ATRIUM®
MORTGAGE INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER™

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED
DECEMBER 31, 2017

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 consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

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

Toronto, Canada
February 8, 2018

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

"Jennifer Scoffield"
Jennifer Scoffield
Chief Financial Officer

Crowe Soberman™

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Atrium Mortgage Investment Corporation

We have audited the accompanying consolidated financial statements of Atrium Mortgage Investment Corporation and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of income 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, 2017 and December 31, 2016, 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, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Notes	December 31 2017	December 31 2016
Assets			
Mortgages receivable	5	$ 626,756	$ 530,590
Foreclosed properties	6	1,064	1,223
Prepaid expenses		39	43
		$ 627,859	$ 531,856
Liabilities			
Borrowings under credit facility	7	$ 144,454	$ 145,414
Accounts payable and accrued liabilities	8	1,960	1,101
Accrued convertible debenture interest		2,636	1,050
Dividends payable		3,769	4,653
Convertible debentures	9	125,976	101,098
		278,795	253,316
Shareholders' equity			
Share capital		345,325	275,785
Deferred share incentive plan units		802	592
Equity component of convertible debentures		1,322	1,062
Contributed surplus		645	645
Retained earnings		970	456
		349,064	278,540
		$ 627,859	$ 531,856
Commitments	*7, 13(d)*		

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

Approved on behalf of the board of directors:

"Robert Goodall"	*"Mark Silver"*
Robert Goodall, Director	Mark Silver, Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Notes	Common shares		Deferred share incentive plan units	Equity component of convertible debentures	Contributed surplus	Retained earnings	Total
		Number	Amount					
Balance, December 31, 2015		26,834,574	$ 272,698	$ 325	$ 1,062	$ 645	$ 254	$ 274,984
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
Net income and comprehensive income		–	–	–	–	–	26,120	26,120
Dividends declared		–	–	–	–	–	(25,918)	(25,918)
Balance, December 31, 2016		27,105,703	275,785	592	1,062	645	456	278,540
Shares issued by prospectus		5,827,050	69,051	–	–	–	–	69,051
Shares issued under dividend reinvestment plan	10	293,622	3,481	–	–	–	–	3,481
Shares issued under employee share purchase plan	10	11,620	142	–	–	–	–	142
Shares issued under deferred share incentive plan	11	14,144	161	(161)	–	–	–	–
Issue costs		–	(3,295)	–	–	–	–	(3,295)
Share-based payments	11	–	–	371	–	–	–	371
Equity component of convertible debentures issued	9	–	–	–	274	–	–	274
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(14)	–	–	(14)
Net income and comprehensive income		–	–	–	–	–	29,059	29,059
Dividends declared		–	–	–	–	–	(28,545)	(28,545)
Balance, December 31, 2017		33,252,139	$ 345,325	$ 802	$ 1,322	$ 645	$ 970	$ 349,064

Dividends amounted to $0.920 per share for the year ended December 31, 2017 (year ended December 31, 2016 – $0.96)

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

	Notes	Years ended December 31 2017	2016
Revenues			
Mortgage interest and fees		$ 50,359	$ 44,042
Operating expenses			
Mortgage servicing and management fees	8	5,470	4,661
Transfer agent, regulatory fees and investor relations		322	297
Share-based payments	8, 11	371	364
Professional fees		128	153
Directors' expense	8	195	217
Administration and general		216	190
Loss from sale of foreclosed property	6	19	–
Provision for mortgage losses	5(b)	1,850	1,519
		8,571	7,401
Income before financing costs		41,788	36,641
Financing costs			
Interest on convertible debentures		7,734	6,906
Interest and other bank charges		4,995	3,615
		12,729	10,521
Net income and comprehensive income for the year		$ 29,059	$ 26,120
Earnings per common share			
Basic	12	$ 0.95	$ 0.97
Diluted	12	$ 0.94	$ 0.95

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	
	2017	**2016**
Cash provided by (used in):		
Operating activities		
Net income and comprehensive income for the year	$ 29,059	$ 26,120
Adjustments to determine net cash flows from (used in) operating activities –		
Share-based payments	371	364
Mortgage interest and fees earned	(50,359)	(44,042)
Mortgage interest and fees received	41,977	34,904
Interest on convertible debentures expensed	7,734	6,906
Interest and other bank charges expensed	4,995	3,615
Provision for mortgage losses	1,850	1,519
Loss on disposition of foreclosed property	19	–
	35,646	29,386
Changes in operating assets and liabilities –		
Prepaid expenses	4	11
Accounts payable and accrued liabilities	816	32
Additions to mortgage discount	–	15
Additions to unamortized origination fees	873	740
	1,693	798
Cash provided by operating activities	37,339	30,184
Investing activities		
Cash advances of mortgages receivable	(353,730)	(286,031)
Cash repayments of mortgages receivable	263,223	209,225
Improvements to foreclosed properties	(399)	(44)
Proceeds from disposition of foreclosed assets	539	–
Cash used in investing activities	(90,367)	(76,850)
Financing activities		
Advances under credit facility	557,729	359,776
Repayments under credit facility	(558,300)	(281,005)
Interest on convertible debentures paid	(5,073)	(5,953)
Interest and other bank charges paid	(5,341)	(3,542)
Issuance of common shares	69,193	146
Share capital issue costs	(3,295)	(54)
Issuance of convertible debentures	25,300	–
Convertible debenture issue costs	(1,237)	–
Dividends paid	(25,948)	(22,702)
Cash provided by financing activities	53,028	46,666
Increase (decrease) in cash	–	–
Cash, beginning of year	–	–
Cash, end of year	$ –	$ –

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

NOTE 1 – NATURE OF OPERATIONS

Atrium Mortgage Investment Corporation 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, AI.DB.B and AI.DB.C.

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, 2018.

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

The effective interest method derives the interest rate that discounts the estimated future cash receipts during the expected life of the mortgage receivable (or, where appropriate, a shorter period) to its carrying amount. When calculating the effective interest rate, future cash flows are estimated considering all contractual terms of the financial instrument, but not future credit losses (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 instruments – 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 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 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 income and comprehensive income and are reflected in the provision for mortgage losses.

If there is no objective evidence of impairment for a 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 is recognized for the excess. Any impairment loss, or gain or loss realized on disposal is recognized in the statement of income and comprehensive income.

(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 borrowings under credit facility, accounts payable and accrued liabilities, dividends payable 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 income and comprehensive income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive items such as convertible debentures and deferred share incentive plans.

(j) Share-based payments

The company has an equity-settled share-based compensation plan for grants to eligible directors, officers, and senior management under its deferred share incentive plan. Grants are measured based upon the fair value of the awards granted, using the volume-weighted average trading share price for the five trading days prior to 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. It includes requirements for classification and measurement of financial assets and liabilities, as well as impairment of financial assets. IFRS 9 uses an expected-loss impairment model based upon forward looking information that will result in earlier recognition of expected losses.

Classification and Measurement of Financial Assets and Liabilities

IFRS 9 requires that the company's business model and a financial instrument's contractual cash flows determine its classification and measurement in the financial statements. Upon initial recognition, each financial asset will be classified as either fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). 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 solely principal and interest. Otherwise it is recorded at FVTPL.

Based upon an analysis of the business model and contractual cash flow characteristics of its financial assets, Atrium has determined that its financial assets will continue to be measured at amortized cost and be subject to the IFRS 9 impairment requirements.

Impairment of Financial Assets

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVOCI, and off-balance-sheet lending commitments such as loan commitments and letters of credit (which are collectively referred to in this note as financial assets).

NOTE 4 – RECENT ACCOUNTING PRONOUNCEMENTS (continued)

The determination of the provision for mortgage losses will move from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are recorded upon initial recognition of the financial asset based upon expectations of future credit losses at that time. Under IFRS 9, Atrium will recognize a loss allowance equal to 12-month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1), representing the expected credit losses from default events that are possible within the next 12 months.

IFRS 9 requires the recognition of credit losses for the remaining life of the financial assets (lifetime expected credit losses) that are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3). The lifetime expected credit losses represent the expected loss in value due to possible default events over the life of a financial instrument weighted by the likelihood of a loss. To identify whether the credit risk of a financial asset has significantly increased since initial recognition, management will consider forward-looking information, including macro-economic factors as well as information related to the specific borrower, including the outstanding balance upon default. Financial assets will be transferred to Stage 2 if 30 days past due (90 days for single family residential mortgages). Credit impaired financial assets will be transferred to Stage 3 when there is objective information that the assets are credit impaired. To determine whether a financial asset is credit impaired, an event must be identified that has a detrimental impact on the estimated future cash flows.

Interest revenue is calculated on the gross carrying amount for financial assets in Stage 1 and 2 and on the net carrying amount for financial assets in Stage 3.

Atrium has elected under the transitional provisions of IFRS 9 not to restate comparative figures and will recognize any measurement difference between the previous carrying amount and the new carrying amount as at January 1, 2018 through an adjustment to opening retained earnings. Based on current estimates, the adoption of IFRS 9 is expected to result in a reduction of retained earnings at January 1, 2018 of approximately $2,000. This is due to increases in the provision for mortgage losses under the new impairment requirements. We continue to refine certain aspects of our impairment analysis leading up to our 2018 first quarter reporting.

NOTE 5 – MORTGAGES RECEIVABLE

(a) Mortgage portfolio

	December 31, 2017			December 31, 2016		
Mortgage category	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
Low-rise residential	36	$ 234,343	37.1%	30	$ 135,701	25.4%
House and apartment	120	86,287	13.6%	102	99,456	18.6%
Construction	8	64,828	10.3%	8	49,345	9.2%
High-rise residential	7	44,949	7.1%	7	53,182	9.9%
Mid-rise residential	4	31,471	5.0%	5	28,787	5.4%
Condominium corporation	14	2,887	0.4%	16	3,548	0.7%
Residential portfolio	189	464,765	73.5%	168	370,019	69.2%
Commercial/mixed use	27	167,622	26.5%	29	165,231	30.8%
Mortgage portfolio	216	632,387	100.0%	197	535,250	100.0%
Accrued interest receivable		2,537			2,126	
Mortgage discount		(262)			(360)	
Unamortized origination fees		(706)			(626)	
Provision for mortgage losses		(7,200)			(5,800)	
Mortgages receivable		$ 626,756			$ 530,590	

The mortgage portfolio has maturity dates between 2018 and 2030 with a weighted average remaining term of 12.4 months at December 31, 2017 (December 31, 2016 – 12.8 months). The portfolio has a weighted average interest rate (which excludes lender fees earned by the company) of 8.44% as at December 31, 2017 (8.50% as at December 31, 2016).

NOTE 5 – MORTGAGES RECEIVABLE (continued)

(a) Mortgage portfolio (continued)

Within the mortgage portfolio, at December 31, 2017 there were 13 loans aggregating $40,550 (6.4% of the mortgage portfolio) in which the company has a subordinate position in a syndicated mortgage (December 31, 2016 – 11 mortgages aggregating $28,688, 5.4% 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, 2017.

Principal repayments based on contractual maturity dates are as follows:

Years ended December 31, 2018	$ 382,341	60.5%
2019	173,468	27.4%
2020	51,034	8.1%
2021	22,680	3.6%
2022	335	0.1%
Thereafter	2,529	0.3%
	$ 632,387	100.0%

(b) Provision for mortgage losses

	Years ended December 31	
	2017	2016
Balance, beginning of year	$ 5,800	$ 4,300
Mortgages settled during the year	(450)	(19)
Provision for mortgage losses	1,850	1,519
Balance, end of year	$ 7,200	$ 5,800

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

In the prior year, 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. During the year ended December 31, 2017 the company disposed of one foreclosed property with a book value of $558 resulting in a net loss of $19. The book value at December 31, 2017 and December 31, 2016 approximates fair value.

	Years ended December 31	
	2017	2016
Balance, beginning of year	$ 1,223	$ –
Properties foreclosed on during the year	–	1,179
Capital improvements	399	44
Disposition of foreclosed property	(558)	–
Balance, end of year	$ 1,064	$ 1,223

NOTE 7 – CREDIT FACILITY

At December 31, 2017, the company had a credit facility from a syndicate of four Canadian financial institutions of $210,000 (December 31, 2016 – $160,000) 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, 2017 was 3.12% (2.94% for the year ended December 31, 2016). Drawings under the credit facility may be by way of a bank loan (including an overdraft facility 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 November 28, 2017, has a term to January 11, 2020, and is subject to certain conditions of drawdown and other covenants.

NOTE 7 – CREDIT FACILITY (continued)

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, 2017 and December 31, 2016, the company was in compliance with these covenants.

	December 31	
Credit facility	**2017**	**2016**
Bankers' acceptances	$ 125,000	$ 137,000
Bank loan	19,900	8,550
Overdraft facility	254	175
Unamortized finance costs	(700)	(311)
Borrowings under credit facility	144,454	145,414
Letters of credit	3,640	4,176
Total credit facility utilization	$ 148,094	$ 149,590

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 $5,470 for the year ended December 31, 2017 (year ended December 31, 2016 – $4,661). The management agreement between the company and CMCC contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. Amounts due to related party of $1,021 (December 31, 2016 – $522) are included in accounts payable and accrued liabilities and are due to CMCC, are in the normal course of business, are non-interest bearing, due on demand and are paid within 30 days of each period end.

Certain of our mortgages are shared with other investors. As at December 31, 2017, companies owned by a director and officer of the company had co-invested in one syndicated mortgage. The total amount of the mortgage is $45,360 (December 31, 2016 – one syndicated mortgage of $40,756) of which the company's share is $22,680 (December 31, 2016 – $20,378).

As at December 31, 2017, the company had two mortgages receivable which a director and officer of the company has joint control over the borrowers of these mortgages. (December 31, 2016 – nil).

- A mortgage loan with a total gross commitment of $3,490, of which $3,071 had been funded at December 31, 2017. During the year ended December 31, 2017, the company recognized net mortgage interest and fees of $19 from this mortgage receivable.
- A mortgage loan with a total gross commitment of $8,738. The company's share of the commitment is $2,330, of which $2,330 had been funded at December 31, 2017. During the year ended December 31, 2017, the company recognized net mortgage interest and fees of $105 from this mortgage receivable.

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

	Years ended December 31	
	2017	**2016**
Directors' fees	$ 179	$ 179
Share-based payments to directors (Note 11)	136	142
Share-based payments to officers (Note 11)	106	84
	$ 421	$ 405

Related party transactions 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.

NOTE 9 – CONVERTIBLE DEBENTURES

	Convertible debenture				
	5.30% AI.DB.C	5.50% AI.DB.B	6.25% AI.DB.A	5.25% AI.DB	Total
Year ended December 31, 2017					
Issued and outstanding face value	$ 25,300	$ 40,250	$ 31,766	$ 32,500	$ 129,816
Book value –					
Convertible debentures, beginning of year	$ –	$ 38,627	$ 31,003	$ 31,468	$ 101,098
Issued	25,300	–	–	–	25,300
Equity component	(274)	–	–	–	(274)
Issue costs	(1,237)	–	–	–	(1,237)
Issue costs attributed to equity component	14	–	–	–	14
Accretion for the year	113	334	337	291	1,075
Convertible debentures, end of year	$ 23,916	$ 38,961	$ 31,340	$ 31,759	$ 125,976
Year ended December 31, 2016					
Issued and outstanding face value	$ –	$ 40,250	$ 31,766	$ 32,500	$ 104,551
Book value –					
Convertible debentures, beginning of year	$ –	$ 38,295	$ 30,705	$ 31,180	$ 100,180
Conversion to shares	–	–	(35)	–	(35)
Accretion for the year	–	332	333	288	953
Convertible debentures, end of year	$ –	$ 38,627	$ 31,003	$ 31,468	$ 101,098

	Convertible debenture			
	5.30% AI.DB.C	5.50% AI.DB.B	6.25% AI.DB.A	5.25% AI.DB
Maturity date	June 30, 2024	Sept. 30, 2021	March 31, 2019	June 30, 2020
Initial term	7 years	7 years	5 years	7 years
Conversion at option of shareholder at	$ 14.94/share	$ 14.65/share	$ 13.30/share	$ 13.50/share
Interest payment dates	June 30, Dec. 31	March 31, Sept. 30	March 31, Sept. 30	June 30, Dec. 31
Redeemable at the company's option at par plus accrued interest, provided the weighted average trading price of common shares is not less than 125% of the conversion price from	June 30, 2020	Sept. 30, 2017	March 31, 2017	June 30, 2016
to	June 30, 2022	Sept. 30, 2019	March 31, 2018	June 30, 2018
Redeemable at the company's option at par plus accrued interest and unpaid interest after	June 30, 2022	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 15 – 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) matches 50% of the participant's contribution. Thus, the company does not bear any of the cost of the ESPP, as it is reimbursed by CMCC and the participants.

NOTE 11 – SHARE-BASED PAYMENTS

	Year ended December 31, 2017			**Year ended December 31, 2016**		
	Deferred share units	Income deferred share units	Total	Deferred share units	Income deferred share units	Total
Balance, beginning of year	68,917	8,448	77,365	52,417	4,426	56,843
Units granted	24,000	–	24,000	22,500	–	22,500
Units earned	–	5,948	5,948	–	4,952	4,952
Common shares issued	(11,250)	(2,894)	(14,144)	(6,000)	(930)	(6,930)
Balance, end of year	81,667	11,502	93,169	68,917	8,448	77,365

Share compensation expense:	**Years ended December 31**	
	2017	**2016**
September 1, 2017 grant	$ 79	$ –
September 1, 2016 grant	171	62
September 1, 2015 grant	82	169
September 1, 2014 grant	31	87
August 30, 2013 grant	7	44
August 29, 2012 grant	1	2
	$ 371	$ 364

Grants are provided to directors and certain employees of the manager 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 granted before 2017 based upon dividends paid on common shares. The fair value of share-based compensation was based upon the volume weighted average market price of the common shares five days prior to the grant date of September 1, 2017 ($12.26) and September 1, 2016 ($12.47).

NOTE 12 – EARNINGS PER SHARE

	Years ended December 31	
	2017	**2016**
Basic earnings per share –		
Numerator		
Net income and comprehensive income for the year	$ 29,059	$ 26,120
Denominator		
Weighted average common shares outstanding	30,633,314	26,975,544
Basic earnings per share	$ 0.95	$ 0.97

NOTE 12 – EARNINGS PER SHARE (continued)

	Years ended December 31	
	2017	**2016**
Diluted earnings per share –		
Numerator		
Net income and comprehensive income for the year	$ 29,059	$ 26,120
Interest on convertible debentures	7,734	6,906
Net income and comprehensive income for diluted earnings per share	36,793	33,026
Denominator		
Weighted average common shares outstanding	30,633,314	26,975,544
Convertible debentures	8,475,621	7,545,176
Deferred share incentive plan	73,815	59,524
Income deferred share units	8,150	4,441
Weighted average common shares outstanding – diluted basis	39,190,900	34,584,684
Diluted earnings per share	$ 0.94	$ 0.95

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 borrowings under credit facility, accounts payable and accrued liabilities, dividends payable and the liability component of convertible debentures. All financial liabilities are classified as other financial liabilities.

(b) Fair value

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

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. All financial assets are classified as loans and receivables and are recorded at amortized cost. Their carrying values approximate their fair value due to their relatively short-term maturities and because market interest rates have not fluctuated significantly since the date at which the loans were entered into. The fair value of borrowings under credit facility approximates book value since it bears interest at floating rates. The accounts payable and accrued liabilities and dividends payable carrying value approximates their fair value due to the short term nature of the items.

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	
Convertible debentures	**2017**	**2016**
Fair value	$ 131,134	$ 105,192
Less book value of equity component	(1,322)	(1,062)
	$ 129,812	$ 104,130
Book value of financial liability component	$ 125,976	$ 101,098

NOTE 13 – FINANCIAL INSTRUMENTS (continued)

(c) Credit risk

Mortgages receivable and issued letters of credit are exposed to credit risk. Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment, resulting in a financial loss to the company.

The company mitigates the credit risk 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, 2017, the largest borrower group accounted for 9.0% of mortgages receivable (December 31, 2016 – 9.4%). 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 borrowings under credit facility, accounts payable and accrued liabilities, dividends payable and the liability component of convertible debentures. The borrowings under credit facility are drawn upon as required to discharge accounts payable and accrued liabilities as well as to pay out dividends on a monthly basis. The company's agreement with the lender is that the operating line will not be called provided that all covenants are met and that any significant excess cash is used to pay down the borrowings under credit facility.

December 31, 2017	Carrying value	Contractual cash flow	Within 1 year	1 to 3 years	3 to 5 years
Borrowings under credit facility[1]	$145,154	$155,102	$4,788	$150,314	$ –
Accounts payable and accrued liabilities	1,960	1,960	1,960	–	–
Dividends payable	3,769	3,769	3,769	–	–
Convertible debentures[2]	125,976	141,073	69,170	44,592	27,311
Total	276,859	301,904	79,687	194,906	27,311
Unadvanced mortgage commitments[3]	–	74,494	74,494	–	–
Total contractual liabilities	$276,859	$376,398	$154,181	$194,906	$ 27,311

Notes:

(1) Includes interest assuming the outstanding balance is not repaid until maturity on January 11, 2020.

(2) The 5.25% debentures are assumed to be repaid June 30, 2018; 6.25% debentures are assumed to be repaid March 31, 2018; 5.50% debentures are assumed to be repaid September 30, 2019 and 5.3% debentures are assumed to be repaid June 30, 2022.

(3) Unadvanced mortgage commitments include additional funds on existing mortgage and new mortgage commitments. The experience of the company has been that a portion of the unfunded amounts on existing mortgages will never be drawn.

As at December 31, 2017, management considers that it has adequate procedures in place to manage liquidity risk.

NOTE 13 – FINANCIAL INSTRUMENTS (continued)

(e) Interest rate risk

The company is exposed to interest rate risk in that an increase in interest rates will result in increased interest expense due to its borrowings under credit facility being set at a variable rate 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, 2017, income and comprehensive income would have been reduced (increased) by approximately $1,424 during the year, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. However, if new mortgage loans had been entered into at higher (lower) interest rates, the resulting reduction of income and comprehensive income would have been less than (greater than) $1,424.

(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:

	December 31	
	2017	2016
Borrowings under credit facility	$ 144,454	$ 145,414
Convertible debentures	125,976	101,098
Total debt	270,430	246,512
Shareholders' equity	349,064	278,540
Capital employed	$ 619,494	$ 525,052

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 and the employee share purchase plan.

As bank borrowings increase, the company could expect to raise further funds through public offerings of convertible debentures or common shares, and through private placements of debt. The borrowings under credit facility are subject to external covenants as set out in Note 7. There has been no change in the company's capital management objectives since the prior year.

NOTE 15 – SUBSEQUENT EVENTS

On January 12, 2018, the company issued 23,346 common shares ($287) to shareholders under its dividend reinvestment plan.