Due Diligence Summary,
Opinion, and Rating

REPORT

Frontenac Mortgage Investment Corporation (FMIC)

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EXECUTIVE SUMMARY

FMIC Analyst Opinion & Rating

The first purpose of this report is to consider all material matters that an investor would require in order to conduct due diligence on a public non-trading mortgage investment corporation (MIC) investment. The second objective is to provide an independent analyst opinion of the risk level and expected return in 2018.

The analyst has provided investment research coverage for FMIC for over seven years and has become very confident in the management's ability to provide consistent returns to investors.

In summary, a risk rating level of 1 is given to this investment on a scale of 1 to 10. See Appendix 2 for a recent article that explains the analyst's thesis on determining risk levels on a macro-basis for similar investments.

The macro-factors that have been given the most weight are that FMIC is a MIC that is focused on first-position mortgages, is well diversified, does not use leverage for the purpose of increasing returns, and focuses on a conservative lending area.

The second step in considering a risk level assignment is to consider the fund's operational history, present management, corporate governance, and the current lending and risk environment. Due to FMIC's excellent track record, current financial health, and corporate governance, the offering has been rated a 1 for risk on a scale of 1 to 10.

The analyst has estimated an expected a return of 5.50% in 2018. Please see Appendix 1 for additional stress test scenarios.

2017 REVIEW

of Eiffel Peak Capital's Opinions & Recommendations

In 2017, Eiffel Peak Capital (EPC) issued five research opinions, with three recommending that investors sell or avoid investments and two opportunities that investors should consider investing in.

2017 Buy Recommendations:

First, we suggested on December 26, 2016 that investors consider FMIC for 2017. We identified it as a low-risk, public, non-trading company that we had followed for a number of years. Our analysis expected a 2017 return of 6%, and 2017 came in at 4.22%. This was a substantial return compared to other fixed-income investments in 2017. (Please see the section "2017 FMIC Return Comparison to Other Fixed-Income Investments"). FMIC performed below our expected target but well within our stress test range of 1.5% and 5.5%.

Second, we suggested that investors consider Olympia Financial Group (OLY), which trades on the Toronto Stock Exchange on February 15, 2017, when recommended company shares were $29.60. Today, the company is trading shares at $33.63, and investors received $2.04 in dividends. This represented a return of 20.51% for investors over the last 14 months.

2017 Sell or Avoid Recommendations:

First, we suggested investors sell shares of Blue Sky Energy (BSI) on the Toronto Venture Exchange on January 7, 2017. Today, the company is trading shares at $.50, and investors received no dividends. This protected investors that heeded our advice from a capital loss of over 40% over the last year.

Second, we suggested that investors sell shares of WINS Finance Holdings (WINS) on the NASDAQ Exchange on March 15, 2017. At the time, the company was trading for $277.18, and we put a target of $19.85. We had identified and presented for what we felt was fraudulent reporting and activity. The report was picked up by Bloomberg, and by June 1, 2017, the company met our target and fell to $19.85. At this time, the company was suspended from trading on the NASDAQ, and the CEO resigned. This recommendation potentially saved investors a drop of 90%.

Third, we suggested investors sell or avoid the National Bank Bond Fund on March 2, 2017. We had expected a return of only 0.9% and felt the risk was too high for such a low return. At the time of writing today, the one-year return, according to fundata.com, is negative 0.05%. All income was completely lost by management fees, and investors actually lost a small amount of principal.

FMIC Return Comparison to Other Fixed-Income Investments

Mortgage Focused Investments	1 Year Annual Return	3 Year Annual Return	5 Year Annual Return
BMO Mortgage and Short Term Income Series F	-0.21	0.44	1.17
Investors Group Mortgage and Short Term Income A	-1.24	-0.51	0.14
NBI Tactical Mortgage and Income F Series	-0.31	0.25	0.88
PH&N Short Term Bond and Mortgage Fund Series F	-0.41	0.53	1.51
Scotia Mortgage Income Fund Series A	1.16	0.99	1.03

Source: Fundata.com - Non Commissioned F Class used if track record was available, if not Commissioned A Class was used.

Short Term Income Focused	1 Year Annual Return	3 Year Annual Return	5 Year Annual Return
AGF Short-Term Income Class Series F	-0.58	0.12	0.85
CIBC Canadian Short-Term Bond Index Fund Class A	-1.36	-0.38	0.56
Fidelity Shorter Term Bond Fund Series F	-0.38	0.51	1.42
IA Clarington Short-Term Bond Fund Series F	-0.69	0.22	1.08
Invesco Short-Term Bond Fund Series F	-0.73	0.21	0.78
iShares Canadian Short-Term Bond Index	-0.53	0.38	1.32
Renaissance Short-Term Income Fund Series F	-0.49	0.12	1.1
RBC Canadian Shorter Term Income Fund Series F	-0.63	0.32	1.24
TD Short Term Bond Fund Series F	-0.88	0.23	1.2

Source: Fundata.com - Non Commissioned F Class used if track record was available, if not Commissioned A Class was used.

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Typically, investors invest in FMIC as a substitute for lower-yield, conservative investments, like mortgage funds, government bonds, and other short-term, fixed-income securities. The table below shows the one-year performance of some of the largest investment options in these classes.

FMIC Calendar Returns	
2017	4.22%
2016	6.00%
2015	5.60%
2014	6.22%
2013	6.02%
Average	5.61%

As clearly seen from the charts, the overall low but volatile interest rate environment has produced low or sometimes negative returns for the conservative portion of investors portfolio. The average return of 5.61% over the last five years of FMIC has shown the strength of the thesis and management of FMIC.

FMIC INTRODUCTION

FMIC has been in its current legal form since 2005; the manager's track record goes back to 1985 in various legal entities. FMIC and the manager have not experienced a negative year in their performance. FMIC is a pool of capital in the legal form of a mortgage investment corporation that raises investors' money to invest in a diversified group of mortgages.

The basis of the argument is that Canadian banks have very strict lending criteria. For example, it is challenging for people to obtain mortgage financing for homes that involve extensive renovations, constructions, and some rural properties. Recently, the Canadian federal government has introduced a stress test for borrowers even if they have a large down payment of 20% or more.

Also, borrowers who are self-employed and those who have distant credit challenges or special circumstances may not qualify for bank mortgages. FMIC management has been a specialist in lending to borrowers with one or more of the above situations for short periods of time until they qualify for traditional bank financings. This model has allowed FMIC to produce returns of 4-7% over the last ten years without the use of leverage. The stated performance goal from the manager is the posted 5-Year Guaranteed Investment Certificate rate at a Canadian Schedule I bank plus 3%.

FMIC, using its related administrator, Pillar Financial Services, works closely with independent mortgage brokers in its lending area. The independent mortgage brokers then refer applications electronically for clients who they feel meet the lending niche of FMIC. FMIC primarily lends in Eastern Ontario, which includes the cities of Ottawa and Kingston. The secondary lending areas would include other centers in Southern Ontario outside of Toronto. These areas have homes that are priced much lower with more stable prices compared to the Ontario region of Toronto that is most familiar to investors.

FMIC Key Due Diligence Consideration

Below are the key due diligence considerations in alphabetical order compared to the level of importance.

1. Assets Under Management (AUM)
The total AUM of FMIC is $183,226,117, as measured using the net asset value of the company.

2. Audit
There is a required annual audit that is performed by MNP Inc. at the conclusion of each year end of December 31. There will also be a non-audited, semi-annual update produced after each June 30th. The audit will be conducted using IFRS guidelines. In 2016, the company changed its auditor from Raymond Chabot Grant Thornton LLP to MNP. The reason was due to a change in key personnel at the former auditor. Based on the required public disclosures of National Instrument 51-102, it can be determined that the former auditor was not in objection to the practices of FMIC. In addition, the fact that the new auditor is a large, reputable, and national firm provides comfort to the analyst.

3. Books and Recordkeeping
The Analyst has strong confidence in the books and recordkeeping. Having this delegated to SGGG in conjunction with Computershare adds high confidence for investors.

4. Canadian Revenue Agency Restrictions
To stay classified as a MIC, FMIC must be widely held, not be engaged in development, own at least 50% residential mortgages, own only Canadian mortgages, and continue to produce an annual audit. The analyst is confident that all of these requirements have been maintained and FMIC's status as an MIC is not in question.

5. Capital Raising Plans and Costs
FMIC does not allocate any budget for commissions to attract investment capital. Most of the capital has come from individual investors known to the management or from portfolio managers or investment advisors who charge a fee on top of the management. This brings confidence, as many MICs' failure has been due to high costs of capital that often came from commissions.

6. Conflicts of Management
The prospectus highlights two potential conflicts of management. First, the executive management and directors own investment units. Second, Pillar Financial Services, a related company, sources the mortgages. It is in the analyst's opinion that the management is aligned more by owning the same class of shares as investors. Furthermore, the analyst believes that the conflict regarding the related company, Pillar Financial Services, is non-material and fully disclosed.

7. Corporate Governance
The corporate governance of the MIC is rated as very strong. It has seven independent directors, and there are no non-independent directors. The independent directors are suggested and voted in by the shareholders. The investors have an opportunity at the annual meeting to vote in anyone they feel is appropriate. The Board can only reject investors' suggestion of Board members if the suggested person is not a shareholder or did not complete a satisfactory background check that would include both credit and criminal histories. The Board members also serve as an independent review committee.

Currently, the audit committee is made up of three independent directors that have the responsibility of reviewing the financial reports on behalf of the Board. In addition, the full Board needs to approve loans in excess of 2.0% of net assets. The Board has adopted the Carver model of Policy Governance. The nine main principles are as follows:

- Organization ownership
- Board's responsibility to the organization
- Board's authority
- Written guidelines
- Defined benefits from the organization
- Board conduct
- Staff conduct
- Delegation
- Monitoring of delegation

A company that has a documented and prescribed form of corporate governance is a great benefit to investors.

FMIC Key Due Diligence Consideration

8. Employees

Pillar Financial Services, the administrator, has 15 employees, 5 of which also work for the portfolio manager in duplicate roles. There are only 2 employees, Matthew Robinson (CEO) and Kevin Cruickshank (CFO), who would be considered senior mind and management.

9. Expenses

The expenses of FMIC are very low compared to other MICs in Canada and are similar in amount to an equity mutual fund. The chart below shows a breakdown of the fees as a percentage of assets under management. The Management Expense Ratio (MER) which is based on weighted net assets is 2.53% in 2017.

10. Dilution and Option

There are no concerns regarding dilution. All investors are equal common shareholders who receive one share per $29.84 invested. Each year, the amount of redemptions and new purchases simply adjust the number of shares issued and outstanding. There is no maximum amount of authorized shares outstanding.

11. Distributions

The Board of Directors has decided to distribute all net income in the company. The monthly distribution is paid after calculating the net income each month to available shareholders.

12. Independent Review Committee

In 2017, the Independent Review Committee (IRC) was not required to meet on any material matters. Typical reasons the IRC may meet would be when a related person considers a mortgage from FMIC or some other material matter that may raise the suspicion of a conflict.

13. Interview and Due Diligence Visits Highlights

The analyst has visited the location of business of FMIC on four occasions since 2010. The last visit was in February of 2018.

The analyst has always found the firm and its employees to have high integrity and to display the utmost professionalism and business conduct.

14. Investor Communication

FMIC is a public issuer and is obligated to report communication to investors. The following is an obligation of FMIC to provide to shareholders:

-Audited annual financial statements

-Non-audited, semi-annual statements

-Semi-annual management report of fund performance

-Quarterly portfolio disclosure and fund fact sheet each quarter

-Notice of annual meeting. The company is legally obligated to have an annual meeting within 15 months from the last annual meeting and no later than 6 months after the preceding financial year.

All documents are publicly available on www.sedar.com, which is Canada's filing system for public companies' disclosure documents. Additionally, they are also made available at www.fmic.ca.

15. Investor Liability of Financial Obligations

Investors as common shareholders are not liable for any actions of the company and have no further obligation to invest in the future.

FMIC Key Due Diligence Consideration

16. Key People and Turnover

FMIC has seven directors and two senior executives that are considered mind and management. The bios of the individuals are contained in the prospectus, which has been vetted and approved by the Ontario Securities Commission. Based on the analyst's examination, the individuals who are included in the prospectus process have been thoroughly vetted. In addition, the two key senior executives are registered and supervised by the Ontario Securities Commission.

Nonetheless, the analyst has created a chart below to confirm if the said individuals could also be publicly verified and if any negative information could be found regarding them.

Individual	Role	Verfication of Experience	Negative Informaiton
Robert Barnes	Director	Yes	No
William Calvert	Director	Yes	No
Eric Dinelle	Director	Yes	No
Margaret Kekl	Director	Yes	No
Sheldon Jacobs	Director	Yes	No
Andrew Blanchard	Director	Yes	No
Cara Chesney	Director	Yes	No
Matthew Robinson	CEO	Yes	No
Kevin Cruickshank	CFO	Yes	No

Since the analyst's coverage in 2010, the only key departure was of the founder, Wayne Robinson, who provided a substantial succession plan before his planned retirement. Wayne is still available as an advisor and is a director of the related portfolio manager, W.A. Robinson Asset Management.

17. Key Related Parties

The organizations effectively work as one company, but due to various regulatory reasons, their functions are split into the MIC (FMIC), the portfolio manager (W.A. Robinson Asset Management), and the mortgage originator and administrator (Pillar Financial Services).

• W.A. Robinson Asset Management is the licensed investment and portfolio manager of FMIC. It is considered related because the portfolio manager, shareholder, and director of W.A. Robinson Asset Management is also the CEO of FMIC.

• Pillar Financial Services Inc. is a licensed mortgage broker that provides administration services and is the source of the mortgages owned by FMIC. It is considered related due to the portfolio manager, shareholder, and director of Pillar Financial Services also being the CEO of FMIC.

18. Key Unrelated Parties

• Computershare is the custodian and holds the share certificates for investors on their behalf.

• SGGG Fund Services Inc. is the registrar and transfer agent that manages the books and records of the shareholders.

• MNP Inc. is the auditor of FMIC and will provide and has been retained for an annual audit engagement.

19. Lending Area Considerations

FMIC lends mostly in Eastern Ontario in which the largest cities are Ottawa and Kingston. The lending area also includes many rural areas within a geographic area covering a 300-kilometer radius. The area's real estate economy is best described by using public statistics available for Ottawa.

The attributes to look at from a risk perspective are house price, unemployment, and affordability. Statistically, Ottawa is a lower-risk lending jurisdiction compared to the rest of Canada's major cities when comparing these three statistics.

The table below shows that the average house price in Ottawa totals about 76% of the average of Canada's ten largest cities.

Rank	City	Average House Price
1	Vancouver	$1,071,800.00
2	Toronto	$751,700.00
3	Victoria	$642,800.00
4	Calgary	$428,500.00
5	Edmonton	$374,361.00
6	**Ottawa**	**$373,200.00**
7	Montreal	$334,600.00
8	Halifax	$315,723.00
9	Winnipeg	$297,929.00
10	Saskatoon	$292,800.00
	Average	$488,341.30

Source: The Canadian Real Estate Association February 2018

When considering unemployment, Ottawa is very stable as well due mostly to the amount of government jobs that are non-cyclical in nature. The average unemployment rate in Canada's largest cities is 6.00%, with Ottawa coming in slightly lower at 5.9%, as shown in the table below.

Rank	City	Unemployment Rate
1	Victoria	3.3%
2	Vancouver	4.2%
3	Winnipeg	5.7%
4	**Ottawa**	**5.9%**
5	Toronto	5.9%
6	Montreal	6.6%
7	Halifax	7.2%
8	Saskatoon	7.6%
9	Edmonton	7.8%
10	Calgary	7.8%
	Average	5.0%

Source: Statistics Canada November 2017

FMIC Key Due Diligence Consideration

The median income of families in Ottawa is currently likely the highest. Statistics Canada's last data point is in 2015, and since then, Calgary has experienced a tremendous recession. The average income per median family of $104,070 is about 20% higher than the average for Canada's largest cities. The chart below shows this comparison.

Rank	City	Household Median Income
10	Calgary	$104,410.00
4	**Ottawa**	**$104,070.00**
9	Edmonton	$101,870.00
8	Saskatoon	$ 94,580.00
1	Victoria	$ 89,640.00
7	Halifax	$ 85,940.00
3	Winnipeg	$ 81,880.00
2	Vancouver	$ 79,930.00
5	Toronto	$ 78,280.00
6	Montreal	$ 76,950.00
	Average	$ 80,940.00

Source: Statistics Canada 2015

In summary, a combination of low unemployment, inexpensive housing costs, and high median income compared to the rest of Canada makes for a strong lending area. This is in strong contrast compared to Vancouver and Toronto.

FMIC Key Due Diligence Consideration

20. Legal and Ownership Structure
FMIC is a Canadian corporation that qualifies as a MIC. The investors are common equity shareholders. There are no preferred shareholders. The debt obligations are only the line of credit (LOC) from the Royal Bank of Canada and any short-term account payables. Management's participation is only via the purchase of common shares, which are of the same class and rights as investors' shares, and management fees for portfolio management and mortgage administration.

21. Leverage
FMIC has an established LOC with the Royal Bank of Canada. The purpose is to provide liquidity and manage the timing associated with lending and repayment timing discrepancies of mortgage payments. The LOC is not used for leverage and is restricted to 15% of the net asset value. For this reason, the analyst does not consider FMIC to be a leveraged MIC.

In March of 2016, the credit limit was adjusted to $29 million Canadian dollars and is secured by a general securities agreement. The availability and restrictions of the LOC may change at any time. Currently, the LOC carries a rate of 1% over the Canadian prime rate. As of December 31, 2017, the LOC was being used and carried a $16,580,000 balance.

22. Liquidity, Redemption, and Penalties
There is a redemption privilege once per year on November 30. In order to redeem, a shareholder must submit their request in proper form 20 business days before November 30. There can be limited liquidity at the Board's discretion, and this will not apply if the redemption request is greater than 25% of shares outstanding. If there is a total redemption for more than what is available, each shareholder redeeming will only receive a pro rata amount of redemption. There are no penalty fees or charges for redeeming.

23. Litigation
There is no outstanding litigation disclosed through the prospectus or audited financial statements.

24. Management Compensation and Fees
Board members each receive compensation of $12,500 per year. In addition, the Board Chair receives an additional $10,000 per year for his or her role. Any out-of-pocket expenses incurred while fulfilling their role are reimbursed as well.

25. Management Investment
All members of management and directors are personally invested in FMIC. In total, they own 123,451 shares, or $3,703,557, as of April 16th 2018.

26. Marketing Material Accuracy
The analyst has reviewed all marketing material and finds it to be a balanced and accurate representation of the offering.

27. Overriding Agreements
There are no overriding agreements similar to a unanimous shareholder agreement. There are no special share classes or voting shares.

28. Outside Business Activities (OBA)
The Board of Directors has many OBAs, as this is a part-time role for Board members. The analyst was not able to identify any conflicts in their current activities or employment. The executive team does not have any OBAs except for the activities in the two highlighted related companies.

29. Previous Offerings of Management
The Mortgage Investment Corporation of Eastern Ontario was merged in FMIC in 2012. This reduced the executive management role in only one mandate.

30. Settlement Agreements or Sanctions
Based on a historic search in the Canadian Securities Administrators database, there has been no settlement agreements or sanctions received against the directors, executive management, or the portfolio manager.

31. Subscription Details
The minimum investment is $5,000, and the investment is registered plan-eligible. FMIC is also FundSERV eligible and code is WAR110/111 for F-Class investments.

FMIC Key Due Diligence Consideration

32. Regulation
The portfolio manager W.A. Robinson Asset Management is licensed by the Ontario Securities Commission as its principal regulator. In Ontario, it is licensed as an exempt market dealer, portfolio manager, and investment fund manager. In British Columbia, Alberta, Saskatchewan, and Manitoba, the firm is registered as an exempt market dealer and portfolio manager. In Quebec, the firm is licensed as a portfolio manager. The offering is available via prospectus in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, and Newfoundland and Labrador. In Quebec, it is available via an offering memorandum.

FMIC has an agreement to transition from an investment fund to a corporate issuer within the next two years. In reaching this agreement, the offering may not increase its credit line to be greater than 15% of net asset value, invest more than 10% in second mortgages, or invest more than 25% in commercial mortgages. These levels had never been breached before and are not restrictive for the portfolio manager. In addition, there is mention in the prospectus of the issuer becoming supervised by corporate finance instead of a fund management division of the Ontario Securities Commission. The analyst, upon further investigation, does not consider this material.

33. Returns – Historic and Target
The mandate of a portfolio manager is to provide a return 3% higher than a Schedule A Bank 5-Year GIC. The chart below tracks the average rate of return compared to the Canadian federal bank rate. Typically, this rate is about 0.75% lower than the 5-Year Schedule A GIC rate and has easier historic information available to track. In the table below, we have gone back 11 years since the initial public offering to track the amount of alpha or manager skill that has been obtained.

On average, the manager has produced about 4% of alpha, which historically would track at about 3.25% above the 5-Year Schedule A GIC rate. The target rate seems obtainable based on history, and management has significantly outperformed this target over the last five years. The largest factor affecting return is default of borrowers. The target is to have less than 5% of the portfolio considered impaired. Based on history, this leads to a 10% loss in terminal value. For example, 5% of impairments would lead to 0.5% of terminal loss. As of June 30, 2016, the portfolio contained 4.3% of its loaned impaired, which leads to an estimated 0.43% terminal loss. We feel comfortable to put a base case return target of 5.5% in 2018.

Calendar Rates of Return

Year	Return	Bank Rate Mid Year	Alpha
2017	4.22%	1%	3.22%
2016	6.00%	0.75%	5.25%
2015	5.60%	0.75%	4.85%
2014	6.27%	1.25%	5.02%
2013	6.02%	1.25%	4.77%
2012	5.64%	1.25%	4.39%
2011	6.67%	1.25%	5.42%
2010	5.01%	1%	4.01%
2009	5.88%	0.50%	5.38%
2008	6.24%	3.25%	2.99%
2007	7.20%	4.75%	2.45%
2006	5.80%	4.50%	1.30%
2005	5.70%	2.75%	2.95%

3 Yr Alpha	4.44%
5 Yr Alpha	4.62%
10 Yr Alpha	4.53%

34. Risks and Risk Mitigation
For mortgage investment corporations, the key risks are terminal loss experienced through mortgage defaults, large individual mortgage loss, interest rates, and fraud. The manager has put a process in place to provide mitigation to each concern.

FMIC Key Due Diligence Consideration

-Low loan-to-value (LTV) ratios. Each mortgage must have a loan-to–value ratio of less than 80% at funding and have an appraisal by an accredited firm.

-Diversification of mortgages. The current pool has over 550 individual mortgages.

-Limited amount of large mortgages. The directors have mandated that FMIC must move away from large mortgages. As of December 31, 2017 there are four mortgages in size over $5 million, with the largest being $14.2 million. After the ten largest mortgages, the rest have values of less than $1.5M, with the average being less than $400,000. A shift to more diversification and smaller mortgage sizes will reduce this risk.

-The mortgages are short in duration, with 98% having terms of less than 2 years. This helps control the risk of interest rates rising.

-Fraud is the largest risk of many private issuers. FMIC has very strong corporate governance and operational controls, which mitigate this risk.

35. Taxation Considerations
The dividend distributions of FMIC, like other mortgage investment corporations, do not qualify for special tax treatment and are deemed as taxable income.

36. Valuation
The net asset value is determined monthly by management but is confirmed by the audit each year.

37. Voting and Control Rights
Each shareholder received one vote per share that they own. Any shareholder can hold a special meeting or vote, but it would require at least 25% of the shares entitled to vote at the meeting to shareholders in person or via proxy.

38. Underlying Mortgages
The key qualifications for mortgages to be funded are as follows:

- Loan-to–value ratio of less than 80%
- Less than five-year terms
- New home construction is allowable.
- Mortgages typically will have open terms.
- More than 90% first mortgages
- Commercial mortgage restricted to 25%

Based on the above mandate, the portfolio currently has the following characteristics:

Portfolio Allocation	
By Type of Mortgage	
Residential	47.6%
Residential Construction	16.7%
Residential Development	26.0%
Commercial	2.9%
Vacant Land	6.8%
By Interest Rate	*Percentage of Mortgages*
6.49% or lower	5.70%
6.5% to 7.49%	4.80%
7.50% to 8.49%	21.50%
8.50% to 9.49%	23.30%
9.50% to 10.49%	29.90%
10.50% to 11.49%	4.70%
11.50% to 12.49%	10.10%
	$19,191,677
By Mortgage Position	
First Mortgage	99.80%
Second Mortgage	0.20%
By Region	
Ontario	99.90%
Quebec	0.01%
Buy Maturity	
Less than 1 Year	86.3%
1.1 to 2 Years	13.6%
2.1 to 3 Years	0.1%

FMIC MANAGEMENT OUTLOOK 2018

The following qualitative analysis provides additional support to our quantitative process in modelling future returns. In meeting with management, there are four main reasons why we feel that 2018 will provide an alpha and default rate that is in line with the ten-year average.

1. The Bank of Canada has continued to tighten the restrictions on banks' ability to provide mortgages to homeowners. Restrictions such as higher down payments and financial stress test will increase those that do not qualify for traditional bank mortgages. This will increase deal flow and will allow for more opportunity for FMIC to lend to quality borrowers that previously were financed by the traditional banks. In 2017, the beginning of the year posed a challenge, as much capital was sitting in cash and not being lent out; this was a drag on performance. This will not be an issue in 2018, as there is strong deal flow due to regulation changes.

2. FMIC has started to use a much deeper analysis of its past and current lending portfolio to determine the right mix of mortgage borrowers that reduce the overall risk of the portfolio. This has led to a more standardized underwriting process that helps recalibrate and reduce bias in decision making. The introduction of survival analysis helps to focus resources on increasingly risky loans and to guide renewal decisions and forecast the timing of defaults. This type of analysis can be aggregated to look at a portfolio level to help maintain proper diversification across the portfolio.

3. The overall portfolio risk has been reduced heading into 2018. There are 25% less large loans over $5 million, and portfolio diversification has increased by over 20% in the last 18 months.

4. There is a strong demand for an income product like FMIC, and with additional capacity to lend, FMIC will be able to raise additional capital, which will allow additional diversification and execution of the newer, deeper analysis underwriting process.

Return Model

The following is a return model for the fund. The main influences on the return are controlling the terminal default rate and manager alpha.

The formula below provides a way to predict the return. See Appendix 1 for the results of a stress test of the assumptions. In the model below, we take the average gross alpha from the manager over the last ten years from 2007 to 2017. The net alpha after terminal loss was 4.53% over that ten-year period, including average terminal losses of .50%. This provides a gross alpha of 5.03%. We then adjust for any abnormal terminal losses and any adjustment for interest rates. To be cautious we have used a net alpha of only 4% in our base case modelling. The analyst is of the belief that in 2018, Canadian interest rates will increase by 25 bps. The model predicts a 5.50% return for investors in 2018.

Current Bank Rate	1.25%
Increase in Bank Rate	0.25%
Ten Year Gross Alpha	4.50%
Terminal Loss Average	-0.50%
Abnormal Terminal Loss	0%
Expected 2018 Return	5.50%

Analyst Disclosures and Conflicts

Analyst Disclosure		
In the last three years, have Eiffel Peak Capital or its Principals had the following potential conflicts with the issuer reviewed in this report?		
Conflict	Yes	No
Investors		x
Corporate Finance Fees		x
Advisory Fees	x	
Research Fees		x
Charity Solicitation		x
Conference Sponsorship		x

Appendix 1

Stress Tests

	Base	Stress #1	Stress #2	Stress #3	Stress #4	Stress #5
Current Bank Rate	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
Increase in Bank Rate	0.25%	0	0	0	0	0
Ten Year Gross Alpha	4.50%	3.75%	3.13%	2.60%	2.17%	2.02%
Terminal Loss Average	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%
Abnormal Terminal Loss	0%	-0.50%	-1.00%	-1.50%	-2.00%	-2.50%
Expected 2018 Return	5.50%	4.00%	2.88%	1.85%	0.92%	0.27%

In the stress tests, we make the following assumptions.

1. In each of the five tests, we assume the Bank of Canada does not raise interest rates.

2. We assume each time that the alpha the manager produces is 20% less than the average to begin and then gets 20% less progressively with each stress test.

3. We assume that the terminal loss is increased from .5% each year by an additional .5% from the previous stress test.

In the worst-case scenario, we have assumed gross alpha that is approximately 4% lower than the ten-year average and 3% terminal loss in the portfolio with no additional Bank of Canada increases. Even in these extreme conditions the portfolio would still have a positive return in 2018.

Appendix 2

Article on Risk

As an analyst that specializes in the Canadian retail exempt market, I am often asked about the risk and return expectations of different sub-asset classes. In this article, I will share my views on the following two questions:

1. How do different exempt product asset classes rank for risk?

2. What returns would I require before considering investing in a specific sub-asset class?

To avoid misinterpretation, I would like readers to be aware of the following:

1. Canadian exempt market products should be considered high-risk in general and are best considered for investment using a licensed dealing representative who reviews an investor's suitability.

2. The returns below are what I would require in order to consider investing, not what the asset class is expected to provide. For example, in condo development, many issuers offer returns to investors of around 8% for financing soft costs and do not have permits in place. For myself, I would require a return of around 21% to feel compensated for the risks.

3. No specific investments are referenced, only asset classes for this article.

This is my opinion and not the opinion of any companies that I am a Board member of or associated with.

Below, in my opinion, I rank sub-asset classes from 1 to 10 for risk (1 being the lowest and 10 being the highest) and the return I would expect personally for taking on the risk. The returns are what I would require in order to consider investing.

Risk Level	Sub-Asset Class	Minimum Required Return
1	Asset-Backed Lending – No Leverage	5%
1	Real Estate – Income Producing – No Leverage – Low to Mid-Priced Region	5%
2	Mortgage Investment Corporation – 25% - 50% Bank Leverage and First Mortgages	7%
3	Asset Backed Lending – 50% - 75% Bank Leverage	9%
3	Land Development – No Leverage – No Lift – Pre-Zoning	9%
3	Oil and Gas Production Income – No Leverage	9%
4	Mortgage Investment Corporation – 25% to 50% Bank Leverage – 2nd Mortgages	11%

Risk Level	Sub-Asset Class	Minimum Required Return
5	Oil and Gas – Income Producing – 25% to 50% Bank Leverage	13%
6	Real Estate Development – Hard Cost Financing – Post Zoning and Approval	15%
7	Oil and Gas Development - Proven Reserves	17%
8	Oil and Gas Exploration – Full Flow through Credit	17%
9	Real Estate Development – Soft Cost Financing – Zoning and Approvals in Progress	21%
10	Oil and Gas Exploration – No Tax Credit	25% ++

I believe that industry participants and investors should first consider their asset allocation and then look for suitable investments that meet their risk vs. return preferences. After this is considered, extensive due diligence of the offering should be conducted.