ATRIUM MORTGAGE INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER™

ANNUAL REPORT 2013

ATRIUM
MORTGAGE INVESTMENT CORPORATION

PRESS RELEASE

ATRIUM MORTGAGE INVESTMENT CORPORATION
ANNOUNCES STRONG 2013 RESULTS AND CONFIRMS $0.05 SPECIAL DIVIDEND

TORONTO: February 11, 2014 – Atrium Mortgage Investment Corporation (TSX: AI) today released its financial results for the year ended December 31, 2013 and confirmed its previously-announced special dividend.

Highlights

- **$0.05 per share special dividend to shareholders of record December 31, 2013**
- **$0.85 earnings per share in 2013**
- **$0.85 dividends per share in 2013 for a yield of 8.5% on book value, approximately 7.9% on market price**
- **Regular monthly dividend increased to $0.82 annual rate**
- **Mortgage portfolio increased 40% year-over-year to $282 million at December 31, 2013**
- **High quality mortgage portfolio**
    - **90.9% of portfolio in first mortgages**
    - **98.3% of loan portfolio is less that 75% loan to value**
    - **Increased emphasis on single family sector**

“Atrium has demonstrated a consistent level of earnings of $0.22 per share over the past three quarters,” noted Robert Goodall, CEO of Atrium. He continued, “We are very pleased with these financial results. Atrium is well positioned to increase our earnings per share as we grow our mortgage portfolio and use a conservative amount of incremental debt to fund that growth.”

Interested parties are invited to participate in a conference call with management on Wednesday, February 12 at 4:00 p.m. EDT. Please refer to call-in information at the end of the news release.

Results of operations – twelve months ended December 31, 2013

For the twelve months ended December 31, 2013, mortgage interest and fees were $23.8 million, compared to $17.2 million in the same period in the previous year, an increase of 37.9%. The weighted average yield on the mortgage portfolio declined from 8.9% at the end of 2012 to 8.7% at the end of 2013 as Atrium continues to focus on high quality investments and targets house and apartment loans. The weighted average yield has been very consistent at 8.70% - 8.74% over the past three quarters.

Earnings and dividends declared were each $18.0 million for the twelve months ended December 31, 2013, an increase of 34% from the same period in the previous year. Total assets at December 31, 2013 were $282.0 million, compared to $212.6 million at December 31, 2012. Mortgages receivable consisted of 131 mortgage loans and aggregated $282 million at December 31, 2013, an increase of 40% from December 31, 2012. The average loan size has decreased from $2.6 million at December 31, 2012 to $2.2 million at December 31, 2013.

Net earnings for the year ended December 31, 2013 were $18.0 million, an increase of 34.7% from net earnings of $13.4 million in the prior year. Basic and diluted earnings per common share were $0.85 for the year ended December 31, 2013, compared with basic and diluted earnings of $0.86 per share in the previous year.

During the year ended December 31, 2013, Atrium funded mortgages totalling $186.7 million. Of these advances, $171.8 million were first mortgages, representing 92.0% of the total loans funded. Eleven of these advances were on properties in British Columbia, nine were on properties in Alberta, two were non-GTA Ontario, and the remaining 88 were made in the Greater Toronto Area. There were $107.4 million of repayments during the period.

Results of operations – three months ended December 31, 2013

For the three-month period ended December 31, 2013, mortgage interest and fees were $6.5 million, compared to $4.8 million in the same period in the previous year, an increase of 37.5%. The weighted average yield on the mortgage portfolio declined from 8.9% at the end of 2012 to 8.7% in the fourth quarter of 2013, as we continue our focus on the highest quality assets.

Net earnings for the three months ended December 31, 2013 were $4.6 million, an increase of 27.5% from net earnings of $3.6 million in the same period in the previous year. Basic and diluted earnings per share were $0.22 per common share for the three months ended December 31, 2013, compared with basic and diluted earnings of $0.21 per share for the same period the previous year.

During the three-month period ended December 31, 2013, Atrium funded mortgages aggregating $47.6 million. Of these advances, $41.6 million were first mortgages, representing 87.4% of the total loans funded. Nine of these advances were on properties in British Columbia, six were on properties in Alberta, and the remaining 42 were made in the Greater Toronto Area. There were $42.5 million of repayments during the period. The total mortgage portfolio increased from $277.2 million to $282.4 million during the period.

Mortgage portfolio

Atrium's mortgages consist of 131 mortgage loans and aggregated $282.4 million at December 31, 2013, an increase of 40.1% from December 31, 2012.

	December 31, 2013			December 31, 2012		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
Mixed use /commercial	27	$ 89,475,297	31.7%	15	$ 69,334,931	34.4%
House and apartment	59	69,484,828	24.6%	31	43,061,190	21.4%
Low rise residential	17	58,465,947	20.7%	8	24,302,272	12.0%
High rise residential	5	32,966,568	11.7%	4	23,686,000	11.8%
Construction	9	22,093,399	7.8%	4	15,087,981	7.5%
Midrise residential	3	7,440,000	2.6%	5	24,381,184	12.1%
Condominium corporation	11	2,433,526	0.9%	10	1,629,664	0.8%
Mortgage portfolio	**131**	282,359,565	**100%**	**77**	201,483,222	**100.0%**
Accrued interest receivable		1,562,173			2,589,639	
Mortgage discount		(338,480)			(385,508)	
Mortgage origination fees		(724,452)			(644,735)	
Provision for mortgage losses		(1,150,667)			(1,087,667)	
Mortgage receivable		**$281,708,139**			**$201,954,951**	

Atrium actively manages its exposure, and has continued to shift its portfolio towards commercial/mixed use, low rise residential properties and single family homes and apartments, which represents 77.0% of the mortgage portfolio at December 31, 2013, an increase of 9.2% since December 31, 2012.

An analysis of mortgages by size is presented below.

	December 31, 2013			December 31, 2012		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
$0 – $2,500,000	95	$ 98,811,649	35.0%	50	$ 48,628,362	24.2%
$2,500,001 - $5,000,000	24	81,089,475	28.7%	16	55,814,860	27.7%
$5,000,001 - $7,500,000	7	46,820,000	16.6%	5	30,670,000	15.2%
$7,500,001 +	5	55,638,441	19.7%	6	66,370,000	32.9%
	131	**$282,359,565**	**100%**	**77**	**$201,483,222**	**100%**

As of December 31, 2013,the average outstanding balance was $2.2 million and the median outstanding balance was $1.4 million.

Further information

For further details please refer to Atrium's financial statements for the year ended December 31, 2013, and its management's discussion and analysis for the same period, available on SEDAR at www.sedar.com, and on the company's website at www.atriummic.com.

Conference call

Interested parties are invited to participate in a conference call with management on Wednesday, February 12 at 4:00 p.m. EDT. To participate or listen to the conference call live, please call 1 (866) 544-4631 or (416) 849-5571. For a replay of the conference call (available until February 22, 2014) please call 1 (866) 245-6755, Passcode 506575.

About Atrium

As a mortgage investment corporation, Atrium is a non-bank provider of residential and commercial mortgages that lends in major urban centres in Canada where the stability and liquidity of real estate are high. Atrium's objectives are to provide its shareholders with stable and secure dividends and preserve shareholders' equity by lending within conservative risk parameters.

For additional information, please contact:

Robert G. Goodall
President and Chief Executive Officer

Jeffrey D. Sherman
Chief Financial Officer

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ATRIUM MORTGAGE INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER™

FINANCIAL STATEMENTS

YEAR ENDED

DECEMBER 31, 2013

ATRIUM

MORTGAGE INVESTMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Atrium Mortgage Investment Corporation

We have audited the accompanying financial statements of Atrium Mortgage Investment Corporation, which comprise the statements of financial position as at December 31, 2013 and December 31, 2012 and the statements of comprehensive income, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Atrium Mortgage Investment Corporation as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Crowe Soberman LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 11, 2014

ATRIUM
MORTGAGE INVESTMENT
CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the shareholders of
Atrium Mortgage Investment Corporation

The management of Atrium Mortgage Investment Corporation is responsible for the preparation, presentation and integrity of these financial statements, and the accompanying Management's Discussion and Analysis. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgments and estimates necessary to prepare the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management of Atrium is responsible to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced. Management is required to design a system of internal controls and certify as to the design and operating effectiveness of internal controls over financial reporting. Management has implemented a system of internal controls that it believes provides reasonable assurance in all material respects that transactions are authorized, assets are safeguarded and financial records are reliable for producing financial statements. Crowe Soberman LLP was appointed as the independent auditor by a vote of Atrium's shareholders to audit the financial statements.

The Board of Directors, through the Audit Committee comprised solely of independent directors, is responsible for determining that management fulfills its responsibilities in the preparation of these financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. The Audit Committee meets regularly with senior and financial management to discuss internal controls and financial reporting matters. The independent auditors have unrestricted access to the Audit Committee.

These financial statements and accompanying Management's Discussion and Analysis have been approved by the Board of Directors based upon the review and recommendation of the Audit Committee.

Toronto, Canada
February 11, 2014

"Robert G. Goodall"
Robert G. Goodall
President and Chief Executive Officer

"Jeffrey D. Sherman"
Jeffrey D. Sherman
Chief Financial Officer

STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)	Notes	December 31 2013	2012
Assets			
Cash		$ –	$ 10,628,383
Mortgages receivable	5	281,708,139	201,954,951
Prepaid expenses		272,615	19,577
		$ 281,980,754	$ 212,602,911
Liabilities			
Bank indebtedness	6	$ 325,930	$ –
Operating line	6	35,910,000	–
Accounts payable and accrued liabilities		459,209	460,568
Dividends payable	7	2,473,437	1,826,813
Due to related party	8	182,437	205,605
Convertible debentures	9	30,610,763	–
		69,961,776	2,492,986
Shareholders' equity			
Share capital		210,659,880	209,383,307
Contributed surplus and other equity		898,827	693,199
Equity component of convertible debentures		397,539	–
Retained earnings		62,732	33,419
		212,018,978	210,109,925
		$ 281,980,754	$ 212,602,911
Commitments	*5, 6*		

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the board of directors:

"Rob Goodall"	*"Mark Silver"*
Rob Goodall, Director	Mark Silver, Director

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)

	Notes	Common shares Number	Common shares Amount	Contributed surplus and other equity	Equity component of convertible debentures	Retained earnings	Total
Balance, December 31, 2011		14,357,437	$ 142,141,036	$ 645,023	$ –	$ 60,353	$ 142,846,412
Shares issued	10	6,643,200	70,343,058	–	–	–	70,343,058
Shares issued under dividend reinvestment plan	10	77,900	787,875	–	–	–	787,875
Issue costs	10	–	(3,888,662)	–	–	–	(3,888,662)
Share based payments	11	–	–	48,176	–	–	48,176
Earnings and comprehensive income		–	–	–	–	13,358,327	13,358,327
Dividends declared	7	–	–	–	–	(13,385,261)	(13,385,261)
Balance, December 31, 2012		21,078,537	209,383,307	693,199	–	33,419	210,109,925
Shares issued under dividend reinvestment plan	10	116,765	1,217,479	–	–	–	1,217,479
Shares issued under employee share purchase plan	10	3,328	34,921	–	–	–	34,921
Shares issued under deferred share incentive plan	10	2,203	24,173	(24,183)	–	–	(10)
Share based payments	11	–	–	204,248	–	–	204,248
Shares subscribed	10	–	–	25,563	–	–	25,563
Equity component of convertible debentures issued	9	–	–	–	418,606	–	418,606
Issue costs attributable to equity component of convertible debentures issued	9	–	–	–	(21,067)	–	(21,067)
Earnings and comprehensive income		–	–	–	–	17,999,888	17,999,888
Dividends declared	7	–	–	–	–	(17,970,575)	(17,970,575)
Balance, December 31, 2013		21,200,833	$ 210,659,880	$ 898,827	$ 397,539	$ 62,732	$ 212,018,978

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)	Notes	Years ended December 31 2013	2012
Revenues			
Mortgage interest and fees		$ 23,759,620	$ 17,235,060
Operating expenses			
Mortgage servicing and management fees	8	2,467,672	1,567,879
Interest and other bank charges		1,318,474	1,180,713
Interest on convertible debentures		1,065,078	–
Transfer agent, TSX fees and investor relations		223,713	67,712
Share based payments	8, 11	204,248	48,176
Accounting, audit and legal fees		170,109	206,426
Directors' fees	8	147,464	85,434
Administration and general		99,974	63,284
Provision for mortgage losses	5	63,000	193,291
Non-offering prospectus and initial TSX listing		–	463,818
		5,759,732	3,876,733
Earnings and comprehensive income for the year		$ 17,999,888	$ 13,358,327
Earnings per common share			
Basic	12	$ 0.85	$ 0.86
Diluted	12	$ 0.85	$ 0.86

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)	Years ended December 31 2013	2012
Cash provided by (used in):		
Operating activities		
Earnings and comprehensive income for the year	$ 17,999,888	$ 13,358,327
Add (subtract) non-cash items		
Share based payments	205,628	48,176
Interest capitalized on mortgages	(1,611,503)	(693,797)
Amortization of mortgage discount	(207,828)	(97,979)
Amortization of mortgage origination fees	(881,347)	(773,304)
Non-cash portion of interest on convertible debentures	148,846	–
Provision for mortgage losses	63,000	193,291
	15,716,684	12,034,714
Changes in operating assets and liabilities		
Accrued interest receivable	1,027,466	(519,018)
Prepaid expenses	(253,038)	(11,247)
Accounts payable and accrued liabilities	(1,359)	248,022
Additions to mortgage discount	160,800	407,430
Additions to mortgage origination fees	961,064	903,128
	1,894,933	1,028,315
Cash provided by operating activities	17,611,617	13,063,029
Investing activities		
Advances of mortgages receivable	(186,702,516)	(128,379,556)
Repayment of mortgages receivable	107,437,676	84,497,520
Cash used by investing activities	(79,264,840)	(43,882,036)
Financing activities		
Operating line advanced	267,777,500	117,370,000
Operating line repaid	(231,867,500)	(129,970,000)
Increase (decrease) in due to related party	(23,168)	33,394
Issuance of common shares	1,276,573	71,130,933
Common share issue costs	–	(3,888,662)
Issuance of convertible debentures	32,500,000	–
Convertible debenture issue costs	(1,640,544)	–
Dividends paid	(17,323,951)	(14,543,292)
Cash provided by financing activities	50,698,910	40,132,373
Increase (decrease) in cash	(10,954,313)	9,313,366
Cash, beginning of year	10,628,383	1,315,017
Cash (bank indebtedness), end of year	$ (325,930)	$ 10,628,383
Cash provided by operating activities includes:		
Interest received	$ 19,697,031	$ 15,205,131
Interest paid	$ 2,088,401	$ 1,080,975

The accompanying notes are an integral part of these financial statements.

1. NATURE OF OPERATIONS

Atrium Mortgage Investment Corporation is a corporation domiciled in Canada, incorporated under the Ontario *Business Corporations Act*. The address of the company's registered head office and principal place of business is Suite 900, 20 Adelaide Street East, Toronto, Ontario M5C 2T6.

The company is a Mortgage Investment Corporation (MIC) as defined in Section 130.1(6) of the Canada *Income Tax Act* (ITA). Accordingly, the company is not taxed on income provided that its taxable income is paid to its shareholders in the form of dividends within 90 days after December 31 each year. Such dividends are generally treated by shareholders as interest income, so that each shareholder is in the same position as if the mortgage investments made by the company had been made directly by the shareholder.

The company's common shares are listed on the Toronto Stock Exchange (TSX) under the symbol "AI" and its convertible debentures are listed under the symbol "AI.DB."

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and International Financial Reporting Standards (IFRS), as set out in Part 1 of the *CPA Canada Handbook – Accounting*. These annual financial statements were authorized for issuance by the Board of Directors on February 11, 2014.

(b) Basis of measurement

These financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is also the company's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. The most subjective of these estimates relates to: (a) valuation of mortgages receivable, which is affected primarily by the provision for mortgage losses which is determined by management's estimate as to the required general and specific reserves; and (b) the measurement of the liability and equity components of the convertible debentures which depend upon the estimated market interest rates for a comparable debenture without the convertibility feature. Management believes that its estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The company's accounting policies and its standards of financial disclosure set out below are in accordance with IFRS and have been applied consistently.

(a) Revenue recognition

Mortgage interest and fees revenue are recognized in the statement of earnings and comprehensive income using the effective interest method. Mortgage interest and fees revenue includes the company's share of any fees received, as well as the effect of any discount or premium received on the mortgage.

The effective interest method discounts the estimated future cash payments and receipts through the expected life of the mortgage receivable to its carrying amount. When estimating future cash flows for this calculation, the contractual terms of the mortgage are considered although possible future credit losses are ignored (see note 3(c)).

(b) Financial assets – classification, recognition and measurement

Classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. All of the company's financial assets are classified as loans and receivables.

All financial assets are subject to review for impairment quarterly, and written down when there is evidence of impairment.

Loans and receivables

Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category consist of cash and mortgages receivable.

Recognition and measurement

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method. At each reporting date, management considers whether any reserves for credit impairment or due to changes in market interest rates are required.

(c) 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 the company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest. The company assesses mortgages receivable for objective evidence of impairment both individually and collectively. Provision for mortgage losses represents management's best estimate of impairment of mortgages receivable at each reporting date. Judgement is required as to the timing of designating a mortgage as impaired and the amount of any provision required. If there is no objective evidence of impairment for an individual mortgage receivable, it is included in a group of mortgages with similar credit risk characteristics and collectively assessed for impairment for losses incurred but not identified.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Mortgages receivable (continued)

The company reviews mortgages receivable quarterly for impairment. An impairment loss is calculated as the difference between the carrying amount of the mortgage receivable and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are charged to the statements of earnings and comprehensive income and are reflected in the provision for mortgage losses. When a subsequent event causes the amount of impairment loss to decrease, the provision for mortgage losses is reversed through the statements of earnings and comprehensive income.

(d) Convertible debentures

The convertible debentures can be converted into common shares of the company 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 convertible 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 remeasured subsequent to its initial measurement date.

(e) Other financial liabilities

Other financial liabilities are non-derivative liabilities recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost using the effective interest method. The company has classified bank indebtedness, operating line, accounts payable and accrued liabilities, dividends payable, due to related party and the liability component of convertible debentures as other financial liabilities.

(f) Income taxes

The company qualifies as a Mortgage Investment Corporation under the ITA, and as such is not taxed on income provided that its taxable income is distributed to its shareholders in the form of dividends within 90 days after December 31 each year. It is the company’s policy to pay such dividends to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

(g) Earnings per common share

Basic earnings per common share is calculated by dividing earnings during the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive items such as convertible debentures and deferred share incentive plans.

(h) Share based payments

The company has an equity-settled share based compensation plan for grants to eligible directors, officers, senior management and consultants under its deferred share incentive plan. No awards have been issued to consultants. Grants are measured based upon the fair value of the awards granted, based on the volume weighted average trading share price for the five trading days prior to date of the grant.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Certain pronouncements have been issued by the IASB (International Accounting Standards Board) or IFRIC (IFRS Interpretations Committee) that will be effective for future accounting periods. Many of these are not applicable to the company and so are not listed below. Adopting this new pronouncement will not have a material impact on the company's financial statements. The following is a brief summary of the new standard:

IFRS 9 – Financial Instruments: Classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. The effective date has been deferred pending completion of the remaining sections of the standard. IFRS 9 has two measurement categories: amortized cost and fair value. 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 principal and interest. Otherwise it is recorded at fair value through profit or loss.

5. MORTGAGES RECEIVABLE

	December 31, 2013			December 31, 2012		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
Commercial/mixed use	27	89,475,297	31.7%	15	$ 69,334,931	34.4%
House and apartment	59	69,484,828	24.6%	31	43,061,190	21.4%
Low rise residential	17	58,465,947	20.7%	8	24,302,272	12.0%
High rise residential	5	32,966,568	11.7%	4	23,686,000	11.8%
Construction	9	22,093,399	7.8%	4	15,087,981	7.5%
Midrise residential	3	7,440,000	2.6%	5	24,381,184	12.1%
Condominium corporation	11	2,433,526	0.9%	10	1,629,664	0.8%
Mortgage portfolio	131	282,359,565	100.0%	77	201,483,222	100.0%
Accrued interest receivable		1,562,173			2,589,639	
Mortgage discount		(338,480)			(385,508)	
Mortgage origination fees		(724,452)			(644,735)	
Provision for mortgage losses		(1,150,667)			(1,087,667)	
Mortgages receivable		$ 281,708,139			$201,954,951	

The aggregate portfolio has a weighted average yield of 8.72% (December 31, 2012 – 8.93%) and maturity dates between 2014 and 2024 with a weighted average term to maturity of 13.5 months at December 31, 2013 (December 31, 2012 – 13.0 months).

The company has committed to advance additional funds under existing mortgages aggregating $51,436,540 and new mortgages aggregating $46,727,500 at December 31, 2013 (December 31, 2012 – $15,999,642, 33,940,000). Generally, outstanding commitments are expected to be funded within the next 24 months. However, the experience of the company has been that a portion of the unfunded amounts on existing mortgages will never be drawn.

Principal repayments based on contractual maturity dates are as follows:

Year ending December 31,	2014	$ 131,887,764
	2015	123,852,819
	2016	24,185,455
	2017	180,048
	2018	67,699
	Thereafter	2,185,780
		$ 282,359,565

5. MORTGAGES RECEIVABLE (continued)

Provision for mortgage losses

	December 31, 2013	December 31, 2012
Balance, beginning of year	$ (1,087,667)	$ (894,376)
Increase in provision during the year	(63,000)	(193,291)
Balance, end of year	$ (1,150,667)	$ (1,087,667)

One mortgage is in default at December 31, 2013 (two mortgages were in default at December 31, 2012). The increase in the provision for mortgage losses during the year is based upon management's assessment as to market conditions, the value of real property securing the mortgage and the likely amount ultimately recoverable, as well as management's assessment as to an appropriate reserve for mortgages in the portfolio that are not in default.

6. CREDIT FACILITY

At December 31, 2013, the company had a credit facility from Canadian financial institutions of $80,000,000 (December 31, 2012 – $50,000,000). Advances may be obtained under the credit facility by way of a maximum $500,000 overdraft, a bank loan, bankers' acceptances or letters of credit. The committed credit facility was effective October 10, 2013, has a term of one year, and is subject to certain conditions of drawdown and other covenants. (See Note 16 – Subsequent events.)

The credit facility is secured by a lien over all of the company's assets by means of a general security agreement. The amount that may be drawn down under the credit facility is determined by the aggregate value of mortgages that are acceptable to the lender. Under the terms of the credit facility, covenants must be met in respect of shareholders' equity, debt to total assets and interest coverage. At December 31, 2013, the company was in compliance with these covenants.

The company has letters of credit (LCs) outstanding under the credit facility as at December 31, 2013 of $2,679,631 (December 31, 2012 – $357,458) which have been committed to clients. The LCs reduce the maximum availability under the credit facility by the amount of the LCs drawn. LCs represent irrevocable assurances that the company's bank 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.

Credit facility	December 31, 2013	December 31, 2012
Bankers' acceptances	$ 20,000,000	$ nil
Bank loan	15,910,000	nil
Operating line	35,910,000	nil
Bank indebtedness	325,930	nil
Total borrowing under credit facility	36,235,930	nil
Letters of credit	2,679,631	357,458
Total credit facility utilization	**$ 38,915,561**	**$ 357,458**

7. DIVIDENDS

The company follows a dividend policy so that it is non-taxable under the provisions of the *Income Tax Act* related to Mortgage Investment Corporations. Dividends aggregated $0.85 per share for the year ended December 31, 2013 (2012 – $0.85).

	December 31, 2013	December 31, 2012
Dividends payable, beginning of year	$ 1,826,813	$ 2,984,844
Dividends declared during the year	17,970,575	13,385,261
Dividends paid during the year	(17,323,951)	(14,543,292)
Dividends payable, end of year	$ 2,473,437	$ 1,826,813

8. RELATED PARTY TRANSACTIONS

The company pays management and mortgage servicing fees to Canadian Mortgage Servicing Corporation ("CMSC"), a subsidiary of Canadian Mortgage Capital Corporation ("CMCC") the manager of the company, which is responsible for the day to day management of the company. The majority beneficial owner and CEO of the manager is also CEO of the company. The company incurred management and mortgage servicing fees from CMSC of $2,455,463 for the year ended December 31, 2013 (2012 – $1,567,072). The management agreement between the company and CMCC contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. Unpaid amounts are in the normal course of business, non-interest bearing and due on demand. Balances due to related parties are due to CMCC and its subsidiaries and were paid with 30 days of year end.

Guarantees aggregating $4,542,000 at December 31, 2013 (2012 – $8,290,000) have been provided on mortgages owned by the company from a major development company of which one of the directors of the company is a director and officer. All of these loans are in good standing.

Key management includes directors and officers of the company. Compensation expenses for key management personnel include:

	December 31, 2013	December 31, 2012
Directors' fees	$ 147,464	$ 85,434
Share based payments to directors (note 11)	97,752	23,528
Share based payments to officers (note 11)	92,499	24,648
	$ 337,715	$ 133,610

Related party transactions are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, which represents fair value in the opinion of management.

9. CONVERTIBLE DEBENTURES

	Year ended December 31, 2013	Year ended December 31, 2012
Issued (see note below)	$ 32,500,000	$ –
Equity component	(418,606)	–
Issue costs	(1,640,544)	–
Issue costs attributed to equity component	21,067	–
Convertible debentures	30,461,917	–
Accretion for the year	148,846	–
Convertible debentures, end of year	$ 30,610,763	$ –

On June 18, 2013, the company completed a public offering of $30,000,000 with an overallotment option of $2,500,000 that was completed July 9, 2013, of 5.25%, unsecured convertible debentures due June 30, 2020. The interest on the debentures is payable on June 30 and December 31 each year. Debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of $13.50 per share, subject to various adjustments in accordance with the trust indenture. The debentures may not be redeemed by the company before June 30, 2016. After June 30, 2016 and prior to June 30, 2018, the debentures may be redeemed, in whole or in part, from time to time at the company's option at par plus accrued interest provided that the weighted average trading price of the common shares is not less than 125% of the conversion price. After June 30, 2018, the company may, at its option, redeem the debentures, in whole or in part, at par plus accrued and unpaid interest.

On issuance, the company recorded a liability of $30,461,917, net of equity component of $418,606 and issue costs attributable to debt of $1,619,477.

10. SHARE CAPITAL

The company is authorized to issue an unlimited number of common shares without par value. Common shares rank equally with each other and have no preference, conversion, exchange or redemption rights. Common shares participate pro rata with respect to any dividends paid, including distributions upon termination and dissolution.

The company has an optional dividend reinvestment plan (DRIP) for shareholders, whereby participants may reinvest cash dividends in additional common shares of the company at the volume weighted average price for five days prior to distribution, less a 2% discount. Shares issued under the DRIP are issued by the company from treasury.

On February 21, 2013 the board of directors approved an employee share purchase plan (ESPP). Each participant may contribute up to the stated annual maximum to the ESPP and CMCC will match 50% of the participant's contribution to the ESPP. Thus, the company does not bear any of the cost of the ESPP, but is reimbursed by CMCC and the participants. On July 23, 2013, 1,332 common shares were issued for $13,933. On October 1, 2013, 1,996 common shares were issued for $20,988. As at December 31, 2013, 2,368 common shares had been subscribed for aggregating $25,563 but were unissued.

On November 14, 2013, 2,203 common shares were issued for $24,173 under the deferred share incentive plan (DSIP) to the estate of the deceased participant in the DSIP.

10. SHARE CAPITAL (continued)

	Common shares	
	Number	**Amount**
Shares issued –		
DRIP, January 29, 2013	6,580	$ 70,801
DRIP, February 26, 2013	6,814	73,732
DRIP, March 21, 2013	1,785	19,106
DRIP, March 27, 2013	8,889	95,120
DRIP, April 15, 2013	8,515	91,877
DRIP, May 15, 2013	8,806	94,498
DRIP, June 14, 2013	9,228	96,711
DRIP, July 15, 2013	9,208	94,108
ESPP, July 23, 2013	1,332	13,933
DRIP, August 14, 2013	10,721	107,215
DRIP, September 13, 2013	11,550	115,277
ESPP, October 1, 2013	1,996	20,988
DRIP, October 14, 2013	11,580	116,967
DRIP, November 14, 2013	10,695	112,300
DSIP, November 14, 2013	2,203	24,173
DRIP, December 13, 2013	12,394	129,766
Total shares issued in 2013	122,296	$ 1,276,572
DRIP	116,765	1,217,479
ESPP	3,328	34,921
DSIP	2,203	24,173
Total shares issued in 2013	122,296	$ 1,276,573

	Common shares	
	Number	**Amount**
Shares issued –		
DRIP, January 31, 2012	14,720	$ 147,201
Private placement, February 15, 2012	805,800	8,058,000
DRIP, April 30, 2012	17,652	176,524
DRIP, July 31, 2012	23,181	231,810
DRIP, October 26, 2012	14,439	148,287
DRIP, November 28, 2012	3,964	41,894
Public offering, December 4, 2012	5,405,000	57,671,350
Private placement, December 4, 2012	432,400	4,613,708
DRIP, December 27, 2012	3,944	42,159
Total shares issued in 2012	6,721,100	$ 71,130,933
Private placement	1,238,200	$ 12,671,708
Public offering	5,405,000	57,671,350
Shares issued	6,643,200	70,343,058
DRIP	77,900	787,875
Total shares issued in 2012	6,721,100	$ 71,130,933

There were no issue costs for common shares issued during 2013.

Issue costs for the February 15, 2012 private placement aggregated $132,950. Issue costs for the December 4, 2012 private placement aggregated $92,274 for commissions, $20,905 for other costs, for a total of $113,179. Issue costs for December 4, 2012 public offering aggregated $3,171,924 for commissions, $470,609 for other costs, for a total of $3,642,533. The aggregate costs for issuances during the year ended December 31, 2012 were $3,888,662.

11. SHARE BASED PAYMENTS

	August 30, 2013 grant	August 29, 2012 grant	Total
Deferred shares granted	23,000	21,500	44,500
Value of grant	$ 232,900	$ 236,500	$ 469,400
Income deferred shares issuable	–	740	740
Share compensation expense:			
Year ended December 31, 2013	$ 53,654	$ 150,594	$ 204,248
Year ended December 31, 2012	–	48,176	48,176
	$ 53,654	$ 198,770	$ 252,424

Grants are provided to certain directors and employees under the company's deferred share incentive plan. The deferred share units vest annually over three years. Common shares are issued to participants on the vesting date of each tranche of deferred share units, unless a participant elects to defer the issuance. In addition, income deferred share units are credited to holders of deferred share units based upon dividends paid on common shares. The fair value of share based compensation was based upon the volume weighted average market price of the common shares five days prior to the grant date of $10.13 (August 30, 2013) and $11.00 (August 29, 2012).

12. EARNINGS PER SHARE

	Year ended December 31, 2013	Year ended December 31, 2012
Basic earnings per share –		
Numerator		
Earnings for the year	$ 17,999,888	$ 13,358,327
Denominator		
Weighted average common shares outstanding	21,133,123	15,497,668
Basic earnings per share	$ 0.85	$ 0.86

	2013	2012
Diluted earnings per share –		
Numerator		
Earnings for the year	$ 17,999,888	$ 13,358,327
Interest on convertible debentures	1,065,078	–
Earnings for diluted earnings per share	19,064,966	13,358,327
Denominator		
Weighted average common shares outstanding	21,133,123	15,497,668
Convertible debentures	1,282,598	–
Deferred share incentive plan	29,051	6,856
Income deferred share units	609	–
Weighted average common shares outstanding – diluted basis	22,445,380	15,504,524
Diluted earnings per share	$ 0.85	$ 0.86

13. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

All financial assets are classified as loans and receivables. Financial liabilities comprise bank indebtedness, operating line, accounts payable, accrued liabilities, dividends payable, due to related party and the liability component of convertible debentures. All financial liabilities are classified as other financial liabilities.

(b) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between arm's length market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. All financial assets are classified as loans and receivables and are recorded at amortized cost. Their carrying values approximate their fair value due to their relatively short-term maturities and because market interest rates have not fluctuated significantly since the date at which the loans were entered into. The fair value of the operating line approximates book value since it bears interest at floating rates. Mortgages receivable mature between 2014 and 2024 with a weighted average term to maturity of 13.5 months (2012 – 13.0 months). Fair value of mortgages receivable is established by level 3 inputs. The fair value of the liability component of convertible debentures approximates book value and is established using level 2 inputs. The fair value of other financial assets and liabilities are established using level 3 inputs.

(c) Credit risk

The following asset is exposed to credit risk: mortgages receivable. Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment, resulting in a financial loss to the company.

The company controls the credit risk of mortgages receivable by maintaining strict credit policies including due diligence processes, credit limits, and documentation requirements, review and approval of new mortgages by the board of directors or a subgroup thereof, quarterly review of the entire portfolio by the board of directors, and other credit policies approved by the board of directors. Credit risk is approved by the board of directors. No single borrower accounts for more than 14.6% (December 31, 2012 – 9.6%) of mortgages receivable.

13. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its obligations when due. The company's liquidity risk is managed on an ongoing basis by CMCC in accordance with the policies and procedures in place. The company's significant financial liabilities include bank indebtedness, operating line, accounts payable and accrued liabilities, dividends payable, due to related party and convertible debentures. The bank indebtedness and operating line are drawn upon as required to discharge accounts payable and accrued liabilities as well as to pay out dividends on a monthly basis.

As at December 31, 2013, management considers that the company does not have significant exposure to liquidity risk as the credit facility is not fully utilized and the company is in compliance with all covenants. Obligations due at December 31, 2013 are shown below.

	Total	*Less than 1 year*	*1-2 years*	*3-7 years*
Bank indebtedness	$ 325,930	$ 325,930	$ –	$ –
Operating line	35,910,000	35,910,000		
Accounts payable and accrued liabilities	459,209	459,209	–	–
Dividends payable	2,473,437	2,473,437	–	–
Due to related party	182,437	182,437	–	–
5.25% convertible debentures	30,610,763	–	–	30,610,763
Total	$ 69,961,776	$ 39,351,013	$ –	$ 30,610,763

(e) Interest rate risk

The company is exposed to interest rate risk in that an increase in interest rates will result in increased interest expense due to its operating line and indebtedness being set at a variable rate but all mortgages being set at fixed rates. The financial structure of the company results in relatively moderate interest rate risk because most of the company's financing is through common shares and convertible debentures, with a moderate amount of borrowings under the credit facility that bear floating interest rates.

If interest rates on debt had been one percentage point higher (lower) during the year ended December 31, 2013, earnings would have been reduced (increased) by approximately $293,000 during the year, assuming that no changes had been made to the interest rates at which new mortgage loans were entered into. However, if new mortgage loans had been entered into at higher (lower) interest rates, the resulting reduction of earnings would have been less than (greater than) $293,000.

(f) Currency risk

Currency risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. The company is not currently exposed to significant currency risk as all assets and liabilities are denominated in Canadian funds.

(g) Changes to risk exposure and management of risk exposure

During the year ended December 31, 2013, the company issued 5.25% convertible debentures with a face value of $32,500,000 (see note 9), which had the effect of altering its risk exposure profile to be less sensitive to changes in general market interest rates. The effect will be favourable if general interest rates increase, and adverse if general interest rates decline.

14. CAPITAL MANAGEMENT

The company defines capital as total debt plus shareholders' equity, as shown below:

	December 31, 2013	December 31, 2012
Bank indebtedness	$ 325,930	$ –
Operating line	35,910,000	–
Total bank line	36,235,930	–
Convertible debentures	30,610,763	–
Total debt	66,846,693	–
Shareholders' equity	212,018,978	210,109,925
Capital employed	$ 278,865,671	$ 210,109,925

The company's objectives for managing capital are to:

- preserve shareholders' equity
- provide shareholders with stable dividends
- use leverage in a conservative manner to improve return to shareholders

The company manages capital by using conservative amounts of financial leverage to improve its return to shareholders. The company finances growth of its portfolio by issuing common shares and debt. In addition, a small amount of equity is raised every month through a dividend reinvestment plan for shareholders.

As bank borrowings increase, the company could expect to raise further funds through public offering of convertible debentures and/or common shares. The company's bank indebtedness and operating line are subject to external covenants as set out in note 6. There has been no change in the company's capital management objectives since the prior year.

15. INCOME TAXES

The company is a Mortgage Investment Corporation (MIC) as defined in Section 130.1(6) of the ITA. Accordingly, the company is not taxed on its taxable income (as defined in the ITA) provided that it is distributed as dividends within 90 days of December 31 each year.

Due to certain provisions of the ITA, taxable income does not precisely equal income under IFRS. The company has tax loss carry forwards available that may serve to permit future distributions to shareholders to be less than taxable income in the year while preserving its status as a MIC.

	December 31, 2013	December 31, 2012
Earnings and comprehensive income for the year	17,999,888	13,358,327
Non-deductible expenses	482,550	356,298
Issue costs deductible pursuant to Section 10(1)(e) of the ITA	(1,350,312)	(980,272)
Deductible expenses	–	(119,337)
Change in deferred revenue	79,717	129,825
Cumulative eligible capital deduction	(1,762)	(1,895)
Taxable income	$ 17,210,081	$ 12,742,946
Less: dividends declared during the year and within 90 days of year end	(17,970,575)	(13,385,261)
Tax loss carry forward for the year	(760,494)	(642,315)
Plus tax loss carry forward from previous years	(677,527)	(35,212)
Tax loss carry forward	$ (1,438,021)	$ (677,527)

16. SUBSEQUENT EVENTS

On January 1, 2014, the company issued 2,368 common shares subscribed for under the ESPP for proceeds of $25,563.

On January 14, 2014, the company issued 12,543 common shares ($130,828) under its dividend reinvestment plan.

On January 31, 2014, the company obtained a $30 million short-term increase in its operating credit facility; any amounts drawn thereunder are to be repaid on the earlier of April 30, 2014 and the closing of any public equity or convertible debt issuance by the company.

On February 6, 2014, the company entered into an agreement with a syndicate of underwriters under which it agreed to purchase $30,000,000 of 6.25% subordinated debentures due March 31, 2019. The offering is expected to close on February 27, 2014. The company granted the underwriters an overallotment option to purchase up to an additional $4.5 million of the debentures at any time until 30 days after the offering closes. At the option of the holders, the debentures may be converted into common shares of Atrium at a conversion price of $13.30 per share, and the debentures are subject to certain other redemption rights.

ATRIUM MORTGAGE INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER™

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED
DECEMBER 31, 2013

ATRIUM
MORTGAGE INVESTMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
(February 11, 2014)

Background and overview

This Management's Discussion and Analysis (MD&A) is intended to help you understand Atrium Mortgage Investment Corporation ("Atrium", the "Company", "we", "our" or "us"), its business environment and future prospects. This MD&A should be read together with our financial statements and the accompanying notes for the year ended December 31, 2013. Information herein includes any significant developments up to February 11, 2014, the date on which this MD&A was approved by our directors. Atrium was formed on July 30, 2001 as "DB Mortgage Investment Corporation #1"; our name was changed to "Atrium Mortgage Investment Corporation" on March 23, 2012. We are an Ontario corporation and we do not have any subsidiaries.

We are qualified as a "mortgage investment corporation" (MIC) within the meaning of Section 130.1(6) of the *Income Tax Act* (Canada) (ITA). Accordingly, we are not taxed on our income provided that at least our taxable income is paid to our shareholders as dividends within 90 days after December 31 each year. Such dividends are generally treated by shareholders as interest income, so that each shareholder is in the same position as if the mortgage investments made by us had been made directly by the shareholder. Our common shares and 5.25% convertible unsecured subordinated debentures due June 30, 2020 (5.25% debentures) are listed on the Toronto Stock Exchange (TSX) under the symbols "AI" and "AI.DB", respectively. We became a reporting issuer and listed our common shares on the TSX following the issuance of a non-offering prospectus on August 24, 2012. Previously, we were a private company. In June and July 2013, we completed a public offering of $32.5 million aggregate principal amount of our 5.25% debentures.

Our financial statements for the year ended December 31, 2013 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the *CPA Canada Handbook - Accounting*.

Notice regarding forward-looking information

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

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

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

Our business

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

Our basic lending parameters are as follows:

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

Mortgage loan amounts are generally $300,000 to a maximum of $20,000,000. The largest single mortgage in our mortgage portfolio as at December 31, 2013 was $12.1 million. For loan amounts in excess of $15 to $20 million, we generally co-lend with a financial institution or private lender. The parameters listed above are our maximum mortgage lending parameters. At December 31, 2013, the weighted average loan-to-value ratio of the mortgage portfolio was 64.1%, compared to 66.7% at December 31, 2012.

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

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

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

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

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

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

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

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

Highlights for the year ended December 31, 2013

- For the year ended December 31, 2013, our revenue from mortgage interest and other fees was $23.8 million, compared to $17.2 million for the year ended December 31, 2012. For the year ended December 31, 2013, we earned $18.0 million ($0.85 per share, basic and diluted), compared to $13.4 million ($0.86 per share, basic and diluted) for the year ended December 31, 2012.

- During 2013, we actively managed the risk profile of our mortgage portfolio, and currently target commercial real estate, low rise infill developments and single family mortgages. Infill development loans and single family mortgages were, until recently, dominated by the banks, who have been pressured politically to reduce their exposure to real estate. Their reduced involvement has allowed Atrium to increase its mortgage business in these low risk sectors.

- We paid a regular dividend of $0.066667 per share every month in 2013, a rate of $0.80 per year. In 2013, our total dividends paid, including the special dividend at year-end, aggregated $0.85 per share. Subsequent to year end, we announced that we were increasing our regular monthly cash dividends, from an annual rate of $0.80 to $0.82 per share (or $0.068333 per share monthly), beginning with our January 2014 monthly dividend payable on February 13, 2014.

- We had $281.7 million of mortgages receivable at December 31, 2013, an increase of 40.1% from December 31, 2012 mortgages receivable of $201.9 million.

- In June and July 2013, we completed a public offering of $32.5 million 7-year 5.25% convertible debentures, the net proceeds of which were used to repay indebtedness under our operating credit facility.

- On October 10, 2013 we entered into a revised operating credit facility with a syndicate of lenders increasing the facility to $80 million, from $50 million. The revised operating credit facility is for a one year term ending October 9, 2014. Subsequent to year end, we obtained a $30 million short-term increase in our operating credit facility, which amount is required to be repaid on the earlier of April 30, 2014 and the closing of any public equity or convertible debt issuance by us. We believe these significant increases in our operating credit facility reflect our lenders' confidence in us, and will allow us to create additional value for shareholders by investing in mortgages yielding far higher rates than the cost of the bank line.

Highlights for the three months ended December 31, 2013

- Earnings for the three months ended December 31, 2013 aggregated $4.6 million, an increase of 27.5% from net earnings of $3.6 million in the same period in the previous year. Basic and diluted earnings per share were $0.22 per common share for the three months ended December 31, 2013, compared with basic and diluted earnings of $0.21 per common share for the same period the previous year.
- For the three months ended December 31, 2013, revenue from mortgage interest and other fees aggregated $6.5 million, compared to $4.8 million in the same period in the previous year, an increase of 37.5%. The weighted-average yield of our mortgage portfolio declined from 8.9% at December 31, 2012 to 8.7% at December 30, 2013, in line with our focus on reducing our risk profile.
- On October 10, 2013 we entered into a revised operating credit facility as described above.

Investment portfolio

Our mortgage portfolio consists of 131 mortgage loans and aggregated $282.4 million at December 31, 2013, an increase of 40.1% from December 31, 2012.

	December 31, 2013			December 31, 2012		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
Commercial/mixed use	27	$ 89,475,297	31.7%	15	$ 69,334,931	34.4%
House and apartment	59	69,484,828	24.6%	31	43,061,190	21.3%
Low rise residential	17	58,465,947	20.7%	8	24,302,272	12.1%
High rise residential	5	32,966,568	11.7%	4	23,686,000	11.8%
Construction	9	22,093,399	7.8%	4	15,087,981	7.5%
Midrise residential	3	7,440,000	2.6%	5	24,381,184	12.1%
Condominium corporation	11	2,433,526	0.9%	10	1,629,664	0.8%
Mortgage portfolio	**131**	282,359,565	**100%**	**77**	201,483,222	**100%**
Accrued interest receivable		1,562,173			2,589,639	
Mortgage discount		(338,480)			(385,508)	
Mortgage origination fees		(724,452)			(644,735)	
Provision for mortgage losses		(1,150,667)			(1,087,667)	
Mortgage receivable		**$281,708,139**			**$201,954,951**	

We actively manage the exposure of our mortgage portfolio, and continued to shift our mortgage portfolio towards lower risk sectors in 2013 such as commercial/mixed use, low rise residential properties and single family homes and apartments, which represented 77.0% of our mortgage portfolio at December 31, 2013, an increase of 9.2% since December 31, 2012.

An analysis of our mortgages by size is presented below.

	December 31, 2013			December 31, 2012		
Mortgage amount	Number	Outstanding amount	% of Portfolio	Number	Outstanding amount	% of Portfolio
$0 - $2,500,000	95	$ 98,811,649	35.0%	50	$ 48,628,362	24.2%
$2,500,001 - $5,000,000	24	81,089,475	28.7%	16	55,814,860	27.7%
$5,000,001 - $7,500,000	7	46,820,000	16.6%	5	30,670,000	15.2%
$7,500,001 +	5	55,638,441	19.7%	6	66,370,000	32.9%
	131	**$282,359,565**	**100%**	**77**	**$201,483,222**	**100%**

As of December 31, 2013, the average outstanding mortgage balance was $2.2 million and the median outstanding mortgage balance was $1.4 million.

Analyses of our mortgages as at December 31, 2013 by type of mortgage, nature of the underlying property, and location of the underlying property is set out below:

Description	Number of mortgages	Amount	Percentage	Weighted average yield
Type of mortgage				
First mortgages	118	$256,648,472	90.9%	8.5%
Second and third mortgages	13	25,711,093	9.1%	11.4%
	131	**$282,359,565**	**100.0%**	**8.7%**
Nature of underlying property				
Residential	104	$192,884,267	68.3%	8.7%
Commercial	27	89,475,298	31.7%	8.8%
	131	**$282,359,565**	**100.0%**	**8.7%**
Location of underlying property				
Greater Toronto Area	111	$228,390,535	80.9%	8.6%
Non-GTA Ontario	6	22,464,599	8.0%	9.1%
British Columbia	7	6,594,285	2.3%	10.8%
Alberta	7	24,910,146	8.8%	8.6%
	131	**$282,359,565**	**100.0%**	**8.7%**

The exceptionally high percentage of our first mortgages is a core strategy and is unmatched by our peer group. The average loan-to-value in our mortgage portfolio improved further to 64.1%, with 98.3% of the portfolio below 75% loan-to-value.

	December 31 2013	%	December 31 2012	%	% change
Conventional first mortgages	$249,328,347	88.3%	$156,322,551	77.6%	59.5%
Conventional second and third mortgages	25,711,093	9.1%	29,340,438	14.6%	(12.8)%
Non-conventional mortgages	4,886,599	1.7%	14,190,569	7.0%	(65.6)%
Other	2,433,526	0.9%	1,629,664	0.8%	49.3%
	$282,359,565	**100.0%**	**$201,483,222**	**100.0%**	**40.1%**

The weighted average term remaining for our mortgages receivable at December 31, 2013 is 13.5 months (December 31, 2012 – 13.0 months).

The current level of non-conventional mortgages (mortgages greater than 75% loan-to-value) is at an historic low of only 1.7%, which illustrates the conservative nature of our portfolio. Conventional first mortgages aggregated 88.3% of the mortgage portfolio as at December 31, 2013, compared to 77.6% at December 31, 2012, and conventional second and third mortgages decreased to 9.1% at December 31, 2013.

Financial summary

	Twelve months ended <u>December 31, 2013</u>	***Twelve months ended <u>December 31, 2012</u>***	***Twelve months ended <u>December 31, 2011</u>***
Revenue	$ 23,759,620	$ 17,235,060	$ 11,414,661
Operating expenses	5,759,732	3,876,733	1,973,850
Earnings and total comprehensive income	17,999,888	13,358,327	9,440,811
Basic earnings per share	0.85	0.86	0.88
Diluted earnings per share	0.85	0.86	0.88
Dividends declared	17,970,575	13,385,261	9,456,254
Mortgages receivable, end of period	281,708,139	201,954,951	157,492,666
Total assets, end of period	281,980,754	212,602,911	158,816,013
Shareholders' equity, end of period	212,018,978	210,109,925	142,846,412

	Three months ended <u>December 31, 2013</u> *(unaudited)*	***Three months ended <u>December 31, 2012</u>*** *(unaudited)*
Revenue	$ 6,544,813	$ 4,759,646
Operating expenses	1,898,409	1,115,162
Earnings and total comprehensive income	4,646,404	3,644,484
Basic earnings per share	0.22	0.21
Diluted earnings per share	0.22	0.21
Dividends declared	5,297,717	3,858,184
Mortgages receivable, end of period	281,708,139	201,954,952
Total assets, end of period	281,980,754	212,602,911
Shareholders' equity, end of period	212,018,978	210,109,925

Results of operations – twelve months ended December 31, 2013

For the twelve months ended December 31, 2013, mortgage interest and fees aggregated $23.8 million, compared to $17.2 million in the same period in the previous year, an increase of 37.9%. The weighted average yield on the mortgage portfolio declined from 8.9% at the end of 2012 to 8.7% at the end of 2013.

Operating expenses, including interest, were $5.8 million, or 24.2% of revenues, compared to $3.9 million or 22.5% of revenues in the prior year. Operating expenses include mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) that aggregated $2.5 million for the year ended December 31, 2013, compared with $1.6 million in the prior year period, reflecting the growth of our mortgage portfolio. Another element of operating expense was interest, which increased from $1.1 million to $2.4 million primarily due to the issuance of the convertible debenture during the year, and increased utilization of our line of credit.

Net earnings for the year ended December 31, 2013 aggregated $18.0 million, an increase of 34.7% from net earnings of $13.4 million in the prior year. Basic and diluted earnings per common share were $0.85 for the year ended December 31, 2013, compared with basic and diluted earnings of $0.86 per common share in the same period the previous year.

During the year ended December 31, 2013, we funded mortgages aggregating $186.7 million. Of these advances, $171.8 million were first mortgages, representing 92.0% of the total loans funded. Eleven of these advances were on properties in British Columbia, nine were in properties in Alberta, two were non-GTA Ontario, and the remaining 88 were made in the Greater Toronto Area. There were $107.4 million of repayments during the year. The total mortgage portfolio increased from $202.0 million to $282.4 million during the year.

Summary of quarterly results (unaudited)

In $000s, except for per share amounts	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenue	6,545	6,281	5,844	5,089	4,760	4,231	4,142	4,103
Operating expenses	1,898	1,688	1,274	900	1,115	1,226	784	751
Earnings	4,646	4,593	4,570	4,189	3,644	3,005	3,357	3,352
Basic and fully diluted earnings per share	0.22	0.22	0.22	0.20	0.21	0.20	0.22	0.23
Dividends declared	5,298	4,230	4,224	4,219	3,858	3,044	3,345	3,138

Results of operations – three months ended December 31, 2013

For the three-month period ended December 31, 2013, mortgage interest and fees aggregated $6.5 million, compared to $4.8 million in the same period in the previous year, an increase of 37.5%. The weighted average yield on the mortgage portfolio declined from 8.9% at the end of 2012 to 8.7% in the fourth quarter of 2013, as we continue our focus on the highest quality assets.

Operating expenses, including interest, were $1.9 million, or 29.0% of revenues, compared to $1.1 million or 23.4% of revenues in the prior year period. Operating expenses included mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) which aggregated $0.7 million for the three months ended December 31 2013, compared with $0.5 million in the comparative quarter, reflecting the growth of our mortgage portfolio. Interest expense on the convertible debenture was $0.5 million in the quarter compared to nil in the same quarter last year since the debenture was issued during the year. Operating expenses other than interest and bank charges and convertible debenture interest, aggregated $0.9 million3, which represented 0.3% of the mortgage portfolio or 1.2% annualized. In other words, operating costs in the quarter were only about 120 basis points.

Net earnings for the three months ended December 31, 2013 were $4.6 million, an increase of 27.5% from net earnings of $3.6 million in the same period in the previous year. Basic and diluted earnings per share were $0.22 per common share for the three months ended December 31, 2013, compared with basic and diluted earnings of $0.21 per common share for the same period the previous year. During the three-month period ended December 31, 2013, we funded mortgages of $47.6 million. Of these advances, $41.6 million were first mortgages, representing 87.4% of the total loans funded. Nine of these mortgages were on properties in British Columbia, six were on properties in Alberta, and the remaining 42 were made in the Greater Toronto Area. There were $42.5 million of repayments during the period. The total mortgage portfolio increased from $277.2 million to $282.4 million during the period.

Liquidity and capital resources

At December 31, 2013, we had bank indebtedness, operating line and convertible debt outstanding with total book value of $66.8 million. We are in compliance with the covenants required of us in our operating credit facility as at December 31, 2013, and we expect to remain in compliance with such covenants going forward.

Growth in our mortgage portfolio has historically been financed by the issuance of common shares and by the issuance of debt. We expect to be able to generate sufficient funds for future mortgage loan investments through a combination of common share issuances, convertible debt, and the operating credit facility. On October 10, 2013 we entered into a revised operating credit facility with a syndicate of lenders increasing the facility to $80 million, from $50 million. The revised operating credit facility is for a one year term ending October 9, 2014. Subsequent to year end, we obtained a $30 million short-term increase in our operating credit facility, which amount is required to be repaid on the earlier of April 30, 2014 and the closing of any public equity or convertible debt issuance by us.

Investing activities during the year ended December 31, 2013 consisted of advances on new mortgage loan investments of $186.7 million, less repayments received of $107.4 million, for net cash used for net new mortgage loan investments of $79.3 million.

Sources of cash from financing activities during the year ended December 31, 2013 consisted primarily of operating line and the issuance of our 7-year 5.25% convertible debentures. Draws less repayments under our operating facility represented a $35.9 million use of cash. In June and July 2013, we issued 7-year 5.25% convertible debentures which resulted in $30.9 million of cash, net of issue costs. Net cash provided by financing activities was $50.7 million after paying dividends of $17.3 million for the year ended December 31, 2013.

Changes in financial position

Cash-on-hand was $nil at December 31, 2013, compared to $10.6 million at December 31, 2012. The cash-on-hand at December 31, 2012 consisted of uninvested proceeds from the issuance of common shares in December 2012, and was fully invested in January 2013. Our preferred position is to have no cash-on-hand; rather, any available cash is normally used to reduce amounts owing under our operating credit facility. Mortgages receivable increased by 40% to $281.7 million at December 31, 2013 from $202.0 million at December 31, 2012, reflecting the growth in our portfolio.

Bank indebtedness and operating line increased to a total of $36.2 million at December 31, 2013, from $nil at December 31, 2012, reflecting our objective of using moderate leverage to improve shareholder returns. In June and July 2013, we completed a public offering of $32.5 million principal amount of our 5.25% debentures, the net proceeds of which were used to repay indebtedness under our operating credit facility. Accounts payable and accrued charges were $0.5 million at December 31, 2013 compared to $0.5 million at December 31, 2012. Dividends payable increased to $2.5 million at December 31, 2013 from $1.8 million at December 31, 2012, and represent dividends declared on our common shares during the quarter and paid after each quarter-end. Note that the December 31, 2013 and 2012 figures include both the regular and the special year-end dividend.

Share capital increased to $210.7 million at December 31, 2013 from $209.4 million at December 31, 2012 as a result of issuances under our dividend reinvestment plan (DRIP), employee share purchase plan (ESPP) and deferred share incentive plan (DSIP).

Contractual obligations

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

	Total	*Less than 1 year*	*1-2 years*	*3-7 years*
Bank indebtedness	$ 325,930	$ 325,930	$ –	$ –
Operating line	35,910,000	35,910,000		
Accounts payable and accrued liabilities	459,209	459,209	–	–
Dividends payable	2,473,437	2,473,437	–	–
Due to related party	182,437	182,437	–	–
5.25% convertible debentures	30,610,763	–	–	30,610,763
Total	$ 69,961,776	$ 39,351,013	$ –	$ 30,610,763

Off-balance sheet arrangements

As at December 31, 2013, we had $2,679,631 of letters of credit (LCs) outstanding which were issued under our operating credit facility. The LCs reduce the maximum available under our operating credit facility by the amount of the LCs. The maximum available by way of LCs under our operating credit facility is $3 million. LCs represent irrevocable assurances that our bank will make payments in the event that a customer cannot meet its obligations to third parties. LCs carry the same credit risk, recourse and collateral security requirements as mortgages extended to customers.

Share based payments

	August 30, 2013 grant	**August 29, 2012 grant**	**Total**
Deferred shares granted	23,000	21,500	44,500
Value of grant	$ 232,900	$ 236,500	$ 469,400
Income deferred shares issuable	–	740	740
Share compensation expense:			
Year ended December 31, 2013	$ 53,654	$ 150,594	$ 204,248
Year ended December 31, 2012	–	48,176	48,176
	$ 53,654	$ 198,770	$ 252,424

Grants are provided to certain directors and employees under the company's deferred share incentive plan. The deferred share units vest annually over three years. Common shares are issued to participants on the vesting date of each tranche of deferred share units, unless a participant elects to defer the issuance. In addition, income deferred share units are credited to holders of deferred share units based upon dividends paid on common shares. The fair value of share based compensation was based upon the volume weighted average market price of the common shares five days prior to the grant date of $10.13 (August 30, 2013) and $11.00 (August 29, 2012).

Employee share purchase plan

We have an employee share purchase plan under which participants may purchase our shares within certain limits, and the manager then matches 50% of their contribution. Thus, we do not bear any of the cost of the ESPP, but issue shares from treasury upon receipt of the funds. Under the ESPP, on July 23, 2013, 1,332 common shares were issued for $13,933. On October 1, 2013, 1,996 common shares were issued for $20,988. As at December 31, 2013, 2,368 common shares had been subscribed for aggregating $25,563 but were unissued.

Transactions with related parties

Related party transactions are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, which represents fair value in the opinion of management.

The manager is responsible for our day-to-day activities. We incurred fees of $2,455,463 for the year ended December 31, 2013 (December 31, 2012 – $1,567,072) from the manager. Mr. Robert G. Goodall is a director and part of the key management personnel of the manager and received compensation from the manager and is also a director of Atrium. The management agreement between us and the manager contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. The manager also acts as broker for our mortgages. The manager receives origination fees from the borrowers of up to 1% of the amount being funded; origination fees in excess of 1% are split equally between the manager and Atrium.

Guarantees aggregating $4,542,000 at December 31, 2013 (December 31, 2012 – $8,290,000) have been provided on mortgage loans made by us to a major development company of which one of our directors is an officer and director. All of these loans are in good standing.

Environmental matters

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

Critical accounting estimates and policies

Our annual financial statements for the years ended December 31, 2013 and 2012 are prepared in accordance with Canadian generally accepted accounting principles and IFRS, as set out in Part I of the *CPA Canada Handbook - Accounting*. 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 and IFRS. Actual results will differ from these estimates and assumptions.

The most subjective of these estimates relates to the valuation of mortgages receivable, and the provision for mortgage losses as well as the measurement of the liability and equity components of our 5.25% debentures. Management believes that its estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter.

The more significant accounting policies are set out below:

Revenue recognition
Mortgage interest and fees revenue is recognized in the statement of earnings and comprehensive income using the effective interest method. Mortgage interest and fees revenue may include an origination fee from a borrower for arranging a mortgage which is included in mortgage interest and fees using the effective interest method. Mortgages issued at a premium or discount are recorded at their face value, adjusted for such premiums and discounts. Premiums or discounts are amortized into income over the term of the mortgage.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the mortgage receivable (or, where appropriate, a shorter period) to its carrying amount. When calculating the effective interest rate, we estimate future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

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. Provision for mortgage losses represents management's best estimate of impairment in mortgages receivable at each reporting date. Judgement is required as to the timing of designating a mortgage as impaired and the amount of any provision required. If there is no objective evidence of impairment for an individual mortgage receivable, it is included in a group of mortgages with similar credit risk characteristics and collectively assessed for impairment for losses incurred but not identified.

We review the mortgages receivable quarterly for impairment. An impairment loss in respect of the mortgages receivable measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are charged to the statement of comprehensive income and reflected in the allowance account against the mortgages receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

5.25% convertible debentures
The 5.25% 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 5.25% debentures were issued, and the equity instrument is valued on that date based upon the difference between the fair value of the 5.25% 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 5.25% debentures using the effective interest method, which provides for the application of a constant interest rate over the life of the 5.25% 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 such income flows through to our shareholders as dividends during the year or within 90 days after December 31. It is our policy to pay such dividends out to the shareholders to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

Responsibility of management and the board of directors

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our Audit Committee and board of directors provide an oversight role with respect to our public financial disclosures, and have reviewed and approved this MD&A and the financial statements as at and for the years ended December 31, 2013 and 2012.

Controls and procedures

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

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

Our CEO and CFO evaluated the design effectiveness of the DC&P and ICFR, as defined by NI 52-109, as of December 31, 2013. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of December 31, 2013. NI 52-109 also requires Canadian public companies to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. No such change to ICFR has occurred during most recently completed quarter.

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

Outstanding share data

Our authorized capital consists of an unlimited number of common shares, of which 21,200,833 are issued and outstanding at December 31, 2013, and 21,215,744 are issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,407,407 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.25% debentures (using the conversion price of $13.50 for each common share).

We have $32.5 million of convertible debentures issued and outstanding. Those debentures mature on June 30, 2020 and accrue interest at the rate of 5.25% per annum payable semi-annually in arrears on June 30 and December 31 commencing December 31, 2013. At the holder's option, the 5.25% convertible debentures may be converted into our common shares at any time prior to the close of business on the earlier of the business day immediately preceding either the maturity date and, if called for redemption, the date specified by us for redemption of the 5.25% debentures. The conversion price is $13.50 for each common share, subject to adjustment in certain events. Other than in certain circumstances set out in the trust indenture, the debentures are not redeemable prior to June 30, 2016. On and after June 30, 2016, but prior to June 30, 2018, the debentures are redeemable, in whole or in part, from time to time at our sole option at a price equal to their principal amount, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted average trading price of our common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price. On or after June 30, 2018 and prior to the maturity date, the debentures are redeemable, in whole or in part, from time to time at our sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice. Subject to specified conditions, we have the right to repay the outstanding principal amount of the 5.25% debentures, on maturity or redemption, through the issuance of our common shares. We also have the option to satisfy our obligation to pay interest on the 5.25% debentures through the issuance and sale of our common shares. A summary of additional terms of the debentures is set out in the section entitled "Description of the Debentures" contained in our (final) prospectus dated June 11, 2013 qualifying the distribution of the 5.25% debentures, which section is incorporated herein by reference.

We also have the ESPP, a deferred share incentive plan and a dividend reinvestment plan pursuant to which common shares may be issued from time to time. These plans are each described elsewhere in this MD&A.

Risks and uncertainties

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

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

Dividend Reinvestment Plan

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

Additional information

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

BOARD OF DIRECTORS

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Optus Capital Corporation

Robert G. Goodall
CEO and President
Atrium Mortgage Investment Corporation

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CFO and Secretary

Michael Lovett
Managing Director – Ontario

Bram Rothman
Managing Director – Ontario

Phil Fiuza
Managing Director – Ontario, Residential

Daniel Stewart
Managing Director – Alberta and Saskatchewan

Bruce Weston
Managing Director – British Columbia

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T. 416-964-7633

SHARE LISTING

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

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

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