ATRIUM®
MORTGAGE INVESTMENT CORPORATION

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CANADA'S PREMIER NON-BANK LENDER™

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD QUARTER
SEPTEMBER 30, 2017

Management's Discussion and Analysis

September 30, 2017

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 17-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 October 26, 2017.

Highlights

During the quarter we issued common shares for gross proceeds of $34.5 million to strengthen our balance sheet and permit further growth of our mortgage portfolio. This brings our equity issuances for the year to date to 5.8 million common shares for gross proceeds of $69.1 million, including the full amount of the overallotment option for both issuances. In addition, during June, 2017, we had issued a new series of 5.3% convertible debentures maturing June 30, 2024 for gross proceeds of $25.3 million, including full exercise of the overallotment option.

We declared a regular dividend of $0.0733 per share for each month in the year to date, a total of $0.660 for the year to date compared to $0.645 for the comparative period.

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 $623 million of mortgages receivable as at September 30, 2017, an increase of 17.5% from December 31, 2016. During the quarter, $105.0 million of mortgages were advanced and $50.7 million of mortgages were repaid. The portfolio has a weighted average remaining term of 13.1 months.

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

Record revenues

Revenues $12.7 million increased 10.6% from comparative quarter

Earnings per share $0.24 basic for the quarter
$0.71 basic year-to-date

Strong, high quality mortgage portfolio

83%
first mortgages

87%
less than 75%
loan-to-value

Mortgages receivable $623 million, up 17.5% since year-end

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

Investment portfolio

Our mortgage portfolio consisted of 212 mortgage loans and aggregated $629 million at September 30, 2017, an increase of 17.5% from December 31, 2016.

	September 30, 2017			December 31, 2016		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
Low-rise residential	34	$ 189,191	30.1%	30	$ 135,701	25.4%
House and apartment	118	120,768	19.2%	102	99,456	18.6%
Construction	6	56,298	9.0%	8	49,345	9.2%
High-rise residential	6	37,380	5.9%	7	53,182	9.9%
Mid-rise residential	4	24,566	3.9%	5	28,787	5.4%
Condominium corporation	14	2,972	0.5%	16	3,548	0.7%
Residential portfolio	182	431,175	68.6%	168	370,019	69.2%
Commercial/mixed use	30	197,604	31.4%	29	165,231	30.8%
Mortgage portfolio	212	628,779	100.0%	197	535,250	100.0%
Accrued interest receivable		2,502			2,126	
Mortgage discount		(282)			(360)	
Unamortized origination fees		(782)			(626)	
Provision for mortgage losses		(6,800)			(5,800)	
Mortgages receivable		$ 623,417			$ 530,590	

A summary of our mortgages by size is presented below.

	September 30, 2017			December 31, 2016		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in 000s)						
$0 - $2,500,000	158	$ 104,547	16.6%	145	$ 102,656	19.2%
$2,500,001 - $5,000,000	16	58,780	9.4%	24	89,340	16.7%
$5,000,001 - $7,500,000	12	71,957	11.4%	5	29,972	5.6%
$7,500,001 - $10,000,000	5	43,987	7.0%	8	69,688	13.0%
$10,000,001 +	21	349,508	55.6%	15	243,594	45.5%
	212	$ 628,779	100.0%	197	$ 535,250	100.0%

As of September 30, 2017, the average outstanding mortgage balance was $3.0 million (December 31, 2016 – $2.7 million), and the median outstanding mortgage balance was $0.8 million (December 31, 2016 – $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; 89.3% 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, 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	154	$ 411,650	65.5%	61.4%	8.36%
Non-GTA Ontario	37	26,243	4.2%	65.9%	8.51%
Saskatchewan	2	14,966	2.4%	100.0%	8.23%
Alberta	6	23,589	3.7%	54.9%	8.85%
British Columbia	13	152,331	24.2%	55.2%	8.16%
	212	$ 628,779	100.0%	60.7%	8.34%

Location of underlying property	December 31, 2016				
	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%

We have an exceptionally high proportion of our portfolio invested in first mortgages (82.9%), which is one of our core strategies.

At September 30, 2017, the weighted average loan-to-value ratio in our mortgage portfolio was 60.7%, with 86.8% of the portfolio below 75% loan-to-value. (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.)

Type of mortgage	September 30, 2017			
	Number of mortgages	Outstanding amount	Percentage outstanding	Weighted average interest rate
(dollars in 000s)				
First mortgages				
Conventional	143	$ 478,035	76.0%	7.96%
Non-Conventional	8	39,973	6.4%	7.97%
Other	14	2,972	0.5%	7.49%
	165	520,979	82.9%	7.96%
Second and third mortgages				
Conventional	39	65,050	10.3%	9.84%
Non-conventional	8	42,750	6.8%	10.71%
	47	107,800	17.1%	10.19%
	212	$ 628,779	100.0%	8.34%

Type of mortgage	December 31, 2016			
	Number of mortgages	Outstanding amount	Percentage outstanding	Weighted average interest rate
(dollars 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%

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, 2017 is 13.1 months (December 31, 2016 – 12.8 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 September 30, 2017, the weighted average loan-to-value ratio of the mortgage portfolio was considerably lower than that, at 60.7%, compared to 62.7% at December 31, 2016.

A typical loan in our portfolio has an interest rate of 7.5% 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 $20 million. The largest single mortgage in our mortgage portfolio as at September 30, 2017 was $28.6 million (December 31, 2016 – $27.5 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.

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, 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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Revenue	$ 12,668	$ 11,459	$ 36,703	$ 32,266
Mortgage servicing and management fees	(1,385)	(1,185)	(3,969)	(3,363)
Other expenses	(274)	(287)	(862)	(844)
Provision for mortgage losses	(400)	(350)	(1,448)	(969)
Income before financing costs	10,609	9,637	30,424	27,090
Financing costs	(3,397)	(2,832)	(9,252)	(7,730)
Net income and comprehensive income	$ 7,212	$ 6,805	$ 21,172	$ 19,360
Basic earnings per share	$ 0.24	$ 0.25	$ 0.71	$ 0.72
Diluted earnings per share	$ 0.23	$ 0.25	$ 0.70	$ 0.71
Dividends declared	$ 6,866	$ 5,809	$ 19,905	$ 17,384
Dividends declared per share	$ 0.22	$ 0.215	$ 0.66	$ 0.645
Mortgages receivable, end of period	$ 623,417	$ 521,405	$ 623,417	$ 521,405
Total assets, end of period	$ 624,500	$ 522,634	$ 624,500	$ 522,634
Shareholders' equity, end of period	$ 348,835	$ 279,499	$ 348,835	$ 279,499

Summary of quarterly results *(unaudited)*

	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Revenue	12,668	12,069	11,966	11,776	11,459	10,691	10,116	$ 10,546
Mortgage servicing and management fees	(1,385)	(1,292)	(1,292)	(1,298)	(1,185)	(1,112)	(1,066)	(1,099)
Other expenses	(274)	(303)	(285)	(377)	(287)	(286)	(271)	(383)
Provision for mortgage losses	(400)	(745)	(303)	(550)	(350)	(319)	(300)	(700)
Income before financing costs	10,609	9,729	10,086	9,551	9,637	8,974	8,479	8,364
Financing costs	(3,397)	(2,927)	(2,928)	(2,791)	(2,832)	(2,541)	(2,357)	(2,530)
Net income and comprehensive income	$ 7,212	$ 6,802	$ 7,158	$ 6,760	$ 6,805	$ 6,433	$ 6,122	$ 5,834
Basic earnings per share	$ 0.24	$ 0.23	$ 0.25	$ 0.25	$ 0.25	$ 0.24	$ 0.23	$ 0.23
Diluted earnings per share	$ 0.23	$ 0.23	$ 0.24	$ 0.24	$ 0.25	$ 0.24	$ 0.23	$ 0.23
Dividends declared	$ 6,866	$ 6,635	$ 6,404	$ 8,534	$ 5,809	$ 5,794	$ 5,781	$ 7,894

Results of operations – three months ended September 30, 2017

For the three months ended September 30, 2017, mortgage interest and fees revenues aggregated $12,668, compared to $11,459 in the comparative period, an increase of 10.6%, as a result of growth of our mortgage portfolio. The weighted average interest rate on our mortgage portfolio was 8.34% at September 30, 2017, compared with 8.50% at the previous year end, December 31, 2016 and 8.56% at September 30, 2016.

Operating expenses, excluding the provision for mortgage losses, for the three months ended September 30, 2017 were $1,659, compared to $1,472 in the comparative period, an increase of 12.7%, due to the growth of the mortgage portfolio. The provision for mortgage losses was $400 in the quarter to bring the total reserve to $6,800.

Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $1,385 for the three months ended September 30, 2017, compared with $1,185 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 September 30, 2017 were $3,397, compared to $2,832 in the same period of 2016, an increase of 20.0%. This increase is due to the increased use of our bank line of credit compared to the comparable period, as well as a convertible debenture issued during the previous quarter.

Net income for the three months ended September 30, 2017 was $7,212, an increase of 6.0% from net income of $6,805 for the same period in the prior year. Basic and diluted earnings per common share were $0.24 and $0.23, respectively, for the three months ended September 30, 2017, compared with $0.25 basic and diluted, for the comparable period in the previous year. Earnings per share have decreased slightly from the comparative periods due to issuances of additional common equity since December 31, 2016.

During the three months ended September 30, 2017, we funded mortgages aggregating $110,054. Of those advances, $94,619 were first mortgages, representing 86.0% of the total loans funded. British Columbia advances were $21,038, advances of $212 were on properties in Alberta, $3,615 were non-GTA Ontario, $1,085 were on properties in Saskatchewan and the remaining $84,104 were for mortgages on properties located in the Greater Toronto Area. There were $54,339 of repayments during the period. The total portfolio increased from $573,066 to $628,779 during the three-month period.

Results of operations – nine months ended September 30, 2017

For the nine months ended September 30, 2017, mortgage interest and fees revenue aggregated $36,703, compared to $32,266 in the comparative period, an increase of 13.8%, as a result of growth of our mortgage portfolio. The weighted average interest rate on our mortgage portfolio was 8.34% at September 30, 2017, compared with 8.50% at December 31, 2016 and 8.56% at September 30, 2016.

Operating expenses, excluding the provision for mortgage losses, for the nine months ended September 30, 2017 were $4,831, compared to $4,207 in the comparative period, an increase of 14.8%, due to the growth of the mortgage portfolio. The provision for mortgage losses was $1,448 in the nine months ended September 30, 2017, to bring the total reserve to $6,800.

Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $3,969 for the nine months ended September 30, 2017, compared with $3,363 in the prior year period. This increase was due to the increase in the size of the mortgage portfolio. Financing costs for the nine months ended September 30, 2017 were $9,252, compared to $7,730 in the same period of 2016, an increase of 19.7%. This increase is due to the increased use of our bank line of credit compared to the comparable period, as well as a convertible debenture issued during the current year.

Net income for the nine months ended September 30, 2017 was $21,172, an increase of 9.4% from net income of $19,360 for the same period in the prior year. Basic and diluted earnings per common share were $0.71 and $0.70, respectively, for the nine months ended September 30, 2017, compared with $0.72 basic and $0.71 diluted, for the

comparable period in the previous year.

During the nine months ended September 30, 2017, we funded mortgages aggregating $288,840. Of those advances, $238,685 were first mortgages, representing 82.6% of the total loans funded. British Columbia advances were $70,801, advances of $2,535 were on properties in Alberta, $15,199 were non-GTA Ontario, $2,713 were on properties in Saskatchewan and the remaining $197,592 were for mortgages on properties located in the Greater Toronto Area. There were $194,861 of repayments during the period. The total portfolio increased from $535,250 to $628,779 during the nine-month period.

Liquidity and capital resources

At September 30, 2017, we had borrowings under credit facility (excluding unamortized finance costs) of $143,401. 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 September 30, 2017, 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 $125,683 at September 30, 2017, 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 the accompanying interim consolidated financial statements.)

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 September 30, 2017, total debt (consisting of borrowings under operating credit facility and convertible debentures) was 43.1% of total assets (December 31, 2016 – 46.4%). Our policy and our banking arrangements both require that total debt not exceed 50% of total assets.

Changes in financial position

During the nine months ended September 30, 2017, we completed two public offerings and issued 5,827,050 common shares for gross proceeds of $69.1 million, including the full amount of the overallotment option for both issuances. Additionally, in June, 2017, we had issued a 5.3% convertible debenture maturing June 30, 2024, for gross proceeds of $25.3 million, which included the full amount of the overallotment option. Those three issuances provided net cash proceeds (after issue costs) of $89,947. Cash used in financing activities included net repayment of the operating facility of $2,324, dividends paid of $19,496 and interest paid of $6,695, resulting in net cash provided by financing activities of $61,432.

Cash used in investing activities during the nine months ended September 30, 2017 consisted primarily of advances on mortgage loan investments of $273,392, less repayments received of $185,469, for net cash invested in mortgage loan investments of $87,923. This net cash outflow was reduced by net cash inflows of $338 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 $143,401 at September 30, 2017, from $145,725 at December 31, 2016, as a result of issuance of shares and convertible debentures completed during the period, as described above, net of the effect of the increase in our mortgage portfolio.

Accounts payable and accrued liabilities were $1,653 at September 30, 2017 compared to $1,101 at December 31, 2016. Dividends payable were $2,433 at September 30, 2017 down from $4,653 at December 31, 2016. The decrease was primarily due to the accrual of the special dividend as at December 31, 2016, which was subsequently paid.

Share capital increased to $344,459 at September 30, 2017 from $275,785 at December 31, 2016 largely due to issuances of common shares completed during the first and third quarter.

Contractual obligations

Contractual obligations due at September 30, 2017 were as follows:

September 30, 2017	Total obligation	Within 1 year	1 to 3 years	3 to 5 years	More than 5 years
Borrowings under credit facility	143,401	–	143,401	–	–
Accounts payable and accrued liabilities	1,653	1,653	–	–	–
Accrued convertible debenture interest	2,925	2,925	–	–	–
Dividends payable	2,433	2,433	–	–	–
Convertible debentures	129,816	–	64,266	40,250	25,300
Total contractual obligations	280,228	7,011	207,667	40,250	25,300

We have commitments to advance additional funds under existing mortgages of $58,209 and for new mortgages of $11,815 at September 30, 2017 (December 31, 2016 – $51,320 and $4,468 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, 2017, we had $3,640 (December 31, 2016 – $4,176) 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 $3,969 for the nine-month period ended September 30, 2017 (nine-month period ended September 30, 2016 – $3,363). 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, 2017 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, 2016. 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 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 consolidated statements of incomes 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 income 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.

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, most of which do not apply to us; one that is applicable is summarized below.

IFRS 9 – Financial Instruments is a new standard on accounting for financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. We intend to adopt IFRS 9 effective January 1, 2018. It includes requirements for classification and measurement of financial assets and liabilities, as well as impairment of financial assets. IFRS 9 uses an expected-loss impairment model based upon forward looking information that will result in earlier recognition of expected losses.

We have elected under the transitional provisions of IFRS 9 not to restate comparative figures and will recognize any measurement difference between the previous carrying amount and the new carrying amount as at January 1, 2018 through an adjustment to opening retained earnings.

Classification and Measurement of Financial Assets and Liabilities

IFRS 9 requires that our business model and a financial instrument's contractual cash flows determine its classification and measurement in the financial statements. Upon initial recognition, each financial asset will be classified as either fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent solely principal and interest. Otherwise it is recorded at FVTPL.

Based upon an initial analysis of the business model and contractual cash flow characteristics of its financial assets, we have determined that our financial assets will continue to be measured at amortized cost and be subject to the IFRS 9 impairment rules.

Impairment of Financial Assets

The impairment requirements of 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 determination of the provision for mortgage losses will move from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are recorded upon initial recognition of the financial asset based upon expectations of potential credit losses at that time. Under IFRS 9, we will recognize a loss allowance equal to 12-month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1), representing the expected credit losses from default events that are possible within the next 12 months.

IFRS 9 requires the recognition of credit losses over the remaining life of the financial assets (lifetime expected credit losses) that are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3). The lifetime expected credit losses represent the expected value of possible default events over the life of a financial instrument. We consider information that allows us to identify whether the credit risk of financial assets has significantly increased. This process includes considering forward-looking information, including macro-economic factors and the outstanding balance upon default. Financial assets will be transferred to Stage 2 if 30 days past due (90 days for single family residential mortgages). Credit impaired financial assets are transferred to Stage 3 when there is objective information that the assets are credit impaired. To determine whether a financial asset is credit impaired, an event must be identified that has a detrimental impact on the estimated future cash flows.

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.

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 September 30, 2017. 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 33,178,047 were issued and outstanding at September 30, 2017, and 33,201,651 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.

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, 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 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, 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.