance available to be drawn on the credit facility was $315,000 (December 31, 2021 – $240,000). 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, 2022 and December 31, 2021, the company was in compliance with these covenants.

The annualized weighted average interest rate for the year ended December 31, 2022 was 4.57% (2.86% for the year ended December 31, 2021).

	As at December 31	
Credit facility	**2022**	**2021**
Bankers' acceptances	$ 210,000	$ 121,000
Bank loan	11,000	53,600
Overdraft facility	2,959	3,804
Unamortized and prepaid financing costs	(965)	(473)
Borrowings under credit facility	222,994	177,931
Letters of credit[(1)]	12,158	8,182
Total credit facility utilization	$ 235,152	$ 186,113

(1) $3,551 of cash was received, and is recorded in accounts payable and accrued liabilities, for letters of credit on mortgages that are discharged (December 31, 2021 – $601).

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, 2022 is interest on the credit facility of $9,463 (December 31, 2021 – $5,012) and bank fees and amortization of financing costs of $491 (December 31, 2021 – $320).

NOTE 8 – RELATED PARTY TRANSACTIONS

The company pays mortgage servicing and management 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. During the year ended December 31, 2022 the company incurred mortgage servicing and management fees of $7,977 (year ended December 31, 2021 – $7,241). 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 $717 (December 31, 2021 – $631) 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.

During the year December 31, 2022, CMCC reimbursed the company for share-based payments (see Note 11 – Share-based payments).

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, 2022 was $64 (year ended December 31, 2021 – $64).

Certain of the company's mortgages receivable are shared with other investors. As at December 31, 2022, companies owned by a director and or officer of the company were co-invested in one syndicated mortgage receivable of $22,000, of which the company's share was $21,000, of which $19,750 had been funded (December 31, 2021 – the company was not co-invested in any syndicated mortgage receivables with companies owned by a director and or officer of the company).

As at December 31, 2022, the company had two mortgages receivable (December 31, 2021 – four) from borrowers over which a director and or officer of the company has joint control, with the company's share of the gross commitments totaling $9,200 (December 31, 2021 – $23,190), of which $8,350 had been funded at December 31, 2022 (December 31, 2021 – $19,342). During the year ended December 31 2022, the company recognized net mortgage interest and fees of $1,428 (year ended December 31, 2021 – $808) from four (December 31, 2021 – four) mortgages receivable from borrowers over which a director and or officer of the company has joint control.

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

	Years ended December 31	
	2022	2021
Directors' fees [(1)] (Note 12)	$ 255	$ 249
Share-based payments to directors (Note 11)	128	112
Share-based payments to officers (Note 11)	92	71
	$ 475	$ 432

(1) The cumulative adjustment for the fair value of deferred share units issued under the deferred share unit plan was $(83) as at December 31, 2022 (year ended December 31, 2021 – $76) (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

	Convertible debenture					
	5.10%	5.00%	5.60%	5.50%	5.30%	
Year ended December 31, 2022	**AI.DB.G**	**AI.DB.F**	**AI.DB.E**	**AI.DB.D**	**AI.DB.C**	**Total**
Issued and outstanding face value	$ 40,250	$ 34,500	$ 28,750	$ 34,500	$ 25,300	$ 163,300
Book value –						
Convertible debentures, beginning of year	$ –	$ 31,608	$ 27,827	$ 33,416	$ 24,758	$ 117,609
Issued	40,250	–	–	–	–	40,250
Equity component	(1,640)	–	–	–	–	(1,640)
Issue costs	(1,861)	–	–	–	–	(1,861)
Issue costs attributed to equity component	76	–	–	–	–	76
Accretion for the year	369	398	281	267	215	1,530
Convertible debentures, end of year	$ 37,194	$ 32,006	$ 28,108	$ 33,683	$ 24,973	$ 155,964

On March 18, 2022, the company completed a public offering of 5.10% convertible debentures for gross proceeds of $35,000. On March 23, 2022, the company received gross proceeds of $5,250 from the exercise in full of the over-allotment option on the 5.10% convertible debentures.

	Convertible debenture					
	5.00%	5.60%	5.50%	5.30%	5.50%	
Year ended December 31, 2021	**AI.DB.F**	**AI.DB.E**	**AI.DB.D**	**AI.DB.C**	**AI.DB.B**	**Total**
Issued and outstanding face value	$ 34,500	$ 28,750	$ 34,500	$ 25,300	$ –	$ 123,050
Book value –						
Convertible debentures, beginning of year	$ –	$ 27,549	$ 33,151	$ 24,545	$ 39,982	$ 125,227
Conversion to shares	–	–	–	–	(463)	(463)
Issued	34,500	–	–	–	–	34,500
Equity component	(1,327)	–	–	–	–	(1,327)
Issue costs	(1,663)	–	–	–	–	(1,663)
Issue costs attributed to equity component	64	–	–	–	–	64
Repayment of convertible debenture	–	–	–	–	(39,785)	(39,785)
Accretion for the year	34	278	265	213	266	1,056
Convertible debentures, end of year	$ 31,608	$ 27,827	$ 33,416	$ 24,758	$ –	$ 117,609

On June 30, 2021, the company redeemed early all of the outstanding 5.50% 2021 convertible debentures for cash. The redemption totalled an aggregate principal amount of $39,785 plus all accrued and unpaid interest.

On November 30, 2021, the company completed a public offering of 5.00% convertible debentures for gross proceeds of $30,000. On December 6, 2021, the company received gross proceeds of $4,500 from the exercise in full of the over-allotment option on the 5.00% convertible debentures.

NOTE 9 – CONVERTIBLE DEBENTURES (continued)

	Convertible debenture					
	5.10% AI.DB.G	**5.00% AI.DB.F**	**5.60% AI.DB.E**	**5.50% AI.DB.D**	**5.30% AI.DB.C**	**5.50% AI.DB.B**
Maturity date	March 31, 2029	Dec. 31, 2028	March 31, 2025	Dec. 31, 2025	June 30, 2024	Sept. 30, 2021
Initial term	7 years	7 years	6 years	7 years	7 years	7 years
Conversion at option of shareholder at:	$16.75/share	$17.50/share	$14.75/share	$15.60/share	$14.94/share	$14.65/share
Interest payments date:	March 31, Sept. 30	June 30, Dec. 31	March 31, Sept. 30	June 30, Dec. 31	June 30, Dec. 31	March 31, Sept. 30
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 conversion price from:	March 31, 2025	Dec. 31, 2024	March 31, 2022	Dec, 31, 2021	June 30, 2020	Sept. 30, 2017
to:	March 31, 2027	Dec. 31, 2026	March 31, 2024	Dec. 31, 2023	June 30, 2022	Sept. 30, 2019
Redeemable at the company's option at par plus accrued interest and unpaid interest after:	March 31, 2027	Dec. 31, 2026	March 31, 2024	Dec. 31, 2023	June 30, 2022	Sept. 30, 2019

Interest costs related to the convertible debentures are recorded in financing costs using the effective interest method and consist of the following:

	Years ended December 31	
	2022	**2021**
Coupon rate interest on convertible debentures	$ 8,174	$ 6,103
Accretion and other costs	1,547	1,070
Interest on convertible debentures	$ 9,721	$ 7,173

NOTE 10 – SHARE CAPITAL

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

The company has an optional dividend reinvestment plan (DRIP) for shareholders, whereby participants may reinvest cash dividends in additional common shares of the company at the volume-weighted average price for five days prior to distribution, less a 2% discount. During the year ended December 31, 2022, 470,927 common shares were issued under the company's DRIP (year ended December 31, 2021 – 337,337), using reinvested dividends of $5,666 (year ended December 31, 2021 – $4,606). 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. On January 14, 2021, the company announced the reinstatement of its dividend reinvestment plan commencing with the dividend payable on February 12, 2021.

On June 16, 2022, 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 3,000,000 common shares during the twelve month period commencing June 24, 2022 and ending on June 23, 2023. The company did not purchase any common shares under the NCIB from the period June 24, 2022 to December 31, 2022.

Under the 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, 2022 ($13.31), August 11, 2022 ($11.92), and September 2, 2021 ($14.49).

	Years ended December 31					
	2022			2021		
	DSIP units	IDSIP units	Total	DSIP units	IDSIP units	Total
Balance, beginning of year	82,983	13,636	96,619	72,400	11,343	83,743
Units granted	41,000	–	41,000	23,350	–	23,350
Units earned	–	2,496	2,496	–	2,293	2,293
Units cancelled	(567)	–	(567)	(200)	–	(200)
Common shares issued	(35,850)	(5,764)	(41,614)	(12,567)	–	(12,567)
Balance, end of year	87,566	10,368	97,934	82,983	13,636	96,619

Share-based payments expense:	Years ended December 31	
	2022	2021
September 1, 2022 grant	$ 64	$ –
August 11, 2022 grant[(1)]	–	–
September 2, 2021 grant	165	69
September 1, 2020 grant	53	120
September 3, 2019 grant	22	67
September 1, 2018 grant	–	22
September 1, 2016 grant	8	9
September 1, 2015 grant	10	10
September 1, 2014 grant	10	9
August 30, 2013 grant	4	4
	$ 336	$ 310

(1) During the year ended December 31, 2022, CMCC reimbursed the company for share-based expenses of $42 related to grants under the company's DSIP (year ended December 31, 2021 – $nil).

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 value of the common shares on the last day of the quarter. The fair 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 value on the dividend payment date.

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 value of the company's common shares on or about the date of the payment. Amounts owed in relation to this plan of $642 (December 31, 2021 – $539) 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.

NOTE 12 – DEFERRED SHARE UNIT PLAN (continued)

	Years ended December 31	
	2022	2021
Directors' fees paid in DSUs	$ 219	$ 215
Dividends on DSUs	44	25
Adjustment to fair value of DSUs	(159)	32
	$ 104	$ 272

	Years ended December 31	
	2022	2021
Outstanding DSUs, beginning of year	38,080	21,072
Granted	18,663	15,186
Reinvested	3,615	1,822
Balance, end of year	60,358	38,080

NOTE 13 – EARNINGS PER SHARE

	Years ended December 31	
	2022	2021
Basic earnings per share –		
Numerator		
Net income and comprehensive income for the year	$ 46,332	$ 41,793
Denominator		
Weighted average common shares outstanding	43,057,886	42,596,713
Basic earnings per share	$ 1.08	$ 0.98
Diluted earnings per share –		
Numerator		
Net income and comprehensive income for the year	$ 46,332	$ 41,793
Interest on convertible debentures	9,721	7,173
Net income and comprehensive income for diluted earnings per share	56,053	48,966
Denominator		
Weighted average common shares outstanding	43,057,886	42,596,713
Convertible debentures	9,717,324	7,379,272
Deferred share incentive plan	83,022	76,342
Income deferred share units	12,949	12,541
Weighted average common shares outstanding – diluted basis	52,871,181	50,064,868
Diluted earnings per share	$ 1.06	$ 0.98

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 due to the fact that the majority of the mortgages receivable have floating interest rates. 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 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 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.

	Years ended December 31	
Convertible debentures	**2022**	**2021**
Fair value	$ 144,982	$ 125,173
Less book value of equity component	(3,786)	(2,222)
	$ 141,196	$ 122,951
Book value of financial liability component	$ 155,964	$ 117,609

(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, 2022 is $873,132 (December 31, 2021 – $767,972).

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, 2022.

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) – Mortgage portfolio and to the "Investment Portfolio" section of the Management's Discussion and Analysis for the year ended December 31, 2022. Management continuously monitors real estate values to ensure that the quality of the collateral underlying the remaining mortgage portfolio remains adequate.

At December 31, 2022, the largest borrower group accounted for 5.74% of mortgages receivable (December 31, 2021 – 7.0%). See Note 5(a) – Mortgage portfolio and Note 5(b) – Allowance for mortgage losses for a breakdown of mortgages receivable and the allowance for mortgage losses by property type.

NOTE 14 – FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its obligations when due. The primary sources of liquidity risk are the requirements to fund commitments for new mortgages, advances on existing mortgages 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, fund loan activity, 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.

As at December 31, 2022, management considers that it has adequate procedures in place to manage liquidity risk.

As at December 31, 2022	Carrying value	Contractual cash flow	Within 1 year	1 to 3 years	3 to 5 years	More than 5 years
Borrowings under credit facility[1]	$223,959	$236,644	$ 10,599	$226,045	$ –	$ –
Accounts payable and accrued liabilities	6,125	6,125	6,125	–	–	–
Accrued convertible debenture interest	916	916	916	–	–	–
Dividends payable	13,217	13,217	13,217	–	–	–
Convertible debentures[2]	155,964	182,836	67,086	36,709	79,041	–
Total	400,181	439,738	97,943	262,754	79,041	–
Unadvanced mortgage commitments[3]	–	78,318	78,318	–	–	–
Total contractual liabilities	$400,181	$518,056	$176,261	$262,754	$79,041	$ –

Notes:

(1) Includes interest assuming the outstanding balance is not repaid until maturity on March 11, 2024.

(2) The 5.30% debentures are assumed but not required to be repaid in the first quarter of 2023; 5.50% debentures are assumed but not required to be repaid December 31, 2023; 5.60% debentures are assumed but not required to be repaid March 31, 2024; 5.00% debentures are assumed to be repaid December 31, 2026; and the 5.10% debentures are assumed but not required to be repaid March 31, 2027.

(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.

(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 floating rates. The financial structure of the company results in relatively moderate interest rate risk because the 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, 2022, income and comprehensive income would have been reduced (increased) by approximately $2,055 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) $2,055.

NOTE 14 – FINANCIAL INSTRUMENTS (continued)

(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:

	As at December 31	
	2022	**2021**
Borrowings under credit facility	$ 222,994	$ 177,931
Convertible debentures	155,964	117,609
Total debt	378,958	295,540
Shareholders' equity	475,564	470,167
Capital employed	$ 854,522	$ 765,707

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. 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 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 12, 2023, the company issued 45,101 common shares ($474) to shareholders under its dividend reinvestment plan.

On February 10, 2023, the company issued 42,647 common shares ($478) to shareholders under its dividend reinvestment plan.

Corporate Directory

Board of Directors

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

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

Peter P. Cohos [1,4]
President,
Copez Properties Ltd.

Robert H. DeGasperis
President,
Metrus Properties Inc.

Andrew Grant [4]
President,
PCI Holdings Corp.

Maish Kagan [2]
President,
Canal Group

Nancy H. O. Lockhart [2,3]
Director, George Weston Ltd.
Director, Choice Properties REIT

Jennifer Scoffield CPA, CA
Director

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

Management

Robert G. Goodall
CEO and President

John Ahmad CPA, CA
CFO and Corporate Secretary

Richard Munroe
COO

Bram Rothman
Managing Director – Ontario

Phil Fiuza
Managing Director –
Ontario, Residential

Marianne Dobslaw
Managing Director –
British Columbia

Sunny Sarai
Managing Director –
British Columbia,
Residential

Transfer Agent

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

For Convertible Debentures
TSX Trust Company
2001 Robert-Bourassa
Blvd, Suite 1600
Montreal, QC H3A 2A6

Auditors

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

Share Listing

Common shares,
TSX: AI

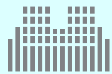
Convertible debentures 5.30%,
TSX: AI.DB.C

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

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

Convertible debentures 5.00%,
TSX: AI.DB.F

Convertible debentures 5.10%,
TSX: AI.DB.G



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