QUARTERLY UPDATE – Q2 2020

RESCO MORTGAGE INVESTMENT CORPORATION

Message from the Chief Operating Officer

I hope this message finds you and your loved ones well in these truly unprecedented and extraordinary times.

The last few months have presented new challenges to all of us on every level. I am most thankful and pleased to report that RESCO has been able to successfully navigate the challenges to date due to prudent, diligent, and proactive management.

Relying on the solid foundation that has been built over the years, we have been able to weather the COVID-19 storm thus far by implementing measures focused on ensuring the health of our staff members, keeping our investor's capital safe, and providing flexibility to affected borrowers.

In this update for Q2 of the 2019-2020 financial year, we will provide you with some useful insights and context in addition to the hard financial figures. The bottom line is this: whether you are an investor, advisor, or borrower, the RESCO Team is committed to making sure that you survive and thrive despite of COVID-19.

We believe that better times are just around the corner. In the meantime, please stay safe and take good care.

Chris Cheng
Chief Operating Officer

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RESCO's Proactive Response to COVID-19

Business Continuity Plan – RESCO implemented our Business Continuity Plan comprising of rotational and work from home arrangements weeks before the shutdown announced by the Ontario government. Despite RESCO being classified as an essential service, our staff has been working from home to "flatten the curve" by social distancing. Through the use of teleconferencing and other remote working software, we have been able to maintain our business continuity and work productivity.

More Conservative Risk Management – We increased the funding ratio of first mortgage versus second mortgages. Of all the mortgages funded in Q2, 51% were first mortgages. This is relatively high considering our past funding record of less than 30% in first mortgages.

More Stringent Underwriting – We lowered the average loan-to-value to 70.23%, compared to 72.03% at the end of April 2019.

More Selective Lending – Compared to Q1, we funded fewer mortgages in Q2 despite receiving more applications. The funding ratio decreased from 18.08% in Q1 to 15.94% in Q2.

Accommodating Affected Borrowers – RESCO was one of the first MICs to formulate an accommodation program for borrowers affected by COVID-19. This program included a dedicated phone line for borrower inquires, full and partial deferral of payments, simplified renewals and relief mortgages.

Reducing our Expenses – We secured a reduction and deferral in Management Fees from our management company in order to give RESCO maximum financial flexibility in response to COVID-19.

New Office Policies – When the timing is right, our staff will return to the office under new policies and procedures designed to minimize potential health risks. In anticipation of reopening, our office is well stocked with face masks and hand sanitizers for the protection of our staff and any visitors.

Financial Highlights

The financial and operating results for 2019-2020 Q2 (February 1st, 2020 to April 30, 2020) were solid despite the impact of COVID-19 on the economy and the housing market.

Our Q2 net income was $68,454 after the payment of all expenses and dividends. Here is how this quarter stacks up against previous quarters:

- Compared with the same period last year (2018-2019 Q2), total revenue was up 10.4%, with an increase in expenses by 4%. As a result, our Q2 bottom-line was higher than the same quarter last year by more than $64,000.

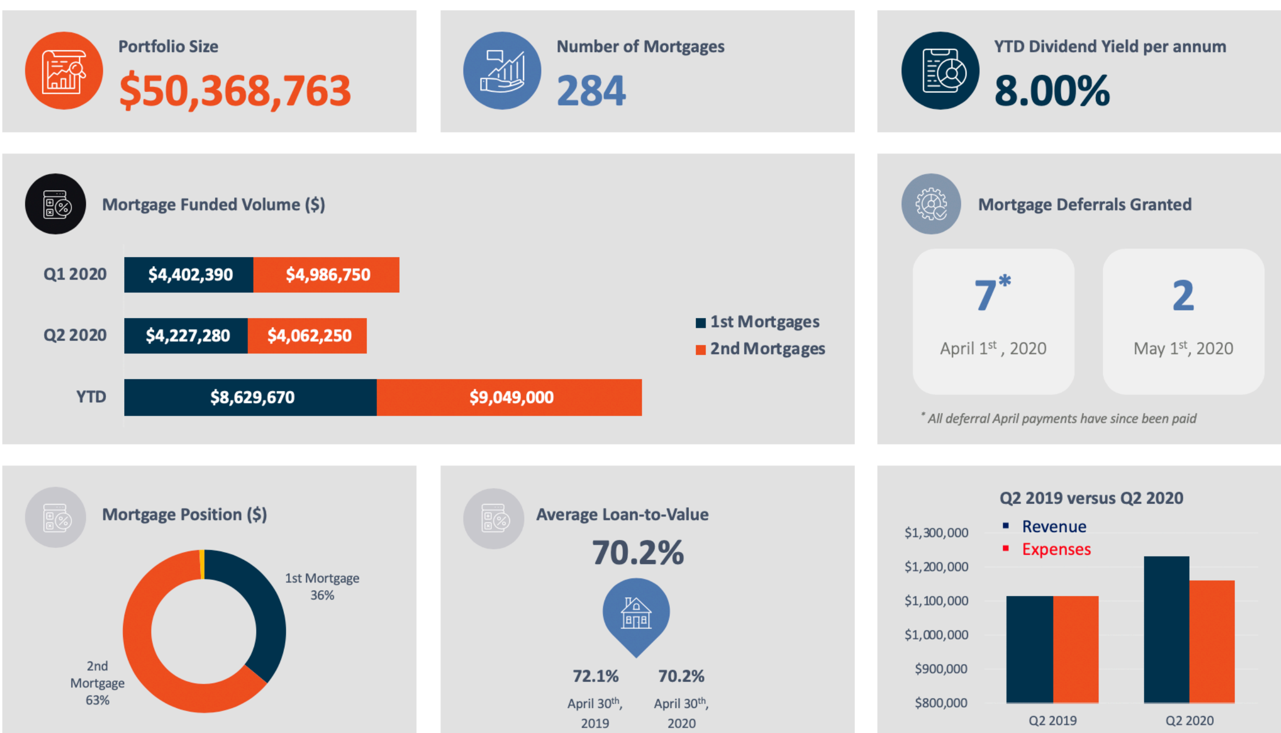
- Compared with the last quarter (2019-2020 Q1), total revenue was almost identical, but expenses were down by 6%.

The reduction in expenses can be partially attributed to a temporary reduction and deferral in Management Fees. We secured this concession from our management company in order to give RESCO maximum financial flexibility in response to COVID-19.

It is also important to note that most borrowers have maintained their mortgage payments and delinquency rates have not spiked due to COVID-19. With the availability of government benefits and the implementation of our Borrower Accommodation Program, we expect delinquency rates to remain low in the near term.

Based on the foregoing, RESCO has been able to maintain the dividend payment of 8% *per annum* to our investors during Q2. In fact, we have never missed or reduced any dividend payments since inception in March 2014. For over 72 consecutive months, we have delivered strong, consistent and positive returns for our investors.

Looking ahead, we feel that RESCO is relatively well-positioned to endure any COVID-19 economic downturn. Because we invest 100% in residential mortgages, our mortgage portfolio has no exposure to some of the hardest hit real estate sectors such as commercial, construction, and retail.



Real Estate Market Trends and Outlook

Since our inception in 2014, RESCO has invested 100% in residential mortgages. Housing is a necessity and ultimately, having a roof over our heads is and always will be a priority regardless of the state of the economy.

Because RESCO's mortgage investments are inherently tied to the residential real estate market – in the Greater Toronto Area (GTA) in particular where we do most of our lending – let's take a look at the recent trends and try to forecast where the market will go.

Social distancing has rewritten the logistics of buying and selling real estate. As a result, the number of transactions plunged in April. However, the decrease in real estate prices was not as dramatic. Early April saw average home prices in the GTA decrease by at a relatively modest 1.5% according to the Toronto Regional Real Estate Board.

The market should gradually recover in the months to come as social distancing measures ease and workers return to their jobs. The pause in activity will lead to more demand once measures loosen. However, the volume of home sales in Canada will likely remain below their pre-COVID-19 levels for the rest of 2020.

Once the threat of the virus passes, buyers entering the market are likely to find a shortage of listings and inventory in metropolitan centres. Combined with low interest rates, any inventory should be quickly snapped up and boost the number of transactions. In turn, real estate prices are also expected to recover to pre-COVID-19 levels and continue to rise.

In the GTA in particular, systemic factors such as land shortage and population growth will sustain long-term demand for housing. According to a recent report by the Ontario Ministry of Finance, the province's population is expected to increase from an estimated 14.3 million in 2018 to almost 19.8 million by 2046. This represents an increase of approximately 38%, with a substantial portion of such increase expected to settle within the GTA. This will continue to fuel the demand for housing and buoy property values in the GTA in the long-term.

With the Ontario economy gradually reopening, we are already seeing a slight pickup on real estate and lending activities in May. So, while we are cautious on real estate prices over the short term, we expect the housing market to be strong and resilient, with residential real estate unquestionably remaining a solid long-term investment. Combined with our conservative risk management approach, we remain confident in our ability to generate a robust ROI.

I’ve Got Good News and Bad News…

These are challenging times for many Canadian households and businesses, and so much of what we hear on the news nowadays is negative. Unfortunately, as long as bad things happen, negative news will appear on your medium or device of choice. Even when things are getting better, we often don’t hear about them. I don’t need to be a psychiatrist to tell you that this creates an all-too-negative impression of the world around us, which can be very stressful and depressing.

This is exacerbated in our hyper-information world where billions of smartphones around the globe makes it so easy to spread bad news – even when they are not true.

You will remember that a few months ago, there were shortages of toilet paper all around the world. Unlike hand sanitizer, N95 masks, or ventilators, toilet paper serves no special function or purpose in a pandemic. The irrational buying behaviour was driven by panic and fear created by social media, and passed from one smartphone to another.

It started with a viral tweet, apparently originating in Japan, that claimed the country would soon run out of toilet paper because of the disruptions to the supply chain in China where the toilet paper is made. While it was true that China is the largest exporter of toilet paper in the world, and that government measures to suppress the disease did delay shipments, the delays were brief and the existing supplies in Japan were ample.

Inspired by the tweets, however, people in Japan flocked to stores and hoarded toilet paper. Pictures of those empty shelves then went viral, causing the same panic buying to be replicated all over the world. Alarm created more alarm; fear of scarcity created scarcity. In hindsight, the situation had no factual basis and demonstrated our susceptibility to herd mentality, especially when generated by social media.

Since most of us have been bombarded by bad news from the media on a constant basis, let’s take a break and focus on the positive for the sake of our mental well-being. While we are at it, let’s all try to find our own silver lining in the current situation.