# Q1 2019 REPORT TO INVESTORS

## HARBOUR HIGH YIELD MORTGAGE INVESTMENT TRUST

For the quarter-ended March 31, 2019

HARBOUR MORTGAGE CORP.

# Q1 2019 REPORT TO INVESTORS

For the quarter ended March 31, 2019

## FORWARD-LOOKING STATEMENTS

The terms, the "Trust", "we", "us" and "our" in the following report refer to Harbour High Yield Mortgage Investment Trust (the "Trust"). The Trust is the sole limited partner of the Harbour High Yield Limited Partnership (the "Partnership"). The Trust and the Partnership are collectively referred to as the "Fund". This report may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. These statements are typically identified by expressions like "believe", "expects", "anticipates", "could", "may", "intends", "projected", "in our opinion" and other similar expressions. By their very nature, these forward-looking statements require us to make assumptions which include, among other things, that (i) the Fund will have sufficient capital under management to effect its investment strategies and pay its targeted distributions to investors, (ii) the investment strategies will produce the results intended by the Fund, (iii) the markets will react and perform in a manner consistent with the investment strategies and (iv) the Fund is able to invest in mortgages of a quality that will generate returns that meet and/or exceed the Fund's targeted investment returns.

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove inaccurate. Readers of this report are cautioned not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that the Fund may invest in and the risks detailed from time to time in the Fund's reports to investors.

Readers are cautioned that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events. Due to the potential impact of these factors, the Fund and Harbour Mortgage Corp. (the "Manager") do not undertake, and specifically disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

This report is dated May 16, 2019. Information contained in this report is current to that date, unless otherwise noted.

## RESPONSIBILITY OF MANAGEMENT

This report to investors in the Harbour High Yield Mortgage Investment Trust should be read in conjunction with the unaudited financial statements for the quarter ended March 31, 2019 included herein. Investment in the Fund is subject to certain risks and uncertainties described in the Fund's Offering Memorandum, which should be read in conjunction with this report to investors. These most recent documents are available upon request to the Manager's Investor Relations Department. Management is responsible for the information disclosed in this report to investors. The Fund has in place appropriate procedures, systems and controls to ensure such information is materially complete and reliable. In addition, the Fund's trustees have reviewed and approved this report and the unaudited financial statements for the quarter ended March 31, 2019.

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## For the quarter ended March 31, 2019

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## BUSINESS OVERVIEW

The Fund is a mortgage investment fund, which was established in 2014 and is in the business of lending funds on the security of subordinate mortgages on Canadian real property. The Fund was established by the Declaration of Trust, as an unincorporated investment unit trust, under the laws of the Province of Ontario on May 2, 2014 and commenced operations on July 31, 2014. The Trust is the sole limited partner of the Harbour High Yield Mortgage Fund Limited Partnership, which is the investment vehicle through which the Trust owns a portfolio of mortgage investments.

The Fund qualifies as a 'unit trust' and a 'mutual fund trust' under the Income Tax Act (Canada). Units are qualified investments under the Tax Act for registered retirement savings plans ("RRSPs") and registered retirement income funds ("RRIFs").

The fundamental investment objectives of the Fund are to:

- Preserve investor capital;
- Provide investors with a stable stream of monthly distributions; and
- Provide investors with superior risk-adjusted returns.

The Fund intends to meet its investment objectives by investing in a diversified portfolio of high yielding mortgage investments, secured by subordinate positions in commercial mortgages on multi-residential, office, retail, special purpose, zoned land and industrial real property across Canada, primarily located in urban markets and surrounding areas.

The Fund invests in junior debt positions ('mortgage investments') with an overall target yield between 10% and 15%. The target yield is primarily achieved by the Fund investing in the following types of mortgages:

1) Tranche loans - Tranche loans represent a residual interest in a first mortgage, ranking second behind a senior lender. The Fund retains the residual portion of the credit or default risk. The yield on a tranche loan is a result of the interest differential between the borrower rate on the loan and the interest rate paid to the senior lender as set out in the participation agreement with the senior lender;

2) Second mortgages typically on income producing properties; and

3) Subordinate mezzanine loans usually in second position on development projects.

During periods of excess cash, the Fund will invest in lower-rate first mortgages that will be converted to tranche loans at a later date. The Fund will generally target loan-to-values of up to 85% of the fair market value of the underlying property and may make loans up to 90% loan-to-value under select circumstances.

# Q1 2019 REPORT TO INVESTORS

## For the quarter ended March 31, 2019

*All dollar amounts discussed in this report are in Canadian dollars.*

## FINANCIAL HIGHLIGHTS

The financial highlights of the Fund are as follows:

### MORTGAGE INVESTMENTS INFORMATION (in $ 000's)

| | Quarter-ended March 31, 2019 | | Quarter-ended December 31, 2018 | |
|---|---|---|---|---|
| Mortgage commitments | $ | 134,232 | $ | 134,037 |
| Gross mortgage investments | $ | 125,283 | $ | 118,743 |
| Total # of mortgage investments | | 86 | | 87 |
| Average mortgage committed | $ | 1,561 | $ | 1,541 |
| Average mortgage investment[1] | $ | 1,457 | $ | 1,365 |
| Weighted average gross yield [2] | | 12.17% | | 12.58% |
| Total assets | $ | 128,385 | $ | 118,796 |
| Operating loan balance | $ | 11,925 | $ | 8,900 |
| Provision for losses on mortgage investments | $ | 2,156 | $ | 2,006 |
| Unitholders' Contributed Capital | $ | 115,501 | $ | 108,115 |
| Net Income | $ | 3,073 | $ | 2,342 |

1 Average mortgage investment is based on gross mortgage investments.

2 The Fund benefited from a one-time prepayment penalty of $181 thousand in Q4 2018 which increased the gross yield.

Mortgage commitments of $134.2 million represent total mortgage investments and unfunded commitments on existing mortgage investments. Unfunded commitments generally relate to construction loans. The experience of the Fund has been that the unfunded amounts on existing mortgages will be drawn within the next 12 months. As at March 31, 2019, the Fund had approximately $7.1 million in commitments with respect to five unfunded loans.

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For the quarter ended March 31, 2019

## FUND PERFORMANCE AND GROWTH OF THE FUND

For the quarter ended March 31, 2019, revenue was $3.9 million and net income was $3.1 million, compared to revenue of $3.4 million and net income of $2.3 million in the prior quarter. Gross mortgage investments of $125.3 million increased by $6.5 million representing a 6% increase from the prior quarter. At quarter end, the Fund's greatest exposure was in Ontario, representing 36% of the portfolio and, the second largest was in Alberta, representing 35% of the portfolio. The Manager's strategy will be to continue to focus on investment opportunities in Ontario, despite increased competition in the Ontario lending market, that has resulted in downward pressure on subordinate debt yields. The longer term goal is a more balanced portfolio allocation across Ontario, Alberta, British Columbia and Quebec.

The operating loan facility amount increased from $14 million to $16 million in the first quarter and bears interest at the greater of prime plus 4.3% and 7.0%. The increase in the operating facility will continue to facilitate funding and repayments. The loan is secured by first priority over the assets of the Fund in the event of default. The purpose of the facility is to allow for cash management and for increased flexibility in the timing of funding mortgages. It is not intended for leverage purposes. The overall weighted average debt outstanding was $10.0 million during the quarter (Q4 2018 - $2.7 million). The Fund ended the quarter with $11.9 million outstanding loan balance (Q4 2018 - $8.9 million) and a cash balance of $3.9 million. The cash on hand was redeployed subsequent to quarter end.

Consistent with the terms of the Offering Memorandum, the Manager's asset management fee was calculated as 1.25% (plus HST) of the daily weighted average gross mortgage investments balance.

Investment in the Fund involves certain risks, including but not limited to the risk that borrowers default on their mortgage payments. In the event that a mortgage investment falls into arrears of one or more payments, the Manager takes action in due course to enforce its rights as creditor and, where appropriate, pursues legal action. As at March 31, 2019, the Fund's mortgage portfolio includes three mortgage investments that are in default. The first investment, is a subordinated loan with an outstanding balance of $1.5 million, where interest payments have been outstanding since the fourth quarter of 2018. Subsequent to quarter end all interest and principal has been collected. The second investment is a second mortgage over raw land in Alberta with a mortgage receivable balance of $3.3 million. The property is being listed for sale and Management expects to collect all outstanding principal and interest. The third investment, an apartment building in Alberta, has a mortgage receivable balance of $300 thousand. There is an offer to purchase on the property and Management expects to collect all outstanding principal and interest on the investment.

The Manager expects the yield to investors for 2019 to be approximately 9.75% to 10.00%, after the provision, with a monthly distribution rate of 9.00%. The yield will be finalized at year end and a top up payment is expected to be distributed in March 2020.

## 2019 CHANGES IN NET INVESTOR CAPITAL CONTRIBUTIONS TO THE FUND (in millions)

| | | |
|---|---|---|
| Opening Capital – Jan 1, 2019 | $ | 108.1 |
| Net Capital Contributions | $ | 6.4 |
| DRIP Contributions YTD | $ | 1.0 |
| **Ending Capital – March 31, 2019** | **$** | **115.5** |

Year to date net capital contributions are $6.4 million and an additional $1.0 million in DRIP. Under the DRIP plan, distributions to Unitholders are not paid out in cash but are used to acquire additional units in the Fund. Capital raises are initiated on an as-needed basis. Costs associated with capital raises include (1) a $25,000 structuring and administrative support fee payable to the Manager, (2) a 40 basis point fee (0.40%) calculated on the total amount raised that is payable to Belco Private Capital Inc., an arm's length registered Exempt Market Dealer, per the terms of a Distribution Agreement, and (3) legal fees for the review of the amended Offering Memorandum and Subscription Agreement. These costs will be borne by the Trust. The impact of a capital raise on the yield is dependent on the leverage achieved following the raise.

# Q1 2019 REPORT TO INVESTORS

For the quarter ended March 31, 2019

*All dollar amounts are in thousands of Canadian Dollars.*

## PORTFOLIO SUMMARY

The balance of mortgage investments is as follows:

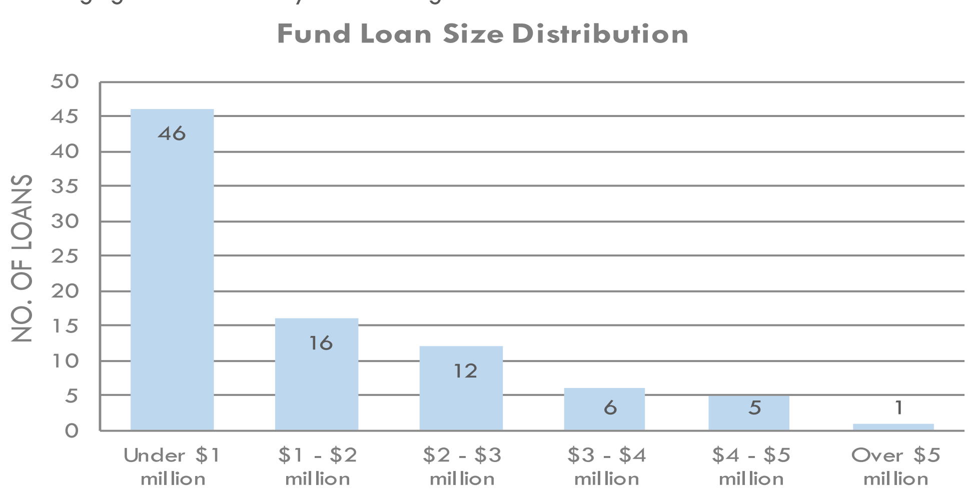
| | Mar 31, 2019 | Dec 31, 2018 | $ Change | % Change |
|---|---|---|---|---|
| Gross mortgage investments | $ 125,283 | $ 118,743 | $ 6,540 | 6% |
| Provision for mortgage losses | $ (2,156) | $ (2,006) | $ (150) | 8% |
| Net mortgage investments | $ 123,127 | $ 116,737 | $ 6,390 | 6% |

During the first quarter of 2019, the provision for losses on mortgage investments increased by $150 thousand to $2.2 million (Q4 2018 - $ 2.0 million). The provision represented 1.7% of the gross mortgage investments (Q4 2018 – 1.7%). The Manager's strategy is to continue building the provision up to approximately 2% of gross mortgage investments to help cushion the Fund from potential future losses.

### Portfolio Turnover

| | Amount | No. of Loans |
|---|---|---|
| Opening Balance – Jan 1, 2019 | $ 118,743 | 87 |
| Repayments | $ (15,211) | (5) |
| Advances | $ 21,751 | 4 |
| Closing Balance – March 31, 2019 | $ 125,283 | 86 |

The distribution of the mortgage investments by outstanding balance is summarized in the table below:




The average size of the Fund's share of the mortgage investments as at March 31, 2019 was $1.5 million (Q4 2018 - $1.4 million).

**Portfolio Allocation**

As at March 31, 2019, the Fund had gross mortgage investments of $125.3 million (Q4 2018 - $118.8 million) comprised of 86 mortgage investments (Q4 2018 – 87 mortgage investments), which were allocated across the categories listed below. Percentage allocations are based on the outstanding balance of gross mortgage investments as a percentage of the total portfolio.

**(a) Region**

| | March 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | # of Mortgage Investments | $ of Mortgage Investments | % of Mortgage Investments | # of Mortgage Investments | $ of Mortgage Investments | % of Mortgage Investments |
| Ontario | 36 | $ 44,994,386 | 36% | 36 | $ 39,319,357 | 33% |
| Alberta | 32 | $ 44,036,404 | 35% | 35 | $ 50,695,354 | 43% |
| Quebec | 9 | $ 13,857,906 | 11% | 9 | $ 13,856,842 | 12% |
| British Columbia | 7 | $ 14,866,301 | 12% | 5 | $ 9,534,155 | 8% |
| Manitoba | 1 | $ 3,178,119 | 3% | 1 | $ 2,589,026 | 2% |
| Sasketchewan | 1 | $ 4,350,000 | 3% | 1 | $ 2,748,066 | 2% |
| | **86** | **$ 125,283,114** | **100%** | **87** | **$ 118,742,800** | **100%** |

As at March 31, 2019, 71% of the mortgage investments were located in Ontario and Alberta (Q4 2018 – 76%). The Manager's strategy is to focus on investment opportunities in Ontario with a long-term goal of a more balanced allocation across the provinces.

**(b) Maturity**

| | March 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | # of Mortgage Investments | $ of Mortgage Investments | % of Mortgage Investments | | $ of Mortgage Investments | % of Mortgage Investments |
| Maturing < 1 year | 51 | $ 79,793,745 | 64% | 43 | $ 68,106,782 | 57% |
| Maturing 1 – 2 years | 33 | $ 43,200,221 | 34% | 39 | $ 45,979,687 | 39% |
| Maturing > 2 years | 2 | $ 2,289,149 | 2% | 5 | $ 4,656,331 | 4% |
| | **86** | **$ 125,283,114** | **100%** | **87** | **$ 118,742,800** | **100%** |

The weighted average term to maturity as at March 31, 2019 was 0.78 years (Q4 2018 – 0.82 years). Approximately 98% of the portfolio's mortgage investments mature within two years and typically are open for repayment prior to maturity. The short-term nature of the Fund allows the portfolio to continually evolve in response to changes in the real estate and credit markets. Furthermore, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing mortgage investments and funding commitments.

**(c) Asset Type**

| | March 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | # of Mortgage Investments | $ of Mortgage Investments | % of Mortgage Investments | | $ of Mortgage Investments | % of Mortgage Investments |
| Multi Residential | 42 | $ 56,309,211 | 45% | 43 | $ 53,096,000 | 45% |
| Office | 3 | $ 8,025,000 | 6% | 3 | $ 5,850,000 | 5% |
| Retail | 8 | $ 15,644,444 | 12% | 9 | $ 16,714,684 | 14% |
| Industrial | 6 | $ 2,792,239 | 2% | 6 | $ 3,217,446 | 3% |
| Land (incl. Zoned & Serviced Lots) | 9 | $ 18,338,195 | 15% | 8 | $ 13,338,195 | 11% |
| Mixed Use | 12 | $ 13,420,688 | 11% | 12 | $ 15,774,201 | 13% |
| Special Purpose (incl. Retirement Residence, Hotel and Self-Storage) | 6 | $ 10,753,337 | 9% | 6 | $ 10,752,274 | 9% |
| | **86** | **$ 125,283,114** | **100%** | **87** | **$ 118,742,800** | **100%** |

At March 31, 2019, the Fund's greatest asset type concentration is multi-residential properties with a concentration level of approximately 45% consistent with the prior quarter, and land 15% (Q4 2018 – 11%). Multi-residential properties are generally secured by apartment buildings and condo inventory, and include some small townhome developments.

**(d) Gross Yield**

| | March 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | # of Mortgage Investments | $ of Mortgage Investments | % of Mortgage Investments | | $ of Mortgage Investments | % of Mortgage Investments |
| 10.99% or lower | 1 | $ 1,245,449 | 1% | 1 | $ 1,245,449 | 1% |
| 11.00%–11.50% | 11 | $ 19,074,705 | 15% | 13 | $ 17,396,872 | 15% |
| 11.50%–12.00% | 30 | $ 37,766,619 | 30% | 25 | $ 34,256,545 | 29% |
| 12.00%-12.50% | 24 | $ 31,792,975 | 25% | 28 | $ 30,787,995 | 26% |
| 12.50%-13.00% | 14 | $ 22,104,962 | 18% | 10 | $ 16,900,731 | 14% |
| 13.00% or greater | 6 | $ 13,298,405 | 10% | 10 | $ 18,155,208 | 15% |
| | **86** | **$ 125,283,114** | **100%** | **87** | **$ 118,742,800** | **100%** |

For the quarter ended March 31, 2019, the weighted average gross yield on the portfolio (calculated as gross revenue over the weighted average gross mortgage investments receivable) was 12.17% (Q4 2018 – 12.58%), in line with the Fund's target yield of 10% - 15%.

**(e) Loan-to-value**

| | March 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | # of Mortgage Investments | $ of Mortgage Investments | % of Mortgage Investments | | $ of Mortgage Investments | % of Mortgage Investments |
| 65% or less | 16 | $ 27,344,348 | 22% | 17 | $ 27,314,001 | 23% |
| 65%–75% | 29 | $ 43,296,624 | 35% | 30 | $ 41,810,084 | 35% |
| 75%–85% | 38 | $ 52,792,143 | 42% | 37 | $ 47,768,715 | 40% |
| Greater than 85% | 3 | $ 1,850,000 | 1% | 3 | $ 1,850,000 | 2% |
| | **86** | **$ 125,283,114** | **100%** | **87** | **$ 118,742,800** | **100%** |

Loan-to-value is determined at the time the loan is approved and may take into account collateral security granted. In the case of construction and renovation loans, the value assigned is generally based on the property value as if complete. The weighted average loan-to-value on the portfolio was 71% (Q4 2018 – 71%).

**(f) Loan Structure**

| | March 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | # of Mortgage Investments | $ of Mortgage Investments | % of Mortgage Investments | | $ of Mortgage Investments | % of Mortgage Investments |
| Tranched Loans | 64 | $ 88,188,433 | 70% | 62 | $ 82,981,280 | 70% |
| Second Mortgages | 15 | $ 22,596,500 | 18% | 16 | $ 19,342,390 | 16% |
| Subordinated Mortgages | 7 | $ 14,498,181 | 12% | 9 | $ 16,419,130 | 14% |
| | **86** | **$ 125,283,114** | **100%** | **87** | **$ 118,742,800** | **100%** |

# Q1 2019 REPORT TO INVESTORS

For the quarter ended March 31, 2019

## CORPORATE DIRECTORY

### TRUSTEES



### MANAGEMENT

*Harbour Mortgage Corp.*

Alan Winer
Principal and Chief Executive Officer

Paul Schachter
Co-founder, Officer and Director

Bruce Shepherd
Chief Risk Officer

Nelson Da Silva
Chief Investment Officer

Howard Cappell
Chief Financial Officer

Ann Hawley
Vice President, Investor Relations

Connie Ennis
Finance Manager

### DISTRIBUTIONS

Distributions on Fund units are payable on or about the 15th day of each month. The Fund distributes its taxable income each year to the Unitholders.

### ADVISORY COMMITTEE

The Advisory Committee meets quarterly.

### CORPORATE ADDRESS

Requests for the Fund's reports, investment information or other corporate communications should be directed to:

*Investor Relations*
Harbour Mortgage Corp.
36 Toronto Street, Suite 500
Toronto ON M5C 2C1
416-361-3315 x225

### AUDITORS

MNP LLP

### LEGAL COUNSEL

Torkin Manes LLP

### WEBSITE

www.harbourmortgage.ca

**Harbour High Yield Mortgage Investment Trust**

Consolidated Statement of Financial Position (Unaudited)

as at March 31, 2019

| | |
|---|---|
| **Assets** | **$** |
| Cash and cash equivalents | 3,897,943 |
| Interest and other receivables | 1,357,467 |
| Capital Call receivable | 2,000 |
| Net mortgage investments | 123,127,616 |
| | **128,385,026** |
| **Liabilities and Unitholders' Equity** | |
| **Liabilities** | |
| Unitholders' distributions payable | 866,267 |
| Loans payable | 11,900,874 |
| | 12,767,141 |
| **Unitholders' equity** | 115,617,885 |
| | 115,617,885 |
| | **128,385,026** |

## Harbour High Yield Mortgage Investment Trust

Statement of Comprehensive Income(Loss) (Unaudited)
for the period from January 1, 2019 to March 31, 2019

| | |
|---|---|
| **Revenue** | |
| Interest income | $ 3,889,718 |
| | |
| **Direct expenses** | |
| Interest and bank charges | 206,761 |
| Asset management fees | 430,778 |
| Unrealized loss in value of mortgage portfolio | 150,000 |
| | 787,538 |
| | 3,102,180 |
| **Expenses** | |
| Professional fees | 11,400 |
| Other | 17,571 |
| | 28,971 |
| | |
| **Net and comprehensive income** | **3,073,209** |

**Harbour High Yield Mortgage Investment Trust**

Consolidated Statement of Unitholders' Equity (Unaudited)

for the period from January 1, 2019 to March 31, 2019

| | | |
|---|---|---|
| **Balance, beginning of period** | $ | 107,737,082 |
| Net and comprehensive income | | 3,073,209 |
| Proceeds from issuance of units | | 7,524,022 |
| | | 10,597,231 |
| **Deduct:** | | |
| Unitholder redemptions | | 138,798 |
| Transaction Costs | | 39,869 |
| Distributions to unitholders | | 2,537,761 |
| | | 2,716,428 |
| **Balance, end of period** | | 115,617,885 |