



## Management's Discussion and Analysis of Financial Condition and Results of Operations – Q3 2009

*The following analysis provides a review of Atrium Innovations Inc.'s ("Atrium Innovations") results of operations, financial condition and cash flows for the quarter and the nine-month period ended September 30, 2009 compared with the quarter and the nine-month period ended September 30, 2008 and the financial conditions as at September 30, 2009 compared to December 31, 2008. In this Management's Discussion and Analysis ("MD&A"), "Atrium", the "Company", "we", "us", and "our" mean Atrium Innovations Inc. and its subsidiaries. This discussion should be read in conjunction with the information contained in our unaudited interim consolidated financial statements for the quarter and the nine-month period ended September 30, 2009 and in our 2008 annual report.*

**All amounts are in US dollars unless otherwise indicated.**

*Our consolidated financial statements are reported in thousands of US dollars and have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, or Canadian GAAP. In this MD&A, we occasionally refer to financial measures that do not have any meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These non-GAAP financial measures are presented in a consistent manner. These measures consist of earnings before interest and taxes ("EBIT" or "earnings from operations"), earnings before interest, taxes, depreciation and amortization ("EBITDA") and gross margin. Gross margin means sales less cost of sales. EBIT means net earnings less Other revenues (expenses) and the Income tax expense. EBITDA means the addition of EBIT and depreciation and amortization. This EBITDA provides an indication of the Company's ability to continue generating earnings from operations before taking into account the impact of management's financing decisions and costs associated with the consumption of tangible and intangible assets. They are disclosed to provide additional information and should not be considered as a substitute for measures of performance prepared in accordance with GAAP.*

### COMPANY OVERVIEW

Atrium Innovations Inc. is a recognized leading developer, manufacturer and marketer of science-based and professionally endorsed products for the health and nutrition industries. The Company focuses primarily on growing segments of the health and nutrition markets, which are benefiting from the trends towards healthy living and the ageing of the population. Atrium markets a broad portfolio of finished health and nutrition products through its highly specialized sales and marketing network in more than 35 countries, primarily in North America and Europe. Atrium has nearly 900 employees and operates seven manufacturing facilities.

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## MARKET AND ECONOMIC SITUATION OVERVIEW

The global market for nutritional supplements has been booming for several years and it continues to grow with the help of several factors, including the increasing recognition of hospitals, doctors and other specialists, demographics, including an ageing population, and the growing trend of people taking an active and more conscious role in caring for their health.

In the U.S., according to the *Nutrition Business Journal*, the nutritional supplements market is characterized by four major sectors. In 2008, the public sector (mass market) generated revenues of approximately \$7.1 billion, the direct sale to consumers \$6.9 billion, specialty food stores \$9.3 billion and the sector of healthcare practitioners \$1.9 billion. All these sectors experienced growth of about 6.3% in 2008. In Europe, although we can observe the same growth, methods of marketing nutritional supplements are diverse and cannot be as easily grouped as in North America.

Atrium specializes in and earns most of its revenues in the healthcare practitioner sector. This sector grew by 5.2% in the United States in 2008 despite the adverse economic conditions. Following the acquisition of Nutri-Health in December 2008, approximately 10% of our revenues are now generated by the direct sale to consumers ("DTC") sector. Furthermore, the acquisition of Garden of Life in September 2009 allowed us to penetrate the specialty food stores market since Garden of Life's products are almost entirely distributed by this network. According to results and statistics available regarding our industry since the beginning of the recession, we can conclude that the latter is less affected than other industries as it is still continuously recognized by the medical and scientific community as well as consumers. We are aware, however, that this market may be negatively impacted if the recession continues for a longer period of time or by other factors affecting consumer confidence.

Atrium is well positioned to continue its organic growth and acquisition program in an industry that is still highly fragmented.

The Company's financial situation was not affected by the global credit crisis. We did not incur any loss on the asset-backed commercial paper because we have never invested in such securities. Our credit facility runs until 2012 and we have met all related requirements. We are therefore very well positioned to face future quarters, despite current economic conditions.

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## 2009 THIRD QUARTER FINANCIAL SUMMARY

- Revenues were \$81.4 million in the third quarter of 2009 compared to adjusted revenues of \$70.4 million in 2008, an increase of 15.7% (see the 2008 adjusted revenues conciliation in the Statement of Earnings Summary table presented below). Eliminating the negative effect of the variation of the euro exchange rate against the US dollar in 2009 for the conversion of our European operations, revenues would have been higher by approximately \$1.6 million, generating a growth of 18.0% versus 2008;
- EBITDA was \$21.6 million in 2009 compared to \$19.0 million in 2008, an increase of 13.7%. Eliminating the negative effect of the variation of the euro exchange rate against the US dollar compared to 2008, the EBITDA would have been of \$22.1 million, an increase of 16.4% over 2008;
- Net earnings were \$13.1 million in 2009 compared to \$12.1 million in 2008 which represents an 8.3% growth. Eliminating the negative effect of the variation of the euro exchange rate against the US dollar compared to 2008, the net earnings would have been of \$13.4 million, an increase of 10.7%;
- Net earnings per share (EPS) for the third quarter of 2009 were \$0.40 per share (\$0.40 per diluted share) compared to \$0.37 per share (\$0.37 per diluted share) in 2008. Eliminating the negative effect of the variation of the euro exchange rate against the US dollar compared to 2008, the 2009 EPS per diluted share would have been \$0.41 compared to \$0.37 in 2008, an increase of 10.8%;
- Cash flow from operating activities before changes in non-cash working capital items were \$14.0 million in 2009. In addition, total cash flows from operating activities reached \$20.3 million for the quarter.

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## **IMPORTANT EVENTS DURING 2009 THIRD QUARTER**

### **Acquisition of Garden of Life**

On September 18, 2009, the Company acquired, through one of its U.S. subsidiaries, the assets of Garden of Life, Inc. ("Garden of Life") for a total consideration of \$38.4 million including acquisition-related costs and the line of credit assumed, of which \$34.5 million was paid in cash and \$2.5 million by the issuance of 204,265 of Atrium's common shares at a price of CAN\$13.31 per share. The cash used to pay for the transaction comes from working capital for an amount of \$12 million and the balance from the credit facility.

Under the terms of the transaction, an additional payment will be paid at the end of fiscal 2009. The initial purchase price is based on a multiple of 6.5 times the 2009 earnings before interest, taxes, depreciation and amortization ("EBITDA"). Additional payments for the years 2010 and 2011 have also been planned based on a percentage of the exceeding EBITDA above certain pre-established thresholds of growth. The synergies related to manufacturing will be assigned to Atrium and will not be part of the calculation of additional payments based on future profits. In addition, this transaction immediately adds value.

Garden of Life is a leading formulator, distributor and marketer of nutritional supplement products. Garden of Life products are sold in nearly 12,000 U.S. health food and specialty retail outlets, including major chains as well as thousands of independent stores.

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### STATEMENT OF EARNINGS SUMMARY (unaudited)

(in thousands of US dollars, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenues	81,393	75,421	224,626	215,739
Affiliated revenues further to the acquisition of EAB	-	(5,049)	-	(14,282)
<b>Adjusted revenues</b>	<b>81,393</b>	<b>70,372</b>	<b>224,626</b>	<b>201,457</b>
Earnings from operations (EBIT)	19,771	17,484	52,989	51,257
Depreciation and amortization	1,792	1,488	4,815	4,290
<b>EBITDA</b>	<b>21,563</b>	<b>18,972</b>	<b>57,804</b>	<b>55,547</b>
<b>Net earnings from continuing operations</b>	<b>13,071</b>	<b>12,068</b>	<b>34,851</b>	<b>33,284</b>
<b>Net earnings per share (EPS) from continuing operations</b>				
<b>Basic</b>	0.40	0.37	1.07	1.03
<b>Diluted</b>	0.40	0.37	1.06	1.01
<b>Cash flow from continuing operating activities before changes in non-cash working capital items</b>	<b>14,015</b>	<b>12,970</b>	<b>37,638</b>	<b>36,867</b>

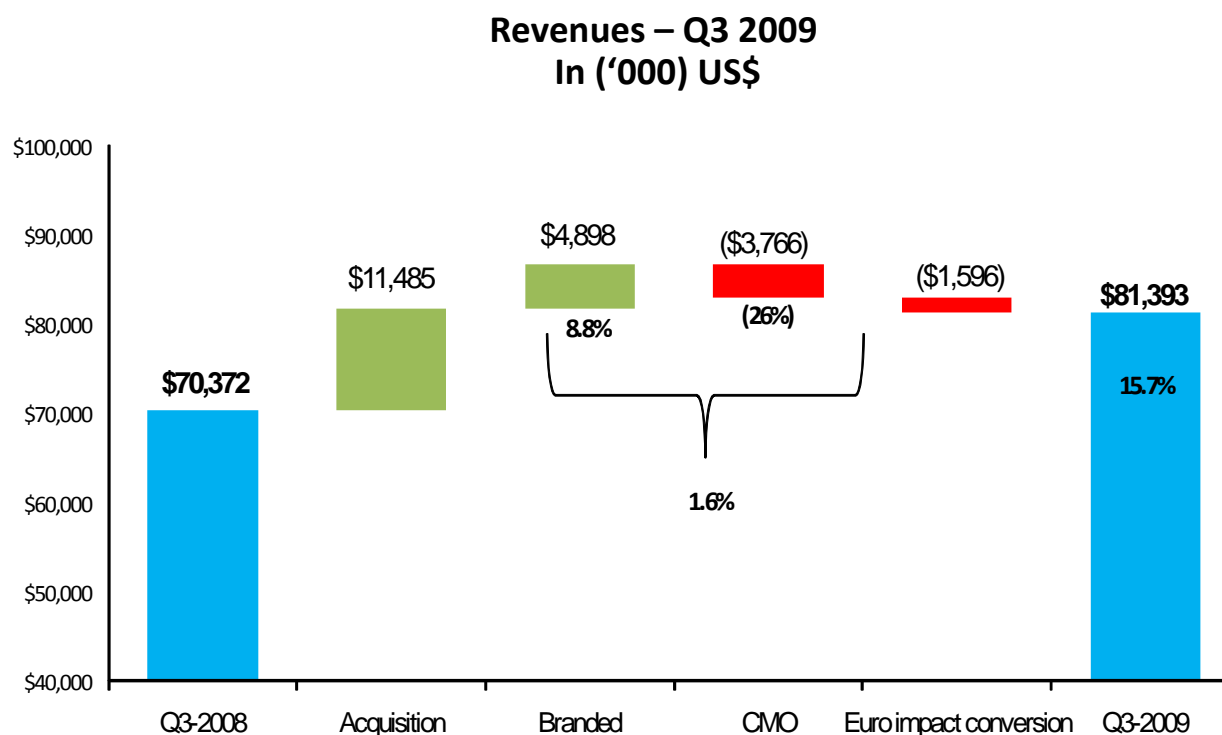
### STATEMENT OF EARNINGS SUMMARY – INCLUDING DISCONTINUED OPERATIONS (unaudited)

(in thousands of US dollars, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Net earnings from discontinued operations, (in connection with the sale of the AI&amp;SC Division)</b>	-	-	-	37,361
<b>Net earnings</b>	<b>13,071</b>	<b>12,068</b>	<b>34,851</b>	<b>70,645</b>
<b>Net earnings per share (EPS)</b>				
<b>Basic</b>	0.40	0.37	1.07	2.18
<b>Diluted</b>	0.40	0.37	1.06	2.14

**Revenues** for the third quarter ended September 30, 2009 reached \$81.4 million compared to adjusted revenues of \$70.4 million in 2008, an increase of \$11.0 million or 15.7%. The 2008 adjustment of \$5.0 million represents the revenues from the sale of raw material to EAB, which were not eliminated in the consolidation process in 2008. In 2009, further to the acquisition of EAB, these revenues are eliminated in the consolidation process since they are affiliated revenues. The 2008 adjustment allows us to present comparable revenues. The adjustment only impacts the revenues.

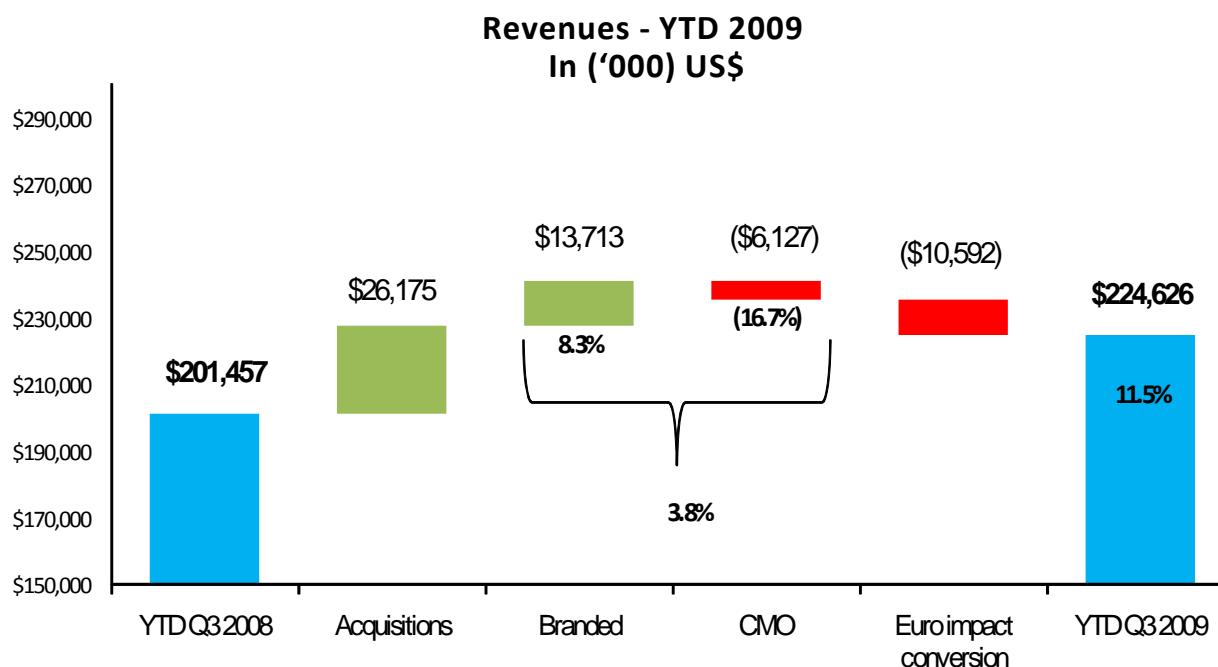
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The revenues increase came primarily from the following: 1) increase from the acquisitions of AOV in September 2008, Nutri-Health in December 2008 and Garden of Life in September 2009 totalling \$11.5 million, 2) increase in revenues from the branded products amounting to \$4.9 million, 3) decrease in revenues from sub-contracts for \$3.8 million and 4) decrease of \$1.6 million in connection with the negative impact of the variation of the euro exchange rate against the US dollar. The decrease in the average exchange rate of the euro against the US dollar for the third quarter of 2009 was 5% over the same period in 2008 and excluding this negative impact in 2009, the revenues growth would have been of 18.0%.



For the nine-month period ended September 30, 2009, revenues reached \$224.6 million compared to adjusted revenues of \$201.5 million for the same period in 2008, an increase of 11.5%. The \$23.1 million increase came primarily from 1) increase from the acquisitions of AOV in September 2008, Nutri-Health in December 2008 and Garden of Life in September 2009 totalling \$26.2 million, 2) increase in revenues from the branded products amounting to \$13.6 million, 3) decrease in revenues from sub-contracts for \$6.1 million and 4) decrease of \$10.5 million in connection with the negative impact of the variation of the euro exchange rate against the US dollar. The decrease in the average exchange rate of the euro against the US dollar for the nine-month period ended September 30, 2009 was 10% over the same period in 2008 and excluding this negative impact in 2009, the revenues growth would have been of 16.7%.

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For the nine-month period ended September 30, 2009, revenue breakdown was 57% in North America and 43% in Europe as a result of our recent acquisitions, organic growth and the foreign exchange rate evolution. On a prospective basis, with our recent acquisitions and the foreign exchange rate prevailing, we expect to have a revenue breakdown of approximately 60% in North America and 40% in Europe in 2009.

**Gross margin** was \$46.2 million for the third quarter ended September 30, 2009, compared to \$37.1 million for the same period of 2008, an increase of \$9.1 million or 24.3%. This variation is primarily attributed to the integration of the gross margins of Garden of Life acquired in September 2009, EAB acquired in January 2009 and Nutri-Health acquired in December 2008.

For the nine-month period ended September 30, 2009, gross margin was \$124.2 million compared to \$109.9 million for the same period in 2008, an increase of \$14.3 million or 13.1%. This variation is primarily attributable to the integration of gross margins from the acquisitions of Garden of Life in September 2009, EAB in January 2009, Nutri-Health in December 2008, AOV in September 2008 and MCO in February 2008.

For the third quarter ended September 30, gross margin rate based on adjusted revenues increased from 52.8% in 2008 to 56.7% in 2009. For the nine months ended September 30, gross margin rate increased from 54.5% based on adjusted revenues in 2008 to 55.3% in 2009. These variations, upward, in gross margin rate resulted mainly from the integration of EAB's gross margin following its vertical acquisition and from Nutri-Health, which generates a higher gross margin rate than the average of our other operations and by some improvements made within our existing operations.

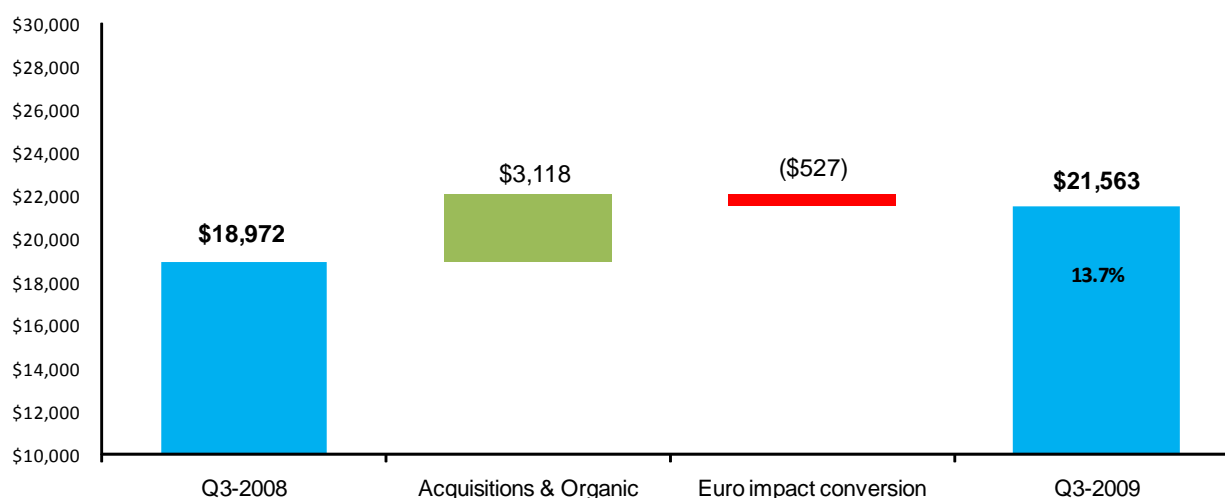
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**Selling and administrative expenses** were \$24.7 million for the third quarter ended September 30, 2009, an increase of \$6.3 million over the \$18.4 million incurred during the same period in 2008. This increase is mainly due to the acquisition of Garden of Life in September 2009, Nutri-Health in December 2008 and AOV in September 2008. For the nine months ended September 30, 2009, those expenses reached \$66.7 million, an increase of \$11.9 million compared to \$54.8 million for the same period in 2008. This increase is mainly due to the acquisitions mentioned above and by the acquisition of MCO in February 2008.

As a percentage of revenues, for the nine-month periods ended September 30<sup>th</sup>, selling and administrative expenses were 29.7% in 2009 compared to 27.2% in 2008 over the adjusted revenues. The percentage increase of selling and administration expenses over revenues mainly came from the acquisition of Nutri-Health, which generates proportionately higher selling and administration expenses than our current operations since it operates in the direct-to-consumers sector for which marketing expenses are more significant.

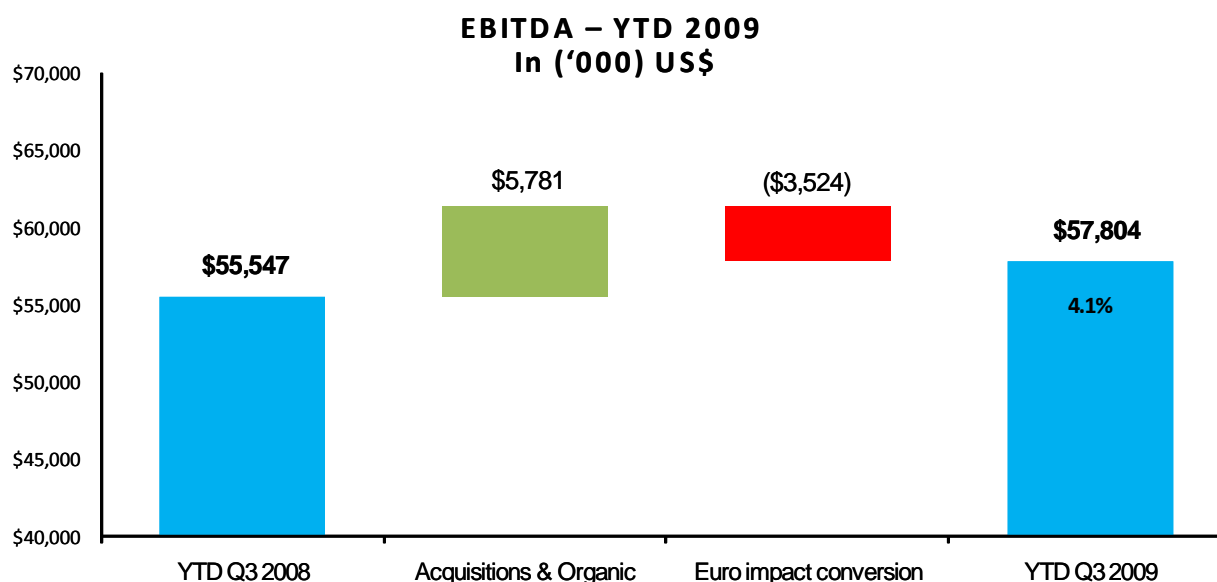
**EBITDA** for the quarter ended September 30, 2009 was \$21.6 million (or 26.5% of revenues) compared to \$19.0 million in 2008 (or 27.0% of adjusted revenues), an increase of \$2.6 million or 13.7%. The 2009 EBITDA increase primarily came from organic growth and from the acquisitions of Garden of Life in September 2009, EAB in January 2009, Nutri-Health in December 2008 and AOV in September 2008 offset by the decrease of 5% of the euro average exchange rate against the US dollar for the third quarter of 2009 compared to 2008, which generated an EBITDA decrease of \$0.5 million. Eliminating the negative effect of the variation of the euro exchange rate against the US dollar, the EBITDA growth for the third quarter of 2009 over the same period of 2008 would have been of approximately 16.4%. The slight percentage decrease of the EBITDA over the revenues is explained by the integration of Nutri-Health and Garden of Life, which generate lower EBITDA percentage than our current operations since they respectively operate in the direct-to-consumers sector and the specialty food stores sector.

### EBITDA – Q3 2009 In ('000) US\$



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For the nine-month period ended September 30, 2009, EBITDA was \$57.8 million (or 25.7% of revenues) compared to \$55.5 million in 2008 (27.6% of adjusted revenues), an increase of \$2.3 million or 4.1%. The increase is explained by the organic growth and by the acquisitions of Garden of Life in September 2009, EAB in January 2009, Nutri-Health in December 2008, AOV in September 2008 and MCO in February 2008 reversed by the negative effect of the variation of the euro exchange rate against the US dollar amounting approximately to \$3.5 million. Eliminating this negative effect, the EBITDA growth for the nine-month period ended September 30, 2009 over the same period of 2008 would have been of approximately 10.4%.



**Depreciation and amortization** expenses, including amounts presented in the cost of sales, for the quarter ended September 30, 2009 were \$1.8 million, an increase of \$0.3 million compared to \$1.5 million in 2008. For the nine-month period ended September 30, 2009, depreciation and amortization expenses were \$4.8 million compared to \$4.3 million in 2008.

**Financial income** for the third quarter and the nine-month period ended September 30, 2009 was less than \$0.1 million and \$0.2 million respectively, representing the interests revenues on the cash and cash equivalent balances. For the same periods in 2008, revenues were \$0.3 million and \$1.8 million respectively and included the \$0.7 million gain on the sale of our euro interest rate swap during the second quarter of 2008. The sale of this swap was done following a debt reimbursement of a major part of the euro debt and because the swap was not meeting anymore the criteria of a hedging financial instruments. The decrease is also due to the average cash and cash equivalents level, which was lower in 2009 compared to 2008, as well as the overall decline in interest rates on the markets.

**Financial expenses** for the third quarter ended September 30, 2009 were \$1.8 million compared to \$2.1 million in 2008. For the nine-month period ended September 30, 2009, financial expenses were \$5.5 million compared to \$10.4 million in 2008. The 2009 decrease is mainly due to the decrease of approximately \$46 million of the average debt level of 2009 over

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the average level of 2008 combined to the decline of approximately 1.6% of our borrowing rates, results of the market conditions.

**Foreign exchange gains and losses** for the third quarter ended September 30, 2009 and 2008 are due entirely to exchange rate fluctuations related to working capital items. The variation of these gains and losses between the third quarters of 2008 and 2009 generates a reduction of earnings before income tax expense of approximately \$0.9 million or \$0.02 in net earnings per share.

**Income tax expense** amounted to \$4.8 million (or 27.0% of earnings before taxes) for the third quarter ended September 30, 2009, compared to \$4.3 million (or 26.5% of earnings before taxes) during the same period of 2008. For the nine-month period ended September 30, 2009, income tax expense amounted to \$12.3 million (or 26.1% of earnings before taxes) compared to \$11.2 million (or 25.1% of earnings before taxes) during the same period last year. These tax rates represent the weighted tax rates of the different jurisdictions where we operate as well as the positive impact of the fiscal structures set up to finance our acquisitions in the past years. The increase in the tax rate is explained by 1) a change in the weighting of the earnings generated in our North American operations that have a statutory rate higher than in Europe, 2) a slight decrease in the benefits resulting from our financing tax structure since our interest expenses are at a lower level than in 2008 and 3) some adjustments related to prior years increasing the current income tax expenses. According to our interest expenses and the geographic allocation of our future taxable income, our tax rate should be approximately 29% for the coming quarters.

**Net earnings from continuing operations** for the third quarter ended September 30, 2009 were \$13.1 million or \$0.40 per share (\$0.40 per diluted share) compared to \$12.1 million or \$0.37 per share (\$0.37 per diluted share) in 2008, an increase of 8.3%. If we exclude the negative effect of approximately \$0.3 million caused by the variation of the euro exchange rate against the US dollar, our net earnings for the third quarter of 2009 would have been approximately \$13.4 million, an increase of 10.7% over 2008.

For the nine-month period ended September 30, 2009, net earnings from continuing activities were \$34.9 million or \$1.07 per share (\$1.06 per diluted share) compared to \$33.3 million or \$1.03 per share (\$1.01 per diluted share) in 2008, an increase of 4.7%. If we exclude the negative effect of approximately \$2.1 million caused by the variation of the euro exchange rate against the US dollar, net earnings for the nine-month period ended September 30, 2009 would have been approximately \$36.9 million, an increase of 11.1% over 2008.

**Net earnings from discontinued operations** for 2008 are related to the AI&SC Division and include the result of its disposal, which was sold on May 22, 2008. For more information, please refer to our 2008 annual report.

Total **net earnings** including discontinued operations for the third quarter ended September 30, 2009 were similar to net earnings of continuing operations at \$13.1 million or \$0.40 per share (\$0.40 per diluted share) compared to \$12.1 million or \$0.37 per share (\$0.37 per diluted share) in 2008. For the nine-month period ended September 30, 2009, net earnings including discontinued operations were \$34.9 million or \$1.07 per share (\$1.06 per diluted share) compared to \$70.6 million or \$2.18 per share (\$2.14 per diluted share) in 2008. The total net

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earnings decrease for 2009 is attributable to the 2008 discontinued operations earnings, whereby this division was sold in May 2008.

### CONSOLIDATED BALANCE SHEET DATA (unaudited)

(in thousands of US dollars)	As of September 30, 2009	As of December 31, 2008
	\$	\$
<b>Total assets</b>	611,836	558,640
<b>Long-term liabilities</b>	243,536	238,616

**Total assets** were \$611.8 million as of September 30, 2009, and \$558.6 million as of December 31, 2008. The increase is mainly attributed to the acquisition of Garden of Life and EAB and by the increase of the euro exchange rate over the US dollar.

**Long-term liabilities** totalled \$243.5 million as of September 30, 2009 compared to \$238.6 million as of December 31, 2008, an increase of \$4.9 million. The increase is mainly due to the \$ 23.0 million debt incurred for the acquisition of Garden of Life and by the increase related to the variation of the euro exchange rate against the US dollar offset by the cash payments on the debt.

### LIQUIDITY, CASH FLOW AND CAPITAL RESOURCES

Our operations, acquisitions and capital expenditures are mainly financed through cash flows from operating activities, the use of our liquidities and the use of our credit facility, as well as the issuance of common shares.

In the second quarter of 2008, following the sale of the AI&SC Division, the Company amended its existing credit facility, decreasing the authorized amount by \$50.0 million to \$300.0 million. This credit facility, expiring in 2012, bears interest at market-based variable rates plus a premium calculated for each quarter and is secured by security interests on all of the Company's and its subsidiaries' assets and shares.

As of September 30, 2009, our consolidated cash and cash equivalents position was \$17.8 million. Our long-term debt amounted to \$181.3 million as of September 30, 2009. This long-term debt consists of \$168.8 million from our credit facility. The other portion of our long-term debt consists of a subordinated debt of \$12.5 million bearing interest at a rate of 7%. The subordinated debt is subject to a full repayment at the maturity date in 2012.

As of September 30, 2009, in order to manage interest rate fluctuations, we have two declining interest rate swaps. The first one has a current nominal value of \$48.3 million (33.0 million euros), designated as cash flow hedge for the variable interest payment of our long-term debt denominated in euros. Under this swap, maturing in June 2012, the Company pays a fixed

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interest rate of 2.8% and receives a variable interest rate based on the one-month EURIBOR. The second one has a current nominal value of \$90.8 million (62.0 million euros), designated as cash flow hedge for the variable interest payment of our long-term debt denominated in euros. Under this swap, maturing in June 2012, the Company pays a fixed interest rate of 2.43% and receives a variable interest rate based on the one-month EURIBOR. As of September 30, 2009, combining the subordinated debt and these swaps, approximately 83.7% of our long-term debt bears interest at a fixed rate.

With the current level of our long-term debt, our interest rate on long-term debt before other charges is slightly lower than 4%.

In order to manage the cash flow generated in euros and minimize the impact of the exchange rate fluctuation between the euro and the US dollar, we converted, during December 2008 and January 2009, almost all of our debt coming from our credit facility into euro to benefit from the highest available natural hedge. Almost all of our interest expenses will now be payable in euros and, considering the actual lower interest rates, following the general rate decrease in the market, we believe that this conversion will enable us to hedge approximately 20% of our EBITDA generated in euros.

The Company believes that these liquidities, combined with our credit facility and cash flows from operations, will be adequate to meet operating cash requirements in the foreseeable future. However, possible additional development plans or acquisitions of complementary businesses or products may require additional financing.

### **OPERATING ACTIVITIES**

Cash flows generated by our continuing operations were \$20.3 million for the third quarter ended September 30, 2009 compared to \$11.5 million in 2008. This cash flow variation of \$8.8 million is primarily due to lower working capital requirements. Cash flows from our continuing operating activities before changes in non-cash working capital items for the third quarter ended September 30, 2009 were \$14.0 million compared to \$13.0 million for the same period in 2008, an increase of \$1.0 million.

For the nine-month period ended September 30, 2009, cash flows from operating activities before changes in non-cash working capital items were \$37.7 million compared to \$36.9 million for the same period in 2008.

### **FINANCING ACTIVITIES**

For the third quarter ended September 30, 2009, cash flows generated by our continuing financing activities were \$15.7 million. The cash flows generated mainly represent 1) the \$23.0 million debt borrowed for the acquisition of Garden of Life and 2) the \$8.0 million repayments on long-term debt. With these reimbursements on long-term debt during the quarter, it is necessary to add the 12.0 million of cash and cash equivalent used directly in the acquisition of Garden of Life.

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For the third quarter ended September 30, 2008, cash flows generated by our continuing financing activities were \$7.4 million. The cash flow generated are mainly represented by 1) The \$11.0 million debt borrowed for the acquisition of AOV and 2) the \$3.9 million repayments on long-term debt coming from the cash and cash equivalent.

For the nine-month period ended September 30, 2009, cash flows used by our continuing financing activities were \$8.6 million. The cash flow used are represented by 1) The long-term debt increase of \$77.4 million mainly coming from the \$23.0 million debt contracted for the acquisition of Garden of Life in September 2009 and the euro conversion of our debt denominated in US dollar debt amounted to \$53.6 million and 2) the \$85.8 million payment on the long term debt also including the equivalent amount of \$53.6 million related to the conversion and the regular repayments on long-term debt totalling \$32.2 million.

For the nine-month period ended September 30, 2008, cash flows used by our continuing financing activities were \$144.1 million. The cash flow used are represented by 1) the debt reimbursements totalling \$183.8 million mainly coming from the \$178.4 million that came from the proceeds of the sale of the AI&SC Division 2) the borrowing of \$23.7 million for the acquisition of MCO in February 2008 and \$11.4 million for the acquisition of AOV in September 2008 and 3) by former management team member's exercising of stock options generating \$4.7 million.

### **INVESTING ACTIVITIES**

Cash flows from our continuing investing activities were \$35.2 million for the quarter ended September 30, 2009, mainly representing the acquisition of Garden of Life in September 2009. For the quarter ended September 30, 2008, cash flows used by our continuing investing activities amounted to \$11.3 million and were used mainly for the acquisition of AOV in September 2008.

For the nine-month period ended September 30, 2009, cash flows used by our continuing investing activities were \$54.2 million and included funds used for the acquisitions of Garden of Life in September 2009 and EAB in January 2009 offset by the purchase price adjustment of Nutri-Health. For the nine-month period ended September 30, 2008, cash flows used by our continuing investing activities amounted to \$36.8 million and were used mainly for the acquisition of AOV in September 2008 and MCO in February 2008.

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## QUARTERLY SUMMARY FINANCIAL INFORMATION (unaudited)

(in thousand of US dollars, except per share data)

	Quarter ended			
	September 30, 2009 \$	June 30, 2009 \$	March 31, 2009 \$	December 31, 2008 \$
<b>Revenues</b>	81,393	72,630	70,603	74,370
<b>Adjusted revenues<sup>(1)</sup></b>	81,393	72,630	70,603	71,410
<b>EBITDA</b>	21,563	18,512	17,729	18,338
<b>Net earnings from continuing operations</b>	13,071	11,198	10,582	11,209
<b>Net earnings</b>	13,071	11,198	10,582	10,627
<b>EPS from continuing operations</b>				
<b>Basic<sup>(2)</sup></b>	0.40	0.35	0.33	0.35
<b>Diluted<sup>(2)</sup></b>	0.40	0.34	0.32	0.34
<b>Total EPS</b>				
<b>Basic<sup>(2)</sup></b>	0.40	0.35	0.33	0.33
<b>Diluted<sup>(2)</sup></b>	0.40	0.34	0.32	0.32
	Quarter ended			
	September 30, 2008 \$	June 30, 2008 \$	March 31, 2008 \$	December 31, 2007 \$
<b>Revenues</b>	75,421	74,544	65,774	57,859
<b>Adjusted revenues<sup>(1)</sup></b>	70,372	70,007	61,078	56,657
<b>EBITDA</b>	18,972	18,191	18,384	13,689
<b>Net earnings from continuing operations</b>	12,068	10,691	10,525	8,061
<b>Net earnings</b>	12,068	43,857	14,720	10,720
<b>EPS from continuing operations</b>				
<b>Basic<sup>(2)</sup></b>	0.37	0.33	0.33	0.26
<b>Diluted<sup>(2)</sup></b>	0.37	0.32	0.32	0.25
<b>Total EPS</b>				
<b>Basic<sup>(2)</sup></b>	0.37	1.36	0.46	0.34
<b>Diluted<sup>(2)</sup></b>	0.37	1.33	0.44	0.33

(1) The adjustments used to obtain the adjusted revenues represent the revenues from the sale of raw material to EAB, which are now eliminated, starting in 2009, further to the acquisition of EAB, since they are affiliated revenues.

(2) Per share data is calculated independently for each of the quarters presented. Therefore, the sum of this quarterly information may not equal the corresponding annual information.

Significant items explaining the important variations in the above quarterly results were the sale of the AI&SC Division during the second quarter of 2008 generating a net gain on disposal of \$30.7 million and the major acquisitions made during the last 8 quarters: Garden of Life in September 2009, EAB in January 2009, Nutri-Health in December 2008, AOV in September 2008 and MCO Health in February 2008.

# Management's Discussion and Analysis of Financial Condition and Results of Operations – Q3 2009

## **CAPITAL STOCK**

On November 10, 2009, there were 32,655,340 common shares and 1,043,000 stock options outstanding.

## **OFF-BALANCE SHEET ARRANGEMENTS**

As of September 30, 2009, we were not the primary beneficiary in Variable Interest Entities and there was no off-balance sheet arrangement.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our financial statements are prepared in accordance with Canadian GAAP. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting years. On an ongoing basis, we evaluate these estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts, provisions for obsolete inventories, future income tax assets, the useful lives of property, plant and equipment and intangible assets, the valuation of intangible assets and goodwill, the fair value of options granted, the contingencies and certain accrued liabilities. Therefore, actual results could differ from these estimates.

We base our estimates and assumptions on historical experience and on other factors that we believe to be reasonable under the circumstances, the result of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

There have been no significant changes in the Company accounting policies and estimates since December 31, 2008 except for the application of the new accounting standards described below. The full description of accounting policies is presented in the relevant section of the Company's financial statements included in our 2008 Annual Report.

## **NEW ACCOUNTING STANDARDS**

### **Goodwill and Intangible Assets**

On January 1, 2009, the Company adopted Section 3064 "Goodwill and Intangible Assets", replacing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". This section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets.

The adoption of this section did not have any impact on the Company's consolidated financial statements.

# Management's Discussion and Analysis of Financial Condition and Results of Operations – Q3 2009

## **Impact of Accounting Pronouncements not yet Adopted**

### **Business Combinations, Consolidated Financial Statements and Non-controlling Interests**

In January 2009, the CICA issued Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests".

Section 1582 will be converged with International Financial Reporting Standards ("IFRS") 3, "Business Combinations". Section 1602 will be converged with the requirements of IAS 27, "Consolidated and Separate Financial Statements", for non-controlling interests. Section 1601 carries forward the requirements of Section 1600, "Consolidated Financial Statements", other than those relating to non-controlling interests.

Section 1582 applies to acquisitions made from January 1, 2011 in which the acquirer obtains control of one or more businesses. The term "business" is more broadly defined than in the existing standard. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be "improbable", will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed.

Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholders' equity. Net income will be calculated without deduction for the non-controlling interest. Rather, net income will be allocated between the controlling and non-controlling interests.

The new standards will become effective in 2011. The Company is currently evaluating the impact of the adoption of these new standards on its consolidated financial statements.

### **International Financial Reporting Standards**

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement, presentation and disclosures.

During 2008, the Company proceeded with the assistance of external experts to establish a stage 1 diagnosis for the adoption of IFRS. This diagnosis has identified the main differences between the accounting treatments applied by the Company under Canadian GAAP and the IFRS as well as the practical implications related to the measure. The differences were further classified according to their degree of complexity and by the amount of work to implement with respect to the measure.

## Management's Discussion and Analysis of Financial Condition and Results of Operations – Q3 2009

An implementation plan for the conversion to IFRS has been prepared. The activities planned include the identification and documentation of existing differences between IFRS and Canadian GAAP in accounting and disclosure requirements, the selection of accounting policies under IFRS, including the consideration of options available under IFRS, the establishment of the effects related to the conversion on internal controls, accounting systems and other solutions and business processes, and developing a training program to help employees concerned for the transition and the continued compliance with IFRS.

The Company has decided to switch to IFRS on January 1, 2011. Some options permitted under IFRS are currently under analysis. A summary analysis indicates that in most cases, the Company would opt for a prospective application when the choice is available. The various activities related to the IFRS implementation plan will continue throughout the year 2009.

### **RISK FACTORS**

There were no significant changes in the risk factors and uncertainties facing Atrium Innovations, as described in the Company's 2008 annual MD&A, during the quarter ended September 30, 2009.

### **CONTINUOUS DISCLOSURE AND DISCLOSURE CONTROLS**

The Company is a reporting issuer under the securities legislation of all of the provinces of Canada and it is, therefore, required to file continuous disclosure documents such as interim and annual financial statements, a proxy circular, an annual information form, material change reports and press releases with such securities regulatory authorities. Copies of these documents may be obtained free of charge on request from the office of the Secretary of the Company or through the Internet at the following addresses: [www.atrium-innovations.com](http://www.atrium-innovations.com) and [www.sedar.com](http://www.sedar.com).

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with GAAP in its financial statements. The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls over financial reporting to the issuers. They established the internal control over financial reporting or had it established under their supervision in order to obtain reasonable assurance about the reliability of the financial reporting and to make sure that the financial statements were being prepared accordingly with GAAP.

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were changes to the Company's ICFR during the quarter ended September 30, 2009 that materially affected or that are reasonably likely to materially affect its ICFR. No such changes were identified through their evaluation.



















