Southern Interior

DEVELOPMENT INITIATIVE TRUST

Lending and Portfolio Procedures and Guidelines

These Procedures and Guidelines are to be read in conjunction with Policy 3.07 Lending and Equity Investment Policy

Effective February 13, 2018

Updated March 22, 2018

Contents

1.0 INTENT

The intent of these Procedures and Guidelines is to set out the general approach of the Trust for all lending and equity investing activities and they should be read in conjunction with Policy 3.07 Lending and Equity Investment Policy, and will be updated as needed to correspond with that Policy.

These Procedures and Guidelines:

- Describe the Trust's approach to lending and equity investing;
- Contribute to the Trust's mission, vision, values, goals and strategies;
- Provide prudent lending and investment guidelines to maximize returns while ensuring the safety of capital;
- Provide one clear place of reference for all directors, officers and referral agencies;
- To work toward the consistent application of equity investing and lending guidelines; and
- Minimize misunderstandings, errors, and omissions in application of lending and equity investment policies

2.0 MANDATE

The Trust's mandate is to help grow and diversify the economy of the Southern Interior of British Columbia through economic development initiatives in 10 key sectors (forestry, pine beetle recovery, agriculture, mining, tourism, small business, Olympic opportunities, energy, transportation and economic development).

Within its mandate, the Trust will lend to, and invest in, promising commercial enterprises that may not qualify for credit through traditional sources. The Trust will assess the long-term potential of lending and investment opportunities and take a more patient position than would a traditional lender.

If there are any business proposals presented to the Trust in which the Trust does not have the specific commercial knowledge, it will search out or contract the expertise. Alternatively, the Trust will also consider syndicating these types of commercial ventures with other lending partners, such as commercial banks and investment management companies that have the level of skill required.

The Trust will take an approach to commercial lending that is between conservative and moderately risky, with considerable emphasis placed on the integrity and management skills of the business covenants.

3.0 FUNDING OVERVIEW

The Trust provides two broad types of funding, grants and loans/equity financing with a focus on leveraged partnership participation.

Emphasis will be placed on term loans between $25,000 and $1,000,000 to borrowers with mature to established operations, related business experience or proven management capacity and on loans secured by revenue-producing business interests. The maximum loan/equity investment will be a total of $1,000,000 per applicant.

Additionally, the Letter of Credit Facility, which will not surpass $6,000,000 in total funding at any one time, will be available to borrowers with established operations with core revenue producing business interests and proven management capacity in the growth, and mature stage of business development as outlined in paragraph 21 Credit Risk Management, to a maximum investment of $500,000 per applicant.

Commercial lending activities will be conducted, as follows:

a. within the general underwriting principles outlined in the Loan and Equity Investment Policy 3.07,

b. the guidelines set out in the Trust's Strategic Plan;
c. provisions of the *Trust Act*;
d. the known and demonstrated evaluation of skills of the Trust's approving officers or of the approving officers of the lending partner, such as commercial banks and investment management companies;
e. the debt-servicing parameters outlined in the Loan and Equity Investment Policy 3.07; and
f. these Loan and Equity Investment Procedures, which must be maintained in conformity with Policy 3.07

Loan/equity investments will depend on the amount of funds available in the investment pool, as well as the current make-up of the investment portfolio. The Trust's funding policy sets maximum limits on how much can be invested into companies at various stages of development, both on an individual basis and as a percentage of the total investment pool.

In addition to funding focusing on the 10 key sectors, the Trust will also evaluate funding based on the following:

- Initiatives that lead to increased commercial activity;
- Initiatives that result in sustainable job creation, job preservation, or enhancement;
- Initiatives that contribute to the diversification of the economy;
- Initiatives that contribute to small community economic sustainability;
- Initiatives that have a regional impact; and
- Public/private sector partnerships (P3s).

The following are not eligible for funding: (note that this list is indicative and not necessarily a complete summary of all excluded initiatives):

- Stand-alone feasibility and marketing studies
- Health studies
- Education facilities and infrastructure
- Religious institutions
- Activities which do not comply with local, provincial or federal legislation
- Major sponsorships of events in which the Trust is not directly involved
- Political donations
- Controversial initiatives with moral, social, religious or public safety concerns
- Projects that primarily fund social initiatives (i.e., community beautification projects, downtown revitalization projects, signs, trails, pedestrian bridges)
- Projects where the primary economic impact is the construction of the project.
- Projects without a clear proposal and management plan or a clear leadership role
- Infrastructure projects that would normally be funded by government (with certain exceptions as outlined in our funding policy guidelines)

The Trust will consider partnerships and leveraged investments and will not be the sole investor in any one entity, and may adopt a partner position with one or more traditional lenders or equity partners in deals that it finances. The Trust's position may rank ahead of, equal to, or subordinate to the position of its lending or equity partner in terms of cash flow and security.

Grant funding is generated from the Trust's income stream and is dependent upon the Trust's investment returns and operational performance.

4.0 AUTHORITY

The Authority delegated to the Chief Executive Officer by the Trust's Board of Directors, is limited to the authorizations provided under the Authorization Policy 3.02, specifically the CEO is delegated the authority to carry out the finalization of agreements for loan clients, and may make non-material amendments to those agreements from time to time, provided that the amendments are for adjustments to operational related items on approved loans, such as payment schedules. Any amendments that change the integrity and intent of the original Board authorization, will require further Board review and approval.

All agreements will require two signatures, that of the CEO and the Corporate Secretary. In the absence of either the CEO or Corporate Secretary, agreements will require one of those two people and a director's signature. In addition, prior to any funding the CFO will be satisfied that all conditions precedent have been adhered to under the loan agreement.

5.0 STRUCTURE AND PURPOSES

The structure of the Trust's loan and equity investments will be consistent with best business practices and will be consistent with traditional lending procedures.

Specifically, amortization periods will not exceed the life expectancy of the assets being secured and the loan term will be five years or less.

The Trust is not meant to be the main lender in any loan file, and is only for gap financing. Loans should not exceed the five-year term, and any extension beyond a one-year extension, will require the Trust's Board approval.

Loan agreements will not include substantive deferral clauses. Acceptable deferral clauses will be for no more than 3 months at any given point during the term of the loan, and such deferral clauses will be at the sole discretion of the Trust to grant and will be considered based on the rationale of the request. Deferrals will not be granted due to the client's financial inability to pay the Trust's loan, but to use the funds to invest back into the capital of the company. The fee for deferrals will be a flat rate and not a percentage of the loan, so as to not unnecessarily burden the borrower by incurring greater indebtedness.

Current clients seeking additional funding from the Trust will need to demonstrate their ability to take on the increased debt and the increased payments and demonstrate their ability to retire the current loan within the term of such loan. Subsequent financing will not be combined with current financing, and no one client will exceed the maximum amount of $1 million in financing at any given time.

If a client has paid back all of its current financing, the Trust may review any future applications from such client for further financing. All new financing requests from current clients, will be processed in the same manner as if they were new clients, ie. providing an application, with supporting documentation, and going through due diligence and the Board approval process.

Loans made by the Trust should become bankable within the term of loan, at which time the enterprise may retire the Trust position in favour of a traditional lender allowing the Trust's funds to be re-invested in other promising enterprises. At the time of approval, exit clauses and bankable timelines will be developed and monitored against.

Fees will be market-based and rates will appropriately represent the inherent risk of each individual circumstance.

The Trust equity investments will be provided to mature stage, high-potential, medium risk, growth companies. The Trust will make money by earning interest and dividends as well as owning equity in the companies it invests in, which usually have a novel technology or business model in high technology industries.

The Trust will incorporate terms and conditions, positive and negative covenants, milestone targets, performance measures, and monitoring criteria in equity investment agreements, intended to influence and guide control company decisions and actions, in addition to holding a portion of the company's ownership (and consequently value).

The Trust's role in the ongoing operation of the enterprises that it invests in will not be passive. It is intended that the Trust will have the right to: appoint monitors, nominate shareholder representatives of the enterprises that they invest in, and hold observer roles on the entity's board of directors.

The Trust will not invest in Venture Capital entities.

6.0 CREDIT CRITERIA

With the exception of short-term cash flow and the building of equity, the Trust will expect its borrowing and investing applicants to meet all other traditional and prudent funding standards of performance.

The Trust will determine enterprise risk based on a careful study of the business plan, past performance of the enterprise, and management capacity of the principals, in order to gain a sufficient level of comfort that future cash flow and equity targets will be met.

Within the context of the *Trust Act*, the Trust will balance the level of risk that is present with the community economic benefits that are being created. However, the Trust will always satisfy itself that the potential of the deal is sound and prudent in order to protect the future of the fund.

7.0 CLIENT FINANCIAL INFORMATION

When considered necessary, client financial statements must be audited. Interim statements will be regarded with caution as they may show more favourable pictures than the year-end statement. Projections and proforma's should be recognized as estimates, unless based on independent appraisals, studies, reports, etc. supporting the underlying assumptions.

In the event that debt servicing ability is not apparent from the operations of the borrowing entity, debt servicing sources may include other income generated by indemnitors or covenanters who can be expected to provide additional financial support if called upon. Patient capital lending may be available for defined periods.

Financial status and debt servicing ability of borrowers and indemnitors/covenantors will be substantiated by current financial statements and reports. Loan agreements must require borrowers and indemnitors /covenantors to provide current financial statements, security values and reports within reasonable time limits.

8.0 RISK RATING

All applications will be risk-rated according to the Risk Rating Guidelines. A moderate approach will be followed. At the time a loan is granted, its risk rating will generally be R-4 or better on a scale of R-1 to R-5. All applications will be risk rated as part of their annual review or renewal. (Refer to **Appendix A**.)

9.0 CASH FLOW REQUIREMENTS

The Trust will consider being patient for cash flow providing that other positive credit and community economic indicators are in evidence in the application.

10.0 DUE DILIGENCE

All aspects of applications that pass the Trust's strategic fit test will be confirmed. Credit and community economic development benefits will be analyzed. Each application will be expected to illustrate a growth potential wherein equity and cash flow are being built over time and are sustainable.

Due diligence will be conducted by qualified staff or consultants. The due diligence process varies for different types of companies and may include, but not be limited to, audit of the following areas:

1. Compatibility.
2. Financial.
3. Legal.
4. Environmental.
5. Market.
6. Production /manufacturing.
7. Management capacity.
8. Information systems.
9. Reconciliation.
10. Concepts of valuations (shareholder value analysis).
11. Intellectual property.
12. Real and personal property valuation.
13. Insurance and liability coverage.
14. Debt instrument review.
15. Employee benefits and labour matters.
16. Taxes.
17. Anti-money laundering and anti-terrorist measures.
18. Appraisals when real estate is involved

11.0 APPLICATION SUBMISSION REQUIREMENTS

All applications to the Trust will be submitted electronically in a prescribed format, along with all supporting documentation, as requested at the time of the application. The application forms will include questions to determine the level of credit risk and community economic development benefit that are derived.

The Trust will determine the strategic fit – against the *Trust Act* and the Trust's mandate – before commencing underwriting due diligence.

12.0 AUTHORIZATION PROCESS

Projects that are within the constraints of the *Trust Act*, that meet the criteria outlined within the Trust's policy, and that have completed an initial due diligence review, may be presented to the Board of Directors for review and determination. Prior to submitting the project to the Board of Directors for consideration, applicants will be asked to enter into a discussion paper agreement. If the applicant agrees to the terms of the discussion paper, they will be asked to return an executed copy of it, along with a non-refundable $2,500 application processing fee. This fee will be applied to the overall application fee if the project is approved by the Board of Directors.

Once a project is approved by the Trust's Board, the client will be asked to enter into a commitment letter, at which time the remaining application fee, less the $2,500 fee already collected, will be payable at the time of executing the Commitment Letter.

As provided for under Policy 3.02 Authorization, any amendments that change the intent and integrity of a Board approved loan, or increase previously approved facilities, will be referred to the Board for their further approval. Amendments within the CEO's authority are restricted to operational changes, and non-material amendments provided for under the loan agreement, such as deferral requests.

Applications that do not meet the Trust's criteria, will not be put forth for consideration by the Board of Directors.

13.0 PORTFOLIO OBJECTIVES

The Trust's primary objective is to support economic development opportunities based on project merit within the Southern Interior irrespective of geographic considerations. In line with the *Trust Act* and its mandate, the Trust will encourage submissions throughout the region.

14.0 CLIENT SERVICE COMMITMENTS

The Trust will strive to meet or exceed market-competitive service standards.

15.0 CONFLICT OF INTEREST

The Trust's Code of Conduct Policies will be adhered to.

Any person, including a member of any Board Committee, whose loan or equity investment that of a business associate, spouse, relative, or related corporation is being considered will disclose the details of the conflict of interest, will not participate in any part of the approval or processing of the loan, and will absent him/herself from any committee or board meetings at which subject loan or equity investment is discussed.

If the person is in doubt about whether a conflict of interest exists or if an apparent conflict of interest could be inferred by anyone, the person will declare the interest and reveal the details of the possible conflict to the Board Chairperson or, if the person is a committee member, to the committee.

Any disclosure and its details will be recorded in the minutes of the meeting.

16.0 CONFIDENTIALITY AND PRIVACY

The use of information will be disclosed, third-party relationships will be transparent and the Trust will commit to protect the confidentiality of information in its possession.

17.0 ENVIRONMENTAL ISSUES

Environmental issues will be considered and the potential risk assessed in the underwriting of loans and investments.

All applicants for a loan or equity investment over $50,000 secured by commercial property must complete and sign the Trust's Environmental Questionnaire. After a review of the Questionnaire, a Stage 1 Preliminary Site Investigation Report may be required.

All loans and equity investments over $50,000 secured by commercial property should require execution of an Environmental Indemnity Agreement.

All applicants for a loan or equity investment over $500,000 secured by commercial property may be required to provide a Stage 1 Preliminary Site Investigation Report prepared by an environmental assessment firm. The report must contain the following statement: "This Stage 1 Preliminary Site Investigation Report has been completed in accordance with the *Waste Management Amendment Act,* The Contaminated Sites Regulation and any other pertinent legislation of the Province of B.C." The Report must be satisfactory to the Trust or its Lending Partner and if not, a Stage 2 Report is required and the above statement requires the following addition: "and the Special Waste Regulation."

A Stage 1 Preliminary Site Investigation Report is required in all cases for applicants whose industries/activities are listed in Schedule 2, *Contaminated Site Regulations/Waste Management Act (Bill 26).*

18.0 REPORTING AND REVIEW REQUIREMENTS

The Trust's Senior Management Team (consisting of the CEO, CFO and Corporate Secretary) will meet monthly with the Loan Portfolio Manager, and any consultant/contractor working on the Trust's loan files, to review the status of loan files and to be apprised of any issues with current clients, or to be made aware of any issues with pending loan clients, whether or not they have been approved by the Board.

The Senior Management Team will meet on a quarterly basis with the Management Committee of the Board, or any other Committee or Board member designated by the Board to oversee the loan activities of the Trust. The Board has the discretion to appoint one Board member for oversight and who the Senior Management Team may consult with on matters, without the need of seeking the entire Board's approval on changes that vary from the original Board approval, but that do not change the integrity or intent of the loan, such as amending conditions precedent for funding. At all times, the Chair of the Trust's Board will be kept apprised of any matters that may be of a contentious issue.

The Board will receive updated loan status memoranda at every regularly scheduled Board meeting, such memoranda to be delivered to the Corporate Secretary two weeks in advance of any such meeting. Such status memoranda, will include information on the health of a loan file/client, ie they are adhering to payment terms and reporting requirements under the loan agreement and will include information relating to any current issues with the client.

19.0 PROVISION FOR LOSS

A post-project review will be conducted during the process of creating a provision for loss on any funded initiative.

20.0 LEVERAGE

Leverage is established in loan and equity investment applications as funding from other sources as compared to budget. Projects supported by the Trust will have a minimum of matching funds invested by either the project proponent or other parties. When security is provided in asset based lending scenarios, leverage ratios used by the Trust will reflect standard bank loan to value criteria. Exceptions to this policy may be approved when the lending decision provides protection of the Trust's investment.

21.0 CREDIT RISK MANAGEMENT

Credit risk is the risk of loss resulting from the failure of a borrower to honour its financial or contractual obligation to the Trust. Credit risk primarily arises from loan and equity investment receivables. Within its mandate, the Trust lends to, and invests in, promising commercial enterprises that may not qualify for credit through traditional sources. The Trust assesses the long-term potential of lending and investment opportunities and will consider being patient for cash flow providing that other positive credit and community economic indicators are in evidence in the application.

Due diligence audits are performed to verify the accuracy of information and assumptions. In addition, Policy 3.02 Authorization sets out the Chief Executive Officer's authority for amending loan and equity investment files, stating that the Chief Executive Officer has authority to make amendments that are within operational oversight and are not material to the risk or value of the loan. Materiality in this regard would include, but is not limited to, the extension of a loan that is outside the Board approved term of a loan, as well as increases in approved funding, such as adding fees to the loan amount. These examples constitute a material change to the intent and integrity of a loan and would require prior Board approval.

All applications are risk-rated according to the Trust's Risk Rating Guidelines (see Appendix A) as part of the original underwriting of loans and investments, annual review and renewal. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

The Trust determines enterprise risk based on a careful study of the business plan, past performance of the enterprise, and management capacity of the principals in order to gain a sufficient level of comfort that future cash flow and equity targets will be met.

Within the context of the *Trust Act*, the Trust balances the level of risk that is present with the community economic benefits that are being created and satisfies itself that the potential of the deal is sound and prudent in order to protect the future of the fund.

The Trust manages its loan and equity risk by limiting its investment in any one business enterprise, investing in a diverse portfolio, and by syndicating or co-lending with other financing partners.

The Trust also manages risk by allocating investment funds to companies at various stages of development. These stages are defined as:

> **Growth/Expansion Stage:** Companies at this stage are established businesses with well-defined products and markets, tangible assets used in providing services, an established management team, and a track record of revenue and profit generation. Funding at this stage can be provided to help grow or expand operations, enter new markets, finance an acquisition, facilitate a change in control or to execute a turnaround strategy.
>
> **Later Stages:** The Trust may also provide financing to mature companies to help grow existing operations, improve performance or protect employment through an injection of capital and appropriate management support.
>
> **Transitional Stage:** Transitional Stage companies are established companies that are being transition to new ownership as part of their succession planning. The Trust may consider financing for the company or individual that is taking over such entity.

To diminish the risk of a firm failing, good management and financial systems are critical. Operational problems derail a company more often than a product or technology that does not work. To this end, the Trust will closely monitor financial results and management decision making.

The Trust's Management and Board of Directors will review and update the credit risk policy annually.

22.0 ANTI-MONEY LAUNDERING AND ANTI-TERRORIST DUE DILIGENCE

The Trust will conduct customer due diligence to comply with the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) and associated regulations.

23.0 TARGET INVESTMENT FUND ALLOCATION AND LEVERAGE

Stage of Business	Maximum $ Invested	Target Leverage Other/Trust	Target Fund Allocation*
Growth Capital	*$1,000,000*	*3:1*	*50%*
Mature Capital	*$1,000,000*	*3:1*	*30%*
Transitional Stage	*$1,000,000*	*2:1*	*20%*

***value is based on current balances and monitored on at least an annual basis**

24.0 LENDING AND PORTFOLIO STAFF

The lending and portfolio staff include:

a. CEO
b. Manager, Loans and Equity Investments
c. Underwriter (contracted position)
d. Loan support (includes Administration and Communications Representative, Loan Administrator and Corporate Secretary)

When a request for a loan comes, loan support will review the request and determine if the request meets Trust's 10 key sectors.

Loan support will then respond to the request and provide a copy of Trust's loan application, stating that it must be completed in its entirety and returned for further review.

As with grants, there may be exceptions to the loan funding policy, based on where the applicant is based, ie. smaller communities, and what it is they are requesting funding for.

25.0 APPLICATIONS AND APPROVAL

Application Review

Application Form:

1. Client submits completed application form, it will then be determined if the project is a strategic fit based on the *Trust Act* and the Trust's mandate.

2. Supporting documentation to complete

    a. Business plan

    b. The last 3 years of Accountant Prepared Fiscal Year End Financial Statements to include all related companies.

    c. Most recent Interim Financial Statements with Year to date comparable. To include all related companies if applicable.

    d. Projected income statement and forecast for a period of 3 years. To include all related companies if applicable

    e. Most up to date Central Securities Register and Shareholder/Key Management Structure. To include all related companies if applicable.

    f. Organizational structure

    g. Signed Loan Application Page

h. Signed Personal Statement of Affairs of key operational shareholders, as determined upon review.

3. If the criteria has not been met, the Applicant will be advised by email, and where possibly, advised of alternative resources to assist them.

Application Receipt

If the Applicant returns the application, a review of it will determine if it needs to be advance to the next stage of review, or if the applicant is advised that the Trust is unable to assist them.

If the applicant can proceed, the following steps will be taken:

1. The Applicant must meet the eligibility and principals of the Trust's Loan Policy 3.07.
2. The application will be assessed based on current asset class stage of business portfolio. (See: Trust/Financial/Asset Class Reports)
3. The Applicant will be interviewed and advised as follows:
    a. That all loan requests are put into a que and the Trust has a limit as to what it is able to loan in any given year, including asset class limitations;
    b. Further, not all applications are successful and that there are no guarantees, including whether the project is submitted to the Board for final approval;
    c. The Applicant will be asked to submit any required documents for review, and such documents need to be provided within 60 days of the request or they will lose their spot in the que;
    d. Once the documents are received and assessed, the matter may then be submitted to the pertinent Regional Advisory Committee for review and comments;
    e. After passing the RAC review, a discussion paper may be issued, the terms of which must be agreed to by the Applicant
    f. Once a fully signed discussion paper is received, the file will be provided to the underwriter for compiling a credit memorandum;
    g. If the underwriter agrees and provides a credit memorandum, the matter will then be submitted to the Board for review and a vote

Overview of Regional Advisory Committee Review

Application is submitted to RAC for 2 weeks

1. the following information is provided to RAC and saved in e-folder:
    a. Loan Application
    b. Business plan
    c. Other if applicable
2. Operational Summary/Loans document will be updated to advise it is in RAC Application Stage

Overview of Discussion Paper

1. A discussion paper is prepared, which outlines credit terms, conditions, level of financing
    a. Negotiate mutually acceptable structure.
    b. Collect signed discussion paper by client

c. Operational Summary will be updated

2. Once a signed discussion paper is received, along with the non-refundable application processing fee of $2,500, a complete Due Diligence/Underwriting step proceeds. Applicant is to be made aware of the timeline for completion of a Credit Authorization Memorandum (CAM), and depending on the project it may take a few weeks to complete.

Overview of Underwriting

1. Underwriter will validate content and accuracy of documentation, and request any further documentation as they may require.
2. Underwriter will complete a credit investigation and due diligence (CAM)
3. As part of the Conditions Precedent, the following information will need to also be completed:

   a. Site Visit – can be completed by funding partners. Exception may be granted by CEO for the Site Visit to be submitted prior to funding

   b. Environmental Form if real estate owned

   c. Anti-Money Laundering form

   d. Statement of Personal Affairs received and signed

   e. Personal Equifax search will be conducted

Overview of Board Review and Vote

1. The following documents will be saved in the Board Authorization e-file and provided to the Board for review:
   - CAM
   - Signed the Trust's Loan Application
   - Financials
   - Business Plan
   - Other information as applicable to application
2. Board members review and vote on project – the Board will normally be granted 2 weeks for review of projects, but this time may be shortened depending on circumstances.
3. If the Board approves the project, a letter of commitment will be prepared and sent to the Applicant for signature
4. If the Board does not approve, the Applicant will be informed of the Board's decision.

Overview of Commitment Letter

1. The Letter of Commitment will include the closing date, amount of the loan; interest information, conditions precedent, security information and the financing particulars as provided for in the CAM.
2. The Applicant is advised that all Conditions Precedent and Security items are required to be met prior to funding.
3. The Applicant has 10 business days to accept the Commitment letter.
4. Once the Commitment letter is accepted and fully signed, the letter is sent to the Trust legal counsel for file compiling of lending documents.

5. The non-refundable $2,500 application fee will be applied to the overall fee in the Commitment Letter. The fee included in the Commitment letter will be payable at the time of execution of the Commitment letter, and in any event all fees will be due even if the loan is not funded or the letter of credit is not issued
6. If Applicant does not accept the terms of the Commitment letter, the Application will be withdrawn and the Board will be advised.

Overview of Funding

1. Confirmation of all Conditions Precedent having been received, or noting that they are no longer required and the reason for allowing them to be removed is completed.
2. The Trust legal counsel advises that all security documentation has been received and Vendor documents are in place and ready for signature.
3. Transfer of Funds request is prepared and signed, which is provided to the Trust's Bank and legal counsel and the monies are transferred into the Trust's legal counsel's trust account
4. Client file is updated in MLM and condition tracking is then put in place.
5. Client is transitioned to portfolio management once initial funding and review of files by Internal Auditor consultant.

26.0 PORTFOLIO MANAGEMENT PROCESS

Transfer New Client to Portfolio Manager/Manager, Loans and Equity Investment

1. Security File Received
    a. Loan support verifies Security File by documenting the security on the Security Schedule
2. Internal reviews
    a. Deficiencies are noted and discussed with Senior Management Team.
    b. Deficiencies are added to the Deficiency Report by loan support. Printed and put into Deficiency Binder
    c. Loan support diarizes Client Relationship Plan
3. A welcome email will be sent to client by loan support providing them with the information on payment schedules and providing them with contact information regarding who they may contact if they have questions about their file.

Account Reviews

Annual Review

An Annual Review is completed based on the criteria set out in the Commitment letter, and will be completed within 150 days of clients Fiscal Year End, such review to include any or all of the following as applicable:

a. Obtain client update on business needs and plans as per Term/Convertible Loan Agreement;

b. Review financials:

i. if the amount of the loan is for $250,000, notice to reader financials are required,
ii. if the amount of the loan is for over $250,000, review engagement financials will be required;

c. Site visit;

d. Review liquidity risk exposure (inability to meeting payments)

e. Review operational risks (reputation and losses)

f. Review credit risk (are they fulfilling contractual obligations)

g. Review market risk (risk of valuation loss or reduction in expected earnings)

h. Environmental Site Declaration;

i. Determination of life stage of borrowing facility

j. Recommendation on exit strategy opportunities;

k. Update risk assessment, confirm pricing matches risk rating. Issue Amending Agreement if adjustments required;

l. Anti-Money Laundering;

m. Incorporate client board meeting minutes;

n. Loan Director reviews reports and completes review via pro-forma:

   i. Review to be signed by Loan Director;

   ii. Material risk changes require CEO concurrence and authorization signature;

o. Loan Support amends MLM, Portfolio Administrations, and central diary to reflect any changes

p. Criteria met **YES**:

   i. Loan Manager & CEO sign Annual Review

   ii. Loan Support diarizes for next year

q. Criteria met **No:**

   i. Follow for deficiency

Monthly/Quarterly/Semi Annual Review

a. Loan support to obtain reporting information;

b. Communicate with client for management update on business status;

c. Assess need for further action based on performance or other business indicators;

d. Complete review via proforma in a timely fashion, 30-45 days after the reporting received. If material change in risk identified needs to be raised to CEO with recommendation for authorization and direction.

Deficiency Follow-up and Corrective Action

Non-Reporting may be a material risk therefore the following steps are required for management of reporting or other account deficiencies:

1. Loan support provides 1st and 2nd notices of account deficiencies to client;
2. Loan support provides 3rd notice of account deficiencies to Client and CEO
3. If after the 3rd request information is not received, the CEO will contact the client directly, as well as other loan providers to determine any issues
4. If unresponsive or uncooperative, a risk classification adjustment rating may be required and will be noted in the reporting memoranda to the Board

Client and Portfolio Risk Rating System

1. New risk ratings from reviews/applications to Loan Support for entry to MLM.
2. CEO to approve recommendations for change in risk.
3. Loan Support:
    a. Updates the Trust Risk Portfolio on MLM;
    b. Generates portfolio risk report;
    c. Updates reporting requirements and Diary items (See Appendix B for list of items to be diarized);
4. Accounts are reassigned according to risk classification (performing or provision for loss);
5. SIDIT reserves the right to not make further advances

SIDIT Administrative Collection Policy and Procedures

Scope

This administrative collection policy is the documentation surrounding SIDIT's management's ability to collect bad debts from SIDIT loan clients

Objective

This administrative collection policy is designed to reduce the exposure SIDIT has with loan clients, by applying consistent practices in dealing with delinquent loan clients.

Responsibility

The Director Corporate Resources/Corporate Secretary has the responsibility to administer the collections policy, as well as maintaining it in accordance with SIDIT's Bylaws and Policies, and updating it as needed. The Chief Executive Officer has the overall responsibility of ensuring this policy is carried out in accordance with the By-Laws and Policies of SIDIT.

Collection Practices

Routine review of the loan files will be conducted to determine the need for classifying clients as potential collection files.

Once loan files have been identified as potential collection files, the file will be referred to the Director Corporate Resources/Corporate Secretary with a recommendation to receive Management Committee sign off to proceed with collection protocol and provision.

The Management Committee of SIDIT's Board of Directors will determine if any legal action should be taken against loan clients, and whether a file may be provisioned. No further Board approval will be required in order to start collection proceedings, however, there is a reporting requirement under this policy that will be followed.

The recommendation will include, but will not be limited to, the following information:

- Client name
- Amount of loan and whether there is more than one loan associated with a client
- Whether SIDIT holds an equity position in a client's company, and if so how much
- Due date of loan
- Whether any payments have been made to date
- Discussions that have taken place with respect to repayment of the loan, any terms agreed to verbally, but not provided in writing
- List of security that supports collection of the loan
- Reason provided by client as to why the loan is not able to be repaid

Once the information is received, the Director Corporate Resources/Corporate Secretary will work with legal counsel on preparing demand correspondence and reviewing security for support in repaying the loan.

When possible, a Board approved settlement will be negotiated with a client prior to any legal action taking place. If a client refuses, is unresponsive, or not locatable, legal action will be the first course of action in order for SIDIT to recoup its funds.

Reporting

The Director Corporate Resources/Corporate Secretary will report regularly on the status of loan files deemed as going through the collection process, until they are closed.

Appendix A – Characteristics of Risk

A risk rating of 1 to 5 is used to quantify the inherent risk of each loan or investment opportunity. The following schedule summarizes the general characteristics of risk for each rating.

Security Risk Factor:

SRR1 Fully secured (negotiable or readily liquid)
Financial strength negates collateral concern

SRR2 Margin consistently exceeds requirements
Collateral has well-established value and marketability

SRR3 Adequately secured by acceptable collateral within industry standards
Margin requirements are met at all times

SRR4 Security value and marketability difficult to assess
Loan not fully margined or secured

SRR5 Situation is below that of SRR4

Management Risk Factor:

MRR1 Management is strong and highly experienced
Evidence of strong succession and depth of management

MRR2 Superior experience and performance
Above average depth and succession

MRR3 Capable management
Adequate depth and succession

MRR4 Unproven or unknown management

MRR5 Situation is below that of MRR4

Debt Service Coverage Risk Factor:

DRR1 Proven earnings ability, cash flow coverage undoubted
Stability and Quality of cash flow undoubted

DRR2 Strong earnings, ability to repay is above-average
Debt service capacity in excess of 2 times based on actual performance

DRR3 Provides satisfactory coverage over debt service requirements in line with industry averages

DRR4 Cash flow available for debt service is marginal
Ability to service debt based on forecasts which are not supported by past performance
Repayment is unproven.

DRR5 Situation is below that of DRR4
Loan is more than 90 days in arrears

Profit Trends Risk Factor:

PTRR1 Maximizes both gross and net margins
Consistently well above industry average

PTRR2 Consistently above industry average in both gross and net margins

PTRR3 Earning profits and making progress

Profitability is acceptable; however, gross and net margins and trends may be mixed
Generally conforms to industry standard

PTRR4 Profits unproven, weak, or incurring losses; however potential for improvement evident
Volume and earnings deterioration evident but deemed correctable

PTRR5 Situation is below that of PTRR4

Working Capital Ratio (Liquidity) Risk Factor:

WCRR1 Working capital very strong and substantially above industry average (+3:1)

WCRR2 Working capital strong and above industry average (between 2:1 and 3:1)

WCRR3 Working capital adequate between 1:1 and 2:1 and conforms to industry average

WCRR4 Working capital negative or non-existent

WCRR5 Situation is below that of WCRR4

Debt/Equity Ratio (Leverage) Risk Factor:

DERR1 Debt/Equity less than 1:1

DERR2 Debt/Equity not more than 2:1

DERR3 Debt/Equity conforms to industry average and generally does not exceed 3:1

DERR4 Debt/Equity in excess of industry average (generally in excess of 4:1)
Undercapitalized

DERR5 Situation is below that of DERR4

Industry Status Risk Factor:

ISRR1 Long-term prospects excellent
High insulation from price and market swings

ISRR2 Above-average potential for the future
Strong insulation against wide market swings

ISRR3 Average future potential
Acceptable vulnerability to market swings

ISRR4 Limited potential
High vulnerability to market swings/trends

ISRR5 Situation is below that of ISRR4

Poor Risks:
Loans that have the following characteristics should be classified as Poor Risk:

- Loan is considered uncollectible (in whole or in part)
- Continuance as an active asset not justified
- Imminent possibility of loss
- Serious financial situation in evidence
- Steps to minimize loss are imperative
- Non-accruing or non-performing loan
- Carrying a reservation

Any loan 90 days in arrears or more

Appendix B – Portfolio Management Diary for Loan Support

- [ ] Financial Reporting
- [ ] Quarterly reviews
- [ ] Annual Reviews
- [ ] Put reminder for final payment due one month before. - TASK
- [ ] Reminder month before payments start
- [ ] Reminder to request PAD before payments start if applicable –TASK
- [ ] Is PAD in file? If not will need to request one month before payments start
- [ ] Diarize PPSA expiry date
- [ ] Diarize Insurance expiry date
- [ ] Add next review date from CAM
- [ ] Equifax every year Personal and Corporate
- [ ] PPSA every year?
- [ ] Central Securities updated annually
- [ ] Loan must be fully funded within 12 months
- [ ] Others as indicated in Loan Agreement