ATRIUM MORTGAGE
INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER ™

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED
DECEMBER 31, 2016

ATRIUM®
MORTGAGE INVESTMENT CORPORATION

Management's Discussion and Analysis

December 31, 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 16-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 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 careful underwriting and efficient management of our mortgage investments.

Information herein is current as of February 8, 2017.

Highlights

Atrium continues to demonstrate strength and stability. For the year ended December 31 2016, we had record revenues of $44.0 million, up 9.5% from the prior year. Earnings were a record $26.1 million, or $0.97 basic per share, compared with $23.3 million, or $0.94 basic per share in the prior year.

We declared a regular dividend of $0.0717 per share for each month in the year, a total of $0.86 for the year. In addition we declared a special dividend of $0.10, for a total dividend of $0.96 for 2016, compared to $0.93 for the previous year. For 2017 our board has set the regular dividend rate at $0.88 per annum.

Since listing on the Toronto Stock Exchange in 2012, we have increased our regular and bonus 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	to be determined		

We had $531 million of mortgages receivable as at December 31, 2016, an increase of 18.4% from December 31, 2015. During the year, $305 million of mortgages were advanced, and $221 million of mortgages were repaid, and the portfolio has a weighted average remaining term of 12.8 months.

Our focus continues to be on lending in the major metropolitan areas of Ontario and British Columbia. Our goal of reducing exposure in Alberta to 10% by year-end was surpassed: Alberta exposure was cut from 25 loans and 13.5% of the portfolio at December 31, 2015 to 11 loans and 6.9% of the portfolio at December 31, 2016.

Record results

Earnings $26.1 million increased 12%

Earnings per share $0.97 (basic) increased 3.2%

from prior year

Strong, high quality mortgage portfolio

81% first mortgages

88% less than 75% loan-to-value

Regular dividends *and* bonus dividend increased every year

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

Investment portfolio

Our mortgage portfolio consisted of 197 mortgage loans and aggregated $535 million at December 31, 2016, an increase of 18.5% from December 31, 2015.

	December 31, 2016			December 31, 2015		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
Low-rise residential	30	$ 135,701	25.4%	23	$ 110,034	24.3%
House and apartment	102	99,456	18.6%	110	84,755	18.8%
High-rise residential	7	53,182	9.9%	9	42,245	9.4%
Construction	8	49,345	9.2%	9	44,701	9.9%
Mid-rise residential	5	28,787	5.4%	7	14,662	3.2%
Condominium corporation	16	3,548	0.7%	18	4,111	0.9%
Residential portfolio	168	370,019	69.2%	176	300,508	66.5%
Commercial/mixed use	29	165,231	30.8%	31	151,083	33.5%
Mortgage portfolio	197	535,250	100.0%	207	451,591	100.0%
Accrued interest receivable		2,126			1,960	
Mortgage discount		(360)			(440)	
Mortgage origination fees		(626)			(712)	
Provision for mortgage losses		(5,800)			(4,300)	
Mortgages receivable		$ 530,590			$ 448,099	

A summary of our mortgages by size is presented below.

	December 31, 2016			December 31, 2015		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
$0 - $2,500,000	145	$ 102,656	19.2%	154	$ 118,170	26.2%
$2,500,001 - $5,000,000	24	89,340	16.7%	28	99,800	22.1%
$5,000,001 - $7,500,000	5	29,972	5.6%	13	83,259	18.4%
$7,500,001 - $10,000,000	8	69,688	13.0%	4	32,538	7.2%
$10,000,001 +	15	243,594	45.5%	8	117,824	26.1%
	197	$ 535,250	100.0%	207	$ 451,591	100.0%

As of December 31, 2016, the average outstanding mortgage balance was $2.7 million (December 31, 2015 – $2.2 million), and the median outstanding mortgage balance was $0.8 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 11 loans and 6.9% of the portfolio at December 31, 2016. 97.0% 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.

	December 31, 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	148	$ 350,026	65.4%	63.9%	8.47%
Non-GTA Ontario	24	16,009	3.0%	65.4%	8.91%
Saskatchewan	2	12,375	2.3%	97.1%	8.50%
Alberta	11	37,032	6.9%	62.0%	9.24%
British Columbia	12	119,808	22.4%	55.6%	8.27%
	197	$ 535,250	100.0%	62.7%	8.50%

	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 (80.8%), which is one of our core strategies.

At December 31, 2016, the weighted average loan-to-value ratio in our mortgage portfolio was 62.7%, with 88.4% 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.)

	December 31, 2016			
Type of mortgage	**Number of mortgages**	**Outstanding amount**	**Percentage outstanding**	**Weighted average interest rate**
(outstanding amounts in 000s)				
First mortgages				
Conventional	131	$ 392,096	73.2%	8.13%
Non-Conventional	12	36,670	6.9%	8.94%
Other	16	3,548	0.7%	7.56%
	159	432,314	80.8%	8.19%
Second and third mortgages				
Conventional	31	77,611	14.5%	9.40%
Non-conventional	7	25,325	4.7%	10.79%
	38	102,936	19.2%	9.74%
	197	$ 535,250	100.0%	8.50%

	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 December 31, 2016 is 12.8 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 December 31, 2016 was $27.5 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 December 31, 2016, the weighted average loan-to-value ratio of the mortgage portfolio remained conservative at 62.7%, 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, 2016, 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

	Year ended December 31 2016	Year ended December 31 2015	Year ended December 31 2014
Revenue	$ 44,042	$ 40,206	$ 34,956
Mortgage servicing and management fees	(4,661)	(4,173)	(3,553)
Other expenses	(1,221)	(1,187)	(1,014)
Provision for mortgage losses	(1,519)	(1,912)	(1,817)
Income before financing costs	36,641	32,934	28,572
Financing costs	(10,521)	(9,597)	(7,535)
Earnings and total comprehensive income	$ 26,120	$ 23,337	$ 21,037
Basic earnings per share	$ 0.97	$ 0.94	$ 0.91
Diluted earnings per share	$ 0.95	$ 0.93	$ 0.91
Dividends declared	$ 25,918	$ 23,346	$ 20,837
Mortgages receivable, end of year	$ 530,590	$ 448,099	$ 432,757
Total assets, end of year	$ 531,856	$ 448,153	$ 432,795
Shareholder' equity, end of year	$ 278,540	$ 274,984	$ 248,204

Summary of quarterly results *(unaudited)*

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenue	11,776	11,459	10,691	10,116	$ 10,546	$ 10,542	$ 9,626	$ 9,492
Mortgage servicing and management fees	(1,298)	(1,185)	(1,112)	(1,066)	(1,099)	(1,085)	(1,005)	(984)
Other expenses	(377)	(287)	(286)	(271)	(383)	(288)	(245)	(271)
Provision for mortgage losses	(550)	(350)	(319)	(300)	(700)	(600)	(250)	(362)
Income before financing costs	9,551	9,637	8,974	8,479	8,364	8,569	8,126	7,875
Financing costs	(2,791)	(2,832)	(2,541)	(2,357)	(2,530)	(2,488)	(2,306)	(2,273)
Earnings and comprehensive income	$ 6,760	$ 6,805	$ 6,433	$ 6,122	$ 5,834	$ 6,081	$ 5,820	$ 5,602
Basic earnings per share	$ 0.25	$ 0.25	$ 0.24	$ 0.23	$ 0.23	$ 0.25	$ 0.24	$ 0.23
Diluted earnings per share	$ 0.24	$ 0.25	$ 0.24	$ 0.23	$ 0.23	$ 0.24	$ 0.24	$ 0.23
Dividends declared	$ 8,534	$ 5,809	$ 5,794	$ 5,781	$ 7,894	$ 5,163	$ 5,151	$ 5,138

Results of operations – three months ended December 31, 2016

For the three months ended December 31, 2016, mortgage interest and fees revenue aggregated $11,776, compared to $10,546 in the comparative period, an increase of 11.7%, as a result of growth of our mortgage portfolio. The weighted average interest rate on our mortgage portfolio was 8.50% at December 31, 2016, compared with 8.66% at the previous year end, December 31, 2015.

Operating expenses, excluding the provision for mortgage losses, for the three months ended December 31, 2016 were $1,675, compared to $1,482 in the comparative period, an increase of 13.0%, due to the growth of the mortgage portfolio. The provision for mortgage losses was $550 in the quarter to bring the total reserve to $5,800, or 1.08% of the mortgage portfolio.

Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $1,298 for the three months ended December 31, 2016, compared with $1,099 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 December 31, 2016 were $2,791, compared to $2,530 in the same period of 2015, an increase of 10.3%. 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 46.4% at December 31, 2016 (December 31, 2015 – 37.3%).

Net earnings for the three months ended December 31, 2016 were $6,760, an increase of 15.9% from net earnings of $5,834 for the same period in the prior year. Basic earnings per common share were $0.25 and diluted earnings per common share were $0.24 for the three months ended December 31, 2016, compared with $0.23 basic and diluted, for the comparable period in the previous year.

During the three months ended December 31, 2016, we funded mortgages aggregating $74,058. Of those advances, $69,762 were first mortgages, representing 94.2% of the total loans funded. British Columbia advances were $7,608, advances of $661 were on properties in Alberta, $2,947 were non-GTA Ontario, $566 were on properties in Saskatchewan and the remaining $62,276 were for mortgages on properties located in the Greater Toronto Area. There were $64,494 of repayments during the period. The total portfolio increased from $525,686 to $535,250 during the three month period.

Results of operations – Year ended December 31, 2016

For the year ended December 31, 2016, mortgage interest and fees revenue aggregated $44,042, compared to $40,206 in the prior year, an increase of 9.5% due to the increase in the mortgage portfolio during the year. The weighted average interest rate on our mortgage portfolio was 8.50% at December 31, 2016, compared with 8.66% at the previous year end, December 31, 2015.

Operating expenses, excluding the provision for mortgage losses, for the year ended December 31, 2016 were $5,882 compared to $5,360 in the prior year, an increase of 9.7%, due to the increase in the mortgage portfolio. The provision for mortgage losses was $1,519 for the year ended December 31, 2016, to bring the total reserve to $5,800. During the year ended December 31, 2016 we foreclosed on two properties which were the underlying security for certain mortgages receivable. The properties were recognized at their cost of $1,179 on the dates of foreclosure. These properties are still under development and we incurred capital improvement costs of $44 during the year.

Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $4,661 for the year ended December 31, 2016, compared with $4,173 in the prior year. Financing costs for the year ended December 31, 2016 were $10,521, compared to $9,597 in 2015, an increase of 9.6%. 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 46.4% at December 31, 2016 (December 31, 2015 – 37.3%).

Net earnings for the year ended December 31, 2016 were $26,120, an increase of 11.9% from net earnings of $23,337 for the prior year. Earnings per common share were $0.97 basic and $0.95 diluted for the year ended December 31, 2016, compared with $0.94 basic and $0.93 diluted earnings per common share for the previous year.

During the year ended December 31, 2016, we funded mortgages aggregating $304,464. Of these advances, $247,302 were first mortgages, representing 81.2% of the total loans funded. British Columbia advances were $59,801, advances of $6,813 were on properties in Alberta, $11,967 were non-GTA Ontario, $1,817 were on properties in Saskatchewan and the remaining $224,066 were made in the Greater Toronto Area. There were $220,805 of repayments during the period. The total portfolio increased from $451,591 to $535,250 during the year.

Liquidity and capital resources

At December 31, 2016, we had bank indebtedness and operating line outstanding of $145,725. The credit facility, currently of up to $180,000 (December 31, 2016 – $160,000), 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 were in compliance with the covenants in the credit facility as at December 31, 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 $101,098 at December 31, 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 year ended December 31, 2016 consisted of advances on new mortgage loan investments of $286,031, less repayments received of $209,225, for net cash to new mortgage loan investments of $76,806.

Cash provided by financing activities during the year ended December 31, 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 $78,625.

Changes in financial position

Bank indebtedness, bankers' acceptances and bank loans payable (all under our operating credit facility) increased to $145,414 at December 31, 2016, from $66,566 at December 31, 2015, reflecting our objective of using a prudent amount of leverage to improve shareholder returns. As at December 31, 2016, total debt (consisting of bank debt, operating line and convertible debentures) was 46.4% of total assets.

Accounts payable and accrued charges were $579 at December 31, 2016 compared to $677 at December 31, 2015. Dividends payable were $4,653 at December 31, 2016 up from $4,294 at December 31, 2015. The increase was primarily due to the increase in the special dividend for 2016 compared to 2015.

Share capital increased slightly to $275,785 at December 31, 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 December 31, 2016 were as follows:

Obligations at December 31, 2016	***Total***	***Within 1 year***	***Over 1 year to 3 years***	***Over 3 years to 5 years***	***More than 5 years***
Bank indebtedness	$ 175	$ –	$ 175	$ –	$ –
Operating line	145,550	–	145,550	–	–
Accounts payable and accrued liabilities	579	579	–	–	–
Accrued convertible debentures interest	1,050	1,050	–	–	–
Dividends payable	4,653	4,653	–	–	–
Due to related party	522	522	–	–	–
Convertible debentures	104,516	–	31,766	72,750	–
Total	$ 257,045	$ 6,804	$ 177,491	$ 72,750	$ –

We have commitments to advance additional funds under existing mortgages of $51,320 and for new mortgages of $4,468 at December 31, 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 December 31, 2016, we had $4,176 (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 $4,661 for the year ended December 31, 2016 (year ended December 31, 2015 – $4,173). 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 consolidated annual financial statements for the years ended December 31, 2016 and 2015 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 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 consolidated 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 December 31, 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 27,105,703 were issued and outstanding at December 31, 2016, and 27,125,057 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,407,408, 2,388,422 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.

Subsequent to December 31, 2016, we commenced a public share offering of 2,535,000 common shares which is expected to be completed in February 2017 (but after the date hereof) and anticipated to raise gross proceeds of $30,000 (assuming no exercise of the over-allotment option provided to the underwriters therein), the net proceeds of which will be used to repay 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. 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, 2016 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, 2016 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, 2016, 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.