Frequently Asked Questions - **Investment**

Mortgage Investing: What You Need to Know

What is a mortgage income fund and how does it generate returns for investors?
A mortgage income fund is an investment vehicle that pools money from investors to invest in various privately issued mortgages. As a fund manager, Morrison Financial will assess hundreds of loan opportunities and select the best few that fit our investment policy to be included in our portfolio. The monthly payments we receive from the loan portfolio are processed by the fund manager and passed on to the investors in the form of monthly distributions. This flow-through of mortgage payments is designed to provide investors a relatively predictable and consistent monthly income secured by real estate.

Do the mortgage income funds pay a dividend?
No, we do not pay an eligible dividend to our unit holders; as a Mortgage Income Fund, we pay our unitholders a monthly distribution. This flow-through of mortgage payments is designed to provide investors a stable, monthly income secured by the underlying real estate.

Why invest in a Private offering?
Unlike stocks and bonds, many alternative investment products are privately issued and do not trade on a public market. This is also the case for our Mortgage Income Funds. The benefit to this approach is that the underlying value of the mortgage fund is expected to stay constant and not affected by market's trading activities. Much like the value of your own home, we do not have external parties changing the bid/ask offering every second of the day.

What is an exempt market security?
An exempt market security is a security issued in Canada that falls under the National Instrument 45-106. By investing into our mortgage income fund, you are investing into an exempt market security. These securities are exempt from prospectus requirements and hence require less disclosure than a prospectus offering. To sell a security in the exempt market, an issuer must ensure that the investor qualifies under a specific exemption. Common exemptions include:

- Issue an offering memorandum
- Sell to accredited investors
- Sell to family, friends and business associates
- Or sell a minimum of $150,000 per transaction (not available to personal investments)

Mortgage Investing: What You Need to Know

What is the industry average cost for the management of a mortgage investment pool?

Major fees of companies that pool capital to invest into mortgages are management fees and loan origination fees.

1. Management fees: are generally 1.0% – 2.5% p.a. – the fee can be tied to Net Asset Value (NAV), investors' capital, or investors' capital plus debt. The best structure, we believe, is to tie fees to NAV as NAV reflects the health / performance of a portfolio. If there are no defaults, the NAV of a mortgage income fund should ideally be the same as the original value as all the excess cash flows generated each year are distributed to investors.

2. Loan origination fees: are generally 1% – 3% of the loan amount. Managers might either keep this amount for themselves or pass a portion of it to the fund. At Morrison Financial, a portion of this fee is passed to the funds.

What is an accredited investor?

In Canada, an "Accredited Investor" is defined by the provincial securities commissions throughout the country. For Ontario residents for example, an "Accredited Investor" is defined in OSC Rule 45-501. This definition includes, but is not limited to:

1. certain institutional investors and
2. an individual who beneficially owns, or who together with a spouse beneficially own, financial assets having an aggregate realizable value that, before taxes but net of any related liabilities, exceeds $1,000,000; or
3. an individual whose net income before taxes exceeded $200,000 in each of the two most recent years or whose net income before taxes combined with that of a spouse exceeded $300,000 in each of those years and who, in either case, has a reasonable expectation of exceeding the same net income level in the current year.

Do I need to be an accredited investor to invest in the Morrison Financial Mortgage Income Funds?

The short answer, no. We allow investment of eligible investors and non-eligible investors, however, those that fall into these categories will have limits on how much they can invest in exempt market products in a calendar year. Please speak to one of our dealing representatives to learn more.

Mortgage Investing:
Comparison to other types of investments

How do you compare to a real estate development project?

Investors can pool money to invest as equity for real estate development projects. The pooled fund can be used to purchase a land for redevelopment, bring the land through city approval process, and/or construct a condominium, townhouse complex, etc. Such projects tend to have a time horizon of 5 to 10 years

When investing in a real estate development, investors will realize their return once the project is completed and debt obligation is fully repaid. If the project is successful, the return on investment tends to be high. However, if the project is unsuccessful, the principal investment may be at risk.

How are you different from a REIT?

The essential business model of a REIT is to own real estates by becoming a landlord and make renovations to the buildings to increase properties value. Investment in a REIT is considered an equity investment and investors will receive a regular share of income based on the profit of the building operations (i.e. leases after accounting for operating expenses). The investors will also benefit from appreciation in the value of real estate assets.

Unlike a REIT, mortgage income funds do not aim to hold real estate assets. Also, mortgage fund gets paid from borrowers' monthly interest rather than from income from building operations.

How are you different from a MIC (Mortgage Investment Corporation)?

Morrison Financial's Mortgage Income Funds operate very similarly to a MIC (Mortgage Investment Corporation). We issue private mortgages, secured by underlying Real Estate assets. We differ slightly in that there aren't the same restrictions on our funds as there are on the MICs.

For example, at least 50% of a MIC's assets must be to residential mortgages, and/or cash and insured deposits at qualifying member financial institutions. Morrison Financial doesn't have this same restriction. We also tend to lend to developers more than homeowners.

Mortgage Investing: Comparison to other types of investments

How do you compare to public bond yields?

Mortgage funds' yield is significantly higher than that of investment grade bonds (e.g. US and Canada 10-year government bond). Junk bonds provide comparable or higher yield but they carry significant default risk (e.g. Cineplex offered unrated bond during the pandemic at 7.5%, cryptocurrency exchange Coinbase as of August 2022). Over the last 30+ years, Morrison Financial has had very few defaults and none that resulted in loss to investors.

How do you compare to a dividend stock?

A dividend stock aims to create value for its holder in two ways:

1. First, by the appreciation of the underlying value of the stock (capital gains); and
2. Second, by paying some form of dividend to the shareholders.

Unlike this model, the Morrison Financial Income Funds aim to pay our unitholders a monthly income – which would often be a much higher yield than a dividend yield. However, our mortgage funds do not generate a capital gain on the principal investment. Investors can choose to reinvest the monthly distribution; this would help grow the capital – but still it wouldn't be treated as a capital gain.

The final difference between our income funds and a dividend stock would be in the taxation of the distribution. There are differences between a stock that offers an eligible dividend and our fund distributions; for more information about your personal taxes, please consult an accountant or a tax expert.

Morrison Financial: Mortgage Income Funds

What are the mortgage income funds' targeted annual returns?
The fund's targeted annual returns are 7-8% for the Senior Fund and 9-10% for the Junior Fund (August 2022). Every month, the fund earns interest on the loans we have issued. The interest is paid to Morrison Financial, which then processes and send distributions to the investors. The annual return is a cumulative yield for 12 months of earned income.

Is there a minimum investment amount?
You can get started today with as little as $10,000.

Do you accept registered funds for investment?
Yes, we do. At present, we can take registered investments through Questrade or Olympia Trust. These include TFSAs, RRSPs, RESPs, RIFs, LIFs, etc.

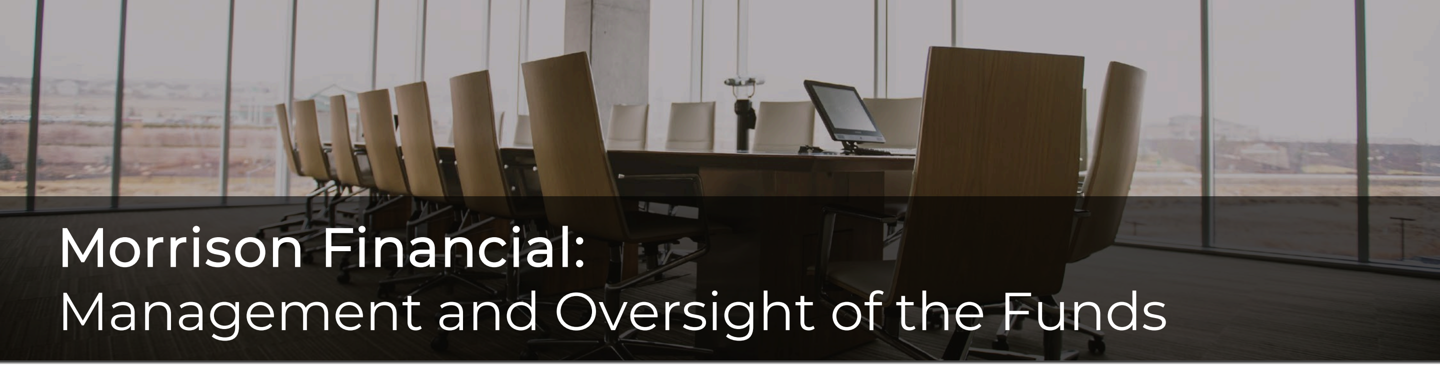
How do the investors receive distributions?
We pay our distribution to our unitholders once a month – on or around the 21st – these can either be paid directly into your bank account or reinvested back into the fund.

How are my distributions taxed?
Under Section 130.1 of the Income Tax Act, taxable distributions paid to shareholders are taxed as interest income. Please consult a tax expert for your personal investment.

What are the fees associated with managing the funds?
For us, fee transparency and openness are part of our ongoing promise to deliver best-in-class client services. At the end of the day, the more we take in fees, the less we all earn in investment income. For that reason, we don't charge any account opening/ closing fees, any form of sales commission when you buy, any form of Trading Expense Ratio (TER), or "account minimum" fees which are often a result of holding a smaller investment – conversely, your fees aren't lower if you invest more.

Morrison Financial earns an ongoing Management Fee (MER); the structure of this fee is clearly articulated in our Offering Memorandum. All performance figures and target returns are calculated after our management fee has been taken – or "net of management fees".

Is there an early redemption fee?
This investment is designed to be a medium to long term investment. We charge a two percent early redemption fee for any redemption within the first year. After this initial year, there is no penalty for a redemption.



Morrison Financial: Management and Oversight of the Funds

What types of properties do you invest in?
We primarily focus on residential properties. Such properties can be further categorized into more asset classes which are: Land for Redevelopment, Single Family Home Purchase / Refinance, Single Family Home Construction / Renovation, and Multi-Family Development.

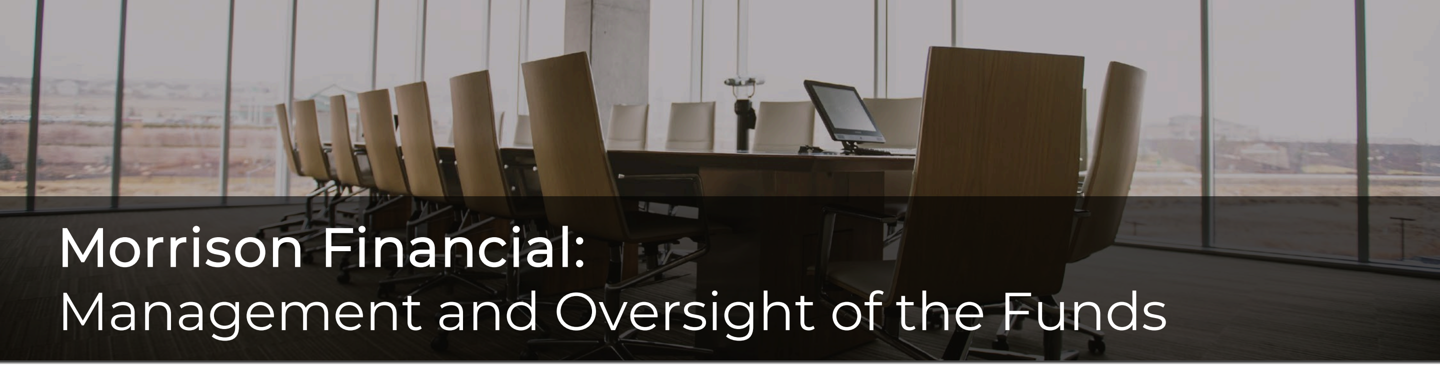
Where are the underlying properties of the mortgages that I am investing in located?
To closely monitor the loans, we like to visit our projects as much as possible, We also value the importance of being close to major metropolitan centers for liquidity purposes. For that reason, we always try to write mortgages within a four-hour drive from Toronto.

How long is the average term of a loan?
We issue loans anywhere from a few months to thirty-two months. Our average loan term is eighteen months.

How diversified are the investments?
We have investment policy in place to ensure that the funds are well diversified by not being overexposed to a single borrower, project, asset class, and location.

How are mortgages split between the Senior fund and junior fund?
Mortgages are divided between the two funds mostly by their risk rating. Internally, we calculate risk from a number of different factors; it’s not always about Loan-To-Value (LTV). Often, we would hold land development and second mortgages in the Junior Fund.

What third-party oversight is Morrison Financial subject to? How do I know if my investment is being properly managed?
From a governing oversight perspective, Morrison Financial is subject to oversight from FSRA (Financial Services Regulatory Authority). We work with third-party companies including a fund administrator, an exempt market dealer, and an accounting firm to ensure that we are in compliance with the regulations. The exempt market dealer is subject to oversight from the OSC (Ontario Securities Commission).



Morrison Financial:
Management and Oversight of the Funds

What role does Belco Private Capital play?

We have engaged Belco Private Capital Inc. as our Exempt Market Dealer. Our Investor Relations (IR) team members, at Morrison Financial, are also registered dealing representatives with Belco. Before you invest, someone from our IR team will speak with you to answer your questions about Morrison Financial and provide information about the risks and conflicts associated with this investment, collect know-your-client (KYC) information from you, and assess whether this investment is suitable for you. Members of our IR team will be acting in their capacity as Belco dealing representatives when they carry out these tasks.

What happens if a borrower defaults on their obligations?

First, we have to define the term “default”. In the lending world, a default occurs when the borrower deviates from the agreed business plan (e.g. timeline, exit strategy). Defaulting doesn’t result in a loss.

Under a default, assuming that the Loan remains secure, we will work alongside the borrower to find an amicable solution, which can be restructuring the Loan, employing a new management team, or finding new source of financing. As a last resort, Morrison Financial will enforce on the Loan and look for an exit to return 100% of our invested capital.

What is the default ratio of the mortgages in your Mortgage Income Fund?

In the past thirty-five years, Morrison Financial has had three defaulted projects; in no case has it resulted in a loss to investors. At present, we have zero defaults in the Mortgage Income Funds.

How can I receive updates on the funds?

Every month, we circulate our “monthly mailer”, which shares any important news or updates and will also include a “featured deal” – this would be an example of a loan we’ve just funded, or one we’ve funded in the past but would still be representative of the types of loans we do. Additionally, you can follow us on social media for ongoing updates.

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