



**ANNUAL INFORMATION FORM**

**Class A Shares  
Voting Shares**

**March 15, 2016**

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this annual information form constitute forward-looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this annual information form should not be unduly relied upon. These statements speak only as of the date of this annual information form.

In particular, this annual information form may contain forward-looking statements pertaining to distributable cash and distributions per Class A Share. The actual results could differ materially from those anticipated in these forward-looking statements as a result of, among other things, the risk factors set out in this annual information form. The Company does not undertake any obligation to publicly update or revise any forward-looking statements.

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## GLOSSARY OF TERMS

In this annual information form, the following terms shall have the meanings set forth below, unless otherwise indicated:

**“Annual Redemption Date”** means the second last business day of December in each year.

**“Annual Redemption Amount”** means the NAV per Share on the applicable Annual Redemption Date, less any costs associated with the redemption including commissions and other such costs, if any, related to the liquidation of any portion of the Mortgage Portfolio required to fund such redemption.

**“Brompton”** means the Brompton group of companies.

**“Brompton Funds”** means Brompton Corp. and its wholly owned subsidiary Brompton Funds Limited, which acts as manager of the Company. Brompton Corp. is in the business of managing investment funds.

**“business day”** means any day on which the Toronto Stock Exchange is open for business.

**“CDS”** means CDS Clearing and Depository Services Inc.

**“CDS Participant”** means a participant in CDS.

**“Class A Shareholder”** means a holder of a Class A Share.

**“Class A Shares”** means the Class A shares of the Company.

**“Commercial Mortgages”** means Mortgages on and secured by Real Property used for commercial purposes, including retail, industrial, office or multi-unit residential of greater than four units.

**“Company”** means Eclipse Residential Mortgage Investment Corporation.

**“Conforming Single Family Residential Mortgages”** means Mortgages on and secured by Single Family Residential Properties that, to MCAP’s knowledge, are generally in conformance with Schedule A Banks’ mortgage underwriting standards at the time each Mortgage is underwritten.

**“CRA”** means the Canada Revenue Agency or any successor organization.

**“Custodian”** means Computershare Trust Company of Canada, in its capacity as custodian under the Custodian Agreement.

**“Custodian Agreement”** means the custodian agreement entered into among the Company, the Custodian, the Manager and the Mortgages Services Provider dated as of June 28, 2013, as it may be amended from time to time.

**“Extraordinary Resolution”** means a resolution passed by the affirmative vote of at least 66 $\frac{2}{3}$ % of the votes cast, either in person or by proxy, at a meeting of Shareholders called for the purpose of approving such resolution.

**“FRFIs”** means federally regulated financial institutions;

**“Income Tax Act”** means the *Income Tax Act* (Canada), as amended, or successor statutes, and shall include regulations promulgated thereunder.

**“Insured Single Family Residential Mortgages”** means Mortgages on and secured by Single Family Residential Properties that are insured for principal and interest by one of the Mortgage Insurance Companies.

**“Investment Strategies”** means the investment strategies of the Company described in section 1.3 of this annual information form.

**“Investment Objectives”** means the investment objectives of the Company described in section 1.2 of this annual information form.

**“Investment Restrictions”** means the investment restrictions of the Company including, without limitation, those described in section 2.0 of this annual information form.

**“IRC”** means the independent review committee established by the Manager for the Company pursuant to NI 81-107.

**“Loan Facility”** means the loan facility described in section 13.1 of this annual information form.

**“Loan-to-Value”** means the ratio, expressed as a percentage, determined by  $A/B \times 100$  where:

A = the principal amount of the Mortgage, together with all other equal and prior ranking mortgages or tranches of mortgages on the Real Property, and

B = the appraised market value of the Real Property securing the Mortgage at the time of funding the Mortgage or any more recent appraisal, whichever occurs later.

**“Management Agreement”** means the management agreement dated as of June 28, 2013 between the Company and the Manager, as it may be amended from time to time.

**“Management Fee”** means the management fee payable to the Manager which is described in section 8.2.3 of this annual information form.

**“Manager”** means Brompton Funds Limited, or if applicable, its successor.

**“MCAP”** means MCAP Financial Corporation (together with its affiliates and subsidiaries).

**“MIC”** means a “mortgage investment corporation” as defined under the Income Tax Act.

**“Mortgage”** means an interest in a mortgage (or other like instrument, including an assignment of or an acknowledgement of an interest in a mortgage), a hypothecation, a deed of trust, a charge or other security interest of or in Real Property used to secure obligations to repay money by a charge upon the Real Property and, for greater certainty, includes the Portfolio Mortgages.

**“Mortgage Consultant”** means MCAP Financial LP.

**“Mortgage Consulting Agreement”** means the agreement among the Mortgage Consultant, the Company and the Manager dated as of June 28, 2013 as it may be amended from time to time.

**“Mortgage Insurance Companies”** means Canadian Mortgage and Housing Corporation, Genworth MI Canada Inc. and Canada Guaranty Mortgage Insurance.

**“Mortgage Portfolio”** means the portfolio, comprised primarily of Single Family Residential Mortgages but also including Other Mortgages and cash and cash equivalents, owned by the Company from time to time.

**“Mortgage-Related Securities”** means in most cases, the underlying pool of Mortgages consisting of Insured Single Family Residential Mortgages.

**“Mortgage Services Agreement”** means the agreement dated as of June 28, 2013 among the Mortgage Services Provider, the Company and the Manager pursuant to which the Mortgage Services Provider will source and service the Mortgage Portfolio, as it may be amended from time to time.

**“Mortgage Services Provider”** means MCAP Service Corporation.

**“NAV”** is the net asset value of the Company calculated as described in section 5.0 of this annual information form.

**“NAV per Share”** means the quotient obtained by dividing the NAV of the Company on a given day by the total number of outstanding Shares (immediately before any subscriptions for or redemption of Shares) at the close of business on such day.

**“NAV Valuation Date”** means, at a minimum, Thursday of each week, or if any Thursday is not a business day, the immediately preceding business day, and includes any other date on which the Manager elects, in its discretion, to calculate the NAV per Share.

**“NI 81-102”** means National Instrument 81-102 of the Canadian Securities Administrators (or any successor policy, rule or national instrument), as it may be amended from time to time.

**“NI 81-107”** means National Instrument 81-107 of the Canadian Securities Administrators (or any successor policy, rule or national instrument), as it may be amended from time to time.

**“Non-Conforming Single Family Residential Mortgages”** means Mortgages on and secured by Single Family Residential Properties that are not Conforming Single Family Residential Mortgages and (i) have a maximum Loan-to-Value of 85%, and/or (ii) are Insured Single Family Residential Mortgages.

**“Ordinary Resolution”** means a resolution passed by the affirmative vote of at least 50% of the votes cast, either in person or by proxy, at a meeting of Shareholders called for the purpose of approving such resolution.

**“Other Mortgages”** means (i) Commercial Mortgages and (ii) Residential Construction Mortgages.

**“Portfolio Mortgages”** means Mortgages included in the Mortgage Portfolio.

**“Real Property”** means land, or rights or interests in land, in Canada (including, without limitation, leaseholds, air rights and rights in condominiums, but excluding Mortgages), and any buildings, structures, improvements and fixtures located thereon.

**“Record Date”** means the last business day of each calendar month.

**“Redemption Payment Date”** means the date that is on or before the tenth business day of January in each year.

**“Related Persons”** means (i) a corporation and the person or persons that control the corporation, a parent corporation and its subsidiary corporation(s) and corporations that are part of the same corporate

group, and (ii) an individual and that individual's spouse, common law partner or child under 18 years of age.

**“Residential Construction Mortgages”** means Mortgages on and secured by Real Property to fund the construction of Single Family Residential Properties.

**“Schedule A Bank”** means Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, The Toronto-Dominion Bank and Royal Bank of Canada.

**“Service Fee”** means the fee payable to each dealer whose clients hold Class A Shares. The Service Fee is calculated and paid at the end of each calendar quarter and will be equal to 0.40% annually of the value of the Class A Shares held by clients of the dealers, plus any applicable taxes.

**“Share”** means a Class A Share or Voting Share and **“Shares”** means more than one Class A Share and/or Voting Share.

**“Shareholder”** means a holder of a Class A Share or a Voting Share and **“Shareholders”** means more than one holder of a Class A Share or a Voting Share.

**“Single Family Residential Mortgages”** means (i) Mortgages that are either, (a) Non-Conforming Single Family Residential Mortgages or (b) Conforming Single Family Residential Mortgages; or (ii) Mortgage-Related Securities.

**“Single Family Residential Properties”** means owner occupied single family detached, semi-detached, freehold townhomes and condominium properties.

**“Total Assets”** means the value of the assets of the Company.

**“TSX”** means the Toronto Stock Exchange.

**“Valuation Date”** means, for the purposes of calculating NAV and NAV per Share, Thursday of each week and such other days as are determined by the Manager.

**“Voting Shareholder Agreement”** means the agreement among the Company and the Voting Shareholders dated as of June 28, 2013, as it may be amended from time to time.

**“Voting Shareholders”** means the voting shareholders who each own beneficially and of record approximately 14.3% of the issued and outstanding Voting Shares of the Company.

**“Voting Shares”** means the shares in the capital of the Company designated as Voting Shares.

## **1.0 NAME, FORMATION AND HISTORY**

Eclipse Residential Mortgage Investment Corporation is a non-redeemable investment fund incorporated under the laws of the Province of Ontario pursuant to Articles of Incorporation dated April 3, 2013, with a registered office located at Suite 2930, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Toronto, Ontario, M5J 2T3. Prior to closing the Company's initial public offering, the Company amended its articles to create the Class A Shares and change the common shares to Voting Shares, among other things.

### **1.1 Status of the Company**

The Company is a non-redeemable investment fund and invests and reinvests its assets in Mortgages. The Company is not considered to be a mutual fund under applicable Canadian securities legislation. Consequently, the Company is not subject to all of the policies and regulations that apply to publicly offered mutual funds.

The Company differs from a publicly-offered mutual fund in a number of important respects, including that:

- i) the Company is not subject to certain investment restrictions of NI 81-102 and, accordingly, is permitted to invest in Mortgages and to borrow funds;
- ii) the Company has listed the Class A Shares on a recognized stock exchange as opposed to most mutual fund securities which are not listed; and
- iii) Class A Shares are redeemable on each Annual Redemption Date based upon the applicable NAV per Share, as opposed to most mutual funds which are redeemable daily at net asset value.

The Company qualifies as a MIC and is not a trust company and, accordingly, is not registered under the trust company legislation of any jurisdiction. Class A Shares are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions thereof or any other legislation.

### **1.2 Investment Objectives**

The Company's Investment Objectives are to acquire and maintain a diversified Mortgage Portfolio comprised primarily of Single Family Residential Mortgages that seeks to preserve capital and generate sufficient income to permit the Company to pay monthly distributions to the Class A Shareholders.

### **1.3 Investment Strategies**

The Company seeks to accomplish its Investment Objectives through prudent investments in a Mortgage Portfolio consisting primarily of Single Family Residential Mortgages. Initially, the Manager expects that 100% of the Mortgage Portfolio will be invested in Single Family Residential Mortgages, and at all times a minimum of 80% of the Mortgage Portfolio will be comprised of Single Family Residential Mortgages. The Company may also invest in Other Mortgages, in particular, Commercial Mortgages and Residential Construction Mortgages, subject to a limit of 20% of the principal amount of the Mortgage Portfolio.

The Mortgage Portfolio is diversified based on a number of factors, including the maturity date of the Mortgages and the geographic location of the underlying Real Property. The Portfolio Mortgages will be on properties principally located in major urban centres across Canada. The weighted average Loan-to-Value of the Mortgage Portfolio, excluding Insured Single Family Residential Mortgages, will not exceed 80%, with no single Mortgage having a Loan-to-Value of more than 85% at the time of funding.



The Company invests primarily in Single Family Residential Mortgages, including: (i) junior tranches of first Mortgages; (ii) second charge Mortgages (where MCAP is the servicer of the first Mortgage on the Real Property); and (iii) Mortgage-Related Securities.

The Company utilizes the Loan Facility to borrow up to 25% of the Total Assets of the Company. Accordingly, at the time such leverage is incurred, the maximum amount of leverage that the Company could employ is 1.33: 1 (total long positions (including leverage positions) divided by the net assets of the Company). It is expected that the terms, conditions, interest rate, fees and expenses of and under the Credit Facility is typical of credit facilities of this nature and that the lender requires the Company to provide a security interest in favour of the lender in the assets of the Company to secure such borrowings. In the event that the Company does not fulfill its obligations under the Loan Facility, the Company could incur substantial costs and losses if the lender under the Loan Facility seizes or otherwise enforces on or sells Mortgages under the security arrangements for the Loan Facility.

The Manager uses the Loan Facility in part to enhance returns from the Mortgage Portfolio, but does not intend to use the Loan Facility solely for this purpose. Pursuant to the Loan Facility, the Company may also, from time to time, at the discretion of the Manager, borrow in order to (i) facilitate its operating activities and fund working capital requirements, (ii) facilitate payment of redemptions of Class A Shares and enhance liquidity of assets, and (iii) facilitate entering into Mortgage loans or funding subsequent advances in an expedient manner. The Company may use the Loan Facility to fund new Mortgages as an interim measure prior to raising additional capital. Initially, the Company expects to employ leverage of approximately 15% of the Total Assets of the Company.

## **2.0 INVESTMENT RESTRICTIONS**

The assets of the Company are invested in accordance with its Investment Objectives. The Company is a MIC and, as such, is subject to certain investment restrictions under applicable law that, among other things, limit the investments that may be made by the Company. The Investment Objectives and the Investment Restrictions of the Company may not be changed without the approval of the Class A Shareholders by an Extraordinary Resolution at a meeting called for such purpose, unless such changes are necessary to maintain the status of the Company as a MIC or otherwise to ensure compliance with applicable laws, regulations or other applicable requirements imposed by applicable regulatory authorities from time to time.

The Class A Shares will be qualified investments as of the date hereof for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts (collectively, "Plans"), provided that the Company qualifies at all times as a MIC and further provided that at any time in the relevant calendar year, the Company does not hold any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary, an employee, or a subscriber under the Plan, or of any other person who does not deal at arm's length with that person. The Class A Shares which are listed on a designated stock exchange, which includes the TSX will also be qualified investments as of the date hereof for Plans. The Class A Shares are currently listed on the TSX. During 2015, the Company did not deviate from the rules in the Income Tax Act that apply to the status of the Class A Shares qualifying for inclusion in Plans.

The Class A Shares will not be a "prohibited investment" for trusts governed by a tax-free savings account ("TFSA"), registered retirement savings plan ("RRSP") or registered retirement income fund ("RRIF") unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, (i) does not deal at arm's length with the Company; or (ii) has a "significant interest" as defined in the Income Tax Act in the Company. Generally, a holder or annuitant, as the case may be, will not have a significant interest in the Company unless the holder or annuitant, as the case may be, owns, directly or indirectly, 10% or more of the issued shares of any class of the capital stock of the company (or of any related

corporation), either alone or together with persons with which the holder or annuitant, as the case may be, does not deal at arm's length. In addition, the Class A Shares will not be a "prohibited investment" if the Class A Shares are "excluded property" as defined in the Income Tax Act for trusts governed by a TFSA, RRSP or RRIF.

Holders or annuitants should consult their own tax advisors with respect to whether Class A Shares would be prohibited investments, including with respect to whether the Class A Shares would be excluded property.

### **3.0 DESCRIPTION OF SECURITIES**

The Company is authorized to issue an unlimited number of Class A Shares, each of which represents an equal undivided interest in the net assets of the Company, and 100 Voting Shares.

#### **3.1 Shares**

##### **3.1.1 Voting Shares**

The Voting Shareholders are not entitled to receive dividends. The Voting Shareholders will be entitled to one vote per Voting Share. The Voting Shares can be redeemed or repurchased for cancellation by the Company for an amount, for each Voting Share, equal to the NAV per Share, subject to certain limitations, including the condition that such redemption or repurchase for cancellation would not cause the Company to cease to be a MIC and applicable solvency tests under the *Business Corporations Act* (Ontario). Upon the dissolution, liquidation or winding up of the Company, after satisfaction of all liabilities of the Company (or the establishment of reserves or other provision therefor) Voting Shareholders will be entitled to receive, from the assets of the Company, for each Voting Share, an amount, in cash or property, equal to the NAV per Share.

##### **3.1.2 Class A Shares**

The Class A Shareholders are entitled to receive dividends as and when declared by the board of directors of the Company on the Class A Shares. The Class A Shareholders are not entitled to vote at meetings of the Shareholders of the Company, other than as required by law or as set forth under section 3.3.

The Class A Shares of the Company are redeemable as further described under section 7.0.

Upon the dissolution, liquidation or winding up of the Company, after satisfaction of all liabilities of the Company (or the establishment of reserves or other provisions therefor) Class A Shareholders will be entitled to receive, from the assets of the Company, for each Class A Share, an amount, in cash or property, equal to the NAV per Share.

##### **3.1.3 Restrictions on Ownership**

No Shareholder of the Company is permitted, together with Related Persons, at any time to hold more than 25% of any class of the issued Shares. In the event that (i) the exercise by any Class A Shareholder of a redemption right associated with the Class A Shares, or (ii) as determined by the board of directors of the Company in its sole discretion, any other transaction affecting any Class A Shares (each a "Triggering Transaction"), if completed, would cause any Class A Shareholder(s) (each an "Automatic Repurchase Shareholder"), together with Related Persons, to hold more than 25% of the Class A Shares, that portion of such Class A Shares held by each Automatic Repurchase Shareholder which constitutes in excess of 24.9% of the issued Class A Shares (the "Repurchased Shares") will, simultaneously with the completion of a Triggering Transaction, automatically be deemed to have been repurchased by the Company (an "Automatic Repurchase") without any further action by the Company or the Automatic Repurchase

Shareholder. The purchase price for any Repurchased Shares will be equal to 100% of the NAV per Share in effect on the date of the Triggering Transaction, less any costs associated with such purchase. The proceeds of any Automatic Repurchase will be remitted to each applicable Automatic Repurchase Shareholder within 60 days following the date of the Triggering Transaction.

### **3.2 Distributions**

The Company will determine and announce each year in January the expected distribution amount to be paid by the Company for the following 12 months. The Company intends to make monthly cash distributions to Class A Shareholders of record on the last business day of each month and pay such distributions on or before the tenth business day of the month following the month in respect of which the distribution is payable. The Company has the right to determine a record date that is other than the last business day of a month. If the Company's revenues, including interest income and fees, less expenses, is less than the amount necessary to fund the monthly distributions, the Company may not pay the full amount as indicated in January of each year. Alternatively, the Company may return a portion of its capital to Class A Shareholders to ensure that monthly distributions are paid, which would reduce the NAV per Share. There can be no assurance that the Company will be able to pay distributions to the Class A Shareholders.

Distributions are payable to Class A Shareholders of record at 5:00 p.m. (Toronto time) on the Record Date. All cash Distributions are paid through CDS's book-entry only system or paid in such other manner as may be agreed to by the Company.

### **3.3 Acts Requiring Shareholder Approval**

Pursuant to any additional voting rights provided in NI 81-102, the following may only be undertaken with the approval of the Class A Shareholders by an Ordinary Resolution, unless a greater majority is required by law, passed at a meeting called for the purpose of considering such Ordinary Resolution, provided that Class A Shareholders holding at least 10% of the Class A Shares outstanding on the record date of the meeting are present in person or represented by proxy:

- a) a reorganization with, or transfer of assets to, another entity, if:
  - i) the Company ceases to continue after the reorganization or transfer of assets; and
  - ii) the transaction results in the Class A Shareholders becoming securityholders in the other entity; and
  
- b) a reorganization with, or acquisition of assets of, another entity, if:
  - i) the Company continues after the reorganization or acquisition of assets; and
  - ii) the transaction results in the securityholders of the other entity holding a majority of the outstanding securities of the Company.
  
- c) the Company implements any of the following:
  - i) a restructuring into a mutual fund; and
  - ii) a restructuring into an issuer that is not an investment fund.

Pursuant to any additional voting rights provided in NI 81-102, the following may only be undertaken with the approval of the Class A Shareholders by an Extraordinary Resolution, passed at a meeting called for the purpose of considering such Extraordinary Resolution, provided that Class A Shareholders holding at least 15% of the Class A Shares outstanding on the record date of the meeting are represented in person or by proxy:

- a) a change to the Investment Objectives or Investment Restrictions of the Company, unless such changes are necessary to maintain the Company's status as a MIC or otherwise to ensure

compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;

- b) a change in the Manager, other than in connection with (i) the replacement of the Manager with an affiliate of MCAP, (ii) the Manager's resignation pursuant to the terms and conditions of the Management Agreement, or (iii) the termination of the Management Agreement and replacement of the Manager effective immediately upon an Event of Default (as defined in the Management Agreement);
- c) any increase in (i) the basis of calculating the Management Fee paid to the Manager or the Mortgage Service Fee paid to the Mortgage Services Provider, or (ii) the rate per annum of the Management Fee or Mortgage Service Fee;
- d) the sale of all or substantially all of the assets of the Company other than in the ordinary course of its activities;
- e) any amendment, modification or variation in the provisions or rights attaching to the Class A Shares or Voting Shares;
- f) any issuance of Class A Shares when the net proceeds per Class A Share are less than the most recently calculated NAV per Share prior to the date of setting the subscription price for such issuance. For greater certainty, if such NAV per Share is calculated prior to a record date for a distribution in respect of Class A Shares, the most recently calculated NAV per Share for purposes of determining the subscription price will be adjusted to account for any distribution which has been declared payable in respect of such Class A Shares and which will not be received by the subscribers.

Each Class A Share will have one vote at a meeting to consider matters over which Class A Shareholders have the right to vote. If at any such meeting Class A Shareholders holding at least 10% for an Ordinary Resolution or 15% for an Extraordinary Resolution of the Class A Shares are not present in person or represented by proxy within one-half hour after the time appointed for such meeting then, subject to applicable law, if the meeting was called by a Shareholder the meeting is terminated, otherwise the meeting will be adjourned to such fixed time and place as may be designated by the chairman of the board of directors of the Company not more than 14 days later and may be a later time on the same date as the original meeting. At such adjourned meeting, the Class A Shareholders then present in person or represented by proxy may transact the business for which the meeting was originally called and a resolution passed at such meeting will constitute approval of the Class A Shareholders. Except as required by law or set out above, Class A Shareholders will not be entitled to receive notice of, to attend or to vote at any meetings of Shareholders of the Company.

### **3.4 Termination of the Company**

The Company does not have a fixed termination date but may commence proceedings for the dissolution, liquidation or winding up of the Company at any time with the approval of Shareholders by an Extraordinary Resolution, passed at a duly convened meeting of Shareholders called for the purpose of considering such Extraordinary Resolution. Additionally, the articles of amendment of the Company provide the Company's Board of Directors with the discretion to, on 60 days' prior written notice to Shareholders and subject to applicable law, redeem all of the outstanding Class A Shares if, in the Manager's opinion (in consultation with MCAP), it is no longer economically practical to continue the Company or it would be in the best interests of the Class A Shareholders to terminate the Company. The Company will also be terminated in the event that the Manager resigns and, if a replacement manager is required pursuant to applicable law, such replacement manager has not been appointed within 120 days of

the date of resignation. Such termination shall occur on the date which is 60 days following the last day of the aforementioned 120-day period. The Company will issue a press release at least 15 days and not more than 90 days prior to the termination date setting forth the details of the termination.

Prior to termination, the Mortgage Portfolio will be converted to cash to the extent practicable and the Manager will satisfy or make appropriate provision for all liabilities of the Company. The Manager may, in its discretion and upon not less than 30 days' notice to the Shareholders, extend any termination date by a period of up to 180 days if the Mortgage Portfolio will be unable to be converted to cash prior to such termination date and the Manager determines that it would be in the best interests of the Shareholders to do so. The Company will distribute to Shareholders their pro rata portions of the remaining assets of the Company which will include cash and, to the extent liquidation of certain assets is not practicable or the Manager considers such liquidation not to be appropriate prior to the termination date, unliquidated assets in specie, subject to compliance with any securities or other laws applicable to such distributions. Following such distribution, the Company will be dissolved.

#### **4.0 VALUATION OF POLICIES AND PROCEDURES**

In determining the NAV of the Company at any time:

- a) the recorded value of any cash on hand, on deposit or on call, and prepaid expenses will be the cost amount thereof unless the Manager, or its delegate, deems otherwise;
- b) Mortgages will be stated at fair value, determined by using the effective interest rate method based on a discounted cash flow analysis of the future expected cash flows from the period end to the maturity of the Mortgage. The discount rate used to discount the future expected cash flows of each Mortgage is the aggregate rate produced by taking an appropriate Bank of Canada treasury bond rate at the period end and applying an appropriate credit spread. Interest income is recorded on the accrual basis provided that the Mortgage loan is not impaired. An impaired Mortgage loan is any loan where, in MCAP's opinion, there has been a deterioration of credit quality to the extent that the Company no longer has a reasonable assurance as to the timely collection of the full amount of principal and interest. As the Mortgages comprising the Mortgage Portfolio do not trade in actively quoted markets, the Manager will estimate fair value based upon: (i) market interest rates, and (ii) credit spreads for similar loans. The Manager will consider, but not be limited in considering, the following when determining the appropriate credit spread: (i) payment history, (ii) value of underlying property securing the loan or Mortgage, (iii) overall economic conditions, (iv) status of construction or property development (if applicable), and (v) other conditions specific to the Mortgage;
- c) the value of short-term investments (treasury bills, money market instruments, or similar) will be the cost of such instrument plus accrued interest up to and including the date of calculation;
- d) the value of any other property will be the value determined by the Manager, or its delegate, which most accurately reflects its fair value; and
- e) all expenses or liabilities will be recorded on an accrual basis.

If an investment cannot be valued under the above guidelines, or if the Manager determines that the above guidelines are at any time inappropriate under the circumstances, then notwithstanding such guidelines, the Manager will make such valuation as it considers fair and reasonable and, if there is an appropriate industry practice, in a manner consistent with such industry practice for valuing such investment.

The Manager has not exercised discretion to deviate from the valuation practices noted above since inception of the Company.

The board of directors of the Company, together with the Manager, will review and, if required from time to time, consider the appropriateness of the valuation guidelines adopted by the Company. At the discretion of the board of directors, the valuation guidelines may be modified, acting reasonably, in good faith and in the best interests of the Class A Shareholders in accordance with current Canadian generally accepted accounting principles. Any material modification of the valuation guidelines will be disclosed, by press release or other timely disclosure document issued by the Company.

## **5.0 CALCULATION OF NET ASSET VALUE**

For reporting purposes other than financial statements, the NAV of the Company on a particular date is equal to the value of the assets of the Company less the liabilities of the Company.

The NAV of the Company is calculated at the close of business on each Valuation Date or such other date on which the Manager elects, in its discretion, to calculate the NAV.

The NAV per Share is calculated by dividing the NAV of the Company on a given day by the total number of outstanding Shares (immediately before any subscriptions for or redemption of Shares) at the close of business on such day.

The NAV per Share is available to the public at no cost by calling 1-866-642-6001 and is on the Manager's website at [www.bromptongroup.com](http://www.bromptongroup.com). The Company also makes the NAV per Share available to the financial press for publication on a weekly basis.

The NAV and NAV per Share is calculated in Canadian dollars.

## **6.0 PURCHASES OF SHARES**

### **6.1 General**

The Class A Shares are listed for trading on the TSX under the symbol ERM. Registration of interests in and transfers of the Class A Shares are made only through the book-entry only system operated by CDS and the Class A Shares must be purchased, transferred and surrendered for retraction or redemption through a CDS Participant. All rights of Class A Shareholders must be exercised through, and all payments or other property to which such Class A Shareholders are entitled are made or delivered by, CDS or the CDS Participant through which the Class A Shareholder holds such Class A Shares. Upon purchase of any Class A Shares, Class A Shareholders receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Class A Shares are purchased.

### **6.2 Issuer Bid**

Subject to applicable law and stock exchange requirements, the Company may, in its sole discretion, from time to time purchase (in the open market or by invitation for tenders) Class A Shares for cancellation.

## **7.0 REDEMPTIONS OF SECURITIES**

### **7.1 Annual**

Subject to the Company's right to suspend redemptions as discussed in section 7.5, Class A Shareholders are entitled to surrender Class A Shares for redemption in December of each year, provided the Class A Shares are surrendered during the period from the first business day of November until 4:00 p.m. (Toronto time) on the 15th day of November, or the immediately preceding business day in the event that the 15th day of November is not a business day. The Class A Shares surrendered for redemption will be

redeemed on the Annual Redemption Date at a redemption price per Class A Share equal to the Annual Redemption Amount and payment will be made on Redemption Payment Date.

## **7.2 Limitation of Redemptions**

The Company will not accept for redemption, on any Annual Redemption Date, Class A Shares representing more than 15% of the average number of Class A Shares outstanding for the 180-day period immediately preceding the Annual Redemption Date. In the event that the number of Class A Shares tendered for redemption in respect of an Annual Redemption Date exceeds the limit set forth above, the Company will redeem Class A Shares tendered for redemption and not withdrawn or revoked, on a pro rata basis.

Notwithstanding the above limitations on redemption, the directors of the Company may, in their sole discretion, waive the above limitations in respect of all Class A Shares tendered for redemption in respect of any one or more Annual Redemption Dates.

## **7.3 General**

A Class A Shareholder who desires to exercise their annual redemption privileges must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the Class A Shareholder, a written notice of the Class A Shareholder's intention to redeem such Class A Shares, no later than 4:00 p.m. (Toronto time) on the relevant notice date. Accordingly, a Class A Shareholder should ensure that the CDS Participant is provided with a redemption notice sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. Any expense associated with the preparation and delivery of redemption notices will be for the account of the Class A Shareholder exercising the redemption privilege.

By causing a CDS Participant to deliver to CDS a redemption notice, a Class A Shareholder shall be deemed to have irrevocably surrendered his or her Class A Shares for redemption. The Manager may from time to time prior to the Annual Redemption Date permit the withdrawal of a redemption notice on such terms and conditions as the Manager may determine, in its sole discretion, provided that such withdrawal will not adversely affect the Company. Any expense associated with the preparation and delivery of the redemption notice will be for the account of the Class A Shareholder exercising the redemption privilege.

Any redemption notice which CDS determines to be incomplete, not in proper form, not duly executed or not received by the appropriate deadline outlined above in section 7.1 shall, for all purposes, be void and of no effect and the redemption privilege to which it relates shall be considered, for all purposes, not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with the Class A Shareholder's instructions will not give rise to any obligations or liability on the part of the Company or the Manager to the CDS Participant or to the Class A Shareholder.

Any and all Class A Shares that have been surrendered to the Company for redemption are deemed to be outstanding until (but not after) the close of business on the relevant Annual Redemption Date, unless the Annual Redemption Amount is not paid on the Redemption Payment Date, in which event such Class A Shares will remain outstanding.

## **7.4 Book-Entry Only System**

A Class A Shareholder who desires to exercise redemption privileges under the Class A Shares must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the Class A Shareholder, a written notice of the Class Shareholder's intention to redeem such Shares. A Class

A Shareholder who desires to redeem Class A Shares should ensure that the CDS Participant is provided with a redemption notice sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. Any expense associated with the preparation and delivery of a redemption notice will be for the account of the owner exercising the redemption privilege.

By causing a CDS Participant to deliver to CDS a notice of the Class A Shareholder's intention to redeem Class A Shares, the Class A Shareholder shall be deemed to have irrevocably surrendered such Class A Shares for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of the redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

## **7.5 Suspension of Redemptions**

The Company may suspend the redemption of Class A Shares or payment of redemption proceeds with the prior permission of the Canadian Securities Regulators, where required, for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of Mortgages comprising 50% or more (by outstanding principal amount) of the Mortgage Portfolio or which impair the ability of the Manager to determine the value of the assets of the Company or the Mortgage Portfolio. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Class A Shareholders making such requests shall be advised by the Manager of the suspension and that the redemption will be effected at a price determined on the next Annual Redemption Date following the termination of the suspension or such other date as the Manager may determine upon the conditions giving rise to such suspension having ceased to exist or no longer being applicable. All such Class A Shareholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first business day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with the rules and regulations promulgated by any governmental body having jurisdiction over the Company, any declaration of suspension made by the Manager shall be conclusive.

## **8.0 RESPONSIBILITY FOR OPERATIONS**

### **8.1 Management of the Company and the Manager**

The name, municipality of residence, position with the Company and the Manager and principal occupation of each of the directors and officers of the Company and the Manager are set out below:

<b>Name and Municipality of Residence and Position with the Company and/or the Manager and Brompton Corp.</b>	<b>Principal Occupation and Positions Held During the Last 5 Years</b>
MARK A. CARANCI <sup>(2)(3)</sup> Toronto, Ontario President, Chief Executive Officer and Director	President and Chief Executive Officer, Brompton Funds.
RAYMOND R. PETHER <sup>(2)</sup> Toronto, Ontario Director	Director, Brompton Funds.
CHRISTOPHER S. L. HOFFMANN <sup>(2)</sup> Toronto, Ontario Director	Director, Brompton Funds Limited since July 2014; Director of Brompton Corp.; Vice President of Nutowima Ltd.; private investor.



**Name and Municipality of Residence and Position with the Company and/or the Manager and Brompton Corp.**

**Principal Occupation and Positions Held During the Last 5 Years**

CRAIG T. KIKUCHI <sup>(2)</sup> <sup>(3)</sup> Toronto, Ontario Chief Financial Officer	Chief Financial Officer, Brompton Funds; Corporate Secretary, Brompton Funds from July 2013 to March 2015, Director, Brompton Funds Limited since July 2014.
ARTHUR R.A SCACE <sup>(1)</sup> <sup>(2)</sup> Toronto, Ontario Director	Corporate Director.
JAMES W. DAVIE <sup>(1)</sup> <sup>(2)</sup> Toronto, Ontario Director	Corporate Director.
KEN S. WOOLNER <sup>(1)</sup> <sup>(2)</sup> Calgary, Alberta Director	Chief Executive Officer and Director of Velvet Energy Ltd..
CHRISTOPHER CULLEN <sup>(2)</sup> Toronto, Ontario Senior Vice President	Senior Vice President, Brompton Funds.
ANN WONG <sup>(2)</sup> Toronto, Ontario Vice President and Controller	Vice President and Controller, Brompton Funds.
JASON GOLETZ <sup>(2)</sup> Toronto, Ontario Vice President, Sales & Marketing	Vice President, Sales and Marketing, Brompton Funds since May 2012; Director of Sales, Qwest Investment Management from March 2009 to May 2012.
LAURA LAU Toronto, Ontario Senior Vice President and Senior Portfolio Manager	Senior Vice President and Senior Portfolio Manager, Brompton Funds since February 2012; Senior Portfolio Manager, Sentry Investments Inc. from May 2008 to November 2011.
MICHAEL CLARE Toronto, Ontario Vice President and Portfolio Manager	Vice President & Portfolio Manager, Brompton Funds since December 2012; Vice President and Portfolio Manager, Creststreet Asset Management Limited from June 2008 to November 2012.
MICHELLE TIRABORELLI Toronto, Ontario Vice President	Vice President, Brompton Funds.
KATHRYN BANNER <sup>(2)</sup> Toronto, Ontario Vice President and Corporate Secretary	Vice President & Corporate Secretary, Brompton Funds since March 2015, Assistant Vice President, Brompton Funds from February 2011 to March 2015.

Note:

<sup>(1)</sup> Member of the audit committee.

<sup>(2)</sup> Director or officer of the Company

<sup>(3)</sup> Executive officer

## 8.2 Manager

Brompton Funds Limited was formed pursuant to the *Business Corporations Act* (Ontario) by articles of incorporation dated May 17, 2011. Brompton Funds Limited performs management and administrative services for the Company pursuant to the Management Agreement. Its head office is at Suite 2930, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Toronto, Ontario M5J 2T3. Its telephone number is

(416) 642-6000, its e-mail address is info@bromptongroup.com and its website is www.bromptongroup.com. The Manager was organized for the purpose of managing and administering closed-end investments including the Company and is a member of the Brompton group of companies. The Manager is registered with the Ontario Securities Commission as a portfolio manager, investment fund manager, commodity trading manager and exempt market dealer and is also registered as an investment fund manager in Quebec and Newfoundland and Labrador.

Pursuant to the Management Agreement, the Manager is responsible for providing, or causing to be provided, management and administrative services and facilities to the Company, and may delegate certain of its powers to third parties at no additional cost to the Company where, in the discretion of the Manager, it would be in the best interests of the Company and the Shareholders to do so.

### **8.2.1 Directors and Officers of the Manager**

The name, municipality of residence, position with the Manager and principal occupation of the directors and officers are set out in section 8.1.

### **8.2.2 Independent Review Committee**

The members of the Company's IRC are James W. Davie, Arthur R.A. Scace and Ken S. Woolner. Mr. Woolner is the Chair of the IRC and is the primary IRC member who interacts with the Manager.

The mandate and responsibilities of the IRC are set out in its charter. The IRC is responsible for carrying out those responsibilities required to be undertaken by an IRC under NI 81-107, in particular:

- a) reviewing and providing input into the Manager's policies and procedures regarding conflict of interest matters, including any amendments to such policies and procedures referred to the IRC by the Manager;
- b) approving or disapproving each conflict of interest matter referred by the Manager to the IRC for its approval;
- c) providing its recommendation as to whether the Manager's proposed action on a conflict of interest matter referred by the Manager to the IRC for its recommendation achieves a fair and reasonable result for the Company;
- d) together with the Manager, providing orientation to new members of the IRC as required by NI 81-107;
- e) conducting regular assessments as required by NI 81-107; and
- f) reporting to the securityholders of the Company, to the Manager and to regulators as required by NI 81-107.

In addition to its responsibilities and functions under NI 81-107, the IRC:

- a) handles complaints and implements corrective action regarding accounting, internal accounting controls, auditing matters for the Company and the Manager, as more specifically set out in the whistleblower policy of the Company and the Manager, respectively;
- b) acts in an advisory capacity to the audit committee of the board of directors of the Company, as more specifically set out in the IRC's charter; and

- c) may, as more specifically set out in its charter, identify conflict of interest matters.

Note:

The members of the IRC also act as the members of the independent review committee for other investment funds managed by the Manager.

### **8.2.3 Management Fee**

In consideration for its services, the Company pays to the Manager a fee equal to 0.75% per annum of the NAV per annum calculated and payable monthly in arrears plus applicable taxes. The Company reimburses the Manager for all reasonable costs and expenses incurred by the Manager on behalf of the Company.

### **8.2.4 Service Fee**

The Manager receives an amount equal to the Service Fee and pays such Service Fee to dealers based on the number of Class A Shares held by clients of such dealers at the end of each relevant quarter. The Service Fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter) is equal to 0.40% per annum of the NAV per Class A Shares held at the end of the relevant quarter by clients of dealers, plus applicable taxes.

### **8.2.5 Termination of the Management Agreement**

The Management Agreement may be terminated at any time by the Company on 90 days' written notice with the approval of the Shareholders by an Extraordinary Resolution passed at a duly convened meeting of Shareholders called for the purpose of considering such Extraordinary Resolution.

In addition, the Management Agreement may be terminated by the Company immediately if:

- a) the Manager becomes bankrupt, insolvent or makes a general assignment for the benefit of its creditors;
- b) the Manager ceases to be a resident of Canada for the purposes of the *Income Tax Act* (Canada);
- c) the Manager loses any necessary registration, licence, designation or other authorization and cannot rely on any exemption therefrom, required by the manager to perform its duties under the Management Agreement;
- d) the Manager commits a fraudulent act; or
- e) the Manager breaches a material term of the Management Agreement which is incurable or which remains uncured for 30 days after notice thereof is provided to the Manager, unless such breach is caused by the Mortgage Consultant's failure to fulfil its obligations under the Mortgage Consulting Agreement (an "**Event of Default**").

The Management Agreement may also be terminated immediately by the Company if, despite no Event of Default having occurred, the Manager is replaced with an affiliate of MCAP following such termination.

The Management Agreement may also be terminated by the Company immediately if, despite no Event of Default having occurred:

- a) the termination of the Management Agreement is required by or advisable in respect of a change in applicable laws as a result of which it may be required or advisable that the Company no longer have an investment fund manager or portfolio advisor, including because the Company may no longer be regulated as an investment fund; or

- b) the board of directors of the Company determines that it is in the best interest of the Company to replace the Manager.

The Manager may resign upon 120 days' prior written notice by the Manager to the Company. The Manager may, upon notice to the Company, delegate certain of its powers to third parties at no additional cost to the Company where, in the discretion of the Manager, it would be in the best interests of the Company and the Shareholders to do so, provided that such delegation shall not relieve the Manager of any of its obligations under the Management Agreement and prior written consent has been granted by the Company.

### **8.3 Portfolio Management**

The Manager is responsible for the portfolio management of the Company in accordance with the Investment Objectives and Investment Strategies and subject to the Investment Restrictions of the Company. The principal portfolio managers who are responsible for the investment management of the Company are as follows:

<b>Name</b>	<b>Length of Service and Experience in the Past 5 Years</b>
MICHAEL CLARE Toronto, Ontario Vice President & Portfolio Manager	Mr. Clare joined Brompton in December 2012 and has more than 6 years' experience as a portfolio manager and assists Ms. Lau with research including with respect to the option writing strategy of the Company.
LAURA LAU Toronto, Ontario Senior Vice President & Senior Portfolio Manager	Ms. Lau joined Brompton in February 2012 and has over 22 years' experience in the financial industry. She has had over 11 years' experience as a portfolio manager and in the trading and management of derivatives.

Mr. Clare oversees the portfolio. Investment decisions are not subject to the oversight, approval or ratification of a committee.

### **8.4 Mortgage Services and Mortgage Consulting**

The Company's principal advantage in the Canadian Single Family Residential Mortgage market is its ability to benefit from the capabilities, expertise and competitive advantages of MCAP. MCAP and its predecessors have been originating and servicing Mortgages in Canada for over 20 years. Over this period, MCAP has originated and serviced Mortgages for a wide variety of major Canadian institutions seeking exposure to the Canadian Mortgage market. MCAP currently services approximately \$52.7 billion in Mortgages, approximately \$48.4 billion of which is invested in Single Family Residential Mortgages. Given the extent to which MCAP works on behalf of FRFIs, MCAP is required to comply with Mortgage origination and servicing practices determined by OSFI. This provides MCAP with an extensive familiarity with the Canadian Mortgage regulatory system. MCAP's Mortgage origination and servicing expertise have been available to the Company since the Company's inception. MCAP's involvement in the Company represents MCAP's only involvement in the non-institutional retail market.

MCAP operates under a proven business model, which includes a variety of Mortgage products originated across Canada and funded with strong, long lasting relationships with institutional investors utilizing a wide array of funding structures and vehicles. This business model is augmented by a prudent balance sheet and effective warehouse management.

## **Competitive Advantages**

### ***Long history***

MCAP and its predecessors have been originating loans in all segments of the Mortgage market since 1991. Over the course of its history, MCAP has underwritten, originated and serviced Mortgages for insurance companies, institutional investors, major Canadian banks and other financial institutions.

### ***Experienced senior management team***

MCAP's senior management team have on average more than 22 years of experience in the Canadian Mortgage lending industry and more than 20 years with MCAP. MCAP's comprehensive team of professionals is dedicated to building productive long term relationships with clients and has demonstrated this capability by establishing a strong reputation in the Canadian Mortgage lending market.

### ***Deep and varied pipeline of Mortgage investment opportunities available to the Company***

MCAP originates Mortgage loans across diversified market segments, including Single Family Residential Mortgages and Other Mortgages. In fiscal year 2015, MCAP originated in excess of \$14.3 billion in Mortgage loans across all segments, \$11.3 billion of which were Single Family Residential Mortgages. MCAP has highly trained, in-house origination, structuring and underwriting teams located in offices in Vancouver, Calgary, Edmonton, Toronto, Montréal and Halifax. MCAP's Canadian geographic diversity ensures that it has an exceptional understanding of each key real estate market in Canada. MCAP originated \$32.6 million in Single Family Residential Mortgages in 2015 on behalf of the Company representing 100% of the Company's investments.

### ***Established Mortgage servicing platform***

In addition to its origination and underwriting capabilities, MCAP has industry leading Mortgage servicing operations and currently administers a Single Family Residential Mortgage and Other Mortgage portfolio with a principal balance of over \$52.7 billion on behalf of a wide range of financial institutions and institutional investors. In addition to servicing Mortgages originated internally, it also services Mortgage portfolios on behalf of other third party Mortgage providers. MCAP's servicing platform was the first in Canada to be publicly "rated" by a rating agency and has been consistently rated at "above average" by S&P since 2002. MCAP has serviced the Single Family Residential Mortgage Portfolio on behalf of the Company since the Company's inception.

MCAP has servicing offices located in Calgary, Edmonton, Regina, Kitchener and Montréal along with its head office in Toronto. MCAP is able to scale its strong servicing platform, processes and call centres to effectively and efficiently manage all its clients' Mortgage related needs.

### ***Established relationship with Mortgage brokers***

The vast majority of business originated is derived through a wide network of over 4,500 independent mortgage brokers and agents across Canada. Prior to being permitted to conduct business with MCAP, all brokers must pass a rigorous evaluation process and must continue to meet performance standards on an on-going basis.

### ***History of strong performance relating to loan losses***

Dating back to 2002, MCAP has funded in excess of \$2.5 billion dollars of Non-Conforming Single Family Residential Mortgages (excluding Insured Single Family Mortgages), with cumulative loan losses over the same period of \$3.8 million which amounts to 0.15% per annum. MCAP funded \$11.0 million of Non-Conforming Single Family Residential Mortgages (excluding Insured Single Family Mortgages) on behalf of the Company with 0.05% in realized loan losses to date.

### ***Strong relationships with institutional investors including Schedule I Banks***

MCAP has long-standing relationships with many institutional investors in Canada, including the Schedule I Banks. MCAP underwrites, originates and services Single Family Residential Mortgages and

Other Mortgages for Schedule I Banks and a wide assortment of other institutional investors. These investors, who also often directly, for their own account, underwrite, originate and service Single Family Residential Mortgages and Other Mortgages, are in the position to continually evaluate MCAP's compliance with risk management and regulatory policies and procedures and MCAP's portfolio performance, including the evaluation of portfolio yields, delinquencies, defaults and losses. MCAP's relationships with these institutional investors have been core to MCAP's growth strategy and success. MCAP's relationships with its investors ensure that MCAP is able to consistently offer competitive Mortgage products to the market place.

***Sophisticated controls regarding governance and regulatory compliance***

The vast majority of MCAP's investors are financial institutions subject to various Canadian regulatory requirements. Accordingly, MCAP's internal controls, operating processes, and reporting capabilities are regularly reviewed and audited by its investors. These audits confirm that MCAP's processes meet or exceed all requirements placed upon it by investors and upon its investors by their respective regulators. MCAP has rigorous processes in place to ensure that its controls meet applicable legal and regulatory rules, including Guideline B-21, Guideline B-20, Guideline B-8 (OSFI's Guideline on Deterring and Detecting Money Laundering and Terrorist Financing), Guideline B-10 (OSFI's Guideline on Outsourcing of Business Activities, Functions and Processes), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and the regulations thereunder, cost of borrowing disclosure as required pursuant to the Regulations of the *Bank Act*, and the applicable provincial and federal legislation governing the use and privacy of personal information, including the *Personal Information Protection and Electronic Documents Act*.

MCAP manages large pools of mortgages on behalf of FRFIs, which requires a high degree of formalization in structure and rigor and in the normal course of business MCAP is consistently under independent reviews and audits by third parties. As a direct result of the discipline resulting from this method of operation, MCAP has developed strong internal and external controls so as to ensure Mortgage loans underwritten and serviced by MCAP are managed in accordance with the documented policies and procedures that govern these asset classes. The existence of these sophisticated controls, policies and reporting capabilities ensures that MCAP can readily sell its products to a wide variety of Canadian securitization conduits, financial institutions, or institutional investors.

***Access to securitization conduits***

MCAP has been approved by CMHC as a "CMB Issuer". This status enables MCAP to sell loans directly into CMHC's Canada Mortgage Bond Program. MCAP also has the ability to structure and sell certain Mortgage-Related Securities onto the market. Additionally, MCAP has also been approved to sell loans into various securitization conduits operated by the Schedule I Banks. These diverse sources of funding help to ensure that MCAP is consistently in the market with highly competitive and desirable mortgage products. Furthermore, these vehicles may provide effective funding to finance the senior position in a Mortgage that is tranching.

The principal individuals who may perform services for and on behalf of the Mortgage Consultant and the Mortgage Services Provider are as follows:

<u>Name</u>	<u>Length of Service and Experience in the Past 5 Years</u>
Derek Norton Toronto, Ontario Chief Executive Officer & Vice Chair	Mr. Norton joined MCAP in 1988. He has been the CEO of MCAP since 2001 and is responsible for overall strategic planning and operations of MCAP.

Name	Length of Service and Experience in the Past 5 Years
<p>Mark Aldridge Toronto, Ontario President &amp; Chief Operating Officer</p>	<p>Mr. Aldridge joined MCAP in 2001. He was promoted to his current position in 2013 and is responsible for the planning, direction and overall profitability of all activities relating to the operations of MCAP's lines of business.</p>
<p>Brian Carey Toronto, Ontario Executive Vice President &amp; Chief Financial Officer</p>	<p>Mr. Carey joined the MCAP team in 2007. He was promoted to his current position in 2013 and is responsible for managing all aspects of MCAP's finance and treasury groups. This includes ensuring that financial controls are in place to safeguard assets of MCAP and its clients, as well as adhering to regulatory financial reporting requirements and corporate governance. He is also responsible for MCAP's financial affairs and results.</p>
<p>Ken Teskey Toronto, Ontario Chief Risk Officer &amp; Corporate Secretary</p>	<p>Mr. Teskey joined MCAP in 1988 and is responsible for overseeing the management of risks to the business and ensuring the Board of Directors, senior executive and staff are aware of their responsibilities in minimizing risk and ensuring compliance.</p>
<p>Don Ross Toronto, Ontario Senior Vice President, Investor Marketing</p>	<p>Mr. Ross has been with MCAP for over 25 years. He is responsible for providing institutional investors with the opportunity to participate and invest in one or more of MCAP's chosen product lines through managed mortgage funds, loan syndications or securitization structures. He is also responsible for providing investors with access to MCAP's other services including loan servicing and administration and asset management. With respect to the Eclipse MIC, Mr. Ross is the primary contact responsible for providing consultation services on behalf of MCAP.</p>
<p>Paul Bruce Toronto, Ontario Executive Vice President, Single Family</p>	<p>Mr. Bruce joined MCAP in 1992 and was recently promoted to his current position in 2015. He is responsible for the strategic direction of MCAP's single-family residential mortgage origination and servicing operations.</p>
<p>Jeff Armstrong Toronto, Ontario Senior Vice President, Credit Risk &amp; Asset Management</p>	<p>Mr. Armstrong joined MCAP in 1994 and is currently responsible for overall credit risk and asset management for the conventional equity lending program line of business, portfolio acquisitions and investor relations, insurer relations and default management.</p>
<p>Mark Yhap Toronto, Ontario Managing Partner, Commercial Mortgages</p>	<p>Mr. Yhap joined the MCAP team in 1989 and is responsible for the origination, underwriting, funding, sale and servicing of commercial term Mortgages across the country. He leads a team of commercial mortgage business professionals and also develops and manages investor relationships.</p>
<p>Robert Balfour Toronto, Ontario Managing Partner, Development Finance Group</p>	<p>Mr. Balfour has been with MCAP since 1994 and leads a team of professionals who provide construction and development financing for commercial properties and residential developments.</p>

#### 8.4.1 Mortgage Consultant

Pursuant to the Mortgage Consulting Agreement among MCAP Financial LP as the Mortgage Consultant, the Company and the Manager, in its capacity as portfolio advisor and on behalf of the Company, the Mortgage Consultant will provide Mortgage consulting services required by the Manager in respect of the

Manager's portfolio advisory services for the Company. The principal office of the Mortgage Consultant is located at 200 King Street West, Toronto, ON, M5H 3T4.

***Duties and Services Provided by the Mortgage Consultant***

Pursuant to the Mortgage Consulting Agreement, the Mortgage Consultant provides all Mortgage consulting services required by the Manager in respect of the Managers' portfolio advisory services provided to the Company. The duties and services of the Mortgage Consultant under the Mortgage Consulting Agreement, include but are not limited to: (i) consulting with the Manager in respect of Mortgages and the Mortgage-Related Securities market and in respect of Portfolio investments; and (ii) providing the Manager such other Mortgage consulting and related services as the Manager may require from time to time. None of the services set forth above are services which are required by applicable law to be provided by a person that is required to be licensed, registered, qualified or designated as an investment fund manager or portfolio advisor.

***Details of the Mortgage Consulting Agreement***

Under the Mortgage Consulting Agreement, the Mortgage Consultant covenants to exercise its powers and discharge its duties under the Mortgage Consulting Agreement honestly, in good faith, and with the care, diligence and skill of a reasonably prudent person in similar circumstances. The Mortgage Consulting Agreement provides that if the Mortgage Consultant has satisfied the duties and the standard of care, diligence and skill set forth above, it will be indemnified for all losses in relation to its services except those resulting from the Mortgage Consultant's willful misconduct, bad faith, gross negligence or material breach of its obligations under the Mortgage Consulting Agreement.

The Mortgage Consulting Agreement will remain in place until the termination of the Company, except that (i) the Mortgage Consultant may resign with not less than 120 days' prior notice, or (ii) the Manager, with the prior written consent of the Company, may terminate the Mortgage Consulting Agreement immediately if (a) the Mortgage Consultant becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors; (b) the Mortgage Consultant breaches a material term under the Mortgage Consulting Agreement which is incurable or which remains uncured for 30 days after the notice thereof is provided to the Mortgage Consultant; or (c) the Mortgage Consultant loses any registration, licence, designation or other authorization for which it cannot rely on an exemption therefrom and which is required by the Mortgage Consultant to perform its services under the Mortgage Consulting Agreement. The services to be provided by the Mortgage Consultant under the Mortgage Consulting Agreement are not exclusive to the Company or the Manager and nothing in the Mortgage Consulting Agreement prevents the Mortgage Consultant from providing similar Mortgage consulting services to other persons (whether or not their investment objectives and policies are similar to those of the Company) or from engaging in other activities,

The Mortgage Consultant is entitled to a fee for its services under the Mortgage Consulting Agreement. The Mortgage Consultant will be reimbursed by the Company for all out-of-pocket expenses incurred by the Mortgage Consultant in connection with the performance of its services under the Mortgage Consulting Agreement.

**8.4.2 Mortgage Services Provider**

Pursuant to the Mortgage Services Agreement among MCAP Service Corporation as the Mortgage Services Provider, the Manager and the Company, the Mortgage Services Provider will source and service the Mortgage Portfolio. The principal office of the Mortgage Services Provider is located at 200 King Street West, Toronto, ON, M5H 3T4.

***Duties and Services Provided by the Mortgage Services Provider***

Pursuant to the Mortgage Services Agreement, the Mortgage Services Provider provides all Portfolio Mortgage sourcing and servicing services required by the Company and/or the Manager. The duties and



services of the Mortgage Services Provider under the Mortgage Services Agreement, include but are not limited to: (i) seeking out and evaluating Mortgage investment opportunities for the Company and referring such Mortgage investment opportunities to the Company and the Manager; (ii) originating Mortgages that adhere to the Company's Investment Objectives and Investment Strategies subject to the Investment Restrictions; (iii) overseeing the servicing of the Portfolio Mortgages, which includes but is not limited to monitoring and ensuring the adequacy of the Portfolio Mortgages' performance by substantiating Mortgage and realty tax payments, collecting payments, confirming insurance coverage, reviewing financial and operating statements; (iv) providing those services as may be required to collect, handle, prosecute or settle any claims of the Company with respect to the Mortgage Portfolio, including default servicing; (v) obtaining appraisals as may be required, including title opinions or reports of counsel or others concerning zoning, environmental regulations and insurance coverage; (vi) assisting any valuation agent of the Company or retained by the Manager in respect of the valuation of the Mortgage Portfolio; and (vii) such other sourcing and Mortgage servicing services as may be required by the Company or the Manager from time to time.

#### ***Details of the Mortgage Services Agreement***

Under the Mortgage Services Agreement, the Mortgage Services Provider covenants to exercise its powers and discharge its duties under the Mortgage Services Agreement honestly, and with the care, diligence and skill of a reasonably prudent person in similar circumstances. The Mortgage Services Agreement provides that if the Mortgage Services Provider has satisfied the duties and the standard of care, diligence and skill set forth above, it will be indemnified for all losses in relation to its services except those resulting from the Mortgage Services Provider's willful misconduct, bad faith, gross negligence or material breach of its obligations under the Mortgage Services Agreement.

The Mortgage Services Agreement will remain in place until the termination of the Company, except that (i) the Mortgage Services Provider may resign upon not less than 120 days' prior notice, or (ii) the Company may terminate the Mortgage Services Agreement effective immediately if (a) the Mortgage Services Provider becomes bankrupt or insolvent or makes a general assignment for the benefit of its creditors; (b) the Mortgage Services Provider breaches a material term under the Mortgage Services Agreement which is incurable or which remains uncured for 30 days after the notice thereof is provided to the Mortgage Services Provider; or (c) the Mortgage Services Provider loses or fails to renew or possess any approval, registration, license, designation or other authorization, for which it cannot rely on an exemption therefrom, the loss of which will materially impair the Mortgage Services Provider's ability to perform the Mortgage Services under the Mortgage Services Agreement and the Mortgage Services Provider has failed to (i) submit a plan to remedy the loss of such approval, registration, licence, designation or other authorization, and (ii) take reasonable commercial efforts in order to implement such plan within the timeframe prescribed by the Mortgage Services Agreement. The services provided by the Mortgage Services Provider are not exclusive to the Company or the Manager and nothing in the Mortgage Services Agreement prevents the Mortgage Services Provider from providing similar Mortgage sourcing or servicing services to other persons (whether or not their investment objectives and policies are similar to those of the Company) or from engaging in other activities.

The Mortgage Services Provider is entitled to a fee for its services under the Mortgage Services Agreement. The Mortgage Services Provider will be reimbursed by the Company out of the Company's property for all out-of-pocket expenses incurred by the Mortgage Services Provider in connection with the performance of its services under the Mortgage Services Agreement.

#### **8.5 Custodian**

Pursuant to the Custodian Agreement, the Custodian, located in Toronto, Ontario, is responsible for certain aspects of the day-to-day administration of the Company and provides safekeeping and custodial services in respect of the Company's assets.

The Custodian may, in accordance with the terms of the Custodian Agreement, appoint sub-custodians and enter into sub-custodian agreements. CIBC Mellon Global Securities Company, located in Toronto, Ontario, has been appointed as sub-custodian for the safekeeping of client cash.

### **8.5.1 Custodian Fees**

In consideration for its services, the Company pays to the Custodian such compensation as agreed upon in writing between the Company and the Custodian from time to time and reimburses the Custodian for all expenses and liabilities incurred by the Custodian on behalf of the Company.

### **8.5.2 Termination of the Custodian Agreement**

The Company and Manager or the Custodian may at any time terminate the Custodian Agreement without penalty by giving at least 60 days' prior written notice of such termination. Such prior notice is not required and termination will be immediate upon the giving of notice in the event that:

- a) The Custodian is declared bankrupt or shall be insolvent; or
- b) the assets or the business of the Custodian shall become liable to seizure or confiscation by any public or governmental authority; or
- c) the Custodian ceases to be qualified under the guidelines to act as custodian for Portfolio Mortgages.

### **8.6 Valuation Services**

The Manager, on behalf of the Company, has appointed CIBC Global Securities Services Company to provide the Company with valuation services. Such services include the calculation of the Company's NAV per Class A Share, calculated in accordance with the Company's valuation parameters described in section 4.0.

### **8.7 Auditors, Registrar and Transfer Agent**

The auditors of the Company are Ernst & Young LLP, Chartered Professional Accountants, Licenced Public Accountants ("E&Y") located in Toronto, Ontario. Equity Financial Trust Company at its principal offices in Toronto is the registrar and transfer agent for the Class A Shares.

### **8.8 Voting Shareholder Agreement**

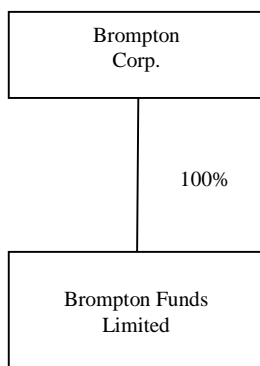
The Company and the Voting Shareholders are party to the Voting Shareholder Agreement pursuant to which, among other matters, each Voting Shareholder is restricted from transferring the Voting Shares he or she holds except if such Voting Shareholder commits or suffers an Event of Default (as defined in the Voting Shareholder Agreement), in which case such Voting Shareholder (the "**Defaulting Voting Shareholder**") will be obligated to transfer his or her Voting Shares, and to grant a proxy to vote such Voting Shares, to an individual (the "**Permitted Transferee**") that meets certain conditions set out in the Voting Shareholder Agreement and that is designated by the majority of the other Voting Shareholders (the "**Non-Defaulting Voting Shareholders**"), provided that such transfer would not cause the Company to cease to be a MIC (the "**MIC Condition**"). If the Voting Shares held by the Defaulting Voting Shareholder cannot be transferred to the Permitted Transferee in a timely manner for any reason, including for non-compliance with the MIC Condition, the Company will be obligated to redeem or repurchase for cancellation the Defaulting Voting Shareholder's Voting Shares and to issue Voting Shares in number equal to those redeemed to an individual that meets certain conditions set out in the Voting Shareholder Agreement and that is designated by the majority of the Non-Defaulting Voting

Shareholders. In addition, the Voting Shareholder Agreement, among other matters, restricts the Company from issuing any Voting Shares without the prior consent of a majority of the Voting Shareholders, except in connection with the redemption of the Voting Shares held by the Defaulting Voting Shareholder.

The Voting Shareholder Agreement may not be terminated and will only cease to be in force at the earlier of (a) such time when all of the Class A Shares, plus any other shares in the capital of the Company issued to the public, have been redeemed or repurchased for cancellation, and (b) upon the dissolution, bankruptcy or insolvency of the Company

## 9.0 CONFLICTS OF INTEREST

### 9.1 Principal Holders of Securities



Notes:

100% of the issued and outstanding Voting Shares of the Company are owned by the Voting Shareholders as described in section 3.1.1.

Brompton Corp. owns of record and beneficially 100% of the shares of the Manager.

The Manager, the Mortgage Consultant and the Mortgage Services Provider and their directors and officers engage in the promotion, management, investment management, mortgage consulting or mortgage services of other funds or trusts with investment objectives similar to the Company. The Mortgage Consultant and the Mortgage Services Provider may act as mortgage consultant or mortgage services provider for other entities and may in the future act as mortgage consultant or mortgage services provider to other entities which may be considered competitors of the Company. The services of the Manager are not exclusive to the Company.

In addition, the directors and officers of the Manager, the Mortgage Consultant and the Mortgage Services Provider may be directors, officers, shareholders or unitholders of one or more issuers in which the Company may acquire securities. The Manager, the Mortgage Consultant or Mortgage Service Provider or their affiliates may be managers or administrators of funds with similar investment objectives as the Company. Although none of the directors or officers of the Manager, the Mortgage Consultant or Mortgage Service Provider will devote his or her full time to the business and affairs of the Company, each director and officer of the Manager, the Mortgage Consultant or Mortgage Service Provider will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Fund, the Manager and the Mortgage Consultant or Mortgage Service Provider, as applicable.

No person or entity that provides services to the Company or the Manager in relation to the Company is an affiliated entity of the Manager other than Brompton Corp., which provides premises and staff to the

Manager. Brompton Corp. does not receive any fees from the Company. Each of the directors and officers of the Manager are also directors and officers of Brompton Corp., as set out in section 8.1.

As at March 1, 2016, Mark Aldridge, Brian Carey, Gordon Herridge, Derek Norton, Don Ross, Ken Teskey and Blaine Welch each owned of record and beneficially 10 Voting Shares or approximately 14.3% of the issued and outstanding Voting Shares each.

As at March 1, 2016, MCAP Commercial LP, a subsidiary of MCAP, owned of record and beneficially 300,000 Class A Shares representing approximately 11.8% of the issued and outstanding Class A Shares.

## **9.2 Securities Held by Members of the Independent Review Committee**

As at March 1, 2016, the members of the IRC did not own, directly or indirectly, any securities in the Manager. Further, as at March 1, 2016, the percentage of securities of each class or series of voting or equity securities beneficially owned, directly or indirectly, in aggregate, by all members of the IRC in any person or company that provides material services to the Company or Manager or in any one or more Canadian chartered banks which provides a loan facility or other credit to the Company or Manager is less than 1%.

## **10.0 CORPORATE GOVERNANCE**

Brompton supports good governance practices for its funds. The Company has its own board of directors (the “Board”) and audit committee (the “Audit Committee”) which are responsible for the overall stewardship of the business and affairs of the Company. The Board consists of six directors, five of whom are independent. Details regarding the names, principal occupations and committee memberships of the Board are set out in section 8.1. The Board believes that the number of directors is appropriate.

Three Board members are also members of the Audit Committee. The Audit Committee consists of three members, all of whom are independent. The responsibilities of the Audit Committee include, but are not limited to, (i) review of the Company’s financial statements and the annual audit performed by E&Y, the auditor of the Company, and (ii) oversight of internal controls and of the Company’s compliance with tax laws and regulations. E&Y reports to the Audit Committee and the Audit Committee and E&Y have direct communication channels to discuss and review specific issues as appropriate.

The Board is responsible for developing the Company’s approach to governance issues. To ensure the proper management of the Company and compliance with regulatory requirements, the Board has adopted policies, procedures and guidelines relating to business practices, risk management control, and internal conflicts of interest. As part of managing its business practices, the Board has adopted a whistleblower policy, a privacy policy and a proxy voting policy. The whistleblower policy establishes a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls and auditing matters pertaining to the Company. The privacy policy dictates the manner in which the Company and the Manager may collect, use and disclose personal information regarding the Shareholders. As part of its risk management, the Board has adopted a disclosure policy. The disclosure policy sets out guidelines that aim to ensure that complete, accurate and balanced information is disclosed to the public in a timely, orderly and broad-based manner in accordance with securities laws and regulations. As part of managing potential internal conflicts of interest, the Board has adopted a code of business ethics and an insider trading policy. The code of business ethics and insider trading policy address, among other things, ethical business practices and handling of material information and purchasing or selling of securities by insiders.

NI 81-107 requires the Manager to have policies and procedures relating to conflicts of interest and the Manager has such policies and procedures in place.

In accordance with NI 81-107, the Manager has appointed the IRC to deal with potential conflict of interest matters between the Manager and the Company as described in section 8.2.2.

The Manager maintains a website for the Company at [www.bromptongroup.com](http://www.bromptongroup.com). The mandate of the Board is available on the website. The Manager has an investor relations line to respond to inquiries from Shareholders which is 1-866-642-6001.

### **10.1 Composition of the Independent Review Committee**

As indicated in section 8.2.2 of this annual information form, the IRC is comprised of three members, who were appointed by the Manager in accordance with NI 81-107. Subsequent to this initial appointment by the Manager, the IRC shall, taking into consideration any recommendation of the Manager, fill vacancies on the IRC, provided that if for any reason the IRC has no members, the Manager shall fill the vacancies.

### **10.2 Short-Term Trading**

The Company's Class A Shares are traded on the TSX. The Company does not have policies and procedures in place to monitor and deter short-term trading given that:

- a) Class A Shareholders are only permitted to redeem Class A Shares on an annual basis;
- b) the Annual Redemption Amount is based on the NAV per Class A Share on the second last business day of December less any costs associated with the redemption;
- c) redemptions require more than 4 weeks to process from the date a Class A Shareholder notifies CDS of their redemption request to the date the redemption proceeds are paid out.

### **11.0 INCOME TAX CONSIDERATIONS**

The following is a general summary, as of the date hereof, of the principal Canadian federal income tax consequences generally applicable to the acquisition, holding and disposition of Class A Shares by an investor who, for purposes of the Income Tax Act, is a resident of Canada, deals at arm's length and is not affiliated with the Company and holds the Class A Shares as capital property. The Class A Shares will generally be considered to constitute capital property to an investor unless the investor either holds the Class A Shares in the course of carrying on a business of trading or dealing in securities or has acquired the Class A Shares in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain investors who are resident in Canada and whose Class A Shares do not otherwise qualify as capital property may, in certain circumstances, make an irrevocable election to have their Class A Shares and every other "Canadian security" (as defined in the Income Tax Act) owned by them deemed to be capital property.

This summary does not apply to an investor (i) that is a "specified financial institution" or a "financial institution" both as defined in the Income Tax Act; (ii) an interest in which constitutes a "tax shelter investment" within the meaning of the Income Tax Act; (iii) that reports its Canadian tax results in a "functional currency" (which excludes Canadian dollars); or (iv) that has entered or will enter into a "derivative forward agreement" (as that term is defined in the Income Tax Act) with respect to the Class A Shares.

This summary is based on the current provisions of the Income Tax Act, all specific amendments to the Income Tax Act publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof (the "Proposals"), and an understanding of the current administrative practices and assessing policies of the CRA that have been published in writing by it prior to the date hereof. Except for the

Proposals, this summary does not take into account or anticipate any change in law, whether by legislative, governmental or judicial decision or action, or any changes in the administrative practices and assessing policies of the CRA, nor does it take into account other federal or any provincial, territorial or foreign tax legislation or considerations, which may differ significantly from the tax considerations described herein. No assurance can be given that the Proposals will be enacted in the form proposed or at all.

**This summary is of a general nature only and is not exhaustive of all possible Canadian federal income tax considerations and does not describe the income tax considerations relating to the deductibility of interest on money borrowed to acquire Class A Shares. It is not intended to constitute tax advice to any prospective investor. The income tax consequences of acquiring, holding and disposing of Class A Shares will vary depending on the investor's particular circumstances, including the province in which the investor resides or carries on business. Investors are urged to consult their own income tax advisers with respect to their particular circumstances.**

## **11.1 Status of the Company**

### **11.1.1 Classification under Income Tax Act**

This summary is based upon the assumption that the Company will qualify as a MIC at all times. The Company intends to meet all of the requirements under the Income Tax Act to qualify as a MIC at all times. If the Company were to not qualify as a MIC at any time, the income tax considerations would be materially different from those described below.

### **11.1.2 MIC Requirements**

The following requirements must be met throughout a taxation year in order for the Company to qualify as a MIC for that taxation year:

- a) *Canadian Corporation.* The Company must be a "Canadian corporation", as defined in the Income Tax Act, which generally means a corporation incorporated or resident in Canada;
- b) *Undertaking.* The Company's only undertaking was the investing of its funds. The Company cannot have managed or developed any real or immovable property;
- c) *Prohibited Foreign Investment.* None of the property of the Company consisted of debts owing to the Company secured on real or immovable property situated outside Canada, debts owing to the Company by non-resident persons unless such debts were secured on real or immovable property situated in Canada, shares of the capital stock of corporations not resident in Canada, or real or immovable property situated outside of Canada or any leasehold interest in such property;
- d) *Shareholder Requirements.* The Company had at least 20 shareholders. In addition, no shareholder (together with Related Persons, see below) of the Company at any time in the year owned, directly or indirectly, more than 25% of the issued shares of any class of the Company. Special rules apply for the purposes of counting shareholders that are registered pension plans or deferred profit sharing plans. The Income Tax Act provides that for the first taxation year of the Company in which it carried on business, this condition will be considered to have been met throughout such year provided that this condition is met on the last day of such year;
- e) *Voting Shareholders.* Holders of preferred shares (as defined in the Income Tax Act) (if any) of the Company have the right, after payment to them of their preferred dividends and payment of dividends in a like amount per Share to the Class A Shareholders, to participate *pari passu* (equally) with the Class A Shareholders in any further payment of dividends;

- f) *50% Asset Test.* The cost amount for purposes of the Income Tax Act to the Company of its property in the form of or as a combination of money, debts secured on certain specified residential properties, and funds on deposit with a bank or other corporation any of whose deposits are insured by the Canada Deposit Insurance Corporation or the Régie de l'assurance-dépôts du Québec or a credit union (such debts and deposits referred to as "Required Property") constituted at least 50% of the cost amount to the Company of all of its property;
- g) *25% Asset Test.* The cost amount for tax purposes to the Company of its property in the form of interests in real or immovable property (including leasehold interests in such property but excepting real or immovable property acquired by foreclosure after default by the mortgagor) did not exceed 25% of the cost amount to the Company of all of its property; and
- h) *Debt to Equity Ratio.* Where at any time in the year the cost amount to the Company for purposes of the Income Tax Act of its money and Required Property represented less than two-thirds of the aggregate cost amount to the Company of all of its property, the Company's liabilities may not exceed 75% of the cost amount to the Company of all its property. Where, however, throughout the year the cost amount to the Company of its money and Required Property represented two-thirds or more of the aggregate cost amount to the Company of all of its property, the Company's liabilities may not exceed 83.33% of the cost amount to the Company of all its property.

With respect to the requirement noted above that no shareholder (together with Related Persons) may own more than 25% of the shares of any class of the Company, for these purposes "Related Persons" include a corporation and the person or persons that control the corporation, a parent corporation and its subsidiary corporation(s) and corporations that are part of the same corporate group, and an individual and that individual's spouse, common law partner or child under 18 years of age. The rules in the Income Tax Act defining "Related Persons" are complex and Shareholders should consult with their own tax advisors in this regard.

For the purposes of the 50% asset test noted above, the requirement is that the Company's investments must comprise the specified minimum amount of "debts" that are secured by mortgages, hypothecs or in any other manner, on "houses" as that term is defined in section 2 of the *National Housing Act* (Canada) or on property included within a "housing project", as that term is defined in that section as it read on June 16, 1999. Generally, a "house" for this purpose includes all or part of a building or moveable structure that is intended for human habitation containing not more than two family housing units, and "housing project" for this purpose means a project consisting of one or more houses, one or more multiple family dwellings, housing accommodation of the hostel or dormitory type, one or more condominium units or any combination thereof, together with any public space, recreational facilities, commercial space and other buildings appropriate to the project, but does not include a hotel.

### **11.1.3 Eligibility for Investment**

The Class A Shares will be qualified investments as of the date hereof for Plans, provided that the Company qualifies at all times as a MIC and further provided that at any time in the relevant calendar year, the Company does not hold any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary, an employee, or a subscriber under the Plan, or of any other person who does not deal at arm's length with that person. The Class A Shares which are listed on a designated stock exchange, which includes the TSX, will also be qualified investments as of the date hereof for Plans. The Class A Shares are currently listed on the TSX.

The Class A Shares will not be a "prohibited investment" for trusts governed by a TFSA, RRSP or RRIF unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, (i) does not deal at arm's length with the Company; or (ii) has a "significant interest" as defined in the Income Tax Act in the Company. Generally, a holder or annuitant, as the case may be, will not have a significant interest in the

Company unless the holder or annuitant, as the case may be, owns, directly or indirectly, 10% or more of the issued shares of any class of the capital stock of the company (or of any related corporation), either alone or together with persons with which the holder or annuitant, as the case may be, does not deal at arm's length. In addition, the Class A Shares will not be a "prohibited investment" if the Class A Shares are "excluded property" as defined in the Income Tax Act for trusts governed by a TFSA, RRSP or RRIF.

Holders or annuitants should consult their own tax advisors with respect to whether Class A Shares would be prohibited investments, including with respect to whether the Class A Shares would be excluded property.

## **11.2 Taxation of the Company**

The Company will be considered to be a public corporation either on the basis that it qualifies as a MIC or on the basis that the Class A Shares are listed on the TSX. As a public corporation, the Company is subject to tax at the full general corporate income tax rates on its taxable income. However, provided the Company qualifies as a MIC, the Company may deduct in computing its income for a taxation year the amount of dividends paid to its Shareholders as follows:

- a) all taxable dividends, other than capital gains dividends, paid by the Company to its Shareholders during the year or within 90 days after the end of the year (to the extent not deductible in computing the Company's income for the previous year); and
- b) one-half of all capital gains dividends paid by the Company to its Shareholders during the period commencing 91 days after the commencement of the year and ending 90 days after the end of the year.

The Company must elect to have a dividend qualify as a capital gains dividend. The Company may elect that dividends paid during a 12 month period commencing 91 days after the commencement of a taxation year and ending 90 days after the end of the year be capital gains dividends to the extent of the Company's capital gains for the year less any applicable capital losses. The election must be made in respect of the full amount of a dividend and can only be made if the Company qualifies as a MIC throughout the taxation year.

The Company intends to make distributions to the extent necessary to reduce its taxable income each year to nil so that no tax is payable by it under Part I of the Income Tax Act and to generally elect to have dividends treated as capital gains dividends to the maximum extent allowable.

## **11.3 Taxation of Class A Shareholders**

### **11.3.1 Distributions**

A Class A Shareholder is required to include in its income, as interest payable on a bond issued by the Company, any amount received by the Class A Shareholder from the Company as or on account of a taxable dividend (other than capital gains dividends), whether paid in cash or reinvested in Class A Shares. Capital gains dividends received by a Class A Shareholder (whether paid in cash or reinvested in Class A Shares) will be treated as a capital gain of the Class A Shareholder from a disposition of capital property in the year in which the dividend is received. See "Disposition of Class A Shares" below for the tax treatment of capital gains.

The gross up and dividend tax credit applicable to taxable dividends received by individuals from a taxable Canadian corporation will not apply to dividends paid by the Company. Any amount paid by the Company to a Class A Shareholder on a return of capital will generally be deemed to be a dividend paid by the Company and received by the Class A Shareholder. This deemed dividend will be treated in the



same manner as other dividends received by the Class A Shareholder from the Company, and its treatment will depend on whether the Company elects that the entire dividend be a capital gains dividend (to the extent that the Company has realized sufficient capital gains, net of any applicable capital losses, in the year). A return of capital on the Class A Shares will generally not affect the adjusted cost base of a Class A Shareholder's Class A Shares.

The amount of a dividend reinvested in additional Class A Shares will be the cost of such Class A Shares and will be averaged with the cost of other Class A Shares owned by the Class A Shareholder in determining the adjusted cost base of a Class A Shareholder's Class A Shares.

### **11.3.2 Disposition of Class A Shares**

A sale or other disposition of a Class A Share by a Class A Shareholder (other than to the Company), including a deemed disposition, will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition of the Class A Share exceed (or are exceeded by) the Class A Shareholder's adjusted cost base of such Class A Share and any reasonable disposition costs.

In general, one-half of a capital gain ("taxable capital gains") realized in the year by a Class A Shareholder on the disposition of Class A Shares will be included in the Class A Shareholder's income for the year, and one half of a capital loss ("allowable capital losses") realized in the year on such disposition of Class A Shares will be deducted from the Class A Shareholder's taxable capital gains, if any, realized in such year. Allowable capital losses in excess of taxable capital gains for a particular year may generally be carried back three years or forward indefinitely and deducted against taxable capital gains realized in such years, subject to the detailed rules in the Income Tax Act.

Class A Shareholders realizing capital gains on the disposition of Class A Shares or receiving capital gains dividends on Class A Shares may be subject to alternative minimum tax under the Income Tax Act.

On a redemption or acquisition of Class A Shares by the Company, the Class A Shareholder generally will be deemed to have received, and the Company will be deemed to have paid, a dividend in an amount equal to the amount by which the redemption price exceeds the paid-up capital of the redeemed Class A Shares. This deemed dividend will be treated in the same manner as other dividends received by the Class A Shareholder from the Company, and its treatment will depend on whether the Company elects that the entire dividend be a capital gains dividend (to the extent the Company has realized sufficient capital gains, net of any applicable capital losses, in the year). The balance of the redemption price will constitute proceeds of disposition of the Class A Shares for purposes of the capital gains rules, as described above.

### **11.4 Taxation of Plans**

Dividends received by a Plan on Class A Shares that are a qualified investment for such a Plan will be exempt from income tax in the Plan, as will capital gains realized by the Plan on the disposition of such Class A Shares. Withdrawals from Plans, other than a TFSA and registered education savings plan in some cases, are generally subject to tax under the Income Tax Act.

### **11.5 Tax Implications of the Company's Distribution Policy**

The NAV of a Class A Share may be attributable in part to income and capital gains that have been earned or accrued by the Company, but which have not yet been realized and/or paid out as a dividend or other distribution. If a Class A Shareholder invests in Class A Shares before a dividend is declared, the Class A Shareholder will be taxed on the full amount of any such dividend that is received by the Class A Shareholder (and similarly in the case of a deemed dividend resulting from a return of capital distribution). If the Company adopts a distribution policy of paying equal monthly distributions to Class A Shareholders of record on the last business day of each month, an investor who acquires a Class A

Share late in the month but prior to the dividend or other distribution will pay tax on the entire dividend (or deemed dividend) though the Class A Shareholder will have only recently acquired Class A Shares.

## **12.0 REMUNERATION OF DIRECTORS, OFFICERS AND IRC**

The Manager is paid the Management Fee as disclosed in section 8.2.3 of this annual information form. The directors of the Manager do not receive any directors' fees. The Company pays the fees of the IRC (who also receive fees in their capacity as directors of the Company) which for 2015 were \$5,000 per member as determined by the IRC based on a recommendation of the Manager and \$2,500 per member in their capacity as directors. The Company also pays the expenses incurred by the IRC and directors on behalf of the Company. No expenses were paid in 2015.

## **13.0 MATERIAL CONTRACTS**

The Company and/or the Manager are party to the Management Agreement, the Custodian Agreement, the Mortgage Services Agreement, the Mortgage Consulting Agreement and the Voting Shareholders Agreement. Copies of these material contracts may be accessed free of charge by prospective or existing Shareholders at [www.sedar.com](http://www.sedar.com) under the Company's profile. They are also available at the Company's office during normal business hours. Details in respect of these agreements can be found in section 8.0.

### **13.1 Loan Facility**

The Company entered into a Loan Facility with a Canadian chartered bank (the "Lender") in order to provide the Company with the ability to utilize leverage to enhance the total return on the Mortgage Portfolio. The terms, conditions, interest rates, fees and expenses of and under the Loan Facility are typical for loans of this nature. The Lender is at arm's length to the Fund, Manager, Mortgage Consultant, Mortgage Services Provider and their respective affiliates and associates.

The Loan Facility permits the Company to borrow monies for various purposes including, without limitation, purchasing Company's investments in accordance with the Investment Objectives and Investment Strategies and subject to the Investment Restrictions, effecting market purchases of Class A Shares, maintaining liquidity, funding redemptions and paying distributions. The Company has provided a security interest in all of its assets in favour of the Lender to secure such borrowings. In the event of default, the Lender's recourse is limited to the assets of the Company.

Other than borrowings by the Company under the Loan Facility of up to 25% of the Total Assets, determined at the time of borrowing, and short-term credits necessary for settlement of securities transactions, which are not considered borrowing, the Company will not engage in further borrowing.

## **14.0 OTHER MATERIAL INFORMATION**

### **14.1 Risk Factors**

Certain risk factors relating to the Company, the Class A Shares and the Voting Shares are described below. Additional risks and uncertainties not currently known to the Manager, or that are currently considered immaterial, may also impair the operations of the Company. If any such risk actually occurs, the business, financial condition, liquidity or results of operations of the Company and the ability of the Company to make distributions on the Class A Shares, could be materially adversely affected.

#### *No Assurance of Achieving Investment Objectives*

There can be no assurance that Portfolio Mortgages invested in by the Company will result in a guaranteed rate of return or any return to Class A Shareholders or that losses will not be suffered on one or more of the Portfolio Mortgages. Although Portfolio Mortgages and Mortgage-Related Securities will

undergo a thorough review and selection process by the Manager and MCAP, respectively there is no assurance that the Company will be able to achieve its Investment Objectives or be able to pay distributions at the targeted levels or preserve capital. The funds available for distribution to Class A Shareholders will vary according to, among other things, losses of principal and/or interest in relation to Portfolio Mortgages and the interest and principal payments received in respect of the Portfolio Mortgages. There is no assurance that the Mortgage Portfolio will earn any return. The Manager, on behalf of the Company, may periodically re-evaluate the Company's targeted level of distributions and adjust it higher or lower, which may have a material effect on the price or value of the Class A Shares. An investment in the Company is appropriate only for investors who have the capacity to absorb a loss on their investment and who can withstand the effect of distributions not being paid in any period or at all.

#### *Changes in Real Property Values*

The Company's investments in Mortgage loans will be secured by Real Property, the value of which may fluctuate. The value of Single Family Residential Properties is affected by, among other factors, general economic conditions, local real estate markets, the attractiveness of the property and the level of supply and demand in the market for comparable properties. A substantial decline in value of Real Property provided as security for a Mortgage may cause the value of such Real Property to be less than the outstanding principal amount of the Mortgage loan. In that case, and in the event the Mortgage loan is uninsured, the Company's realization on its security and its exercise of foreclosure or power of sale rights in respect of the relevant property might not provide the Company with proceeds sufficient to satisfy the outstanding principal amount of, and interest owing, under the Mortgage loan. However, even in the event the loan is insured, the Company may not be able to realize proceeds sufficient to satisfy the outstanding principal amount of, and interest owing under, the Mortgage loan if its claim to the relevant Mortgage Insurance Company is denied or the relevant Mortgage Insurance Company becomes insolvent.

While independent appraisals are required before the Company may make any Mortgage investments, the appraised values provided, even where reported on an "as is" basis, are not necessarily reflective of the market value of the underlying Real Property, which may fluctuate. In addition, the appraised values reported in independent appraisals may be subject to certain assumptions and conditions, including the completion of construction, rehabilitation, remediation or leasehold improvements on the Real Property providing security for the loan. There can be no assurance that these assumptions and conditions will be satisfied and if, and to the extent they are not appraised value may not necessarily reflect the market value of the Real Property at the time the conditions are satisfied.

#### *Concentration and Composition of the Mortgage Portfolio*

The Mortgage Portfolio will be comprised primarily of Single Family Residential Mortgages, although the Company also may hold Other Mortgages and cash and cash equivalents. Given the concentration of the Company's exposure to Mortgages, the Company will be more susceptible to adverse economic or regulatory occurrences affecting Real Property than an investment fund that holds a diversified portfolio of securities. Investments in Mortgages are relatively illiquid. Such illiquidity will tend to limit the Company's ability to vary the composition of the Mortgage Portfolio promptly in response to changing economic or investment conditions. The Investment Objectives and Investment Restrictions of the Company permit the assets of the Company to be invested in different types of Mortgages. Therefore, the composition of the Mortgage Portfolio may vary from time to time, subject to the Investment Objectives and Investment Restrictions of the Company. The Mortgage Portfolio will be invested, and may from time to time be concentrated, by location of the properties, type of property, or other factors resulting in the Mortgage Portfolio being less diversified than at other times. As a result, the returns generated by the Mortgage Portfolio may change as its composition changes.

### *No Guarantees or Insurance*

A Mortgage borrower's obligations to the Company or any other person are not guaranteed by the Government of Canada, the government of any province or any agency thereof nor are they insured under the *National Housing Act* (Canada). This does not include Insured Single Family Residential Mortgages. In the event that additional security is given by the borrower or a third party or that a private guarantor guarantees the Mortgage borrower's obligations, there is no assurance that such additional security or guarantee will be available or sufficient to make the Company whole if and when resort is to be had thereto. Further, Class A Shares are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions thereof or any other legislation.

### *Competition*

MCAP's products compete with those offered by banks, insurance companies, trust companies and other financial institutions. Certain of these competitors are better capitalized, hold a larger percentage of the Canadian Mortgage market, may have greater financial, technical and marketing resources than MCAP and will have greater name recognition than MCAP. MCAP will experience competition in all aspects of its business, including price competition. If price competition increases, MCAP may not be able to raise the interest rates it charges in response to a rising cost of funds or may be forced to lower the interest rates that it is able to charge borrowers, which has the potential to reduce the value of the Portfolio Mortgages that the Company has purchased from MCAP or the return on or yield of Portfolio Mortgages that the Company may purchase from MCAP. Price-cutting or discounting may reduce the return on or yield of the Portfolio Mortgages invested in by the Company. This could have a material adverse effect on the Company's business, financial condition and results of operations and on the amount of cash available for distribution to be made on the Class A Shares.

### *Sensitivity to Interest Rates*

At any point in time, the interest rates being charged for Portfolio Mortgages are reflective of the general level of interest rates and, as interest rates fluctuate, it is expected that the aggregate yield on Mortgage investments will also change. It is anticipated that the market price for the Class A Shares and the value of the Mortgage Portfolio at any given time may be affected by the level and term structure of interest rates prevailing at such time. The Company's income will consist primarily of interest payments on the Portfolio Mortgages. If there is a decline in interest rates (as measured by the indices upon which the interest rates of the Portfolio Mortgages are based), the Company may find it difficult to purchase additional Mortgages bearing rates sufficient to achieve the targeted payment of distributions on the Class A Shares. There can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect the Company's ability to maintain distributions on the Class A Shares at a consistent level. As well, if interest rates increase, the value of the Company's Mortgage Portfolio may be negatively impacted.

### *Risks Related to Mortgage-Related Securities*

Investments in Mortgage-Related Securities are generally sensitive to changes in the pre-payment rate on the applicable Mortgages underlying this form of investment. In particular, an increase in prepayments has the effect of shortening the average amortization, and thereby reducing the interest income, of the applicable underlying Mortgages, which may cause principal losses and a material adverse effect on the market value of Mortgage-Related Securities. Conversely, a decrease in the pre-payment rate and an increase in the amortization of the applicable underlying Mortgages may cause an increase in the market value of Mortgage-Related Securities.

### *Fluctuations in NAV, NAV per Share and Distributions*

The NAV and NAV per Share and the funds available for distributions will vary according to, among other things, the value of the Mortgage Portfolio and the interest earned thereon. Fluctuations in the

market value of the Mortgage Portfolio may occur for a number of reasons beyond the control of the Manager or the Company. The Company will depend on revenue generated from the Mortgage Portfolio. There can be no assurance regarding the amount of revenue that will be generated by the Portfolio Mortgages. The amount of distributions will depend upon numerous factors, including the ability of borrowers to make applicable payments under Portfolio Mortgages, interest rates, unexpected costs, and other factors which may not now be known by or which may be beyond the control of the Company, the Manager or MCAP. If the directors of the Company, on the advice of the Manager, determine that it would be in the best interests of the Company, they may reduce or suspend for any period, or altogether cease indefinitely, the distributions to be made on the Class A Shares. Distributions made to Class A Shareholders may exceed actual cash available to the Company from time to time because of items such as debt payment obligations, fluctuations in Mortgage Portfolio returns and redemptions of Class A Shares, if any. The excess cash required to fund distributions may be funded from the Credit Facility or from the capital of the Company.

#### *Availability of Investments*

As the Company relies on MCAP to source the Portfolio Mortgages, the Company is exposed to adverse developments in the business and affairs of MCAP, to its management and financial strength, competition faced by MCAP and by MCAP's ability to operate its businesses efficiently and profitably. The ability of the Company to make investments in accordance with its Investment Objectives and Investment Strategies depends upon the availability of suitable investments and the amount of funds available to make such investments. Additionally, the Company may occasionally hold excess funds to be invested in additional Mortgages, which may negatively impact returns.

#### *Risks Related to Mortgage Extensions and Mortgage Defaults*

MCAP may from time to time deem it appropriate to extend or renew the term of a Portfolio Mortgage past its maturity, or to accrue the interest on a Portfolio Mortgage, in order to provide the borrower with increased repayment flexibility. MCAP generally will do so if it believes that there is a very low risk to the Company of not being repaid the full principal and interest owing on the Portfolio Mortgage. In these circumstances, however, the Company is subject to the risk that the principal and/or accrued interest of such Portfolio Mortgage may not be repaid in a timely manner or at all, which could impact the cash flows of the Company during and after the period in which it is granting this accommodation. Further, in the event that the valuation of the asset has fluctuated substantially due to market conditions, there is a risk that the Company may not recover all or substantially all of the principal and interest owed to the Company in respect of such Portfolio Mortgage. When a Mortgage is extended past its maturity, the loan can either be held over on a month-to-month basis, or renewed for an additional term at the time of its maturity. Notwithstanding any such extension or renewal, if the borrower subsequently defaults under any terms of the loan, the Mortgage Services Provider has the ability to exercise its Mortgage enforcement remedies in respect of the extended or renewed Mortgage. Exercising Mortgage enforcement remedies is a process that requires a significant amount of time to complete, which could adversely impact the cash flows of the Company during the period of enforcement. In addition, as a result of potential declines in Real Property values, the priority ranking of the Mortgage and other factors, there is no assurance that the Company will be able to recover all or substantially all of the outstanding principal and interest owed to the Company in respect of such Mortgages by the Mortgage Service Provider's exercise of Mortgage enforcement remedies for the benefit of the Company. Should the Company be unable to recover all or substantially all of the principal and interest owed to the Company in respect of such Mortgage loans, the NAV of the Company would be reduced, and the returns, financial condition and results of operations of the Company could be adversely impacted.

#### *Foreclosure or Power of Sale and Related Costs*

One or more borrowers could fail to make payments according to the terms of their loan, and the Company could therefore be forced to exercise its rights as mortgagee. The recovery of a portion of the

Company's assets may not be possible for an extended period of time during this process and there are circumstances where there may be complications in the enforcement of the Company's rights as mortgagee. Legal fees and expenses and other costs incurred by the Company in enforcing its rights as mortgagee against a defaulting borrower are usually recoverable from the borrower directly or through the sale of the mortgaged property by power of sale or otherwise, although there is no assurance that they will actually be recovered. In the event that these expenses are not recoverable they will be borne by the Company. Furthermore, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, Mortgage payments to prior charge holders, insurance costs and related charges must be made through the period of ownership of real property regardless of whether Mortgage payments are being made. The Company may therefore be required to incur such expenditures to protect its investment, even if the borrower is not honouring its contractual obligations.

#### *Litigation Risks*

The Company may, from time to time, become involved in legal proceedings in the course of its business.

The costs of litigation and settlement can be substantial and there is no assurance that such costs will be recovered in whole or at all. During litigation involving a borrower in respect of a Mortgage, the Company may not be receiving payments of interest on a Portfolio Mortgage that is the subject of litigation, thereby impacting cash flows. The unfavourable resolution of any legal proceedings could have an adverse effect on the Company and its financial position and results of operations that could be material.

#### *Redemption Risks*

Class A Shares are redeemable annually at the Annual Redemption Amount. The purpose of the Annual Redemption Right is to reduce the likelihood of the Class A Shares trading at a substantial discount to the NAV per Share and to provide Class A Shareholders with an opportunity to liquidate their investment once per year without any trading discount to the NAV per Share or incurring selling commission. While the Annual Redemption Right provides Class A Shareholders with the option of annual liquidity based on the NAV per Share, there can be no assurance that it will reduce trading discounts or allow a Class A Shareholder to redeem all of the Class A Shares sought to be redeemed. If a significant number of Class A Shares are redeemed, the trading liquidity of the Class A Shares could be significantly reduced. In addition, if a significant number of Class A Shares are redeemed, (i) the Company may be required to sell Mortgage Portfolio assets in order to satisfy redemption payment obligations and may not be able to complete such Mortgage Portfolio asset sales on favourable terms or at all, (ii) the expenses of the Company would be spread among fewer Class A Shares resulting in a higher management expense ratio per Class A Share, and (iii) Class A Shares submitted for redemption in excess of the redemption limits may not be redeemed. If, as a result of significant redemptions, the Manager determines that it is in the best interests of Class A Shareholders to terminate the Company, the Manager could, subject to applicable law, seek to terminate the Company.

#### *Trading Price of Class A Shares and Liquidity*

The Class A Shares may trade in the market at a premium or discount to the NAV per Share and there can be no assurance that the Class A Shares will trade at a price equal to the NAV per Share or that a liquid market will develop. This risk is separate and distinct from the risk that the NAV per Share may decrease.

In recognition of the possibility that the Class A Shares may trade at a discount, the terms and conditions attaching to the Class A Shares have been designed to attempt to reduce or eliminate a market value discount from the NAV per Share. The Company believes that optional purchases of Class A Shares in the capital of the Company by the Company, as described under "Attributes of the Shares", and the Annual Redemption Right described under "Redemption of Class A Shares" may help to reduce or eliminate a market value discount from NAV per Share. There can be no assurance that such measures

will result in the Class A Shares trading at a price which is equal to the NAV per Share. The Company anticipates that the market price of the Class A Shares will in any event vary from the NAV per Share. The market price of the Class A Shares will be determined by, among other things, the relative demand for and supply of Class A Shares in the market, trading liquidity, the Company's investment performance, the Class A Shares' yield and investor perception of the Company's overall attractiveness as an investment as compared with other investment alternatives.

#### *Qualification as a MIC*

Although the Company intends to qualify at all times as a MIC, no assurance can be provided in this regard, including with respect to whether Mortgages representing junior tranches of first mortgages would be secured "debts" for purposes of the 50% asset test that must be met by the Company to qualify as a MIC. Although the Company is of the view that such Mortgages governed by participation agreements in the form entered into by the Company would be secured "debts" for purposes of the 50% asset test if acquired on the date hereof, no advance income tax ruling has been requested or obtained from the CRA in this regard and there can be no assurance that the CRA will agree with the Company's view. If the Company initially qualifies as a MIC under the Tax Act, but for any reason the Company does not maintain its qualification, dividends paid by the Company on the Class A Shares will cease to be deductible by the Company in computing its income and will no longer be deemed to have been received by Class A Shareholders as interest or a capital gain, as the case may be. In such event, as long as a class of shares in the capital of the Company is listed on a designated stock exchange, the rules in the Tax Act regarding the taxation of public corporations and their shareholders apply, with the result that the combined corporate and shareholder tax may be significantly greater. In addition, unless the Class A Shares are listed on a designated stock exchange, the Class A Shares may not constitute qualified investments for Plans. See section 11.0.

The Company monitors major positions held in Class A Shares in relation to the outstanding balance of Class A Shares to ensure that no one Class A Shareholder of the Company exceeds the 25% maximum ownership limit set by the Tax Act for the Company to maintain its qualification as a MIC. The terms of the Class A Shares include certain provisions intended to prevent this condition from being violated.

#### *Reliance on the Manager*

Pursuant to the Management Agreement, the Manager will advise the Company in a manner consistent with the Investment Objectives and the Investment Restrictions of the Company. Although the employees of the Manager who will be primarily responsible for the performance of the obligations owed to the Company have extensive experience, there is no certainty that such individuals will continue to be employees of the Manager in the future. In addition, there is no assurance that the Manager will continue to provide services to the Company. There is no certainty that the persons who are currently officers and directors of the Manager will continue to act in such capacity. Class A Shareholders will be required to rely on the good faith, expertise and judgment of the individuals comprising the management of the Manager from time to time. Class A Shareholders do not have the right to direct or influence in any manner the business or affairs of the Manager.

#### *Reliance on MCAP*

MCAP Service Corporation, in its capacity as the Mortgage Services Provider, will perform its obligations in relation to sourcing and servicing the Portfolio Mortgages, among other duties and obligations, and MCAP Financial LP, in its capacity as the Mortgage Consultant, will perform its obligations in relation to the provision of Mortgage consulting services, among other duties and obligations. MCAP's operations on behalf of the Company and the Manager are dependent on the abilities, experience and efforts of its employees and management and other key employees including the senior management team. Should any of these persons be unable or unwilling to continue in their employment, this could have a material adverse effect on MCAP's business, financial condition and

results of operation. Class A Shareholders do not have the right to direct or influence in any manner the business or affairs of MCAP.

#### *The Company May Be Unable to Fund Investments*

The Company may commit to making future Mortgage investments in anticipation of repayment of principal outstanding and/or the payment of interest under existing Mortgage investments. In the event that such repayments of principal or payments of interest are not made, the Company may be unable to advance some or all of the funds required to be advanced pursuant to the terms of its commitments and may be required to obtain interim financing and to fund such commitments or face liability in connection with its failure to make such advances.

#### *Leverage*

The Manager intends to use the Credit Facility to enhance returns from the Mortgage Portfolio, and may use the Credit Facility to (i) facilitate its operating activities and fund working capital requirements, (ii) facilitate payment of redemptions of Class A Shares and enhance liquidity of assets, and (iii) facilitate entering into Mortgage loans or funding subsequent advances in an expedient manner. The Company may use the Credit Facility to fund new Mortgages as an interim measure prior to raising additional capital. The use of leverage may reduce returns (both distributions and capital) to Class A Shareholders. If there is a decline in the value of the assets in the Mortgage Portfolio, the leverage will cause a decrease in the NAV in excess of that which would otherwise be experienced if no leverage was utilized.

#### *Conflicts of Interest*

The Company is subject to a number of actual and potential conflicts of interest involving MCAP, the Mortgage Consultant and the Mortgage Services Provider. MCAP, the Mortgage Consultant and the Mortgage Services Provider provide Mortgage origination and/or Mortgage-related services to other investors, including FRFIs and pension funds as well as investing on their own account. Accordingly, the services provided by the Mortgage Consultant pursuant to the Mortgage Consulting Agreement and the Mortgage Services Provider pursuant to the Mortgage Services Agreement are not exclusive to the Company and neither the Mortgage Consulting Agreement nor the Mortgage Services Agreement restricts MCAP, the Mortgage Consultant or the Mortgage Services Provider from establishing, as applicable, additional Mortgage origination and/or servicing arrangements, participating in additional investment funds, entering into other advisory relationships or from engaging in other business activities, even though such activities may be in competition with the Company and/or involve substantial time and resources of MCAP, the Mortgage Consultant or the Mortgage Services Provider. MCAP, the Mortgage Consultant and/or the Mortgage Services Provider currently provide Mortgage origination and/or servicing to a number of different investors having more assets than the Company and this precludes MCAP, the Mortgage Consultant and/or the Mortgage Services Provider from devoting all of their time and effort to the business of the Company. In addition, the directors and officers of MCAP, the Mortgage Consultant and/or the Mortgage Services Provider may have a conflict of interest in allocating their time between respective businesses and interests of MCAP, the Mortgage Consultant, the Mortgage Services Provider and the Company, and other businesses or projects in which they may become involved.

MCAP, the Mortgage Consultant and/or the Mortgage Services Provider may also manage, advise on or service Mortgages for institutional investors that may have investment objectives similar to those of the Company and may engage in transactions involving the same types of securities and instruments as offered to the Manager for sale to the Company. Such transactions may be executed independently of those involving the Manager and the Company, and thus at prices or rates that may be more or less favourable than those obtained by the Company.



### *General Economic Conditions*

The Mortgage financing industry in Canada continues to benefit from historically low and stable interest rates. There is a risk that an increase in interest rates could slow the pace of property sales and adversely affect growth in the Canadian Mortgage market, which could adversely affect the Company's operations. A decline in general economic conditions could also cause default rates to increase as creditworthiness decreases for borrowers. This could have a material adverse effect on the Company's operating results.

In addition, a significant decline in real estate values could negatively affect the Company's operating results and growth prospects as this may result in a decrease in the value of Mortgages. As property values decline, security on Mortgages could also be adversely affected, thereby reducing the ability to liquidate properties held by defaulting borrowers at favourable prices.

The Company's Mortgage Portfolio may include assets whose values can fluctuate because of changing interest rates and economic and market conditions. In addition, some of these assets could be difficult to sell at any given time. Changes in interest rates and other market factors such as stock market prices and demographics could affect the preferences of its customers for different types of products and adversely impact the Company's profitability. A reduction in positive spreads between Mortgage rates and capital market funding rates could have a material adverse effect on the Company's operating results.

In addition, there are economic trends and factors that are beyond the Company's control and which may affect its operations and business. Such trends and factors include adverse changes in the condition in the specific markets for the Company's and MCAP's products and services, the conditions in the broader market for Single Family Residential Mortgages and Other Mortgages and the conditions in the domestic or global economy generally. Although the Company's performance is affected by the general condition of the economy, not all of its service areas are affected equally. It is not possible for the Company's management to accurately predict fluctuations and the impact of such fluctuations on performance.

### *Restrictions on Ownership and Repurchase of Class A Shares*

No Shareholder of the Company is permitted, together with Related Persons, at any time, to hold more than 25% of any class of the issued shares of the Company. The terms and conditions of the Class A Shares provide that the portion of such Class A Shares held by a Class A Shareholder, together with Related Persons, that exceeds 24.9% of the issued Class A Shares will be repurchased by the Company on the same terms as an annual redemption completed on the applicable date. Such repurchases of Class A Shares could be significant and could engender similar risks to those that arise in the context of significant redemptions of Class A Shares. See section 14.1.

### *Failure or Unavailability of Computer and Data Processing Systems and Software*

MCAP is dependent upon the successful and uninterrupted functioning of its computer and data processing systems and software. The failure or unavailability of these systems could interrupt operations or materially impact MCAP's ability to originate, monitor or service customer accounts. If sustained or repeated, a system failure or loss of data could negatively affect the ability of MCAP to discharge its duties to the Company. In addition, MCAP depends on automated software to collect payments on Mortgages. If such software fails or is unavailable on a prolonged basis, MCAP could be required to manually complete such activities, which could have a material adverse effect on MCAP's ability to discharge its duties to the Company.

### *Subordinate and Non-Conventional Financing*

Subordinate financing (such as a second charge Mortgage), which, subject to the Investment Restrictions, may be carried on by the Company in accordance therewith, is generally considered a higher risk than first ranking financing. Subject to the Investment Restrictions, Portfolio Mortgages will be secured by a charge, which may be in a first, but may often be a subsequent ranking position upon or in the underlying

Real Property. When a charge on Real Property is in a position other than first ranking, it is possible for the holder of a prior charge on the Real Property, if the borrower is in default under the terms of its obligations to such holder, to take a number of actions against the borrower and ultimately against the Real Property in order to realize the security given for such loan. Such actions may include a foreclosure action, or an action forcing the Real Property to be sold. A foreclosure action may have the ultimate effect of depriving any person having other than a first ranking charge on the Real Property of the value of their security of the Real Property. If an action is taken to sell the Real Property and sufficient proceeds are not realized from such sale to pay off all creditors who have prior charges on the Real Property, the holder of a subsequent charge will lose their investment or part thereof to the extent of such deficiency unless they can otherwise recover such deficiency from other property, if any, owned by the debtor. Where permitted by the Investment Restrictions, and when the Company invests in a second or subsequent Mortgage, it will also hold the first Mortgage or have a written agreement with the holder of the first charge to deal with permitted actions and procedures on the default of the Mortgage. The Company may make an investment in a Mortgage where its Loan-to-Value exceeds 80%, which exceeds the investment limit for conventional Mortgage lending by Schedule A Banks.

#### *Change in Legislation*

There can be no assurance that certain laws applicable to the Company or to MCAP, including Canadian federal and provincial tax laws, tax proposals, securities laws including the definition and regulation of investment funds, other governmental policies or regulations and governmental, administrative or judicial interpretation thereof, will not change in a manner that will adversely affect the Company or MCAP or fundamentally alter the tax consequences to Class A Shareholders acquiring, holding or disposing of Class A Shares.

#### *Changes in Mortgage Financing Regulations and Guidelines*

There can be no assurance that future regulatory and guideline changes will not adversely affect the Company or MCAP, including changes resulting in limited Mortgage investment opportunities and increased competition from FRFIs offering similar products. In the event of such increased competition, MCAP may not be able to raise the interest rates it charges in response to a rising cost of funds or may be forced to lower the interest rates that it is able to charge borrowers, which has the potential to reduce the value of the Portfolio Mortgages that the Company has purchased from MCAP or the return on or yield of Portfolio Mortgages that the Company may purchase from MCAP. This could have a material adverse effect on the Company's business, financial condition and results of operations and on the amount of cash available for distribution to be made on the Class A Shares.

#### *Environmental Matters*

On behalf of the Company, the Mortgage Services Provider may in the future take possession, through enforcement proceedings, of Real Properties that secured defaulted Portfolio Mortgages to recover the Company's investment in such Portfolio Mortgages. Prior to taking possession of Real Properties which secure a Mortgage investment, the Mortgage Services Provider will assess the potential environmental liability associated with such enforcement and determine whether it is significant, having regard to the value of the Real Property. If the Mortgage Services Provider subsequently takes possession of the Real Property, the Company could be subject to environmental liabilities in connection with such Real Property, which could exceed the value of the property.

#### *Global Financial Developments*

Global financial markets have experienced increased volatility in the last several years. This has been, in part, the result of the revaluation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While the central banks as well as global governments have worked to restore much needed liquidity to the global

economies, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not continue to materially and adversely affect economies around the world. No assurance can be given that efforts to respond to the crisis will continue or that, if continued, they will be successful or these economies will not be adversely affected by the inflationary pressures resulting from such efforts or central banks' efforts to slow inflation. Further, continued market concerns about the European sovereign debt may adversely impact global equity markets. Some of these economies have experienced significantly diminished growth and some are experiencing or have experienced a recession. These market conditions and further volatility or illiquidity in capital markets may also adversely affect the prospects of the Company and the value of the portfolio. A substantial decline in equities markets could be expected to have a negative effect on the Company and the market price of the Shares.

#### *Market Disruptions*

War and occupation, terrorism and related geopolitical risks may in the future lead to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally. Those events could also have an acute effect on individual issuers or related groups of issuers. These risks could also adversely affect securities markets, inflation and other factors relating to the Mortgage Portfolio.

#### *Accrued Gains*

The adjusted cost base to the Company for tax purposes of mortgages may be less than their fair market value. Accordingly, the Company may realize capital gains upon the disposition of mortgages. The Company intends to distribute any such capital gains (less any applicable capital losses) as capital gains dividends to Class A Shareholders. Capital gains dividends received by a Class A Shareholder will be treated as a capital gain of the Class A Shareholder from a disposition of capital property in the year in which the dividend is received. See sections 11.2 and 11.3.

#### *Exchange of Tax Information*

The Company is required to comply with due diligence and reporting obligations imposed under Part XVIII of the Income Tax Act that implemented the Canada-United States Enhanced Tax Information Exchange Agreement. As long as the Class A Shares continue to be listed and are regularly traded on the TSX, the Company should not have any U.S. reportable accounts and, as a result, it should not be required to provide information to the CRA in respect of Class A Shareholders. However, dealers through which Class A Shareholders hold their Class A Shares are subject to due diligence and reporting obligations with respect to financial accounts that they maintain for their clients. Class A Shareholders may be requested to provide information to their dealer in order to allow the dealer to identify U.S. persons holding Class A Shares. If a Class A Shareholder is a U.S. person (including a U.S. citizen or green card holder who is resident in Canada) or if the Class A Shareholder does not provide the requested information, the Class A Shareholder's dealer will be required by the Income Tax Act to report certain information about the Class A Shareholder's investment in the Company to the CRA, unless the Class A Shares are held by a registered plan. The CRA is expected to provide that information to the U.S. Internal Revenue Service.

## **14.2 Future Accounting Changes**

IFRS 9, *Financial Instruments*, was issued by the International Accounting Standards Board (the "IASB") on July 24, 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 requires financial instrument classification and related measurement practices to be based primarily on an entity's business model objectives when managing those financial assets and on the extent to which contractual cash flows exist within the financial assets. The standard also introduces a new expected loss

impairment model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is evaluating the potential impact of this new standard on the financial statements.

IFRS 15, *Revenue from Contracts with Customers*, establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. IFRS 15 will also apply to the recognition and measurement of gains and losses on the sale of certain non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company is evaluating the potential impact of this new standard on the financial statements.

## **ANNUAL INFORMATION FORM FOR ECLIPSE RESIDENTIAL MORTGAGE INVESTMENT CORPORATION**

Manager: Brompton Funds Limited  
Address: Suite 2930, Box 793, Bay Wellington Tower, Brookfield Place,  
181 Bay Street, Toronto, Ontario M5J 2T3  
Telephone: (416) 642-6000  
Fax: (416) 642-6001  
Website: [www.bromptongroup.com](http://www.bromptongroup.com)

### **ADDITIONAL INFORMATION:**

Additional information about the Company is available in the Company's management report of fund performance and financial statements. Copies of these documents may be obtained at no cost:

- By calling (416) 642-6000 or toll-free at 1-866-642-6001,
- Direct from your dealer, or
- By email at [info@bromptongroup.com](mailto:info@bromptongroup.com).

Copies of these documents and other information about the Company, such as information circulars and material contracts, are also available on the Company's website at [www.bromptongroup.com](http://www.bromptongroup.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).