ATRIUM
MORTGAGE INVESTMENT
CORPORATION

Management's Discussion and Analysis

Three months ended June 30, 2013

(Expressed in Canadian dollars)

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 six-month periods ended June 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 July 25, 2013, the date on which this MD&A was approved by our directors.

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

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

Our common shares are listed on the Toronto Stock Exchange (TSX) under the symbol "AI." We became a reporting issuer and listed our shares on the TSX following the issuance of a non-offering prospectus on August 24, 2012. Previously, we were a private company. We also have 5.25% convertible debentures listed on the TSX under the symbol "AI.DB."

Our financial statements for the quarter ended June 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. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and the general economic environment. For other risks and uncertainties, please refer to "Risks and uncertainties" below, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2012 which is available at www.sedar.com. We caution that the foregoing list is not exhaustive, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Our business

We are a mortgage lender that fills the lending gap caused by the limited number of financial institutions operating in Canada. We lend in major urban centres where the stability and liquidity of real estate are at the highest levels. We focus on loans that cannot be placed with financial institutions but that represent an acceptable underwriting risk. The weighted average loan-to-value ratio of our mortgage portfolio, as a whole, at the time of underwriting each loan in our portfolio, will not exceed 75%. A typical loan in our portfolio has an interest rate of 8% to 10% per annum, a one 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 June 30, 2013 was $16.8 million. For loan amounts in excess of $15 we generally co-lend with a financial institution or private lender. The parameters listed above are our maximum mortgage lending parameters. At June 30, 2013, the weighted average loan-to-value ratio of the mortgage portfolio was 65.6%, 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) 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, 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 by diversifying geographically, and by investing in additional commercial and residential mortgages and grow our portfolio in a controlled manner over time.

We are qualified as a MIC and we are restricted from any activity that would result in us failing to qualify as a MIC. In order to qualify as a MIC, we must satisfy the requirements in subsection 130.1(6) of the ITA throughout the taxation year. Among the requirements are:

- We can only invest or manage funds and cannot manage or develop real property.
- We cannot own debts secured on real property situated outside Canada, debts owing by non-residents unless such debts were secured on real property situated in Canada, shares of the capital stock of corporations not resident in Canada, or real property situated outside of Canada or any leasehold interest in such property.
- No shareholder (together with related persons, as defined in the ITA) may at any time own, directly or indirectly, more than 25% of our common shares.
- The cost for tax purposes of cash on hand, debts secured on specified residential properties, and funds on deposit with a Canada Deposit Insurance Fund or Régie de l'assurance-dépôts du Québec-insured institution or credit union must constitute at least 50% of the cost of all of our property.
- The cost for tax purposes of any interests in real property (including leaseholds but excepting real or immovable property acquired by foreclosure after default by the mortgagor) may not exceed 25% of the cost of all of our property.
- There are certain restrictions as to our maximum debt-to-equity ratio.

We are managed by Canadian Mortgage Capital Corporation (the "manager" or "CMCC"), which is our exclusive manager and arranges and services our mortgage loans and otherwise directs our affairs and manages our business.
For explanations as to some of the terms used herein, please refer to our Annual Information Form for the year ended December 31, 2012, which is available at www.sedar.com.

Highlights

- For the three months ended June 30, 2013, we earned $4.6 million ($0.22 per share, basic and diluted), compared to $3.4 million ($0.22 per share, basic and diluted) for the quarter ended June 30, 2012. For the six months ended June 30, 2013, we earned $8.8 million ($0.42 per share, basic and $0.41 per share, diluted), compared to $6.7 million ($0.45 per share, basic and diluted) for the six months ended June 30, 2012.
- For the three months ended June 30, 2013, revenue from mortgage interest and other fees aggregated $5.8 million, compared to $4.1 million in the same period in the previous year, an increase of 41%. The weighted average yield in the mortgage portfolio declined from 9.2% at June 30, 2012 to 8.7% at June 30, 2013, in line with our focus on managing 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 and apartments. The latter two sectors were, until recently, dominated by the banks, but as they have been required to reduce their exposure to real estate opportunities for Atrium have opened up in these sectors. The relatively short-term nature of our mortgages allows us to dynamically alter our investment mix as we anticipate changes in the market. For example low rise residential properties represent 21.9% of the mortgage portfolio at June 30, 2013, a significant increase from 12.0% at December 31, 2012.
- We have paid a regular dividend of $0.066667 per share every month this year, in addition to a special dividend of $0.02 per share paid during the first quarter to shareholders of record December 31, 2012.
- We had $270.0 million of mortgages receivable at June 30, 2013, an increase of 34% from December 31, 2012.
- In June 2013 we successfully completed a public offering of $30 million of seven-year 5.25% subordinated convertible debentures. In addition, the underwriter took up $2.5 million of an overallotment option subsequent to the quarter end, for a total issue of $32.5 million.
- On May 27, 2013 we sadly lost the chair of our board, Dr. Murray Frum, who passed away. "He was an amazing man and an important mentor to me over the last twelve years. He was universally respected by the board for his wisdom and experience, and he will be greatly missed by all of us." said Robert G. Goodall, President and CEO.
- Mr. Mark Silver was appointed as the new chair of our board. Mr. Silver has been a director of Atrium since March 2012 and has co-founded Direct Energy Marketing and grew that company to over $1.3 billion in revenues before selling it to Centrica PLC in 2000. He has also made significant real estate investments in both development stage and income producing properties in the residential, commercial and industrial sectors over his 30 year business career.
- On June 24, 2013, Ms. Nancy Lockhart was appointed as a director. Ms. Lockhart is a director of the Loblaw Companies Limited and chair of its environmental health and safety committee, the Chief Administrative Officer of Frum Development Group and a former Vice President of Shoppers Drug Mart Corporation. She is a director of the Centre for Addiction and Mental Health Foundation, a director for The Canada Merit Scholarship Foundation and a member of the Advisory Board for the Belinda Stronach Foundation. She is a former Chair of the Canadian Film Centre and also a former director of Canada Deposit Insurance Corporation.
- We have mortgages on five properties in Alberta, none of which had been directly affected by the floods in southern Alberta.

Investment portfolio

Our mortgages receivable include 112 mortgage loans and aggregated $270.0 million at June 30, 2013, an increase of 34% from December 31, 2012.

	June 30, 2013			December 31, 2012		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
Mixed use real estate/commercial	23	$94,569,057	34.9%	15	$69,334,931	34.4%
Low rise residential	17	59,297,326	21.9%	8	24,302,272	12.1%
House and apartment	45	55,473,388	20.5%	31	43,061,190	21.3%
High rise residential	4	25,036,000	9.2%	4	23,686,000	11.8%
Construction	7	20,452,139	7.6%	4	15,087,981	7.5%
Midrise residential	5	13,262,632	4.9%	5	24,381,184	12.1%
Condominium corporation	11	2,760,170	1.0%	10	1,629,664	0.8%
Mortgage portfolio	**112**	270,850,712	**100.0%**	**77**	201,483,222	**100.0%**
Accrued interest receivable		1,438,774			2,589,639	
Mortgage discount*		(444,406)			385,508	
Mortgage origination fees*		(798,788)			(644,735)	
Provision for mortgage losses		(1,150,667)			(1,087,667)	
Mortgage receivable		**$269,895,625**			**$201,954,951**	

* Net of accumulated amortization

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 June 30, 2013, an increase of 9.5 percentage points since December 31, 2012.

As of June 30, 2013, our mortgage portfolio consisted of 112 investments with an average outstanding balance of $2.4 million and a median outstanding balance of $1.4 million.

An analysis of our mortgages by size is presented below.

	June 30, 2013			December 31, 2012		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
$0 – $2,500,000	74	$ 69,509,385	25.7%	50	$ 48,628,362	24.2%
$2,500,001 - $5,000,000	24	81,421,721	30.1%	16	55,814,860	27.7%
$5,000,001 - $7,500,000	8	53,682,936	19.8%	5	30,670,000	15.2%
$7,500,001 +	6	66,236,670	24.4%	6	66,370,000	32.9%
	112	**$270,850,712**	**100%**	**77**	**$201,483,222**	**100%**

Analyses of our mortgages as at June 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	99	$236,808,795	87.4%	8.4%
Second and third mortgages	13	34,041,917	12.6%	10.7%
	112	**$270,850,712**	**100.0%**	**8.7%**
Nature of underlying property				
Residential	89	$176,281,655	65.1%	8.7%
Commercial	23	94,569,057	34.9%	8.7%
	112	**$270,850,712**	**100.0%**	**8.7%**
Location of underlying property				
Greater Toronto Area	93	$214,498,480	79.2%	8.7%
Non-GTA Ontario	6	24,618,599	9.1%	9.0%
British Columbia	8	12,092,133	4.5%	7.6%
Alberta	5	19,641,500	7.2%	8.7%
	112	**$270,850,712**	**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 in the second half of 2013 and anticipate that up to 25% of our mortgage portfolio may be based in western Canada by year-end.

An analysis of our mortgages by their category at June 30, 2013 and December 31, 2012, and changes over that period, is set out below:

	June 30 2013	%	December 31 2012	%	% change
Conventional first mortgages	$226,812,027	83.8%	$156,322,551	77.6%	45.1%
Conventional second and third mortgages	28,750,598	10.6%	29,340,438	14.6%	(2.0)%
Non-conventional mortgages	12,527,918	4.6%	14,190,569	7.0%	(11.7)%
Other	2,760,169	1.0%	1,629,664	0.8%	69.4%
	$270,850,712	**100.0%**	**$201,483,222**	**100.0%**	**34.4%**

The weighted average term remaining for our mortgages receivable at June 30, 2013 is 13.3 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 4.6%, which illustrates the conservative nature of our portfolio. Conventional first mortgages aggregated 83.8% of the mortgage portfolio as at June 30, 2013, compared to 77.6% at December 31, 2012, and conventional second and third mortgages decreased to 10.6% at June 30, 2013.

Financial summary

	Three months ended June 30, 2013 (unaudited)	*Three months ended June 30, 2012 (unaudited)*	*Six months ended June 30, 2013 (unaudited)*	*Six months ended June 30, 2012 (unaudited)*
Revenue	$ 5,844,550	$ 4,141,626	10,934,063	8,244,300
Operating expenses	1,273,824	784,156	2,173,762	1,535,186
Earnings and total comprehensive income	4,570,726	3,357,470	8,822,593	6,709,114
Basic and fully diluted earnings per share	0.22	0.22	0.42	0.45
Dividends declared	4,224,035	3,343,034	8,442,699	6,481,202
Mortgages receivable, end of period	269,895,625	166,767,311	269,895,625	166,767,311
Total assets, end of period	270,147,436	166,797,231	270,147,436	166,797,231
Shareholders' equity, end of period	211,416,112	151,323,099	211,416,112	151,323,099

Results of operations – three months ended June 30, 2013

For the three-month period ended June 30, 2013, mortgage interest and fees aggregated $5.8 million, compared to $4.1 million in the same period in the previous year, an increase of 41%. 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, as we continue our focus on higher quality assets.

Operating expenses aggregated $1.3 million, or 21.8% of revenues, compared to $0.8 million or 18.9% 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 $0.6 million for the three months ended June 30, 2013, compared with $0.4 million in the previous year, reflecting the growth of our mortgage portfolio. Net earnings for the three months ended June 30, 2013 aggregated $4.6 million, an increase of 36% from net earnings of $3.4 million in the same period in the previous year. Basic and diluted earnings per common share were $0.22 per common share for the three months ended June 30, 2013, compared with $0.22 per common share for the same period the previous year.

During the three-month period ended June 30, 2013, we funded mortgages aggregating $58.5 million. Of these advances, $54.2 million were first mortgages, representing 92.6% of the total loans funded. Seven of these mortgages were on properties in British Columbia, three were in properties in Alberta, two were non-GTA Ontario, and the remaining 40 were made in the Greater Toronto Area. There were $11.0 million of repayments during the period. The mortgage portfolio, in the aggregate, increased from $223.4 million to $270.9 million during the period.

Results of operations – six months ended June 30, 2013

For the six-month period ended June 30, 2013, mortgage interest and fees aggregated $10.9 million, compared to $8.2 million in the same period in the previous year, an increase of 33%. 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 $2.2 million, or 19.9% of revenues, compared to $1.5 million or 18.6% 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 $1.1 million for the six months ended June 30, 2013, compared with $0.7 million in the previous year, reflecting the growth of our mortgage portfolio. Net earnings for the six months ended June 30, 2013 aggregated $8.8 million, an increase of 31% from net earnings of $6.7 million in the same period in the previous year. Basic earnings per common share were $0.42 and diluted earnings per common share were $0.41 per common share for the six months ended June 30, 2013, compared with $0.45 basic and diluted per common share in the same period the previous year.

During the six-month period ended June 30, 2013, we funded mortgages aggregating $105.6 million. Of these advances, $98.0 million were first mortgages, representing 92.0% of the total loans funded. Eight of these mortgages were on properties in British Columbia, six were in properties in Alberta, two were non-GTA Ontario, and the remaining 54 were made in the Greater Toronto Area. There were $37.2 million of repayments during the period. The mortgage portfolio, in the aggregate, increased from $201.5 million to $270.9 million during the period.

Summary of quarterly results (unaudited)

In $000s, except for per share amounts	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Revenue	5,844	5,089	$4,760	$4,231	$4,142	$4,103	$3,586	$3,279
Operating expenses	1,274	900	1,115	1,226	784	751	630	640
Earnings	4,570	4,189	3,644	3,005	3,357	3,352	2,956	2,639
Basic and fully diluted earnings per share	0.22	0.20	0.21	0.20	0.22	0.23	0.23	0.23
Dividends declared	4,224	4,219	3,858	3,044	3,345	3,138	2,985	2,521

Liquidity and capital resources

At June 30, 2013, we had bankers' acceptances, bank loans payable and convertible debt outstanding of $56.5 million. We are in compliance with the covenants required of us in our operating credit facility as at June 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.

Investing activities during the six months ended June 30, 2013 consisted of advances on new mortgage loan investments of $105.6 million, less repayments received of $37.2 million, for net cash used for net new mortgage loan investments of $68.4 million.

Sources of cash from financing activities during the six months ended June 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 $28.4 million use of cash. In June 2013 we completed an issuance of convertible debentures which resulted in $28.5 million of cash, net of issue costs. Dividends paid used cash of $8.9 million, so after some other smaller items, net cash provided by financing activities aggregated $48.5 million for the six months ended June 30, 2013.

Changes in financial position

Cash on hand was $0.23 million at June 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 normal position is to have no (or a small amount of) cash on hand; rather, any available cash is used to reduce our bank indebtedness. Mortgages receivable increased by 33.6% to $269.9 million at June 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 $28.4 million at June 30, 2013, from $nil at December 31, 2012, reflecting our objective to use moderate leverage to improve shareholder returns. Accounts payable and accrued charges were $0.7 million at June 30, 2013 compared to $0.5 million at December 31, 2012. Dividends payable decreased to $1.4 million at June 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 $209.9 million at June 30, 2013 from $209.4 million at December 31, 2012 as a result of issuances under our dividend reinvestment plan (DRIP).

Contractual obligations

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

	Total	***Less than 1 year***	***1-3 years***	***4-7 years***
Bank indebtedness	$ –	$ –	$ –	$ –
Bankers' acceptance	20,000,000	20,000,000		
Bank loan payable	8,379,500	8,379,500	–	–
Accounts payable and accrued liabilities	657,253	657,253	–	–
Dividends payable	1,408,617	1,408,617	–	–
Due to related party	175,197	175,197	–	–
Convertible debentures	28,110,757	–	–	28,110,757
Total	$58,731,324	$30,620,567	$ –	$28,110,757

Off-balance sheet arrangements

As at June 30, 2013, we had $2,332,458 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 six months ended June 30, 2013, no deferred share units were granted. 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 contribute a maximum of $10,000 per annum 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. As at June 30, 2013, $13,950 (1,279) common shares have been subscribed for but were not yet issued.

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 $1,121,849 for the six-month period ended June 30, 2013 (six months ended June 30, 2012 – $723,890) 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 June 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 six months ended June 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 six-month periods ended June 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 publication *Internal Control – Integrated Framework*, to provide reasonable assurance that material information relating to us is made known to our CEO and CFO during the reporting period; and information required to be disclosed by us in our filings under securities legislation is recorded, processed, summarized and reported within the required time periods; and provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP.

Our CEO and CFO evaluated the design effectiveness of the DC&P and ICFR, as defined by NI 52-109, as of June 30, 2013. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of June 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 21,129,154 are issued and outstanding at June 30, 2013, and 21,139,694 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. Shareholders who wish to enroll or who would like further information about the DRIP should contact our agent for the DRIP, Computershare Trust Company of Canada, at 1 (800) 564-6253 or www.computershare.com.

Additional information

Additional information about Atrium, including our Annual Information Form for the year ended December 31, 2012 and our audited financial statements 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.