ATRIUM MORTGAGE INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER™

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED
DECEMBER 31, 2013

ATRIUM
MORTGAGE INVESTMENT
CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(February 11, 2014)

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 financial statements and the accompanying notes for the year ended December 31, 2013. Information herein includes any significant developments up to February 11, 2014, 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 qualified as a "mortgage investment corporation" (MIC) within the meaning of Section 130.1(6) of the *Income Tax Act* (Canada) (ITA). Accordingly, we are not taxed on our income provided that at least 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 and 5.25% convertible unsecured subordinated debentures due June 30, 2020 (5.25% debentures) are listed on the Toronto Stock Exchange (TSX) under the symbols "AI" and "AI.DB", respectively. We became a reporting issuer and listed our common shares on the TSX following the issuance of a non-offering prospectus on August 24, 2012. Previously, we were a private company. In June and July 2013, we completed a public offering of $32.5 million aggregate principal amount of our 5.25% debentures.

Our financial statements for the year ended December 31, 2013 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the *CPA Canada Handbook - Accounting*.

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. Forward looking statements regarding earnings and mortgage portfolio growth are based upon the following assumptions: that other factors such as revenues and expenses continue to follow current trends, and that current trends in our mortgage portfolio growth continue.

All forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. 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, 2013 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 residences up to 75% of appraised value.
- Construction loans up to a maximum of 90% of cost.
- Loans to condominium corporations.

Mortgage loan amounts are generally $300,000 to a maximum of $20,000,000. The largest single mortgage in our mortgage portfolio as at December 31, 2013 was $12.1 million. For loan amounts in excess of $15 to $20 million, we generally co-lend with a financial institution or private lender. The parameters listed above are our maximum mortgage lending parameters. At December 31, 2013, the weighted average loan-to-value ratio of the mortgage portfolio was 64.1%, compared to 66.7% at December 31, 2012.

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

- We invest only in residential mortgages, commercial mortgages, commercial mortgage backed securities and certain related investments.
- All investments must be in mortgages on the security of real property situated within Canada, or in certain permitted interim investments.
- Commercial mortgages may not constitute more than 50% of our total assets at any time.
- The term of the mortgage must be no greater than ten years.
- The maximum mortgage or portion of a mortgage is $20,000,000.
- No single borrower may account for more than 15% of our total assets.
- All mortgages are supported by external appraisals by a qualified appraiser. All mortgages, except mortgages secured against a single residence, are supported by environmental audits.
- The maximum initial loan-to-value ratio of a mortgage is 85%, including any prior ranking encumbrances, and the maximum weighted average loan-to-value ratio of our mortgage portfolio, as a whole, at the time of underwriting each loan in our portfolio, is 75%.
- Our ratio of debt to equity must be less than 1:1.
- We do not invest directly in real property, although real property may be acquired through foreclosing on a mortgage.
- Any investment: (i) of $1,000,000 or more requires approval of the board; (ii) of between $500,000 and $1,000,000 requires approval of three members of the board, including at least two independent directors; (iii) of $500,000 or less requires approval of any one member of the board; and (iv) for a mortgage previously approved by the board but where the mortgage amount exceeds the amount so approved by up to $100,000, requires approval of three members of the board. However, we may invest in interim investments that are guaranteed by the Government of Canada or of a province or territory of Canada or deposits or certificates of deposits, acceptances and other similar instruments issued, endorsed or guaranteed by a Schedule I Bank in any amount without prior board approval.
- We may not make unsecured loans to, nor invest in securities issued by, our manager or its affiliates, nor make 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 investment 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, commercial 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 in a controlled manner by diversifying geographically, and focusing on real estate sector with the lowest risk profiles.

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, 2013, which is available at www.sedar.com.

Highlights for the year ended December 31, 2013

- For the year ended December 31, 2013, our revenue from mortgage interest and other fees was $23.8 million, compared to $17.2 million for the year ended December 31, 2012. For the year ended December 31, 2013, we earned $18.0 million ($0.85 per share, basic and diluted), compared to $13.4 million ($0.86 per share, basic and diluted) for the year ended December 31, 2012.
- During 2013, we actively managed the risk profile of our mortgage portfolio, and currently target commercial real estate, low rise infill developments and single family mortgages. Infill development loans and single family mortgages were, until recently, dominated by the banks, who have been pressured politically to reduce their exposure to real estate. Their reduced involvement has allowed Atrium to increase its mortgage business in these low risk sectors.
- We paid a regular dividend of $0.066667 per share every month in 2013, a rate of $0.80 per year. In 2013, our total dividends paid, including the special dividend at year-end, aggregated $0.85 per share. Subsequent to year end, we announced that we were increasing our regular monthly cash dividends, from an annual rate of $0.80 to $0.82 per share (or $0.068333 per share monthly), beginning with our January 2014 monthly dividend payable on February 13, 2014.
- We had $281.7 million of mortgages receivable at December 31, 2013, an increase of 40.1% from December 31, 2012 mortgages receivable of $201.9 million.
- In June and July 2013, we completed a public offering of $32.5 million 7-year 5.25% convertible debentures, the net proceeds of which were used to repay indebtedness under our operating credit facility.

- On October 10, 2013 we entered into a revised operating credit facility with a syndicate of lenders increasing the facility to $80 million, from $50 million. The revised operating credit facility is for a one year term ending October 9, 2014. Subsequent to year end, we obtained a $30 million short-term increase in our operating credit facility, which amount is required to be repaid on the earlier of April 30, 2014 and the closing of any public equity or convertible debt issuance by us. We believe these significant increases in our operating credit facility reflect our lenders' confidence in us, and will allow us to create additional value for shareholders by investing in mortgages yielding far higher rates than the cost of the bank line.

Highlights for the three months ended December 31, 2013

- Earnings for the three months ended December 31, 2013 aggregated $4.6 million, an increase of 27.5% from net earnings of $3.6 million in the same period in the previous year. Basic and diluted earnings per share were $0.22 per common share for the three months ended December 31, 2013, compared with basic and diluted earnings of $0.21 per common share for the same period the previous year.
- For the three months ended December 31, 2013, revenue from mortgage interest and other fees aggregated $6.5 million, compared to $4.8 million in the same period in the previous year, an increase of 37.5%. The weighted-average yield of our mortgage portfolio declined from 8.9% at December 31, 2012 to 8.7% at December 30, 2013, in line with our focus on reducing our risk profile.
- On October 10, 2013 we entered into a revised operating credit facility as described above.

Investment portfolio

Our mortgage portfolio consists of 131 mortgage loans and aggregated $282.4 million at December 31, 2013, an increase of 40.1% from December 31, 2012.

	December 31, 2013			December 31, 2012		
Mortgage category	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
Commercial/mixed use	27	$ 89,475,297	31.7%	15	$ 69,334,931	34.4%
House and apartment	59	69,484,828	24.6%	31	43,061,190	21.3%
Low rise residential	17	58,465,947	20.7%	8	24,302,272	12.1%
High rise residential	5	32,966,568	11.7%	4	23,686,000	11.8%
Construction	9	22,093,399	7.8%	4	15,087,981	7.5%
Midrise residential	3	7,440,000	2.6%	5	24,381,184	12.1%
Condominium corporation	11	2,433,526	0.9%	10	1,629,664	0.8%
Mortgage portfolio	**131**	282,359,565	**100%**	**77**	201,483,222	**100%**
Accrued interest receivable		1,562,173			2,589,639	
Mortgage discount		(338,480)			(385,508)	
Mortgage origination fees		(724,452)			(644,735)	
Provision for mortgage losses		(1,150,667)			(1,087,667)	
Mortgage receivable		**$281,708,139**			**$201,954,951**	

We actively manage the exposure of our mortgage portfolio, and continued to shift our mortgage portfolio towards lower risk sectors in 2013 such as commercial/mixed use, low rise residential properties and single family homes and apartments, which represented 77.0% of our mortgage portfolio at December 31, 2013, an increase of 9.2% since December 31, 2012.

An analysis of our mortgages by size is presented below.

	December 31, 2013			December 31, 2012		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
$0 - $2,500,000	95	$ 98,811,649	35.0%	50	$ 48,628,362	24.2%
$2,500,001 - $5,000,000	24	81,089,475	28.7%	16	55,814,860	27.7%
$5,000,001 - $7,500,000	7	46,820,000	16.6%	5	30,670,000	15.2%
$7,500,001 +	5	55,638,441	19.7%	6	66,370,000	32.9%
	131	**$282,359,565**	**100%**	**77**	**$201,483,222**	**100%**

As of December 31, 2013, the average outstanding mortgage balance was $2.2 million and the median outstanding mortgage balance was $1.4 million.

Analyses of our mortgages as at December 31, 2013 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	118	$256,648,472	90.9%	8.5%
Second and third mortgages	13	25,711,093	9.1%	11.4%
	131	**$282,359,565**	**100.0%**	**8.7%**
Nature of underlying property				
Residential	104	$192,884,267	68.3%	8.7%
Commercial	27	89,475,298	31.7%	8.8%
	131	**$282,359,565**	**100.0%**	**8.7%**
Location of underlying property				
Greater Toronto Area	111	$228,390,535	80.9%	8.6%
Non-GTA Ontario	6	22,464,599	8.0%	9.1%
British Columbia	7	6,594,285	2.3%	10.8%
Alberta	7	24,910,146	8.8%	8.6%
	131	**$282,359,565**	**100.0%**	**8.7%**

The exceptionally high percentage of our first mortgages is a core strategy and is unmatched by our peer group. The average loan-to-value in our mortgage portfolio improved further to 64.1%, with 98.3% of the portfolio below 75% loan-to-value.

	December 31 2013	**%**	**December 31 2012**	**%**	**% change**
Conventional first mortgages	$249,328,347	88.3%	$156,322,551	77.6%	59.5%
Conventional second and third mortgages	25,711,093	9.1%	29,340,438	14.6%	(12.8)%
Non-conventional mortgages	4,886,599	1.7%	14,190,569	7.0%	(65.6)%
Other	2,433,526	0.9%	1,629,664	0.8%	49.3%
	$282,359,565	**100.0%**	**$201,483,222**	**100.0%**	**40.1%**

The weighted average term remaining for our mortgages receivable at December 31, 2013 is 13.5 months (December 31, 2012 – 13.0 months).

The current level of non-conventional mortgages (mortgages greater than 75% loan-to-value) is at an historic low of only 1.7%, which illustrates the conservative nature of our portfolio. Conventional first mortgages aggregated 88.3% of the mortgage portfolio as at December 31, 2013, compared to 77.6% at December 31, 2012, and conventional second and third mortgages decreased to 9.1% at December 31, 2013.

Financial summary

	Twelve months ended December 31, 2013	***Twelve months ended December 31, 2012***	***Twelve months ended December 31, 2011***
Revenue	$ 23,759,620	$ 17,235,060	$ 11,414,661
Operating expenses	5,759,732	3,876,733	1,973,850
Earnings and total comprehensive income	17,999,888	13,358,327	9,440,811
Basic earnings per share	0.85	0.86	0.88
Diluted earnings per share	0.85	0.86	0.88
Dividends declared	17,970,575	13,385,261	9,456,254
Mortgages receivable, end of period	281,708,139	201,954,951	157,492,666
Total assets, end of period	281,980,754	212,602,911	158,816,013
Shareholders' equity, end of period	212,018,978	210,109,925	142,846,412

	Three months ended December 31, 2013 *(unaudited)*	***Three months ended December 31, 2012*** *(unaudited)*
Revenue	$ 6,544,813	$ 4,759,646
Operating expenses	1,898,409	1,115,162
Earnings and total comprehensive income	4,646,404	3,644,484
Basic earnings per share	0.22	0.21
Diluted earnings per share	0.22	0.21
Dividends declared	5,297,717	3,858,184
Mortgages receivable, end of period	281,708,139	201,954,952
Total assets, end of period	281,980,754	212,602,911
Shareholders' equity, end of period	212,018,978	210,109,925

Results of operations – twelve months ended December 31, 2013

For the twelve months ended December 31, 2013, mortgage interest and fees aggregated $23.8 million, compared to $17.2 million in the same period in the previous year, an increase of 37.9%. The weighted average yield on the mortgage portfolio declined from 8.9% at the end of 2012 to 8.7% at the end of 2013.

Operating expenses, including interest, were $5.8 million, or 24.2% of revenues, compared to $3.9 million or 22.5% of revenues in the prior year. Operating expenses include mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) that aggregated $2.5 million for the year ended December 31, 2013, compared with $1.6 million in the prior year period, reflecting the growth of our mortgage portfolio. Another element of operating expense was interest, which increased from $1.1 million to $2.4 million primarily due to the issuance of the convertible debenture during the year, and increased utilization of our line of credit.

Net earnings for the year ended December 31, 2013 aggregated $18.0 million, an increase of 34.7% from net earnings of $13.4 million in the prior year. Basic and diluted earnings per common share were $0.85 for the year ended December 31, 2013, compared with basic and diluted earnings of $0.86 per common share in the same period the previous year.

During the year ended December 31, 2013, we funded mortgages aggregating $186.7 million. Of these advances, $171.8 million were first mortgages, representing 92.0% of the total loans funded. Eleven of these advances were on properties in British Columbia, nine were in properties in Alberta, two were non-GTA Ontario, and the remaining 88 were made in the Greater Toronto Area. There were $107.4 million of repayments during the year. The total mortgage portfolio increased from $202.0 million to $282.4 million during the year.

Summary of quarterly results (unaudited)

In $000s, except for per share amounts	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenue	6,545	6,281	5,844	5,089	4,760	4,231	4,142	4,103
Operating expenses	1,898	1,688	1,274	900	1,115	1,226	784	751
Earnings	4,646	4,593	4,570	4,189	3,644	3,005	3,357	3,352
Basic and fully diluted earnings per share	0.22	0.22	0.22	0.20	0.21	0.20	0.22	0.23
Dividends declared	5,298	4,230	4,224	4,219	3,858	3,044	3,345	3,138

Results of operations – three months ended December 31, 2013

For the three-month period ended December 31, 2013, mortgage interest and fees aggregated $6.5 million, compared to $4.8 million in the same period in the previous year, an increase of 37.5%. The weighted average yield on the mortgage portfolio declined from 8.9% at the end of 2012 to 8.7% in the fourth quarter of 2013, as we continue our focus on the highest quality assets.

Operating expenses, including interest, were $1.9 million, or 29.0% of revenues, compared to $1.1 million or 23.4% of revenues in the prior year period. Operating expenses included mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) which aggregated $0.7 million for the three months ended December 31 2013, compared with $0.5 million in the comparative quarter, reflecting the growth of our mortgage portfolio. Interest expense on the convertible debenture was $0.5 million in the quarter compared to nil in the same quarter last year since the debenture was issued during the year. Operating expenses other than interest and bank charges and convertible debenture interest, aggregated $0.9 million3, which represented 0.3% of the mortgage portfolio or 1.2% annualized. In other words, operating costs in the quarter were only about 120 basis points.

Net earnings for the three months ended December 31, 2013 were $4.6 million, an increase of 27.5% from net earnings of $3.6 million in the same period in the previous year. Basic and diluted earnings per share were $0.22 per common share for the three months ended December 31, 2013, compared with basic and diluted earnings of $0.21 per common share for the same period the previous year. During the three-month period ended December 31, 2013, we funded mortgages of $47.6 million. Of these advances, $41.6 million were first mortgages, representing 87.4% of the total loans funded. Nine of these mortgages were on properties in British Columbia, six were on properties in Alberta, and the remaining 42 were made in the Greater Toronto Area. There were $42.5 million of repayments during the period. The total mortgage portfolio increased from $277.2 million to $282.4 million during the period.

Liquidity and capital resources

At December 31, 2013, we had bank indebtedness, operating line and convertible debt outstanding with total book value of $66.8 million. We are in compliance with the covenants required of us in our operating credit facility as at December 31, 2013, and we expect to remain in compliance with such covenants going forward.

Growth in our mortgage portfolio has historically been financed by the issuance of common shares and by the issuance of debt. 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 operating credit facility. On October 10, 2013 we entered into a revised operating credit facility with a syndicate of lenders increasing the facility to $80 million, from $50 million. The revised operating credit facility is for a one year term ending October 9, 2014. Subsequent to year end, we obtained a $30 million short-term increase in our operating credit facility, which amount is required to be repaid on the earlier of April 30, 2014 and the closing of any public equity or convertible debt issuance by us.

Investing activities during the year ended December 31, 2013 consisted of advances on new mortgage loan investments of $186.7 million, less repayments received of $107.4 million, for net cash used for net new mortgage loan investments of $79.3 million.

Sources of cash from financing activities during the year ended December 31, 2013 consisted primarily of operating line and the issuance of our 7-year 5.25% convertible debentures. Draws less repayments under our operating facility represented a $35.9 million use of cash. In June and July 2013, we issued 7-year 5.25% convertible debentures which resulted in $30.9 million of cash, net of issue costs. Net cash provided by financing activities was $50.7 million after paying dividends of $17.3 million for the year ended December 31, 2013.

Changes in financial position

Cash-on-hand was $nil at December 31, 2013, compared to $10.6 million at December 31, 2012. 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. Our preferred position is to have no cash-on-hand; rather, any available cash is normally used to reduce amounts owing under our operating credit facility. Mortgages receivable increased by 40% to $281.7 million at December 31, 2013 from $202.0 million at December 31, 2012, reflecting the growth in our portfolio.

Bank indebtedness and operating line increased to a total of $36.2 million at December 31, 2013, from $nil at December 31, 2012, reflecting our objective of using moderate leverage to improve shareholder returns. In June and July 2013, we completed a public offering of $32.5 million principal amount of our 5.25% debentures, the net proceeds of which were used to repay indebtedness under our operating credit facility. Accounts payable and accrued charges were $0.5 million at December 31, 2013 compared to $0.5 million at December 31, 2012. Dividends payable increased to $2.5 million at December 31, 2013 from $1.8 million at December 31, 2012, and represent dividends declared on our common shares during the quarter and paid after each quarter-end. Note that the December 31, 2013 and 2012 figures include both the regular and the special year-end dividend.

Share capital increased to $210.7 million at December 31, 2013 from $209.4 million at December 31, 2012 as a result of issuances under our dividend reinvestment plan (DRIP), employee share purchase plan (ESPP) and deferred share incentive plan (DSIP).

Contractual obligations

Contractual obligations due at December 31, 2013 were as follows:

	Total	*Less than 1 year*	*1-2 years*	*3-7 years*
Bank indebtedness	$ 325,930	$ 325,930	$ –	$ –
Operating line	35,910,000	35,910,000		
Accounts payable and accrued liabilities	459,209	459,209	–	–
Dividends payable	2,473,437	2,473,437	–	–
Due to related party	182,437	182,437	–	–
5.25% convertible debentures	30,610,763	–	–	30,610,763
Total	$ 69,961,776	$ 39,351,013	$ –	$ 30,610,763

Off-balance sheet arrangements

As at December 31, 2013, we had $2,679,631 of letters of credit (LCs) outstanding which were issued under our operating credit facility. The LCs reduce the maximum available under our operating credit facility by the amount of the LCs. The maximum available by way of LCs under our operating credit facility is $3 million. LCs represent irrevocable assurances that our bank will make payments in the event that a customer cannot meet its obligations to third parties. LCs carry the same credit risk, recourse and collateral security requirements as mortgages extended to customers.

Share based payments

	August 30, 2013 grant	**August 29, 2012 grant**	**Total**
Deferred shares granted	23,000	21,500	44,500
Value of grant	$ 232,900	$ 236,500	$ 469,400
Income deferred shares issuable	–	740	740
Share compensation expense:			
Year ended December 31, 2013	$ 53,654	$ 150,594	$ 204,248
Year ended December 31, 2012	–	48,176	48,176
	$ 53,654	$ 198,770	$ 252,424

Grants are provided to certain directors and employees under the company's deferred share incentive plan. The deferred share units vest annually over three years. Common shares are issued to participants on the vesting date of each tranche of deferred share units, unless a participant elects to defer the issuance. In addition, income deferred share units are credited to holders of deferred share units based upon dividends paid on common shares. The fair value of share based compensation was based upon the volume weighted average market price of the common shares five days prior to the grant date of $10.13 (August 30, 2013) and $11.00 (August 29, 2012).

Employee share purchase plan

We have an employee share purchase plan under which participants may purchase our shares within certain limits, and the manager then matches 50% of their contribution. Thus, we do not bear any of the cost of the ESPP, but issue shares from treasury upon receipt of the funds. Under the ESPP, on July 23, 2013, 1,332 common shares were issued for $13,933. On October 1, 2013, 1,996 common shares were issued for $20,988. As at December 31, 2013, 2,368 common shares had been subscribed for aggregating $25,563 but were unissued.

Transactions with related parties

Related party transactions are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, which represents fair value in the opinion of management.

The manager is responsible for our day-to-day activities. We incurred fees of $2,455,463 for the year ended December 31, 2013 (December 31, 2012 – $1,567,072) from the manager. Mr. Robert G. Goodall is a director and part of the key management personnel of the manager and received compensation from the manager and is also a director of Atrium. The management agreement between us and the manager contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. The manager also acts as broker for our mortgages. The manager receives origination fees from the borrowers of up to 1% of the amount being funded; origination fees in excess of 1% are split equally between the manager and Atrium.

Guarantees aggregating $4,542,000 at December 31, 2013 (December 31, 2012 – $8,290,000) have been provided on mortgage loans made by us to a major development company of which one of our directors is an officer and director. All of these loans are in good standing.

Environmental matters

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 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 annual financial statements for the years ended December 31, 2013 and 2012 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the *CPA Canada Handbook - Accounting*. 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 and IFRS. Actual results will differ from these estimates and assumptions.

The most subjective of these estimates relates to the valuation of mortgages receivable, and the provision for mortgage losses as well as the measurement of the liability and equity components of our 5.25% debentures. Management believes that its estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter.

The more significant accounting policies are set out below:

Revenue recognition
Mortgage interest and fees revenue is recognized in the statement of earnings and comprehensive income using the effective interest method. Mortgage interest and fees revenue may 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
A mortgage receivable, carried at amortized cost, is considered impaired when there is objective evidence that there has been a deterioration of credit quality subsequent to its initial recognition to the extent that we no longer have reasonable assurance as to the timely collection of the full amount of principal and interest. We assess mortgages receivable for objective evidence of impairment both individually and collectively. Provision for mortgage losses represents management's best estimate of impairment in mortgages receivable at each reporting date. Judgement is required as to the timing of designating a mortgage as impaired and the amount of any provision required. If there is no objective evidence of impairment for an individual mortgage receivable, it is included in a group of mortgages with similar credit risk characteristics and collectively assessed for impairment for losses incurred but not identified.

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.

5.25% convertible debentures
The 5.25% convertible debentures can be converted into our common shares at the option of the investor. They are compound financial instruments with two components: a financial liability, and a call option which is an equity instrument. The fair value of the liability component is measured as of the date that the 5.25% debentures were issued, and the equity instrument is valued on that date based upon the difference between the fair value of the 5.25% debenture and the fair value of the liability component. The measurement of the fair value of the liability component is based upon market rates of interest on similar debt instruments without the conversion feature. Expenses of issue are allocated between the two components on a *pro-rata* basis. The book value of the debt is accreted up to its face value over the life of the 5.25% debentures using the effective interest method, which provides for the application of a constant interest rate over the life of the 5.25% debenture. The value of the equity component is not re-measured subsequent to its initial measurement date.

Income taxes
We are, and intend to maintain our status as, a MIC, and as such are not taxed on income provided that 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, our Audit Committee and board of directors provide an oversight role with respect to our public financial disclosures, and have reviewed and approved this MD&A and the financial statements as at and for the years ended December 31, 2013 and 2012.

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 – Integrated Framework* (as published in 1992 then subsequently revised in 2013) to provide reasonable assurance that material information relating to us is made known to our CEO and CFO during the reporting period; and information required to be disclosed by us in our filings under securities legislation is recorded, processed, summarized and reported within the required time periods; and provide reasonable assurance regarding the reliability of financial reporting and preparation of 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, 2013. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of December 31, 2013. 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 most recently completed quarter.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that 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 21,200,833 are issued and outstanding at December 31, 2013, and 21,215,744 are issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,407,407 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.25% debentures (using the conversion price of $13.50 for each common share).

We have $32.5 million of convertible debentures issued and outstanding. Those debentures mature on June 30, 2020 and accrue interest at the rate of 5.25% per annum payable semi-annually in arrears on June 30 and December 31 commencing December 31, 2013. At the holder's option, the 5.25% convertible debentures may be converted into our common shares at any time prior to the close of business on the earlier of the business day immediately preceding either the maturity date and, if called for redemption, the date specified by us for redemption of the 5.25% debentures. The conversion price is $13.50 for each common share, subject to adjustment in certain events. Other than in certain circumstances set out in the trust indenture, the debentures are not redeemable prior to June 30, 2016. On and after June 30, 2016, but prior to June 30, 2018, the debentures are redeemable, in whole or in part, from time to time at our sole option at a price equal to their principal amount, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted average trading price of our common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price. On or after June 30, 2018 and prior to the maturity date, the debentures are redeemable, in whole or in part, from time to time at our sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice. Subject to specified conditions, we have the right to repay the outstanding principal amount of the 5.25% debentures, on maturity or redemption, through the issuance of our common shares. We also have the option to satisfy our obligation to pay interest on the 5.25% debentures through the issuance and sale of our common shares. A summary of additional terms of the debentures is set out in the section entitled "Description of the Debentures" contained in our (final) prospectus dated June 11, 2013 qualifying the distribution of the 5.25% debentures, which section is incorporated herein by reference.

We also have the ESPP, a deferred share incentive plan and a dividend reinvestment plan pursuant to which common shares may be issued from time to time. These plans are each described elsewhere in this MD&A.

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, 2013 which is incorporated herein by reference and is available at www.sedar.com.

Dividend Reinvestment Plan

A Dividend Reinvestment Plan (DRIP) is available to holders of our common shares. The DRIP allows participants to have their monthly cash dividends reinvested in additional common shares, at a discount of 2% from the market price. Shareholders who wish to enroll or who would like further information about the DRIP should contact their broker or our agent for the DRIP, Computershare Trust Company of Canada, at 1 (800) 564-6253 or www.computershare.com.

Additional information

Additional information about Atrium, including our Annual Information Form for the year ended December 31, 2013, is available on SEDAR at www.sedar.com. You may also obtain further information about us from our website at www.atriummic.com.

BOARD OF DIRECTORS

Mark L. Silver
Chair of the Board
Atrium Mortgage Investment Corporation
President
Optus Capital Corporation

Robert G. Goodall
CEO and President
Atrium Mortgage Investment Corporation

Peter P. Cohos
President
Copez Properties Ltd.

Michael J. Cooper
Founder and CEO
DREAM Unlimited Corp.

Robert H. DeGasperis
President
Metrus Properties Inc.

Nancy H. O. Lockhart
Director
Loblaw Companies Ltd.
Director
Gluskin Sheff + Associates

David M. Prussky
Director
Carfinco Financial Group Inc.

MANAGEMENT

Robert G. Goodall
CEO and President

Jeffrey D. Sherman, FCPA, FCA
CFO and Secretary

Michael Lovett
Managing Director – Ontario

Bram Rothman
Managing Director – Ontario

Phil Fiuza
Managing Director – Ontario, Residential

Daniel Stewart
Managing Director – Alberta and Saskatchewan

Bruce Weston
Managing Director – British Columbia

TRANSFER AGENT

Computershare Trust Co. of Canada
100 University Ave.
9th Floor, North Tower
Toronto, ON M5J 2Y1
T. 800-564-6253

AUDITORS

Crowe Soberman LLP
1100 – 2 St. Clair Ave. E.
Toronto, ON M4T 2T5
T. 416-964-7633

SHARE LISTING

Common Shares, TSX: AI
Convertible debentures 5.25%, TSX: AI.DB

Atrium offers a dividend reinvestment plan (DRIP) so that shareholders may automatically reinvest their dividends in new shares of Atrium at a 2% discount from market price and with no commissions. This provides an easy way to realize the benefits of compound growth of their investment in Atrium. Shareholders can enroll in the DRIP program by contacting their investment advisor or Computershare.

ATRIUM
MORTGAGE INVESTMENT CORPORATION

www.AtriumMIC.com
ir@atriummic.com

Suite 900 – 20 Adelaide Street E.
Toronto, ON M5C 2T6
T. 416-867-1053
F. 416-867-1303

Suite 101 – 10th Street NW
Calgary, AB T2N 1V4
T. 403-283-2828

Suite 668 – 1199 West Pender St.
Vancouver, BC V6E 2R1
T. 604-558-2642

www.AtriumMIC.com

20 Adelaide Street East, Suite 900
Toronto, Ontario
M5C 2T6

Tel 416.867.1053
Fax 416.867.1303
Email ir@atriummic.com