



August 27, 2020

Dear Investors:

We hope that this letter finds you and your family healthy and safe. We are pleased to present our 5th update and detailed report for the First Source Mortgage Fund (the “Fund”) and Portfolio since the onset of the pandemic.

**Fund Update:**

**Year-to-date 2020 total distributions represent a compounded net return of 7.6% to Class F unitholders. Since inception on April 6, 2017, through July 31, 2020, the Fund has achieved annualized, compounded net return of 9.3% to Class F unitholders.** We have and will maintain the current monthly advance rate of annualized net 7.5% to our Class F unitholders. The Fund has recorded no loan loss since inception and current provisions for credit losses stand at \$0.4 million (\$0.05 per unit) to maintain a solid margin of safety.

As described in our Portfolio Update below in more detail, we have experienced no material impact to the Fund portfolio from the first wave of the pandemic. As such and due to our improved understanding of the current environment and market outlook, **we are pleased to announce that we will re-open the Fund as at August 31, 2020, to all transactions in the units of the Fund including subscription, redemption, transfer, and payment on the dividend reinvestment program (DRIP).** For current requests for redemption of units (since the start of the pandemic and suspension of activity in the units), we will redeem 40% of each requested amount for August 31, 2020, with the targeted redemption of the balance of the requested amounts by October 31, 2020, provided there is no perceived material impact from the pandemic. All current subscription requests will be accepted with transactions to close August 31, 2020. In addition, investors in the DRIP program will receive the August and go-forward distributions in Fund units (rather than cash).

Management continues to monitor market activity and, in the event of a second wave of the pandemic, may decide to temporarily suspend activity in the Fund units again should the action be deemed in the best interest of the Fund and all Fund investors.

**Portfolio Update:**

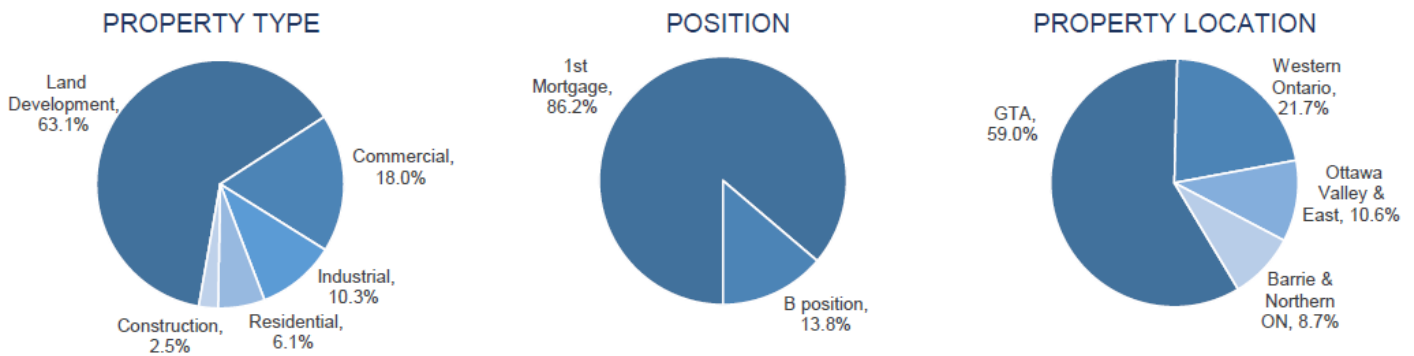
As of July 31, the First Source Mortgage Fund assets under management total \$76,604,516 across 27 mortgage investments.

**Fund Summary Metrics (July 31, 2020)**

<b>Assets Under Management:</b>	\$76.6 million
<b>-\$-Weighted Average Loan to Value:</b>	56.0%
<b>Number of Mortgages:</b>	27
<b>Average Mortgage Size:</b>	\$6.2 million
<b>Average Fund Allocation to Mortgage<sup>1</sup>:</b>	\$2.4 million
<b>Average Mortgage Term:</b>	16.2 months

<sup>1</sup> First Source syndicates portions of mortgages allocated to the Fund only when deemed appropriate to achieve optimal investment size and targeted portfolio construction for the Fund.

The Fund portfolio construction remains in line with current management targets with strong exposure to 1st mortgages in the Greater Toronto Area and solid diversification across property types. B position loans represent approximately 13.8% of the portfolio, in line with targets and providing solid performance enhancement to the overall portfolio.



### **Non-Performing Loans:**

At July month-end, there were two non-performing loans inclusive of mortgages 90 plus days in arrears and power of sale properties totaling \$3.5 million (4.6% of the total Fund assets). Dollar-weighted aggregate loan-to-value of the non-performing loans is 66.3% on First Source internal valuations. Power-of-Sale mortgages principal outstanding totals \$1.8 million (Whiteoaks Ave., Mississauga). This loan has now been resolved through the courts as against the 2<sup>nd</sup> mortgagee who will be paying out our loan including all interest plus interest since default at 18%, 3-month interest penalty, and costs. We expect to receive payment for discharge by month-end and will report to investors accordingly. The other defaulted loan has a solution in place to be paid out in a firm sale. **All principal and interest are expected to be collected upon the sale or refinance of the two loans.**

*The rates at which we lend are predicated on the expectation that a portion of the portfolio will become non-performing despite our rigorous and conservative underwriting process. In our experience, non-performing loans sometimes require extended terms but rarely result in loss of principal. Since First Source's founding over a decade ago, realized loan losses have amounted to \$0.6 million on \$567 million invested capital, or about 0.11%. Managing non-performing mortgages effectively is an important aspect of preserving capital, and generating strong, consistent returns to our investors. Our ability to successfully resolve non-performing loans represents a core operational function and advantage within our industry.*

Property	Total First Source Loan	Fund Portion of Loan	Percentage of Fund	Loan-to-Value	Status
Whiteoaks Ave., Mississauga	\$1,837,500	\$1,598,625	2.1%	73.5%	2 <sup>nd</sup> Mortgagee to Payout
Plains Rd., Burlington	\$4,700,000	\$1,927,000	2.5%	63.5%	Sold, closing September 2020

**Whiteoaks Ave., Mississauga:** The Whiteoaks residential infill site in Mississauga file has been resolved as of August 25<sup>th</sup>, 2020 in a court appointed outcome. We expect to be discharged by the second mortgagee paying us out. As expected we will receive repayment of all principal, interest, and costs as well as default interest at 18% and a 3 month interest bonus as well as a holding over charge.

**Plains Rd., Burlington:** The Plains Road Borrower has been in contact with us and had begun a payment program to catch up his payments which we continue to receive spotty payments. Proactively, we have facilitated a sale between our current Borrower with one of our contacts in the gas station business in



exchange for a reduction from our 18% default rate to be negotiated upon exit. The sale is expected to close next month with full return of all interest, principal, costs, and a three-month interest bonus.

We are very pleased with the performance of the Fund through this unprecedented period as well as the outlook for continued strong performance and investment opportunities. The pipeline of mortgage investment opportunities stands at over \$85 million. We will continue to keep you updated regularly as to any changes in payment data as well as any other material changes to our portfolio. With no confirmed end date to the pandemic (limited testing, no confirmed treatment nor vaccine), we are unable to fully anticipate the impact COVID 19 will have on our portfolio. However, again, we have gained renewed confidence in our portfolio and borrowers which continue to show resilience and stand strong.

Please feel free to contact us with any questions and requests for any further information. We thank you for your continued support and confidence.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "David Mandel", written in a cursive style.

David Mandel  
President and CEO

**About First Source:**

First Source is a boutique mortgage lender, providing financing up to \$15 million for projects in the Greater Toronto Area and surrounding areas. Since 2007, First Source has been supporting mortgage brokers, real estate advisers, as well as builders and developers with innovative mortgage lending solutions. First Source is licensed with the Financial Services Commission of Ontario (FSCO) as a mortgage broker and administrator.

**CONTACT INFORMATION:**

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*This letter does not constitute an offer to sell units of the First Source Mortgage Fund. Units of First Source Mortgage Fund described herein are only available to Accredited Investors in Canada through registered dealers in accordance with applicable securities laws.*