



**Management Discussion and Analysis  
Fourth Quarter and Year End  
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 Senior Mortgage Investment Corporation ("the Company") for the year ended December 31, 2018 and 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 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. In addition, the Manager and its affiliates ceased providing any financial support in respect to any of the mortgages held in the Company's portfolio. The fees to the Manager were restructured as outlined in note 6 & 7 to the Company's audited financial statements for year ended December 31, 2018.

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

Additional information related to the Company, including the Company's audited financial statements for the year ended December 31, 2018, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or [www.trezcapitalseniormic.com](http://www.trezcapitalseniormic.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 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 a 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. For construction/redevelopment mortgage investments, fair value is based 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, comprehensive income 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<br>otherwise noted)   | Three months ended<br>December 31 |          | Year ended December 31 |          |          |
|--------------------------------------|-----------------------------------|----------|------------------------|----------|----------|
|                                      | 2018                              | 2017     | 2018                   | 2017     | 2016     |
| <b>FINANCIAL</b>                     |                                   |          |                        |          |          |
| Revenue                              | \$310                             | \$380    | \$1,228                | \$1,900  | \$3,908  |
| Income (loss) from operations        | 228                               | (270)    | 604                    | 254      | 1,033    |
| Cash flow from operations            | (32)                              | 46       | (293)                  | 27       | 1,691    |
| Dividends paid*                      | -                                 | 1,069    | -                      | 29,112   | 19,371   |
| EPS (basic and diluted)              | \$0.03                            | \$(0.04) | \$0.08                 | \$0.03   | \$0.13   |
| <b>PORTFOLIO</b>                     |                                   |          |                        |          |          |
| Mortgage portfolio                   | \$15,257                          | \$21,203 | \$15,257               | \$21,203 | \$40,120 |
| Total number of mortgage investments | 2                                 | 4        | 2                      | 4        | 12       |
| Average mortgage investment          | \$7,628                           | \$5,301  | \$7,628                | \$5,301  | \$3,343  |
| Weighted average interest rate       | 7.54%                             | 6.59%    | 7.54%                  | 6.59%    | 6.17%    |
| Weighted average loan to value       | 72.33%                            | 59.61%   | 72.33%                 | 59.61%   | 50.96%   |
| Average mortgage portfolio           | \$15,191                          | \$21,815 | \$16,589               | \$27,630 | \$59,350 |
| Yield on average mortgage portfolio  | 7.36%                             | 6.84%    | 6.64%                  | 6.65%    | 6.50%    |

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

For the three months and year ended December 31, 2018, revenue declined by \$0.1 and \$0.7 million compared to the same periods in 2017. The decreases were attributable to reduced mortgage interest. The reduction resulted from a gradual decrease in the mortgage portfolio of \$5.9 million from December 31, 2017 to December 31, 2018. The decrease in the mortgage portfolio was the result of an initial pause, and effective June 2016, total cessation in mortgage funding activity as part of the Orderly Wind-Up Plan of the Company.

Income from operations increased by \$0.5 and \$0.4 million for the three months and year ended December 31, 2018 compared to the same periods in 2017. The increase in the three-month period was primarily the result of decreased expenses in 2018 as a result of higher mortgage loss provisions in December 2017 of \$0.7m, this was offset by the previously described reduction in interest income of \$0.1 million. The increase in the year was primarily the result of reduced costs of \$0.7 million relating to the 2017 increase in mortgage loss provisions and decreased other costs of \$0.3 million, primarily relating to reduced incentive fee charges. The reductions in costs were partially offset by the previously described reduction in interest income of \$0.7 million.

Cash flow from operations decreased by \$0.1 and \$0.3 million for three months and year ended December 31, 2018 compared to the same periods in 2017. The small decreases were due to activity in support of the Orderly Wind-Up Plan.

There were no regular monthly dividends made in 2018. Regular distributions were discontinued in December 2017.

During the three months and year ended December 31, 2018, zero and two mortgages totaling nil and \$7.0 million were fully repaid. Both repayments were by means of a transfer to an entity related to the Manager. During the same periods, the Company funded no new mortgages and increased its share in existing mortgages, including capitalized interest, by \$0.3 and \$1.2 million.

At December 31, 2018, cash on hand was \$10.7 million, up from \$4.1 million 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 \$67.9 million comprising of 19 mortgages. This compares to the current total investments in mortgages of \$13.7 million, comprising two mortgages. Given there are only two mortgages remaining, limited interest and principal repayments are expected until the mortgages mature. One of the remaining mortgages is shared with an external senior loan-sharing partner. Given the limited amount of principal and interest payments expected in the future, the company intends to maintain its current cash levels until the senior position is fully repaid by the borrower. The Board will continue to assess all possible means to ensure the efficient wind-up of the Company to maximize shareholder value.

## Mortgage Portfolio

At December 31, 2018, the Company's mortgage portfolio was comprised of two mortgage investments (December 31, 2017 - four), with a weighted average interest rate of 7.54% (December 31, 2017 – 6.59%).

| (\$000s unless otherwise noted)                    | December 31,<br>2018 | December 31,<br>2017 |
|--|----------------------|----------------------|
| Mortgage portfolio                                 | \$15,257             | \$21,203             |
| Accrued interest and fees receivable               | 96                   | 117                  |
| Mortgage syndications                              | -                    | -                    |
| Fair value adjustments on investments in mortgages | (1,650)              | (1,650)              |
| Investments in mortgages                           | \$13,703             | \$19,760             |

## Asset Type

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

| (\$000s unless<br>otherwise noted) | December 31, 2018 |           |                   | December 31, 2017 |           |                   |
|------------------------------------|-------------------|-----------|-------------------|-------------------|-----------|-------------------|
|                                    | Number            | \$ Amount | % of<br>Portfolio | Number            | \$ Amount | % of<br>Portfolio |
| Residential (multi-residential)    | 2                 | \$15,257  | 100.0%            | 4                 | \$21,203  | 100.0%            |
| Total                              | 2                 | \$15,257  | 100.0%            | 4                 | \$21,203  | 100.0%            |

As of December 31, 2018, 100.0% of the Company's mortgage portfolio was secured by residential projects (December 31, 2017 – 100.0%).

## *Mortgage Investment Size*

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

|                            | December 31, 2018 |           |                | December 31, 2017 |           |                |
|----------------------------|-------------------|-----------|----------------|-------------------|-----------|----------------|
|                            | Number            | \$ Amount | % of Portfolio | Number            | \$ Amount | % of Portfolio |
| \$0-\$2,500,000            | -                 | -         | -              | 1                 | \$1,108   | 5.2%           |
| \$2,500,001 - \$5,000,000  | 1                 | 2,646     | 17.3%          | 1                 | 2,720     | 12.8%          |
| \$5,000,001 - \$7,500,000  | -                 | -         | -              | 1                 | 5,931     | 28.0%          |
| \$7,500,001 - \$10,000,000 | -                 | -         | -              | -                 | -         | -              |
| \$10,000,000+              | 1                 | 12,611    | 82.7%          | 1                 | 11,444    | 54.0%          |
| Total                      | 2                 | \$15,257  | 100.0%         | 4                 | \$21,203  | 100.0%         |

As a result of the Orderly Wind-Up Plan, the number of mortgages reduced from four to two in the year ended December 31, 2018.

## *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 | 2                 | \$15,257  | 100.0%         | 4                 | \$21,203  | 100.0%         |

Currently all of the Company's mortgage investments are in first priority in terms of security.

## Loan-to-Value

The Company's LTV Investment Guidelines state that the LTV of an individual mortgage will not exceed 75% and the weighted average LTV of the mortgage portfolio will not exceed 70% 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<br>otherwise noted) | December 31, 2018 |           |                   | December 31, 2017 |           |                   |
|------------------------------------|-------------------|-----------|-------------------|-------------------|-----------|-------------------|
|                                    | Number            | \$ Amount | % of<br>Portfolio | Number            | \$ Amount | % of<br>Portfolio |
| 34% or less                        | -                 | -         | -                 | 1                 | \$5,931   | 28.0%             |
| 35-44%                             | -                 | -         | -                 | -                 | -         | -                 |
| 45-54%                             | 1                 | 2,646     | 17.3%             | 2                 | 3,828     | 18.1%             |
| 55-64%                             | -                 | -         | -                 | -                 | -         | -                 |
| 65-70%                             | -                 | -         | -                 | -                 | -         | -                 |
| 71-75%                             | -                 | -         | -                 | -                 | -         | -                 |
| 75%+                               | 1                 | 12,611    | 82.7%             | 1                 | 11,444    | 53.9%             |
| Total                              | 2                 | \$15,257  | 100.0%            | 4                 | \$21,203  | 100.0%            |

At December 31, 2018, the current weighted average LTV for the mortgage portfolio was 72.3% (December 31, 2017 – 59.6%). The increase was due to mortgages with LTV's below the average being paid out during the period. The weighted average LTV remains below the investment guidelines.

## Maturity

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

| (\$000s unless<br>otherwise noted) | December 31, 2018 |           |                   | December 31, 2017 |           |                   |
|------------------------------------|-------------------|-----------|-------------------|-------------------|-----------|-------------------|
|                                    | Number            | \$ Amount | % of<br>Portfolio | Number            | \$ Amount | % of<br>Portfolio |
| 2018                               | -                 | -         | -                 | 3                 | 18,483    | 87.2%             |
| Beyond 2018                        | 2                 | 15,257    | 100.0%            | 1                 | 2,720     | 12.8%             |
| Total                              | 2                 | \$15,257  | 100.0%            | 4                 | \$21,203  | 100.0%            |

None of the investments in the mortgage portfolio were past due at December 31, 2018 (December 31, 2017 – none).



## Interest Rate

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

|               | December 31, 2018 |           |                | December 31, 2017 |           |                |
|---------------|-------------------|-----------|----------------|-------------------|-----------|----------------|
|               | Number            | \$ Amount | % of Portfolio | Number            | \$ Amount | % of Portfolio |
| 5.25% or less | 1                 | \$2,646   | 17.3%          | 1                 | \$2,720   | 12.8%          |
| 5.26% - 5.50% | -                 | -         | -              | -                 | -         | -              |
| 5.51% - 5.75% | -                 | -         | -              | 1                 | 1,108     | 5.2%           |
| 5.76% - 6.00% | -                 | -         | -              | -                 | -         | -              |
| 6.01% - 6.25% | -                 | -         | -              | 1                 | 5,931     | 28.0%          |
| 6.26% - 6.50% | -                 | -         | -              | -                 | -         | -              |
| 6.51% - 6.75% | -                 | -         | -              | -                 | -         | -              |
| 6.75%+        | 1                 | 12,611    | 82.7%          | 1                 | 11,444    | 54.0%          |
| Total         | 2                 | \$15,257  | 100.0%         | 4                 | \$21,203  | 100.0%         |

The weighted average interest rate at December 31, 2018 was 7.54% (December 31, 2017 – 6.59%). The average rate has remained relatively consistent throughout the period but increased volatility can result as the Orderly Wind-Up Plan continues.

## 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                 | \$12,611  | 82.7%          | 2                 | \$17,375  | 82.0%          |
| Ontario     | 1                 | 2,646     | 17.3%          | 1                 | 2,720     | 12.8%          |
| Nova Scotia | -                 | -         | -              | 1                 | 1,108     | 5.2%           |
| Total       | 2                 | \$15,257  | 100.0%         | 4                 | \$21,203  | 100.0%         |

The mortgage portfolio inevitably shows increased geographic concentration as a result of the Orderly wind up. At December 31, 2018 the remaining mortgages were in Alberta and Ontario.

The Company's Alberta investment is a residential property at an interest rate of 8.23%. The mortgage has previously been in default and is shared with an external loan-sharing partner. In the first quarter of 2018, the borrower requested a new 3-year loan agreement with a pay down of \$1.0 million. Management approached the loan-sharing partner which still holds the senior portion of the loan and requested their input regarding a potential renewal. A new term for 31 months was agreed to between the parties. The borrower made the requested \$1.0 million pay down on June 1, 2018 and December 1, 2018 and agreed to make additional payments of \$0.5 million every six months thereafter until December 1, 2020 when payment in full is due. The borrower has met all its' required payment obligations in 2018.

Due to continued risk and the challenged nature of the loan, management reassessed the cash flows expected from the borrower and the obligations to the loan sharing partner and has determined no further fair value provisions are required at this time. There is currently a \$1.65 million dollar provision against the mortgage at December 31, 2018.

## Results from Operations

| (\$000s unless<br>otherwise noted)     | Three months ended<br>December 31 |          | Year ended<br>December 31 |         |         |
|--|-----------------------------------|----------|---------------------------|---------|---------|
|  | 2018                              | 2017     | 2018                      | 2017    | 2016    |
| Revenue                                | \$310                             | \$380    | \$1,228                   | 1,900   | \$3,908 |
| Expenses                               | (82)                              | (650)    | (624)                     | (1,646) | (2,875) |
| Income (loss) from operations          | 228                               | (270)    | 604                       | 254     | 1,033   |
| Financing costs                        | -                                 | -        | -                         | -       | (67)    |
| Net and comprehensive income (loss)    | 228                               | (270)    | 604                       | 254     | 966     |
| Earnings per share (basic and diluted) | \$0.03                            | \$(0.04) | \$0.08                    | \$0.03  | \$0.13  |

### Revenue

For the three months and year ended December 31, 2018, revenue declined by \$0.1 and \$0.7 million compared to the same periods in 2017. The decreases were attributable to reduced mortgage interest. The reduction resulted from a gradual decrease in the mortgage portfolio of \$5.9 million from December 31, 2017 to December 31, 2018. The decrease in the mortgage portfolio was the result of the Orderly Wind-Up Plan of the Company.

### Expenses

Expenses are comprised of four major items: (i) management fees, (ii) incentive fees (iii) general and administrative costs, and (iv) fair value adjustments on investment in mortgages.

| (\$000s unless<br>otherwise noted)                | Three months ended<br>December 31 |       | Year ended<br>December 31 |         |         |
|---|-----------------------------------|-------|---------------------------|---------|---------|
|   | 2018                              | 2017  | 2018                      | 2017    | 2016    |
| Management fees                                   | \$54                              | \$55  | \$215                     | \$320   | \$621   |
| Incentive fees                                    | (3)                               | (111) | 43                        | 260     | 1,000   |
| General and administration                        | 31                                | 6     | 366                       | 366     | 1,104   |
| Fair value adjustment on investments in mortgages | -                                 | 700   | -                         | 700     | 150     |
| Total   | \$82                              | \$650 | \$624                     | \$1,646 | \$2,875 |

### Management Fees

Management fees are calculated at 85 bps of gross assets, excluding mortgage syndications, and are paid monthly in arrears.

For the three months and year ended December 31, 2018, management fees decreased by \$1k and \$105k compared to the same periods in 2017. The decrease reflects a reduction in total assets, resulting from 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 its rights, if any, to early termination fees, in exchange for an incentive fee described below.

### Incentive Fees

Incentive fees were introduced during the second quarter of 2016 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 \$65,549,596; and
- (ii) \$300,000.

At December 31, 2018 the estimated remaining amount of the incentive fee obligation is \$1.1 million, \$0.2 million has been realized and paid to date. The total incentive fee obligation is \$1.3 million. The provision has been calculated 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

General administration costs are comprised of public company costs, Board of Directors fees, and professional fees relating to legal, tax and audit.

For the three months and year ended December 31, 2018, the general and administrative expenses increased slightly by \$25k and \$0k compared to the same periods in 2017.

### Fair Value Adjustments on Investments in Mortgages

A fair value adjustment on investments in mortgages represents an adjustment to the carrying value of mortgage investments to reflect management's view of the investments' fair value.

For the three months and year ended December 31, 2018, fair value adjustments on investment in mortgages were nil.

## Financial Condition

### *Liquidity and Capital Resources*

The liquidity needs of the Company arise from working capital requirements, dividends to shareholders and the Company's purchases of its Class A shares under the normal course issuer bid ("NCIB") 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 is 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 status as a going concern and generating returns to focus on monetization of its current asset base. It 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 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.

There are two mortgages remaining within the Company, therefore limited interest and principal repayments are expected until the mortgages mature. One of the remaining mortgages is shared with an external senior loan-sharing partner. Given the limited amount of principal and interest payments expected in the future, the company intends to maintain its current cash levels until the senior position is fully repaid by the borrower.

### *Shareholders' Equity*

#### Common Shares

The previous NCIB announced on May 9, 2016, which was subsequently approved by the Toronto Stock Exchange ("TSX") on May 18, 2016, expired on May 18, 2017 and 92,401 shares were purchased in the period.

A second NCIB was approved by the Toronto Stock Exchange ("TSX") on May 17, 2017 and expired on May 17, 2018. Under this NCIB, the Company purchased 167,520 shares up to December 31, 2017 and nil in 2018.

For the three months and year ended December 31, 2018, no Class A shares were purchased by the Company. As at December 31, 2018, the Company had 7,318,067 common shares outstanding (December 31, 2017 – 7,318,607).

### Dividends

The Company made dividend payments at an annual rate of \$0.58 per share to Class A shareholders on a monthly basis for the 11 months to November 30, 2017. Monthly distributions were discontinued in December 2017. The monthly distributions have constituted returns of capital since the distribution paid on August 15, 2016. There were nil dividends paid in 2018 (December 31, 2017 - \$29.1 million).

### 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 19, 2016, and May 19, 2017 the Company was authorized to purchase for cancellation a maximum of 739,397 common shares respectively during the following twelve months under certain rules pursuant to the NCIB.

The activity under the NCIB, commencing on May 19, 2016 was as follows:

|              | <b>Average Price</b> | <b>Volume</b> | <b>Total<br/>\$'000</b> |
|--------------|----------------------|---------------|-------------------------|
| Q4 2016      | \$6.95               | 86,752        | \$602,622               |
| Q1 2017      | \$6.41               | 5,649         | \$36,255                |
| <b>Total</b> | <b>\$6.89</b>        | <b>92,401</b> | <b>\$638,877</b>        |

The activity under the NCIB commencing on May 19, 2017 was as follows:

|              | <b>Average Price</b> | <b>Volume</b>  | <b>Total<br/>\$'000</b> |
|--------------|----------------------|----------------|-------------------------|
| Q2 2017      | \$4.42               | 48,520         | \$214,608               |
| Q3 2017      | \$4.08               | 70,200         | \$295,571               |
| Q4 2017      | \$3.07               | 48,800         | \$151,190               |
| Q1 2018      | -                    | -              | -                       |
| Q2 2018      | -                    | -              | -                       |
| Q3 2018      | -                    | -              | -                       |
| Q4 2018      | -                    | -              | -                       |
| <b>Total</b> | <b>\$3.86</b>        | <b>167,520</b> | <b>\$661,369</b>        |

## Statement of Cash Flows

The statement of cash flows for the three months and year ended December 31, 2018 are as follows:

| (\$000s unless otherwise noted) | Three months ended<br>December 31 |         | Year ended<br>December 31 |           |          |
|---------------------------------|-----------------------------------|---------|---------------------------|-----------|----------|
|                                 | 2018                              | 2017    | 2018                      | 2017      | 2016     |
| Net change in cash related to   |                                   |         |                           |           |          |
| Operating                       | \$(32)                            | \$46    | \$(293)                   | \$27      | \$1,691  |
| Financing                       | 33                                | (1,223) | 19                        | (29,812)  | (38,716) |
| Investing                       | 19                                | 2,054   | 6,896                     | 20,016    | 39,739   |
| Increase (decrease) in cash     | \$20                              | \$877   | \$6,622                   | \$(9,769) | \$2,714  |

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

- Operating – Cash flow from operations decreased by \$0.1 and \$0.3 million for the three months and year ended December 31, 2018 compared to the same periods in 2017. The decrease was the result of small changes in operating activity in order to facilitate the Orderly Wind-Up Plan.
- Financing – cash flow from financing activities increased by \$1.2 and \$29.8 million in the three months and year ended December 31, 2018 compared to the same periods in 2017. The increase was the result of nil distributions and share buy backs in 2018.
- Investing – cash flow from investing activities decreased by \$2.1 and \$13.1 million in the three months and year ended December 31, 2018 compared to the same periods in 2017. The decrease was the result of reduced funding and pay down activity in line with the Orderly Wind-Up Plan.

## 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 (in \$millions) | \$15.2  | \$15.0  | \$14.7  | \$14.5  | \$21.8   | \$24.8   | \$29.6  | \$34.4  |
| Revenue                                    | 310     | 311     | 298     | 309     | 380      | 437      | 490     | 592     |
| Expenses                                   | (82)    | (132)   | (254)   | (155)   | (650)    | (565)    | (204)   | (226)   |
| Income (loss) from operations              | 228     | 179     | 44      | 154     | (270)    | (128)    | 286     | 366     |
| Financing costs                            | (-)     | (-)     | (-)     | (-)     | (-)      | (-)      | (-)     | (-)     |
| Net income (loss) and comprehensive income | 228     | 179     | 44      | 154     | (270)    | (128)    | 286     | 366     |
| Earnings per share (basic and diluted)     | \$0.03  | \$0.02  | \$0.01  | \$0.02  | \$(0.04) | \$(0.02) | \$0.04  | \$0.05  |

## Related Party Transactions

### Manager

The Company is managed by Trez Capital Fund Management LP (the “Manager”), a related party by virtue of common management. Pursuant to the Management Agreement dated May 25, 2012, (amended November 30, 2013 and May 6, 2016) the Manager is entitled to a fee of 85 bps per annum of the gross assets of the Company (the “Management Fee”), plus applicable taxes, calculated monthly and paid monthly in arrears. Pursuant to the amendments, the Manager is currently providing full asset management services necessary to support the Orderly Wind-Up Plan. The Manager has waived its rights, if any, to early termination fees, in exchange for an incentive fee. During the three months and year ended December 31, 2018, the Company incurred management fees of \$54 and \$215k (December 31, 2017 - \$55k and \$320k). At December 31, 2018, \$36k of these fees were outstanding.

Pursuant to the orderly Wind-Up Plan, the Company currently has an estimated total incentive fee obligation to the Manager in the amount of \$1.3 million (December 31, 2017 - \$1.3 million) based on the current fair value of the Company’s net assets. The current realized and paid portion of the incentive fee obligation payable to the Manager is \$0.2 million (2017 - \$0.2 million).

### **Other Related Party Transactions**

All related party transactions are measured at the amount of consideration established and agreed to by the related parties. The Company invests in mortgages on a participation basis with parties related to the Manager. Title to mortgages is held by Computershare Canada, (the “Custodian”), on behalf of the beneficial owners of the mortgages. In addition, certain Mortgage Broker duties are performed by the Mortgage Broker. The Manager and the Mortgage Broker are related to the Company through 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 1, 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 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 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.