# MD&A

## Management's Discussion And Analysis

First Quarter
March 31, 2020

**CANADA'S PREMIER NON-BANK LENDER™**

# Management's Discussion and Analysis

March 31, 2020

## Our business

Atrium is a mortgage lender filling the lending gap that results from the limited number of financial institutions operating in Canada. We lend in major urban centres and where the stability and liquidity of real estate are high. Our loan portfolio is high quality but we are able to charge higher rates than the banks because we offer flexibility, creativity and excellent service. Our mortgages are secured by all types of residential, multi-residential and commercial real estate located in Canada, and must all be in strict compliance with our investment policies. Atrium has a 19-year track record of success and consistency in achieving our strategic objectives: to grow in a controlled manner by focusing on real estate sectors with the lowest risk profiles.

Our objective is to invest in a diverse portfolio of predominantly first mortgages that are relatively short-term, to provide our shareholders with stable and secure dividends while preserving shareholders' equity, all within the parameters mandated for a Mortgage Investment Corporation (MIC). Working within conservative risk parameters, we endeavour to maximize income and dividends through careful underwriting and efficient management of our mortgage investments.

Information herein is current as of May 6, 2020.

## Highlights

Atrium continues to demonstrate strength and stability. For the quarter ended March 31, 2020, we had quarterly revenues of $17.1 million, up 8.0% from the comparable period. Net income was $9.9 million compared with $9.2 million in the comparable period. Basic and diluted earnings per share were $0.23, compared with $0.24 basic and diluted earnings per share in the comparable period.

We declared a regular dividend of $0.075 per share for each month in the quarter, a total of $0.225 for the year to date, consistent with dividends of $0.225 for the comparative period.

Our regular and special dividends since listing on the Toronto Stock Exchange in 2012 are as follows:

| *Year* | *Regular dividend* | *Special dividend* | *Total dividends paid* | *Earnings per share (basic)* |
|---|---|---|---|---|
| 2013 | $0.80 | $0.05 | $0.85 | $0.85 |
| 2014 | $0.82 | $0.07 | $0.89 | $0.91 |
| 2015 | $0.84 | $0.09 | $0.93 | $0.94 |
| 2016 | $0.86 | $0.10 | $0.96 | $0.97 |
| 2017 | $0.88 | $0.04 | $0.92 | $0.95 |
| 2018 | $0.90 | $0.04 | $0.94 | $0.95 |
| 2019 | $0.90 | $0.06 | $0.96 | $0.97 |
| 2020 | $0.90 | to be determined | | |

We had $743.1 million of mortgages receivable as at March 31, 2020, an increase of 2.2% from December 31, 2019. During the quarter, $81.2 million of mortgage principal was advanced and $64.9 million was repaid. The portfolio has a weighted average remaining term of 9.7 months.

Our focus continues to be lending in the major metropolitan areas of Ontario and British Columbia.

Revenues $17.1 million, increased 8.0% from prior year

Earnings per share $0.23 basic for the quarter

Strong, high quality mortgage portfolio

83.7% first mortgages

92.0% less than 75% loan-to-value

Mortgages receivable $743.1 million, up 2.2% since year-end

We focus on first mortgages with high liquidity and low loan-to-value ratios

# Investment portfolio

Our mortgage portfolio consisted of 187 mortgage loans and aggregated $746.5 million at March 31, 2020, an increase of 2.3% from December 31, 2019.

| | March 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| **Property Type** | **Number** | **Outstanding amount** | **% of Portfolio** | **Number** | **Outstanding amount** | **% of Portfolio** |
| (outstanding amounts in 000s) | | | | | | |
| Low-rise residential[1] | 31 | $ 197,052 | 26.4% | 32 | $ 216,144 | 29.6% |
| High-rise residential[1] | 17 | 191,777 | 25.7% | 15 | 174,544 | 23.9% |
| Mid-rise residential[1] | 22 | 169,788 | 22.8% | 21 | 160,456 | 22.0% |
| House and apartment[2] | 82 | 54,724 | 7.3% | 91 | 66,083 | 9.1% |
| Condominium corporation[3] | 14 | 2,561 | 0.3% | 14 | 2,659 | 0.4% |
| Residential portfolio | 166 | 615,902 | 82.5% | 173 | 619,886 | 85.0% |
| Commercial[4] | 21 | 130,574 | 17.5% | 19 | 109,859 | 15.0% |
| Mortgage portfolio | 187 | 746,476 | 100.0% | 192 | 729,745 | 100.0% |
| Accrued interest receivable | | 3,821 | | | 3,780 | |
| Mortgage discount | | (213) | | | (224) | |
| Unamortized origination fees | | (624) | | | (586) | |
| Provision for mortgage losses | | (6,390) | | | (5,390) | |
| Mortgages receivable | | $ 743,070 | | | $ 727,325 | |

1) *Mortgage loans on properties where the near-term business plan, as vetted by the lender, is to intensify the property into low-rise residential (detached, semi-detached, townhomes and/or multi-unit residential buildings up to 4 storeys), mid-rise residential (multi-unit residential buildings from 5-14 storeys and stacked townhomes) or high-rise residential (multi-unit residential buildings over 14 storeys).*
2) *Mortgage loans on existing single-family or multi-family residential homes and apartment buildings.*
3) *Mortgage loans to residential condominium corporations for guest suites, superintendent suites and green loans.*
4) *Mortgage loans on properties where the existing real estate is currently, or the proposed development project after rezoning will be, mixed use, commercial or industrial.*

A summary of our mortgages by loan type is presented below.

| | March 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| **Loan type** | **Number** | **Outstanding amount** | **% of Portfolio** | **Number** | **Outstanding amount** | **% of Portfolio** |
| (outstanding amounts in 000s) | | | | | | |
| Term loans | 174 | $ 620,837 | 83.2% | 177 | $ 589,967 | 80.9% |
| Construction loans | 13 | 125,639 | 16.8% | 15 | 139,778 | 19.1% |
| | 187 | $ 746,476 | 100.0% | 192 | $ 729,745 | 100.0% |

A summary of our mortgages by size is presented below.

| | March 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| **Mortgage amount** | **Number** | **Outstanding amount** | **% of Portfolio** | **Number** | **Outstanding amount** | **% of Portfolio** |
| (outstanding amounts in 000s) | | | | | | |
| $0 - $2,500,000 | 117 | $ 78,174 | 10.5% | 123 | $ 84,043 | 11.5% |
| $2,500,001 - $5,000,000 | 25 | 91,981 | 12.3% | 25 | 91,707 | 12.6% |
| $5,000,001 - $7,500,000 | 14 | 86,376 | 11.6% | 15 | 91,685 | 12.6% |
| $7,500,001 - $10,000,000 | 7 | 63,017 | 8.4% | 6 | 53,373 | 7.3% |
| $10,000,001 + | 24 | 426,928 | 57.2% | 23 | 408,937 | 56.0% |
| | 187 | $ 746,476 | 100.0% | 192 | $ 729,745 | 100.0% |

As of March 31, 2020, the average outstanding mortgage balance was $4.0 million (December 31, 2019 – $3.8 million), and the median outstanding mortgage balance was $1.0 million (December 31, 2019 – $0.9 million).

The tables below show our mortgage portfolio by location of the underlying property and type of mortgage. The weighted average interest rates shown exclude the lender fees paid by the borrower, which reflect the yield to Atrium including any mortgage discount or premium. The majority of all new loans funded in the first quarter of 2019 and 2020 were at floating rates. As at March 31, 2020, 72.9% of our portfolio was priced at floating rates, the majority with rate floors, up from 68.9% at December 31, 2019.

| | March 31, 2020 | | | | |
|---|---|---|---|---|---|
| **Location of underlying property** | **Number of mortgages** | **Outstanding amount** | **Percentage outstanding** | **Weighted average loan to value** | **Weighted average interest rate** |
| (outstanding amounts in 000s) | | | | | |
| Greater Toronto Area | 147 | $ 541,121 | 72.5% | 62.4% | 8.54% |
| Non-GTA Ontario | 22 | 21,446 | 2.9% | 64.4% | 8.26% |
| Alberta | 4 | 15,457 | 2.0% | 74.4% | 8.79% |
| British Columbia | 14 | 168,452 | 22.6% | 46.1% | 8.62% |
| | 187 | $ 746,476 | 100.0% | 59.0% | 8.60% |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| **Location of underlying property** | **Number of mortgages** | **Outstanding amount** | **Percentage outstanding** | **Weighted average loan to value** | **Weighted average interest rate** |
| (outstanding amounts in 000s) | | | | | |
| Greater Toronto Area | 153 | $ 509,299 | 69.8% | 64.1% | 8.85% |
| Non-GTA Ontario | 20 | 20,625 | 2.8% | 57.6% | 8.33% |
| Alberta | 4 | 15,141 | 2.1% | 64.0% | 8.80% |
| British Columbia | 15 | 184,680 | 25.3% | 46.9% | 8.77% |
| | 192 | $ 729,745 | 100.0% | 59.5% | 8.81% |

We have an exceptionally high proportion of our portfolio invested in first mortgages (83.7%), which is one of our core strategies.

At March 31, 2020, the weighted average loan-to-value ratio in our mortgage portfolio was 59.0%, with 92.0% of the portfolio below 75% loan-to-value. (At December 31, 2019, the weighted average loan-to-value ratio in our mortgage portfolio was 59.5%, with 92.0% of the portfolio below 75% loan-to-value.)

| | March 31, 2020 | | | |
|---|---|---|---|---|
| **Type of mortgage** | **Number of mortgages** | **Outstanding amount** | **Percentage outstanding** | **Weighted average interest rate** |
| (outstanding amounts in 000s) | | | | |
| First mortgages | | | | |
| Conventional | 144 | $ 617,845 | 82.8% | 8.21% |
| Non-Conventional | 1 | 4,401 | 0.6% | 8.50% |
| Other | 14 | 2,561 | 0.3% | 7.38% |
| | 159 | 624,807 | 83.7% | 8.21% |
| Second and third mortgages | | | | |
| Conventional | 25 | 66,581 | 8.9% | 10.02% |
| Non-conventional | 3 | 55,088 | 7.4% | 10.77% |
| | 28 | 121,669 | 16.3% | 10.36% |
| | 187 | $ 746,476 | 100.0% | 8.60% |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| **Type of mortgage** | **Number of mortgages** | **Outstanding amount** | **Percentage outstanding** | **Weighted average interest rate** |
| (outstanding amounts in 000s) | | | | |
| First mortgages | | | | |
| Conventional | 146 | $ 590,707 | 81.0% | 8.47% |
| Non-Conventional | 1 | 4,305 | 0.6% | 8.50% |
| Other | 14 | 2,658 | 0.3% | 7.39% |
| | 161 | 597,670 | 81.9% | 8.47% |
| Second and third mortgages | | | | |
| Conventional | 28 | 77,871 | 10.7% | 10.05% |
| Non-conventional | 3 | 54,204 | 7.4% | 10.81% |
| | 31 | 132,075 | 18.1% | 10.36% |
| | 192 | $ 729,745 | 100.0% | 8.81% |

Conventional mortgages are those with a loan-to-value of less than or equal to 75%, which is the industry standard for determining that a mortgage is conventional. Non-conventional mortgages are those with a loan-to-value in excess of 75%.

The weighted average term remaining for our mortgage portfolio at March 31, 2020 is 9.7 months (December 31, 2019 – 8.7 months).

## Our business

In Canada there is a lending gap due to the limited number of financial institutions operating. Our business is to help fill that gap by focusing on loans that cannot be placed with larger financial institutions but represent an acceptable underwriting risk. Our borrowers benefit from our efficient, thorough and fast underwriting process. We lend in major urban centres where the stability and liquidity of real estate are at the highest levels.

Our policy is that the weighted average loan-to-value ratio of our mortgage portfolio, as a whole, at the time of underwriting each loan in our portfolio, will not exceed 75%. At March 31, 2020, the weighted average loan-to-value ratio of the mortgage portfolio was considerably lower than that, at 59.0%, compared to 59.5% at December 31, 2019.

A typical loan in our portfolio has an interest rate of 7.75% to 10% per annum, a one or two-year term and monthly interest-only mortgage payments.

Our lending parameters are as follows:

- Mortgages on residential and commercial properties up to a maximum of 75% of appraised value.
- Loans on single family residences up to 75% of appraised value.
- Mortgages on income-producing real estate up to a maximum of 85% of appraised value.
- Construction loans up to a maximum of 90% of cost.
- Loans to condominium corporations.

Mortgage loan amounts are generally $300,000 to $30 million. The largest single mortgage in our mortgage portfolio as at March 31, 2020 was $43.0 million (December 31, 2019 – $43.0 million). For loan amounts in excess of $30 million, we generally co-lend with a financial institution or private lender.

Our investment policies, which may be changed by our board of directors ("board"), are as follows:

- We may invest only in residential mortgages, commercial mortgages, commercial mortgage backed securities and certain related investments.
- All investments must be mortgages on the security of real property situated within Canada, loans to condominium corporations, or certain permitted interim investments.
- Commercial mortgages may not constitute more than 50% of our total assets at any time.
- The term of the mortgage may generally be no greater than ten years.
- Mortgages are subject to the following geographic limits at the time of funding: Ontario – maximum 80% of total mortgages; Alberta – maximum 15% of total mortgages; British Columbia – maximum of 35% of total mortgages.
- No single borrower may account for more than 15% of our total assets.
- All mortgages are supported by external appraisals by a qualified appraiser. All mortgages, except mortgages secured by one to six residential units, are also supported by environmental audits.
- The maximum initial loan-to-value ratio of an individual mortgage is 85% including any prior ranking encumbrances, and the weighted average loan-to-value ratio of our mortgage portfolio at the time of underwriting each loan may not exceed 75%.
- Our ratio of debt to equity must be less than 1:1.

- We do not invest directly in real property, although real property may be acquired by foreclosing on a mortgage.
- A mortgage investment of: (i) $2,000,000 or more requires approval of the board; (ii) between $1,000,000 and $2,000,000 requires approval of three members of the board, including at least two independent directors; and (iii) $1,000,000 or less requires approval of any one member of the board. For loans previously approved, the approval of one member of the board is required for changes to the loan that do not exceed the approved amount by more than $200,000 and/or for minor technical amendments that do not change other underwriting considerations, provided the loan-to-value ratio increases by less than 5% and the ratio is 75% or less. We may invest in interim investments that are guaranteed by the Government of Canada or of a province or territory of Canada or deposits or certificates of deposits, acceptances and other similar instruments issued, endorsed or guaranteed by a Schedule I Bank in any amount without prior board approval.
- We may not make unsecured loans to, nor invest in securities issued by, our manager or its affiliates, nor make unsecured loans to the directors or officers of the manager.
- We may not make any investment, or incur any indebtedness, that would result in our not qualifying as a MIC.

**Our objective is to invest in a diverse portfolio of predominantly first mortgages that are relatively short-term, to provide our shareholders with stable and secure dividends while preserving shareholders' equity, all within the parameters mandated for a MIC. Working within conservative risk parameters, we endeavour to maximize income and dividends through the sourcing and efficient management of our mortgage investments.**

We are a non-bank lender and invest in mortgages secured by all types of residential, multi-residential and commercial real property located in Canada, subject to compliance with our investment policies. The types of properties that we finance include residential houses, small multi-family residential properties comprised of six or fewer units, residential apartment buildings, commercial properties and store-front retail properties, commercial properties and residential and commercial land development sites. We also finance construction projects and provide short-term bridge financing for real estate developers. Our strategy is to grow in a controlled manner by diversifying geographically, and focusing on real estate sectors with the lowest risk profiles.

We qualify as a MIC and are restricted from any activity that would result in us failing to qualify as a MIC. In order to qualify as a MIC, we must satisfy the requirements in subsection 130.1(6) of the *Income Tax Act* (Canada) ("ITA") throughout the taxation year. Among the requirements are:

- We can only invest or manage funds and cannot manage or develop real property.
- We cannot own debts secured on real property situated outside Canada, debts owing by non-residents unless such debts were secured on real property situated in Canada, shares of the capital stock of corporations not resident in Canada, or real property situated outside of Canada or any leasehold interest in such property.
- No shareholder (together with related persons, as defined in the ITA) may at any time own, directly or indirectly, more than 25% of our common shares.
- The cost for tax purposes of cash on hand, debts secured on specified residential properties, and funds on deposit with a Canada Deposit Insurance Fund or Régie de l'assurance-dépôts du Québec-insured institution or credit union must constitute at least 50% of the cost of all of our property.
- The cost for tax purposes of any interests in real property (including leaseholds but excepting real or immovable property acquired by foreclosure after default by the mortgagor) may not exceed 25% of the cost of all of our property.
- There are certain restrictions as to our maximum debt-to-equity ratio.

We are managed by Canadian Mortgage Capital Corporation (the "manager" or "CMCC"), which is our exclusive manager and arranges and services our mortgage loans and otherwise directs our affairs and manages our business. For explanations as to some of the terms used herein, please refer to our Annual Information Form for the year ended December 31, 2019, which is available at www.sedar.com.

## Results of Operations

*(In this section, dollars are in thousands of Canadian dollars, except per share amounts)*

### Financial summary *(unaudited)*

| | Three months ended March 31 | |
|---|---|---|
| | 2020 | 2019 |
| Revenue | $ 17,057 | $ 15,796 |
| Mortgage servicing and management fees | (1,777) | (1,680) |
| Other expenses | (349) | (287) |
| Provision for mortgage losses | (1,000) | (400) |
| Income before financing costs | 13,931 | 13,429 |
| Financing costs | (4,067) | (4,194) |
| Earnings and total comprehensive income | $ 9,864 | $ 9,235 |
| Basic earnings per share | $ 0.23 | $ 0.24 |
| Diluted earnings per share | $ 0.23 | $ 0.24 |
| Dividends declared | $ 9,504 | $ 8,648 |
| Mortgages receivable, end of period | $ 743,070 | $ 706,098 |
| Total assets, end of period | $ 759,494 | $ 723,225 |
| Shareholders' equity, end of period | $ 462,249 | $ 423,286 |

### Summary of quarterly results *(unaudited)*

| | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 | Q3 2018 | Q2 2018 |
|---|---|---|---|---|---|---|---|---|
| Revenue | $ 17,057 | $ 17,116 | $ 16,712 | $ 16,565 | $ 15,796 | $ 14,850 | $ 15,476 | $ 14,616 |
| Mortgage servicing and management fees | (1,777) | (1,816) | (1,743) | (1,757) | (1,680) | (1,554) | (1,661) | (1,610) |
| Other expenses | (349) | (267) | (285) | (265) | (287) | (294) | (279) | (317) |
| Impairment loss on investment property | – | (806) | – | – | – | – | – | – |
| Provision for mortgage losses | (1,000) | (300) | (390) | (400) | (400) | (537) | (563) | (400) |
| Income before financing costs | 13,931 | 13,927 | 14,294 | 14,143 | 13,429 | 12,465 | 12,973 | 12,289 |
| Financing costs | (4,067) | (4,196) | (4,359) | (4,476) | (4,194) | (3,928) | (4,273) | (3,684) |
| Net income and comprehensive income | $ 9,864 | $ 9,731 | $ 9,935 | $ 9,667 | $ 9,235 | $ 8,537 | $ 8,700 | $ 8,605 |
| Basic earnings per share | $ 0.23 | $ 0.23 | $ 0.25 | $ 0.25 | $ 0.24 | $ 0.23 | $ 0.24 | $ 0.24 |
| Diluted earnings per share | $ 0.23 | $ 0.23 | $ 0.25 | $ 0.24 | $ 0.24 | $ 0.23 | $ 0.24 | $ 0.24 |
| Dividends declared | $ 9,504 | $ 11,906 | $ 8,890 | $ 8,870 | $ 8,648 | $ 9,677 | $ 8,164 | $ 8,140 |

### Results of operations – Three months ended March 31, 2020

For the three months ended March 31, 2020, mortgage interest and fees revenues aggregated $17,057, compared to $15,796 in the comparative period, an increase of 8.0%. Virtually all our revenues are mortgage interest, therefore, the increase in revenue is due to the growth of our mortgage portfolio from the comparative quarter. The increase was offset slightly by a reduction in the weighted average interest rate during the quarter compared to the first quarter of 2019. A variety of factors affect the changes in the weighted average interest rate of our mortgage portfolio from quarter to quarter. No single factor is determinative or material for the mortgage portfolio as a whole, however, such factors include, but are not limited to, changes in prime rate of interest, the dollar amount of mortgages advanced and/or repaid in the period, the types of properties on which mortgage loans are advanced and/or repaid in the period, the location of the underlying properties on which mortgage loans are advanced and/or repaid, the types of mortgage loans advanced and/or repaid during the period and whether the mortgage loans advanced and/or repaid during the period are conventional or non-conventional mortgages. The weighted average interest rate on our mortgage portfolio was 8.60% at March 31, 2020, compared with 8.90% at March 31, 2019. We generated rental income of $177 for the three months ended March 31, 2020 from our two investment properties (March 31, 2019 – $nil).

Operating expenses, excluding the provision for mortgage losses, for the three months ended March 31, 2020 were $2,126, compared to $1,967 in the comparative period, an increase of 8.1%. This increase is largely due to an increase in mortgage servicing and management fees. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $1,777 for the three months ended March 31, 2020, compared with $1,680 in the prior year period. This increase was due to the increase in the size of the mortgage portfolio, as mortgage servicing fees are calculated and paid monthly based on the mortgage portfolio balance outstanding during the month. Transfer agent, regulatory fees and investor relations expenses increased by $20, or 29.0% due to quarterly timing differences in investor relations events. Directors' expense increased by $22, or 44.9%, primarily due to the increase in director fees for 2020.The provision for mortgage losses was $1,000 in the quarter to bring the total provision to $6,390 at

March 31, 2020 compared to $400 in the prior year period for a total provision of $4,300 at March 31, 2019. In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The duration and impact of COVID-19 is uncertain. This uncertainty has resulted in an increase to the provision for mortgage losses for the quarter ended March 31, 2020.

Financing costs for the three months ended March 31, 2020 were $4,067, compared to $4,194 in the same period of 2019, a decrease of 3.0%. Coupon rate interest on convertible debentures was $2,101 for the three months ended March 31, 2020 compared to $2,260 for the comparative period. This decrease was a result of interest savings from the 6.25% convertible debentures being repaid at maturity on March 31, 2019 and replaced with 5.6% convertible debentures. Accretion and other costs were $330 for the three months ended March 31, 2020 compared to $348 for the comparative period. Interest expense on the credit facility was $1,565 for the three months ended March 31, 2020, down from $1,586 for the comparative period. This decrease is due to a decrease in the average credit facility balance between the quarters and lower weighted average cost of borrowing in the first quarter of 2020 compared to the first quarter of 2019. In October 2019, we completed an issuance of common shares, the proceeds of which were used to pay down the credit facility. Prime rate decreased three times in March 2020 and the rates for bankers' acceptances were lower in the first quarter of 2020 than they were in the comparable period, both of which contributed to the lower interest expense on the credit facility.

Net income and comprehensive income for the three months ended March 31, 2020 was $9,864, an increase of 6.8% from net income and comprehensive income of $9,235 for the same period in the prior year. Basic and diluted earnings per common share were $0.23 for the three months ended March 31, 2020, compared with $0.24 basic and diluted for the comparable period in the previous year. Earnings per share decreased largely as a result of the increased provision for mortgage losses in the current quarter as a result of uncertainty around the impact of COVID-19. There were also a greater number of shares outstanding due to the issuance of common shares completed in February and October 2019 and conversions of convertible debentures into common shares between September 2018 and February 2020.

During the three months ended March 31, 2020, we funded mortgages receivable aggregating $86,000. Of those advances, $83,993 were first mortgages, representing 97.7% of the total loans funded. British Columbia advances were $1,798, advances of $315 were on properties in Alberta, $1,987 were non-GTA Ontario and the remaining $81,900 were for mortgages on properties located in the Greater Toronto Area. There were $69,270 of repayments during the period.

## Liquidity and capital resources

At March 31, 2020, we had borrowings under credit facility (excluding unamortized finance costs) of $141,621. The credit facility, currently authorized for up to $210,000 (December 31, 2019 – $210,000), is provided by a syndicate of four major chartered banks, drawn through a combination of bankers' acceptances and bank loans to minimize our borrowing costs. At any time during the term of the credit facility, we have the one-time right to increase the credit facility by up to $30,000 (such that the total maximum availability would be up to $240,000). We were in compliance with the covenants in the credit facility as at March 31, 2020, and we expect to remain in compliance with such covenants going forward.

At March 31, 2020, we had five series of convertible debentures outstanding, with a total book value of $149,325, and a face value (and maturity value) of $153,777. On March 31, 2020, we announced we would be redeeming early all of the outstanding 5.25% convertible debentures on May 4, 2020. For additional information on the operating credit facility and the debentures, please refer to Notes 7 and 9, respectively, of our accompanying interim consolidated financial statements.

The growth in our mortgage portfolio has been financed by the issuance of common shares, issuance of convertible debt, and through the operating credit facility. We expect to be able to generate sufficient funds for future growth in net mortgage loan investments by utilizing those three sources of funds. As at March 31, 2020, total debt was 39.1% of total assets (December 31, 2019 – 38.8%). Our policy and our banking arrangements both require that total debt not exceed 50.0% of total assets.

## Changes in financial position

Cash used in investing activities during the quarter ended March 31, 2020 consisted entirely of advances of principal on mortgage loan investments of $81,152, less principal repayments received of $64,913, for net cash used in mortgage loan investments of $16,239 to support the growth in our mortgage portfolio.

Borrowings under our operating credit facility increased to $141,621 at March 31, 2020, from $123,937 at December 31, 2019, due to the growth in our portfolio.

Accounts payable and accrued liabilities, including accrued convertible debenture interest, were $3,494 at March 31, 2020 compared to $5,100 at December 31, 2019. This decrease is due to timing differences in payments. Dividends payable were $3,175 at March 31, 2020 down from $5,652 at December 31, 2019. The decrease is due to payment of

the bonus dividend accrued at December 31, 2019.

Share capital increased to $459,294 at March 31, 2020 from $452,851 at December 31, 2019, primarily due to the conversion of convertible debentures in the first quarter of 2020.

## Contractual obligations

Contractual obligations due at March 31, 2020 were as follows:

| March 31, 2020 | Total obligation | Within 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Borrowings under credit facility | $141,621 | $141,621 | $ – | $ – | $ – |
| Accounts payable and accrued liabilities | 2,360 | 2,360 | – | – | – |
| Accrued convertible debenture interest | 1,134 | 1,134 | – | – | – |
| Dividends payable | 3,175 | 3,175 | – | – | – |
| Convertible debentures | 153,777 | 24,977 | 40,250 | 54,050 | 34,500 |
| Total contractual obligations | $302,067 | $173,267 | $ 40,250 | $ 54,050 | $ 34,500 |

We have commitments to advance additional funds under existing mortgages of $80,169 and for new mortgages of $6,001 at March 31, 2020 (December 31, 2019 – $64,932, $28,947). Generally, outstanding commitments are expected to be funded within the next 24 months. However, our experience has been that a portion of the unfunded amounts on existing mortgages will never be drawn.

## Off-balance sheet arrangements

As at March 31, 2020, we had $6,567 (December 31, 2019 – $8,428) of letters of credit (LCs) outstanding which were issued under our operating credit facility. The maximum available by way of LCs under our operating credit facility at March 31, 2020 was $20,000 (December 31, 2019 – $20,000). LCs represent irrevocable assurances that our banks will make payments in the event that a borrower of the company cannot meet its obligations to third parties. LCs carry the same credit risk, recourse and collateral security requirements as mortgages extended to customers.

## Transactions with related parties

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and are measured at fair value.

The manager is responsible for our day-to-day activities. We incurred management and mortgage servicing fees from a subsidiary of the manager of $1,777 for the quarter ended March 31, 2020 (quarter ended March 31, 2019 – $1,680). Mr. Robert G. Goodall is a director and part of the key management personnel of the manager, received compensation from the manager, and is also a director of Atrium. The management agreement between us and the manager contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. The manager also acts as broker for our mortgages. The manager receives origination fees from the borrowers of up to 1% of the amount being funded; origination fees in excess of 1% are split between the manager and Atrium.

Certain of our mortgages are shared with other investors. As at March 31, 2020, companies owned by a director and officer of the company (Robert G. Goodall) had co-invested in one syndicated secured mortgage. The total amount of the mortgage is $57,710 (December 31, 2019 – one syndicated mortgage of $56,186) of which the company's share is $28,855 (December 31, 2019 – $28,093).

As at March 31, 2020, the company had four mortgages receivable from borrowers over which a director and officer of the company (Robert G. Goodall) has joint control (December 31, 2019 – three).

- A secured mortgage loan with a total gross commitment of $3,490 (December 31, 2019 – $3,490), of which $3,490 had been funded at March 31, 2020 (December 31, 2019 – $3,490). During the quarter ended March 31, 2020, the company recognized net mortgage interest and fees of $79 (quarter ended march 31, 2019 – $78) from this mortgage receivable.
- A secured mortgage loan with a total gross commitment of $8,738 (December 31, 2019 – $8,738). The company's share of the commitment is $2,330 (December 31, 2019 – $2,330), of which $2,330 had been funded at March 31, 2020 (December 31, 2019 – $2,330). During the quarter ended March 31, 2020, the

company recognized net mortgage interest and fees of $57 (quarter ended March 31, 2019 – $58) from this mortgage receivable.

- A secured mortgage loan with a total gross commitment of $7,875 (December 31, 2019 – $7,875). The company's share of the commitment is $1,500 (December 31, 2019– $1,500), of which $1,500 had been funded at March 31, 2020 (December 31, 2019 – $1,500). During the quarter ended March 31, 2020, the company recognized net mortgage interest and fees of $32 (quarter ended March 31, 2019 – $21) from this mortgage receivable.
- A secured mortgage receivable loan with a total gross commitment of $18,450 (December 31, 2019 – $nil). The company's share of the commitment is $6,550 (December 31, 2019 – $nil), of which $2,100 had been funded at March 31, 2020 (December 31, 2019 – $nil). During the quarter ended March 31, 2020, the company recognized net mortgage interest and fees of $52 (quarter ended March 31, 2019 – $nil) from this mortgage receivable.

## Critical accounting estimates and policies

Our interim consolidated financial statements for the quarter ended March 31, 2020 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the CPA Canada *Handbook*. The preparation of interim consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period.

The most subjective of these estimates relate to:

(a) determining whether the cash flows from the mortgages receivable represent solely payments of principal and interest (SPPI);

(b) the measurement of impairment losses for mortgages receivable, in particular: measurement of credit risk to determine whether there has been a significant increase in credit risk since initial recognition; the assessment of when mortgages receivable become impaired and the incorporation of forward-looking information to determine expected credit losses; and

(c) 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.

We believe that management's 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.

### *Mortgages receivable*

Mortgages receivable are a financial asset and are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method. All our mortgages receivable are held in a single business model. We have concluded that our business model is to hold mortgages receivable to collect contractual cash flows that represent solely payments of principal and interest.

Mortgages receivable and commitments are assessed for impairment at the end of each reporting period using an expected credit loss (ECL) model. The ECL model uses a three-stage impairment approach based on changes in the credit risk of the commitment or mortgage receivable since initial recognition. Credit quality is assessed at each reporting period and results in commitments and mortgages receivable being moved between stages, as necessary. Significant credit judgement is required when assessing evidence of credit impairment and estimating expected credit losses. For commitments and mortgages receivable, the company considers a number of past events, current conditions and forward-looking information when assessing if there has been a significant increase or subsequent decrease in credit risk. The company considers a commitment or mortgage receivable to be impaired when there is objective evidence that one or more events have occurred that have an unfavourable impact on estimated future cash flows such that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

An ECL represents the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received. The company's application of the concept uses three inputs to measure ECLs for commitments and mortgages receivable classified as Stage 1: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These inputs are determined at each reporting period using historical data and current conditions. Adjustments may be made to the probability of default if the effects of, for example, forecasts of housing prices, employment and interest rates, are expected to be significant over the term of the mortgage. The inputs for Stage 1 mortgages receivable are calculated separately for (i) mortgages receivable on single-family residences and (ii) mortgages receivable on all other properties on the basis of differences in the credit risk of each. The ECL is assessed individually for each commitment and

mortgage receivable classified as either Stage 2 or Stage 3. For mortgages receivable in these stages, forecast future information specific to the loan (for example, forecasts of real estate prices) is incorporated when assessing the cash flows expected to be received.

Mortgages receivable are presented on the interim consolidated statements of financial position net of the provision for mortgage losses. A loss on a mortgage is written off against the related provision for mortgage losses when there is no reasonable expectation of further recovery, which is the point at which the underlying real property has been liquidated and claims against guarantors, if any, are unlikely to recover any further losses. For any mortgages receivable that have been written off but where guarantors are still being pursued for collection, no recovery is recognized until it is virtually certain of collection. For further information see Note 3 (a) and (c) of our interim consolidated financial statements for the quarter ended March 31, 2020.

#### *Revenue recognition*

Mortgage interest and fees revenues are recognized in the statement of income and comprehensive income using the effective interest method. Mortgage interest and fees revenues include our share of any fees received, as well as the effect of any discount or premium on the mortgage. Interest revenue is calculated on the gross carrying amount for mortgages receivable in Stages 1 and 2 and on the net carrying amount for mortgages receivable in Stage 3.

The effective interest method derives the interest rate that discounts the estimated future cash receipts during the expected life of the mortgage receivable (or, where appropriate, a shorter period) to its carrying amount. When calculating the effective interest rate, future cash flows are estimated considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and transaction costs paid or received. Fees and transaction costs include incremental revenues and costs that are directly attributable to the acquisition or issuance of the mortgage.

#### *Convertible debentures*

The convertible debentures can be converted into our common shares 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 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 financial liability using the effective interest method, which provides for the application of a constant interest rate over the term of the debt. The value of the equity component is not re-measured subsequent to its initial measurement date.

#### *Income taxes*

We are, and intend to maintain our status as, a MIC, and as such are not taxed on income provided that it flows through to our shareholders as dividends during the year or within 90 days after December 31 each year. It is our policy to pay such dividends to our shareholders to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

## Future changes in accounting policies

Various pronouncements have been issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) that will be effective for future accounting periods. The company closely monitors new accounting standards as well as amendments to existing standards and assesses what impact, if any, they will have on the interim consolidated financial statements.

# Controls and procedures

Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument (NI) 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*.

We designed the DC&P and ICFR, the latter of which was using the framework in *Internal Control – Integrated Framework* (published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and as revised in 2013) to provide reasonable assurance (i) that material information relating to us is made known to our CEO and CFO during the reporting period; (ii) that information required to be disclosed by us in our filings under securities legislation is recorded, processed, summarized and reported within the required time periods; (iii) regarding the

reliability of financial reporting and preparation of interim consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

Our CEO and CFO evaluated the design effectiveness of the DC&P and ICFR, as defined by NI 52-109, as of March 31, 2020. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of that date. NI 52-109 also requires Canadian public companies to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. No such change to ICFR has occurred during the most recently completed quarter.

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

## Outstanding share data

Our authorized capital consists of an unlimited number of common shares, of which 42,337,759 were issued and outstanding at March 31, 2020, and 42,382,636 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,747,440, 1,693,440, 2,211,540 and 1,949,152 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.50% (September 2021), 5.30%, 5.50% (December 2025) and the 5.60% convertible debentures, using the conversion price of $14.65, $14.94, $15.60 and $14.75 respectively, for each common share.

We also have an employee share purchase plan, a deferred share incentive plan and a dividend reinvestment plan pursuant to which common shares are issued from time to time.

## Risks and uncertainties

We are subject to many risks and uncertainties that may limit our ability to execute our strategies and achieve our objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while others cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general real estate market, interest rates changing markedly, being unable to make mortgage loans at rates consistent with rates historically achieved, not having adequate mortgage loan opportunities presented to us, and not having adequate sources of bank finance available.

Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. In rare circumstances where a mortgage is in default, we may take possession of real property and may become liable for environmental issues as a mortgagee in possession. As part of the due diligence performed in respect of our mortgage loan investments, we obtain a Phase I environmental audit on the underlying real property provided as security for a mortgage, unless the manager has determined that a Phase I environmental audit is not necessary.

Please also refer to "Forward-looking information," below, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2019 which is incorporated herein by reference and is available at www.sedar.com and at www.atriummic.com.

## Forward-looking information

From time to time in our public communications we provide forward-looking statements. Such statements are disclosures regarding possible events, conditions, results of operations or changes in financial position that are based upon assumptions and expectations. These are not based upon historical facts but are with respect to management's beliefs, estimates, and intentions. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", "continue" or similar expressions suggesting future outcomes or events. Forward-looking statements regarding earnings, possible mortgage losses, and mortgage portfolio growth are based upon assumptions regarding performance of the economy in general and real estate markets in particular. Forward-looking statements generally assume that our revenues and expenses continue to follow current trends, and that current trends in our mortgage portfolio growth continue.

All forward-looking statements reflect management's current beliefs and are based on information currently

available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A or elsewhere. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and the general economic environment. For other risks and uncertainties, please refer to "Risks and uncertainties" above, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2019 which is available at www.sedar.com and at www.atriummic.com. That list is not exhaustive, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. We will not publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, unless required to do so by law.

## Responsibility of management and the board of directors

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our audit committee and board of directors provide an oversight role with respect to our public financial disclosures, and have reviewed and approved this MD&A and the unaudited interim consolidated financial statements as at March 31, 2020.

## Dividend Reinvestment Plan

We have a Dividend Reinvestment Plan (DRIP) which is available to holders of our common shares. The DRIP allows participants to have their monthly cash dividends reinvested in additional common shares, at a discount of 2% from the market price.

On April 29, 2020, in response to the market disruption caused by the COVID-19 pandemic, we suspended the DRIP commencing with the dividends scheduled to be paid on May 12, 2020 to shareholders of record on April 30, 2020.

## Additional information

Additional information about Atrium, including our Annual Information Form for the year ended December 31, 2019, is available on SEDAR at www.sedar.com. You may also obtain further information about us from our website at www.atriummic.com, by telephone at (416) 607-4200, or by email at info@atriummic.com.