MD&A

Management's Discussion And Analysis

First Quarter
March 31, 2018

CANADA'S PREMIER NON-BANK LENDER™

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Our business

Atrium is a mortgage lender filling the lending gap that results from the limited number of financial institutions operating in Canada. We lend in major urban centres and where the stability and liquidity of real estate are high. Our loan portfolio is 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 estate located in Canada, and must all be in strict compliance with our investment policies. Atrium has a 18-year track record of success and consistency in achieving our strategic objectives: to grow in a controlled manner by focusing on real estate sectors with the lowest risk profiles.

Our objective is to invest in a diverse portfolio of predominantly first mortgages that are relatively short-term, to provide our shareholders with stable and secure dividends while preserving shareholders' equity, all within the parameters mandated for a Mortgage Investment Corporation (MIC). Working within conservative risk parameters, we endeavour to maximize income and dividends through careful underwriting and efficient management of our mortgage investments.

Information herein is current as of April 25, 2018.

Highlights

Atrium continues to demonstrate strength and stability. For the quarter ended March 31, 2018, we had revenues of $13.4 million, up 11.8% from the comparable period. Earnings were a record $7.9 million, or $0.24 basic per share, compared with $7.2 million, or $0.25 basic per share in the comparable period.

During the quarter we issued common shares for gross proceeds of $30.0 million, with the full amount of the overallotment options being issued subsequent to quarter end on April 9, 2018.

We declared a regular dividend of $0.075 per share for each month in the quarter, a total of $0.225 for the year to date compared to $0.220 for the comparative period

Since listing on the Toronto Stock Exchange in 2012, we have increased our regular dividends every year:

Year	*Regular dividend*	*Bonus dividend*	*Total dividends paid*	*Earnings per share (basic)*
2013	$0.80	$0.05	$0.85	$0.85
2014	$0.82	$0.07	$0.89	$0.91
2015	$0.84	$0.09	$0.93	$0.94
2016	$0.86	$0.10	$0.96	$0.97
2017	$0.88	$0.04	$0.92	$0.95
2018	$0.90	to be determined		

We had $647.8 million of mortgages receivable as at March 31, 2018, an increase of 3.4% from December 31, 2017. During the quarter, $70.8 million of mortgages were advanced and $48.9 million of mortgages were repaid. The portfolio has a weighted average remaining term of 12.3 months.

Our focus continues to be lending in the major metropolitan areas of Ontario and British Columbia.

Revenues $13.4 million increased 11.8% from comparative quarter

Earnings per share $0.24 basic for the quarter

Strong, high quality mortgage portfolio

82% first mortgages

86% less than 75% loan-to-value

Mortgages receivable $647.8 million, up 3.4% since year-end

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

Investment portfolio

Our mortgage portfolio consisted of 208 mortgage loans and aggregated $655.6 million at March 31, 2018, an increase of 3.7% from December 31, 2017.

	March 31, 2018			December 31, 2017		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
Low-rise residential	38	$ 250,335	38.3%	36	$ 234,343	37.1%
House and apartment	114	100,953	15.4%	120	86,287	13.6%
Construction	8	69,788	10.6%	8	64,828	10.3%
Mid-rise residential	3	37,000	5.6%	4	31,471	5.0%
High-rise residential	5	20,501	3.1%	7	44,949	7.1%
Condominium corporation	14	2,800	0.4%	14	2,887	0.4%
Residential portfolio	182	481,377	73.4%	189	464,765	73.5%
Commercial	26	174,196	26.6%	27	167,622	26.5%
Mortgage portfolio	208	655,573	100.0%	216	632,387	100.0%
Accrued interest receivable		2,653			2,537	
Mortgage discount		(252)			(262)	
Unamortized origination fees		(625)			(706)	
Provision for mortgage losses		(9,500)			(7,200)	
Mortgages receivable		$ 647,849			$ 626,756	

A summary of our mortgages by size is presented below.

	March 31, 2018			December 31, 2017		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
$0 - $2,500,000	153	$ 104,469	15.9%	161	$ 105,386	16.7%
$2,500,001 - $5,000,000	17	61,584	9.4%	19	69,755	11.0%
$5,000,001 - $7,500,000	11	65,601	10.0%	10	60,555	9.6%
$7,500,001 - $10,000,000	5	45,224	6.9%	5	42,920	6.8%
$10,000,001 +	22	378,695	57.8%	21	353,771	55.9%
	208	$ 655,573	100.0%	216	$ 632,387	100.0%

As of March 31, 2018, the average outstanding mortgage balance was $3.2 million (December 31, 2017 – $2.9 million), and the median outstanding mortgage balance was $0.8 million (December 31, 2017 – $0.8 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; 91.9% 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.

	March 31, 2018				
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	156	$ 406,972	62.1%	62.2%	8.60%
Non-GTA Ontario	30	21,450	3.3%	66.6%	8.59%
Saskatchewan	2	18,166	2.8%	100.0%	7.99%
Alberta	4	17,243	2.6%	53.6%	8.92%
British Columbia	16	191,742	29.2%	54.9%	8.30%
	208	$ 655,573	100.0%	61.0%	8.50%

	December 31, 2017				
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	159	$ 397,293	62.8%	62.5%	8.51%
Non-GTA Ontario	35	26,383	4.2%	65.9%	8.54%
Saskatchewan	2	17,107	2.7%	100.0%	8.06%
Alberta	5	22,518	3.6%	59.4%	8.87%
British Columbia	15	169,086	26.7%	54.7%	8.24%
	216	$ 632,387	100.0%	61.5%	8.44%

We have an exceptionally high proportion of our portfolio invested in first mortgages (81.6%), which is one of our core strategies.

At March 31, 2018, the weighted average loan-to-value ratio in our mortgage portfolio was 61.0%, with 86.2% of the portfolio below 75% loan-to-value. (At December 31, 2017, the weighted average loan-to-value ratio in our mortgage portfolio was 61.5%, with 85.9% of the portfolio below 75% loan-to-value.)

	March 31, 2018			
Type of mortgage	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average interest rate**
(dollars in 000s)				
First mortgages				
Conventional	138	$ 488,910	74.6%	8.14%
Non-Conventional	7	43,278	6.6%	7.89%
Other	14	2,800	0.4%	7.48%
	159	534,988	81.6%	8.12%
Second and third mortgages				
Conventional	42	73,552	11.2%	9.83%
Non-conventional	7	47,033	7.2%	10.77%
	49	120,585	18.4%	10.20%
	208	$ 655,573	100.0%	8.50%

	December 31, 2017			
Type of mortgage	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average interest rate**
(dollars in 000s)				
First mortgages				
Conventional	144	$ 467,583	73.9%	8.07%
Non-Conventional	8	46,672	7.4%	8.00%
Other	14	2,887	0.5%	7.49%
	166	517,142	81.8%	8.06%
Second and third mortgages				
Conventional	44	72,609	11.5%	9.78%
Non-conventional	6	42,636	6.7%	10.76%
	50	115,245	18.2%	10.14%
	216	$ 632,387	100.0%	8.44%

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 March 31, 2018 is 12.3 months (December 31, 2016 – 12.4 months).

Our business

In Canada there is a lending gap due to the limited number of financial institutions operating. Our business is to help fill that gap by focusing on loans that cannot be placed with larger financial institutions but represent an acceptable underwriting risk. Our borrowers benefit from our efficient, thorough and fast underwriting process. We lend in major urban centres where the stability and liquidity of real estate are at the highest levels.

Our policy is that 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%. At March 31, 2018, the weighted average loan-to-value ratio of the mortgage portfolio was considerably lower than that, at 61.0%, compared to 61.5% at December 31, 2017.

A typical loan in our portfolio has an interest rate of 7.75% to 10% per annum, a one or two-year term and monthly interest-only mortgage payments.

Our lending parameters are as follows:

- 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.
- Mortgages on income-producing real estate up to a maximum of 85% 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 $30 million. The largest single mortgage in our mortgage portfolio as at March 31, 2018 was $33.3 million (December 31, 2017 – $32.3 million). For loan amounts in excess of $30 million, we generally co-lend with a financial institution or private lender.

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.
- Mortgages are subject to the following geographic limits at the time of funding: Ontario – maximum 80% of total mortgages; Alberta – maximum 15% of total mortgages; British Columbia – maximum of 35% of total mortgages
- 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 by foreclosing on a mortgage.
- A mortgage investment of: (i) $2,000,000 or more requires approval of the board; (ii) between $1,000,000 and $2,000,000 requires approval of three members of the board, including at least two independent directors; and (iii) $1,000,000 or less requires approval of any one member of the board. For loans previously approved, the approval of one member of the board is required for changes to the loan that do not exceed the approved amount by more than $200,000 and/or for minor technical amendments that do not change other underwriting considerations, provided the loan-to-value ratio increases by less than 5% and the ratio is 75% or less. 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 objective is to invest in a diverse portfolio of predominantly first mortgages that are relatively short-term, to provide our shareholders with stable and secure dividends while preserving shareholders' equity, all within the parameters 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, commercial 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 *Income Tax Act* (Canada) ("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, 2017, 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 March 31	
	2018	**2017**
Revenue	$ 13,374	$ 11,966
Mortgage servicing and management fees	(1,454)	(1,292)
Other expenses	(252)	(285)
Provision for mortgage losses	(300)	(303)
Income before financing costs	11,368	10,086
Financing costs	(3,441)	(2,928)
Earnings and total comprehensive income	$ 7,927	$ 7,158
Basic earnings per share	$ 0.24	$ 0.25
Diluted earnings per share	$ 0.24	$ 0.24
Dividends declared	$ 7,677	$ 6,404
Mortgages receivable, end of period	$ 647,849	$ 564,031
Total assets, end of period	$ 649,020	$ 565,365
Shareholders' equity, end of period	$ 377,084	$ 313,348

Summary of quarterly results *(unaudited)*

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Revenue	13,374	13,656	12,668	12,069	11,966	11,776	11,459	10,691
Mortgage servicing and management fees	(1,454)	(1,501)	(1,385)	(1,292)	(1,292)	(1,298)	(1,185)	(1,112)
Other expenses	(252)	(389)	(274)	(303)	(285)	(377)	(287)	(286)
Provision for mortgage losses	(300)	(402)	(400)	(745)	(303)	(550)	(350)	(319)
Income before financing costs	11,368	11,364	10,609	9,729	10,086	9,551	9,637	8,974
Financing costs	(3,441)	(3,477)	(3,397)	(2,927)	(2,928)	(2,791)	(2,832)	(2,541)
Net income and comprehensive income	$ 7,927	$ 7,887	$ 7,212	$ 6,802	$ 7,158	$ 6,760	$ 6,805	$ 6,433
Basic earnings per share	$ 0.24	$ 0.24	$ 0.24	$ 0.23	$ 0.25	$ 0.25	$ 0.25	$ 0.24
Diluted earnings per share	$ 0.24	$ 0.23	$ 0.23	$ 0.23	$ 0.24	$ 0.24	$ 0.25	$ 0.24
Dividends declared	$ 7,677	$ 8,640	$ 6,866	$ 6,635	$ 6,404	$ 8,534	$ 5,809	$ 5,794

Results of operations – three months ended March 31, 2018

For the three months ended March 31, 2018, mortgage interest and fees revenues aggregated $13,374, compared to $11,966 in the comparative period, an increase of 11.8%, as a result of the growth of our mortgage portfolio. The weighted average interest rate on our mortgage portfolio was 8.50% at March 31, 2018, compared with 8.44% at the previous year end, December 31, 2017 and 8.46% at March 31, 2017.

Operating expenses, excluding the provision for mortgage losses, for the three months ended March 31, 2018 were $1,706, compared to $1,577 in the comparative period, an increase of 8.2%, due to the growth of the mortgage portfolio. The provision for mortgage losses was $300 in the quarter to bring the total reserve to $9,500.

Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $1,454 for the three months ended March 31, 2018, compared with $1,292 in the prior year period. This increase was due to the increase in the size of the mortgage portfolio. Financing costs for the three months ended March 31, 2018 were $3,441, compared to $2,928 in the same period of 2017, an increase of 17.5%. This increase is due to the increased utilization of our bank line of credit compared to the comparable period, an increase in interest rates, as well as an increase in our operating line to $210,000 in the fourth quarter of 2017.

Net income for the three months ended March 31, 2018 was $7,927, an increase of 10.7% from net income of $7,158 for the same period in the prior year. Basic and diluted earnings per common share were $0.24, for the three months ended March 31, 2018, compared with $0.25 basic and $0.24 diluted, for the comparable period in the previous year. Earnings per share has decreased slightly from the comparative periods due to the two public offering issuances of shares completed in 2017 and a public offering of shares in the first quarter of 2018.

During the three months ended March 31, 2018, we funded mortgages aggregating $75,950. Of those advances, $64,662 were first mortgages, representing 85.1% of the total loans funded. British Columbia advances were $39,623, advances of $93 were on properties in Alberta, $757 were non-GTA Ontario, $1,059 were on properties in Saskatchewan and the remaining $34,418 were for mortgages on properties located in the Greater Toronto Area. There were $52,764 of repayments during the period. The total portfolio increased from $632,387 to $655,573 during the three-month period.

Liquidity and capital resources

At March 31, 2018, we had borrowings under credit facility (excluding unamortized finance costs) of $139,295. The credit facility, currently authorized for up to $210,000 (December 31, 2017 – $210,000), is provided by a syndicate of four major chartered banks, drawn through a combination of bankers' acceptances and bank loans to minimize our borrowing costs. At any time during the term of the credit facility, we have the one-time right to increase the credit facility by up to $30,000 (such that the total maximum availability would be up to $240,000). We were in compliance with the covenants in the credit facility as at March 31, 2018, and we expect to remain in compliance with such covenants going forward.

We also have four series of convertible debentures outstanding, with a total book value of $126,270 at March 31, 2018, and a face value (and maturity value) of $129,816. (For additional information on the operating credit facility and the debentures, please refer to notes 7 and 9, respectively, of our accompanying interim consolidated financial statements.)

During the quarter we completed a bought deal public offering and issued 2,400,000 common shares for gross proceeds of $30,000. The full amount of the overallotment option was exercised subsequent to quarter end, resulting in the issuance of an additional 360,000 common shares for gross proceeds of $4,500.

The growth in our mortgage portfolio has 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. As at March 31, 2018, total debt (consisting of borrowings under operating credit facility and convertible debentures) was 41.5% of total assets (December 31, 2017 – 43.7%). Our policy and our banking arrangements both require that total debt not exceed 50% of total assets.

Changes in financial position

During the quarter ended March 31, 2018, we completed one public offering, issuing a total of 2,400,000 common shares for gross proceeds of $30,000. Cash used in financing activities included net repayment of the operating facility of $5,859, dividends paid of $7,668 and interest paid of $2,932, resulting in net cash provided by financing activities of $12,276.

Cash used in investing activities during the quarter ended March 31, 2018 consisted primarily of advances on mortgage loan investments of $70,779, less repayments received of $48,929, for net cash invested in mortgage loan investments of $21,850. This net cash outflow was increased by net cash outflows of $2 from sundry activities. Thus, the use of cash for investing activities was primarily to support growth in our mortgage portfolio.

Borrowings under our operating credit facility decreased to $139,295 at March 31, 2018, from $145,154 at December 31, 2017, as a result of the issuances of shares completed during the period, as described above, net of the effect of the increase in our mortgage portfolio.

Accounts payable and accrued liabilities were $4,399 at March 31, 2018 compared to $4,596 at December 31, 2017. This decrease is due to timing differences of payments at year end. Dividends payable were $2,682 at March 31, 2018 down from $3,769 at December 31, 2017. The decrease was primarily due to the accrual of the special dividend at December 31, 2017.

Share capital increased to $375,167 at March 31, 2018 from $345,325 at December 31, 2017 due to issuances of our common shares completed during the first quarter.

Contractual obligations

Contractual obligations due at March 31, 2018 were as follows:

March 31, 2018	Total obligation	Within 1 year	1 to 3 years	3 to 5 years	More than 5 years
Borrowings under credit facility	139,295	–	139,295	–	–
Accounts payable and accrued liabilities	1,537	1,537	–	–	–
Accrued convertible debenture interest	2,862	2,862	–	–	–
Dividends payable	2,682	2,682	–	–	–
Convertible debentures	129,816	31,766	32,500	40,250	25,300
Total contractual obligations	276,192	38,847	171,795	40,250	25,300

We have commitments to advance additional funds under existing mortgages of $64,887 and for new mortgages of $13,700 at March 31, 2018 (December 31, 2016 – $65,005 and $9,489 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 March 31, 2018, we had $3,523 (December 31, 2017 – $3,640) 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. 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 $1,454 for the quarter ended March 31, 2018 (quarter ended March 31, 2017 – $1,292). 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.

Certain of our mortgages are shared with other investors. As at March 31, 2018, companies owned by a director and officer of the company had co-invested in one syndicated mortgage. The total amount of the mortgage is $46,590 (December 31, 2017 – one syndicated mortgage of $45,360) of which the company's share is $23,295 (December 31, 2017 – $22,680).

As at March 31, 2018, the company had two mortgages receivable which a director and officer of the company has joint control over the borrowers of these mortgages. (December 31, 2017 – two).

- A mortgage loan with a total gross commitment of $3,490 (December 31, 2017 – $3,490), of which $3,148 (December 31, 2017 – $3,071) had been funded at March 31, 2018. During the three months ended March 31, 2018, the company recognized net mortgage interest and fees of $70 (three months ended March 31, 2017 – $nil) from this mortgage receivable.
- A mortgage loan with a total gross commitment of $8,738 (December 31, 2017 – $8,738). The company's share of the commitment is $2,330 (December 31, 2017 – $2,330), of which $2,330 had been funded at March 31, 2018 (December 31, 2017 – $2,330). During the three months ended March 31, 2018, the company recognized net mortgage interest and fees of $54 (three months ended March 31, 2017 – $nil) from this mortgage receivable.

Critical accounting estimates and policies

Our interim consolidated annual financial statements for the quarter ended March 31, 2018 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the CPA Canada *Handbook*. 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 preparation of consolidated financial statements in accordance with IFRS requires us to make estimates and assumptions and to apply judgement. 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 statement of income and comprehensive income using the effective interest method. Mortgage interest and fees revenues include the company's share of any fees received, as well as the effect of any discount or premium on the mortgage. Interest revenue is calculated on the gross carrying amount for mortgages receivable in Stage 1 and 2 and on the net carrying amount for mortgages receivable in Stage 3.

The effective interest method derives the interest rate that discounts the estimated future cash 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

Mortgages receivable are a financial asset and are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method. The company's business model is to hold mortgages receivable to collect contractual cash flows that represent solely payments of principal and interest. Mortgages receivable are assessed for impairment at the end of each reporting period in accordance with IFRS 9 as outlined below and are presented net of provisions for mortgage losses on the interim consolidated statement of financial position.

IFRS 9 uses an expected credit loss (ECL) model to determine impairment. The impairment requirements in IFRS

9 apply to financial assets that are measured at amortized cost or FVOCI, and off-balance-sheet lending commitments such as loan commitments and letters of credit (which are collectively referred to in this note as financial assets). The ECL model is forward looking and results in a provision for mortgage losses being recorded on all financial assets regardless of whether there has been a loss event. ECLs are the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received.

The ECL model uses a three-stage impairment approach based on changes in the credit risk of the financial asset since initial recognition. The three stages are as follows: Stage 1 – financial assets that have not experienced a significant increase in credit risk since initial recognition, Stage 2 – financial assets that have experienced a significant increase in credit risk between initial recognition and the reporting date, and Stage 3 – financial assets for which there is objective evidence of impairment at the reporting date. The ECL model requires the recognition of credit losses equal to 12-month ECLs for Stage 1 financial assets and ECLs for the remaining life of the financial assets (lifetime expected credit losses) for financial assets classified as Stage 2 and 3. The lifetime expected credit losses represent the expected loss in value due to possible default events over the life of a financial instrument weighted by the likelihood of a loss. The company considers a loan to be in default if it is greater than 30 days past due (90 days for single-family residential mortgages).

To identify whether the credit risk of a financial asset has significantly increased since initial recognition, management considers a number of factors, including past events, current market conditions and supportable forward-looking information, including macro-economic factors as well as information related to the specific borrower. Interest revenue is calculated on the gross carrying amount for financial assets in Stage 1 and 2 and on the net carrying amount for financial assets in Stage 3.

Three factors are primarily used to measure ECLs: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These factors are used to estimate the ECLs for mortgages receivable classified as Stage 1. When mortgages receivable are considered to have experienced a significant increase in credit risk (Stage 2) or are considered to be impaired (Stage 3), each loan is assessed and the ECL estimated individually for each mortgage.

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.

Future changes in accounting policies

Various pronouncements have been issued by the IASB or IFRS Interpretations Committee (IFRIC) that will be effective for future accounting periods. The company closely monitors new accounting standards as well as amendments to existing standards and assesses what impact, if any, they will have on the consolidated financial statements.

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 the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and 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 March 31, 2018. 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 35,757,773 were issued and outstanding at March 31, 2018, and 36,142,995 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,407,408, 2,388,422, 2,747,440 and 1,693,440 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.25%, 6.25%, 5.50% and the 5.30% convertible debentures, using the conversion price of $13.50, $13.30, $14.65, and $14.94 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.

Subsequent to March 31, 2018, we issued 360,000 common shares for gross proceeds of $4,500 in connection with the over-allotment option of the share issuance completed on March 28, 2018. This issuance represents full exercise of the over-allotment option. The net proceeds have been used to repay bank indebtedness under our operating credit facility.

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. 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, 2017 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 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 or elsewhere. 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, 2017 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, 2017, 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.