Management Discussion and Analysis
Fourth Quarter 2017
December 31, 2017

Management's Discussion and Analysis

Basis of Presentation

This Management's Discussion and Analysis ("MD&A") has been prepared and includes material financial information as of March 22, 2018. This MD&A should be read in conjunction with the audited financial statements of Trez Capital Junior Mortgage Investment Corporation ("Company") for the year ended December 31, 2017 prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting standards Board.

On May 9, 2016, the Special Committee of the Board of Directors announced the completion of its strategic review process and a plan for the orderly wind-up of the Company's assets and the return of capital to shareholders (the "Orderly Wind-Up Plan"). The Orderly Wind-Up Plan in its entirety was approved by shareholders at the Company's annual and special meeting of shareholders held on June 16, 2016.

Under the Orderly Wind-Up Plan, the Company has ceased originating new loans and all mortgage renewal activity, subject to contractual rights, and its assets are being monetized over time. The Orderly Wind-Up Plan has been implemented and capital is being returned to shareholders under the supervision of the Board of Directors with the assistance of the Manager. In addition, the Manager and its affiliates have ceased providing any financial support in respect to any of the mortgages held in the Company's portfolio, except for instances as disclosed in note 5 to the Company's financial statements. The fees to the Manager have been restructured as outlined in note 7 to the Company's unaudited condensed interim financial statements.

In addition, an Investment & Capital Management Committee was formed in June 2016. Its mandate is to: (i) manage the normal course issuer bid ("NCIB"); and (ii) manage and oversee the Orderly Wind-Up Plan, including any related substantial issuer bids ("SIB").

In the first quarter of 2017, as a result of a $35 million cash outlay in relation to a Substantial Issuer Bid ("SIB") for the cancellation of shares and monetization of residential mortgages related to the Orderly Wind –Up Plan, the Company ceased to maintain its status as a Mortgage Investment Corporation pursuant to the Income Tax Act (Canada) and consequently is no longer able to deduct dividends paid to shareholders from its taxable income. However, the Company expects its non-capital losses carried forward from prior years are sufficient to offset all future taxable income.

All dollar amounts in this MD&A are in Canadian dollars.

Additional information related to the Company, including the Company's financial statements and annual information form for the year ended December 31, 2017 is available on SEDAR at www.sedar.com or www.trezcapitalmic.com.

Forward-Looking Statements

This MD&A may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. These statements are typically identified by expressions like “believe”, “expects”, “anticipates”, “would”, “will”, “intends”, “projected”, “in our opinion” and other similar expressions. By their nature, forward-looking statements require us to make assumptions which include, among other things, that: (i) the Company will have sufficient capital under management to effect its investment strategies and pay its targeted dividends to shareholders, (ii) the investment strategies will produce the results as intended, (iii) the markets will react and perform in a manner consistent with the investment strategies and (iv) the Company is able to invest in mortgages or loans of a quality that will generate returns that meet and or exceed the Company’s targeted investment returns.

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that the Company may invest in and the risks detailed from time to time in the Company’s public disclosures.

We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Company and Trez Capital Fund Management LP (the “Manager”) do not undertake, and specifically disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

Non-IFRS Financial Measures

The Company prepares and releases its audited annual financial statements and unaudited condensed interim financial statements in accordance with IFRS. In this MD&A, as a complement to results provided in accordance with IFRS, the Company discloses certain financial measures not recognized under IFRS and which do not have standard meanings prescribed by IFRS. These measures include the following:

- Mortgage portfolio – represents investments in mortgages net of accrued interest and fees receivable, mortgage syndications and fair value adjustments on investments in mortgages;
- Average mortgage investment – represents the mortgage portfolio divided by the total number of mortgage investments at the reporting date;
- Weighted average interest rate – represents the weighted average effective interest rate on the mortgage portfolio at the reporting date;
- Loan-to-value (“LTV”) – a measure of advanced and un-advanced mortgage commitments on mortgage investment, including priority or pari-passu debt on the underlying real estate, as a percentage of the fair value of the underlying real estate collateral of the mortgage investment.

For construction and redevelopment mortgage investments, fair value of the underlying real property is measured on an 'as completed' basis. Weighted average LTV is the dollar weighted average of mortgage LTVs in a portfolio;

- Dividend yield – represents the annualized yield on the Company's equity capitalization computed as the annual dividend divided by the closing price of the Company's share price as at the period end date;
- Average mortgage portfolio – represents the total of the monthly mortgage portfolio divided by the number of months in the reporting period; and
- Yield on average mortgage portfolio - represents an annualized percentage of interest revenue divided by the average mortgage portfolio during a period.

Non-IFRS measures should not be construed as alternatives to net income (loss) or comprehensive income (loss) or cash flows from operating activities determined in accordance with IFRS as indicators of the Company's performance.

Review and Approval by the Board of Directors

The Board of Directors (the "Board") approved the content of this MD&A on March 22, 2018.

Financial Highlights and Key Performance Indicators

($000s unless otherwise noted)	Three months ended December 31		Year ended December 31		
	2017	2016	2017	2016	2015
FINANCIAL					
Revenue	753	1,889	4,716	11,840	15,492
Income (loss) from operations	(28)	(2,775)	1,627	(3,311)	11,720
Cash flow from operations	5,703	33,248	48,020	85,921	18,553
Dividends paid*	12,102	2,914	48,789	12,930	13,589
EPS (basic and diluted)	(0.002)	(0.17)	0.13	(0.19)	0.56
PORTFOLIO					
Mortgage portfolio			51,678	104,897	183,724
Total number of mortgage investments			9	18	37
Average mortgage investment			5,742	5,828	4,966
Weighted average interest rate			3.44%	5.78%	7.96%
Weighted average loan to value			79.88%	79.66%	74.64%
Average mortgage portfolio	54,778	112,407	77,243	152,761	202,693
Yield on average mortgage portfolio	5.50%	6.70%	6.09%	7.58%	7.31%

* The dividends paid have constituted returns of capital since August 15, 2016.

For the three months and year ended December 31, 2017, revenue decreased by $1.1 and $7.1 million compared to the same periods in 2016. The decrease was the result of reduced interest income of $1.1 million for the three months ended December 31, 2017, and reduced interest income of $7.2 million and reduced commitment fee $0.3 million offset by $0.4 million lower interest expenses on mortgage syndications for the year ended December 31, 2017. The reduction in interest income was a result of a decrease in the mortgage portfolio by $53.2 million for the year ended December 31, 2017 compared to the same period in 2016. The decrease in the mortgage portfolio was driven by an initial pause, and effective June 2016, the cessation in mortgage funding activity as part of the Orderly Wind-Up Plan of the Company.

For the three months and year ended December 31, 2017, income from operations increased by $2.8 and $4.9 million compared to the same periods in 2016. The increase in income was the result of lower overall expenses of $3.9 million and $12.0 million for the three months and year ended December 31, 2017 compared to the same periods in 2016. The reduction in expenses was primarily due to decreased fair value adjustments on investments in mortgages and lower general and administration expenses, as well as lower management and incentive fees as compared to the same periods in 2016. The lower expenses were offset by previously mentioned reductions in revenue of $1.1 and $7.1 million.

Cash flows from operations decreased by $27.5 and $37.9 million for the three months and year ended December 31, 2017 compared to the same periods in 2016. The movement was the primarily the result of decreased principal repayments on investments in mortgages of $22.5 million and increase in funding of investments in mortgages of $4.7 million for the three months ended December 31, 2017 compared to the same period in 2016. For the year ended December 31, 2017, the decrease was due to decreased principal repayments of $56.1 million which was offset by reduced funding of investments in mortgages of $20.5 million as compared to the same period in 2016. In addition, for both three months and year ended December 31, 2017 as compared to the same periods in 2016, further reductions in operating cash

flow were attributed to decreases in interest and commitment fee income due to decreases in the mortgage portfolio.

Commencing May 19, 2017, the Company was authorized to purchase for cancellation a maximum 1,210,345 common shares during the following twelve months under the normal course issuer bid (“NCIB”). Previously, the Company was authorized to purchase for cancelation a maximum 1,808,610 common shares during the period from May 19, 2016 and May 18, 2017, and 1,952,321 common shares during the period from January 12, 2015 to January 11, 2016. During the three months and year ended December 31, 2017, the Company has purchased 228,820 and 418,430 shares for cancellation, respectively. Since inception of the initial NCIB, the Company has bought back 1,469,446 shares at an average price of $7.30.

In connection with the Orderly Wind-Up, on July 21, 2016 and December 5, 2016, the Board of Directors of the Company authorized a substantial issuer bid (“SIB”) to purchase for cancellation Class A Shares, by way of a modified “Dutch auction”, for an aggregate purchase price not to exceed $20 million and $35 million, respectively. On September 20, 2016, the Company repurchased 2,000,000 shares at a price of $8.50 per share for a total consideration of $17 million. In the first quarter of 2017, on February 15th, the Company purchased 4,216,867 shares at a price of $8.30 per share for a total consideration of $35 million. As a result of the cash outlay and liquidation of residential mortgages, in the first quarter of 2017 the Company intentionally went below the required threshold which requires a Mortgage Investment Corporation to have 50% or more of its’ capital in residential mortgages and cash. This resulted in the Company ceasing to maintain its status as a mortgage investment corporation pursuant to the Income Tax Act (Canada) and consequently is no longer able to deduct dividends paid to shareholders from its taxable income. The Manager believes the Company’s non-capital losses carried forward are sufficient to offset any future taxable income.

Total dividends paid to shareholders increased for the three months and year ended December 31, 2017 as compared to the same periods in 2016, due to two special distributions of $29.8 million ($2.46 per Class A share) and $10.0 million ($0.838 per Class A share) paid in the third and fourth quarter, respectively. These distributions were partially offset by reduced monthly distributions as fewer shares were outstanding after the completion of the NCIB and the SIB. Monthly dividends per share remained unchanged at $0.70 per share annually. Beginning with the distribution paid on August 15, 2016 to holders of Class A shares of record on July 31, 2016, the distributions have constituted a return of capital pursuant to the winding-up of the Company’s business as approved by Shareholders on June 16, 2016.

Subsequent to year end, on March 23rd, 2018 the Company announced that its Board of Directors had declared a special distribution of $1.52 per Class A shares of the Company. The special distribution, which constitutes a return of capital pursuant to the winding-up of the Company's business as approved by Shareholders on June 16, 2016, will be paid on April 20th to holders of Class A shares of record on April 9, 2018.

The Board of Directors has also determined to suspend regular monthly distributions commencing with the April 2018 distribution (which would have ordinarily been paid on May 15, 2018), until further notice.

Effective August 30, 2016 the Company's shareholder distribution reinvestment plan (the "DRIP") was terminated. As a result the DRIP was not available in connection with the distribution that was payable on September 15, 2016, or any subsequent monthly distributions. Shareholders, including those who had previously participated in the DRIP continue to be entitled to monthly cash distributions as and when declared by the board of directors of the Company.

During the three months ended December 31, 2017, $13.2 million of investments in mortgages, were either partially or fully repaid, sold, or written off. During the same period, the Company funded $5.3 million in additional funding to existing mortgages due to contractual commitments. During the year ended December 31, 2017, $59.8 million of investments in mortgages, were either partially or fully repaid, sold, or written off. During the same period, the Company funded $6.5 million in additional funding to existing mortgages due to contractual commitments.

The overall weighted average interest rate for the Company's investments in mortgages decreased from 5.78% at December 31, 2016 to 3.44% at December 31, 2017.

Business Update

The Orderly Wind-Up of the Company commenced in June 2016. At June 30, 2016 the Company had total investments in mortgages of approximately $165.2 million comprised of 31 mortgages. This compares to the current total investments in mortgages of approximately $51.7 million comprised of 9 mortgages at September 30, 2017. The Board will continue to assess all possible means to ensure the efficient wind-up of the Company to maximize shareholder value.

Mortgage Portfolio

As at December 31, 2017, the Company's mortgage portfolio was comprised of 9 mortgage investments (December 31, 2016 - 18), with a weighted average interest rate of 3.44% (December 31, 2016 – 5.78%) and an average mortgage investment of $5.7 million (December 31, 2016 - $5.8 million).

($000s unless otherwise noted)	**December 31, 2017**	**December 31, 2016**
Mortgage portfolio	$51,678	$104,897
Accrued interest and fees receivable	292	1,408
Mortgage syndications	-	-
Fair value adjustments on investments in mortgages	(3,836)	(11,436)
Investments in mortgages	$48,134	$94,869

Asset Type

A summary of the Company's mortgage portfolio by asset type is presented below:

($000s unless otherwise noted)	December 31, 2017			December 31, 2016		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
Residential (multi-residential)	7	$27,256	52.7%	11	$41,400	39.5%
Residential (single-family)	-	-	-%	1	1,106	1.0%
Office	2	24,422	47.3%	5	50,848	48.5%
Retail	-	-	-%	1	11,543	11.0%
Total	9	$51,678	100.0%	18	$104,897	100.0%

At December 31, 2017, 52.7% of the Company's mortgage portfolio was secured by residential projects (December 31, 2016 – 40.5%) and 47.3% was secured by office projects (December 31, 2016 – 48.5%).

Mortgage Investment Size

A summary of the Company's mortgage portfolio by size is presented below:

($000s unless otherwise noted)	December 31, 2017			December 31, 2016		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
$0-$2,500,000	3	$3,698	7.2%	6	$7,436	7.1%
$2,500,001 - $5,000,000	2	9,000	17.4%	2	6,867	6.6%
$5,000,001 - $7,500,000	2	10,912	21.1%	4	22,554	21.5%
$7,500,001 - $10,000,000	1	7,646	14.8%	3	25,213	24.0%
$10,000,001+	1	20,422	39.5%	3	42,827	40.8%
Total	9	$51,678	100.0%	18	$104,897	100.0%

Mortgage allocation by investment size changed slightly during the year ended December 31, 2017 reflecting repayments and sales guided by the Orderly Wind-Up Plan. Further reduction in the mortgage portfolio is expected as the Company winds up.

Security

A summary of the Company's mortgage portfolio by priority of security is presented below:

($000s unless otherwise noted)	December 31, 2017			December 31, 2016		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
First	6	$41,316	80.0%	12	$71,397	68.1%
Second	2	5,346	10.3%	4	16,764	16.0%
Blanket	1	5,016	9.7%	2	16,736	15.9%
Total	9	$51,678	100.0%	18	$104,897	100.0%

The Company's mortgage portfolio continues to be substantially concentrated in first mortgages with 80.0% of the mortgage portfolio made up of first mortgages (December 31, 2016 – 68.1%). As loans continue to be re-paid or sold due to the Orderly Wind-Up, the allocation of mortgages according to priority of security exhibited an increase in proportion of first mortgages and decreases in second and blanket mortgages at December 31, 2017 as compared to December 31, 2016. Further fluctuations by priority of security are expected as the Orderly Wind-Up Plan progresses.

Loan-to-Value

The Company's LTV Investment Guidelines state that the LTV on an individual mortgage will not exceed 85% and the weighted average LTV of the mortgage portfolio will not exceed 75% at the time of funding. During the life of a mortgage, appraised values of the underlying security may be updated for changes in circumstances such as new loan participants and refinancing.

A summary of the Company's mortgage portfolio by current LTV is presented below:

($000s unless otherwise noted)	December 31, 2017			December 31, 2016		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
55% or less	-	$-	-%	1	$1,346	1.3%
56-60%	-	-	-	-	-	-
61-65%	-	-	-	1	7,646	7.3%
66-70%	1	4,000	7.8%	2	9,193	8.8%
71-75%	1	1,458	2.8%	5	23,078	22.0%
76-80%	2	8,539	16.5%	3	21,022	20.0%
81-85%	-	-	-%	4	11,328	10.8%
86%+	5	37,981	72.9%	2	31,284	29.8%
Total	9	$51,978	100.0%	18	$104,897	100.0%

As at December 31, 2017, the current weighted average LTV for the mortgage portfolio was 79.9% (December 31, 2016 – 79.7%). At the time of initial funding, all mortgages had LTV below 85% as prescribed by the Investment Guidelines.

Maturity

A summary of the Company's mortgage portfolio by maturity date is presented below:

($000s unless otherwise noted)	December 31, 2017			December 31, 2016		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
Past due	2	$6,362	12.3%	4	$12,694	12.1%
2017	-	-	-	4	17,670	16.9%
2018	4	12,248	23.7%	8	43,249	41.2%
2019	3	33,068	64.0%	2	31,284	29.8%
Total	9	$51,678	100.0%	18	$104,897	100.0%

Two of the investments in the mortgage portfolio were past due at December 31, 2017 (December 31, 2016 – four).

The following three mortgages were in default or past due as at December 31, 2017:

(i) Two mortgages with the same borrower with an aggregate carrying amount of $6,316,484 (December 31, 2016 - $6,539,448) were not performing and were past due on their maturity dates. Subsequent to the year end, the borrower made an offer which the Manager accepted where the borrower offered to make a $600,000 non-refundable deposit in January, 2018, and made a proposal to repay the loan in full with interest at March 8th. The Borrower has asked for an extension to the March 8th date, which the Manager is currently considering. Currently there is a fair value provision on the properties totaling $441,500 (December 31, 2016 - nil).

(ii) A loan previously classified as in default and currently past due, was restructured through acquisition of the property by an affiliate of the Company for the total consideration of $23,030,559. On February 5, 2016, the affiliate of the Manager sold the property to a third party for $24,900,000, which was partially financed by a vender take-back ("VTB") in the amount of $23,400,000. At the time, an affiliate of the Manager also agreed to supplement the interest rate to be 6.5% for the first three years. As a result of the Orderly Wind-Up, the affiliate of the Manager ceased to supplement interest on the VTB. On September 1, 2016, the Manager issued a demand on the loan due to unpaid legal fees and property taxes. Subsequently, the Manager entered into a forbearance agreement with the borrower on the basis that all loan payments and property taxes in arrears are brought up to date. The borrower made all interest and principal payments up to July, 2017 but has since breached the agreement and the Manager began legal action. The Manager appointed a receiver, who enlisted a broker to market the property for sale with bids to be submitted by February 27, 2018. On February 27th, the broker received 8 offers on the property. It was agreed that management would allow each of those who submitted bids to resubmit there best and final offer, with an emphasis on a firm offer, on March 9, 2018. Management is reviewing and considering the most attractive offer. The total fair value adjustment recorded on the property is $3,395,000 (December 31, 2016 - $3,395,000).

Interest Rate

A summary of the Company's mortgage portfolio by effective interest rate is presented below:

($000s unless otherwise noted)	December 31, 2017			December 31, 2016		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
7.99% or less	6	$45,327	87.8%	12	$74,395	70.9%
8.00% - 9.00%	2	5,458	10.5%	2	13,115	12.5%
9.01% – 10.00%	1	893	1.7%	3	11,444	10.9%
10.01% – 11.00%	-	-	-%	1	5,943	5.7%
Total	9	$51,678	100.0%	18	$104,897	100.0%

The weighted average interest rate at December 31, 2017 was 3.44% (December 31, 2016 – 5.78%). The decrease was a result of a combination of repayments or sale of several mortgages with rates greater than the weighted average interest rate and a repayment of three of the defaulted mortgages.

Geographic Diversification

A summary of the Company's mortgage portfolio by province is presented below:

($000s unless otherwise noted)	December 31, 2017			December 31, 2016		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
Alberta	1	4,000	7.7%	4	20,670	19.7%
Ontario	3	26,769	51.8%	8	57,683	55.0%
New Brunswick	-	-	-%	1	7,646	7.3%
Nova Scotia	5	20,909	40.5%	5	18,898	18.0%
Total	9	$51,678	100.0%	18	$104,897	100.0%

During the year ended December 31, 2017, diversification of mortgages by province changed slightly as a result of repayments or sales of mortgages in accordance with the Orderly Wind-Up Plan. Most notably, the percentage of mortgages located in Alberta declined from 19.7% to 7.7%, and the percentage of mortgages located in Nova Scotia increased from 18.0% to 40.5% due to a decline in mortgages held in the other provinces. Further fluctuations in diversification are expected as the Orderly Wind-Up Plan progresses.

Results from Operations

($000s unless otherwise noted)	Three months ended December 31, 2017		Year ended December 31		
	2017	2016	2017	2016	2015
Revenue	$753	$1,889	$4,716	$11,840	$15,492
Expenses	(781)	(4,664)	(3,089)	(15,151)	(3,772)
Income (loss) from operations	(28)	(2,775)	1,627	(3,311)	11,720
Financing costs	-	-	-	(95)	(900)
Net and comprehensive income (loss)	(28)	(2,775)	1,627	(3,406)	10,820
Earnings per share (basic and diluted)	(0.002)	0.14	0.13	(0.19)	0.56

Revenue

Revenue consists of interest income, net of mortgage syndication interest expense. For the three months and year ended December 31, 2017, revenue decreased by $1.1 and $7.1 million compared to the same periods in 2016. The decrease was the result of reduced interest income of $1.1 million for the three months ended December 31, 2017. For the year ended December 31, 2017, the decrease was the result of reduced interest income of $7.2 million and reduced commitment fee of $0.3 million, offset by lower interest expense of $0.4 million on mortgage syndications. Lower interest income resulted mostly from a decrease in the mortgage portfolio driven by an initial decrease and later total cessation of mortgage funding activity beginning in the second quarter of 2016 as the Company proceeded with the liquidation of its mortgage portfolio under the Orderly Wind-Up Plan.

Expenses

Expenses are comprised of six major items: (i) management fees, (ii) performance fees, (iii) incentive fees, (iv) general and administrative costs, (v) unrealized fair value adjustments on investments in mortgages (vi) realized mortgage investment losses.

For the three months and year ended December 31, 2017, total expenses decreased by $3.9 and $12.1 million compared to the same periods in 2016.

($000s unless otherwise noted)	Three months ended December 31, 2017		Year ended December 31		
	2017	2016	2017	2016	2015
Management fees	$217	$484	$1,228	$2,225	$2,676
Performance fees	-	-	-	188	443
Incentive fees	234	(819)	234	1,000	-
General and administration	101	312	605	2,222	459
Fair value adjustment on investments in mortgages	(2,697)	4,687	(7,600)	9,516	70
Realized mortgage investment loss	2,926	-	8,622	-	124
Total	$781	$4,664	$3,089	$15,151	$3,772

Management Fees

Management fees are calculated as 1.25% of total assets, excluding mortgage syndications, and are paid monthly in arrears. For the three months and year ended December 31, 2017, the management fees decreased by $0.3 and $1.0 million compared to the same periods in 2016 due to reduction in the mortgage portfolio subsequent to implementation of the Orderly Wind-Up Plan. Manager is currently providing the full asset management services necessary to support the Orderly Wind-Up Plan. As part of the amendments to the management agreement the Manager has waived the Performance Fee. The Manager has also waived its rights, if any, to early termination fees in exchange for the incentive fee described below.

Performance Fees

Performance fees were calculated as 20% of the amount by which the Company's income before performance fees exceeded a hurdle rate that was based on the Government of Canada bond yield plus 450 basis points. Performance fees were paid annually and accrued monthly based on the year-to-date performance.

Performance fees decreased by $0.2 million for the year ended December 31, 2017 compared to the same periods in 2016. The decrease was the result of an agreement by the Manager to waive the performance fee beginning May 1, 2016 as part of the approval of the Orderly Wind-Up Plan.

Incentive Fees

Incentive fees were introduced during the second quarter in line with the Orderly Wind-Up Plan and are calculated as the greater of:

(i) 20% of the amount by which the sum of:
  (A) The aggregate Realized Proceeds: and
  (B) The Company's Unrestricted Cash as at April 30, 2016
  Exceeds $163,509,009; and

(ii) $1,000,000.

At December 31, 2017 the remaining estimated amount of the future incentive fee obligation is $0.5 million. The provision has been estimated using the projected realized proceeds at the current fair value of investments in mortgages and management's best estimate of expected repayment dates.

General and Administrative Costs

General administration costs are generally comprised of public company costs, board of directors fees, and professional fees relating to legal and audit.

For the three months and year ended December 31, 2017, general and administrative expenses decreased by $0.3 and $1.6 million compared to the same periods in 2016. The decrease is primarily the result of higher than usual legal and administrative costs incurred in the first half of 2016 associated with the shareholders' action and introduction of the Orderly Wind-Up plan.

Fair Value Adjustments on Investments in Mortgages, net of Realized Mortgage investment Loss

The fair value adjustment on investments in mortgages represents adjustments to the carrying value of mortgage investments to reflect Management's view of the investments' fair value. A realized mortgage investment loss represents a loss that is the result of a settlement of a mortgage or sale of property securing a defaulted mortgage. Upon realization, any fair value adjustment previously recorded in relation to the mortgage is reversed.

For the three months and year ended December 31, 2017, fair value adjustments on investment in mortgages net of realized losses decreased by $4.4 and $8.5 million compared to the same periods in 2016.

The realized mortgage investment loss for the three months ended December 31, 2017 was $2.9 million as a result of the sale of a defaulted mortgage during the period. For the year ended December 31, 2017, the realized mortgage investment loss amounted to $8.6 million as result of a sale of three defaulted mortgages during the period. Accordingly, unrealized adjustments were reduced by $2.6 million and $7.6 million the three months and year ended December 31, 2017, respectively.

Financing Costs

Financing costs relate to the credit facility. As a result of the Orderly Wind-Up Plan, the credit facility was cancelled effective June 23, 2016. For the year ended December 31, 2017, financing costs decreased by $0.1 million compared to the same periods in 2016 due to the cancellation of the credit facility.

Financial Condition

Liquidity and Capital Resources

Modified due to the Orderly Wind-Up Plan, the liquidity needs of the Company arise from working capital requirements, distributions to shareholders, and the Company's purchases of its common shares under the normal course issuer bid, substantial issues bids, and Orderly Wind-Up plan.

Cash flows from the Company's mortgage investments, available funding under the Company's revolving credit facility, and cash-on-hand represent the primary sources of liquidity. Cash flow from operations are dependent upon interest payments and principal repayments from borrowers.

As a result of the Orderly Wind-Up Plan, the Company's objective has shifted away from maintaining its operations as a going concern and generating returns to a focus on monetization of its current asset base. It has ceased originating new loans and all mortgage renewal activity, subject to contractual rights, and its assets are being monetized over time. The Orderly Wind-Up Plan has been implemented and capital is being returned to shareholders under the supervision of the Board of Directors with the assistance of the Manager. The Company's primary objective with respect to capital management is to ensure sufficient cash resources to maintain operations and facilitate the Orderly Wind-Up Process. The Company is not subject to externally imposed capital requirements.

Credit Facility

On August 8, 2012, (last amended on September 23, 2014), the Company entered into a credit facility (the "Facility") with HSBC Bank Canada for an amount of up to $31.0 million. The Facility renewed annually and was subject to an interest rate equal to the banks' prime rate of interest plus 1.3%. The Facility was secured by a general security agreement over the Company's assets. As a result of the Orderly Wind-Up Plan the credit facility was cancelled effective June 23, 2016; therefore, at December 31, 2017, nil (December 31, 2016 - nil) was outstanding on the Facility.

Shareholders' Equity

Common Shares

As at December 31, 2017, the Company had 11,864,941 (December 31, 2016 – 16,500,238) common shares outstanding.

Dividends

The Company has maintained a dividend policy of $0.0583 per share payable monthly, or $0.70 per share annually. The Company intends to pay dividends to Class A shareholders, within 90 days after the yearend, for an amount equal to at least 100% of the income from operations of the Company determined in accordance with the Income Tax Act (Canada), subject to certain adjustments. The monthly dividends have constituted returns of capital since the dividends paid on August 15, 2016.

For the year ended December 31, 2017, the Company had declared regular monthly dividends totaling $8.7 million or $0.70 per share annually (December 31, 2016 – $12.8 million or $0.70 per share annually).

In addition to the regular distribution, the Company paid two special distributions in 2017 which constituted a return of capital pursuant to the winding-up of the Company's business. The first special distribution totaling $29.8 million, or $2.46 per Class A share outstanding at August 15, 2017, was paid on August 28, 2017. The second special distribution totaling $10.0 million, or $0.838 per Class A share outstanding at November 24, 2017, was paid on December 11, 2017.

Subsequent to year end, on March 23rd, 2018 the Company announced that its Board of Directors had declared a special distribution of $1.52 per Class A shares of the Company. The special distribution, which constitutes a return of capital pursuant to the winding-up of the Company's business as approved by Shareholders on June 16, 2016, will be paid on April 20th to holders of Class A shares of record on April 9, 2018.

The Board of Directors has also determined to suspend regular monthly distributions commencing with the April 2018 distribution (which would have ordinarily been paid on May 15, 2018), until further notice.

Dividend Reinvestment Plan

Effective August 30, 2016 the Company's shareholder distribution reinvestment plan (the "DRIP") was terminated. As a result, the DRIP has not been available in connection with the distributions that were payable on or after September 15, 2016. Shareholders, including those who had previously participated in the DRIP, will continue to be entitled to monthly cash distributions as and when declared by the Board of Directors of the Company.

Normal Course Issuer Bid

From May 17, 2016, the Company was authorized to purchase for cancellation a maximum 1,808,610 common shares during the following twelve months under certain rules pursuant to the NCIB. Previously, it was authorized to purchase for cancelation a maximum 1,952,321 common shares during the period from January 12, 2015 to January 11, 2016. As a result of the SIB, the NCIB was suspended from July 21, 2016 to September 30, 2016, and again from December 5, 2016 until expiry of the bid.

On May 17, 2017, the Company announced that it had renewed the NCIB and is authorized to purchase for cancelation a maximum 1,210,345 common shares during the period from May 19, 2017 to May 18, 2018.

The activity under the NCIB programs was as follows:

	Average Price	Volume	Total $'000
Q1 2015	$6.85	47,800	$327
Q2 2015	$6.83	29,700	$203
Q3 2015	$6.59	237,400	$1,564
Q4 2015	-	-	-
Q1 2016	-	-	-
Q2 2016	$8.44	350,548	$2,959
Q3 2016	$8.47	120,788	$1,023
Q4 2016	$7.90	264,780	$2,091
Q1 2017	-	-	-
Q2 2017	$7.55	80,530	$608
Q3 2017	$7.35	109,080	$802
Q4 2017	$5.01	228,820	$1,146
Total	$7.30	1,469,446	$10,723

Substantial Issuer Bid ("SIB")

On September 20, 2016, the Company repurchased 2.0 million shares at a price of $8.50 per share under SIB for a total consideration of $17.0 million. The shares purchased under the bid represented 10.7% of the shares outstanding as at August 15, 2016.

On January 10, 2017, the Company issued a circular offering to purchase for cancellation Class A shares for an aggregate purchase price not to exceed $35 million. Pursuant to the Second Offer, the Company

purchased 4,216,867 Shares at $8.30 per Share for the total consideration of $35.0 million on February 14, 2017. As a result of the purchase, the Company ceased to maintain its status as a Mortgage Investment Corporation pursuant to the Income Tax Act (Canada).

Statement of Cash Flows

Cash flows for the three months and year ended December 31, 2017 are as follows:

($000s unless otherwise noted)	Three months ended December 31		Year ended December 31		
	2017	**2016**	**2017**	**2016**	**2015**
Net change in cash related to					
Operating	$5,703	$33,248	48,020	85,921	$18,553
Financing	(13,088)	(5,005)	(86,344)	(36,124)	(16,611)
Increase (decrease) in cash	$(7,385)	$28,243	$(38,324)	$49,797	$1,942

The increase (decrease) in net cash flow for the three months and year ended December 31, 2017 compared to the same periods in 2016 was the result of the following factors:

- Operating – For the three months and year ended December 31, 2017, cash flow from operations decreased by $27.5 and $37.9 million compared to the same periods in 2016. The movement was the primarily the result of decreased principal repayments on investments in mortgages of $22.5 million and increase in funding of investments in mortgages of $4.7 million for the three months ended December 31, 2017 compared to the same period in 2016. For the year ended December 31, 2017, the decrease was due to a reduction in principal repayments of $56.1 million which was offset by a reduction in funding of investments in mortgages of $20.5 million as compared to the same period in 2016. In addition, for both three months and year ended December 31, 2017 as compared to the same periods in 2016, further reductions in operating cash flow were attributed to decreases in interest and commitment fee income due to decreases in the mortgage portfolio.
- Financing – For the three months and year ended December 31, 2017, cash flow in financing activities decreased by $8.1 million and $50.2 million compared to the same periods in 2016. For the three months ended December 31, 2017, the decrease in cash flow resulted primarily from an increase in dividends paid by $9.2 million which was offset by a $1.1 million decrease in repurchase of shares. For the year ended December 31, 2017, the reduction was primarily the result of an increase in dividends paid by $35.8 million and increase in repurchase of shares of $14.4 million.

Quarterly Financial Information

The following is a quarterly summary of the Company's results for the eight most recently completed quarters:

($000s unless otherwise noted)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Average mortgage portfolio ($millions)	54.7	67.2	85.9	101.1	112.4	146.7	169.3	182.7
Revenue	753	841	1,526	1,595	1,889	2,646	3,416	3,889
Expenses	(781)	(470)	(1,125)	(713)	(4,664)	(2,257)	(7,210)	(1,020)
Income (loss) from operations	(28)	371	401	882	(2,775)	389	(3,794)	2,869
Financing costs	-	-		-	-	-	-	(95)
Deferred Income Tax Recovery (Reversal)	-	-	(135)	135	-	-	-	-
Net income (loss) and comprehensive income	(28)	371	266	1,017	(2,775)	389	(3,794)	2,774
Earnings (loss) per share (basic and diluted)	$(0.002)	$0.03	$0.02	$0.07	$(0.19)	$0.02	$(0.20)	$0.14

Related Party Transactions

The following are related party transactions not disclosed elsewhere:

(a) The Company is managed by the Manager, a related party by virtue of common management. Pursuant to the Management Agreement referred to in note 7, during the year ended December 31, 2017 the Company incurred management fees in the amount of $1,227,870 (2016 - $2,224,511), and incentive fees in the amount of $233,732 (2016 - $1,000,000). At December 31, 2017, $68,206 (December 31, 2016 - $159,778) in management fees, $486,416 (December 31, 2016 - $545,545) in incentive fees were outstanding.

(b) As at December 31, 2017, the Company has co-invested in 4 mortgage investments (December 31, 2016 - 10 mortgage investments) with other funds managed by the Manager. The total amount of the mortgage investments is $42,963,687 of which the Company's share is $32,961,499 (December 31, 2016 - $122,498,753, of which the Company's share was $65,359,926). During the year ended December 31, 2017, the Company sold investments in mortgages of $7,822,416 (2016 - $26,929,866) to entities under common management.

(c) As at December 31, 2017, the Company had a receivable of $nil (December 31, 2016 - $205,863) from the Manager for commitment fees for funded mortgages, which is included within investments in mortgages.

(d) As discussed in the note 5(b)(iv), the Company had one mortgage, where property securing the mortgage was acquired by the related entity after the previous owner defaulted on the mortgage in October 2015. The loan was sold to a third party in the fourth quarter of 2017 (December 31,

2017 - $5,942,846). For the year ended December 31, 2017, the Company recognized $301,011 (December 31, 2016 - $587,079) in interest income from the affiliate of the Manager and had accrued interest receivable of $nil as at December 31, 2017 (December 31, 2016 - $46,326).

(f) The Company had one mortgage with an entity affiliated with the Manager which was repaid in the fourth quarter of 2017 (December 31, 2017 - $1,357,277). The mortgage, which was previously in default, was initially assigned to an affiliate of the Manager of the Company on October 1, 2015. Subsequently, another affiliate of the Manager obtained legal ownership title to the remaining properties on April 3, 2017. For the year ended December 31, 2017, the Company recognized $110,294 (December 31, 2016 - $138,350) in interest income from the affiliate of the Manager and had accrued interest receivable of $nil (December 31, 2016 - $11,282).

(h) As discussed in the note 5(a)(*ii*), on February 5, 2016, the security on a mortgage held by an affiliate of the Manager was sold to a third party for $24,900,000 which was partially financed by a 42 month VTB in the amount of $23,400,000. The affiliate of the Manager agreed to supplement the interest rate on the VTB to be 6.5% during the term. As a result of the Orderly Wind-Up Plan, the affiliate of the Manager has ceased to provide any interest supplement. The Company recognized nil in interest income from the affiliate of the Manager for the year ended December 31, 2017 (December 31, 2016 - $156,358) which includes nil (December 31, 2016 - $102,865) in supplemental interest on the VTB subsequent to the sale to the third party.

Critical Accounting Estimates

The preparation of financial statements requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The most significant estimates that the Manager is required to make relate to the fair value of the investments in mortgages. These estimates may include assumptions regarding local real estate market conditions, interest rates and the availability of credit, the adjusted credit risk premium based on the change in the borrower's credit risk, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances and other factors affecting the investments in mortgages and underlying security of the mortgages.

These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns and the uncertainty of predictions concerning future events.

Liquid credit markets and volatile equity markets have combined to increase the uncertainty inherent in such estimates and assumptions. Accordingly, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could vary by a material amount.

Risks and Uncertainties

The risks associated with investing in the Company are as disclosed in the Company's Annual Information Form dated March 31, 2017 and filed on SEDAR at www.sedar.com. There are additional risks associated

with the Orderly Wind-Up plan which are disclosed in the Company's Management Information Circular dated May 17, 2016.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's management, under the supervision of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as such terms are defined in National Instrument 52 - 109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52 - 109").
DC&P are those controls and other procedures that are designed to provide reasonable assurance that all material information required to be disclosed by the Company in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are those controls and other procedures that are designed to ensure that material information required to be disclosed by the Company in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company has adopted the Internal Control – Integrated Framework (published 1992, amended 2013) published by the Committee of Sponsoring Organizations of the Treadway Commission for the design of its ICFR for the three months and year ended December 31, 2017.

As required by NI 52 - 109, the Company's CEO and CFO have evaluated the design of the Company's DC&P and ICFR. Based on such evaluations, they have concluded that the Company's DC&P and ICFR, as applicable, are adequately designed, as at December 31, 2017. No changes were made in the Company's design of ICFR during the three months and year ended December 31, 2017, that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

In designing such controls, it should be recognized that due to inherent limitations, any controls or control systems, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result 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 or prevented. These inherent limitations include, without limitation, (i) the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances, or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any control system 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 conditions. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.