ATRIUM
MORTGAGE INVESTMENT CORPORATION

MANAGEMENT`S DISCUSSION AND ANALYSIS

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 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 unaudited condensed interim financial statements for the three- and nine-month periods ended September 30, 2012 and our audited financial statements and MD&A, of Atrium for the year ended December 31, 2011 which is contained in our (non-offering) long form prospectus dated August 24, 2012 (the "Prospectus"). Information herein includes any significant developments to October 25, 2012, the date on which this MD&A was approved by our directors.

All amounts are expressed in Canadian dollars. Our unaudited condensed interim financial statements for the three- and nine-month periods ended September 30, 2012, and our audited annual financial statements for the year ended December 31, 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and our reporting currency is Canadian dollars.

We adopted IFRS effective January 1, 2011. The transitional provisions of IFRS 1, First time Adoption of International Financial Reporting Standards, were applied retrospectively. Consistent accounting policies have been applied in preparing the financial statements for the year ended December 31, 2011 and the comparative information presented for the previous year, as well as the unaudited condensed interim financial statements for the three- and nine-month periods ended September 30, 2012. The adoption of IFRS had no impact on our previously reported assets, liabilities and equity.

Forward-looking information advisory

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 the "Risk Factors" section of the Prospectus 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.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward looking information include that there is not a significant decline in the value of the general real estate market, interest rates remain relatively stable and we are able to make mortgage loans at rates consistent with rates historically achieved; adequate mortgage loan opportunities are presented to us, and adequate bank indebtedness and bank loans are available to us. Although the forward-looking information contained in this MD&A are 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 $500,000 to a maximum of $20,000,000. The largest mortgage in our mortgage portfolio as at September 30, 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 September 30, 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 25% 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 3:1.
- 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 the board; (ii) of less than $1,000,000 and more than $500,000 without the approval of three members of the board; (iii) of $500,000 or less without the approval of any one member of the board; and (iv) in respect of a mortgage previously approved by the board but where the mortgage amount exceeds the amount so approved by up to $100,000, without the approval of three members of the 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 the board.
- We may not make unsecured loans to, nor invest in securities issued by, the manager or its affiliates, nor make loans to the directors or officers of the manager.
- We may not make any investment, or incur any indebtedness, that would result in our not qualifying as a MIC.

Our 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 mortgage investment corporation, or 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 and 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 mortgage investment corporation ("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 *Income Tax Act* (Canada) 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) 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"), 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 the Prospectus, which is available at www.sedar.com.

Highlights

- We received a receipt for the Prospectus on August 29, 2012, and our common shares commenced trading on the Toronto Stock Exchange ("TSX"), with the symbol "AI", on September 4, 2012. No new shares were offered for sale under the Prospectus at that time.
- We had $193.5 million of mortgages at September 30, 2012. During the three-month period ended September 30, 2012, we funded mortgages aggregating $34.3 million. Only one 1st mortgage totaling $2.14 million was in arrears as at September 30, 2012.
- For the three months ended September 30, 2012, we earned $0.20 per common share, and declared dividends of $0.20 per share. One-time expenses related to listing on the TSX resulted in a $0.02 per share decrease in earnings. For the nine months ended September 30, 2012, we earned $0.65 per share, and declared dividends of $0.63 per share. One-time expenses related to listing on the TSX resulted in a $0.03 per share decrease in earnings. For the nine months ended September 30, 2011, we earned $0.65 per share, and declared dividends of $0.63 per share.

- For the three-month period ended September 30, 2012, mortgage interest and other fees aggregated $4.23 million, compared to $3.28 million in the same period in the previous year, an increase of 29%. The average interest rate in the mortgage portfolio declined from 9.3% during 2011 to 9.1% in the third quarter of 2012.
- Effective October 1, 2012, we appointed Bruce Weston as managing partner for British Columbia, and opened our Vancouver office located at 668-1199 West Pender Street, Vancouver BC V6E 2R1.
- We entered into a new revolving operating credit facility with our bank, increasing the maximum availability to $50 million from $40 million previously. In addition, the new revolving operating credit facility contains a bulge facility that increases the maximum availability under the credit facility by a further $25 million until up to March 25, 2013. The credit facility, and the bulge facility contained therein, are subject to certain restrictions.

Business and market trends

During the third quarter, we continued to see that the banks are becoming more conservative in providing real estate development loans and residential mortgages. As the banks tighten their underwriting standards, the market for non-bank lenders increases. The last time that management saw this trend was in 2008/2009, when the financial crisis caused the banks to virtually stop all lending on real estate developments. To our knowledge, the banks' real estate loan portfolios on low rise and high rise developments are in very good condition, but they appear again to have a mandate to reduce their real estate exposure.

As a result of this trend, we are finding good lending opportunities without having to make overly aggressive loans. For example, we recently approved a $5.0 million construction loan on a 70% pre-sold townhouse development in the Greater Toronto Area. We have also approved a first mortgage on a detached home in Brampton at 75% loan to value, where the borrower earns in excess of $100,000, has good job security, and is, overall, conservatively leveraged. We believe that both of these loans would normally have been previously funded by one of the banks.

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 remains only slightly above 9.0% per annum, and is unlikely to increase in the near future.

Investment portfolio

Our mortgage portfolio consisted of 58 mortgage loans and aggregated $192.0 million at September 30, 2012, an increase of 22% from December 31, 2011. The table below provides a reconciliation from the mortgage portfolio to mortgages receivable as disclosed in our financial statements.

	September 30 2012	***December 31 2011***
Mortgage portfolio	$ 191,989,482	$ 156,907,389
Mortgage discount, net of accumulated amortization	(259,451)	(76,059)
Book value of mortgages receivable	191,730,031	156,831,330
Accrued interest receivable	3,288,614	2,070,622
Mortgage origination fees, net of accumulated amortization	(662,012)	(514,910)
Provision for mortgage losses	(894,376)	(894,376)
Mortgages receivable	**$ 193,462,257**	**$ 157,492,666**

The book value of our mortgages receivable at September 30, 2012 was $193.5 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 September 30, 2012, our mortgage portfolio consisted of 58 investments with an average outstanding balance of $3.3 million and a median outstanding balance of $2.1 million. An analysis of our mortgages by size as at September 30, 2012 is presented below.

Amount	Number of Mortgages	Amount
$0 - $2,500,000	32	$ 33,078,108
$2,500,001 - $5,000,000	14	47,804,884
$5,000,001 - $7,500,000	6	37,170,000
$7,500,001 +	6	73,936,490
	58	**$191,989,482**

Analyses of our mortgages as at September 30, 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	Average interest rate
Type of mortgage				
First mortgages	48	$147,176,521	76.7%	8.8%
Second and third mortgages	10	44,812,961	23.3%	9.9%
	58	$191,989,482	100.0%	9.1%
Nature of underlying property				
Residential	45	$138,803,357	72.3%	8.8%
Commercial	13	53,186,125	27.7%	9.1%
	58	$191,989,482	100.0%	9.1%
Location of underlying property				
Greater Toronto Area	50	$162,050,01	84.4%	9.1%
Other	8	29,939,471	15.6%	8.9%
	58	$191,989,482	100.0%	9.1%

An analysis of our mortgages by their category at September 30, 2012 and December 31, 2011, and changes over that period, is set out below:

	September 30 2012	%	December 31 2011	%	% change
Conventional first mortgages..........	$137,991,744	71.9%	$129,100,316	82.3%	6.9%
Conventional second and third mortgages...........................	40,005,961	20.8%	7,693,496	4.9%	420.0%
Non-conventional mortgages..........	13,991,777	7.3%	20,037,518	12.8%	(30.2)%
	$191,989,482	**100.0%**	**$156,831,330**	**100.0%**	22.4%

The average term within the mortgage portfolio is 13.4 months.

Conventional first mortgages aggregated 72% of the mortgage portfolio as at September 30, 2012, compared to 82% at December 31, 2011. Conventional second and third mortgages increased to 20.8% at September 30, 2012. Non-conventional mortgages decreased to 7.3% at September 30, 2012 from 12.8% as at year ended December 31, 2011.

Financial summary

	Three months ended Sept. 30, 2012 *(unaudited)*	***Three months ended Sept. 30, 2011*** *(unaudited)*	***Nine months ended Sept. 30, 2012*** *(unaudited)*	***Nine months ended Sept. 30, 2011*** *(unaudited)*
Revenue	$4,231,114	$3,278,802	12,475,414	7,828,950
Operating expenses	1,226,390	640,780	2,761,571	1,344,780
Earnings and total comprehensive income	3,004,724	2,638,022	9,713,843	6,484,170
Basic and fully diluted earnings per share	0.20	0.22	0.65	0.65
Dividends declared	3,037,004	2,520,874	9,520,324	6,471,410
Mortgages receivable, end of period	191,989,482	139,652,270	191,989,482	139,652,270
Total assets, end of period	193,528,831	140,072,633	193,528,831	140,072,633
Shareholders' equity, end of period	151,526,234	121,724,013	151,526,234	121,724,013

Results of operations – three months ended September 30, 2012

Our mortgages receivable consisted of 58 mortgage loans and aggregated $193.5 million at September 30, 2012, an increase of 22% from December 31, 2011. Dividends declared aggregated $3.04 million for the third quarter of 2012, an increase of 21% from the same quarter in the previous year. Total assets at September 30, 2012 aggregated $193.5 million, compared to $158.8 at December 31, 2011.

For the three-month period ended September 30, 2012, mortgage interest and other fees aggregated $4.23 million, compared to $3.28 million in the same period in the previous year, an increase of 29%. The average interest rate in the mortgage portfolio declined from 9.3% during 2011 to 9.1% in the third quarter of 2012.

Operating expenses aggregated $1.3 million, or 29.0% of revenues, compared to $0.6 million or 19.5% of revenues in the prior year period. The major component of operating expenses was mortgage servicing and other fees paid to the Manager (i.e., the management fee) which aggregated $0.39 million for the three months ended September 30, 2012, compared with $0.28 million in the previous year, reflecting the growth of our mortgage portfolio over the previous year. During the quarter, expenses related to listing on the TSX were $0.3 million, compared with $nil in the same period in the prior year. Net earnings for the three months ended September 30, 2012 aggregated $3.0 million, an increase of 13.9% from net earnings of $2.6 million in the same period in the previous year. Basic and diluted earnings per common share was $0.20 per common share for the three months ended September 30, 2012, compared with $0.22 per common share in the same period the previous year, which is a decrease of 9.1%.

During the three-month period ended September 30, 2012, we funded mortgages aggregating $34.3 million. Of these, $0.4 million were second mortgages, $8.0 million were third mortgages and the balance were first mortgages, and all such mortgages we made on property located within the Greater Toronto Area. There were $7.9 million of repayments during the period. The mortgage portfolio, in the aggregate, increased from $165.6 million to $192.0 million during the period, as a result of which the amount under the operating credit facility drawn was increased from $11.6 million to $38.1 million. One 1st mortgage of $2.14 million was one month in arrears as at September 30, 2012.

Results of operations – nine months ended September 30, 2012

Our mortgages receivable consisted of 58 mortgage loans and aggregated $193.5 million at September 30, 2012, an increase of 22% from December 31, 2011. Dividends declared aggregated $9.5 million for the nine months ended September 30, 2012, an increase of 47% from the same period in the previous year. Total assets at September 30, 2012 aggregated $193.5 million, compared to $158.8 at December 31, 2011.

For the nine-month period ended September 30, 2012, mortgage interest and other fees aggregated $12.48 million, compared to $7.83 million for the same period in the previous year, an increase of 59%. The average interest rate in the mortgage portfolio declined from 9.3% during 2011 to 9.1% for the nine-month period ended September 30, 2012.

Operating expenses aggregated $2.8 million, or 22.1% of revenues, compared to $1.3 million or 17.2% of revenues in the prior year period. Expenses related to the listing on the TSX as well as accounting, audit and legal fees aggregated $0.63 million for the period, of which $0.45 million consisted of expenses related to TSX listing, compared to $0.09 in the previous year. The major component of operating expenses was mortgage servicing and other fees paid to the Manager (i.e., the management fee) which aggregated $1.11 million for the nine months ended September 30, 2012, compared with $0.66 million in the previous year, reflecting the growth of the mortgage portfolio over the previous year.

Net earnings for the nine months ended September 30, 2012 aggregated $9.71 million, an increase of 50% from net earnings of $6.48 million in the same period in the previous year. Basic and diluted earnings per common share was $0.65 per common share for the nine months ended September 30, 2012, compared with $0.65 per common share in the same period the previous year, which is an increase of nil%.

During the nine-month period ended September 30, 2012, we funded mortgages aggregating $80 million. Of these new loans, $11.36 million were second mortgages, $8.0 million were third mortgages and the balance were first mortgages. One of these mortgages was made on property outside the Greater Toronto Area, and the balance were made on property located within the Greater Toronto Area. There was $44.9 million of repayments during the period. The mortgage portfolio, in aggregate, increased from $156.9 million to $192.0 million during the period due to additional advances, as a result of which our usage of the operating credit facility increased from $12.6 million to $38.1 million. One 1st mortgage of $2.14 million was in arrears as at September 30, 2012.

Summary of quarterly results (unaudited)

In $000s, except for per share amounts	*Q3 2012*	*Q2 2012*	*Q1 2012*	*Q4 2011*	*Q3 2011*	*Q2 2011*	*Q1 2011*	*Q4 2010*	*Q3 2010*
Revenue	$4,231	$4,142	$4,103	$3,586	$3,279	$2,454	$2,096	$2,298	$2,122
Operating expenses	1,226	784	751	629	640	477	227	428	400
Earnings	3,005	3,357	3,352	2,957	2,639	1,977	1,869	1,870	1,722
Basic and fully diluted earnings per share	0.20	0.22	0.23	0.23	0.22	0.21	0.21	0.21	0.21
Dividends declared	3,037	3,343	3,138	2,985	2,521	2,111	1,839	1,881	1,833

Liquidity and capital resources

At September 30, 2012, we had cash on hand of $39,758, and we were drawn $38.1 million under our operating credit facility.

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 nine months ended September 30, 2012, $8.6 million of common shares were issued (before taking account of $0.13 million of issue costs). Management is of the view that we will 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 $9.19 million for the nine months ended September 30, 2012 compared with $6.81 million for the same period in the previous year. Changes in non-cash working capital items aggregated a reduction from cash provided from operating activities of about $0.53 million.

Investing activities during the nine months ended September 30, 2012 consisted entirely of advances on new mortgage loan investments of $80.0 million, less repayments received of $44.9 million, for net cash used for net new mortgage loan investments of $35.1 million.

Sources of cash from financing activities during the nine months ended September 30, 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 $25.5 million use of cash, while proceeds from issuing common shares less share issuance costs provided $8.5 million.

Dividends paid used cash of $9.52 million, so after some other smaller items, net cash provided by financing activities aggregated $24.6 million for the nine months ended September 30, 2012.

Changes in financial position

Cash was approximately $0.04 million at September 30, 2012, compared to $1.3 million at December 31, 2011. The comparative balance 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 22% to $193.5 million at September 30, 2012 from $157.5 million at December 31, 2011, reflecting the growth in our portfolio from the year-end. Mortgages receivable are analyzed above.

Bank loan and indebtedness (under our operating credit facility) increased to $38.1 million at September 30, 2012, from $12.6 million at December 31, 2011, reflecting funding to finance changes in our mortgage portfolio. Accounts payable and accrued charges were $0.53 million at September 30, 2012 compared to $0.21 million at December 31, 2011. Dividends payable increased to $3.04 million at September 30, 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.

Share capital increased to $150.6 million at September 30, 2012 from $142.1 million at December 31, 2011 because on February 15, 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 to $7.9 million. In addition, a small amount of share capital was issued during the nine months ended September 30, 2012 under our Dividend Reinvestment Plan.

Contractual Obligations

Contractual obligations as at September 30, 2012 are due as follows:

	Total	Less than 1 year	1-3 years	4-7 years
Accounts payable and accrued liabilities	$ 532,286	$ 532,286	–	–
Dividends payable	3,037,004	3,037,004	–	–
Bank loan and indebtedness	38,100,000	38,100,000	–	–
Due to related party	333,307	333,307	–	–
Subtotal liabilities	42,002,597	42,002,597	–	–

Bank loan and indebtedness is a liability resulting from funding of the mortgage portfolio. Amounts due to a related party are liabilities payable to the Manager representing unpaid mortgage servicing fees. The contractual obligation associated with future advances under portfolio, relate to the funding obligation which will form part of the mortgage portfolio once the funds have been advanced.

Off-balance sheet arrangements

As at September 30, 2012, we had $332,458 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 September 30, 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 and have been amortized on a straight-line basis from this date. 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 a mortgage servicing and other fees of $1,114,583 for the nine-month period ended September 30, 2012 (September 30, 2011 – $657,801) 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.

Guarantees aggregating $6,145,000 at September 30, 2012 (December 31, 2011 – $5,295,000) have been provided on mortgages 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, 2011 and the three-month and nine-month periods ended, September 30, 2012 are prepared in accordance with Canadian generally accepted accounting principles and IFRS. 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 income is recognized using the effective interest method. Interest income may, in certain circumstances, include an origination fee from a borrower for arranging a mortgage which is included in interest income 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 financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. 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 Corporation's Audit Committee and board of Directors provide an oversight role with respect to all public financial disclosures by the Corporation, and have reviewed and approved this MD&A and the interim unaudited financial statements as at September 30, 2012 and 2011.

Controls and procedures

We maintain appropriate information systems, procedures and controls to ensure that information disclosed externally is complete, reliable, and timely. Our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operating effectiveness of our disclosure controls and procedures as at September 30, 2012 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

We have also established adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. Our Chief Executive Officer and Chief Financial Officer assessed, or caused an assessment under their direct supervision, of the design and operating effectiveness of our internal controls over financial reporting as at September 30, 2012. Based on that assessment, it was determined that our internal controls over financial reporting were appropriately designed and were operating effectively.

During the three-month period ended September 30, 2012, we hired a controller who is a chartered accountant which has improved controls over financial reporting and our disclosure controls and procedures. No other changes occurred during that quarter that would have materially affected or would be reasonably likely to materially affect our internal controls over financial reporting.

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 15,218,791 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.

Additional information

Additional information about Atrium Mortgage Investment Corporation, including the Prospectus, is available on SEDAR at www.sedar.com. You may also obtain further information about us from our website at www.atriummic.com.