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Fundamental Research Corp.
Investment Analysis for Intelligent Investors

July 11, 2017

CMI Mortgage Investment Corporation – Focus on Residential Mortgages in ON

Sector/Industry: Real Estate Mortgages **www.cmimic.ca**

Offering Summary	
Issuer	CMI Mortgage Investment Corporation
Securities Offered	Class A Preferred Non-Voting Shares
Share Price	$1 per share
Minimum Subscription	$5,000
Management Fees	1.0% p.a.
Distributions to Investors	Monthly
Redemption	Option to redeem after 1 year
Auditor	Harris & Partners, LLP

Investment Highlights

- CMI Mortgage Investment Corporation ("CMI MIC") is a recently formed MIC based out of Thornhill, Ontario. The manager has been in the lending business since 2005.
- Since 2008, management has placed mortgages totaling $650 million. Data provided to us since 2012 showed extremely low loan loss rates.
- The MIC had a portfolio size of $4.95 million in mortgages outstanding secured by 57 properties at the end of May 2017. The average loan size was $74k and the average loan-to-value ("LTV") was 71%.
- The MIC's focus is to invest in first, second and third mortgages on residential and commercial properties with a target return of 8% to 10% p.a. for investors. The initial focus is primarily on properties in Ontario ("ON").
- Borrowers are primarily homeowners, and the typical loan size ranges between $100k and $150k.
- Management fees include an annual management fee of 1.0% of the MIC's assets, and a performance fee of up to 20% of the net yield over 7.50% p.a.
- Management's target year-end portfolio size is $10 million.

Risks

- Loans are short term and need to be sourced and replaced quickly.
- Concentration in ON.
- Volatility in real estate prices.
- The preferred shares do not have any voting rights.
- The fund has the ability to use leverage, which would increase the exposure of the fund to negative events.
- Redemptions are not guaranteed.

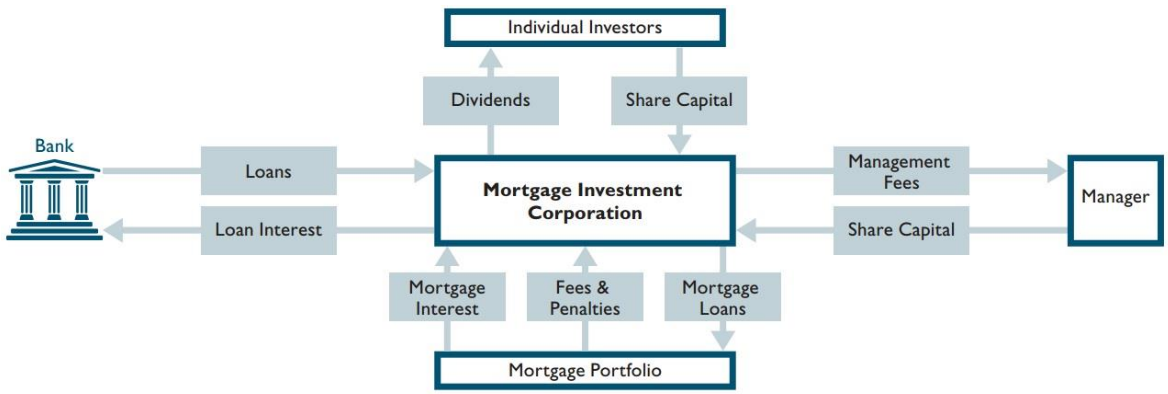
FRC Rating	
Expected Yield	8.5% - 9.0%
Rating	3
Risk	3

*see back of report for rating definitions

Overview of MICs

The Government of Canada introduced MICs in 1973, through the Residential Mortgage Financing Act, to make it easier for small investors to participate in the residential mortgage and real estate markets. A MIC typically provides short-term (typically 9 - 24 months) loans secured by real estate properties in Canada. MICs, like other non-bank lenders, do not conform within 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, and are typically not able to meet borrowers' quick capital needs. 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:



Source: CMHC

- Almost all MICs are externally managed by the founders through a separate management company, which originates and manages mortgages for the MIC. In return, the management company earns asset management fees and/or a performance fee from the MIC, and usually receives 100% or a portion of the origination fees received from the borrower.
- MICs earn interest and fees (origination, renewal and cancelation) from borrowers.
- MICs finance their mortgage portfolio through debt (banks) and equity (investors).
- After deducting management / origination fees, loan interest and other operational expenses, MICs pay out net income as dividends to investors.

MICs pay no corporate tax and act as a flow-through entity. In order to avoid entity level taxation, a MIC has to pay 100% of all of its income as dividends to investors. MIC dividends are treated as interest income for tax purposes. A key benefit of MIC shares for investors is that they are eligible for registered plans such as RRSPs, RESPs, TFSA, etc. As 100% of the income is distributed, the value of a MIC's share should remain the same (allowing for capital preservation) unless the MIC suffers a capital loss.

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.

- Invest at least 50% of the assets in residential mortgage loans, cash and CDIC (Canada Deposit Insurance Corporation) insured deposits.
- Have a minimum of 20 shareholders, and no shareholder can own over 25% of the total outstanding shares.
- All MIC investments must be in Canada.
- May invest up to 25% of its assets directly in real estate, but cannot be involved in development or construction.

The following section provides a background on the MIC and its manager.

Manager

CMI MIC was incorporated in July 2015 and is managed by Canadian Servicing Inc. ("manager", "CSI"), based out of Thornhill, Ontario. The manager, formed in 2009, is owned by Alan Jaskolka.

Prior to forming the MIC, the founders, Bryan Jaskolka and Alan Jaskolka, had formed Canadian Mortgage Inc. ("CMI") in 2005, a licensed mortgage brokerage in several Canadian provinces. In 2009, Canadian Lending Inc. ("CLI") was formed. The primary business of CLI was to identify, originate and manage mortgages secured by residential or commercial properties across Canada for accredited investors. In 2015, management decided to form the MIC in order to offer investors the opportunity to invest in a pool of mortgages originated and managed by them rather than individual mortgages.

CMI originates loans for CMI MIC, CLI and third-parties. As per management, management has placed mortgages totaling approximately $650 million since 2008. CMI currently originates approximately $7 - $8 million per month for CLI, CMI MIC and third-parties. CLI sources mortgages from CMI and third-parties, totaling approximately $10 million per month. At this time, the MIC has a portfolio of $4.95 million, and CLI has a portfolio of approximately $118 million.

In return for their services, the manager charges an annual management fee (paid monthly) of 1.0% of the MIC's assets. CMI charges a fee per origination of each loan to borrowers, which are not passed on to the MIC. In addition to the above, the manager charges a performance fee of up to 20% of the net yield over 7.50% p.a. **Overall, we believe the fees charged to the MIC are comparable to MICs of similar size.** It is a common practice for MIC's targeting higher than average yields to charge a performance fee in addition to the management fee.

CMI sources its mortgages through their network of forty mortgage agents.

In total, CMI, CSI, CLI and the MIC have 11 employees, two investment managers, and four underwriters.

The MIC's common shares are held by four individuals of the Jaskolka family, as shown below. Management's background is in property management and mortgage lending.

31-Dec-16	Position	% of Total	Class A Preferred Shares
Bryan Jaskolka	President & Director	25.0%	
Alan Jaskolka	Treasurer	25.0%	
Jeffrey Jaskolka		25.0%	
Michael Jaskolka		25.0%	
Total		**100.0%**	**-**

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. The MIC or its manager does not currently have an independent board of directors, which is common in smaller MICs (portfolios under $50 million).

Brief biographies of the management and directors of the MIC, as provided in the most recent Offering Memorandum, follow:

Bryan Jaskolka has been involved in the mortgage industry for 10 years, and has arranged and supervised the funding of thousands of mortgages. An expert in all types of real estate secured lending, including residential (Prime, Alternative, and Private), commercial, development, construction, debt consolidation/settlement, and mortgage loan administration and enforcement. Bryan is licensed as a mortgage broker in Ontario, British Columbia, Alberta, and Manitoba. He will be approving all mortgages that the MIC enters into.

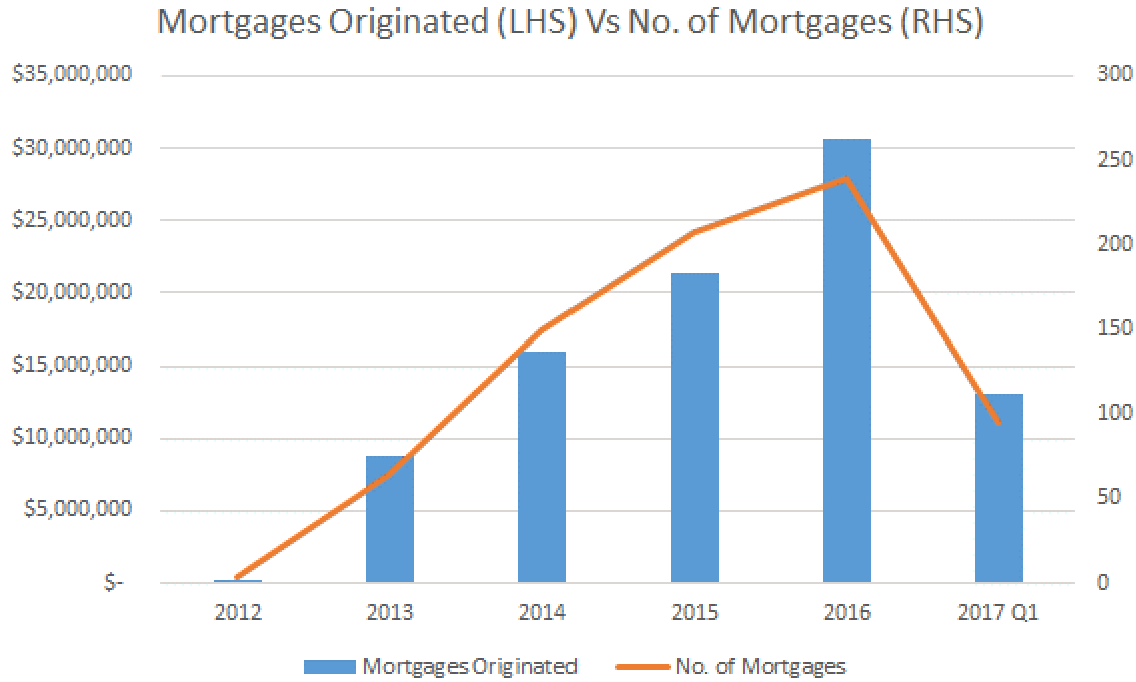
Alan Jaskolka has been involved in the real estate industry for over 40 years, with experience in property management, real estate acquisition (residential and multi-family), development and construction, and mortgage finance. He holds an MBA, P.Eng, M.A.Sc., is an Ontario Real Estate Broker and Ontario Licensed Mortgage Broker as well as Mortgage Administrator. Alan will be supervising the MIC's operations with a focus on ensuring that all bank accounts and cash management controls are actively enforced.

Track Record

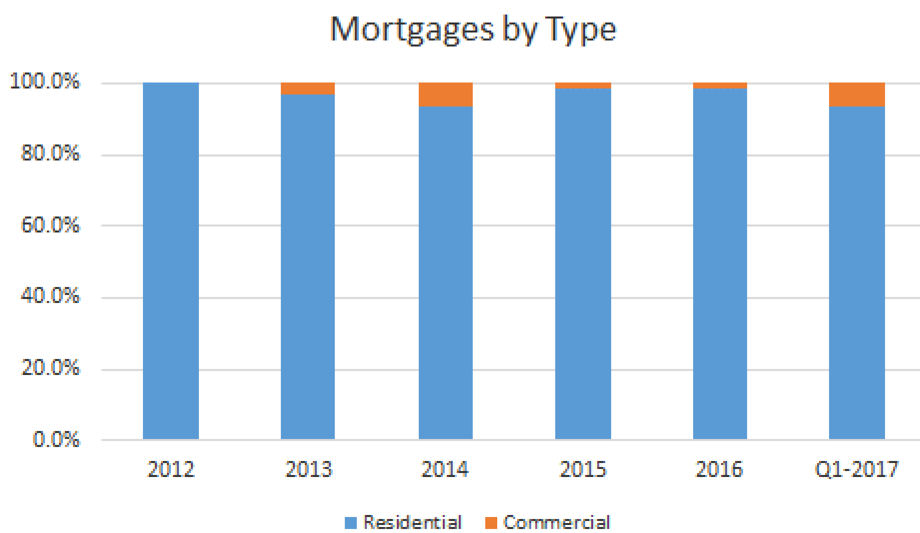
The following section presents management's track record through a detailed analysis of CLI's historic performance from 2012 to 2016. Note that all of the figures presented in this section were provided by management. Since the mortgages were originated and managed for individual investors, there are no audited financial statements for the consolidated portfolio. Hence, we were unable to review the data provided in this section.

The following chart shows the mortgages originated for CLI in each year since 2012. In 2016, $30.64 million in mortgages were originated, secured by 239 properties, up from just

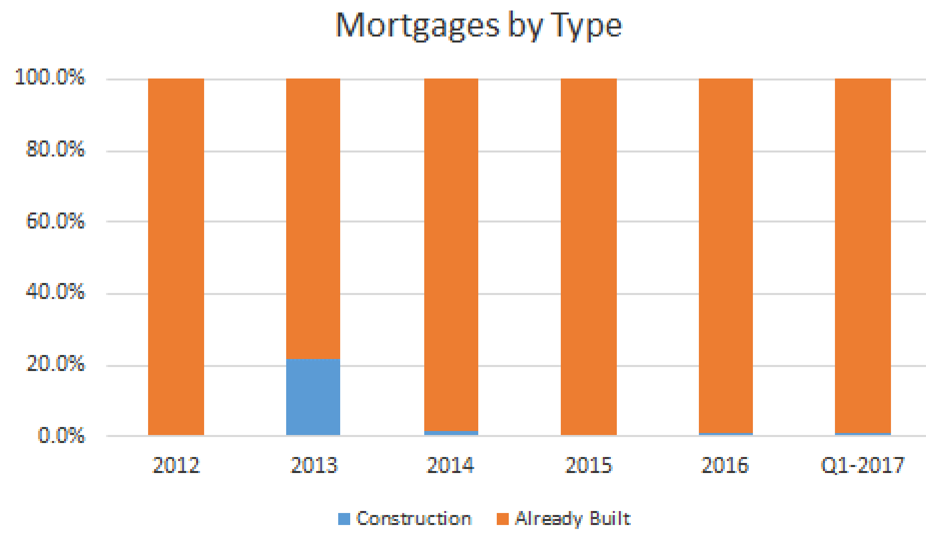
$0.24 million, secured by 4 properties, in 2012.



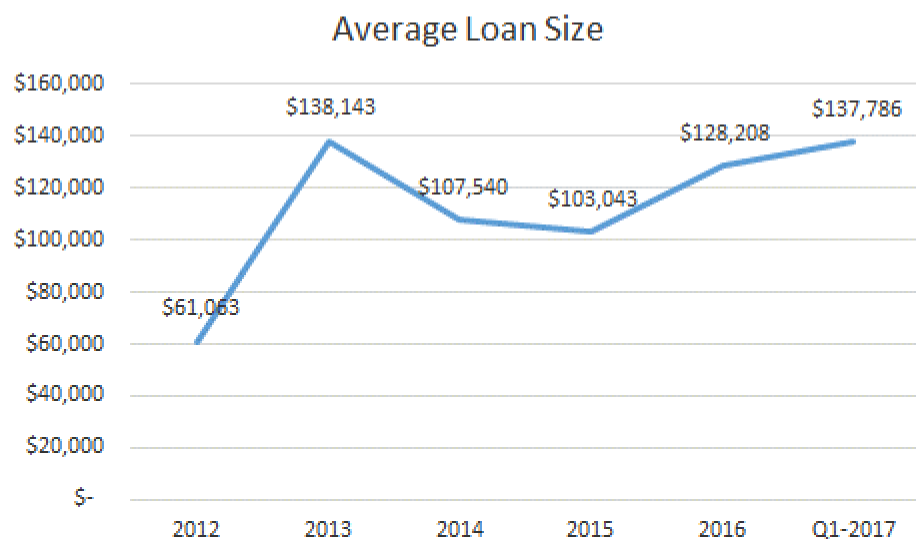
Type of Mortgage: Approximately 98.7% of the mortgages in 2016 (Q1-2017 – 94%) were secured by residential properties. As shown in the chart below, residential mortgages have accounted for over 90% of the portfolio every year.



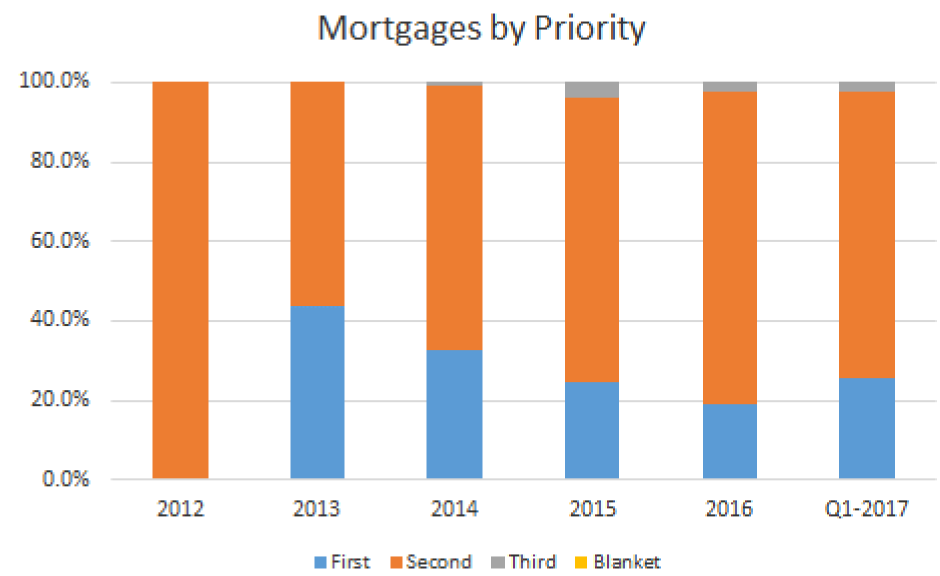
The following chart shows that 0.8% of the mortgages in 2016 (Q1-2017 – 1.1%) were secured by construction projects.



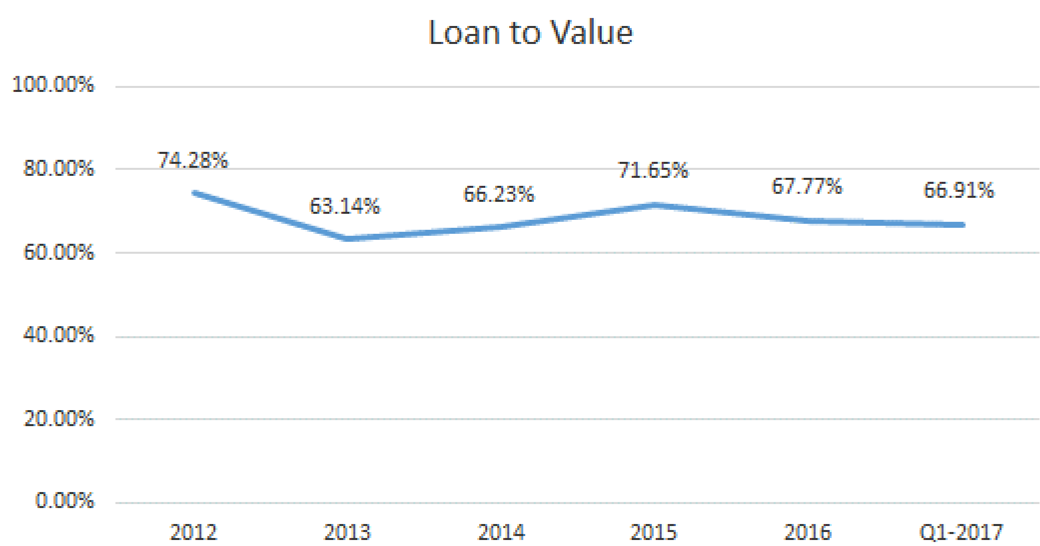
Mortgage Size: In 2016, the average mortgage size was $129k (Q1-2017 - $138k). The historic average (2012 to 2016) of the portfolio was $108k.



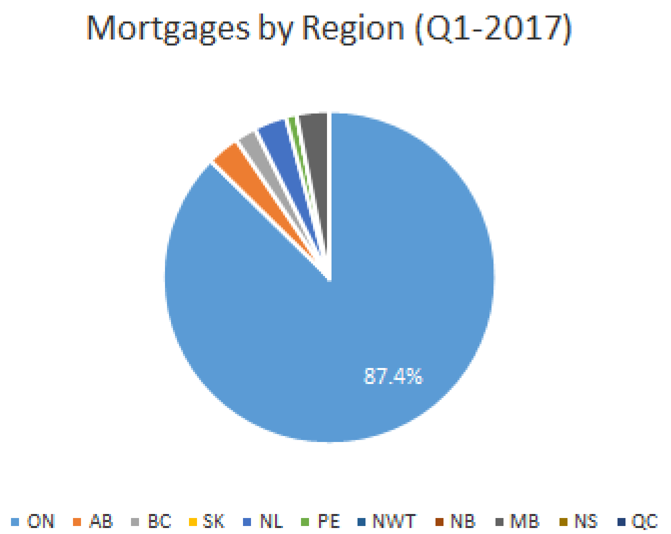
Mortgage by Security: First mortgages had accounted for 18.8% of the portfolio in 2016. Second mortgages accounted for 78.7%, and third mortgages accounted for 2.5%. Since 2012, second mortgages have averaged 74.6% every year (range: 56% to 100%). First mortgages have averaged 24% and third mortgages have averaged 1.4%.



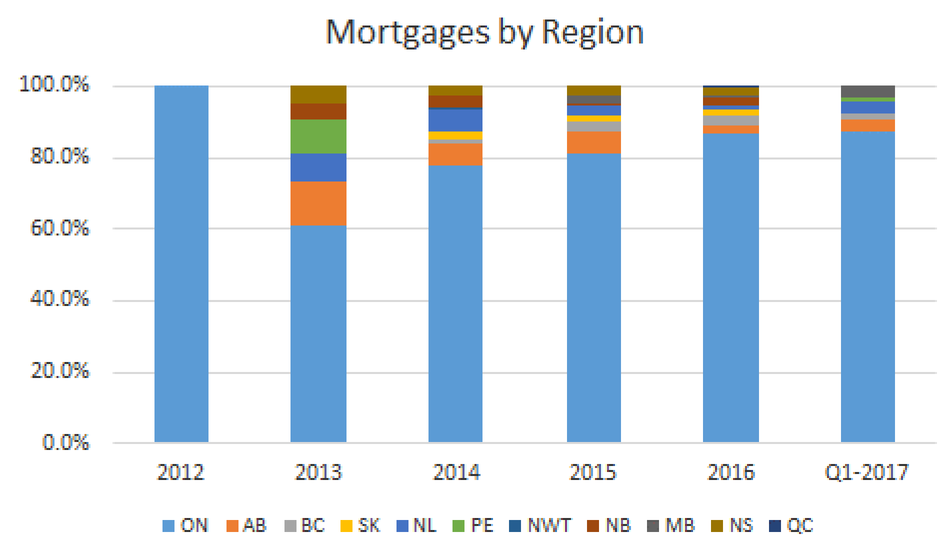
Loan to Value (LTV) – The portfolio's LTV was 68% at the end of 2016 (Q1-2017 – 66.9%) versus the historic average (2012 to 2016) of 69% (range: 63% to 74%).



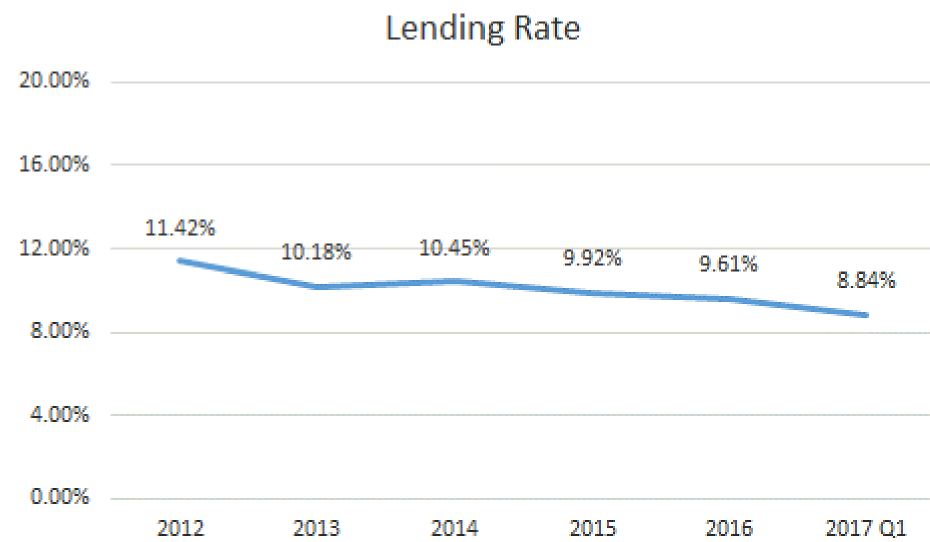
Geographical Diversification: In 2016, approximately 87% of the portfolio was secured by properties in ON, 2.1% in BC, 3.2% in AB, 3.2% in NL, and the remaining spread out over multiple provinces. The chart below outlines the distribution of mortgages by location.



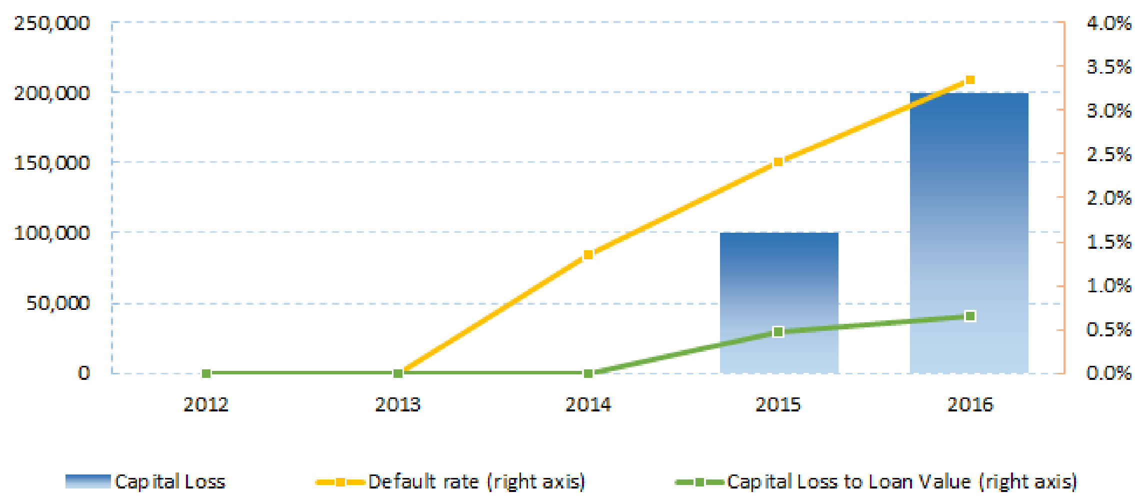
The chart below shows the distribution since 2012.



Lending Rate: The weighted average lending rate declined from 11.4% in 2012 to 8.8% in Q1-2017.



Loan loss: CLI has not had any significant loan losses since 2012 relative to comparables, with no losses from 2012 to 2014, and under 0.75% p.a. of the portfolio in 2015 and 2016.



Investment Mandate

The MIC's focus is to invest in first, second and third mortgages on residential and commercial properties with a target return of 8% to 10% p.a for investors. The initial focus is primarily on properties in ON.

The following points highlight management's key investment strategy for the MIC:

- The primary target property types are pre-construction, in construction or completed developments, such as single-family dwellings, duplexes, townhouses, and condominium units. The MIC will also invest a small portion of the portfolio in mortgages secured by pre-construction, in construction or completed commercial properties (multi-family residential properties / retail / office buildings) and industrial properties – up to a maximum of 35% of the portfolio.

- Borrowers are individuals and/or builders, and the loan sizes range between $20k and $2 million.
- The primary focus is on mortgages with a term of under one year.
- Target average LTV of 75%.
- No single loan to account for over 10% of the overall portfolio
- As with most MICs, the mortgages are typically interest only loans.
- Mortgages will not be offered on properties in which a director or officer has a direct or indirect interest.

The following table shows a few previous samples to present an idea on the type and range of mortgages that the MIC is likely to invest in.

Type	Priority	Purpose	Location	Mortgage Amount	LTV
Commercial	First	Property Acquisition	Mississauga, ON	$1.5 million	63%
Commercial	First	Refinance	Parry Sound, ON	$725k	70%
Commercial	First	Construction	Niagara, ON	$350k	47%
Residential	First	Refinance	Vanier, ON	$206k	81%
Residential	Second	Debt Consolidation	Durnobin, ON	$58k	82%
Residential	Second	Debt Consolidation	Calgary, AB	$58k	82%

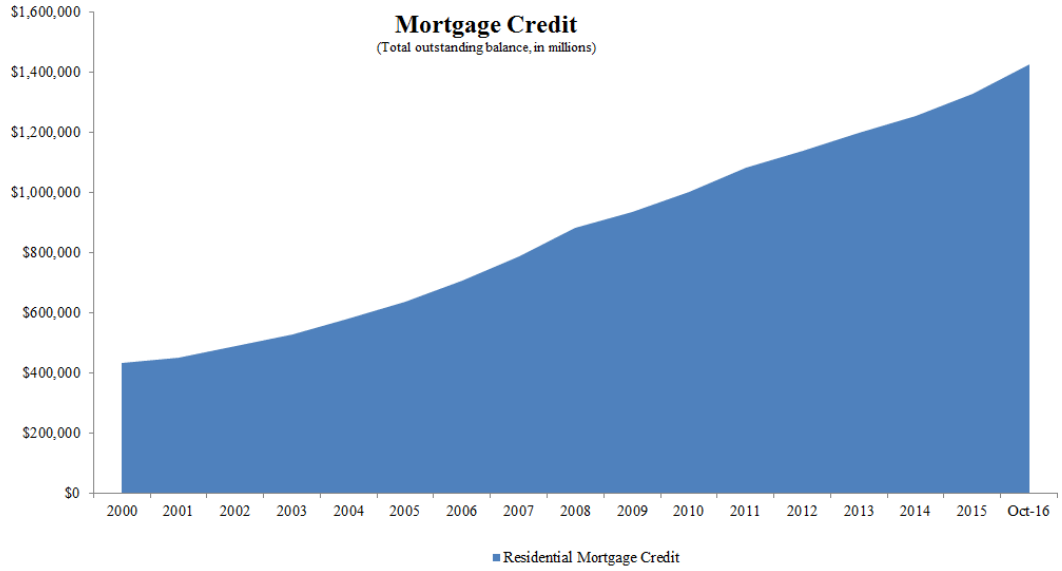
Source: MIC

Overall, we believe management's guidelines indicate their intent to manage a portfolio with above average risk levels that have the potential to generate above average returns to investors.

Private Lending Market

The following section provides an overview of the mortgage lending market.

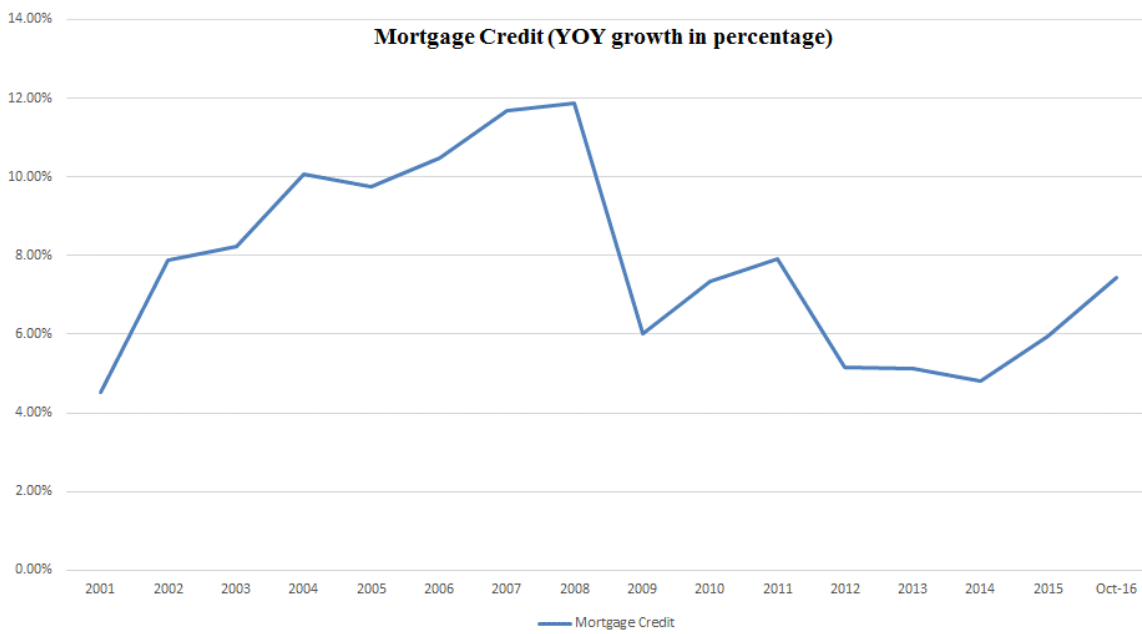
The total residential mortgage credit in Canada (outstanding balance of the major private institutional lenders) increased from $0.43 trillion in 2000, to $1.43 trillion by October 2016, reflecting a compounded annual growth rate ("CAGR") of 7.8%, and a 7.4% YOY increase.



Source: Statistics Canada

As of October 2016, mortgage credit accounted for 72%, and consumer credit accounted for the remaining 28% of total household debt.

The following chart shows the annual growth rate of mortgage credit. As shown below, the growth rates increased significantly in 2016, primarily because of the low interest rate environment and the strong increase in housing prices.



Source: Statistics Canada

Recent Industry Developments

With regard to the financing required for a purchase, buyers have historically financed 67% of their purchase through a mortgage and/or a home equity line of credit, ranging from 81% for first-time buyers, to 67% for second-time buyers, and 50% for those purchasing their third or subsequent home.

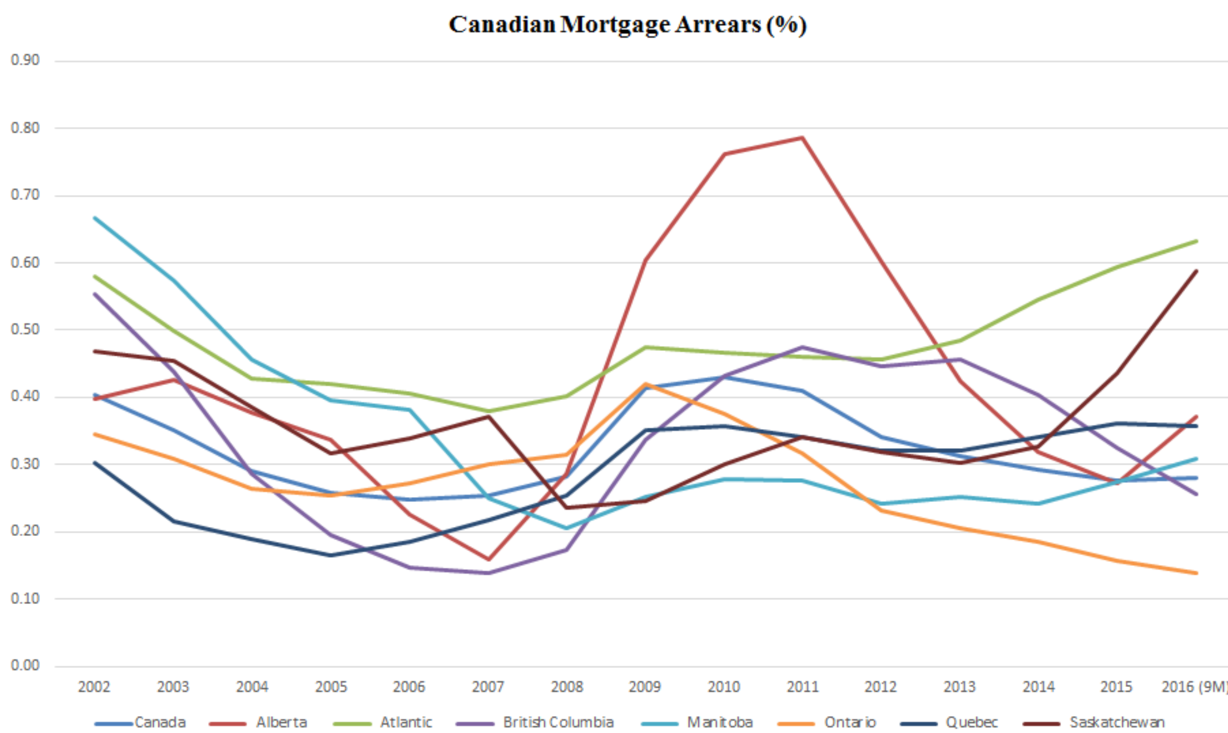
The tighter lending policies set by banks and conventional lenders have been encouraging more and more unregulated private lenders to enter the market over the last decade. On October 17, 2016, the federal government announced four key changes to the existing mortgage rules:

- All new insured mortgages will need to undergo a stress test; implying that a home buyer would not only need to qualify at the loan rate, but also at the Bank of Canada's five-year fixed posted mortgage rate, which is currently 4.64%; much higher than the rates offered by mortgage lenders.
- Insurance for low-ratio mortgages (down payment of over 20%) will only be provided by government backed lenders for the following: purchase price of under $1 million, a maximum amortization period of 25 years, a minimum credit score of 600, and the property must be owner-occupied.
- New reporting rules for the primary residence capital gains exemption.
- The government is considering options to shift some of the risk of defaults against insured mortgages to lenders.

We believe the above changes clearly indicate the government's intent to stabilize the real estate market in the country and potentially avoid a major downturn, similar to the U.S. The finance department estimates home sales could fall by up to 8% in 2017 before rebounding. We see these changes are likely to drive more borrowers to MICs and other private lenders.

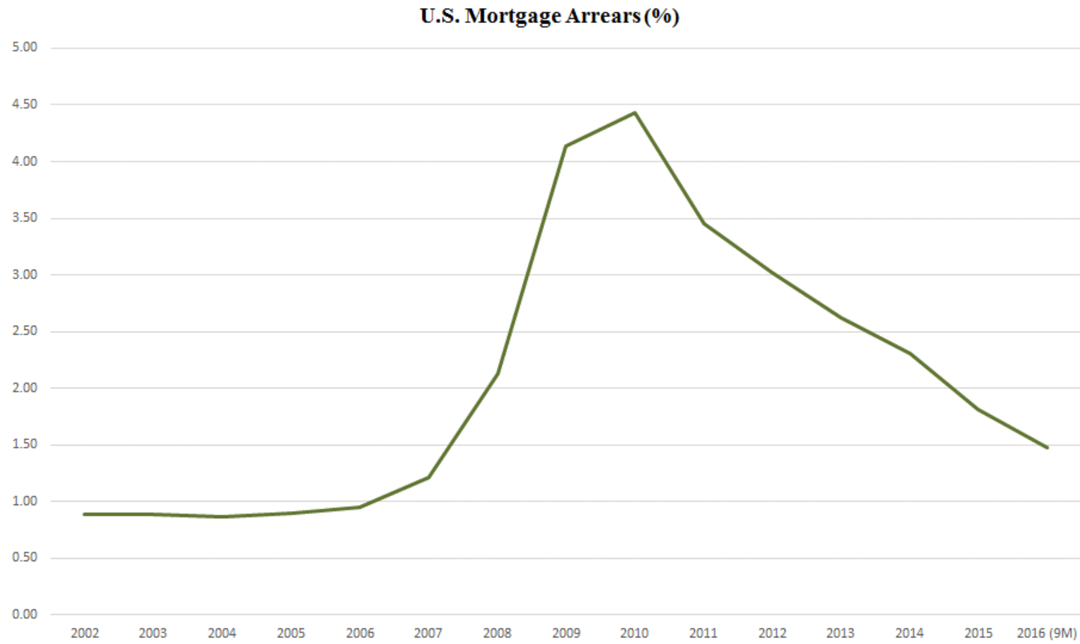
The other factors that have been contributing to increased lending are the strong growth in housing prices, decreasing unemployment rates (see chart below), a low interest rate environment, and the relatively low default rates.

Although there was a rise in mortgage arrears during the recession (mid-1990s and 2008-2009), the rates have dropped considerably since 2010, as shown in the chart below.



Source: CMHC

The national average was 0.28% in Q3-2016 versus 0.43% in 2010. This is significantly lower than the default rates in the U.S. (see chart below).



Source: CMHC

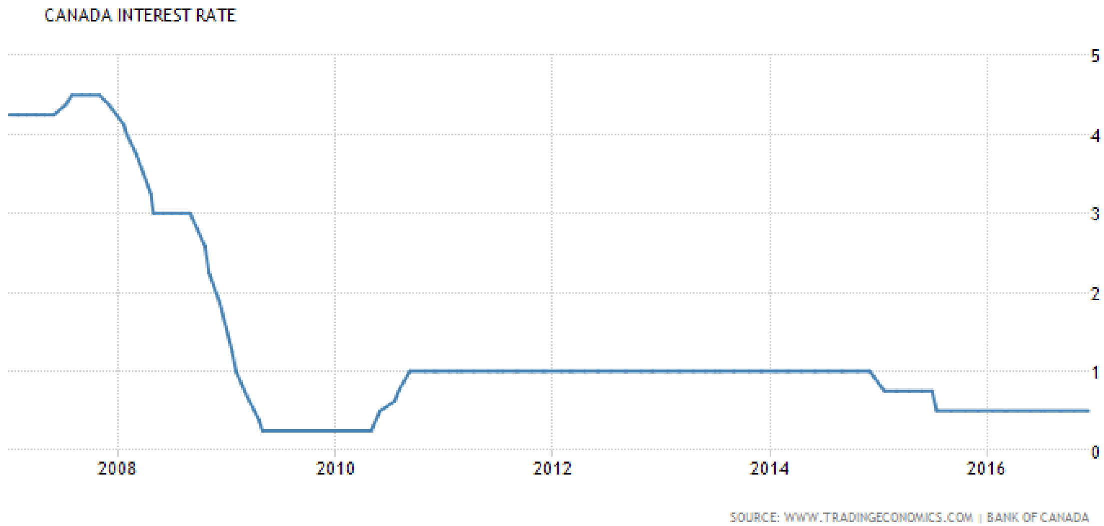
The following table shows the average, minimum and maximum rates in Canada since 2002. Ontario's ("ON") rate of 0.13% in Q3-2016, is well below the historical average 0.34%. The U.S. national average was 1.41% in Q3-2016.

%	2002 - 2016 (Average)	Low	High	Q3-2016
Canada	**0.32**	**0.25**	**0.43**	**0.28**
Alberta	0.42	0.16	0.79	0.41
Atlantic	0.48	0.38	0.63	0.63
British Columbia	0.34	0.14	0.55	0.24
Manitoba	0.34	0.21	0.67	0.31
Ontario	0.27	0.14	0.42	0.13
Quebec	0.29	0.17	0.36	0.34
Saskatchewan	0.36	0.24	0.59	0.61
U.S.	**2.07**	**0.87**	**4.43**	**1.41**

Data Source: CMHC

As mentioned earlier, the low interest rate environment is another factor that is driving lending. The following chart shows the overnight lending rate since 2007.

Overnight Lending Rate



We believe that all of the above factors indicate strong deal flow for MICs and private lenders in 2017.

Outlook on Toronto RE

In an effort to cool down the housing market in the Greater Toronto Area, the Ontario government announced a few changes to the existing rules. Among the changes, the key ones are a 15% tax on non-resident buyers of properties in the Greater Golden Horseshoe area, tax on vacant homes, and expanded rent control measures. The first two changes were in line with the changes seen in Vancouver last year. We believe the correction in Vancouver prices after these initiatives came into play in 2016 may have prompted the Ontario government to move in a similar direction. The tighter rent control measures, we believe, are likely to soften investment into apartment projects, which will impact lenders.

As a result of the above move, total MLS sales dropped by 20% YoY in May, and then by 37% YoY in June after reporting a significant YoY increase in the first three months of the year. Despite the drop in sales, the average price was up 6% YoY in June. The table below summarizes the key parameters.

Toronto	Jan-16	Jan-17	YoY	Feb-16	Feb-17	YoY	Mar-16	Mar-17	YoY
Residential Sales	4,672	5,188	11%	7,621	8,014	5%	10,326	12,077	17%
New Listings	8,906	7,338	-18%	11,234	9,834	-12%	14,795	17,051	15%
Active Listings	9,966	5,034	-49%	10,902	5,400	-50%	12,132	7,865	-35%
Sales to Listings	46.88%	103.06%		69.90%	148.41%		85.11%	153.55%	
MLS Home Price Index	630,193	770,745	22%	685,738	875,983	28%	688,011	916,567	33%

Toronto	Apr-16	Apr-17	YoY	May-16	May-17	YoY	Jun-16	Jun-17	YoY
Residential Sales	12,016	11,630	-3%	12,790	10,196	-20%	12,725	7,974	-37%
New Listings	16,190	21,630	34%	17,356	25,837	49%	16,918	19,614	16%
Active Listings	12,554	12,926	3%	12,931	18,477	43%	12,327	19,680	60%
Sales to Listings	95.71%	89.97%		98.91%	55.18%		103.23%	40.52%	
MLS Home Price Index	739,762	920,791	24%	752,100	863,910	15%	747,018	793,915	6%

Source: Toronto Real Estate Board

A factor that indicates health of the real estate market is the sales to active listings ratio – which dropped from a record high of 154% in March to 41% by June.

The following table shows that sales dropped across almost all property types in June:

Toronto sales by type	Jan-16	Jan-17	YoY	Feb-16	Feb-17	YoY	Mar-16	Mar-17	YoY
Detached	2,109	2,261	7%	3,627	3,721	3%	4,954	5,887	19%
Semi - Detached	452	423	-6%	725	651	-10%	986	1,002	2%
Att/Row/Townhouse	375	421	12%	591	619	5%	830	937	13%
Condo Townhouaw	356	356	0%	511	546	7%	721	789	9%
Condo Apartment	1,302	1,636	26%	2,046	2,360	15%	2,641	3,261	23%
Link	67	81	21%	103	99	-4%	177	170	-4%
Co-op Appt	7	3	-57%	7	7	0%	7	11	57%
Det Condo	1	2	100%	3	7	133%	5	13	160%
Co ownership Apt	3	5	67%	8	4	-50%	5	7	40%
Total	**4,672**	**5,188**	**11%**	**7,621**	**8,014**	**5%**	**10,326**	**12,077**	**17%**

Toronto sales by type	Apr-16	Apr-17	YoY	May-16	May-17	YoY	Jun-16	Jun-17	YoY
Detached	6,062	5,887	-3%	6,500	4,757	-27%	6,307	3450	-45%
Semi - Detached	1,137	1,002	-12%	1210	930	-23%	1265	759	-40%
Att/Row/Townhouse	980	937	-4%	975	802	-18%	987	652	-34%
Condo Townhouaw	862	789	-8%	889	711	-20%	903	629	-30%
Condo Apartment	2,809	3,261	16%	3,056	2,854	-7%	3,114	2371	-24%
Link	205	170	-17%	217	113	-48%	180	87	-52%
Co-op Appt	17	11	-35%	7	14	100%	15	10	-33%
Det Condo	4	13	225%	7	7	0%	20	9	-55%
Co ownership Apt	9	7	-22%	9	8	-11%	3	7	133%
Total	**12,085**	**12,077**	**0%**	**12,870**	**10,196**	**-21%**	**12,794**	**7,974**	**-38%**

Source: Toronto Real Estate Board

We maintain a cautious outlook on the Toronto real estate market and believe that a slight correction (as seen in the Vancouver market) will be healthy for the long-term.

Structure

Management and family members own 100% of the voting common shares of the MIC. As of December 31, 2016, the fund had a total of 3.21 million non-voting Class A preferred shares (32 investors), all of which were issued at, and currently priced at, $1 per share. The MIC had raised $2.20 million in 2016, and $1.00 million in 2015, through the issuance of preferred shares. The MIC uses Waverley Corporate Financial Services Ltd., an Exempt Market Dealer (“EMD”), to raise capital. A sales fee of up to 2% of the gross proceeds is paid to Waverley.

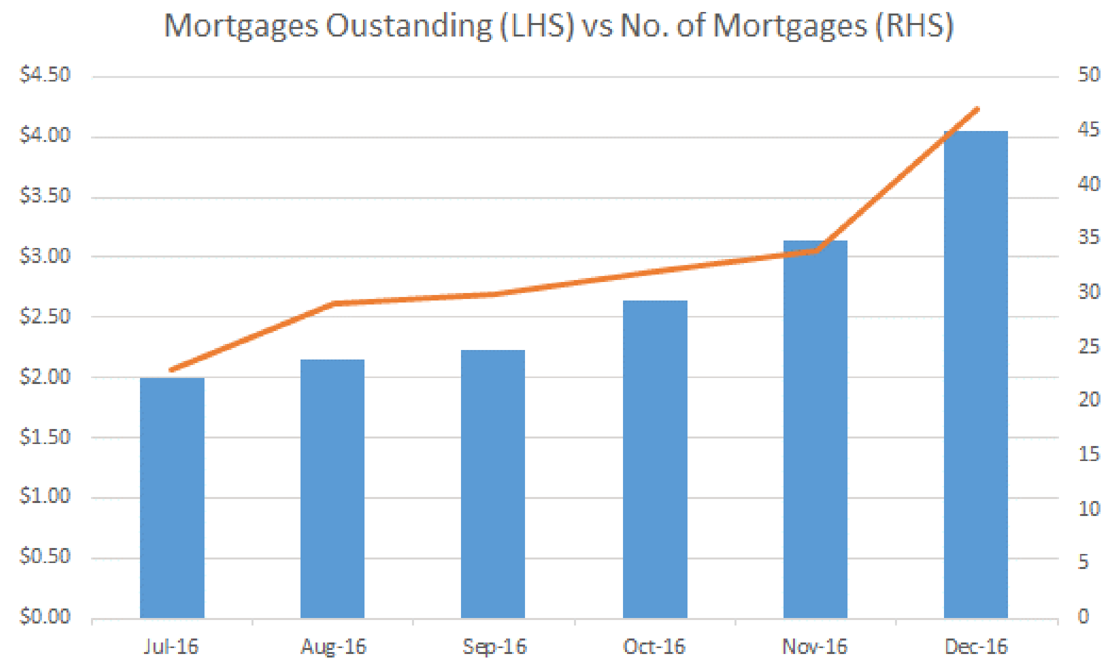
Management’s goal is to grow its portfolio to approximately $10 million by the end of 2017.

There is no market or exchange that the shares trade on. The shares are non-transferable. They are eligible for redemption, at the book value, after one year of investment. A penalty of 2.5% is applied in year 2, with no penalty on redemption requests after 2 years of investment. The OM states that, in certain cases, investors may be able to redeem within the first year, subject to a 4% penalty. This is a reasonable feature as comparable private MICs tend to apply a redemption penalty in the first few years of investment. As per the OM, the fund will not have to redeem if there are redemption requests in a quarter totaling more than 9% of the total invested capital.

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.

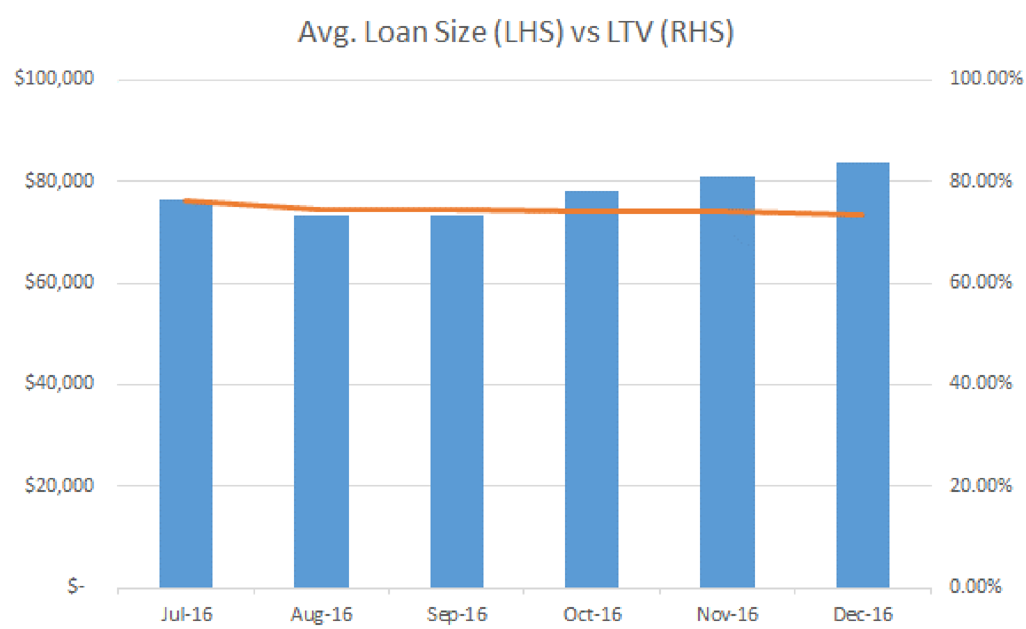
MIC Portfolio

At the end of 2016, the MIC had $4.05 million in mortgages outstanding across 47 properties.



Approximately 87% of the portfolio was in ON.

The average loan size was $83,772 and the average LTV was 74% at the end of 2016.



Financials

The fund’s financial statements are audited by Harris & Partners, LLP, an Ontario based accounting firm.

The MIC reported revenues of $67k in the 12 months ended June 30, 2016. **We have reviewed the audited financial statements.** The FY2017 statements will be available by August 2017.

Income Statement	2016
Total revenues	**$66,895**
Expenses	
Professional fees	$18,214
Office	$3,952
Total expenses	**$22,166**
Net income before dividenc	**$44,729**
Dividends	$63,942
Net income	**-$19,213**

YE – June 30th

The MIC paid out $64k in dividends during the period. The net loss during the period was $19k.

The following table shows a summary of the MIC's balance sheet. At the end of June 30, 2016, the MIC had $1.43 million in mortgages. No loan loss provisions were assigned. Investors' capital totaled $1.82 million.

Balance Sheet	2016
Assets	
Cash	$188,174
Funds held in trust	$189,536
Mortgage receivables	$1,434,000
Total assets	**$1,811,710**
Liabilities & Equity	
Bank indebtedness	
Accounts payable	$10,639
Preferred shares	$1,820,280
Total liabilities	**$1,830,919**
Equity	$4
Retained earnings	-$19,213
Total liabilities & equity	**$1,811,710**
Debt to Capital	0%

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 ON. A significant portion of the investments are likely to be secured by properties outside of the major cities.
- 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).
- Loans are primarily interest only loans.
- The fund has the ability to use leverage, which would increase the exposure of the fund to negative events.
- Although the focus is on first and second mortgages, the fund may invest in third mortgages which carry higher risk.
- Redemptions are not guaranteed.

Rating

We are assigning an overall rating of 3 and a risk rating of 3 for the offering.

FRC Rating	
Expected Yield	8.5% - 9.0%
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	27%	Risk - 2	5%
Rating - 3	48%	Risk - 3	38%
Rating - 4	10%	Risk - 4	36%
Rating - 5	4%	Risk - 5	9%
Rating - 6	1%	Suspended	12%
Rating - 7	0%		
Suspended	11%		

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