ATRIUM MORTGAGE INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER™

FINANCIAL STATEMENTS

YEAR ENDED
DECEMBER 31, 2013

ATRIUM
MORTGAGE INVESTMENT CORPORATION

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, 2013 and December 31, 2012 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, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Crowe Soberman LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 11, 2014

ATRIUM
MORTGAGE INVESTMENT
CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the shareholders of
Atrium Mortgage Investment Corporation

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

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

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

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

Toronto, Canada
February 11, 2014

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

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

STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)	Notes	December 31 2013	December 31 2012
Assets			
Cash		$ –	$ 10,628,383
Mortgages receivable	5	281,708,139	201,954,951
Prepaid expenses		272,615	19,577
		$ 281,980,754	$ 212,602,911
Liabilities			
Bank indebtedness	6	$ 325,930	$ –
Operating line	6	35,910,000	–
Accounts payable and accrued liabilities		459,209	460,568
Dividends payable	7	2,473,437	1,826,813
Due to related party	8	182,437	205,605
Convertible debentures	9	30,610,763	–
		69,961,776	2,492,986
Shareholders' equity			
Share capital		210,659,880	209,383,307
Contributed surplus and other equity		898,827	693,199
Equity component of convertible debentures		397,539	–
Retained earnings		62,732	33,419
		212,018,978	210,109,925
		$ 281,980,754	$ 212,602,911
Commitments	*5, 6*		

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

Approved on behalf of the board of directors:

"Rob Goodall"	*"Mark Silver"*
Rob Goodall, Director	Mark Silver, Director

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)

	Notes	Common shares Number	Common shares Amount	Contributed surplus and other equity	Equity component of convertible debentures	Retained earnings	Total
Balance, December 31, 2011		14,357,437	$ 142,141,036	$ 645,023	$ –	$ 60,353	$ 142,846,412
Shares issued	10	6,643,200	70,343,058	–	–	–	70,343,058
Shares issued under dividend reinvestment plan	10	77,900	787,875	–	–	–	787,875
Issue costs	10	–	(3,888,662)	–	–	–	(3,888,662)
Share based payments	11	–	–	48,176	–	–	48,176
Earnings and comprehensive income		–	–	–	–	13,358,327	13,358,327
Dividends declared	7	–	–	–	–	(13,385,261)	(13,385,261)
Balance, December 31, 2012		21,078,537	209,383,307	693,199	–	33,419	210,109,925
Shares issued under dividend reinvestment plan	10	116,765	1,217,479	–	–	–	1,217,479
Shares issued under employee share purchase plan	10	3,328	34,921	–	–	–	34,921
Shares issued under deferred share incentive plan	10	2,203	24,173	(24,183)	–	–	(10)
Share based payments	11	–	–	204,248	–	–	204,248
Shares subscribed	10	–	–	25,563	–	–	25,563
Equity component of convertible debentures issued	9	–	–	–	418,606	–	418,606
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(21,067)	–	(21,067)
Earnings and comprehensive income		–	–	–	–	17,999,888	17,999,888
Dividends declared	7	–	–	–	–	(17,970,575)	(17,970,575)
Balance, December 31, 2013		21,200,833	$ 210,659,880	$ 898,827	$ 397,539	$ 62,732	$ 212,018,978

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

STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

		Years ended December 31	
(Expressed in Canadian dollars)	**Notes**	**2013**	**2012**
Revenues			
Mortgage interest and fees		$ 23,759,620	$ 17,235,060
Operating expenses			
Mortgage servicing and management fees	8	2,467,672	1,567,879
Interest and other bank charges		1,318,474	1,180,713
Interest on convertible debentures		1,065,078	–
Transfer agent, TSX fees and investor relations		223,713	67,712
Share based payments	8, 11	204,248	48,176
Accounting, audit and legal fees		170,109	206,426
Directors' fees	8	147,464	85,434
Administration and general		99,974	63,284
Provision for mortgage losses	5	63,000	193,291
Non-offering prospectus and initial TSX listing		–	463,818
		5,759,732	3,876,733
Earnings and comprehensive income for the year		$ 17,999,888	$ 13,358,327
Earnings per common share			
Basic	12	$ 0.85	$ 0.86
Diluted	12	$ 0.85	$ 0.86

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

STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)	Years ended December 31 2013	2012
Cash provided by (used in):		
Operating activities		
Earnings and comprehensive income for the year	$ 17,999,888	$ 13,358,327
Add (subtract) non-cash items		
Share based payments	205,628	48,176
Interest capitalized on mortgages	(1,611,503)	(693,797)
Amortization of mortgage discount	(207,828)	(97,979)
Amortization of mortgage origination fees	(881,347)	(773,304)
Non-cash portion of interest on convertible debentures	148,846	–
Provision for mortgage losses	63,000	193,291
	15,716,684	12,034,714
Changes in operating assets and liabilities		
Accrued interest receivable	1,027,466	(519,018)
Prepaid expenses	(253,038)	(11,247)
Accounts payable and accrued liabilities	(1,359)	248,022
Additions to mortgage discount	160,800	407,430
Additions to mortgage origination fees	961,064	903,128
	1,894,933	1,028,315
Cash provided by operating activities	17,611,617	13,063,029
Investing activities		
Advances of mortgages receivable	(186,702,516)	(128,379,556)
Repayment of mortgages receivable	107,437,676	84,497,520
Cash used by investing activities	(79,264,840)	(43,882,036)
Financing activities		
Operating line advanced	267,777,500	117,370,000
Operating line repaid	(231,867,500)	(129,970,000)
Increase (decrease) in due to related party	(23,168)	33,394
Issuance of common shares	1,276,573	71,130,933
Common share issue costs	–	(3,888,662)
Issuance of convertible debentures	32,500,000	–
Convertible debenture issue costs	(1,640,544)	–
Dividends paid	(17,323,951)	(14,543,292)
Cash provided by financing activities	50,698,910	40,132,373
Increase (decrease) in cash	(10,954,313)	9,313,366
Cash, beginning of year	10,628,383	1,315,017
Cash (bank indebtedness), end of year	$ (325,930)	$ 10,628,383
Cash provided by operating activities includes:		
Interest received	$ 19,697,031	$ 15,205,131
Interest paid	$ 2,088,401	$ 1,080,975

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

1. NATURE OF OPERATIONS

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

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

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and International Financial Reporting Standards (IFRS), as set out in Part 1 of the *CPA Canada Handbook – Accounting.* These annual financial statements were authorized for issuance by the Board of Directors on February 11, 2014.

(b) Basis of measurement

These financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

3. SIGNIFICANT ACCOUNTING POLICIES

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 are 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 for this calculation, the contractual terms of the mortgage are considered although possible future credit losses are ignored (see note 3(c)).

(b) Financial assets – classification, recognition and measurement

Classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. 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

A mortgage receivable, carried at amortized cost, is considered impaired when there is objective evidence that there has been a deterioration of credit quality subsequent to its initial recognition to the extent that the company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest. The company assesses mortgages receivable for objective evidence of impairment both individually and collectively. Provision for mortgage losses represents management's best estimate of impairment of mortgages receivable at each reporting date. Judgement is required as to the timing of designating a mortgage as impaired and the amount of any provision required. If there is no objective evidence of impairment for an individual mortgage receivable, it is included in a group of mortgages with similar credit risk characteristics and collectively assessed for impairment for losses incurred but not identified.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Mortgages receivable (continued)

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 statements of earnings and comprehensive income and are 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 statements of earnings and comprehensive income.

(d) Convertible debentures

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

(e) Other financial liabilities

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

(f) Income taxes

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

(g) Earnings per common share

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

(h) Share based payments

The company has an equity-settled share based compensation plan for grants to eligible directors, officers, 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 volume weighted average trading share price for the five trading days prior to date of the grant.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Certain pronouncements have been issued by the IASB (International Accounting Standards Board) 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. Adopting this new pronouncement will not have a material impact on the company's financial statements. The following is a brief summary of the new standard:

IFRS 9 – Financial Instruments: Classification and measurement 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. The effective date has been deferred pending completion of the remaining sections of the standard. 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.

5. MORTGAGES RECEIVABLE

	December 31, 2013			December 31, 2012		
Mortgage category	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
Commercial/mixed use	27	89,475,297	31.7%	15	$ 69,334,931	34.4%
House and apartment	59	69,484,828	24.6%	31	43,061,190	21.4%
Low rise residential	17	58,465,947	20.7%	8	24,302,272	12.0%
High rise residential	5	32,966,568	11.7%	4	23,686,000	11.8%
Construction	9	22,093,399	7.8%	4	15,087,981	7.5%
Midrise residential	3	7,440,000	2.6%	5	24,381,184	12.1%
Condominium corporation	11	2,433,526	0.9%	10	1,629,664	0.8%
Mortgage portfolio	131	282,359,565	100.0%	77	201,483,222	100.0%
Accrued interest receivable		1,562,173			2,589,639	
Mortgage discount		(338,480)			(385,508)	
Mortgage origination fees		(724,452)			(644,735)	
Provision for mortgage losses		(1,150,667)			(1,087,667)	
Mortgages receivable		$ 281,708,139			$201,954,951	

The aggregate portfolio has a weighted average yield of 8.72% (December 31, 2012 – 8.93%) and maturity dates between 2014 and 2024 with a weighted average term to maturity of 13.5 months at December 31, 2013 (December 31, 2012 – 13.0 months).

The company has committed to advance additional funds under existing mortgages aggregating $51,436,540 and new mortgages aggregating $46,727,500 at December 31, 2013 (December 31, 2012 – $15,999,642, 33,940,000). Generally, outstanding commitments are expected to be funded within the next 24 months. However, the experience of the company has been that a portion of the unfunded amounts on existing mortgages will never be drawn.
Principal repayments based on contractual maturity dates are as follows:

Year ending December 31, 2014	$ 131,887,764
2015	123,852,819
2016	24,185,455
2017	180,048
2018	67,699
Thereafter	2,185,780
	$ 282,359,565

5. MORTGAGES RECEIVABLE (continued)

Provision for mortgage losses

	December 31, 2013	December 31, 2012
Balance, beginning of year	$ (1,087,667)	$ (894,376)
Increase in provision during the year	(63,000)	(193,291)
Balance, end of year	$ (1,150,667)	$ (1,087,667)

One mortgage is in default at December 31, 2013 (two mortgages were in default at December 31, 2012). The increase in the provision for mortgage losses during the year is based upon management's assessment as to market conditions, the value of real property securing the mortgage and the likely amount ultimately recoverable, as well as management's assessment as to an appropriate reserve for mortgages in the portfolio that are not in default.

6. CREDIT FACILITY

At December 31, 2013, the company had a credit facility from Canadian financial institutions of $80,000,000 (December 31, 2012 – $50,000,000). Advances may be obtained under the credit facility by way of a maximum $500,000 overdraft, a bank loan, bankers' acceptances or letters of credit. The committed credit facility was effective October 10, 2013, has a term of one year, and is subject to certain conditions of drawdown and other covenants. (See Note 16 – Subsequent events.)

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

The company has letters of credit (LCs) outstanding under the credit facility as at December 31, 2013 of $2,679,631 (December 31, 2012 – $357,458) which have been committed to clients. The LCs reduce the maximum availability under the credit facility by the amount of the LCs drawn. LCs represent irrevocable assurances that the company's bank will make payments in the event that a customer cannot meet its obligations to third parties. LCs carry the same credit risk, recourse and collateral security requirements as mortgages extended to customers.

Credit facility	December 31, 2013	December 31, 2012
Bankers' acceptances	$ 20,000,000	$ nil
Bank loan	15,910,000	nil
Operating line	35,910,000	nil
Bank indebtedness	325,930	nil
Total borrowing under credit facility	36,235,930	nil
Letters of credit	2,679,631	357,458
Total credit facility utilization	**$ 38,915,561**	**$ 357,458**

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 aggregated $0.85 per share for the year ended December 31, 2013 (2012 – $0.85).

	December 31, 2013	December 31, 2012
Dividends payable, beginning of year	$ 1,826,813	$ 2,984,844
Dividends declared during the year	17,970,575	13,385,261
Dividends paid during the year	(17,323,951)	(14,543,292)
Dividends payable, end of year	$ 2,473,437	$ 1,826,813

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 from CMSC of $2,455,463 for the year ended December 31, 2013 (2012 – $1,567,072). The management agreement between the company and CMCC contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. Unpaid amounts are in the normal course of business, non-interest bearing and due on demand. Balances due to related parties are due to CMCC and its subsidiaries and were paid with 30 days of year end.

Guarantees aggregating $4,542,000 at December 31, 2013 (2012 – $8,290,000) have been provided on mortgages owned by the company from a major development company of which one of the directors of the company is a director and officer. All of these loans are in good standing.

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

	December 31, 2013	December 31, 2012
Directors’ fees	$ 147,464	$ 85,434
Share based payments to directors (note 11)	97,752	23,528
Share based payments to officers (note 11)	92,499	24,648
	$ 337,715	$ 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. CONVERTIBLE DEBENTURES

	Year ended December 31, 2013	Year ended December 31, 2012
Issued (see note below)	$ 32,500,000	$ –
Equity component	(418,606)	–
Issue costs	(1,640,544)	–
Issue costs attributed to equity component	21,067	–
Convertible debentures	30,461,917	–
Accretion for the year	148,846	–
Convertible debentures, end of year	$ 30,610,763	$ –

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

On issuance, the company recorded a liability of $30,461,917, net of equity component of $418,606 and issue costs attributable to debt of $1,619,477.

10. SHARE CAPITAL

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

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

On February 21, 2013 the board of directors approved an employee share purchase plan (ESPP). Each participant may contribute up to the stated annual maximum to the ESPP and CMCC will match 50% of the participant's contribution to the ESPP. Thus, the company does not bear any of the cost of the ESPP, but is reimbursed by CMCC and the participants. On July 23, 2013, 1,332 common shares were issued for $13,933. On October 1, 2013, 1,996 common shares were issued for $20,988. As at December 31, 2013, 2,368 common shares had been subscribed for aggregating $25,563 but were unissued.

On November 14, 2013, 2,203 common shares were issued for $24,173 under the deferred share incentive plan (DSIP) to the estate of the deceased participant in the DSIP.

10. SHARE CAPITAL (continued)

	Common shares	
	Number	**Amount**
Shares issued –		
DRIP, January 29, 2013	6,580	$ 70,801
DRIP, February 26, 2013	6,814	73,732
DRIP, March 21, 2013	1,785	19,106
DRIP, March 27, 2013	8,889	95,120
DRIP, April 15, 2013	8,515	91,877
DRIP, May 15, 2013	8,806	94,498
DRIP, June 14, 2013	9,228	96,711
DRIP, July 15, 2013	9,208	94,108
ESPP, July 23, 2013	1,332	13,933
DRIP, August 14, 2013	10,721	107,215
DRIP, September 13, 2013	11,550	115,277
ESPP, October 1, 2013	1,996	20,988
DRIP, October 14, 2013	11,580	116,967
DRIP, November 14, 2013	10,695	112,300
DSIP, November 14, 2013	2,203	24,173
DRIP, December 13, 2013	12,394	129,766
Total shares issued in 2013	122,296	$ 1,276,572
DRIP	116,765	1,217,479
ESPP	3,328	34,921
DSIP	2,203	24,173
Total shares issued in 2013	122,296	$ 1,276,573

	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
Shares issued	6,643,200	70,343,058
DRIP	77,900	787,875
Total shares issued in 2012	6,721,100	$ 71,130,933

There were no issue costs for common shares issued during 2013.

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 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.

11. SHARE BASED PAYMENTS

	August 30, 2013 grant	August 29, 2012 grant	Total
Deferred shares granted	23,000	21,500	44,500
Value of grant	$ 232,900	$ 236,500	$ 469,400
Income deferred shares issuable	–	740	740
Share compensation expense:			
Year ended December 31, 2013	$ 53,654	$ 150,594	$ 204,248
Year ended December 31, 2012	–	48,176	48,176
	$ 53,654	$ 198,770	$ 252,424

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

12. EARNINGS PER SHARE

	Year ended December 31, 2013	Year ended December 31, 2012
Basic earnings per share –		
Numerator		
Earnings for the year	$ 17,999,888	$ 13,358,327
Denominator		
Weighted average common shares outstanding	21,133,123	15,497,668
Basic earnings per share	$ 0.85	$ 0.86

	2013	2012
Diluted earnings per share –		
Numerator		
Earnings for the year	$ 17,999,888	$ 13,358,327
Interest on convertible debentures	1,065,078	–
Earnings for diluted earnings per share	19,064,966	13,358,327
Denominator		
Weighted average common shares outstanding	21,133,123	15,497,668
Convertible debentures	1,282,598	–
Deferred share incentive plan	29,051	6,856
Income deferred share units	609	–
Weighted average common shares outstanding – diluted basis	22,445,380	15,504,524
Diluted earnings per share	$ 0.85	$ 0.86

13. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

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

(b) Fair value

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

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. All financial assets are classified as loans and receivables and are recorded at amortized cost. Their carrying values approximate their fair value due to their relatively short-term maturities and because market interest rates have not fluctuated significantly since the date at which the loans were entered into. The fair value of the operating line approximates book value since it bears interest at floating rates. Mortgages receivable mature between 2014 and 2024 with a weighted average term to maturity of 13.5 months (2012 – 13.0 months). Fair value of mortgages receivable is established by level 3 inputs. The fair value of the liability component of convertible debentures approximates book value and is established using level 2 inputs. The fair value of other financial assets and liabilities are established using level 3 inputs.

(c) Credit risk

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

The company controls the credit risk of mortgages receivable by maintaining strict credit policies including due diligence processes, credit limits, and documentation requirements, review and approval of new mortgages by the board of directors or a subgroup thereof, quarterly review of the entire portfolio by the board of directors, and other credit policies approved by the board of directors. Credit risk is approved by the board of directors. No single borrower accounts for more than 14.6% (December 31, 2012 – 9.6%) of mortgages receivable.

13. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its obligations when due. The company's liquidity risk is managed on an ongoing basis by CMCC in accordance with the policies and procedures in place. The company's significant financial liabilities include bank indebtedness, operating line, accounts payable and accrued liabilities, dividends payable, due to related party and convertible debentures. The bank indebtedness and operating line are drawn upon as required to discharge accounts payable and accrued liabilities as well as to pay out dividends on a monthly basis.

As at December 31, 2013, management considers that the company does not have significant exposure to liquidity risk as the credit facility is not fully utilized and the company is in compliance with all covenants. Obligations due at December 31, 2013 are shown below.

	Total	*Less than 1 year*	*1-2 years*	*3-7 years*
Bank indebtedness	$ 325,930	$ 325,930	$ –	$ –
Operating line	35,910,000	35,910,000		
Accounts payable and accrued liabilities	459,209	459,209	–	–
Dividends payable	2,473,437	2,473,437	–	–
Due to related party	182,437	182,437	–	–
5.25% convertible debentures	30,610,763	–	–	30,610,763
Total	$ 69,961,776	$ 39,351,013	$ –	$ 30,610,763

(e) Interest rate risk

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

If interest rates on debt had been one percentage point higher (lower) during the year ended December 31, 2013, earnings would have been reduced (increased) by approximately $293,000 during the year, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. However, if new mortgage loans had been entered into at higher (lower) interest rates, the resulting reduction of earnings would have been less than (greater than) $293,000.

(f) Currency risk

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

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

During the year ended December 31, 2013, the company issued 5.25% convertible debentures with a face value of $32,500,000 (see note 9), which had the effect of altering its risk exposure profile to be less sensitive to changes in general market interest rates. The effect will be favourable if general interest rates increase, and adverse if general interest rates decline.

14. CAPITAL MANAGEMENT

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

	December 31, 2013	December 31, 2012
Bank indebtedness	$ 325,930	$ –
Operating line	35,910,000	–
Total bank line	36,235,930	–
Convertible debentures	30,610,763	–
Total debt	66,846,693	–
Shareholders' equity	212,018,978	210,109,925
Capital employed	$ 278,865,671	$ 210,109,925

The company's objectives for managing capital are to:

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

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

As bank borrowings increase, the company could expect to raise further funds through public offering of convertible debentures and/or common shares. The company's bank indebtedness and operating line are subject to external covenants as set out in note 6. There has been no change in the company's capital management objectives since the prior year.

15. INCOME TAXES

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

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

	December 31, 2013	December 31, 2012
Earnings and comprehensive income for the year	17,999,888	13,358,327
Non-deductible expenses	482,550	356,298
Issue costs deductible pursuant to Section 10(1)(e) of the ITA	(1,350,312)	(980,272)
Deductible expenses	–	(119,337)
Change in deferred revenue	79,717	129,825
Cumulative eligible capital deduction	(1,762)	(1,895)
Taxable income	$ 17,210,081	$ 12,742,946
Less: dividends declared during the year and within 90 days of year end	(17,970,575)	(13,385,261)
Tax loss carry forward for the year	(760,494)	(642,315)
Plus tax loss carry forward from previous years	(677,527)	(35,212)
Tax loss carry forward	$ (1,438,021)	$ (677,527)

16. SUBSEQUENT EVENTS

On January 1, 2014, the company issued 2,368 common shares subscribed for under the ESPP for proceeds of $25,563.

On January 14, 2014, the company issued 12,543 common shares ($130,828) under its dividend reinvestment plan.

On January 31, 2014, the company obtained a $30 million short-term increase in its operating credit facility; any amounts drawn thereunder are to be repaid on the earlier of April 30, 2014 and the closing of any public equity or convertible debt issuance by the company.

On February 6, 2014, the company entered into an agreement with a syndicate of underwriters under which it agreed to purchase $30,000,000 of 6.25% subordinated debentures due March 31, 2019. The offering is expected to close on February 27, 2014. The company granted the underwriters an overallotment option to purchase up to an additional $4.5 million of the debentures at any time until 30 days after the offering closes. At the option of the holders, the debentures may be converted into common shares of Atrium at a conversion price of $13.30 per share, and the debentures are subject to certain other redemption rights.

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President
Optus Capital Corporation

Robert G. Goodall
CEO and President
Atrium Mortgage Investment Corporation

Peter P. Cohos
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Copez Properties Ltd.

Michael J. Cooper
Founder and CEO
DREAM Unlimited Corp.

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Metrus Properties Inc.

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Director
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David M. Prussky
Director
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Jeffrey D. Sherman, FCPA, FCA
CFO and Secretary

Michael Lovett
Managing Director – Ontario

Bram Rothman
Managing Director – Ontario

Phil Fiuza
Managing Director – Ontario, Residential

Daniel Stewart
Managing Director – Alberta and Saskatchewan

Bruce Weston
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SHARE LISTING

Common Shares, TSX: AI
Convertible debentures 5.25%, TSX: AI.DB

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

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