

## RiverRock Mortgage Investment Corporation - June 2018

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### Mortgage Investment Corporation (MIC) – FAQ

#### 1. What is the size of the MIC market?

The Canadian residential mortgage market surpassed \$1.6 trillion dollars in 2016. It has been growing at an annual growth rate of 7% compounded every year for the last 10 years. The Banks and Trust Companies focus on 80% of the market. Due to tighter restrictions due to the recent B20 regulation the Banks and Trust Companies have restricted their lending practices. This has created a larger opportunity for MICs.

#### 2. How is the MIC market regulated?

In the province of Ontario, the Financial Services Commission of Ontario (FSCO) licenses and regulates all mortgage brokers, agents, administrators and MICs.

#### 3. What risks are associated with investing in a MIC?

All property investments are subject to elements of risk. Property value is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants, competition from other available properties and other factors. While independent appraisals are required before, MICs may make any mortgage investment, the appraised values provided therein, even where reported on an “as in” basis, are not necessarily always reflective of the market value of the underlying property, which may fluctuate.

The MIC’s income and funds available for distribution to security holders would be adversely affected if a significant number of borrowers were unable to pay their obligations. Upon default by a borrower, MICs may experience delays in enforcing its’ rights as lender and could incur costs in protecting its investment.

#### **Additional risk considerations include:**

- Lender inexperience through credit cycles
- Lender does not have any workout experience
- The province in which the MIC invests is an important consideration with respect to the real estate market and the ability to enforce lender rights
- Size of the mortgage
- Term of the mortgage
- Loan-to-value
- Proportion of the MICs assets in first vs. second vs. third mortgages
- Proportion on the MICs assets in residential vs. commercial vs. land

For further information of risks associated with investing in a MIC please refer to page 29 in the Offering Memorandum.

**4. How is the investor taxed?**

For income tax purposes, the returns that investors receive are treated as interest income, not as dividends. Please seek professional tax opinion.

**5. Are MICs eligible for registered accounts?**

Yes.

**6. What is the difference between a Corp Structure and Fund Structure?**

It is important to note that MIC investors are buying preferred shares in a dividend paying Corporation as opposed to units of a fund.

**7. Is financing real estate as secure as owning it?**

While the real estate values may change, investors do not have the same concerns as owners about possible value losses. If the financing opportunities are well selected, the return is fixed over the life of the financing.

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### RiverRock MIC - FAQ

#### 1. Who is RiverRock?

RiverRock Mortgage Investment Corporation is a mortgage investment corporation based in Toronto, Ontario. RiverRock offers investors an opportunity to participate in a diversified portfolio of high yield Canadian residential mortgages primarily focused on owner occupied residential real estate in Ontario in both urban and suburban markets. Since inception, RiverRock has issued over \$525 million in mortgages with \$0 loan loss.

RiverRock is led by President and CEO Nick Kyprianou. Nick is a seasoned executive with over 30 years of experience in the mortgage industry. Prior to founding RiverRock in 2014, Nick was the CEO at Equity Financial Trust. Before joining Equity Financial, Nick was the President and a director at Home Trust Company for over 18 years, where he was instrumental in the company's national expansion, mortgage growth and operations.

#### 2. What is the relationship between Ninepoint and RiverRock?

The Corporation and the Administrator have retained Ninepoint Partners LP ("**Ninepoint**"), to provide exempt market dealer, distribution and marketing services for the Corporation on an exclusive basis. In addition, Ninepoint's Alternative Income Group underwrote the Administrator and will provide ongoing oversight on the MIC's loan portfolio.

Through the partnership, Ninepoint and RiverRock will target achieving economies of scale by distributing costs over a larger asset base and increasing investor yield. Through the Ninepoint / RiverRock partnership, target yield has increased to 8.3% from 7.2% (cash yield of 8% from 7%).

#### 3. Why invest in RiverRock MIC?

- Nick Kyrianou has over 30 years of experience as a mortgage lender having built Home Trust's portfolio from ~\$200 million to ~\$16 billion across Canada managing through multiple credit cycles
- Account managers and partners have deep workout experience
- Average mortgage is ~\$105,000 with a maximum term of 12 months
- Currently loan-to-value is approximately 68%
- RiverRock does not invest in third mortgages and currently limits its portfolio to first mortgages and second mortgages
- RiverRock only invests in residential mortgages with currently, over 98% owner occupied units

**4. Why would borrowers choose RiverRock?**

RiverRock is more efficient than a conventional bank, credit union or trust company and can provide financing on a timelier basis. Additionally, RiverRock has greater flexibility managing its relationships with borrowers and can tailor solutions to each borrower's situation.

**5. Why does RiverRock focus financing mortgages in Ontario?**

RiverRock is pro-active in working with borrowers and has a structured process in place in the event legal action is required. In situations where the borrower is unable to service the loan, RiverRock will send a demand letter if the mortgage is more than 16 days arrears. Power of sale can commence in Ontario after 37 days compared with much longer periods (6+ months) in other provinces.

**6. How does RiverRock MIC originate mortgages?**

RiverRock originates deals through licensed mortgage brokers and licensed agents in Ontario. The Manager is retained to manage the mortgage portfolio. RiverRock MIC does not broker mortgages for a fee or pay origination fees.

**8. Are we late in the credit cycle to invest in MICs?**

RiverRock constantly monitors default rates, consumer leverage ratio and interest rate changes. While unsecured debt levels (credit cards, car loans, etc.) may be approaching critical levels, in RiverRock's current portfolio, the average homeowner has ~32% equity, providing multiple exit avenues for RiverRock to avoid potential impairment. Having worked through full credit cycles (early 90's) Nick Kyprianou has seen that even during a housing downturn, homeowners ensured they paid their mortgages.

**7. How are dividends received?**

Investors can choose to take advantage of the automatic dividend reinvestment plan (DRIP) and gain the benefit of compounding their return. Alternatively, investors can receive their monthly dividends by cash. As at June 1, 2018, target yield has increased to 8.3% from 7.2% (cash yield of 8% from 7%).

**8. Is leverage utilized?**

RiverRock MIC has the option to incur indebtedness secured by the Corporation's assets to purchase or make mortgage investments. Historically, RiverRock has used leverage as a cash management tool to even out investor inflows with outflows.

See page 31 in the Offering memorandum for further detail.

## 9. How do you explain of static Net Asset Value?

Please note that although NAV is calculated monthly, it remains static as there are no capital gains in the underlying mortgages and all net-of-fee income is distributed monthly.

Shares will be redeemed at the original purchase price provided no impairments to the portfolio. While all investments carry a degree of risk, we believe the current portfolio is protected against potential impairments with a ~40% margin of safety built in to each loan. (~40% buffer is based on typical loan characteristics which include average LTV of 70% and average 10%+ yields.

## 10. How do I subscribe?

An investor wishing to subscribe for Offered Shares must ensure that a duly completed and executed subscription agreement (a "Subscription Agreement") in the form provided by, or on behalf of, the Corporation is received by the Corporation (or its agent) by 4:00 p.m. (EST) within two (2) business days prior to the applicable Subscription Date in order for the subscription to be processed as of such Subscription Date.

- Please speak to your financial advisor regarding you interest in investing in the RiverRock
- Your advisor will have you fill out our Subscription Document
- Upon completion of the Subscription Document your advisor will post the trade on FundServ
- **Dealers/Advisors are required for all initial purchases** to deliver a copy of the completed Subscription Agreement **on the date the order is placed** to RiverRock MIC via:
  - Email to [subdocs@riverrockmic.com](mailto:subdocs@riverrockmic.com)

Please see page II in the Offering Memorandum for detailed subscription process.

## 11. How do I retract my shares?

A Subscriber wishing to retract all or any portion of his, her or its Class A1 or Class F Shares on a Retraction Date must submit written notice of such intention to the Corporation a minimum of six (6) months prior to the Retraction Date (which period may be varied or waived by the directors of the Corporation in their sole discretion).

Please see page III in the Offering Memorandum for detailed retraction process.

## 12. Is there a lock-up period?

No.

## **Disclaimer**

Please note that this FAQ has been completed accurately to the best of our abilities and knowledge as of June 2018. As market conditions evolve, the answers can change over time. This is not a legal document. Please refer to the Offering memorandum for full legal terms.