

ATRIUM MORTGAGE
INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER™

ANNUAL REPORT 2016

YEAR ENDED
DECEMBER 31, 2016





FOR IMMEDIATE RELEASE

**ATRIUM MORTGAGE INVESTMENT CORPORATION
GENERATES RECORD EARNINGS AND
RECORD DIVIDENDS IN 2016**

TORONTO: February 8, 2017 – Atrium Mortgage Investment Corporation (TSX: AI, ALDB, ALDB.A, ALDB.B) today released its financial results for the year ended December 31, 2016.

Highlights

- **\$0.97 basic and \$0.95 diluted earnings per share for the year ended December 31, 2016**
- **\$0.10 per share special dividend to shareholders of record December 31, 2016**
- **\$0.96 total dividends per share in 2016, representing a yield of 9.3% on book value**
- **2017 regular dividend increased to \$0.88 per annum, paid monthly**
- **Mortgage portfolio increased 18.5% year-over-year to \$535 million at December 31, 2016**
- **High quality mortgage portfolio**
 - **80.8% of portfolio in first mortgages**
 - **88.4% of loan portfolio is less than 75% loan to value**
 - **Continued focus on low risk real estate sectors**
 - **Alberta exposure reduced from 13.5% of portfolio at December 31, 2015 to 6.9% at year-end; 96.9% of remaining Alberta loans are first mortgages**

“Our performance in 2016 was the most impressive in Atrium’s 15 year history” said Robert Goodall, CEO of Atrium. He continued, “What I am most proud of is our ability to lower the risk in the portfolio by reducing our exposure in Alberta from 19.5% of the total portfolio 18 months ago to less than 7% today. And we accomplished that feat while generating record earnings per share. This re-orientation of the portfolio demonstrates the quality of our management team, who have proven that they can operate effectively in both a weak or strong economy.”

“Once again we would like to thank our real estate clients for their continued loyalty, and our shareholders for their continuing support. We are proud to state that Atrium continues to be regarded as **Canada’s premier non-bank lender™**.”

Interested parties are invited to participate in a conference call with management on Thursday, February 9, 2017 at 4:00 p.m. EST. Please refer to the call-in information at the end of this news release.

Results of operations

For the year ended December 31, 2016, mortgage interest and fees revenue aggregated \$44.0 million, compared to \$40.2 million in the prior year, an increase of 9.5%. The weighted average interest rate on the mortgage portfolio was 8.50% at December 31, 2016, compared with 8.66% at December 31, 2015. Earnings and total comprehensive income were up 11.9% from the previous year.

Condensed Statements of Earnings and Comprehensive Income

(\$000s, except per share amounts)

	Year ended December 31 2016	Year ended December 31 2015	Year ended December 31 2014
Revenue	\$ 44,042	\$ 40,206	\$ 34,956
Mortgage servicing and management fees	(4,661)	(4,173)	(3,553)
Other expenses	(1,221)	(1,187)	(1,014)
Provision for mortgage losses	<u>(1,519)</u>	<u>(1,912)</u>	<u>(1,817)</u>
Income before financing costs	36,641	32,934	28,572
Financing costs	<u>(10,521)</u>	<u>(9,597)</u>	<u>(7,535)</u>
Earnings and total comprehensive income	<u>\$ 26,120</u>	<u>\$ 23,337</u>	<u>\$ 21,037</u>
Basic earnings per share	\$ 0.97	\$ 0.94	\$ 0.91
Diluted earnings per share	\$ 0.95	\$ 0.93	\$ 0.91

For further information on the financial results, please refer to Atrium's financial statements for the year ended December 31, 2016, and its management's discussion and analysis for the same period, available on SEDAR at www.sedar.com, and on the company's website at www.atriummic.com.

Mortgage portfolio

(\$000s)

<u>Mortgage category</u> (outstanding amounts in 000s)	<u>December 31, 2016</u>			<u>December 31, 2015</u>		
	<u>Number</u>	<u>Outstanding amount</u>	<u>% of Portfolio</u>	<u>Number</u>	<u>Outstanding amount</u>	<u>% of Portfolio</u>
Low-rise residential	30	\$ 135,701	25.4%	23	\$ 110,034	24.3%
House and apartment	102	99,456	18.6%	110	84,755	18.8%
High-rise residential	7	53,182	9.9%	9	42,245	9.4%
Construction	8	49,345	9.2%	9	44,701	9.9%
Mid-rise residential	5	28,787	5.4%	7	14,662	3.2%
Condominium corporation	<u>16</u>	<u>3,548</u>	<u>0.7%</u>	<u>18</u>	<u>4,111</u>	<u>0.9%</u>
Residential portfolio	168	370,019	69.2%	176	300,508	66.5%
Commercial/mixed use	<u>29</u>	<u>165,231</u>	<u>30.8%</u>	<u>31</u>	<u>151,083</u>	<u>33.5%</u>
Mortgage portfolio	<u>197</u>	535,250	<u>100.0%</u>	<u>207</u>	451,591	<u>100.0%</u>
Accrued interest receivable		2,126			1,960	
Mortgage discount		(360)			(440)	
Mortgage origination fees		(626)			(712)	
Provision for mortgage losses		<u>(5,800)</u>			<u>(4,300)</u>	
Mortgages receivable		<u>\$ 530,590</u>			<u>\$ 448,009</u>	

A summary of mortgages by size is presented below.

(\$000s)

<u>Mortgage amount</u> (outstanding amounts in 000s)	<u>December 31, 2016</u>			<u>December 31, 2015</u>		
	<u>Number</u>	<u>Outstanding amount</u>	<u>% of Portfolio</u>	<u>Number</u>	<u>Outstanding amount</u>	<u>% of Portfolio</u>
\$0 - \$2,500,000	145	\$ 102,656	19.2%	154	\$ 118,170	26.2%
\$2,500,001 - \$5,000,000	24	89,340	16.7%	28	99,800	22.1%
\$5,000,001 - \$7,500,000	5	29,972	5.6%	13	83,259	18.4%
\$7,500,001 - \$10,000,000	8	69,688	13.0%	4	32,538	7.2%
\$10,000,001 +	<u>15</u>	<u>243,594</u>	<u>45.5%</u>	<u>8</u>	<u>117,824</u>	<u>26.1%</u>
	<u>197</u>	<u>\$ 535,250</u>	<u>100.0%</u>	<u>207</u>	<u>\$ 451,591</u>	<u>100.0%</u>

As of December 31, 2016, the average outstanding mortgage balance was \$2.7 million (December 31, 2015 – \$2.2 million), and the median outstanding mortgage balance was \$0.8 million (December 31, 2015 – \$1.0 million).

Conference call

Interested parties are invited to participate in a conference call with management on Thursday, February 9, 2017 at 4:00 p.m. EST.

To participate or listen to the conference call live, please call 1 (888) 241-0551 or (647) 427-3415.

For a replay of the conference call (available until February 22, 2017) please call 1 (855) 859-2056, Conference ID 19831052.

About Atrium

Canada's Premier Non-Bank Lender™

Atrium is a non-bank provider of residential and commercial mortgages that lends in major urban centres in Canada where the stability and liquidity of real estate are high. Atrium's objectives are to provide its shareholders with stable and secure dividends and preserve shareholders' equity by lending within conservative risk parameters.

Atrium is a Mortgage Investment Corporation (MIC) as defined in the *Income Tax Act*. Accordingly, Atrium is not taxed on income provided that its taxable income is paid to its shareholders in the form of dividends within 90 days after December 31 each year. Such dividends are generally treated by shareholders as interest income, so that each shareholder is in the same position as if the mortgage investments made by the company had been made directly by the shareholder. For further information, please refer to regulatory filings available at www.sedar.com or Atrium's website at www.atriummic.com.

For additional information, please contact

Robert G. Goodall
President and Chief Executive Officer

Jeffrey D. Sherman
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ATRIUM MORTGAGE
INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER™

MD&A

MANAGEMENT'S
DISCUSSION
AND ANALYSIS

YEAR ENDED
DECEMBER 31, 2016



Management's Discussion and Analysis

December 31, 2016

Our business

Atrium is a mortgage lender filling the lending gap caused by the limited number of financial institutions operating in Canada. We lend in major urban centres and where the stability and liquidity of real estate is high. Our loan portfolio is of high quality but we are able to charge higher rates than the banks because we offer flexibility, creativity and excellent service. Our mortgages are secured by all types of residential, multi-residential and commercial real property located in Canada, and must all be in strict compliance with our investment policies. Atrium has a 16-year track record of success and consistency in achieving our strategic objectives: to grow in a controlled manner by focusing on real estate sectors with the lowest risk profiles.

Our investment objectives are to preserve our shareholders' equity and provide our shareholders with stable and secure dividends from our investments in mortgage loans within the criteria permitted for a Mortgage Investment Corporation (MIC). Working within conservative risk parameters, we endeavour to maximize income and dividends through careful underwriting and efficient management of our mortgage investments.

Information herein is current as of February 8, 2017.

Highlights

Atrium continues to demonstrate strength and stability. For the year ended December 31 2016, we had record revenues of \$44.0 million, up 9.5% from the prior year. Earnings were a record \$26.1 million, or \$0.97 basic per share, compared with \$23.3 million, or \$0.94 basic per share in the prior year.

We declared a regular dividend of \$0.0717 per share for each month in the year, a total of \$0.86 for the year. In addition we declared a special dividend of \$0.10, for a total dividend of \$0.96 for 2016, compared to \$0.93 for the previous year. For 2017 our board has set the regular dividend rate at \$0.88 per annum.

Since listing on the Toronto Stock Exchange in 2012, we have increased our regular and bonus dividends every year:

<i>Year</i>	<i>Regular dividend</i>	<i>Bonus dividend</i>	<i>Total dividends paid</i>	<i>Earnings per share (basic)</i>
2013	\$0.80	\$0.05	\$0.85	\$0.85
2014	\$0.82	\$0.07	\$0.89	\$0.91
2015	\$0.84	\$0.09	\$0.93	\$0.94
2016	\$0.86	\$0.10	\$0.96	\$0.97
2017	\$0.88	to be determined		

We had \$531 million of mortgages receivable as at December 31, 2016, an increase of 18.4% from December 31, 2015. During the year, \$305 million of mortgages were advanced, and \$221 million of mortgages were repaid, and the portfolio has a weighted average remaining term of 12.8 months.

Our focus continues to be on lending in the major metropolitan areas of Ontario and British Columbia. Our goal of reducing exposure in Alberta to 10% by year-end was surpassed: Alberta exposure was cut from 25 loans and 13.5% of the portfolio at December 31, 2015 to 11 loans and 6.9% of the portfolio at December 31, 2016.

Record results

Earnings \$26.1 million
increased 12%

Earnings per share
\$0.97 (basic)
increased 3.2%

from prior year

Strong, high quality
mortgage portfolio

81%
first mortgages

88%
less than 75%
loan-to-value

Regular dividends *and*
bonus dividend
increased every year

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

Investment portfolio

Our mortgage portfolio consisted of 197 mortgage loans and aggregated \$535 million at December 31, 2016, an increase of 18.5% from December 31, 2015.

Mortgage category (outstanding amounts in 000s)	December 31, 2016			December 31, 2015		
	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
Low-rise residential	30	\$ 135,701	25.4%	23	\$ 110,034	24.3%
House and apartment	102	99,456	18.6%	110	84,755	18.8%
High-rise residential	7	53,182	9.9%	9	42,245	9.4%
Construction	8	49,345	9.2%	9	44,701	9.9%
Mid-rise residential	5	28,787	5.4%	7	14,662	3.2%
Condominium corporation	16	3,548	0.7%	18	4,111	0.9%
Residential portfolio	168	370,019	69.2%	176	300,508	66.5%
Commercial/mixed use	29	165,231	30.8%	31	151,083	33.5%
Mortgage portfolio	197	535,250	100.0%	207	451,591	100.0%
Accrued interest receivable		2,126			1,960	
Mortgage discount		(360)			(440)	
Mortgage origination fees		(626)			(712)	
Provision for mortgage losses		(5,800)			(4,300)	
Mortgages receivable		\$ 530,590			\$ 448,099	

A summary of our mortgages by size is presented below.

Mortgage amount (outstanding amounts in 000s)	December 31, 2016			December 31, 2015		
	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
\$0 - \$2,500,000	145	\$ 102,656	19.2%	154	\$ 118,170	26.2%
\$2,500,001 - \$5,000,000	24	89,340	16.7%	28	99,800	22.1%
\$5,000,001 - \$7,500,000	5	29,972	5.6%	13	83,259	18.4%
\$7,500,001 - \$10,000,000	8	69,688	13.0%	4	32,538	7.2%
\$10,000,001 +	15	243,594	45.5%	8	117,824	26.1%
	197	\$ 535,250	100.0%	207	\$ 451,591	100.0%

As of December 31, 2016, the average outstanding mortgage balance was \$2.7 million (December 31, 2015 – \$2.2 million), and the median outstanding mortgage balance was \$0.8 million (December 31, 2015 – \$1.0 million).

The tables below show our mortgage portfolio by location of the underlying property and type of mortgage. The weighted average interest rates shown exclude the lender fees paid by the borrower, which reflect the yield to Atrium including any mortgage discount or premium.

We are continuing to reduce our exposure in Alberta – from 25 loans constituting 13.5% of the portfolio at December 31, 2015 to 11 loans and 6.9% of the portfolio at December 31, 2016. 97.0% of the remaining Alberta loans are first mortgages. In that market our exposure is further mitigated by not lending to office, high-rise condominiums or to hotels.

Location of underlying property (outstanding amounts in 000s)	December 31, 2016				
	Number of mortgages	Outstanding amount	Percentage outstanding	Weighted average loan to value	Weighted average interest rate
Greater Toronto Area	148	\$ 350,026	65.4%	63.9%	8.47%
Non-GTA Ontario	24	16,009	3.0%	65.4%	8.91%
Saskatchewan	2	12,375	2.3%	97.1%	8.50%
Alberta	11	37,032	6.9%	62.0%	9.24%
British Columbia	12	119,808	22.4%	55.6%	8.27%
	197	\$ 535,250	100.0%	62.7%	8.50%

December 31, 2015					
<u>Location of underlying property</u>	<u>Number of mortgages</u>	<u>Outstanding amount</u>	<u>Percentage outstanding</u>	<u>Weighted average loan to value</u>	<u>Weighted average interest rate</u>
<small>(outstanding amounts in 000s)</small>					
Greater Toronto Area	152	\$ 292,547	64.8%	66.1%	8.61%
Non-GTA Ontario	15	11,436	2.5%	67.3%	8.99%
Saskatchewan	1	10,822	2.4%	71.1%	8.50%
Alberta	25	61,078	13.5%	59.7%	8.68%
British Columbia	14	75,708	16.8%	62.6%	8.83%
	<u>207</u>	<u>\$ 451,591</u>	<u>100.0%</u>	<u>64.7%</u>	<u>8.66%</u>

We have an exceptionally high proportion of our portfolio invested in first mortgages (80.8%), which is one of our core strategies.

At December 31, 2016, the weighted average loan-to-value ratio in our mortgage portfolio was 62.7%, with 88.4% of the portfolio below 75% loan-to-value. (At December 31, 2015, the weighted average loan-to-value ratio in our mortgage portfolio was 64.7%, with 96.2% of the portfolio below 75% loan-to-value.)

December 31, 2016				
<u>Type of mortgage</u>	<u>Number of mortgages</u>	<u>Outstanding amount</u>	<u>Percentage outstanding</u>	<u>Weighted average interest rate</u>
<small>(outstanding amounts in 000s)</small>				
First mortgages				
Conventional	131	\$ 392,096	73.2%	8.13%
Non-Conventional	12	36,670	6.9%	8.94%
Other	16	3,548	0.7%	7.56%
	<u>159</u>	<u>432,314</u>	<u>80.8%</u>	<u>8.19%</u>
Second and third mortgages				
Conventional	31	77,611	14.5%	9.40%
Non-conventional	7	25,325	4.7%	10.79%
	38	102,936	19.2%	9.74%
	<u>197</u>	<u>\$ 535,250</u>	<u>100.0%</u>	<u>8.50%</u>

December 31, 2015				
<u>Type of mortgage</u>	<u>Number of mortgages</u>	<u>Outstanding amount</u>	<u>Percentage outstanding</u>	<u>Weighted average interest rate</u>
<small>(outstanding amounts in 000s)</small>				
First mortgages				
Conventional	143	\$ 340,759	75.4%	8.34%
Non-Conventional	3	6,789	1.5%	9.68%
Other	18	4,111	0.9%	7.41%
	<u>164</u>	<u>351,659</u>	<u>77.8%</u>	<u>8.35%</u>
Second and third mortgages				
Conventional	33	89,619	19.9%	9.55%
Non-conventional	10	10,313	2.3%	11.35%
	43	99,932	22.2%	9.74%
	<u>207</u>	<u>\$ 451,591</u>	<u>100.0%</u>	<u>8.66%</u>

Conventional mortgages are those with a loan-to-value of less than or equal to 75%, which is the industry standard for determining that a mortgage is conventional. Non-conventional mortgages are those with a loan-to-value in excess of 75%.

The weighted average term remaining for our mortgage portfolio at December 31, 2016 is 12.8 months (December 31, 2015 – 11.1 months).

Our business

We are a mortgage lender filling 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 is at the highest level. 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 lending parameters are as follows:

- First or second mortgages on income-producing real estate up to a maximum of 85% of appraised 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 \$20 million. The largest single mortgage in our mortgage portfolio as at December 31, 2016 was \$27.5 million (December 31, 2015 – \$20.4 million). For loan amounts in excess of \$20 million, we generally co-lend with a financial institution or private lender. The parameters listed above are our maximum mortgage lending parameters. At December 31, 2016, the weighted average loan-to-value ratio of the mortgage portfolio remained conservative at 62.7%, compared to 64.7% at December 31, 2015.

Our investment policies, which may be changed by our board of directors, are as follows:

- We may invest only in residential mortgages, commercial mortgages, commercial mortgage backed securities and certain related investments.
- All investments must be mortgages on the security of real property situated within Canada, loans to condominium corporations, or certain permitted interim investments.
- Commercial mortgages may not constitute more than 50% of our total assets at any time.
- The term of the mortgage may generally be no greater than ten years.
- No single borrower may account for more than 15% of our total assets.
- All mortgages are supported by external appraisals by a qualified appraiser. All mortgages, except mortgages secured by one to six residential units, are also supported by environmental audits.
- The maximum initial loan-to-value ratio of an individual mortgage is 85% including any prior ranking encumbrances, and the weighted average loan-to-value ratio of our mortgage portfolio at the time of underwriting each loan may not exceed 75%.
- Our ratio of debt to equity must be less than 1:1.
- We do not invest directly in real property, although real property may be acquired through foreclosing on a mortgage.
- A mortgage investment: (i) of \$2,000,000 or more requires approval of the board; (ii) of between \$1,000,000 and \$2,000,000 requires approval of three members of the board, including at least two independent directors; and (iii) of \$1,000,000 or less requires approval of any one member of the board. For loans previously approved, if the mortgage amount exceeds the amount approved by up to \$200,000 and if the loan-to-value ratio increases by less than 5% where the ratio is 75% or less, requires the approval of one member of the board, otherwise the general limits apply. We may invest in interim investments that are guaranteed by the Government of Canada or of a province or territory of Canada or deposits or certificates of deposits, acceptances and other similar instruments issued, endorsed or guaranteed by a Schedule I Bank in any amount without prior board approval.
- We may not make unsecured loans to, nor invest in securities issued by, our manager or its affiliates, nor make loans to the directors or officers of the manager.
- We may not make any investment, or incur any indebtedness, that would result in our not qualifying as a MIC.

Our 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.

We are a non-bank lender and invest in mortgages secured by all types of residential, multi-residential and commercial real property located in Canada, subject to compliance with our investment policies. The types of properties that we finance include residential houses, small multi-family residential properties comprised of six or fewer units, residential apartment buildings, mixed-use properties and store-front retail properties, commercial properties, residential and commercial land development sites and construction projects. We also provide short-term bridge financing for real estate developers. Our strategy is to grow in a controlled manner by diversifying geographically, and focusing on real estate sectors with the lowest risk profiles.

We qualify as a MIC and are restricted from any activity that would result in us failing to qualify as a MIC. In order to qualify as a MIC, we must satisfy the requirements in subsection 130.1(6) of the ITA throughout the taxation year. Among the requirements are:

- We can only invest or manage funds and cannot manage or develop real property.
- We cannot own debts secured on real property situated outside Canada, debts owing by non-residents unless such debts were secured on real property situated in Canada, shares of the capital stock of corporations not resident in Canada, or real property situated outside of Canada or any leasehold interest in such property.
- No shareholder (together with related persons, as defined in the ITA) may at any time own, directly or indirectly, more than 25% of our common shares.
- The cost for tax purposes of cash on hand, debts secured on specified residential properties, and funds on deposit with a Canada Deposit Insurance Fund or Régie de l'assurance-dépôts du Québec-insured institution or credit union must constitute at least 50% of the cost of all of our property.
- The cost for tax purposes of any interests in real property (including leaseholds but excepting real or immovable property acquired by foreclosure after default by the mortgagor) may not exceed 25% of the cost of all of our property.
- There are certain restrictions as to our maximum debt-to-equity ratio.

We are managed by Canadian Mortgage Capital Corporation (the "manager" or "CMCC"), which is our exclusive manager and arranges and services our mortgage loans and otherwise directs our affairs and manages our business.

For explanations as to some of the terms used herein, please refer to our Annual Information Form for the year ended December 31, 2016, which is available at www.sedar.com.

Results of Operations

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

Financial summary

	Year ended December 31 2016	Year ended December 31 2015	Year ended December 31 2014
Revenue	\$ 44,042	\$ 40,206	\$ 34,956
Mortgage servicing and management fees	(4,661)	(4,173)	(3,553)
Other expenses	(1,221)	(1,187)	(1,014)
Provision for mortgage losses	<u>(1,519)</u>	<u>(1,912)</u>	<u>(1,817)</u>
Income before financing costs	36,641	32,934	28,572
Financing costs	<u>(10,521)</u>	<u>(9,597)</u>	<u>(7,535)</u>
Earnings and total comprehensive income	<u>\$ 26,120</u>	<u>\$ 23,337</u>	<u>\$ 21,037</u>
Basic earnings per share	\$ 0.97	\$ 0.94	\$ 0.91
Diluted earnings per share	\$ 0.95	\$ 0.93	\$ 0.91
Dividends declared	\$ 25,918	\$ 23,346	\$ 20,837
Mortgages receivable, end of year	\$ 530,590	\$ 448,099	\$ 432,757
Total assets, end of year	\$ 531,856	\$ 448,153	\$ 432,795
Shareholder' equity, end of year	\$ 278,540	\$ 274,984	\$ 248,204

Summary of quarterly results (unaudited)

	<u>Q4 2016</u>	<u>Q3 2016</u>	<u>Q2 2016</u>	<u>Q1 2016</u>	<u>Q4 2015</u>	<u>Q3 2015</u>	<u>Q2 2015</u>	<u>Q1 2015</u>
Revenue	11,776	11,459	10,691	10,116	\$ 10,546	\$ 10,542	\$ 9,626	\$ 9,492
Mortgage servicing and management fees	(1,298)	(1,185)	(1,112)	(1,066)	(1,099)	(1,085)	(1,005)	(984)
Other expenses	(377)	(287)	(286)	(271)	(383)	(288)	(245)	(271)
Provision for mortgage losses	<u>(550)</u>	<u>(350)</u>	<u>(319)</u>	<u>(300)</u>	<u>(700)</u>	<u>(600)</u>	<u>(250)</u>	<u>(362)</u>
Income before financing costs	9,551	9,637	8,974	8,479	8,364	8,569	8,126	7,875
Financing costs	<u>(2,791)</u>	<u>(2,832)</u>	<u>(2,541)</u>	<u>(2,357)</u>	<u>(2,530)</u>	<u>(2,488)</u>	<u>(2,306)</u>	<u>(2,273)</u>
Earnings and comprehensive income	<u>\$ 6,760</u>	<u>\$ 6,805</u>	<u>\$ 6,433</u>	<u>\$ 6,122</u>	<u>\$ 5,834</u>	<u>\$ 6,081</u>	<u>\$ 5,820</u>	<u>\$ 5,602</u>
Basic earnings per share	\$ 0.25	\$ 0.25	\$ 0.24	\$ 0.23	\$ 0.23	\$ 0.25	\$ 0.24	\$ 0.23
Diluted earnings per share	\$ 0.24	\$ 0.25	\$ 0.24	\$ 0.23	\$ 0.23	\$ 0.24	\$ 0.24	\$ 0.23
Dividends declared	\$ 8,534	\$ 5,809	\$ 5,794	\$ 5,781	\$ 7,894	\$ 5,163	\$ 5,151	\$ 5,138

Results of operations – three months ended December 31, 2016

For the three months ended December 31, 2016, mortgage interest and fees revenue aggregated \$11,776, compared to \$10,546 in the comparative period, an increase of 11.7%, as a result of growth of our mortgage portfolio. The weighted average interest rate on our mortgage portfolio was 8.50% at December 31, 2016, compared with 8.66% at the previous year end, December 31, 2015.

Operating expenses, excluding the provision for mortgage losses, for the three months ended December 31, 2016 were \$1,675, compared to \$1,482 in the comparative period, an increase of 13.0%, due to the growth of the mortgage portfolio. The provision for mortgage losses was \$550 in the quarter to bring the total reserve to \$5,800, or 1.08% of the mortgage portfolio.

Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated \$1,298 for the three months ended December 31, 2016, compared with \$1,099 in the prior year period. This increase was due to the increase in the size of the mortgage portfolio. Financing costs for the three months ended December 31, 2016 were \$2,791, compared to \$2,530 in the same period of 2015, an increase of 10.3%. This increase is due to the increased use of our bank line of credit compared to the comparable period as we increased our balance sheet leverage, which was 46.4% at December 31, 2016 (December 31, 2015 – 37.3%).

Net earnings for the three months ended December 31, 2016 were \$6,760, an increase of 15.9% from net earnings of \$5,834 for the same period in the prior year. Basic earnings per common share were \$0.25 and diluted earnings per common share were \$0.24 for the three months ended December 31, 2016, compared with \$0.23 basic and diluted, for the comparable period in the previous year.

During the three months ended December 31, 2016, we funded mortgages aggregating \$74,058. Of those advances, \$69,762 were first mortgages, representing 94.2% of the total loans funded. British Columbia advances were \$7,608, advances of \$661 were on properties in Alberta, \$2,947 were non-GTA Ontario, \$566 were on properties in Saskatchewan and the remaining \$62,276 were for mortgages on properties located in the Greater Toronto Area. There were \$64,494 of repayments during the period. The total portfolio increased from \$525,686 to \$535,250 during the three month period.

Results of operations – Year ended December 31, 2016

For the year ended December 31, 2016, mortgage interest and fees revenue aggregated \$44,042, compared to \$40,206 in the prior year, an increase of 9.5% due to the increase in the mortgage portfolio during the year. The weighted average interest rate on our mortgage portfolio was 8.50% at December 31, 2016, compared with 8.66% at the previous year end, December 31, 2015.

Operating expenses, excluding the provision for mortgage losses, for the year ended December 31, 2016 were \$5,882 compared to \$5,360 in the prior year, an increase of 9.7%, due to the increase in the mortgage portfolio. The provision for mortgage losses was \$1,519 for the year ended December 31, 2016, to bring the total reserve to \$5,800. During the year ended December 31, 2016 we foreclosed on two properties which were the underlying security for certain mortgages receivable. The properties were recognized at their cost of \$1,179 on the dates of foreclosure. These properties are still under development and we incurred capital improvement costs of \$44 during the year.

Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated \$4,661 for the year ended December 31, 2016, compared with \$4,173 in the prior year. Financing costs for the year ended December 31, 2016 were \$10,521, compared to \$9,597 in 2015, an increase of 9.6%. This increase is due to the increased use of our bank line of credit compared to the comparable period as we increased our balance sheet leverage, which was 46.4% at December 31, 2016 (December 31, 2015 – 37.3%).

Net earnings for the year ended December 31, 2016 were \$26,120, an increase of 11.9% from net earnings of \$23,337 for the prior year. Earnings per common share were \$0.97 basic and \$0.95 diluted for the year ended December 31, 2016, compared with \$0.94 basic and \$0.93 diluted earnings per common share for the previous year.

During the year ended December 31, 2016, we funded mortgages aggregating \$304,464. Of these advances, \$247,302 were first mortgages, representing 81.2% of the total loans funded. British Columbia advances were \$59,801, advances of \$6,813 were on properties in Alberta, \$11,967 were non-GTA Ontario, \$1,817 were on properties in Saskatchewan and the remaining \$224,066 were made in the Greater Toronto Area. There were \$220,805 of repayments during the period. The total portfolio increased from \$451,591 to \$535,250 during the year.

Liquidity and capital resources

At December 31, 2016, we had bank indebtedness and operating line outstanding of \$145,725. The credit facility, currently of up to \$180,000 (December 31, 2016 – \$160,000), is provided by a syndicate of three major chartered banks, drawn through a combination of bankers' acceptances and bank loans to minimize our borrowing costs. We were in compliance with the covenants in the credit facility as at December 31, 2016, and we expect to remain in compliance with such covenants going forward. We also have three series of convertible debentures outstanding, with a total book value of \$101,098 at December 31, 2016, and a face value (and maturity value) of \$104,516.

Growth in our mortgage portfolio has historically been financed by the issuance of common shares, of convertible debt, and through the operating credit facility. We expect to be able to generate sufficient funds for future growth in net mortgage loan investments by utilizing those three sources of funds.

Investing activities during the year ended December 31, 2016 consisted of advances on new mortgage loan investments of \$286,031, less repayments received of \$209,225, for net cash to new mortgage loan investments of \$76,806.

Cash provided by financing activities during the year ended December 31, 2016 consisted primarily of net advances of our bank line as a result of net funding of mortgages receivable. Draws less repayments under our operating facility provided cash of \$78,625.

Changes in financial position

Bank indebtedness, bankers' acceptances and bank loans payable (all under our operating credit facility) increased to \$145,414 at December 31, 2016, from \$66,566 at December 31, 2015, reflecting our objective of using a prudent amount of leverage to improve shareholder returns. As at December 31, 2016, total debt (consisting of bank debt, operating line and convertible debentures) was 46.4% of total assets.

Accounts payable and accrued charges were \$579 at December 31, 2016 compared to \$677 at December 31, 2015. Dividends payable were \$4,653 at December 31, 2016 up from \$4,294 at December 31, 2015. The increase was primarily due to the increase in the special dividend for 2016 compared to 2015.

Share capital increased slightly to \$275,785 at December 31, 2016 from \$272,698 at December 31, 2015 due to our dividend reinvestment plan and the employee share purchase plan.

Contractual obligations

Contractual obligations due at December 31, 2016 were as follows:

Obligations at December 31, 2016	<u>Total</u>	<u>Within 1 year</u>	<u>Over 1 year to 3 years</u>	<u>Over 3 years to 5 years</u>	<u>More than 5 years</u>
Bank indebtedness	\$ 175	\$ –	\$ 175	\$ –	\$ –
Operating line	145,550	–	145,550	–	–
Accounts payable and accrued liabilities	579	579	–	–	–
Accrued convertible debentures interest	1,050	1,050	–	–	–
Dividends payable	4,653	4,653	–	–	–
Due to related party	522	522	–	–	–
Convertible debentures	104,516	–	31,766	72,750	–
Total	<u>\$ 257,045</u>	<u>\$ 6,804</u>	<u>\$ 177,491</u>	<u>\$ 72,750</u>	<u>\$ –</u>

We have commitments to advance additional funds under existing mortgages of \$51,320 and for new mortgages of \$4,468 at December 31, 2016 (December 31, 2015 – \$71,856 and \$300 respectively). Generally, outstanding commitments are expected to be funded within the next 24 months. However, our experience has been that a portion of the unfunded amounts on existing mortgages will never be drawn.

Off-balance sheet arrangements

As at December 31, 2016, we had \$4,176 (December 31, 2015 – \$2,616) of letters of credit (LCs) outstanding which were issued under our operating credit facility. The maximum available by way of LCs under our operating credit facility is \$10,000, and those drawn reduce that maximum. LCs represent irrevocable assurances that our 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.

Transactions with related parties

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and are measured at fair value. The manager is responsible for our day-to-day activities. We incurred management and mortgage servicing fees from a subsidiary of the manager of \$4,661 for the year ended December 31, 2016 (year ended December 31, 2015 – \$4,173). Mr. Robert G. Goodall is a director and part of the key management personnel of the manager, received compensation from the manager, and is also a director of Atrium. The management agreement between us and the manager contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. The manager also acts as broker for our mortgages. The manager receives origination fees from the borrowers of up to 1% of the amount being funded; origination fees in excess of 1% are split equally between the manager and Atrium.

Critical accounting estimates and policies

Our consolidated annual financial statements for the years ended December 31, 2016 and 2015 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the CPA Canada *Handbook*. Management makes certain estimates and relies upon certain assumptions related to reporting our assets and liabilities as well as results of operations in conformity with Canadian generally accepted accounting principles. Actual results will differ from these estimates and assumptions.

The preparation of financial statements in accordance with IFRS requires us to make estimates, assumptions and judgements. The most subjective of these are the valuation of mortgages receivable including the provision for mortgage losses, as well as the measurement of the liability and equity components of our convertible debentures. We believe that our estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter. The more significant accounting policies are set out below.

Revenue recognition

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

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. 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.

Mortgages receivable

A mortgage receivable, carried at amortized cost, is considered impaired when there is objective evidence that there has been a deterioration of credit quality subsequent to its initial recognition to the extent that we no longer have reasonable assurance as to the timely collection of the full amount of principal and interest.

We assess mortgages receivable for objective evidence of impairment both individually and collectively each reporting period. The provision for mortgage losses is determined by taking into account the following factors:

- Delays in the collection of interest and principal
- The point at which we consider a loan to be in default (which we define 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
- Our judgement as to whether current economic and credit conditions are such that the actual 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 the provisions for mortgage losses. The other key estimates used for quantifying the provision 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 Atrium expects to take possession of the property
- The amount of any legal and other third party costs estimated to be incurred

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 a counterparty specific 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. For the purpose of determining the group of mortgages with similar credit risk characteristic, mortgages are grouped by the location of the underlying property and by other risk characteristics.

Convertible debentures

The convertible debentures can be converted into our common shares at the option of the investor. They are compound financial instruments with two components: a financial liability, and a call option which is an equity instrument. The fair value of the liability component is measured as of the date that the debentures were issued, and the equity instrument is valued on that date based upon the difference between the fair value of the debenture and the fair value of the liability component.

The measurement of the fair value of the liability component is based upon market rates of interest on similar debt instruments without the conversion feature. Expenses of issue are allocated between the two components on a *pro-rata* basis. The book value of the debt is accreted up to its face value over the life of the 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 re-measured subsequent to its initial measurement date.

Income taxes

We are, and intend to maintain our status as, a MIC, and as such are not taxed on income provided that it flows through to our shareholders as dividends during the year or within 90 days after December 31 each year. It is our policy to pay such dividends to our shareholders to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

Controls and procedures

Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument (NI) 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*.

We designed the DC&P and ICFR, the latter of which was using the framework in *Internal Control – Integrated Framework* (published by COSO, as revised in 2013) to provide reasonable assurance that material information relating to us is made known to our CEO and CFO during the reporting period; and information required to be disclosed by us in our filings under securities legislation is recorded, processed, summarized and reported within the required time periods; and provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

Our CEO and CFO evaluated the design effectiveness of the DC&P and ICFR, as defined by NI 52-109, as of December 31, 2016. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of that date. NI 52-109 also requires Canadian public companies to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. No such change to ICFR has occurred during the most recently completed quarter.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Because of the inherent limitations in any control system, no evaluation of control can provide absolute assurance that all control weaknesses including, for example, any instances of fraud, have been detected. Inherent limitations include: (i) that management's assumptions and judgements could ultimately prove to be incorrect as conditions and circumstances vary; (ii) the impact of any undetected errors; and (iii) controls may be circumvented through the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of control is also based upon assumptions as to the likelihood of future events and there is no assurance that any design will succeed in achieving its goals under future conditions.

Outstanding share data

Our authorized capital consists of an unlimited number of common shares, of which 27,105,703 were issued and outstanding at December 31, 2016, and 27,125,057 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,407,408, 2,388,422 and 2,747,440 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.25%, 6.25%, and the 5.50% convertible debentures, using the conversion price of \$13.50, \$13.30 and \$14.65, respectively, for each common share.

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

Subsequent to December 31, 2016, we commenced a public share offering of 2,535,000 common shares which is expected to be completed in February 2017 (but after the date hereof) and anticipated to raise gross proceeds of \$30,000 (assuming no exercise of the over-allotment option provided to the underwriters therein), the net proceeds of which will be used to repay indebtedness under our operating credit facility.

Risks and uncertainties

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

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

Please also refer to "Forward-looking information," below, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2016 which is incorporated herein by reference and is available at www.sedar.com and at www.atriummic.com.

Forward-looking information

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

All forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and the general economic environment. For other risks and uncertainties, please refer to "Risks and uncertainties" above, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2016 which is available at www.sedar.com and at www.atriummic.com. That list is not exhaustive, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

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

Responsibility of management and the board of directors

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

Dividend Reinvestment Plan

A Dividend Reinvestment Plan (DRIP) is available to holders of our common shares. The DRIP allows participants to have their monthly cash dividends reinvested in additional common shares, at a discount of 2% from the market price. Shareholders who wish to enroll or who would like further information about the DRIP should contact their broker or our agent for the DRIP, Computershare Trust Company of Canada, at 1 (800) 564-6253 or www.computershare.com.

Additional information

Additional information about Atrium, including our Annual Information Form for the year ended December 31, 2016, is available on SEDAR at www.sedar.com. You may also obtain further information about us from our website at www.atriummic.com, by telephone at (416) 607-4200, or by email at info@atriummic.com.

ATRIUM MORTGAGE
INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER™

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED
DECEMBER 31, 2016





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 consolidated financial statements, and the accompanying Management's Discussion and Analysis. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgements and estimates necessary to prepare the 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 8, 2017

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

"Jeffrey D. Sherman"
Jeffrey D. Sherman
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Atrium Mortgage Investment Corporation

We have audited the accompanying consolidated financial statements of Atrium Mortgage Investment Corporation and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated 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 Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Atrium Mortgage Investment Corporation and its subsidiary as at December 31, 2016 and December 31, 2015, and their financial performance and 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 8, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

		<u>December 31</u>	
	Notes	<u>2016</u>	<u>2015</u>
Assets			
Mortgages receivable	5	\$ 530,590	\$ 448,099
Foreclosed properties	6	1,223	–
Prepaid expenses		<u>43</u>	<u>54</u>
		<u>\$ 531,856</u>	<u>\$ 448,153</u>
Liabilities			
Bank indebtedness	7	\$ 175	\$ 29
Operating line	7	145,239	66,537
Accounts payable and accrued liabilities		579	677
Accrued convertible debenture interest		1,050	1,050
Dividends payable		4,653	4,294
Due to related party	8	522	402
Convertible debentures	9	<u>101,098</u>	<u>100,180</u>
		<u>253,316</u>	<u>173,169</u>
Shareholders' equity			
Share capital		275,785	272,698
Contributed surplus and other equity		1,237	970
Equity component of convertible debentures		1,062	1,062
Retained earnings		<u>456</u>	<u>254</u>
		<u>278,540</u>	<u>274,984</u>
		<u>\$ 531,856</u>	<u>\$ 448,153</u>

Commitments 7, 13

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

Approved on behalf of the board of directors:

“Robert Goodall”
Robert Goodall, Director

“Mark Silver”
Mark Silver, Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	<u>Notes</u>	<u>Common shares</u>		<u>Contributed surplus and other equity</u>	<u>Equity component of convertible debentures</u>	<u>Retained earnings</u>	<u>Total</u>
		<u>Number</u>	<u>Amount</u>				
Balance, December 31, 2014		24,428,965	\$ 245,794	\$ 1,085	\$ 1,062	\$ 263	\$ 248,204
Shares issued by prospectus November 19, 2015		2,137,000	25,003	–	–	–	25,003
Shares issued under dividend reinvestment plan	10	216,687	2,532	–	–	–	2,532
Shares issued under employee share purchase plan	10	11,578	137	–	–	–	137
Shares issued under deferred share incentive plan	11	40,344	440	(440)	–	–	–
Issue costs		–	(1,208)	–	–	–	(1,208)
Share-based payments	11	–	–	325	–	–	325
Earnings and comprehensive income		–	–	–	–	23,337	23,337
Dividends declared		–	–	–	–	(23,346)	(23,346)
Balance, December 31, 2015		<u>26,834,574</u>	<u>272,698</u>	<u>970</u>	<u>1,062</u>	<u>254</u>	<u>274,984</u>
Shares issued under dividend reinvestment plan	10	249,243	2,857	–	–	–	2,857
Shares issued under employee share purchase plan	10	12,325	146	–	–	–	146
Shares issued under deferred share incentive plan	11	6,930	97	(97)	–	–	–
Shares converted	9	2,631	35	–	–	–	35
Issue costs		–	(48)	–	–	–	(48)
Share-based payments	11	–	–	364	–	–	364
Earnings and comprehensive income		–	–	–	–	26,120	26,120
Dividends declared		–	–	–	–	(25,918)	(25,918)
Balance, December 31, 2016		<u>27,105,703</u>	<u>\$ 275,785</u>	<u>\$ 1,237</u>	<u>\$ 1,062</u>	<u>\$ 456</u>	<u>\$ 278,540</u>

Dividends amounted to \$0.96 per share for the year ended December 31, 2016 (year ended December 31, 2015 – \$0.93)

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

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

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

	<u>Notes</u>	<u>Years ended December 31</u>	
		<u>2016</u>	<u>2015</u>
Revenues			
Mortgage interest and fees		\$ 44,042	\$ 40,206
Operating expenses			
Mortgage servicing and management fees	8	4,661	4,173
Transfer agent, regulatory fees and investor relations		297	353
Share-based payments	8, 11	364	325
Professional fees		153	132
Directors' expense	8	217	182
Administration and general		190	195
Provision for mortgage losses	5	<u>1,519</u>	<u>1,912</u>
		<u>7,401</u>	<u>7,272</u>
Income before financing costs		<u>36,641</u>	<u>32,934</u>
Financing costs			
Interest on convertible debentures		6,906	6,873
Interest and other bank charges		<u>3,615</u>	<u>2,724</u>
		<u>10,521</u>	<u>9,597</u>
Earnings and comprehensive income for the year		<u>\$ 26,120</u>	<u>\$ 23,337</u>
Earnings per common share			
Basic	12	<u>\$ 0.97</u>	<u>\$ 0.94</u>
Diluted	12	<u>\$ 0.95</u>	<u>\$ 0.93</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

	Years ended December 31	
	2016	2015
Cash provided by (used in):	<u>2016</u>	<u>(Note 15)</u>
Operating activities		
Earnings and comprehensive income for the year	\$ 26,120	\$ 23,337
Adjustments to determine net cash flows		
from (used in) operating activities –		
Share-based payments	364	325
Mortgage interest and fees earned	(44,042)	(40,206)
Mortgage interest and fees received	34,904	38,743
Interest on convertible debentures expensed	6,906	6,873
Interest and other bank charges expensed	3,615	2,724
Provision for mortgage losses	<u>1,519</u>	<u>1,912</u>
	<u>29,386</u>	<u>33,708</u>
Changes in operating assets and liabilities –		
Prepaid expenses	11	(16)
Accounts payable and accrued liabilities	(88)	230
Additions to mortgage discount	15	133
Additions to mortgage origination fees	<u>740</u>	<u>1,046</u>
	<u>678</u>	<u>1,393</u>
Cash provided by operating activities	<u>30,064</u>	<u>35,101</u>
Investing activities		
Advances of mortgages receivable	(286,031)	(266,522)
Repayment of mortgages receivable	209,225	249,552
Capitalized improvements on foreclosed properties	<u>(44)</u>	<u>–</u>
Cash used in investing activities	<u>(76,850)</u>	<u>(16,970)</u>
Financing activities		
Increase (decrease) in bank indebtedness	146	(284)
Operating line advanced	359,630	544,040
Operating line repaid	(281,005)	(557,100)
Interest on convertible debentures paid	(5,953)	(5,971)
Interest and other bank charges paid	(3,542)	(2,862)
Increase in due to related party	120	7
Issuance of common shares	146	25,140
Share capital issue costs	(54)	(1,202)
Dividends paid	<u>(22,702)</u>	<u>(19,899)</u>
Cash provided by (used in) financing activities	<u>46,786</u>	<u>(18,131)</u>
Increase (decrease) in cash	–	–
Cash, beginning of year	<u>–</u>	<u>–</u>
Cash, end of year	<u>\$ –</u>	<u>\$ –</u>

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

NOTE 1 – NATURE OF OPERATIONS

Atrium Mortgage Investment Corporation 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.

NOTE 2 – BASIS OF PRESENTATION**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as set out in Part I of the *CPA Canada Handbook – Accounting*. Significant accounting policies have been consistently applied in the preparation of these consolidated financial statements, which were authorized for issuance by the board of directors on February 8, 2017.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Principles of consolidation

These consolidated financial statements include the accounts of the company and CMCC Sisyphus LP, which is considered to be a subsidiary for accounting purposes. Consolidation commenced the date the company obtained control and continues until control ceases. Atrium has consolidated the subsidiary from August 5, 2016, the date of its formation. All transactions and balances between the company and the subsidiary have been eliminated, including unrealized gains and losses, if any.

(e) Use of estimates and judgements

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and 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) valuation of mortgages receivable, which is affected primarily by the provision for mortgage losses, 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.

NOTE 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 (d)). 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 upon 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 reviewed for impairment quarterly, and written down when there is evidence of impairment.

(c) Financial assets – derecognition of financial assets and liabilities

Financial assets are derecognized when the contractual rights to receive cash flows from the asset expire. When the company exercises its security and takes title to the underlying real estate, a mortgage receivable is derecognized on the date of foreclosure. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled, or expires.

(d) 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 provision for mortgage losses is 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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)**(d) Mortgages receivable (continued)**

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 provision 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 likelihood of different outcomes
- 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

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 a counterparty specific 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. For the purpose of determining groups of mortgages with similar credit risk characteristics, mortgages are grouped by the location of the underlying property and by other risk characteristics.

(e) Foreclosed properties

Foreclosed properties are properties over which the company has taken title through exercise of its security interest. Such properties are accounted for under the cost model of IAS 40, Investment Property. A foreclosed property is initially recognized at cost on the date of foreclosure, which is the book value of the respective mortgage net of any related provision for mortgage loss. Any costs subsequently incurred to complete the construction or development of a foreclosed property are capitalized. Depreciation is recorded from the date the property is substantially complete. If the higher of the fair value and the value in use of a foreclosed property (its recoverable amount) is less than its carrying amount, then an impairment loss would be recognized for the excess. Any impairment loss, or gain or loss realized on disposal is recognized in the statement of earnings.

(f) 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 applies a constant interest rate over the life of each debenture. The value of the equity component is not remeasured subsequent to its initial measurement date.

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

(h) 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 deferred income taxes is required.

(i) Earnings per common share

Basic earnings per common share is calculated by dividing earnings during the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by adjusting the 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.

(j) Share-based payments

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

NOTE 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 company intends to adopt IFRS 9 effective January 1, 2018. 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 change to the measurement categories will not have an impact on the company's consolidated financial statements. The potential impact of accounting for future credit losses is being reviewed.

NOTE 5 – MORTGAGES RECEIVABLE

(a) Mortgage portfolio

Mortgage category	December 31, 2016			December 31, 2015		
	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
Low-rise residential	30	\$ 135,701	25.4%	23	\$ 110,034	24.3%
House and apartment	102	99,456	18.6%	110	84,755	18.8%
High-rise residential	7	53,182	9.9%	9	42,245	9.4%
Construction	8	49,345	9.2%	9	44,701	9.9%
Mid-rise residential	5	28,787	5.4%	7	14,662	3.2%
Condominium corporation	<u>16</u>	<u>3,548</u>	<u>0.7%</u>	<u>18</u>	<u>4,111</u>	<u>0.9%</u>
Residential portfolio	168	370,019	69.2%	176	300,508	66.5%
Commercial/mixed use	<u>29</u>	<u>165,231</u>	<u>30.8%</u>	<u>31</u>	<u>151,083</u>	<u>33.5%</u>
Mortgage portfolio	<u>197</u>	<u>535,250</u>	<u>100.0%</u>	<u>207</u>	<u>451,591</u>	<u>100.0%</u>
Accrued interest receivable		2,126			1,960	
Mortgage discount		(360)			(440)	
Mortgage origination fees		(626)			(712)	
Provision for mortgage losses		<u>(5,800)</u>			<u>(4,300)</u>	
Mortgages receivable		<u>\$ 530,590</u>			<u>\$ 448,099</u>	

The mortgage portfolio has maturity dates between 2017 and 2030 with a weighted average remaining term of 12.8 months at December 31, 2016 (December 31, 2015 – 11.1 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 8.50% (8.66% as at December 31, 2015).

Within the mortgage portfolio, at December 31, 2016 there were 11 loans aggregating \$28,688 (5.4% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage (December 31, 2015 – 12 mortgages aggregating \$26,603, 5.9% of the portfolio).

Additional analysis of the mortgage portfolio, including by location of underlying property and type of mortgage, is set out in the “Investment Portfolio” section of the Management’s Discussion and Analysis for the year ended December 31, 2016.

Principal repayments based on contractual maturity dates are as follows:

Years ended December 31, 2017	\$ 296,128	55.3%
2018	185,108	34.6%
2019	24,141	4.5%
2020	–	0.0%
2021	26,378	4.9%
Thereafter	<u>3,495</u>	<u>0.7%</u>
	<u>\$ 535,250</u>	<u>100.0%</u>

(b) Provision for mortgage losses

	Years ended December 31	
	2016	2015
Balance, beginning of year	\$ 4,300	\$ 2,388
Mortgages settled during the year	(19)	–
Provision for mortgage losses	<u>1,519</u>	<u>1,912</u>
Balance, end of year	<u>\$ 5,800</u>	<u>\$ 4,300</u>

The increase in the provision for mortgage losses during the year is based upon assessment of the factors described in Note 3(d). Also, see Note 13(c).

NOTE 6 – FORECLOSED PROPERTIES

During the year ended December 31, 2016, the company foreclosed on two properties which were the underlying security for mortgages receivable. The properties were recognized at cost of \$1,179 on the dates of foreclosure, and are still under development at December 31, 2016. The book value at December 31, 2016 approximates fair value.

	December 31	December 31
	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ –	\$ –
Properties foreclosed on during the year	1,179	–
Capital improvements	<u>44</u>	<u>–</u>
Balance, end of year	<u>\$ 1,223</u>	<u>\$ –</u>

NOTE 7 – CREDIT FACILITY

At December 31, 2016, the company had a credit facility from a syndicate of three Canadian financial institutions of \$160,000 (December 31, 2015 – \$130,000) at a formula rate that varies with bank prime and the market bankers' acceptance rate. The weighted average rate for the year ended December 31, 2016 was 2.94%, (3.10% for the prior year.) 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 June 27, 2016, has a term to October 9, 2017, and is subject to certain conditions of drawdown and other covenants. (See Note 16 – Subsequent events.)

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, 2016 and December 31, 2015, the company was in compliance with these covenants.

	December 31	December 31
	<u>2016</u>	<u>2015</u>
Credit facility		
Bankers' acceptances	\$ 137,000	\$ 61,000
Bank loan	8,550	5,925
Unamortized finance costs	<u>(311)</u>	<u>(388)</u>
Operating line	145,239	66,537
Bank indebtedness	<u>175</u>	<u>29</u>
Total borrowing under credit facility	145,414	66,566
Letters of credit	<u>4,176</u>	<u>2,616</u>
Total credit facility utilization	<u>\$ 149,590</u>	<u>\$ 69,182</u>

NOTE 8 – RELATED PARTY TRANSACTIONS

The company pays management and mortgage servicing fees to Canadian Mortgage Capital Corporation (CMCC), which is the manager of the company, and responsible for its day-to-day management. The majority beneficial owner and Chief Executive Officer (CEO) of the manager is also CEO of the company. The company incurred management and mortgage servicing fees of \$4,661 for the year ended December 31, 2016 (year ended December 31, 2015 – \$4,173). 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.

NOTE 8 – RELATED PARTY TRANSACTIONS (continued)

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

	Years ended December 31	
	2016	2015
Directors' fees	\$ 179	\$ 177
Share-based payments to directors (Note 11)	142	123
Share-based payments to officers (Note 11)	<u>84</u>	<u>105</u>
	<u>\$ 405</u>	<u>\$ 405</u>

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

NOTE 9 – CONVERTIBLE DEBENTURES

	Convertible debenture 5.50% ALDB.B	Convertible debenture 6.25% ALDB.A	Convertible debenture 5.25% ALDB	Total
<u>Year ended December 31, 2016</u>				
Issued and outstanding face value	<u>\$ 40,250</u>	<u>\$ 31,766</u>	<u>\$ 32,500</u>	<u>\$ 104,516</u>
Book value –				
Convertible debentures, beginning of year	\$ 38,295	\$ 30,705	\$ 31,180	\$ 100,180
Conversion to shares	–	(35)	–	(35)
Accretion for the year	<u>332</u>	<u>333</u>	<u>288</u>	<u>953</u>
Convertible debentures, end of year	<u>\$ 38,627</u>	<u>\$ 31,003</u>	<u>\$ 31,468</u>	<u>\$ 101,098</u>
<u>Year ended December 31, 2015</u>				
Issued and outstanding face value	<u>\$ 40,250</u>	<u>\$ 31,801</u>	<u>\$ 32,500</u>	<u>\$ 104,551</u>
Book value				
Convertible debentures, beginning of year	\$ 37,967	\$ 30,374	\$ 30,894	\$ 99,235
Accretion for the year	<u>328</u>	<u>331</u>	<u>286</u>	<u>945</u>
Convertible debentures, end of year	<u>\$ 38,295</u>	<u>\$ 30,705</u>	<u>\$ 31,180</u>	<u>\$ 100,180</u>

NOTE 9 – CONVERTIBLE DEBENTURES (continued)

	Convertible debenture 5.50% <u>A1.DB.B</u>	Convertible debenture 6.25% <u>A1.DB.A</u>	Convertible debenture 5.25% <u>A1.DB</u>
Maturity date	Sept. 30, 2021	March 31, 2019	June 30, 2020
Initial term	7 years	5 years	7 years
Conversion at option of shareholder at	\$ 14.65/share	\$ 13.30/share	\$ 13.50/share
Interest payment dates	March 31, Sept. 30	March 31, Sept 30	June 30, Dec. 31
Redeemable at the company's option at par plus accrued interest, provided the weighted average trading price of common shares is not less than 125% of the conversion price from	Sept. 30, 2017 to Sept. 30, 2019	March 31, 2017 to March 31, 2018	June 30, 2016 to June 30, 2018
Redeemable at the company's option at par plus accrued interest and unpaid interest after	Sept. 30, 2019	March 31, 2018	June 30, 2018

NOTE 10 – SHARE CAPITAL

The company is authorized to issue an unlimited number of common shares without par value. Common shares rank equally with each other and have no preference, conversion, exchange or redemption rights. Common shares participate pro rata with respect to any dividends paid, including distributions upon termination and dissolution. (See Note 16 – Subsequent events.)

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, as it is reimbursed by CMCC and the participants.

NOTE 11 – SHARE-BASED PAYMENTS

	Year ended December 31, 2016			Year ended December 31, 2015		
	Deferred share units	Income deferred share units	Total	Deferred share units	Income deferred share units	Total
Balance, beginning of year	52,417	4,426	56,843	61,500	6,155	67,655
Units granted	22,500	–	22,500	24,000	–	24,000
Units earned	–	4,952	4,952	–	5,532	5,532
Common shares issued	<u>(6,000)</u>	<u>(930)</u>	<u>(6,930)</u>	<u>(33,083)</u>	<u>(7,261)</u>	<u>(40,344)</u>
Balance, end of year	<u>68,917</u>	<u>8,448</u>	<u>77,365</u>	<u>52,417</u>	<u>4,426</u>	<u>56,843</u>
Share compensation expense:	Years ended December 31					
	2016			2015		
September 1, 2016 grant	\$ 62			\$ –		
September 1, 2015 grant	169			62		
September 1, 2014 grant	87			166		
August 30, 2013 grant	44			63		
August 29, 2012 grant	<u>2</u>			<u>34</u>		
	<u>\$ 364</u>			<u>\$ 325</u>		

NOTE 11 – SHARE-BASED PAYMENTS (continued)

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 ("IDSU") 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, 2016 (\$12.47) and September 1, 2015 (\$11.58).

NOTE 12 – EARNINGS PER SHARE

	<u>Years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Basic earnings per share –		
Numerator		
Earnings for the year	\$ 26,120	\$ 23,337
Denominator		
Weighted average common shares outstanding	26,975,544	24,807,827
Basic earnings per share	<u>\$ 0.97</u>	<u>\$ 0.94</u>
Diluted earnings per share –		
Numerator		
Earnings for the year	\$ 26,120	\$ 23,337
Interest on convertible debentures	6,906	6,873
Earnings for diluted earnings per share	<u>33,026</u>	<u>30,210</u>
Denominator		
Weighted average common shares outstanding	26,975,544	24,804,827
Convertible debentures	7,545,176	7,545,902
Deferred share incentive plan	59,524	67,534
Income deferred share units	4,441	5,893
Weighted average common shares outstanding – diluted basis	<u>34,584,684</u>	<u>32,424,156</u>
Diluted earnings per share	<u>\$ 0.95</u>	<u>\$ 0.93</u>

NOTE 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).

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. All financial assets are classified 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 bank indebtedness and operating line approximates book value since it bears interest at floating rates. The accounts payable and accrued liabilities, dividends payable and due to related parties carrying value approximates their fair value due to the short term nature of the items. Mortgages receivable mature between 2017 and 2030 with a weighted average term to maturity at December 31, 2016 of 12.8 months (December 31, 2015 – 11.1 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.

	December 31	December 31
	<u>2016</u>	<u>2015</u>
Convertible debentures		
Fair value	\$ 105,192	\$ 103,815
Less book value of equity component	<u>(1,062)</u>	<u>(1,062)</u>
	<u>\$ 104,130</u>	<u>\$ 102,753</u>
Book value of financial liability component	<u>\$ 101,098</u>	<u>\$ 100,180</u>

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

(c) Credit risk

The following asset is exposed to credit risk: mortgages receivable. In addition the company is exposed to credit risk on letters of credit issued. 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 mitigates 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, 2016, the largest related borrower group accounted for no more than 9.4% of mortgages receivable (December 31, 2015 – 10.0%). See Note 5(a) for a breakdown of mortgages by category.

(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, 2016, management considers that it has adequate procedures in place to manage liquidity risk.

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

Obligations at December 31, 2016	<u>Total</u>	<u>Within 1 year</u>	<u>Over 1 year to 3 years</u>	<u>Over 3 years to 5 years</u>	<u>More than 5 years</u>
Bank indebtedness	\$ 175	\$ –	\$ 175	\$ –	\$ –
Operating line	145,550	–	145,550	–	–
Accounts payable and accrued liabilities	579	579	–	–	–
Accrued convertible debentures interest	1,050	1,050	–	–	–
Dividends payable	4,653	4,653	–	–	–
Due to related party	522	522	–	–	–
Convertible debentures	104,516	–	31,766	72,750	–
Total	<u>\$ 257,045</u>	<u>\$ 6,804</u>	<u>\$ 177,491</u>	<u>\$ 72,750</u>	<u>\$ –</u>

The company has commitments to advance additional funds under existing mortgages of \$51,320 and for new mortgages of \$4,468 at December 31, 2016 (December 31, 2015 – \$71,856 and \$300 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 a majority of the company's financing is through common shares and convertible debentures, with a moderate amount of borrowings under the credit facility that bear floating interest rates.

If interest rates on debt had been one percentage point higher (lower) during the year ended December 31, 2016, earnings would have been reduced (increased) by approximately \$1,133 during the year, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. However, if new mortgage loans had been entered into at higher (lower) interest rates, the resulting reduction of earnings would have been less than (greater than) \$1,133.

(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 exposed to currency risk as all assets and liabilities are denominated in Canadian funds.

NOTE 14 – CAPITAL MANAGEMENT

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

	<u>December 31 2016</u>	<u>December 31 2015</u>
Bank indebtedness	\$ 175	\$ 29
Operating line	145,550	66,925
Unamortized finance costs	(311)	(388)
Total borrowing under credit facility	145,414	66,566
Convertible debentures	101,098	100,180
Total debt	246,512	166,746
Shareholders' equity	278,540	274,984
Capital employed	<u>\$ 525,052</u>	<u>\$ 441,730</u>

NOTE 14 – CAPITAL MANAGEMENT (continued)

The company's objectives for managing capital are to preserve shareholders' equity, provide shareholders with stable dividends, and to use leverage in a conservative manner to improve return to shareholders. The company finances growth of its portfolio by issuing common shares and debt. In addition, a small amount of equity is raised every month through a dividend reinvestment plan for shareholders.

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

NOTE 15 – COMPARATIVE RECLASSIFICATION

The presentation of the Consolidated Statements of Cash Flows for the year ended December 31, 2015 has been changed in order to improve the usefulness of the information presented. Comparative figures have been restated to conform to the new presentation. Previously, only the non-cash portions of interest paid and interest received were added to or subtracted from cash flows from operating activities and cash flows from financing activities. Under the new disclosure, the entire amounts of both cash and non-cash items are adjusted. There was no change to cash from investing activities as previously reported.

The effect of the change on the comparative figures is as follows:

	Year ended December 31, 2015	
	As originally reported	As restated
Cash provided by (used in):		
Operating activities	\$ 26,860	\$ 35,101
Investing activities	(16,970)	(16,970)
Financing activities	(9,890)	(18,131)
Increase in cash	<u>\$ —</u>	<u>\$ —</u>

NOTE 16 – SUBSEQUENT EVENTS

On January 12, 2017 the company renewed and increased its credit facility with a syndicate of three Canadian financial institutions to \$180,000 from \$160,000. There were no other material changes to its other terms and conditions, and it is committed until January 11, 2019.

On January 12, 2017, the company issued 19,354 common shares (\$230) to shareholders under its dividend reinvestment plan.

On January 23, 2017, the company announced that it has entered into an agreement with a syndicate of underwriters to purchase 2,535,000 common shares of Atrium at a price of \$11.85 per share for gross proceeds of \$30,040. Atrium has also granted to the underwriters an over-allotment option to purchase up to an additional 380,250 common shares at the issue price, exercisable in whole or in part at any time for a period of up to 30 days following closing of the offering, to cover over-allotments. If the over-allotment option is exercised in full, the gross proceeds of the offering will total \$34,546.

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President
Optus Capital Corporation

Robert G. Goodall

CEO and President
Atrium Mortgage Investment Corporation

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Copez Properties Ltd.

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

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CEO and President

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CFO and Secretary

Bram Rothman

Managing Director – Ontario

Richard Munroe

Managing Director – Ontario

Pete Ivanovic

Managing Director – Ontario

Phil Fiuza

Managing Director – Ontario, Residential

Daniel Stewart

Managing Director – Alberta and Saskatchewan

Marianne Dobslaw

Managing Director – British Columbia

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SHARE LISTING

Common shares,
TSX: AI

Convertible debentures 5.25%,
TSX: AI.DB

Convertible debentures 6.25%,
TSX: AI.DB.A

Convertible debentures 5.5%,
TSX: AI.DB.B

Atrium® offers a dividend reinvestment plan (DRIP) so that shareholders may automatically reinvest their dividends in new shares of Atrium at a 2% discount from market price and with no commissions. This provides an easy way to realize the benefits of compound growth of their investment in Atrium. Shareholders can enroll in the DRIP program by contacting their investment advisor or Computershare.

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