



Condensed Interim Financial Statements

For the three-month and nine-month periods ended September 30, 2013 and 2012
(Expressed in Canadian dollars)

(Unaudited)

ATRIUM MORTGAGE INVESTMENT CORPORATION
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)

(Expressed in Canadian dollars)

	<u>Notes</u>	<u>September 30</u> <u>2013</u>	<u>December 31</u> <u>2012</u>
Assets			
Cash		\$ —	\$ 10,628,383
Mortgages receivable	5	276,422,196	201,954,951
Prepaid expenses		<u>64,475</u>	<u>19,577</u>
		<u>\$ 276,486,671</u>	<u>\$ 212,602,911</u>
Liabilities			
Bank indebtedness	6	\$ 229,464	\$ —
Bankers' acceptances	6	25,000,000	—
Bank loan	6	6,209,500	—
Accounts payable		74,949	180,800
Accrued liabilities		646,755	279,768
Dividends payable	7	1,410,805	1,826,813
Due to related party	8	179,327	205,605
Convertible debentures	9	<u>30,540,336</u>	<u>—</u>
		<u>64,291,136</u>	<u>2,492,986</u>
Shareholders' equity			
Share capital		210,255,685	209,383,307
Contributed surplus and other equity		828,356	693,199
Equity component of convertible debentures		397,539	—
Retained earnings		<u>713,955</u>	<u>33,419</u>
		<u>212,195,535</u>	<u>210,109,925</u>
		<u>\$ 276,486,671</u>	<u>\$ 212,602,911</u>

Commitments 5, 6

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

Approved on behalf of the board of directors:

"Rob Goodall"
Rob Goodall, Director

"Mark Silver"
Mark Silver, Director

ATRIUM MORTGAGE INVESTMENT CORPORATION
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(Expressed in Canadian dollars)

	<u>Notes</u>	<u>Common shares</u>		<u>Contributed surplus and other equity</u>	<u>Equity component of convertible debentures</u>	<u>Retained earnings</u>	<u>Total</u>
		<u>Number</u>	<u>Amount</u>				
Balance, December 31, 2011		14,357,437	\$ 142,141,036	\$ 645,023	\$ –	\$ 60,353	\$ 142,846,412
Shares issued	10	805,800	8,058,000	–	–	–	8,058,000
Shares issued under dividend reinvestment plan	10	55,554	555,535	–	–	–	555,535
Issue costs	10	–	(132,950)	–	–	–	(132,950)
Share based payments	11	–	–	5,718	–	–	5,718
Earnings and comprehensive income		–	–	–	–	9,713,843	9,713,843
Dividends declared		–	–	–	–	(9,520,324)	(9,520,324)
Balance, September 30, 2012		15,218,791	150,621,621	650,741	–	253,872	151,526,234
Shares issued		5,837,400	62,285,058	–	–	–	62,285,058
Shares issued under dividend reinvestment plan		22,346	232,340	–	–	–	232,340
Issue costs		–	(3,755,712)	–	–	–	(3,755,712)
Share based payments		–	–	42,458	–	–	42,458
Earnings and comprehensive income		–	–	–	–	3,644,484	3,644,484
Dividends declared		–	–	–	–	(3,864,937)	(3,864,937)
Balance, December 31, 2012		21,078,537	209,383,307	693,199	–	33,419	210,109,925
Shares issued under dividend reinvestment plan	10	82,096	858,445	–	–	–	858,445
Shares issued under ESPP	10	1,332	13,933	–	–	–	13,933
Share based payments	11	–	–	114,169	–	–	114,169
Shares subscribed	10	–	–	20,988	–	–	20,988
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		–	–	–	–	13,353,394	13,353,394
Dividends declared	7	–	–	–	–	(12,672,858)	(12,672,858)
Balance, September 30, 2013		<u>21,161,965</u>	<u>\$ 210,255,685</u>	<u>\$ 828,356</u>	<u>\$ 397,539</u>	<u>\$ 713,955</u>	<u>\$ 212,195,535</u>

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

ATRIUM MORTGAGE INVESTMENT CORPORATION
CONDENSED INTERIM STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(Unaudited)

(Expressed in Canadian dollars)

	Notes	Three months ended September 30		Nine months ended September 30	
		2013	2012	2013	2012
Revenues					
Mortgage interest and fees		\$ 6,280,789	\$ 4,231,114	\$ 17,214,852	\$ 12,475,414
Operating expenses					
Mortgage servicing and management fees	8	662,001	390,693	1,789,919	1,114,583
Interest and other bank charges		343,892	398,052	842,500	865,104
Interest on convertible debentures		493,420	–	553,795	–
Accounting, audit and legal fees		31,143	20,261	158,989	175,091
Transfer agent, TSX fees and investor relations		36,244	22,293	163,694	22,293
Directors' fees	8	45,872	28,500	101,592	57,000
Administration and general		33,219	25,505	73,800	69,264
Share based payments	8, 11	41,906	5,718	114,169	5,718
Expenses for the non-offering prospectus and the related TSX listing		–	335,368	–	452,518
Provision for mortgage losses		–	–	63,000	–
		<u>1,687,697</u>	<u>1,226,390</u>	<u>3,861,458</u>	<u>2,761,571</u>
Earnings and comprehensive income for the period		<u>\$ 4,593,092</u>	<u>\$ 3,004,724</u>	<u>\$ 13,353,394</u>	<u>\$ 9,713,843</u>
Earnings per common share					
Basic	12	<u>\$ 0.22</u>	<u>\$ 0.20</u>	<u>\$ 0.63</u>	<u>\$ 0.65</u>
Diluted	12	<u>\$ 0.22</u>	<u>\$ 0.20</u>	<u>\$ 0.63</u>	<u>\$ 0.65</u>

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

ATRIUM MORTGAGE INVESTMENT CORPORATION
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

(Expressed in Canadian dollars)

	Nine months ended	
	September 30 2013	September 30 2012
	<u>2013</u>	<u>2012</u>
Cash provided by (used in):		
Operating activities		
Earnings and comprehensive income for the period	\$ 13,353,394	\$ 9,713,843
Add (subtract) non-cash items		
Share based payments	135,157	5,718
Interest capitalized on mortgages	(1,438,637)	(1,622,601)
Amortization of mortgage discount	(154,866)	(49,037)
Amortization of mortgage origination fees	(609,871)	(518,833)
Non-cash portion of interest on convertible debentures	78,419	–
Provision for mortgage losses	<u>63,000</u>	<u>–</u>
	11,426,596	7,529,090
Changes in operating assets and liabilities		
Accrued interest receivable	1,159,003	(1,217,992)
Prepaid expenses	(44,898)	(18,486)
Accounts payable	(105,851)	226,528
Accrued liabilities	366,987	93,213
Additions to mortgage discount	160,800	232,429
Additions to mortgage origination fees	<u>679,869</u>	<u>665,935</u>
	<u>2,215,910</u>	<u>(18,373)</u>
Cash provided by operating activities	<u>13,642,506</u>	<u>7,510,717</u>
Investing activities		
Advances of mortgages receivable	(139,277,760)	(78,375,795)
Repayment of mortgages receivable	<u>64,951,217</u>	<u>44,916,303</u>
Cash used by investing activities	<u>(74,326,543)</u>	<u>(33,459,492)</u>
Financing activities		
Bankers' acceptances advanced	60,800,000	–
Bankers' acceptances repaid	(35,800,000)	–
Bank loan advanced	143,954,500	85,500,000
Bank loan repaid	(137,745,000)	(60,000,000)
Increase (decrease) in due to related party	(26,278)	161,095
Issuance of common shares	872,378	8,613,535
Share issue costs	–	(132,950)
Proceeds from issuance of convertible debentures	32,500,000	–
Convertible debenture issue costs	(1,640,544)	–
Dividends paid	<u>(13,088,866)</u>	<u>(9,468,164)</u>
Cash provided by financing activities	<u>49,826,190</u>	<u>24,673,516</u>
Decrease in cash	(10,857,847)	(1,275,259)
Cash, beginning of period	<u>10,628,383</u>	<u>1,315,017</u>
Cash (bank indebtedness), end of period	<u>\$ (229,464)</u>	<u>\$ 39,758</u>
Cash provided by operating activities includes:		
Interest received	\$ 16,606,646	\$ 12,290,785
Interest paid	\$ 800,536	\$ 714,242

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

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

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 at least 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 condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and follow International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB). These condensed interim financial statements should be read in conjunction with the company's audited financial statements for the year ended December 31, 2012. In particular, the company's significant accounting policies as presented in Note 3 of the financial statements for the year ended December 31, 2012, have been consistently applied in the preparation of these condensed interim financial statements. These condensed interim financial statements were authorized for issuance by the board of directors on October 24, 2013.

(b) Basis of measurement

These condensed interim financial statements were prepared on the historical cost basis.

(c) Functional and presentation currency

These condensed interim 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.

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

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 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, accounts receivable 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 in 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.

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

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 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) 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, bankers' acceptances, bank loan, accounts payable, accrued liabilities, dividends payable, due to related parties and 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 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.

(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 using the same method as basic earnings per share except that it is adjusted for any dilutive items.

(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 share price at the time of the grant.

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

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. The pronouncement listed below is effective for accounting periods beginning after January 1, 2015. 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 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.

5. MORTGAGES RECEIVABLE

<u>Mortgage category</u>	<u>September 30, 2013</u>			<u>December 31, 2012</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	24	90,271,277	32.6%	15	\$ 69,334,931	34.4%
Low rise residential	17	63,003,641	22.7%	8	24,302,272	12.1%
House and apartment	48	61,090,350	22.0%	31	43,061,190	21.3%
High rise residential	4	25,036,000	9.0%	4	23,686,000	11.8%
Construction	9	22,108,507	8.0%	4	15,087,981	7.5%
Midrise residential	5	13,262,632	4.8%	5	24,381,184	12.1%
Condominium corporation	9	2,475,995	0.9%	10	1,629,664	0.8%
Mortgage portfolio	<u>116</u>	<u>277,248,402</u>	<u>100.0%</u>	<u>77</u>	<u>201,483,222</u>	<u>100.0%</u>
Accrued interest receivable		1,430,636			2,589,639	
Mortgage discount		(391,442)			(385,508)	
Mortgage origination fees		(714,733)			(644,735)	
Provision for mortgage losses		<u>(1,150,667)</u>			<u>(1,087,667)</u>	
Mortgages receivable		<u>\$ 276,422,196</u>			<u>\$201,954,951</u>	

The aggregate portfolio has a weighted average yield of 8.70% (December 31, 2012 – 8.93%) and maturity dates between 2013 and 2024 with a weighted average term to maturity of 12.7 months at September 30, 2013 (December 31, 2012 – 13.0 months).

The company has committed to advance additional funds under both existing and new mortgages aggregating \$53,533,170 at September 30, 2013 (December 31, 2012 – \$34,949,643).

Principal repayments based on contractual maturity dates are as follows:

Year ending December 31, 2013	\$ 55,067,132
2014	123,764,354
2015	77,777,244
2016	18,163,677
2017	191,941
Thereafter	<u>2,284,054</u>
	<u>\$ 277,248,402</u>

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

5. MORTGAGES RECEIVABLE (continued)

	Provision for mortgage losses			
	Three months ended		Nine months ended	
	September 30		September 30	
	2013	2012	2013	2012
Balance, beginning of period	\$ 1,150,667	\$ 894,376	\$ 1,087,667	\$ 894,376
Increase in provision during the period	<u>—</u>	<u>—</u>	<u>63,000</u>	<u>—</u>
Balance, end of period	<u>\$ 1,150,667</u>	<u>\$ 894,376</u>	<u>\$ 1,150,667</u>	<u>\$ 894,376</u>

6. CREDIT FACILITY

At September 30, 2013, the company had a credit facility from a major Canadian financial institution of \$50,000,000 (December 31, 2012 – \$50,000,000). Advances may be obtained under the credit facility by way of a maximum \$500,000 overdraft at a rate of prime plus 1.5%, a bank loan at a rate of prime plus 1.5% per annum or bankers' acceptances at the BA rate on date of drawdown plus a 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 (see note 15 – 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 September 30, 2013, the company was in compliance with these covenants.

The company has letters of credit (LCs) outstanding under the credit facility as at September 30, 2013 of \$2,532,458 (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. The maximum available by way of LCs under the credit facility is \$5 million. 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.

	September 30, 2013		December 31, 2012	
	Interest rate	Amount	Interest rate	Amount
Credit facility				
Bank indebtedness	4.50%	229,464	—	nil
Bankers' acceptances	3.72%	25,000,000	—	nil
Bank loan	4.50%	<u>6,209,500</u>	—	<u>nil</u>
Total borrowing under credit facility		31,438,964		nil
Letters of credit		<u>2,532,458</u>		<u>357,458</u>
Total credit facility utilization		<u>33,971,422</u>		<u>357,458</u>

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

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.

	Nine months ended	Year ended
	September 30	December 31
	2013	2012
Dividends payable, beginning of period	\$ 1,826,813	\$ 2,984,844
Dividends declared during the period	12,672,858	12,963,690
Special dividend declared, payable to shareholders of record December 31, 2012	–	421,571
Dividends paid during the period	<u>(13,088,866)</u>	<u>(14,543,292)</u>
Dividends payable, end of period	<u>\$ 1,410,805</u>	<u>\$ 1,826,813</u>

The board of directors has declared dividends of \$0.066667 per share payable to shareholders of record on October 31, 2013, November 29, 2013, and December 31, 2013, payable November 14, 2013, December 13, 2013, and January 14, 2014 respectively. The board has also approved a special dividend payable to shareholders of record December 31, 2013 on March 5, 2014, the amount of which has not yet been determined.

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 \$1,780,363 for the nine months ended September 30, 2013 (nine months ended September 30, 2012 – \$1,114,581). Unpaid amounts are in the normal course of business, non-interest bearing and due on demand. Due to related parties is due to CMCC and its subsidiaries.

Guarantees aggregating \$4,542,000 at September 30, 2013 (December 31, 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. No guarantees fees have been paid in the period.

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

	Nine months ended	
	September 30	September 30
	2013	2012
Directors’ fees	\$ 101,592	\$ –
Share based payments to directors (note 11)	54,605	2,793
Share based payments to officers (note 11)	<u>59,564</u>	<u>2,925</u>
	<u>\$ 215,761</u>	<u>\$ 5,718</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.

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

9. CONVERTIBLE DEBENTURES

	Nine months ended September 30 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	<u>21,067</u>	<u>—</u>
Convertible debentures	30,461,917	—
Accretion for the period	<u>78,419</u>	<u>—</u>
Convertible debentures, end of period	<u>\$ 30,540,336</u>	<u>\$ —</u>

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 with a conversion price of \$13.50. 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 debenture, 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 a maximum of \$10,000 per annum 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 participant. On July 23, 2013, \$13,933 (1,332 common shares) were issued. As at September 30, 2013, 1,996 common shares had been subscribed for aggregating \$20,988 but were unissued.

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

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
Total shares issued nine months ended September 30, 2013	<u>83,428</u>	<u>\$ 872,378</u>
DRIP	82,096	858,445
ESPP	<u>1,332</u>	<u>13,933</u>
Total shares issued nine months ended September 30, 2013	<u>83,428</u>	<u>\$ 872,378</u>

	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	17,653	176,524
DRIP, July 31, 2012	23,181	231,810
Total shares issued nine months ended September 30, 2012	<u>861,353</u>	<u>\$ 8,613,535</u>
Private placement	805,800	\$ 8,058,000
DRIP	<u>55,554</u>	<u>555,535</u>
Total shares issued nine months ended September 30, 2012	<u>861,354</u>	<u>\$ 8,613,535</u>

Issue costs for the February 15, 2012 private placement aggregated \$132,950.

11. SHARE BASED PAYMENTS

On August 29, 2012 the board granted 21,500 deferred share units to directors and officers. 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 issue. In addition, income deferred share units are credited to holders of deferred share units based upon dividends paid on common shares. At December 31, 2012 none of the related common shares were issuable, nor were any income deferred share units issuable. At September 30, 2013, 7,167 common shares were issuable and 42 income deferred shares units were issuable. The total value of the share based compensation was \$236,500 on the date of grant. Share based compensation expense recognized during the nine month period ended September 30, 2013 in relation to this issue, was \$101,826 (September 30, 2012 – \$5,718) with an additional \$478 expensed in relation to income deferred share units, with a corresponding credit to contributed surplus. The fair value of share based compensation was based upon the market price of the common shares on the grant date of \$11.00.

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

11. SHARE BASED PAYMENTS (continued)

On August 30, 2013 the board granted 23,000 deferred share units to directors and officers. 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 issue. In addition, income deferred share units are credited to holders of deferred share units based upon dividends paid on common shares. At September 30, 2013 none of the related common shares were issuable, nor were any income deferred share units issuable. The total value of the share based compensation was \$232,990 on the date of grant. Share based compensation expense recognized during the nine month period ended September 30, 2013 in relation to this issue, was \$11,865 (September 30, 2012 – \$nil) with a corresponding credit to contributed surplus. The fair value of share based compensation was based upon the market price of the common shares on the grant date of \$10.13.

12. EARNINGS PER SHARE

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Basic earnings per share – Numerator				
Earnings for the period	\$ 4,593,092	\$ 3,004,724	\$ 13,353,394	\$ 9,713,843
Denominator				
Weighted average common shares outstanding	<u>21,146,168</u>	<u>15,212,743</u>	<u>21,116,228</u>	<u>15,055,815</u>
Basic earnings per share	<u>\$ 0.22</u>	<u>\$ 0.20</u>	<u>\$ 0.63</u>	<u>\$ 0.65</u>

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Diluted earnings per share – Numerator				
Earnings for the period	\$ 4,593,092	\$ 3,004,724	\$ 13,353,394	\$ 9,713,843
Interest on convertible debentures	<u>493,420</u>	<u>–</u>	<u>553,796</u>	<u>–</u>
Earnings for diluted EPS	5,086,512	3,004,724	13,907,190	9,713,843
Denominator				
Weighted average common shares outstanding	21,146,168	15,212,743	21,116,001	15,055,815
Deferred share incentive plan, issued Aug 29, 2012	21,500	5,384	21,500	1,651
Convertible debentures	2,391,305	–	908,354	–
Deferred share incentive plan, issued Aug 30, 2013	8,000	–	2,686	–
Income deferred share units	<u>8</u>	<u>–</u>	<u>3</u>	<u>–</u>
Weighted average common shares outstanding – diluted basis	<u>23,566,981</u>	<u>15,218,127</u>	<u>22,048,830</u>	<u>15,057,466</u>
Diluted earnings per share	<u>\$ 0.22</u>	<u>\$ 0.20</u>	<u>\$ 0.63</u>	<u>\$ 0.65</u>

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

13. 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, bankers' acceptances, bank loan, accounts payable, accrued liabilities, dividends payable, due to related party and 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 bank loan approximates book value since they are due on demand and bear interest at floating rates. The fair value of bankers' acceptances approximates book value since they are short term and are due in less than 30 days. Mortgages receivable mature between 2013 and 2024 with a weighted average term to maturity of 12.7 months (2012 – 13.0 months). Fair value of mortgages receivable is established by level 3 inputs. The fair value of convertible debentures approximates book value and is established using level 2 inputs. Other financial assets and liabilities are established using level 3 inputs.

(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. Credit risk is approved by the board of directors. No single borrower accounts for more than 13.2% of mortgages receivable. The company's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at September 30, 2013 and December 31, 2012 is represented by the respective carrying amounts of the relevant financial assets in the condensed interim statements of financial position.

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

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, bankers' acceptances and bank loan, accounts payable, accrued liabilities, dividends payable, due to related party and convertible debentures. The bank indebtedness, bankers' acceptances and bank loan is drawn on to discharge 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 provided that all covenants are met and that any significant excess cash is used to pay down the bank loan and indebtedness.

As at September 30, 2013, management considers that the company does not have significant exposure to liquidity risk as the line of credit is not fully utilized 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. 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 relatively small amount of bank debt and bankers' acceptances that bear floating interest rates.

If interest rates on debt had been one percentage point higher during the three months ended September 30, 2013, earnings would have been reduced by approximately \$84,000 during that quarter, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. If new mortgage loans had been entered into at higher interest rates, the reduction of earnings would have been less than \$84,000. If interest rates on debt had been one percentage point lower during the three months ended September 30, 2013, earnings would have been increased by approximately \$84,000 during that quarter, assuming that no changes had been made to the interest rates at which new loans were entered into. Had new loans been entered into at lower interest rates, the potential increase in earnings in that quarter would have been less than \$84,000.

(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 almost all assets and liabilities are denominated in Canadian funds.

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

During the nine month period ended September 30, 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.

ATRIUM MORTGAGE INVESTMENT CORPORATION
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
Three-month and nine-month periods ended September 30, 2013 and 2012
(Unaudited)

14. CAPITAL MANAGEMENT

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

	September 30	December 31
	2013	2012
Bank indebtedness	\$ 229,464	\$ —
Bankers' acceptances	25,000,000	—
Bank loan	6,209,500	—
Convertible debentures	<u>30,540,336</u>	<u>—</u>
Total debt	61,979,300	—
Shareholders' equity	<u>212,195,535</u>	<u>210,109,925</u>
Capital employed	<u>\$ 274,174,835</u>	<u>\$ 210,109,925</u>

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 small 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, bankers' acceptances and bank loan 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 period. See also note 15(a) – Subsequent events.

15. SUBSEQUENT EVENTS

- (a) Effective October 10, 2013 the credit facility was increased through a syndicate facility to \$80,000,000 with two major financial institutions for one year term with similar conditions.
- (b) On October 14, 2013 the company issued 11,580 common shares (\$116,967) under its dividend reinvestment plan.
- (c) Effective October 1, 2013 the company issued 1,996 common shares subscribed for under the ESPP aggregating \$20,988.