



**Management Discussion and Analysis**  
**Third Quarter 2020**  
**September 30, 2020**

## 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 November 5, 2020. This MD&A should be read in conjunction with the audited financial statements of Trez Capital Senior Mortgage Investment Corporation ("the Company") for the years ended December 31, 2019 and 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. 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 the year ended December 31, 2019.

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 year ended December 31, 2019, 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 November 5, 2020.

Financial Highlights  
and Key Performance

Indicators(\$000s unless  
otherwise noted)

	Three months ended September 30		Nine months ended September 30		Year ended December 31		
	2020	2019	2020	2019	2019	2018	2017
<b>FINANCIAL</b>							
Revenue	\$303	\$338	\$963	\$1,039	\$1,379	\$1,228	\$1,900
Income from operations	195	213	903	705	1,314	604	254
Cash flow from operations	(74)	11	(165)	-	(83)	(293)	27
Dividends paid*	2,488	-	2,488	-	-	-	29,112
EPS (basic and diluted)	\$0.03	\$0.03	\$(0.05)	\$0.10	\$(0.07)	\$0.08	\$0.03
<b>PORTFOLIO</b>							
Mortgage portfolio	\$16,983	\$15,985	\$16,983	\$15,985	\$16,235	\$15,257	\$21,203
Total number of mortgage investments	2	2	2	2	2	2	4
Average mortgage investment	\$8,492	\$7,993	\$8,492	\$7,993	\$8,118	\$7,628	\$5,301
Weighted average interest rate	7.09%	7.66%	7.09%	7.66%	7.27%	7.54%	6.59%
Weighted average loan to value	92.98%	72.61%	92.98%	72.61%	92.50%	72.33%	59.61%
Average mortgage portfolio	\$16,898	\$15,905	\$16,650	\$15,612	\$15,785	\$16,589	\$27,630
Yield on average mortgage portfolio	7.11%	7.39%	7.15%	7.45%	7.40%	6.64%	6.65%

\*The dividends paid have constituted returns of capital since August 15, 2016 and reflects cash paid at the Balance Sheet date. Distributions payable are not included

For the three and nine months ended September 30, 2020, revenue was consistent with the same periods in 2019. The Company has held the same two mortgages during these periods and activity has stabilized as the Orderly Wind Up Plan continues.

Income from operations for the three months ended September 30, 2020 was relatively consistent as compared to the same period in 2019. For the nine months ended September 30, 2020 there was an increase of \$0.2 million compared to the same period in 2019. The increase was primarily the result of reduced a reduced incentive fee, the result of an additional fair value adjustment on investments in mortgages of \$1.3 million, during the first quarter of 2020. Remaining expenses were largely consistent with the same periods in 2019.

Cash flow from operations reduced by \$85 thousand and \$165 thousand for the three and nine months ended September 30, 2020. The decrease was primarily the result of timing of payments.

Regular distributions were discontinued in December 2017. There were no regular distributions made for the three and nine months ended September 30, 2020 (September 30, 2019 - nil). The Company made a special distribution of \$0.34 per Class A share of the Company totaling, \$2,488,143 on August 20, 2020.

In addition, during the quarter, the Board of Directors declared a special distribution of \$0.82 per Class A share 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, and was paid on October 14, 2020 to holders of Class A shares of record at the close of business on September 30, 2020. The total payable at September 30, 2020 is \$6,000,815.

During the three and nine months ended September 30, 2020 no mortgages were funded or fully repaid. The Company's investment in existing mortgages increased by \$0.7 and \$0.2 million, the result of

capitalized interest partially offset by principal repayments on one of the two remaining mortgages. The increase excludes the impact of fair value adjustments on mortgages.

At September 30, 2020, cash on hand was \$8.1 million (December 31, 2020 - \$10.7 million). The decrease was primarily the result of the special distribution paid on August 20, 2020.

## *Business Update*

During the quarter ended March 31, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. During the subsequent two quarters, global reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, quarantines, temporary business closures and a general reduction in consumer activity. While these effects are expected to be temporary, the duration of the disruptions to business internationally and the related financial impact cannot be estimated with any degree of certainty at this time. The public health crises has resulted in disruptions and volatility in financial markets and global supply chains as well as declining trade and market sentiment and reduced mobility of people, all of which could impact Real Property prices, interest rates, credit ratings, credit risk and inflation. These impacts could include decreases in the fair value of our mortgage investments or potential future decreases in revenue or the profitability of ongoing operations.

It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company as it relates to its ability to complete the Orderly Wind-Up Plan.

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 \$17.0 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.

## **Mortgage Portfolio**

At September 30, 2020, the Company's mortgage portfolio was comprised of two mortgage investments (December 31, 2019 – two), with a weighted average interest rate of 7.09% (December 31, 2019 – 7.27%).

(\$000s unless otherwise noted)	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Mortgage portfolio	\$16,983	\$16,235
Accrued interest and fees receivable	100	99
Mortgage syndications	-	-
Fair value adjustments on investments in mortgages	(4,750)	(3,450)
Investments in mortgages	<u>\$12,333</u>	<u>\$12,884</u>

## Asset Type

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

	September 30, 2020			December 31, 2019		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
Residential (multi-residential)	2	\$16,983	100%	2	\$16,235	100.0%
Total	2	\$16,983	100%	2	\$16,235	100.0%

As of September 30, 2020, 100.0% of the Company's mortgage portfolio was secured by residential projects (December 31, 2019 – 100.0%).

## Mortgage Investment Size

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

	September 30, 2020			December 31, 2019		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
\$0-\$2,500,000	-	-	-	-	-	-
\$2,500,001 - \$5,000,000	1	2,510	14.8%	1	2,569	15.8%
\$5,000,001 - \$7,500,000	-	-	-	-	-	-
\$7,500,001 - \$10,000,000	-	-	-	-	-	-
\$10,000,000+	1	14,473	85.2%	1	13,666	84.2%
Total	2	\$16,983	100.0%	2	\$16,235	100.0%

## Security

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

	September 30, 2020			December 31, 2019		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
First	2	\$16,983	100.0%	2	\$16,235	100.0%

## Loan-to-Value

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

	September 30, 2020			December 31, 2019		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
34% or less	-	-	-	-	-	-
35-44%	-	-	-	-	-	-
45-54%	1	2,510	14.8%	1	2,569	15.8%
55-64%	-	-	-	-	-	-
65-70%	-	-	-	-	-	-
71-75%	-	-	-	-	-	-
75%+	1	14,473	85.2%	1	13,666	84.2%
Total	2	\$16,983	100.0%	2	\$16,235	100.0%

At September 30, 2020, the current weighted average LTV for the mortgage portfolio was 93.0% (December 31, 2019 – 92.5%).

## Maturity

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

	September 30, 2020			December 31, 2019		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
2020	1	14,473	85.2%	-	-	-
Beyond 2020	1	2,510	14.8%	2	16,235	100.0%
Total	2	\$16,983	100.0%	2	\$16,235	100.0%

None of the investments in the mortgage portfolio were past due at September 30, 2020 (December 31, 2019 – none).

## Interest Rate

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

	September 30, 2020			December 31, 2019		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
5.25% or less	1	2,510	14.8%	1	\$2,569	15.8%
5.26% - 5.50%	-	-	-	-	-	-
5.51% - 5.75%	-	-	-	-	-	-
5.76% - 6.00%	-	-	-	-	-	-
6.01% - 6.25%	-	-	-	-	-	-
6.26% - 6.50%	-	-	-	-	-	-
6.51% - 6.75%	-	-	-	-	-	-
6.75%+	1	14,473	85.2%	1	13,666	84.2%
<b>Total</b>	<b>2</b>	<b>\$16,983</b>	<b>100.0%</b>	<b>2</b>	<b>\$16,235</b>	<b>100.0%</b>

The weighted average interest rate at September 30, 2020 was 7.09% (December 31, 2019 – 7.27%).

## Geographic Diversification

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

	September 30, 2020			December 31, 2019		
	Number	\$ Amount	% of Portfolio	Number	\$ Amount	% of Portfolio
Alberta	1	14,473	85.2%	1	\$13,666	84.2%
Ontario	1	2,510	14.8%	1	2,569	15.8%
<b>Total</b>	<b>2</b>	<b>\$16,983</b>	<b>100.0%</b>	<b>2</b>	<b>\$16,235</b>	<b>100.0%</b>

The mortgage portfolio shows increased geographic concentration as a result of the Orderly wind up. At September 30, 2020 the remaining mortgages were in Alberta and Ontario.

The Company's Alberta investment is a residential property at an interest rate of 7.58%. 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. During the second quarter of 2020, as a result of Covid-19, the borrower requested and was granted a three month deferral on payments. Regular payments resumed during the third quarter.

The current total fair value provision against the mortgage at September 30, 2020 is \$4.75 million (December 2019 - \$3.45 million).

## Results from Operations

(\$000s unless otherwise noted)	Three months ended September 30		Nine months ended September 30			Year ended December 31	
	2020	2019	2020	2019	2019	2018	2017
Revenue	\$303	\$338	\$963	\$1,039	\$1,379	\$1,228	1,900
Expenses	(108)	(125)	(60)	(334)	(65)	(624)	(1,646)
Income (loss) from operations	195	213	903	705	1,314	604	254
Fair value loss adjustment on investments in mortgages	-	-	(1,300)	-	(1,800)	-	-
Net and comprehensive income (loss)	195	213	(397)	705	(486)	604	254
Earnings per share (basic and diluted)	\$0.03	\$0.03	\$(0.05)	\$0.10	\$(0.07)	\$0.08	\$0.03

### Revenue

For the three and nine months ended September 30, 2020, revenue remained consistent with the same periods in 2019.

### 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 otherwise noted)	Three months ended September 30		Nine months ended September 30			Year ended December 31	
	2020	2019	2020	2019	2019	2018	2017
Management fees	\$48	\$56	\$151	\$166	\$222	\$215	\$320
Incentive fees	-	-	(260)	-	(360)	43	260
General and administration	60	69	169	168	203	366	366
Fair value adjustment on investments in mortgages	-	-	1,300	-	1,800	-	700
Total	\$108	\$125	1,360	334	\$1,865	\$624	\$1,646

### Management Fees

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

For the three and nine months ended September 30, 2020, management fees remained relatively consistent with the prior periods. 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, 2016Exceeds \$65,549,596; and
- (ii) \$300,000.

At September 30, 2020 the estimated remaining amount of the incentive fee obligation is \$0.5 million, \$0.2 million has been realized and paid to date. The total incentive fee obligation is \$0.7 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 and nine months ended September 30, 2020, the general and administrative expenses remained relatively consistent with the prior year, reflecting a stabilization of activity under the Orderly Wind-Up Plan.

### *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 and nine months ended September 30, 2020, fair value adjustments on investment in mortgages were nil and \$1.3 million, relating to one mortgage previously described.

## 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 on 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. 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 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.

### *Shareholders' Equity*

#### Common Shares

For the three and nine months ended September 30, 2020, no Class A shares were purchased by the Company. As at September 30, 2020, the Company had 7,318,067 common shares outstanding (December 31, 2019 – 7,318,607).

#### Dividends

The Company paid a special distribution of \$0.34 per Class A share of the Company, totaling \$2,488,143 on August 20, 2020 (nine months to September 30, 2019 - nil). Regular monthly distributions were discontinued in December 2017. Distributions have constituted returns of capital since the distribution of August 15, 2016.

In addition, during the quarter, the board of directors declared a special distribution of \$0.82 per Class A share 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, and was paid on October 14, 2020 to holders of Class A shares of record at the close of business on September 30, 2020. The total amount paid was \$6,000,815.

### Normal Course Issuer Bid (“NCIB”)

The Company commenced an NCIB on August 13, 2020. The NCIB will expire on August 12, 2021 or such earlier date as the Company completes its purchases pursuant to the NCIB. All purchases under the NCIB will be made on the open market through the facilities of the TSX or alternative trading systems in Canada at market prices prevailing at the time of purchase. In accordance with TSX rules, any daily repurchases will be limited to a maximum of 1,000 Shares, based on the average daily trading volume of the Company’s Shares on the TSX for the six months ended July 31, 2020 (being 3,258 Shares). Any Shares purchased by the Company will be cancelled.

In connection with the NCIB, the Company entered into an automatic purchase plan with its broker on August 13, 2020 to allow for the purchase of Shares at times when the Company ordinarily would not be active in the market due to its own internal trading blackout periods, insider trading rules or otherwise, in accordance with applicable Canadian securities laws.

The Company purchased nil Class A shares for the period ended September 30, 2020 (September 30, 2019 -nil).

### Statement of Cash Flows

The statement of cash flows for the three and nine months ended September 30, 2020 and 2019 are as follows:

(\$000s unless otherwise noted)	Three months ended September 30		Nine months ended September 30		Year ended December 31		
	2020	2019	2020	2019	2019	2018	2017
Net change in cash related to							
Operating	\$(74)	\$11	\$(165)	\$-	\$(83)	\$(293)	\$27
Financing	(2,488)	-	(2,488)	-	-	19	(29,812)
Investing	20	19	60	57	77	6,896	20,016
Increase (decrease) in cash	\$(2,542)	\$30	\$(2,593)	\$57	\$(6)	\$6,622	\$(9,769)

<sup>1</sup> Amount less than \$500

Cash flow from financing activity reduced by \$2.5 million for the three and nine months ended September 30, 2020. The decrease was the result of previously described dividends paid to holders of Class A shares.

Operating and investing cashflows remained relatively consistent compared to the same periods in 2019.

## 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)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Average mortgage portfolio (in \$millions)	\$16.9	\$16.7	\$16.4	\$16.2	\$15.9	\$15.6	\$15.4	\$15.2
Revenue	303	325	335	341	338	344	356	310
Expenses	(108)	(119)	166	268	(125)	(112)	(95)	(82)
Income (loss) from operations	195	206	501	609	213	232	261	228
Fair value provision	(-)	(-)	(1,300)	(1,800)	(-)	(-)	(-)	(-)
Net income (loss) and comprehensive income	195	206	(799)	(1,191)	213	232	261	228
Earnings per share (basic and diluted)	\$0.03	\$0.03	\$(0.11)	\$(0.16)	\$0.03	\$0.03	\$0.04	\$0.03

## 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 and nine months ended September 30, 2020 the Company incurred management fees of \$48 thousand and \$151 thousand (September 30, 2019 - \$56 and \$166 thousand). At September 30, 2020, \$48 thousand of these fees were outstanding (December 31, 2019 - \$56 thousand).

Pursuant to the orderly Wind-Up Plan, the Company currently has an estimated total incentive fee obligation to the Manager in the amount of \$0.7 million (December 31, 2019 - \$0.9 million) based on the current fair value of the Company’s net assets of which \$231 thousand has been paid to date. The current realized and payable portion of the incentive fee obligation payable to the Manager is \$29 thousand (September 30, 2019 - \$34 thousand).

### **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 30, 2020 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 nine months ended September 30, 2020.

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 September 30, 2020. No changes were made in the Company's design of ICFR during the period ended September 30, 2020, 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.