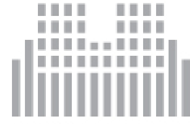

ATRIUM

MORTGAGE INVESTMENT CORPORATION

# Management's Discussion and Analysis

Three months ended March 31, 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 period ended March 31, 2013. Information herein includes any significant developments for the three months ended March 31, 2013, and up to and including April 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.

Our financial statements for the quarter ended March 31, 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 or two-year term and monthly interest-only mortgage payments.

Our basic lending parameters are as follows:

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

Mortgage loans are generally $300,000 to a maximum of $20,000,000. The largest single mortgage in our mortgage portfolio as at March 31, 2013 was $15.9 million. For loan amounts in excess of $15 to $20 million, we co-lend with one or more private lenders or financial institutions. The parameters listed above are our maximum mortgage lending parameters. At March 31, 2013, the average loan-to-value ratio of the mortgage portfolio on a weighted average basis was 66.3%, compared to 66.7% in the previous quarter.

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

- We may invest only in residential mortgages, commercial mortgages, commercial mortgage backed securities and certain related investments.
- When not invested in mortgages on the security of real property situated within Canada, our funds will be placed in certain permitted interim investments.
- Commercial mortgages may not constitute more than 50% of our total assets at any time.
- We will not invest in any mortgages where the term of the mortgage is in excess of ten years.
- No individual mortgage or a portion of a mortgage will exceed $20,000,000.
- No single borrower will account for more than 15% of our total assets.
- All mortgages will be supported by external appraisals by a qualified appraiser. All mortgages, except mortgages secured against a single residence, will be supported by environmental audits.
- No mortgage will initially exceed 85% loan-to-value, including any prior ranking encumbrances, and the weighted average loan-to-value ratio of our mortgage portfolio, as a whole, at the time of underwriting each loan in our portfolio, will not exceed 75%.
- Our ratio of debt to equity may not exceed 1:1.
- We do not invest directly in real property, although real property may be acquired through foreclosing on a mortgage.
- We may not make any investment: (i) with a cost to us of $1,000,000 or more without the approval of the board; (ii) with a cost to us of less than $1,000,000 and more than $500,000 without the approval of three members of the board, including at least two independent directors; (iii) with a cost to us of $500,000 or less without the approval of any one member of the board; and (iv) in respect of a mortgage previously approved by the board but where the mortgage amount exceeds the amount so approved by up to $100,000, without the approval of three members of the board, including at least one independent director. However, we may invest in 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 approval of our board.
- We may not make unsecured loans to, nor invest in securities issued by, our manager or its affiliates, nor make loans to the directors or officers of 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 quarter ended March 31, 2013

- For the three months ended March 31, 2013, we earned $4,189,667 ($0.20 per share, basic and diluted), compared to $3,351,645 ($0.23 per share, basic and diluted) for the quarter ended March 31, 2012, and declared dividends of $4,218,630 ($0.20 per share), compared to $3,138,167 ($0.21 per share) in the comparable prior quarter.
- We had $224.5 million of mortgages at March 31, 2013. During the quarter, we funded mortgages aggregating $48.0 million. Two first mortgages totaling $5.37 million were in arrears as at March 31, 2013. We believe that adequate reserves have been established to cover any potential losses.
- For the period ended March 31, 2013, mortgage interest and other fees aggregated $5.1 million, compared to $4.1 million in the same period in the previous year, an increase of 24%. The weighted average yield in the mortgage portfolio declined from 9.2% at March 31, 2012 to 8.8% at March 31, 2013, in line with our expectations given our continued orientation of the mortgage portfolio toward the lowest risk sectors of the market. More specifically, we target low rise/midrise infill developments, and single family mortgages and apartments. These sectors were until recently dominated by the banks, but a mandate to reduce their exposure to real estate has opened up opportunities for Atrium in these sectors.

- The Calgary office has been very active, and we expect up to $50 million of new business to be generated in 2013. An analyst has been hired in the last month in order to assist the Managing Director of Alberta with analyzing and responding to new loan opportunities.

## Financial summary

| | *Three months ended March 31, 2013 (unaudited)* | *Three months ended March 31, 2012 (unaudited)* |
|---|---|---|
| Revenue | $ 5,089,468 | $ 4,102,674 |
| Operating expenses | 899,801 | 751,029 |
| Earnings and total comprehensive income | 4,189,667 | 3,351,645 |
| Basic and fully diluted earnings per share | 0.20 | 0.21 |
| Dividends declared | 4,218,664 | 3,138,168 |
| Mortgages receivable, end of period | 224,529,637 | 178,065,002 |
| Total assets, end of period | 224,735,819 | 185,683,207 |
| Shareholders' equity, end of period | 210,375,819 | 151,132,140 |

## Investment portfolio

Our mortgage portfolio consisted of 97 mortgage loans and aggregated $223.4 million at March 31, 2013, an increase of 11% from December 31, 2012.

| | March 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| **Mortgage category** | **Number** | **Outstanding amount** | **% of Portfolio** | **Number** | **Outstanding amount** | **% of Portfolio** |
| Mixed use | 17 | $77,846,095 | 34.9% | 15 | $69,334,931 | 34.4% |
| Condominium corporation | 10 | 1,572,696 | 0.7% | 10 | 1,629,664 | 0.9% |
| Low rise residential | 13 | 36,100,176 | 16.2% | 8 | 24,302,272 | 12.0% |
| Midrise residential | 5 | 13,915,654 | 6.2% | 5 | 24,381,184 | 12.1% |
| High rise residential | 4 | 25,036,000 | 11.2% | 4 | 23,686,000 | 11.8% |
| House and apartment | 43 | 51,834,128 | 23.2% | 31 | 43,061,190 | 21.4% |
| Construction | 5 | 17,046,447 | 7.6% | 4 | 15,087,981 | 7.5% |
| | **97** | 223,351,196 | **100.0%** | **77** | 201,483,222 | **100.0%** |
| Accrued interest receivable | | 3,360,371 | | | 2,589,639 | |
| Mortgage discount | | (336,566) | | | 385,508 | |
| Mortgage origination fees | | (757,697) | | | (644,735) | |
| Provision for mortgage losses | | (1,087,667) | | | (1,087,667) | |
| Mortgage receivable | | **$224,529,637** | | | **$201,954,951** | |

The biggest increase came from the low rise infill residential opportunities, house loans, and mortgages on commercial and mixed use real estate.

Mortgages receivable, as set out on our balance sheet, consists of the book value of mortgages receivable, plus accrued interest receivable, less mortgage discount (net of accumulated amortization), less mortgage origination fees (net of accumulated amortization) and less a provision for mortgage losses.

As of March 31, 2013, our mortgage portfolio consisted of 97 investments with an average outstanding balance of $2.3 million and a median outstanding balance of $1.4 million. An analysis of our mortgages by size as at March 31, 2013 is presented on the next page.

| | March 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| Mortgage amount | Number | Outstanding amount | % of Portfolio | Number | Outstanding amount | % of Portfolio |
| $0 – $2,500,000 | 66 | $ 61,733,152 | 27.7% | 50 | $ 48,628,362 | 24.2% |
| $2,500,001 - $5,000,000 | 19 | 53,207,222 | 28.3% | 16 | 55,814,859 | 27.7% |
| $5,000,001 - $7,500,000 | 7 | 44,540,822 | 19.9% | 5 | 30,670,000 | 15.2% |
| $7,500,001 + | 5 | 55,870,000 | 24.1% | 6 | 66,370,000 | 32.9% |
| | **97** | **$223,351,196** | **100%** | **77** | **$201,483,221** | **100%** |

Analyses of our mortgages as at March 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 | 83 | $189,030,426 | 84.6% | 8.5% |
| Second and third mortgages | 14 | 34,320,770 | 15.4% | 10.8% |
| | **97** | **$223,351,196** | **100.0%** | **8.8%** |
| **Nature of underlying property** | | | | |
| Residential | 80 | $145,505,101 | 65.2% | 8.8% |
| Commercial | 17 | 77,846,095 | 34.8% | 8.8% |
| | **97** | **$223,351,196** | **100.0%** | **8.8%** |
| **Location of underlying property** | | | | |
| Greater Toronto Area | 79 | $181,400,135 | 81.2% | 8.8% |
| British Columbia | 8 | 11,342,222 | 5.1% | 8.4% |
| Alberta | 3 | 4,564,000 | 2.0% | 9.2% |
| Other | 7 | 26,044,839 | 11.7% | 9.1% |
| | **97** | **$223,351,196** | **100.0%** | **8.8%** |

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 2013 and anticipate 25% of our mortgage portfolio to be based in western Canada by year-end.

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

| | March 31 2013 | % | December 31 2012 | % | % change |
|---|---|---|---|---|---|
| Conventional first mortgages | $182,384,363 | 81.6% | $156,322,551 | 77.6% | 16.7% |
| Conventional second and third Mortgages | 28,520,770 | 12.8% | 29,340,438 | 14.6% | (2.8)% |
| Non-conventional mortgages | 10,873,368 | 4.9% | 14,190,569 | 7.0% | (23.4)% |
| Other | 1,572,695 | 0.7% | 1,629,664 | 0.8% | (3.5)% |
| | **$223,351,196** | **100.0%** | **$201,483,222** | **100.0%** | **10.9%** |

The average term within the mortgage portfolio as at March 31, 2013 is 14.0 months (Dec 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 4.9%, which illustrates the conservative nature of our portfolio. Conventional first mortgages aggregated

81.6% of the mortgage portfolio as at March 31, 2013, compared to 77.6% at December 31, 2012, and conventional second and third mortgages decreased to 12.8% at March 31, 2013.

## Summary of quarterly results (unaudited)

| *In $000s, except for per share amounts* | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Q1 2012 | Q4 2011 | Q3 2011 | Q2 2011 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 5,089 | $4,760 | $4,231 | $4,142 | $4,103 | $3,586 | $3,279 | $2,454 |
| Operating expenses | 900 | 1,115 | 1,226 | 784 | 751 | 630 | 640 | 477 |
| Earnings | 4,189 | 3,644 | 3,005 | 3,357 | 3,352 | 2,956 | 2,639 | 1,977 |
| Basic and fully diluted earnings per share | 0.20 | 0.21 | 0.20 | 0.22 | 0.23 | 0.23 | 0.23 | 0.21 |
| Dividends declared | 4,219 | 3,858 | 3,044 | 3,345 | 3,138 | 2,985 | 2,521 | 2,111 |

## Results of operations – three months ended March 31, 2013

For the three-month period ended March 31, 2013, mortgage interest and fees aggregated $5.09 million, compared to $4.10 million in the same period in the previous year, an increase of 24.1%. The weighted average yield on the mortgage portfolio declined from 8.9% at the end of 2012 to 8.8% in the first quarter of 2013.

Dividends declared aggregated $4.22 million for the first quarter of 2013, an increase of 34.4% from the same quarter in the previous year.

Operating expenses aggregated $0.9 million, or 17.7% of revenues, compared to $0.8 million or 18.3% of revenues in the prior year period. The major component of operating expenses was mortgage servicing and other fees paid to the Manager (which is the management fee) that aggregated $0.52 million for the three months ended March 31, 2013, compared with $0.36 million in the previous year, reflecting the growth of our mortgage portfolio over the previous year. Net earnings for the three months ended March 31, 2013 aggregated $4.19 million, an increase of 25.0% from net earnings of $3.35 million in the same period in the previous year. Basic and diluted earnings per common share was $0.20 per common share for the three months ended March 31, 2013, compared with $0.21 per common share in the same period the previous year.

During the three-month period ended March 31, 2013, we funded mortgages aggregating $48.0 million. Of these new loans, $43.8 million were first mortgages, representing 91% of the total loans funded. Eight of these mortgages were on properties in British Columbia, three were in properties in Alberta, one was non-GTA Ontario, and the remaining 31 were made in the Greater Toronto Area. There were $26.2 million of repayments during the period. The mortgage portfolio, in the aggregate, increased from $202.0 million to $224.5 million during the period.

## Liquidity and capital resources

At March 31, 2013, we had bank indebtedness and loans payable outstanding of $12.3 million. We are in compliance with the covenants required of us in our operating credit facility as at March 31, 2013 and we expect to remain in compliance with such covenants going forward.

Growth in the mortgage portfolio has historically been financed by the issuance of common shares to new and existing shareholders, and by loans payable under our operating credit facility. We expect to be able to generate sufficient funds for future mortgage loan investments through a combination of common share issuances, convertible debt, and the existing operating credit facility.

Investing activities during the three months ended March 31, 2013 consisted of advances on new mortgage loan investments of $48.0 million, less repayments received of $26.2 million, for net cash used for net new mortgage loan investments of $21.9 million.

Sources of cash from financing activities during the three months ended March 31, 2013 consisted primarily of bank loans (under our operating credit facility). Bank loans advanced less bank loans repaid netted to a $12.2 million use

of cash. Dividends paid used cash of $4.6 million, so after some other smaller items, net cash provided by financing activities aggregated $8.0 million for the three months ended March 31, 2013.

## Changes in financial position

Cash on hand was $nil at March 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 normal position is to have no cash on hand; rather, any available cash is used to reduce our bank indebtedness. Mortgages receivable increased by 11.2% to $224.7 million at March 31, 2013 from $202.0 million at December 31, 2012, reflecting the growth in our portfolio.

Bank indebtedness, bankers' acceptance and loans payable (under our operating credit facility) increased to a total of $12.3 million at March 31, 2013, from $nil at December 31, 2012, reflecting our objective to use moderate leverage to improve shareholder returns. Accounts payable and accrued charges were $0.3 million at March 31, 2013 compared to $0.5 million at December 31, 2012. Dividends payable decreased to $1.4 million at March 31, 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 $209.6 million at March 31, 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 March 31, 2013 were as follows:

| | *Total* | *Less than 1 year* | *1-3 years* | *4-7 years* |
|---|---|---|---|---|
| Bank indebtedness | $ 51,148 | $ 51,148 | – | – |
| Bankers' acceptance | 10,000,000 | 10,000,000 | | |
| Loan payable | 2,217,000 | 2,217,000 | – | – |
| Accounts payable and accrued liabilities | 293,018 | 293,018 | – | – |
| Dividends payable | 1,406,847 | 1,406,847 | – | – |
| Due to related party | 391,987 | 391,987 | – | – |
| Total | 14,360,000 | 14,360,000 | – | – |

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

## Off-balance sheet arrangements

As at March 31, 2013, we had $332,458 of Letters of Credit outstanding ("LCs") which were issued under our operating credit facility. The LCs reduce our maximum availability under our operating credit facility by the amount of the LCs. The maximum available by way of LCs under our operating credit facility is $2 million.

## Share based payments

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 three months ended March 31, 2013, no deferred share units were granted. Deferred share units previously granted vest over a three year period (1/3 in each one year period) from August 29, 2012. Upon the vesting of deferred share units and income deferred share units, we will issue common shares to participants on the basis of one common share for each deferred share unit and income deferred share unit that has vested. Certain participants have the ability to elect to defer the issuance of common shares to them on the vesting of their deferred share units and income deferred share units in respect of any vesting date.

## Transactions with related parties

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and are measured at fair value.

The Manager is responsible for our day-to-day activities. We incurred mortgage servicing and other fees of $518,005 for the three-month period ended March 31, 2013 (March 31, 2012 – $357,689) from the Manager. Robert G. Goodall is part of the key management personnel of the Manager and is also a director of Atrium and received compensation from the Manager. The management agreement between us and the Manager contains provisions for the payment of termination fees to the Manager in the event that the management agreement is terminated in certain circumstances. The Manager also acts as broker for the Company's mortgages. The Manager receives origination fees from the borrowers of up to 1% of the amount being funded; origination fees in excess of 1% are split equally between the Manager and Atrium. It is at the discretion of the Manager whether to collect the maximum fee to which it is entitled under the management agreement.

Guarantees aggregating $4,190,000 at March 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 has a minority equity interest. No guarantee fees have been paid in the period.

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

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

*Revenue recognition*
Mortgage interest and fees revenue is recognized using the effective interest method. Mortgage interest and fees revenue may include an origination fee from a borrower for arranging a mortgage which is included in mortgage

interest and fees using the effective interest method. Mortgages issued at a premium or discount are recorded at their face value, adjusted for such premiums and discounts. Premiums or discounts are amortized into income over the term of the mortgage.

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

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

*Income taxes*
We are, and intend to maintain our status as, a MIC, and as such are not taxed on income provided that such income flows through to our shareholders as dividends during the year or within 90 days after December 31. It is our policy to pay such dividends out to the shareholders to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

## Responsibility of management and the board of directors

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, the 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 months ended March 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 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 March 31, 2013. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of March 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 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 21,102,605 are issued and outstanding at March 31, 2013, and 21,111,120 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 incorporated herein by reference and is available at www.sedar.com.

## Dividend Reinvestment Plan

Atrium has in place a Dividend Reinvestment Plan (DRIP) that is available to our shareholders. The DRIP allows participants to have their monthly cash dividends reinvested in additional common shares. Shareholders who wish to enroll or who would like further information about the DRIP should contact our agent for the DRIP, Computershare Trust Company of Canada, at 1 (800) 564-6253 or www.computershare.com.

## Additional information

Additional information about Atrium, including our Annual Information Form for the year ended December 31, 2012 and our audited financial statements for the year ended December 31, 2012, is available on SEDAR at www.sedar.com. You may also obtain further information about us from our website at www.atriummic.com.