



**Management Discussion and Analysis**  
**Fourth Quarter 2018**  
**December 31, 2018**

## 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 29, 2019. 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, 2018 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 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 was implemented and capital is being returned to shareholders under the supervision of the Board of Directors with the assistance of the Manager. The fees to the Manager were restructured as outlined in notes 6 and 7 to the Company's unaudited condensed interim financial statements.

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, 2018 is available on SEDAR at [www.sedar.com](http://www.sedar.com) or [www.trezcapital.com](http://www.trezcapital.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 29, 2019.

## Financial Highlights and Key Performance Indicators

(\$000s unless otherwise noted)	Three months ended December 31		Year ended December 31		
	2018	2017	2018	2017	2016
<b>FINANCIAL</b>					
Revenue	(672)	753	847	4,716	11,840
Income (loss) from operations	(95)	(28)	1,746	1,627	(3,311)
Cash flow from operations	533	381	245	2,424	4,694
Dividends paid*	-	12,102	48,587	48,789	12,930
EPS (basic and diluted)	0.00	0.00	0.15	0.13	(0.19)
<b>PORTFOLIO</b>					
Mortgage portfolio			-	51,678	104,897
Total number of mortgage investments			-	9	18
Average mortgage investment			-	5,742	5,828
Weighted average interest rate			-	3.44%	5.78%
Weighted average loan to value			-	79.88%	79.7%
Average mortgage portfolio	3,333	54,778	17,154	77,243	152,761
Yield on average mortgage portfolio	(20.16)%	5.50%	4.94%	6.09%	7.58%

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

For the three months and year ended December 31, 2018, revenue decreased by \$1.4 and \$3.9 million compared to the same periods in 2017. The decrease in interest income for both periods resulted from cessation in mortgage funding activity and a systemic reduction in the mortgage portfolio guided by the Orderly Wind-Up Plan. In addition, for the three months ended December 31, 2018, the decrease included a one-time prior period reclassification totaling \$0.8 million from interest income to gain on sale reducing the realized mortgage investment losses.

For the three months ended December 31, 2018, income from operations remained relatively unchanged compared to the same period in 2017. For the year ended December 31, 2018, income from operations increased by \$0.1 million compared to the same period in 2017. The increase was due to a \$4.0 million decrease in expenses related to reversals of fair value adjustments on investments in mortgages, and decreases in realized mortgage investment losses as a result of successful exits on some previously challenged mortgages and lower management fees. These items were offset by previously explained \$3.9 million reduction in revenue.

For the three months ended December 31, 2018, cash flow from operations increased by \$0.1 million compared to the same period in 2017. For the year ended December 31, 2018, cash flow from operations decreased by \$2.2 million compared to the same period in 2017. The movements were primarily due to decreases in interest income, expenses and some non-cash operating items compared to the same periods in 2017.

During the period from May 19, 2017 to May 18, 2018, the Company was authorized to purchase for cancellation a maximum 1,210,345 common shares under the normal course issuer bid ("NCIB"). Previously, the Company was authorized to purchase for cancellation a maximum 1,808,610 common shares during the period from May 19, 2016 and May 18, 2017. During the three months and year ended December 31, 2018, the Company has purchased nil and 215,230 shares for cancellation, respectively. Since inception of the initial NCIB, the Company has bought back 1,684,676 shares at an average price of

\$6.72. The Company was not authorized to purchase common shares under NCIB as at December 31, 2018.

In connection with the Orderly Wind-Up, on 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 auctions”, for an aggregate purchase price not to exceed \$35 million. On February 15, 2017, 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.

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.

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 which totaled \$17.9 million and was paid on April 20<sup>th</sup> to holders of Class A shares of record on April 9, 2018. On August 8<sup>th</sup>, 2018, the Board of Directors approved a second special distribution of \$2.40 per Class A share of the Company which totaled \$28.0 million and was paid on September 17, 2018. Both special distributions constituted returns of capital.

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

During the three months and year ended December 31, 2018, \$4.9 and \$49.9 million of investments in mortgages, were either partially or fully repaid, or sold.

## ***Business Update***

The Orderly Wind-Up of the Company commenced in June 2016. At the beginning of the Orderly-Wind Up on June 30, 2016, the Company had total investments in mortgages of approximately \$165.2 million comprised of 31 mortgages. As at December 31, 2018 all mortgages have been successfully repaid or divested under the Orderly Wind-Up plan.

The Company is also currently involved in legal litigation with borrowers, advisors and other parties to try and recover losses from loans where realized proceeds were less than outstanding owed principal amounts and interest. Due to the nature of the proceedings, the Company, at this time, is unable to accurately estimate an amount of any possible future recoveries or the probability of success of recoveries.

The Company is now entering the final stage of its Orderly Wind-up. The Board expects to announce its final wind-up and distribution plans early in the second quarter.

Subsequent to year end, the Manager settled a lawsuit against an advisor in relation to a mortgage that was previously in default and sold at a loss in 2017. Under the terms of the settlement, the Company expects to receive approximately \$1.2 million in proceeds early in the second quarter.

### *Mortgage Portfolio*

Guided by the Orderly Wind-Up Plan, all investments in the Company's mortgage portfolio have been repaid prior to December 31, 2018.

(\$000s unless otherwise noted)	December 31, 2018	December 31, 2017
Mortgage portfolio	-	51,678
Accrued interest and fees receivable	-	292
Fair value adjustments on investments in mortgages	-	(3,836)
Investments in mortgages	-	48,134

### *Asset Type*

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

(\$000s unless otherwise noted)	December 31, 2018			December 31, 2017		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
Residential (multi-residential)	-	-	-	7	27,256	52.7%
Office	-	-	-	2	24,422	47.3%
Total	-	-	-	9	51,678	100.0%

### *Mortgage Investment Size*

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

(\$000s unless otherwise noted)	December 31, 2018			December 31, 2017		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
\$0-\$2,500,000	-	-	-	3	3,698	7.2%
\$2,500,001 - \$5,000,000	-	-	-	2	9,000	17.4%
\$5,000,001 - \$7,500,000	-	-	-	2	10,912	21.1%
\$7,500,001 - \$10,000,000	-	-	-	1	7,646	14.8%
\$10,000,001+	-	-	-	1	20,422	39.5%
Total	-	-	-	9	51,678	100.0%

## Security

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

	December 31, 2018			December 31, 2017		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
First	-	-	-	6	41,316	80.0%
Second	-	-	-	2	5,346	10.3%
Blanket	-	-	-	1	5,016	9.7%
Total	-	-	-	9	51,678	100.0%

## 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:

	December 31, 2018			December 31, 2017		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
65% or less	-	-	-	-	-	-
66-70%	-	-	-	1	4,000	7.8%
71-75%	-	-	-	1	1,458	2.8%
76-80%	-	-	-	2	8,539	16.5%
81-85%	-	-	-	-	-	-
86%+	-	-	-	5	37,981	72.9%
Total	-	-	-	9	51,978	100.0%



## Maturity

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

	December 31, 2018			December 31, 2017		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
Past due	-	-	-	2	6,362	12.3%
2018	-	-	-	4	12,248	23.7%
2019	-	-	-	3	33,068	64.0%
Total	-	-	-	9	51,678	100.0%

## Interest Rate

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

	December 31, 2018			December 31, 2017		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
7.00% or less	-	-	-	4	31,784	61.6%
7.01% - 8.00%	-	-	-	2	13,543	26.2%
8.01% - 9.00%	-	-	-	2	5,458	10.5%
9.01% - 10.00%	-	-	-	1	893	1.7%
Total	-	-	-	9	51,678	100.0%

## Geographic Diversification

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

	December 31, 2018			December 31, 2017		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
Alberta	-	-	-	1	4,000	7.7%
Ontario	-	-	-	3	26,769	51.8%
Nova Scotia	-	-	-	5	20,909	40.5%
Total	-	-	-	9	51,678	100.0%

## Results from Operations

(\$000s unless otherwise noted)	Three months ended		Year ended December 31		
	December 31		December 31		
	2018	2017	2018	2017	2016
Revenue	\$ (672)	\$ 753	\$ 847	\$ 4,716	\$ 11,840
Recovery (expenses)	577	(781)	899	(3,089)	(15,151)
Income (loss) from operations	(95)	(28)	1,746	1,627	(3,311)
Financing costs	-	-	-	-	(95)
Net and comprehensive income (loss)	(65)	(28)	1,746	1,627	(3,406)
Earnings (loss) per share (basic and diluted)	0.00	0.00	0.15	0.13	(0.19)

### Revenue

Revenue consists of interest income. For the three months and year ended December 31, 2018, revenue decreased by \$1.4 and \$3.9 million compared to the same periods in 2017. The decrease in interest income for both periods resulted from cessation in mortgage funding activity and a systemic reduction in the mortgage portfolio guided by the Orderly Wind-Up Plan. In addition, for the three months ended December 31, 2018, the decrease included a one-time prior period reclassification totaling \$0.8 million from interest income to gain on sale reducing the realized mortgage investment losses.

### 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, 2018, total expenses decreased by \$1.3 and \$4.0 million compared to the same periods in 2017.

(\$000s unless otherwise noted)	Three months ended		Year ended December 31		
	December 31		December 31		
	2018	2017	2018	2017	2016
Management fees	\$ 27	\$ 217	\$ 434	\$ 1,228	\$ 2,225
Performance fees	-	-	-	-	188
Incentive fees	-	234	497	234	1,000
General and administration	158	101	964	605	2,222
Fair value adjustment on investments in mortgages	-	(2,697)	(3,836)	(7,600)	9,516
Realized mortgage investment loss (recovery)	(762)	2,926	1,042	8,622	-
Total	\$ (577)	\$ 781	\$ (899)	\$ 3,089	\$ 15,151

### 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, 2018, the management fees decreased by \$0.2 and \$0.8 million compared to the same periods in 2017 due to reduction in the mortgage portfolio as a result of the Orderly Wind-Up Plan. The 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

As part of the approval of the Orderly Wind-Up Plan, the Manager agreed to waive the performance fee beginning May 1, 2016.

### 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, 2016Exceeds \$163,509,009; and
- (ii) \$1,000,000.

At December 31, 2018 the remaining incentive fee payable totals \$0.7 million and represents 20% of the amount by which the sum of the aggregated realized proceeds from repayments of all of Company's investments in mortgages exceeded \$163.5 million.

### General and Administrative Costs

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

For the three months and year ended December 31, 2018, general and administrative expenses increased by \$57 thousand and \$0.4 million compared to the same periods in 2017. For the year ended December 31, 2018, the increase was primarily due to a one-time GST expense of \$0.3 million related to current and prior periods.

### 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, 2018, net recovery from fair value adjustments on investment in mortgages and realized losses totaled \$0.8 and \$2.8 million as compared to net loss of \$0.2 and 1.0 million during the same periods in 2017. For the three months ended December 31, 2018, net

recovery included a one-time prior period reclassification totaling \$0.8 million which was originally recorded under revenue in a prior quarter.

## **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 issuer bids, and Orderly Wind-Up plan.

Cash flows from the Company's mortgage investments 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 shifted away from maintaining its operations and generating returns on a going concern to a focus on monetization of its existing asset base. The Company ceased originating new loans and all mortgage renewal activity, subject to contractual rights, and the assets were monetized over time. The Orderly Wind-Up Plan was 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.

### *Shareholders' Equity*

#### Common Shares

As at December 31, 2018, the Company had 11,649,711 (2017 – 11,864,941) common shares outstanding.

#### Dividends

On March 23, 2018, the Company announced that its board of directors suspended regular monthly distributions commencing with the April 2018 distribution which would have otherwise been paid on May 15, 2018. The decision to suspend distribution was based on a review of the last remaining mortgages and the Company's cash requirements. The Company paid a special distribution, which constituted a return of capital and totaled \$17.9 million, on April 20th to holders of Class A shares of record on April 9, 2018.

On August 8, 2018, the Board of Directors approved a second special distribution of \$2.40 per Class A share which was paid on September 17, 2018 to holders of Class A shares of record on August 31, 2018. The distribution, which constituted a return of capital pursuant to the winding-up of the Company's business as approved by Shareholders on June 16, 2016, totaled \$28.0 million.

All the distributions have constituted a return of capital since and including the distribution paid on August 15, 2016.

For the first three months of the year ended December 31, 2018, the Company had declared and paid regular monthly dividends totaling \$2.1 million or \$0.0583 per share monthly (December 31, 2017 – \$8.7 million or \$0.70 per share annually). In addition, the company had declared and paid two special distributions of which the first totaled \$17.9 million or \$1.52 per Class A share and the second totaled \$28.0 million or \$2.40 per Class A share (2017 – two special distributions in amounts of \$29.8 and \$10.0 million or \$2.46 and \$0.838 per Class A share, respectively).

### Normal Course Issuer Bid

Under the most recent NCIB, the Company was authorized to purchase for cancellation a maximum 1,210,345 common shares during the period from May 19, 2017 to May 18, 2018.

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.

The activity under the NCIB programs was as follows:

	Average Price	Volume	Total \$'000
Q1 2017	-	-	-
Q2 2017	\$7.55	80,530	608
Q3 2017	\$7.35	109,080	802
Q4 2017	\$5.01	228,820	1,146
Q1 2018	\$3.94	21,450	84
Q2 2018	\$2.69	193,780	522
Q3 2018	-	-	-
Q4 2018	-	-	-
<b>Total</b>	<b>\$4.99</b>	<b>663,660</b>	<b>3,162</b>

### Substantial Issuer Bid ("SIB")

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 under a second SIB. Pursuant to the Second Offer, the Company purchased 4,216,867 Shares at \$8.30 per Share for 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, 2018 are as follows:

(\$000s unless otherwise noted)	Three months ended December 31		Year ended December 31		
	2018	2017	2018	2017	2016
Net change in cash related to					
Operating	\$533	\$381	245	\$2,424	\$4,694
Financing	-	(13,088)	(49,194)	(86,344)	(36,124)
Investing	4,916	5,322	49,790	45,596	81,227
Increase (decrease) in cash	\$5,449	\$(7,385)	\$841	\$(38,324)	\$49,797

The increase (decrease) in net cash flow for the three months and year ended December 31, 2018 compared to the same periods in 2017 was the result of the following factors:

- Operating – For the three months ended December 31, 2018, cash flow from operations increased by \$0.1 million compared to the same period in 2017. For the year ended December 31, 2018, cash flow from operations decreased by \$2.2 million compared to the same period in 2017. The movements were primarily due to decreases in interest income, expenses and some non-cash operating items compared to the same periods in 2017.
- Financing – For the three months and year ended December 31, 2018, cash outflow from financing activities decreased by \$13.1 and \$37.1 million compared to the same periods in 2017. For the three months ended December 31, 2018, the decrease was the result of a reduction in dividends paid of \$12.0 million and a reduction in repurchase of share of \$1.1 million compared to the same period in 2017. For the year ended December 31, 2018, the decrease was the result of a reduction in the repurchase of shares of \$36.9 and a \$0.2 million decrease in dividends paid compared to the same period in 2017.
- Investing – For the three months ended December 31, 2018, cash flow from investing activities decreased by \$0.4 million compared to the same period in 2017. The movement was primarily the result of a reduction in cash outflows from funding of investments in mortgages of \$5.1 million, offset by a decrease in principal repayments of investments in mortgages of \$5.5 million. For the year ended December 31, 2018, cash flow from investing activities increased by \$4.2 million compared to the same period in 2017. The increase was primarily the result of a reduction in cash outflows from funding of investments in mortgages of \$5.9 million, offset by a decrease in principal repayments of investments in mortgages of \$1.7 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 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Average mortgage portfolio (\$millions)	3.3	5.3	20.7	39.2	54.7	67.2	85.9	101.1
Revenue	(672)	246	825	448	753	841	1,526	1,595
Expenses (recovery)	(577)	336	(969)	311	781	470	1,125	713
Income (loss) from operations	(95)	(90)	1,794	137	(28)	371	401	882
Deferred Income Tax Recovery (Reversal)	-	-	-	-	-	-	(135)	135
Net income (loss) and comprehensive income	(95)	(90)	1,794	137	(28)	371	266	1,017
Earnings (loss) per share (basic and diluted)	\$0.00	\$(0.01)	\$0.15	\$0.01	\$0.00	\$0.03	\$0.02	\$0.07

## 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 6 of the financial statements. During the year ended December 31, 2018 the Company incurred management fees in the amount of \$0.4 million (2017 - \$1.2 million). At December 31, 2018, \$9 thousand (2017 - \$68 thousand) in management fees and \$0.7 million of incentive fees were outstanding (2017 - \$0.5 million).
- (b) As at December 31, 2018, the Company no longer has any co-invested mortgage investments (2017 - four mortgage investments) with other funds managed by the Manager. The total amount of co-invested mortgages in 2017 -was \$43.0 million, of which the Company's share was \$33.0 million. During the year ended December 31, 2018, the Company sold investments in mortgages of \$4.0 million (2017 - \$7.8 million) to entities under common management.

## 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 29, 2018 and filed on SEDAR at [www.sedar.com](http://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, 2018.

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, 2018. No changes were made in the Company's



design of ICFR during the three months and year ended December 31, 2018, 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.