

**ATRIUM**

MORTGAGE INVESTMENT  
CORPORATION

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**ANNUAL REPORT TO SHAREHOLDERS**

**DECEMBER 31, 2012**

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February 21, 2013

Dear fellow shareholder:

Atrium Mortgage Investment Corporation has had a very successful year, and on December 31, 2012 we completed our first year-end as a public company, listed on the Toronto Stock Exchange.

### **Highlights for the year**

- **\$0.02 per share special dividend to shareholders of record December 31, 2012**
- **\$0.86 earnings per share for the year**
- **\$0.85 dividends per share for a yield of 7.7%** (February 21, 2013 closing price of \$11.00)
- **assets increased 34% year-over-year to \$213 million at December 31, 2012**
- **high quality mortgage portfolio**
  - **83% of portfolio in first mortgages**
  - **increased exposure to low risk single-family and apartment sectors**
- **new offices in Calgary and Vancouver**

We are very pleased with Atrium's financial results for the year and believe that we are well positioned with offices in Toronto, Calgary and Vancouver to prudently grow and diversify the mortgage portfolio across central and western Canada in 2013. The mortgage portfolio is performing very well, and we will continue to manage the portfolio defensively in 2013 to ensure preservation of capital and continuity of dividends to shareholders.

### **Results of operations**

Mortgages receivable consisted of 77 mortgage loans and aggregated \$202 million at December 31, 2012, an increase of 28.4% from December 31, 2011.

Dividends declared aggregated \$13.4 million for the twelve months ended December 31, 2012, an increase of 41.5% from the same period in the previous year. Total assets at December 31, 2012 aggregated \$212.6 million, compared to \$158.8 million at December 31, 2011.

## Mortgage portfolio

A breakdown of our mortgage portfolio at December 31, 2012, and compared with the previous year, is provided below:

<u>Mortgage category</u>	<u>December 31, 2012</u>			<u>December 31, 2011</u>		
	<u>Number</u>	<u>Outstanding amount</u>	<u>% of portfolio</u>	<u>Number</u>	<u>Outstanding amount</u>	<u>% of portfolio</u>
Mixed use commercial	15	\$69,334,931	34.4%	10	\$49,563,240	31.6%
Condominium corporation	10	1,629,664	0.8%	9	1,373,602	0.9%
Low rise residential	8	24,302,272	12.0%	6	12,150,000	7.7%
Midrise residential	5	24,381,184	12.1%	4	12,213,154	7.8%
High rise residential	4	23,686,000	11.8%	6	49,500,000	31.6%
House and apartment	31	43,061,190	21.4%	8	18,257,393	11.6%
Construction	<u>4</u>	<u>15,087,981</u>	<u>7.5%</u>	<u>4</u>	<u>13,850,000</u>	<u>8.8%</u>
	<b><u>77</u></b>	<b><u>\$201,483,222</u></b>	<b><u>100.0%</u></b>	<b><u>47</u></b>	<b><u>\$156,907,389</u></b>	<b><u>100.0%</u></b>

High rise residential loans decreased from 31.6% of the mortgage portfolio at December 31, 2011 to 11.8% at December 31, 2012. This has been offset by an increase in low rise, midrise, single-family and apartment lending over the same period reflecting Atrium's strategy of increasing its exposure to the lowest risk sectors of the market. The average loan to value in the portfolio stayed relatively constant at 66.7%, with only 7.0% of the portfolio above 75% loan to value.

For further details please refer to our financial statements and management's discussion and analysis in this package.

Thank you all for your support.

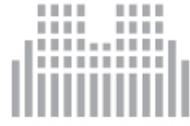
Yours sincerely,

"Robert G. Goodall"

Robert G. Goodall  
President and Chief Executive Officer

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**ATRIUM**

MORTGAGE INVESTMENT  
CORPORATION

**Financial Statements**

December 31, 2012

## INDEPENDENT AUDITORS' REPORT

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To the Shareholders of  
Atrium Mortgage Investment Corporation

We have audited the accompanying financial statements of Atrium Mortgage Investment Corporation, which comprise the statements of financial position as at December 31, 2012 and December 31, 2011 and the statements of comprehensive income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Atrium Mortgage Investment Corporation as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Crowe Soberman LLP*

Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
February 21, 2013

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the shareholders of  
**Atrium Mortgage Investment Corporation**

The accompanying financial statements of Atrium Mortgage Investment Corporation and all the information contained in the financial statements are the responsibility of management and have been approved by the Board of Directors. Our financial statements for the year ended December 31, 2012 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the *Handbook* of the Canadian Institute of Chartered Accountants. Some amounts included in the financial statements correspond to management's best estimates and have been derived with careful judgment. Financial information in the management's discussion and analysis for the year ended December 31, 2012 is consistent with these financial statements.

Management has established a system of internal control that it believes provides reasonable assurance that, in all material respects, transactions are authorized, assets are safeguarded from loss or unauthorized use, and financial records are reliable for the purpose of preparing financial statements.

The Board of Directors is responsible for ensuring that management discharges its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the financial statements and management's discussion and analysis. The Board carries out its responsibilities for the financial statements through the Audit Committee which is composed of three independent directors. The Audit Committee periodically reviews and discusses financial reporting matters with the company's auditors, Crowe Soberman, LLP, as well as with management.

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

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

February 21, 2013

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2012 and 2011**

(Expressed in Canadian dollars)	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b>Assets</b>			
Cash		\$ 10,628,383	\$ 1,315,017
Mortgages receivable	5	201,954,951	157,492,666
Prepaid expenses		<u>19,577</u>	<u>8,330</u>
		<u>\$ 212,602,911</u>	<u>\$ 158,816,013</u>
<b>Liabilities</b>			
Bank indebtedness	6	\$ –	\$ 12,600,000
Accounts payable		180,800	–
Accrued liabilities		279,768	212,546
Dividends payable	7	1,826,813	2,984,844
Due to related party	8	<u>205,605</u>	<u>172,211</u>
		<u>\$ 2,492,986</u>	<u>\$ 15,969,601</u>
<b>Shareholders' equity</b>			
Share capital	9	209,383,307	142,141,036
Contributed surplus		693,199	645,023
Retained earnings		<u>33,419</u>	<u>60,353</u>
		<u>210,109,925</u>	<u>142,846,412</u>
		<u>\$ 212,602,911</u>	<u>\$ 158,816,013</u>
<i>Commitments</i>	5		

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

Approved on behalf of the board of directors:

“Robert G. Goodall”  
 Robert Goodall, Director

“Murray Frum”  
 Murray Frum, Director

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**Years ended December 31, 2012 and 2011**

(Expressed in Canadian dollars)	Notes	Common shares		Contributed surplus	Retained earnings	Total
		Number	Amount			
Balance, December 31, 2010		8,780,000	\$ 86,884,423	\$ 645,023	\$ 75,796	\$ 87,605,242
Shares issued	9	5,568,100	55,681,000	–	–	55,681,000
Shares issued under dividend reinvestment plan	9	23,337	233,370	–	–	233,370
Share redemption		(14,000)	(140,000)	–	–	(140,000)
Issue costs	9	–	(517,757)	–	–	(517,757)
Earnings and comprehensive income		–	–	–	9,440,811	9,440,811
Dividends declared		–	–	–	(9,456,254)	(9,456,254)
Balance, December 31, 2011		14,357,437	142,141,036	645,023	60,353	142,846,412
Shares issued	9	6,643,200	70,343,058	–	–	70,343,058
Shares issued under dividend reinvestment plan	9	77,900	787,875	–	–	787,875
Issue costs	9	–	(3,888,662)	–	–	(3,888,662)
Share based payments		–	–	48,176	–	48,176
Earnings and comprehensive income		–	–	–	13,358,327	13,358,327
Dividends declared		–	–	–	(13,385,261)	(13,385,261)
Balance, December 31, 2012		<u>21,078,537</u>	<u>\$ 209,383,307</u>	<u>\$ 693,199</u>	<u>\$ 33,419</u>	<u>\$ 210,109,925</u>

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

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME**  
**Years ended December 31, 2012 and 2011**

(Expressed in Canadian dollars)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b>Revenues</b>			
Mortgage interest and fees		\$ 17,235,060	\$ 11,414,661
<b>Operating expenses</b>			
Mortgage servicing and management fees	8	1,567,879	961,359
Interest and bank charges		1,180,713	609,803
Expenses for the non-offering prospectus and the related TSX listing		463,818	–
Accounting, audit and legal fees		206,426	141,212
Investor relations and transfer agent		67,712	–
Directors expense	8	85,434	–
Administration and general		63,284	61,476
Share based payments	8, 10	48,176	–
Provision for mortgage losses	5	<u>193,291</u>	<u>200,000</u>
		<u>3,876,733</u>	<u>1,973,850</u>
Earnings and comprehensive income for the year		<u>\$ 13,358,327</u>	<u>\$ 9,440,811</u>
<b>Earnings per common share</b>			
Basic	11	<u>\$ 0.86</u>	<u>\$ 0.88</u>
Diluted		<u>\$ 0.86</u>	<u>\$ 0.88</u>

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

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**Years ended December 31, 2012 and 2011**

(Expressed in Canadian dollars)	<u>2012</u>	<u>2011</u>
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Earnings and comprehensive income for the year	\$ 13,358,327	\$ 9,440,811
Add (subtract) non-cash items		
Share based payments	48,176	–
Provision for mortgage losses	193,291	200,000
Interest capitalized to mortgages	(693,797)	(641,071)
Amortization of mortgage discount	(97,979)	(14,227)
Amortization of mortgage origination fees	<u>(773,304)</u>	<u>(476,546)</u>
	12,034,714	8,508,967
Changes in non-cash items		
Accrued interest receivable	(519,018)	(1,075,751)
Prepaid expenses	(11,247)	(8,330)
Accounts payable and accrued liabilities	248,023	143,885
Capital taxes recoverable	–	9,661
Additions to mortgage discount	407,430	–
Additions to mortgage origination fees	<u>903,128</u>	<u>666,201</u>
	<u>1,028,315</u>	<u>(264,334)</u>
Cash provided by operating activities	<u>13,063,029</u>	<u>8,244,633</u>
<b>Investing activities</b>		
Advances on mortgages receivable	(129,073,353)	(116,424,513)
Repayment of mortgages receivable	84,497,520	34,045,062
Interest capitalized to mortgages	<u>693,797</u>	<u>641,071</u>
Cash used by investing activities	<u>(43,882,036)</u>	<u>(81,738,380)</u>
<b>Financing activities</b>		
Bank indebtedness advanced	117,370,000	100,800,000
Bank indebtedness repaid	(129,970,000)	(88,200,000)
Increase in due to related party	33,394	76,899
Proceeds from issuance of common shares	71,130,933	55,914,370
Share issue costs	(3,888,662)	(517,757)
Redemption of common shares	–	(140,000)
Dividends paid	<u>(14,543,292)</u>	<u>(8,352,874)</u>
Cash provided by financing activities	<u>40,132,373</u>	<u>59,580,638</u>
Increase (decrease) in cash	9,313,366	(13,913,109)
Cash, beginning of year	<u>1,315,017</u>	<u>15,228,126</u>
Cash, end of year	<u>\$ 10,628,383</u>	<u>\$ 1,315,017</u>
<b>Cash provided by operating activities includes:</b>		
Interest received	\$ 15,146,983	\$ 9,207,067
Interest paid	\$ 1,080,975	\$ 452,818

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

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended December 31, 2012 and 2011**

**1. NATURE OF OPERATIONS**

Atrium Mortgage Investment Corporation (formerly DB Mortgage Investment Corporation #1) 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."

**2. BASIS OF PRESENTATION**

**(a) Statement of compliance**

The financial statements of the company have been prepared by management in accordance with Canadian generally accepted accounting principles and International Financial Reporting Standards (IFRS), as set out in Part 1 of the *Handbook* of the Canadian Institute of Chartered Accountants. These annual financial statements were authorized for issuance by the Board of Directors on February 21, 2013.

**(b) Basis of measurement**

These financial statements were prepared on the historical cost basis.

**(c) Functional and presentation currency**

These financial statements are presented in Canadian dollars, which is also the company's functional currency.

**(d) Use of estimates and judgements**

The preparation of financial statements in accordance with International Financial Reporting Standards (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 is the provision for mortgage losses. Management believes that its estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In the process of applying the company's accounting policies, management has made the following estimates and assumptions which have the most significant effect on the amounts recognized in the financial statements:

*Provisions*

Provisions for mortgage losses have been recorded based on the company's estimates. These estimates include assumptions based on the current economic environment, prior encumbrances and other factors affecting the mortgage and underlying security of the mortgages receivable. Changes in assumptions could affect the reported provision for mortgage losses.

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended December 31, 2012 and 2011**

**3. SIGNIFICANT ACCOUNTING POLICIES**

The company's accounting policies and its standards of financial disclosure set out below are in accordance with IFRS and have been applied consistently.

**(a) Revenue recognition**

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

The effective interest method discounts the estimated future cash payments and receipts through the expected life of the mortgage receivable to its carrying amount. When estimating future cash flows, the contractual terms of the mortgage are considered although possible future credit losses are ignored (see note 3(d)).

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

Classification of financial assets depends on the purpose for which the financial assets were acquired or incurred. Management determines the classification of financial assets at initial recognition. All of the company's financial assets are classified as loans and receivables.

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

***Loans and receivables***

***Classification***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category consist of cash and mortgages receivable.

***Recognition and measurement***

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. At each reporting date, management considers whether any reserves for credit impairment or due to changes in market interest rates are required.

**(c) Mortgages receivable**

The company reviews mortgages receivable quarterly for impairment. 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 statement of earnings and comprehensive income and reflected in the provision for mortgage losses. When a subsequent event causes the amount of impairment loss to decrease, the provision for mortgage losses is reversed through the statement of earnings and comprehensive income.

**(d) 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 each period. The company had classified bank indebtedness, accounts payable and accrued liabilities, dividends payable, and due to related parties as other financial liabilities.

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended December 31, 2012 and 2011**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Income taxes**

The company has qualified in the past and intends to continue to so qualify in the future as a Mortgage Investment Corporation under the ITA, and as such 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. It is the company's policy to pay such dividends to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

**(f) Earnings per common share**

Earnings per common share is calculated by dividing earnings during the period by the weighted average number of common shares outstanding during the period adjusted for any dilutive items.

**(g) Share based payments**

The company has an equity-settled share based compensation plan for grants to eligible directors, officers, senior management and consultants under its deferred share incentive plan. No awards have been issued to consultants. Grants are measured based upon the fair value of the awards granted, based on the share price at the time of the grant.

**4. RECENT ACCOUNTING PRONOUNCEMENTS**

Certain pronouncements have been issued by the IASB or IFRIC (IFRS Interpretations Committee) that will be effective for future accounting periods. Many of these are not applicable to the company and so are not listed below. Except as noted, these pronouncements are effective for accounting periods beginning after January 1, 2013. It is unlikely that adopting the new pronouncements would have a material impact on the company's financial statements. The following is a brief summary of the new standards:

**IFRS 9 – Financial Instruments**

IFRS 9 is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after January 1, 2015. 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 13 - Fair Value Measurement**

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended December 31, 2012 and 2011**

**5. MORTGAGES RECEIVABLE**

	<u>December 31</u> <u>2012</u>	<u>December 31</u> <u>2011</u>
Mortgage portfolio	\$ 201,483,222	\$ 156,907,389
Accrued interest receivable	2,589,639	2,070,622
Mortgage discount, net of accumulated amortization	(385,508)	(76,059)
Mortgage origination fees, net of accumulated amortization	(644,735)	(514,910)
Provision for mortgage losses	<u>(1,087,667)</u>	<u>(894,376)</u>
Mortgages receivable	<u>\$ 201,954,951</u>	<u>\$ 157,492,666</u>

The loans comprising mortgages receivable bear interest at the weighted average yield of 8.93% (2011 – 9.38%) and mature between 2013 and 2019 with a weighted average term to maturity of 13.0 months (2011 – 13.9 months).

The company has committed to advance additional funds under both existing and new mortgages aggregating \$34,949,643 at December 31, 2012 (2011 - \$19,587,577).

Principal repayments based on contractual maturity dates for the next five years and thereafter are as follows:

Year ending December 31, 2013	\$ 107,925,693
2014	79,862,733
2015	12,276,250
2016	–
2017	226,355
Thereafter	<u>1,192,191</u>
	<u>\$ 201,483,222</u>

**Mortgage Portfolio**

<u>Mortgage category</u>	<u>December 31, 2012</u>			<u>December 31, 2011</u>		
	<u>Number</u>	<u>Outstanding amount</u>	<u>% of Portfolio</u>	<u>Number</u>	<u>Outstanding amount</u>	<u>% of Portfolio</u>
Mixed use real estate/condominium	15	\$ 69,334,931	34.4%	10	\$ 49,563,240	31.5%
Condominium corporation	10	1,629,664	0.8%	9	1,373,602	0.9%
Low rise residential	8	24,302,272	12.0%	6	12,150,000	7.7%
Midrise residential	5	24,381,184	12.1%	4	12,213,154	7.5%
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House and apartment	31	43,061,190	21.4%	8	18,257,393	11.6%
Construction	<u>4</u>	<u>15,087,981</u>	<u>7.5%</u>	<u>4</u>	<u>13,850,000</u>	<u>8.8%</u>
	<u>77</u>	<u>\$ 201,483,222</u>	<u>100.0%</u>	<u>47</u>	<u>\$ 156,907,389</u>	<u>100.0%</u>

*Mixed use real estate/condominium –*

Mortgages on properties that have aspects of commercial operations (retail and office activities) as well as residential.

*Condominium corporation –*

Mortgages on guest suite units located within condominium complexes.

*Low rise residential –*

Mortgages on residential properties from one to three stories in height.

*Midrise residential –*

Mortgages on residential properties from four to eight stories in height.

*High rise residential –*

Mortgages on residential properties in excess of nine stories in height.

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended December 31, 2012 and 2011**

*House and apartment –*

Mortgages on individual residential house and apartment buildings.

*Construction –*

Mortgages on properties that are the site of construction projects.

**Provision for mortgage losses**

	<b>December 31 2012</b>	<b>December 31 2011</b>
Balance, beginning of year	\$ (894,376)	\$ (694,376)
Recovered during the year	–	190,204
Increase in provision during the year	(193,291)	(390,204)
Balance, end of year	<u>\$ (1,087,667)</u>	<u>\$ (894,376)</u>

Two mortgages are in default at December 31, 2012. The increase in the provision for mortgage losses during the year ended December 31, 2012 is due to expected losses resulting therefrom and is based upon management's assessment as to market conditions, the value of the real property securing the mortgage, and the likely amount ultimately recoverable. One mortgage was in default at December 31, 2011. The increase in the provision for mortgage losses during that year was due to expected losses resulting therefrom and was based upon management's assessment as to the likely amount ultimately recoverable.

**6. BANK LOAN AND INDEBTEDNESS**

The company has a credit facility from a major Canadian financial institution of \$50,000,000 (2011 - \$40,000,000). Advances may be obtained under the credit facility by way of either a loan at a rate of prime plus 1.5% per annum or bankers' acceptances at the BA rate on date of drawdown plus a BA stamping fee of 2.5% per annum. The credit facility is repayable upon demand and subject to certain conditions of drawdown and other covenants. The standby fee on the unused portion of the facility is 0.50% per annum.

During the year the maximum borrowing under the credit facility was increased to \$75,000,000 by a \$25,000,000 temporary facility that was subsequently canceled during November 2012 following the public share offering (see note 7).

At December 31, 2012, \$ nil was owing under the credit facility (2011 - \$12,600,000). 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, 2012, the company was in compliance with these covenants.

As at December 31, 2012, the company had \$357,458 (2011 - \$ nil) of Letters of Credit (LCs) outstanding which were issued under the credit facility. The LCs reduce the maximum availability under the credit facility by the amount of the LCs. The maximum available by way of LCs under the credit facility is \$2 million.

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**7. DIVIDENDS**

The company follows a dividend policy so that it is non-taxable under the provisions of the *Income Tax Act* related to Mortgage Investment Corporations. Dividends amounted to approximately \$0.85 per share for the year ended December 31, 2012 (2011 - \$0.88).

	<u>December 31</u> <u>2012</u>	<u>December 31</u> <u>2011</u>
Dividends payable, beginning of year	\$ 2,984,844	\$ 1,881,464
Dividends declared during the year	12,963,690	9,456,254
Special dividend declared, payable to shareholders of record December 31, 2012	421,571	-
Dividends paid during the year	<u>(14,543,292)</u>	<u>(8,352,874)</u>
Dividends payable, end of year	<u>\$ 1,826,813</u>	<u>\$ 2,984,844</u>

**8. RELATED PARTY TRANSACTIONS**

The company pays management and mortgage servicing fees to Canadian Mortgage Servicing Corporation ("CMSC"), a subsidiary of Canadian Mortgage Capital Corporation ("CMCC") the manager of the company, which is responsible for the day to day management of the company. The majority beneficial owner and CEO of the manager is also CEO of the company. The company incurred management and mortgage servicing fees of from CMSC of \$1,567,072 for the year ended December 31, 2012 (2011 - \$961,359). Unpaid amounts are in the normal course of business, non-interest bearing, due on demand, and are generally paid within 30 days. Due to related parties is due to CMCC and its subsidiaries.

Guarantees aggregating \$8,290,000 at December 31, 2012 (2011 - \$5,295,000) have been provided on mortgages owned by the company from a major development company of which one of the directors of the company has a minority equity interest. No guarantees fees have been paid in the year.

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

	<u>December 31</u> <u>2012</u>	<u>December 31</u> <u>2011</u>
Fees to directors	\$ 85,434	\$ -
Share based payments to directors	23,528	-
Share based payments to officers	<u>24,648</u>	<u>-</u>
	<u>\$ 133,610</u>	<u>\$ -</u>

Related party transactions are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, which represents fair value in the opinion of management.

**9. SHARE CAPITAL**

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

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

Articles of Amendment dated March 23, 2012 provided for changes to share capital to divide each common share into 100 common shares. That change is reflected in these financial statements and comparative information has been restated accordingly.

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended December 31, 2012 and 2011**

**9. SHARE CAPITAL (continued)**

	<b>Common shares</b>	
	<b>Number</b>	<b>Amount</b>
Shares issued –		
DRIP, January 31, 2012	14,720	147,201
Private placement, February 15, 2012	805,800	\$ 8,058,000
DRIP, April 30, 2012	17,652	176,524
DRIP, July 31, 2012	23,181	231,810
DRIP, October 26, 2012	14,439	148,287
DRIP, November 28, 2012	3,964	41,894
Public offering, December 4, 2012	5,405,000	57,671,350
Private placement, December 4, 2012	432,400	4,613,708
DRIP, December 27, 2012	3,944	42,159
Total shares issued in 2012	<u>6,721,100</u>	<u>\$ 71,130,933</u>
Private placement	1,238,200	\$ 12,671,708
Public offering	5,405,000	57,671,350
DRIP	<u>77,900</u>	<u>787,875</u>
Total shares issued in 2012	<u>6,721,100</u>	<u>\$ 71,130,933</u>

	<b>Common shares</b>	
	<b>Number</b>	<b>Amount</b>
Shares issued –		
Private placement, January 1, 2011	136,000	\$ 1,360,000
Redemption, April 1, 2011	(14,000)	(140,000)
Private placement, April 18, 2011	700,000	7,000,000
Private placement, July 11, 2011	1,811,300	18,113,000
Private placement, July 29, 2011	792,100	7,921,000
DRIP, July 31, 2011	12,621	126,209
DRIP other, September 14, 2011	(1,605)	(16,050)
Private placement other, September 14, 2011	1,600	16,000
DRIP, October 31, 2011	12,321	123,211
Private placement, December 15, 2011	<u>2,127,100</u>	<u>21,271,000</u>
Total shares issued in 2011	<u>5,577,437</u>	<u>\$ 55,774,370</u>
Private placement and other	5,568,100	\$ 55,681,000
DRIP and other	23,337	233,370
Share redemption	<u>(14,000)</u>	<u>(140,000)</u>
Total shares issued in 2011	<u>5,577,437</u>	<u>\$ 55,774,370</u>

Issue costs for the February 15, 2012 private placement aggregated \$132,950. Issue costs for the December 4, 2012 private placement aggregated \$92,274 for commissions, \$20,905 for other costs, for a total of \$113,179. Issue costs for the December 4, 2012 public offering aggregated \$3,171,924 for commissions, \$470,609 for other costs, for a total of \$3,642,533. The aggregate costs for issuances during the year ended December 31, 2012 were \$3,888,662. Issue costs for the year ended December 31, 2011 were \$517,757.

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
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**10. SHARE BASED PAYMENTS**

During the year, the company implemented a deferred share incentive plan for eligible directors, officers, senior management and consultants. The plan allows the board to issue deferred share units up to a maximum number equal to 10% of the issued and outstanding common shares to eligible individuals. Holders of deferred share units are also eligible to receive income deferred share units from any dividends paid. The number of common shares these income deferred share units represent is calculated by dividing: (a) the amount obtained by multiplying the dividends or other distributions paid on each common share by the aggregate number of deferred share units and income deferred share units in the account of each participant, by; (b) the market value of the common shares on the distribution record date defined as the date in which the deferred share units were granted. Deferred share units vest on three equal annual tranches on the anniversary date of grant.

During the year ended December 31, 2012 the board granted 21,500 deferred share units to directors and officers. Common shares are automatically issued to participants on the vesting date of each tranche of deferred share units, unless a participant elects in writing to defer the issue. At December 31, 2012 none of the related common shares were issuable, nor were any income deferred share units issuable.

The total value of the stock based compensation is estimated to be \$236,500 on the date of grant. Stock based compensation expense recognized during the year was \$48,176, with a corresponding credit to contributed surplus. The fair value of the stock based compensation was based on a market price of the common shares on the grant date of \$11.00.

**11. EARNINGS PER SHARE**

	<u>December 31</u> <u>2012</u>	<u>December 31</u> <u>2011</u>
Basic earnings per share –		
Numerator		
Earnings for the year	\$ 13,358,327	\$ 9,440,811
Denominator		
Weighted average common shares outstanding	<u>15,497,668</u>	<u>10,692,230</u>
Basic earnings per share	<u>\$ 0.86</u>	<u>\$ 0.88</u>
Diluted earnings per share –		
Numerator		
Earnings for the year	\$ 13,358,327	\$ 9,440,811
Denominator		
Weighted average common shares outstanding	15,497,668	10,692,230
Deferred share incentive plan	<u>6,755</u>	<u>–</u>
Weighted average common shares outstanding – diluted basis	<u>15,504,423</u>	<u>10,692,230</u>
Diluted earnings per share	<u>\$ 0.86</u>	<u>\$ 0.88</u>

The weighted average number of common shares outstanding for the period ended December 31, 2011 has been adjusted to reflect the 100 for 1 share split on March 23, 2012 (see note 9).

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended December 31, 2012 and 2011**

**12. FINANCIAL INSTRUMENTS**

**(a) Classification of financial instruments**

Financial assets comprise cash and mortgages receivable. All financial assets are classified as loans and receivables. Financial liabilities comprise bank indebtedness, accounts payable and accrued liabilities, dividends payable, and due to related party. 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 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. Fair value of mortgages receivable would be established by Level 3 inputs, other financial assets and liabilities as Level 3.

**(c) Credit risk**

The following assets are exposed to credit risk: cash and mortgages receivable. Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment, resulting in a financial loss to the company. The credit risk for cash is very low because the company maintains cash balances with a major Schedule I chartered bank.

The company controls the credit risk of mortgages receivable by maintaining strict credit policies including 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. In the prior year ultimate approval of credit risk was by a non-board credit committee. Since March 23, 2012 ultimate approval of credit risk is by the board of directors. No single borrower accounts for more than 9.6% of mortgages receivable.

The company's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2012 and 2011 is represented by the respective carrying amounts of the relevant financial assets in the balance sheet.

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended December 31, 2012 and 2011**

**12. FINANCIAL INSTRUMENTS (continued)**

**(d) Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet its obligations when due.

The company's liquidity risk is managed on an ongoing basis by the Manager in accordance with the policies and procedures in place. The company's significant financial liabilities include bank loan and indebtedness, accounts payable and accrued liabilities and dividends payable. The bank loan and indebtedness is drawn on to pay accounts payable as well as to pay out dividends on a monthly basis. The company's agreement with the lender is that the bank loan will not be called as long as all covenants are met and that any significant excess cash is used to pay down the bank loan and indebtedness.

As at December 31, 2012, management considers that the company does not have significant exposure to liquidity risk as the line of credit is unutilized and the company is in compliance with all covenants.

**(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 bank loan and indebtedness being set at a variable rate but all mortgages being set at fixed rates.

As at December 31, 2012 management considers that the company does not have significant exposure to interest rate risk as the bank loan is unutilized, the maturity of its mortgage portfolio is fairly short, and interest rates are not expected to be particularly volatile during the weighted average term of the mortgage portfolio.

**(f) Currency risk**

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

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

There have been no changes to risk exposure or the management of that exposure since the prior year, except as noted in note 12 (c).

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended December 31, 2012 and 2011**

**13. CAPITAL RISK MANAGEMENT**

The company defines capital as shareholders' equity, \$210,109,925 (2011 - \$142,846,412) and bank indebtedness, \$ nil (2011 - \$12,600,000).

The company's objectives for managing capital are to:

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

The company manages capital by using relatively small amounts of financial leverage to improve its return to shareholders. At December 31, 2012, there was no bank indebtedness outstanding (hence no leverage) due to a recently-completed public share offering, but the company intends to grow the mortgage portfolio by increasing its bank indebtedness as required. A small amount of equity is raised every month through the company's dividend reinvestment plan for shareholders. Once borrowings aggregate above a certain level, the company would expect to raise more funds through public share offerings. When the company has bank indebtedness there are external covenants in place as detailed in note 6. There has been no change in the company's capital risk management objectives since the prior year.

**14. INCOME TAXES**

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

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

	<b>December 31</b>	<b>December 31</b>
	<b>2012</b>	<b>2011</b>
Earnings and comprehensive income for the year	\$ 13,358,327	\$ 9,440,811
Non-deductible expenses	356,298	20,000
Issue costs deductible pursuant to Section 20(1)(e) of the ITA	(980,272)	(194,212)
Deductible expenses	(119,337)	-
Change in deferred revenue	129,825	189,655
Cumulative eligible capital deduction	<u>(1,895)</u>	<u>-</u>
Taxable income	\$ 12,742,946	\$ 9,456,254
Less: dividends declared during the year and within 90 days of the year end	<u>(13,385,261)</u>	<u>(9,456,254)</u>
Tax loss carry forward for the year	(642,315)	-
Plus: tax loss carry forward from previous years	<u>(35,212)</u>	<u>(35,212)</u>
Tax loss carry forward	<u><u>\$ (677,527)</u></u>	<u><u>\$ (35,212)</u></u>

**15. SUBSEQUENT EVENTS**

On October 25, 2012 the company declared the following dividends at a rate of \$0.066667 per share: for shareholders of record January 31, 2013, \$1,405,681 payable on February 26, 2013, and for shareholders of record February 28, 2013, approximately \$1,406,143 payable on March 27, 2013.



**ATRIUM**

MORTGAGE INVESTMENT  
CORPORATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED DECEMBER 31, 2012**



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Background and overview

This Management's Discussion and Analysis ("MD&A") is intended to help you understand Atrium Mortgage Investment Corporation ("Atrium", the "Company", "we", "our" or "us"), its business environment and future prospects. This MD&A should be read together with our audited financial statements and the accompanying notes for the year ended December 31, 2012. Information herein includes any significant developments for the year ended December 31, 2012 and up to and including February 21, 2013, the date on which this MD&A was approved by our directors.

Atrium was formed on July 30, 2001 as DB Mortgage Investment Corporation #1; our name was changed to Atrium Mortgage Investment Corporation on March 23, 2012. We are an Ontario corporation and we do not have any subsidiaries.

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

Our common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "AI." We became a reporting issuer and listed our shares on the TSX following the issuance of a non-offering prospectus on August 24, 2012. Previously, we were a private company.

Our financial statements for the year ended December 31, 2012 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the *Handbook* of the Canadian Institute of Chartered Accountants.

### Notice regarding forward-looking information

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities legislation, including statements with respect to management's beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this 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" below, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2012 which is available at [www.sedar.com](http://www.sedar.com). We caution that the foregoing list is not exhaustive, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

Although the forward-looking information contained 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. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

## **Our business**

We are a mortgage lender that fills the lending gap caused by the limited number of financial institutions operating in Canada. We lend in major urban centres where the stability and liquidity of real estate are at the highest levels. We focus on loans that cannot be placed with financial institutions but that represent an acceptable underwriting risk. The weighted average loan-to-value ratio of our mortgage portfolio, as a whole, at the time of underwriting each loan in our portfolio, will not exceed 75%. A typical loan in our portfolio has an interest rate of 8% to 10% per annum, a one or two-year term and monthly interest-only mortgage payments.

Our basic lending parameters are as follows:

- First or second mortgages on income-producing real estate up to a maximum of 85% of value.
- Mortgages on residential and commercial properties up to a maximum of 75% of appraised value.
- Loans on single family houses up to 75% of appraised value.
- Construction loans up to a maximum of 90% of cost.
- Purchase of guest suite and superintendent condominium mortgages.

Mortgage loans are generally \$300,000 to a maximum of \$20,000,000. The largest mortgage in our mortgage portfolio as at December 31, 2012 was \$15.9 million. For loan amounts in excess of \$15 to \$20 million, we co-lend with one or more private lenders or financial institutions. The parameters listed above are our maximum mortgage lending parameters. At December 31, 2012, the average loan-to-value ratio of the mortgage portfolio on a weighted average basis was 66.7%.

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.
- Commercial mortgages may not constitute more than 50% of our total assets at any time.
- We will not invest in any mortgages where the term of the mortgage is in excess of ten years.
- No individual mortgage or a portion of a mortgage will exceed \$20,000,000.
- No single borrower will account for more than 15% of our total assets.
- All mortgages will be supported by external appraisals by a qualified appraiser. All mortgages, except mortgages secured against a single residence, will be supported by environmental audits.
- No mortgage will initially exceed 85% loan-to-value, including any prior ranking encumbrances, and the weighted average loan-to-value ratio of our mortgage portfolio, as a whole, at the time of underwriting each loan in our portfolio, will not exceed 75%.
- Our ratio of debt to equity may not exceed 1:1.
- We do not typically invest directly in real property, although real property may be acquired through foreclosing on a mortgage.
- We may not make any investment: (i) of \$1,000,000 or more without the approval of our board; (ii) of less than \$1,000,000 and more than \$500,000 without the approval of three members of our board; (iii) of \$500,000 or less without the approval of any one member of our board; and (iv) in respect of a mortgage previously approved by our board but where the mortgage amount exceeds the amount so approved by up to \$100,000, without the approval of three members of our board, including at least one independent director. However, we may invest in certain interim investments which are limited to investments guaranteed by the Government of Canada or of a province or territory of Canada or deposits in or receipts, deposit notes, certificates of deposits, acceptances and other similar instruments issued, endorsed or guaranteed by a Schedule I Bank in any amount without prior approval of our board.
- 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 our manager.
- We may not make any investment, or incur any indebtedness, that would result in our not qualifying as a MIC.

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**ATRIUM MORTGAGE INVESTMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

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Our 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 residential apartments and store-front properties, investment properties, residential and commercial land development sites and construction projects. We also invest in short-term bridge financing for real estate developers. Our strategy is to grow by diversifying geographically, and by investing in additional commercial and residential mortgages and grow our portfolio in a controlled manner over time.

We are qualified as a MIC and we 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, 2012, which is available at [www.sedar.com](http://www.sedar.com).

### **Highlights for the year ended December 31, 2012**

- For the year ended December 31, 2012, we earned \$13,358,327 (\$0.86 per share, basic and diluted), compared to \$9,440,811 (\$0.88 per share, basic and diluted) the previous year, and declared dividends of \$13,385,261 (\$0.85 per share including a special dividend of \$0.02 per share payable on March 21, 2013 to shareholders of record at the close of business on December 31, 2012), compared to \$9,456,254 (\$0.88 per share) in the previous year. One-time expenses for our non-offering prospectus and the related TSX listing resulted in a \$0.03 per share decrease in earnings, which is reflected in our earnings per share for the year.
- Our common shares commenced trading on the TSX, with the symbol "AI", on September 4, 2012, after we filed and received a receipt for a non-offering prospectus on August 24, 2012.
- We completed a public and private share placement in December 2012 for gross proceeds of \$62.3 million, including an overallotment option that was fully taken up.

**ATRIUM MORTGAGE INVESTMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

- We had \$202.0 million of mortgages at December 31, 2012. During 2012, we funded mortgages aggregating \$129.1 million. Two first mortgages totaling \$5.09 million were in arrears as at December 31, 2012. We believe that adequate reserves have been established to cover any potential losses.
- For the year ended December 31, 2012, mortgage interest and other fees aggregated \$17.2 million, compared to \$11.4 million in the previous year, an increase of 51%. The weighted average yield rate in the mortgage portfolio declined from 9.4% during 2011 to 8.9% during 2012.
- Effective October 1, 2012, we hired Bruce Weston as managing partner for British Columbia, and opened our Vancouver office located at 668-1199 West Pender Street, Vancouver BC V6E 2R1. Mr. Weston has over 30 years of lending experience and is very well connected in the B.C. market.
- Shortly after the year-end, on January 7, 2013, we hired Dan Stewart as managing partner for Alberta and Saskatchewan. Mr. Stewart has over 25 years of lending experience in the Prairie Provinces and many strong relationships with developers.
- We entered into a new revolving operating credit facility with our bank, increasing the maximum availability to \$50 million from \$40 million previously. Prior to our common share offering in December 2012, we negotiated a temporary increase in the operating facility of \$25 million, which was cancelled at the time the offering was completed.

**Highlights for the three months ended December 31, 2012**

- For the three months ended December 31, 2012, we earned \$0.21 per common share, and declared regular dividends of \$0.20 per share and a special dividend of \$0.02 per share payable on March 21, 2013 to shareholders of record at the close of business on December 31, 2012.
- We had \$202.0 million of mortgages at December 31, 2012. During the three-month period ended December 31, 2012, we funded mortgages aggregating \$49.1 million. Two first mortgages totaling \$5.09 million were in arrears as at December 31, 2012.
- For the three-month period ended December 31, 2012, mortgage interest and other fees aggregated \$4.76 million, compared to \$3.59 million in the same period in the previous year, an increase of 33%. The weighted average yield in the mortgage portfolio declined from 9.4% during 2011 to 8.9% in the fourth quarter of 2012.

**Investment portfolio**

Our mortgage portfolio consisted of 77 mortgage loans and aggregated \$201.5 million at December 31, 2012, an increase of 28% from December 31, 2011.

<u>Mortgage category</u>	<u>December 31, 2012</u>			<u>December 31, 2011</u>		
	<u>Number</u>	<u>Outstanding amount</u>	<u>% of Portfolio</u>	<u>Number</u>	<u>Outstanding amount</u>	<u>% of Portfolio</u>
Mixed use real estate/commercial	15	\$69,334,931	34.4%	10	\$49,563,240	31.6%
Condominium corporation	10	1,629,664	0.8%	9	1,373,602	0.9%
Low rise residential	8	24,302,272	12.0%	6	12,150,000	7.7%
Midrise residential	5	24,381,184	12.1%	4	12,213,154	7.8%
High rise residential	4	23,686,000	11.8%	6	49,500,000	31.6%
House and apartment	31	43,061,190	21.4%	8	18,257,393	11.6%
Construction	4	15,087,981	7.5%	4	13,850,000	8.8%
	<b><u>77</u></b>	<b><u>\$201,483,222</u></b>	<b><u>100.0%</u></b>	<b><u>47</u></b>	<b><u>\$156,907,389</u></b>	<b><u>100.0%</u></b>

**ATRIUM MORTGAGE INVESTMENT CORPORATION  
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High rise residential loans decreased from 31.6% of our mortgage portfolio at December 31, 2011 to 11.8% at December 31, 2012. This has been offset by an increase in low rise, midrise and house and apartment loans over the same period reflecting our strategy of reducing our exposure to high rise residential while maintaining our overall residential exposure. We are comfortable with the remaining four loans on high rise residential because the weighted average loan-to-value ratio is only 57.9%.

The book value of our mortgages receivable at December 31, 2012 was \$202.0 million, consisting of mortgages receivable less mortgage discount, net of accumulated amortization. Mortgages receivable, as set out on our balance sheet, consists of the book value of mortgages receivable, plus accrued interest receivable, less mortgage origination fees (net of accumulated amortization) and less a provision for mortgage losses.

As of December 31, 2012, our mortgage portfolio consisted of 77 investments with an average outstanding balance of \$2.6 million and a median outstanding balance of \$1.5 million. An analysis of our mortgages by size as at December 31, 2012 is presented below.

<u>Amount</u>	<u>Number of mortgages</u>	<u>Amount</u>
\$0 - \$2,500,000	50	\$ 48,628,362
\$2,500,001 - \$5,000,000	16	55,814,860
\$5,000,001 - \$7,500,000	5	30,670,000
\$7,500,001 +	<u>6</u>	<u>66,370,000</u>
	<u>77</u>	<u>\$201,483,222</u>

Analyses of our mortgages as at December 31, 2012 by type of mortgage, nature of the underlying property, and location of the underlying property is set out below:

<u>Description</u>	<u>Number of mortgages</u>	<u>Amount</u>	<u>Percentage</u>	<u>Weighted average yield</u>
<b>Type of mortgage</b>				
First mortgages	65	\$167,335,784	83.0%	8.6%
Second and third mortgages	<u>12</u>	<u>34,147,438</u>	<u>17.0%</u>	<u>10.6%</u>
	<u>77</u>	<u>\$201,483,222</u>	<u>100.0%</u>	<u>8.9%</u>
<b>Nature of underlying property</b>				
Residential	62	\$132,148,291	65.6%	8.1%
Commercial	<u>15</u>	<u>69,334,931</u>	<u>34.4%</u>	<u>10.5%</u>
	<u>77</u>	<u>\$201,483,222</u>	<u>100.0%</u>	<u>8.9%</u>
<b>Location of underlying property</b>				
Greater Toronto Area	65	\$166,616,924	82.7%	8.9%
Other	<u>12</u>	<u>34,866,298</u>	<u>17.3%</u>	<u>8.9%</u>
	<u>77</u>	<u>\$201,483,222</u>	<u>100.0%</u>	<u>8.9%</u>

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An analysis of our mortgages by their category at December 31, 2012 and December 31, 2011, and changes over that period, is set out below:

	<b>December 31</b>	<b>%</b>	<b>December 31</b>	<b>%</b>	<b>% change</b>
	<b><u>2012</u></b>		<b><u>2011</u></b>		
Conventional first mortgages.....	\$156,322,551	77.6%	\$128,202,773	81.7%	21.9%
Conventional second and third mortgages.....	29,340,438	14.6%	7,693,496	4.9%	281.4%
Non-conventional mortgages.....	14,190,569	7.0%	19,637,518	12.5%	(27.7)%
Other	<u>1,629,664</u>	<u>0.8%</u>	<u>1,373,602</u>	<u>0.9%</u>	<u>18.6%</u>
	<b><u>\$201,483,222</u></b>	<b><u>100.0%</u></b>	<b><u>\$156,907,389</u></b>	<b><u>100.0%</u></b>	<b><u>28.4%</u></b>

The average term within the mortgage portfolio is 13.0 months (2011 – 13.9 months).

Conventional first mortgages aggregated 77.6% of the mortgage portfolio as at December 31, 2012, compared to 81.7% at December 31, 2011. Conventional second and third mortgages increased to 14.6% at December 31, 2012 as a result of an intended increase in exposure to the commercial and apartment sectors. Non-conventional mortgages, which are those with a loan-to-value ratio greater than 75%, decreased to 7.0% of the portfolio at December 31, 2012 from 12.5% at December 31, 2011.

The table below provides a reconciliation of our mortgage portfolio to mortgages receivable as disclosed in our annual financial statements for the years ended December 31, 2011 and 2012.

	<b><i>December 31</i></b>	<b><i>December 31</i></b>
	<b><u>2012</u></b>	<b><u>2011</u></b>
Mortgage portfolio	\$ 201,483,222	\$ 156,907,389
Mortgage discount, net of accumulated amortization	<u>(385,508)</u>	<u>(76,059)</u>
Book value of mortgages receivable	201,097,714	156,831,330
Accrued interest receivable	2,589,639	2,070,622
Mortgage origination fees, net of accumulated amortization	(644,735)	(514,910)
Provision for mortgage losses	<u>(1,087,667)</u>	<u>(894,376)</u>
Mortgages receivable	<b><u>\$ 201,954,951</u></b>	<b><u>\$ 157,492,666</u></b>

## **Our business during 2012**

During 2012, we continued to see the banks and trust companies tightening in almost all forms of real estate lending, from house loans to development loans. This trend exists for both the large banks and the smaller financial institutions, despite the fact that their loan portfolios are reportedly in very good condition.

In particular, the banks are generally offering financing on high-rise condominiums only to their long term developer clients, although their appetite for lending and underwriting terms are not consistent throughout the country. This trend is constraining the number of condominiums that are being successfully financed, thereby reducing the new supply which will be completed over the next two-to-three years. The rental market in Toronto has remained strong which is one factor that has helped drive condominium sales in that market. The Canada Mortgage and Housing Corporation estimates that the vacancy rate on rental condominiums in Toronto is only 1.2%.

We regard these trends as healthy for the market over the long term. In response, we have taken the following actions:

- We have increased our lending on low-rise and mid-rise developments, formerly the preferred market sector for the banks. These sectors are attractive for lenders due to the limited supply of infill land, and continuing demand for detached and semi-detached homes and townhouses from consumers.

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- Our portfolio of single family residential mortgages has also grown substantially. Single family mortgages historically have had the lowest risk profile of any form of real estate, and even today this sector has only a 0.2% default rate – that is, two out of every 1,000 mortgage loans.
- We have also begun to increase our loan exposure to apartment buildings, particularly in Western Canada where strong job creation and net migration trends have resulted in rent increases which are the highest in the country.
- Like the banks, we have reduced our exposure to high-rise condominiums. Our four loans in this sector are all performing and have an weighted average loan-to-value of only 57.9%.

There continues to be competition among non-bank lenders, although the reduced competition from banks has allowed most non-bank lenders to successfully exploit their preferred real estate sectors. We believe that interest rates on non-bank loans have stabilized over the last quarter. As we have focused our underwriting on first mortgage positions in the lowest risk real estate sectors, the average yield on our mortgage portfolio has been reduced slightly to 8.93% per annum in the fourth quarter, compared to 9.38% at December 31, 2011. Our objective continues to be to ensure a safe investment portfolio rather than to merely maximize yield.

### **We achieved our operating goals for 2012**

In September 2012 our existing common shares were listed and began trading on the TSX, following the filing of a non-offering prospectus on August 24, 2012, at which time we had shareholders' equity of \$151.5 million. We completed a public and private share placement in December 2012 for gross proceeds of over \$62 million.

We have achieved our key goals for the period after becoming a public company. They were:

- Maintain low risk portfolio
- Expand geographically by opening offices and hiring experienced underwriters in Western Canada
- Enhance internal procedures and controls

#### **Maintain a low risk portfolio –**

**Limited equity issue:** In our common share offering which closed on December 4, 2012, we chose to limit the size of the offering to \$50 million (plus a \$4.6 million private offering, and a 15% over-allotment amount) despite being substantially oversold. Our primary reason for limiting the size of the equity offering was to ensure that the new funds could be effectively and judiciously deployed. Despite some large and unexpected prepayments in the existing portfolio, we finished the year with only \$10.6 million of cash not invested in the mortgage portfolio (which was placed in secure high-yield deposits with a major chartered bank). These excess funds were fully deployed by the end of January 2013. The pipeline of new deals is very healthy and we expect to be using our revolving operating credit facility in a substantial way over the next couple of months to fund new mortgage loans.

**High percentage of first mortgages:** We believe that we have the lowest risk portfolio in the industry, with 82.6% of our portfolio being in “true” first mortgage positions, rather than “customized first mortgages” which are effectively second mortgage positions. (“Customized first mortgages” consist of two tranches, and the non-bank lender receives the subordinate tranche.)

**Loan-to-value:** At December 31, 2012, the weighted average loan-to-value ratio remained very conservative at 66.7%, and the percentage of loans with a loan-to-value ratio of over 75% reduced to only 7.04% of the total portfolio.

**Loan composition:** We constantly adjust our portfolio based upon our view of the market. The percentage of the portfolio secured by high-rise residential lands has reduced considerably since December 31, 2011 to only 11.8% of the portfolio, compared to 31.6% previously. The remaining high rise land loans on the books are all performing well, and have a weighted average loan-to-value of only 57.9%. As the banks tightened their lending standards, we worked hard to penetrate the market for low rise residential developments. In addition, we aggressively targeted house and apartment loans to a point that they represent 21.4% of the mortgage portfolio. These adjustments reduced

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the risk of the portfolio in a softening market, but only resulted in a slight reduction in the average yield of the portfolio. (Please refer to the table above on page 5 for a summary of our loan portfolio by category.)

**Expand geographically by opening offices and hiring experienced underwriters in Western Canada –**

In October 2012, we opened our Vancouver office and in January 2013 we opened our Calgary office.

Bruce Weston joined us on October 1, 2012 as Managing Partner for British Columbia. He was formerly a Vice President at a private non-bank lender based in Vancouver. Mr. Weston has over 30 years of lending experience and is well connected in the B.C. market, and managed the western Canadian lending operations of several large Canadian financial institutions earlier in his career.

Daniel Stewart joined us on January 7, 2013 as Managing Partner for Alberta and Saskatchewan. He was previously a Vice President at a major trust company, and before that a Vice President at a large Schedule II Bank active in Canada. Mr. Stewart has over 25 years of lending experience throughout the prairie provinces, and worked for a period of time with residential developers as a consultant. He has very strong developer relationships in western Canada.

With these two Managing Partners in place and a solid presence in the West, we expect to diversify our portfolio into western Canada, where the economic growth prospects for Canada are strongest. We expect that the western Canadian mortgage portfolio will represent at least 25% of our total portfolio by the end of 2013.

**Enhance internal procedures and controls –**

**Management and financial reporting:** Our manager, CMCC, has hired personnel and enhanced information systems to bring our management and financial reporting systems in-house. Previously, most accounting was outsourced. A CFO was hired during the second quarter of 2012, and a controller during the third quarter, and both are chartered accountants. CMCC acquired a new mortgage servicing system which will be phased in during the first quarter of 2013, and will provide better and more timely information and eventually permit further automation. CMCC also hired an additional mortgage administrator to ensure adequate staffing as the mortgage portfolio continues to grow.

### **Opportunities for 2013**

The overall opportunity for non-bank loans across Canada continues to grow as virtually all Canadian financial institutions are being required to tighten their underwriting standards. This opportunity is being filled both by new entrants and the growth of the larger market participants, so the market remains competitive. We are fortunate at Atrium to have experienced underwriters in three provinces with a wide number of developer relationships. Our view is that there is a big variance in the qualifications and abilities of many of the non-bank lenders. At some point, we expect there will be consolidation in the MIC industry, but that may take several years.

While the market for non-bank lenders is growing, the increase in the size of both public and private non-bank lenders makes the environment competitive. These lenders cover a full spectrum of lending opportunities – some who are prepared to assume more risk in exchange for higher interest rates, and others like us who prefer to lend conservatively in a market that is showing signs of softness. As a result, the average interest rate on our portfolio is 8.93% per annum, and is unlikely to increase in the near future.

**ATRIUM MORTGAGE INVESTMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**Financial summary**

	<i>Twelve months ended <u>Dec. 31, 2012</u></i>	<i>Twelve months ended <u>Dec. 30, 2011</u></i>	<i>Twelve months ended <u>Dec 31, 2010</u></i>
Revenue .....	17,235,060	11,414,661	8,453,973
Operating expenses.....	3,876,733	1,973,850	1,659,833
Earnings and total comprehensive income .....	13,358,327	9,440,811	6,794,140
Basic and fully diluted earnings per share .....	0.86	0.88	0.91
Dividends declared .....	13,385,261	9,456,254	6,858,676
Mortgages receivable, end of period.....	201,954,951	157,492,666	74,412,893
Total assets, end of period .....	212,602,911	158,816,013	89,650,680
Shareholders' equity, end of period.....	210,109,925	142,846,412	87,605,242

	<i>Three months ended <u>Dec. 31, 2012</u> (unaudited)</i>	<i>Three months ended <u>Dec. 31, 2011</u> (unaudited)</i>
Revenue .....	\$4,759,646	\$3,585,711
Operating expenses.....	1,115,162	629,070
Earnings and total comprehensive income .....	3,644,484	20,956,641
Basic and fully diluted earnings per share .....	0.21	0.23
Dividends declared .....	3,858,184	2,984,844
Mortgages receivable, end of period.....	201,954,952	157,492,666
Total assets, end of period .....	212,602,911	158,816,013
Shareholders' equity, end of period.....	210,109,925	142,846,412

**Results of operations – twelve months ended December 31, 2012**

Our mortgages receivable consisted of 77 mortgage loans and aggregated \$202.0 million at December 31, 2012, an increase of 28.4% from December 31, 2011. Dividends declared aggregated \$13.4 million for the twelve months ended December 31, 2012, an increase of 41.5% from the same period in the previous year. Total assets at December 31, 2012 aggregated \$212.6 million, compared to \$158.8 at December 31, 2011.

For the twelve-month period ended December 31, 2012, mortgage interest and other fees aggregated \$17.2 million, compared to \$11.4 million for the same period in the previous year, an increase of 51.0%. The weighted average yield on the mortgage portfolio declined from 9.4% during 2011 to 8.9% for the twelve-month period ended December 31, 2012.

Operating expenses aggregated \$3.9 million, or 22.5% of revenues, compared to \$2.0 million or 17.3% of revenues in the prior year period. Non-recurring expenses related to the non-offering prospectus and the related new listing on the TSX were \$0.5 million, compared to \$ nil in the prior year. Accounting, audit and legal fees aggregated \$0.21 million for the year, compared to \$0.14 million in the previous year. The major component of operating expenses was mortgage servicing and other fees paid to the Manager (which is the management fee) that aggregated \$1.6 million for the twelve months ended December 31, 2012, compared with \$1.0 million in the previous year, reflecting the growth of the mortgage portfolio over the previous year.

Net earnings for the twelve months ended December 31, 2012 aggregated \$13.4 million, an increase of 41.5% from net earnings of \$9.4 million in the same period in the previous year. Basic and diluted earnings per common share was \$0.86 per common share for the twelve months ended December 31, 2012, compared with \$0.88 per common share in the same period the previous year, which is a decrease of 2.3%.

**ATRIUM MORTGAGE INVESTMENT CORPORATION  
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During the twelve-month period ended December 31, 2012, we funded mortgages aggregating \$129.1 million. Of these new loans, \$100.4 million were first mortgages, representing 77.8% of the new loan originations. All but four of these new loans were made in the major urban centres which we have targeted in Ontario and western Canada. There were \$84.5 million of repayments during the period. The mortgage portfolio, in aggregate, increased from \$156.9 million to \$201.5 million during the period due to additional advances. Two first mortgages with total balance of \$5.09 million were in arrears as at December 31, 2012. We believe that adequate reserves have been established to cover any potential losses.

**Results of operations – three months ended December 31, 2012**

For the three-month period ended December 31, 2012, mortgage interest and other fees aggregated \$4.76 million, compared to \$3.59 million in the same period in the previous year, an increase of 32.7%. The weighted average yield on the mortgage portfolio declined from 9.4% during 2011 to 8.9% in the fourth quarter of 2012.

Dividends declared aggregated \$3.86 million for the fourth quarter of 2012, an increase of 29.3% from the same quarter in the previous year.

Operating expenses aggregated \$1.1 million, or 23.4% of revenues, compared to \$0.6 million or 17.5% of revenues in the prior year period. The major component of operating expenses was mortgage servicing and other fees paid to the Manager (which is the management fee) that aggregated \$0.45 million for the three months ended December 31, 2012, compared with \$0.30 million in the previous year, reflecting the growth of our mortgage portfolio over the previous year. Net earnings for the three months ended December 31, 2012 aggregated \$3.64 million, an increase of 23.3% from net earnings of \$2.96 million in the same period in the previous year. Basic and diluted earnings per common share was \$0.21 per common share for the three months ended December 31, 2012, compared with \$0.23 per common share in the same period the previous year.

During the three-month period ended December 31, 2012, we funded mortgages aggregating \$49.1 million. Of these new loans, \$43.7 million were first mortgages, representing 89% of the total loans funded. Five of these mortgages were on properties in British Columbia, and the remaining 19 were made in the Greater Toronto Area. There were \$39.6 million of repayments during the period. The mortgage portfolio, in the aggregate, increased from \$192.0 million to \$202.0 million during the period.

**Summary of quarterly results (unaudited)**

<i>In \$000s, except for per share amounts</i>	<u>Q4 2012</u>	<u>Q3 2012</u>	<u>Q2 2012</u>	<u>Q1 2012</u>	<u>Q4 2011</u>	<u>Q3 2011</u>	<u>Q2 2011</u>	<u>Q1 2011</u>
Revenue	\$4,760	\$4,231	\$4,142	\$4,103	\$3,586	\$3,279	\$2,454	\$2,096
Operating expenses	1,115	1,226	784	751	630	640	477	227
Earnings	3,644	3,005	3,357	3,352	2,956	2,639	1,977	1,869
Basic and fully diluted earnings per share	0.21	0.20	0.22	0.23	0.23	0.23	0.21	0.21
Dividends declared	3,858	3,044	3,345	3,138	2,985	2,521	2,111	1,839

**Liquidity and capital resources**

At December 31, 2012, we had cash on hand of \$10,628,383 due to share issuances in the fourth quarter of 2012, and we had no amount outstanding under our revolving operating credit facility. We are in compliance with the covenants required of us in our operating credit facility as at December 31, 2012 and we expect to remain in compliance with such covenants going forward.

Growth in the mortgage portfolio has historically been financed by the issuance of common shares to new and existing shareholders, and by bank debt under our operating credit facility. During the twelve months ended December 31, 2012, gross proceeds \$71.1 million were received from the issuance of common shares (before taking

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**ATRIUM MORTGAGE INVESTMENT CORPORATION  
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account of \$3.9 million of issue costs). We expect to be able to generate sufficient funds for future mortgage loan investments through a combination of common share issuances, convertible debt, and the existing operating credit facility.

Cash provided by operating activities aggregated \$13.8 million for the twelve months ended December 31, 2012 compared with \$8.9 million for the same period in the previous year. Changes in non-cash items aggregated an increase from cash provided from operating activities of about \$12.7 million.

Investing activities during the twelve months ended December 31, 2012 consisted entirely of advances on new mortgage loan investments of \$129.1 million, less repayments received of \$84.5 million, for net cash used for net new mortgage loan investments of \$44.6 million.

Sources of cash from financing activities during the twelve months ended December 31, 2012 consisted primarily of bank loans (under our operating credit facility) and proceeds from issuing common shares. Bank loans advanced less bank loans repaid netted to a \$12.6 million use of cash, while proceeds from issuing common shares less share issuance costs provided \$67.2 million. Dividends paid used cash of \$14.5 million, so after some other smaller items, net cash provided by financing activities aggregated \$40.1 million for the twelve months ended December 31, 2012.

### **Changes in financial position**

Cash on hand was approximately \$10.6 million at December 31, 2012, compared to \$1.3 million at December 31, 2011. The cash on hand at December 31, 2012 consisted of uninvested proceeds from the issuance of common shares in December 2012, and was fully invested in January 2013. The cash balance at December 31, 2011 consisted primarily of items in transit since any significant amounts of cash on hand are used to repay our operating credit facility or to fund additions to the mortgage portfolio. Mortgages receivable increased by 28.2% to \$202.0 million at December 31, 2012 from \$157.5 million at December 31, 2011, reflecting the growth in our portfolio.

Bank indebtedness (under our operating credit facility) decreased to \$ nil at December 31, 2012, from \$12.6 million at December 31, 2011, reflecting the use of proceeds from the issuance of our common shares in December 2012 to repay all amounts under our operating credit facility. Accounts payable and accrued charges were \$0.46 million at December 31, 2012 compared to \$0.21 million at December 31, 2011. Dividends payable decreased to \$1.8 million at December 31, 2012 from \$2.98 million at December 31, 2011, and represent dividends declared on the common shares during the quarter and paid after each quarter-end. We changed our dividend policy during the year to pay monthly instead of quarterly. Thus, dividends payable at December 31, 2011 consisted of dividends declared for the final quarter of 2011, whereas dividends payable at December 31, 2012 consist of dividends payable for the month of December plus the special dividend which is paid once a year.

Share capital increased to \$209.4 million at December 31, 2012 from \$142.1 million at December 31, 2011.

In the first quarter of 2012, we completed an offering of 805,800 common shares at a price of \$10.00 per share. Net proceeds from this offering before expenses amounted to \$8.1 million (after expenses – \$7.9 million).

In the fourth quarter of 2012, we completed a public offering of 5,405,000 common shares at a price of \$10.67, including the overallotment option which was fully taken up. Net proceeds from this offering before expenses amounted to \$57.7 million (after expenses – \$54.5 million). A private placement was also completed concurrently with the above public issue for 432,400 common shares at a price of \$10.67 per share. Net proceeds from this private placement before expenses amounted to \$4.6 million (after expenses – \$4.5 million).

In addition, 77,900 common shares with a book value aggregating \$0.8 million were issued during the twelve months ended December 31, 2012 under our Dividend Reinvestment Plan.

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## **Contractual Obligations**

Contractual obligations as at December 31, 2012 were due as follows:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-7 years</u>
Accounts payable and accrued liabilities	\$ 460,568	\$ 460,568	–	–
Dividends payable	1,826,813	1,826,813	–	–
Due to related party	<u>205,605</u>	<u>205,605</u>	–	–
Subtotal liabilities	<u>2,492,986</u>	<u>2,492,986</u>	=	=

Bank indebtedness is a liability resulting from funding of the mortgage portfolio. Amounts due to a related party are liabilities payable to the Manager and its subsidiaries representing accrued mortgage servicing fees.

## **Off-balance sheet arrangements**

As at December 31, 2012, we had \$357,458 of Letters of Credit outstanding (“LCs”) which were issued under our operating credit facility. The LCs reduce our maximum availability under our operating credit facility by the amount of the LCs. The maximum available by way of LCs under our operating credit facility is \$2 million.

## **Share based payments**

During the year, we implemented a deferred share incentive plan for our employees, officers and directors and employees of the Manager. The plan allows the board to issue up to a maximum of 100,000 deferred share units and income deferred share units to eligible individuals. Holders of deferred share units are also eligible to receive income deferred share units from any dividends paid on our common shares. The number of common shares these income deferred share units represent is calculated by dividing the amount obtained by multiplying the dividends or other distributions paid on each common share by the number of deferred share units and income deferred share units in the account of each participant on the distribution record date by the market value of the common shares on the distribution payment date.

During the period ended December 31, 2012, we granted 21,500 deferred share units. These deferred share units were valued using the Company’s common share price, determined on its first trading day of September 7, 2012, of \$11.00. These deferred share units will vest over a three year period (1/3 in each one year period) from August 29, 2012. Upon the vesting of deferred share units and income deferred share units, we will issue common shares to participants on the basis of one common share for each deferred share unit and income deferred share unit that has vested. Certain participants have the ability to elect to defer the issuance of common shares to them on the vesting of their deferred share units and income deferred share units in respect of any vesting date.

## **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 mortgage servicing and other fees of \$1,567,879 for the twelve-month period ended December 31, 2012 (December 31, 2011 – \$961,359) from the Manager. Robert G. Goodall is part of the key management personnel of the Manager and is also a director of Atrium and received compensation from the Manager. 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 the Company’s 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. It is at the discretion of the Manager whether to collect the maximum fee to which it is entitled under the management agreement.

Guarantees aggregating \$8,290,000 at December 31, 2012 (December 31, 2011 – \$5,295,000) have been provided on mortgage loans made by us to a major development company of which one of our directors has a minority equity interest.

### **Environmental matters**

Environmental-related policies have become increasingly important in recent years. 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 the 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.

### **Critical accounting estimates and policies**

Our financial statements for the year ended December 31, 2012 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the *Handbook* of the Canadian Institute of Chartered Accountants. 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 most significant accounting estimates for us relate to the valuation of our mortgage portfolio and the related provision for mortgage losses. These are recorded based upon management's estimates and assessment taking into account the investments within the mortgage portfolio and the history of each borrower. The more significant accounting policies are set out below:

#### *Revenue recognition*

Mortgage interest and fees revenue is recognized using the effective interest method. Mortgage interest and fees revenue may, in certain circumstances, include an origination fee from a borrower for arranging a mortgage which is included in mortgage interest and fees using the effective interest method. Mortgages issued at a premium or discount are recorded at their face value, adjusted for such premiums and discounts. Premiums or discounts are amortized into income over the term of the mortgage.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the mortgage receivable (or, where appropriate, a shorter period) to its carrying amount. When calculating the effective interest rate, we estimate future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

#### *Mortgages receivable*

We review the mortgages receivable quarterly for impairment. An impairment loss in respect of the mortgages receivable measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are charged to the statement of comprehensive income and reflected in the allowance account against the mortgages receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

#### *Income taxes*

We are, and intend to maintain our status as, a MIC, and as such are not taxed on income provided that such income

flows through to our shareholders as dividends during the year or within 90 days after December 31. It is our policy to pay such dividends out to the shareholders to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

### **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, the Company's Audit Committee and board of directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed and approved this MD&A and the audited financial statements as at December 31, 2012 and 2011.

### **Controls and procedures**

Our CEO and 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 over Financial Reporting – Guidance for Smaller Public Companies* published by COSO, which is based upon their earlier publication *Internal Control – Integrated Framework*, 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 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, 2012. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of December 31, 2012. 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 fourth quarter.

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

### **Outstanding share data**

Our authorized capital consists of an unlimited number of common shares, of which 21,078,537 are issued and outstanding at December 31, 2012, and 21,085,115 are issued and outstanding as at the date hereof.

On March 23, 2012, the common shares were subdivided and split on the basis of 100 new common shares for every one then existing. In addition, as at the date hereof, 21,500 common shares are issuable after the vesting of deferred share units and income deferred share units granted under our deferred share incentive plan.

### **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 risks 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.

Please also refer to “Notice regarding forward-looking information,” above, and the “Risk Factors” section of our Annual Information Form for the year ended December 31, 2012 which incorporated herein by reference and is available at [www.sedar.com](http://www.sedar.com).

### **Dividend Reinvestment Plan**

Atrium has in place a Dividend Reinvestment Plan (“DRIP”) that is available to our shareholders. The DRIP allows participants to have their monthly cash dividends reinvested in additional common shares. Shareholders who wish to enroll or who would like further information about the DRIP should contact our agent for the DRIP, Computershare Trust Company of Canada, at 1-800-564-6253 or [www.computershare.com](http://www.computershare.com).

### **Additional information**

Additional information about Atrium, including our Annual Information Form for the year ended December 31, 2012 and our audited financial statements for the year ended December 31, 2012, is available on SEDAR at [www.sedar.com](http://www.sedar.com). You may also obtain further information about us from our website at [www.atriummic.com](http://www.atriummic.com).

## Board of Directors

Murray B. Frum  
Chairman of the Board

Robert G. Goodall  
Chief Executive Officer and  
President

Peter P. Cohos  
Director  
Chief Executive Officer,  
Triovest Realty Advisors Inc.

Michael J. Cooper  
Director  
Managing Partner and Founder,  
Dundee Real Estate Asset  
Management

Robert H. DeGasperis  
Director  
President, Metrus Properties Inc.

David M. Prussky  
Director  
Director, Carfinco Financial Group  
Inc.

Mark L. Silver  
Director  
Chief Executive Officer, Optus  
Capital Corporation

## Management

Robert G. Goodall  
Chief Executive Officer and  
President

Jeffrey D. Sherman  
Chief Financial Officer and  
Secretary

Michael Lovett  
Managing Director – Ontario

Daniel Stewart  
Managing Director – Alberta and  
Saskatchewan

Bruce Weston  
Managing Director – British  
Columbia

## Transfer Agent

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100 University Ave.  
9<sup>th</sup> Floor, North Tower  
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T. 800-564-6253

## Auditors

Crowe Soberman LLP  
1100 – 2 St. Clair Ave. E.  
Toronto ON M4T 2T5

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F. (416) 964-6454

## Share Listing

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