Fundamental Research Corp.
Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA, CFA
Analyst

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Fisgard Capital Corporation – Established MIC with a long track record

Sector/Industry: Real Estate Mortgages **www.fisgard.com**

Offering Summary	
Issuer	Fisgard Capital Corporation
Date of OM	March 16, 2017
Securities Offered	Class B (5-year maturity) / Class D (3-year maturity) / Class F (1-year maturity) shares
Unit Price	$1 per share
Minimum Subscription	N/A
Management + Others Fees	1.95% p.a. of equity + debt
2016 Distribution to Investors	Class B - 5% p.a. / Class D - 4% / Class F - 3%
Sales Commissions	up to 7% of the gross proceeds
Auditor	Schell & Associates, Victoria, BC

FRC Rating	
Expected Yield	3% - 5%
Rating	3+
Risk	2

*see back of report for rating definitions

Investment Highlights

- Formed in 1994, Fisgard Capital Corporation ("fund") is one of the most established Mortgage Investment Corporations ("MICs") in the country.
- Management's extensive experience in the space is the offering's primary strength.
- The fund has a low to moderate risk profile with a high percentage of first mortgages (90%+). At the end of 2016, the fund held $185 million in mortgages. Approximately 79% of the fund was invested in residential mortgages. The average loan to value ("LTV") was 57%.
- British Columbia ("BC"), Alberta ("AB") and Ontario ("ON") accounted for 97% of the portfolio.
- The fund offers three classes of non-voting shares with maturity terms ranging from 1 to 5 years. According to management, the fund has never defaulted on an interest or principal repayment to investors.
- Operating expenses and management fees of the fund are in line with comparable MICs of similar size.
- We are initiating coverage on the MIC with an overall rating of 3+ and risk rating of 2.

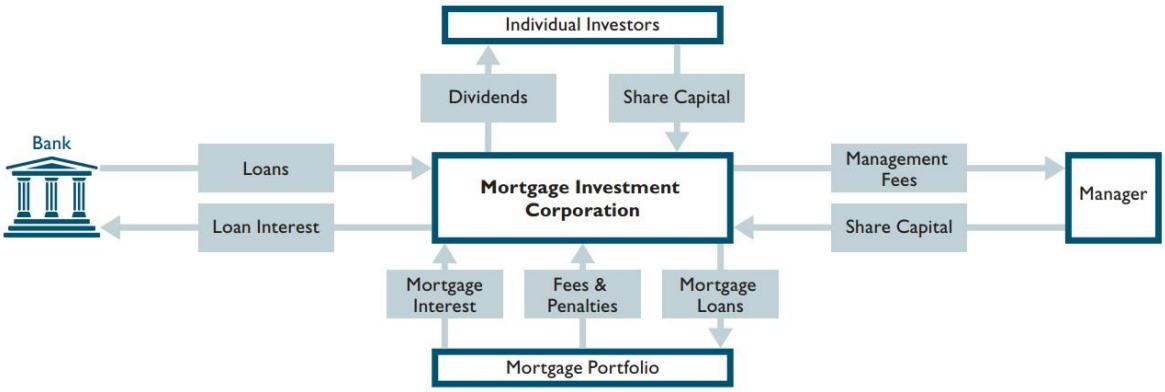
Risks

- BC accounted for 66% of the portfolio at the end of 2016.
- Although the focus is on first mortgages, the fund may invest in second mortgages which carry higher risk.
- Volatility in real estate prices.
- Timely deployment of capital is crucial.
- Like any MIC, shareholders' principal is not guaranteed, as the Net Asset Value ("NAV") could decrease from the current price as a result of loan losses.
- Redemptions are not guaranteed.
- The fund has the ability to use leverage, which would increase the exposure of the fund to negative events. Note that the fund uses much lower leverage than its peers.

Overview of MICs

The Government of Canada introduced MICs in 1973, through the Residential Mortgage Financing Act, to make it easier for small investors to participate in the residential mortgage and real estate markets. A MIC typically provides short-term (typically 9 months - 24 months) loans secured by real estate properties in Canada. MICs, like other non-bank lenders, do not conform within the strict lending guidelines of banks and other traditional lenders. MICs are more flexible in their lending guidelines, and therefore, can offer individually structured / tailor made loans to meet the specific requirements of a borrower. Also, banks have lengthy due diligence processes, and are typically not able to meet borrowers' quick capital needs. All the above reasons allow non-bank lenders, including MICs, to charge a higher interest rate on their loans compared to banks / institutional lenders.

The following chart shows the business model of a typical MIC:



Source: CMHC

- Almost all MICs are externally managed by the founders through a separate management company, which originates and manages mortgages for the MIC. In return, the management company earns an asset management fees and/or a performance from the MIC, and usually receives 100%, or a portion of the origination fees received from the borrower. In Fisgard's case, 100% of the origination fees are passed on to the fund.

- MICs earn interest and fees (origination, renewal and cancelation) from borrowers.

- MICs finance their mortgage portfolio through debt (banks) and equity (investors).

- After deducting management / origination fees, loan interest and other operational expenses, MICs pay out net income as dividends to investors.

MICs pay no corporate tax and act as a flow-through entity. In order to avoid entity level taxation, a MIC has to pay 100% of all of its income as dividends to investors. MIC dividends are treated as interest income for tax purposes. A key benefit of MIC shares for

investors is that they are eligible for registered plans such as RRSPs, RESPs, TFSA, etc. As 100% of the income is distributed, the value of a MIC's share should remain the same (allowing for capital preservation) unless the MIC suffers a capital loss.

MICs are governed by Section 130.1 of the Income Tax Act. In order for an entity to maintain its status as a MIC, it has to comply with several rules; a few of the key rules are listed below.

- Invest at least 50% of the assets in residential mortgage loans, cash and CDIC (Canada Deposit Insurance Corporation) insured deposits.
- Have a minimum of 20 shareholders, and no shareholder can own over 25% of the total outstanding shares.
- All MIC investments must be in Canada.
- May invest up to 25% of its assets directly in real estate, but cannot be involved in managing or development.

The following section provides a background on the fund and its manager.

Manager

The fund was created in April 1994, with Fisgard Asset Management Corporation as the manager. The manager, incorporated in 1991, is 100% owned by Wayne Strandlund, who has been in the mortgage lending and investing business since 1968. The fund and the manager are based out of Victoria, BC, and were named after the Fisgard Lighthouse in Victoria, the first lighthouse on the west coast of Canada. **The manager is also a licensed mortgage broker and an Exempt Market Dealer ("EMD"), registered in BC, AB, SK, MB and ON.**

The manager has managed a total of five MICs since 1994.

Name		Year of Operations
1.	Fisgard Capital Corporation	1994 - Present
2.	Fisgard Capital II Corporation	2014 - Present
3.	Fisgard Mortgage Investment Corporation	1994 - 2007
4.	Fisgard Investors Ltd.	1994 - 2007
5.	Fisgard Financial Corporation	1993 - 2002

The fund and Fisgard Capital II Corporation are currently active, while the other three MICs were wound up between 2002 and 2007, as shown in the above table. According to management, approximately 90% of the funds from these funds were moved to Fisgard Capital. Although we have not reviewed the financial statements of the three MICs, management has indicated that investors received 100% of the capital plus any accrued

dividends. **According to management, none of their MICs have defaulted on a single dividend distribution or redemption request since inception, which we believe is very positive, and shows management's ability and willingness to operate in the best interest of investors.**

The manager sources its mortgages through third-party brokers (>95%) and occasionally through their six in-house mortgage brokers (<5%). The manager does not originate or administer loans for third-parties. **As per management, the manager has originated approximately $1.5 billion in mortgages since 1994, and currently originates approximately $175 million per year.**

The manager receives a management fee of 1.95% p.a. of the sum of the investors' capital and bank debt, and a 1% fee for capital raised, but receives no fee for origination of each loan. The origination fees are passed on to the fund. Although the management fee is slightly higher than comparable MICs, most of the comparable MICs do not receive the origination fees. The management fee, trailer fee and operating expenses of the fund, net of revenues from the origination fees received, were approximately 2.0% of the mortgage receivables outstanding in 2016. We estimate that the fees of comparables MICs are typically in the 1.5% to 2.0% p.a. range.

Brief biographies of the directors of the fund, as provided by the manager, follow:

Wayne Strandlund, President & CEO / Director
Wayne Strandlund is the founder, Director and Chief Executive Officer of FAMC and Fisgard Capital Corporation, as well as a member of the credit committee of the Fisgard Asset Management. An Honors graduate of the University of Victoria, Wayne has spent his entire career in the real estate, mortgage lending and investment business. Wayne has been licensed under the British Columbia Real Estate Act and the British Columbia Mortgage Brokers Act since June 1968. In addition to being a member (and former president) of the Victoria Real Estate Board, a member (and former president) of the British Columbia Real Estate Association, the Canadian Real Estate Association, the Mortgage Brokers Association of British Columbia, the Mortgage Investment Association of British Columbia and the Canadian Association of Mortgage Professionals, Wayne also served six years as a member of the British Columbia Real Estate Council, a regulatory body, and six years as a governor of the Notary Foundation of British Columbia. He is presently the Chancellor and Chairman of the Board of Governors of Royal Roads University while previously serving on the Finance & Audit Committee, the Governance & Nominating Committee and the Program & Research Council.

Joel Rosenberg, Chief Operating Officer / Director
Joel Rosenberg is both a Director and Chairman of the Board of the Fisgard Capital Corporation, the Chief Operating Officer and member of the credit committee of the FAMC. Prior to joining the FAMC in September 2012, Joel served Coast Capital Savings Credit Union as its Chief Operating Officer and Chief Information Officer for eighteen years. Joel was a senior member of the executive team that developed Coast Capital Savings into the second largest credit union in Canada while strengthening its focus on helping members and

their communities by offering innovative products and services. Joel was a key member of the executive team that merged Pacific Coast Savings in Victoria with Richmond Savings in Richmond, and later Surrey Metro Savings. As the Chief Operating Officer, Joel was the responsible for all customer facing touch points within the branch network (51) including retail lending, commercial lending, financial planning including mutual fund investments, leasing and property/auto insurance operations. Joel is a graduate of the University of Saskatchewan with a B.Sc. in Computational Science. He also holds a Masters of Business Administration in Leadership from Royal Roads University in Victoria and is a Fellow of the Life Management Institute. Joel has served as a member of the Royal Roads University Board of Governors as well as chair of the Finance & Audit Committee, chairman of the Board for Inovera Solutions in Vancouver, as a member of Central One Credit Union's Operations Committee and as a member of BC Central Credit Union's Technology Committee. While at Coast Capital Savings he was selected and named by Computerworld Magazine as one of the 'Top 100 Premier IT Leaders' for his innovative efforts in the application and development of software for financial institutions.

Dawn Paniz, Chief Financial Officer / Director

Dawn Paniz is the Corporate Secretary/Treasurer of the fund, Chief Financial Officer as well as a member of the credit committee of the FAMC. Dawn is also the Senior Vice-President, Investment Markets and has worked for the FAMC since 1994. She oversees all the FCAP's activities including securities reporting, accounting, audit procedures, management of judicial and private trusts and Registered Plans, investment strategy and mortgage investment selection. She is a former member of the Victoria Real Estate Board, the British Columbia Real Estate Association, the Canadian Real Estate Association and the Canadian Home Builders Association. Dawn is currently licensed with the Mortgage Brokers Association of British Columbia and has held this license since January 1997. Dawn also is President and Chairman of the Board of the British Columbia MIC Manager Association and has served on the board for the past four years.

Hali Noble, Senior Vice President, Residential Mortgage Investments & Broker Relations / Director

Hali Noble, Wayne Strandlund's daughter, is a Director and the Past President of the fund. Hali is also Senior Vice President, Residential Mortgage Investments & Broker Relations of Fisgard Asset Management. Hali has spent her entire professional career, since 1989, in the real estate, property management, mortgage brokerage, underwriting and investment business. She also has an extensive background in construction and land development. Hali specializes in mortgage financing, and has underwritten and managed mortgages. She is the Manager's liaison with the mortgage brokerage community and alternative lending institutions. She has been a licensee under the Real Estate Act and Mortgage Brokers Act in British Columbia since 1989. She is a Past Chair of the Canadian Association of Accredited Mortgage Professionals (CAAMP), a Past President of the Mortgage Brokers Association of British Columbia (MBABC), a past Director of the Mortgage Investment Association of BC (MIABC) and Canadian Home Builders Association (CHBA). Related industry memberships include the BC MIC Managers Association (BCMMA), the Alberta Mortgage Brokers Association (AMBA), the Victoria Real Estate Board, the British Columbia Real Estate Association and the Canadian Real Estate Association. Hali was recognized in 2013 as one

of "Canada's 100 Most Powerful Women" leaders in the private, public and not-for-profit sectors by the Women's Executive Network.

Alan (Arvid) Frydenlund, Independent Director
Alan Frydenlund is a lawyer who practices commercial law with a specialty in real estate security realization and perfection. Alan graduated from Simon Fraser University in 1979, with B.A. in Economics and Commerce, and from the University of Victoria with his law degree in 1982. Called to the bar in 1983, he is a shareholder of Owen Bird Law Corporation in Vancouver, B.C. Alan's clients include Canadian Chartered Banks, Foreign Banks, Trust Companies, Savings and Loan Companies, Finance Companies, Life Insurance Companies, Crown Corporations, Mortgage Investment Companies, Credit Unions, Pension Funds, REITs, Receivers, Trustees, Real Estate Developers, Hotels, Time Share Corporations, lawyers and high net worth individuals. He also has experience in real estate and resort development, time shares and fractional real estate ownership. Alan is also a Director of a number of private companies and is a former Director of Glacier National Life Insurance Company.

We believe that the board of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interests of the company. One of the fund's five directors are independent and do not hold any management position. The directors own a total of 266,966 shares, or 0.13% of the total outstanding non-voting shares. The first four members, in the table below, have been with the fund since inception in 1994. **We consider management's extensive experience in the sector as one of the primary strengths of the offering.**

Shares held by Management:	Director Since	Class A Voting	Class B	Class D	Class F	Total	% of Total
Wayne Francis Strandlund	1997	25%	7,107			7,107	0.00%
Hali Nevada Noble	1994	25%				-	0.00%
Graeme James Nye		25%				-	-
Roberta Dawn Paniz	2014	25%	66,981	712	2,077	69,770	0.04%
Joel Joseph Rosenberg	2013		132,898			132,898	0.07%
Alan Arvid Frydenlund	2012		57,191			57,191	0.03%
Total		**100%**	**264,177**	**712**	**2,077**	**266,966**	**0.13%**

Investment Mandate

With a strong focus on first mortgages, we believe management has a clear mandate to maintain the risk profile of the fund to a low to moderate level. The following points highlight management's key investment strategy for the fund:

- Primary focus on single family detached houses, townhouses and condominiums (over 60% of the portfolio). Secondary focus on residential construction financing, commercial,

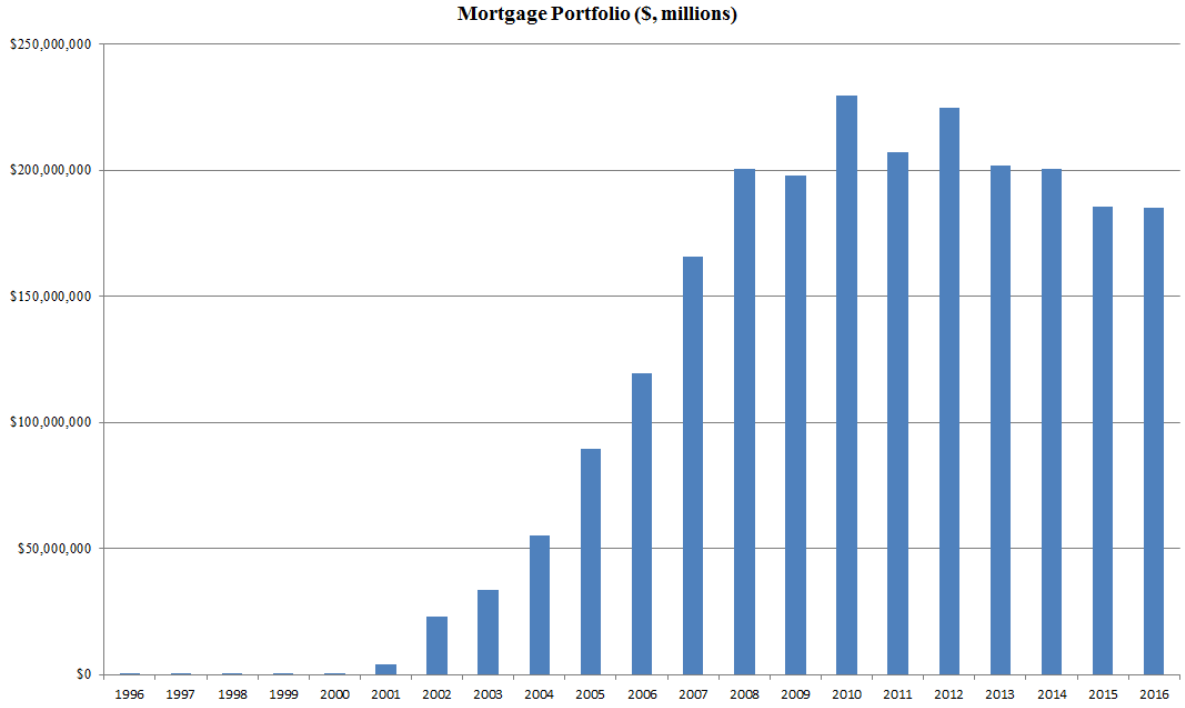
industrial or land development mortgages.

- Focus on first mortgages (over 90% of the portfolio).
- Focus on lending to recognized communities in BC, AB, and ON, with minor exposure to MB and SK.
- Maximum LTV of 75% at the time of origination.
- Individual mortgages over $5 million will need to receive approval from the Board of Directors.
- Like most MICs, the fund tends to renew terms once or twice per borrower. According to management, typically, 20% to 30% of the loans get renewed at least once.
- Unlike most MICs, the fund does not explicitly state that they will not offer loans to related parties. In 2015, the fund provided a loan to a company controlled by a close family member of one of the directors, which management indicated to us was on standard terms and matures in 2017. In related party cases, the Board of Directors (absent any related parties) considers the mortgage, its terms and conditions, and decides on approval or disapproval.
- Single residential mortgage over $5 million will require approval from the board of directors.

Portfolio's Key Parameters

The following section presents a detailed analysis of the fund portfolio's key parameters.

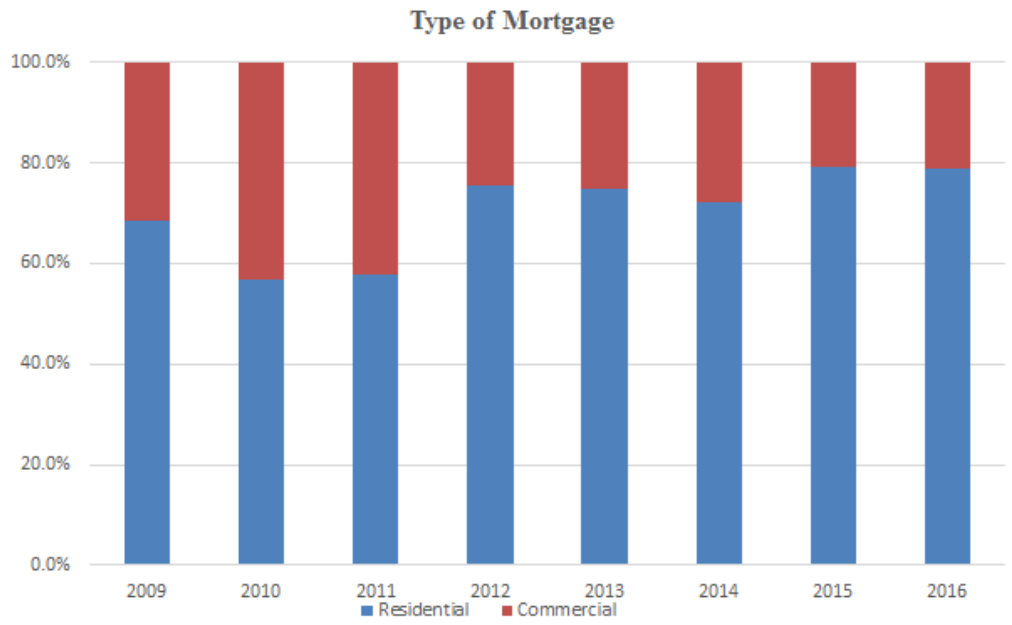
As of 2016, the fund had $185 million in mortgage receivables secured by 409 properties. The following chart shows the portfolio size at the end of ever year since inception.



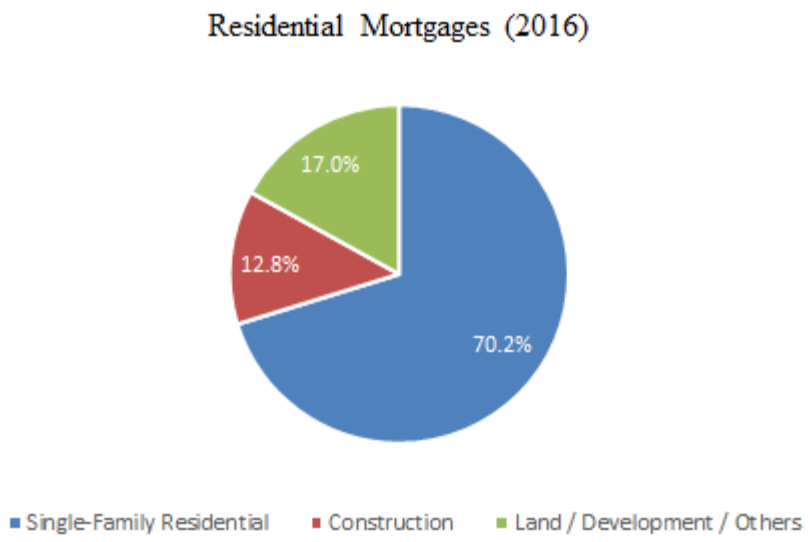
Management was able to consistently grow the portfolio every year since inception until 2010, when the portfolio reached a record high of $236 million. However, a $5.97 million

(2.8% of the mortgage receivables) impairment loss in 2011 prompted the company to focus on cost-cutting and reduce the portfolio size. Management lowered their management fee by 46% to $2.58 million (1.2% of the mortgage receivable) in 2013, from a high of $4.76 million (2.2% of the mortgage receivable) in 2011. **Investors of the fund were not significantly impacted from the 2011 loss as a result of the subsequent dramatic cost-cutting efforts from 2012 to 2015, and careful managment of the fund by reducing the portfolio's risk-profile.** The portfolio size dropped by 0.2% YoY to $185 million by the end of 2016. Management has not provided any guidance on their estimated portfoio size by the end of 2017.

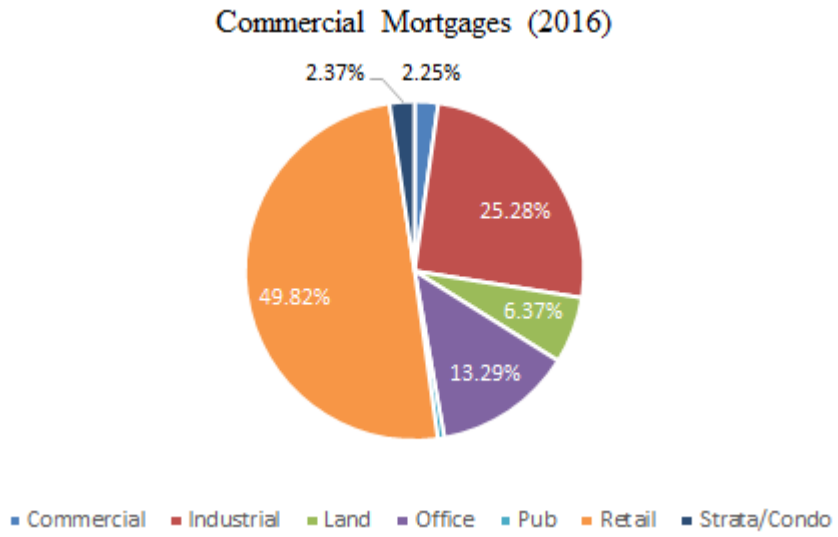
Type of Mortgage: Approximately 79% of the mortgages were secured by residential properties (including residential construction and residential land development) at the end of 2016, versus the average of 70% since 2009 (range: 56.8% to 79.3%).



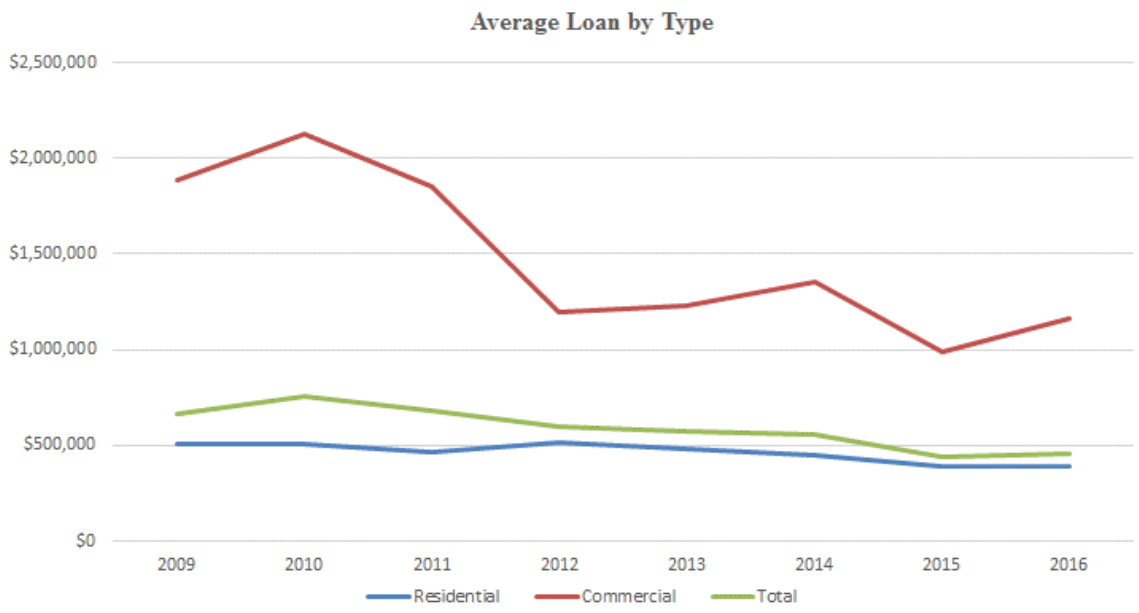
The following charts shows the mortgages by type within the residential and commercial categories. Approximately 70% of the residential mortgages were tied to single family units and the remaining 30% were tied to residential land development and construction projects.



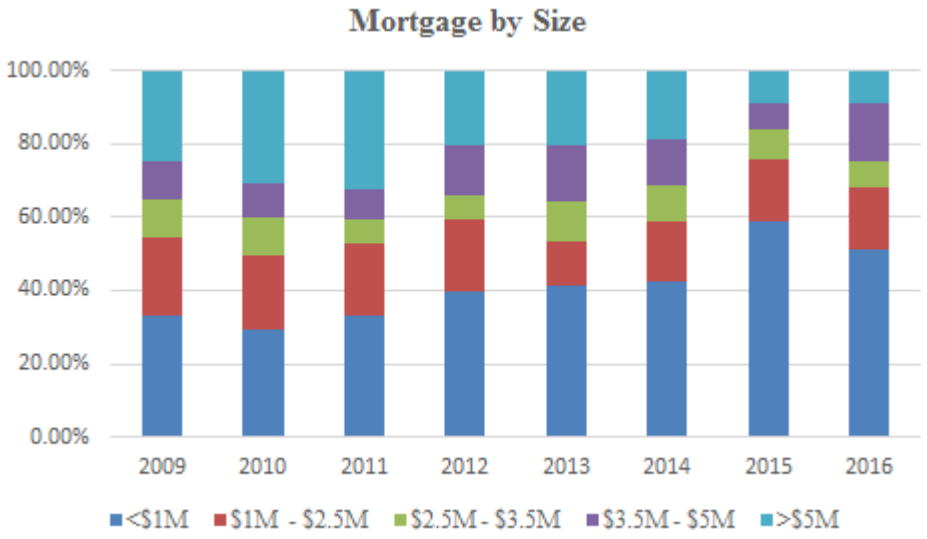
With regard to commercial mortgages, retail (50%) and industrial (25%) accounted for the major portion of the mortgages.



Mortgage Size: The average mortgage size was $392k for residential and $1.16 million for commercial, as of December 31, 2016. A key positive is that the average loan size has decreased significantly since 2010, as shown in the chart below.

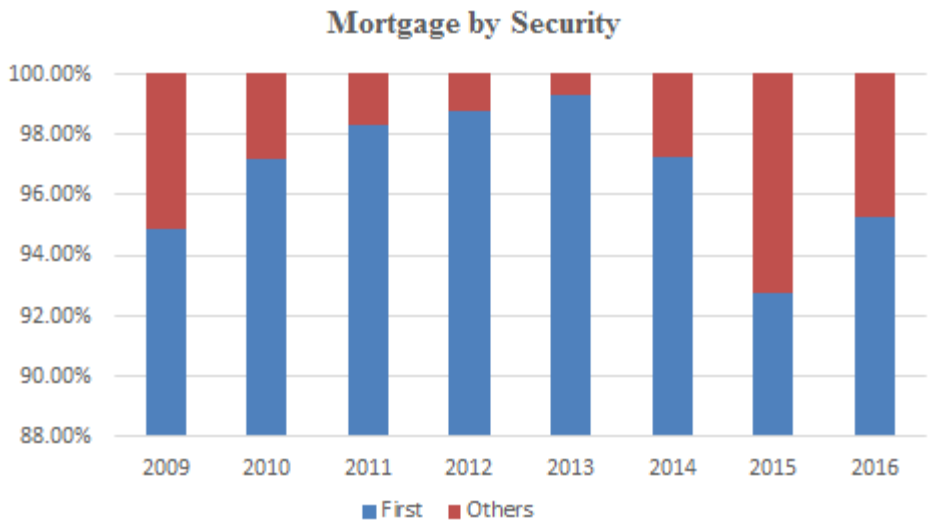


As of December 31, 2016, 55% of the portfolio had mortgages under $1 million, and 13% of the portfolio had mortgages over $5 million. The following chart shows that the contribution of mortgages under $1 million has been increasing since 2009, while reducing the exposure to mortgages over $5 million, indicating management's mandate to lower the portfolio's risk profile.

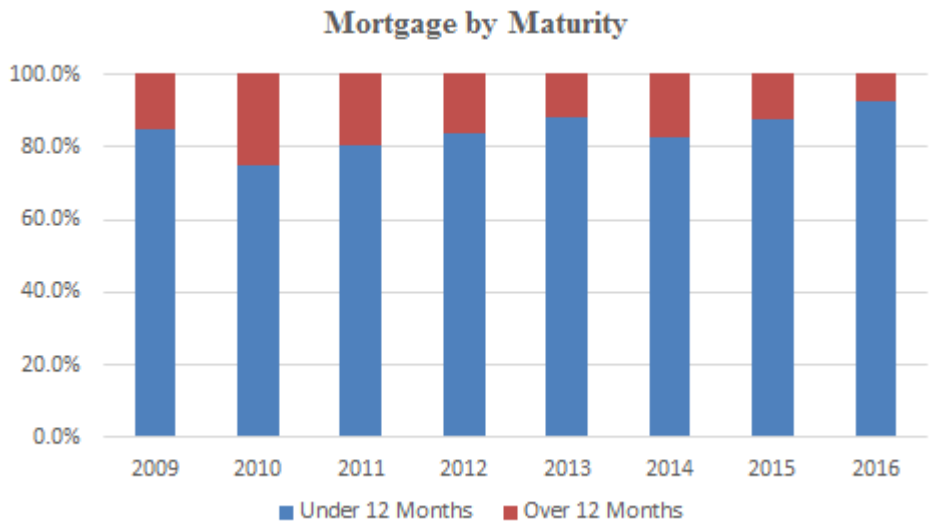


The largest loan in the portfolio was a $6.5 million loan.

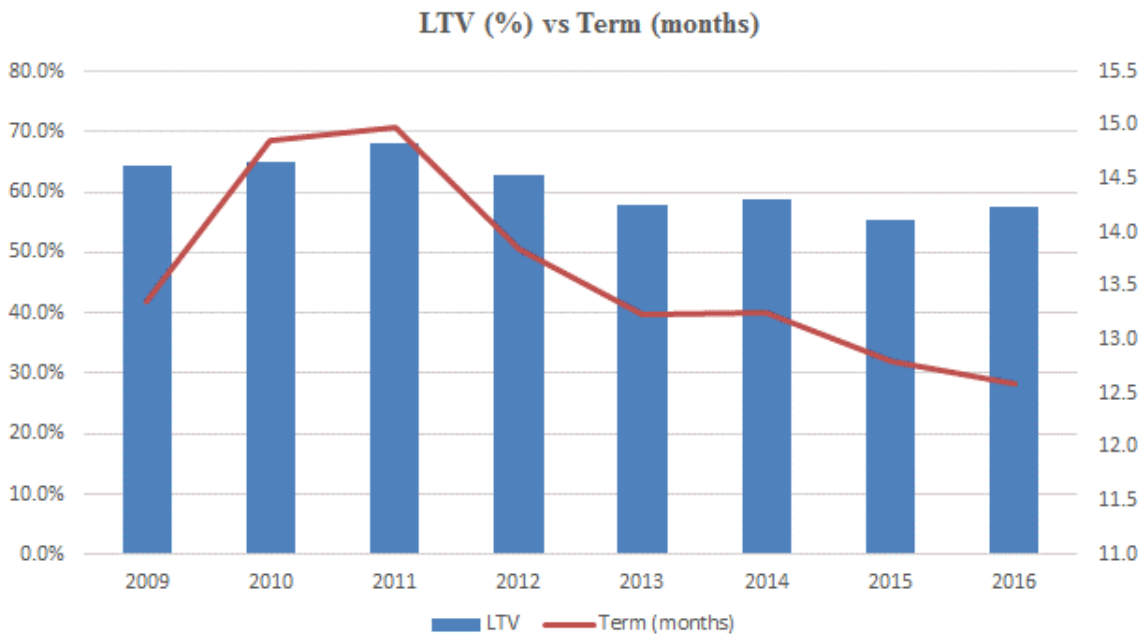
Mortgage by Security: First mortgages accounted for 95.3% of the portfolio as of December 31, 2016. Since 2009, first mortgages have averaged 96.7% of the portfolio (range: 92.8% to 99.3%).



Mortgage Term: As of December 31, 2016, approximately 92% of the portfolio had mortgages with terms less than 12 months, versus the average of 84% since 2009.

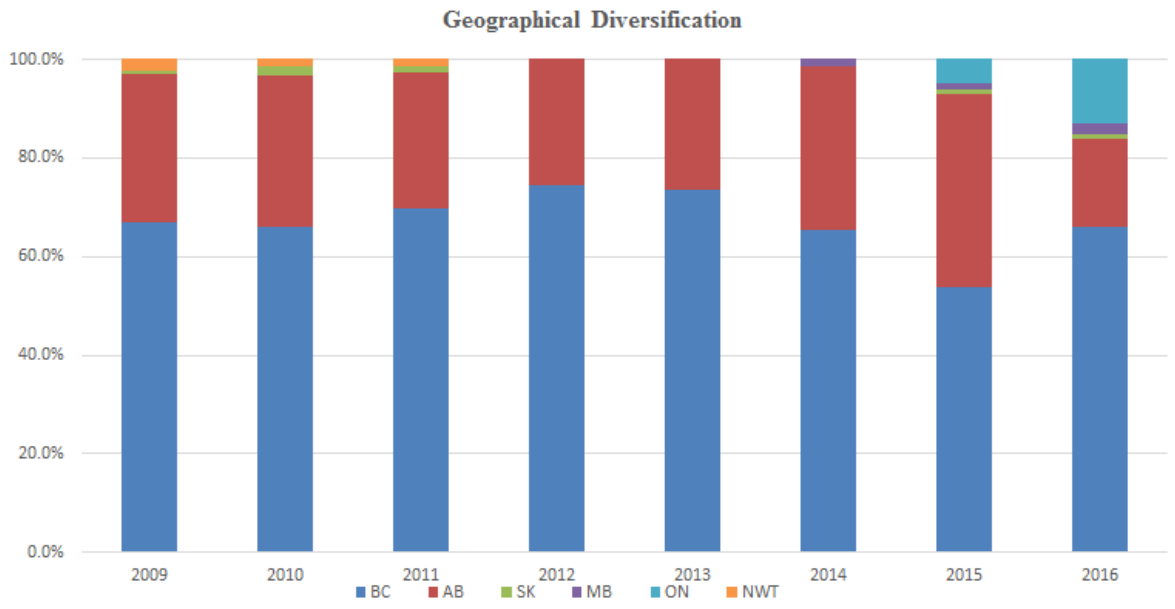


The duration has been on a decreasing trend since 2011, from 15.0 months to the current 12.6 months. Note that lower duration implies lower risk as it allows the fund to more frequenly re-adjust lending rates.



Loan to Value (LTV) – The portfolio's LTV has also declined from a high of 68.1% as of 2011 to 57.4% as of December 31, 2016. The rise in real estate prices, coupled with management's effort to lower the portfolio's risk profile, were the primary reasons for the declining LTV.

Geographical Diversification: The chart below outlines the fund portfolio's distribution of mortgages by location. As a result of the softness in Alberta's economy, the fund has recently reduced their exposure to the province. As of December 31, 2016, approximately 66.0% of the portfolio was secured by properties in BC, and 17.8% secured by properties in AB. The fund has been gradually increasing its exposure to ON, which was at 12.9% as of December 31, 2016.

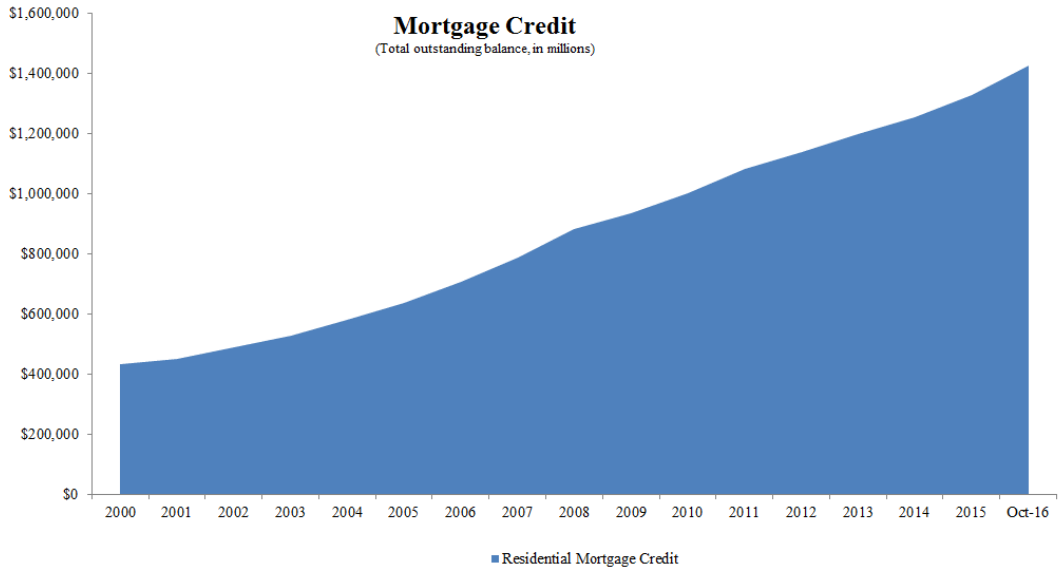


Although MICs tend to geographically diversify their portfolios as they expand, our discussions with management indicated that they will continue to have a strong focus on BC, AB and ON.

Private Lending Market

The following section provides an overview of the mortgage lending market.

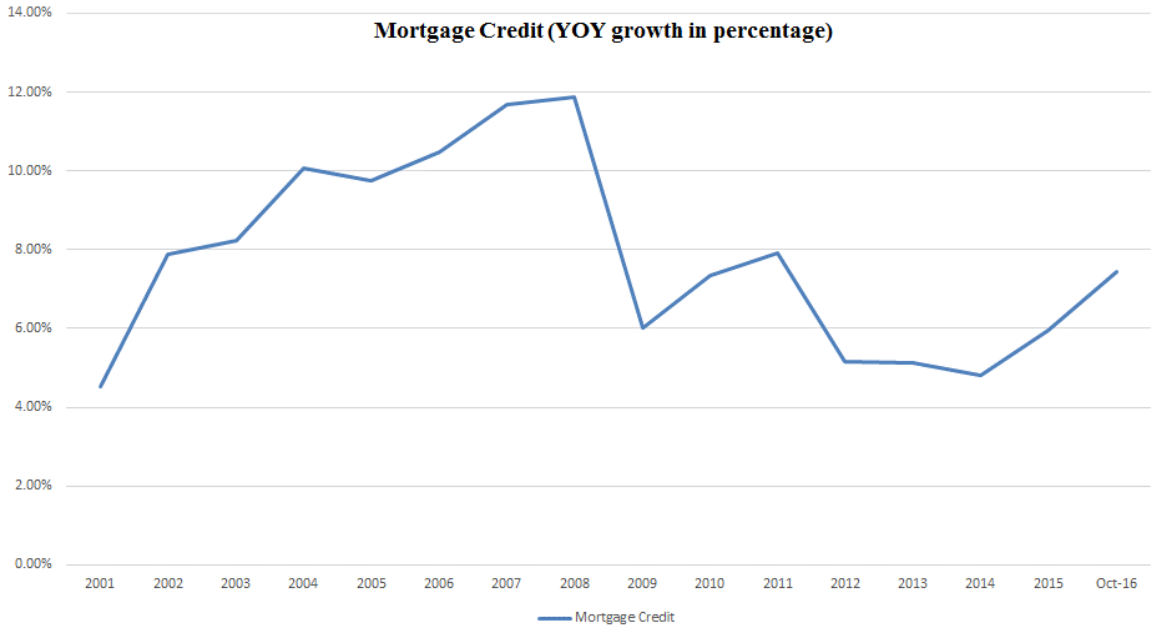
The total residential mortgage credit in Canada (outstanding balance of the major private institutional lenders) increased from $0.43 trillion in 2000, to $1.43 trillion by October 2016, reflecting a compounded annual growth rate ("CAGR") of 7.8%, and a 7.4% YOY increase.



Source: Statistics Canada

As of October 2016, mortgage credit accounted for 72%, and consumer credit accounted for the remaining 28% of total household debt.

The following chart shows the annual growth rate of mortgage credit. As shown below, the growth rates increased significantly in 2016, primarily because of the low interest rate environment and the strong increase in housing prices.



Source: Statistics Canada

With regard to the financing required for a purchase, buyers have historically financed 67% of their purchase through a mortgage and/or a home equity line of credit, ranging from 81% for first-time buyers, to 67% for second-time buyers, and 50% for those purchasing their third or subsequent home.

Recent Industry Developments

The tighter lending policies set by banks and conventional lenders have been encouraging more and more unregulated private lenders to enter the market over the last decade. On October 17, 2016, the federal government announced four key changes to existing mortgage rules:

- All new insured mortgages will need to undergo a stress test; implying that a home buyer would not only need to qualify at the loan rate, but also at the Bank of Canada's five-year fixed posted mortgage rate, which is currently (4.64%) much higher than the rates offered by mortgage lenders.

- Insurance for low-ratio mortgages (down payment of over 20%) will only be provided by government backed lenders for the following: purchase price of under $1 million, a maximum amortization period of 25 years, a minimum credit score of 600, and the property must be owner-occupied.

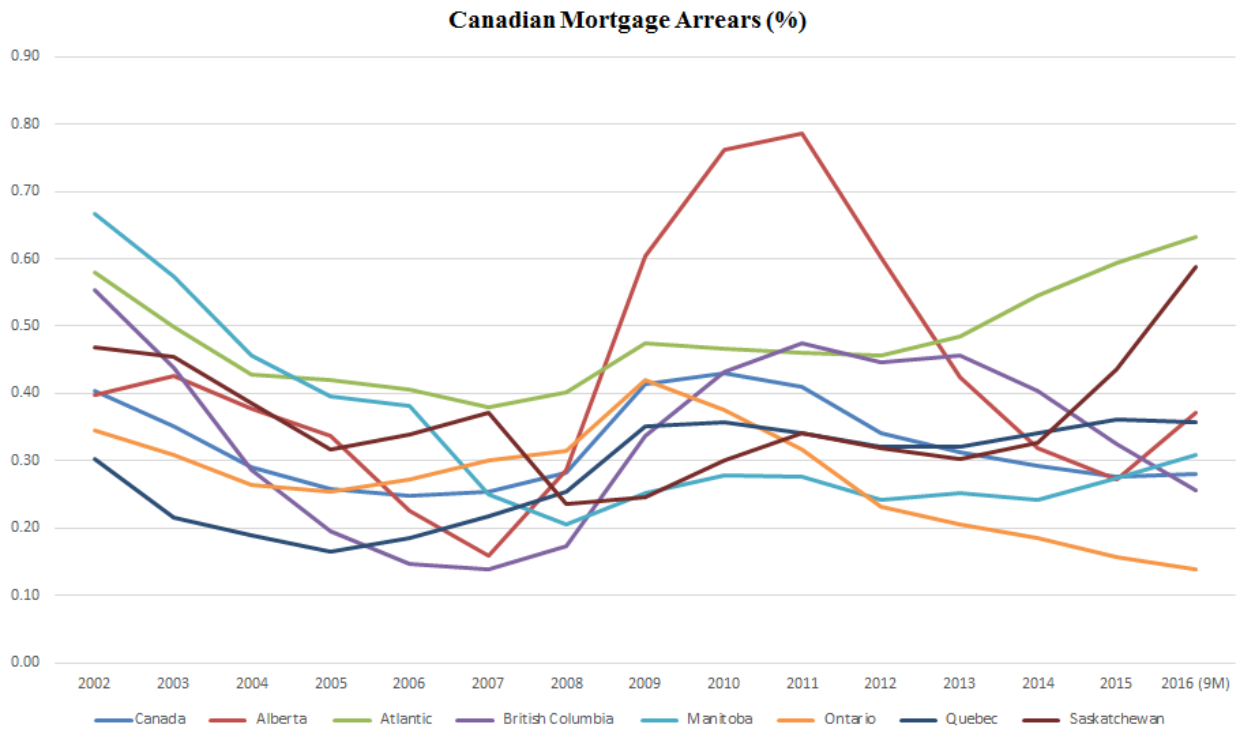
- New reporting rules for the primary residence capital gains exemption.

- The government is considering options to shift some of the risk of defaults against insured mortgages to lenders.

We believe the above changes clearly indicate the government's intent to stabilize the real estate market in the country, and avoid a major downturn, similar to the U.S. The finance department estimates home sales could fall by up to 8% in 2017, before rebounding. We see these changes as likely to drive more borrowers to MICs and other private lenders.

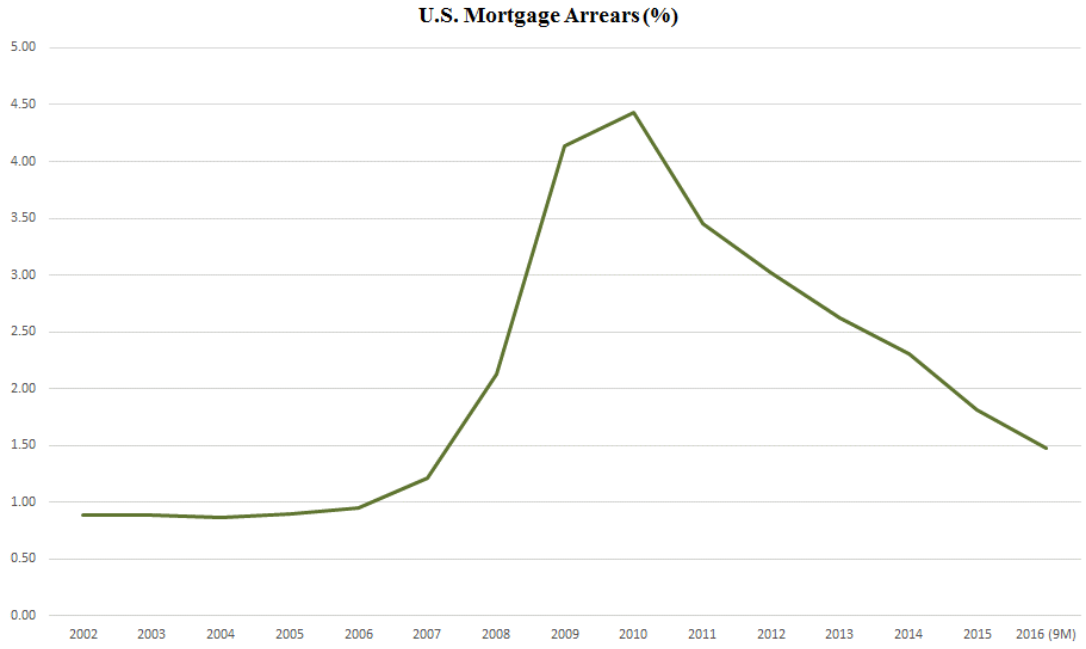
The other factors that have been contributing to increased lending are the strong growth in housing prices, decreasing unemployment rates (see chart below), a low interest rate environment, and the relatively low default rates.

Although there was a rise in mortgage arrears during the recession (mid-1990s and 2008-2009), the rates have dropped considerably since 2010, as shown in the chart below.



Source: CMHC

The national average was 0.28% in Q3-2016, versus 0.43% in 2010. This is significantly lower than the default rates in the U.S. (see chart below).



Source: CMHC

The following table shows the average, minimum and maximum rates in Canada since 2002. British Columbia's ("BC") rate of 0.24% in Q3-2016, is well below the historical average of

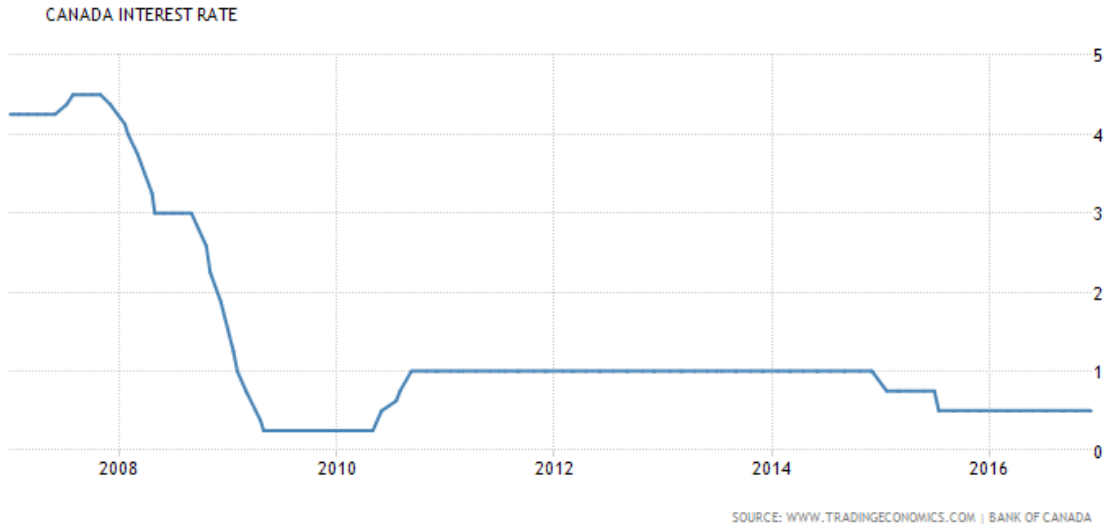
0.34%. The U.S. national average was 1.41% in Q3-2016.

%	2002 - 2016 (Average)	Low	High	Q3-2016
Canada	**0.32**	**0.25**	**0.43**	**0.28**
Alberta	0.42	0.16	0.79	0.41
Atlantic	0.48	0.38	0.63	0.63
British Columbia	0.34	0.14	0.55	0.24
Manitoba	0.34	0.21	0.67	0.31
Ontario	0.27	0.14	0.42	0.13
Quebec	0.29	0.17	0.36	0.34
Saskatchewan	0.36	0.24	0.59	0.61
U.S.	**2.07**	**0.87**	**4.43**	**1.41**

Data Source: CMHC

As mentioned earlier, the low interest rate environment is another factor that is driving lending. The following chart shows the overnight lending rate since 2007.

Overnight Lending Rate



We believe that all of the above factors indicate strong deal flow for MICs and private lenders in 2017.

Vancouver RE Market Update

Vancouver's real estate sales have experienced a dramatic slowdown in the past 12 months primarily because of the B.C. government's announcement in July 2016, that it would add a 15% property transfer tax on foreign nationals buying real estate in Metro Vancouver. Another factor that we believe is contributing to the slowdown is the federal government's announcement to increase the required down payment for properties over $500k. The following chart shows the YOY decline in sales in 2016.

	2014	2015	2016
Total Residential Sales Metro Vancouver	33,116	42,326	39,943
YOY Change		27.8%	-5.6%

Source: REGBV

Sales continued to drop, but at a lower rate in May, compared to the first four months of the year. Property prices continue to rise despite the drop in sales.

Metro Vancouver	Jan-16	Jan-17	YoY	Feb-16	Feb-17	YoY	Mar-16	Mar-17	YoY
Residential Sales	2,519	1,523	-40%	4,172	2,425	-42%	5,173	3,579	-31%
New Listings	4,442	4,140	-7%	5,812	3,666	-37%	6,278	4,762	-24%
Active Listings	6,635	7,238	9%	7,299	7,594	4%	7,358	7,586	3%
Sales to Listings	37.97%	21.04%	-45%	57.16%	31.93%	-44%	70.30%	47.18%	-33%
MLS Home Price Index composite Benchmark price	$775,300	$896,000	16%	$795,500	$906,700	14%	$815,000	$919,300	13%

Metro Vancouver	Apr-16	Apr-17	YoY	May-16	May-17	YoY
Residential Sales	4,781	3,553	-26%	4,769	4,364	-8%
New Listings	6,127	4,907	-20%	6,289	6,044	-4%
Active Listings	7,550	7,813	3%	7,726	9,168	19%
Sales to Listings	63.32%	45.48%	-28%	61.73%	47.60%	-23%
MLS Home Price Index composite Benchmark price	$844,800	$941,100	11%	$889,100	$967,500	9%

Source: Real Estate Board of Greater Vancouver

The sales to active ratio increased from 45% in April to 48% in May 2017. We consider this as positive as it indicates a stabilization of the market as the ratio had dropped during the same time last year from 63% to 62%. The home price index was up by 9% YoY.

Detached properties continued to experience the steepest decline in sales volumes.

Vancouver Sales by Type	Mar-16	Mar-17	YoY	Apr-16	Apr-17	YoY	May-16	May-17	YoY
Detached	2,137	1,150	-46%	1,979	1,211	-39%	1,865	1,548	-17%
Apartments	2,252	1,841	-18%	2,107	1,722	-18%	2,150	2,025	-6%
Attached Property	786	588	-25%	695	620	-11%	754	791	5%
Total	**5,175**	**3,579**	**-31%**	**4,781**	**3,553**	**-26%**	**4,769**	**4,364**	**-8%**

Source: Real Estate Board of Greater Vancouver

In summary, although we have a cautious outlook, we believe Vancouver's housing market is reasonably healthy in the near-term (due to low supply), and do not expect a major

correction. Immigration and foreign investment is expected to continue due to the city's global appeal, Canada's economic stability, and the weakness in the C$.

Structure

The following table shows the structure of the fund:

Shares Oustanding	Feb-17	% of Total
Class B	181,423,920	90.6%
Class D	9,466,345	4.7%
Class F	9,414,050	4.7%
Total	**200,304,315**	**100.0%**

Management owns 75% of the Class A voting common shares of the fund. The other 25% is owned by a former investor (unrelated to management). Investors receive non-voting Class B, Class D, and Class F shares. Class F is issued for a term of 1 year, Class D for 3 years, and Class B for 5 years. Due to their longer term, Class B shares have the highest dividend rate. Class D shares receive 1% p.a. lesser, and Class F shares receive 2% p.a. less than Class B shares.

Shares	Term	Dividend Rate
Class B	5 years	Base Rate
Class D	3 years	Base Rate - 1.00% p.a.
Class F	1 year	Base Rate - 2.00% p.a.

Note that, as with all MICs, the fund's management has total discretion to suspend or accrue dividend payments, in circumstances that require them to preserve cash flow.

As of February 28, 2017, the fund had a total of 200.30 million non-voting shares, all of which were issued at, and currently priced at, $1 per share. Approximately 91% of the shares were Class B shares. According to management, currently, approximately 1% of the capital is raised through IIROC dealers, 1% through third-party EMDs and the remaining 98% internally. The fund is offering EMDs a commission of up to 7% for raising capital.

There is no market or exchange that the trust units trade on. The units are non-transferable. **According to management, the fund has never defaulted on an interest or principal repayment to investors.**

Management Fees – As per the OM, the fund incurs a total fee of 1.95% p.a. (paid monthly) of the sum of the investors' capital and bank debt, which includes a management fee of 1.8% p.a. paid to the manager, and a trademark license fee of 0.15% p.a. paid to Strandlund Investments Ltd. (owned by Wayne Strandlund – this fee is for use of the "Fisgard"

Trademark). Management does not charge any performance based fee, which we believe is a common practice adopted by managers of low-risk funds focused primarily on first mortgages.

As a result of the loss in 2011 (details of the loss are mentioned later in the report), management made a decision to slash their fees significantly in order to preserve investors' returns:

- The management fee was lowered to $215k per month from April 2012 onwards. Subsequently, in May 2015, the fee was increased to $225k per month. In 2016, the fee was increased to the normal 1.8% p.a. as the retained earnings deficit was extinguished.

- Management decided to waive the 0.15% p.a. trademark licensing in 2011, and the waiver is still in effect.

- The manager also decided to waive any potential commissions related to capital raising (equity or debt) in July 2011 to May 2017.

We were impressed with the above measures as it shows management's willingness to put investors interest above theirs by slashing own fees for an extended period to help absorb losses.

The fund's financial statements are audited by Schell & Associates, a Victoria based accounting firm.

Financials

Revenues grew from $25k in 1996, to $15.86 million in 2016. The following table shows a summary of the income statement since 2009. **We have reviewed all the audited financial statements since 1996.**

Income Statement	2009	2010	2011	2012	2013	2014	2015	2016
Revenues								
Interest	17,716,306	16,710,794	16,377,230	17,355,309	16,498,266	15,161,424	13,144,902	14,744,337
Other	2,848,084	2,711,365	2,694,872	2,540,680	1,963,366	2,376,535	2,075,648	1,116,217
Total Revenues	**20,564,390**	**19,422,159**	**19,072,102**	**19,895,989**	**18,461,632**	**17,537,959**	**15,220,550**	**15,860,554**
Expenses								
Financing costs	2,138,991	2,035,662	414,487	138,834	79,995	82,482	55,613	70,155
Management fees	4,181,746	4,510,772	4,755,431	3,108,753	2,580,000	2,580,000	2,660,000	4,000,526
General & Administrative	1,163,962	818,978	688,233	353,595	472,048	603,924	370,295	649,780
Extraordinary Items	2,089	32,285 -	3,615	698	51,834	95,629	92,242	72,432
Interest	-	37,085	57,301	11,533	-			64,385
Equity in losses of associates						11,851	208,678	
Impairment Loss			5,972,000					
Provision for loss	528,130	522,263	1,404,762	2,588,613	4,333,939	3,122,577	337,365	951,003
Dividends on redeemable shares	12,549,472	11,465,114	11,755,503	11,300,816	10,943,816	10,466,462	10,014,733	9,851,062
Total Expenses	**20,564,390**	**19,422,159**	**25,044,102**	**17,502,842**	**18,461,632**	**16,962,925**	**13,738,926**	**15,659,343**
Net Income	-	-	**-5,972,000**	**2,393,147**	-	**575,034**	**1,481,624**	**201,211**

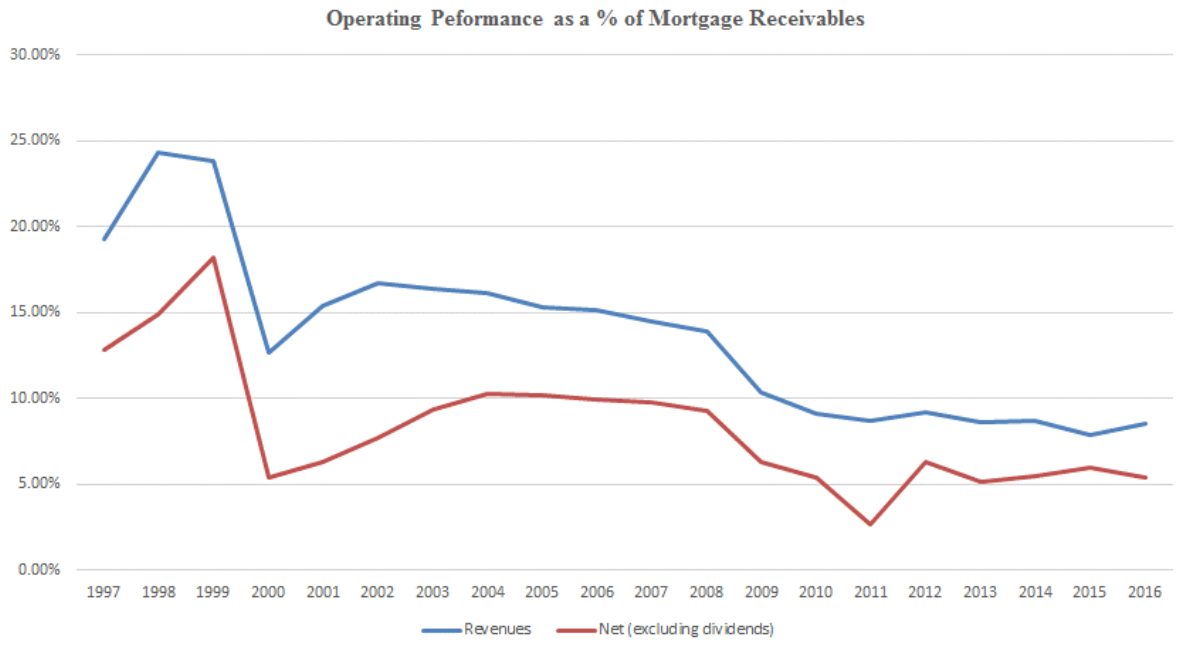
YE – Dec 31st

Interest + Other income as a percentage of mortgage receivables were 8.57% p.a. in 2016.**The current first mortgage rates charged by the fund to borrowers range between 7.40% p.a. and 8.85% p.a., and the second mortgage rate ranges between 9.85% p.a. and 12.85% p.a. – these rates are in line with comparables.**

% of Mortgage Receivable	2009	2010	2011	2012	2013	2014	2015	2016
Interest	8.90%	7.83%	7.51%	8.04%	7.74%	7.54%	6.81%	7.96%
Other	1.43%	1.27%	1.24%	1.18%	0.92%	1.18%	1.08%	0.60%
	10.33%	**9.10%**	**8.74%**	**9.22%**	**8.66%**	**8.72%**	**7.89%**	**8.57%**
Less:								
Financing costs	-1.07%	-0.95%	-0.19%	-0.06%	-0.04%	-0.04%	-0.03%	-0.04%
Management fees	-2.10%	-2.11%	-2.18%	-1.44%	-1.21%	-1.28%	-1.38%	-2.16%
General & Administrative	-0.58%	-0.38%	-0.32%	-0.16%	-0.22%	-0.30%	-0.19%	-0.35%
Extraordinary Items	0.00%	-0.02%	0.00%	0.00%	-0.02%	-0.05%	-0.05%	-0.04%
Interest	0.00%	-0.02%	-0.03%	-0.01%	0.00%	0.00%	0.00%	-0.03%
Equity in losses of associates	0.00%	0.00%	0.00%	0.00%	0.00%	-0.01%	-0.11%	0.00%
Impairment Loss	0.00%	0.00%	-2.74%	0.00%	0.00%	0.00%	0.00%	0.00%
Provision for loss	-0.27%	-0.24%	-0.64%	-1.20%	-2.03%	-1.55%	-0.17%	-0.51%
	-4.02%	**-3.73%**	**-6.09%**	**-2.87%**	**-3.53%**	**-3.23%**	**-1.93%**	**-3.14%**
Net (excluding dividends)	**6.30%**	**5.37%**	**2.65%**	**6.35%**	**5.13%**	**5.49%**	**5.96%**	**5.43%**
Investors' Returns as a % of Invested Capital	5.67%	4.95%	5.03%	4.86%	4.84%	4.86%	4.84%	4.90%
2-year GOC	1.73%	1.44%	1.61%	1.11%	1.30%	1.05%	0.54%	0.62%
Spread	3.94%	3.51%	3.42%	3.75%	3.54%	3.81%	4.30%	4.28%
Class B - base rate yield	6.00%	5.21%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Class D					4.00%	4.00%	4.00%	4.00%
Class F	4.00%	3.21%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

- *Note that the above figures may be slightly different from the figures reported by the fund due to the difference in the method of calculation. We used the average of the opening balance, and year-end balance of the mortgages outstanding, and invested capital, to arrive at the above figures.*

The net income was 5.43% p.a. in 2016. As shown in the chart below, except for 2011, the fund has generated a yield of over 5.0% every year since inception.



Impairment loss in 2011 and subsequent recovery: In 2011, the fund wrote-off $5.97 million (2.8% of the mortgage receivables) over two commercial development properties. The fund had announced 2011 dividends prior to reporting these losses; therefore, investors did not experience any significantly decline in yields in 2011. As mentioned earlier, in order to compensate for these losses, management took drastic cost-cutting measures. Operating expenses (financing + management + General and Administrative) were reduced from $5.86 million in 2011, to $3.60 million in 2012, and maintained in the $3.0 to $3.3 million per year range during 2013 to 2015. The operating expenses dropped from 2.5% to 3.0% p.a. prior to 2011 to approx. 1.5% to 1.7% p.a. of the mortgage receivables during 2012 to 2015.

The following chart shows the realized and unrealized losses, and a few other key parameters of the portfolio since inception.

	2009	2010	2011	2012	2013	2014	2015	2016
Provision for loss	528,130	522,263	7,376,762	2,588,613	4,333,939	3,122,577	337,365	951,003
Total Allowance at the end of the period	5,956,927	7,088,082	7,806,164	3,303,695	3,018,551	1,569,491	865,236	1,643,074
Specific Allowance	-	-	6,401,402	2,847,397	2,719,435	1,340,750	434,000	1,643,074
No. of mortgages	-	-		15	11	15	6	3
Specific % of Total	**0.0%**	**0.0%**	**82.0%**	**86.2%**	**90.1%**	**85.4%**	**50.2%**	**100.0%**
General Allowance	5,956,927	7,088,082	1,404,762	456,298	299,116	228,741	431,236	
General as a % of Total	**100.0%**	**100.0%**	**18.0%**	**13.8%**	**9.9%**	**14.6%**	**49.8%**	
Gross Receivables	203,611,299	236,451,708	214,801,227	227,913,141	204,664,075	202,250,849	186,160,342	186,609,981
Total Allowance % of Gross Receivables	2.93%	3.00%	3.63%	1.45%	1.47%	0.78%	0.46%	0.88%
Actual losses (Fisgard est.)	3,871,157	5,448,772	12,089,598	2,589,000	4,918,259	4,272,000	1,041,620	173,165
Actual Losses (% of mortgage receivable)	1.90%	2.48%	5.36%	1.17%	2.27%	2.10%	0.54%	0.09%
Reinvested	-	-	7,955,551	7,772,510	7,620,908	7,400,413	7,164,635	7,163,046
Reinvested (as a % of Distributions)	0.0%	0.0%	67.7%	68.8%	69.6%	70.7%	71.5%	72.7%
Redemptions:	$45,305,867	$34,589,896	$33,436,403	$30,511,643	$28,920,858	$22,826,079	$22,362,899	$19,483,566
Redemption (% of invested capital)	20.5%	14.9%	14.3%	13.1%	12.8%	10.6%	10.8%	9.7%

The realized loss was $12.09 million in 2011, or 5.4% of the mortgages receivables. The

annual loss rate has ranged between 0.09% and 2.27% since 2011. Our research indicates that the MIC's loss rates prior to 2015 were higher than comparable MICs.

As of February 28, 2017, 12 mortgages (3.08% by number and 5.94% by value of the portfolio) were in foreclosure or non-performing.

Foreclosures and Non-Performing Mortgage Loans

	1st	2nd			
12	12	0	3.08% of 389 mortgages	10,829,932	5.94% of total portfolio current balance **182,203,855**

Rec.	Status	City	Prov	Rank	Original Principal Amount	Balance Owing	Original LTV	Revised Valuation Date	Prior Charges	Revised Value	Revised LTV
Residential											
Land Lot											
1	F	Maple Ridge	BC	1st	250,000	271,674	40.00%	12-Sep-16		1,100,000	24.70%
Single-Family Condominium											
2	F	Edmonton	AB	1st	275,000	301,542	62.79%	19-Jan-17		380,000	79.35%
Single-Family House											
3	F	Sturgeon County	AB	1st	393,750	481,378	75.00%	15-Feb-17		430,000	111.95%
4	F	Drumheller	AB	1st	288,000	300,969	53.83%	21-Nov-16		600,000	50.16%
5	F	Morinville	AB	1st	190,000	203,845	61.89%	21-Sep-16		290,000	70.29%
6	F	Calgary	AB	1st	124,690	129,135	34.40%	27-Jan-17		296,000	43.63%
7	F	Calgary	AB	1st	293,335	308,358	56.41%	17-Jan-17		465,000	66.31%
8	F	Calgary	AB	1st	889,262	908,661	58.70%	27-Jan-17		1,300,000	69.90%
Single-Family Townhouse											
9	F	Edmonton	AB	1st	231,000	249,313	75.00%	5-Dec-16		268,000	93.03%
Non-Residential											
Commercial Commercial											
10	F	Calgary	AB	1st	230,000	212,267	62.16%	21-Dec-16		330,000	64.32%
Commercial Industrial											
11	F	Powell River	BC	1st	900,000	959,659	44.78%	13-Dec-16		1,075,000	89.27%
Commercial Retail											
12	F	Nanoose Bay	BC	1st	6,000,000	6,503,131	73.98%			5,500,000	118.24%
SUMMARY											
12					**10,065,037**	**10,829,932**			**0**	**12,034,000**	

At the end of 2016, management had assigned a total allowance for loan loss of $1.64 million, or 0.88% of the receivables. We estimate that larger MICs tend to assign a general provision of 0.75% to 1.00% of the portfolio.

The following table shows a summary of the fund's balance sheet.

Balance Sheet (YE - Dec 31st)	2009	2010	2011	2012	2013	2014	2015	2016
Assets								
Cash & cash equivalents	$32,758,835	$1,968,729	$18,877,558	$2,800,467	$14,964,994	$8,678,314	$1,668,183	$1,558,968
Other current assets	$159,891	$988,199	$766,362	$367,306	$169,018	$845	$217,924	$56,664
Mortgages loans - current	$167,426,300	$171,986,937	$166,730,461	$188,517,848	$177,818,878	$165,892,326	$162,755,168	$170,996,968
Mortgage loans - LT	$30,228,072	$57,376,689	$40,264,602	$36,091,598	$23,826,646	$34,789,032	$22,539,938	$13,969,939
Assets held for sale		$5,266,301	$3,864,468	$1,915,872	$1,752,993			$212,181
Investments in associates						$1,258,349	$16,450,671	$28,258,381
Total Assets	**$230,573,098**	**$237,586,855**	**$230,503,451**	**$229,693,091**	**$218,532,529**	**$210,618,866**	**$203,631,884**	**$215,053,101**
Liabilities								
Short-term loans								$14,387,787
Term investment contract		$1,564,459	$3,324,748					
Accounts payable and accruals	$57,845	$14,524	$22,399	$24,616	$32,161	$26,993	$33,423	$28,000
Other current liabilities	$64,893	$42,909	$50,269	$30,515	$30,029	$37,198	$67,082	
Interest reserve	$1,936,979	$1,148,989	$641,959	$543,707	$1,542,792	$1,584,085	$1,102,847	$1,507,510
Redeemable shares - current				$68,206,891	$52,325,512	$47,724,570	$42,248,322	$61,575,151
Redeemable shares - LT	$228,512,901	$234,815,494	$232,435,596	$164,018,987	$167,355,397	$163,155,429	$160,400,259	$137,549,437
Shareholders' Equity								
Share capital	$480	$480	$480	$480	$480	$480	$480	$480
Retained earnings		$0	-$5,972,000	-$3,132,105	-$2,753,842	-$1,909,889	-$220,529	$4,736
SE + Liabilities	**$230,573,098**	**$237,586,855**	**$230,503,451**	**$229,693,091**	**$218,532,529**	**$210,618,866**	**$203,631,884**	**$215,053,101**
Mortgages Invested	$197,654,372	$229,363,626	$206,995,063	$224,609,446	$201,645,524	$200,681,358	$185,295,106	$184,966,907
Mortgages + Investments	$197,654,372	$229,363,626	$206,995,063	$224,609,446	$201,645,524	$201,939,707	$201,745,777	$213,225,288
Mortgages + Investments + Cash	$230,413,207	$231,332,355	$225,872,621	$227,409,913	$216,610,518	$210,618,021	$203,413,960	$214,784,256
Total Assets	$230,573,098	$237,586,855	$230,503,451	$229,693,091	$218,532,529	$210,618,866	$203,631,884	$215,053,101
Investors' Capital + Debt	$228,512,901	$236,379,953	$235,760,344	$232,225,878	$219,680,909	$210,879,999	$202,648,581	$213,512,375
Investors' Capital	$228,512,901	$234,815,494	$232,435,596	$232,225,878	$219,680,909	$210,879,999	$202,648,581	$199,124,588
Net Asset Value	$228,513,381	$234,815,974	$226,464,076	$229,094,253	$216,927,547	$208,970,590	$202,428,532	$199,129,804
NAV per share	$1.00	$1.00	$0.97	$0.99	$0.99	$0.99	$1.00	$1.00
Debt	$0	$1,564,459	$3,324,748	$0	$0	$0	$0	$14,387,787
Debt to Capital	0%	1%	1%	0%	0%	0%	0%	7%

At the end of 2016, the fund had $213 million in investments, including $184 million (net of allowance) in mortgages, and $28.26 million in investments in LPs that hold four foreclosed properties. Approximately 13.3% of the total investments were held by the LPs. The Net Asset Value ("NAV") was $1.00 per share at the end of 2016. Approximately $0.86 per share is associated with the current mortgages, and the remaining $0.14 per share reflects investments in LPs.

Line of credit – The fund has a line of credit with the Canadian Western Bank for $40 million. The interest rate is prime + 0.80% p.a. As of December 31, 2016, the fund had used $14.39 million, reflecting a debt to capital of 7%. Larger MICs, we estimate, tend to use a higher debt to capital in the 20% to 40% range.

Risk

We believe the following are the key risks of this offering (most of the risks mentioned below are industry specific and impact comparable MICs as well):

- There is no guaranteed return on investment.
- Loans are short term and need to be sourced and replaced quickly.
- Concentration in BC.
- Timely deployment of capital is crucial.
- A drop in housing prices will result in higher LTVs, and higher default risk as the value of

collateral decreases.

- Volatility in real estate prices.
- The redeemable shares do not have any voting rights.
- High average loan size.
- Shareholders' principal is not guaranteed, as the NAV per unit could decrease from current levels (as a result of loan losses).
- Loans are primarily interest only loans.
- The fund has the ability to use leverage, which would increase the exposure of the fund to negative events. Note that the fund uses much lower leverage than its peers.
- Although the focus is on first mortgages, the fund may invest in second and third mortgages which carry higher risk.
- Redemptions are not guaranteed; the fund has never defaulted in the past.

Rating

We are initiating coverage with an overall rating of 3+ and risk rating of 2.

FRC Rating	
Expected Yield	3% - 5%
Rating	3+
Risk	2

Fundamental Research Corp. Rating Scale:

Rating – 1: Excellent Return to Risk Ratio
Rating – 2: Very Good Return to Risk Ratio
Rating – 3: Good Return to Risk Ratio
Rating – 4: Average Return to Risk Ratio
Rating – 5: Weak Return to Risk Ratio
Rating – 6: Very Weak Return to Risk Ratio
Rating – 7: Poor Return to Risk Ratio
A "+" indicates the rating is in the top third of the category, A "-" indicates the lower third and no "+" or "-" indicates the middle third of the category.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk)
2 (Below Average Risk)
3 (Average Risk)
4 (Speculative)
5 (Highly Speculative)

FRC Distribution of Ratings			
Rating - 1	0%	Risk - 1	0%
Rating - 2	27%	Risk - 2	5%
Rating - 3	47%	Risk - 3	37%
Rating - 4	10%	Risk - 4	37%
Rating - 5	4%	Risk - 5	9%
Rating - 6	1%	Suspended	12%
Rating - 7	0%		
Suspended	11%		

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