ATRIUM MORTGAGE INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER ™

FINANCIAL STATEMENTS

YEAR ENDED
DECEMBER 31, 2014

ATRIUM
MORTGAGE INVESTMENT
CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the shareholders of
Atrium Mortgage Investment Corporation:

The management of Atrium Mortgage Investment Corporation is responsible for the preparation, presentation and integrity of these financial statements, and the accompanying Management's Discussion and Analysis. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgements and estimates necessary to prepare the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management of Atrium is responsible to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced. We are required to design a system of internal controls and certify as to the design and operating effectiveness of internal controls over financial reporting. We have implemented a system of internal controls that we believe provides reasonable assurance in all material respects that transactions are authorized, assets are safeguarded and financial records are reliable for producing financial statements. Crowe Soberman LLP was appointed as the independent auditor by a vote of Atrium's shareholders to audit the financial statements; their report appears on the next page.

The Board of Directors, through the Audit Committee comprised solely of independent directors, is responsible for determining that management fulfills its responsibilities in the preparation of these financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders, and it meets regularly with senior and financial management to discuss internal controls and financial reporting matters. The independent auditors have unrestricted access to the Audit Committee.

These financial statements and accompanying Management's Discussion and Analysis have been approved by the Board of Directors based upon the review and recommendation of the Audit Committee.

Toronto, Canada
February 10, 2015

"Robert G. Goodall"	*"Jeffrey D. Sherman"*
Robert G. Goodall	Jeffrey D. Sherman
President and Chief Executive Officer	Chief Financial Officer

Crowe Soberman™

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Atrium Mortgage Investment Corporation

We have audited the accompanying financial statements of Atrium Mortgage Investment Corporation, which comprise the statements of financial position as at December 31, 2014 and December 31, 2013 and the statements of earnings and comprehensive income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Atrium Mortgage Investment Corporation as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Crowe Soberman LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 10, 2015

STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)	Notes	December 31 2014	December 31 2013
Assets			
Mortgages receivable	5	$ 432,757	$ 281,708
Prepaid expenses		370	273
		$ 433,127	$ 281,981
Liabilities			
Bank indebtedness	6	$ 313	$ 326
Operating line	6	79,985	35,910
Accounts payable and accrued liabilities		523	460
Accrued convertible debenture interest		1,093	–
Dividends payable	7	3,379	2,473
Due to related party	8	395	182
Convertible debentures	9	99,235	30,611
		184,923	69,962
Shareholders' equity			
Share capital		245,794	210,659
Contributed surplus and other equity		1,085	899
Equity component of convertible debentures		1,062	398
Retained earnings		263	63
		248,204	212,019
		$ 433,127	$ 281,981

Commitments *6, 13*

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

Approved on behalf of the board of directors:

"Robert Goodall"
Robert Goodall, Director

"Mark Silver"
Mark Silver, Director

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Notes	Common shares Number	Common shares Amount	Contributed surplus and other equity	Equity component of convertible debentures	Retained earnings	Total
Balance, December 31, 2012		21,078,537	$ 209,383	$ 693	$ –	$ 33	$ 210,109
Shares issued under dividend reinvestment plan	10	116,765	1,217	–	–	–	1,217
Shares issued under employee share purchase plan	10	3,328	35	–			35
Shares issued under deferred share incentive plan	10	2,203	24	(24)	–	–	–
Share-based payments	11	–	–	204	–	–	204
Shares subscribed		–	–	26	–	–	26
Equity component of convertible debentures issued	9	–	–	–	419	–	419
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(21)	–	(21)
Earnings and comprehensive income		–	–	–	–	18,000	18,000
Dividends declared	7	–	–	–	–	(17,970)	(17,970)
Balance, December 31, 2013		21,200,833	210,659	899	398	63	212,019
Shares issued	10	3,036,000	34,610	–	–	–	34,610
Shares issued under dividend reinvestment plan	10	175,851	1,954	–	–	–	1,954
Shares issued under employee share purchase plan	10	12,854	144	–	–	–	144
Shares issued under deferred share incentive plan	10	3,427	36	(36)	–	–	–
Issue costs	10	–	(1,609)	–	–	–	(1,609)
Share-based payments	11	–	–	248	–	–	248
Shares subscribed		–	–	(26)	–	–	(26)
Equity component of convertible debentures issued	9	–	–	–	697	–	697
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(33)	–	(33)
Earnings and comprehensive income		–	–	–	–	21,037	21,037
Dividends declared	7	–	–	–	–	(20,837)	(20,837)
Balance, December 31, 2014		24,428,965	$ 245,794	$ 1,085	$ 1,062	$ 263	$ 248,204

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

STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(in thousands of Canadian dollars, except for per share amounts)

	Notes	Years ended December 31 2014	2013
Revenues			
Mortgage interest and fees		$ 34,956	$ 23,760
Operating expenses			
Mortgage servicing and management fees	8	3,553	2,468
Transfer agent, regulatory fees and investor relations		320	224
Share-based payments	8, 11	248	204
Professional fees		144	170
Directors' fees	8	175	147
Administration and general		127	100
Provision for mortgage losses	5	1,817	63
		6,384	3,376
Income before financing costs		28,572	20,384
Financing costs			
Interest on convertible debentures		4,627	1,065
Interest and other bank charges		2,908	1,319
		7,535	2,384
Earnings and comprehensive income for the year		$ 21,037	$ 18,000
Earnings per common share			
Basic	12	$ 0.91	$ 0.85
Diluted	12	$ 0.91	$ 0.85

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

STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	Years ended December 31 2014	2013
Cash provided by (used in):		
Operating activities		
Earnings and comprehensive income for the year	$ 21,037	$ 18,000
Add (subtract) non-cash items		
Share-based payments	222	206
Interest capitalized on mortgages	(5,152)	(1,612)
Amortization of mortgage discount	(122)	(208)
Amortization of mortgage origination fees	(1,153)	(881)
Non-cash portion of interest on convertible debentures	644	149
Provision for mortgage losses	1,817	63
	17,293	15,717
Changes in operating assets and liabilities		
Accrued interest receivable	(615)	1,027
Prepaid expenses	(97)	(253)
Accounts payable and accrued liabilities	63	(1)
Accrued convertible debenture interest	1,093	–
Additions to mortgage discount	248	161
Additions to mortgage origination fees	1,264	961
	1,956	1,895
Cash provided by operating activities	19,249	17,612
Investing activities		
Advances of mortgages receivable	(278,319)	(186,703)
Repayment of mortgages receivable	130,983	107,438
Cash used by investing activities	(147,336)	(79,265)
Financing activities		
Bank indebtedness, net	(13)	326
Operating line advanced	528,535	267,778
Operating line repaid	(484,460)	(231,868)
Increase (decrease) in due to related party	213	(23)
Issuance of common shares	36,708	1,277
Common shares issue costs	(1,609)	–
Issuance of convertible debentures	72,051	32,500
Convertible debenture issue costs	(3,407)	(1,641)
Dividends paid	(19,931)	(17,324)
Cash provided by financing activities	128,087	51,025
Increase (decrease) in cash	–	(10,628)
Cash, beginning of year	–	10,628
Cash, end of year	$ –	$ –
Cash provided by operating activities includes:		
Interest received	$ 27,914	$ 19,697
Interest paid	$ 5,434	$ 2,088

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

1. NATURE OF OPERATIONS

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

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

The company's common shares are listed on the Toronto Stock Exchange (TSX) under the symbol AI and its convertible debentures are listed under the symbols AI.DB, AI.DB.A and AI.DB.B.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and International Financial Reporting Standards (IFRS), as set out in Part 1 of the *CPA Canada Handbook – Accounting*. These annual financial statements were authorized for issuance by the Board of Directors on February 10, 2015.

(b) Basis of measurement

These financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. The most subjective of these estimates relates to: (a) the valuation of mortgages receivable, which is affected primarily by the provision for mortgage losses which is determined by management's estimate as to the required general and specific provisions; and (b) the measurement of the liability and equity components of the convertible debentures which depend upon the estimated market interest rates for a comparable debenture without the convertibility feature. Management believes that its estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Mortgage interest and fees revenues are recognized in the statement of earnings and comprehensive income using the effective interest method. Mortgage interest and fees revenues include the company's share of any fees received, as well as the effect of any discount or premium on the mortgage.

The effective interest method derives the interest rate that discounts the estimated future cash payments and receipts during the expected life of the mortgage receivable (or, where appropriate, a shorter period) to its carrying amount. When calculating the effective interest rate, future cash flows are estimated considering all contractual terms of the financial instrument, but not future credit losses (see Note 3 (c)). The calculation of the effective interest rate includes all fees and transaction costs paid or received. Fees and transaction costs include incremental revenues and costs that are directly attributable to the acquisition or issuance of the mortgage.

(b) Financial assets – classification, initial recognition and measurement

Classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. Mortgages receivable are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method.

All financial assets are subject to review for impairment quarterly, and written down when there is evidence of impairment.

(c) Mortgages receivable

A mortgage receivable, carried at amortized cost, is considered impaired when there is objective evidence at the end of the reporting period that there has been a deterioration of credit quality subsequent to its initial recognition to the extent that the company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest. The company assesses mortgages receivable for objective evidence of impairment both individually and collectively at each reporting period. The specific and general provisions for mortgage losses are determined by taking into account the following factors:

- Delays in the collection of interest and principal
- The point at which management considers a loan to be in default (which is defined as 90 days for single family residential mortgages and 30 days for all other mortgages)
- Other known factors specific to the property, the borrower or the guarantor
- Economic and other real estate market conditions in the geographic area in which a borrower's project is located
- Management's judgement as to whether current economic and credit conditions are such that the inchoate or potential losses at the reporting date are likely to be higher or lower than the amounts suggested by historic experience
- Any other factors that apply to a particular mortgage or group of mortgages

Several of these factors involve estimates and judgements on the part of management in determining provisions for mortgage losses. The other key estimates used for quantifying the specific and general provisions for mortgage losses are:

- The period of time expected to elapse between the contractual maturity or interest and principal repayment dates and the date at which recovery is estimated
- The amount expected to be ultimately recovered on impaired loans, taking into account the probability of different outcomes, where necessary
- The value of underlying security, and whether the company expects to take possession of the property
- The amount of any legal and other third party costs estimated to be incurred

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Mortgages receivable (continued)

An impairment loss is calculated as the difference between the carrying amount of the mortgage receivable and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are charged to the statements of earnings and comprehensive income and are reflected in the provision for mortgage losses.

If there is no objective evidence of impairment for an individual mortgage receivable, it is included in a group of mortgages with similar credit risk characteristics and collectively assessed for impairment for losses incurred but not identified, and reported as a general provision. For the purpose of determining the group of mortgages with similar credit risk characteristic, mortgages are grouped by category: commercial/mixed use, house and apartment, low-rise residential, construction, high-rise residential, mid-rise residential, and condominium corporations.

(d) Convertible debentures

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

(e) Other financial liabilities

Other financial liabilities are non-derivative liabilities recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost using the effective interest method. The company has classified bank indebtedness, operating line, accounts payable and accrued liabilities, dividends payable, due to related party and the liability component of convertible debentures as other financial liabilities.

(f) Income taxes

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

(g) Earnings per common share

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

(h) Share-based payments

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

4. RECENT ACCOUNTING PRONOUNCEMENTS

Various pronouncements have been issued by the IASB or IFRS Interpretations Committee (IFRIC) that will be effective for future accounting periods, most of which do not apply to the company; one that is applicable is summarized below.

IFRS 9 – Financial Instruments is a new standard on accounting for financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. The effective date has been tentatively set to be applicable for the company's December 31, 2018 financial statements. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is recorded at fair value through profit or loss. IFRS 9 requires an expected-loss impairment model (replacing the current incurred loss impairment model) that will require more timely recognition of expected losses and requires accounting for expected credit losses when financial instruments are first recognized and to accelerate the recognition of full lifetime expected losses. The potential impact of the new standard on the company's financial statements has not been determined.

5. MORTGAGES RECEIVABLE

(a) Mortgage portfolio

	December 31, 2014			December 31, 2013		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
Commercial/mixed use	31	$ 134,990	31.1%	27	$ 89,475	31.7%
House and apartment	90	93,070	21.4%	59	69,485	24.6%
Low-rise residential	23	85,678	19.7%	17	58,466	20.7%
Construction	17	61,095	14.1%	9	22,093	7.8%
High-rise residential	8	44,048	10.1%	5	32,967	11.7%
Mid-rise residential	8	12,127	2.8%	3	7,440	2.6%
Condominium corporation	13	3,260	0.8%	11	2,434	0.9%
Mortgage portfolio	190	434,268	100.0%	131	282,360	100.0%
Accrued interest receivable		2,177			1,562	
Mortgage discount		(465)			(339)	
Mortgage origination fees		(835)			(724)	
Provision for mortgage losses		(2,388)			(1,151)	
Mortgages receivable		$ 432,757			$ 281,708	

The mortgage portfolio has maturity dates between 2015 and 2025 with a weighted average term to maturity of 13.7 months at December 31, 2014 (December 31, 2013 – 13.5 months). The portfolio has a weighted average interest rate (which excludes lender fees paid to the company) of 8.81% for the year ended December 31, 2014 (8.72% for the year ended December 31, 2013).

Principal repayments based on contractual maturity dates are as follows:

Years ended December 31, 2015	167,709	38.6%
2016	220,156	50.7%
2017	43,274	10.0%
2018	54	0.0%
2019	72	0.0%
Thereafter	3,003	0.7%
	$ 434,268	100.0%

5. MORTGAGES RECEIVABLE (continued)

(a) Mortgage portfolio (continued)

Location of underlying property	Year ended December 31, 2014 Number of mortgages	Amount	Percentage	Weighted average interest rate
Greater Toronto Area	136	$ 296,405	68.2%	8.81%
Non-GTA Ontario	11	38,716	8.9%	9.66%
Saskatchewan	1	2,880	0.7%	8.50%
Alberta	31	66,325	15.3%	8.47%
British Columbia	11	29,942	6.9%	8.64%
	190	434,268	100.0%	8.81%

Location of underlying property	Year ended December 31, 2013 Number of mortgages	Amount	Percentage	Weighted average interest rate
Greater Toronto Area	111	$ 228,391	80.9%	8.64%
Non-GTA Ontario	6	22,465	8.0%	9.10%
Saskatchewan	–	–	–	–
Alberta	7	24,910	8.8%	8.57%
British Columbia	7	6,594	2.3%	10.75%
	131	282,360	100.0%	8.72%

Mortgage category	December 31 2014	%	December 31 2013	%	% change
Conventional first mortgages	$ 348,050	80.2%	$ 249,328	88.3%	39.6%
Conventional second and third mortgages	70,728	16.3%	25,711	9.1%	175.1%
Non-conventional mortgages	12,230	2.8%	4,887	1.7%	150.3%
Other	3,260	0.7%	2,434	0.9%	34.0%
	$ 434,268	100.0%	$ 282,360	100.0%	53.8%

Conventional mortgages are those mortgages with a loan-to-value of less than or equal to 75%. Seventy-five percent (75%) loan-to-value is the industry norm for determining a conventional versus non-conventional mortgage. Non-conventional mortgages are those mortgages with a loan-to-value in excess of 75%.

The weighted average term remaining for our mortgages receivable at December 31, 2014 is 13.7 months (December 31, 2013 – 13.5 months).

(b) Provision for mortgage losses

	December 31 2014	December 31 2013
Specific provision	$ –	$ 590
General provision	2,388	561
Provision for mortgage losses	$ 2,388	$ 1,151

	Year ended December 31, 2014 Specific provision	General provision	Total
Balance, beginning of year	$ 590	$ 561	$ 1,151
Mortgage settled during the year	(580)	–	(580)
Released to general provision	(10)	10	–
Increase in general provision during the year	–	1,817	1,817
Balance, end of year	$ –	$ 2,388	$ 2,388

5. MORTGAGES RECEIVABLE (continued)

(b) Provision for mortgage losses (continued)

	Year ended December 31, 2013		
	Specific provision	General provision	Total
Balance, beginning of year	$ 527	$ 561	$ 1,088
Increase in specific provision for the year	63	–	63
Balance, end of year	$ 590	$ 561	$ 1,151

One mortgage was in default at December 31, 2014 (one at December 31, 2013, which was subsequently settled). The company does not expect to incur losses on the mortgage in default at December 31, 2014 taking into account market conditions, the value of real property securing the mortgages, and other factors. The increase in the general provision for mortgage losses during the period is based upon assessment of the factors described in Note 3(c).

6. CREDIT FACILITY

At December 31, 2014, the company had a credit facility from a syndicate of two Canadian financial institutions of $100,000 (December 31, 2013 – $80,000) at a formula rate that varies with bank prime and the market bankers' acceptance rate. Drawings under the credit facility may be by way of a bank loan (including bank indebtedness of up to $500), bankers' acceptances or letters of credit (LCs). LCs represent irrevocable assurances that the company's banks will make payments in the event that a customer cannot meet its obligations to third parties. LCs carry the same credit risk, recourse and collateral security requirements as mortgages extended to customers. The committed credit facility was effective October 6, 2014, has a term of two years, and is subject to certain conditions of drawdown and other covenants. During the year ended December 31, 2014 there were various amendments to the operating credit facility negotiated from time to time with the banks that were subsequently repaid and cancelled.

The credit facility is secured by a lien over all of the company's assets by means of a general security agreement. The amount that may be drawn down under the credit facility is determined by the aggregate value of mortgages that are acceptable to the lender. Under the terms of the credit facility, covenants must be met in respect of shareholders' equity, debt to total assets and interest coverage. At December 31, 2014 and December 31, 2013, the company was in compliance with these covenants.

Credit facility	**Year ended December 31 2014**	**Year ended December 31 2013**
Bankers' acceptances	$ 57,000	$ 20,000
Bank loan	22,985	15,910
Operating line	79,985	35,910
Bank indebtedness	313	326
Total borrowing under credit facility	80,298	36,236
Letters of credit	4,483	2,680
Total credit facility utilization	$ 84,781	$ 38,916

7. DIVIDENDS

The company follows a dividend policy so that it is non-taxable under the provisions of the ITA related to Mortgage Investment Corporations. Dividends amounted to $0.89 per share for the year ended December 31, 2014 (2013 – $0.85).

	December 31 2014	**December 31 2013**
Dividends payable, beginning of year	$ 2,473	$ 1,827
Dividends declared	20,837	17,970
Dividends paid	(19,931)	(17,324)
Dividends payable, end of year	$ 3,379	$ 2,473

8. RELATED PARTY TRANSACTIONS

The company pays management and mortgage servicing fees to Canadian Mortgage Capital Corporation (CMCC), which is the manager of the company, and responsible for its day to day management. The majority beneficial owner and Chief Executive Officer (CEO) of the manager is also CEO of the company. The company incurred management and mortgage servicing fees of $3,548 for the year ended December 31, 2014 (2013 – $2,455). The management agreement between the company and CMCC contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. Amounts due to related party are due to CMCC, in the normal course of business, are non-interest bearing and due on demand, and are paid within 30 days of each period end.

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

	Year ended December 31 2014	Year ended December 31 2013
Directors' fees	$ 175	$ 147
Share-based payments to directors (Note 11)	110	98
Share-based payments to officers (Note 11)	101	92
	$ 386	$ 337

Related party transactions are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. CONVERTIBLE DEBENTURES

	Year ended December 31, 2014			
	Convertible debenture 5.50% AI.DB.B	Convertible debenture 6.25% AI.DB.A	Convertible debenture 5.25% AI.DB	Total
Maturity date	Sept. 30, 2021	March 31, 2019	June 30, 2020	
Convertible debentures, beginning of year	$ –	$ –	$ 30,611	$ 30,611
Issued	40,250	31,801	–	72,051
Equity component	(536)	(161)	–	(697)
Issue costs	(1,861)	(1,546)	–	(3,407)
Issue costs attributed to equity component	26	7	–	33
Convertible debentures	37,879	30,101	30,611	98,591
Accretion for the year	88	273	283	644
Convertible debentures, end of year	$ 37,967	$ 30,374	$ 30,894	$ 99,235

	Year ended December 31, 2013	
	Convertible Debenture 5.25% AI.DB	Total
Maturity date	June 30, 2020	
Convertible debentures, beginning of year	$ –	$ –
Issued	32,500	32,500
Equity component	(419)	(419)
Issue costs	(1,640)	(1,640)
Issue costs attributed to equity component	21	21
Convertible debentures	30,462	30,462
Accretion for the year	149	149
Convertible debentures, end of year	$ 30,611	$ 30,611

9. CONVERTIBLE DEBENTURES (continued)

During the year ended December 31, 2014, the company completed a public offering for 5.50%, unsecured convertible debentures due September 30, 2021 aggregating $35,000 and an overallotment option of a further $5,250 that closed September 23, 2014 and October 2, 2014, respectively. The interest on the debentures is payable on March 31 and September 30 each year. Debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of $14.65 per share, subject to various adjustments in accordance with the trust indenture. The debentures may not be redeemed by the company before September 30, 2017. After September 30, 2017 and prior to September 30, 2019, the debentures may be redeemed, in whole or in part, from time to time at the company's option at par plus accrued interest provided that the weighted average trading price of the common shares is not less than 125% of the conversion price. After September 30, 2019, the company may, at its option, redeem the debentures, in whole or in part, at par plus accrued and unpaid interest. On issuance, the company recorded a liability of $37,879, net of equity component of $536 and issue costs attributable to debt of $1,835.

During the year ended December 31, 2014, the company completed a public offering for 6.25%, unsecured convertible debentures due March 31, 2019 aggregating $30,000 and an overallotment option of a further $1,801 that were closed February 27, 2014 and March 5, 2014, respectively. The interest on the debentures is payable on March 31 and September 30 each year. Debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of $13.30 per share, subject to various adjustments in accordance with the trust indenture. The debentures may not be redeemed by the company before March 31, 2017. After March 31, 2017 and prior to March 31, 2018, the debentures may be redeemed, in whole or in part, from time to time at the company's option at par plus accrued interest provided that the weighted average trading price of the common shares is not less than 125% of the conversion price. After March 31, 2018, the company may, at its option, redeem the debentures, in whole or in part, at par plus accrued and unpaid interest. On issuance, the company recorded a liability of $30,101, net of equity component of $161 and issue costs attributable to debt of $1,539.

During the year ended December 31, 2013, the company completed a public offering for of 5.25%, unsecured convertible debentures due June 30, 2020 aggregating $30,000 and an overallotment option of $2,500 that were closed on June 18, 2013 and July 9, 2013, respectively. The interest on the debentures is payable on June 30 and December 31 each year. Debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of $13.50 per share, subject to various adjustments in accordance with the trust indenture. The debentures may not be redeemed by the company before June 30, 2016. After June 30, 2016 and prior to June 30, 2018, the debentures may be redeemed, in whole or in part, from time to time at the company's option at par plus accrued interest provided that the weighted average trading price of the common shares is not less than 125% of the conversion price. After June 30, 2018, the company may, at its option, redeem the debentures, in whole or in part, at par plus accrued and unpaid interest. On issuance, the company recorded a liability of $30,462, net of equity component of $419 and issue costs attributable to debt of $1,619.

10. SHARE CAPITAL

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

The company has an optional dividend reinvestment plan (DRIP) for shareholders, whereby participants may reinvest cash dividends in additional common shares of the company at the volume weighted average price for five days prior to distribution, less a 2% discount. Shares issued under the DRIP are issued by the company from treasury.

Under the employee share purchase plan (ESPP), each participant may contribute up to an annual maximum to the ESPP, and CMCC (the manager) will match 50% of the participant's contribution. Thus, the company does not bear any of the cost of the ESPP, but is reimbursed by CMCC and the participants.

10. SHARE CAPITAL (continued)

	Common shares	
Year ended December 31, 2014	**Number**	**Amount**
Shares issued –		
ESPP, January 1, 2014	2,368	$ 26
DRIP, January 14, 2014	12,543	131
DRIP, February 13, 2014	12,859	134
DRIP, March 5, 2014	8,841	99
DRIP, March 13, 2014	12,606	141
ESPP, April 1, 2014	1,888	21
DRIP, April 14, 2014	13,287	145
DRIP, May 13, 2014	13,035	145
Public offering, May 22, 2014*	3,036,000	34,610
DRIP, June 13, 2014	14,461	157
ESPP, June 30, 2014	2,533	28
DRIP, July 14, 2014	14,876	163
DRIP, Aug 13, 2014	14,539	163
DRIP, September 12, 2014	14,121	159
ESPP, September 30, 2014	3,070	35
DRIP, October 13, 2014	15,400	172
DRIP, November 13, 2014	14,478	171
DSIP, December 1, 2014	3,427	36
DRIP, December 12, 2014	14,805	174
ESPP, December 30, 2014	2,995	34
Total shares issued during the year	3,228,132	$ 36,744
Public offering*	3,036,000	34,610
DRIP	175,851	1,954
ESPP	12,854	144
DSIP	3,427	36
Total shares issued during the year	3,228,132	$ 36,744

*Issue costs for the May 22, 2014 public offering aggregated $1,609.

	Common shares	
Year ended December 31, 2013	**Number**	**Amount**
Shares issued –		
DRIP, January 29, 2013	6,580	$ 71
DRIP, February 26, 2013	6,814	74
DRIP, March 21, 2013	1,785	19
DRIP, March 27, 2013	8,889	95
DRIP, April 15, 2013	8,515	92
DRIP, May 15, 2013	8,806	94
DRIP, June 14, 2013	9,228	97
DRIP, July 15, 2013	9,208	94
ESPP, July 23, 2013	1,332	14
DRIP, August 14, 2013	10,721	107
DRIP, September 13, 2013	11,550	115
ESPP, October 1, 2013	1,996	21
DRIP, October 14, 2013	11,580	117
DRIP, November 14, 2013	10,695	112
DSIP, November 14, 2013	2,203	24
DRIP, December 13, 2013	12,394	130
Total shares issued during the year	122,296	$ 1,276
DRIP	116,765	1,217
ESPP	3,328	35
DSIP	2,203	24
Total shares issued during the year	122,296	$ 1,276

11. SHARE-BASED PAYMENTS

	September 1 2014 grant	August 30 2013 grant	August 29 2012 grant	Total
Deferred shares granted				
Year ended December 31, 2012	–	–	21,500	21,500
2013	–	23,000	–	23,000
2014	21,500	–	–	21,500
	21,500	23,000	21,500	66,000
Income deferred shares earned				
Year ended December 31, 2012	–	–	680	680
2013	–	592	1,741	2,333
2014	375	1,738	1,714	3,827
	375	2,330	4,135	6,840

Share compensation expense:	Year ended December 31 2014	Year ended December 31 2013
September 1, 2014 grant	$ 55	$ –
August 30, 2013 grant	125	54
August 29, 2012 grant	68	150
	$ 248	$ 204

Grants are provided to certain directors and employees under the company's deferred share incentive plan ("DSIP"). The deferred share units vest annually over three years. Common shares are issued to participants on the vesting date of each tranche of deferred share units, unless a participant elects to defer the issuance. In addition, income deferred share units are credited to holders of deferred share units based upon dividends paid on common shares. The fair value of share-based compensation was based upon the volume weighted average market price of the common shares five days prior to the grant date of September 1, 2014 ($11.46), August 30, 2013 ($10.13) and August 29, 2012 ($11.00).

12. EARNINGS PER SHARE

	Year ended December 31 2014	Year ended December 31 2013
Basic earnings per share –		
Numerator		
Earnings for the year	$ 21,037	$ 18,000
Denominator		
Weighted average common shares outstanding	23,151	21,133
Basic earnings per share	$ 0.91	$ 0.85
Diluted earnings per share –		
Numerator		
Earnings for the year	$ 21,037	$ 18,000
Interest on convertible debentures	4,627	1,065
Earnings for diluted earnings per share	25,664	19,065
Denominator		
Weighted average common shares outstanding	23,151	21,133
Convertible debentures	5,153	1,283
Deferred share incentive plan	49	29
Income deferred share units	3	1
Weighted average common shares outstanding – diluted basis	28,356	22,446
Diluted earnings per share	$ 0.91	$ 0.85

13. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets comprise mortgages receivable. All financial assets are classified as loans and receivables. Financial liabilities comprise bank indebtedness, operating line, accounts payable and accrued liabilities, dividends payable, due to related party and the liability component of convertible debentures. All financial liabilities are classified as other financial liabilities.

(b) Fair value

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

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. All financial assets are classified as loans and receivables and are recorded at amortized cost. Their carrying values approximate their fair value due to their relatively short-term maturities and because market interest rates have not fluctuated significantly since the date at which the loans were entered into. The fair value of the operating line approximates book value since it bears interest at floating rates. Mortgages receivable mature between 2015 and 2025 with a weighted average term to maturity at December 31, 2014 of 13.7 months (2013 – 13.5 months). Fair value of mortgages receivable is established by Level 3 inputs.

The fair value of convertible debentures at the time of issue is established using Level 2 inputs. The fair value of convertible debentures has been determined based on the closing prices of the convertible debentures on the TSX on the respective dates.

Convertible debentures	December 31 2014	December 31 2013
Fair value	$ 104,507	$ 30,225
Less book value of equity component	(1,062)	(398)
	$ 103,445	$ 29,827
Book value of financial liability component	$ 99,235	$ 30,611

The fair value of other financial liabilities is estimated using level 3 inputs.

(c) Credit risk

The following asset is exposed to credit risk: mortgages receivable. Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment, resulting in a financial loss to the company.

The company controls the credit risk of mortgages receivable by maintaining strict credit policies including due diligence processes, credit limits, documentation requirements, review and approval of new mortgages by the board of directors or a subgroup thereof, quarterly review of the entire portfolio by the board of directors, and other credit policies approved by the board of directors. Credit risk is approved by the board of directors. At December 31, 2014 no single borrower accounted for more than 7.9% of mortgages receivable (December 31, 2013 – 14.6%). See Note 5(a) for geographic as well as mortgage rank breakdown.

13. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its obligations when due. The primary sources of liquidity risk are the requirements to fund commitments for new mortgages, advances on existing mortgages, as well as obligations under the company's credit facility. The company's liquidity risk is managed on an ongoing basis in accordance with the policies and procedures in place that reduce the risk to an acceptable level. Policies and procedures include continual monitoring of expected cash flows, reviewing credit requirements with the company's bankers, issuing convertible debentures or common shares in the public markets from time to time as required, and staggering the maturities of convertible debentures when they are issued. From time to time the company has arranged temporary increases in its credit facility with its banks in order to manage liquidity requirements, and expects to be able to continue to do so in the future if required. The company's significant financial liabilities include bank indebtedness, operating line, accounts payable and accrued liabilities, dividends payable, due to related party and the liability component of convertible debentures. The bank indebtedness and operating line are drawn upon as required to discharge accounts payable and accrued liabilities as well as to pay out dividends on a monthly basis. The company's agreement with the lender is that the operating line will not be called provided that all covenants are met and that any significant excess cash is used to pay down the bank loan and indebtedness.

As at December 31, 2014, management considers that it has adequate procedures in place to manage liquidity risk.

Obligations at December 31, 2014	Total	Less than 1 year	1-2 years	3-7 years
Bank indebtedness	$ 313	$ 313	$ –	$ –
Operating line	79,985	79,985		
Accounts payable and accrued liabilities	523	523	–	–
Accrued convertible debentures interest	1,093	1,093		
Dividends payable	3,379	3,379	–	–
Due to related party	395	395	–	–
Convertible debentures	99,235	–	–	99,235
Total	$ 184,923	$ 85,688	$ –	$ 99,235

The company has commitments to advance additional funds under existing mortgages of $99,757 and for new mortgages of $10,063 at December 31, 2014 (December 31, 2013 – $51,437 and $46,728 respectively). Generally, outstanding commitments are expected to be funded within the next 24 months. However, the experience of the company has been that a portion of the unfunded amounts on existing mortgages will never be drawn.

(e) Interest rate risk

The company is exposed to interest rate risk in that an increase in interest rates will result in increased interest expense due to its operating line and indebtedness being set at a variable rate but all mortgages being set at fixed rates. The financial structure of the company results in relatively moderate interest rate risk because most of the company's financing is through common shares and convertible debentures, with a moderate amount of borrowings under the credit facility that bear floating interest rates.

If interest rates on debt had been one percentage point higher (lower) during the year ended December 31, 2014, earnings would have been reduced (increased) by approximately $680 during the period, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. However, if new mortgage loans had been entered into at higher (lower) interest rates, the resulting reduction of earnings would have been less than (greater than) $680.

(f) Currency risk

Currency risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. The company is not currently exposed to significant currency risk as all assets and liabilities are denominated in Canadian funds.

13. FINANCIAL INSTRUMENTS (continued)

(g) Changes to risk exposure and management of risk exposure

During the year ended December 31, 2014, the company issued 6.25% unsecured convertible debentures with a face value of $31,801 (see Note 9), and issued 5.50% unsecured convertible debentures with a face value of $40,250 (see Note 9), which had the effect of altering its risk exposure profile to be less sensitive to changes in general market interest rates. The effect will be favourable if general interest rates increase, and adverse if general interest rates decline. In addition, during the year ended December 31, 2014, the company issued common shares for net proceeds of $35,135, which had the effect of reducing its leverage and consequently reducing its exposure to changes in interest rates in general.

14. CAPITAL MANAGEMENT

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

	December 31 2014	December 31 2013
Bank indebtedness	$ 313	$ 326
Operating line	79,985	35,910
Total borrowing under credit facility	80,298	36,236
Convertible debentures	99,235	30,611
Total debt	179,533	66,847
Shareholders' equity	248,204	212,019
Capital employed	$ 427,737	$ 278,866

The company's objectives for managing capital are to:

- preserve shareholders' equity
- provide shareholders with stable dividends
- use leverage in a conservative manner to improve return to shareholders

The company manages capital by using conservative amounts of financial leverage to improve its return to shareholders. The company finances growth of its portfolio by issuing common shares and debt. In addition, a small amount of equity is raised every month through a dividend reinvestment plan for shareholders.

As bank borrowings increase, the company could expect to raise further funds through public offerings of convertible debentures or common shares, and through private placements of debt. The company's bank indebtedness, bankers' acceptances and bank loan are subject to external covenants as set out in Note 6. There has been no change in the company's capital management objectives since the prior period.

15. INCOME TAXES

The company is a Mortgage Investment Corporation (MIC) as defined in Section 130.1(6) of the ITA. Accordingly, the company is not taxed on its taxable income (as defined in the ITA) provided that it is distributed as dividends within 90 days of December 31 each year.

Due to certain provisions of the ITA, taxable income does not precisely equal income under IFRS. The company has tax loss carry forwards available that may serve to permit future distributions to shareholders to be less than taxable income in the year while preserving its status as a MIC.

	December 31 2014	December 31 2013
Earnings and comprehensive income for the year	21,037	18,000
Non-deductible expenses	3,018	483
Issue costs deductible pursuant to Section 20(1)(e) of the ITA	(2,409)	(1,350)
Change in deferred revenue	110	80
Cumulative eligible capital deduction	(2)	(2)
Taxable income	$ 21,754	$ 17,211
Less: dividends declared during the year and within 90 days of year end	(20,837)	(17,971)
Taxable income (loss) for the year	917	(760)
Add: tax loss carry forward from previous years	(1,438)	(678)
Tax loss carry forward, end of year	$ (521)	$ (1,438)

Tax losses generated in 2013 will expire in 2033.

16. SUBSEQUENT EVENTS

On January 13, 2015, the company issued 15,902 common shares ($178) to shareholders under its dividend reinvestment plan.

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