ATRIUM

MORTGAGE INVESTMENT CORPORATION

Management Discussion and Analysis

Third Quarter 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Background and overview

This Management's Discussion and Analysis 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 condensed interim financial statements and the accompanying notes for the three-month and nine-month periods ended September 30, 2013, as well as our annual audited financial statements and MD&A for the year ended December 31, 2012. Information herein includes any significant developments up to October 24, 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 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 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. We also have 5.25% convertible debentures listed on the TSX under the symbol "AI.DB."

Our financial statements for the quarter ended September 30, 2013 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. Forward looking statements regarding earnings and 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 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, 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 to 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.
- Loans to condominium corporations.

Mortgage loans are generally $300,000 to a maximum of $20,000,000. The largest single mortgage in our mortgage portfolio as at September 30, 2013 was $12.1 million. For loan amounts in excess of $15 million we generally co-lend with a financial institution or private lender. The parameters listed above are our maximum mortgage lending parameters. At September 30, 2013, the weighted average loan-to-value ratio of the mortgage portfolio was 62.6%, 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 a portion of a mortgage is $20,000,000.
- No 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 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 less than $1,000,000 and more than $500,000 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, including at least one independent director. However, we may invest in interim investments that 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 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 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 in a controlled manner by diversifying geographically, and by investing in additional commercial and residential mortgages.

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.

Operating Highlights

- For the three months ended September 30, 2013, we earned $4.6 million ($0.22 per share, basic and diluted), compared to $3.0 million ($0.20 per share, basic and diluted) for the quarter ended September 30, 2012. For the nine months ended September 30, 2013, we earned $13.4 million ($0.63 per share, basic and diluted), compared to $9.7 million ($0.65 per share, basic and diluted) for the nine months ended September 30, 2012.
- For the three months ended September 30, 2013, revenue from mortgage interest and other fees aggregated $6.3 million, compared to $4.2 million in the same period in the previous year, an increase of 48%. The weighted average yield in the mortgage portfolio declined from 9.2% at September 30, 2012 to 8.7% at September 30, 2013, in line with our focus on reducing our risk profile.
- We have 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 have paid a regular dividend of $0.066667 per share every month this year, a rate of $0.80 per year. Last year, our total dividends paid including the special dividend at year-end, aggregated $0.85.
- We had $276.4 million of mortgages receivable at September 30, 2013, an increase of 37% from December 31, 2012.
- On October 10, 2013 we increased our operating credit facility to $80 million, from $50 million. The facility is led by the Toronto-Dominion Bank and also includes National Bank of Canada. This increase in the bank line of 60% reflects our bankers' 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.

Investment portfolio

Our mortgages receivable include 116 mortgage loans and aggregated $276.4 million at September 30, 2013, an increase of 36.9% from December 31, 2012.

	September 30, 2013			December 31, 2012		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
Mixed use real estate/commercial	24	$90,271,277	32.6%	15	$69,334,931	34.4%
Low rise residential	17	63,003,641	22.7%	8	24,302,272	12.1%
House and apartment	48	61,090,350	22.0%	31	43,061,190	21.3%
High rise residential	4	25,036,000	9.0%	4	23,686,000	11.8%
Construction	9	22,108,507	8.0%	4	15,087,981	7.5%
Midrise residential	5	13,262,632	4.8%	5	24,381,184	12.1%
Condominium corporation	9	2,475,995	0.9%	10	1,629,664	0.8%
Mortgage portfolio	**116**	277,248,402	**100.0%**	**77**	201,483,222	**100.0%**
Accrued interest receivable		1,430,636			2,589,639	
Mortgage discount		(391,442)			385,508	
Mortgage origination fees		(714,733)			(644,735)	
Provision for mortgage losses		(1,150,667)			(1,087,667)	
Mortgage receivable		**$276,422,196**			**$201,954,951**	

We actively manage our exposure, and have continued to shift our portfolio towards commercial/mixed use, low rise residential properties and single family homes and apartments, which represents 77.3% of the mortgage portfolio at September 30, 2013, an increase of 9.5% since December 31, 2012.

An analysis of our mortgages by size is presented below.

	September 30, 2013			December 31, 2012		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
$0 – $2,500,000	78	$ 83,340,747	30.1%	50	$ 48,628,362	24.2%
$2,500,001 - $5,000,000	24	80,421,992	29.0%	16	55,814,860	27.7%
$5,000,001 - $7,500,000	7	44,649,842	16.1%	5	30,670,000	15.2%
$7,500,001 +	7	68,835,821	24.8%	6	66,370,000	32.9%
	116	**$277,248,402**	**100%**	**77**	**$201,483,222**	**100%**

As of September 30, 2013, our mortgage portfolio consisted of 116 investments with an average outstanding balance of $2.4 million and a median outstanding balance of $1.5 million.

Analyses of our mortgages as at September 30, 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	105	$243,835,522	88.0%	8.4%
Second and third mortgages	11	33,412,880	12.0%	10.8%
	116	**$277,248,402**	**100.0%**	**8.7%**
Nature of underlying property				
Residential	92	$186,977,125	67.4%	8.7%
Commercial	24	90,271,277	32.6%	8.7%
	116	**$277,248,402**	**100.0%**	**8.7%**
Location of underlying property				
Greater Toronto Area	96	$222,805,983	80.4%	8.7%
Non-GTA Ontario	6	22,464,599	8.1%	9.1%
British Columbia	9	12,469,255	4.5%	8.4%
Alberta	5	19,508,565	7.0%	8.6%
	116	**$277,248,402**	**100.0%**	**8.7%**

The exceptionally high percentage of first mortgages is a core strategy and is unmatched by our peer group. We also expect that our geographic diversification strategy to accelerate by the end of 2013 and anticipate that up to 25% of our mortgage portfolio may be based in western Canada by year-end.

The average loan-to-value in the portfolio improved further to 62.6%, with 96.4% of the portfolio below 75% loan-to-value. In addition, Atrium has maintained 88.0% first mortgages in the portfolio – a very high level.

	September 30 2013	**%**	**December 31 2012**	**%**	**% change**
Conventional first mortgages	$236,472,929	85.3%	$156,322,551	77.6%	51.3%
Conventional second and third mortgages	28,283,037	10.2%	29,340,438	14.6%	(3.6)%
Non-conventional mortgages	10,016,441	3.6%	14,190,569	7.0%	(29.4)%
Other	2,475,995	0.9%	1,629,664	0.8%	51.9%
	$277,248,402	**100.0%**	**$201,483,222**	**100.0%**	**37.6%**

The weighted average term remaining for our mortgages receivable at September 30, 2013 is 12.7 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 3.6%, which illustrates the conservative nature of our portfolio. Conventional first mortgages aggregated 85.3% of the mortgage portfolio as at September 30, 2013, compared to 77.6% at December 31, 2012, and conventional second and third mortgages decreased to 10.2% at September 30, 2013.

Financial summary

	Three months ended September 30, 2013 (unaudited)	*Three months ended September 30, 2012* (unaudited)	*Nine months ended September 30, 2013* (unaudited)	*Nine months ended September 30, 2012* (unaudited)
Revenue	$ 6,280,789	$ 4,231,114	17,214,852	12,475,414
Operating expenses	1,687,697	1,226,390	3,861,458	2,761,572
Earnings and total comprehensive income	4,593,092	3,004,724	13,353,394	9,713,843
Basic earnings per share	0.22	0.20	0.63	0.65
Diluted earnings per share	0.22	0.20	0.63	0.65
Dividends declared	4,230,159	3,039,122	12,672,858	9,520,324
Mortgages receivable, end of period	276,422,196	193,462,257	276,422,196	193,462,257
Total assets, end of period	276,486,671	193,528,831	276,486,671	193,528,831
Shareholders’ equity, end of period	212,195,535	151,526,234	212,195,535	151,526,234

Results of operations – three months ended September 30, 2013

For the three-month period ended September 30, 2013, mortgage interest and fees aggregated $6.3 million, compared to $4.2 million in the same period in the previous year, an increase of 48%. The weighted average yield on the mortgage portfolio declined from 8.9% at the end of 2012 to 8.7% in the third quarter of 2013, as we continue our focus on the highest quality assets.

Operating expenses aggregated $1.7 million, or 26.9% of revenues, compared to $1.2 million or 29.0% of revenues in the prior year period. The major component of operating expenses was 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 September 30, 2013, compared with $0.4 million in the comparative quarter, reflecting the growth of our mortgage portfolio. Within operating expenses, expenses other than interest and bank charges aggregated $850,385, which represented 0.3% of the mortgage portfolio or 1.25% annualized. In other words, operating costs in the quarter were only about 125 basis points.

Net earnings for the three months ended September 30, 2013 aggregated $4.6 million, an increase of 52.9% from net earnings of $3.0 million in the same period in the previous year. Basic and diluted earnings per share were $0.22 per common for the three months ended September 30, 2013, compared with basic and diluted earnings of $0.20 per common share for the same period the previous year.

During the three-month period ended September 30, 2013, we funded mortgages aggregating $34.1 million. Of these advances, $33.7 million were first mortgages, representing 98.8% of the total loans funded. Six of these mortgages were on properties in British Columbia, four were on properties in Alberta, and the remaining 28 were made in the Greater Toronto Area. There were $27.7 million of repayments during the period. The mortgage portfolio, in the aggregate, increased from $270.9 million to $277.2 million during the period.

Results of operations – nine months ended September 30, 2013

For the nine-month period ended September 30, 2013, mortgage interest and fees aggregated $17.2 million, compared to $12.5 million in the same period in the previous year, an increase of 38%. The weighted average yield on the mortgage portfolio declined from 8.9% at the end of 2012 to 8.7% in the second quarter of 2013.

Operating expenses aggregated $3.9 million, or 22.4% of revenues, compared to $2.8 million or 22.1% of revenues in the prior year period. The major component of operating expenses was mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) that aggregated $1.8 million for the nine months ended September 30, 2013, compared with $1.1 million in the prior year period, reflecting the growth of our mortgage portfolio. Net earnings for the nine months ended September 30, 2013 aggregated $13.4 million, an increase of

37.5% from net earnings of $9.7 million in the same period in the previous year. Basic and diluted earnings per common share were $0.63 for the nine months ended September 30, 2013, compared with basic and diluted earnings of $0.65 per common share in the same period the previous year.

During the nine-month period ended September 30, 2013, we funded mortgages aggregating $139.3 million. Of these advances, $130.3 million were first mortgages, representing 93.6% of the total loans funded. Eight of these mortgages were on properties in British Columbia, seven were in properties in Alberta, two were non-GTA Ontario, and the remaining 65 were made in the Greater Toronto Area. There were $65.0 million of repayments during the period. The mortgage portfolio, in the aggregate, increased from $202.0 million to $276.4 million during the period.

Summary of quarterly results (unaudited)

In $000s, except for per share amounts	*Q3 2013*	*Q2 2013*	*Q1 2013*	*Q4 2012*	*Q3 2012*	*Q2 2012*	*Q1 2012*	*Q4 2011*
Revenue	6,281	5,844	5,089	$4,760	$4,231	$4,142	$4,103	$3,586
Operating expenses	1,688	1,274	900	1,115	1,226	784	751	630
Earnings	4,593	4,570	4,189	3,644	3,005	3,357	3,352	2,956
Basic and fully diluted earnings per share	0.22	0.22	0.20	0.21	0.20	0.22	0.23	0.23
Dividends declared	4,230	4,224	4,219	3,858	3,044	3,345	3,138	2,985

Liquidity and capital resources

At September 30, 2013, we had bank indebtedness, bankers' acceptances, bank loans and convertible debt outstanding with book value of $62.0 million. We are in compliance with the covenants required of us in our operating credit facility as at September 30, 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 increased our operating credit facility to $80 million, from $50 million. The facility is through a syndicate led by the Toronto-Dominion Bank and consisting of the Toronto-Dominion Bank and National Bank of Canada.

Investing activities during the nine months ended September 30, 2013 consisted of advances on new mortgage loan investments of $139.3 million, less repayments received of $65.0 million, for net cash used for net new mortgage loan investments of $74.3 million.

Sources of cash from financing activities during the nine months ended September 30, 2013 consisted primarily of bankers' acceptances, bank loans payable (under our operating credit facility) and issuance of 5.25% convertible debt. Draws less repayments under our operating facility represented a $31.2 million use of cash. In June and July 2013 we completed an issuance of convertible debentures which resulted in $30.9 million of cash, net of issue costs. Net cash provided by financing activities aggregated $49.8 million, after paying dividends of $13.1 million for the nine months ended September 30, 2013.

Changes in financial position

Cash-on-hand was $nil at September 30, 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 our operating credit facility. Mortgages receivable increased by 36.9% to $276.4 million at September 30, 2013 from $202.0 million at December 31, 2012, reflecting the growth in our portfolio.

Bank indebtedness, bankers' acceptances and bank loans payable (under our operating credit facility) increased to a total of $31.4 million at September 30, 2013, from $nil at December 31, 2012, reflecting our objective of using moderate leverage to improve shareholder returns. Accounts payable and accrued charges were $0.7 million at

September 30, 2013 compared to $0.5 million at December 31, 2012. Dividends payable decreased to $1.4 million at September 30, 2013 from $1.8 million at December 31, 2012, and represent dividends declared on the common shares during the quarter and paid after each quarter-end. Note that the December 31, 2012 figure includes both the regular and the special year-end dividend.

Share capital increased to $210.3 million at September 30, 2013 from $209.4 million at December 31, 2012 as a result of issuances under our dividend reinvestment plan (DRIP) and employee share purchase plan.

Contractual obligations

Contractual obligations due at September 30, 2013 were as follows:

	Total	*Less than 1 year*	*1-3 years*	*4-7 years*
Bank indebtedness	$ 229,464	$ 229,464	$ –	$ –
Bankers' acceptance	25,000,000	25,000,000		
Bank loan payable	6,209,500	6,209,500	–	–
Accounts payable and accrued liabilities	721,704	721,704	–	–
Dividends payable	1,410,805	1,410,805	–	–
Due to related party	179,327	179,327	–	–
Convertible debentures	30,540,336	–	–	30,540,336
Total	$64,291,136	$33,750,800	$ –	$30,540,336

Off-balance sheet arrangements

As at September 30, 2013, we had $2,532,458 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 $5 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

We have a deferred share incentive plan for 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, 2013, we granted 23,000 deferred share units. These deferred share units were valued using the Company's common share price, determined on the date the units were granted of August 30, 2013, of $10.13. These deferred share units will vest over a three year period (one-third each year) from August 23, 2013. 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.

Deferred share units previously granted vest over a three year period (one-third each year) 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. Participants may elect to defer the issuance of their vested share units.

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. On July 23, 2013, 1,332 common shares ($13,933) were issued. As at September 30, 2013, a further 1,996 common shares ($20,988) had been subscribed for but were unissued.

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 fees of $1,780,363 for the nine-month period ended September 30, 2013 (nine months ended September 30, 2012 – $1,114,581) 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 September 30, 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. No guarantee fees have been paid in the period or in the previous year.

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 condensed interim financial statements for the three months and nine months ended September 30, 2013 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 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 the convertible 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 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.

Convertible debentures

The convertible debentures can be converted into common shares of the company at the option of the investor. They are compound financial instruments with two components: a financial liability, and a call option which is an equity instrument. The fair value of the liability component is measured as of the date that the debentures were issued, and the equity instrument is valued on that date based upon the difference between the fair value of the convertible 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 debentures using the effective interest method, which provides for the application of a constant interest rate over the life of the debenture. The value of the equity component is not remeasured 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 condensed interim financial statements as at and for the three-month and nine-month periods ended September 30, 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 over Financial Reporting – Guidance for Smaller Public Companies* published by COSO, which is based upon their earlier 1992 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. Within the next six months, we expect to convert to the revised COSO framework, *Internal Control – Integrated Framework*, published in May 2013. We do not expect any control changes to result from adopting the revised framework.

Our CEO and CFO evaluated the design effectiveness of the DC&P and ICFR, as defined by NI 52-109, as of September 30, 2013. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of September 30, 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 the 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 21,161,965 are issued and outstanding at September 30, 2013, and 21,173,545 are issued and outstanding as at the date hereof.

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 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, 2012 and our audited financial statements and management's discussion and analysis 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.