MD&A

ATRIUM
MORTGAGE INVESTMENT CORPORATION

Management's Discussion And Analysis

Year Ended
December 31, 2018

CANADA'S PREMIER NON-BANK LENDER™

Management's Discussion and Analysis

December 31, 2018

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 an 18-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 February 13, 2019.

Highlights

Atrium continues to demonstrate strength and stability. For the year ended December 31, 2018, we had record revenues of $58.3 million, up 15.8% from the prior year. Net income was a record $33.8 million compared with $29.1 million for the prior year. Basic and diluted earnings per share were $0.95 and $0.94 respectively, compared with $0.95 and $0.94 basic and diluted earnings per share in the prior year.

During 2018, we issued common shares for gross proceeds of $34.5 million, including full exercise of the overallotment option. In addition, during 2018, we issued a new series of 5.50% convertible debentures maturing December 31, 2025 for gross proceeds of $34.5 million, including full exercise of the overallotment option.

We declared a regular dividend of $0.075 per share for each month in the year, a total of $0.90 for the year to date compared to $0.88 for the prior year. In addition, we declared a special dividend of $0.04, for a total dividend of $0.94 for 2018, compared to $0.92 for the previous year. For 2019, our board of directors has set the regular dividend rate at $0.90 per annum.

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	to be determined		

We had $682.7 million of mortgages receivable as at December 31, 2018, an increase of 8.9% from December 31, 2017. During the year, $306.0 million of mortgages were advanced and $240.4 million of mortgages were repaid. The portfolio has a weighted average remaining term of 11.3 months.

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

Revenues $58.3 million increased 15.8% from prior year

Earnings per share $0.95 basic

Strong, high quality mortgage portfolio

84.1% first mortgages

88.6% less than 75% loan-to-value

Mortgages receivable $682.7 million, up 8.9% from prior year

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

Investment portfolio

Our mortgage portfolio consisted of 208 mortgage loans and aggregated $684.4 million at December 31, 2018, an increase of 8.2% from December 31, 2017.

	December 31, 2018			December 31, 2017[5]		
Property Type	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
Low-rise residential[1]	38	$ 232,713	34.0%	39	$ 256,581	40.6%
High-rise residential[1]	15	146,027	21.3%	10	81,939	13.0%
Mid-rise residential[1]	20	139,708	20.4%	6	37,071	5.9%
House and apartment[2]	101	64,230	9.4%	120	86,287	13.6%
Condominium corporation[3]	14	2,533	0.4%	14	2,887	0.4%
Residential portfolio	188	585,211	85.5%	189	464,765	73.5%
Commercial[4]	20	99,193	14.5%	27	167,622	26.5%
Mortgage portfolio	208	684,404	100.0%	216	632,387	100.0%
Accrued interest receivable		3,122			2,537	
Mortgage discount		(221)			(262)	
Unamortized origination fees		(684)			(706)	
Provision for mortgage losses		(3,900)			(7,200)[6]	
Mortgages receivable		$ 682,721			$ 626,756	

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.*
5) *Comparative figures have been reclassified to conform with the current year presentation (See Note 15 to the December 31, 2018 consolidated financial statements)*
6) *Measured under IAS 39*

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

	December 31, 2018			December 31, 2017		
Loan type	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
Term loans	199	$ 609,099	89.0%	207	$ 549,818	86.9%
Construction loans	9	75,305	11.0%	9	82,569	13.1%
	208	$ 684,404	100.0%	216	$ 632,387	100.0%

A summary of our mortgages by size is presented below.

	December 31, 2018			December 31, 2017		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
$0 - $2,500,000	145	$ 103,128	15.1%	161	$ 105,386	16.7%
$2,500,001 - $5,000,000	26	98,176	14.3%	19	69,755	11.0%
$5,000,001 - $7,500,000	8	48,118	7.0%	10	60,555	9.6%
$7,500,001 - $10,000,000	7	61,394	9.0%	5	42,920	6.8%
$10,000,001 +	22	373,588	54.6%	21	353,771	55.9%
	208	$ 684,404	100.0%	216	$ 632,387	100.0%

As of December 31, 2018, the average outstanding mortgage balance was $3.3 million (December 31, 2017 – $2.9 million), and the median outstanding mortgage balance was $0.8 million (December 31, 2017 – $0.8 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. Almost all new loans funded in Q3 and Q4 2018 were at floating rates. As at December 31, 2018, 61.9% of our portfolio was priced at floating rates, up from 15% at December 31, 2017.

We are continuing to reduce our exposure in Alberta; 100% of the remaining Alberta loans are first mortgages. In that market our exposure is further mitigated by not lending to office, high-rise condominiums or to hotels.

	December 31, 2018				
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	162	$ 431,334	63.0%	65.5%	8.94%
Non-GTA Ontario	26	29,160	4.3%	57.9%	8.28%
Alberta	3	15,698	2.3%	52.5%	8.83%
British Columbia	17	208,212	30.4%	53.1%	8.76%
	208	$ 684,404	100.0%	61.1%	8.85%

	December 31, 2017				
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	159	$ 397,293	62.8%	62.5%	8.51%
Non-GTA Ontario	35	26,383	4.2%	65.9%	8.54%
Saskatchewan	2	17,107	2.7%	100.0%	8.06%
Alberta	5	22,518	3.6%	59.4%	8.87%
British Columbia	15	169,086	26.7%	54.7%	8.24%
	216	$ 632,387	100.0%	61.5%	8.44%

We have an exceptionally high proportion of our portfolio invested in first mortgages (84.1%), which is one of our core strategies.

At December 31, 2018, the weighted average loan-to-value ratio in our mortgage portfolio was 61.1%, with 88.6% of the portfolio below 75% loan-to-value. (At December 31, 2017, the weighted average loan-to-value ratio in our mortgage portfolio was 61.5%, with 85.9% of the portfolio below 75% loan-to-value.)

	December 31, 2018			
Type of mortgage	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average interest rate**
(dollars in 000s)				
First mortgages				
Conventional	150	$ 549,039	80.2%	8.59%
Non-Conventional	3	24,047	3.5%	7.67%
Other	14	2,533	0.4%	7.46%
	167	575,619	84.1%	8.55%
Second and third mortgages				
Conventional	33	54,460	8.0%	10.03%
Non-conventional	8	54,325	7.9%	10.85%
	41	108,785	15.9%	10.44%
	208	$ 684,404	100.0%	8.85%

	December 31, 2017			
Type of mortgage	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average interest rate**
(dollars in 000s)				
First mortgages				
Conventional	144	$ 467,583	73.9%	8.07%
Non-Conventional	8	46,672	7.4%	8.00%
Other	14	2,887	0.5%	7.49%
	166	517,142	81.8%	8.06%
Second and third mortgages				
Conventional	44	72,609	11.5%	9.78%
Non-conventional	6	42,636	6.7%	10.76%
	50	115,245	18.2%	10.14%
	216	$ 632,387	100.0%	8.44%

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 December 31, 2018 is 11.3 months (December 31, 2017 – 12.4 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 December 31, 2018, the weighted average loan-to-value ratio of the mortgage portfolio was considerably lower than that, at 61.1%, compared to 61.5% at December 31, 2017.

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 December 31, 2018 was $41.1 million (December 31, 2017 – $32.3 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, 2018, 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

	Year ended December 31 2018	Year ended December 31 2017	Year ended December 31 2016
Revenue	$ 58,316	$ 50,359	$ 44,042
Mortgage servicing and management fees	(6,279)	(5,470)	(4,661)
Other expenses	(1,142)	(1,251)	(1,221)
Provision for mortgage losses	(1,800)	(1,850)	(1,519)
Income before financing costs	49,095	41,788	36,641
Financing costs	(15,326)	(12,729)	(10,521)
Earnings and total comprehensive income	$ 33,769	$ 29,059	$ 26,120
Basic earnings per share	$ 0.95	$ 0.95	$ 0.97
Diluted earnings per share	$ 0.94	$ 0.94	$ 0.95
Dividends declared	$ 33,658	$ 28,545	$ 25,918
Mortgages receivable, end of year	$ 682,721	$ 626,756	$ 530,590
Total assets, end of year	$ 699,750	$ 627,859	$ 531,856
Shareholders' equity, end of year	$ 387,306	$ 349,064	$ 278,540

Summary of quarterly results *(unaudited)*

	Q4 2018	*Q3 2018*	*Q2 2018*	*Q1 2018*	*Q4 2017*	*Q3 2017*	*Q2 2017*	*Q1 2017*
Revenue	$ 14,850	$ 15,476	$ 14,616	$ 13,374	$ 13,656	$ 12,668	$ 12,069	$ 11,966
Mortgage servicing and management fees	(1,554)	(1,661)	(1,610)	(1,454)	(1,501)	(1,385)	(1,292)	(1,292)
Other expenses	(294)	(279)	(317)	(252)	(389)	(274)	(303)	(285)
Provision for mortgage losses	(537)	(563)	(400)	(300)	(402)	(400)	(745)	(303)
Income before financing costs	12,465	12,973	12,289	11,368	11,364	10,609	9,729	10,086
Financing costs	(3,928)	(4,273)	(3,684)	(3,441)	(3,477)	(3,397)	(2,927)	(2,928)
Net income and comprehensive income	$ 8,537	$ 8,700	$ 8,605	$ 7,927	$ 7,887	$ 7,212	$ 6,802	$ 7,158
Basic earnings per share	$ 0.23	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.23	$ 0.25
Diluted earnings per share	$ 0.23	$ 0.24	$ 0.24	$ 0.24	$ 0.23	$ 0.23	$ 0.23	$ 0.24
Dividends declared	$ 9,677	$ 8,164	$ 8,140	$ 7,677	$ 8,640	$ 6,866	$ 6,635	$ 6,404

Results of operations – three months ended December 31, 2018

For the three months ended December 31, 2018, mortgage interest and fees revenues aggregated $14,850, compared to $13,656 in the comparative period, an increase of 8.7%. Virtually all our revenues are mortgage interest, therefore, the increase is due to the growth of our mortgage portfolio and an increase in the weighted average interest rate. 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 8.85% at December 31, 2018, compared with 8.44% at the previous year end, December 31, 2017.

Operating expenses, excluding the provision for mortgage losses, for the three months ended December 31, 2018 were $1,848, compared to $1,890 in the comparative period, a decrease of 2.2%. This decrease is due to a decrease in share based payments and investor relation expenses which were partially offset by an increase in mortgage servicing and management fees. Share based payments were higher in the fourth quarter of 2017 as a result of a one-time charge to account for vesting of deferred share units for an officer who left the company. Investor relations expenses were lower in the current quarter as we used fewer consultants during the period. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $1,554 for the three months ended December 31, 2018, compared with $1,501 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. The provision for mortgage losses was $537 in the quarter to bring the total provision to $3,900 compared to $402 in the prior year period to bring the total provision to $7,200.

Financing costs for the three months ended December 31, 2018 were $3,928, compared to $3,477 in the same period of 2017, an increase of 13.0%. Interest on convertible debentures was $2,600 for the three months ended December 31, 2018 compared to $2,104 for the comparative period. This increase was a result of the new convertible debenture issuance completed in July 2018 which was not outstanding during the comparative period. Interest and other bank charges for the three months ended December 31, 2018 were $1,328, down from $1,373 in the same period of 2017. This decrease is due to a decrease in the average credit facility balance between the quarters due to the variation in the timing of repayments and advances during the periods. This decrease was partially offset by the increase in interest rates from December 31, 2017 to December 31, 2018, as well as the amortization of fees incurred to increase our credit facility to $210,000 in the fourth quarter of 2017.

Net income and comprehensive income for the three months ended December 31, 2018 was $8,537, an increase of 8.2% from net income and comprehensive income of $7,887 for the same period in the prior year. Basic and diluted earnings per common share were $0.23, for the three months ended December 31, 2018, compared with $0.24 basic and $0.23 diluted for the comparable period in the previous year. The small decrease in basic earnings per share from the comparative period is due to the increase in earnings for the quarter being offset by a greater number of shares outstanding as a result of the public offering issuances of shares completed in March 2018 as well as conversions of convertible debentures into shares during the quarter.

During the three months ended December 31, 2018, we funded mortgages aggregating $114,155. Of those advances, $99,663 were first mortgages, representing 87.3% of the total loans funded. British Columbia advances were $21,502, advances of $86 were on properties in Alberta, $9,425 were non-GTA Ontario, $991 were on properties in Saskatchewan and the remaining $82,151 were for mortgages on properties located in the Greater Toronto Area. There were $70,110 of repayments during the period.

Results of operations – Year ended December 31, 2018

For the year ended December 31, 2018, mortgage interest and fees revenues aggregated a record $58,316, compared to $50,359 in the comparative period, an increase of 15.8%. Virtually all our revenues are mortgage interest, therefore, the increase is due to the growth of our mortgage portfolio and an increase in the weighted average interest rate. A variety of factors affect the changes in the weighted average interest rate of our mortgage portfolio from year to year. 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 8.85% at December 31, 2018, compared with 8.44% at the previous year end, December 31, 2017.

Operating expenses, excluding the provision for mortgage losses, for the year ended December 31, 2018 were $7,421, compared to $6,721 in the comparative period, an increase of 10.4%. This increase is primarily due to an increase in mortgage servicing and management fees and professional fees, which were partially offset by decreases in share based payments and administration and general expense. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $6,279 for the year ended December 31, 2018, compared with $5,470 in the prior year period. This increase was due to the increase in the size of the mortgage portfolio during the period, as mortgage servicing fees are calculated and paid monthly based on the mortgage portfolio balance outstanding during the month. Professional fees were higher during 2018 due to an increase in audit and legal fees. Share based payments were lower for the year ended December 31, 2018 as a result of a one-time charge to account for vesting of deferred share units for an officer who left the company in 2017. Administration and general expenses decreased as a result of reduced overhead in our Alberta office. The provision for mortgage losses was $1,800 in the year to bring the total provision to $3,900 compared to $1,850 in the previous period to bring the total provision to $7,200.

Financing costs for the year ended December 31, 2018 were $15,326, compared to $12,729 in the same period of 2017, an increase of 20.4%. Interest on convertible debenture was $9,373 for the year ended December 31, 2018 compared to $7,734 for the comparative period. This increase was a result of the new convertible debenture issuance completed in July 2018 which was not outstanding during the comparative period as well as the convertible debenture offering completed in June 2017 that was outstanding for the full year ended December 31, 2018 and only a portion of the comparative period. Interest and other bank charges for the year ended December 31, 2018 were $5,953, up from $4,995 in the same period of 2017. This increase is due to the increased utilization of our bank line of credit compared to the comparable period, an increase in interest rates, as well as the amortization of fees charged to increase our operating line to $210,000 in the fourth quarter of 2017.

Net income and comprehensive income for the year ended December 31, 2018 was a record $33,769, an increase of 16.2% from net income and comprehensive income of $29,059 for the same period in the prior year. Basic and diluted earnings per common share were $0.95 and $0.94, respectively, for the year ended December 31, 2018, compared with $0.95 basic and $0.94 diluted, for the comparable period in the previous year. Earnings per share was consistent with the comparative period due to the increase in earnings for the year being offset by a higher number of shares outstanding as a result of the two public offering issuances of shares completed in September 2017 and March 2018 as well as conversions of convertible debentures into shares during the year.

During the year ended December 31, 2018, we funded mortgages aggregating $329,453. Of those advances, $270,682 were first mortgages, representing 82.2% of the total loans funded. British Columbia advances were $104,561, advances of $372 were on properties in Alberta, $14,247 were non-GTA Ontario, $4,838 were on properties in Saskatchewan and the remaining $205,435 were for mortgages on properties located in the Greater Toronto Area. There were $255,128 of repayments during the period.

Liquidity and capital resources

At December 31, 2018, we had borrowings under credit facility (excluding unamortized finance costs) of $148,330. The credit facility, currently authorized for up to $210,000 (December 31, 2017 – $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 December 31, 2018, and we expect to remain in compliance with such covenants going forward.

At December 31, 2018, we had five series of convertible debentures outstanding, with a total book value of $157,289, and a face value (and maturity value) of $161,821. (For additional information on the operating credit facility and the debentures, please refer to notes 7 and 9, respectively, of our accompanying consolidated 2018 financial statements.)

During the year ended December 31, 2018, we completed a bought deal public offering and issued 2,400,000 common shares for gross proceeds of $30,000. The full amount of the overallotment option was exercised, resulting in the issuance of an additional 360,000 common shares for gross proceeds of $4,500.

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 December 31, 2018, total debt (consisting of borrowings under operating credit facility and convertible debentures) was 44.0% of total assets (December 31, 2017 – 43.7%). Our policy and our banking arrangements both require that total debt not exceed 50% of total assets.

Changes in financial position

During the year ended December 31, 2018, we completed one public offering of common shares, issuing a total of 2,760,000 common shares for gross proceeds of $34,500, including the full amount of the overallotment option. Additionally, in July 2018, we completed a public offering of 5.50% convertible debentures maturing December 31, 2025 for gross proceeds of $34,500, which included the full amount of the overallotment option. The net proceeds of these two public offerings were used to repay our indebtedness under our credit facility and fund current mortgage loans. Cash used in financing activities also included net advances of the operating facility of $3,176, dividends paid of $29,268 and interest paid of $15,386, resulting in net cash provided by financing activities of $24,437.

Cash used in investing activities during the year ended December 31, 2018 consisted primarily of advances on mortgage loan investments of $306,025, less repayments received of $240,404, for net cash invested in mortgage loan investments of $65,621 to support the growth in our mortgage portfolio.

Borrowings under our operating credit facility increased to $148,330 at December 31, 2018, from $145,154 at December 31, 2017, due to the growth in our portfolio which was offset somewhat by proceeds received from the issuances of shares and convertible debentures during the period, as described above.

Accounts payable and accrued liabilities, including accrued convertible debenture interest, were $3,104 at December 31, 2018 compared to $4,596 at December 31, 2017. This decrease is due to timing differences in the convertible debenture interest payment dates. Dividends payable were $4,205 at December 31, 2018 up from $3,769 at December 31, 2017. The increase is due to an increased number of shares outstanding at December 31, 2018 and a higher regular monthly dividend for December 2018 compared to December 2017.

Share capital increased to $385,261 at December 31, 2018 from $345,325 at December 31, 2017 due to issuances of our common shares completed during 2018.

Contractual obligations

Contractual obligations due at December 31, 2018 were as follows:

December 31, 2018	Total obligation	Within 1 year	1 to 3 years	3 to 5 years	More than 5 years
Borrowings under credit facility	$148,330	$ –	$148,330	$ –	$ –
Accounts payable and accrued liabilities	2,093	2,093	–	–	–
Accrued convertible debenture interest	1,011	1,011	–	–	–
Dividends payable	4,205	4,205	–	–	–
Convertible debentures	161,821	29,271	72,750	–	59,800
Total contractual obligations	$317,460	$ 36,580	$221,080	$ –	$ 59,800

We have commitments to advance additional funds under existing mortgages of $75,601 and for new mortgages of $33,450 at December 31, 2018 (December 31, 2017 – $65,005, $9,489). 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 December 31, 2018, we had $7,908 (December 31, 2017 – $3,640) 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 December 31, 2018 was $10,000. This maximum was increased to $20,000 as part of an amendment to the credit facility completed on January 2, 2019. LCs represent irrevocable assurances that our banks 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.

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 $6,279 for the year ended December 31, 2018 (year ended December 31, 2017 – $5,470). 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 December 31, 2018, 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 $50,484 (December 31, 2017 – one syndicated mortgage of $45,360) of which the company's share is $25,242 (December 31, 2017 – $22,680).

As at December 31, 2018, the company had two mortgages receivable from borrowers over which a director and officer of the company (Robert G. Goodall) has joint control. (December 31, 2017 – two).

- A secured mortgage loan with a total gross commitment of $3,490 (December 31, 2017 – $3,490), of which $3,394 (December 31, 2017 – $3,071) had been funded at December 31, 2018. During the year ended December 31, 2018, the company recognized net mortgage interest and fees of $288 (year ended December 31, 2017 – $19) from this mortgage receivable.
- A secured mortgage loan with a total gross commitment of $8,738 (December 31, 2017 – $8,738). The company's share of the commitment is $2,330 (December 31, 2017 – $2,330), of which $2,330 had been funded at December 31, 2018 (December 31, 2017 – $2,330). During the year ended December 31, 2018, the company recognized net mortgage interest and fees of $228 (year ended December 31, 2017 – $105) from this mortgage receivable.

Critical accounting estimates and policies

Our consolidated annual financial statements for the year ended December 31, 2018 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 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 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 2018 consolidated annual financial statements.

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 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 that material information relating to us is made known to our CEO and CFO during the reporting period; and information required to be disclosed by us in our filings under securities legislation is recorded, processed, summarized and reported within the required time periods; and provide reasonable assurance regarding the reliability of financial reporting and preparation of 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 December 31, 2018. 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 36,561,198 were issued and outstanding at December 31, 2018, and 39,281,177 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,407,408, 2,200,827, 2,747,440, 1,693,440 and 2,211,540 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.25%, 6.25%, 5.50% (September 2021), 5.30% and the 5.50% (December 2025) convertible debentures, using the conversion price of $13.50, $13.30, $14.65, $14.94 and $15.60 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.

Subsequent to December 31, 2018, we announced we had entered into an underwriting agreement with a syndicate of underwriters to purchase 2,300,000 common shares of Atrium at a price of $13.05 per share for gross proceeds of $30,015. We also granted to the underwriters an over-allotment option to purchase up to an additional 345,000 common shares at the issue price. We received gross proceeds of $34,517 on February 8, 2019 which included exercise of the overallotment option in full.

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, 2018 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" or "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, 2018 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 December 31, 2018.

Dividend Reinvestment Plan

A Dividend Reinvestment Plan (DRIP) 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. Shareholders who wish to enroll or who would like further information about the DRIP should contact their broker or our agent for the DRIP, Computershare Trust Company of Canada, at 1 (800) 564-6253 or www.computershare.com.

Additional information

Additional information about Atrium, including our Annual Information Form for the year ended December 31, 2018, 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.