



**ANNUAL INFORMATION FORM**

**Common Shares**

**March 19, 2018**

## **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”, “intend”, “may”, “will”, “project”, “should”, “believe” and similar expressions are intended to identify forward-looking statements. Such forward-looking statements reflect the Corporation’s current beliefs and are based on information currently available to it, 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. 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. Some of these risks, uncertainties and other factors are described under the heading “Risk Factors” herein.

In particular, this annual information form may contain forward-looking statements pertaining to: distributable cash and distributions per Common Share; the ability of the Corporation to continue to qualify as a mortgage investment corporation under the *Income Tax Act* (Canada); and the Corporation’s expected use of leverage. 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 Corporation 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:

**“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 Corporation. 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.

**“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.

**“Common Shares”** means the Common Shares in the capital of the 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.

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

**“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 Corporation, the Custodian, the Manager and the Mortgage Services Provider dated as of June 28, 2013, as it may be amended from time to time.

**“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 Guidelines”** means the investment guidelines of the Corporation described in section 3.2 of this annual information form.

**“Investment Objectives”** means the investment objectives of the Corporation described in section 2.2 of this annual information form.

**“Investment Restrictions”** means the investment restrictions of the Corporation including, without limitation, those described in section 3.1 of this annual information form.

**“Investment Strategies”** means the investment strategies of the Corporation described in section 2.3 of this annual information form.

**“Loan Facility”** means the loan facility described in section 2.3 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 amended and restated management agreement dated as of January 4, 2017 between the Corporation 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 9.1.2 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 Limited Partnership.

**“Mortgage Consulting Agreement”** means the amended and restated mortgage consulting agreement among the Mortgage Consultant, the Corporation and the Manager dated as of January 4, 2017 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 Corporation from time to time.

**“Mortgage-Related Securities”** has the meaning given to it under “*Risk Factors — Risks Related to Mortgage-Related Securities*”.

**“Mortgage Services Agreement”** means the amended and restated mortgage services agreement dated as of January 4, 2017 among the Mortgage Services Provider, the Corporation 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.

**“NI 81-106”** means National Instrument 81-106 – *Investment Fund Continuous Disclosure* of the Canadian Securities Administrators (or any successor policy, rule or national instrument), as it may be amended from time to time.

“**NI 51-102**” means National Instrument 51-102 – *Continuous Disclosure Obligations* 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.

“**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.

“**Related Persons**”, with respect to a shareholder, means a person who is considered to be related to the shareholder for the purpose of determining the maximum percentage of shares of any class of the Corporation that may be owned, directly or indirectly, by the shareholder and persons related to the shareholder for purposes of paragraph 130.1(6)(d) of the Income Tax Act.

“**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.

“**Share**” means a Common Share and “**Shares**” means more than one Common Share.

“**Shareholder**” means a holder of a Common Share and “**Shareholders**” means more than one holder of a Common 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 Corporation.

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

## **1.0 CORPORATE STRUCTURE**

### **1.1 Details of Incorporation**

Eclipse Residential Mortgage Investment Corporation is a corporation incorporated under the *Business Corporations Act* (Ontario) (the “OBCA”) pursuant to Articles of Incorporation dated April 3, 2013, with a registered and head office located at Suite 2930, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Toronto, Ontario, M5J 2T3. Prior to closing the Corporation’s initial public offering, the Corporation amended its articles to create Class A Shares and to change its common shares to Voting Shares, among other things. On November 30, 2016, holders of Class A Shares approved the transition of the Corporation from the Canadian securities regulatory regime for investment funds to the regulatory regime for reporting issuers that are not investment funds (the “Public Company Regime”). As a result, on January 4, 2017, the articles were further amended: (i) to reflect the redemption and cancellation of the issued and outstanding Voting Shares of the Corporation; (ii) to create a new class of shares designated as Common Shares; (iii) to provide that each outstanding Class A Share be exchanged for one Common Share on January 4, 2017; (iv) to provide that the Voting Shares and Class A Shares be deleted in their entirety from the articles of the Corporation; (v) to provide that the authorized capital of the Corporation consist of an unlimited number of Common Shares; and (vi) to make other consequential amendments arising from the transition to a Public Company Regime.

### **1.2 Status of the Corporation**

Prior to January 4, 2017, the Corporation operated as a non-redeemable investment fund, as defined in NI 81-106, and filed public disclosure documents according to NI 81-106. The Corporation currently files public disclosure pursuant to NI 51-102.

The Corporation qualifies as a MIC and is not a trust company and, accordingly, is not registered under the trust company legislation of any jurisdiction. 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.

## **2.0 THE BUSINESS**

### **2.1 General**

The Corporation focuses on the acquisition of a diversified mortgage portfolio primarily composed of Single Family Residential Mortgage investments that seeks to preserve capital and to generate income to pay monthly distributions to the Shareholders.

The Corporation qualifies as a MIC under the Income Tax Act. A MIC is generally able to operate as a flow-through entity so that a shareholder of a MIC is taxed as if the investments owned by the MIC in underlying mortgages were directly owned by the shareholder. Taxable dividends, other than capital gains dividends, received by a shareholder of a MIC are deemed to be interest received by the shareholder. Capital gains dividends are deemed to be capital gains of the shareholders.

The Corporation is designed to acquire a diversified portfolio of Mortgages primarily composed of interests in Single Family Residential Mortgages. The Mortgage Service Provider, an affiliate of MCAP, is the registered titleholder to all mortgages in which the Corporation has a beneficial interest. The Corporation obtains rights and ownership of such mortgages by entering into agreements with MCAP Service Corporation. The Corporation primarily invests in Non-Conforming Single Family Residential Mortgages. Non-Conforming Single Family Residential Mortgages may have higher Loan-To-Value ratios than Conforming Single Family Residential Mortgages, the borrower’s credit history may have a lower credit score as a result of less established credit history, and income verification may not be by typical means given that the borrower may be self-employed or have alternative sources of income rather than traditional

employment income. The Corporation's investment portfolio included 895 Single Family Residential Mortgages at December 31, 2017, diversified by location, mortgage type and maturity date.

The Corporation targets a portfolio primarily composed of junior tranches of uninsured first mortgages and, to a lesser extent, insured mortgages with open terms, insured six-month convertible mortgages and second charge mortgages. Junior tranches of uninsured first mortgages represent a junior position in an uninsured first mortgage. The senior position in the first mortgage is entitled to recover its investment prior to the junior position in the event of a default by the borrower and, accordingly, earns a lower interest rate than the entire mortgage rate, which allows the Corporation to earn a higher interest rate on its investment in the junior tranche of the mortgage. An insured mortgage with open terms and an insured six-month convertible mortgage are insured for principal and interest by a Mortgage Insurance Company and typically carry a term from six months to one year. A second charge mortgage is secured by a stand-alone charge against the underlying real property and is subordinate to the charge of the first mortgage.

The value of the Mortgage Portfolio is subject to the risk of default by borrowers and interest rate risk. The Corporation seeks to mitigate the risk of loss as a result of default by borrowers in a number of ways including: (i) purchasing mortgages from MCAP that upon origination were subject to an extensive mortgage approval process by MCAP; (ii) purchasing individual mortgages (excluding insured mortgages) with a maximum Loan-to-Value ratio of 85% and with a maximum Loan-to-Value ratio of 80% on the portfolio of mortgages (excluding insured mortgages); (iii) constructing a diversified portfolio based on maturity date, geographic location and number of mortgages; and (iv) from time to time, if available, purchasing certain mortgages that are insured. The Corporation seeks to mitigate interest rate risk by focusing on mortgages that have a term of up to three years.

The Manager provides management services to the Corporation and has entered into the Management Agreement with the Corporation. The Corporation has also entered into the Mortgage Consulting Agreement with the Mortgage Consultant and the Mortgage Services Agreement with the Mortgage Service Provider. Pursuant to the Management Agreement, the Manager directs the affairs and manages the business of the Corporation and administers or arranges for the administration of the Corporation's day-to-day operations. The Manager provides all personnel needed to provide the relevant services to the Corporation, and as a result the Corporation has no employees.

The Non-Conforming Single Family Residential Mortgages (excluding Insured Single Family Residential Mortgages) that the Corporation invests in are Alt-A mortgages. Alt-A is a classification of mortgages where the risk profile falls between prime and subprime. When compared to prime mortgages, borrowers under Alt-A mortgages may have lower credit scores, less established credit histories and/or limited documentation available to prove income (as is the case for self-employed individuals) and the mortgages may have higher Loan-to-Value and debt-to-income ratios. As a result, lenders can charge higher rates than on prime classified mortgages given the perceived increased risk profile. By contrast, subprime mortgages are loans lent to individuals with impaired credit and/or lack of confirmable income and the mortgages have even higher Loan-to-Value ratios (>90%) as well as higher debt-to-income ratios (>55%). Prior to the 2007 financial crisis, several US lenders brought a similar subprime product to Canada typically characterized by Loan-to-Value ratios in excess of 90%. This market was in the early stages of development when the financial crisis occurred. This market has not since developed post the financial crisis. None of the Corporation's mortgages are subprime mortgages.

The Alt-A space continues to be dominated by multiple national regulated lenders whom compete directly with MCAP, the sole originator of mortgages for the Corporation. In addition, there are a number of smaller regional Trust companies, Credit Unions, private lenders and Mortgage Investment Corporations that occupy the space. In November 2016, following the US election, long-term rates rose in several advanced economies, including Canada where the yield of 10-year Government of Canada bonds gained about 0.55% from November 2016 to December 2016. Prime insured mortgage rates rose as a result. The Alt-A market is less sensitive to Government of Canada interest rate movements as the prime market. As such, MCAP



has not seen Alt-A mortgage rates increase in conjunction with recent increases in insured mortgage rates. As the market continues to remain competitive, MCAP expects Alt-A mortgage rates to continue to remain somewhat static within the near future. These rates continue to meet the yield requirements of the Corporation. MCAP believes it can continue to originate sufficient volumes of appropriate mortgages for the Corporation.

## **2.2 Investment Objectives**

The Corporation'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 Corporation to pay monthly distributions to the Shareholders.

## **2.3 Investment Strategies**

The Corporation seeks to accomplish its Investment Objectives through prudent investments in a Mortgage Portfolio consisting primarily of Single Family Residential Mortgages. Currently, the Corporation is fully invested in 100% Single Family Residential Mortgages. From time to time, the Corporation may also invest a limited portion of its portfolio in Other Mortgages (i.e., Commercial Mortgages and Residential Construction Mortgages).

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 Corporation is currently invested 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) short-term Insured Single Family Residential Mortgages.

### *Junior Tranches of First Mortgages*

Junior tranches of first mortgages represent a direct ownership of Mortgages together with the owners of the senior tranches of the Mortgages, provided that the entire mortgage is serviced by MCAP. The senior position in the mortgage is typically acquired by a Canadian financial institution (often a bank, life insurer or credit union) and is entitled to a lower interest rate than the entire mortgage rate which allows the Corporation to earn an increased yield on its investment in the junior tranche of the mortgage. This practice is known as "tranching". The Corporation believes that tranching provides an improved risk-return proposition to the Corporation over holding what otherwise would be the entire mortgage investment.

The junior and senior tranches of the mortgage are governed by a standard form of participation agreement which permits MCAP to control the administration of the entire mortgage. Typically, unless there is an event of default under the mortgage (i.e. failure of the borrower to pay an amount owing), both the senior and junior positions of the mortgage will receive their shares of the interest payments according to the participation agreements. If there is a default, then the senior participant (or after it has been fully repaid then the junior participant) is entitled to direct the servicer to enforce the mortgage on behalf of both participants in accordance with applicable law with all costs to be borne by the borrower. Title to the mortgage and all other security is in the name of a nominee which will hold title on behalf of both participants as beneficial owners of the mortgage.

### *Second Charge Mortgages*

A second charge Mortgage is secured by a stand-alone charge against the underlying Real Property that is subordinate to the first charge. Some of the second charge Mortgages invested in by the Corporation are on re-finances by borrowers that would have qualified for an Insured Single Family Residential Mortgage prior to the rule changes implemented by the Mortgage Insurance Companies.

### *Short-term Insured Mortgages*

The Corporation may invest in short-term Insured Single Family Residential Mortgages. At maturity of a mortgage, and while the borrowers evaluate their renewal options, borrowers may elect to apply for a short-term mortgage extension. These loans typically have a higher interest rate than longer term mortgages. In evaluating the mortgage renewal decision, borrowers typically take into consideration other options such as selling their home and paying off the mortgage, paying down their mortgage or increasing the size of their mortgage for home improvements or other expenditures. Borrowers may require time to make this decision and as such a short-term mortgage can be provided. These mortgages are often insured and offer an attractive risk-return proposition given that they are 100% guaranteed by a Mortgage Insurance Company. The insurance coverage and the yield offered to the Corporation are the primary investment considerations with respect to investments in Insured Single Family Residential Mortgages while the Loan-to-Value is a secondary investment consideration.

### *Leverage*

The Corporation has entered into a loan facility (the “Loan Facility”) with a Canadian chartered bank (the “Lender”). In general, the Corporation expects to borrow between 20% and 50% of the Total Assets; however, the Corporation may borrow more provided that it does not exceed the borrowing limits applicable to qualified MICs. Accordingly, at the time new leverage is incurred, the Corporation may not have leverage above 6:1 (total long positions (including leverage positions) divided by the net assets of the Corporation). The terms, conditions, interest rate, fees and expenses of and under the Loan Facility are typical of credit facilities of this nature and require the Corporation to provide a security interest in favour of the Lender in the assets of the Corporation to secure such borrowings. In the event that the Corporation does not fulfill its obligations under the Loan Facility, the Corporation could incur substantial costs and losses if the Lender seizes or otherwise enforces on or sells Mortgages under the security arrangements for the Loan Facility. The Lender is at arm’s length to the Corporation, Manager, Mortgage Consultant, Mortgage Services Provider and their respective affiliates and associates. At December 31, 2017, the Corporation had borrowed approximately \$9.5 million under the Loan Facility.

The Loan Facility permits the Corporation to borrow monies for various purposes including, without limitation, purchasing investments in accordance with the Investment Objectives and Investment Strategies and subject to the Investment Restrictions, facilitating the Corporation’s operating activities and funding its working capital requirements, effecting market purchases of Shares, maintaining liquidity and paying distributions. The Corporation may use the Loan Facility to fund new Mortgages as an interim measure prior to raising additional capital. Other than borrowings by the Corporation under the Loan Facility and short-term credits necessary for settlement of securities transactions, which are not considered borrowing, the Corporation does not engage in further borrowing.

## **2.4 Investment Process**

The Corporation benefits from MCAP’s capabilities, expertise and competitive advantages in underwriting Single Family Residential Mortgages. MCAP employs similar investment processes in providing its services to both the Manager and the Corporation as MCAP employs in its operations. MCAP’s process is tailored according to the type of Mortgage investment under consideration. All Single Family Residential Mortgages are underwritten, processed and serviced pursuant to a prescribed and documented manual,

which sets out policies and procedures that MCAP must adhere to when underwriting a Mortgage. Insured Single Family Residential Mortgages are governed by the policies and procedures of the Mortgage Insurance Companies. These policies are reviewed and approved by the Department of Finance (Canada). MCAP's lending policies and procedures in respect of Non-Conforming Single Family Residential Mortgages are based on best practices developed by MCAP and predecessor companies over the past 20 years.

Once a potential Mortgage investment is approved by the Mortgage Services Provider, such Mortgage investment is then referred to the Manager for additional approval and, if approved, acquired by the Corporation for inclusion in the Mortgage Portfolio. The Manager may approve the purchase of a mortgage investment recommended by MCAP to the Corporation subject to its satisfactory review of several factors including: (i) compliance with the Corporation's investment objectives, investment strategies, investment restrictions and investment guidelines; (ii) confirmation from MCAP that such Mortgage investment has been reviewed by appropriate MCAP personnel to ensure it meets the Corporation's investment objectives, investment strategies, investment restrictions and investment guidelines; and (iii) reasonableness of pricing. The Manager's review of pricing includes a review of compliance with pricing procedures that have been agreed upon with MCAP and a review of the reasonableness of pricing factors such as market interest rates and market spreads based on the credit profile of the Mortgage.

MCAP's Mortgage review system is based on the level of experience and seniority of the individual employees within the organization. More senior and experienced members of the organization have higher monetary limits in terms of approval authority for Mortgage investments. MCAP feels that the strength of its investment process is rooted in the following factors:

#### *Internal Credit Risk Control*

MCAP maintains a strong internal credit risk assessment program, which was developed and implemented in consultation with industry partners including the Schedule A Banks and the Mortgage Insurance Companies. MCAP is also subject to regular audits from numerous third parties, such as investors and Mortgage Insurance Companies, and has adopted and implemented a culture of continuous improvement.

#### *Fundamental Credit Adjudication*

MCAP has a stand-alone alternative lending origination team that adjudicates Non-Conforming Single Family Residential Mortgages (excluding Insured Single Family Residential Mortgages). MCAP underwrites Single Family Residential Mortgages based on the fundamental factors of credit analysis: collateral, character, credit, capacity and capital (commonly known as the five Cs). Collateral refers to the quality and value of the underlying Real Property supporting the Mortgage. Prime marketable real estate located in recognizable urban centers is the most important component on all deals. Thus, MCAP views the appraisal process as the most critical component of the overall adjudication process which is disclosed in further detail below. The character of the borrower is an assessment of how the borrower has managed the past performance of their credit including items such a repayment history, delinquencies, credit usage and any previous debt consolidation. The credit of the borrower refers specifically to the borrowing history of the applicant and the levels of current borrowing outside of the Mortgage application. Capacity of the borrower refers to the borrower's ability to make the Mortgage payments and uses calculations such as gross debt service and total debt service. Lastly, capital of the borrower is an assessment of the financial capacity and capital reserves that a borrower has to service the Mortgage should the borrower's circumstances change during the term of the loan. MCAP believes that, combined, these measures form the basis of sound credit management and risk assessment of Mortgages.

### *Quality Broker Referrals*

All newly originated Mortgages that are referred to MCAP must be from an approved list of mortgage brokers. In order to be included in the list of mortgage brokers approved by MCAP, mortgage brokers are subject to a proprietary due diligence process and the quality of each mortgage broker's respective portfolio of originated Mortgages is monitored and reviewed on a regular basis. Mortgage brokers are a significant source of mortgage origination referrals for MCAP. As such, MCAP places an emphasis on building strong relationships with its mortgage brokers.

### *Extensive Due Diligence*

MCAP believes that prudent investing in Non-Conforming Single Family Residential Mortgages (excluding Insured Single Family Residential Mortgages) requires accurate and effective assessment of the quality of the underlying Real Property. Traditional mortgage lenders tend to take a calculated approach to mortgage origination which focuses on specific items such as credit and income. Although credit and income are important factors, MCAP views them more as tools, in its hands-on approach to mortgage underwriting, to increase or decrease the price and/or the resulting Loan-to-Value. The Corporation leverages MCAP's experience and systems, which utilize multiple levels of review to identify Mortgages for investment for which the underlying Real Property (i) is in a marketable location, (ii) at the time of underwriting, is well kept and maintained, and (iii) is accurately valued through an appraisal by an MCAP-approved appraiser. In this regard MCAP, on behalf of the Corporation, exercises extensive due diligence on all Real Property targeted for potential Mortgage investment. This is carried out as part of MCAP's standard underwriting process and prior to the issuance of a commitment letter to the borrower. Due diligence includes title searches on properties in order to ascertain the most recent sale price and date and identification of current registered ownership and encumbrances. In many instances MCAP also researches the complete Multiple Listing Service history on the targeted Real Property for the previous 5-7 years. MCAP uses a small group of selected appraisers in each urban market that the Corporation invests in. MCAP orders all appraisals directly, with the exception of a small subset of brokers. It is not unusual for a mortgage broker to submit an appraisal as part of the application process. In instances such as this the appraisal is reviewed as part of the original underwriting process but it is not relied upon to remove any conditions of the commitment and as such MCAP will still follow its standard appraisal approval process. Further, MCAP engages a third party appraiser to review the quality of a sample of appraisals on a regular basis.

MCAP's hands-on approach to underwriting is based on a thorough, case-by-case assessment of the credit of the individual mortgage applicant.

## **2.5 Three Year History**

The Corporation was incorporated on April 3, 2013 and commenced operations upon the closing of its initial public offering on June 28, 2013. Since inception (to December 31, 2017), the Corporation has increased its monthly dividend and increased its book value by investing in a diversified portfolio comprised primarily of interests in Single Family Residential Mortgages that seeks to preserve capital and generate sufficient income to permit the Corporation to pay monthly dividends on the Shares.

### 2015 Highlights:

- In April 2015, as a result of earning income in excess of its dividend rate, the Corporation increased its monthly dividend rate from \$0.05 per class A share (\$0.60 per share per annum) to \$0.05417 per class A share (\$0.65 per share per annum). The total assets of the Corporation at December 31, 2015 were \$32.3 million.

- At year end, the Corporation's investment portfolio included 817 Single Family Residential Mortgages at year end with 66% of the portfolio in junior tranches of uninsured first mortgages followed by 23% in insured six-month convertible mortgages and insured mortgages with open terms. 59% of the mortgages were located in Ontario followed by 18% in Alberta.

#### 2016 Highlights:

- In November 2016, shareholders of the Corporation approved the transition of the Corporation from the Canadian security regulatory regime for investment funds to the Public Company Regime.
- The total assets of the Corporation at December 31, 2016 were \$26.5 million.
- At year end, the Corporation's investment portfolio included 627 Single Family Residential Mortgages with 65% of the portfolio in junior tranches of uninsured first mortgages followed by 27% in insured six-month convertible mortgages and insured mortgages with open terms. 58% of the mortgages were located in Ontario followed by 19% in Alberta.
- In 2016, the Corporation maintained its monthly dividend rate at \$0.05417 per class A share (\$0.65 per share per annum).

#### 2017 Highlights:

- On January 4, 2017, the Corporation completed its transition from the Canadian securities regulatory regime for investment funds to the Public Company Regime.
- In February 2017, the Corporation increased its monthly dividend rate from \$0.05417 per Common Share (\$0.65 per Common Share per annum) to \$0.0625 per Common Share (\$0.75 per Common Share per annum).
- On September 21, 2017, pursuant to a treasury offering, the Corporation issued 1,055,000 Common Shares for total gross proceeds of approximately \$10.8 million.
- The total assets of the Corporation at December 31, 2017 were \$40.5 million.
- At year end, the Corporation's investment portfolio included 895 Single Family Residential Mortgages with 83% in junior tranches of uninsured first mortgages and 14% in insured six-month convertible mortgages and insured mortgages with open terms. 67% of the mortgages were in Ontario followed by 15% in Alberta.

### **3.0 INVESTMENT RESTRICTIONS AND INVESTMENT GUIDELINES**

#### **3.1 Investment Restrictions**

The Corporation will not make or hold any investment, conduct any activity or take any action or omit to take any action that would result in the Corporation failing to qualify as a "mortgage investment corporation" within the meaning of the Income Tax Act.

#### **3.2 Investment Guidelines**

The Investment Guidelines of the Corporation are as follows, which may be amended, from time to time, as approved by the board of directors of the Corporation (the "Board"):

1. the Corporation expects borrowings to range between 20% and 50% of the Total Assets of the Corporation; however, the Corporation may employ higher leverage levels provided that borrowings are not in excess of those requirements set out for the Corporation to qualify as a “mortgage investment corporation” within the meaning of the Income Tax Act;
2. at the time of investment, the weighted average term to maturity of Mortgages invested in by the Corporation may not exceed 60 months;
3. at the time of funding, the weighted average Loan-to-Value of the Mortgage Portfolio may not exceed 80% and no single Portfolio Mortgage may have a Loan-to-Value exceeding 85%, excluding Insured Single Family Residential Mortgages;
4. not more than 30% of the principal amount of the Mortgage Portfolio will be secured by second Mortgages, excluding Insured Single Family Residential Mortgages (for greater clarity, a junior position in, or junior tranche of, a first ranking mortgage is not considered a second Mortgage);
5. not more than 15% of the principal amount of the Mortgage Portfolio may be comprised of Mortgage-Related Securities;
6. at the time of investment, not more than 20% of the principal amount of the Mortgage Portfolio may be comprised of Other Mortgages;
7. the Corporation will not invest in securities other than Mortgages secured by Real Property situated in Canada, Mortgage-Related Securities and cash and cash equivalents;
8. the Corporation does not expect that it will invest in Real Property, except that the Corporation may hold Real Property acquired as a result of foreclosure where such foreclosure is necessary to protect the Mortgage investment of the Corporation as a result of a default by the mortgagor and the Corporation will use commercially reasonable efforts to dispose of any such Real Property acquired on foreclosure, and the Corporation will not manage or develop any Real Property;
9. not more than 10% of the principal amount of the Mortgage Portfolio will be comprised of Mortgages of the same borrower; and
10. not more than 5% of the principal amount of the Mortgage Portfolio will be comprised of Mortgages secured by the same property.

The Board may, in the future, make further changes to the Investment Guidelines on advice from the Manager and the Mortgage Consultant and when the Board believes it would be in the best interests of the Corporation to do so.

#### **4.0 THE PORTFOLIO**

The Corporation’s investment portfolio was made up of 100% Single Family Residential Mortgages and had an estimated annualized yield on shareholders’ equity of 11.41% at December 31, 2017. The yield on shareholders’ equity is calculated based on estimated annual net interest income (expected income from the current portfolio net of interest expense from the current borrowings) divided by the shareholders’ equity of the Corporation. The portfolio has a low duration, with a weighted average maturity of less than one year as at December 31, 2017.

The following tables show the portfolio by type of Mortgage, geographic region, interest rate, maturity dates, days in arrears and loan to value.

## Schedule of Investment Portfolio

As at December 31, 2017

Type of Mortgage	Weighted Average Yield <sup>(2)</sup>	No. of Mortgages	Weighted Average Maturity (no. of months)	Weighted Average Loan-to-Value <sup>(3)</sup>	Fair Value	% of Portfolio December 31, 2017	% of Portfolio December 31, 2016
Junior tranches of uninsured first mortgages	10.03%	825	9.2	75%	\$ 3 3,180,083	83%	65%
Insured 6-month convertible mortgages	6.20%	24	5.2	73%	2,799,870	7%	15%
Insured mortgages with open terms	6.60%	18	12.8	74%	2,692,962	7%	12%
Uninsured first mortgages	9.80%	5	4.1	74%	964,921	2%	4%
Uninsured second charge mortgages	11.64%	23	6.6	76%	403,874	1%	4%
<b>Total/Average</b>	<b>9.54%</b>	<b>895</b>	<b>9.0</b>	<b>75%</b>	<b>\$ 40,041,710</b>	<b>100%</b>	<b>100%</b>

Yield on Shareholders' Equity<sup>(1)</sup>: 11.41%      Shareholders' Equity = \$30,600,944

- (1) Yield on shareholders' equity is calculated based on estimated net interest income (expected income from the current portfolio net of interest expense from the current borrowings), divided by the shareholders' equity of the Corporation.
- (2) Weighted Average Yield represents an annualized percentage of interest revenue divided by the dollar-weighted average mortgage investments at the end of the period.
- (3) Weighted Average Loan-to-Value ("LTV") – a measure of the current principal outstanding in a mortgage investment as a percentage of the fair value of the underlying real estate collateral (determined at the time of funding) of the mortgage investment. Weighted Average LTV is the dollar-weighted average of the mortgage LTVs in the portfolio.

## Geographic Location

As at December 31, 2017

Province/Territory	Junior Tranches of Uninsured First Mortgages	Insured 6-Month Convertible Mortgages	Insured Mortgages with Open Terms	Uninsured First Mortgages	Uninsured Second Charge Mortgages	Dec. 31, 2017 Total	Dec. 31, 2016 Total
Ontario	72%	41%	47%	65%	55%	67%	58%
Alberta	13%	32%	23%	35%	8%	15%	19%
British Columbia	12%	2%	-	-	12%	10%	12%
Manitoba	1%	6%	-	-	11%	2%	3%
Saskatchewan	2%	2%	-	-	4%	2%	4%
New Brunswick	-	5%	9%	-	-	1%	1%
Nova Scotia	-	9%	4%	-	-	1%	1%
Quebec	-	-	9%	-	4%	1%	-
Newfoundland and Labrador	-	-	7%	-	6%	1%	1%
Prince Edward Island	-	3%	1%	-	-	-	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Interest Rate

As at December 31, 2017

	Junior Tranches of Uninsured First Mortgages	Insured 6-Month Convertible Mortgages	Insured Mortgages with Open Terms	Uninsured First Mortgages	Uninsured Second Charge Mortgages	Dec. 31, 2017 Total	Dec. 31, 2016 Total
Less than 6%	1%	68%	11%	-	-	6%	8%
6.01% to 8%	23%	32%	88%	35%	-	28%	31%
8.01% to 10%	38%	-	1%	-	-	32%	29%
Greater than 10%	38%	-	-	65%	100%	34%	32%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Maturity Dates

As at December 31, 2017

	Junior Tranches of Uninsured First Mortgages	Insured 6- Month Convertible Mortgages	Insured Mortgages with Open Terms	Uninsured First Mortgages	Uninsured Second Charge Mortgages	Dec. 31, 2017 Total	Dec. 31, 2016 Total
Less than 6 months	40%	68%	7%	95%	31%	41%	39%
6 months to 1 year	32%	32%	85%	-	69%	36%	42%
1 year to 18 months	16%	-	-	5%	-	13%	9%
Greater than 18 months	12%	-	8%	-	-	10%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Days in Arrears

As at December 31, 2017

	Junior Tranches of Uninsured First Mortgages	Insured 6- Month Convertible Mortgages	Insured Mortgages with Open Terms	Uninsured First Mortgages	Uninsured Second Charge Mortgages	Dec. 31, 2017 Total	Dec. 31, 2016 Total
Not in arrears	98%	91%	100%	100%	100%	98%	91%
Less than 30 days	2%	9%	-	-	-	2%	5%
31 to 90 days	-	-	-	-	-	-	3%
91 to 180 days	-	-	-	-	-	-	1%
More than 181 days	-	-	-	-	-	-	-
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Loan to Value

As at December 31, 2017

	Junior Tranches of Uninsured First Mortgages	Insured 6- Month Convertible Mortgages	Insured Mortgages with Open Terms	Uninsured First Mortgages	Uninsured Second Charge Mortgages	Dec. 31, 2017 Total	Dec. 31, 2016 Total
Less than 60%	2%	22%	10%	5%	7%	4%	6%
60.01% to 70%	10%	13%	24%	-	6%	11%	10%
70.01% to 80%	88%	11%	14%	86%	38%	77%	70%
Greater than 80%	-	54%	52%	9%	49%	8%	14%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

As at December 31, 2017, five loans with an aggregate principal of \$175,702 were in default. A mortgage is generally considered to be in default when it is in arrears for a period greater than 90 days or when legal action has commenced. The principal of mortgages in default represented 0.4% of the December 31, 2017 total assets. Excluding the default on insured mortgages, the principal of mortgages in default amounted to \$175,702 or 0.4% of the December 31, 2017 total assets. For the year ended December 31, 2017, a realized loss of \$71,074 and a net increase in loss provision of \$24,481 were recorded.

## 5.0 DIVIDENDS AND DISTRIBUTION POLICY

Dividends are declared from time to time by the Board, acting in its sole discretion, out of the assets of the Corporation available for the payment of dividends and other distributions. Shareholders are entitled to receive dividends as and when declared. The Corporation intends to continue to make monthly cash distributions to Shareholders of record on the last business day of each month and pay such cash dividends



on or before the 10<sup>th</sup> business day of the following month. Notwithstanding the above, the Corporation has the right to determine a record date that is other than the last business day of each month.

The amount of monthly cash dividends may fluctuate from month to month and there can be no assurance that the Corporation will make any dividends in any particular month or months.

The Corporation offers a distribution reinvestment plan (the “DRIP”), pursuant to which Shareholders are entitled to elect to have dividends and other distributions of the Corporation automatically reinvested, commission free, in additional Shares. No brokerage commission is payable to the broker of a Shareholder in connection with the purchase of Shares under the DRIP. All administrative costs are borne by the Corporation. Shareholders resident outside of Canada are not entitled to participate in the DRIP. Upon ceasing to be a resident of Canada, a Shareholder must terminate his or her participation in the DRIP. The Manager will make available to each Shareholder annually within the time periods prescribed by law the information necessary to enable such Shareholder to complete an income tax return with respect to amounts paid by the Corporation to the Shareholder in the preceding taxation year of the Corporation.

Historical declared distributions to Shareholders and, prior to January 4, 2017, to holders of Class A Shares, are shown below. On January 4, 2017, all Class A Shares were exchanged for Shares on a one-for-one basis.

<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend per Share</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Dividend per Share</b>
Jan 30, 2015	Feb 13, 2015	\$0.05000	Jan 31, 2017	Feb 14, 2017	\$0.0625
Feb 27, 2015	Mar 13, 2015	\$0.05000	Feb 28, 2017	Mar 14, 2017	\$0.0625
Mar 31, 2015	Apr 15, 2015	\$0.05000	Mar 31, 2017	Apr 17, 2017	\$0.0625
Apr 30, 2015	May 15, 2015	\$0.05417	April 28, 2017	May 12, 2017	\$0.0625
May 29, 2015	Jun 12, 2015	\$0.05417	May 31, 2017	June 14, 2017	\$0.0625
Jun 30, 2015	Jul 15, 2015	\$0.05417	June 30, 2017	July 17, 2017	\$0.0625
Jul 31, 2015	Aug 17, 2015	\$0.05417	July 31, 2017	Aug 15, 2017	\$0.0625
Aug 31, 2015	Sep 15, 2015	\$0.05417	Aug 31, 2017	Sep 15, 2017	\$0.0625
Sep 30, 2015	Oct 15, 2015	\$0.05417	Sep 29, 2017	Oct 16, 2017	\$0.0625
Oct 30, 2015	Nov 13, 2015	\$0.05417	Oct 31, 2017	Nov 14, 2017	\$0.0625
Nov 30, 2015	Dec 14, 2015	\$0.05417	Nov 30, 2017	Dec 14, 2017	\$0.0625
Dec 31, 2015	Jan 15, 2016	\$0.05417	Dec 29, 2017	Jan 15, 2018	\$0.0625
Jan 29, 2016	Feb 12, 2016	\$0.05417			
Feb 29, 2016	Mar 14, 2016	\$0.05417			
Mar 31, 2016	Apr 14, 2016	\$0.05417			
Apr 29, 2016	May 13, 2016	\$0.05417			
May 31, 2016	Jun 14, 2016	\$0.05417			
Jun 30, 2016	Jul 15, 2016	\$0.05417			
Jul 29, 2016	Aug 15, 2016	\$0.05417			
Aug 31, 2016	Sep 15, 2016	\$0.05417			
Sep 30, 2016	Oct 17, 2016	\$0.05417			
Oct 31, 2016	Nov 14, 2016	\$0.05417			
Nov 30, 2016	Dec 14, 2016	\$0.05417			
Dec 30, 2016	Jan 16, 2017	\$0.05417			

## **6.0 DESCRIPTION OF SECURITIES OF THE CORPORATION**

### **6.1 Description of the Common Shares**

The Corporation is authorized to issue an unlimited number of Common Shares, a summary of the terms and conditions of which is set forth below.

### **6.2 Voting Rights**

Shareholders are entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Corporation (except where the holders of a specified class or classes of shares, other than Common Shares, are entitled to vote separately or collectively as a class as provided in the applicable share conditions or in the OBCA) and each Common Share shall confer the right to one vote in person or by proxy at all such meetings.

### **6.3 Dividend Rights**

Shareholders are entitled to receive dividends as and when declared by the Board on the Shares out of the assets of the Corporation properly applicable to the payment of dividends or distributions in an amount and at a time determined by the Board in its sole discretion.

### **6.4 Rights upon Dissolution or Winding Up**

Shareholders shall be entitled to receive, subject to the rights of the holders of another class of shares, the remaining property of the Corporation on the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary.

### **6.5 Restrictions on Ownership**

No Shareholder is permitted to hold at any time, directly or indirectly, together with Related Persons, more than 25% of any class or series of the issued shares of the Corporation. In the event that, as determined by the board of directors of the Corporation in its sole discretion, any transaction affecting any Shares (each a "Triggering Transaction"), if completed, would cause any Shareholder(s) (each an "Automatic Repurchase Shareholder"), together with Related Persons, to hold more than 25% of the Shares, that portion of such Shares held by each Automatic Repurchase Shareholder which constitutes in excess of 24.9% of the issued Shares (the "Repurchased Shares") will, simultaneously with the completion of a Triggering Transaction, automatically be deemed to have been repurchased by the Corporation (an "Automatic Repurchase") without any further action by the Corporation or the Automatic Repurchase Shareholder. The purchase price for any Repurchased Shares will be equal to the 10-day volume weighted average trading price of the Common Shares on the TSX for the 10 days prior to the date of the Triggering Transaction. 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.

## 7.0 MARKET FOR SECURITIES

### 7.1 Trading Prices and Volume

The Shares are listed for trading on the TSX under the symbol “ERM”. The following table summarizes the high and low prices for the Shares and the volume of trading for the Shares on the TSX on a monthly basis for the year ended December 31, 2017.

Month	High	Low	Volume
January 2017	\$10.00	\$9.70	51,955
February 2017	\$10.15	\$9.86	24,585
March 2017	\$10.40	\$10.00	13,458
April 2017	\$10.45	\$9.78	11,653
May 2017	\$10.79	\$10.38	22,808
June 2017	\$10.35	\$9.85	15,758
July 2017	\$10.28	\$10.00	1,758
August 2017	\$10.35	\$10.04	21,171
September 2017	\$10.37	\$10.07	115,832
October 2017	\$10.45	\$10.07	90,603
November 2017	\$10.41	\$10.10	47,798
December 2017	\$10.20	\$10.07	46,482

## 8.0 DIRECTORS AND OFFICERS

### 8.1 Name, Occupation and Security Holding

#### *Directors and Officers*

The following table sets forth the name, municipality of residence and position of the directors and officers of the Corporation, and his or her position and office with the Corporation, and respective principal occupation during the five preceding years.

Name and Municipality of Residence	Position with the Corporation	Principal Occupation
MARK A. CARANCI <sup>(1)</sup> Toronto, Ontario	President and Chief Executive Officer Director (appointed April 2013)	President and Chief Executive Officer, Brompton Funds Limited and Brompton Corp.
RAYMOND R. PETHER <sup>(2)</sup> Toronto, Ontario	Director (appointed April 2013)	Director, Brompton Funds Limited and Brompton Corp.
CHRISTOPHER S. L. HOFFMANN <sup>(2)</sup> Toronto, Ontario	Director (appointed August 2014)	Director, Brompton Funds Limited since July 2014; Director of Brompton Corp.; Vice President of Nutowima Ltd.; private investor.
CRAIG T. KIKUCHI <sup>(1)</sup> Toronto, Ontario	Chief Financial Officer	Chief Financial Officer, Brompton Funds Limited and Brompton Corp.; Director, Brompton Funds Limited since July 2014; previously Corporate Secretary, Brompton Funds from July 2013 to March 2015.
ARTHUR R.A. SCACE <sup>(2)(3)</sup> Toronto, Ontario	Director (appointed May 2013)	Corporate Director

<b>Name and Municipality of Residence</b>	<b>Position with the Corporation</b>	<b>Principal Occupation</b>
JAMES W. DAVIE <sup>(2)(3)</sup> Toronto, Ontario	Director (appointed May 2013)	Corporate Director
KEN S. WOOLNER <sup>(2)(3)</sup> Calgary, Alberta	Director (appointed May 2013)	Chief Executive Officer and Director of Velvet Energy Ltd.
CHRISTOPHER CULLEN Toronto, Ontario	Senior Vice President	Senior Vice President, Brompton Funds Limited and Brompton Corp.
ANN WONG Toronto, Ontario	Vice President and Controller	Vice President and Controller, Brompton Funds Limited and Brompton Corp.
KATHRYN BANNER Toronto, Ontario	Vice President and Corporate Secretary	Vice President & Corporate Secretary, Brompton Funds Limited and Brompton Corp. since March 2015, Assistant Vice President, Brompton Funds Limited and Brompton Corp. from February 2011 to March 2015

Notes:

- (1) Executive officer of the Corporation.
- (2) Independent director of the Board.
- (3) Member of the Audit Committee.

Directors and executive officers of the Corporation, as of December 31, 2017, as a group beneficially owned, or controlled or directed, directly or indirectly, 68,037 Shares, representing approximately 2.2% of the issued and outstanding Shares. As at March 1, 2018, directors and executive officers of the Corporation, as a group beneficially owned or controlled or directed, directly or indirectly approximately 1.8% of the issued and outstanding Shares.

The term of each director expires at the close of the next annual meeting of the Corporation following such director's appointment. The articles of the Corporation provide that the Board will have a minimum of one and a maximum of ten directors. There are currently six directors on the Board.

## **8.2 Corporate Cease Trade Orders or Bankruptcies**

No director or executive officer of the Corporation is, or within ten years prior to the date hereof has been, a director, chief executive officer or chief financial officer of any company (including the Corporation) that was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days:

- (i) that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (ii) that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of the Corporation and no shareholder holding a sufficient number of securities to affect materially the control of the Corporation:

- (i) is, as at the date of this AIF, or has been within ten years before the date of the AIF, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was

subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

- (ii) has, within ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder; or

### **8.3 Penalties or Sanctions**

No director or executive officer of the Corporation and no shareholder holding a sufficient number of securities to affect materially the control of the Corporation has been subject to:

- (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **8.4 Conflicts of Interest**

The Manager, MCAP, 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, trusts or corporations with investment objectives similar to the Corporation. MCAP, 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 Corporation. The services of the Manager are not exclusive to the Corporation. The directors and officers of the Corporation are required by law to act in the best interests of the Corporation. Discharge by the directors and officers of the Corporation of their obligations to the Corporation may result in a breach of their obligations to the other companies, and in certain circumstances could expose the Corporation to liability to those companies. Similarly, discharge by the directors and officers of their obligations, if applicable, to any other company could result in a breach of their obligations to act in the best interests of the Corporation.

The Manager, MCAP, the Mortgage Consultant or Mortgage Service Provider or their affiliates may be managers or administrators of funds or corporations with similar investment objectives as the Corporation. Although none of the directors or officers of the Manager, MCAP, the Mortgage Consultant or Mortgage Service Provider will devote his or her full time to the business and affairs of the Corporation, 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 Corporation, the Manager and the Mortgage Consultant or Mortgage Service Provider, as applicable.

## **9.0 MANAGEMENT OF THE CORPORATION**

### **9.1 The 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 Corporation 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 investment trusts or companies including the Corporation 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.

### **9.1.1 Management Agreement**

The Manager acts as the manager of the Corporation pursuant to the Management Agreement between the Corporation and the Manager. The Manager may, pursuant to the terms of the Management Agreement, delegate certain of its powers to third parties at no additional cost to the Corporation where, in the discretion of the Manager, it is in the best interest of the Corporation to do so. Under the Management Agreement, the Manager will provide services relating to the administration and management of the Corporation including, but not limited to: (i) preparing accounting, management and Shareholder tax reports, financial statements, and tax returns; (ii) monitoring the Corporation's compliance with applicable law, including application regulations and listing exchange rules; (iii) negotiating commercial agreements on behalf and for the benefit of the Corporation; (iv) controlling the operating expenses of the Corporation; and (v) performing such other administration or management services as the Corporation may require from time to time. Additionally, pursuant to the Management Agreement, the Manager provides services in respect of the Mortgage Portfolio (which may be delegated, subject to applicable law, to the Mortgage Consultant under the Mortgage Consulting Agreement), including but not limited to: (i) executing the Corporation's investment strategies and investment objectives subject to its investment restrictions and investment guidelines; (ii) making investment decisions with respect to the Mortgage Portfolio; (iii) arranging for the execution of Mortgage Portfolio transactions with or through brokers, dealers and/or other duly qualified persons and upon notice to the Custodian; and (iv) providing such other services as the Corporation may require from time to time. The Manager is responsible for the management of the Corporation in accordance with the investment objectives and investment strategies and subject to the investment restrictions and investment guidelines of the Corporation.

Under the Management Agreement, the Manager has covenanted to exercise its powers and discharge its duties under the Management Agreement honestly, in good faith and in the best interests of the Corporation, and with the care, diligence and skill of a reasonably prudent person in similar circumstances. The Management Agreement provides that if the Manager has satisfied the duties and the standard of care, diligence and skill set forth above, it will be indemnified for all losses in respect of the Corporation and the Mortgage Portfolio, except those resulting from the Manager's willful misconduct, bad faith, gross negligence or material breach of its obligations under the Management Agreement. The services provided by the Manager under the Management Agreement are not exclusive to the Corporation and nothing in the Management Agreement prevents the Manager from providing similar Mortgage management to other persons (whether or not their investment objectives and policies are similar to those of the Corporation) or from engaging in other activities.

### **9.1.2 Management Fee**

In consideration for its services, the Corporation pays to the Manager a fee equal to 0.55% per annum of the Total Assets per annum calculated and payable monthly in arrears plus applicable taxes. The Corporation reimburses the Manager for all out-of-pocket expenses incurred by it in connection with the performance its services under the Management Agreement.

### **9.1.3 Term and Termination of the Management Agreement**

The term of the Management Agreement will be a period of ten years ending on January 1, 2027, which will be renewed automatically for successive five year terms thereafter unless:

- (i) terminated by the Corporation upon approval of a two-thirds majority of the votes cast by the independent directors of the Corporation:
- a. at any time, in the event that (i) there is a material breach of the Management Agreement by the Manager that is not remedied within 60 days of written notice to the Manager (or such longer period as may be reasonably required to remedy such breach, provided such longer period does not exceed 120 days), and that has a material adverse effect on the business, operations or affairs of the Corporation, (ii) the Manager commits any act of bad faith, willful malfeasance, gross negligence or reckless disregard of its duties or breach of its standard of care; or (iii) any bankruptcy, insolvency or liquidation proceedings are taken against the Manager or if the Manager makes an assignment for the benefit of its creditors, commits any act of bankruptcy or declares itself or is declared to be insolvent; or
  - b. upon both of (i) 12 months' prior written notice to the Manager, whether in connection with the conclusion of the initial term or any renewal term or otherwise, and (ii) payment of an amount equal to three times the total amount of management fees earned by the Manager in the previous twelve months (the "Early Termination Fee"). Upon the wind-up of the Corporation approved by a special resolution of Shareholders, no Early Termination Fee shall be payable to the Manager;
- (ii) terminated by the Manager:
- a. in the event that there is a breach of the Management Agreement by the Corporation that is not remedied within 60 days of written notice to the Corporation (or such longer period as may be reasonably required to remedy such breach, provided such longer period does not exceed 120 days) and that has a material adverse effect on the business, operations or affairs of the Manager; or any bankruptcy, insolvency or liquidation proceedings are taken against the Corporation or the Corporation makes an assignment for the benefit of its creditors, commits any act of bankruptcy or declares itself or is declared to be insolvent; or
  - b. provided at least twelve months' notice is given to the Corporation.

#### 9.1.4 Directors and Officers of the Manager

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

<b>Name</b>	<b>Municipality of Residence</b>	<b>Position with the Manager</b>
MARK A. CARANCI	Toronto, Ontario	President and Chief Executive Officer; Director
RAYMOND R. PETHER	Toronto, Ontario	Director
CHRISTOPHER S. L. HOFFMANN	Toronto, Ontario	Director
CRAIG T. KIKUCHI	Toronto, Ontario	Chief Financial Officer; Director
CHRISTOPHER CULLEN	Toronto, Ontario	Senior Vice President
ANN WONG	Toronto, Ontario	Vice President and Controller
LAURA LAU	Toronto, Ontario	Senior Vice President and Senior Portfolio Manager
MICHAEL CLARE	Toronto, Ontario	Vice President and Portfolio Manager
MICHELLE TIRABORELLI	Toronto, Ontario	Vice President
KATHRYN BANNER	Toronto, Ontario	Vice President & Corporate Secretary, Brompton Funds

## **9.2 Mortgage Services and Mortgage Consulting**

### **9.2.1 Mortgage Consultant**

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

#### ***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 Manager pays a fee to the Mortgage Consultant for its services under the Mortgage Consulting Agreement, in each case plus applicable taxes, out of the Management Fee. The Corporation reimburses the Mortgage Consultant for all out-of-pocket expenses incurred by the Mortgage Consultant in connection with the performance of its services under the Mortgage Consulting Agreement.

The term of the Mortgage Consulting Agreement will be a period of ten years ending on January 1, 2027, which will be renewed automatically for successive five year terms thereafter unless:

- (i) terminated by the Manager upon approval of a two-thirds majority of the votes cast by the independent directors of the Corporation:
  - a. at any time, in the event that (i) there is a material breach of the Mortgage Consulting Agreement by the Mortgage Consultant that is not remedied within 60 days of written notice to the Mortgage Consultant (or such longer period as may be reasonably required to remedy such breach, provided such longer period does not exceed 120 days), and that has a material adverse effect on the business, operations or affairs of the Corporation, (ii) the Mortgage Consultant commits any act of bad faith, willful malfeasance, gross negligence or reckless disregard of its duties or breach of its standard of care; or (iii) any bankruptcy, insolvency or liquidation proceedings are taken against the Mortgage Consultant or if the Mortgage Consultant makes an assignment for the benefit of its creditors, commits any act of bankruptcy or declares itself or is declared to be insolvent; or
  - b. at any time, upon both of (i) 12 months' prior written notice to the Mortgage Consultant, whether in connection with the conclusion of the initial term or any renewal term or



otherwise, and (ii) payment by the Corporation of an amount equal to three times the total amount of all fees earned by the Mortgage Consultant in the previous twelve months (the “Early Termination Fee”). Upon the wind-up of the Corporation approved by a special resolution of Shareholders, no Early Termination Fee shall be payable to the Mortgage Consultant;

- (ii) terminated by the Mortgage Consultant:
  - a. at any time, in the event that there is a breach of the Mortgage Consulting Agreement by the Corporation that is not remedied within 60 days of written notice to the Corporation (or such longer period as may be reasonably required to remedy such breach, provided such longer period does not exceed 120 days) and that has a material adverse effect on the business, operations or affairs of the Mortgage Consultant; or any bankruptcy, insolvency or liquidation proceedings are taken against the Corporation or the Corporation makes an assignment for the benefit of its creditors, commits any act of bankruptcy or declares itself or is declared to be insolvent; or
  - b. provided at least twelve months’ notice is given to the Corporation and the Manager.

## **9.2.2 Mortgage Services Provider**

Pursuant to the Mortgage Services Agreement among MCAP Service Corporation as the Mortgage Services Provider, the Manager and the Corporation, 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 Corporation 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 Corporation and referring such Mortgage investment opportunities to the Corporation and the Manager; (ii) originating Mortgages that adhere to the Corporation’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 Corporation 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 Corporation 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 Corporation 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.

In consideration for its services, the Corporation pays to the Mortgage Services Provider a fee equal to 0.45% per annum of the Total Assets per annum calculated and payable monthly in arrears plus applicable taxes. The Corporation reimburses the Mortgage Services Provider for all out-of-pocket expenses incurred by the Mortgage Services Provider in connection with the provision of its services under the Mortgage Services Agreement.

The term of the Mortgage Services Agreement is a period of ten years ending on January 1, 2027, which will be renewed automatically for successive five year terms thereafter unless:

- (i) terminated by the Corporation upon approval of a two-thirds majority of the votes cast by the independent directors of the Corporation:
  - a. at any time, in the event that (i) there is a material breach of the Mortgage Services Agreement by the Mortgage Services Provider that is not remedied within 60 days of written notice to the Mortgage Services Provider (or such longer period as may be reasonably required to remedy such breach, provided such longer period does not exceed 120 days), and that has a material adverse effect on the business, operations or affairs of the Corporation, (ii) the Mortgage Services Provider commits any act of bad faith, willful malfeasance, gross negligence or reckless disregard of its duties or breach of its standard of care; or (iii) any bankruptcy, insolvency or liquidation proceedings are taken against the Mortgage Services Provider or if the Mortgage Services Provider makes an assignment for the benefit of its creditors, commits any act of bankruptcy or declares itself or is declared to be insolvent; or
  - b. upon both of (i) 12 months' prior written notice to the Mortgage Services Provider, whether in connection with the conclusion of the initial term or any renewal term or otherwise, and (ii) payment by the Corporation of an amount equal to three times the total amount of mortgage service fees earned by the Mortgage Services Provider in the previous twelve months (the "Early Termination Fee"). Upon the wind-up of the Corporation approved by a special resolution of Shareholders, no Early Termination Fee shall be payable to the Mortgage Services Provider;
- (ii) terminated by the Mortgage Services Provider:
  - a. at any time, in the event that there is a breach of the Mortgage Services Agreement by the Corporation that is not remedied within 60 days of written notice to the Corporation (or such longer period as may be reasonably required to remedy such breach, provided such longer period does not exceed 120 days) and that has a material adverse effect on the business, operations or affairs of the Mortgage Services Provider; or any bankruptcy, insolvency or liquidation proceedings are taken against the Corporation or the Corporation makes an assignment for the benefit of its creditors, commits any act of bankruptcy or declares itself or is declared to be insolvent; or
  - b. at any time, provided at least twelve months' notice is given to the Corporation.

### **9.2.3 Directors and Officers of the Mortgage Consultant and Mortgage Services Provider**

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

<b>Name</b>	<b>Municipality of Residence</b>	<b>Position</b>
Derek Norton	Toronto	Chief Executive Officer
Mark Aldridge	Oakville	President and Chief Operating Officer
Brian Carey	Mississauga	Executive Vice President and Chief Financial Officer
Ken Teskey	Vancouver	Chief Risk Officer and Corporate Secretary
Jason Wright	Toronto	Executive Vice President, Capital Markets
Paul Bruce	Toronto	Executive Vice President, Single Family
Jeff Armstrong	Toronto	Senior Vice President, Credit Risk and Asset Management
Don Ross	Oakville	Senior Vice President, Investor Marketing
Mark Yhap	Richmond Hill	Managing Partner, Commercial Mortgages
Robert Balfour	Calgary	Managing Partner, Development Finance Group

### **9.3 Competitive Advantages Relating to Relationship with MCAP**

#### *Relationship with MCAP*

The Corporation’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 Financial Limited Partnership is the Mortgage Consultant and MCAP Service Corporation is the Mortgage Services Provider. MCAP Financial Corporation initiated the founding and organization of the Corporation and, accordingly, was considered a “promoter” of the Corporation within the meaning of the securities legislation of certain provinces of Canada.

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. Although not directly regulated by the Office of the Superintendent of Financial Institutions (“OSFI”) itself, MCAP must comply with relevant regulations and standards imposed (i) on federally regulated financial institutions (“FRFIs”) in order for those FRFIs (or securitization vehicles managed by such FRFIs) to be able to purchase mortgages from MCAP and to have MCAP service those mortgages, and (ii) by CMHC in order to be able to continue to qualify to have access to CMHC’s securitization programs. This provides MCAP with an extensive familiarity with the Canadian Mortgage regulatory system. MCAP also has significant prior experience with MICs.

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.

#### *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 has on average more than 22 years of experience in the Canadian Mortgage finance industry and more than 20 years at 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 Corporation*

MCAP originates Mortgage loans across diversified market segments, including Single Family Residential Mortgages and Other 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.

### *Established Mortgage servicing platform*

In addition to its origination and underwriting capabilities, MCAP has industry leading Mortgage servicing operations. MCAP services 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 Corporation since the Corporation's inception.

MCAP has servicing offices located in Calgary, Edmonton, Regina and Kitchener 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.

### *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 (OSFI's Guideline on Residential Mortgage Insurance Underwriting Policies and Procedures), Guideline B-20 (OSFI's Guideline on Residential Mortgage Underwriting Practices and Procedures) ("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 evaluations 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 and financial institutions.

## **9.4 Conflict of Interest Matters**

### **9.4.1 The Manager**

The services of the Manager are not exclusive to the Corporation. Nothing in the Management Agreement prevents the Manager from providing Mortgage management to other persons that could be considered competitors of the Corporation or from engaging in other activities.

### **9.4.2 MCAP**

MCAP, the Mortgage Consultant and the Mortgage Services Provider are engaged in a wide range of Mortgage product origination, servicing, trading and/or other business activities. MCAP, the Mortgage Consultant and/or the Mortgage Services Provider provide Mortgage origination and/or servicing to other investors, including FRFIs. In addition, MCAP, the Mortgage Consultant and/or the Mortgage Services Provider invest on their own account for their own benefit. 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, and neither the Mortgage Consulting Agreement nor the Mortgage Services Agreement restrict MCAP, the Mortgage Consultant or the Mortgage Services Provider, as applicable, from establishing additional Mortgage origination and servicing arrangements, contracting with competitors to the Corporation, entering into other advisory relationships or engaging in other business activities. Such activities may be provided to competitors of the Corporation and/or involve substantial time and resources of MCAP, the Mortgage Consultant and/or the Mortgage Services Provider. MCAP, the Mortgage Consultant and/or the Mortgage Services Provider currently provide Mortgage origination and servicing to a number of different investors having more assets than the Corporation and this will preclude MCAP, the Mortgage Consultant and/or the Mortgage Services Provider from devoting all of their time and effort to the business of the Corporation. MCAP, the Mortgage Consultant and 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 Corporation and may engage in servicing and sale transactions involving the same types of securities and instruments as offered to the Manager for sale to the Corporation. Such transactions may be executed independently of those involving the Manager and the Corporation, and thus at prices or rates that may be more or less favourable than those obtained by the Corporation.

The Corporation will rely on the Mortgage Services Provider to originate Mortgages for potential sale to the Corporation and to service Portfolio Mortgages owned by the Corporation. The Mortgage Services Provider currently originates mortgage products for a number of investors other than the Corporation. To the extent that Mortgage products originated by the Mortgage Services Provider are eligible as Mortgages and comply with the Corporation's investment restrictions and investment guidelines, the Mortgage Services Provider may sell such Mortgages to the Corporation if approved by the Manager or to other investors. In offering Mortgages to the Corporation, the Mortgage Services Provider must adhere to the protocols and policies set out in the Mortgage Services Agreement in respect of all Mortgages offered.

Such protocols and policies shall require the Mortgage Services Provider to: (i) take into account the risk-return profile of the Mortgage products and the risk-return parameters, preferences and policy statements of the Corporation; and (ii) abide by applicable legal and regulatory rules, guidelines and advisory statements applicable to Mortgage products offered by the Mortgage Services Provider to the Corporation if approved by the Manager. While the Mortgage Services Provider's offerings of Mortgage products to the Corporation will be made independently of those offered to such other persons or selected for its own investments, the Mortgage Services Provider may offer an interest in the same Mortgage products to the Corporation as offered by the Mortgage Services Provider to such other persons as those selected for its own investment.

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 the Mortgage Consultant and/or the Mortgage Services Provider and other businesses or projects in which they may become involved.

Where any one of MCAP, the Mortgage Consultant or the Mortgage Services Provider, in the course of its business, reaches the conclusion that it is or may be in a material conflict of interest position, it will refer the matter to the Manager. Such conflicts of interest are subject to statutory trading prohibitions and restrictions and internal policies and procedures of MCAP, the Mortgage Consultant and/or the Mortgage Services Provider, all of which are intended to preclude the conflicts of interest from operating, or being acted upon, to the detriment of the Corporation.

### **9.4.3 Policies and Procedures of the Mortgage Consultant**

The Mortgage Consultant and the Mortgage Services Provider use a common loan allocation policy (“Loan Allocation Policy”). The Loan Allocation Policy applies to determine the allocation of Mortgages to the Corporation and to other investors of the Mortgage Consultant and Mortgage Services Provider where, under the terms of the relevant investment guidelines and/or investment restrictions, particular Mortgages would be eligible for purchase by the Corporation and by one or more other investors. In these situations, and where there are sufficient Mortgages available for all such purchasers including the Corporation, Mortgages will be allocated to the Corporation and other investors in accordance with their requirements. Where, however, there are insufficient Mortgages to meet the requirements of the Corporation and other investors in a particular time period, and provided that there are no binding contractual requirements that would otherwise apply, the Mortgage Consultant and the Mortgage Services Provider generally allocate a proportionate share of the required amounts to the Corporation and each other investor. The Mortgage Consultant and the Mortgage Services Provider continually review requests made by the Corporation and other investors for Mortgage products in order to attempt to best meet the requirements of the Corporation and other investors on a continuing basis as investor requirements and Mortgage-related markets evolve. For this purpose, and generally on a weekly basis, a loan allocation committee for the Mortgage Consultant and the Mortgage Services Provider meets to discuss current and projected investor requirements for Mortgage products, and to allocate Mortgages in accordance with the Loan Allocation Policy. At the same time, however, the Mortgage Consultant and the Mortgage Services Provider recognize that the Loan Allocation Policy is an evolving document. In this respect, the Mortgage Consultant and the Mortgage Services Provider look to evolve Mortgage allocation mechanisms based on a variety of factors, including market developments, the needs of the Corporation and other investors, and the availability of different Mortgage products. As such, the procedures set out herein, and the Mortgage allocation mechanism as between the Corporation and other investors and the results of such Mortgage allocation mechanism, may be subject to change over time.

## **9.5 Custodian**

### **9.5.1 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 Corporation and provides safekeeping and custodial services in respect of the Corporation’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 Trust Company, located in Toronto, Ontario, has been appointed as sub-custodian for the safekeeping of client cash.

### **9.5.2 Custodian Fees**

In consideration for its services, the Corporation pays to the Custodian such compensation as agreed upon in writing between the Corporation and the Custodian from time to time and reimburses the Custodian for all expenses and liabilities incurred by the Custodian on behalf of the Corporation. For the year ended December 31, 2017, the Corporation paid \$1,408 in respect of custodian fees.

### **9.5.3 Termination of the Custodian Agreement**

The Corporation 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;
- 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.

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

The auditors of the Corporation are Ernst & Young LLP, Chartered Professional Accountants, Licenced Public Accountants. The address of the auditor is 222 Bay Street, Toronto, Ontario. TSX Trust Company of Canada at its principal offices in Toronto is the registrar and transfer agent for the Shares.

## **10.0 INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

The Manager will receive management fees outlined in section 9.1.2 for its services to the Corporation and will be reimbursed by the Corporation for certain expenses incurred in connection with the operation and administration of the Corporation. Moreover, the Corporation's activities may from time to time be restricted due to regulatory restrictions applicable to the Manager or any of its affiliates, and/or their internal policies designed to comply with such restrictions. As a result, there may be periods, for example, during which the Manager or the Corporation may be restricted from engaging in certain transactions.

## **11.0 MATERIAL CONTRACTS**

The Corporation and/or the Manager are party to the Management Agreement, the Custodian Agreement, the Mortgage Services Agreement and the Mortgage Consulting 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 Corporation's profile. They are also available at the Corporation's office during normal business hours. Details in respect of these agreements can be found in section 9.0.

## **12.0 RISK FACTORS**

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

### *No Assurance of Achieving Investment Objectives*

There can be no assurance that Portfolio Mortgages invested in by the Corporation will result in a guaranteed rate of return or any return to 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 Corporation will be able to achieve its investment objectives, pay distributions at the targeted levels or preserve capital. The funds available for distribution to 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 positive return. The Manager, on behalf of the Corporation, may periodically re-evaluate the Corporation's targeted level of distributions and adjust it higher or lower, which may have a material effect on the price or value of the Shares. An investment in the Corporation 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 Corporation'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 and may also influence the decision of a borrower to default on the Mortgage. In that case, and in the event the Mortgage loan is uninsured, the Corporation'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 Corporation 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 Corporation 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 in whole or in part or if the relevant Mortgage Insurance Company becomes insolvent.

While independent appraisals are required before the Corporation 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 satisfied 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 Corporation also may hold Other Mortgages and cash and cash equivalents. Given the concentration of the Corporation's exposure to Mortgages, the Corporation will be more susceptible to adverse economic or regulatory occurrences affecting Real Property than an entity that holds a diversified portfolio of securities. Investments in Mortgages are relatively illiquid. Such illiquidity will tend to limit the Corporation's ability to vary the composition of the Mortgage Portfolio promptly in response to changing economic or investment conditions. The investment objectives, investment strategies, investment restrictions and investment guidelines of the Corporation permit the assets of the Corporation 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, investment strategies, investment restrictions and investment guidelines of the



Corporation. 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*

Other than Insured Single Family Residential Mortgages, a Mortgage borrower's obligations to the Corporation 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). In relation to uninsured Single Family Residential Mortgages, and if additional security is given by the borrower or a third party or if 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 Corporation whole if and when resort is to be had thereto. Further, 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 Corporation has purchased from MCAP or the return on or yield of Portfolio Mortgages that the Corporation may purchase from MCAP. Price-cutting or discounting may reduce the return on or yield of the Portfolio Mortgages invested in by the Corporation. This could have a material adverse effect on the Corporation's business, financial condition and results of operations and on the amount of cash available for distribution to be made on the 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 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 Corporation'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 Corporation may find it difficult to purchase additional Mortgages bearing rates sufficient to achieve the targeted payment of distributions on the 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 Corporation's ability to maintain distributions on the Shares at a consistent level. As well, if interest rates increase, the value of the Corporation's Mortgage Portfolio may be negatively impacted.

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

The Corporation may invest in mortgage-related securities ("Mortgage-Related Securities") where the cash flows received are based on the difference between the interest payments received on a pool of Mortgages and the cost of financing the pool of Mortgages (or otherwise based on the residual interest in such pools after the costs of operating and funding the pools). Such cash flows may be represented by separate securities or constitute contractual rights under securitization or other similar programs. In most cases,

however, the underlying pool of Mortgages will consist of Single Family Residential Mortgages rather than Mortgage-Related Securities.

In addition to default risk which can adversely affect Mortgage-Related Securities, investments in Mortgage-Related Securities are also 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 Distributions*

The funds available for distribution by the Corporation 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 Corporation. The Corporation depends 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 Corporation, the Manager or MCAP. If the Board, on the advice of the Manager, determines that it would be in the best interests of the Corporation, it may reduce or suspend for any period, or altogether cease indefinitely, the distributions to be made on the Shares. Distributions made to Shareholders may exceed actual cash available to the Corporation from time to time because of items such as debt payment obligations and fluctuations in Mortgage Portfolio returns. The excess cash required to fund distributions may be funded from the Loan Facility or from the capital of the Corporation.

#### *Availability of Investments*

As the Corporation relies on MCAP to source the Portfolio Mortgages, the Corporation 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 Corporation to make investments in accordance with its investment objectives, investment guidelines and investment strategies depends upon the availability of suitable investments and the amount of funds available to make such investments. The availability of suitable investments in junior tranches of first mortgages also depends on the availability of a purchaser of the senior position in the first mortgage. Additionally, the Corporation 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 Corporation of not being repaid the full principal and interest owing on the Portfolio Mortgage. In these circumstances, however, the Corporation 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 Corporation 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 Corporation may not recover all or substantially all of the principal and interest owed to the Corporation 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 Corporation 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 Corporation will be able to recover all or substantially all of the outstanding principal and interest owed to the Corporation in respect of such Mortgages by the Mortgage Service Provider's exercise of Mortgage enforcement remedies for the benefit of the Corporation. Should the Corporation be unable to recover all or substantially all of the principal and interest owed to the Corporation in respect of such Mortgage loans, the returns, financial condition and results of operations of the Corporation 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 Corporation could therefore be forced to exercise its rights as mortgagee. The recovery of a portion of the Corporation'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 Corporation's rights as mortgagee. Legal fees and expenses and other costs incurred by the Corporation 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 Corporation. 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 Corporation 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 Corporation 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 Portfolio Mortgage, the Corporation may not be receiving payments of interest on such Portfolio Mortgage, thereby impacting cash flows. The unfavourable resolution of any legal proceedings could have an adverse effect on the Corporation and its financial position and results of operations that could be material.

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

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

#### *Qualification as a MIC*

Although the Corporation 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 Corporation to qualify as a MIC. Although the Corporation is of the view that such Mortgages governed by participation agreements in the form entered into by the Corporation 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 Corporation's view. If for any

reason the Corporation does not maintain its qualification as a MIC under the Income Tax Act, dividends paid by the Corporation on the Shares will cease to be deductible by the Corporation in computing its income and will no longer be deemed to have been received by 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 Corporation is listed on a designated stock exchange, the rules in the Income 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 Shares are listed on a designated stock exchange, the Shares may not constitute qualified investments for trusts governed by registered retirement savings plans (“RRSP”), registered retirement income funds (“RRIF”), deferred profit sharing plans, registered education savings plans (“RESP”), registered disability savings plans (“RDSP”) and tax-free savings accounts (“TFSA”) (collectively, “Plans”).

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

#### *Reliance on the Manager*

Pursuant to the Management Agreement, the Manager advises the Corporation in a manner consistent with the investment objectives and the investment restrictions of the Corporation. Although the employees of the Manager who are primarily responsible for the performance of the obligations owed to the Corporation 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 Corporation. There is no certainty that the persons who are currently officers and directors of the Manager will continue to act in such capacity. 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. 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, performs its obligations in relation to sourcing and servicing the Portfolio Mortgages, among other duties and obligations, and MCAP Financial Limited Partnership, in its capacity as the Mortgage Consultant, performs its obligations in relation to the provision of Mortgage consulting services, among other duties and obligations. The continued performance of these obligations may depend on maintaining applicable regulatory licences. In addition, MCAP’s operations on behalf of the Corporation and the Manager are also dependent on the abilities, experience and efforts of its employees and management and other key employees including MCAP Commercial LP’s senior management team. Should any necessary regulatory licences be revoked or fail to be renewed or should any employees and management be unable or unwilling to continue in their employment, this could have a material adverse effect on MCAP’s operations on behalf of the Corporation and the Manager. Shareholders do not have the right to direct or influence in any manner the business or affairs of MCAP.

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

The Corporation 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 Corporation 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 Loan Facility to enhance returns from the Mortgage Portfolio, and may use the Loan Facility to (i) facilitate its operating activities and fund working capital requirements, (ii) enhance the liquidity of assets, and (iii) facilitate entering into Mortgage loans or funding subsequent advances in an expedient manner. The use of leverage may reduce returns (both distributions and capital) to Shareholders. In the event of a default under the Loan Facility, the Lender will have priority over Shareholders in relation to the Mortgage Portfolio and other assets of the Corporation to ensure repayment of amounts owing under the Loan Facility.

### *Conflicts of Interest*

The Corporation 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 Corporation 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, contracting with competitors to the Corporation, entering into other advisory relationships or from engaging in other business activities, even though such activities may be in competition with the Corporation 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 Corporation 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 Corporation. 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 Corporation, 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 Corporation and may engage in sale and servicing transactions involving the same types of securities, instruments or Mortgage products as offered to the Manager for sale to the Corporation. Such transactions may be executed independently of those involving the Manager and the Corporation, and thus at prices or rates that may be more or less favourable than those obtained by the Corporation.

### *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 Corporation'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 Corporation's operating results.

In addition, a significant decline in real estate values could negatively affect the Corporation'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 Corporation'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 Corporation's profitability. A reduction in positive spreads between Mortgage rates and capital market funding rates could have a material adverse effect on the Corporation's operating results.

In addition, there are economic trends and factors that are beyond the Corporation'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 Corporation'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 Corporation'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 Corporation's management to accurately predict fluctuations and the impact of such fluctuations on performance.

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

No Shareholder of the Corporation is permitted, together with Related Persons, at any time, to hold more than 25% of any class of the issued shares of the Corporation. The terms and conditions of the Shares provide that the portion of such Shares held by a Shareholder, together with Related Persons, that exceeds 24.9% of the issued Shares will be repurchased by the Corporation. Such repurchases of Shares could be significant and could engender similar risks to those that arise in the context of significant redemptions of Shares.

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

MCAP Service Corporation 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 the Mortgage Consultant's and the Mortgage Services Provider'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 the Mortgage Consultant and the Mortgage Service Provider to discharge their duties to the Corporation. In addition, the Mortgage Service Provider depends on automated software to collect payments on Mortgages. If such software fails or is unavailable on a prolonged basis, the Mortgage Service Provider could be required to manually complete such activities, which could have a material adverse effect on the Mortgage Service Provider's ability to discharge its duties to the Corporation.

#### *Subordinate and Non-Conventional Financing*

Subordinate financing (such as a second charge Mortgage), which, subject to the investment restrictions and investment guidelines, may be carried on by the Corporation in accordance therewith, is generally considered a higher risk than first ranking financing. Subject to the Corporation's 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 investment guidelines, and when the Corporation 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 Corporation 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 Corporation or to MCAP, including Canadian federal and provincial tax laws, tax proposals, securities laws, other governmental policies or regulations and governmental, administrative or judicial interpretation thereof, will not change in a manner that will adversely affect the Corporation, MCAP, the Mortgage Consultant or the Mortgage Services Provider or fundamentally alter the tax consequences to Shareholders acquiring, holding or disposing of Shares.

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

There can be no assurance that regulatory and guideline changes will not adversely affect the Corporation, MCAP, the Mortgage Consultant or the Mortgage Services Provider, including changes resulting in limited Mortgage investment opportunities, increased competition from FRFIs offering similar products and/or a material adverse affect on real estate values. In the event of any such occurrences, MCAP, the Mortgage Consultant and the Mortgage Services Provider 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 Corporation has purchased from MCAP Service Corporation or the return on or yield of Portfolio Mortgages that the Corporation may purchase from MCAP Service Corporation. Further, MCAP, the Mortgage Consultant and Mortgage Services Provider may not be able to take steps to mitigate the impact of regulatory and guideline changes. This could have a material adverse effect on the Corporation's business, financial condition and results of operations and on the amount of cash available for distributions to be made on the Shares.

### *Environmental Matters*

On behalf of the Corporation, the Mortgage Services Provider may in the future take possession, through enforcement proceedings, of Real Properties that secure defaulted Portfolio Mortgages to recover the Corporation'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 Corporation 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 continue to experience uncertainty. This has been, in part, related to concerns over if and when central banks curtail asset purchases, reduce their balance sheets and/or look to increase interest rates. At the same time, capital regulations are expected to make liquidity and capital more expensive for banks. This has contributed to liquidity becoming a more valuable commodity for financial institutions and it has also raised concerns with respect to the continued availability of credit to those institutions and to the issuers who borrow from them. While the central banks as well as global governments continue to work to ensure the availability of much needed liquidity to the global economies, no assurance can be given that markets will continue to function, and that general asset pricing and asset valuation metrics will not be significantly reduced, if and when central banks potentially reduce the supply of liquidity to markets and/or

look to increase interest rates. These market conditions and further volatility or illiquidity in capital markets may also adversely affect the prospects of the Corporation and the value of the portfolio. A substantial decline in equities markets could be expected to have a negative effect on the Corporation 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 value or liquidity of the Mortgage Portfolio.

#### *Accrued Gains*

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

#### *Exchange of Tax Information*

The Corporation 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 Shares continue to be listed and are regularly traded on the TSX, the Corporation 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 Shareholders. However, dealers through which Shareholders hold their Shares are subject to due diligence and reporting obligations with respect to financial accounts that they maintain for their clients. Shareholders may be requested to provide information to their dealer in order to allow the dealer to identify U.S. persons holding Shares. If a Shareholder is a U.S. person (including a U.S. citizen or green card holder who is resident in Canada) or if the Shareholder does not provide the requested information, the Shareholder's dealer will be required by the Income Tax Act to report certain information about the Shareholder's investment in the Corporation to the CRA, unless the Shares are held by a Plan. The CRA is expected to provide that information to the U.S. Internal Revenue Service.

Pursuant to provisions of the Income Tax Act that implement the Organization for Economic Co-operation and Development Common Reporting Standard (the "CRS Provisions"), "Canadian financial institutions" (as defined in the CRS Provisions) would be required to have procedures in place to identify accounts held by residents of foreign countries (other than the U.S.) or by certain entities the "controlling persons" of which are resident in a foreign country (other than the U.S.) and to report required information to the CRA. Such information would be exchanged on a reciprocal, bilateral basis with countries that have agreed to bilateral information exchange with Canada under the Common Reporting Standard in which the account holders or such controlling persons are resident. Under the CRS Provisions, Shareholders may be required to provide certain information regarding their investment in the Corporation to any applicable Canadian financial institution (for instance by completing a Declaration of Tax Residence or similar form) for the purpose of complying with the CRS Provisions and, where applicable, such information exchange (which information is initially required to be provided to the CRA by May 1, 2018), unless the investment is held within a Plan.



### *Cybersecurity Risk*

The information and technology systems of Brompton Funds and the Corporation's key service providers (including its custodian, registrar and transfer agent, MCAP and any valuation agent) may be vulnerable to cybersecurity risks such as potential damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons (e.g. through hacking or malicious software) and general security breaches. A cybersecurity incident is an adverse intentional or unintentional action or event that threatens the integrity, confidentiality or availability of the Corporation's information resources.

A cybersecurity incident may disrupt business operations or result in the theft of confidential or sensitive information, including personal information, or may cause system failures, disrupt business operations or require Brompton Funds or a service provider to make a significant investment to fix, replace or remedy the effects of such incident. Furthermore, a cybersecurity incident could cause disruptions and negatively impact the Corporation's business operations, potentially resulting in financial losses to the Corporation and Shareholders. There is no guarantee that the Corporation or Brompton Funds will not suffer material losses as a result of cybersecurity incidents. If they occur, such losses could materially adversely impact the Corporation.

### *The Market Price for the Common Shares Cannot be Assured*

The market price of the Common Shares may be adversely affected by a variety of factors relating to the Corporation's business, including, but not limited to, fluctuations in the Corporation's operating and financial results, the results of any public announcements made by the Corporation and the Corporation's failure to meet analysts' expectations. In addition, from time to time, the stock market experiences significant price and volume volatility that may affect the market price of the Common Shares for reasons unrelated to the Corporation's performance. There can be no assurance that the market price of the Common Shares will not experience significant fluctuations in the future, including fluctuations that are unrelated to the Corporation's performance.

### *Potential Dilution*

The Corporation's articles of incorporation and by-laws allow it to issue an unlimited number of Common Shares for such consideration and on such terms and conditions as shall be established by the Board, in many cases, without the approval of the Corporation's Shareholders. The Corporation may issue additional Common Shares in subsequent offerings (including through the potential sale of securities convertible into or exchangeable for Common Shares). The Corporation cannot predict the size of future issuances of Common Shares or the effect that future issuances and sales of Common Shares will have on the market price of the Common Shares. Issuances of a substantial number of additional Common Shares, or the perception that such issuances could occur, may adversely affect the prevailing market price for the Common Shares. With any additional issuance of Common Shares, investors will suffer dilution to their voting power and the Corporation may experience dilution in its earnings per Common Share.

### *Qualified Investment Eligibility*

The Corporation will endeavour to ensure that the Common Shares continue to be qualified investments for trusts governed by Plans. No assurance can be given in this regard. If the Common Shares are not qualified investments for Plans, such Plans (and, in the case of certain Plans, the annuitants, subscribers or beneficiaries thereunder or holders thereof) may be subject to adverse tax consequences. The holder of a TFSA or RDSP, the annuitant of an RRSP or RRIF or the subscriber of an RESP will be subject to a penalty tax in respect of Shares held by such Plan if such Shares are a "prohibited investment" for such Plan for the purposes of the Income Tax Act. The Shares will not be a "prohibited investment" for a trust governed by

such a Plan unless the holder of the TFSA or RDSP, the annuitant of the RRSP or RRIF or the subscriber of the RESP, as applicable, (i) does not deal at arm's length with the Corporation for purposes of the Income Tax Act, or (ii) has a "significant interest" as defined in the Income Tax Act in the Corporation. In addition, the Shares will not be a prohibited investment if the Shares are "excluded property" as defined in the Tax Act for a trust governed by a TFSA, RDSP, RRSP, RRIF or RESP.

### **13.0 EXPERTS**

The auditor of the Corporation is Ernst & Young LLP, Chartered Professional Accountants and Licensed Public Accountants. Ernst & Young LLP is independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

### **14.0 AUDIT COMMITTEE**

#### **14.1 Audit Committee and Composition**

The Board has an audit committee (the "Audit Committee") comprised of three directors, all of whom are independent and financially literate (within the meaning of applicable securities laws). The Audit Committee assists the directors of the Corporation in fulfilling their responsibilities of oversight and supervision of the accounting and financial reporting practices and procedures of the Corporation and the quality and integrity of financial statements of the Corporation. Not less frequently than annually, the Audit Committee also reviews the Mortgage Portfolio for compliance with the Corporation's investment restrictions. In addition, the Audit Committee is responsible for directing the auditors' examination of specific areas and for the selection of potential independent auditors to be appointed by the Manager. The Audit Committee will pre-approve all non-audit services to be provided to the Corporation by the auditors of the Corporation.

A copy of the Audit Committee's charter is attached as Schedule A.

#### **14.2 Relevant Education and Experience**

The relevant education and experience of each of the members of the Audit Committee are noted below.

*James W. Davie (Director):* Mr. Davie has over 30 years of investment banking experience and currently serves as a corporate director. Mr. Davie has held a number of senior positions at RBC Dominion Securities Inc. since 1973 including Managing Director of Investment Banking and, from 1987 to 1999, head of Equity Capital Markets. Mr. Davie received a Bachelor of Commerce degree from the University of Toronto and a Master of Business Administration degree from Queen's University.

*Arthur R.A. Scace (Director):* Mr. Scace is an independent director and former partner of McCarthy Tétrault LLP and has over 35 years of legal and business experience. Mr. Scace began his career at McCarthy Tétrault LLP in 1967 and became a partner in 1972. Mr. Scace served as the Managing Partner of the Toronto office from 1989 to 1996 and as the firm's National Chairman from 1997 to 1999. Mr. Scace received a Bachelor of Arts degree from the University of Toronto, a Bachelor of Law degree from Oxford University as a Rhodes Scholar, a Master of Arts degree from Harvard University, and a Bachelor of Laws degree from Osgoode Hall Law School at York University. Mr. Scace is also a Queen's Counsel, has been appointed as a member of the Order of Canada and has received honorary Doctorates of Law from The Law Society of Upper Canada, York University, the University of Toronto and Trinity College of the University of Toronto. Mr. Scace is former Chairman of the Board of Directors of The Bank of Nova Scotia and a director of several other Canadian companies, and is a former Treasurer of The Law Society of Upper Canada.

*Ken S. Woolner (Director):* Mr. Woolner has over 20 years of experience in the oil and gas industry and currently serves as President, Chief Executive Officer and Director of Velvet Energy Ltd., a private Calgary based production and exploration company. From February 2006 to June 2011 he served as a corporate director. From April 2005 to February 2006, Mr. Woolner was Executive Chairman of White Fire Energy Ltd., a public oil and gas company operating in Western Canada and a trustee of Sequoia Oil & Gas Trust. Mr. Woolner was President and Chief Executive Officer of Lightning Energy Ltd. from December 2001 to April 2005, when it merged with Argo Energy Ltd. to create Sequoia Oil & Gas Trust and White Fire Energy Ltd. Mr. Woolner was the President and Chief Executive Officer and a director of Velvet Exploration Ltd. from April 1997 to July 2001 when it was acquired by El Paso Oil & Gas Inc., and was a director of El Paso Oil and Gas Canada Inc. from July 2001 to May 2002. Mr. Woolner is a professional engineer and received a Bachelor of Science degree in Geological Engineering from the University of Toronto.

### **14.3 External Auditor Service Fees (By Category)**

<b>Year Ended December 31</b>	<b>Audit Fees</b>	<b>Audit-Related Fees</b>	<b>Tax Fees</b>	<b>All Other Fees</b>	<b>Total</b>
2017	\$94,226	nil	\$12,556	nil	\$106,782
2016	\$79,495	nil	\$2,260	nil	\$81,755

### **15.0 PROMOTERS**

Each of Brompton Funds Limited and MCAP Financial Corporation undertook the initiative in re-organizing the Corporation in connection with the Corporation’s transition in January 2017 from the securities regulatory regime for issuers that are investment funds to the securities regulatory regime for issuers that are not investment funds, and, accordingly, may be considered to be a “promoter” of the Corporation for the purposes of applicable securities legislation.

An affiliate of MCAP Financial Corporation, MCAP Commercial LP, holds 300,000 Common Shares, or approximately 9.5% of all outstanding Common Shares as at March 1, 2018. Brompton Funds Limited owns no securities of the Corporation. Brompton Funds Limited receives fees from the Corporation in connection with its role as Manager pursuant to the Management Agreement and is entitled to reimbursement of certain expenses incurred. The Mortgage Services Provider, an affiliate of MCAP Financial Corporation, receives fees from the Corporation in connection with its role as such pursuant to the Mortgage Services Agreement, and is entitled to reimbursement of certain expenses incurred. The Mortgage Consultant, an affiliate of MCAP Financial Corporation, receives fees from the Manager in connection with its role as such pursuant to the Mortgage Consulting Agreement and is entitled to reimbursement by the Corporation of certain expenses incurred. See section 9.0 of this annual information form.

## 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, including as to directors' and officers' remuneration and indebtedness and principal holders of securities, is contained in the Corporation's management information circular dated May 2, 2017. Additional financial information is provided in the Corporation's financial statements and management's discussion and analysis for its most recently completed financial year.

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

- 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).

## SCHEDULE A

### CHARTER OF THE AUDIT COMMITTEE OF ECLIPSE RESIDENTIAL MORTGAGE INVESTMENT CORPORATION

This charter applies to Eclipse Residential Mortgage Investment Corporation (the “Corporation”).

1. The Audit Committee will be composed of a minimum of three independent directors. Each member of the Audit Committee must be independent. “Independent” shall have the meaning, as the context requires, given to it in National Instrument 52-110 – *Audit Committees*, as may be amended from time to time.
2. At the time of his or her appointment to the Audit Committee, each member of the Audit Committee shall have, or shall acquire within a reasonable time following appointment to the Audit Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.
3. Each member of the Audit Committee shall serve during the pleasure of the board of directors. The Board may fill vacancies in the Audit Committee by appointment from among the directors, and if and whenever a vacancy shall exist in the Audit Committee, the remaining members may exercise all of its powers so long as a quorum remains in office.
4. *The mandate of the Audit Committee is as follows: The Audit Committee will:*
  - a) Review and recommend to the Board for approval:
    - The audited and unaudited financial statements of the Corporation and the management’s discussion and analysis;
    - All financial information in annual information forms, prospectuses, other offering documents of the Corporation and annual and interim profit or loss press releases prior to their release; and
    - Recommendations of the auditors for strengthening internal controls to ensure that processes are in place to mitigate or eliminate risks associated with financial reporting and cash management for the Corporation as well as the response of management to these recommendations.
  - b) Oversee the work of the external auditor, including the auditor’s work in preparing or issuing an audit report, performing other audits, review or attest services or any other related work. Meet periodically with the auditors and at least once a year meet in confidence with the auditors and report to the Board on such meetings including the nature of the auditor’s recommendations. Resolve disagreements between the external auditor and management as to financial reporting matters brought to the Audit Committee’s attention.
  - c) Review the reappointment or appointment of the auditors and make recommendations to the Board with respect to the nomination and remuneration of the auditors to the Corporation on an annual basis. Review the audit plans of the auditors and report to the Board of any significant reservations the Audit Committee may have or the auditors may have expressed with respect to such arrangements or scope.

- d) Review policies and procedures regarding the adequacy and effectiveness of internal controls over the accounting and financial reporting systems for the Corporation.
  - e) Review with management, the auditors and, if necessary, with legal counsel, any litigation, claim or other contingency, including tax assessments, that could have a material adverse effect upon the financial position or operating results of the Corporation and the manner in which these matters have been disclosed in the financial statements of the Corporation.
  - f) Review and pre-approve any non-audit related services provided by the auditors of the Corporation and the fees related thereto. Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Corporation, including non-audit services, and discussing the relationships with the auditors.
  - g) Establish procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of the Corporation or any entity providing services on behalf of the Corporation of concerns regarding questionable accounting or auditing matters.
  - h) On a regular basis, review and approve the Corporation's hiring practices regarding partners, employees and former employees of the present and former external auditor of the Corporation.
  - i) Ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements and periodically assess the adequacy of those procedures.
  - j) Perform other activities related to this charter as requested by the Board.
5. A quorum for the transaction of business of the Audit Committee shall consist of two members of the Committee.
6. The time and place for meetings of the Audit Committee and procedures at such meetings shall be determined from time to time by, the Audit Committee. The Secretary of the Corporation shall, upon request of the Committee Chairman, any member of the Audit Committee, the external auditors, the President, Chief Executive Officer or the Chief Financial Officer of the Corporation, call a meeting of the Audit Committee by letter, telephone, facsimile, telegram or other communication equipment, by giving at least 48 hours' notice, provided that no notice of a meeting shall be necessary if all of the members are present either in person or by means of conference telephone or if those absent have waived notice or otherwise signified their consent to the holding of such meeting.
7. Any member of the Audit Committee may participate in the meeting of the Committee by means of conference telephone or other communication equipment, and the member participating in a meeting pursuant to this paragraph shall be deemed, for purposes hereof, to be present in person at the meeting.
8. The Audit Committee shall keep minutes of its meetings which shall be submitted to the Board of Directors.
9. One of the members of the Audit Committee shall be elected as its chairman by the Audit Committee or the Board of Directors of the Corporation and the Committee may, from time to time, appoint any person who need not be a member, to act as a secretary at any meeting.

10. For the purposes of performing their duties, the members of the Audit Committee shall have the right, at all reasonable times, to inspect the books and financial records of the Corporation and to discuss with management and the officers such accounts, records and matters relating to the financial statements of the Corporation.
11. The Audit Committee may invite such officers, directors and employees of the Corporation and the external auditors as it may see fit, from time to time, to attend at meetings of the Audit Committee. Such external auditors are entitled to attend and be heard at each Audit Committee meeting. The Audit Committee has the authority to communicate directly with internal and external auditors.
12. The Audit Committee has the authority to retain, at the Corporation's expense, independent legal counsel, financial and other advisors, consultants and experts to assist the audit committee in fulfilling its duties and responsibilities, including sole authority to retain and to approve and pay any such firm's fees and other retention terms without prior approval of the Board of Directors.
13. The Board of Directors may at any time amend or rescind any of the provisions hereof, or cancel them entirely, with or without substitution.