

June 24, 2016

Mortgage Company of Canada - First and second mortgages in the GTA with a 9.32% yield in 2015

Sector/Industry: Real Estate Mortgages

www.mcoci.com

Offering Summary	
Issuer	Mortgage Company of Canada Inc.
Date of OM	01-Sep-15
Securities Offered	Common Shares
Unit Price	\$10
Minimum Subscription	\$25,000
Management Fee	0.5% p.a. of the gross assets + 75% of the lender fees + 25% of the excess yield above 9.5% p.a.
Distribution to Investors	100% annual net income before taxes (paid monthly)
Auditor	Grant Thornton

Investment Highlights

- Mortgage Company of Canada (“MCC”, “company”) is a Mortgage Investment Corporation (“MIC”) focused on investing primarily in first and second mortgages secured by single family residential properties in the Greater Toronto Area (“GTA”).
- MCC’s focus is on single family detached, semi-detached, townhouses, etc. excluding high rise condominiums.
- Management has been active as a mortgage broker since 1997, and have been originating and administering mortgages since 2009.
- Since inception, the Manager has originated approximately \$183 million in mortgages as of December 31, 2015.
- MCC has a strong independent board, while most MICs of similar size do not have independent board members.
- Management and board have invested approximately \$6 million in MCC (17% of the total share capital as of December 31, 2015) on the same terms as investors, which strongly aligns management and investors’ interests.
- As of December 31, 2015, MCC had \$46 million in mortgage receivables secured by 349 properties (average - \$132k). The weighted average term to maturity was just 6.1 months. The Loan to Value (“LTV”) was 69.8%, and first mortgages accounted for 46%.
- Investors have received 9%+ p.a. returns since 2009. We estimate that MCC’s historical returns have been slightly higher than the average of comparable MICs.
- We assign an overall rating of 2-, and a risk rating of 3 on the common shares.

Risks

- Loans are short term and need to be sourced and replaced quickly.
- Timely deployment of capital is crucial.
- A drop in GTA housing prices will result in higher LTVs, and higher default risk as the value of collateral decreases.
- Volatility in real estate prices.
- Redemptions are not guaranteed.
- The MIC will have less geographical diversification than peers as management intends to continue to focus on the GTA.

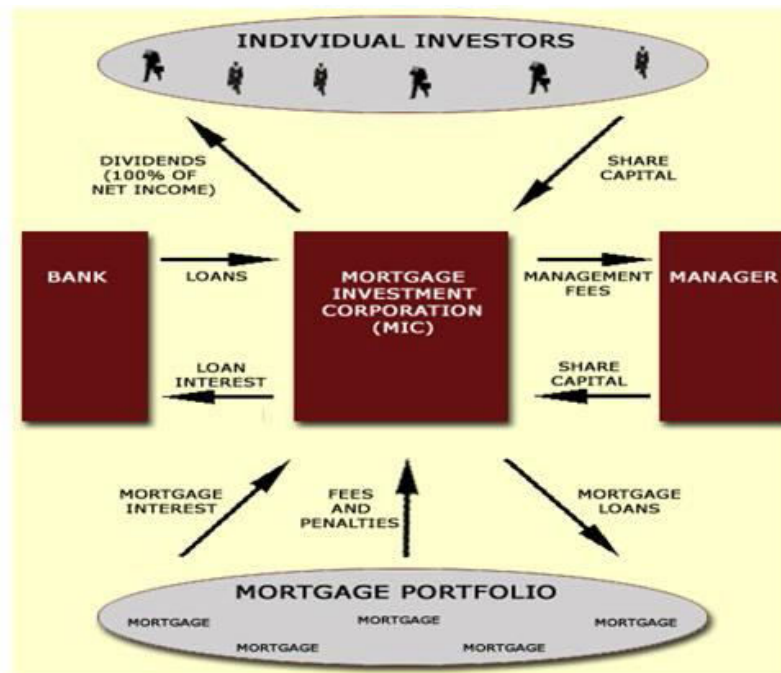
FRC Rating	
Expected Annual Yield (2016)	~ 9%
Rating	2-
Risk	3

*see back of report for rating definitions

Overview

Mortgage Investment Corporations, like other non-bank private lenders, do not conform to the strict lending guidelines of banks and other traditional lenders. MICs are more flexible in their lending guidelines, and therefore, can offer individually structured / tailor made loans to meet the specific requirements of a borrower. Also, banks have lengthy due diligence processes (up to 2 months), and are typically not able to meet borrowers' quick capital needs. Most MICs are typically able to structure, complete due diligence, and fund loans, within 2 - 4 weeks. All the above reasons allow non-bank lenders, including MICs, to charge a higher interest rate on their loans compared to banks / institutional lenders.

The following chart shows the business model of a typical MIC.



Sources: canadianmortgagetrends.com

Management looks for a viable exit strategy when assessing a loan application. There is a wide variety of exit strategies, but the most common exits would be refinancing by a more traditional lender, sale of the property, etc.

MICs are governed by Section 130.1 of the Income Tax Act. In order for an entity to maintain its status as a MIC, it has to comply with several rules; a few of the key rules are listed below. For the full list, refer to the Income Tax Act, Section 130.1.

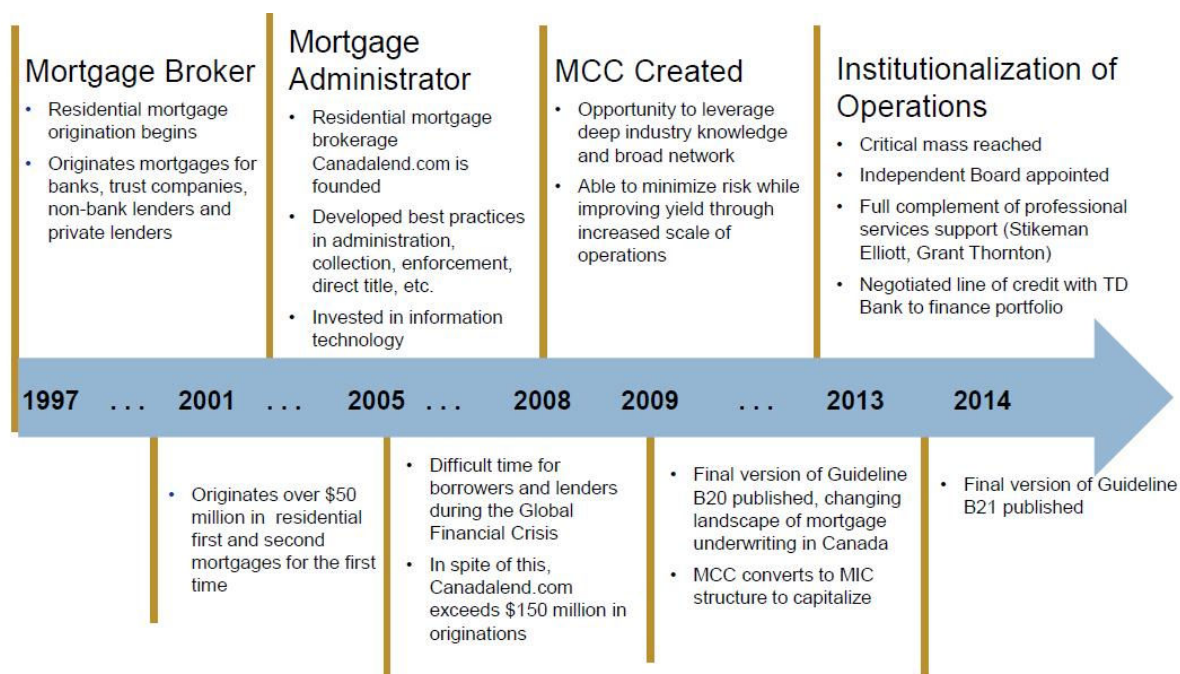
- Invest at least 50% of its assets in residential mortgage loans,
- Have a minimum of 20 shareholders, and no shareholder can own 25%+ of the total outstanding shares.
- All MIC investments must be in Canada

Manager

MICs pay no corporate tax and act as a flow-through entity. In order to avoid entity level taxation, a MIC has to payout 100% of all of its taxable income to shareholders. MIC distributions are treated as interest income for shareholder tax purposes. MIC shares are eligible for registered plans such as RRSPs, RESPs, and TFSAs.

MCC was created in August 2013, with MCC Asset Management Inc. as the Manager. The Manager (previously known as Mortgage Company of Canada Incorporated, “MCOCI”) was incorporated in Ontario in February 2009, with the objective of originating and administering mortgages for third-parties (primarily individual investors). In 2013, the Manager decided to convert a significant portion of MCOCI’s operations into a MIC. Investors that directly held mortgages administered by MCOCI transferred such mortgages (approximately \$12 million) to the MIC in exchange for common shares. Since inception, the Manager has originated approximately \$183 million in mortgages. In addition to the MIC, the Manager currently manages approximately \$10 million of mortgages for third-parties.

The management team has been active as a mortgage broker since 1997. The following chart shows the company’s transition from a pure mortgage broker to a MIC manager.



Source: Company

At the end of 2015, the MIC had about 169 investors who have invested approximately \$36 million.

As per management, the manager currently originates approximately \$50 million in mortgages per year. As with most private lenders, the Manager typically receives a lender fee (approximately 3%) at the time of origination, of which, 25% is passed on to MCC.

Approximately 25% of the mortgages are sourced through a related party, Canadalend.com, and the remaining 75% of originations are sourced through referrals by a network of over 15 third-party brokers, who are typically paid a one-time broker fee by the borrower. Canadalend.com, a mortgage broker formed in 2005, is owned by Raj Babber, Bob Aggarwal, Sanjay Kaith, and Jay Parmar. Canadalend.com brokers approximately \$80 to \$100 million of mortgages a year.

MCC currently has nine employees, including an underwriter, chief risk officer, chief financial officer, chief operating officer, business development officer, and investor relations. Brief biographies of the management team, as provided by the MIC, follow:

Raj Babber, Founder, Founder, CEO and President

Prior to founding MCC, Raj founded Canadalend.com. Since its inception in 2005, Canadalend.com has grown to become one of the highest volume independent mortgage brokering houses in Canada. In 2009, Raj leveraged his deep industry knowledge and broad network to create MCC, which converted into a Mortgage Investment Corporation in 2013. From its inception MCC continues to grow while minimizing risk and improving yield through increased scale of operations. Raj consistently ensures MCC incorporates sound corporate governance within MCC's management team and through the oversight of an independent Board of Directors. Raj has received the Independent Mortgage Brokers Association of Ontario Marketing Excellence award in 2009.

Sanjay Kaith, Chief Operating Officer

Sanjay has been a valued member of MCC's management team since inception. In this role, Sanjay makes credit adjudication decisions on a breadth of newly originated mortgages. Sanjay is responsible for the oversight of a team managing maturities, mortgage assessments, renewal and demand decisions, pricing and structuring. His experience at MCC has provided him with a thorough knowledge of mortgage underwriting methodology, the mortgage industry and MCC's primary lending market within Toronto and Greater Toronto Area. Prior to joining MCC, Sanjay amassed over 10 years of experience in mortgage brokering, finance and lending in the small and medium business sector. During this period Sanjay also owned and operated a successful small business.

Greg Goutis, Chief Financial Officer

Greg joined the MCC team in January 2013. Greg holds a Bachelor of Arts degree in financial and economic studies from the University of Western Ontario and obtained the CMA designation in 1999 (now CPA). Over the course of his career, Greg has accumulated over 15 years of experience in the construction and real estate industries. Prior to joining MCC, Greg was Vice President and Chief Financial Officer at The Royalton Retirement Residences, who developed, constructed and operated luxury seniors residences with a value in excess of \$150 million throughout Ontario. Greg brings a wealth of finance and accounting experience gained through previous roles and in accounting practices.

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. **One of the major highlights of**

MCC is that three out of the five members of the board are independent. The independent board members have extensive experience in finance and real estate. The board monitors the MIC's credit policies on a quarterly basis. **We believe this is a very attractive feature of MCC as most MICs of comparable size do not have independent board members.** Another strong feature of MCC is that management and board have invested approximately \$6 million in MCC (approximately 17% of the total as of December 31, 2015) on the same terms as investors. **The independent board, and the high equity investment by management, we believe, strongly align management and investors' interests.**

Brief biographies of the independent board members, as provided by the MIC, follow:

Raj Babber, Founder, Founder, CEO and President

Greg Goutis, Chief Financial Officer

Daniel Drimmer – Independent

Mr. Drimmer has over 19 years of experience in the multi-family residential and commercial real estate sectors in Canada and in the U.S. He is currently the Chairman of the Board of True North Apartment Real Estate Investment Trust and True North Commercial Real Estate Investment Trust, and Chief Executive Officer of Starlight Investments Ltd. Mr. Drimmer holds a Bachelor of Arts from the University of Western Ontario, and a Master of Business Administration and a Masters in Contemporary European Policy Making from European University in Geneva, Switzerland.

Tammy Oldenburg – Independent

Tammy Oldenburg has over 17 years of experience in various financial positions within the finance and real estate sectors. Ms. Oldenburg is currently Chief Financial Officer at Credit Suisse Canada. Previously, she was Vice President and Chief Financial Officer of MCAN from 2006 to 2013, where she was a key member of MCAN's leadership team. Ms. Oldenburg is a Chartered Professional Accountant and holds a Chartered Financial Analyst designation and an Honours Bachelor of Business Administration degree from Wilfrid Laurier University.

James Garcelon – Independent

Mr. Garcelon has over 20 years of experience in the financial sector. He is currently a Portfolio Manager at Shaunessy Investment Counsel Inc., a boutique investment manager specializing in global balanced portfolios. Mr. Garcelon is a former Co-founder and Principal of Grove Capital Group, a private merchant bank, where he was responsible for evaluating potential investment and business development opportunities. He was previously a Member of the Board of Directors and Audit Committee Chair at Midlands Minerals Corporation and Southern Andes Energy Inc. Mr. Garcelon is a CFA® charter holder and holds a MSc in International Political Economy from The London School of Economics & Political Science. Mr. Garcelon also holds an Honours Bachelor of Arts degree in Business Administration from the Richard Ivey School of Business, University of Western Ontario.

Investment Criteria

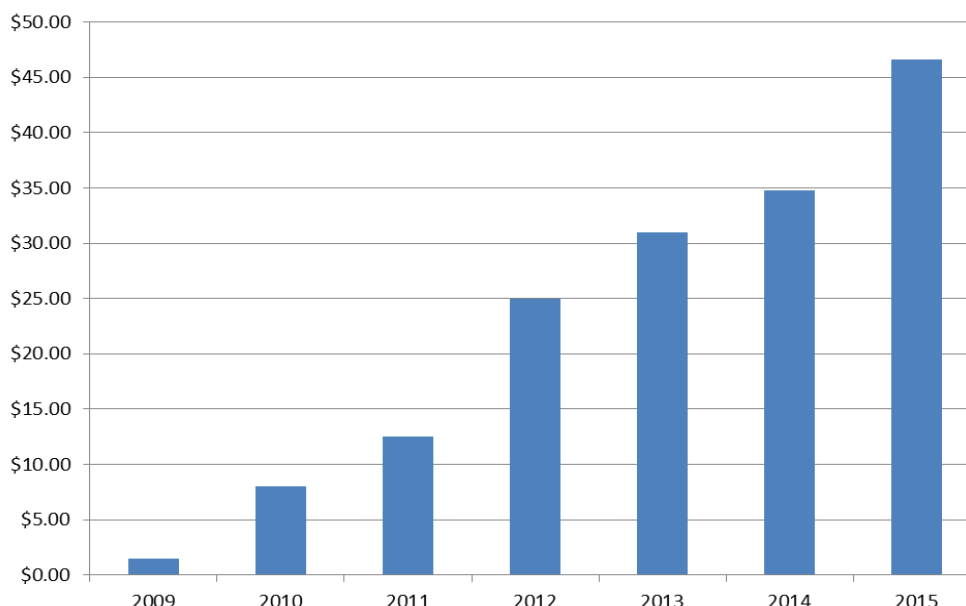
Management's key investment criteria are summarized below:

- The MIC's primary focus is on single family properties, which includes single family dwellings, townhomes, semi-detached, row, duplex, triplex, or sixplex, but excludes high-rise condominiums.
- Single family properties should be at least 70% of the portfolio.
- Rental properties cannot exceed 25% of the portfolio.
- First mortgages should be at least 35% of the total portfolio, with a maximum LTV of 75%.
- Although the focus is primarily on residential properties in the GTA, the MIC may invest in commercial (capped at 15% of the portfolio) or rural residential mortgages (capped at 5% of the portfolio).
- Maximum LTV for commercial mortgage is the lesser of 65% of the value of the land or 60% of the value of the land and building. Also, a satisfactory Phase I environmental report may be required prior to funding in certain circumstances.
- Maximum LTV for rural residential of 60% and a maximum loan amount of \$450k.
- **The MIC may lend capital to related parties.** At the end of 2015, four mortgages totaling \$3,155,126 (6 mortgages totaling \$2,773,304 at the end of 2014) were to related parties. We believe conflict of interest may arise due to related party loans. However, the predominantly independent board, and the high equity investment by management, we believe, reduces any potential for conflicts of interest.
- No single mortgage will be over \$1,750,000 or 5% of the total portfolio. The total exposure of loans greater than \$1 million must be less than 15% of the portfolio. At the end of 2015, there were 349 mortgages, with an average loan amount of \$132k. **The high number of mortgages, and the relatively low average mortgage amount, allow for good diversification.**

Current Portfolio

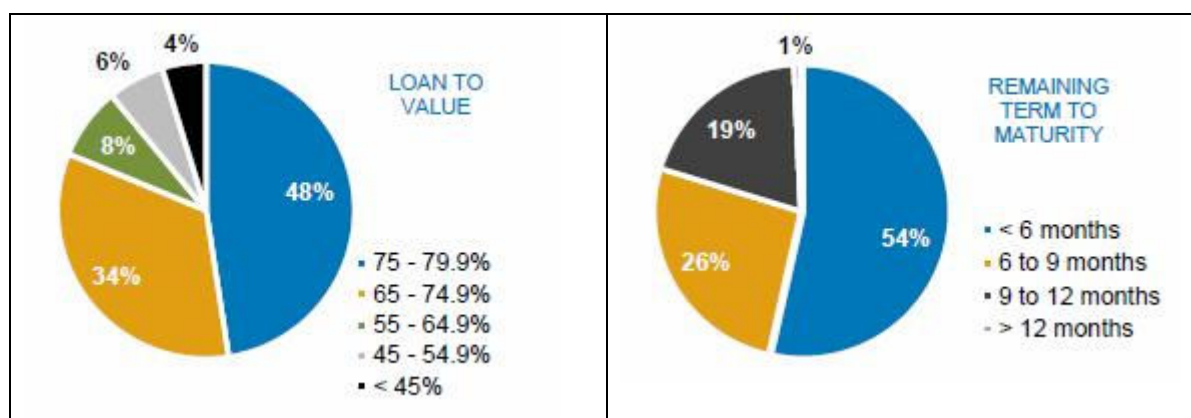
As of December 31, 2015, the MIC had \$46 million in mortgages secured by 349 properties (average - \$132k). Loan sizes in the portfolio ranged between \$13k and \$1,667,608. The mortgage terms are typically less than one year. The weighted average term to maturity was 6.1 months - providing a high level of liquidity to the mortgage portfolio. We estimate that MCC's average term is much lower than comparables, which is typically closer to 1 year. As per management, typically 20% of their borrowers renew at the end of their terms.

Mortgage Portfolio (\$, millions)



The LTV was 69.8% as of December 31, 2015. None of the mortgages have a LTV higher than 80%. Approximately 82% of the mortgages had a LTV of between 65% and 80%.

	2014	2015
Average mortgage value	\$131,899	\$131,622
Term (months)	6.6	6.1
LTV	69.0%	69.8%



The current first mortgage rates charged by MCC to borrowers range between 6.99% p.a. and 9.99% p.a., and the second mortgage rates range between 7.99% p.a. to 14.99% p.a.

Type of Mortgage: As mentioned earlier, MCC's primary focus is on mortgages of single family homes in the Greater Toronto Area. Currently, all of the mortgages in the portfolio are secured by residential properties. Management indicated to us that owner occupied

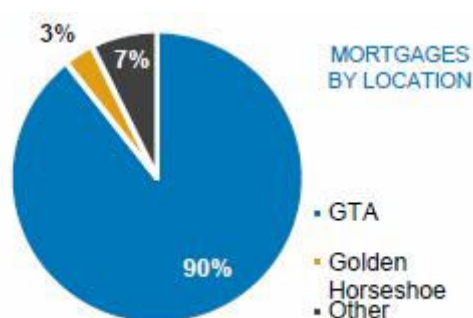
homes account for 90% of the portfolio.

Type of mortgage	2013	2014	2015
Residential	120	260	349
Commercial	1	1	-
Total	121	261	349

First mortgages accounted for 46% of the portfolio as of December 31, 2015. Second mortgages accounted for 54%. The following table shows that the percentage of first mortgages in the portfolio has increased since 2013. Management expects the percentage of first mortgages will be approximately 45% for the next 12 – 24 months.

Security	2013	2014	2015
First	30.0%	41.0%	46.0%
Others	70.0%	59.0%	54.0%
Total	100.0%	100.0%	100.0%

Geographical Diversification: The chart and table below outlines the portfolio's distribution of mortgages by location. Approximately 90% of the portfolio, as of December 31, 2015, was secured by properties in the GTA. The rest of the portfolio was secured by properties in the rest of ON.



Geographical Diversification	2014	2015
Greater Toronto Area	83.0%	90.0%
Golden Horseshoe	8.0%	3.0%
Other (Eastern and Western Ontario, excl. Golden Horseshoe)	9.0%	7.0%
Total	100.0%	100.0%

Although MICs tend to geographically diversify their portfolios as they expand, our discussions with management indicated that they will continue to have a strong focus within

*Private
Lending
Market*

the GTA.

The private mortgage lending market is a highly competitive market, and is highly affected by changes in interest rates and home prices. The currently low interest rate environment has been attracting a lot of investors to higher yield opportunities, such as MICs. The structure of MICs makes it so their income is minimally affected by home prices and interest rates in the short term. **As the average term to maturity of the mortgages in the portfolio is just 6 months, MCC can re-price interest rates quickly.** Also, a weighted average LTV of under 70% indicated that there would have to be a significant one year drop in property prices to cause LTVs to rise to levels where the underlying property is valued at less than the mortgage. However, long term real estate prices will have an impact on the deal flow due to the following:

- If prices decrease, there will be less activity, mainly because people hold off selling, until the market stabilizes.
- Borrowers will have less collateral to borrow with.

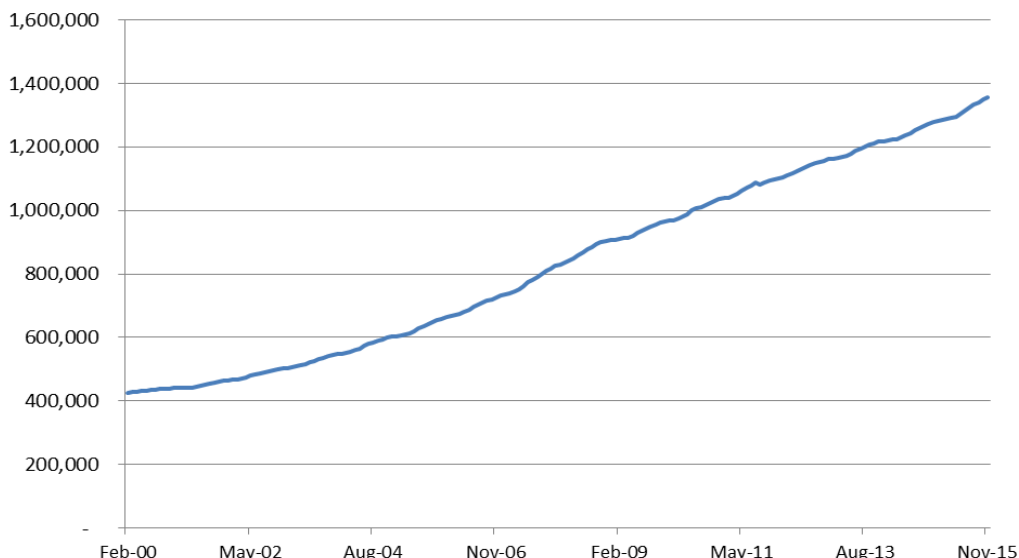
A decrease in market activities will reduce mortgage volume, which will impact lenders' deal flow.

A recent report published by the Canadian Association of Accredited Mortgage Professionals ("CAAMP") indicated that there are currently approximately 9.62 million homeowners in Canada, of whom, about 5.64 million have mortgages, and may also have a home equity line of credit. Over 85% of homeowners have 25% or more equity in their homes. Approximately 11% of homeowners took equity out of their home (averaging \$55k) in the past year, totaling \$63 billion. The most common uses of the funds are listed below:

- \$20.6 billion (33%) for debt consolidation / repayment
- \$17.4 billion (28%) for renovation / home repair
- \$6.6 billion (11%) used for purchases (including education)
- \$7.7 billion (12%) is for investments, and
- \$10.3 billion (16%) is for other purposes

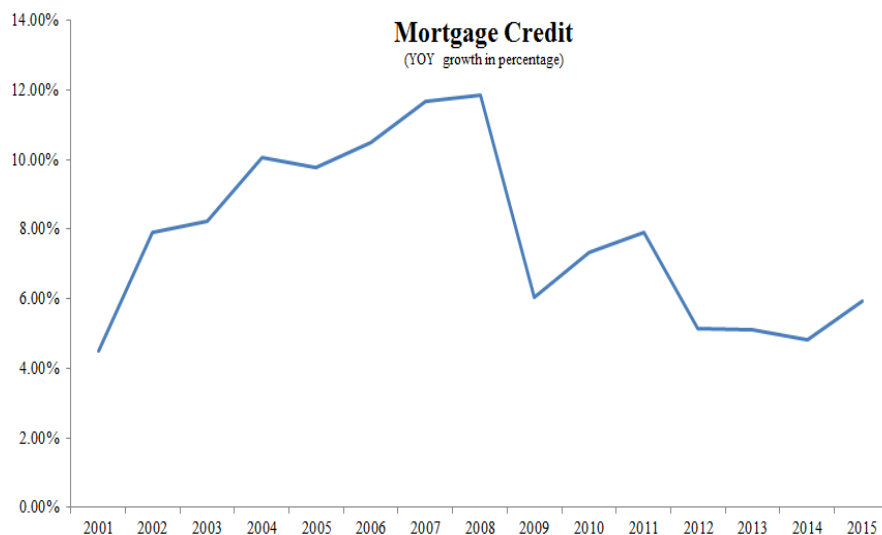
The total residential mortgage credit in Canada has increased from \$0.42 trillion in 2000, to \$1.36 trillion by November 2015, reflecting a compounded annual growth rate ("CAGR") of 7.8%.

Outstanding Residential Mortgage Credit (\$, millions)



Data Source: Statistics Canada

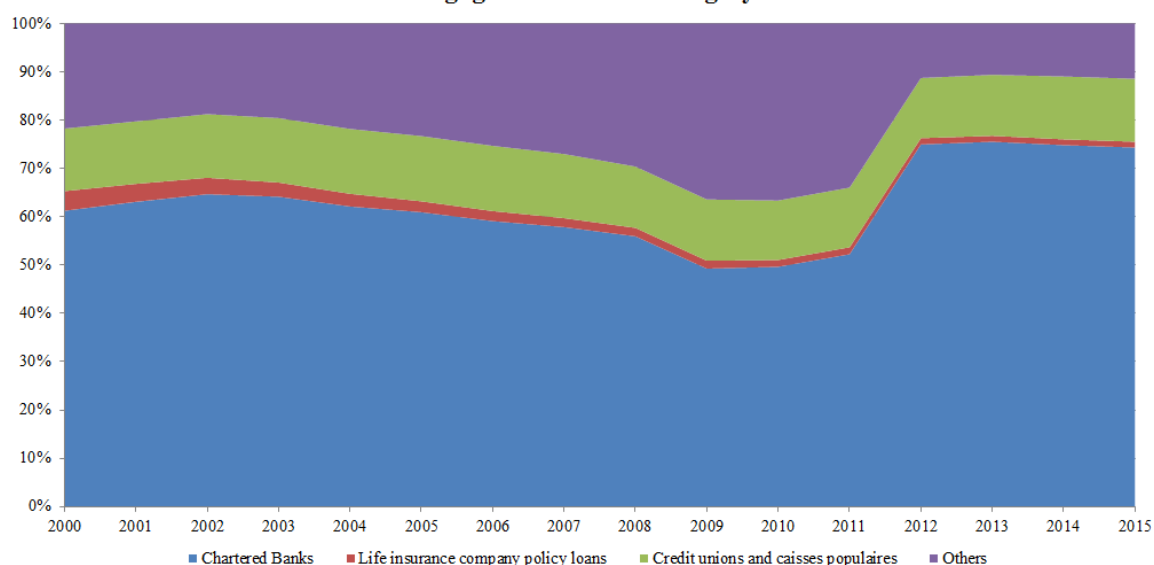
The YOY growth in credit has declined significantly from the pre-recession years, but has been increasing in recent years due to the low interest rate environment.



Data Source: Statistics Canada

Chartered banks, credit unions, life insurance companies, pension funds and related entities accounted for 93.34% of the total mortgage credit as of August 2015. The remaining loans (approximately \$89 billion) were from trust, mortgage companies, and non-depository credit intermediaries.

Total mortgage credit outstanding by lenders



In a study we conducted for the CMHC in 2015, we built a database of 72 entities that operate as MICs, or have similar structures, across the country through management interviews, surveys, public filings, company websites, etc. We estimate there may be 200 to 300 MICs in the country. We estimate the total outstanding mortgages of the 72 MICs we surveyed to be approximately \$6.74 billion, reflecting 0.5% of the total mortgages outstanding in Canada. Since our database includes almost all of the larger MICs, we estimate that our study represents at least 75% of the total mortgages held by the MIC industry.

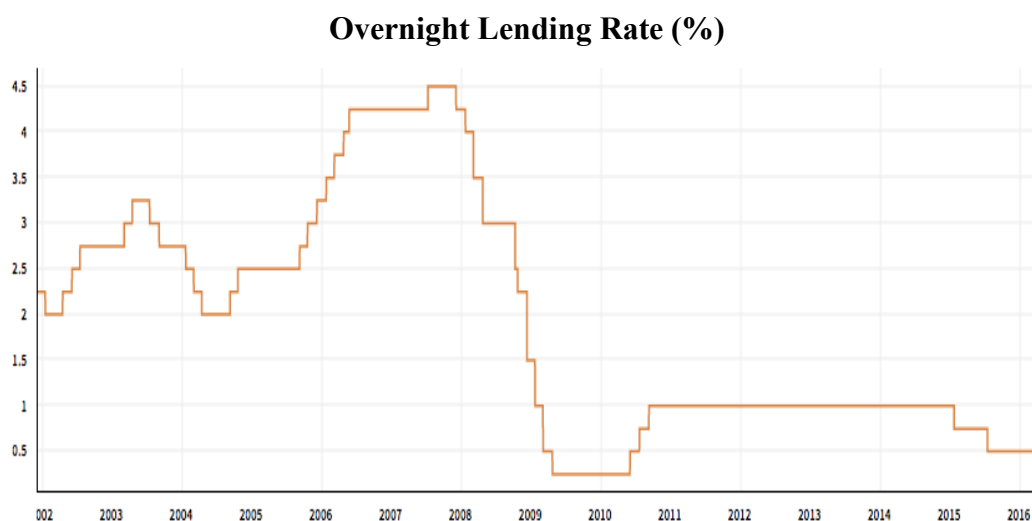
Factors contributing to increased private lending - Subsequent to the recession in 2008, there have been several changes to mortgage rules in Canada as the government began to tighten mortgages rules in an effort to further strengthen the Canadian housing finance system.

- Minimum down payment increased to at least 5% for home buyers (previously no down payment was required), and to 20% for non-owner occupied properties (investment/speculative properties).
- The maximum amortization period has been reduced to 30 years from 40 years.
- Limiting the maximum gross debt service (“GDS”) ratio to 0.39x and the maximum total debt service (“TDS”) ratio to 0.44x (as of December 31, 2015). GDS reflects the portion of a homeowner’s gross annual income required to meet payments related to housing, such as mortgage principal and interest, property taxes, etc. TDS reflects the portion of a homeowner’s gross annual income required to meet all debt payments.
- Government-backed mortgage insurance made available to homes with a price of less than \$1 million.

The tighter lending policies set by banks and conventional lenders have been encouraging more and more private lenders to enter the market.

Another factor that is contributing to increased lending is the improving unemployment rate, and the strong growth in housing prices. Data from the major banks show that there was a rise in mortgage arrears during the recession (mid-1990s and 2008-2009). The rate has been dropping since 2010, and is currently at just over 0.3% - which is highly encouraging for lenders.

Historically low interest rates are another factor that is driving lending. The following chart shows the overnight lending rate since 2006.



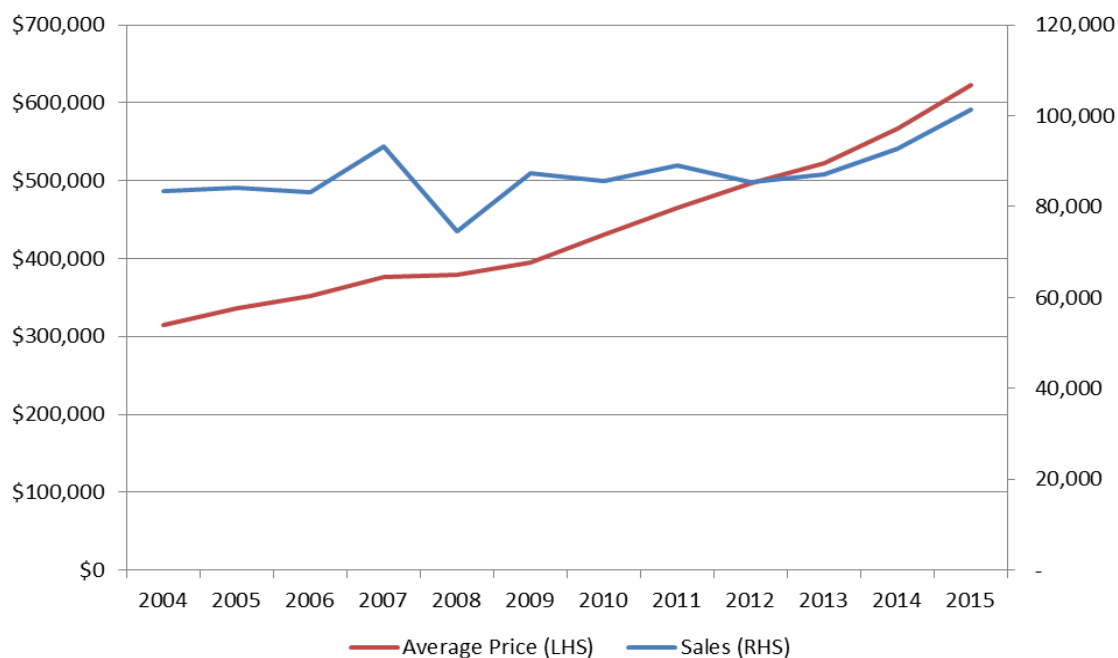
Source: Bank of Canada

The major banks currently offer one-year fixed mortgage rates at about 3% p.a. to borrowers, while rates offered by MICs range between 5% - 15% p.a.

Although there have been uncertainties about the future of the Toronto real estate market especially due to the rapid rise in price / sales (see chart below), we believe the market is reasonably healthy, and do not expect any major drop in prices.

Toronto Market

TREB MLS Sales and Price



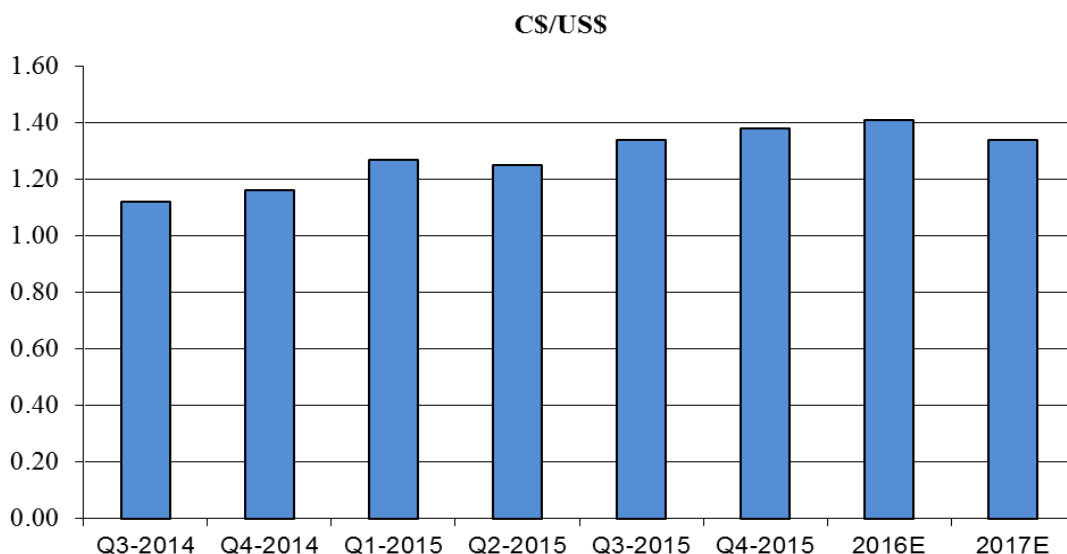
The following table, which shows the Ontario Chamber of Commerce's forecasts, indicates that population growth and unemployment rates in the Toronto Region are expected to stay healthy through 2017.

Regional Economic Summary: Toronto Region

	2013	2014	2015	2016E	2017E
Unemployment Rate	8.20%	8.00%	7.30%	6.90%	6.70%
Population (000s)	6,269	6,358	6,440	6,530	6,626
% ch.	1.4	1.4	1.3	1.4	1.5
MLS® Res. Sales	94,588	99,193	107,400	114,300	119,200
% ch.	0.9	4.9	8.3	6.4	4.3
MLS® Res. Avg. Price	529,948	573,183	625,800	680,400	730,100
% ch.	5.1	8.2	9.2	8.7	7.3
Residential Permits (Units)	40,256	35,136	42,000	46,500	48,500
% ch.	3.6	-12.7	19.5	10.7	4.3

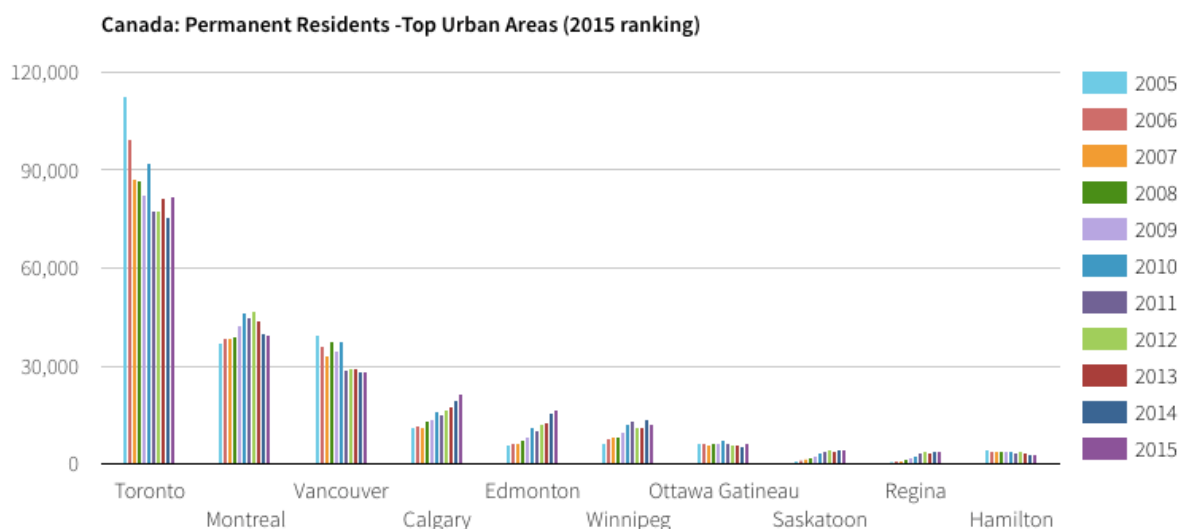
Source: Ontario Chamber of Commerce

The soft oil price environment is expected to keep the C\$ weak for the next 12 – 24 months (as shown below), which we believe will continue to encourage international buyers.



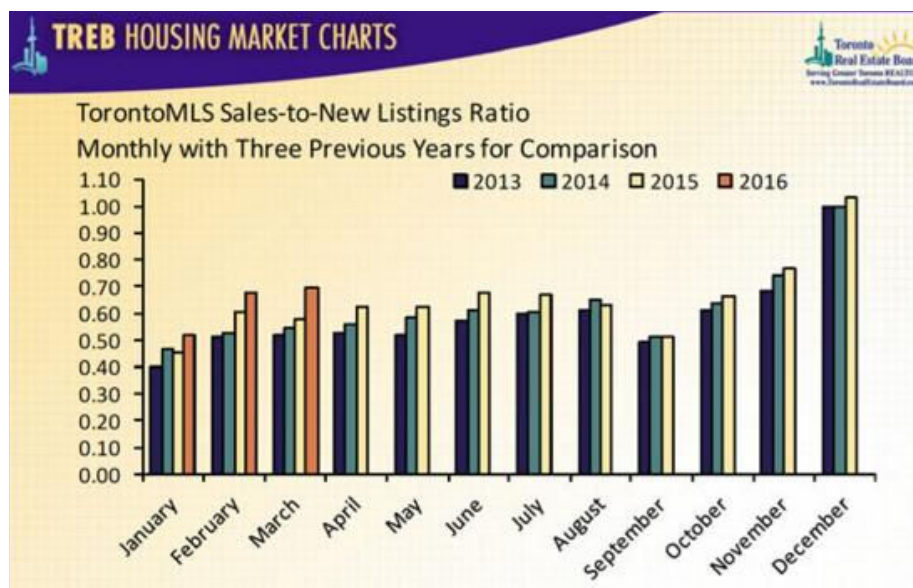
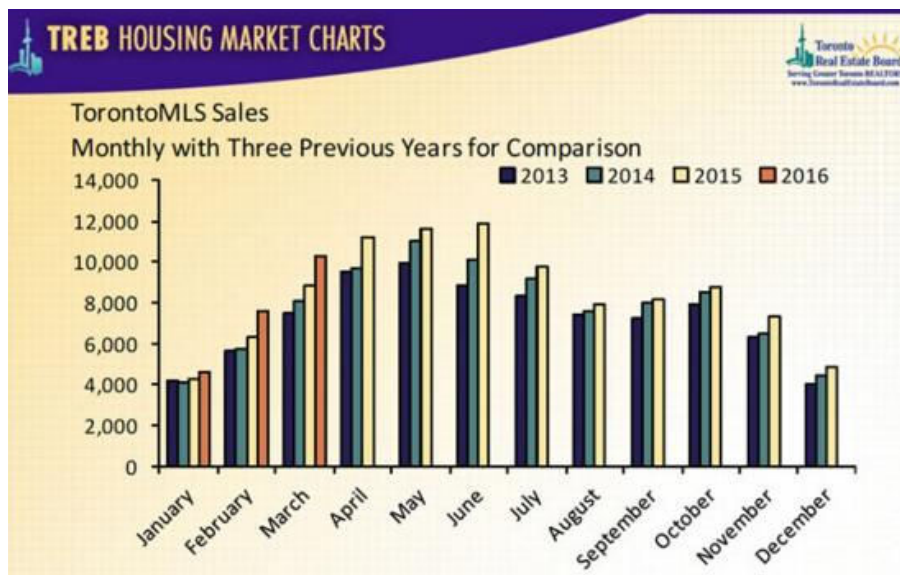
Source: TD Economics

Toronto is expected to continue to be the most popular destination for immigrants. In 2015, approximately 30.2% of the immigrants to Canada chose Toronto.

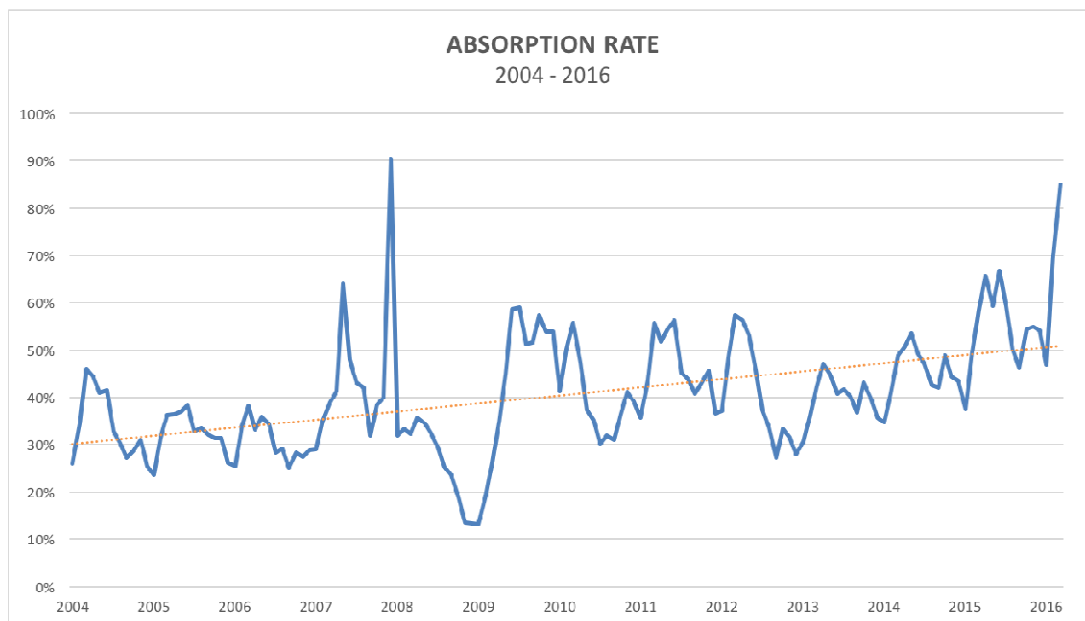


Source: The Canadian Magazine of Immigration

According to the Toronto Real Estate Board (“TREB”), TREB MLS® home sales in Q1-2016 were 22,575, up 16% YOY. The following charts show the strong YOY sales growth and the high sales to new listings ratio. **TREB estimates 2016 will mark a second consecutive record year for home sales.**



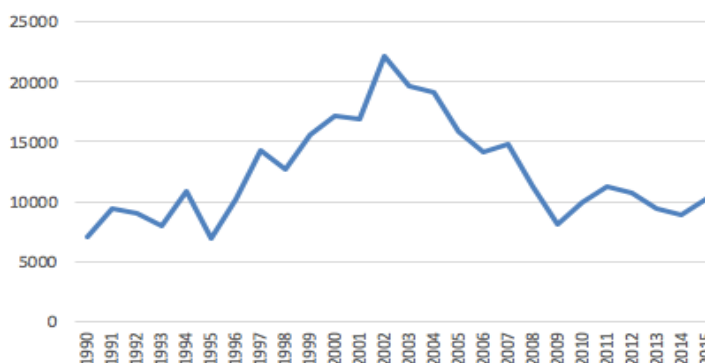
The absorption rate, the rate at which houses are sold in a specific period, has steadily increased since 2004.



Source: TREB

According to TREB, there is a persistent lack of inventory for singles, semis, and townhouses in the GTA, primarily because most of the new supply over the past decade has come from new condominiums. The following chart shows the decline in single housing starts.

**Single Housing Starts, Toronto
1990 - 2015 (units)**



Data from: Canadian House Observer

A recent survey conducted by Ipsos indicated that 12% of GTA households are seriously considering purchasing a home in 2016.

All the above factors, along with the historically low interest rate environment, we believe will keep the GTA real estate market healthy in the near-term.

At the end of 2015, MCC had \$35,935,000 in share capital with 3,593,500 common shares outstanding. MCC primarily raises capital through exempt market dealers, and offers up to

Structure

2% as sales commissions.

Management fees: 0.5% p.a. of the gross assets + 75% of the lender fees collected from the borrowers upon origination + 25% of the excess yield over 9.5% p.a. Most of the comparable MICs, we estimate, typically charge a flat management fee of 1% - 2% p.a. and a share of the lender's fee, but do not charge any performance fees.

Redemption: There is no market or exchange that the common shares trade on. They are eligible for redemption after 12 months, upon submitting a redemption notice. **There will not be any redemption fees / penalty.** This is a good aspect as comparable MICs tend to apply a redemption penalty in the first few years of investment. However, investors have to keep in mind that redemptions are totally upon management's discretion and the MIC's availability of cash. According to management, the MIC has fulfilled almost all of the total redemption requests since inception. Management has the right to redeem all or any portion of the shares at any time. Therefore, investors are subject to prepayment risks.

The MIC's financial statements are audited by Grant Thornton. The following are the income statements since inception.

Income Statement	2013	2014	2015
Revenues			
Interest Income	\$207,944	\$2,408,354	\$3,865,686
Lender fees	\$15,893	\$459,736	\$382,780
	\$223,837	\$2,868,090	\$4,248,466
Expenses			
Distributions to investors	\$222,806	\$2,211,760	\$2,890,715
Accretion of redeemable common shares	\$30,271	\$204,473	\$236,170
Management fees		\$164,193	\$197,609
Interest		\$111,072	\$493,511
Professional fees		\$338,501	\$488,262
Finders fee	\$1,627	\$22,356	\$50,599
Misc expenses		\$5,025	
Bank charges		\$8,826	\$18,135
Other		\$5,373	\$10,962
Provision for loss			\$117,500
	\$254,704	\$3,071,579	\$4,503,463
Net Income	-\$30,867	-\$203,489	-\$254,997

YE – December 31st

Financials

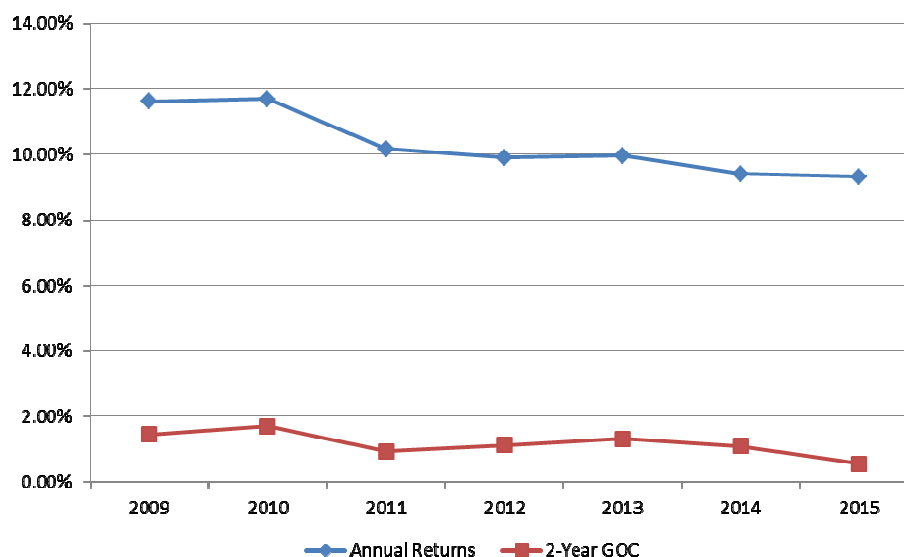
In 2015, the company generated \$4,248,466 in revenues, which includes interest income and lender fees. Revenues were \$2,868,090 in 2014. The company distributed \$2,890,715 to investors in 2015, up from \$2,211,760 in 2014.

MCC reported a net loss of \$254,997 in 2015, and \$203,489 in 2014. The net losses in both years were due to non-cash expenses reported in those years. The non-cash expenses (reported as accretion of common shares in the income statement presented above) were related to 123,570 shares (\$1,235,700 in value) that have restricted redemption rights. These shares were issued to certain investors to roll their mortgage investments (administered by the Manager) into the MIC. They have restricted redemption rights for a period of 6 years.

Interest + Lender's fee as a percentage of mortgage receivables were 10.50% p.a. in 2015. The dividend yield (dividends as a percentage of invested capital) was 8.76% p.a. Note that our calculations are slightly different from the figures reported by MCC 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, and invested capital, to arrive at the above figures.

% of Mortgage Receivable	2014	2015
Interest Income	10.05%	9.55%
Lender fees	1.92%	0.95%
	11.97%	10.50%
<i>Less:</i>		
Management fees	-0.69%	-0.49%
Provision for loss	0.00%	-0.29%
Interest	-0.46%	-1.22%
G&A	-1.59%	-1.40%
Net	14.70%	13.90%
Investors' Returns as a % of Invested Capital	9.41%	9.32%
2-year GOC	1.09%	0.54%
Spread	8.32%	8.78%

The following chart shows investors' yields relative to GOC 2-year bonds, as reported by MCC:



We estimate that MCC has been able to generate higher than average returns of comparables MICs with 30% - 50% first mortgages because of their higher lending rates and use of leverage.

The following chart shows the realized and unrealized losses and a few other key parameters of the portfolio since inception.

	2014	2015
No. of Delinquencies		5
Foreclosed Properties	1	5
Value	\$323,000	\$765,418
Provision for loss	-	\$117,500
Total allowance at the end of the year	-	\$117,500
Realized losses (FRC est.)	-	-
Actual Losses (% of mortgage receivable)	-	-
Reinvested	\$771,320	\$1,118,720
Reinvested (as a % of Distributions)	35%	39%
Redemptions:	\$2,149,800	\$2,985,586
Redemption (% of invested capital)	10%	9%

The portfolio has not experienced any realized losses since inception. As of December 31, 2015, MCC had five foreclosed properties totaling \$765,418, compared to one property (\$323,000) at the end of 2014. MCC assigned a provision for loss of \$117,500 in 2015, or 0.3% of the total outstanding portfolio at the end of 2015.

Investors have reinvested about 35% - 40% of the annual distributions since inception, which is a positive sign as it indicates existing investors' confidence in MCC's management.

The following table shows a summary of the company's balance sheet. The total loans outstanding increased by 246% from \$13,417,527 at the end of 2013, to \$46,433,763 by the

end of 2015.

Balance Sheet (YE - Dec 31st)	2013	2014	2015
Assets			
Cash	\$0	\$79,206	\$76,668
Mortgages receivable	\$13,417,527	\$34,509,690	\$46,433,763
Due from related parties	\$491,025	\$1,442,498	\$1,173,861
Subscription shares receivable	\$45,500		
Foreclosed property held for sale	\$110,000	\$323,000	\$765,418
Prepaid		\$56,495	\$100,168
Total Assets	\$14,064,052	\$36,410,889	\$48,549,878
Liabilities			
Demand loan		\$7,370,000	\$13,640,000
Accounts payable & others		\$4,807	\$9,093
Dividends payable	\$104,095	\$206,001	\$189,112
Due to related parties			\$27,278
Shareholders' Equity	\$13,959,957	\$28,830,081	\$34,684,395
SE + Liabilities	\$14,064,052	\$36,410,889	\$48,549,878
Debt to Capital	0.0%	20.4%	28.3%
Redeemable common shares	1,514,456	3,006,540	3,593,961
NAV per share	\$9.22	\$9.59	\$9.65

The Net Asset Value (“NAV”) per share was \$9.65 per share compared to the issuance price of \$10.00 per share because of the 123,571 shares issued with restricted redemption rights (mentioned earlier).

At the end of 2015, MCC had \$1,173,861 in receivables from related parties. This is related to the funds received from discharged mortgages, held in trust on behalf of the MIC.

Line of credit – The MIC has a line of credit with TD Trust Canada for \$15 million. The interest rate is prime + 1.6% p.a. We estimate that the typical rate for larger MICs is currently at prime + 0.75% p.a. As of December 31, 2015, the MIC had used \$13,640,000. The total debt to capital was 28%. We believe this is inline for MICs of this size (larger MICs tend to carry to debt to cap of about 40-45%). The line of credit is subject to the following covenants:

- Debt to tangible net worth ratio not to exceed 0.5x
- Interest coverage of not less than 3x.

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) :

- Loans are short term and need to be sourced and replaced quickly.

Risk

- Timely deployment of capital is crucial.
- A drop in GTA housing prices will result in higher LTVs, and higher default risk as the value of collateral decreases.
- Volatility in real estate prices.
- Shareholders' principal is not guaranteed, as the NAV per share could decrease from current levels (as a result of loan losses).
- Loans are primarily interest only loans.
- MCC uses leverage, which increases its exposure to negative events.
- MCC can invest in second and third mortgages which carry higher risk.
- Redemptions are not guaranteed.
- The MIC will have less geographical diversification than peers as management intends to continue to focus on ON.
- The following is an excerpt from the OM related to a settlement agreement between the Ontario Securities Commission and the Manager.

On August 17, 2015, the Ontario Securities Commission (the "OSC") approved a settlement agreement among staff of the OSC and the Corporation, the Manager, MCC Mortgage Holdings Inc., Raj Babber and Greg Goutis (collectively, the "Respondents") in connection with the distribution of Shares of the Corporation between November 1, 2013 and December 1, 2014. Nine (9) of the Corporation's investors (the "Non-Exempt Investors"), whose investments represented less than 1% of the aggregate capital raised by the Corporation, did not meet applicable exemptions from the prospectus requirement under applicable securities law. In connection with the settlement agreement, the Respondents agreed to redeem all Shares held by the Non-Exempt Investors and to pay an administrative penalty and costs. In addition, Raj Babber and Greg Goutis agreed to successfully complete the Canadian securities course exam, exempt market products exam and the partners, directors and senior officers course exam. To address these distribution issues, the Corporation has retained an exempt market dealer registered with the OSC in connection with the distribution of its Shares on an on-going basis.

Rating

Based on our review of the returns/risk features of the offering, we have assigned an overall rating of 2-, and a risk rating of 3 on the common shares.

FRC Rating	
Expected Annual Yield (2016)	~ 9%
Rating	2-
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	27%	Risk - 2	4%
Rating - 3	47%	Risk - 3	34%
Rating - 4	9%	Risk - 4	39%
Rating - 5	5%	Risk - 5	10%
Rating - 6	1%	Suspended	13%
Rating - 7	0%		
Suspended	12%		

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