ATRIUM MORTGAGE INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER™

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE MONTHS ENDED
MARCH 31, 2014

ATRIUM
MORTGAGE INVESTMENT
CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(April 24, 2014)

Background and overview

This Management's Discussion and Analysis (MD&A) is intended to help you understand Atrium Mortgage Investment Corporation ("Atrium", the "Company", "we", "our" or "us"), its business environment and future prospects. This MD&A should be read together with our condensed interim financial statements and the accompanying notes for the quarter ended March 31, 2014 as well as our audited financial statements for and MD&A for the year ended December 31, 2013. Information herein includes any significant developments up to April 24, 2014, the date on which this MD&A was approved by our directors. Atrium was formed on July 30, 2001 as "DB Mortgage Investment Corporation #1"; our name was changed to "Atrium Mortgage Investment Corporation" on March 23, 2012. We are an Ontario corporation and we do not have any subsidiaries.

We are qualified as a "mortgage investment corporation" (MIC) within the meaning of Section 130.1(6) of the *Income Tax Act* (Canada) (ITA). Accordingly, we are not taxed on our income provided that at least our taxable income is paid to our shareholders as dividends within 90 days after December 31 each year. Such dividends are generally treated by shareholders as interest income, so that each shareholder is in the same position as if the mortgage investments made by us had been made directly by the shareholder. Our common shares, 5.25% convertible unsecured subordinated debentures due June 30, 2020 (5.25% debentures) and 6.25% convertible unsecured debentures due March 31, 2019 are listed on the Toronto Stock Exchange (TSX) under the symbols "AI", "AI.DB" and "AI.DB.A", respectively. We became a reporting issuer and listed our common shares on the TSX following the issuance of a non-offering prospectus on August 24, 2012. In February 2014, we completed a public offering of $31.8 million aggregate principal amount of our 6.25% debentures.

Our condensed interim financial statements for the quarter ended March 31, 2014 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the CPA Canada *Handbook – Accounting*.

Notice regarding forward-looking information

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities legislation, including statements with respect to management's beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans" or "continue" or similar expressions suggesting future outcomes or events. Forward looking statements regarding earnings and mortgage portfolio growth are based upon the following assumptions: that other factors such as revenues and expenses continue to follow current trends, and that current trends in our mortgage portfolio growth continue.

All forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and the general economic environment. For other risks and uncertainties, please refer to "Risks and uncertainties" below, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2013 which is available at www.sedar.com. We caution that the foregoing list is not exhaustive, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

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

Our business

We are a mortgage lender that fills the lending gap caused by the limited number of financial institutions operating in Canada. We lend in major urban centres where the stability and liquidity of real estate are at the highest levels. We focus on loans that cannot be placed with financial institutions but that represent an acceptable underwriting risk. The weighted average loan-to-value ratio of our mortgage portfolio, as a whole, at the time of underwriting each loan in our portfolio, will not exceed 75%. A typical loan in our portfolio has an interest rate of 8% to 10% per annum, a one or two-year term and monthly interest-only mortgage payments.

Our basic lending parameters are as follows:

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

Mortgage loan amounts are generally $300,000 to a maximum of $20,000,000. The largest single mortgage in our mortgage portfolio as at March 31, 2014 was $13.7 million. For loan amounts in excess of $15 to $20 million, we generally co-lend with a financial institution or private lender. The parameters listed above are our maximum mortgage lending parameters. At March 31, 2014, the weighted average loan-to-value ratio of the mortgage portfolio was 64.2%, compared to 64.1% at December 31, 2013.

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

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

Our investment objectives are to preserve our shareholders' equity and to provide our shareholders with stable and secure dividends from our investments in mortgage loans within the criteria mandated for a MIC. Working within conservative risk parameters, we endeavour to maximize income and dividends through the sourcing and efficient management of our mortgage investments.

We are a non-bank lender and invest in mortgages secured by all types of residential, multi-residential and commercial real property located in Canada, subject to compliance with our investment policies. The types of properties that we finance include residential houses, small multi-family residential properties comprised of six or fewer units, residential apartment buildings, mixed-use residential apartments and store-front properties, commercial properties, residential and commercial land development sites and construction projects. We also invest in short-term bridge financing for real estate developers. Our strategy is to grow in a controlled manner by diversifying geographically, and focusing on real estate sector with the lowest risk profiles.

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

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

We are managed by Canadian Mortgage Capital Corporation (the "manager" or "CMCC"), which is our exclusive manager and arranges and services our mortgage loans and otherwise directs our affairs and manages our business.

For explanations as to some of the terms used herein, please refer to our Annual Information Form for the year ended December 31, 2013, which is available at www.sedar.com.

Highlights for the quarter ended March 31, 2014

- For the quarter ended March 31, 2014, we earned $4.8 million ($0.23 per share, basic and diluted), compared to $4.2 million ($0.20 per share, basic and diluted) for the quarter ended March 31, 2013.

- During the first quarter of 2014, we actively managed the risk profile of our mortgage portfolio, and currently target commercial real estate, low rise infill developments and single family mortgages. Infill development loans and single family mortgages were, until recently, dominated by the banks, who have been pressured politically to reduce their exposure to real estate. Their reduced involvement has allowed Atrium to increase its mortgage business in these low risk sectors.

- We declared a regular dividend of $0.068333 per share for each month in the first quarter of 2014, a total of $0.205 for the quarter and a rate of $0.82 per year.

- We had $344.3 million of mortgages receivable as at March 31, 2014, an increase of 22% from December 31, 2013. During the quarter, $96.0 million of new mortgages were advanced, and $34.7 of mortgages were repaid.

- In February 2014, we completed a public offering of $31.8 million 5-year 6.25% convertible debentures, the net proceeds of which were used to repay indebtedness under our operating credit facility.

Investment portfolio

Our mortgage portfolio consists of 145 mortgage loans and aggregated $344.8 million at March 31, 2014, an increase of 22.1% from December 31, 2013.

	March 31, 2014			December 31, 2013		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
Commercial/mixed use	30	$ 117,974,716	34.2%	27	$ 89,475,297	31.7%
House and apartment	66	80,687,198	23.4%	59	69,484,828	24.6%
Low rise residential	18	74,938,928	21.7%	17	58,465,947	20.7%
High rise residential	5	33,236,336	9.6%	5	32,966,568	11.7%
Construction	12	28,179,028	8.2%	9	22,093,399	7.8%
Midrise residential	3	7,440,000	2.2%	3	7,440,000	2.6%
Condominium corporation	11	2,390,306	0.7%	11	2,433,526	0.9%
Mortgage portfolio	**145**	344,846,512	**100%**	**131**	282,359,565	**100%**
Accrued interest receivable		1,679,037			1,562,173	
Mortgage discount		(286,931)			(338,480)	
Mortgage origination fees		(902,664)			(724,452)	
Provision for mortgage losses		(1,034,540)			(1,150,667)	
Mortgage receivable		**$344,301,414**			**$281,708,139**	

We actively manage the exposure of our mortgage portfolio, and continued to shift our mortgage portfolio towards lower risk sectors in 2014: commercial/mixed use, single family homes and apartments, and low rise residential, which together comprised 79.3% of our mortgage portfolio at March 31, 2014, an increase of 2.3 percentage points since December 31, 2013.

A summary of our mortgages by size is presented below.

	March 31, 2014			December 31, 2013		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
$0 - $2,500,000	107	$ 106,922,290	31.0%	95	$ 98,811,649	35.0%
$2,500,001 - $5,000,000	21	72,583,095	21.1%	24	81,089,475	28.7%
$5,000,001 - $7,500,000	5	34,235,879	9.9%	7	46,820,000	16.6%
$7,500,001 +	12	131,105,248	38.0%	5	55,638,441	19.7%
	145	**$344,846,512**	**100.0%**	**131**	**$282,359,565**	**100.0%**

As of March 31, 2014 the average outstanding mortgage balance was $2.4 million (December 31, 2013 – $2.2 million), and the median outstanding mortgage balance was $1.4 million (December 31, 2013 – $1.4 million).

The aggregate portfolio has a weighted average *effective interest rate* (which includes lender fees paid to the company) of 9.28% (December 31, 2013 – 9.35%) and maturity dates between 2014 and 2024 with a weighted average term to maturity of 14.8 months at March 31, 2014 (December 31, 2013 – 13.5 months). The effective interest rate is that which discounts the estimated future cash payments and receipts during the expected life of the mortgage receivable (or, where appropriate, a shorter period) to its carrying amount. When calculating it, 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 transaction costs paid or received. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the mortgage.

Analyses of our mortgages as at March 31, 2014 by type of mortgage, nature of the underlying property, and location of the underlying property is set out below. That table shows the *weighted average interest rate* excluding lender fees paid by the borrower which reflects the yield to Atrium including mortgage discount or premium (if any), but excluding lender fees. This is a "non-GAAP" measurement that is supplementary to the GAAP measurements in our financial statements. Management uses this measurement because it is based solely upon the interest paid by the borrower, excluding fees paid to us, and thus provides one way of assessing market conditions and the relative safety of the loans.

Description	Number of mortgages	Amount	Percentage	Weighted average interest rate*
Type of mortgage				
First mortgages	129	$309,576,835	89.8%	8.5%
Second and third mortgages	16	35,269,677	10.2%	11.0%
	145	**$344,846,512**	**100.0%**	**8.7%**
Nature of underlying property				
Residential	115	$226,871,796	65.9%	8.5%
Commercial	30	117,974,716	34.1%	8.8%
	145	**$344,846,512**	**100.0%**	**8.7%**
Location of underlying property				
Greater Toronto Area	120	$268,718,441	77.9%	8.7%
Non-GTA Ontario	8	35,233,545	10.2%	8.4%
British Columbia	6	8,578,392	2.5%	10.0%
Alberta	11	32,316,134	9.4%	9.2%
	145	**$344,846,512**	**100.0%**	**8.7%**

* See definition in preceding paragraph

We have an exceptionally high percentage of our portfolio invested first mortgages (89.8%), which is a core strategy and is unmatched by our peer group.

The weighted average loan-to-value ratio in our mortgage portfolio is 64.2%, with 95.8% of the portfolio below 75% loan-to-value.

	March 31, 2014	%	December 31 2013	%	% change
Conventional first mortgages	$294,979,160	85.5%	$249,328,347	88.3%	18.3%
Conventional second and third mortgages	35,269,677	10.3%	25,711,093	9.1%	37.2%
Non-conventional mortgages	12,207,369	3.5%	4,886,599	1.7%	149.8%
Other	2,390,306	0.7%	2,433,526	0.9%	(1.8)%
	$344,846,512	**100.0%**	**$282,359,565**	**100.0%**	**22.1%**

The weighted average term remaining for our mortgages receivable at March 31, 2014 is 14.8 months (December 31, 2013 – 13.5 months).

Financial summary

	Three months ended March 31, 2014 *(unaudited)*	***Three months ended March 31, 2013*** *(unaudited)*
Revenue	$ 7,644,818	$ 5,089,468
Operating expenses	1,439,530	770,379
Financing costs	1,367,355	129,422
Earnings and total comprehensive income	4,837,933	4,189,667
Basic and diluted earnings per share	0.23	0.20
Dividends declared	4,352,429	4,218,664
Mortgages receivable, end of period	344,301,413	224,529,637
Total assets, end of period	344,600,623	224,735,819
Shareholders' equity, end of period	213,244,828	210,375,819

Results of operations – Three months ended March 31, 2014

For the three months ended March 31, 2014, mortgage interest and fees aggregated $7.6 million, compared to $5.1 million in the comparative period, an increase of 50.2%. The weighted average interest rate excluding lender fees on the mortgage portfolio stayed constant at 8.7% at March 31, 2014 compared to December 31, 2013. Including lender fees, the weighted average effective interest rate declined slightly to 9.28% at March 31, 2014 compared to December 31, 2013, primarily due to small changes in the mix and term of the portfolio.

Operating expenses, excluding the provision for mortgage losses, for the three months ended March 31, 2014 were $1.0 million, or 12.8% of revenues, compared to $0.8 million or 15.1% of revenues in the comparative period. The provision for mortgage losses was $0.5 million in the quarter to bring the total provision to 30 basis points (0.3%) of the mortgage portfolio. Operating expenses include mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) that aggregated $0.7 million for the period ended March 31, 2014, compared with $0.5 million in the prior year period, reflecting the growth of our mortgage portfolio.

Financing costs for the three months ended March 31, 2014 were $1.4 million, or 17.9% of revenues, compared to $0.1 million or 2.5% of revenues in the comparative period. This increase is due to the increased use of our bank line of credit compared to the comparable period, and two convertible debentures, one issued during 2013 and one during the current quarter. During the first quarter of 2013 we made relatively limited use of our bank line of credit because of an issuance of common shares during December 2012. During the first quarter of 2014 we were successful in using an increased amount of judicious financial leverage (see Liquidity and capital resources, and Change in Financial position, below) to improve earnings for the quarter compared with the comparable period.

Net earnings for the three months ended March 31, 2014 aggregated $4.8 million, an increase of 15.5%% from net earnings of $4.2 million in the prior year. Basic and diluted earnings per common share were $0.23, for the period ended March 31, 2014, compared with basic and diluted earnings of $0.20 per common share for the comparable period in the previous year.

During the three months ended March 31, 2014, we funded mortgages aggregating $96.0 million. Of these advances, $82.3 million were first mortgages, representing 84.5% of the total loans funded. Nine of these advances were on properties in British Columbia, eleven were in properties in Alberta, six were non-GTA Ontario, and the remaining 35 were made in the Greater Toronto Area. There were $34.1 million of repayments during the period. The total mortgage portfolio increased from $282.4 million to $344.8 million during the period.

Summary of quarterly results (unaudited)

In $000s, except for per share amounts	*Q1 - 2014*	*Q4 2013*	*Q3 2013*	*Q2 2013*	*Q1 2013*	*Q4 2012*	*Q3 2012*	*Q2 2012*
Revenue	7,644	6,545	6,281	5,844	5,089	4,760	4,231	4,142
Operating expenses	1,439	911	851	844	771	799	828	548
Financing costs	1,367	987	837	430	129	316	398	236
Earnings	4,837	4,646	4,593	4,570	4,189	3,644	3,005	3,357
Basic and diluted earnings per share	0.23	0.22	0.22	0.22	0.20	0.21	0.20	0.22
Dividends declared	4,352	5,298	4,230	4,224	4,219	3,858	3,044	3,345

Liquidity and capital resources

At March 31, 2014, we had bank indebtedness and operating line outstanding of $67.8 million. The operating line is provided by a syndicate of two major chartered banks drawn through a combination of banker acceptances and bank loans in order to minimize our borrowing costs. We are in compliance with the covenants required in our operating credit facility as at March 31, 2014, and we expect to remain in compliance with such covenants going forward. We have two convertible debentures outstanding, aggregating $60.8 million of book value at March 31, 2014. One of these was issued during the quarter (see the last paragraph of this section and Changes in financial position, below).

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 three months ended March 31, 2014 consisted of advances on new mortgage loan investments of $96.0 million, less repayments received of $34.1 million, for net cash used for net new mortgage loan investments of $61.8 million.

Sources of cash from financing activities during the three months ended March 31, 2014 consisted primarily of drawings under our bank operating line and the issuance of 5-year 6.25% convertible debentures. Draws less repayments under our operating facility represented a $31.7 million use of cash. During the quarter, we issued 5-year 6.25% convertible debentures which resulted in $30.3 million of cash, net of issue costs. Net cash provided by financing activities was $57.0 million after paying dividends of $5.4 million for the three months ended March 31, 2014.

Changes in financial position

Bank indebtedness, bankers' acceptances and bank loans payable (under our operating credit facility) increased to a total of $67.8 million at March 31, 2014, from $36.2 million at December 31, 2013, reflecting our objective of using moderate leverage to improve shareholder returns. In February and March 2014, we completed a public offering of $31.8 million principal amount of 6.25% convertible debentures, the net proceeds of which were used to repay indebtedness under our operating credit facility. Accounts payable and accrued charges were $1.1 million at March 31, 2014 compared to $0.5 million at December 31, 2013. Dividends payable decreased to $1.5 million at March 31, 2014 from $2.5 million at December 31, 2013, and represent dividends declared on our common shares during the quarter and paid after each quarter-end. The decrease is because the December 31, 2013 figure reflected both the regular monthly and the special year-end dividend.

Share capital increased to $211.2 million at March 31, 2014 from $210.7 million at December 31, 2013 as a result of issuances under our dividend reinvestment plan (DRIP) and employee share purchase plan (ESPP).

Contractual obligations

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

	Total	Less than 1 year	1-2 years	3-7 years
Bank indebtedness	$ 203,586	$ 203,586	$ –	$ –
Operating line	67,600,000	67,600,000	–	–
Accounts payable and accrued liabilities	477,978	477,978	–	–
Accrued convertible debenture interest	600,815	600,815		
Dividends payable	1,452,080	1,452,080	–	–
Due to related party	214,781	214,781	–	–
Convertible debentures	60,811,555	–	–	60,811,555
Total	$ 131,355,795	$ 70,544,240	$ –	$60,811,555

Off-balance sheet arrangements

As at March 31, 2014, we had $2.7 million of letters of credit (LCs) outstanding which were issued under our operating credit facility. The LCs reduce the maximum available under our operating credit facility by the amount of the LCs. The maximum available by way of LCs under our operating credit facility is $3 million. LCs represent irrevocable assurances that our banks will make payments in the event that a customer cannot meet its obligations to third parties. LCs carry the same credit risk, recourse and collateral security requirements as mortgages extended to customers.

Share-based payments

	August 30, 2013 grant	August 29, 2012 grant	Total
Deferred shares granted	$ 23,000	$ 21,500	$ 44,500
Value of grant	232,900	236,500	469,400
Income deferred shares issuable	–	740	740
Share compensation expense:			
Three months ended March 31, 2014	41,625	20,446	62,071
Three months ended March 31, 2013	–	36,132	36,132
	$ 41,625	$ 56,578	$ 98,203

Grants are provided to certain directors and employees under our deferred share incentive plan. The deferred share units vest annually over three years. Common shares are issued to participants on the vesting date of each tranche of deferred share units, unless a participant elects to defer the issuance. In addition, income deferred share units are credited to holders of deferred share units based upon dividends paid on our common shares.

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, Atrium does not bear any of the cost of the ESPP, but issues shares from treasury upon receipt of the funds. As at March 31, 2014, 1,888 common shares ($21,061) had been subscribed for but were unissued under the ESPP.

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 $$0.7 million for the three months ended March 31, 2014 (March 31, 2013 – $0.5 million) 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 $4.5 million at March 31, 2014 (December 31, 2013 – $4.5 million) have been provided on mortgage loans made by us to a major development company of which one of our directors is an officer and director. All of these loans are in good standing.

Environmental matters

Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. We do not own any real property and thus would not attract environmental liability to which an owner would be exposed. In rare circumstances where a mortgage is in default, we may take possession of real property and may become liable for environmental issues as a mortgagee in possession. As part of the due diligence performed in respect of our mortgage loan investments, we obtain a Phase I environmental audit on the underlying real property provided as security for a mortgage, unless the manager has determined that a Phase I environmental audit is not necessary.

Critical accounting estimates and policies

Our condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and follow International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board (IASB). These condensed interim financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2013. In particular, our significant accounting policies as presented in Note 3 of the financial statements for the year ended December 31, 2013, have been consistently applied in the preparation of these condensed interim financial statements.

The most subjective of these estimates relates to the valuation of mortgages receivable, and the provision for mortgage losses, as well as the measurement of the liability and equity components of our 5.25% and 6.25% 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 in the statement of earnings and comprehensive income using the effective interest method. Mortgage interest and fees revenue may include an origination fee from a borrower for arranging a mortgage that is included in mortgage interest and fees using the effective interest method. Mortgages that are issued at a premium or a discount are recorded at their value net of any premiums or discounts. Premiums or discounts are amortized into income over the term of the mortgage.

The effective interest method derives the interest rate that discounts the estimated future cash payments and receipts during 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 transaction costs paid or received. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the mortgage.

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. The specific and general provisions for mortgage losses are determined by taking into account the following factors:

- Delays in the collection of interest and principal
- The point at which we consider a loan to be in default (which we define as 90 days for single family residence mortgages and 30 days for all other mortgages)
- Other known factors specific to the property, the borrower or the guarantor
- Economic and other real estate market conditions in the geographic area in which a borrower's project is located
- Our judgement as to whether current economic and credit conditions are such that the actual inchoate or potential losses at the reporting date are likely to be higher or lower than the amounts suggested by historic experience
- Any other factors that apply to a particular mortgage or group of mortgages

Several of these factors above involve estimates and judgements on the part of management in determining the provisions for mortgage losses. The other key estimates used for quantifying the specific and general provisions for mortgage losses are:

- The period of time expected to elapse between the contractual maturity or interest and principal repayment dates and the date at which recovery is estimated
- The amount expected to be ultimately recovered on impaired loans, taking into account the probability of different outcomes, where necessary
- The value of underlying security, and whether Atrium expects to take possession of the property
- The amount of any legal and other third party costs estimated to be incurred

Provisions for mortgage losses represent our best estimate of impairment of 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 which is reported as a specific provision. 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, and reported as a general provision. For the purpose of determining the group of mortgages with similar credit characteristics, we group mortgages by their mortgage category: mixed use/commercial, house and apartment, low rise residential, high rise residential, construction, mid-rise residential, and other.

We review the mortgages receivable quarterly for impairment. An impairment loss is calculated as the difference between the carrying amount of the mortgage receivable and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are charged to the statements of earnings and comprehensive income and are reflected in the provision for mortgage losses.

Convertible debentures

The convertible debentures can be converted into our common shares at the option of the investor. They are compound financial instruments with two components: a financial liability, and a call option which is an equity instrument. The fair value of the liability component is measured as of the date that the debentures were issued, and the equity instrument is valued on that date based upon the difference between the fair value of the 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 re-measured subsequent to its initial measurement date.

Income taxes

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

Responsibility of management and the board of directors

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our Audit Committee and board of directors provide an oversight role with respect to our public financial disclosures, and have reviewed and approved this MD&A and the financial statements as at and for the quarter ended March 31, 2014.

Controls and procedures

Our CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as those terms are defined in National Instrument ("NI") 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*.

We designed the DC&P and ICFR, the latter of which was using the framework in *Internal Control – Integrated Framework* (as published in 1992 then subsequently revised in 2013) to provide reasonable assurance that material information relating to us is made known to our CEO and CFO during the reporting period; and information required to be disclosed by us in our filings under securities legislation is recorded, processed, summarized and reported within the required time periods; and provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP.

Our CEO and CFO evaluated the design effectiveness of the DC&P and ICFR, as defined by NI 52-109, as of March 31, 2014. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of March 31, 2014. NI 52-109 also requires Canadian public companies to disclose in their MD&A any change in

ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. No such change to ICFR has occurred during most recently completed quarter.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Outstanding share data

Our authorized capital consists of an unlimited number of common shares, of which 21,250,050 are issued and outstanding at March 31, 2014, and 21,265,225 are issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,407,407 common shares and 2,391,054 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.25% and 6.25% convertible debentures (using the conversion price of $13.50 and $13.30, respectively, for each common share). We also have the ESPP, a deferred share incentive plan and a dividend reinvestment plan pursuant to which common shares may be issued from time to time. These plans are each described elsewhere in this MD&A.

Risks and uncertainties

We are subject to many risks and uncertainties that may limit our ability to execute our strategies and achieve our objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while others risks cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general real estate market, interest rates changing markedly, being unable to make mortgage loans at rates consistent with rates historically achieved, not having adequate mortgage loan opportunities presented to us, and not having adequate sources of bank finance available.

Please also refer to "Notice regarding forward-looking information," above, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2013 which is incorporated herein by reference and is available at www.sedar.com.

Dividend Reinvestment Plan

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

Additional information

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

BOARD OF DIRECTORS

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

Robert G. Goodall
CEO and President
Atrium Mortgage Investment Corporation

Peter P. Cohos
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Copez Properties Ltd.

Michael J. Cooper
Founder and CEO
DREAM Unlimited Corp.

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Metrus Properties Inc.

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Director
Loblaw Companies Ltd.
Director
Gluskin Sheff + Associates

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Carfinco Financial Group Inc.

MANAGEMENT

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CFO and Secretary

Michael Lovett
Managing Director – Ontario

Bram Rothman
Managing Director – Ontario

Phil Fiuza
Managing Director – Ontario, Residential

Daniel Stewart
Managing Director – Alberta and Saskatchewan

Marianne Dobslaw
Managing Director – British Columbia

TRANSFER AGENT

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

AUDITORS

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

SHARE LISTING

Common Shares, TSX: AI
Convertible debentures 5.25%, TSX: AI.DB
Convertible debentures 6.25%, TSX: AI.DB.A

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

www.AtriumMIC.com
ir@atriummic.com

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

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

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

www.AtriumMIC.com

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

Tel 416.867.1053
Fax 416.867.1303
Email ir@atriummic.com