

ATRIUM MORTGAGE INVESTMENT CORPORATION
CANADA'S PREMIER NON-BANK LENDER™

ANNUAL INFORMATION FORM

FEBRUARY 11, 2014
FOR THE YEAR ENDED DECEMBER 31, 2013



TABLE OF CONTENTS		<u>PAGE</u>
CORPORATE STRUCTURE		3
Name, Address and Place of Incorporation		3
Inter-Corporate Relationships		3
Governance		3
GENERAL DEVELOPMENT OF THE BUSINESS		3
Three Year History		3
Highlights for the Year Ended December 31, 2011		4
Highlights for the Year Ended December 31, 2012		4
Highlights for the Year Ended December 31, 2013		4
Significant Acquisitions		5
DESCRIPTION OF THE BUSINESS		5
General		5
Industry Overview		6
Residential Mortgages		6
Multi-Family Residential, Investment Properties and Commercial Mortgages		6
Developer and Builder Loans		6
Mezzanine and Subordinated Debt Financing		6
Discounted or Distressed Mortgage Debt		6
Qualification as a Mortgage Investment Corporation		6
Licensing And Legislative Regime		7
Our Mortgage Portfolio		8
Management of the Mortgage Portfolio		9
Investment Objectives and Policies		10
Objectives		10
Investment Policies		10
Investment Strategies		11
Borrowing Strategy		11
Development and Maintenance of the Mortgage Portfolio		12
Syndication Strategy		12
Competitive Advantages		13
Experienced Management Team		13
Offices in Ontario, Alberta and British Columbia		13
Access to Real Property Transactions		13
Alignment of Interests		13
Prudent Growth		13
High Quality Portfolio		14
Conservative Capital Management		14
Risk Factors		14
Risks Relating to our Business		14
Risks Relating to our Common Shares		18
Risks Relating to our 5.25% Convertible Debentures		19
Management		19
General		19
The Manager		19
Duties and Services Provided by the Manager		20
Details of the Management Agreement		20
Manager Fees and Expenses		22
Non-Competition Arrangements		22
Employees		22
DIVIDENDS AND DISTRIBUTIONS		22
Dividend Policy		22
Dividend Reinvestment Plan		23
Dividend History		23

CAPITAL STRUCTURE	23
Authorized Capital	23
Restriction on our Business	23
Limitation on Ownership	23
5.25% Convertible Debentures.....	24
MARKET FOR SECURITIES	25
ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER.....	25
DIRECTORS AND EXECUTIVE OFFICERS.....	25
Directors and Executive Officers	25
Biographies	26
Cease Trade Orders, Bankruptcies, Penalties or Sanctions	28
Conflicts of Interest.....	29
EXPERTS.....	29
AUDIT COMMITTEE DISCLOSURE.....	29
Audit Committee Charter	29
Composition of the Audit Committee	30
Relevant Education and Experience.....	30
Pre-Approval Policies and Procedures	30
External Auditor Service Fees (By Category).....	31
LEGAL PROCEEDINGS AND REGULATORY ACTIONS	31
INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	31
TRANSFER AGENT AND REGISTRAR.....	31
MATERIAL CONTRACTS.....	32
NOTICE REGARDING FORWARD-LOOKING INFORMATION	32
ADDITIONAL INFORMATION.....	32
GLOSSARY OF TERMS.....	33
AUDIT COMMITTEE CHARTER.....	A1

CORPORATE STRUCTURE

NAME, ADDRESS AND PLACE OF INCORPORATION

Atrium Mortgage Investment Corporation (“Atrium”, “we”, “our” or “us”) was incorporated as “DB Mortgage Investment Corporation #1” under the *Business Corporations Act* (Ontario) by articles of incorporation dated July 30, 2001. Our registered and head office is located at 20 Adelaide Street East, Suite 900, Toronto, Ontario, Canada, M5C 2T6.

On both June 2, 2004 and August 27, 2009, our articles were amended, in each case, to postpone a requirement in our original articles of incorporation that our board commence the winding-up of Atrium, ultimately by December 31, 2015 and to provide our shareholders with certain limited rights to require us to redeem all or any part of their common shares.

On March 23, 2012, at the annual general and special meeting of our shareholders, various amendments were made to our articles in anticipation of Atrium becoming a reporting issuer in Canada whose shares would be listed on the TSX. The changes included: (i) the change of our name to “Atrium Mortgage Investment Corporation”; (ii) the subdivision and split of our outstanding common shares on the basis of 100 new common shares for every common share; (iii) various housekeeping changes to facilitate the transition of Atrium to a reporting issuer, including the deletion of all restrictions on the issue or transfer of our shares, all provisions dealing with the redemption of our common shares and the requirement that the board commence the winding-up of Atrium after December 31, 2015; (iv) the insertion of a restriction on our business activities so that we may not make any investment or conduct any activity that would result in our failing to qualify as a MIC; and (v) the insertion a provision that restricts a shareholder from holding, directly or indirectly, either alone or together with a person “related” to the shareholder, more than 25% of any class or series of our issued shares and providing for an automatic repurchase by us of any excess over 24.9% of the issued shares of any class or series of our shares in violation thereof.

Our board also adopted and approved amendments to By-Law No. 1 regulating our business and affairs on March 1, 2012, which amendments were subsequently confirmed and approved by our shareholders on March 23, 2012, and which amendments generally updated By-Law No. 1 for legislative changes since its original adoption in July 2001, removed the right of our shareholders to approve certain matters as provided for in By-Law No. 1 and otherwise ensured By-Law No. 1 was appropriate for a reporting issuer in Canada.

INTER-CORPORATE RELATIONSHIPS

We do not have any subsidiaries.

GOVERNANCE

Our board of directors is responsible for general oversight of our business and affairs. The Manager and its subsidiaries and affiliates originate and underwrite all mortgage loans on our behalf, service our mortgage portfolio and supervise our day-to-day management and operations.

The Manager and its subsidiaries and affiliates seek out, review and present us with mortgage loan opportunities that are consistent with our investment policies and objectives and service such mortgage loans on our behalf. The Manager has successfully originated, underwritten and serviced mortgage investments on behalf of numerous investor clients and financial institutions since 1994. The underwriting, investment and operating policies adopted by the Manager have proven to be well suited to the market serviced by the Manager and form the basis for our investment policies and objectives.

GENERAL DEVELOPMENT OF THE BUSINESS

THREE YEAR HISTORY

We are qualified as a “mortgage investment corporation” within the meaning of Section 130.1(6) of the ITA. Accordingly, we are not taxed on our income provided that our taxable income is paid to our shareholders as 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 us had been made directly by the shareholder.

Our common shares and 5.25% 7-year convertible debentures are listed on the TSX under the symbols “AI” and “AI.DB”, respectively. We became a reporting issuer in all provinces of Canada other than Quebec on August 29, 2012 and our common shares became listed and commenced trading on the TSX on September 4, 2012 following filing and receiving a receipt for our non-offering prospectus dated August 24, 2012. Previously, we were a private company. In June and July 2013, we completed a public offering of \$32.5 million aggregate principal amount of our 5.25% convertible debentures.

In the past three years, we have not made any significant acquisitions or dispositions. Our business has grown organically as our mortgages receivable have increased from \$157,492,666 at December 31, 2011, to \$201,954,951 at December 31, 2012, and to \$281,708,139 at December 31, 2013 as reflected in our most recently filed audited annual financial statements. During these periods, portfolio growth was funded through bank indebtedness, issuances of common shares and the issuance of the 5.25% convertible debentures.

HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2011

- For the year ended December 31, 2011, our revenues were \$9,440,811, we earned \$0.88 per share, basic and diluted, and declared dividends of \$9,456,254 (\$0.87 per share).
- We had \$157.5 million of mortgages at December 31, 2011. During 2011, we funded mortgages aggregating \$116.4 million. One first mortgage was in arrears as at December 31, 2011. As a result, adequate reserves were established to cover any potential losses.

HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2012

- For the year ended December 31, 2012, our revenues were \$13,358,327, we earned \$0.86 per share, basic and diluted, and declared dividends of \$13,385,261 (\$0.85 per share including a special dividend of \$0.02 per share payable on March 21, 2013 to shareholders of record at the close of business on December 31, 2012). One-time expenses related to listing our shares on the TSX resulted in a \$0.03 per share decrease in earnings, which is reflected in our earnings per share for the 2012 fiscal year.
- Our common shares commenced trading on the TSX, with the symbol “AI”, on September 4, 2012, after we filed and received a receipt for a non-offering prospectus dated August 24, 2012.
- We completed a public and private share placement in December 2012 for gross proceeds of \$62.3 million, including an over-allotment option that was fully exercised.
- We had \$202.0 million of mortgages at December 31, 2012. During 2012, we funded mortgages aggregating \$129.1 million. Two first mortgages, totaling \$5.1 million, were in arrears as at December 31, 2012. As a result, adequate reserves were established to cover any potential losses.
- For the year ended December 31, 2012, mortgage interest and other fees aggregated \$17.2 million, which was an increase of 51% compared to the prior year. The weighted average yield in our mortgage portfolio declined from 9.4% during 2011 to 8.9% during 2012.
- Effective October 1, 2012, we hired Bruce Weston as managing director for British Columbia, and opened our Vancouver office located at 668-1199 West Pender Street, Vancouver BC V6E 2R1. Mr. Weston has over 30 years of lending experience and is very well connected in the B.C. market.
- In September 2012, we entered into a new revolving operating credit facility with our bank, increasing the maximum availability to \$50 million from \$40 million previously. Prior to our common share offering in December 2012, we negotiated a temporary increase in the operating facility of \$25 million, which was repaid and cancelled at the time the offering was completed.

HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2013

- For the year ended December 31, 2013, our revenues were \$23.8 million, and we earned \$0.85 per share, basic and diluted, and paid dividends of \$0.85 per share (including a special dividend of \$0.05 per share payable on March 5, 2013 to shareholders of record at the close of business on December 31, 2012).
- During 2013, we actively managed the risk profile of our mortgage portfolio, and currently target commercial real estate, low rise infill developments and single family mortgages. Infill development loans and single family mortgages were, until recently, dominated by the banks, who have been pressured politically to reduce their exposure to real estate. Their reduced involvement has allowed Atrium to increase its mortgage business in these low risk sectors.
- We paid a regular dividend of \$0.066667 per share every month in 2013, a rate of \$0.80 per year. In 2013, our total dividends paid, including the special dividend at year-end, aggregated \$0.85 per share. Subsequent to year end, we announced that we were increasing our regular monthly cash dividends, from an annual rate

of \$0.80 to \$0.82 per share (or \$0.068333 per share monthly), beginning with our January 2014 monthly dividend.

- We had \$281.7 million of mortgages receivable at December 31, 2013, an increase of 40.1% from December 31, 2012 mortgages receivable of \$201.9 million.
- On January 7, 2013, we hired Dan Stewart as managing director for Alberta and Saskatchewan. Mr. Stewart has over 25 years of lending experience in the Prairie Provinces and many strong relationships with developers.
- In June and July 2013, we completed a public offering of \$32.5 million aggregate principal amount of our 5.25% convertible debentures, the net proceeds of which were used to repay indebtedness under our operating credit facility.
- On October 10, 2013 we entered into a revised operating credit facility with a syndicate of lenders increasing the facility to \$80 million, from \$50 million. The revised operating credit facility is for a one year term ending October 9, 2014. Subsequent to year end, we obtained a \$30 million short-term increase in our operating credit facility, which amount is required to be repaid on the earlier of April 30, 2014 and the closing of any public equity or convertible debt issuance by us. We believe these significant increases in our operating credit facility reflect our lenders' confidence in us, and will allow us to create additional value for shareholders by investing in mortgages yielding far higher rates than the cost of the bank line.

SIGNIFICANT ACQUISITIONS

There were no significant acquisitions completed by us in the most recently completed financial year.

DESCRIPTION OF THE BUSINESS

GENERAL

We are a mortgage lender that was created to fill the lending gap caused by the limited number of financial institutions operating in Canada. We lend in major urban centres where the stability and liquidity of real estate are at the highest levels.

We focus on loans that cannot be placed with financial institutions but which represent an acceptable underwriting risk. 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%. A typical loan in our portfolio has an interest rate of 8% to 10% per annum, a one or two-year term and monthly interest only mortgage payments. Our basic lending parameters are as follows:

- First or second mortgages on income-producing real estate up to a maximum of 85% of value.
- 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.
- Construction loans up to a maximum of 90% of cost.
- Loans to condominium corporations.

Mortgage loan amounts are generally \$300,000 to a maximum of \$20,000,000. The largest mortgage in our mortgage portfolio as at December 31, 2013 was \$12.1 million. For loan amounts in excess of \$15 to \$20 million, we co-lend with one or more private lenders or financial institutions. The parameters listed above are our maximum mortgage lending parameters.

We are qualified as a MIC and our articles restrict us from making any investment or conducting any activity that would result in us failing to qualify as a MIC.

Generally, we fund mortgages secured by all types of residential and commercial real property located in Canada, subject to compliance with our investment policies. The types of properties that we finance include residential houses, small multi-family residential properties comprised of six or fewer units, residential apartment buildings, mixed-use residential apartments and store-front properties, commercial properties, residential and commercial land and development sites and development and construction projects. We also invest in short-term bridge financing for residential and commercial real estate (including construction loans for such properties). Non-conventional mortgages do not represent a substantial proportion of the portfolio, and are only considered when there are other mitigating factors which reduce the risk profile to acceptable levels.

Our investment objectives are to preserve our shareholders' equity and to provide our shareholders with stable and secure dividends from our investments in mortgage loans within the criteria 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.

INDUSTRY OVERVIEW

The larger financial institutions in Canada are focused on mortgage loans that comply with the often restrictive lending criteria of Canadian banks. As a result of the focus of large financial institutions on limited types of mortgage loans, opportunities exist in the mortgage finance market due to the general lack of competition. We have profitably taken advantage of these mortgage investment opportunities sourced through the Manager since 2001. The areas in which we focus are set out below.

RESIDENTIAL MORTGAGES

The single family conventional mortgage market in Canada has been dominated by the Schedule I banks that are aggressive in underwriting single family conventional mortgage loans under rigid underwriting criteria. The five largest Schedule I banks are generally less aggressive in pursuing single family conventional mortgage loans where the borrower is self-employed or an investor, the borrower intends to subdivide or redevelop the property, a significant proportion of the property value is land, the borrower intends to substantially renovate the property, the borrower is seeking a loan amount of \$1 million or greater, or the borrower or the loan is otherwise outside the strict lending guidelines of the Schedule I banks. Consequently, borrowers that do not meet the rigid underwriting criteria of the Schedule I banks find it more difficult to obtain financing from traditional financial institutions, regardless of loan-to-value ratios or security offered.

MULTI-FAMILY RESIDENTIAL, INVESTMENT PROPERTIES AND COMMERCIAL MORTGAGES

Mortgage lending in the investment property market is dominated by a few large financial institutions, including the Schedule I banks, life insurance companies and pension funds. These institutions are very conservative and focus on the highest quality of income producing properties with large real estate investors. In addition, many of these institutions only underwrite loans of \$5 million or greater. As a result, we are able to find lending opportunities providing first and second mortgage financing on all other types of income producing properties.

DEVELOPER AND BUILDER LOANS

Builders and developers require loans to acquire land to build low rise, midrise and high rise developments. The Schedule I banks lend on a limited basis on land, so this is a niche that we can profitably exploit. In addition, the banks tend to overlook construction loans on infill developments because the loan amount is typically below their minimum threshold.

MEZZANINE AND SUBORDINATED DEBT FINANCING

Mezzanine or subordinated debt financing for residential and commercial development projects is highly fragmented. There are virtually no institutional providers of this specialized financing for developers, and the capital providers are typically small private entities with limited access to capital. Given the lack of participation from the larger financial institutions, there is little competition in this market segment, which gives us the opportunity to underwrite well-structured, secure mortgage loans with attractive pricing.

DISCOUNTED OR DISTRESSED MORTGAGE DEBT

Discounted or distressed mortgage debt consists of performing and non-performing mortgages acquired from financial institutions, receivers and liquidators. Investment returns result from the interest rate earned on the mortgage, as well as the difference between our cost for purchasing the mortgage and the amount ultimately repaid.

QUALIFICATION AS A MORTGAGE INVESTMENT CORPORATION

We operate as a MIC. To qualify as a MIC in a taxation year, we must continually meet all of the criteria enumerated in subsection 130.1(6) of the ITA throughout such taxation year, including the following requirements:

- (a) *Canadian Corporation.* We must be a "Canadian corporation", as defined in the ITA, which generally means a corporation incorporated or resident in Canada;
- (b) *Undertaking.* Our only undertaking was the investing of our funds. We cannot have managed or developed any real or immovable property;

- (c) *Prohibited Foreign Investment.* None of our property consisted of debts owing to us secured on real or immovable property situated outside Canada, debts owing to us by non-resident persons unless such debts were secured on real or immovable property situated in Canada, shares of the capital stock of corporations not resident in Canada, or real or immovable property situated outside of Canada or any leasehold interest in such property;
- (d) *Shareholder Requirements.* We have at least 20 shareholders. In addition, no shareholder (together with Related Persons, as defined below) of Atrium at any time in the year owned, directly or indirectly, more than 25% of the issued shares of any class of Atrium. Special rules apply for the purposes of counting shareholders that are registered pension plans or deferred profit sharing plans;
- (e) *Preferred Shareholders.* Holders of preferred shares (if any) of Atrium had the right, after payment to them of their preferred dividends and payment of dividends in a like amount per share to the holders of our common shares, to participate *pari passu* (equally) with the holders of our common shares in any further payment of dividends;
- (f) *50% Asset Test.* The cost amount for tax purposes to us of our property in the form of or as a combination of money, debts secured on certain 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 (such debts and deposits referred to as "Required Property") constituted at least 50% of the cost amount to us of all of its property;
- (g) *25% Asset Test.* The cost amount for tax purposes to us of our property in the form of interests in real or immovable property (including leaseholds but excepting real or immovable property acquired by foreclosure after default by the mortgagor) did not exceed 25% of the cost amount to us of all of our property; and
- (h) *Debt to Equity Ratio.* Where at any time in the year the cost amount to us of our money and Required Property represented less than two-thirds of the aggregate cost amount to us of all of our property, our liabilities may not exceed 75% of the cost amount to us of all our property. Where, however, throughout the year the cost amount to us of our money and Required Property represented two-thirds or more of the aggregate cost amount to us of all of our property, our liabilities may not exceed 83.33% of the cost amount to us of all our property.

With respect to the requirement noted above that no shareholder (together with related persons) may own more than 25% of the shares of any class of Atrium, for these purposes "Related Persons" include a corporation and the person or persons that control the corporation, a parent corporation and its subsidiary corporation(s) and corporations that are part of the same corporate group, and an individual and that individual's spouse, common-law partner or child under 18 years of age. The rules in the ITA defining "Related Persons" are complex and holders should consult with their own tax advisors in this regard. For the purposes of the 50% asset test noted above, the requirement is that our investments must comprise the specified minimum amount of debts that are secured by mortgages, hypothecs or in any other manner, on "houses" or on property included within a "housing project", as those terms are defined in the *National Housing Act* (Canada). Generally, a "house" includes all or part of a building or moveable structure that is intended for human habitation containing not more than two family housing shares, and "housing project" includes all or part of a building or movable structure intended for human habitation, any property intended to be converted or developed to provide housing accommodation, or property associated with housing accommodation such as parking, public and recreational facilities.

LICENSING AND LEGISLATIVE REGIME

All provinces throughout Canada have enacted legislation to govern the mortgage broker industry. Under all of these Acts, corporations, partnerships and sole proprietorships that carry on the business of dealing in or trading in mortgages, or carry on business as a mortgage lender, are required to hold a valid brokerage license. A person or entity is a mortgage lender when he, she or it lends money on the security of real property. An individual who deals in mortgages or trades in mortgages is required to be licensed as a mortgage broker or a mortgage agent. A mortgage broker or mortgage agent can only act on behalf of one specified mortgage brokerage and every brokerage must appoint a principal broker who is licensed as a mortgage broker. Corporations, partnerships and sole proprietorships that carry on the business of administering mortgages are required to hold a valid mortgage administrator's license.

As we are not licensed as a mortgage brokerage or administrator and we do not employ any mortgage brokers or agents, we cannot engage directly in the business of lending money on the security of real property or administering mortgages, and must therefore conduct our mortgage lending activities under contract with a licensed mortgage brokerage such as the Manager (and its subsidiaries that are licenced in provinces other than Ontario) and a licensed mortgage administrator such as the Manager's wholly-owned subsidiary, CMSC. A mortgage brokerage and its principal broker must obtain a brokerage and a broker license, respectively, issued by the applicable provincial regulatory body. The Manager (either directly or through one of its wholly-owned subsidiaries, such as CMSC), which performs mortgage brokerage, servicing and administration services on our behalf pursuant to the Management Agreement, currently holds a valid license with each of the applicable provincial regulatory bodies to permit it to carry on the activities contemplated in the Management Agreement and operates in compliance with applicable provincial legislation. The Manager's (or one of its subsidiaries') license with each applicable provincial regulatory body qualifies it to syndicate mortgage loans. The Manager's wholly-owned subsidiaries, such as CMSC, are also licensed as a mortgage administrator where required.

Each provincial regulatory body with whom the Manager and its subsidiaries are licensed has wide authoritative power over the mortgage brokerage and administrator industry, including the power to grant or renew licenses, the power to revoke licenses, the power to attach conditions to licenses, and the power to investigate complaints made regarding the conduct of registered mortgage brokerages, brokers, agents and administrators. Under each applicable provincial Act, there are several requirements a mortgage brokerage, broker, agent or administrator must meet in order to obtain or renew a license. These Acts also impose a continuing obligation on a registered mortgage broker and/or agent to remain in compliance with applicable legislation, failing which the applicable provincial regulatory body may revoke a license.

Generally, a mortgage brokerage or administrator will not be granted a license or a renewal of a license if, having regard to the financial position of the mortgage brokerage or administrator, it could not reasonably be expected that the mortgage brokerage or administrator would be financially responsible in the conduct of its business. In addition, a license will not be granted or renewed if the past conduct of the applicant is such that it provides reasonable grounds for the applicable provincial regulatory body to believe that the mortgage brokerage or administrator will not conduct business legally and with integrity and honesty. In the case of a corporate mortgage brokerage or administrator, the applicable provincial regulatory body will look to the past conduct of the directors and officers of the corporation.

OUR MORTGAGE PORTFOLIO

We advance mortgages based on an appraisal and an underwriting report prepared by the Manager for each mortgage. Based upon this information, our board assesses the overall risk profile of the mortgage and considers whether the mortgage meets our objectives and investment policies. Our mortgage portfolio has been sourced by the Manager. As at December 31, 2013, our mortgage portfolio consisted of 131 mortgages loans, further details of which are contained in our Management's Discussion and Analysis for the year ended December 31, 2013, which is available at www.sedar.com or on our website at www.atriummic.com.

All properties are evaluated on the basis of location, quality, prospects for capital appreciation, and in the case of commercial mortgages, prospects for income. In addition, the credit of the borrower is also reviewed and, where appropriate, personal or corporate covenants are obtained.

At December 31, 2013, the average loan-to-value ratio of the mortgage portfolio on a weighted average basis was 64.14%. As December 31, 2013, one of our mortgages was in default, with an amount outstanding of \$2.57 million. We believe that adequate reserves have been established to cover any potential losses. Generally, a default occurs under a mortgage if the borrower fails to make any payment thereunder when due (including principal, interest and realty taxes) or fulfill any of the covenants set out therein when required (including covenants relating to, among other things, the provision and maintenance of security and insurance, disposition restrictions on the subject mortgaged property and the provision of financial statements of the borrower and any guarantor(s), environmental site assessment reports and soil tests); in our opinion, a material adverse change occurs in the financial position of the borrower and/or any guarantor(s) and/or the subject mortgaged property given as security; or if any of the representations or warranties made by the borrower in its application for the mortgage, the mortgage documentation or in any document or certificate delivered pursuant to the mortgage documentation is incorrect in a material respect.

Our mortgage portfolio consists of mortgages secured by a range of properties which reflect, among other things, the following characteristics:

- Our mortgage portfolio is diversified by property type and no group of mortgages to a single borrower (including associates of such borrower) represents more than 14.6% of the total of our mortgage portfolio at December 31, 2013.
- Payment schedules consist primarily of interest only, with a few consisting of blended interest and principal.
- Mortgages are generally written for terms of five years or less, with a majority currently being one to two years.
- Our mortgage loans are secured by real property located in Ontario (principally in Toronto and the surrounding area), British Columbia (Vancouver and Victoria) and Alberta (Calgary and Edmonton), and are denominated in Canadian dollars.

The following is an overview of our mortgage portfolio as at December 31, 2013 and December 31, 2012 as well as the related interest and fees earned for the same years:

	December 31, 2013	December 31, 2012
Mortgage portfolio	\$282,359,565	\$201,483,222
Accrued interest receivable	1,562,173	2,589,639
Mortgage discount, net of accumulated amortization	(338,480)	(385,508)
Mortgage origination fees	(724,452)	(644,735)
Provision for mortgage losses	(1,150,667)	(1,087,667)
Mortgage receivable	<u>\$281,708,139</u>	<u>\$201,954,951</u>
Mortgage interest and fees	<u>\$23,759,620</u>	<u>\$17,235,060</u>

MANAGEMENT OF THE MORTGAGE PORTFOLIO

The Manager (either directly or through its wholly-owned subsidiaries) is responsible for originating, underwriting, servicing and syndicating our mortgage investments pursuant to the Management Agreement. The Manager is also responsible for ensuring compliance with our investment policies and, after confirming such compliance, the Manager presents a mortgage investment opportunity to the members of our board.

We have implemented the following controls to limit and manage risk:

- Conservative investment policies, including 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%.
- Detailed mortgage underwriting analysis that emphasizes realty values, lending exposure and commentary.
- Independent appraisals prepared by qualified appraisers for virtually all mortgage loans.
- When appropriate and subject to our cash position and the underlying investment profile, a syndication strategy whereby the Manager syndicates on our behalf mortgage loans with other investors to diversify and share risks associated with a given mortgage loan. Syndication generally occurs on: (i) larger loans where we wish to participate but require other investors; or (ii) loans where the risk profile of the mortgage is beyond an acceptable level for us, and we choose to syndicate the subordinate tranche of the mortgage to reduce our risk profile.

The Manager monitors the performance of our mortgage portfolio, including tracking of the status of outstanding payments due, grace periods and due dates, and the calculation and assessment of other applicable charges. The Manager makes reasonable efforts to collect all payments called for under the terms and provisions of each mortgage comprising our mortgage portfolio and follows appropriate and prudent collection procedures or procedures the board may otherwise direct.

The Manager monitors any loan that is in default, evaluates whether the causes of the default will be corrected quickly without significant impairment of the value of the mortgaged property, initiates corrective action, inspects

the mortgaged property and takes such other actions as are consistent with appropriate and prudent collection procedures. The Manager may initiate enforcement proceedings following default under the terms of a mortgage.

The time within which the Manager may make the initial determination of appropriate action, evaluate the appropriate corrective action, if any, develop additional initiatives, or institute foreclosure, power of sale or other enforcement proceedings on behalf of us may vary considerably depending on the particular mortgage loan, the mortgaged property, the borrower, the mortgagor's circumstances as perceived by the Manager and the presence of an acceptable party to assume the mortgage loan. If a borrower makes a proposal, an assignment or takes any other proceedings under the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada), the *Winding-Up and Restructuring Act* (Canada) or other insolvency, arrangement or other legislation for the relief of debtors, the Manager may not be permitted to accelerate the maturity of the related mortgage loan, to foreclose the mortgaged property or to exercise power of sale or other mortgage enforcement proceedings for a considerable period of time.

INVESTMENT OBJECTIVES AND POLICIES

OBJECTIVES

Our investment objectives are to preserve our shareholders' equity and to provide our shareholders with stable and secure dividends from our investments in mortgage loans within the criteria 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.

Our investment goal is to make prudent mortgage loans which provide financing for real property situated in Canada and primarily in major urban centres in Ontario, British Columbia and Alberta. As at December 31, 2013, 80.9% of our mortgage loans (by amount outstanding) were located in the greater Toronto area. We do not invest in real property other than by way of investment in mortgages, subject to certain limited exceptions such as the acquisition of real property through foreclosure of a mortgage. The Manager, on our behalf, reviews and selects mortgage investment opportunities to be approved by the members of our board and manages our mortgage portfolio. In making its mortgage loan selections, the Manager adheres to our investment policies.

We invest in mortgages on all types of residential and commercial real property, provided that, in the case of conventional mortgages, the Manager is satisfied that the fair market value of the real property which provides the security underlying the mortgage loan is acceptable in the circumstances, and provided further that such mortgages comply with our investment policies. The types of properties that we finance include residential houses, small multi-family residential properties comprised of six or fewer units, residential apartment buildings, mixed-use residential apartments and store-front properties, commercial properties, residential and commercial land and development sites and development and construction projects. The principal types of non-conventional mortgages are mezzanine and subordinated mortgage debt for investment properties, and discounted or distressed mortgage debt purchases from financial institutions for high yield investment purposes. Non-conventional mortgages do not represent a significant proportion of our overall mortgage portfolio.

All properties are evaluated on the basis of location, quality, prospects for capital appreciation and, in the case of commercial mortgages, growth and stability of income. In addition, the credit of the borrower is also reviewed and, where appropriate, corporate or personal covenants are obtained. We may invest in mortgages relating to renovations or improvements of existing real property and may also finance or purchase mortgages. We have engaged the Manager to carry out our investment objectives and goals subject to the ultimate supervision of our board. The board or a certain number of the members of the board must approve all mortgage loans proposed by the Manager.

INVESTMENT POLICIES

The board has established certain restrictions on the investments that we may undertake, as follows:

- (a) We may invest only in residential mortgages, commercial mortgages, commercial mortgage backed securities and related investments.
- (b) When not invested in mortgages on the security of real property situated within Canada, our funds will be placed in certain interim investments.
- (c) Commercial mortgages may not constitute any more than 50% of our total assets at any time.

- (d) The term of the mortgage must be no greater than ten years.
- (e) No individual mortgage or a portion of a mortgage will exceed \$20,000,000.
- (f) No single borrower will account for more than 15% of our total assets.
- (g) All mortgages will be supported by external appraisals by a qualified appraiser. All mortgages, except mortgages secured against a single residence, will be supported by environmental audits.
- (h) No mortgage will initially exceed 85% loan-to-value, including any prior ranking encumbrances, and 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%.
- (i) Our ratio of debt to equity may not exceed 1:1.
- (j) We do not typically invest directly in real property, although real property may be acquired through foreclosing on a mortgage.
- (k) Any investment: (i) of \$1,000,000 or more requires approval of the board; (ii) of between \$500,000 and \$1,000,000 requires approval of three members of the board, including at least two independent directors; (iii) of \$500,000 or less requires approval of any one member of the board; and (iv) for a mortgage previously approved by the board but where the mortgage amount exceeds the amount so approved by up to \$100,000, requires approval of three members of the board. However, 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.
- (l) We may not make unsecured loans to, nor invest in securities issued by, the Manager or its affiliates, nor make loans to the directors or officers of the Manager.
- (m) We may not make any investment, or incur any indebtedness, that would result in our not qualifying as a MIC.

Our investment policies as set out above may be changed, or waived in respect of specific mortgage applications, with the approval of our board.

INVESTMENT STRATEGIES

BORROWING STRATEGY

In order to facilitate the granting of mortgages when it is considered opportune by the Manager and to ensure the efficient operation of our affairs, we may secure an operating line of credit or similar indebtedness, including convertible debentures, of up to 50% of our total assets.

We have an operating facility from Canadian financial institutions with a maximum availability of \$80 million, and as at December 31, 2013, \$36,235,930 had been drawn thereunder. The operating facility is for a one year term ending October 9, 2014. On January 31, 2014, the operating facility was amended to provide for a \$30 million short-term “bulge facility”, resulting a maximum availability of \$110 million during the period, which additional amount is required to be repaid on the earlier of April 30, 2014 and the closing of any public equity or convertible debt issuance by us. We may repay amounts owing under the operating facility at any time without penalty and, in the event the amount owing under the operating facility exceeds the maximum lending value therein at any time, we must repay the excess within five banking days. We have the option of borrowing under the operating facility using bankers’ acceptances. Advances under the operating facility are subject to certain conditions of drawdown, and may be made by way of Canadian prime rate loans, overdraft, bankers’ acceptances and letters of credit. All outstanding amounts under the operating facility must be repaid by the earlier of October 9, 2014 and the occurrence of an event of default under the facility. The operating facility is typically renewed annually. The interest rates payable by us under the facility vary based upon the type of borrowing. The operating facility is secured by a general security agreement over all of our assets and a pledge of our mortgage portfolio and contains certain financial covenants that must be maintained. The financial covenants contained in the operating facility require that we maintain our shareholder equity in excess of \$175 million prior to June 30, 2014 (and, thereafter, in excess of \$185,000,000), the amount of all of our debt will not be in excess of 50% of the value of all of our assets as set out in our consolidated statement of financial position and the ratio of our earnings before interest expenses and taxes (and less any non-cash deductions and any actual loan loss in excess of balance sheet provisions) for the preceding 12 months to interest expensed for such period not be less than 3:1. To date, we have always complied with these covenants. The Manager’s wholly-owned subsidiary, CMSC, has also guaranteed the operating facility with any recourse to CMSC limited to our mortgage portfolio being serviced and administered by CMSC.

DEVELOPMENT AND MAINTENANCE OF THE MORTGAGE PORTFOLIO

We believe that the following are essential to developing and maintaining a successful mortgage portfolio:

- knowledgeable and conservative mortgage underwriting
- ability to source a broad range of mortgage lending opportunities, thereby allowing us to be prudent when selecting mortgage investments
- disciplined monitoring, servicing and collection enforcement methods

Our mortgage investments are all sourced through our Manager. As a result, we have funded mortgage loans that meet our investment criteria, resulting from: (i) existing long-term relationships of the Manager with many real estate developers (ii) the Manager's lending experience to create various lending and security structures that meet the needs of our borrowers; (iii) the reputation, experience and marketing ability of the Manager; (iv) the timely credit analysis and decision making processes followed by the Manager and by us; and (v) local presence via offices in Toronto, Vancouver and Calgary.

The Manager's sourcing of our mortgage investments and servicing of our mortgage portfolio provides us with the following benefits:

Mortgage Investment Opportunity Sources. Senior management of the Manager has been in the business of sourcing, underwriting, and funding mortgages for over 25 years. Their extensive contacts in the mortgage and real estate industries allow them to identify investment opportunities. In addition, the Manager has periodically acquired discounted or distressed mortgages, and has experience in successfully restructuring debt. We continue to take advantage of the Manager's experience in these types of activities, thereby gaining access to a source of mortgage investments for which there is limited competition.

Proven Industry Experience. Collectively, five of the senior members of management of the Manager have over 125 years of mortgage and real estate experience (minimum of 25 years each). Each officer has worked at a senior level in a major bank, trust company or life insurance company and has developed a comprehensive knowledge of the mortgage and real estate businesses.

Problem Identification and Rectification Experience. We minimize risks associated with defaulting mortgages through diligent monitoring of the mortgage portfolio, active communication with borrowers and the institution of aggressive enforcement procedures on defaulting mortgages. The Manager has substantial experience in servicing mortgage loans, including the institution of enforcement proceedings, and has a history of a low default rate on the mortgages which it services. The Manager's officers also have experience in servicing high yield mortgage portfolios.

Focus on Urban Centres. One of the keys to successful mortgage underwriting is being familiar with and understanding the real estate markets in which the properties are located. Our current focus is the greater Toronto area and other urban centres that contain a sizeable portion of Canada's population and a well-diversified industry base. We believe the real estate values in these centres are generally more stable and resilient in an economic downturn.

SYNDICATION STRATEGY

To manage and diversify risk, the Manager may syndicate a mortgage investment in which we participate with one or more lenders. Syndication may be on a *pari passu* basis, a priority or a subordinated basis. Syndicating mortgages reduces our exposure to any one investment we may have. Generally, we syndicate on a *pari-passu* basis where the mortgage investment is too large for us to fund on our own. We syndicate both on a priority and subordinated basis. On a priority basis, we syndicate the subordinate tranche to another investor(s) because the risk profile of the overall mortgage is beyond our risk tolerance. Our rights to receive interest payments and repayments of principal will rank in priority to the investor(s). Where a mortgage is syndicated to a financial institution on a subordinated basis, the rights of the financial institution to receive interest payments and the repayment of principal ranks in priority to our rights to receive a share of the interest payments and the repayment of our principal balance; however, in such circumstances the syndicating financial institution would have no recourse to us.

COMPETITIVE ADVANTAGES

We believe that the following competitive advantages will enable us to achieve our investment objectives:

EXPERIENCED MANAGEMENT TEAM

We have been in existence since 2001 as an investment vehicle for institutional and retail investors. The Manager has been in operation since 1994, and the five managing directors of the Manager each have over 25 years of experience. These managing directors have all previously worked at very senior levels for large financial institutions where they held positions including Managing Director of real estate lending for Canada, Head of risk management for Canada and Head of corporate and real estate finance for western Canada.

The unique experience of the underwriting team of the Manager has resulted in a high level of institutional ownership among existing shareholders. The Manager's business has been built on the strength of its experience, the depth of its management team, its long standing borrower and investor relationships, its well-regarded reputation and its successful track record in the Canadian mortgage lending industry.

The Manager has also assembled a comprehensive team that includes two finance and accounting professionals (a chief financial officer and a controller), five originators/underwriters in the Toronto office, one originator/underwriter in each of British Columbia and Alberta, and a team dedicated to servicing our mortgage portfolio.

OFFICES IN ONTARIO, ALBERTA AND BRITISH COLUMBIA

The Manager has a local presence and strong contacts in its target markets. This local presence gives us an advantage to source and quickly identify the most attractive lending opportunities in these markets.

ACCESS TO REAL PROPERTY TRANSACTIONS

We believe that we, through the long-term relationships within the real estate community developed by our management team and the board, have very good access to high quality real estate transactions within the Canadian major urban centres. As set out in "Directors and Executive Officers" below, our management team and board have extensive real estate experience and expertise, all of which they bring to bear in ensuring that good mortgage loan opportunities are able to be considered by us and a strong degree of diligence and underwriting standards are applied. These personal and professional relationships provide access to a number of mortgage loan opportunities that many of our competitors are not likely to have an opportunity to consider. Over its history, the Manager has demonstrated its ability to develop and execute sophisticated financing structures that are customized to the unique needs of borrowers to compete effectively with the comparatively inflexible financing structures offered by large financial institutions.

ALIGNMENT OF INTERESTS

The interests of the board are aligned with those of our shareholders as members of our board currently own approximately 9.4% of our outstanding common shares. As such, we believe this allows our board to remain focused on our business strategy of preserving shareholder capital and providing stable and secure dividends on our common shares. We believe that this degree of equity ownership is unique in Canada. It is also important to note that the voting securities held by our insiders, being common shares, are the same class of voting securities held by all other shareholders, and do not contain multiple votes or other features which would place our insiders in a different position than public shareholders.

In addition, the management fee paid to the Manager also aligns the interests of the Manager with those of the shareholders. The Manager currently has one of the lowest fee structures in the MIC industry, and is not entitled to any performance fee from us that consequently removes any temptation of seeking high yielding, risky mortgage loans at the potential expense of shareholders.

PRUDENT GROWTH

With mortgages receivable of \$281.7 million at December 31, 2013, we expect to continue to implement our conservative growth strategy. We have grown our mortgage loan assets since 2001 in response to mortgage loan opportunities, rather than opportunistic fundraising, and remain committed to growing in a manner that limits the impact on our ability to achieve our dividend policy. The Manager and the board share the belief that shareholders are best served by limiting the amounts raised under our equity or debenture offerings from time to time. This is in part to preclude a situation in which the Manager may feel pressure to deploy a large amount of new capital rapidly and thereby compromising mortgage loan quality. The Manager actively acquires mortgages on our behalf using

funds drawn on the operating facility, and we then conduct a common share or debenture offering and use all or a portion of the net proceeds to repay amounts owing under the facility. In so doing, we believe that we minimize the impact of offerings on our ability to maintain a stable dividend, while at the same time maintaining a high degree of credit quality.

HIGH QUALITY PORTFOLIO

Each of our mortgage loans is evaluated by the Manager based on its individual attributes, as well as its contribution to our overall portfolio of mortgage loans. For mortgage loans that are approved to be made by us in accordance with our policies, the Manager has applied a disciplined due diligence process and detailed mortgage underwriting analysis that it has developed through years of experience managing similar assets. Other than in exceptional situations, each of our mortgage loans includes an independent appraisal prepared by a qualified appraiser. Each of our mortgage loans must also be approved by all or certain members of our board to ensure a consistently high quality mortgage portfolio. Furthermore, the Manager actively monitors our mortgage portfolio in all material respects, and reports on each mortgage loan (except single family house mortgages) to the board on a quarterly basis.

CONSERVATIVE CAPITAL MANAGEMENT

In line with our investment objectives, the Manager has executed our investment strategy since 2001 in such a fashion as to provide a stable book value per common share that is relatively uncorrelated to the volatility experienced in other asset classes.

RISK FACTORS

The risks and uncertainties described below are those that we currently believe to be material, but they are not the only ones that we face. If any of the following risks, or any other risks and uncertainties actually occur or become material risks, our business, financial condition, results of operations and cash flows and consequently the price of our securities could be materially and adversely affected.

RISKS RELATING TO OUR BUSINESS

Nature of the Investments

Investments in mortgages are affected by general economic conditions, local real estate markets, demand for leased premises, new supply, occupancy rates, operating expenses, prevailing interest rates and various other factors. The value of a real estate property may ultimately depend on the credit and financial stability of the tenants. Investments in mortgages are relatively illiquid. Such lack of liquidity will tend to limit our ability to vary our mortgage portfolio promptly in response to changing economic or investment conditions.

Investments in mortgages relating to development or renovations may be riskier than investments in mortgages relating to property purchases or mortgage receivables. Land mortgages pose a risk in the event of default in that the asset has no capacity to generate cash flow. We may occasionally invest in mortgages at more than 75% of value, which exceeds the investment limit for conventional mortgage lending. Our mortgages will not usually be insured in whole or in part. As well, there are certain inherent risks in the real estate industry, some of which we may not be able to insure against or which we may elect not to insure due to the cost of such insurance. The effect of these factors cannot be accurately predicted.

Sensitivity to Interest Rates

The market price for our securities and the value of our mortgage portfolio at any given time may be affected by the level of interest rates prevailing at such time. Our income consists primarily of interest payments on the mortgages comprising our mortgage portfolio. If there is a decline in interest rates (as measured by the indices upon which the interest rates of our mortgages are based), we may find it difficult to make additional mortgages bearing rates sufficient to achieve the targeted payment of dividends on our common shares. There can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect our ability to maintain dividends on our common shares at a consistent level. As well, if interest rates increase, the value of our mortgage portfolio may be negatively impacted.

Changes in Real Estate Values

Our mortgage loans are secured by real estate, the value of which can fluctuate. The value of real estate is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants where applicable, competition from other available properties, fluctuations in occupancy rates, operating expenses and

other factors. The value of income-producing real property may also depend on the credit worthiness and financial stability of the borrowers and/or the tenants. Changes in market conditions may decrease the value of the secured property and reduce the cash flow from the property, thereby impacting the ability of the borrower to service the debt and/or repay the loan based on the property income. A substantial decline in value of real property provided as security for a mortgage loan may cause the value of the property to be less than the outstanding principal amount of the mortgage loan. Foreclosure by us on any such mortgage loan might not provide us with proceeds sufficient to satisfy the outstanding principal amount of the mortgage loan.

While independent appraisals are required before we may make any mortgage loans, the appraised values provided, even where reported on an “as is” basis, are not necessarily reflective of the market value of the underlying real property, which may fluctuate. In addition, the appraised values reported in independent appraisals may be subject to certain conditions, including the completion of construction, rehabilitation, remediation or leasehold improvements on the real property providing security for the loan. There can be no assurance that these conditions will be satisfied and if, to the extent they are not satisfied, the appraised value may not be achieved. Even if such conditions are satisfied, the appraised value may not necessarily reflect the market value of the real property at the time the conditions are satisfied.

Risks Related to Mortgage Defaults

If a borrower under a mortgage loan subsequently defaults under any terms of the loan, the Manager, on our behalf, has the ability to exercise our mortgage enforcement remedies in respect of the mortgage loan. Exercising mortgage enforcement remedies is a process that requires a significant amount of time to complete, which could adversely impact our cash flow. In addition, as a result of potential declines in real estate values, there is no assurance that we will be able to recover all or substantially all of the outstanding principal and interest owed to us in respect of such mortgages by exercising our mortgage enforcement remedies. Should we be unable to recover all or substantially all of the principal and interest owed to us in respect of such mortgage loans, the returns, financial condition and results of our operations could be adversely impacted.

Foreclosure and Related Costs

One or more borrowers could fail to make payments according to the terms of their mortgage loan, and we could therefore be forced to exercise our rights as mortgagee. The recovery of a portion of our assets may not be possible for an extended period of time during this process and there are circumstances where there may be complications in the enforcement of our rights as mortgagee. Legal fees and expenses and other costs incurred by us in enforcing our rights as mortgagee against a defaulting borrower are usually recoverable from the borrower directly or through the sale of the mortgaged property by power of sale or otherwise, although there is no assurance that they will actually be recovered. In the event that these expenses are not recoverable, they will be borne by us.

Furthermore, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, mortgage payments, insurance costs and related charges must be made through the period of ownership of real property regardless of whether the property is producing income or whether mortgage payments are being made. We may therefore be required to incur such expenditures to protect our investment, even if the borrower is not honouring its contractual obligations.

Reliance on the Manager

Because our day-to-day activities are managed and administered exclusively by the Manager, we are exposed to adverse developments in the business and affairs of the Manager, to the Manager’s management and financial strength, to the Manager’s ability to operate its businesses profitably and to the ability of the Manager or its subsidiaries to retain any mortgage brokerage/administrator license issued to it. The termination of the Management Agreement could have a material adverse effect on our business, financial condition and results of operation.

Although the employees of the Manager who are primarily responsible for our performance have extensive experience, there is no certainty that such individuals will continue to be employees of the Manager in the future. The loss of the services of one or more of those individuals could have a material adverse effect on us. In addition, the Management Agreement may be terminated in certain circumstances. There is no assurance that the Manager will continue to provide services to us.

There is no certainty that the persons who are currently officers and directors of the Manager will continue to act in such capacity. Shareholders will be required to rely on the good faith, expertise and judgment of the individuals

comprising the management of the Manager from time to time. Shareholders do not have the right to direct or influence in any manner the business or affairs of the Manager.

Environmental Matters

We may from time to time take possession, through enforcement proceedings, of properties that secured defaulted mortgage loans to recover our investment in such mortgage loans. Prior to taking possession of properties which secure a mortgage investment, we assess the potential environmental liability associated with it and determine whether it is significant. If we subsequently determine to take possession of the property, we could be subject to environmental liabilities in connection with the property, which could exceed its value. As part of the due diligence performed in respect of our mortgage 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. However, there can be no assurance that such Phase I environmental audits will reveal any or all existing or potential environmental liabilities. If hazardous substances are discovered on a property on which we have taken possession, we may be required to remove such substances and clean up the property. We may also be liable to tenants and other users of neighbouring properties and may find it difficult to resell the property prior to or following such clean-up.

Availability of Investments

Our ability to make investments in accordance with our objectives and policies depend upon the availability of suitable investments and the amount of funds available. There can be no assurance that the yields on the mortgages in our mortgage portfolio will be representative of yields to be obtained on our future mortgage investments. We may not be able to source suitable mortgages in which to reinvest our funds as mortgages are repaid, in which case the funds will be invested in interim investments. The rates of return on interim investments will be lower than the rates of return on our mortgages. An inability to find suitable investments may have an adverse effect on our ability to sustain the level of dividends paid. We compete with individuals, corporations and institutions for investment opportunities in the financing of real property. Certain of these competitors have greater resources than do we and may therefore operate with greater flexibility.

Potential Conflicts of Interest

We are subject to various potential conflicts of interest because the Manager is controlled by insiders of Atrium. We rely upon the Manager to manage our business. We have entered into certain non-competition arrangements with Robert G. Goodall, which addresses certain conflicts of interest. See below. The directors and officers of the Manager may have a conflict of interest in allocating their time between the respective businesses and interests of the Manager and us, and other businesses or projects in which they may be involved.

The members of our board may from time to time deal with parties with whom we are dealing, or may be seeking investments similar to those desired by us. We have conflict of interest policies requiring members of the board to disclose material interests in material contracts and transactions and to refrain from voting thereon.

Borrowing

We may incur indebtedness secured by our assets to purchase mortgages or for ongoing mortgage investments. Such indebtedness may not exceed 50% of our total assets. There can be no assurance that such a strategy will enhance returns and in fact the strategy may reduce returns. The security which we are required to furnish may include an assignment of our mortgages to a third party lender. If we are unable to service our debt to such lender, a loss could result if the lender exercises its rights of foreclosure and sale.

Limited Sources of Borrowing

The Canadian financial marketplace is characterized as having a limited number of financial institutions that provide credit to entities such as us. The limited availability of sources of credit may limit our ability to take advantage of leveraging opportunities to enhance the yield on our mortgage investments. We limit exposure to potential scarcity of funds by seeking out new sources of credit and have entered into an operating facility. If payment under these loans were demanded, including as a result of our failing to meet certain financial covenants under these loans, and there is not a corresponding repayment of our mortgage investments or if we are unable to find sources of credit to fund our investments, there would be an adverse effect on our ability to pay dividends and there could also be a material adverse effect on our business, financial condition and results of operation.

Renewal of Mortgages Comprising the Mortgage Portfolio

There can be no assurances that any of the mortgages comprising our mortgage portfolio can or will be renewed at the same interest rates and terms, or in the same amounts as are currently in effect. The mortgagor, the mortgagee or both, may elect to not renew any mortgage. If mortgages are renewed, the principal balance, the interest rates and the other terms and conditions will be subject to negotiations between the mortgagors and the mortgagees at the time of renewal.

Composition of the Mortgage Portfolio

The composition of our mortgage portfolio may vary widely from time to time and may be concentrated by type of security, industry or geography, resulting in it being less diversified than at other times. Currently, our mortgage investments are concentrated in the Toronto and surrounding area. A lack of diversification may result in us being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of security, industry or geography. In particular, given the current concentration in the Toronto and surrounding area, we may be more susceptible to adverse economic or other occurrences affecting real property in such area than an issuer that holds a mortgage portfolio that is more diversified by geographic area.

Subordinated and Subsequent Debt Financing

Secondary financing which may be carried on by us is generally considered to be riskier than primary financing because we would not have a first-ranking charge on the underlying property. When a charge on a real property is in a position other than first-ranking, it is possible for the holder of a prior charge on the property, if the borrower is in default under the terms of its obligations to such holder, to take a number of actions against the borrower and ultimately against the real property to realize on the security given for the loan. Such actions may include a foreclosure action, the exercising of a giving-in-payment clause or an action forcing the real property to be sold. A foreclosure action or the exercise of a giving-in-payment clause may have the ultimate effect of depriving any person having other than a first-ranking charge on the real property of the security of the real property. If an action is taken to sell the real property and sufficient proceeds are not realized from such sale to pay off creditors who have prior charges on the property, the holder of a subsequent charge may lose its investment or part thereof.

Reliance on Borrowers

After funding an investment, although we may monitor the situation, we rely upon borrowers to maintain adequate insurance and for proper adherence to environmental regulations.

No Guarantees or Insurance

There can be no assurance that our mortgage loans will result in a guaranteed rate of return or any return to shareholders, or that losses will not be suffered on one or more mortgage loans. Moreover, at any time, the interest rates being charged for mortgages are reflective of the general level of interest rates and, as interest rates fluctuate, it may be expected that the aggregate yield on mortgage investments will also change.

The obligations of a mortgage borrower to us or any other person are not guaranteed by the Government of Canada, the government of any province or any agency thereof nor are they insured under the *National Housing Act* (Canada). In the event that additional security is given by the borrower or a third party or that a private guarantor guarantees the mortgage borrower's obligations, there is no assurance that such additional security or guarantee will be sufficient to make us whole. Our securities are not "deposits" within the meaning of the *Canadian Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation.

Litigation Risks

We may, from time to time, become involved in legal proceedings in the course of our business. The costs of litigation and settlement can be substantial and there is no assurance that such costs will be recovered in whole or at all. During litigation, we might not receive payments of interest or principal on a mortgage loan that is the subject of litigation, which would affect our cash flows. An unfavourable resolution of any legal proceedings could have an adverse effect on us, our financial position and results of operations that could be material.

Ability to Manage Growth

We intend to grow our mortgage portfolio. In order to effectively deploy our capital and monitor our loans and investments in the future, we and/or the Manager will need to retain additional personnel and may be required to augment, improve or replace existing systems and controls, each of which can divert the attention of management from their other responsibilities and present numerous challenges. As a result, there can be no assurance that we

would be able to effectively manage our growth and, if unable to do so, our mortgage portfolio, and the market price of our securities, may be materially adversely affected.

Change in Legislation

There can be no assurance that certain laws applicable to us, including Canadian federal and provincial tax laws, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation thereof, will not change in a manner that will adversely affect us or fundamentally alter the tax consequences to shareholders acquiring, holding or disposing of our securities.

Qualification as a Mortgage Investment Corporation

Although we intend to qualify at all times as a MIC, no assurance can be provided in this regard. If for any reason we do not maintain our qualification as a MIC under the ITA, taxable dividends and capital gains dividends paid by us on our common shares will cease to be fully or partly deductible by us in computing income for tax purposes and such dividends will no longer be deemed by the rules in the ITA that apply to MICs to have been received by shareholders as bond interest or a capital gain, as the case may be. As a consequence, the rules in the ITA regarding the taxation of public corporations and their shareholders should apply, with the result that the combined rate of corporate and shareholder tax could be significantly greater.

RISKS RELATING TO OUR COMMON SHARES

Unpredictability and Volatility of Market Price

The market price for our common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control, including the following:

- actual or anticipated fluctuations in our annual or quarterly results of operations;
- changes in estimates of future results of operations by us or by securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to us;
- the addition or departure of executive officers or key personnel of the Manager;
- the transfer restrictions on outstanding common shares as result of our being a MIC;
- sales or expected sales of additional common shares;
- changes in applicable laws and regulations, including tax laws, or changes in the manner in which those laws are applied;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors; and
- news reports relating to the conditions in the economy in general and/or trends, concerns or competitive developments, regulatory changes and other related issues in our industry or target markets.

Financial markets have, at times, experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of our common shares may decline even if our operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of our environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in limited or no investment in our common shares by those institutions, which could adversely affect the trading price of our common shares. There can be no assurance that fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil occur, our operations could be adversely impacted and the trading price of our common shares may be adversely affected.

Dividends

Although we intend to make distributions of our available cash to shareholders in accordance with our dividend policy, these cash distributions are not assured. The actual amount distributed to shareholders will depend on numerous factors, including but not limited to our financial performance, debt covenants and obligations, working capital requirements, the composition of our mortgage portfolio, the availability of mortgage loans and fluctuations in interest rates that affect the yield on our mortgage loans. The market value of our common shares may

deteriorate if we are unable to meet our cash distribution targets in the future, and that deterioration may be material.

Potential Dilution

We are authorized to issue an unlimited number of common shares for consideration and terms as established by our board, in many cases without any requirement for explicit shareholder approval. We may issue additional common shares in subsequent offerings (including through the sale of securities convertible into or exchangeable for common shares) and on the vesting of deferred share units, income deferred share units or other securities exchangeable or exercisable for common shares. We cannot predict the size of future issuances of common shares or the effect that future issuances and sales of common shares will have on the market price of the common shares. Issuances of a substantial number of additional common shares, or the perception that such issuances could occur, may adversely affect prevailing market prices for the common shares. With any additional issuance of common shares, investors will suffer dilution to their voting power and we may experience dilution in our earnings per share.

Limitations on Ownership and Repurchases of Shares:

In order to maintain our status as a MIC, our articles provide that no shareholder is permitted to hold at any time, directly or indirectly, either alone or together with a person “related” to the shareholder (within the meaning of the ITA, a “Related Person”), more than 25% of any class or series of our issued shares. Although the Manager will monitor the foregoing limitation on ownership and advise the board of any potential circumstances in which this limitation may be exceeded, there is no assurance that we will be able to identify each particular circumstance prior to the limitation on ownership being exceeded. In the event that, as determined by the board in its sole discretion, any transaction affecting our shares, if completed, would cause any shareholder, either alone or together with Related Persons, to hold more than 25% of any class or series of our issued shares, that portion of the shares held which constitutes in excess of 24.9% of the issued shares of any class or series of shares will, immediately prior to the completion of the subject transaction, automatically be repurchased and cancelled by us without any further action by us or the subject shareholder. Our failure to maintain our status as a MIC would have a material adverse effect on our business, operations, financial condition and general business prospects. In addition, such repurchases of common shares by us could be significant and, if so, we may be required to sell mortgages in order to satisfy purchase payment obligations, and may not be able to complete such mortgage sales on favourable terms or at all.

RISKS RELATING TO OUR 5.25% CONVERTIBLE DEBENTURES

Risks relating to the ownership of our 5.25% convertible debentures are set out in the section entitled “Risk Factors – Risks Relating to the Convertible Debentures” contained in our (final) prospectus dated June 11, 2013 qualifying the distribution of the 5.25% convertible debentures, which section is incorporated herein by reference.

MANAGEMENT

GENERAL

Our investment policies and objectives are subject to the control and direction of the board, a majority of whom must be independent directors. The board is responsible for general oversight of our business and affairs. The Manager originates and underwrites all mortgage investments on our behalf, services our mortgage portfolio and supervises our day-to-day management and operations.

THE MANAGER

Pursuant to the terms of the Management Agreement, the Manager acts as our exclusive manager and arranges and services our mortgage loans and otherwise directs our affairs and manages our business. The Manager is a corporation incorporated under the laws of the Province of Ontario on August 8, 1994. The Manager carries on business at 20 Adelaide Street East, Suite 900, Toronto, Ontario, Canada M5C 2T6.

The Manager has been in the business of originating and underwriting mortgage loans since 1994, and (through its subsidiaries such as CMSC) servicing mortgage loans since 2000. The Manager and/or its subsidiaries are licensed under applicable mortgage broker legislation in Ontario, British Columbia, Alberta and Saskatchewan. Since we are not licensed under applicable mortgage broker legislation, we cannot carry on the business of lending money on the security of real estate or dealing in or administering mortgages. We must therefore conduct our mortgage investment and administration activities under contract with a licensed mortgage brokerage/administrator such as the Manager and its subsidiaries.

Subject to the provisions described below, the Management Agreement does not limit or restrict the Manager, its affiliates, or any of the directors, officers, shareholders or employees of the Manager or its affiliates, from carrying on business ventures for its own account and for the account of others, including acting as a mortgage broker for, or manager of, any other person or entity. However, it is the policy of the Manager that we have the first opportunity to accept mortgage loans being originated by the Manager that fit within our investment objectives, policies, risk parameters and lending guidelines. The Manager may offer a mortgage loan to other lenders only if we elect not to pursue that mortgage loan (the board or the requisite number of directors failing to approve the loan in accordance with our investment policies) or if the mortgage loan is outside our investment objectives, policies, risk parameters and lending guidelines. Mortgage loans arranged by the Manager for other lenders typically are “institutional quality” mortgages which command low interest rates and are therefore outside our investment objectives.

DUTIES AND SERVICES PROVIDED BY THE MANAGER

Pursuant to the Management Agreement, the Manager has the authority to manage our affairs and day-to-day activities. The Manager may delegate certain of its powers to third parties, where, in the discretion of the Manager, it would be in our best interests to do so. The Manager’s duties and services include:

- Sourcing and structuring new mortgage opportunities
- Undertaking due diligence before issuing a formal commitment to lend
- Providing mortgage servicing duties, including ongoing collection of principal and interest payments, regular assessment of the risk profile of each mortgage investment and active collection and pursuit of legal remedies in the event of default
- Carrying out all of our capital market activities
- Authorizing the payment of operating expenses
- Preparing our financial statements and financial and accounting information
- Ensuring that we comply with applicable law and regulatory requirements, including regulatory and shareholder reporting
- Recommending to the board the amount of dividends to be declared
- Negotiating contracts with third-party providers of services, including registrars, transfer agents, auditors and printers

In performing its duties, the Manager must ensure that we qualify, and maintain our status, as a MIC.

The Management Agreement provides that the Manager shall, in its capacity as our manager, be subject to the overriding authority of the board over our management and affairs. Consequently, the board has oversight mechanisms in place to enable the board to satisfy itself that the Manager is properly performing its duties under the Management Agreement. Following the end of each calendar quarter, the board conducts a quarterly review of each mortgage (except single family house mortgages) in our mortgage portfolio. In addition, in connection with each such quarterly review, any higher risk mortgage loans forming part of our mortgage portfolio are identified and the Manager provides the board with a detailed review and strategy for dealing with them. We believe that this detailed oversight will lead to our continued strong performance, and the minimization of loan losses, over the long term.

DETAILS OF THE MANAGEMENT AGREEMENT

Pursuant to the Management Agreement, the Manager is required to exercise its powers and discharge its duties diligently, honestly and in good faith and in our best interests and to exercise the standard of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances. The Management Agreement provides that the Manager and its directors, officers, securityholders, employees and agents will not be liable to us in any way for any default, failure or defect in our mortgage portfolio held by us or for any act performed, or failure to act, by the Manager within the scope of the authority conferred on the Manager by the Management Agreement, if it has satisfied the duties and the standard of care, diligence and skill set forth in the Management Agreement. The Manager will incur liability, however, in cases of wilful misconduct, bad faith, gross negligence, breach of the Manager’s standard of care or by any material breach or material default by it of its obligations under the Management Agreement.

The term of the Management Agreement commenced on August 29, 2012 and continues until December 31, 2020 unless renewed or terminated prior thereto. The Management Agreement will be automatically renewed for successive five year terms at the expiration of the initial term and any renewal term, unless either we (at the

direction of the board) or the Manager notifies the other in writing of non-renewal at least 12 months prior to the expiration of the initial term or a renewal term.

The Management Agreement may be terminated by us at any time upon approval of a majority of the independent directors upon the occurrence of any of the following: (a) in the event of a breach by the Manager of any material term of the Management Agreement that is not cured within 60 days of written notice of such breach to the Manager (or such longer period, not to exceed 120 days, as may be reasonably required in the circumstances to cure such breach if such breach may be cured); (b) in the event of the commission (as determined by a court of competent jurisdiction with all rights of appeal having expired) by the Manager of any act constituting bad faith, willful malfeasance, gross negligence or reckless disregard of its duties under the Management Agreement; or (c) if any proceedings in insolvency, bankruptcy, receivership or liquidation are taken against the Manager or if the Manager makes an assignment for the benefit of its creditors, commits any act of bankruptcy within the meaning of the *Bankruptcy and Insolvency Act* (Canada) or declares itself or is declared to be insolvent.

The Management Agreement may also be terminated by us at any time (each, a “No Cause Termination Right”): (i) on or at any time after December 31, 2019 upon: (A) approval of two-thirds of the independent directors; and (B) twelve months’ prior written notice to the Manager being given after the approval of independent directors is obtained; (ii) where Robert G. Goodall, through *bona fide* illness, physical or mental, is unable to devote sufficient time and attention to the services provided by the Manager for a period of 120 consecutive working days, upon: (A) approval of two-thirds of the independent directors; and (B) six months’ prior written notice to the Manager being given after the approval of independent directors is obtained; or (iii) in the event of the successful completion of an amalgamation or other business combination transaction or “formal take-over bid” (as such term is defined in the *Securities Act* (Ontario)) following which, there is a change of control of Atrium, upon twelve months’ prior written notice to the Manager being given after the business combination transaction or “formal take-over bid” is completed.

The Management Agreement may be terminated by the Manager at any time: (a) on or at any time after December 31, 2019 upon not less than twelve months’ prior written notice to us given on or after December 31, 2019; (b) in the event of a breach by us of any material term of the Management Agreement that is not cured within 60 days of written notice of such breach to us (or such longer period, not to exceed 120 days, as may be reasonably required in the circumstances to cure such breach if such breach may be cured) (a “Material Corporation Breach”); or (c) if any proceedings in insolvency, bankruptcy, receivership or liquidation are taken against us or if we make an assignment for the benefit of our creditors, commit any act of bankruptcy within the meaning of the *Bankruptcy and Insolvency Act* (Canada) or declare ourselves, or we are declared to be, insolvent.

Upon the termination of the Management Agreement by us pursuant to a No Cause Termination Right or upon termination of the Management Agreement by the Manager pursuant to a Material Corporation Breach, we will pay to the Manager, in immediately available funds on the date of termination, an amount equal to two times the total amount of the management fee received and/or earned by the Manager pursuant to the Management Agreement during the twelve consecutive completed calendar months occurring on or prior to the date of the termination, plus applicable taxes.

Subject to the ability of the Manager to delegate its powers and duties, the Management Agreement (and any interest in the Management Agreement) may not be assigned or subcontracted by either party without the prior written consent of the other party. Any amendment, supplement or modification of the Management Agreement may only be executed by us if and when approved by a majority of the independent directors. In addition, the Manager and each of its directors, officers, securityholders, employees and agents will be indemnified by us to the fullest extent permitted by law for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against the Manager, or any of its directors, officers, securityholders, employees and agents, in the exercise of its duties as our manager, except those resulting from the Manager’s wilful misconduct, bad faith, gross negligence, breach of the Manager’s standard of care or material breach or default by the Manager of its obligations under the Management Agreement.

Any direct or indirect change of control of the Manager will be subject to the prior approval of a majority of the independent directors. The management services to be provided by the Manager under the Management Agreement are not exclusive to us and nothing in the Management Agreement prevents the Manager from providing similar management services to other clients or from engaging in other activities.

MANAGER FEES AND EXPENSES

In consideration for the services provided to us by the Manager, the Manager is paid a management fee equal to 0.85% per annum of the aggregate face value of all assets invested in mortgages, calculated daily, aggregated and paid monthly in arrears, plus applicable taxes. The Manager retains all origination fees up to 1.0% of the amount of each mortgage investment and up to half of the origination fees in excess of that amount, plus applicable taxes. We retain the balance of such origination fees and also retain any prepayment fees or other lender fees due over the term of the mortgage.

We will pay for all expenses that we or the Manager incur on our behalf in connection with our operation and management, including but not limited to: (a) financial reporting costs, and mailing and printing expenses for securityholder communications, and all costs and expenses incurred with respect to meetings of securityholders; (b) all costs and expenses incurred in the management and administration of our assets, including those for audit, accounting, bookkeeping, travel, telephone and reporting; (c) fees payable to our transfer agent and our custodian(s); (d) costs and fees payable to any agent, legal counsel, actuary, valuator, technical consultant, accountant or auditor or other third party service provider; (e) ongoing regulatory filing fees, license fees and other fees (including in respect of Atrium, stock exchange fees and listing fees); (f) any expenses incurred in connection with any legal proceedings in which the Manager participates on our behalf or any other acts of the Manager or any other agent of Atrium in connection with the maintenance or protection of our property, including costs associated with the enforcement of Mortgage loans; and (g) all taxes, commissions, brokerage commissions and other costs of securities transactions, debt service, commitment fees and costs relating to any credit facilities, insurance premiums and any extraordinary expenses which we may incur or which may be incurred on our behalf from time to time, as applicable.

Under the Management Agreement, the Manager is responsible for employment expenses of its personnel, rent and other office and administrative expenses of the Manager (except as set out above), and all costs and fees associated with maintaining and complying with the licensing requirements under applicable mortgage broker legislation.

NON-COMPETITION ARRANGEMENTS

Robert G. Goodall is part of the key management personnel of the Manager and is also a director and the President and Chief Executive Officer of Atrium and he receives compensation from the Manager. Mr. Goodall also controls the Manager. It is expected that Mr. Goodall will devote approximately 90% of his time to our affairs.

On March 23, 2012, the date of execution of the Management Agreement, Robert G. Goodall entered into certain non-competition arrangements with us that restrict certain activities by him in the mortgage lending industry. Under the terms of the non-competition arrangements, Robert G. Goodall may not, directly or indirectly, carry on or be engaged in a business that competes with us or be affiliated with or have an economic interest in a competitive business, anywhere in Canada. These restrictions do not apply in connection with any mortgage brokerage business, mortgage servicing business, the ownership, management or development of any real or immovable property and/or investments made by Mr Goodall or his affiliates prior to the effective date of the Management Agreement. The foregoing restrictions commenced on the effective date of the Management Agreement and end on the first anniversary of the earlier of: the effective date of the termination or non-renewal of the Management Agreement; and such date on which Robert G. Goodall ceases to be employed by the Manager or otherwise ceases to assist in providing services on behalf of the Manager.

EMPLOYEES

As at December 31, 2013, we had one employee.

DIVIDENDS AND DISTRIBUTIONS

DIVIDEND POLICY

We intend, at all times, to qualify as a MIC. As a MIC, we are entitled to deduct in computing our income all taxable dividends (other than capital gains dividends) paid to our shareholders in the year and in the first 90 days of the following taxation year, provided that such dividends are not deductible by us in the immediately preceding taxation year. As a result, a MIC generally operates as a flow-through entity so that a shareholder of a MIC is in a similar position from an income tax perspective as if the investments made by the MIC had been made directly by the shareholder.

It is our intention to make distributions to the extent necessary to reduce our taxable income each year to nil so that no tax is payable by us under Part I of the ITA. To the extent that we realize a capital gain in a year in excess of applicable capital losses, we intend to elect to have dividends to be capital gains dividends to the maximum extent allowable.

The board has adopted a dividend policy, effective September 4, 2012 pursuant to which we make monthly cash distributions by way of dividends to holders of common shares of record at the close of business on the last business day of each month. The monthly dividend during 2013 was set at \$0.066667 per common share (a rate of \$0.80 per annum), and, commencing January 1, 2014, was set at \$0.068333 per common share (a rate of \$0.82 per annum). Each monthly dividend is paid within 15 days after the dividend record date. In addition, there may be an additional (thirteenth) special dividend to holders of common shares of record at the close of business on December 31 of each year payable within 90 days of the dividend record date. For each year ending December 31, we intend to pay a special dividend equal to at least our taxable income for that fiscal year and capital gains dividends equal to twice our taxable capital gains for that fiscal year, less dividends previously declared for that fiscal year.

The dividend policy includes the discretion of the board to change the record date, declare dividends from time to time as determined by the board, and to vary the amount paid depending on, among other things, our earnings, financial requirements, the satisfaction of solvency tests imposed by the *Business Corporations Act* (Ontario) for the declaration of dividends and other conditions existing at such future time. Under the terms of our operating facility, upon the occurrence and continuance of an event of default, no dividends are permitted to be made by us.

DIVIDEND REINVESTMENT PLAN

Our Dividend Reinvestment Plan (“DRIP”) allows our shareholders who are resident Canadians the option to elect to invest any and all cash dividends on their common shares. Computershare Trust Company of Canada is our agent under the DRIP, under which cash dividends paid to participants are automatically reinvested in common shares purchased by the agent from treasury at the weighted average trading price of our common shares on the TSX for the five consecutive trading days immediately preceding the relevant dividend payment date, less a discount of 2%. We may, subject to the terms of the DRIP, increase the discount to up to 5%, reduce it, or eliminate it at any time. There are no commissions, service charges or brokerage fees payable by participants under the DRIP for the reinvestment of dividends.

DIVIDEND HISTORY

The aggregate of the cash dividends declared per common share in respect of the years ended December 31, 2013, December 31, 2012, and December 31, 2011 were \$0.85, \$0.85, and \$0.87.

CAPITAL STRUCTURE

AUTHORIZED CAPITAL

Our authorized capital consists of an unlimited number of common shares, of which 21,200,833 were issued and outstanding at December 31, 2013, and 21,215,744 are issued and outstanding as at the date hereof.

Holders of our common shares are entitled to receive: (i) notice of and to attend and vote at all meetings of our shareholders and each common share has the right to one vote in person or by proxy at all meetings of our shareholders; (ii) dividends as and when declared by the board from time to time out of our moneys properly applicable to the payment of dividends, and the amount per common share of each such dividend is determined by the board at the time of declaration; and (iii) our remaining property upon our liquidation, dissolution or winding up, or other distribution of our assets among our shareholders by way of repayment of capital, whether voluntary or involuntary.

RESTRICTION ON OUR BUSINESS

Our articles provide that we may not make any investment or conduct any activity that would result in our failing to qualify as a MIC.

LIMITATION ON OWNERSHIP

In order to maintain our status as a MIC, our articles provide that no shareholder may hold at any time, directly or indirectly, either alone or together with a person “related” to the shareholder (within the meaning of the ITA, a “Related Person”), more than 25% of any class or series of our issued shares. With the assistance of information

provided by our transfer agent and registrar, the Manager will monitor the foregoing limitation on ownership and advise the board of any potential circumstances in which this limitation may be exceeded.

In the event that, as determined by the board in its sole discretion, any transaction affecting our shares, if completed, would cause any shareholder(s), either alone or together with Related Persons, to hold more than 25% of any class or series of our issued shares, that portion of the shares held by each such shareholder which constitutes in excess of 24.9% of the issued shares of any class or series of shares will, immediately prior to the completion of the triggering transaction, automatically be repurchased and cancelled by us without any further action by us or such shareholder. The purchase price for any such repurchased shares will be equal to the volume weighted average trading price of the particular class or series of shares for the five consecutive trading days ending immediately preceding the date of the triggering transaction.

5.25% CONVERTIBLE DEBENTURES

The 5.25% convertible debentures were issued pursuant to a trust indenture between us and Computershare Trust Company of Canada, as trustee, dated June 18, 2013. The 5.25% convertible debentures are governed by the Indenture. We can issue additional convertible debentures under the Indenture from time to time. The indenture does not restrict us from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging our real or personal property to secure any indebtedness.

There is \$32.5 million aggregate principal amount of 5.25% convertible debentures issued and outstanding. The 5.25% convertible debentures are direct, unsecured obligations of Atrium, subordinated to other indebtedness of Atrium for borrowed money and rank equally with all other unsecured subordinated indebtedness. The 5.25% convertible debentures mature on June 30, 2020 and accrue interest at the rate of 5.25% per annum payable semi-annually in arrears on June 30 and December 31 in each year, commencing December 31, 2013. At the holder's option, the 5.25% convertible debentures may be converted into our common shares at any time prior to the close of business on the earlier of the business day immediately preceding either the maturity date and, if called for redemption, the date specified by us for redemption of the 5.25% convertible debentures. The conversion price is \$13.50 for each common share, subject to adjustment in certain events.

Other than in certain circumstances set out in the Indenture, the 5.25% convertible debentures will not be redeemable prior to June 30, 2016. On and after June 30, 2016, but prior to June 30, 2018, the 5.25% convertible debentures will be redeemable, in whole or in part, from time to time at our sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted average trading price of our common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price. On or after June 30, 2018 and prior to the maturity date, the 5.25% convertible debentures will be redeemable, in whole or in part, from time to time at our sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice.

Subject to specified conditions, we have the right to repay the outstanding principal amount of the 5.25% convertible debentures, on maturity or redemption, through the issuance of our common shares. We also has the option to satisfy our obligation to pay interest on the 5.25% convertible debentures through the issuance and sale of our common shares.

The indenture provides that an event of default in respect of the 5.25% convertible debentures will occur if any one or more of the following described events has occurred and is continuing with respect to the 5.25% convertible debentures: (a) failure for 10 days to pay interest on the 5.25% convertible debentures when due; (b) failure to pay principal or premium, if any, when due on the 5.25% convertible debentures, whether at maturity, upon redemption, by declaration or otherwise; (c) certain events of bankruptcy, insolvency or reorganization of Atrium under bankruptcy or insolvency laws as described in the Indenture; (d) default in the observance or performance of any material covenant or condition of the indenture by us and continuance of such default for a period of 30 days after notice in writing has been given by the trustee to us specifying such default and requiring we rectify the same; or (e) if a resolution is passed for the winding-up or liquidation of Atrium except as permitted under the Indenture. If an event of default has occurred and is continuing, the trustee may, in its discretion, and shall upon request of holders of not less than 25% of the principal amount of 5.25% convertible debentures then outstanding, declare the principal

of and interest on all outstanding 5.25% convertible debentures to be immediately due and payable. In certain cases, the holders of more than 50% of the principal amount of the 5.25% convertible debentures then outstanding may, on behalf of the holders of all 5.25% convertible debentures, waive any event of default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

A summary of additional terms of the 5.25% convertible debentures is set out in the section entitled “Description of the Convertible Debentures” contained in our (final) prospectus dated June 11, 2013 qualifying the distribution of the 5.25% convertible debentures, which section is incorporated herein by reference.

MARKET FOR SECURITIES

Our common shares and 5.25% convertible debentures are listed and posted for trading on the TSX under the symbols “AI” and “AI.DB”, respectively. The 5.25% convertible debentures were initially issued on June 18, 2013 and July 9, 2013. The monthly price ranges and total monthly trading volumes for the common shares and convertible debentures during 2013 were as follows:

Common shares

<u>Month</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
January 2013	11.10	10.80	341,629
February 2013	11.31	10.90	197,880
March 2013	11.30	11.00	146,412
April 2013	11.10	10.90	411,312
May 2013	11.05	10.80	217,471
June 2013	10.99	10.21	211,888
July 2013	10.59	9.97	265,247
August 2013	10.20	10.00	326,634
September 2013	10.60	10.10	204,476
October 2013	10.51	10.05	542,798
November 2013	12.18	10.25	656,318
December 2013	10.97	10.30	470,099

5.25% convertible debentures

<u>Month</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
June 2013	99.75	96.50	13,820
July 2013	99.75	95.00	6,730
August 2013	97.00	88.05	3,180
September 2013	95.00	90.00	2,540
October 2013	93.00	91.02	9,500
November 2013	93.50	91.01	3,480
December 2013	93.00	92.00	4,020

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER

As at December 31, 2013, we do not have any securities in escrow and we do not have any securities subject to contractual restrictions on transfer.

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS AND EXECUTIVE OFFICERS

Our articles provide that we may have a minimum of one and a maximum of ten directors. Our directors are responsible for supervising the management of our business and affairs. The number of directors is currently set at seven. The board is empowered to determine and fix from time to time, by ordinary resolution, the number of our directors within the minimum and maximum numbers provided for in our articles.

The following table sets forth the names and municipalities of residence of our directors and executive officers, their current positions or offices, the date when they first became a director and/or executive officer and their principal occupations during the past five years:

<u>Name and Municipality of Residence</u>	<u>Position with Atrium</u>	<u>Director or Executive Officer Since</u>	<u>Principal Occupation</u>
Peter P. Cohos ⁽¹⁾⁽⁴⁾ Calgary, Alberta Canada	Director	March 23, 2012	President, Copez Properties Ltd.
Michael J. Cooper ⁽⁴⁾ Toronto, Ontario Canada	Director	March 23, 2012	Chief Executive Officer, DREAM Unlimited Corp.
Robert H. DeGasperis ⁽⁴⁾ Concord, Ontario Canada	Director	March 23, 2012	President, Metrus Properties Inc.
Nancy Lockhart ⁽¹⁾⁽⁴⁾ Toronto, Ontario Canada	Director	June 24, 2013	Corporate Director
David Prusky ⁽¹⁾⁽³⁾⁽⁴⁾ Toronto, Ontario Canada	Director	March 23, 2012	Corporate Director
Mark L. Silver ⁽²⁾⁽⁴⁾ Toronto, Ontario Canada	Director and Chair of the Board	March 23, 2012	President, Optus Capital Corporation
Robert G. Goodall Mississauga, Ontario Canada	Director, President and Chief Executive Officer	July 30, 2001	President, Chief Executive Officer and a director of the Manager
Jeffrey D. Sherman, FCPA, FCA Toronto, Ontario Canada	Chief Financial Officer and Secretary	March 15, 2012	Chief Financial Officer of the Manager
Michael Lovett Mississauga, Ontario Canada	Managing Director	May 24, 2011	Managing Director of the Manager

Notes:

- (1) Member of the Audit Committee.
- (2) Chair of the board.
- (3) Chair of the Audit Committee.
- (4) Independent member of the board.

As a group, our directors and executive officers beneficially own or exercise control or direction, directly or indirectly, 2,042,861 common shares (representing approximately 9.6% of the total common shares issued and outstanding) as at the date hereof.

The board consists of the seven directors as shown in the table above. Each director holds office until the next annual meeting, or until his successor is duly elected or appointed, unless his office is earlier vacated in accordance with our articles and by-laws, or he becomes disqualified to act as a director.

BIOGRAPHIES

The following are brief profiles of our directors and executive officers, including a description of each individual's principal occupation within the past five years.

Peter P. Cohos

Peter P. Cohos is the President of Copez Properties Ltd., a Calgary-based real estate investment company. He was previously the Chief Executive Officer of Triovest Realty Advisors Inc. a national commercial real estate advisory company which has approximately \$7 billion in assets under management. Mr. Cohos has worked in the commercial

real estate industry since 1985, founding Copez Management Ltd., Tonko Development Corp. and then Tonko Realty Advisors Ltd., which merged with Redcliff Realty Management Inc. in 2011. Tonko Development Corp. was a publicly traded corporation from 1995 through 2002. During that time, Mr. Cohos was President and Chief Executive Officer, as well as a member of its board. Triovest Realty Advisors Inc. currently has approximately 550 employees and manages 41 million square feet of assets across Canada. Mr. Cohos' extensive and varied real estate career is augmented by his Honours degree in Business Administration from the University of Western Ontario and a MBA from the University of Capetown, South Africa.

Michael J. Cooper

Michael J. Cooper is the founder and Chief Executive Officer of DREAM Unlimited Corp., an asset management company with approximately \$13 billion of primarily real estate assets under management. Mr. Cooper's extensive track record in the real estate industry dates back to 1986, including an instrumental role in founding Dundee Realty Corporation, the predecessor of DREAM, in 1996. Under his leadership, the business has grown to be a leader in commercial real estate, residential development and renewable energy infrastructure. Mr. Cooper is responsible for the formation of three TSX-listed real estate investment trusts: Dundee REIT, Canada's largest office REIT; Dundee International REIT, a Canadian REIT investing exclusively outside of Canada; and, most recently, Dundee Industrial REIT, the largest pure-play industrial REIT in Canada. Mr. Cooper sits on the boards of Dundee Corporation, Dundee REIT, Dundee International REIT, Dundee Industrial REIT, United Corporations Ltd., and Lakefield Foundation. He holds a law degree from the University of Western Ontario and received a MBA from York University in 1986.

Robert H. DeGasperis

Robert De Gasperis is President of Metrus Properties and Metrus Development Inc, family owned and operated real estate companies that have operated primarily in the Greater Toronto Area (GTA) for over 40 years. Metrus Properties has developed, and currently manages, approximately 13 million square feet of industrial, retail and office properties throughout the GTA. Its mandate is to acquire, develop and manage all asset classes, and it develops and manages master planned communities throughout the GTA. Metrus Development Inc. has completed award-winning communities including the Beaches, Toronto; Springdale, Brampton; Bayview Hill, Richmond Hill and Lakeshore Woods, Oakville. Mr. DeGasperis is a director of both Condain Company (1983) and Con-Cast Pipe. Mr. DeGasperis, through a family foundation, continues his commitment to sponsorship of numerous hospitals, charities, youth groups and community organizations.

Nancy Lockhart

Nancy Lockhart is a director of the Loblaw Companies Limited and chair of its environmental, health and safety committee, and a member of its governance, employee development, nominating and compensation committee; as well as a director of Gluskin Sheff + Associates, Inc., and a member of its compensation, nominating and governance committee; and has been nominated as a candidate to join the board of Barrick Gold Corporation at its 2014 annual general meeting. She was formerly Chief Administrative Officer of Frum Development Group and a Vice President of Shoppers Drug Mart Corporation. Ms. Lockhart is a director of the Centre for Addiction and Mental Health Foundation and a director of The Canada Merit Scholarship Foundation. She is a former Chair of the Ontario Science Centre, former President of the Canadian Club of Toronto and a former Chair of the Canadian Film Centre. Ms. Lockhart is also a former director of the Canada Deposit Insurance Corporation and a former director of Retirement Residence REIT. Ms. Lockhart was awarded the Order of Ontario in 2006.

David Prussky

David Prussky is well-recognized in the junior markets with numerous business successes investing in early stage companies. He is a director (and past Chairman) of Carfinco Financial Group Inc., Canada's largest public non-prime automotive lender; a director and member of the audit committee and corporate governance committee of Swisher Hygiene Inc., and a director of Lonestar West Inc. Mr. Prussky is a past director of several additional public companies in Canada. Mr. Prussky received his MBA from York University in 1980 and a LL.B from York University in 1985.

Mark L. Silver

Mark L. Silver is President of Optus Capital Corporation. Mr. Silver has made significant real estate investments in both development stage and income producing properties in the residential, commercial and industrial sectors over his 30 year business career. Over the last 15 years, these investments have been made through his company, Optus Capital Corporation. Mr. Silver was a founding partner and Chief Executive Officer of Universal Energy which was sold in 2009 to Just Energy Group Inc. He co-founded Direct Energy Marketing and grew the company to over \$1.3 billion in revenues before selling to Centrica PLC (also known as British Gas) in 2000.

Robert G. Goodall

Robert G. Goodall is the President of, and in 1994 founded, CMCC, our manager, a mortgage brokerage firm that places conventional, mezzanine and Canada Mortgage and Housing Corporation-insured debt on all types of real estate. Prior to founding CMCC, Mr. Goodall spent seven years with Royal Trust, where the last three years were served as National Managing Director of the Real Estate Finance Group for a portfolio of \$1.4 billion in commercial and multi-residential real estate loans, including fixed and floating rate mortgages, construction loans, and high-ratio mezzanine loan facilities. Mr. Goodall is a trustee of Dundee REIT and Dundee Industrial REIT and director of a registered charity, Jump Math. Mr. Goodall has an MBA from the Schulich School of Business.

Jeffrey D. Sherman

Jeffrey D. Sherman joined CMCC as chief financial officer on March 15, 2012. He is a director of Trimel Pharmaceuticals Corporation and chair of its governance and nominating committee, and was the CFO of Pure Nickel Inc. from February, 2008 until May, 2013. Mr. Sherman has lectured and conducted executive development and other programs for many organizations including institutes of chartered accountants (chartered professional accountants) across Canada, the Law Society of Upper Canada, and was an adjunct professor at York University. He has written over 20 books on business, finance and treasury, including *Finance and Accounting PolicyPro*, *Information Technology PolicyPro* (guides to governance and internal control), *Canadian Treasury Management*, and *Cash Management Toolkit for Small and Medium Businesses*. Mr. Sherman holds a BComm from the University of Toronto, an MBA from the Schulich School of Business, is a Certified Investment Manager, and a fellow of CPA Ontario (previously, the Institute of Chartered Accountants of Ontario).

Michael Lovett

Michael Lovett joined CMCC as Managing Director on May 24, 2011. Previous to that, Mr. Lovett spent four years as Managing Director, Real Estate Capital with C.A. Bancorp Inc. where he founded, listed on the TSX and managed C.A. Bancorp Realty Finance Inc., a boutique closed-end mutual fund corporation specializing in real estate mezzanine lending. Before that, from 2005 to 2007, Mr. Lovett was President of Commercial Mortgage & Capital, a private commercial mortgage company controlled by Avison Young Commercial Real Estate Inc., which originated and placed commercial real estate loans and mortgages. Mr. Lovett was President and founder of Montrose Mortgage Corporation (Toronto) Ltd. from 2001 to 2005, where he was responsible for opening the Toronto office and originating and structuring commercial real estate loans. Mr. Lovett has also held senior real estate related positions in origination, risk assessment and special loans with CIBC Mortgages Inc. (National Sales Manager), National Trust (VP, Risk Management), and other financial institutions. Mr. Lovett attended Wilfred Laurier University and is a graduate of the Executive Summer Program at the University of Michigan.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

None of our directors or executive officers are, as at the date hereof, or was within ten years before the date hereof, a director, chief executive officer or chief financial officer of any company (including Atrium), that was:

- (a) subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that, in each case, was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that, in each case, was in effect for a period of more than 30

consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Except as set forth below, no director or executive officer of Atrium, or a shareholder holding a sufficient number of securities of Atrium to affect materially the control of Atrium:

- (a) is, as at the date hereof, or has been within the ten years before the date hereof, a director or executive officer of any company (including Atrium) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Mr. Prussky was a director of Hamilton Tool Corp. from 1999 to April 2003. In April 2003, Hamilton Tool Corp. declared bankruptcy and was subsequently discharged from bankruptcy in January 2006.

No director or executive officer of Atrium, or a shareholder holding a sufficient number of securities of Atrium to affect materially the control of Atrium, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

CONFLICTS OF INTEREST

We are subject to various potential conflicts of interest because the Manager is controlled by insiders of Atrium. We have entered into certain non-competition arrangements with Robert G Goodall, which addresses certain conflicts of interest. We will rely upon the Manager to manage our business and to provide managerial skill. The directors and officers of the Manager may have a conflict of interest in allocating their time between the respective businesses and interests of the Manager and Atrium, and other businesses or projects in which they may become involved.

The members of the board may from time to time deal with parties with whom we may be dealing, or may be seeking investments similar to those desired by us. We have conflicts of interest policies requiring members of the board to disclose material interests in material contracts and transactions and to refrain from voting thereon.

EXPERTS

Crowe Soberman LLP (formerly known as Soberman LLP), Chartered Professional Accountants and Licensed Public Accountants, our external auditor, has been named as having prepared a certified statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by us during, or relating to our fiscal year ended December 31, 2013. Crowe Soberman LLP is independent of Atrium in accordance with the auditor's rules of professional conduct in a jurisdiction of Canada.

AUDIT COMMITTEE DISCLOSURE

AUDIT COMMITTEE CHARTER

The Audit Committee is responsible for overseeing, among other matters, the work of our external auditors, the integrity of our financial statements and financial reporting process, the qualifications and independence of the external auditors of Atrium and our compliance with legal and regulatory requirements. The Audit Committee reviews and recommends to the board for approval, our annual and interim financial statements and related

management’s discussion and analysis, earnings press releases, selected disclosure documents, including information pertaining to the Audit Committee contained in our annual information form and any other financial statements required by regulatory authorities, before they are released to the public or filed with the appropriate regulators. The Audit Committee will review its charter at least annually and recommends changes to the board with respect to its charter, as necessary. The Audit Committee Charter is attached as Schedule “A”.

The Audit Committee has implemented procedures for the receipt, retention and treatment of complaints received by Atrium regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by directors, officers, employees and others of concerns regarding questionable accounting or auditing matters. In this regard, the board and the Audit Committee have established a Whistleblower Policy outlining such confidential reporting process where all such complaints are referred to the Chair of the Audit Committee for investigation and then the results are reported to the full Audit Committee, after which the Audit Committee determines what action should be taken with respect to any complaint. The Whistleblower Policy can be viewed on our website at www.atriummic.com.

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee is comprised of David Prussky, as Chair, Peter P. Cohos, and Nancy Lockhart. Each member of the Audit Committee is independent and is financially literate in that each has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by our financial statements.

RELEVANT EDUCATION AND EXPERIENCE

The relevant education and experience of each of the members of the Audit Committee is as follows:

Name of Audit Committee member	Relevant education and experience
David Prussky (Chair)	Mr. Prussky is president of a merchant bank, with extensive investment and capital markets experience. He is a director or past director of numerous public companies, including as a member of the audit committee of Swisher Hygiene Inc. and as a director and past chair of Carfinco Financial Group Inc. He has an LL.B and MBA, both from York University.
Peter P. Cohos	Mr. Cohos is the President of Copez Properties Ltd., a Calgary-based real estate investment company. He was previously the Chief Executive Officer of Triovest Realty Advisors Inc. a national commercial real estate advisory company which has approximately \$7 billion in assets under management. Mr. Cohos has worked in the commercial real estate industry since 1985 and has had extensive involvement with public and private corporations throughout his career. Mr. Cohos has a BBA from the University of Western Ontario, and an MBA from the University of Capetown.
Nancy Lockhart	Ms. Lockhart is an experienced corporate executive and currently a director of various public corporations and not-for-profit organizations, including the Loblaw Companies Limited, where she is chair of its environmental, health and safety committee, and Gluskin Sheff + Associates, and she was a former director of the Canada Deposit Insurance Corporation. Ms. Lockhart holds the ICD.d designation from The Institute of Corporate Directors, was awarded the Order of Ontario in 2006 and the Queens Golden Jubilee Medal in 2012.

PRE-APPROVAL POLICIES AND PROCEDURES

The Audit Committee Charter provides that the Audit Committee will pre-approve all audit and non-audit services provided by our external auditors and will only engage the external auditors to perform non-audit services permitted by law or regulation. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any Audit Committee member to whom pre-approval authority is delegated must be presented to the full Audit Committee at its next scheduled meeting.

EXTERNAL AUDITOR SERVICE FEES (BY CATEGORY)

The following table sets out, by category, the fees billed by Crowe Soberman LLP, our external auditors, in each of the last three fiscal years for the services noted:

<u>Category</u>	<u>Year ended December 31, 2013</u>	<u>Year ended December 31, 2012</u>	<u>Year ended December 31, 2011</u>
Audit fees ⁽¹⁾	\$50,000	\$60,500	\$59,000
Audit-related fees ⁽²⁾	31,890	25,000	3,750
Tax fees ⁽³⁾	–	9,350	9,600
All other fees ⁽⁴⁾	19,500	25,737	–
Total:	\$101,390	\$120,587	72,350

Notes:

- (1) Audit fees are billed by our external auditor for audit services.
- (2) Audit-related fees are fees related interim reviews of our financial statements
- (3) Tax fees are fees pertaining to tax compliance and similar matters.
- (4) All other fees relate to work carried out in connection with the preparation and filing of prospectuses by Atrium.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no outstanding legal proceedings material to us to which we are a party or in respect of which any of our properties are subject, nor are there any such proceedings known to be contemplated. In addition, there were no penalties or sanctions imposed against us by a court relating to securities legislation or by a securities regulatory authority since January 1, 2013, no other penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor in making an investment decision, and no settlement agreements entered into by us with a court relating to securities legislation or with a securities regulatory authority since January 1, 2013.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Certain of our mortgages are shared with other investors, including members of the board and/or officers of Atrium. In every case, our mortgage participation either ranks equally or in priority to other members of the syndicate as to receipt of principal and interest.

Robert G. Goodall is a member of our board and an officer of Atrium, and is also a shareholder, director, officer and is related to entities that own, directly or indirectly, an interest in the Manager, which is a party to the Management Agreement described above.

Certain of our directors and executive officers participated in private placement offerings of our common shares at the same price and on the same terms as other arm's length subscribers in such offerings.

Other than the foregoing or as otherwise disclosed herein, there were no material interests, direct or indirect, of our directors or executive officers, any shareholder who beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of our outstanding common shares, or any other Informed Person (as such term is defined in National Instrument 51-102) or any known associate or affiliate of such persons, in any transaction since the commencement of our last completed financial year or in any proposed transaction which has materially affected or would materially affect us.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common shares and 5.25% convertible debentures is Computershare Trust Company of Canada at its principal offices located in Toronto, Ontario, Canada.

MATERIAL CONTRACTS

The following are the material contracts, other than contracts in the ordinary course of business, and material contracts in the ordinary course of business required to be listed, that Atrium has entered into since January 1, 2013 or prior thereto but still in effect:

- (a) the Management Agreement referred to under “Description of the Business – Management”;
- (b) the operating facility dated October 10, 2013, as amended, referred to under “Investment Strategies – Borrowing Strategy”; and
- (c) the Indenture referred to under “Capital Structure – 5.25% Convertible Debentures”.

We have also adopted a Deferred Share Incentive Plan and the Dividend Reinvestment Plan referred to under “Dividends and Distributions – Dividend Reinvestment Plan”.

NOTICE REGARDING FORWARD-LOOKING INFORMATION

Certain information included in this Annual Information Form contains forward-looking statements within the meaning of applicable securities legislation, including statements with respect to management’s beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “outlook”, “objective”, “may”, “will”, “expect”, “intent”, “estimate”, “anticipate”, “believe”, “should”, “plans” or “continue” or similar expressions suggesting future outcomes or events. Such 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 Annual Information Form. 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 Factor” above. We caution that the foregoing 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 herein 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. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

ADDITIONAL INFORMATION

Additional information, including directors’ and officers’ remuneration and indebtedness, the executive compensation for named executive officers of Atrium, principal holders of our securities, and interests of insiders in material transactions, as applicable, is contained in Atrium’s management information circular for its most recent annual meeting of shareholders. Additional financial information is provided in the financial statements and management’s discussion and analysis of Atrium for the year ended December 31, 2013. A copy of the management information circular, financial statements and management’s discussion and analysis may be obtained upon request from Atrium, and those documents and other information in respect of Atrium are also available on SEDAR at www.sedar.com.

GLOSSARY OF TERMS

The following terms used in this Annual Information Form have the meanings as shown below.

“**5.25% convertible debentures**” means Atrium’s 5.25% convertible unsecured subordinated debentures due June 30, 2020.

“**CMSC**” means Canadian Mortgage Servicing Corporation, a wholly-owned subsidiary of the Manager.

“**commercial mortgages**” means mortgages which are principally secured by: (a) income-producing properties which have retail, commercial service, office and/or industrial uses; and (b) land, zoned for commercial purposes.

“**conventional mortgage**” means a mortgage for which the principal amount, at the time of commitment, together with all other equal and prior ranking mortgages: (a) in the case of a property purchase, does not exceed the lower of 75% of the purchase price of the underlying real property securing the mortgage and 75% of the appraised value of the underlying real property securing the mortgage as determined by a qualified appraiser; and (b) in the case of a refinancing, does not exceed 75% of the appraised value of the underlying real property securing the mortgage as determined by a qualified appraiser at the time of such refinancing.

“**first mortgage**” means a mortgage having priority over all other security interests registered against the same real property used to secure such mortgage.

“**ITA**” means the *Income Tax Act* (Canada), including the regulations promulgated thereunder, as amended and replaced from time to time.

“**Management Agreement**” means the amended and restated management agreement between Atrium and the Manager executed and delivered as of March 23, 2012.

“**Manager**” or “**CMCC**” means Canadian Mortgage Capital Corporation and its successors as our manager under the Management Agreement.

“**MIC**” means a mortgage investment corporation, within the meaning of subsection 130.1(6) of the ITA.

“**non-conventional mortgage**” means a mortgage other than a conventional mortgage, and includes mortgage investments that exceed, or may exceed, 75% of the appraised value of the real property underlying such mortgages as determined by a qualified appraiser.

“**residential mortgages**” means mortgages that are principally secured by single family residences, multi-family residential properties and residential land.

“**second mortgage**” means a mortgage interest having priority over all other security interests registered against the same real property used to secure such mortgage, other than a first mortgage of such real property.

“**TSX**” means the Toronto Stock Exchange.

SCHEDULE “A”

ATRIUM MORTGAGE INVESTMENT CORPORATION

AUDIT COMMITTEE CHARTER

Organization

This Charter governs the operations of the Audit Committee of Atrium (the “Committee”). The board of directors will appoint a Committee of at least three members and will designate one member as chair or delegate the authority to designate a chair to the Committee. All of the members will be directors who are “independent”, as defined by National Instrument 52-110 – *Audit Committees*.

Each member of the Committee will be financially literate, or become financially literate within a reasonable period of time.

The Committee will meet at least quarterly. The Committee will meet separately and periodically with management, internal audit and with the independent auditors. The Committee will report regularly to the board with respect to its activities.

Purpose

The purpose of the Committee will be to provide assistance to the board in fulfilling its oversight responsibility to the shareholders, potential shareholders, the investment community, and others relating to: (i) the integrity of Atrium’s financial statements; (ii) Atrium’s compliance with legal and regulatory requirements; and (iii) the independent auditors’ qualifications and independence.

The Committee may retain (and set and pay the compensation) of such outside legal, accounting or other advisors as it considers necessary to carry out its duties.

In fulfilling its purpose, it is the responsibility of the Committee to maintain free and open communication between the Committee, independent auditors and management, and to determine that all parties are aware of their responsibilities.

Duties and Responsibilities

The Committee has the responsibilities and powers set forth in this Charter. Management is responsible for the preparation, presentation, and integrity of Atrium’s financial statements, for the appropriateness of the accounting principles and reporting policies that are used and for implementing and maintaining internal control over financial reporting. The independent auditors are responsible for auditing Atrium’s annual financial statements and for reviewing Atrium’s unaudited interim financial statements.

The following will be the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

- The Committee will be responsible to advise the board, for the board’s recommendation to shareholders, in respect of the appointment, compensation and retention of the independent auditors.
- The Committee will be directly responsible for the oversight of the work of the independent auditors (including resolution of disagreements between management and the auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for Atrium, and the independent auditors report directly to the Committee.
- Annually, the Committee will obtain and review a report by the independent auditors describing: (i) the firm’s internal quality control processes; (ii) all relationships between the independent auditors and Atrium (to assess the auditors’ independence); and (iii) such other matters as are required by law or regulation.

- The Committee will determine that the independent audit firm has a process in place to address the rotation of the lead audit partner and other audit partners serving the account as required under Canadian independence standards.
- The Committee will pre-approve all audit and non-audit services provided by the independent auditors and will only engage the independent auditors to perform non-audit services permitted by law or regulation. The Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting.
- The Committee will discuss with the independent auditors the overall scope and plans for their audits.
- The Committee will review with the independent auditors any audit problems or difficulties encountered during the course of the audit work, including any restrictions on the scope of the independent auditors' activities or access to requested information, and management's response. The Committee will review any accounting adjustments that were noted or proposed by the auditors but were not recorded (as immaterial or otherwise) and any "management" or "internal control" letter issued, or proposed to be issued, by the audit firm.
- The Committee will review and recommend approval of the quarterly and annual audited financial statements to the board, including Management's Discussion and Analysis, with management and the independent auditors prior to the issuance and/or filing of same. (References in this paragraph to the external auditors apply to the annual financial statements only.) The Committee's review of the financial statements will include: (i) major issues regarding accounting principles and financial statement presentation, including any significant changes in Atrium's selection or application of accounting principles, and major issues as to the adequacy of Atrium's internal controls and any specific remedial actions adopted in light of material control deficiencies; (ii) discussions with management and the independent auditors regarding significant financial reporting issues and judgments made in connection with the preparation of the financial statements and the reasonableness of those judgments; (iii) consideration of the judgment of both management and the independent auditors about the quality of accounting principles; and (iv) the clarity of the disclosures in the financial statements. Also, the Committee will discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditors under professional standards.
- The Committee will review and approve all related party transactions not in the ordinary course of business in the absence of a special committee of the board designated for such function.
- The Committee will review earnings press releases for recommendation to the board.
- The Committee will discuss with management and the independent auditors the adequacy and effectiveness of internal control over financial reporting, including any significant deficiencies or material weaknesses identified by management in respect of Canadian securities laws requirements.
- The Committee will review with management Atrium's compliance systems with respect to legal and regulatory requirements.
- The Committee will ensure that Atrium establish appropriate policies and procedures for the receipt, retention, and treatment of complaints received by Atrium regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of Atrium of concerns regarding questionable accounting or auditing matters.
- The Committee will ensure that Atrium has in effect clear hiring policies for employees or former employees of the independent auditors that meet Canadian independence standards and applicable stock exchange listing standards.
- The Committee will perform an evaluation of its performance at least annually to determine whether it is functioning effectively.
- The Committee will review and reassess this Charter at least annually.