ATRIUM
MORTGAGE INVESTMENT CORPORATION

Financial Statements

December 31, 2012

Crowe Soberman™

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Atrium Mortgage Investment Corporation

We have audited the accompanying financial statements of Atrium Mortgage Investment Corporation, which comprise the statements of financial position as at December 31, 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.

"Rob Goodall"
Rob 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)	Notes	2012	2011
Assets			
Cash		$ 10,628,383	$ 1,315,017
Mortgages receivable	5	201,954,951	157,492,666
Prepaid expenses		19,577	8,330
		$ 212,602,911	$ 158,816,013
Liabilities			
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	205,605	172,211
		$ 2,492,986	$ 15,969,601
Shareholders' equity			
Share capital	9	209,383,307	142,141,036
Contributed surplus		693,199	645,023
Retained earnings		33,419	60,353
		210,109,925	142,846,412
		$ 212,602,911	$ 158,816,013

Commitments *5*

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

Approved on behalf of the board of directors:

"Rob Goodall" *"Murray Frum"*
Rob Goodall, Director 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 Number	Common shares Amount	Contributed surplus	Retained earnings	Total
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		21,078,537	$ 209,383,307	$ 693,199	$ 33,419	$ 210,109,925

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)

	Notes	2012	2011
Revenues			
Mortgage interest and fees		$ 17,235,060	$ 11,414,661
Operating expenses			
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	193,291	200,000
		3,876,733	1,973,850
Earnings and comprehensive income for the year		$ 13,358,327	$ 9,440,811
Earnings per common share	11		
Basic		$ 0.86	$ 0.88
Diluted		$ 0.86	$ 0.88

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)	**2012**	**2011**
Cash provided by (used in):		
Operating activities		
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	(773,304)	(476,546)
	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	903,128	666,201
	1,028,315	(264,334)
Cash provided by operating activities	13,063,029	8,244,633
Investing activities		
Advances on mortgages receivable	(129,073,353)	(116,424,513)
Repayment of mortgages receivable	84,497,520	34,045,062
Interest capitalized to mortgages	693,797	641,071
Cash used by investing activities	(43,882,036)	(81,738,380)
Financing activities		
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	(14,543,292)	(8,352,874)
Cash provided by financing activities	40,132,373	59,580,638
Increase (decrease) in cash	9,313,366	(13,913,109)
Cash, beginning of year	1,315,017	15,228,126
Cash, end of year	$ 10,628,383	$ 1,315,017

Cash provided by operating activities includes:		
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.

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.

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.

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.

5. MORTGAGES RECEIVABLE

	December 31 2012	December 31 2011
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	(1,087,667)	(894,376)
Mortgages receivable	$ 201,954,951	$ 157,492,666

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	1,192,191
		$ 201,483,222

Mortgage Portfolio

	December 31, 2012			December 31, 2011		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
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%
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%
	77	$ 201,483,222	100.0%	47	$156,907,389	100.0%

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.

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

	December 31 2012	December 31 2011
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	$ (1,087,667)	$ (894,376)

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.

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).

	December 31 2012	December 31 2011
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	(14,543,292)	(8,352,874)
Dividends payable, end of year	$ 1,826,813	$ 2,984,844

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:

	December 31 2012	December 31 2011
Fees to directors	$ 85,434	$ –
Share based payments to directors	23,528	–
Share based payments to officers	24,648	–
	$ 133,610	$ –

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.

9. SHARE CAPITAL (continued)

	Common shares	
	Number	**Amount**
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	6,721,100	$ 71,130,933
Private placement	1,238,200	$ 12,671,708
Public offering	5,405,000	57,671,350
DRIP	77,900	787,875
Total shares issued in 2012	6,721,100	$ 71,130,933

	Common shares	
	Number	**Amount**
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	2,127,100	21,271,000
Total shares issued in 2011	5,577,437	$ 55,774,370
Private placement and other	5,568,100	$ 55,681,000
DRIP and other	23,337	233,370
Share redemption	(14,000)	(140,000)
Total shares issued in 2011	5,577,437	$ 55,774,370

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.

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

	December 31 2012	December 31 2011
Basic 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
Basic earnings per share	$ 0.86	$ 0.88
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	6,755	–
Weighted average common shares outstanding – diluted basis	15,504,423	10,692,230
Diluted earnings per share	$ 0.86	$ 0.88

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).

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.

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).

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.

	December 31 2012	December 31 2011
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	(1,895)	–
Taxable income	$ 12,742,946	$ 9,456,254
Less: dividends declared during the year and within 90 days of the year end	(13,385,261)	(9,456,254)
Tax loss carry forward for the year	(642,315)	–
Plus: tax loss carry forward from previous years	(35,212)	(35,212)
Tax loss carry forward	$ (677,527)	$ (35,212)

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.