ATRIUM
MORTGAGE INVESTMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Background and overview

This Management's Discussion and Analysis ("MD&A") is intended to help you understand Atrium Mortgage Investment Corporation ("Atrium", the "Company", "we", "our" or "us"), its business environment and future prospects. This MD&A should be read together with our audited financial statements and the accompanying notes for the year ended December 31, 2012. Information herein includes any significant developments for the year ended December 31, 2012 and up to and including February 21, 2013, the date on which this MD&A was approved by our directors.

Atrium was formed on July 30, 2001 as DB Mortgage Investment Corporation #1; our name was changed to Atrium Mortgage Investment Corporation on March 23, 2012. We are an Ontario corporation and we do not have any subsidiaries.

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

Our common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "AI." We became a reporting issuer and listed our shares on the TSX following the issuance of a non-offering prospectus on August 24, 2012. Previously, we were a private company.

Our financial statements for the year ended December 31, 2012 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the *Handbook* of the Canadian Institute of Chartered Accountants.

Notice regarding forward-looking information

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities legislation, including statements with respect to management's beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. 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. Such 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. 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" below, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2012 which is available at www.sedar.com. We caution that the foregoing 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. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Our business

We are a mortgage lender that fills the lending gap caused by the limited number of financial institutions operating in Canada. We lend in major urban centres where the stability and liquidity of real estate are at the highest levels. We focus on loans that cannot be placed with financial institutions but that represent an acceptable underwriting risk. 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%. A typical loan in our portfolio has an interest rate of 8% to 10% per annum, a one or two-year term and monthly interest-only mortgage payments.

Our basic lending parameters are as follows:

- First or second mortgages on income-producing real estate up to a maximum of 85% of value.
- Mortgages on residential and commercial properties up to a maximum of 75% of appraised value.
- Loans on single family houses up to 75% of appraised value.
- Construction loans up to a maximum of 90% of cost.
- Purchase of guest suite and superintendent condominium mortgages.

Mortgage loans are generally $300,000 to a maximum of $20,000,000. The largest mortgage in our mortgage portfolio as at December 31, 2012 was $15.9 million. For loan amounts in excess of $15 to $20 million, we co-lend with one or more private lenders or financial institutions. The parameters listed above are our maximum mortgage lending parameters. At December 31, 2012, the average loan-to-value ratio of the mortgage portfolio on a weighted average basis was 66.7%.

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

- We may invest only in residential mortgages, commercial mortgages, commercial mortgage backed securities and certain related investments.
- Commercial mortgages may not constitute more than 50% of our total assets at any time.
- We will not invest in any mortgages where the term of the mortgage is in excess of ten years.
- No individual mortgage or a portion of a mortgage will exceed $20,000,000.
- No single borrower will account for more than 15% of our total assets.
- All mortgages will be supported by external appraisals by a qualified appraiser. All mortgages, except mortgages secured against a single residence, will be supported by environmental audits.
- No mortgage will initially exceed 85% loan-to-value, including any prior ranking encumbrances, and 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%.
- Our ratio of debt to equity may not exceed 1:1.
- We do not typically invest directly in real property, although real property may be acquired through foreclosing on a mortgage.
- We may not make any investment: (i) of $1,000,000 or more without the approval of our board; (ii) of less than $1,000,000 and more than $500,000 without the approval of three members of our board; (iii) of $500,000 or less without the approval of any one member of our board; and (iv) in respect of a mortgage previously approved by our board but where the mortgage amount exceeds the amount so approved by up to $100,000, without the approval of three members of our board, including at least one independent director. However, we may invest in certain interim investments which are limited to investments guaranteed by the Government of Canada or of a province or territory of Canada or deposits in or receipts, deposit notes, certificates of deposits, acceptances and other similar instruments issued, endorsed or guaranteed by a Schedule I Bank in any amount without prior approval of our board.
- We may not make unsecured loans to, nor invest in securities issued by, our manager or its affiliates, nor make loans to the directors or officers of our manager.
- We may not make any investment, or incur any indebtedness, that would result in our not qualifying as a MIC.

Our objectives are to preserve our shareholders' equity, and to provide our shareholders with stable and secure dividends from our investments in mortgage loans within the criteria 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, mixed-use residential apartments and store-front properties, investment properties, residential and commercial land development sites and construction projects. We also invest in short-term bridge financing for real estate developers. Our strategy is to grow by diversifying geographically, and by investing in additional commercial and residential mortgages and grow our portfolio in a controlled manner over time.

We are qualified as a MIC and we 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 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, 2012, which is available at www.sedar.com.

Highlights for the year ended December 31, 2012

- For the year ended December 31, 2012, we earned $13,358,327 ($0.86 per share, basic and diluted), compared to $9,440,811 ($0.88 per share, basic and diluted) the previous year, and declared dividends of $13,385,261 ($0.85 per share including a special dividend of $0.02 per share payable on March 21, 2013 to shareholders of record at the close of business on December 31, 2012), compared to $9,456,254 ($0.88 per share) in the previous year. One-time expenses for our non-offering prospectus and the related TSX listing resulted in a $0.03 per share decrease in earnings, which is reflected in our earnings per share for the year.
- Our common shares commenced trading on the TSX, with the symbol "AI", on September 4, 2012, after we filed and received a receipt for a non-offering prospectus on August 24, 2012.
- We completed a public and private share placement in December 2012 for gross proceeds of $62.3 million, including an overallotment option that was fully taken up.

- We had $202.0 million of mortgages at December 31, 2012. During 2012, we funded mortgages aggregating $129.1 million. Two first mortgages totaling $5.09 million were in arrears as at December 31, 2012. We believe that adequate reserves have been established to cover any potential losses.
- For the year ended December 31, 2012, mortgage interest and other fees aggregated $17.2 million, compared to $11.4 million in the previous year, an increase of 51%. The weighted average yield rate in the mortgage portfolio declined from 9.4% during 2011 to 8.9% during 2012.
- Effective October 1, 2012, we hired Bruce Weston as managing partner for British Columbia, and opened our Vancouver office located at 668-1199 West Pender Street, Vancouver BC V6E 2R1. Mr. Weston has over 30 years of lending experience and is very well connected in the B.C. market.
- Shortly after the year-end, on January 7, 2013, we hired Dan Stewart as managing partner for Alberta and Saskatchewan. Mr. Stewart has over 25 years of lending experience in the Prairie Provinces and many strong relationships with developers.
- We entered into a new revolving operating credit facility with our bank, increasing the maximum availability to $50 million from $40 million previously. Prior to our common share offering in December 2012, we negotiated a temporary increase in the operating facility of $25 million, which was cancelled at the time the offering was completed.

Highlights for the three months ended December 31, 2012

- For the three months ended December 31, 2012, we earned $0.21 per common share, and declared regular dividends of $0.20 per share and a special dividend of $0.02 per share payable on March 21, 2013 to shareholders of record at the close of business on December 31, 2012.
- We had $202.0 million of mortgages at December 31, 2012. During the three-month period ended December 31, 2012, we funded mortgages aggregating $49.1 million. Two first mortgages totaling $5.09 million were in arrears as at December 31, 2012.
- For the three-month period ended December 31, 2012, mortgage interest and other fees aggregated $4.76 million, compared to $3.59 million in the same period in the previous year, an increase of 33%. The weighted average yield in the mortgage portfolio declined from 9.4% during 2011 to 8.9% in the fourth quarter of 2012.

Investment portfolio

Our mortgage portfolio consisted of 77 mortgage loans and aggregated $201.5 million at December 31, 2012, an increase of 28% from December 31, 2011.

	December 31, 2012			December 31, 2011		
Mortgage category	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
Mixed use real estate/commercial	15	$69,334,931	34.4%	10	$49,563,240	31.6%
Condominium corporation	10	1,629,664	0.8%	9	1,373,602	0.9%
Low rise residential	8	24,302,272	12.0%	6	12,150,000	7.7%
Midrise residential	5	24,381,184	12.1%	4	12,213,154	7.8%
High rise residential	4	23,686,000	11.8%	6	49,500,000	31.6%
House and apartment	31	43,061,190	21.4%	8	18,257,393	11.6%
Construction	4	15,087,981	7.5%	4	13,850,000	8.8%
	77	**$201,483,222**	**100.0%**	**47**	**$156,907,389**	**100.0%**

High rise residential loans decreased from 31.6% of our mortgage portfolio at December 31, 2011 to 11.8% at December 31, 2012. This has been offset by an increase in low rise, midrise and house and apartment loans over the same period reflecting our strategy of reducing our exposure to high rise residential while maintaining our overall residential exposure. We are comfortable with the remaining four loans on high rise residential because the weighted average loan-to-value ratio is only 57.9%.

The book value of our mortgages receivable at December 31, 2012 was $202.0 million, consisting of mortgages receivable less mortgage discount, net of accumulated amortization. Mortgages receivable, as set out on our balance sheet, consists of the book value of mortgages receivable, plus accrued interest receivable, less mortgage origination fees (net of accumulated amortization) and less a provision for mortgage losses.

As of December 31, 2012, our mortgage portfolio consisted of 77 investments with an average outstanding balance of $2.6 million and a median outstanding balance of $1.5 million. An analysis of our mortgages by size as at December 31, 2012 is presented below.

Amount	Number of mortgages	Amount
$0 - $2,500,000	50	$ 48,628,362
$2,500,001 - $5,000,000	16	55,814,860
$5,000,001 - $7,500,000	5	30,670,000
$7,500,001 +	6	66,370,000
	77	**$201,483,222**

Analyses of our mortgages as at December 31, 2012 by type of mortgage, nature of the underlying property, and location of the underlying property is set out below:

Description	Number of mortgages	Amount	Percentage	Weighted average yield
Type of mortgage				
First mortgages	65	$167,335,784	83.0%	8.6%
Second and third mortgages	12	34,147,438	17.0%	10.6%
	77	**$201,483,222**	**100.0%**	**8.9%**
Nature of underlying property				
Residential	62	$132,148,291	65.6%	8.1%
Commercial	15	69,334,931	34.4%	10.5%
	77	**$201,483,222**	**100.0%**	**8.9%**
Location of underlying property				
Greater Toronto Area	65	$166,616,924	82.7%	8.9%
Other	12	34,866,298	17.3%	8.9%
	77	**$201,483,222**	**100.0%**	**8.9%**

An analysis of our mortgages by their category at December 31, 2012 and December 31, 2011, and changes over that period, is set out below:

	December 31 2012	%	December 31 2011	%	% change
Conventional first mortgages..........	$156,322,551	77.6%	$128,202,773	81.7%	21.9%
Conventional second and third mortgages..........................	29,340,438	14.6%	7,693,496	4.9%	281.4%
Non-conventional mortgages..........	14,190,569	7.0%	19,637,518	12.5%	(27.7)%
Other	1,629,664	0.8%	1,373,602	0.9%	18.6%
	$201,483,222	**100.0%**	**$156,907,389**	**100.0%**	**28.4%**

The average term within the mortgage portfolio is 13.0 months (2011 – 13.9 months).

Conventional first mortgages aggregated 77.6% of the mortgage portfolio as at December 31, 2012, compared to 81.7% at December 31, 2011. Conventional second and third mortgages increased to 14.6% at December 31, 2012 as a result of an intended increase in exposure to the commercial and apartment sectors. Non-conventional mortgages, which are those with a loan-to-value ratio greater than 75%, decreased to 7.0% of the portfolio at December 31, 2012 from 12.5% at December 31, 2011.

The table below provides a reconciliation of our mortgage portfolio to mortgages receivable as disclosed in our annual financial statements for the years ended December 31, 2011 and 2012.

	December 31 2012	*December 31 2011*
Mortgage portfolio	$ 201,483,222	$ 156,907,389
Mortgage discount, net of accumulated amortization	(385,508)	(76,059)
Book value of mortgages receivable	201,097,714	156,831,330
Accrued interest receivable	2,589,639	2,070,622
Mortgage origination fees, net of accumulated amortization	(644,735)	(514,910)
Provision for mortgage losses	(1,087,667)	(894,376)
Mortgages receivable	**$ 201,954,951**	**$ 157,492,666**

Our business during 2012

During 2012, we continued to see the banks and trust companies tightening in almost all forms of real estate lending, from house loans to development loans. This trend exists for both the large banks and the smaller financial institutions, despite the fact that their loan portfolios are reportedly in very good condition.

In particular, the banks are generallyoffering financing on high-rise condominiums only to their long term developer clients, although their appetite for lending and underwriting terms are not consistent throughout the country. This trend is constraining the number of condominiums that are being successfully financed, thereby reducing the new supply which will be completed over the next two-to-three years. The rental market in Toronto has remained strong which is one factor that has helped drive condominium sales in that market. The Canada Mortgage and Housing Corporation estimates that the vacancy rate on rental condominiums in Toronto is only 1.2%.

We regard these trends as healthy for the market over the long term. In response, we have taken the following actions:

- We have increased our lending on low-rise and mid-rise developments, formerly the preferred market sector for the banks. These sectors are attractive for lenders due to the limited supply of infill land, and continuing demand for detached and semi-detached homes and townhouses from consumers.

- Our portfolio of single family residential mortgages has also grown substantially. Single family mortgages historically have had the lowest risk profile of any form of real estate, and even today this sector has only a 0.2% default rate – that is, two out of every 1,000 mortgage loans.
- We have also begun to increase our loan exposure to apartment buildings, particularly in Western Canada where strong job creation and net migration trends have resulted in rent increases which are the highest in the country.
- Like the banks, we have reduced our exposure to high-rise condominiums. Our four loans in this sector are all performing and have an weighted average loan-to-value of only 57.9%.

There continues to be competition among non-bank lenders, although the reduced competition from banks has allowed most non-bank lenders to successfully exploit their preferred real estate sectors. We believe that interest rates on non-bank loans have stabilized over the last quarter. As we have focused our underwriting on first mortgage positions in the lowest risk real estate sectors, the average yield on our mortgage portfolio has been reduced slightly to 8.93% per annum in the fourth quarter, compared to 9.38% at December 31, 2011. Our objective continues to be to ensure a safe investment portfolio rather than to merely maximize yield.

We achieved our operating goals for 2012

In September 2012 our existing common shares were listed and began trading on the TSX, following the filing of a non-offering prospectus on August 24, 2012, at which time we had shareholders' equity of $151.5 million. We completed a public and private share placement in December 2012 for gross proceeds of over $62 million.

We have achieved our key goals for the period after becoming a public company. They were:

- ☑ Maintain low risk portfolio
- ☑ Expand geographically by opening offices and hiring experienced underwriters in Western Canada
- ☑ Enhance internal procedures and controls

Maintain a low risk portfolio –

Limited equity issue: In our common share offering which closed on December 4, 2012, we chose to limit the size of the offering to $50 million (plus a $4.6 million private offering, and a 15% over-allotment amount) despite being substantially oversold. Our primary reason for limiting the size of the equity offering was to ensure that the new funds could be effectively and judiciously deployed. Despite some large and unexpected prepayments in the existing portfolio, we finished the year with only $10.6 million of cash not invested in the mortgage portfolio (which was placed in secure high-yield deposits with a major chartered bank). These excess funds were fully deployed by the end of January 2013. The pipeline of new deals is very healthy and we expect to be using our revolving operating credit facility in a substantial way over the next couple of months to fund new mortgage loans.

High percentage of first mortgages: We believe that we have the lowest risk portfolio in the industry, with 82.6% of our portfolio being in "true" first mortgage positions, rather than "customized first mortgages" which are effectively second mortgage positions. ("Customized first mortgages" consist of two tranches, and the non-bank lender receives the subordinate tranche.)

Loan to value: At December 31, 2012, the weighted average loan-to-value ratio remained very conservative at 66.7%, and the percentage of loans with a loan-to-value ratio of over 75% reduced to only 7.04% of the total portfolio.

Loan composition: We constantly adjust our portfolio based upon our view of the market. The percentage of the portfolio secured by high-rise residential lands has reduced considerably since December 31, 2011 to only 11.8% of the portfolio, compared to 31.6% previously. The remaining high rise land loans on the books are all performing well, and have a weighted average loan-to-value of only 57.9%. As the banks tightened their lending standards, we worked hard to penetrate the market for low rise residential developments. In addition, we aggressively targeted house and apartment loans to a point that they represent 21.4% of the mortgage portfolio. These adjustments reduced the risk of the portfolio in a softening market, but only resulted in a slight reduction in the average yield of the portfolio. (Please refer to the table above on page 5 for a summary of our loan portfolio by category.)

***Expand geographically by opening offices and hiring experienced underwriters in Western Canada* –**

In October 2012, we opened our Vancouver office and in January 2013 we opened our Calgary office.

Bruce Weston joined us on October 1, 2012 as Managing Partner for British Columbia. He was formerly a Vice President at a private non-bank lender based in Vancouver. Mr. Weston has over 30 years of lending experience and is well connected in the B.C. market, and managed the western Canadian lending operations of several large Canadian financial institutions earlier in his career.

Dan Stewart joined us on January 7, 2013 as Managing Partner for Alberta and Saskatchewan. He was previously a Vice President at a major trust company, and before that a Vice President at a large Schedule II Bank active in Canada. Mr. Stewart has over 25 years of lending experience throughout the Prairie Provinces, and worked for a period of time with residential developers as a consultant. He has very strong developer relationships in western Canada.

With these two Managing Partners in place and a solid presence in the West, we expect to diversify our portfolio into western Canada, where the economic growth prospects for Canada are strongest. We expect that the western Canadian mortgage portfolio will represent at least 25% of our total portfolio by the end of 2013.

***Enhance internal procedures and controls* –**

Management and financial reporting: Our manager, CMCC, has hired personnel and enhanced information systems to bring our management and financial reporting systems in-house. Previously, most accounting was outsourced. A CFO was hired during the second quarter of 2012, and a controller during the third quarter, and both are chartered accountants. CMCC acquired a new mortgage servicing system which will be phased in during the first quarter of 2013, and will provide better and more timely information and eventually permit further automation. CMCC also hired an additional mortgage administrator to ensure adequate staffing as the mortgage portfolio continues to grow.

Opportunities for 2013

The overall opportunity for non-bank loans across Canada continues to grow as virtually all Canadian financial institutions are being required to tighten their underwriting standards. This opportunity is being filled both by new entrants and the growth of the larger market participants, so the market remains competitive. We are fortunate at Atrium to have experienced underwriters in three provinces with a wide number of developer relationships. Our view is that there is a big variance in the qualifications and abilities of many of the non-bank lenders. At some point, we expect there will be consolidation in the MIC industry, but that may take several years.

While the market for non-bank lenders is growing, the increase in the size of both public and private non-bank lenders makes the environment competitive. These lenders cover a full spectrum of lending opportunities – some who are prepared to assume more risk in exchange for higher interest rates, and others like us who prefer to lend conservatively in a market that is showing signs of softness. As a result, the average interest rate on our portfolio is 8.93% per annum, and is unlikely to increase in the near future.

Financial summary

	Twelve months ended Dec. 31, 2012	***Twelve months ended Dec. 30, 2011***	***Twelve months ended Dec 31, 2010***
Revenue	17,235,060	11,414,661	8,453,973
Operating expenses	3,876,733	1,973,850	1,659,833
Earnings and total comprehensive income	13,358,327	9,440,811	6,794140
Basic and fully diluted earnings per share	0.86	0.88	0.91
Dividends declared	13,385,261	9,456,254	6,858,676
Mortgages receivable, end of period	201,954,951	157,492,666	74,412,893
Total assets, end of period	212,602,911	158,816,013	89,650,680
Shareholders' equity, end of period	210,109,925	142,846,412	87,605,242

	Three months ended Dec. 31, 2012 *(unaudited)*	***Three months ended Dec. 31, 2011*** *(unaudited)*
Revenue	$4,759,646	$3,585,711
Operating expenses	1,115,162	629,070
Earnings and total comprehensive income	3,644,484	20,956,641
Basic and fully diluted earnings per share	0.21	0.23
Dividends declared	3,858,184	2,984,844
Mortgages receivable, end of period	201,954,952	157,492,666
Total assets, end of period	212,602,911	158,816,013
Shareholders' equity, end of period	210,109,925	142,846,412

Results of operations – twelve months ended December 31, 2012

Our mortgages receivable consisted of 77 mortgage loans and aggregated $202.0 million at December 31, 2012, an increase of 28.4% from December 31, 2011. Dividends declared aggregated $13.4 million for the twelve months ended December 31, 2012, an increase of 41.5% from the same period in the previous year. Total assets at December 31, 2012 aggregated $212.6 million, compared to $158.8 at December 31, 2011.

For the twelve-month period ended December 31, 2012, mortgage interest and other fees aggregated $17.2 million, compared to $11.4 million for the same period in the previous year, an increase of 51.0%. The weighted average yield on the mortgage portfolio declined from 9.4% during 2011 to 8.9% for the twelve-month period ended December 31, 2012.

Operating expenses aggregated $3.9 million, or 22.5% of revenues, compared to $2.0 million or 17.3% of revenues in the prior year period. Non-recurring expenses related to the non-offering prospectus and the related new listing on the TSX were $0.5 million, compared to $ nil in the prior year. Accounting, audit and legal fees aggregated $0.21 million for the year, compared to $0.14 million in the previous year. The major component of operating expenses was mortgage servicing and other fees paid to the Manager (which is the management fee) that aggregated $1.6 million for the twelve months ended December 31, 2012, compared with $1.0 million in the previous year, reflecting the growth of the mortgage portfolio over the previous year.

Net earnings for the twelve months ended December 31, 2012 aggregated $13.4 million, an increase of 41.5% from net earnings of $9.4 million in the same period in the previous year. Basic and diluted earnings per common share was $0.86 per common share for the twelve months ended December 31, 2012, compared with $0.88 per common share in the same period the previous year, which is a decrease of 2.3%.

During the twelve-month period ended December 31, 2012, we funded mortgages aggregating $129.1 million. Of these new loans, $100.4 million were first mortgages, representing 77.8% of the new loan originations. All but four of these new loans were made in the major urban centres which we have targeted in Ontario and western Canada. There were $84.5 million of repayments during the period. The mortgage portfolio, in aggregate, increased from $156.9 million to $201.5 million during the period due to additional advances. Two first mortgages with total balance of $5.09 million were in arrears as at December 31, 2012. We believe that adequate reserves have been established to cover any potential losses.

Results of operations – three months ended December 31, 2012

For the three-month period ended December 31, 2012, mortgage interest and other fees aggregated $4.76 million, compared to $3.59 million in the same period in the previous year, an increase of 32.7%. The weighted average yield on the mortgage portfolio declined from 9.4% during 2011 to 8.9% in the fourth quarter of 2012.

Dividends declared aggregated $3.86 million for the fourth quarter of 2012, an increase of 29.3% from the same quarter in the previous year.

Operating expenses aggregated $1.1 million, or 23.4% of revenues, compared to $0.6 million or 17.5% of revenues in the prior year period. The major component of operating expenses was mortgage servicing and other fees paid to the Manager (which is the management fee) that aggregated $0.45 million for the three months ended December 31, 2012, compared with $0.30 million in the previous year, reflecting the growth of our mortgage portfolio over the previous year. Net earnings for the three months ended December 31, 2012 aggregated $3.64 million, an increase of 23.3% from net earnings of $2.96 million in the same period in the previous year. Basic and diluted earnings per common share was $0.21 per common share for the three months ended December 31, 2012, compared with $0.23 per common share in the same period the previous year.

During the three-month period ended December 31, 2012, we funded mortgages aggregating $49.1 million. Of these new loans, $43.7 million were first mortgages, representing 89% of the total loans funded. Five of these mortgages were on properties in British Columbia, and the remaining 19 were made in the Greater Toronto Area. There were $39.6 million of repayments during the period. The mortgage portfolio, in the aggregate, increased from $192.0 million to $202.0 million during the period.

Summary of quarterly results (unaudited)

In $000s, except for per share amounts	*Q4 2012*	*Q3 2012*	*Q2 2012*	*Q1 2012*	*Q4 2011*	*Q3 2011*	*Q2 2011*	*Q1 2011*
Revenue	$4,760	$4,231	$4,142	$4,103	$3,586	$3,279	$2,454	$2,096
Operating expenses	1,115	1,226	784	751	630	640	477	227
Earnings	3,644	3,005	3,357	3,352	2,956	2,639	1,977	1,869
Basic and fully diluted earnings per share	0.21	0.20	0.22	0.23	0.23	0.23	0.21	0.21
Dividends declared	3,858	3,044	3,345	3,138	2,985	2,521	2,111	1,839

Liquidity and capital resources

At December 31, 2012, we had cash on hand of $10,628,383 due to share issuances in the fourth quarter of 2012, and we had no amount outstanding under our revolving operating credit facility. We are in compliance with the covenants required of us in our operating credit facility as at December 31, 2012 and we expect to remain in compliance with such covenants going forward.

Growth in the mortgage portfolio has historically been financed by the issuance of common shares to new and existing shareholders, and by bank debt under our operating credit facility. During the twelve months ended December 31, 2012, gross proceeds $71.1 million were received from the issuance of common shares (before taking account of $3.9 million of issue costs). We expect to be able to generate sufficient funds for future mortgage loan investments through a combination of common share issuances, convertible debt, and the existing operating credit facility.

Cash provided by operating activities aggregated $13.8 million for the twelve months ended December 31, 2012 compared with $8.9 million for the same period in the previous year. Changes in non-cash items aggregated an increase from cash provided from operating activities of about $12.7 million.

Investing activities during the twelve months ended December 31, 2012 consisted entirely of advances on new mortgage loan investments of $129.1 million, less repayments received of $84.5 million, for net cash used for net new mortgage loan investments of $44.6 million.

Sources of cash from financing activities during the twelve months ended December 31, 2012 consisted primarily of bank loans (under our operating credit facility) and proceeds from issuing common shares. Bank loans advanced less bank loans repaid netted to a $12.6 million use of cash, while proceeds from issuing common shares less share issuance costs provided $67.2 million. Dividends paid used cash of $14.5 million, so after some other smaller items, net cash provided by financing activities aggregated $40.1 million for the twelve months ended December 31, 2012.

Changes in financial position

Cash on hand was approximately $10.6 million at December 31, 2012, compared to $1.3 million at December 31, 2011. The cash on hand at December 31, 2012 consisted of uninvested proceeds from the issuance of common shares in December 2012, and was fully invested in January 2013. The cash balance at December 31, 2011 consisted primarily of items in transit since any significant amounts of cash on hand are used to repay our operating credit facility or to fund additions to the mortgage portfolio. Mortgages receivable increased by 28.2% to $202.0 million at December 31, 2012 from $157.5 million at December 31, 2011, reflecting the growth in our portfolio.

Bank indebtedness (under our operating credit facility) decreased to $ nil at December 31, 2012, from $12.6 million at December 31, 2011, reflecting the use of proceeds from the issuance of our common shares in December 2012 to repay all amounts under our operating credit facility. Accounts payable and accrued charges were $0.46 million at December 31, 2012 compared to $0.21 million at December 31, 2011. Dividends payable decreased to $1.8 million at December 31, 2012 from $2.98 million at December 31, 2011, and represent dividends declared on the common shares during the quarter and paid after each quarter-end. We changed our dividend policy during the year to pay monthly instead of quarterly. Thus, dividends payable at December 31, 2011 consisted of dividends declared for the final quarter of 2011, whereas dividends payable at December 31, 2012 consist of dividends payable for the month of December plus the special dividend which is paid once a year.

Share capital increased to $209.4 million at December 31, 2012 from $142.1 million at December 31, 2011.

In the first quarter of 2012, we completed an offering of 805,800 common shares at a price of $10.00 per share. Net proceeds from this offering before expenses amounted to $8.1 million (after expenses – $7.9 million).

In the fourth quarter of 2012, we completed a public offering of 5,405,000 common shares at a price of $10.67, including the overallotment option which was fully taken up. Net proceeds from this offering before expenses amounted to $57.7 million (after expenses – $54.5 million). A private placement was also completed concurrently with the above public issue for 432,400 common shares at a price of $10.67 per share. Net proceeds from this private placement before expenses amounted to $4.6 million (after expenses – $4.5 million).

In addition, 77,900 common shares with a book value aggregating $0.8 million were issued during the twelve months ended December 31, 2012 under our Dividend Reinvestment Plan.

Contractual Obligations

Contractual obligations as at December 31, 2012 were due as follows:

	Total	Less than 1 year	1-3 years	4-7 years
Accounts payable and accrued liabilities	$ 460,568	$ 460,568	–	–
Dividends payable	1,826,813	1,826,813	–	–
Due to related party	205,605	205,605	–	–
Subtotal liabilities	2,492,986	2,492,986	–	–

Bank indebtedness is a liability resulting from funding of the mortgage portfolio. Amounts due to a related party are liabilities payable to the Manager and its subsidiaries representing accrued mortgage servicing fees.

Off-balance sheet arrangements

As at December 31, 2012, we had $357,458 of Letters of Credit outstanding ("LCs") which were issued under our operating credit facility. The LCs reduce our maximum availability under our operating credit facility by the amount of the LCs. The maximum available by way of LCs under our operating credit facility is $2 million.

Share based payments

During the year, we implemented a deferred share incentive plan for our employees, officers and directors and employees of the Manager. The plan allows the board to issue up to a maximum of 100,000 deferred share units and income deferred share units to eligible individuals. Holders of deferred share units are also eligible to receive income deferred share units from any dividends paid on our common shares. The number of common shares these income deferred share units represent is calculated by dividing the amount obtained by multiplying the dividends or other distributions paid on each common share by the number of deferred share units and income deferred share units in the account of each participant on the distribution record date by the market value of the common shares on the distribution payment date.

During the period ended December 31, 2012, we granted 21,500 deferred share units. These deferred share units were valued using the Company's common share price, determined on its first trading day of September 7, 2012, of $11.00. These deferred share units will vest over a three year period (1/3 in each one year period) from August 29, 2012. Upon the vesting of deferred share units and income deferred share units, we will issue common shares to participants on the basis of one common share for each deferred share unit and income deferred share unit that has vested. Certain participants have the ability to elect to defer the issuance of common shares to them on the vesting of their deferred share units and income deferred share units in respect of any vesting date.

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 mortgage servicing and other fees of $1,567,879 for the twelve-month period ended December 31, 2012 (December 31, 2011 – $961,359) from the Manager. Robert G. Goodall is part of the key management personnel of the Manager and is also a director of Atrium and received compensation from the Manager. 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 the Company's 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 equally between the Manager and Atrium. It is at the discretion of the Manager whether to collect the maximum fee to which it is entitled under the management agreement.

Guarantees aggregating $8,290,000 at December 31, 2012 (December 31, 2011 – $5,295,000) have been provided on mortgage loans made by us to a major development company of which one of our directors has a minority equity interest.

Environmental matters

Environmental-related policies have become increasingly important in recent years. 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. We do not own any real property and thus would not attract the environmental liability to which an owner would be exposed. 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.

Critical accounting estimates and policies

Our financial statements for the year ended December 31, 2012 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the *Handbook* of the Canadian Institute of Chartered Accountants. Management makes certain estimates and relies upon certain assumptions related to reporting our assets and liabilities as well as results of operations in conformity with Canadian generally accepted accounting principles. Actual results will differ from these estimates and assumptions.

The most significant accounting estimates for us relate to the valuation of our mortgage portfolio and the related provision for mortgage losses. These are recorded based upon management's estimates and assessment taking into account the investments within the mortgage portfolio and the history of each borrower. The more significant accounting policies are set out below:

Revenue recognition
Mortgage interest and fees revenue is recognized using the effective interest method. Mortgage interest and fees revenue may, in certain circumstances, include an origination fee from a borrower for arranging a mortgage which is included in mortgage interest and fees using the effective interest method. Mortgages issued at a premium or discount are recorded at their face value, adjusted for such premiums and discounts. Premiums or discounts are amortized into income over the term of the mortgage.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the mortgage receivable (or, where appropriate, a shorter period) to its carrying amount. When calculating the effective interest rate, we estimate future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Mortgages receivable
We review the mortgages receivable quarterly for impairment. An impairment loss in respect of the mortgages receivable measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are charged to the statement of comprehensive income and reflected in the allowance account against the mortgages receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

Income taxes
We are, and intend to maintain our status as, a MIC, and as such are not taxed on income provided that such income

flows through to our shareholders as dividends during the year or within 90 days after December 31. It is our policy to pay such dividends out to the shareholders to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

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, the Company's Audit Committee and board of directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed and approved this MD&A and the audited financial statements as at December 31, 2012 and 2011.

Controls and procedures

Our CEO and 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 over Financial Reporting – Guidance for Smaller Public Companies* published by COSO, which is based upon their earlier publication *Internal Control – Integrated Framework*, 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 financial statements for external purposes in accordance with Canadian 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, 2012. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of December 31, 2012. 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 fourth quarter.

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

Outstanding share data

Our authorized capital consists of an unlimited number of common shares, of which 21,078,537 are issued and outstanding at December 31, 2012, and 21,085,115 are issued and outstanding as at the date hereof.

On March 23, 2012, the common shares were subdivided and split on the basis of 100 new common shares for every one then existing. In addition, as at the date hereof, 21,500 common shares are issuable after the vesting of deferred share units and income deferred share units granted under our deferred share incentive plan.

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 risks 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.

Please also refer to "Notice regarding forward-looking information," above, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2012 which incorporated herein by reference and is available at www.sedar.com.

Dividend Reinvestment Plan

Atrium has in place a Dividend Reinvestment Plan ("DRIP") that is available to our shareholders. The DRIP allows participants to have their monthly cash dividends reinvested in additional common shares. Shareholders who wish to enroll or who would like further information about the DRIP should contact 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, 2012 and our audited financial statements for the year ended December 31, 2012, is available on SEDAR at www.sedar.com. You may also obtain further information about us from our website at www.atriummic.com.