RESCO
GROUP OF FUNDS

Q3 2019 - 2020

QUARTERLY REPORT

RESCO MORTGAGE INVESTMENT CORPORATION

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"**R**ESPONSIBLE STEWARDSHIP
of our investors' hard-earned money

EXCELLENCE AND ACCOUNTABILITY
in everything we do

SOCIALLY RESPONSIBLE
to our community and stakeholders

CONSERVATIVE AND PRUDENT
in our approach

OPEN AND TRANSPARENT
in our dealings

TABLE OF CONTENTS

RESCO GROUP OF FUNDS

MESSAGE FROM THE COO

Chris Cheng

- We remained profitable in Q3 without any pay reduction or layoffs.
- We continued our unbroken record of paying monthly dividends over the last six-plus years.
- Our mortgage portfolio is performing at or above pre-pandemic levels and all major metrics remain strong.
- We have built a healthy mortgage portfolio over the years through a sound business model and prudent risk management strategies.
- We continue to dampen market volatility and delivering solid and consistent returns to our investors.

I hope this message finds you and your loved ones well.

As the economy reopens throughout the country and some semblance of normalcy takes hold, we appear to be seeing some proverbial light at the end of the tunnel. But just as you remain vigilant and alert against the possible health risks that are still looming, we here at RESCO also remain vigilant and alert to safeguard your investment and deliver the consistent results you have experienced throughout the years.

The economic impact of COVID-19 has been significant, affecting familiar brands across various sectors such as Starbucks which announced the permanent closure of 400 stores; oil giant Shell which cut its dividend for the first time since World War II; luxury brands Chanel, Hermes and Rolex which stopped production; and Nike which has laid off thousands of workers and is about to lay off more. As a result, we understand that many of our investors are concerned about the economy, the real estate market as well as their investment with RESCO during these uncertain times.

I am pleased and most thankful to report that our business at RESCO MIC is still going strong. We remained profitable during Q3 without any pay reduction or layoffs, and most importantly, our investors continue to receive dividends at the rate of 8% per annum – a streak of over 72 consecutive monthly distributions since inception (March 2014).

In fact, the portfolio is performing at or above pre-pandemic levels, and all major metrics such as loan-to-value, first to second mortgage ratio, funds deployment rate and delinquency rate remain strong. These metrics are reflective of the disciplined and conservative underwriting approach we have taken over the years. This allows us to continue to deliver consistent and solid results for our investors while providing sensible mortgage solutions for borrowers.

Looking ahead, the lifting of pandemic restrictions is driving the economy and allowing laid off workers to regain employment. We already see an increase in demand for mortgages as the real estate market stabilizes and low interest rates further stimulate housing sales. As such, we are optimistic on the real estate market – a sentiment which is shared by various new reports such as one recently released by Mortgage Professionals Canada (MPC) which found an increasing confidence among perspective homebuyers and most Canadians continue to see home ownership as a good long-term investment.

Whether you are an investor, advisor, or borrower, we thank you for your continued trust in us and we appreciate your business. The RESCO Team remains committed to excellence for the benefit of all our stakeholders.

Please stay safe and healthy.

CHRIS CHENG
Chief Operating Officer

DONATIONS TO COVID-19 PANDEMIC RESPONSE

At RESCO Group, we want to express our gratitude to all the health care professionals and frontline workers for their dedication in taking care of us all during these extraordinary times.

As a socially responsible and caring organization, we want to "Pay it Forward" by donating the sum of $1,000 to each of the following charities which provides support for hospitals and healthcare infrastructure, frontline healthcare workers and our local communities:

- BC Women's Health Foundation, Vancouver, BC in support of the needs of hospitals and staff, including equipment as well as wellness items and activities for staff.

- Feed Ontario Emergency Response Fund in support of local food banks which provide food and supplies to the people they serve

DID YOU KNOW...?

We have found that many investors hold a mistaken belief that their RESCO investments must be redeemed when they mature.

The confusion may have arisen from the hold period (four years for RESCO MIC Preferred Shares and one year for RESCO LP Units), whereby penalties would be levied if the investment were redeemed prior to the expiry of the hold period.

In fact, RESCO MIC Preferred Shares and RESCO LP Units have no maturity date. Beyond the hold period, an investor can request a redemption at any time and without penalty, but there is certainly no requirement to do so. For as long as you remain a RESCO investor, your investment will continue to receive dividends as and when declared.

RESCO MIC Q3 FINANCIAL HIGHLIGHTS

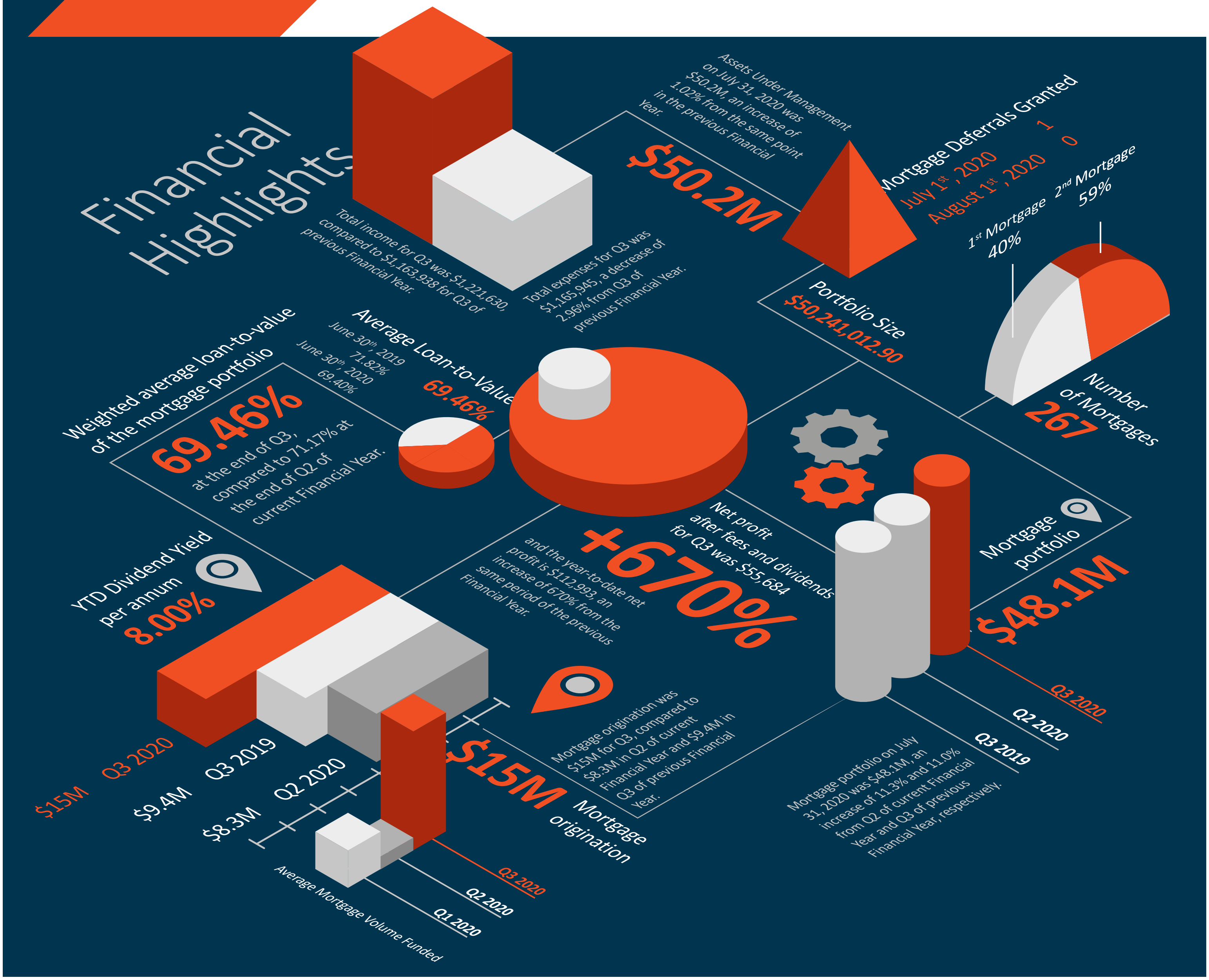
The financial and operating results for Q3 (May 1, 2020 to July 31, 2020) of the 2019-2020 Financial Year were solid despite the impact of COVID-19 to the overall economy.

The year of 2020 has no doubt been a challenging year for a lot of businesses so far. However, RESCO MIC has been able to overcome these challenging times and continues to deliver solid results for our investors and shareholders. Although uncertainty persists in the market and the economy, we saw a better than expected recovery in Q3. The pandemic response and policies by the Canadian government has improved the economic outlook and investor mindsets.

These favourable results reflect the dedication of the team at RESCO Group which has built and maintained a high-quality mortgage portfolio over the years. We continue to be selective and prudent in lending only on those residential mortgages which meet our conservative underwriting criteria. Since the pandemic, we have lent significantly more on first mortgages to reduce the overall risk of the portfolio as shown on the table. Of the total mortgages funded in Q3, 87% were in first mortgages – a significantly higher proportion than Q2 of the current Financial Year and the same period in the previous Financial Year.

Term	Q1 2020	Q2 2020	Q3 2020	Q3 2019
Funded volume	*$9,389,140*	*$8,289,530*	*$15,035,015*	*$9,389,140*
# of deals funded	*51*	*44*	*38*	*45*
% of first mortgage	*56%*	*51%*	*87%*	*35%*
% of second mortgage	*44%*	*49%*	*13%*	*65%*

We also closely monitor the weighted average loan-to-value ratio (LTV) of the mortgage portfolio which was below 70% by the end of Q3. The high proportion of first mortgages and the low LTV are two very crucial metrics that indicate our mortgage portfolio is extremely healthy and well-insulated from the risk of loss in the event of default. To further protect our mortgage portfolio, we have set aside a sufficient reserve fund to offset possible bad debts.



At the same time, we managed to generate more interest income than the same period in the previous Financial Year. This created a win-win situation for our investors since we were able to lower the overall risk of the investment while generating more interest income in order to keep the annualized investment return at 8%.

On the deposit side of the business, our confidence-inspiring financial performance has led to a low number of redemption requests. On the contrary, our portfolio grew to $50.2M, an increase of 1.02% from the same period in the previous Financial Year. In addition, many of our investors understand the importance of diversifying their investment portfolio. While interest rates from fixed-income products such as Term Deposits and GICs are at historical low and the stock markets remain volatile, RESCO represents an alternative investment with a steady unit price and consistent rate of return.

As you can see, we are working hard to minimize risks while ensuring your investment with us is safe. As the economy gradually reopens, we will continue to act in accordance with our well-established conservative business model and risk management strategies. We trust this will continue to achieve exceptional financial results and be in the best interest of all our stakeholders.

RESCO MIC MORTGAGE **DELINQUENCIES**

Jeffrey Shek, Barrister and Solicitor, Chief Legal Officer
Clement Vaccaro, Client Relationship Officer

In other parts of this report, we have seen examples of how RESCO has managed to survive and thrive despite the COVID-19 pandemic. This recurring theme also applies to the area of delinquencies.

While one might expect that widespread layoffs and unemployment caused by the lockdown would lead to substantial mortgage default, RESCO has not seen any spikes in delinquencies. Of the months spanning March to August 2020, the instances of payment default have been minimal and virtually identical to pre-pandemic levels. Of the handful of payment defaults per month, most are brought into good standing by the borrower before the next payment was due.

At this point, there is only ONE active power of sale action in our mortgage portfolio of over 260 mortgages. In the said action, the prospects for full recovery are high due to the low LTV of the mortgage.

We believe that RESCO has been able to avoid widespread default across our mortgage portfolio due to: (1) the quality of the mortgages in our portfolio; and (2) the active management of delinquencies as and when they occur.

On the first point, this report has already noted how the portfolio presents a very favorable overall loan-to-value ratio and proportion of first mortgages – two critical metrics in risk mitigation – as a result of conservative and prudent underwriting practices over the years. Historically, RESCO has rarely incurred losses on our mortgages and our bad debt ratio is less than 0.15%.

On the latter point, we are especially proud of the fact that RESCO was one of the first private lenders to introduce an accommodation program to assist borrowers who were facing financial hardship due to COVID-19. The plan offered creative options based on the borrower's circumstances, including payment deferral, extending the mortgage term, increasing the mortgage principal and prepayment of monthly payments. The program has proved to be extremely successful since its rollout in March, and all deferred payments have since been repaid.

In addition, we have recently enhanced our procedures to deal with delinquencies when they do arise. By increasing and improving our communication with delinquent borrowers, we have been more effective in obtaining repayment and shortening the length of delinquencies. Particularly in recent months, we have frequently waived NSF fees and penalties in recognition of difficult circumstances faced by borrowers. As a socially responsible organization, RESCO's revenue model has never been premised on imposing predatory fees on borrowers who default – a practice which is unfortunately common in the private lending industry.

Looking ahead, we will continue to take all necessary actions to minimize and manage delinquencies with a view to continuing our track record of producing consistent income with zero loss of capital.

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- Instances of payment default have been minimal and virtually identical to pre-pandemic levels.
- The quality of mortgages in our portfolio leads to low delinquency rates and negligible bad debts.
- Borrower accommodation program was extremely successful, and all deferred payments have since been repaid.
- Increased effectiveness in obtaining repayment and shortening the length of delinquencies.

REAL ESTATE MARKET TRENDS **AND ECONOMIC OUTLOOK**

Phoebe Lam, Director of Risk Management

- Real estate recovery well under way, especially in the Greater Toronto Area.
- Interest rates will stay low for years: Bank of Canada.
- Employment in Canada improves for third consecutive month.

REAL ESTATE MARKET RECOVERY

Canada's real estate market has shown resilience during the pandemic. Record low mortgage rates and the lifting of shelter-in-place orders resulted in more Canadians getting back into the real estate market. As the economy reopens, we see that the real estate market is already rebounding.

INTEREST RATE TRENDS

Monetary policy took an unconventional turn earlier this year as the Bank of Canada (BOC) responded quickly and decisively to the COVID-19 crisis. The central bank now says interest rates will remain anchored near zero until year 2023. Mortgage rates, which are indirectly impacted by the BOC's benchmark rate, could remain on a downward trend for the foreseeable future.

Although lower immigration could restrain market conditions in the short term, record low mortgage rates are motivating domestic home buyers to enter the market and contributing to the market recovery mentioned above. Furthermore, this demand for real estate buoys overall home prices, which helps to protect RESCO's existing mortgage portfolio against any substantial market adjustment. Since the interest rates charged by RESCO is not directly tied to rates offered by the bank, we have been able to maintain our interest income.

EMPLOYMENT RECOVERY

July marked the third straight month of employment recovery in Canada, the unemployment rate declined significantly from 12.3% to 10.9%, placing labour market recovery at around 55% of the roughly 3 million jobs lost from February to April. Specifically, in the goods and services sector, employment is now at approximately 93% of pre-pandemic levels.

OUTLOOK

RESCO Group believes that the economic impact of COVID-19 will depend on the duration of pandemic restrictions on economic activity, along with the continuity and effectiveness of the government relief programs to mitigate the economic impact on Canadians. In a recently published report, S&P expects the Canadian economy to recover next year after a flurry of fiscal and monetary measures were utilized to help absorb the shock from COVID-19.

Insofar as RESCO's business is inextricably tied to the overall economy and the real estate market, we remain cautiously optimistic in the short-term and medium-term prospects based on the recovery process to date and data discussed above.

ABOUT
RESCO GROUP OF FUNDS

At RESCO, our investment objective is to generate sustainable and stable income for our investors while preserving investment capital through making prudent investments in mortgages secured against Canadian real estate.

RESCO is led by a group of experienced professionals with expertise in banking, mortgage lending, real estate, law, land development, mutual funds, financial planning and risk management.

It's Time to Consider the Alternatives.

Stock market performance is likely to remain volatile due to a possible COVID-19 "second wave" and the upcoming US presidential election. At the same time, deposit and GIC rates are at historical lows.

Instead of letting your investable funds sit on the sidelines, **It's Time to Consider the Alternatives** offered by the RESCO Group of Funds:

RESCO MORTGAGE INVESTMENT CORPORATION (RESCO MIC)

- Invest in a diversified pool of residential first and second mortgages secured by marketable real estate properties in major urban areas across Ontario, Manitoba and Alberta
- Invest with cash or registered funds such as RRSP and TFSA
- Minimum investment as low as $10,000
- A solid track record of generating 8% annual rate of returns since inception (March 2014) with monthly distributions

RESCO FIRST MORTGAGE FUND LP (RESCO LP)

- A short-term investment (one-year hold period)
- Invest in a diversified pool of residential first mortgages with a maximum loan-to-value ratio of 75%
- Targeted annual returns of 5.25% to 6.00%
- Minimum investment as low as $50,000
- Quarterly distributions

If you haven't already, now is a good time to meet with your financial advisor and review how your investments align with your long-term objectives.

Please feel free to contact our offices in Ontario or B.C. and one of our associates will be glad to assist you.

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