



QUARTERLY REPORT

2020 - 2021
Q3



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RESCO MORTGAGE
INVESTMENT CORPORATION



QUARTERLY REPORT

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ABOUT RESCO
GROUP OF FUNDS



RESPONSIBLE 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



MESSAGE FROM THE COO

IS YOUR INVESTMENT PORTFOLIO “BORING”?

Prior to being the COO of RESCO back in 2013, I spent almost two decades working at one of the major banks in various roles. A good number of those years were on the investment side of the industry.

During that time, I have encountered investors of all degrees of experience and sophistication – from day traders to managers of large funds such as mutual funds and pension funds.

My main advice to everyday folks after being immersed in the investment industry for so long is this: To accumulate wealth in the long term, it doesn't have to be complicated. In fact, “boring” may be best when it comes to investing.

AVOID EXCITING AND GLAMOUROUS MIRAGES

Day trading has surged in popularity amid the pandemic. While “pulling the trigger” on trade after trade and watching stock market data scroll across multiple monitors seem exciting, this type of investing usually does not payoff.

Numerous studies have shown that the quantity of trades of an investor is inversely proportionate to their investment yield. In other words, the more someone traded their stocks, the lower their returns tend to be. This is consistent with other studies which show that fewer than 1% of day traders were able to beat the returns of a low-cost Exchange Traded Fund (ETF).

Perhaps the dismal success rate can be attributed to the poor research – or the lack thereof – that many day trade decisions are based on. A recent poll indicates that 41% of Generation “Z” investors rely on social media platforms such as Tik Tok and YouTube for investment recommendations.

More shockingly, the success rate is not significantly higher when it comes to investment funds backed by teams of sophisticated analysts and millions in resources. Despite their fancy Wall Street or Bay Street offices and the apparent glamour of their profession in popular culture, only approximately 3% of mutual fund managers were able to outperform the S&P500, according to a 2018 study.

SIMPLIFY YOUR INVESTMENTS WITH RESCO

Adding to the lack of success of day traders and fund managers alike, we have witnessed unprecedented volatility in the stock market over the last eighteen months. This is precisely why you need to increase the proportion of investments in your portfolio that are not directly tied to the stock market – such as investments in RESCO – if you do not want your hard-earned wealth to evaporate.



At RESCO, we pride ourselves on sticking with our conservative and disciplined investment approach. While this is not flashy, we have consistently paid annual returns of 8% to our investors since our founding in 2013. You can rest easy knowing your investment is secured by Canadian real estate and managed by a proven executive team.

“Boring” can be a great way to generate solid returns without taking up a lot of your time. While it might seem counter-intuitive, a passive investment strategy that maximizes returns by minimizing buying and selling is how to be a successful investor over the long term.

Please stay safe and healthy as we all continue to return to normalcy.

CHRIS CHENG
CHIEF OPERATING OFFICER





RESCO MIC Q3 FINANCIAL HIGHLIGHTS

Mia Wu, Senior Accountant

- Gross profit increased by 5.6% compared to Q2 2021
- Investment portfolio grew by 24.7% year-over-year
- Mortgage portfolio at \$63.29M, up by 31.6% year-over-year
- Dividends to Preferred Shareholders maintained at 8% per annum

RESCO Mortgage Investment Corporation is proud to announce yet another quarter of strong financial results for Q3 (May 1 to July 31, 2021, inclusive) of the 2020-2021 Financial Year. We continue to be a steadfast financial institution that produces win-win results for both investors and borrowers.

Here is an overview of our Q3 financial metrics:

Term	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
Funded volume	\$15,035,015	\$13,028,743	\$19,825,225	\$25,204,817	\$24,388,144
# of deals funded	38	41	71	63	45
% of first mortgage	87%	73%	43%	76%	90%
% of second mortgage	13%	27%	57%	24%	10%

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, 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.



+5.6%

+31.6%

GROSS REVENUE

Gross profit increased by 5.6% compared to Q2 2021



MORTGAGE PORTFOLIO

Mortgage portfolio at \$63.29M, up by 31.6% year-over-year



FINANCIAL HIGHLIGHTS

RESCO MIC 2021 Q3



INVESTMENT PORTFOLIO

Investment portfolio grew by 24.7% year-over-year



DIVIDENDS

Dividends to Preferred Shareholders maintained at 8% per annum

+24.7%

8%



PORTFOLIO SIZE
\$62,646,457.49



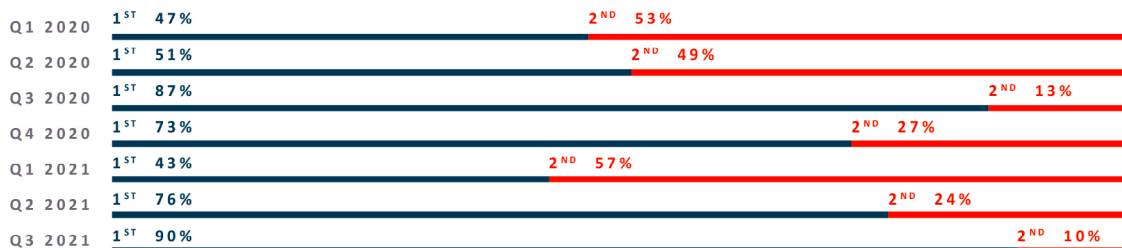
NUMBER OF MORTGAGES
248



YTD DIVIDEND YIELD PER ANNUM
8.00%



% OF MORTGAGE FUNDED VOLUME BY MORTGAGE POSITION



MORTGAGE POSITION \$

1 ST MORTGAGE	58%
2 ND MORTGAGE	41%



AVERAGE LOAN-TO-VALUE
70.07%

JUL 31, 2020	69.46%
JUN 30, 2021	70.55%



REVENUE

Despite a competitive marketplace with other MICs and other private lenders, gross revenue increased by 5.6% quarter-over-quarter. The increased revenue can be attributed primarily to creative lending strategies and more favourable fee structures.

NET INCOME

Revenue growth of 5.6% together with a slight increase in total operating expenses has resulted in net income being maintained at similar levels to past quarters. This allows the corporation to further accumulate retained earnings to protect against possible delinquencies and bad debt for the protection of our investors.

PURCHASES AND REDEMPTIONS

New capital raised continued to exceed redemption requests in Q3, reflecting the consistent confidence investors have in the Management Team's ability to grow their investment. Redemption requests during Q3 averaged \$250,398 per month, a significant decrease from Q2, while new shares issued averaged \$961,903 per month.

LINE OF CREDIT

The line of credit limit was raised to 6.5M due to our exceptional compliance and performance record. The line was well-utilized in Q3 due to strong mortgage demand. By quarter-end, we have drawn approximately \$4.1M of it.

MORTGAGE PORTFOLIO

Due to our underwriting team's innovative fee structures and funding strategies, our mortgage portfolio grew by 31.6% year-over-year and 9.2% quarter-over-quarter.

We were able to attain this growth while also reducing portfolio risk and maintaining our 8% annual dividend to investors. This reduced risk is demonstrated by 90% of mortgages funded this quarter being first mortgages. Our mortgage portfolio is now 58% first mortgages, up from 40% last year. Further, our loan-to-value ratio is currently 70.07%, down 2.56% from last quarter.





RESCO MIC

MORTGAGE DELINQUENCIES

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

- Delinquency rate remains negligible and virtually identical to pre-pandemic levels
- There are no mortgages in legal enforcement

We are pleased to report that as with previous quarters, we have not experienced any significant increases in mortgage default during the third quarter of the 2020-2021 Financial Year (May 1 to July 31, inclusive). The delinquency rate remains negligible and virtually identical to pre-pandemic levels.

During this quarter, Ontario was able to proceed on its reopening plan and the economy showed immediately signs of rebound. While recent news shows a worrisome rise in COVID-19 Delta variant cases and the potential of another lockdown, we are hopeful that the ongoing vaccination throughout Canada will allow the economy to remain open and recover, which will in turn make the

possibility of widespread mortgage defaults even more remote.

RESCO remains bullish on secured mortgage lending and confident in our procedures to navigate any situation which may arise. As previously reported, we have been more effective in pursuing repayment and shortening the length of delinquencies. Within the handful of instances of payment default per month, we have been able to obtain replacement payments in most cases before the next payment was due.

In our mortgage portfolio of 248 mortgages as of the end of this quarter, we have only one outstanding deferred payment and none in power of sale. This shows that our borrowers continue to prioritize their monthly payments and are adapting to the changing environment.

We will continue to monitor our mortgage portfolio closely and diligently deal with any situations of default, as and when they arise.



FROM THE UNDERWRITING DESK

Phoebe Lam, Chief Risk Officer



- A new stress test was introduced on June 1, 2021 on OSFI-regulated banks.
- Homebuyers are having greater difficulties qualifying for mortgages from traditional lenders.
- Demand for private mortgages continued to be high through Q3, particularly in Ontario.
- RESCO funded over \$24M in Q3, of which almost 90% were in first position.
- Overall loan-to-value ratio of the mortgage portfolio decreased to 70.7%.
- Canadian housing market remains historically active and expected to remain robust.

Adding to the ever-tightening lending regulations on OSFI-regulated banks throughout the years, a new stress test was introduced on June 1, 2021. This new stress test, which is in addition to previous regulations that increased the minimum down payment for uninsured mortgages and shortened maximum amortization periods, has made it more difficult for homebuyers to qualify for mortgages from traditional lenders.

As such, the demand for private mortgages continued to be high through Q3 of the 2020-2021 Financial Year (May 1 to July 31, 2021, inclusive), during which RESCO funded over \$24M in mortgages.

Of the amount funded in Q3, almost 90% were in first position. Compared to last quarter-end, the overall loan-to-value ratio of the mortgage portfolio has decreased to 70.7%. The high proportion of mortgages in first position and the low overall loan-to-value of the portfolio are significant metrics in mitigating our risk.



Keeping the length of our mortgages short is another key risk mitigation strategy. Of the total mortgages funded in Q3, 10% had a term length of one year, 36% had a term length of six months and over 50% with term length of three months or less.

The metrics reported above present a healthy and risk-insulated mortgage portfolio. This is a reflection of the selectiveness of our astute underwriting team which carefully reviews and evaluates each mortgage application. Of the 186 applications received during Q3, only 45 were approved and funded (24.19% funding ratio).

The company's portfolio at the end of Q3 consisted of 248 mortgages, all of which are over residential properties. The portfolio is also healthy in terms of borrower demographics and property asset types: 93.75% of the mortgages funded are over detached homes, semi-detached homes and townhomes, with 6.25% over units in condo buildings.

Looking ahead, we are continuing to see strong activities on the real estate and lending market alongside the gradual reopening of the Ontario economy. Despite national home sales declining on a month-over-month basis in July due to record-low inventories, July 2021 sales still marked the second-best July ever. In any event, the Canadian housing market remains historically active and we do not expect this trend to change significantly. We expect the housing market to remain robust, with residential real estate unquestionably remaining a solid long-term investment.

In the medium term, we expect interest rates to remain low, and housing demand is expected to persist, soon to be buoyed by renewed immigration as COVID restrictions ease. The new stress test mentioned above will continue to increase demand for loans from private lenders such as RESCO MIC. Combined with our conservative underwriting approach, we remain confident in our ability to generate a consistent ROI.

EDUCATING OUR STAKEHOLDERS

MORTGAGE AGENTS AND BROKERS

We rely on licensed mortgage professionals to submit mortgage applications to us. That's why we made educating them our key focus in 2021.

Borrowers need advice and assistance when seeking mortgages. As everyone's situation is unique, the mortgage professional needs to understand their clients' situation and seek the best fit solution based on their needs.

When a mortgage application is submitted to RESCO, our underwriters always discuss the purpose of funds and exit strategy with the mortgage professional. Instead of simply obtaining and reviewing the application, appraisal and credit reports, we make sure we have a comprehensive understanding of the file before providing an approval. We also help mortgage professionals create customized and flexible solutions based on the borrower's special needs.

The non-traditional mortgage lending industry is getting very crowded with a glut of private lenders and mortgage investment entities of various scale. We believe quality of service and trust are the key factors to stay competitive in this industry.



ABOUT

RESCO GROUP OF FUNDS



It's Time to Consider the Alternatives.

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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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.

Stock market performance is likely to remain volatile due to lingering concerns with COVID-19 variants and excessively speculative behaviour. 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 First Mortgage Fund LP Class A	RESCO First Mortgage Fund LP Class B	RESCO Mortgage Investment Corporation
Security Offered	Class "A" Partnership Units	Class "B" Partnership Units	Class "B" Preferred Shares
Hold Period	1 year (12 months)	3 years (36 months)	4 years (48 months)
Investment Timeline	Short Term	Medium Term	Medium to Long Term
Minimum Investment	\$50,000	\$150,000	\$10,000
Target Return	5.25% per annum	6.00% per annum	8.00% per annum
Historical Return	5.25% per annum	Not Applicable	8.00% per annum
Registered Funds Eligible	No	No	Yes (RRSP, TFSA, RRIF, etc.)
Distribution Frequency	Quarterly	Quarterly	Monthly
Distribution Reinvestment	Not Available	Not Available	Available
Lending Base	Residential First Mortgages Only	Residential First Mortgages Only	Residential First and Second Mortgages
Loan-To-Value Ceiling	75%	75%	85%

Disclaimers: 1. Past performance not indicative of future performance 2. Frequency and amount of distribution is not guaranteed 3. Exceptions to lending criteria and loan to value ceiling may apply



DISCLAIMERS

This publication is for information purposes only and is not, and under no circumstances is to be construed as, an invitation to make an investment in RESCO Mortgage Investment Corporation or RESCO First Mortgage Fund LP. The rate of returns and other information disclosed herein have been prepared by Management and have not been independently verified or audited. Financial information and figures reported herein are as of the last day of the reporting period unless stated otherwise. This publication contains forward-looking statements. Although RESCO Group of Funds believes the expectations expressed in such forward-looking statements are based upon reasonable assumptions, such statements are not guarantees of future performance. Actual results may differ materially from those in forward-looking statements due to various factors, including adverse results from mortgage investments, general economic, market or business conditions, and failure to successfully negotiate or subsequently close transactions. Forward-looking statements are based on the beliefs, estimates and opinions of RESCO Group of Funds' management on the date that statements are made. RESCO Group of Funds undertakes no obligation to update these forward-looking statements in the event that management's beliefs, estimates or opinions, or other factors, change. Investing in RESCO Mortgage Investment Corporation involves significant risks. There is currently no secondary market through which RESCO Mortgage Investment Corporation preferred shares can be sold and there can be no assurance that any such market will develop. A return on an investment in RESCO Mortgage Investment Corporation preferred shares is not comparable to the return on an investment in a fixed-income security. The recovery of an initial investment is at risk, and the anticipated return on such an investment is based on many performance assumptions. Investing in RESCO First Mortgage Fund LP involves significant risks. There is currently no secondary market through which RESCO First Mortgage Fund LP Units can be sold and there can be no assurance that any such market will develop. A return on an investment in RESCO First Mortgage Fund LP Units is not comparable to the return on an investment in a fixed-income security. The recovery of an initial investment is at risk, and the anticipated return on such an investment is based on many performance assumptions. The price of the security mentioned here and the income it produces may fluctuate and/or be adversely affected by market factors, and investors may realize losses on investments in such security, including the loss of investment principal. Investments in RESCO Group of Funds are not CDIC insured. Prospective investors should thoroughly review the offering memorandum and are advised to consult with their own legal and tax advisors before investing. The information contained herein: (1) may not be copied or distributed, and (2) is not warranted to be accurate, complete or timely. Neither RESCO Group of Funds nor its content providers are responsible for any damage or losses arising from any use of this information.

