

# Fundamental Research Corp.

Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA, CFA  
Analyst

Pooneh Ruintan, MEcon, MSc. Finance  
Associate

February 21, 2014

## Atrium Mortgage Investment Corporation (TSX: AI) – Investing in Residential and Commercial Mortgages - Initiating Coverage

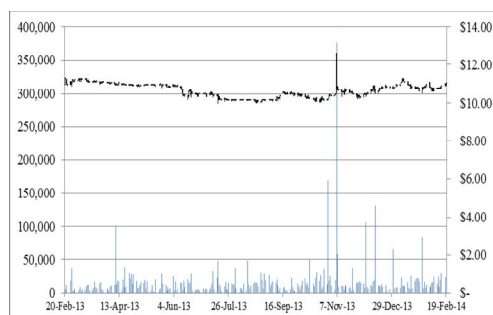
Sector/Industry: Mortgage Investment Corporation

[www.atriummic.com](http://www.atriummic.com)

### Market Data (as of February 21, 2014)

Current Price	C\$11.00
Fair Value	C\$12.13
Rating*	BUY
Risk*	2
52 Week Range	C\$9.97 - C\$12.61
Shares O/S	21.22 million
Market Cap	\$233.4 million
Yield (forward)	8.1%
P/E (forward)	12.3x
P/B	1.1x
YoY change in share price	0.0%
YoY TSX	11.8%

\*See back of report for rating and risk definitions



### Investment Highlights

- Atrium Mortgage Investment Corporation (the “company”, “Atrium”, “AI”), founded in 2001, is a mortgage investment corporation which primarily invests in first and second mortgages. The mortgages are secured on residential / commercial / mixed-use properties in major Canadian urban centers in Ontario (ON), British Columbia (BC), and Alberta (AB).
- The company’s portfolio size was \$281.7 million by the end of Q4-2013 (December 31, 2013). About 68.3% of the portfolio, at the end of Q4-2013, was secured by residential mortgages. Residential mortgages typically carry lower risk than other mortgage types.
- First mortgages accounted for 90.9% of the total portfolio at the end of 2013. As of December 31, 2013, the weighted average loan-to-value (“LTV”) of the portfolio was 64.1%, with 98.3% of the portfolio below a LTV of 75%.
- Since inception, Atrium has lost only 0.02% (or \$132k) of the total funded loans of \$650 million.
- In 2013, the company distributed \$0.85 per share as dividends.
- In January 2014, AI increased its regular monthly dividend from an annual rate of \$0.80 to \$0.82 per share
- Atrium plans to grow its exposure in AB, BC, and Saskatchewan, which we believe would provide diversification benefits.

### Risks

- As of Q4-2013, about 80% of Atrium's mortgages were secured by properties located in the Greater Toronto Area “GTA”.
- Like all mortgages, AI mortgages are exposed to credit risks, and interest rate risks. Interest rate risks are minimal as most of the mortgages are short-term with fixed rates.
- Timely deployment of capital is critical.
- Investments in mortgages are typically affected by macroeconomic conditions, and local real estate markets.

Key Financials (FYE - Dec 31) (C\$)	2010	2011	2012	2013	2014(F)	2015(F)
Mortgage Receivables(net)	\$ 74,412,893	\$ 157,492,666	\$ 201,954,951	\$ 281,708,139	\$ 348,831,497	\$ 382,471,929
Cash	\$ 15,228,126	\$ 8,330	\$ 10,628,383	\$ -	\$ 33,528	\$ 56,575
Revenues	\$ 8,453,973	\$ 11,414,661	\$ 17,235,060	\$ 23,759,620	\$ 29,850,181	\$ 35,586,130
Net Income	\$ 6,794,140	\$ 9,440,811	\$ 13,358,327	\$ 17,999,888	\$ 20,438,494	\$ 24,139,348
EPS	\$ 0.91	\$ 0.88	\$ 0.86	\$ 0.85	\$ 0.89	\$ 0.93
Dividends per Share	\$ 0.93	\$ 0.87	\$ 0.85	\$ 0.85	\$ 0.89	\$ 0.93

\* The weighted average number of common shares outstanding for the periods ended Dec 31, 2010 onward have been adjusted to reflect the 100 for 1 share split on March 23, 2012.

**Company  
Overview**

The company was founded in 2001, by Robert Goodall (the current President and Chief Executive Officer), as DB Mortgage Investment Corporation #1. Its name was later changed to Atrium Mortgage Investment Corporation in March 2013. Atrium invests primarily in first and second mortgages, secured on residential, commercial, office and industrial properties. Atrium's loans generally range between \$0.30 million and \$20 million, with 1 to 2 year terms. The borrowers are typically developers, construction companies, and real estate investors.

The company went public through a non-offering prospectus. Its shares started trading on the TSX on September 4, 2012, at \$10.75 per share. Atrium's portfolio size was \$165 million at that time. Immediately prior to going public, the company had approximately 500 shareholders. All the shares, prior to going public, were issued at \$10 per share. In December 2012, the company completed a \$62 million financing at \$10.67 per share.

Until 2012, Atrium was an Ontario - GTA focused lender. The company has since then started to expand into Western Canada, and opened offices in B.C. and AB. At the end of Q4-2013, mortgages in Western Canada accounted for about 11.1% of the total portfolio.

**What is a  
MIC?**

A Mortgage Investment Corporation ("MIC") is a public or private corporation that provides short-term (typically 6 months - 36 months) loans secured by real estate properties in Canada.

MICs, like other non-bank lenders, do not conform within the strict lending guidelines of banks and other traditional lenders. MICs are more flexible in their lending guidelines, and therefore, can offer individually structured / tailor made loans to meet the specific requirements of a borrower. Also, banks have lengthy due diligence processes (up to 2 months), and are typically not able to meet borrowers' quick capital needs. Most MICs are typically able to structure, complete due diligence, and fund loans, within 2 - 4 weeks. **All the above reasons allow non-bank lenders, including MICs, to charge a higher interest rate on their loans (5% - 15% p.a. in the current environment) compared to banks / institutional lenders.**

MICs are governed by Section 130.1 of the Income Tax Act. In order for an entity to maintain its status as a MIC, it has to comply with several rules; a few of the key rules are listed below. For the full list, refer to the Income Tax Act, Section 130.1.

- Invest at least 50% of its assets in residential mortgage loans,
- Have a minimum of 20 shareholders, and no shareholder can own 25%+ of the total outstanding shares.
- All MIC investments must be in Canada

MICs pay no corporate tax and act as a flow-through entity. In order to avoid entity level taxation, a MIC has to payout 100% of all of its taxable income to shareholders. MIC distributions are treated as interest income for shareholder tax purposes. MIC shares are eligible for registered plans such as RRSPs, RESPs, and TFSAs.

*Manager*

**An investment in MICs can be considered as investments in short-term / high-yield bonds.** In the current environment, low-risk profile MICs yield about 5% – 7% p.a., while medium to high risk profile MICs yield about 7% – 10% p.a. Although there are no restrictions in maintaining a certain level of LTV, MICs typically have LTVs between 50% and 85%.

MICs typically use a line of credit for short-term funding purposes. MICs are allowed to use leverage of up to 83%, provided at least two-third of its portfolio is represented by residential mortgages and/or cash. The leverage cannot exceed 75% if less than two-third of the portfolio is in residential mortgages and/or cash.

Atrium is managed by Canadian Mortgage Capital Corporation (the “manager”, “CMCC”). CMCC, based in Toronto, and founded in 1994, is a mortgage broker and advisory service company, with an experienced management team.

CMCC’s primary activities are:

**Atrium MIC:** According to management, Dundee used to be one of the principal shareholders of CMCC during 1999 – 2009, which is why Atrium’s initial name was DB Mortgage Investment Corporation #1 (“DB” stands for Dundee Bancorp). Dundee’s interest in CMCC was repurchased by Robert Goodall, who currently owns 100% of CMCC. In return for their services to Atrium, CMCC receives:

- Asset management and mortgage servicing fees of **0.85% p.a.** of the aggregate face value of all mortgages, paid monthly.
- Origination, renewal and other fees paid directly by the borrower. **CMCC usually retains origination fees of up to 1% of each mortgage, and up to 50% of the fees in excess of that amount.** Atrium receives the remaining 50%. We estimate that CMCC typically charges an origination fee of 1%, and 2% of the loan amount to borrowers. CMCC retains 100% of the renewal fee (typically 0.5% - 1% of the loan amount), and other fees.

**Atrium management does not receive any performance based fees.** Considering that management adopts a conservative strategy for Atrium, we believe the fee structure is reasonable, as performance based fees tend to create incentives for managers to undertake undue risks.

**Mortgage Broker:** According to management, between 2001 - 2011, CMCC brokered commercial and residential real estate worth approximately \$500 million - \$1 billion every year. CMCC has a network of more than 130 lenders (both financial institutions and small private lenders) across North America. Since 2012, CMCC has significantly reduced its brokerage activities to focus more on Atrium.

**Mezzanine & Equity Financing:** CMCC has co-founded a fund with Dundee Real Estate

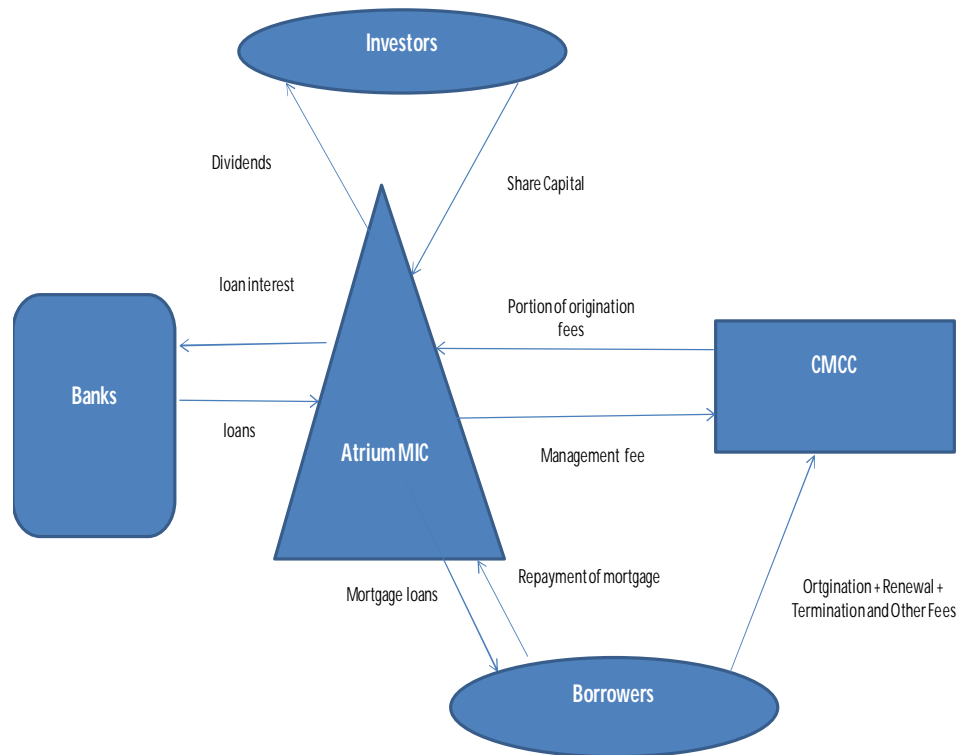
Structure

Asset Management (TSX: DC-A), called DREAM CMCC Capital Fund. The objective of the fund is to provide mezzanine or equity financing to real estate projects, which are inherently riskier than first mortgages. According to management, the fund has completed over \$30 million of transactions since 2011. Management has not publicly disclosed the historic performance or any other details of this fund.

**Mortgage Servicing:** Mortgage servicing is provided by a wholly-owned subsidiary, Canadian Mortgage Servicing Corporation (CMSC), established in 2001. In addition to providing mortgage administration services to Atrium, CMSC also administers loans for institutional and private lenders across North America. Loans under administration (excluding Atrium’s portfolio) currently total \$225 million.

CMCC has 15 full-time employees, including five in-house fulltime originators in ON, two in AB (who cover AB and SK), and one in BC. Management intends to increase the number of originators in AB and ON this year.

The following chart shows the organizational structure and flow of funds between the entities:



Atrium invests in both conventional (defined here as mortgages less than 75% LTV) and non-conventional mortgages (mortgages greater than 75% LTV), secured by real property, predominantly in the urban centers of ON, BC and AB. **Real estate prices in urban**

*Strategy*

**centers tend to be less volatile, and are typically less risky.** Loan amounts typically range between \$0.30 million and \$20 million. The loans are primarily interest-only loans (principal is paid at maturity), and have 6 month to 5-year terms (the average term of the current portfolio is 13.5 months). Loans are provided to individuals to acquire homes / apartments, and to developers to acquire / develop / construct residential or commercial properties. **Single-family and apartment mortgages currently account for 24.6% of the portfolio. According to management, typically, about 40% of the loans are renewed at least once.**

Atrium's main lending criteria are as follow:

- LTV on mortgages secured on income-producing real estate will not exceed 85%
- LTV on mortgages secured on residential and commercial development properties will not exceed 75%
- Construction loans of up to a maximum of 90% of the construction cost
- The weighted average LTV of the portfolio will not exceed 75%.
- Mortgage term will not exceed 10 years.
- No single borrower will account for more than 15% of the total portfolio.
- The ratio of debt to equity of the company may not exceed 1:1.
- The company will not invest directly in real property.
- Any investment: i) of \$1+ million requires approval of the board, ii) between \$0.5 million and \$1 million requires approval of three members of the board, including at least two independent directors, and iii) less than \$0.5 million requires approval of any one member of the board. **We believe the fact that independent directors are actively involved in the approval process is a very positive sign.**

The company primarily sources its loans directly (instead of using third-party brokers) through its contacts within the industry. Management indicated to us that they have long standing relationships with most of their borrowers. **This is evident by the high number of repeat customers (approximately 70%) in the current portfolio (as per management).**

In their due diligence / underwriting process, management typically conducts the following:

- Review borrowers' and their guarantors' credit history, financial statements, tenant lease agreements for income producing properties, in-house appraisal or third party appraisal reports from reputable consultants, environmental / inspection and engineering reports (if applicable), etc.
- Conducts site visits
- Regular monitoring of loans – according to management, they review every loan on a quarterly basis
- In order to mitigate risks, in addition to a registered mortgage, AI typically requires the following documents depending on the borrower - title insurance, general

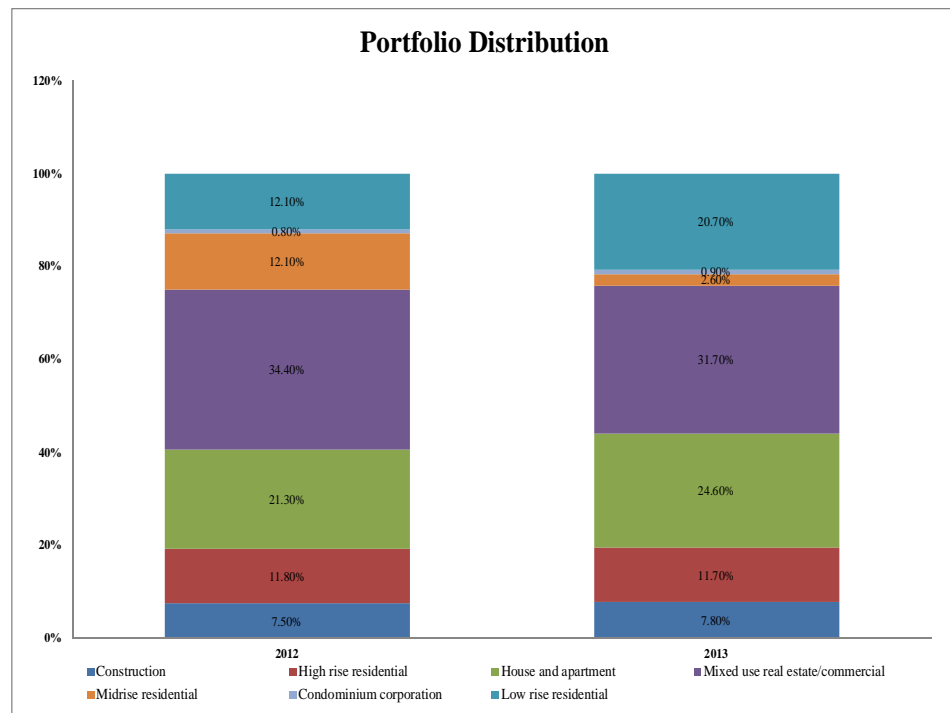
*Portfolio Details*

security agreement, assignment of rents (an agreement which allows the lender to collect rental payments directly from tenants in the event of a default), personal and/or corporate guarantees.

In the event of a default, management evaluates whether the causes of the default can be corrected quickly without a significant impairment of the value of the mortgaged property. If not, they will exercise legal remedies such as power of sales process (*AI as a lender uses their power to sell the property*), foreclosure, or act on guarantees. **According to management, since inception, they have only commenced four legal actions (where they listed all four properties for sale), which resulted in an aggregate loss of \$132k. We believe this is very impressive.** These losses were reported in 2010. All the losses came from one mortgage; a \$3 million mortgage, where management recovered their principal, but lost a portion of the accrued interest. According to management, they have never have had to foreclose on a property.

At the end of FY2013, AI mortgage receivables included 131 loans, and aggregated \$281.7 million, up 39.5% from December 31, 2012. These loans were spread across approximately 50 different borrowers, implying several borrowers have more than one loan from Atrium. The mix of residential and commercial mortgages were 68.3% : 31.7%. Approximately, 35% of the loans were secured by income producing properties. The rest of the mortgages were secured by individual home/condos, and development land.

The following chart shows the portfolio distribution.



Source: Company

A brief description of each loan category is presented below:

**Loans secured on homes / apartments** (24.6% of the portfolio at the end of 2013, up from 12% at the end of 2012). This category has the **lowest risk profile** in the portfolio. The loans are provided to individuals and landlords mostly to acquire houses and apartments. Loans to homeowners are mostly first mortgages, and consist over 90% of the mortgages in the group. This sector is a highly competitive sector due to the active presence of banks and other private lenders. These types of mortgages are mostly insured by the Canada Mortgage and Housing Corporation (CMHC). Atrium charges an average of 8.1% p.a. on the loans. Typically, the LTV is about 70%. Going forward, management intends to increase the portfolio's exposure to this category. Borrowers typically exit these type of loans by refinancing. Management indicated to us that about 50% of the loans typically get renewed at the end of their terms.

**Loans secured on low, mid and high-rise residential development land:** Low-rise loans are provided to developers to acquire pre-developed / developed lands for building low-rise (up to 5-story) buildings, homes and town houses. Mid / high rise loans are provided to developers to acquire land, mainly in urban areas, in order to build mid-rise residential (5-12 story) / high-rise (12+ story) buildings.

**Typically, loans secured by low rise developments carry lower risks**, mainly because these developments can be performed in stages; if market conditions are unfavorable, these projects can be partially sold and stopped. High-rise loans have a higher risk profile, primarily because of their higher capital requirements (for development and construction), and possibilities of delays in development, and the presale process.

Atrium charges about 8.5% - 8.75% p.a. on these loans. The interest rates are similar for all three categories; management controls / mitigates the risks by primarily adjusting the LTV. Low-rise loans have LTVs of up to 70%, mid-rise loans have LTVs of about 65%, and high rise loans have LTVs of 50% - 58%.

Management has increased the percentage of low-rise residential mortgages from about 12.1% at the end of 2012, to 20.7% by the end of 2013, and has decreased their share of midrise residential mortgages from 12.1% to 2.6% during same period. Also, **the percentage of high rise residential has dropped** from 31.9% at the end of 2012, to 11.7% by the end of 2013, indicating management's intent to lower the risks associated with the portfolio.

**Construction loans** comprised 7.8% of the portfolio at the end of 2013. These loans are granted to developers of residential, mixed-use and commercial buildings to use the funds for construction purposes. Atrium typically charges an average of 9% p.a. on these loans, and the weighted average LTV is typically 65%. For construction loans, since they are secured by non-income producing properties, management tries to mitigate risks by - i) using experienced third parties such as Altus Group (TSX: AIF) to monitor / assess the construction process, and ii) provide the loan in stages based on the progress of construction, iii) require borrowers to assign an interest reserve (from the loan provided) to

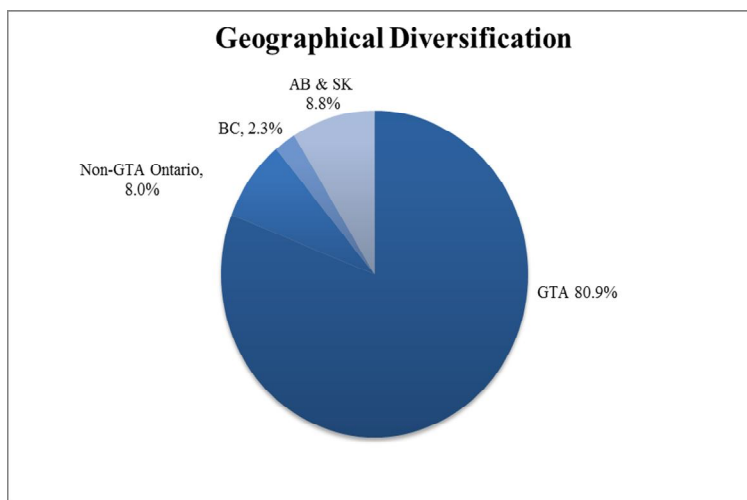
make interest payments on the loan.

**Mixed use real estate / commercial mortgages** accounted for 31.7% of the portfolio at the end of 2013, down from 34.4% at the end of 2012. These loans are provided to landlords and developers. Borrowers typically use the funds to acquire and/or redevelop existing buildings. Atrium often charges an average of 8.75 % p.a. on these loans. The LTV is about 65%. Typically, at the end of mortgages' term, the properties are refinanced by traditional financial institutions (with longer-terms, and at lower interest rates).

**Condominium Corporations** were 0.9% of the portfolio at the end of 2013. These loans are provided to condo boards and property managers, typically for building repairs and renovations. The loans are secured by units of the building. Atrium charges, on average, 8.72% p.a. on these loans.

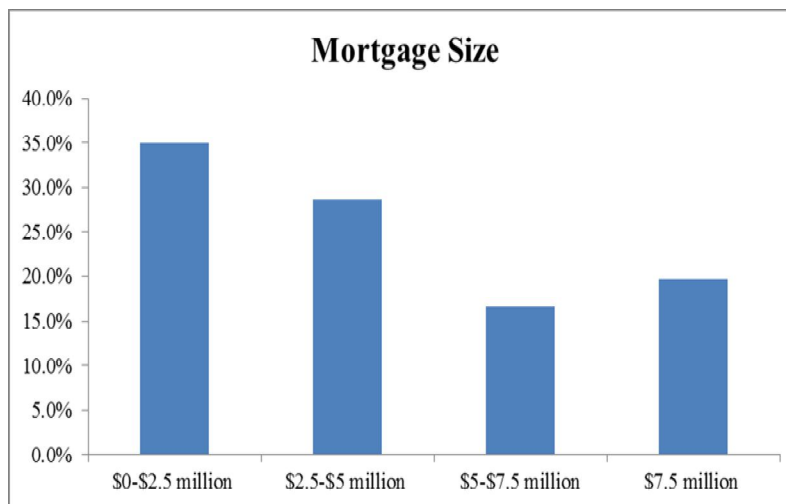
**Interest rate on loans** – The interest rates charged by Atrium currently range between 7.5% - 12.0% p.a. The portfolio had a weighted average interest of 8.70% p.a. at the end of 2013, down from 9.20% as of December 31, 2011, and 8.93% as of December 31, 2012.

**Geographical Diversification (ON: 88.9%, BC: 2.3% and AB: 8.8%):** As of December 31, 2013, about 80.9% of portfolio (chart below) was secured by properties in the Greater Toronto area, down from 82% at the end of 2011. **Management has been gradually diversifying into Western Canada over the last year. They expect Western Canada to account for 15% - 20% of the total portfolio by the end of 2014.** Management expects higher growth in AB/SK, relative to BC.

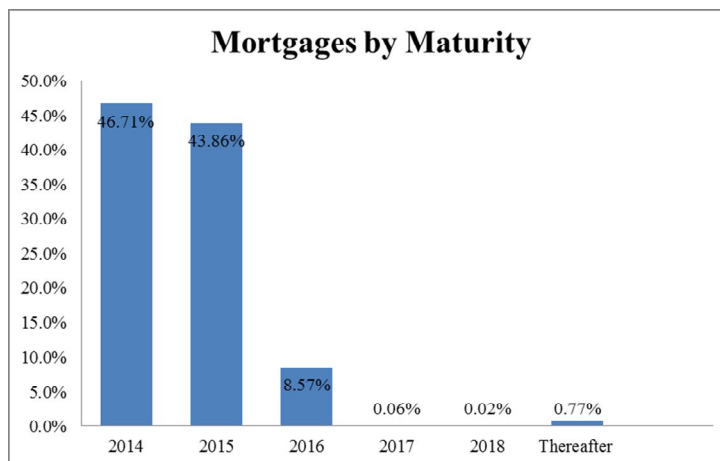


**Mortgage size** - As of December 31, 2013, the portfolio had an average outstanding balance per loan of \$2.2 million (December 31, 2012 - \$2.6 million). The distribution of mortgages by size is shown below.

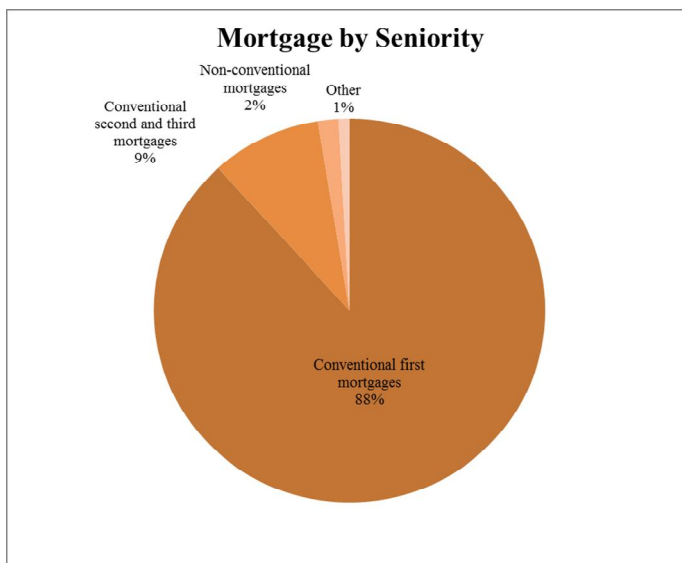




**Maturity** - As of December 31 2013, more than 90% of the maturity dates of the loans were between Q4-2014 and Q4-2015, and the weighted average term to maturity was 13.5 months (December 31, 2011 – 13.9 months / December 31, 2012 - 13.0 months).



**Mortgage by seniority** – At the end of 2013, non-conventional mortgages accounted for just 1.7% of the total portfolio (compared to 12.5% as of December 31 2011), which illustrates the conservative nature of the portfolio. **Conventional first mortgages comprised 88.3% of the total at the end of 2013, higher compared to 81.4% at end of 2011.** Conventional second and third mortgages decreased YOY from 14.6% to 9.1%.



**LTV** - At December 31, 2013, the weighted average LTV of the portfolio was 64.1% (compared to 66.7% at December 31, 2012), with 98.3% of the portfolio below 75% LTV.

**Loss provision:** Atrium has had total actual losses of \$132k, or about 0.02% of the total funded loans of over \$650 million, since inception in 2001. On average, the company has reported 0.2% of mortgages outstanding, as a loan loss provision, per annum. In 2013, the loan loss provision as a percentage of mortgages outstanding was just 0.02%.

*Comparables*

The following table shows AI's public comparables:

#	MICs	Inception date	Size of mortgage portfolio (gross) (million)	Mortgage Types	Regional diversification	Mortgages seniority	Weighted average interest rate	Average duration
1	Atrium Mortgage Investment Corp. (TSX: AI)	2001	\$282.4	Residential: 68.3%, Commercial: 31.7%	ON: 88.9%, BC: 2.3%, AB & SK: 8.8%	First: 90.9%, Others: 9.1%	8.7%	6-36 months
2	Firm Capital Mortgage Investment Corp. (TSX: FC)	1999	\$317.7	Residential and Commercial	ON: 72.0%, AB: 12.0%, QC: 8.0%, BC: 5.0%, Other: 3.0%	First: 69.0%, Others: 31.0%	8.6%	6-36 months
3	Timbercreek Mortgage Investment Corp. (TSX: TMC)	2005	\$472.7	Residential: 65.3%, Commercial: 31.0%, land: 3.7%	ON: 53.5%, AB: 11.0%, BC: 6.2%, QC: 12.3%, Others: 17%	First: 53.1%, Others: 46.9%	9.6%	6-36 months
4	TREZ Capital Mortgage Investment Corp. (TSX: TZZ)	2012	\$235.5	Residential: 50.1%, Commercial: 49.9%	AB: 41.0%, ON: 37.7%, NB: 9.3%, Others: 12.0%	First: 70.8%, Others: 29.2%	9.30%	6-36 months
Average (Excluding Atrium)			\$342.0	Residential: 57.7%, Commercial: 42.3%		First: 64.3%, Others: 35.7%	9.2%	

#	MICs	LTV	Distribution (monthly, quarterly, etc.)	Hurdle rate	Annual dividend yield (2013)	Management fee	Performance fee	Origination fee	Use of debt	Debt to Capital
1	Atrium Mortgage Investment Corp. (TSX: AI)	64.1%	Monthly	Nil	7.8%	0.85% of the face value of all mortgages	Nil	1% of each mortgage, and up to 50% of the fees in excess of that amount	Yes	24.0%
2	Firm Capital Mortgage Investment Corp. (TSX: FC)	75.0%	Monthly	10% ROI on Conventional Investments	7.2%	0.85% of the face value of all mortgages	25% of profit	75% of commitment and renewal fees	Yes	37.3%
3	Timbercreek Mortgage Investment Corp. (TSX: TMC)	63.9%	Monthly	2 year GoC yield + 450bps	7.5%	1.2% of the gross assets	20% of the net return	Nil (commissions might be paid to outside brokers)	Yes	25.4%
4	TREZ Capital Mortgage Investment Corp. (TSX: TZZ)	66.7%	Monthly	2 year GoC yield + 450bps	7.0%	1.25% of the gross assets	20% of the net return	60% of the commitment fee	Yes	
<b>Average (Excluding Atrium)</b>		<b>68.5%</b>			<b>7.2%</b>					<b>31.4%</b>

Source: Various Sources

The key highlights of the above tables are presented below:

- We identified three publicly traded MICs as AI’s direct competitors.
- Atrium had the highest percentage of residential mortgages at the end of 2013, of 68.3%, compared to the peer average of 57.7%.
- At the end of 2013, Atrium’s proportion of first mortgages (90.9%) was much higher than the peer average of 64.3%.
- Atrium’s LTV of 64.1% was below the peer average of 68.5%.
- Although Atrium has been expanding into Western Canada over the last few years, their portfolio, as of Q4-2013, was less geographically diversified compared to its peers.
- Atrium does not charge any performance based fee. Their annual management fee is 0.85% of the face value of all mortgages, which is at the lower end of the range of its peers.
- Atrium’s weighted average annual interest rate on loans in 2013 (8.7%) was lower than the peer weighted average of (9.2%).
- **Atrium’s dividend yield to investors in 2013 (7.8%) was higher than the peer average (7.2%).** The dividend yields were calculated as – *dividends distributed in 2013 divided by the share price as of December 31, 2012*. The dividend yields shown in the valuation section, later in this report, are based on the current share price.

Overall, even though their portfolio is less geographically diversified compared to peers, the higher percentage of residential and first mortgages, and lower LTV, we believe puts AI in a ‘lower than average’ risk category. **Despite the lower risk and lower than average**

weighted average interest rate on loans, they generated a higher than average yield for investors in 2013, which is impressive.

In addition to the above, list two other publicly traded MICs in the table below. They are Senior MICs, as first mortgages account for 100% of their portfolios.

#	Senior MICs	Inception date	Size of mortgage portfolio (gross) (million)	Mortgage Types	Regional diversification	Mortgages seniority	Weighted average interest rate	Average duration
1	Timbercreek Senior Mortgage Investment Corp.(TSX: MTG)	2012	\$500.1	Residential: 58.2%, commercial 36.5%, land 5.3%	ON: 59.7%, QC:16.8%, AB: 11.9%, Others: 11.6%	First: 100%	6.7%	24-48 months
2	TREZ Capital Senior Mortgage Investment Corp.(TSX: TZS)	2012	\$113.7	Residential: 66.8%, commercial: 33.2%	ON: 65.1%, BC: 15.5%, AB: 14.4% , SK and NS: 5%	First: 100%	6.20%	6-36 months
<b>Average</b>			<b>\$306.9</b>	<b>Residential: 62.5% Commercial: 37.5%</b>		<b>First: 100%</b>	<b>6.4%</b>	

#	Senior MICs	LTV	Distribution (monthly, quarterly)	Hurdle rate	Annual dividend yield (2013)	Management fee	Performance fee	Origination fee	Use of debt	Debt to Capital (as of Sep. 2013 )
1	Timbercreek Senior Mortgage Investment Corp.(TSX: MTG)	45.1%	Monthly	2 year GoC yield + 450bps	6.1%	1.2% of the gross asset	20% of the net return	Nil	Yes	31.1%
2	TREZ Capital Senior Mortgage Investment Corp.(TSX: TZS)	40.1%	Monthly	Nil	5.0%	0.85% of the gross assets	Nil	60% of the commitment fee	Yes	
<b>Average</b>		<b>42.6%</b>			<b>5.6%</b>					

Since these MICs invest 100% in first mortgages, they tend to - i) charge a lower interest rate on their loans, ii) have lower LTVs, iii) distribute lower yield to investors compared to other MIC types.

**Management**

The following table shows management and directors’ ownership of shares in the company:

Name	Shares held	% of Total
Peter Cohos	97,487	0.5%
Michael Cooper	50,208	0.2%
Robert DeGasperis	110,072	0.5%
Robert Goodall	468,181	2.2%
Nancy Lockhart	701,038	3.3%
David Prussky	3,765	0.0%
Mark Silver	579,487	2.7%
Michael Lovett	10,292	0.0%
Jeffrey Sherman	22,330	0.1%
<b>Total</b>	<b>2,042,860</b>	<b>9.6%</b>
<b>Shares outstanding</b>		<b>21,215,744</b>

Source: Sedi

As shown, management and directors **own approximately 9.6%** of the outstanding shares.

Brief biographies of the senior management team, as provided by the company, follow:

**Robert Goodall - President and Chief Executive Officer:** Robert G. Goodall is the President of, and in 1994 founded, CMCC, the manager, a mortgage brokerage firm that places conventional, mezzanine and Canada Mortgage and Housing Corporation-insured debt on all types of real estate. Prior to founding CMCC, Mr. Goodall spent seven years with Royal Trust, where the last three years were served as National Managing Director of the Real Estate Finance Group for a portfolio of \$1.4 billion in commercial and multi-residential real estate loans, including fixed and floating rate mortgages, construction loans, and high-ratio mezzanine loan facilities. Mr. Goodall is a trustee of Dundee REIT and Dundee Industrial REIT and director of a registered charity, Jump Math. Mr. Goodall has an MBA from the Schulich School of Business.

**Jeffrey D. Sherman - Chief Financial Officer:** Jeffrey D. Sherman joined CMCC as chief financial officer on March 15, 2012. He is a director of Trimel Pharmaceuticals Corporation and chair of its governance and nominating committee, and was the CFO of Pure Nickel Inc. from February, 2008 until May, 2013. Mr. Sherman has lectured and conducted executive development and other programs for many organizations including institutes of chartered accountants (chartered professional accountants) across Canada, the Law Society of Upper Canada, and was an adjunct professor at York University. He has written over 20 books on business, finance and treasury, including *Finance and Accounting PolicyPro*, *Information Technology PolicyPro* (guides to governance and internal control), *Canadian Treasury Management*, and *Cash Management Toolkit for Small and Medium Businesses*. Mr. Sherman holds a BComm from the University of Toronto, an MBA from the Schulich School of Business, is a Certified Investment Manager, and a fellow of CPA Ontario (previously, the Institute of Chartered Accountants of Ontario).

**Michael Lovett - Managing Director, Ontario:** Michael Lovett joined CMCC as Managing Director on May 24, 2011. Previous to that, Mr. Lovett spent four years as Managing Director, Real Estate Capital with C.A. Bancorp Inc. where he founded, listed on the TSX and managed C.A. Bancorp Realty Finance Inc., a boutique closed-end mutual fund corporation specializing in real estate mezzanine lending. Before that, from 2005 to 2007, Mr. Lovett was President of Commercial Mortgage & Capital, a private commercial mortgage company controlled by Avison Young Commercial Real Estate Inc., which originated and placed commercial real estate loans and mortgages. Mr. Lovett was President and founder of Montrose Mortgage Corporation (Toronto) Ltd. from 2001 to 2005, where he was responsible for opening the Toronto office and originating and structuring commercial real estate loans. Mr. Lovett has also held senior real estate related positions in origination, risk assessment and special loans with CIBC Mortgages Inc. (National Sales Manager), National Trust (VP, Risk Management), and other financial institutions. Mr. Lovett attended Wilfred Laurier University and is a graduate of the Executive Summer Program at the University of Michigan.

**Bram Rothman - Managing Director, Ontario:** Bram Rothman is a Vice President who specializes in sourcing and underwriting private and institutional mortgages. In his 7 years' experience with the company, Bram has arranged over \$1 billion of debt. Bram is licensed under the Financial Services Commission of Ontario as a Mortgage Agent. Prior to working for CMCC, Bram worked as an analyst for a major commercial real estate services company. Bram holds a Masters of Business Administration degree with a specialization in Real Property Development from the Schulich School of Business (York University).

**Phil Fiuza - Managing Director, Single Family:** Phil has recently joined Atrium MIC as the Managing Director of Single Family Mortgages. Phil has over 25 years' experience in the Canadian mortgage market including 15 years with various leadership positions sourcing mortgages in the non-prime residential mortgage market. His time in the industry has led him to develop well established links to Mortgage Brokerages and Agents throughout Canada.

**Daniel Stewart - Managing Director, Alberta:** Daniel Stewart joined Atrium as Managing Director of Alberta opening our Calgary office on January 7, 2013. Dan has over 35 years of real estate and lending experience in Alberta, Saskatchewan, British Columbia and the Western United States including interim development, acquisition financing, term loans, mezzanine lending and structured joint ventures. Prior to joining Atrium Dan was Vice-President, Mortgage Banking with Peoples Trust in Calgary. Previous lending experience includes 12 year as Vice President of Bank of America Canada's Real Estate Group in Vancouver. Dan also spent over 10 years in residential project marketing and sales conducting feasibility studies, business development and management of the marketing and sales of high density urban and resort condominium projects in Canada and the US. Contact Dan for capital solutions for your real estate projects in Alberta and Saskatchewan

**Bruce Weston - Managing Director, British Columbia:** Bruce Weston joined the Manager as Managing Director of British Columbia on October 1, 2012. Bruce has 30+ years of real estate lending experience centered in Term, Construction and Mezzanine Lending. Prior to joining Atrium he was Vice-President of Pencor Capital Corp, a Vancouver based boutique financial firm, and prior to that was President of Loewen Capital Corporation and Managing Partner (Pacific) for real estate lending for Royal Trust. He has been involved in numerous projects in British Columbia, Alberta and the Western United States.

**The company has 7 members on its board of directors, 6 of whom are independent.** Brief biographies of the board of directors, as provided by the company, follow:

**Mark Silver - Chair of the Board:** Mr. Silver is President of Optus Capital Corporation. Mr. Silver has made significant real estate investments in both development stage and income producing properties in the residential, commercial and industrial sectors over his 30 year business career. Over the last 15 years, these investments have been made through his company, Optus Capital Corporation. Mr. Silver was a founding partner and Chief Executive Officer of Universal Energy which was sold in 2009 to Just Energy Group Inc.

He co-founded Direct Energy Marketing and grew the company to over \$1.3 billion in revenues before selling to Centrica PLC (also known as British Gas) in 2000.

**Peter P. Cohos - Director:** Peter P. Cohos is the President of Copez Properties Ltd., a Calgary-based real estate investment company. He was previously the Chief Executive Officer of Triovest Realty Advisors Inc. a national commercial real estate advisory company which has approximately \$7 billion in assets under management. Mr. Cohos has worked in the commercial real estate industry since 1985, founding Copez Management Ltd., Tonko Development Corp. and then Tonko Realty Advisors Ltd., which merged with Redcliff Realty Management Inc. in 2011. Tonko Development Corp. was a publicly traded corporation from 1995 through 2002. During that time, Mr. Cohos was President and Chief Executive Officer, as well as a member of its board. Triovest Realty Advisors Inc. currently has approximately 550 employees and manages 41 million square feet of assets across Canada. Mr. Cohos' extensive and varied real estate career is augmented by his Honours degree in Business Administration from the University of Western Ontario and a MBA from the University of Capetown, South Africa.

**Michael Cooper - Director:** Michael J. Cooper is the founder and Chief Executive Officer of DREAM Unlimited Corp., an asset management company with approximately \$13 billion of primarily real estate assets under management. Mr. Cooper's extensive track record in the real estate industry dates back to 1986, including an instrumental role in founding Dundee Realty Corporation, the predecessor of DREAM, in 1996. Under his leadership, the business has grown to be a leader in commercial real estate, residential development and renewable energy infrastructure. Mr. Cooper is responsible for the formation of three TSX-listed real estate investment trusts: Dundee REIT, Canada's largest office REIT; Dundee International REIT, a Canadian REIT investing exclusively outside of Canada; and, most recently, Dundee Industrial REIT, the largest pure-play industrial REIT in Canada. Mr. Cooper sits on the boards of Dundee Corporation, Dundee REIT, Dundee International REIT, Dundee Industrial REIT, United Corporations Ltd., and Lakefield Foundation. He holds a law degree from the University of Western Ontario and received a MBA from York University in 1986.

**Robert DeGasperis – Director:** Robert DeGasperis is President of Metrus Properties and Metrus Development Inc, family owned and operated real estate companies that have operated primarily in the Greater Toronto Area (GTA) for over 40 years. Metrus Properties has developed, and currently manages, approximately 13 million square feet of industrial, retail and office properties throughout the GTA. Its mandate is to acquire, develop and manage all asset classes, and it develops and manages master planned communities throughout the GTA. Metrus Development Inc. has completed award winning communities including the Beaches, Toronto; Springdale, Brampton; Bayview Hill, Richmond Hill and Lakeshore Woods, Oakville. Mr. DeGasperis is a director of both Condain Company (1983) and Con-Cast Pipe. Mr. DeGasperis, through a family foundation, continues his commitment to sponsorship of numerous hospitals, charities, youth groups and community organizations.

**David Prussky - Director:** David Prussky is well-recognized in the junior markets with numerous business successes investing in early stage companies. He is a director (and past Chairman) of Carfinco Financial Group Inc., Canada's largest public nonprime automotive lender; a director and member of the audit committee and corporate governance committee of Swisher Hygiene Inc., and a director of Lonestar West Inc. Mr. Prussky is a past director of several additional public companies in Canada. Mr. Prussky received his MBA from York University in 1980 and a LL.B from York University in 1985.

**Nancy Lockhart - Director:** Nancy Lockhart is a director of the Loblaw Companies Limited and chair of its environmental, health and safety committee, and a member of its governance, employee development, nominating and compensation committee; as well as a director of Gluskin Sheff + Associates, Inc., and a member of its compensation, nominating and governance committee; and has been nominated as a candidate to join the board of Barrick Gold Corporation at its 2014 annual general meeting. She was formerly Chief Administrative Officer of Frum Development Group and a Vice President of Shoppers Drug Mart Corporation. Ms. Lockhart is a director of the Centre for Addiction and Mental Health Foundation and a director of The Canada Merit Scholarship Foundation. She is a former Chair of the Ontario Science Centre, former President of the Canadian Club of Toronto and a former Chair of the Canadian Film Centre. Ms. Lockhart is also a former director of the Canada Deposit Insurance Corporation and a former director of Retirement Residence REIT. Ms. Lockhart was awarded the Order of Ontario in 2006.

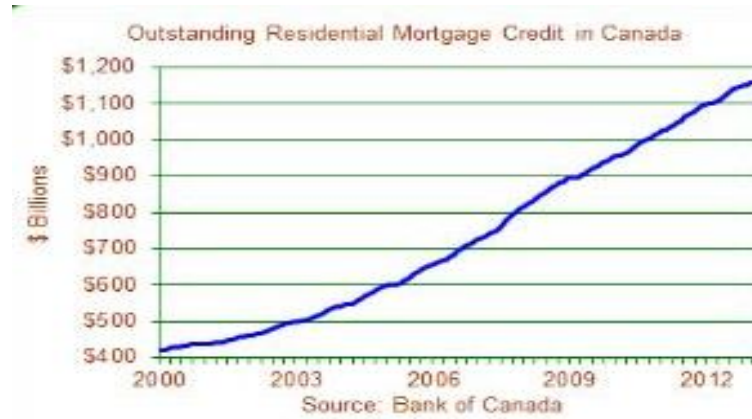
The mortgage lending market is highly affected by changes in interest rates and home prices. Currently, the low interest rate environment has been attracting a lot of investors to higher yield opportunities such as MICs. **The structure of AI mortgages makes it so their income is minimally affected by home prices and interest rates in the short term.** As the weighted average term to maturity of the mortgages in Atrium's portfolio is just 13.5 months, this enables them to re-price interest rates almost annually. Also, as they have a weighted average LTV of 64.1%, there would have to be a significant one year drop in property prices to cause LTVs to rise to levels where the underlying property is valued at less than the mortgage. However, long term real estate prices will have an impact on the deal flow to Atrium due to the following:

- If prices decrease, there will be less activity, mainly because people hold off purchasing and selling, until the market stabilizes.
- Borrowers will have less collateral to borrow with.
- Developers and builders will limit construction / development until demand growth returns.

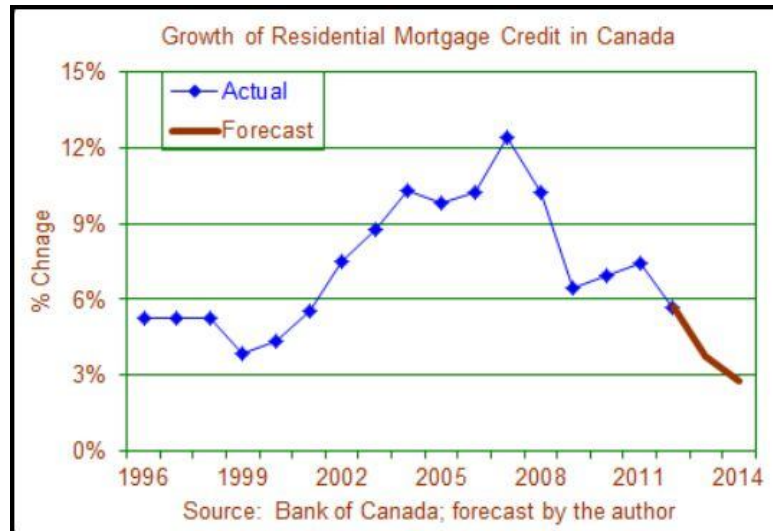
A decrease in market activities will reduce mortgage volume, which will impact lenders' deal flow.

The following chart shows the Canadian residential mortgage market size from 2000 to 2012.





The table below displays the annual YOY growth in the mortgage market.



Source: CAAMP

**In 2012, the mortgage market expanded by just under 6.0%. The forecast is that the market will continue to expand, but at a decreasing rate.** In 2013, the market was anticipated to have grown at 4.5% - 5%; the estimate for 2014 is 3% (Source: CAAMP). Even though non-bank mortgages make up a small portion of the mortgage market, the above estimates give an indication of the size of opportunities in the market.

**The health of the residential market in Toronto, Calgary, Edmonton, and to a lesser extent Vancouver, are important to Atrium.**

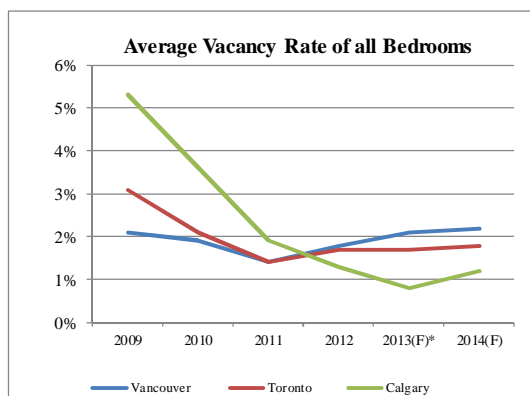
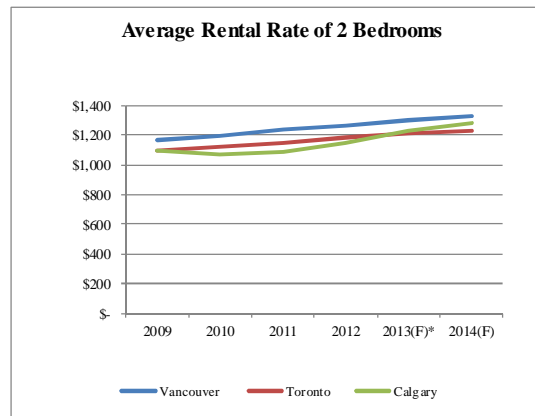
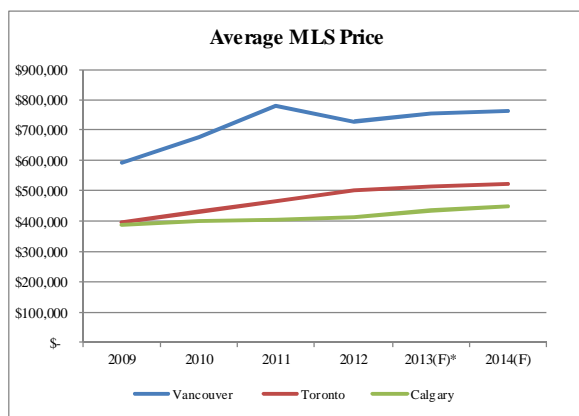
In their recent report titled 'Annual Emerging Trends in Real Estate 2014', PwC rated Calgary, Edmonton, Saskatoon, Vancouver, and Toronto as the top five cities in Canada for real estate investment, development and homebuilding; see chart below.

	Investment	Development	Homebuilding
1 Calgary (1/1/1)	6.40	6.25	6.91
2 Edmonton (2/4/3)	6.18	6.06	6.45
3 Saskatoon (3/3/4)	6.12	6.12	6.43
4 Vancouver (4/2/5)	6.10	6.17	6.39
5 Toronto (5/5/2)	6.03	5.88	6.46
6 Winnipeg (7/6/6)	5.50	5.32	5.71
7 Ottawa (6/7/6)	5.52	5.07	5.71
8 Halifax (8/8/9)	5.36	5.04	4.95
9 Montreal (9/9/8)	5.21	4.82	5.30

Source: *Emerging Trends in Real Estate 2014* survey.  
 Note: Numbers in parentheses are rankings for, in order, investment, development, and homebuilding.

Below is a summary of key housing market indicators, as per the CMHC, of the major cities in ON, AB, and BC:

- The average price of a house has been increasing, and is expected to rise in all three cities.
- Among the three cities, Vancouver has had the most expensive housing market. Calgary is expected to experience the largest growth in prices (3% in 2014).
- The average rental rate of 2 bedrooms has been increasing in all three markets. Calgary is expected to experience the highest growth (4% in 2014).
- Calgary’s vacancy rate, which was the highest in 2009, compared to Vancouver and Toronto, has significantly decreased to well below the rates in the other two cities.



\* CMHC has yet to report actual 2013 results.

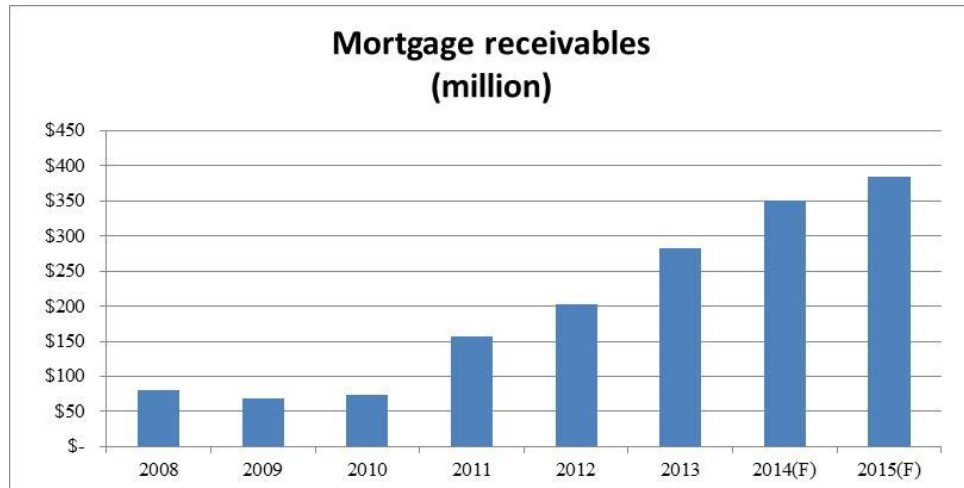
Source: CMHC

In addition to above points, we believe, in 2014, Western Canada will experience higher growth in new home construction, and **Alberta will lead the country in housing sales activity and price growth. This will be beneficial for Atrium as they plan to penetrate further into Western Canada.**

With regard to commercial properties, Colliers International, based on a survey of more than 500 institutional and private investors, reported that **Toronto** is the most sought after city in the world for commercial investment (as per 38% of the respondents), followed by **Vancouver** and New York (12% each), **Calgary**, Munich and London-UK (6% each).

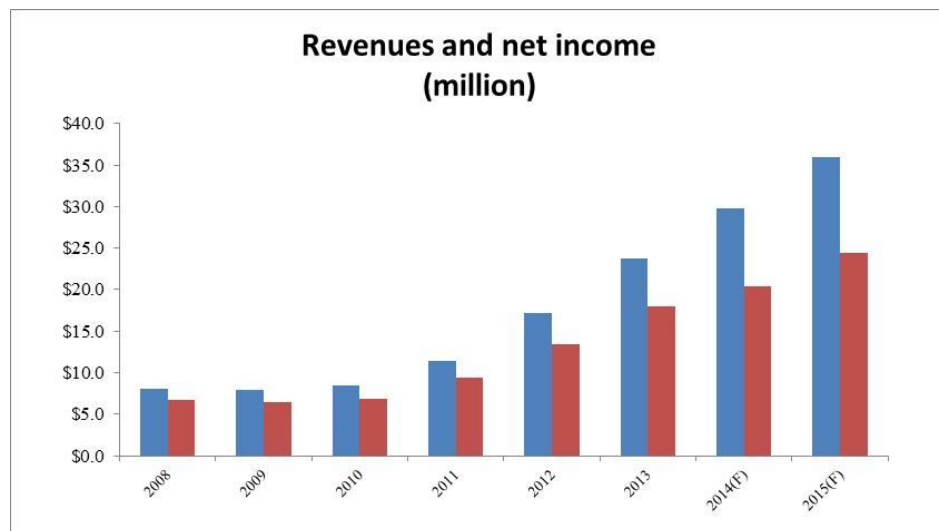
*Financials*

Atrium has grown its portfolio size since the end of 2001, from \$2.9 million, to \$281.7 million by the end of 2013; reflecting a CAGR of 42% since inception.



Management expects to grow their portfolio to approximately \$350 million by the end of 2014. We assume a 10% YOY increase in 2015. We estimate net mortgage receivables of \$348.8 million by the end of 2014, and \$382.5 million by the end of 2015. The growth should be financed by both equity and debt. Our models assume total gross financings of \$63.2 million in equity, and \$42.3 million in debt in 2014, and 2015.

**Revenues** grew from \$0.04 million in 2001, to \$23.8 million in 2013. Net income was \$18.0 million (EPS: \$0.85) in 2013. The chart below shows revenue and net income growth since 2008, along with our forecasts.



The following table shows revenues and net income growth since 2010.

\$, M	2010	2011	2012	2013	2014(F)	2015(F)
Revenues	\$8.45	\$11.41	\$17.24	\$23.76	\$29.85	\$35.59
Revenue Growth (YOY)	6%	35%	51%	38%	26%	19%
Net Income	\$6.79	\$9.44	\$13.36	\$18.00	\$20.44	\$24.14
Net Income Growth (YOY)	6%	39%	41%	35%	14%	18%
Net Margin	80%	83%	78%	76%	68%	68%

**We forecast revenues to increase to \$29.9 million in 2014, and to \$35.6 million in 2015. Our net income forecasts for 2014, and 2015, are \$20.4 million (EPS: \$0.89) and \$24.1 million (EPS \$0.93), respectively.** The section below discusses the interest rates we used for our forecasts.

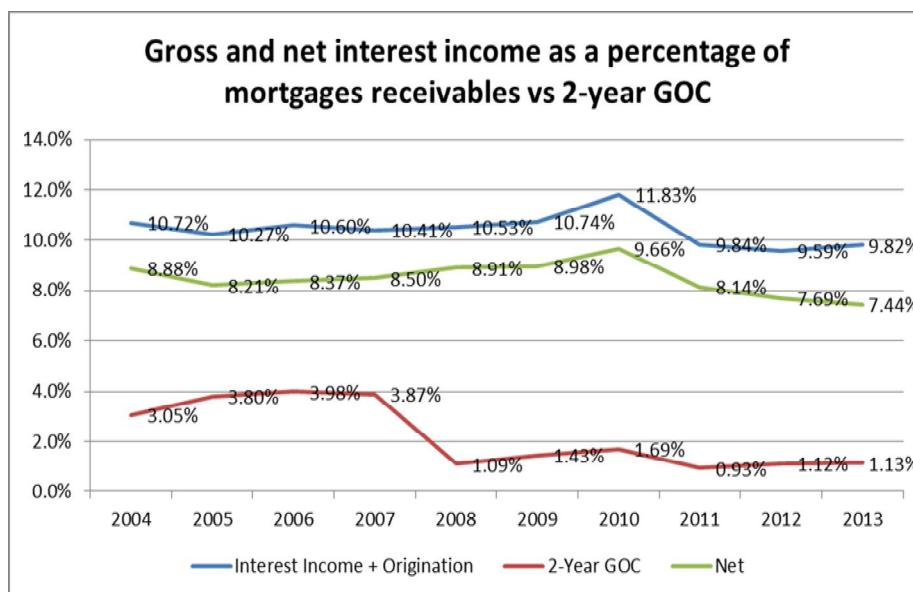
**Interest income as a percentage of mortgage receivables:** As shown in the table below, from 2004 to 2013, the interest income as a percentage of mortgage receivables slightly decreased from 10.7% to 9.8% p.a. Accordingly, net income as a percentage of mortgage receivables dropped from 8.9% to 7.4% p.a.

% of Mortgage Receivables(net)	2004	2005	2006	2007	2008	2009
Interest Income + Origination	10.72%	10.27%	10.60%	10.41%	10.53%	10.74%
<i>Less:</i>						
Management Fee	0.68%	0.76%	0.78%	0.73%	0.76%	0.77%
Loan Loss Provision	0.00%	0.00%	0.00%	0.00%	0.13%	0.37%
G&A Expenses	0.37%	0.68%	0.66%	0.10%	0.16%	0.21%
Interest Expenses	0.79%	0.62%	0.79%	1.09%	0.57%	0.41%
Share Based Payments						
<b>Net</b>	<b>8.88%</b>	<b>8.21%</b>	<b>8.37%</b>	<b>8.50%</b>	<b>8.91%</b>	<b>8.98%</b>
2-Year GOC	3.05%	3.80%	3.98%	3.87%	1.09%	1.43%

% of Mortgage Receivables(net)	2010	2011	2012	2013	2014(F)	2015(F)
Interest Income + Origination	11.83%	9.84%	9.59%	9.82%	9.69%	9.68%
<i>Less:</i>						
Management Fee	0.88%	0.83%	0.87%	1.02%	0.96%	0.96%
Loan Loss Provision	0.63%	0.17%	0.11%	0.03%	0.37%	0.37%
G&A Expenses	0.15%	0.17%	0.24%	0.27%	0.25%	0.25%
Interest Expenses	0.51%	0.53%	0.66%	0.99%	1.32%	1.45%
Share Based Payments			0.03%	0.08%	0.08%	0.08%
<b>Net</b>	<b>9.66%</b>	<b>8.14%</b>	<b>7.69%</b>	<b>7.44%</b>	<b>6.71%</b>	<b>6.57%</b>
2-Year GOC	1.69%	0.93%	1.12%	1.13%	1.50%	2.50%

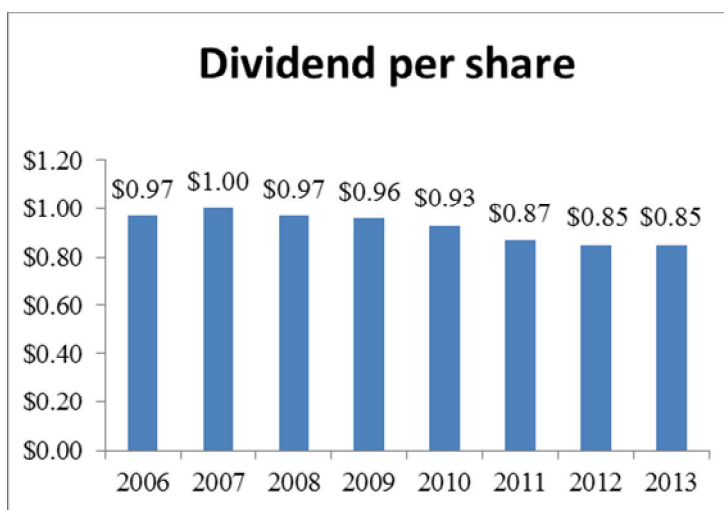
*\*The calculations in the above table are approximates as we used the average of beginning of the year and end of the year mortgage receivables.*

The average spread between the 2 year GOC and interest income (including origination fees) as a percentage of mortgage receivables, between 2003 and 2013, was about 8.3% - see chart below. As shown, when GOC rates were high (2003-2007), the average spread was 7.3%, and when GOC rates were low (2008-2013), the average spread was 9.2%.



The consensus estimate is that the 2-year GOC will increase from 1.1% p.a. as of December 2013, to 2.5% by December 2015. We expect AI's weighted average interest income and origination fees, as a percentage of mortgage receivables, to average 9.7% p.a. in both 2014 and 2015.

The following charts show annual dividends per share since 2004.



Atrium pays monthly dividends to investors. Prior to the beginning of a year, management estimates monthly dividends based on the expected net income for that year. If the actual net income ends up being higher than the dividends distributed in that fiscal year, the balance will be paid as a special dividend at the end of the year. If the actual net income is lower, management will adjust their regular dividends accordingly.

AI paid **\$0.85 per share in dividends in 2013, for a yield of 8.5% on book value, and approximately 7.8% based on the share price as of December 31, 2012.** Atrium's current monthly regular dividend is \$0.0683 per share, up from \$0.0667 in 2013, or 7.5% p.a., based on the current share price.

**Based on our forecasts, we believe the company should be able to pay out annual dividends of \$0.89, and \$0.93 per share, in 2014, and 2015, respectively.**

The table below shows a summary of the balance sheet. Except 2010, and 2012, the company has had a low cash position at the end of every year. The high cash position at the end of 2010, and 2012, were because the company had completed financings in December of both years.

	2005	2006	2007	2008	2009	2010
Mortgages receivable, net	\$34,815,284	\$49,756,545	\$74,279,143	\$80,351,351	\$69,787,821	\$74,412,893
Cash	\$2,291,708	\$95,573	\$75,237	\$207,922	\$21,462	\$15,228,126
LT debt	-	-	-	-	-	-
Debt	\$5,166,551	\$7,576,426	\$15,847,757	\$5,956,413	\$6,248,553	\$95,312
Equity	\$31,407,638	\$41,386,536	\$57,128,034	\$72,494,202	\$61,767,421	\$87,605,242
Total Capital	\$36,574,189	\$48,962,962	\$72,975,791	\$78,450,615	\$68,015,974	\$87,700,554
Debt to Capital	14.1%	15.5%	21.7%	7.6%	9.2%	0.1%
Debt to Asset	13.9%	15.2%	21.3%	7.4%	8.9%	0.1%
EBIT/ Interest expense	14.2	11.6	8.8	16.8	22.7	20.1

	2011	2012	2013	2014(F)	2015(F)
Mortgages receivable, net	\$157,492,666	\$201,954,951	\$281,708,139	\$348,831,497	\$382,471,929
Cash	\$8,330	\$10,628,383	\$0	\$33,528	\$56,575
LT debt	-	-	\$30,610,763	\$63,385,763	\$73,360,763
Debt	\$12,772,211	\$205,605	\$67,029,130	\$98,904,130	\$107,079,130
Equity	\$142,846,412	\$210,109,925	\$212,018,978	\$247,802,606	\$272,612,992
Total Capital	\$155,618,623	\$210,315,530	\$279,048,108	\$346,706,736	\$379,692,122
Debt to Capital	8.2%	0.1%	24.0%	28.5%	28.2%
Debt to Asset	8.0%	0.1%	23.8%	28.3%	28.0%
EBIT/ Interest expense	16.5	12.3	8.6	5.9	5.5

As shown above, the company had debt to capital of 24.0% at the end of 2013, versus the peer average of about 28.9%. Details of the total borrowing from the company's credit facilities are shown in the table below:

Credit facility (as of December 31, 2013)	Interest rate	Amount
Bank indebtedness	4.50%	\$ 325,930
Bankers' acceptances	3.72%	\$ 20,000,000
Bank loan	4.50%	\$ 15,910,000
<b>Total borrowing under credit facility</b>		<b>\$ 36,235,930</b>

The company currently has credit facilities of \$80 million: \$50 million from TD Bank, and \$30 million from National Bank. The key financial covenants set by the financial institutions are:

- i) Atrium's shareholders equity should not be less than \$175 million prior to June 30, 2014 (at the end of 2013: \$212.0 million)
- ii) Debt to total asset ratio should not be higher than 50% (at the end of 2013: 24%), and
- ii) Interest coverage should not be less than 3:1. (2013: 8.6x)

The credit facility is repayable upon demand, and is secured against the company's assets.

In addition to the above debt, the **company has \$32.50 million in convertible debentures** outstanding @ 5.25% due in June 2020 (conversion price - \$13.50 per share), which it issued in 2013.

The company recently announced that it entered into an agreement with a syndicate of underwriters for a debenture financing of **\$30 million @ 6.25% (conversion price - \$13.50) due in March 2019**. The underwriters also have an over-allotment option to purchase up to an additional \$4.5 million debentures. In our models, we assume the underwriters will exercise the over-allotment option.

*Options and  
Warrants*

At the end of 2013, the company had no options or warrants outstanding.

*Valuation*

We believe AI portfolio's risk profile lies between the Group 1 and Group 2 list of companies shown in the table below. Due to the higher percentage of residential and first mortgages, and lower LTV, we believe AI has a lower risk profile than Group 1, but higher than Group 2, as that group consist of senior MICs with 100% first mortgages.

We estimated the fair value of Atrium based on the average valuation multiples of these two groups. We used the Price to Earnings (P/E), Price to Book (P/B), and Dividend Yield of the comparables. The following table shows a summary of our analysis.



	Name	P/E	P/B	Dividend Yield
1	Firm Capital MIC	12.3	1.3	7.9%
2	Timbercreek MIC	14.5	1.0	8.6%
3	TREZ Capital MIC	17.7	0.8	7.6%
<b>Group (1)</b>	<b>Average</b>	<b>14.8</b>	<b>1.0</b>	<b>8.0%</b>
1	Timbercreek Senior MIC	16.8	0.8	6.9%
2	TREZ Capital Senior MIC	20.2	0.8	5.9%
<b>Group (2)</b>	<b>Average</b>	<b>18.5</b>	<b>0.8</b>	<b>6.4%</b>
<b>Average of (1) and (2)</b>		<b>16.7</b>	<b>0.9</b>	<b>7.2%</b>
	<b>Atrium MIC (trailing)</b>	<b>12.9</b>	<b>1.1</b>	<b>7.7%</b>
	<b>Atrium MIC (forward)</b>	<b>12.3</b>	<b>1.1</b>	<b>8.1%</b>
	<b>Fair Value of AI (based on 2014 est.)</b>	<b>\$14.9</b>	<b>\$9.2</b>	<b>\$12.4</b>
	<b>Average</b>		<b>\$12.13</b>	

Source: Capital IQ, TSX, and Other sources

The peer average P/E and Dividend Yields indicate that Atrium’s shares are trading at a significant discount. Our fair value estimate, based on the peer averages, is \$12.13 per share.

**Rating**

**Based on our review of the company’s historic performance, business model, and management team, we initiate coverage with a BUY rating, and fair value of \$12.13 per share. Our risk rating is 2 (below average).**

## Appendix

Income Statement YE - December 31	2008	2009	2010	2011	2012	2013	2014(F)	2015(F)
<b>Revenue</b>								
Mortgage interest and other fees	\$8,101,750	\$7,947,421	\$8,453,973	\$11,414,661	\$17,235,060	\$23,759,620	\$29,757,319	\$35,480,854
<b>Total Revenues</b>	<b>\$8,101,750</b>	<b>\$7,947,421</b>	<b>\$8,453,973</b>	<b>\$11,414,661</b>	<b>\$17,235,060</b>	<b>\$23,759,620</b>	<b>\$29,757,319</b>	<b>\$35,480,854</b>
<b>Expenses</b>								
G&A	\$121,303	\$154,223	\$110,535	\$202,688	886,674	641,260	788,990	917,999
Mortgage servicing and management fees	\$586,778	\$566,624	\$626,713	\$961,359	\$1,567,879	2,467,672	3,020,355	3,514,219
Share based payments					\$48,176	204,248	266,767	310,386
Interest + Bank Charges	\$434,914	\$305,902	\$361,961	\$609,803	1,180,713	1,318,474	1,456,304	1,401,366
Interest on convertible debenture						1,065,078	2,709,415	3,941,668
Loan loss provision	\$100,000	\$273,932	\$452,405	\$200,000	193,291	63,000	1,165,088	1,355,594
Provincial capital taxes	\$205,487	\$210,482	\$108,219	-	-	-	-	-
<b>Total Expenses</b>	<b>\$1,448,482</b>	<b>\$1,511,163</b>	<b>\$1,659,833</b>	<b>\$1,973,850</b>	<b>\$3,876,733</b>	<b>5,759,732</b>	<b>9,406,918</b>	<b>11,441,232</b>
<b>Net Income</b>	<b>\$6,653,268</b>	<b>\$6,436,258</b>	<b>\$6,794,140</b>	<b>\$9,440,811</b>	<b>\$13,358,327</b>	<b>\$17,999,888</b>	<b>\$20,350,401</b>	<b>\$24,039,622</b>
EPS	\$98	\$99	\$0.91	\$0.88	\$0.86	\$0.85	\$0.89	\$0.93

Balance Sheet YE - December 31	2008	2009	2010	2011	2012	2013	2014(F)	2015(F)
<b>Assets</b>								
Cash	\$207,922	\$21,462	\$15,228,126	\$8,330	\$10,628,383	-	\$33,526	\$56,572
Mortgages receivables, net	\$80,351,351	\$69,787,821	\$74,412,893	\$158,807,683	\$201,954,951	\$281,708,139	\$348,831,498	\$382,471,932
Capital taxes recoverable	\$64,027	\$99,529	\$9,661					
Prepaid Expenses					\$19,577	\$272,615	\$275,320	\$328,224
<b>Total Asset</b>	<b>\$80,623,300</b>	<b>\$69,908,812</b>	<b>\$89,650,680</b>	<b>\$158,816,013</b>	<b>\$212,602,911</b>	<b>\$281,980,754</b>	<b>\$349,140,344</b>	<b>\$382,856,728</b>
<b>Liabilities</b>								
Credit facility	\$5,900,000	\$6,150,000	\$0	\$12,600,000	\$0	\$36,235,930	\$35,335,930	\$33,535,930
Account payable and accrued liabilities	\$466,670	\$305,494	\$68,662	\$212,546	\$460,568	\$459,209	\$563,610	\$685,480
Due to related party	\$56,413	\$98,553	\$95,312	\$172,211	\$205,605	\$182,437	\$182,437	\$182,437
Dividend payable	\$1,706,015	\$1,587,344	\$1,881,464	\$2,984,844	\$1,826,813	\$2,473,437	\$1,869,998	\$2,479,127
Convertible debenture					\$0	\$30,610,763	\$63,385,763	\$73,360,763
<b>Total Liabilities</b>	<b>\$8,129,098</b>	<b>\$8,141,391</b>	<b>\$2,045,438</b>	<b>\$15,969,601</b>	<b>\$2,492,986</b>	<b>\$69,961,776</b>	<b>\$101,337,738</b>	<b>\$110,243,737</b>
<b>Shareholders Equity</b>								
Share capital	\$72,559,715	\$60,982,066	\$86,884,423	\$142,141,036	\$209,383,307	\$210,659,880	\$246,176,741	\$270,676,741
Contributed surplus	\$0	\$645,023	\$645,023	\$645,023	\$693,199	\$898,827	\$1,165,594	\$1,475,980
Equity component of convertible debenture					\$0	\$397,539	\$397,539	\$397,539
Retained Earnings	-\$65,513	\$140,332	\$75,796	\$60,353	\$33,419	\$62,732	\$62,732	\$62,732
<b>Total Shareholders Equity</b>	<b>\$72,494,202</b>	<b>\$61,767,421</b>	<b>\$87,605,242</b>	<b>\$142,846,412</b>	<b>\$210,109,925</b>	<b>\$212,018,978</b>	<b>\$247,802,606</b>	<b>\$272,612,992</b>
<b>Total Shareholders Equity+Liabilities</b>	<b>\$80,623,300</b>	<b>\$69,908,812</b>	<b>\$89,650,680</b>	<b>\$158,816,013</b>	<b>\$212,602,911</b>	<b>\$281,980,754</b>	<b>\$349,140,344</b>	<b>\$382,856,728</b>

<b>Cash Flow Statement</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014(F)</b>	<b>2015(F)</b>
<b>YE - December 31</b>								
<b>Operating Activities</b>								
Net Income	\$6,653,268	\$6,436,258	\$6,794,140	\$9,440,811	\$13,358,327	\$17,999,888	\$20,350,401	\$24,039,622
Add (subtract) non cash item								
Share based payments					\$48,176	\$205,628	\$266,767	\$310,386
Loan provision	\$100,000	\$273,932	\$320,444	\$200,000	\$193,291	\$63,000	\$1,165,088	\$1,355,594
Interest capitalized to mortgages				-\$641,071	-\$693,797	-\$1,611,503	-	-
Amortization of mortgage discount	-\$3,394	-\$3,394	-\$11,921	-\$14,227	-\$97,979	-\$207,828	-	-
Amortization of mortgage origination fees				-\$476,546	-\$773,304	-\$881,347	-	-
Non cash portion of interest on convertible debentures						\$148,846		
<b>Total</b>	<b>\$6,749,874</b>	<b>\$6,706,796</b>	<b>\$7,102,663</b>	<b>\$8,508,967</b>	<b>\$12,034,714</b>	<b>\$15,716,684</b>	<b>\$21,782,256</b>	<b>\$25,705,602</b>
<b>Net changes in non-cash operating items</b>								
Prepaid expenses					-\$11,247	-\$253,038	-\$1,848	-\$52,790
Capital taxes recoverable	-\$121,812	-\$35,502	\$89,868	\$9,661	-	-		
Accrued interest receivable	-\$115,974	-\$592,611	\$340,451	-\$1,075,751	-\$519,018	\$1,027,466	-	-
Accounts payable and accrued liabilities	-\$12,449	-\$161,176	\$88,423	\$143,885	\$248,023	-\$1,359	-\$499,323	\$730,952
Additions to mortgage discount				\$0	\$407,430	\$160,800	-	-
Additions to mortgage origination fee				\$666,201	\$903,128	\$961,064	-	-
Others	\$39,000			-\$8,330				
<b>Cash From Operating Activities</b>	<b>\$6,538,639</b>	<b>\$5,917,507</b>	<b>\$7,621,405</b>	<b>\$8,244,633</b>	<b>\$13,063,030</b>	<b>\$17,611,617</b>	<b>\$21,281,085</b>	<b>\$26,383,764</b>
<b>Investing Activities</b>								
Mortgage investments(net)	-\$5,426,103	\$10,885,603	-\$5,599,301	-\$81,738,380	-\$43,882,036	-\$79,264,840	-\$68,291,861	-\$35,000,000
<b>Cash used Investing Activities</b>	<b>-\$5,426,103</b>	<b>\$10,885,603</b>	<b>-\$5,599,301</b>	<b>-\$81,738,380</b>	<b>-\$43,882,036</b>	<b>-\$79,264,840</b>	<b>-\$68,291,861</b>	<b>-\$35,000,000</b>
<b>Financing Activities</b>								
Credit facility						\$35,910,000	-\$900,000	-\$1,800,000
Increase/decrease in amounts due to related party	\$8,656	\$42,140	-\$3,241	\$76,899	\$33,394	-\$23,168	-	-
Issuance of share capital	\$15,389,000	\$10,202,980	\$26,110,708	\$55,914,370	\$71,130,933	\$1,276,573	\$37,386,169	\$25,789,474
Redemption of share capital	-	-\$21,068,057	-	-\$140,000	-	-		
Share capital issue costs	-\$75,510	-\$48,069	-\$208,351	-\$517,757	-\$3,888,662	-	-\$1,869,308	-\$1,289,474
Cash dividends paid during the year	-\$6,401,997	-\$6,368,564	-\$6,564,556	-\$8,352,874	-\$14,543,292	-\$17,323,951	-\$20,350,401	-\$24,039,622
Proceeds from issuance of convertible debentures						\$32,500,000	\$34,500,000	\$10,500,000
Convertible debenture issue costs						-\$1,640,544	-\$1,725,000	-\$525,000
<b>Cash used in Financing Activities</b>	<b>-\$979,851</b>	<b>-\$16,989,570</b>	<b>\$13,184,560</b>	<b>\$59,580,638</b>	<b>\$40,132,373</b>	<b>\$50,698,910</b>	<b>\$47,041,460</b>	<b>\$8,635,378</b>

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

**Disclaimers and Disclosure**

The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees were paid by AI to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, AI has agreed to a minimum coverage term including an initial report and three updates. Coverage cannot be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC's research is ranked by Investars. Full rankings and are available at [www.investars.com](http://www.investars.com).

The distribution of FRC's ratings are as follows: BUY (69%), HOLD (8%), SELL (5%), SUSPEND (18%).

To subscribe for real-time access to research, visit <http://www.researchfrc.com/subscription.htm> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.