



May 15, 2014

Dear Shareholder

We are pleased to provide you with the following update regarding your investment in **CareVest Mortgage Investment Corporation** (the "MIC"):

### **Realization Efforts**

Since our last update, posted on our website in October 2013, management has continued to focus on non-performing assets of the MIC which directly influences the distributions to shareholders.

In every case of default, management works to maximize the recovery on the loan. Where appropriate, management has engaged staff, lawyers and other professionals, and third party contractors, and/or installed receivers to protect and realize on these assets as quickly as possible and at the highest possible values. As of this date, management confirms recovery efforts are underway for all default mortgages, with each loan at a different stage of the recovery process, including, but not limited to, foreclosure, receivership, power of sale, conduct of sale and/or bankruptcy. In addition, to the extent the law allows, borrowers and guarantors are also held accountable for their commitments including the possibility of forcing them into foreclosure and bankruptcy.

Management believes the MIC is well positioned to capitalize on past realization efforts and the strengthening real estate markets discussed below. Nevertheless, every effort continues to be made to convert the non-performing assets to performing assets as quickly as possible.

As we have stated before, the recovery of each default loan and inventory position is complex, costly, and is subject to both market uncertainty and legal procedure, among other potential risks including established court processes and timelines. For these reasons, the process takes time and we appreciate your patience.

### **Status of the Portfolio as at February 28, 2014**

As of February 28, 2014, default mortgages represent 45% of the total assets with this percentage being significantly higher than the historical experience of the portfolio and an increase of 8% from August 2013. Assets classified as "default mortgages" include all loans that were not paid as agreed. Default mortgages are stated net of impairment provisions as determined by the MIC, if any, at the reporting date.

As of February 28, 2014, inventory assets represent 5% of the total assets with this percentage being significantly higher than the historical experience of the portfolio and an increase of 1% from August 2013. Assets classified as "inventory" include the hard assets of previously foreclosed loans now listed for sale with third party realtors. These hard assets may include development land, completed condominium units and serviced lots. Inventory is net of write downs as determined by the MIC, if any, at the reporting date.

To be clear, provisions and write downs are included in the Net Asset Value calculation.

## **History of Non-Performing Assets**

The unusually high level of non-performing assets currently held in the MIC is generally attributed to loans entered into before, or affected by, the 2008/2009 financial crisis. While Canada was spared from the most severe effects of the financial crisis realized in other countries, Canadian real estate markets were disrupted as demand slowed for product, resulting in an over-supply of inventories and depressed prices. For borrowers who held finished product inventory ready for sale (condos, serviced lots, etc.) the crisis resulted in lower selling prices, slower sales, increased inventory levels and extra holding costs (mainly interest costs). For borrowers who had positions in development lands the crisis resulted in extended holding costs (mainly interest costs) as projects were delayed until markets re-balanced.

It is the combination of these depressed prices, slower sales and extra holding costs that are core to the current levels of non-performing assets currently held in the MIC. While it is true that many of the MIC's borrowers were successful in absorbing these additional costs and repaid the MIC as contracted, many were unsuccessful. It is loans to this latter borrower group that comprise most of the current default mortgages and inventory positions held in the MIC today.

## **Current Real Estate Markets**

The MIC primarily invests in the British Columbia and Alberta real estate markets. Major urban markets such as Vancouver, Victoria, Calgary and Edmonton are recovering well, with most effects of the crisis seemingly now behind them. Non-performing assets in these markets have recently attracted strong interest resulting in bona fide third party sales with closing dates to occur throughout 2014. Secondary markets such as Vancouver Island and Fort McMurray have also shown strong spring sales activity. Non-performing assets in these markets have also attracted strong third party interest with sales closing throughout 2014 and 2015. Retirement and vacation markets such as the Okanagan and Georgian Bay in Ontario have recently picked up with stronger sales activity in our non-performing positions. Activity in the retirement and vacation market is particularly positive, as these have been a no-bid market (no offers to purchase) for some time while demand in recent years shifted south to take advantage of the depressed prices in the United States sunbelt.

## **Future Updates**

Being sensitive to ongoing MIC costs, future portfolio updates will be communicated by way of postings onto our website. Shareholders wishing to be notified of new updates may wish to subscribe to Carecana's "E-mail Notification List" through the website ([www.carecanacorp.com](http://www.carecanacorp.com)) which supplies broadcasts when updates to the website are made. We encourage shareholders to subscribe to the list to be the first to receive these notices.

Yours truly,

**Carecana Management Corp.**  
**Manager of the MIC**