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June 20, 2018

Armada Mortgage Corporation – Continues to Diversify Portfolio / 7.3% Yield Achieved in 2017

Sector/Industry: Real Estate Mortgages **www.armadamortgage.com**

Offering Summary	
Issuer	Armada Mortgage Corporation
Securities Offered	Class A Preferred Non-Voting Shares
Unit Price	$1 per share
Minimum Subscription	$2,500
Management Fees	1.5% p.a.
Distributions to Investors	Monthly
Redemption	Option to redeem after 1 year
Auditor	Grant Thornton LLP

FRC Rating	
Est. Yield (2018)	7% - 8%
Rating	3+
Risk	3

*see back of report for rating definitions

Highlights

- Armada Mortgage Corporation ("Armada", "MIC") had $25.92 million in mortgage receivables secured by 140 properties, up 19% YoY from $21.82 million secured by 116 properties at the end of 2016.
- First mortgages accounted for 72.4% (77.2% in 2016) of the portfolio as of December 31, 2017.
- Despite an increase in portfolio size, and a decrease in first mortgages, we believe the MIC has maintained the portfolio's low to medium risk profile through a lower loan-to-value (57%) and improved diversification.
- As of December 31, 2017, approximately 83.1% (90.5% at the end of 2016) of the portfolio was secured by properties in B.C., 13.0% (5.5% in 2016) secured by properties in Ontario (ON), and 3.9% (4.0% at the end of 2016) by properties in Alberta (AB).
- Investor's yield increased from 6.5% to 7.3% in 2017. Since 2003, the MIC has averaged an annual dividend of 6.5% to investors.
- There were no realized losses in 2016 and 2017.
- Management and directors own a total of 17% of the outstanding shares, aligning management and the board's interest with investors.

Manager

Armada, incorporated in December 1995, is managed by Armada Capital Corporation ("manager"), based out of Maple Ridge, B.C. As per management, the manager has originated approximately $328 million in mortgages since 1995, and currently originates approximately $28 million per year.

In return for their services, the manager charges an annual management fee (paid monthly) of 1.5% of the net mortgage receivables held by the MIC. The manager charges an origination fee to borrowers, of which, typically 95% is passed on to the MIC. However, they have been passing 100% of the lender and renewal fees to the MIC since 2013. There are no performance-based fee. **Overall, we believe the management fee and operating expenses of the MIC are lower than comparable MICs of similar size.** The management fee and operating expenses of the fund, net of revenues from lender fees and others, were approximately 0.83% of the net mortgage receivables in 2017 versus 0.88% in 2016. We believe comparable MICs charge 1.0% to 2.0% p.a.

The manager has six employees (previously five), including four brokers, one accountant and one administrative assistant. **The MIC has an eight member board of directors, of which, seven are independent and do not hold any management position.** We consider this as a key strength of the MIC, as smaller MICs (portfolio size under $50 million) typically do not have independent directors. We believe that the board of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company.

Management and directors own a total of 3.71 million non-voting Class A preferred shares, or 17% of the total outstanding shares. This is up from 3.44 million, or 17% at the time of our previous report. The remaining shares are held by investors. The high equity ownership strongly aligns management and the board's interest with investors – which we consider another strength of the offering.

Share Ownership

	Position	Position Since	Common Shares	% of Total	Class A Preferred Shares	% of Total
Gordon Hone	President &	1995	2	2.1%	291,393	1.3%
Karin Schmidtke	Secretary	2002	1	1.1%	387,162	1.8%
Andrew Danneffel	Director	2010	2	2.1%	177,058	0.8%
Thomas Dinsley	Director	2010	2	2.1%	253,944	1.2%
Edward Monteiro	Director	2011	2	2.1%	224,484	1.0%
Patricia Milewski	Director	2014	3	3.2%	1,023,778	4.6%
Lance Felgnar	Director	2015	3	3.2%	401,931	1.8%
Edna Peacock	Director	2002	2	2.1%	902,000	4.1%
Don Pearce	Director	2017	-	-	50,000	0.2%
Totals			**17**	**17.9%**	**3,711,750**	**16.8%**

Source: Manager

Investment Mandate

The MIC's primary focus continues to be on first mortgages on already built residential properties in the urban areas of B.C. The company has been gradually expanding to ON and AB over the past few years. The manager's objective is to generate an average return of

FRC Fundamental Research Corp.

Bank of Canada 3 - 5 year bond yields plus 3.75% p.a. for investors. **Since 2003, the MIC has averaged an annual dividend of 6.7% to investors, and an average premium of 4.8% on the BOC 3 - 5 year yield.**

Management's key investment strategies for the MIC remain (listed below) unchanged:

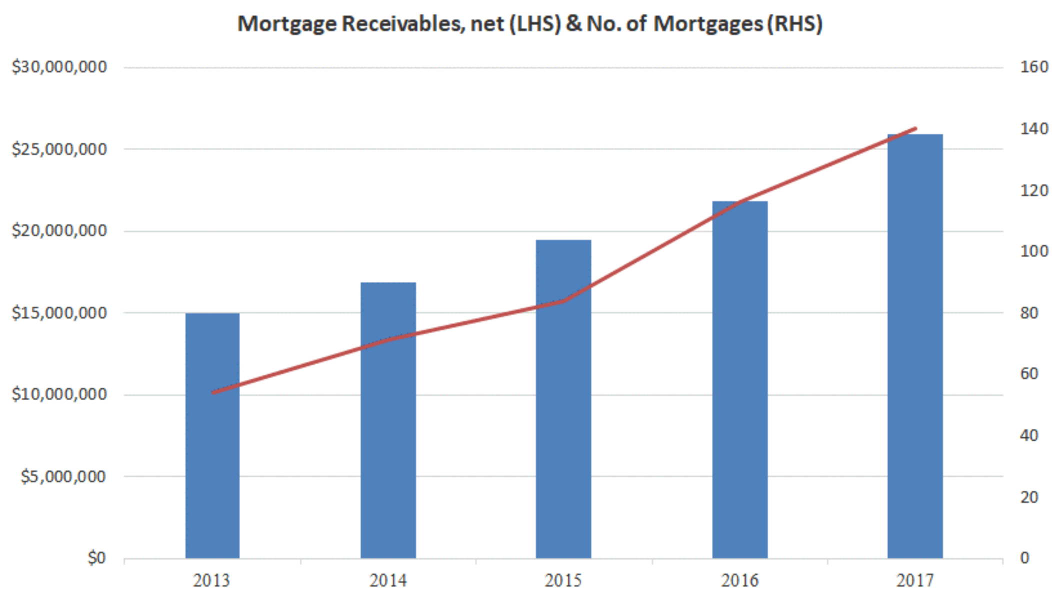
- Construction, commercial or interim mortgages, each as a separate group, are restricted to 5% of the portfolio at the time of origination.
- No more than 35% in second mortgages. The typical mix of first and second mortgages is approximately 75% : 25%.
- Mortgage sizes typically range between $50,000 and $750,000.
- Loans over $150,000 for second mortgages, and over $750,000 for first mortgages have to be approved by two or more directors.
- Maximum LTV of 50% for raw land, 65% for construction projects or commercial properties, and 70% for residential.

As mentioned in our initiating report, we believe management's guidelines are in line with industry best practices and indicate their intent to manage a portfolio with low-medium risk levels. A key positive of the above points is that loan amounts over certain amounts need approval from at least two directors.

Portfolio Update

The following section presents a detailed analysis of the portfolio's key parameters.

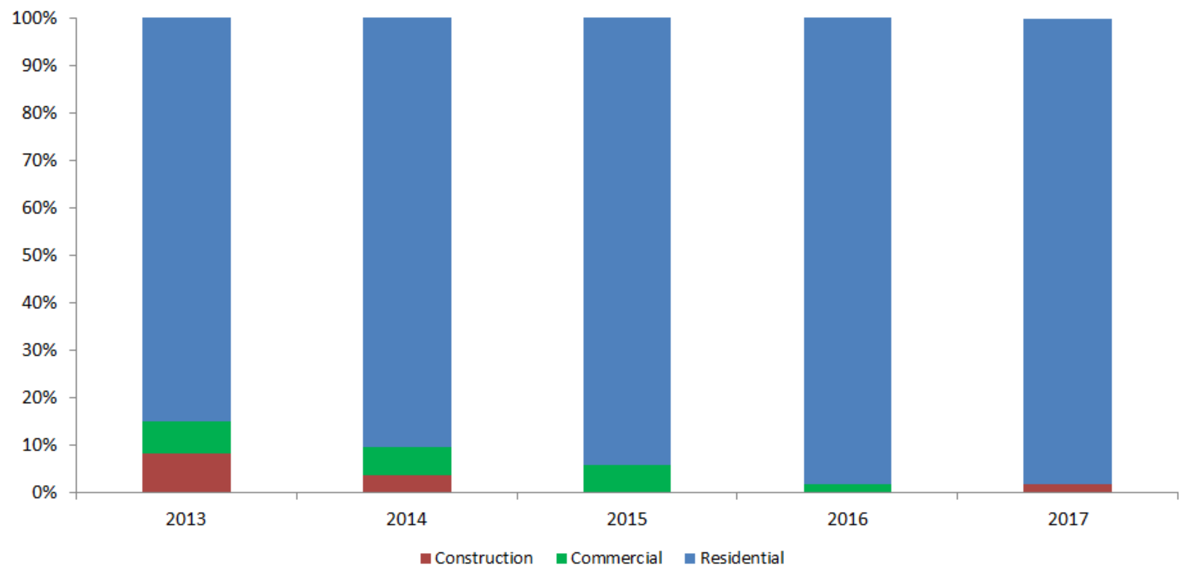
As of December 31, 2017, the MIC had $25.92 million in mortgage receivables (net of the provision for losses) secured by 140 properties, up 19% YoY from $21.82 million secured by 116 properties at the end of 2016. In a recent study conducted for the Canada Mortgage Housing Corporation ("CMHC"), we estimated that the MIC industry grew by 16% in 2017. The following chart shows the portfolio size at the end of ever year since 2013.



Data Source: Manager

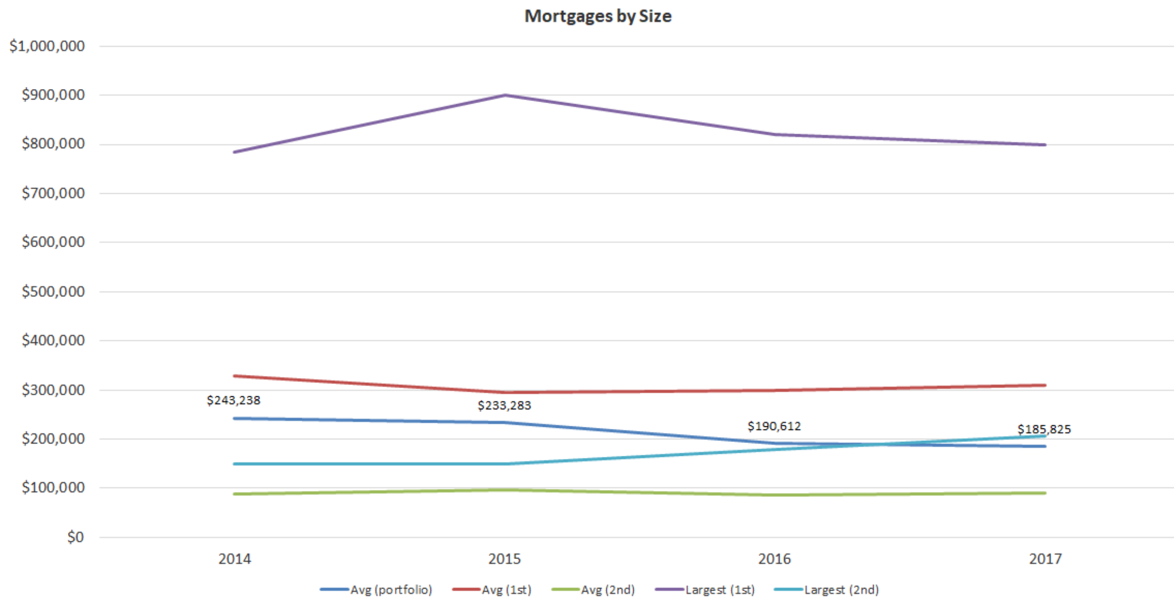
Type of Mortgage: Approximately 97.7% (98.2% in 2016) of the mortgages were secured by residential properties at the end of 2017. The remaining 2.2% were secured by construction properties. The MIC had nil exposure to commercial projects. The MIC's exposure to residential properties has averaged 94% since 2003. Management expects the exposure to residential properties (already built) to be at 97% in 2018, implying their strong focus on lower-risk property types.

Type of Mortgage



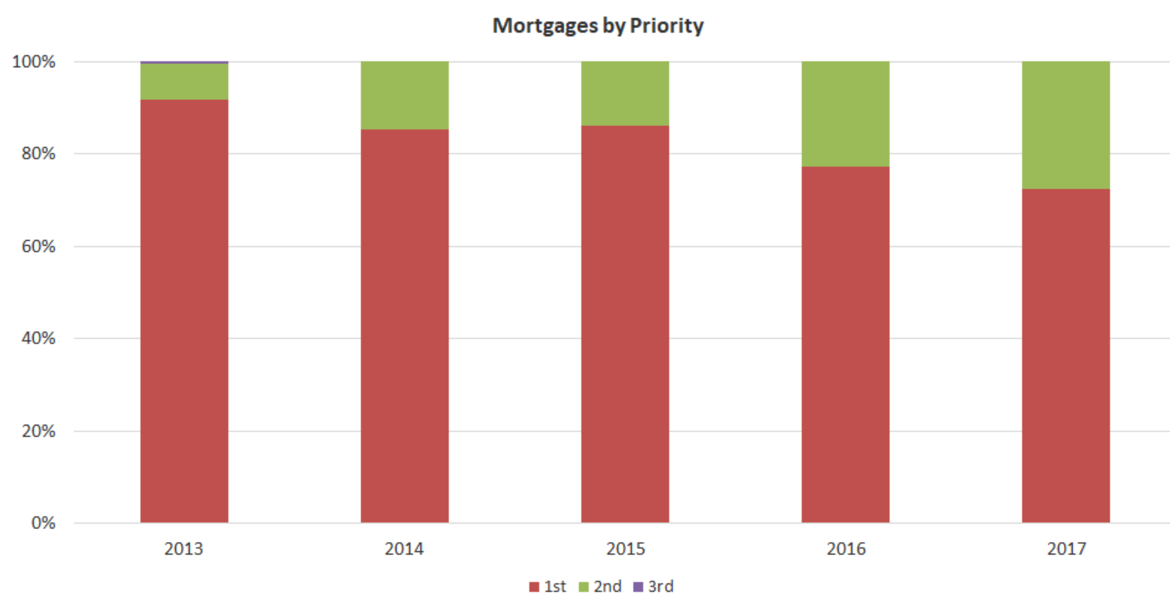
Data Source: Manager

Mortgage Size: At the end of 2017, the average mortgage size was $186k ($191k at the end of 2016), including $309k ($300k in 2016) for first mortgages and $91k ($85k in 2016) for second mortgages. The portfolio average dropped, despite an increase in the average of first and second mortgages, due to an increase in the percentage of second mortgages in the portfolio. The largest first mortgage was $800k ($820k in 2016), and the largest second mortgage was $206k ($178k in 2016). The historic average (2003 to 2017) of the portfolio is $197k (range: $106k to $288k).



Data Source: Manager

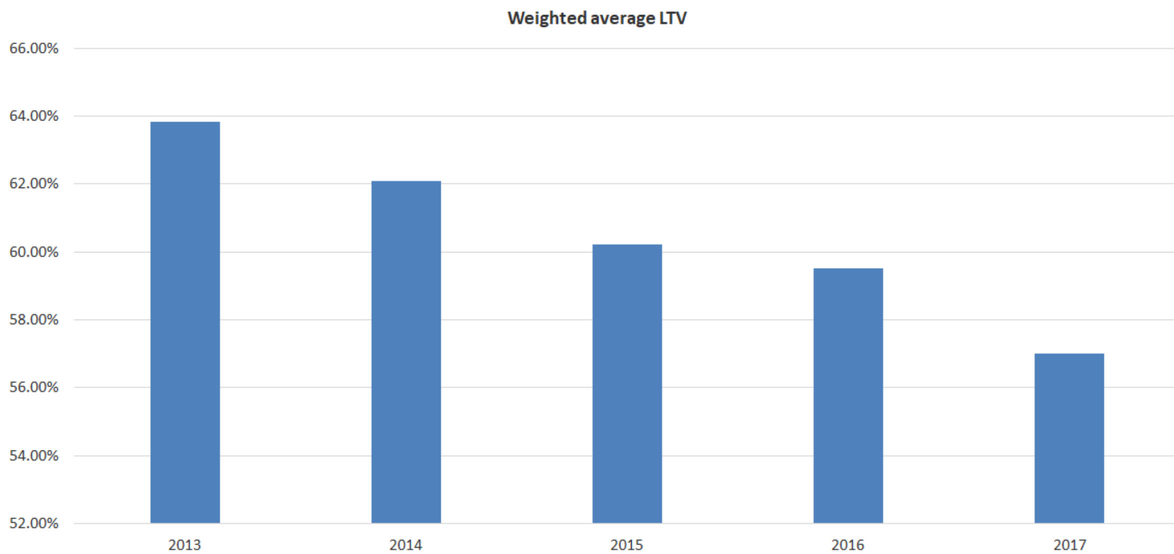
Mortgage by Security: First mortgages accounted for 72.4% (77.2% in 2016) of the portfolio as of December 31, 2017. Second mortgages accounted for 27.6% (22.1% in 2016). Since 2004, first mortgages have averaged 81.5% of the portfolio (range: 71% to 92%). Management expects the mix to be 70: 30 at the end of 2018.



Data Source: Manager

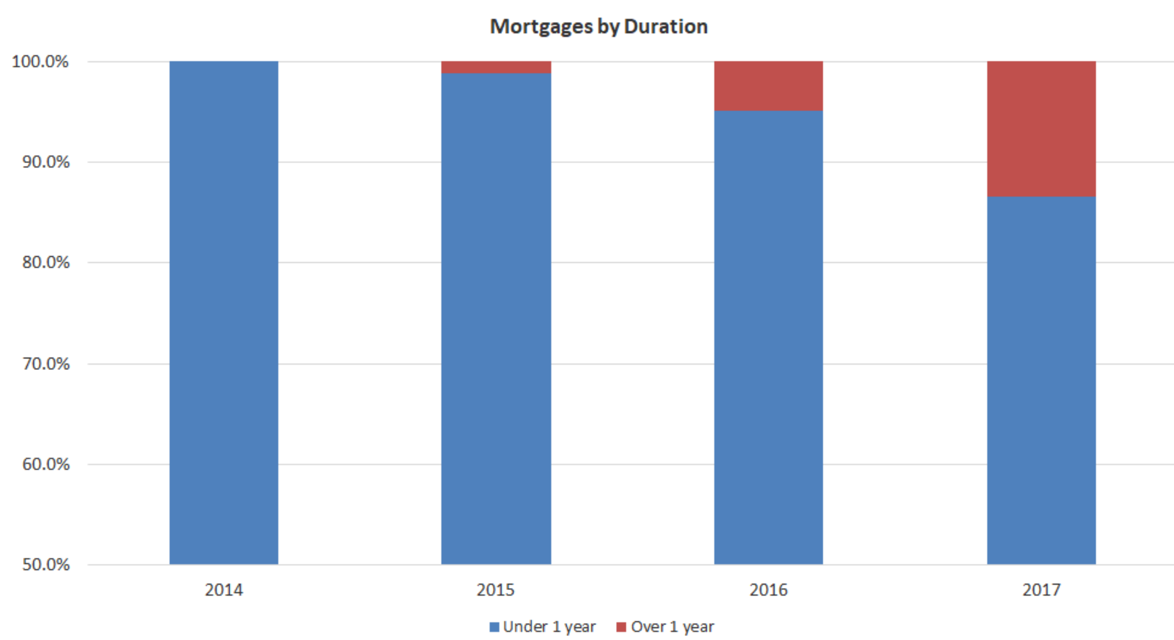
An increase in second mortgages generally implies higher risk levels, but we believe a drop in the portfolio's LTV partially offsets the increase in risk exposure.

Loan to Value (LTV) – The portfolio's LTV was 57% (59.5% at the end of 2016) versus the historic average (2003 to 2017) of 65.1% (range: 57.8% to 79.5%). Management estimates the LTV will remain in the 55% to 65% range.



Data Source: Manager

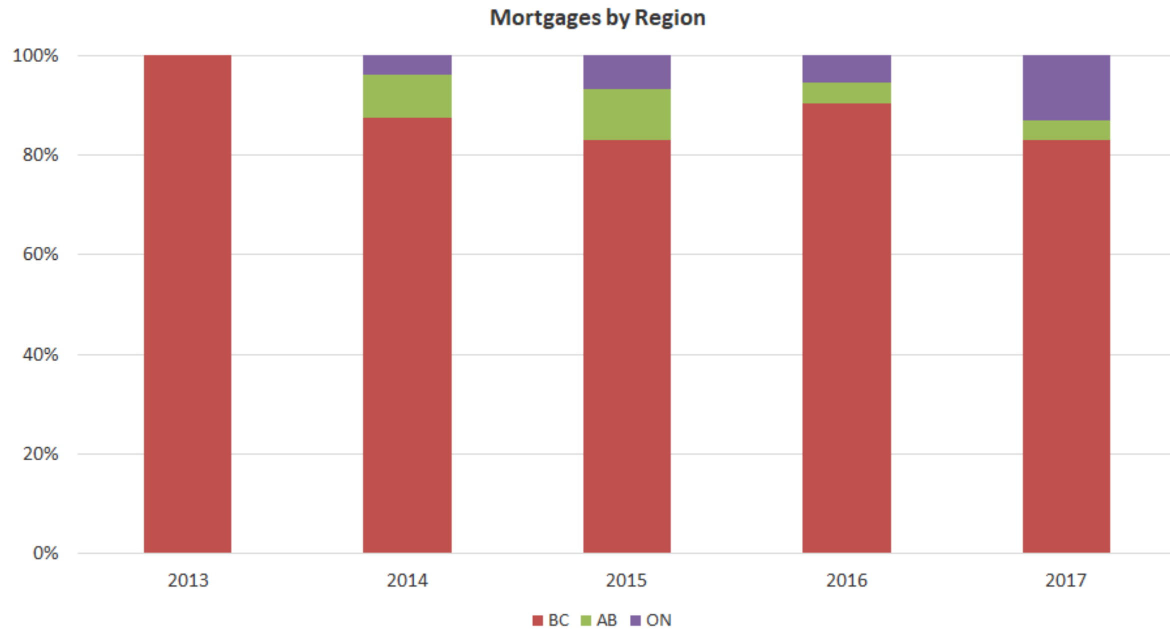
Mortgage Term: As of December 2017, approximately 86.5% (95.1% at the end of 2016) of the portfolio had mortgages with terms less than 12 months. Note that a low duration generally implies lower risk as it allows lenders to more frequenly re-adjust lending rates.



Data Source: Manager

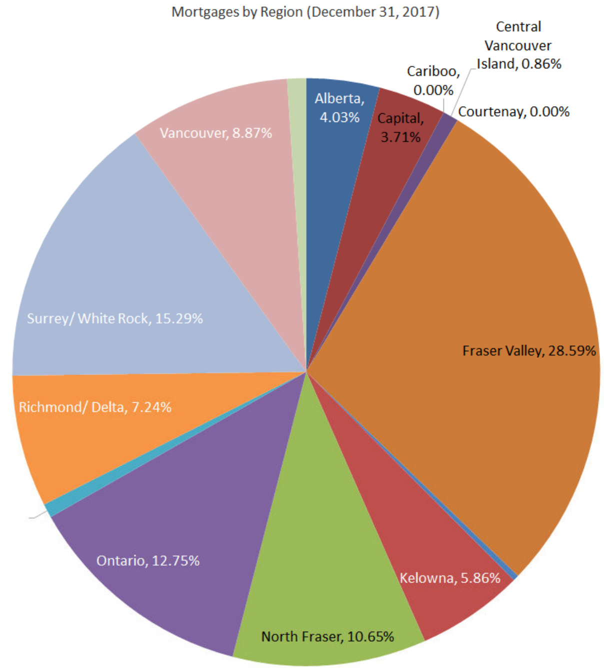
Geographical Diversification: As of December 31, 2017, approximately 83.1% (90.5% at the end of 2016) of the portfolio was secured by properties in B.C., 13.0% (5.5% in 2016) secured by properties in ON, and 3.9% (4.0% at the end of 2016) by properties in AB. The

MIC was focused 100% on BC since inception until 2013. Management has been gradually expanding into ON and AB since 2014, to geographically diversify the portfolio. We were pleased to see management's ability to further diversify the portfolio in 2017.



Data Source: Manager

Within BC, approximately 8.9% of the portfolio was held by properties in Vancouver (previously – 11.4%). The Fraser Valley, which is located approximately 125 km east of Vancouver, accounted for the largest share in B.C. However, we were pleased to see that the exposure to The Fraser Valley declined from 32.8% at the end of 2016, to 28.6% by the end of 2017.



Data Source: Manager

Management expects their exposure in ON and AB to increase going forward with a longer-term strategy to have a mix of 70% in BC and the remaining 30% outside BC.

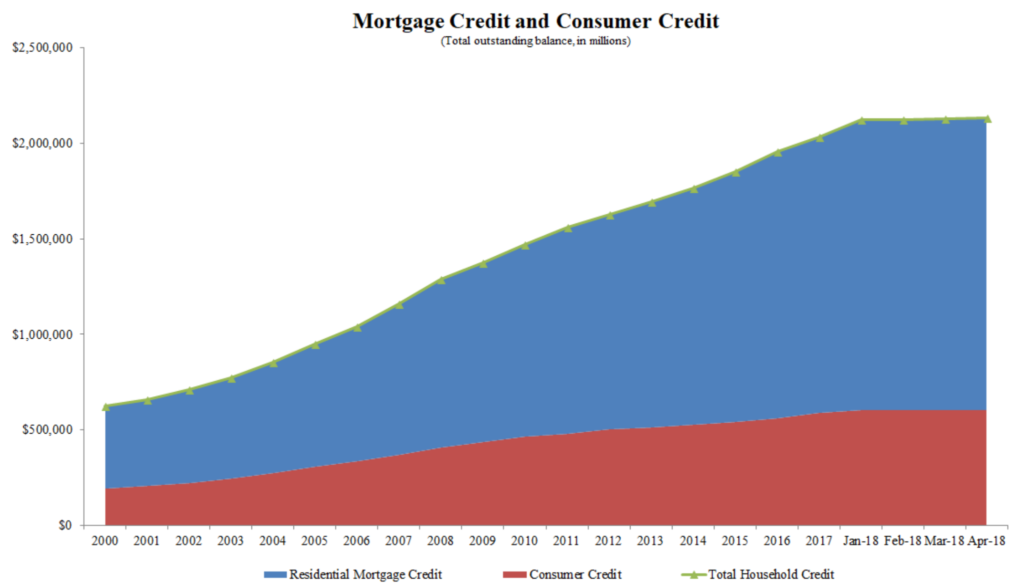
Overall, despite an increase in portfolio size and a decrease in first mortgages, we believe the MIC has maintained its portfolio's low-medium risk level profile through a lower LTV and improved diversification. The following chart summarizes the change in risk levels based on YoY changes in key parameters.

Parameter	Risk Profile
Total Portfolio Size	↑
Average Mortgage	↓
Diversification	↓
Duration	↑
Priority	↑
LTV	↓
Property Type	-

Source: FRC

Real Estate Market Update

At the end of April 2018, mortgage credit accounted for 72%, and consumer credit accounted for the remaining 28% of total household debt in Canada. Total residential mortgage credit in Canada (outstanding balance of the major private institutional lenders) increased from $0.43 trillion in 2000, to $1.53 trillion by the end of April 2018, reflecting a compounded annual growth rate ("CAGR") of 7.6%.



Data Source: Statistics Canada

The factors that have been contributing to increased lending in Canada are the strong growth in housing prices, decreasing unemployment rates (see chart below), a low interest rate environment, and the relatively low default rates. Also, the tighter lending policies set by banks and conventional lenders have been encouraging more and more private lenders to enter the market over the last decade.

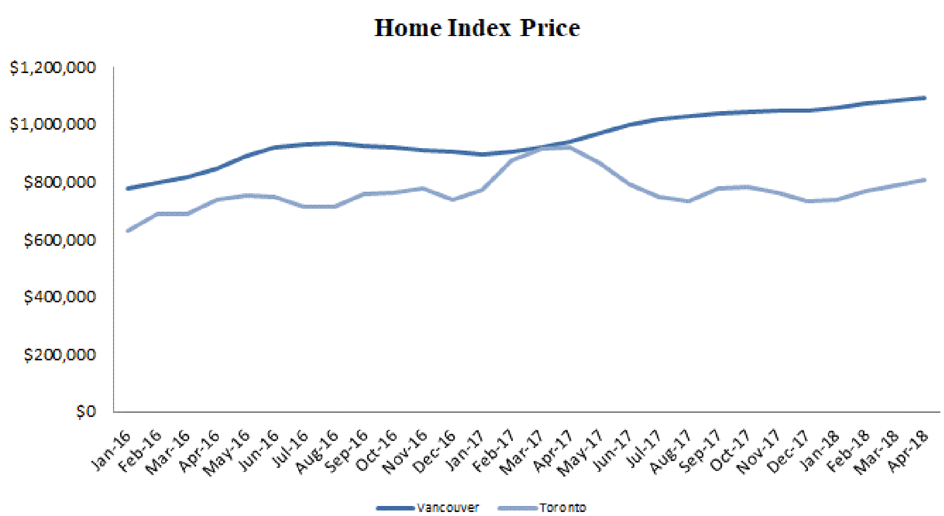
After raising **the overnight lending rate three times** over the past 12 months (first in July

2017, second in September 2017 and the third in January 2018), the Bank of Canada decided to maintain the rate at 1.25% in their last policy meeting on May 30, 2018. However, the BoC gave clear hints that additional rate hikes could be coming in the near-future based on stronger than expected growth in Q1.

Source: Bank of Canada

Based on an expected increase in rates, we expect MICs to continue to raise their lending rates this year.

The following chart shows the average home prices in Vancouver and Toronto – Canada's two key housing markets.



Source: TREB and REBGV

As a result of the B.C. government's new measures, Vancouver's real estate sales dropped for the first time in February 2018, since July 2017. Sales dropped 30% YoY in March, 27% in April, and 35% in May 2018. Sales declined across all property types.

Vancouver Sales by Type	Sep-16	Sep-17	YoY	Oct-16	Oct-17	YoY	Nov-16	Nov-17	YoY	Dec-16	Dec-17	YoY
Detached	666	852	28%	652	940	44%	638	841	32%	541	617	14%
Apartments	1,218	1,451	19%	1,178	1,532	30%	1,200	1,508	26%	915	1,028	12%
Attached Property	369	518	40%	403	550	36%	376	446	19%	258	371	44%
Total	2,253	2,821	25%	2,233	3,022	35%	2,214	2,795	26%	1,714	2,016	18%

Vancouver Sales by Type	Jan-17	Jan-18	YoY	Feb-17	Feb-18	YoY	Mar-17	Mar-18	YoY	Apr-17	Apr-18	YoY	May-17	May-18	YoY
Detached	444	487	10%	745	621	-17%	1,150	722	-37%	1,211	807	-33%	1,548	926	-40%
Apartments	825	1,012	23%	1,275	1,185	-7%	1,841	1,349	-27%	1,722	1,308	-24%	2,025	1,431	-29%
Attached Property	254	319	26%	404	401	-1%	588	446	-24%	620	464	-25%	791	476	-40%
Total	1,523	1,818	19%	2,424	2,207	-9%	3,579	2,517	-30%	3,553	2,579	-27%	4,364	2,833	-35%

Source: Real Estate Board of Greater Vancouver

Despite the drop, the average price increased 0.2% MoM, and 13% YoY, in May 2018.

Metro Vancouver	YoY	Sep-16	Sep-17	YoY	Oct-16	Oct-17	YoY	Nov-16	Nov-17	YoY	Dec-16	Dec-17	YoY
Residential Sales	22%	2,253	2,821	25%	2,233	3,022	35%	2,214	2,795	26%	1,714	2,016	18%
New Listings	-1%	4,799	5,375	12%	3,981	4,539	14%	3,147	4,109	31%	1,312	1,891	44%
Active Listings	4%	9,354	9,466	1%	9,143	9,137	0%	8,385	9,137	9%	6,345	6,958	10%
Sales to Listings		24.09%	29.80%		24.42%	33.07%		26.40%	30.59%		27.01%	28.97%	
MLS Home Price Index	10%	$926,600	$1,037,300	12%	$919,300	$1,042,300	13%	$908,300	$1,046,900	15%	$906,500	$1,050,300	16%

Metro Vancouver	Jan-17	Jan-18	YoY	Feb-17	Feb-18	YoY	Mar-17	Mar-18	YoY	Apr-17	Apr-18	YoY	May-17	May-18	YoY
Residential Sales	1,523	1,818	19%	2,425	2,207	-9%	3,579	2,517	-30%	3,553	2,579	-27%	4,364	2,833	-35%
New Listings	4,140	3,796	-8%	3,666	4,223	15%	4,762	4,450	-7%	4,907	5,820	19%	6,044	6,375	5%
Active Listings	7,238	6,947	-4%	7,594	7,822	3%	7,586	8,380	10%	7,813	9,822	26%	8,186	11,292	38%
Sales to Listings	21.04%	26.17%		31.93%	28.22%		47.18%	30.04%		45.48%	26.26%		53.31%	25.09%	
MLS Home Price Index	$896,000	$1,056,500	18%	$906,700	$1,071,800	18.2%	$919,300	$1,084,000	17.9%	$941,100	$1,092,000	16%	$967,500	$1,094,000	13%

Source: Real Estate Board of Greater Vancouver

The sales to active ratio was 25% in May 2018, versus 53% in May 2017. We remain very cautious and expect the new measures to continue to impact sales in the near-term.

Toronto MLS sales continues to drop YoY, but the decline rate has been decreasing in recent months. Sales were down 23% YoY in January 2018, 35% YoY in February 2018, 40% in March 2018, 33% in April 2018, and 23% in May 2018. The following table shows that sales dropped across almost all property types.

Toronto Sales by Type	Sep-16	Sep-17	YoY	Oct-16	Oct-17	YoY	Nov-16	Nov-17	YoY	Dec-16	Dec-17	YoY
Detached	4,708	2780	-41%	4,499	3135	-30%	3,890	3131	-20%	2,259	1,938	-14%
Semi - Detached	920	639	-31%	917	694	-24%	798	741	-7%	457	486	6%
Att/Row/Townhouse	782	533	-32%	762	624	-18%	717	631	-12%	412	442	7%
Condo Townhouse	748	465	-38%	718	527	-27%	601	558	-7%	370	424	15%
Condo Apartment	2,580	1860	-28%	2,702	2025	-25%	2,409	2210	-8%	1,731	1,562	-10%
Link	142	87	-39%	138	89	-36%	117	86	-26%	83	55	-34%
Co-op Apt	3	7	133%	13	12	-8%	8	7	-13%	11	9	-18%
Det Condo	9	3	-67%	14	8	-43%	2	6	200%	4	7	75%
Co ownership Apt	10	5	-50%	5	4	-20%	5	4	-20%	11	7	-36%
Total	9,902	6,379	-36%	9,768	7,118	-27%	8,547	7,374	-14%	5,338	4,930	-8%

Toronto Sales by Type	Jan-17	Jan-18	YoY	Feb-17	Feb-18	YoY	Mar-17	Mar-18	YoY	Apr-17	Apr-18	YoY	May-17	May-18	YoY
Detached	2,261	1,659	-27%	3,721	2,169	-42%	5,887	3,120	-47%	5,715	3,451	-40%	4,757	3,344	-30%
Semi - Detached	423	364	-14%	651	454	-30%	1,002	686	-32%	1,025	714	-30%	930	647	-30%
Att/Row/Townhouse	421	356	-15%	619	483	-22%	937	622	-34%	914	745	-18%	802	701	-13%
Condo Townhouse	356	319	-10%	546	364	-33%	789	503	-36%	755	542	-28%	711	599	-16%
Condo Apartment	1,636	1,275	-22%	2,360	1,631	-31%	3,261	2,183	-33%	3,013	2,218	-26%	2,854	2,393	-16%
Link	81	38	-53%	99	64	-35%	170	90	-47%	173	107	-38%	113	127	12%
Co-op Apt	3	6	100%	7	4	-43%	11	11	0%	17	7	-59%	14	8	-43%
Det Condo	2	1	-50%	7	3	-57%	13	6	-54%	13	5	-62%	7	10	43%
Co ownership Apt	5	1	-80%	4	3	-25%	7	7	0%	5	3	-40%	8	5	-38%
Total	5,188	4,019	-23%	8,014	5,175	-35%	12,077	7,228	-40%	11,630	7,792	-33%	10,196	7,834	-23%

Source: Toronto Real Estate Board

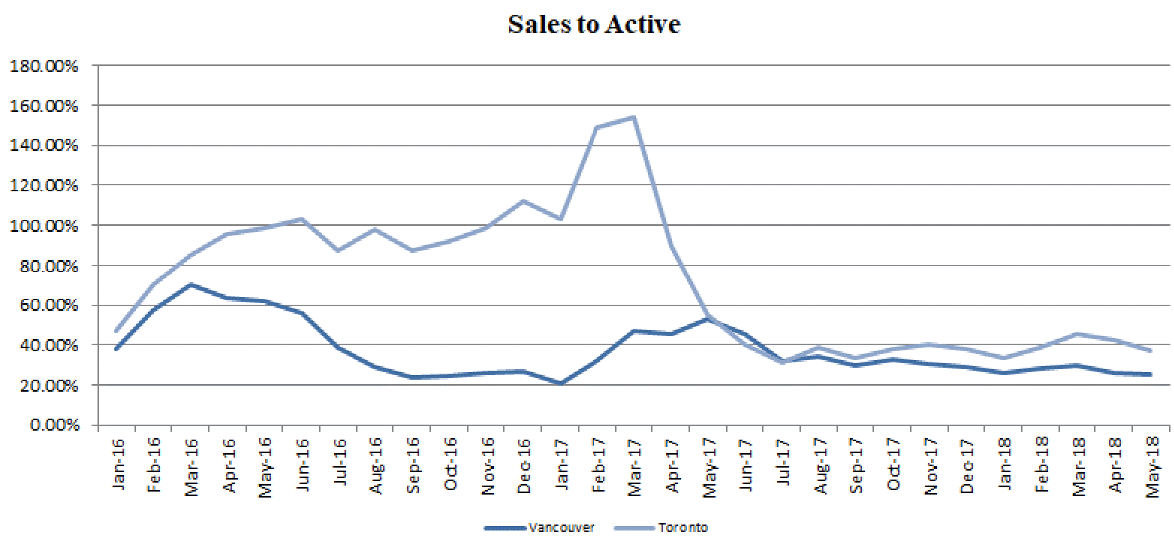
Despite the drop in sales, the average price was up 0.9% MoM in January 2018, 4.2% in February 2018, 2.2% in March 2018, 2.6% in April 2018, and 0.1% in May 2018.

Toronto	Sep-16	Sep-17	YoY	Oct-16	Oct-17	YoY	Nov-16	Nov-17	YoY	Dec-16	Dec-17	YoY
Residential Sales	9,830	6,379	-35%	9,715	7,118	-27%	8,503	7,374	-13%	5,305	4,930	-7%
New Listings	15,050	16,469	9%	13,331	14,903	12%	10,456	14,349	37%	4,166	6,330	52%
Active Listings	11,255	19,021	69%	10,563	18,859	79%	8,639	18,197	111%	4,746	12,926	172%
Sales to Listings	87.34%	33.54%		91.97%	37.74%		98.43%	40.52%		111.78%	38.14%	
MLS Home Price Index	$756,021	$775,546	3%	$762,691	$780,104	2%	$777,091	$761,757	-2%	$735,021	$730,124	-1%

Toronto	Jan-17	Jan-18	YoY	Feb-17	Feb-18	YoY	Mar-17	Mar-18	YoY	Apr-17	Apr-18	YoY	May-17	May-18	YoY
Residential Sales	5,188	4,019	-23%	8,014	5,175	-35%	11,954	7,228	-40%	11,630	7,792	-33%	10,196	7,834	-23%
New Listings	7,338	8,585	17%	9,834	10,520	7%	16,978	14,866	-12%	21,630	16,273	-25%	25,837	19,022	-26%
Active Listings	5,034	11,894	136%	5,400	13,362	147%	7,865	15,971	103%	12,926	18,206	41%	18,477	20,919	13%
Sales to Listings	103.06%	33.79%		148.41%	38.73%		151.99%	45.26%		89.97%	42.80%		55.18%	37.45%	
MLS Home Price Index	$770,745	$736,783	-4%	$875,983	$767,818	-12%	$915,126	$784,558	-14%	$920,791	$804,584	-13%	$863,910	$805,320	-7%

Source: Toronto Real Estate Board

The sales to active listings ratio was 37% in May 2018, versus 55% in May 2017.



Source: TREB and REBGV

We have a cautious outlook on the Toronto residential real estate market. We believe that loan originations in Ontario could decrease in the near-term.

We note that the entire mortgage lending industry will be significantly impacted from a market downturn. In such a scenario, MICs with low LTVs and lower duration will have an edge over others.

Financials

Management, directors and founding shareholders own 100% of the voting common shares of the MIC. As of December 31, 2017, the fund had a total of 21.19 million non-voting Class A preferred shares, all of which were issued at, and currently priced at, $1 per share. **The MIC raised approximately $2.26 million in 2017, versus $2.98 million in 2016, and $1.73 million in 2015, through the issuance of preferred shares**. Like most of the other MICs in the BC, Armada uses the dealer registration exemption for raising capital. All of the capital raised so far has come from internal sources.

There is no market or exchange that the shares trade on. The shares are non-transferable. They are eligible for redemption, at book value, after one year of investment. This is a reasonable feature as comparable private MICs tend to apply a redemption penalty in the first few years of investment. According to management, for continuity of operations, the board will authorize the annual redemption limit to 5% of the total preferred shares outstanding.

The MIC pays out monthly dividends to investors. Note that, as with all MICs, management has total discretion to suspend or accrue dividend payments, in circumstances that require them to preserve cash flow.

The fund's financial statements are audited by Grant Thornton LLP.

Revenues grew 20% YoY to $2.11 million in 2017. The following table shows a summary of the income statement since 2013.

Income Statement	2013	2014	2015	2016	2017
Revenues					
Mortgage interest	$956,524	$1,103,170	$1,136,178	$1,504,803	$1,761,511
Lender fees	$70,453	$125,569	$122,801	$173,376	$267,239
Other fees	$10,625	$46,062	$66,015	$72,415	$77,975
Total revenues	**$1,037,602**	**$1,274,801**	**$1,324,994**	**$1,750,594**	**$2,106,725**
Expenses					
Management fees	$224,492	$245,506	$266,054	$350,892	$384,004
Mortgage loss provision	$167,050	$171,470	$77,695	$82,000	-$48,975
Interest and bank charges	$16,299	$47,128	$72,521	$79,170	$106,134
Professional fees	$19,234	$16,657	$38,658	$34,365	$87,470
Advertising and promotions	$4,360	$13,197	$17,980	$16,515	$23,171
Consulting fee	$3,401	$8,797	$12,750	$12,019	$14,060
Office	$6,023	$3,614	$2,977	$5,197	$25,383
Insurance	$1,226	$1,525	$795	$9,118	$8,690
Total expenses	**$442,085**	**$507,894**	**$489,430**	**$589,276**	**$599,937**
Net income before dividends	**$595,517**	**$766,907**	**$835,564**	**$1,161,318**	**$1,506,788**
Dividends	$762,221	$743,516	$835,564	$1,161,318	$1,506,788

YE – Dec 31st

Interest + Other income as a percentage of mortgage receivables were 8.8% p.a. in 2017 versus 8.5% in 2016. Note that this figure, and the ones in the table below, may be slightly different from the actual figures due to the difference in the method of calculation. We used the average of the opening balance, and year-end balance of the mortgages outstanding, to arrive at the above figures.

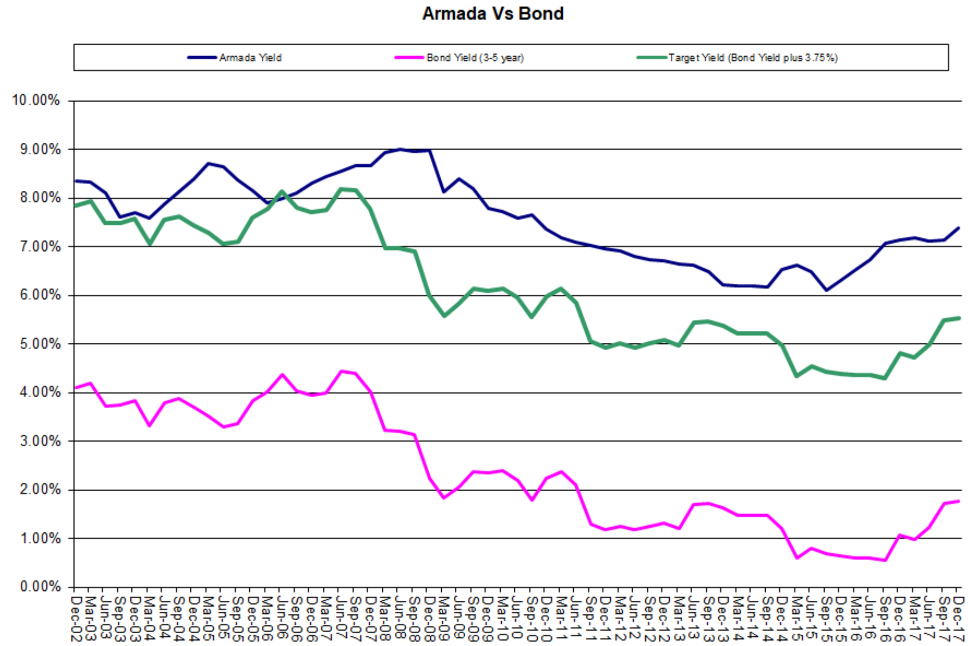
	2013	2014	2015	2016	2017
Mortgage interest	6.5%	6.9%	6.3%	7.3%	7.4%
Lender fees	0.5%	0.8%	0.7%	0.8%	1.1%
Other fees	0.1%	0.3%	0.4%	0.4%	0.3%
Total revenues	**7.1%**	**8.0%**	**7.3%**	**8.5%**	**8.8%**
Expenses					
Management fees	1.5%	1.5%	1.5%	1.7%	1.6%
Mortgage loss provision	1.1%	1.1%	0.4%	0.4%	-0.2%
Interest and bank charges	0.1%	0.3%	0.4%	0.4%	0.4%
G&A	0.2%	0.3%	0.4%	0.4%	0.7%
Total expenses	**3.0%**	**3.2%**	**2.7%**	**2.9%**	**2.5%**
Net income before dividends	4.1%	4.8%	4.6%	5.6%	6.3%
Dividends	5.2%	4.7%	4.6%	5.6%	6.3%
NAV	$1.00	$1.00	$1.00	$1.00	$1.00
Dividends % of Inv. Capital	5.2%	5.0%	5.3%	6.6%	7.5%

Data Source: Manager / Prepared by FRC

Operating expenses (management + General and Administrative) were $0.54 million (2.3% of mortgage receivables) in 2017, versus $0.43 million (2.1% of mortgage receivables) in 2016. As mentioned earlier, the management fee and operating expenses of the fund, net of revenues from lender fees and others, were approximately 0.83% of the net mortgage receivables in 2017, versus 0.88% in 2016. This resulted in stronger returns to investors in 2017.

The net income as a percentage of receivables was 6.3% in 2017, versus 5.6% p.a. in 2016. Dividends as a percentage of invested capital was 7.5% in 2017 versus 6.6% in 2016. The MIC has generated an average yield of 6.5% since 2003. **The following table shows that annual returns have exceeded BOC 2 year bond yields by 4.8% p.a., on average, from 2003 to 2017 (range: 3.0% to 6.0%). In 2017, the premium was 5.8% versus 5.9% in 2016.**

	2013	2014	2015	2016	2017
Actual Returns	4.1%	5.1%	5.4%	6.5%	7.3%
2-year GOC	1.1%	1.0%	0.5%	0.6%	1.5%
Differential	3.0%	4.2%	4.8%	5.9%	5.8%



Source: Manager

The following chart shows realized losses, provisions and a few other key parameters of the portfolio.

	2013	2014	2015	2016	2017
Provision	$228,881	$80,000	$50,000	$132,000	$0
Provision % of Mortgage Receiv.	1.53%	0.47%	0.26%	0.60%	0.00%
Realized loss (FRC est.)	$6,215	$320,351	$107,695	-	-
Realized Loss % of Mortgage Rece	0.04%	2.01%	0.59%	0.00%	0.00%
Foreclosed + Delinquent					
Number	6	5	3	9	7
Value	$2,124,920	$2,122,671	$1,190,404	$1,453,804	$1,333,031
% of Mortgage Receiv.	14.5%	13.3%	6.6%	7.0%	5.6%

**We used the average of the opening balance, and year-end balance of the mortgages outstanding, to arrive at the realized loss as a percentage of receivables.*

Data Source: Manager / Prepared by FRC

There were no realized losses in 2016 and 2017. The MIC had not had a realized loss until 2010. We estimate total losses since 2010 were $0.59 million. **The average annual loss from 2010 to 2017, was 0.49% p.a. of the mortgage receivables (range: 0.0% to 2.01%).** We believe the low loan loss ratio reflects positively on the management team considering the significant number of foreclosed / delinquent properties at the end of every year (see table above).

At the end of 2017, the MIC had assigned a loan loss provision of nil versus $0.13 million, or 0.60% of the mortgage receivables outstanding at the end of 2016. We believe the loan loss provision is indicative of the portfolio's health. The industry standard, we estimate, is typically 0.5% to 1.25%.

The following table shows that at least 10% of the dividends received by investors have been reinvested in the past four years. Annual redemptions averaged 2.92% if invested capital in the past four years.

	2014	2015	2016	2017
Dividends paid in shares	86,735	146,343	123,532	399,986
Dividends declared	743,516	835,564	1,161,318	1,506,788
% reinvested	11.67%	17.51%	10.64%	26.55%
Redemption	518,555	565,930	409,127	458,388
Redemption % of Inv. Capital	3.48%	3.62%	2.32%	2.28%

Data Source: Manager / Prepared by FRC

The following table shows a summary of the fund's balance sheet. At the end of 2017, the MIC had $25.92 million (net of provisions) in mortgages.

Balance Sheet	2014	2015	2016	2017
Assets				
Cash	$1,950	$1,850	$1,825	
Funds held in trust	$143,900			
Accounts receivables		$20,000		$29,000
Accrued interest receivables	$93,035	$81,630	$107,548	$130,929
Mortgage receivables	$16,851,595	$19,436,078	$21,832,374	$25,923,233
Prepaid expenses	$9,410	$18,334	$30,464	$177,051
Total assets	**$17,099,890**	**$19,557,892**	**$21,972,211**	**$26,260,213**
Liabilities & Equity				
Bank indebtedness	$1,814,453	$3,025,517	$2,316,802	$4,147,245
Accounts payable	$40,989	$49,531	$81,404	$47,999
Dividends payable	$249,861	$179,592	$580,645	$874,289
Preferred shares	$14,994,489	$16,303,158	$18,993,267	$21,190,585
Total liabilities	**$17,099,792**	**$19,557,798**	**$21,972,118**	**$26,260,118**
Equity	$98	$94	$93	$95
Retained earnings				
Total liabilities & equity	**$17,099,890**	**$19,557,892**	**$21,972,211**	**$26,260,213**
Debt to Capital	11%	16%	11%	16%

Data Source: Manager / Prepared by FRC

Line of credit – The MIC has a line of credit with TD for $5 million. The interest rate is prime + 0.50% p.a. As of December 31, 2017, the MIC had used $4.15 million, reflecting a total debt to capital of 16%. Although it is common for smaller MICs (under $50 million) to use less leverage, larger MICs, we estimate, tend to use a higher debt to capital in the 20% to 40% range. **Management intends to maintain a debt to capital of approximately 15%.**

Risk

We believe the following are the key risks of this offering (most of the risks mentioned below are industry specific and impact comparable MICs as well):

- There is no guaranteed return on investment.
- Loans are short term and need to be sourced and replaced quickly.
- Concentration in BC. The operations in ON and AB are relatively new.
- Timely deployment of capital is crucial.
- A drop in housing prices will result in higher LTVs, and higher default risk as the value of collateral decreases.
- Volatility in real estate prices.
- The preferred shares do not have any voting rights.
- Shareholders' principal is not guaranteed, as the NAV per share could decrease from current levels (as a result of loan losses).
- The fund has the ability to use leverage, which would increase the exposure of the fund to

negative events. Note that the fund uses much lower leverage than its peers.

- Second mortgages carry higher risk than first mortgages.
- Redemptions are not guaranteed.

Rating

We are maintaining our overall rating at 3+, and risk rating of 3.

FRC Rating	
Est. Yield (2018)	7% - 8%
Rating	3+
Risk	3

Fundamental Research Corp. Rating Scale:

Rating – 1: Excellent Return to Risk Ratio
Rating – 2: Very Good Return to Risk Ratio
Rating – 3: Good Return to Risk Ratio
Rating – 4: Average Return to Risk Ratio
Rating – 5: Weak Return to Risk Ratio
Rating – 6: Very Weak Return to Risk Ratio
Rating – 7: Poor Return to Risk Ratio
A "+" indicates the rating is in the top third of the category, A "-" indicates the lower third and no "+" or "-" indicates the middle third of the category.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk)
2 (Below Average Risk)
3 (Average Risk)
4 (Speculative)
5 (Highly Speculative)

FRC Distribution of Ratings			
Rating - 1	0%	Risk - 1	0%
Rating - 2	29%	Risk - 2	6%
Rating - 3	46%	Risk - 3	40%
Rating - 4	9%	Risk - 4	34%
Rating - 5	4%	Risk - 5	9%
Rating - 6	1%	Suspended	11%
Rating - 7	0%		
Suspended	10%		

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