ATRIUM MORTGAGE
INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER ™

# MD&A

## MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD QUARTER
SEPTEMBER 30, 2016

# Management's Discussion and Analysis

September 30, 2016

## Our business

Atrium is a mortgage lender filling the lending gap caused by the limited number of financial institutions operating in Canada. We lend in major urban centres and where the stability and liquidity of real estate is high. Our loan portfolio is of high quality but we are able to charge higher rates than the banks because we offer flexibility, creativity and excellent service. Our mortgages are secured by all types of residential, multi-residential and commercial real property located in Canada, and must all be in strict compliance with our investment policies. Atrium has a 15-year track record of success and consistently achieving its strategic objectives: namely, to grow in a controlled manner by diversifying geographically, and focusing on real estate sectors with the lowest risk profiles.

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

Information herein is current as of October 20, 2016.

## Highlights

Atrium continues to demonstrate strength and stability. For the three months ended September 30, 2016, we had record revenues of $11.5 million, up 8.7% from the prior year. Earnings were a record $6.8 million, or $0.25 basic per share, compared with $6.1 million, or $0.25 basic per share a year earlier.

We declared a regular dividend of $0.0717 per share for each month in the year to date, a total of $0.645 per share and a rate of $0.86 per year. As usual, we expect to pay a special dividend after the year-end to distribute the excess of what we earn over what we pay out through the regular monthly dividend, which aggregates $0.07 per share for the year-to-date.

We had $521 million of mortgages receivable as at September 30, 2016, an increase of 4.1% from the prior quarter and an increase of 16.4% from December 31, 2015. During the quarter, $60 million of mortgages were advanced, and $38 million of mortgages were repaid. Our focus continues to be on lending in the major metropolitan areas of Ontario and British Columbia. We previously indicated that we expected to reduce our exposure to Alberta to 10% by year-end, but this has already been achieved – and surpassed – by September 30, 2016. Our exposure to Alberta has been reduced from 25 loans constituting 13.5% of the portfolio at December 31, 2015 to 13 loans and 7.5% of the portfolio at September 30, 2016.

During the quarter –

Dividends
$0.215 per share

Earned
$0.25 basic per share

Strong, high quality mortgage portfolio

81%
first mortgages

88%
less than 75%
loan-to-value

Mortgages receivable
$521 million,
up 16%
since year-end

Alberta exposure
reduced to under 7.5%

We focus on
first mortgages
with high liquidity
and low
loan-to-value
ratios

# Investment portfolio

Our mortgage portfolio consisted of 207 mortgage loans and aggregated $525.7 million at September 30, 2016, an increase of 16.4% from December 31, 2015.

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| **Mortgage category** | **Number** | **Outstanding amount** | **% of Portfolio** | **Number** | **Outstanding amount** | **% of Portfolio** |
| (outstanding amounts in 000s) | | | | | | |
| Low-rise residential | 31 | $ 151,244 | 28.8% | 23 | $ 110,034 | 24.3% |
| House and apartment | 110 | 90,284 | 17.2% | 110 | 84,755 | 18.8% |
| Construction | 6 | 48,365 | 9.2% | 9 | 44,701 | 9.9% |
| High-rise residential | 7 | 46,608 | 8.9% | 9 | 42,245 | 9.4% |
| Mid-rise residential | 5 | 26,524 | 5.0% | 7 | 14,662 | 3.2% |
| Condominium corporation | 18 | 4,224 | 0.8% | 18 | 4,111 | 0.9% |
| Residential portfolio | 177 | 367,249 | 69.9% | 176 | 300,508 | 66.5% |
| Commercial/mixed use | 30 | 158,437 | 30.1% | 31 | 151,083 | 33.5% |
| Mortgage portfolio | 207 | 525,686 | 100.0% | 207 | 451,591 | 100.0% |
| Accrued interest receivable | | 2,076 | | | 1,960 | |
| Mortgage discount | | (384) | | | (440) | |
| Mortgage origination fees | | (723) | | | (712) | |
| Provision for mortgage losses | | (5,250) | | | (4,300) | |
| Mortgages receivable | | $ 521,405 | | | $ 448,099 | |

A summary of our mortgages by size is presented below.

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| **Mortgage amount** | **Number** | **Outstanding amount** | **% of Portfolio** | **Number** | **Outstanding amount** | **% of Portfolio** |
| (outstanding amounts in 000s) | | | | | | |
| $0 - $2,500,000 | 153 | $ 122,558 | 23.3% | 154 | $ 118,170 | 26.2% |
| $2,500,001 - $5,000,000 | 27 | 99,392 | 18.9% | 28 | 99,800 | 22.1% |
| $5,000,001 - $7,500,000 | 7 | 43,881 | 8.4% | 13 | 83,259 | 18.4% |
| $7,500,001 - $10,000,000 | 9 | 78,906 | 15.0% | 4 | 32,538 | 7.2% |
| $10,000,001 + | 11 | 180,949 | 34.4% | 8 | 117,824 | 26.1% |
| | 207 | $ 525,686 | 100.0% | 207 | $ 451,591 | 100.0% |

As of September 30, 2016, the average outstanding mortgage balance was $2.5 million (December 31, 2015 – $2.2 million), and the median outstanding mortgage balance was $1.0 million (December 31, 2015 – $1.0 million).

The tables below show our mortgage portfolio by location of the underlying property and type of mortgage. The weighted average interest rates shown exclude the lender fees paid by the borrower, which reflect the yield to Atrium including any mortgage discount or premium.

We are continuing to reduce our exposure in Alberta – from 25 loans constituting 13.5% of the portfolio at December 31, 2015 to 13 loans and 7.5% of the portfolio at September 30, 2016. 97% of the remaining Alberta loans are first mortgages. In that market our exposure is further mitigated by not lending to office, high-rise condominiums or to hotels.

| | September 30, 2016 | | | | |
|---|---|---|---|---|---|
| **Location of underlying property** | **Number of mortgages** | **Outstanding amount** | **Percentage outstanding** | **Weighted average loan to value** | **Weighted average interest rate** |
| (outstanding amounts in 000s) | | | | | |
| Greater Toronto Area | 161 | $ 358,630 | 68.2% | 64.9% | 8.51% |
| Non-GTA Ontario | 20 | 13,933 | 2.6% | 66.0% | 9.00% |
| Saskatchewan | 1 | 11,810 | 2.3% | 97.0% | 8.50% |
| Alberta | 13 | 39,297 | 7.5% | 63.0% | 9.28% |
| British Columbia | 12 | 102,016 | 19.4% | 56.4% | 8.45% |
| | 207 | $ 525,686 | 100.0% | 63.9% | 8.56% |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| **Location of underlying property** | **Number of mortgages** | **Outstanding amount** | **Percentage outstanding** | **Weighted average loan to value** | **Weighted average interest rate** |
| (outstanding amounts in 000s) | | | | | |
| Greater Toronto Area | 152 | $ 292,547 | 64.8% | 66.1% | 8.61% |
| Non-GTA Ontario | 15 | 11,436 | 2.5% | 67.3% | 8.99% |
| Saskatchewan | 1 | 10,822 | 2.4% | 71.1% | 8.50% |
| Alberta | 25 | 61,078 | 13.5% | 59.7% | 8.68% |
| British Columbia | 14 | 75,708 | 16.8% | 62.6% | 8.83% |
| | 207 | $ 451,591 | 100.0% | 64.7% | 8.66% |

We have an exceptionally high proportion of our portfolio invested in first mortgages (81.3%), which is one of our core strategies.

At September 30, 2016, the weighted average loan-to-value ratio in our mortgage portfolio was 63.9%, with 88.5% of the portfolio below 75% loan-to-value. (At December 31, 2015, the weighted average loan-to-value ratio in our mortgage portfolio was 64.7%, with 96.2% of the portfolio below 75% loan-to-value.)

| | September 30, 2016 | | | |
|---|---|---|---|---|
| **Type of mortgage** | **Number of mortgages** | **Outstanding amount** | **Percentage outstanding** | **Weighted average interest rate** |
| (outstanding amounts in 000s) | | | | |
| First mortgages | | | | |
| Conventional | 144 | $ 387,382 | 73.7% | 8.24% |
| Non-Conventional | 10 | 36,058 | 6.8% | 9.05% |
| Other | 18 | 4,224 | 0.8% | 7.41% |
| | 172 | 427,664 | 81.3% | 8.30% |
| Second and third mortgages | | | | |
| Conventional | 28 | 73,432 | 14.0% | 9.37% |
| Non-conventional | 7 | 24,590 | 4.7% | 10.81% |
| | 35 | 98,022 | 18.7% | 9.73% |
| | 207 | $ 525,686 | 100.0% | 8.56% |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| **Type of mortgage** | **Number of mortgages** | **Outstanding amount** | **Percentage outstanding** | **Weighted average interest rate** |
| (outstanding amounts in 000s) | | | | |
| First mortgages | | | | |
| Conventional | 143 | $ 340,759 | 75.4% | 8.34% |
| Non-Conventional | 3 | 6,789 | 1.5% | 9.68% |
| Other | 18 | 4,111 | 0.9% | 7.41% |
| | 164 | 351,659 | 77.8% | 8.35% |
| Second and third mortgages | | | | |
| Conventional | 33 | 89,619 | 19.9% | 9.55% |
| Non-conventional | 10 | 10,313 | 2.3% | 11.35% |
| | 43 | 99,932 | 22.2% | 9.74% |
| | 207 | $ 451,591 | 100.0% | 8.66% |

Conventional mortgages are those with a loan-to-value of less than or equal to 75%, which is the industry standard for determining that a mortgage is conventional. Non-conventional mortgages are those with a loan-to-value in excess of 75%.

The weighted average term remaining for our mortgage portfolio at September 30, 2016 is 12.2 months (December 31, 2015 – 11.1 months).

# Our business

We are a mortgage lender filling 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 is at the highest level. We focus on loans that cannot be placed with financial institutions but which 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 lending parameters are as follows:

- First or second mortgages on income-producing real estate up to a maximum of 85% of appraised 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 $20 million. The largest single mortgage in our mortgage portfolio as at September 30, 2016 was $24.5 million (December 31, 2015 – $20.4 million). For loan amounts in excess of $20 million, we generally co-lend with a financial institution or private lender. The parameters listed above are our maximum mortgage lending parameters. At September 30, 2016, the weighted average loan-to-value ratio of the mortgage portfolio remained conservative at 63.9%, compared to 64.7% at December 31, 2015.

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.
- All investments must be mortgages on the security of real property situated within Canada, loans to condominium corporations, or certain permitted interim investments.
- Commercial mortgages may not constitute more than 50% of our total assets at any time.
- The term of the mortgage may generally be no greater than ten years.
- 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 by one to six residential units, are also supported by environmental audits.
- The maximum initial loan-to-value ratio of an individual mortgage is 85% including any prior ranking encumbrances, and the weighted average loan-to-value ratio of our mortgage portfolio at the time of underwriting each loan may not exceed 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.
- A mortgage investment: (i) of $2,000,000 or more requires approval of the board; (ii) of between $1,000,000 and $2,000,000 requires approval of three members of the board, including at least two independent directors; and (iii) of $1,000,000 or less requires approval of any one member of the board. For loans previously approved, if the mortgage amount exceeds the amount approved by up to $200,000 and if the loan-to-value ratio increases by less than 5% where the ratio is 75% or less, requires the approval of one member of the board, otherwise the general limits apply. 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 properties and store-front retail properties, commercial properties, residential and commercial land development sites and construction projects. We also provide 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 sectors with the lowest risk profiles.

We qualify as a MIC and 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, 2015, which is available at www.sedar.com.

# Results of Operations

*(In this section, dollars are in thousands of Canadian dollars, except per share amounts)*

| Financial summary | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenue | $ 11,459 | $ 10,542 | $ 32,266 | $ 29,660 |
| Mortgage servicing and management fees | (1,185) | (1,085) | (3,363) | (3,074) |
| Other expenses | (287) | (288) | (844) | (804) |
| Provision for mortgage losses | (350) | (600) | (969) | (1,212) |
| Income before financing costs | 9,637 | 8,569 | 27,090 | 24,570 |
| Financing costs | (2,832) | (2,488) | (7,730) | (7,067) |
| Earnings and total comprehensive income | $ 6,805 | $ 6,081 | $ 19,360 | $ 17,503 |
| | | | | |
| Basic earnings per share | $ 0.25 | $ 0.25 | $ 0.72 | $ 0.71 |
| Diluted earnings per share | $ 0.25 | $ 0.24 | $ 0.71 | $ 0.70 |
| | | | | |
| Dividends declared | $ 5,809 | $ 5,163 | $ 17,384 | $ 15,452 |
| Dividends declared per share | $ 0.215 | $ 0.210 | $ 0.645 | $ 0.630 |
| | | | | |
| Mortgages receivable, end of period | $ 521,405 | $ 459,033 | $ 521,405 | $ 459,033 |
| Total assets, end of period | $ 522,634 | $ 459,603 | $ 522,634 | $ 459,603 |
| Shareholders' equity, end of period | $ 279,499 | $ 252,566 | $ 279,499 | $ 252,566 |

## Summary of quarterly results *(unaudited)*

| | Q3 2016 | Q2 2016 | Q1 2016 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 | Q4 2014 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 11,459 | 10,691 | 10,116 | $ 10,546 | $ 10,542 | $ 9,626 | $ 9,492 | $ 9,919 |
| Mortgage servicing and management fees | (1,185) | (1,112) | (1,066) | (1,099) | (1,085) | (1,005) | (984) | (1,094) |
| Other expenses | (287) | (286) | (271) | (383) | (288) | (245) | (271) | (334) |
| Provision for mortgage losses | (350) | (319) | (300) | (700) | (600) | (250) | (362) | (737) |
| Income before financing costs | 9,637 | 8,974 | 8,479 | 8,364 | 8,569 | 8,126 | 7,875 | 7,754 |
| Financing costs | (2,832) | (2,541) | (2,357) | (2,530) | (2,488) | (2,306) | (2,273) | (2,364) |
| Earnings and comprehensive income | $ 6,805 | $ 6,433 | $ 6,122 | $ 5,834 | $ 6,081 | $ 5,820 | $ 5,602 | $ 5,390 |
| Basic earnings per share | $ 0.25 | $ 0.24 | $ 0.23 | $ 0.23 | $ 0.25 | $ 0.24 | $ 0.23 | $ 0.22 |
| Diluted earnings per share | $ 0.25 | $ 0.24 | $ 0.23 | $ 0.23 | $ 0.24 | $ 0.24 | $ 0.23 | $ 0.22 |
| Dividends declared | $ 5,809 | $ 5,794 | $ 5,781 | $ 7,894 | $ 5,163 | $ 5,151 | $ 5,138 | $ 6,714 |

## Results of operations – three months ended September 30, 2016

For the three months ended September 30, 2016, mortgage interest and fees revenue aggregated $11,459, compared to $10,542 in the comparative period, an increase of 8.7%, as a result of growth of our mortgage portfolio. The weighted average interest rate on our mortgage portfolio was 8.56% at September 30, 2016, compared with 8.66% at the previous year end, December 31, 2015 and 8.77% at September 30, 2015.

Operating expenses, excluding the provision for mortgage losses, for the three months ended September 30, 2016 were $1,472, compared to $1,373 in the comparative period, an increase of 7.2%, due to the growth of the mortgage portfolio.

The provision for mortgage losses was $350 in the quarter to bring the total reserve to $5,250, or approximately 1% of the mortgage portfolio. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $1,185 for the three months ended September 30, 2016, compared with $1,085 in the prior year period. Financing costs for the three months ended September 30, 2016 were $2,832, compared to $2,488 in the same period of 2015, an increase of 13.8%. This increase is due to the increased use of our bank line of credit compared to the comparable period as we increased our balance sheet leverage, which was 46% at September 30, 2016 (December 31, 2015 – 37%).

Net earnings for the three months ended September 30, 2016 were $6,805, an increase of 11.9% from net earnings of $6,081 for the same period in the prior year. Basic and diluted earnings per common share was $0.25 for the three months ended September 30, 2016, compared with $0.25 and $0.24, respectively, for the comparable period in the previous year.

During the three months ended September 30, 2016, we funded mortgages aggregating $59,568. Of those advances, $55,228 were first mortgages, representing 93% of the total loans funded. British Columbia advances were $27,196, $1,567 were on properties in Alberta, $4,078 were non-GTA Ontario, $84 were on properties in Saskatchewan and the remaining $26,643 were for mortgages on properties located in the Greater Toronto Area. There were $37,688 of repayments during the period. The total portfolio increased from $504,985 to $525,686 during the three month period.

## Results of operations – Nine months ended September 30, 2016

For the nine months ended September 30, 2016, mortgage interest and fees revenue aggregated $32,266, compared to $29,660 in the comparative period, an increase of 8.8%. The weighted average interest rate on our mortgage portfolio was 8.56% at September 30, 2016, compared with 8.66% at the previous year end, December 31, 2015 and 8.77% at September 30, 2015.

Operating expenses, excluding the provision for mortgage losses, for the nine months ended September 30, 2016 were $4,207 compared to $3,878 in the comparative period, an increase of 8.5%, due to the increase in the mortgage portfolio.

The provision for mortgage losses was $969 in the nine months ended September 30, 2016, to bring the total reserve to $5,250. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $3,363 for the nine months ended September 30, 2016, compared with $3,074 in the prior year period. Financing costs for the nine months ended September 30, 2016 were $7,730, compared to $7,067 in the same period of 2015, an increase of 9.4%. This increase is due to the increased use of our bank line of credit compared to the comparable period as we increased our balance sheet leverage, which was 46% at September 30, 2016 (December 31, 2015 – 37%).

Net earnings for the nine months ended September 30, 2016 were $19,360, an increase of 10.6% from net earnings of $17,503 for the same period in the prior year. Earnings per common share were $0.72 basic and $0.71 diluted, for the nine months ended September 30, 2016, compared with $0.71 basic and $0.70 diluted earnings per common share for the comparable period in the previous year.

During the nine months ended September 30, 2016, we funded mortgages aggregating $230,406. Of these advances, $177,540 were first mortgages, representing 77% of the total loans funded. British Columbia advances were $52,091, $6,152 were on properties in Alberta, $9,020 were non-GTA Ontario, $1,251 were on properties in Saskatchewan and the remaining $161,892 were made in the Greater Toronto Area. There were $155,132 of repayments during the period. The total portfolio increased from $451,591 to $525,686 during the period.

## Liquidity and capital resources

At September 30, 2016, we had bank indebtedness and operating line outstanding of $139,300. The credit facility of $160 million is provided by a syndicate of three major chartered banks, drawn through a combination of bankers' acceptances and bank loans to minimize our borrowing costs. We are in compliance with the covenants in the credit facility as at September 30, 2016, and we expect to remain in compliance with such covenants going forward. We also have three series of convertible debentures outstanding, with a total book value of $100,859 at September 30, 2016, and a face value (and maturity value) of $104,516.

Growth in our mortgage portfolio has historically been financed by the issuance of common shares, of convertible debt, and through the operating credit facility. We expect to be able to generate sufficient funds for future growth in net mortgage loan investments by utilizing those three sources of funds.

Investing activities during the nine months ended September 30, 2016 consisted of advances on new mortgage loan investments of $216,583, less repayments received of $146,757, for net cash to new mortgage loan investments of $69,926.

Cash provided by financing activities during the nine months ended September 30, 2016 consisted primarily of net advances of our bank line as a result of net funding of mortgages receivable. Draws less repayments under our operating facility provided cash of $72,225.

## Changes in financial position

Bank indebtedness, bankers' acceptances and bank loans payable (all under our operating credit facility) increased to $138,973 at September 30, 2016, from $66,566 at December 31, 2015, reflecting our objective of using a prudent amount of leverage to improve shareholder returns. As at September 30, 2016, total debt (consisting of bank debt, operating line and convertible debentures) was 46.0% of total assets.

Accounts payable and accrued charges were $524 at September 30, 2016 compared to $677 at December 31, 2015. Dividends payable were $1,938 at September 30, 2016 down from $4,294 at December 31, 2015. The decrease was primarily due to the payment of the regular and special dividend from 2015 that was payable as at December 31, 2015.

Share capital increased slightly to $275,053 at September 30, 2016 from $272,698 at December 31, 2015 due to our dividend reinvestment plan and the employee share purchase plan.

## Contractual obligations

Contractual obligations due at September 30, 2016 were as follows:

| **Obligations at September 30, 2016** | ***Total*** | ***Within 1 year*** | ***Over 1 year to 3 years*** | ***Over 3 years to 5 years*** | ***More than 5 years*** |
|---|---|---|---|---|---|
| Bank indebtedness | $ 150 | $ – | $ 150 | $ – | $ – |
| Operating line | 139,150 | – | 139,150 | – | – |
| Accounts payable and accrued liabilities | 524 | 524 | – | – | – |
| Accrued convertible debentures interest | 427 | 427 | – | – | – |
| Dividends payable | 1,938 | 1,938 | – | – | – |
| Due to related party | 414 | 414 | – | – | – |
| Convertible debentures | 104,516 | – | 31,766 | 72,750 | – |
| Total | $ 247,119 | $ 3,303 | $ 171,066 | $ 72,750 | $ – |

We have commitments to advance additional funds under existing mortgages of $54,996 and for new mortgages of $4,170 at September 30, 2016 (December 31, 2015 – $71,856 and $300 respectively). Generally, outstanding commitments are expected to be funded within the next 24 months. However, our experience has been that a portion of the unfunded amounts on existing mortgages will never be drawn.

## Off-balance sheet arrangements

As at September 30, 2016, we had $3,404 (December 31, 2015 – $2,616) of letters of credit (LCs) outstanding which were issued under our operating credit facility. The maximum available by way of LCs under our operating credit facility is $10,000, and those drawn reduce that maximum. 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.

## 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 management and mortgage servicing fees from a subsidiary of the manager of $3,363 for the nine months ended September 30, 2016 (nine months ended September 30, 2015 – $3,074). Mr. Robert G. Goodall is a director and part of the key management personnel of the manager, 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.

## Critical accounting estimates and policies

Our interim consolidated financial statements for the three and nine month periods ended September 30, 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) and follow International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) issued by the International Accounting Standards Board (IASB). These interim consolidated financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2015. Accounting policies have been consistently applied in preparation of these interim consolidated financial statements.

The preparation of interim consolidated financial statements in accordance with IFRS requires us to make estimates, assumptions and judgements. The most subjective of these are the valuation of mortgages receivable including the provision for mortgage losses, as well as the measurement of the liability and equity components of our convertible debentures. We believe that our 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 revenues are recognized in the statements of earnings and comprehensive income using the effective interest method. Mortgage interest and fees revenues include our share of any fees received, as well as the effect of any discount or premium on 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, future cash flows are estimated 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. Fees and transaction costs include incremental revenues and costs that are directly attributable to the acquisition or issuance 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 each reporting period. The provision for mortgage losses is 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 residential 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 involve estimates and judgements on the part of management in determining the provisions for mortgage losses. The other key estimates used for quantifying the provision 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

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.

If there is no objective evidence of impairment for a counterparty specific 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. For the purpose of determining the group of mortgages with similar credit risk characteristic, mortgages are grouped by the location of the underlying property and by other risk characteristics.

*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 to our shareholders to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

## Controls and procedures

Our Chief Executive Officer (CEO) and Chief Financial Officer (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* (published by COSO, as 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 generally accepted accounting principles (GAAP).

Our CEO and CFO evaluated the design effectiveness of the DC&P and ICFR, as defined by NI 52-109, as of September 30, 2016. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of that date. 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 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 its objectives are met. Because of the inherent limitations in any control system, no evaluation of control can provide absolute assurance that all control weaknesses including, for example, any instances of fraud, have been detected. Inherent limitations include: (i) that management's assumptions and judgements could ultimately prove to be incorrect as conditions and circumstances vary; (ii) the impact of any undetected errors; and (iii) controls may be circumvented through the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of control is also based upon assumptions as to the likelihood of future events and there is no assurance that any design will succeed in achieving its goals under future conditions.

## Outstanding share data

Our authorized capital consists of an unlimited number of common shares, of which 27,042,842 were issued and outstanding at September 30, 2016, and 27,062,554 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,407,408, 2,391,054 and 2,747,440 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.25%, 6.25%, and the 5.50% convertible debentures, using the conversion price of $13.50, $13.30 and $14.65, respectively, for each common share.

We also have an employee share purchase plan, a deferred share incentive plan and a dividend reinvestment plan pursuant to which common shares are issued from time to time.

# 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 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.

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.

Please also refer to "Forward-looking information," below, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2015 which is incorporated herein by reference and is available at www.sedar.com and at www.atriummic.com.

## Forward-looking information

From time to time in our public communications, including quarterly MD&As, we provide forward-looking statements. Such statements are disclosures regarding possible events, conditions, results of operations or changes in financial position that are based upon assumptions and expectations. These are not based upon historical facts but are with respect to management's beliefs, estimates, and intentions. 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, possible mortgage losses, and mortgage portfolio growth are based upon assumptions regarding performance of the economy in general and real estate markets in particular. Forward-looking statements generally assume that our 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" above, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2015 which is available at www.sedar.com and at www.atriummic.com. That 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. We will not publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, unless required to do so by law.

## 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 annual financial statements.

## 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, 2015, is available on SEDAR at www.sedar.com. You may also obtain further information about us from our website at www.atriummic.com, by telephone at (416) 607-4200, or by email at info@atriummic.com.