Fundamental Research Corp.
Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA, CFA
Analyst

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Fisgard Capital II Corporation – Diversified MIC with a Focus on Second Mortgages

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

Offering Summary	
Issuer	Fisgard Capital II Corporation
Date of OM	June 23, 2017
Securities Offered	Series A1 - A5 Redeemable Preferred Shares
Unit Price	$1 per share
Minimum Subscription	N/A
Management + Others Fees	1.95% p.a. of equity + debt
2017 Distribution to Investors	3.5% p.a to 7.5% p.a. depending on the type of shares
Sales Commissions	up to 7.5% of the gross proceeds
Auditor	Schell & Associates, Victoria, BC

FRC Rating	
Target Yield	5% - 7%
Rating	3
Risk	3

*see back of report for rating definitions

Investment Highlights

- Fisgard Capital II Corporation, formed in 2014, is managed by Fisgard Asset Management Corporation ("FAMC"), a firm with over 25-year track record in the mortgage lending / management business. FAMC also manages Fisgard Capital Corporation (formed in 1994 / "Fisgard Capital"), which currently manages a portfolio of over $200 million in mortgages.
- We had initiated coverage on Fisgard Capital on July 6, 2017, with an overall rating of 3+ and risk rating of 2.
- Fisgard Capital is primarily focused on first mortgages. Fisgard Capital II's primary focus is on second mortgages.
- At the end of May 2017, Fisgard Capital II held $6.22 million in mortgages secured by 64 properties. Approximately 90% of the fund was invested in residential mortgages.
- British Columbia ("BC"), Alberta ("AB") and Ontario ("ON") accounted for 98% of the portfolio.
- The fund offers five classes of non-voting shares with maturity terms ranging from 1 to 5 years.
- We are initiating coverage with an overall rating of 3 and risk rating of 3.

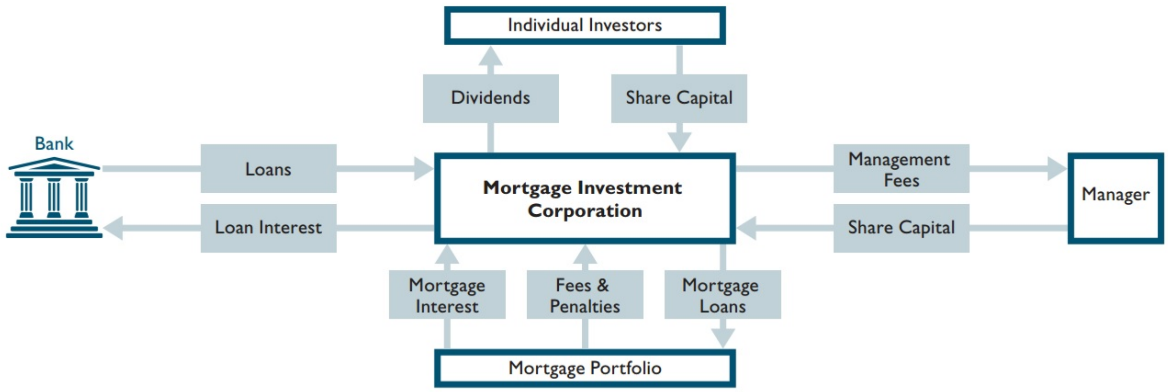
Risks

- Second mortgages are exposed to higher risks than first mortgages.
- The MIC may invest in construction mortgages and commercial mortgages, which are of relatively high risk.
- There is no guaranteed return on investment.
- Loans are short term and need to be sourced and replaced quickly.
- 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.
- Redemptions are not guaranteed; the MIC has never defaulted in the past.

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

Fisgard Capital II was created in December 2014, 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

Fisgard Capital 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 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.

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.

Robert (Wayne) Herr, Director

Robert (Wayne) Herr holds a Financial Management Diploma as well as a Credit Granting Diploma from the Canadian Credit Institute. He has spent his entire professional career in the financial industry including related activities such as real estate marketing, valuation, leasing, construction management, project management, mortgage brokering and mortgage lending. Bob's activity has included leading branch operations of ALL-Alta Credit Union in Alberta, managing the development department of Alberta Credit Union Central, holding senior executive responsibilities for credit union deposit guarantee institutions in Alberta and Manitoba (including an attest audit service of fifty-five auditors and supervising twenty-eight credit unions with assets of $1.2 billion), holding senior level lending discretion limits in the credit industry in Manitoba and Alberta, leading a government-sponsored rationalization program of credit union systems in Manitoba and the former Northwest Territories, management of the FAO Employees Credit Union in Italy, managing a 308-shareholder immigrant investor fund in Saskatchewan, managing and monitoring the installation and staff training of a home loan program for the Bank of America, designing and implementing a nation-wide internal audit and loss prevention program for National Money Mart, managing a commercial space build-out for Money Mart, Reebok and Adidas, managing the CC97 Micro-Finance project in China, participating in UNDP-led employee training and conversion of financial reporting in four Kosovo Socially Owned Enterprises, carrying out a forensic audit in a university environment, and carrying out building inspections in fifty-four facilities for BC Hydro.

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 95,200 shares, or 1.47% of the total outstanding non-voting shares. The first three 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:	Common Shares	Series A1	Series A2	Series A3	Series A4	Series A5	Total	% of Total
Wayne Francis Strandlund	20%							0.00%
Hali Nevada Noble	20%							0.00%
Roberta Dawn Paniz	20%			32,247		4,732	36,979	0.57%
Joel Joseph Rosenberg	20%			25,313			25,313	0.39%
Robert Wayne Herr	20%							-
Fisgard Asset Management				32,908			32,908	0.51%
Total	**100%**	-	-	**90,468**	-	**4,732**	**95,200**	**1.47%**

Investment Mandate

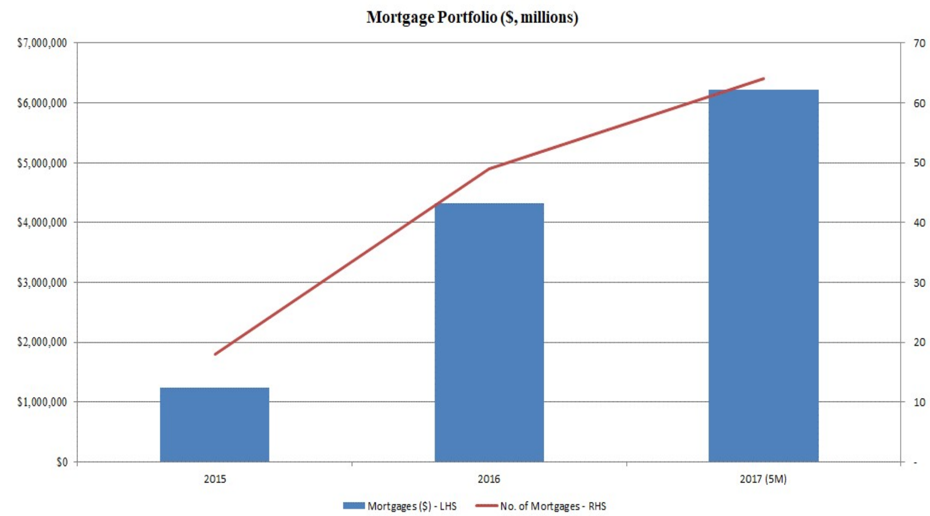
While Fisgard Capital's focus is on first mortgages, Fisgard Capital II's primary focus is on second mortgages. The following points highlight management's key investment strategy for the fund:

- Primary focus on single family detached houses, townhouses and condominiums (currently 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 90% at the time of origination, as per the OM. Management currently has a priority to maintain the LTV at lower than 75%. Fisgard Capita's mandate is to have a maximum LTV at origination of 75%.
- The LTV of mortgages in smaller communities will be capped at 80%.
- Mortgages will not be advanced to directors or officers of the MIC.

Portfolio's Key Parameters

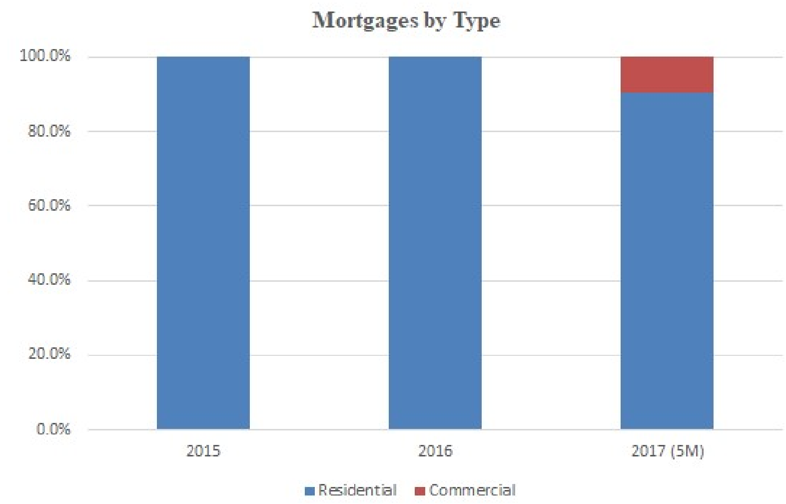
The following section presents a detailed analysis of the fund portfolio's key parameters.

As of May 2017, the fund had $6.22 million in mortgage receivables secured by 64 properties. The following chart shows the portfolio size at the end of every year since inception.



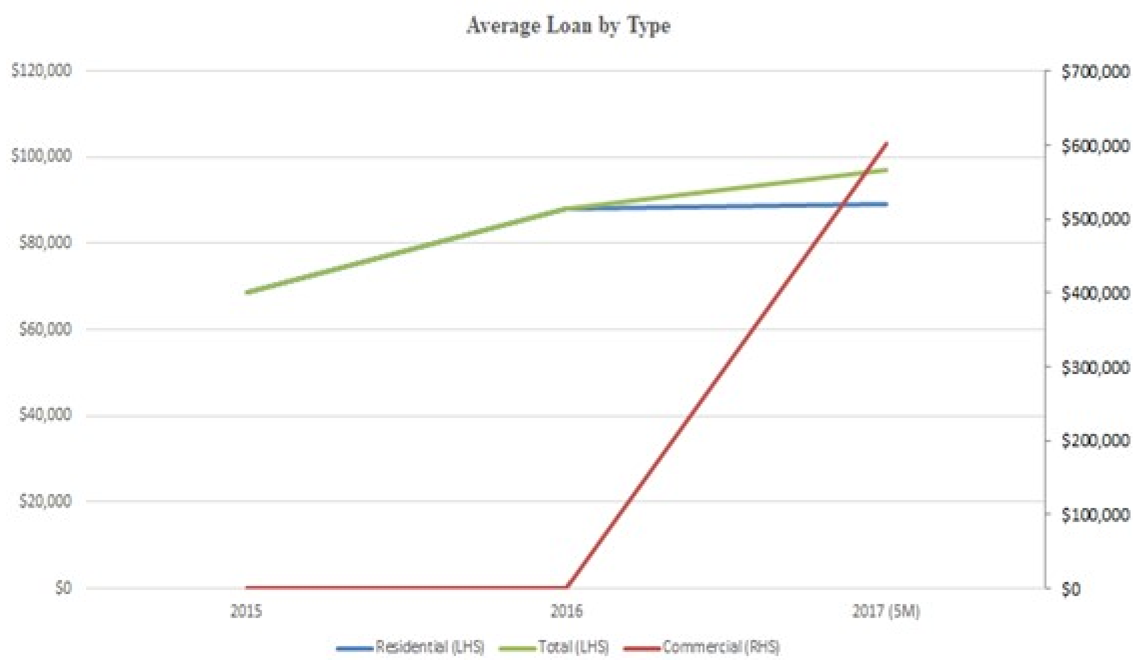
Management's year-end portfolio size estimate is $10 million.

Type of Mortgage: Approximately 90.3% of the mortgages were secured by residential properties (including residential construction and residential land development) at the end of May 2017. The remaining 9.7% came from a $602k commercial mortgage (first mortgage) secured by a retail property (LTV of 31%) in Surrey, BC.

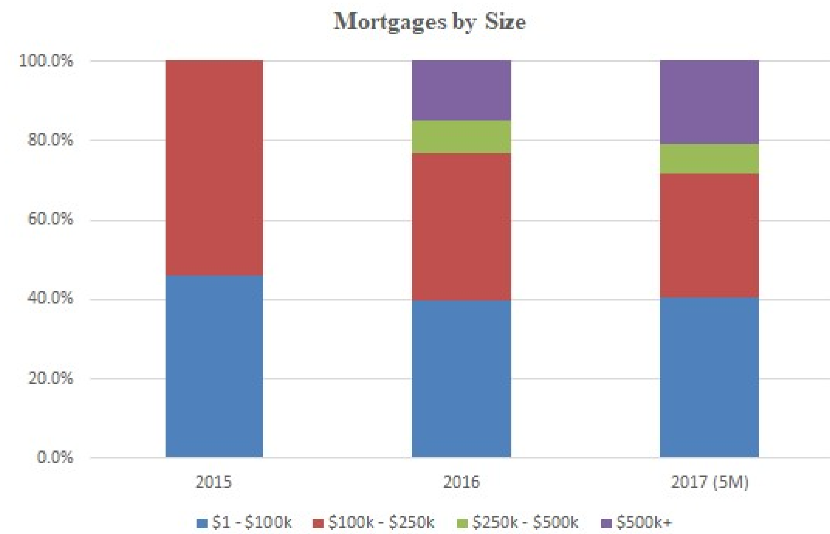


Since its inception, the MIC has had 100% of its residential mortgages secured by single family units, with no residential land development or construction projects.

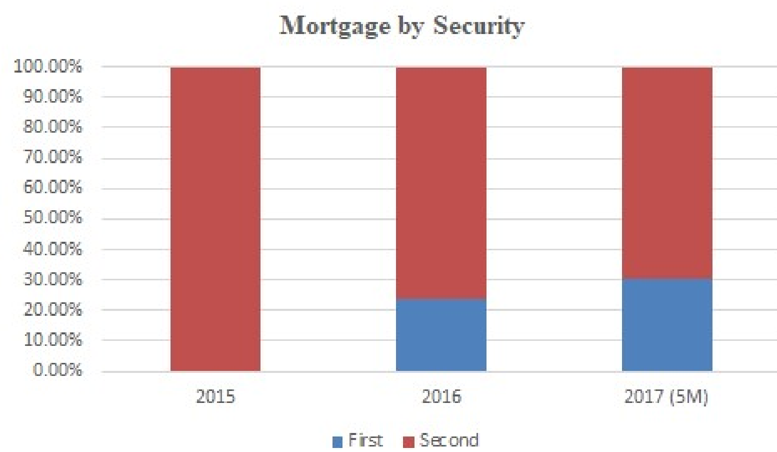
Mortgage Size: The average mortgage size was $97k, including $89k for residential and the one commercial loan of $602k, as of May 2017. The low average loan size is a key positive of the MIC's portfolio.



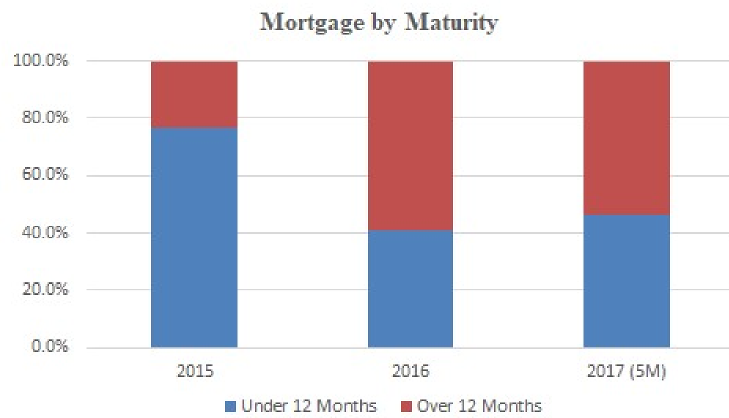
As of May 2017, 41% of the portfolio had mortgages under $100k, and 31% of the portfolio had mortgages between $100k and $250k, 7% of the portfolio had mortgages between $250k and $500k, and 21% had mortgages over $500k. The largest loan in the portfolio was $705k.



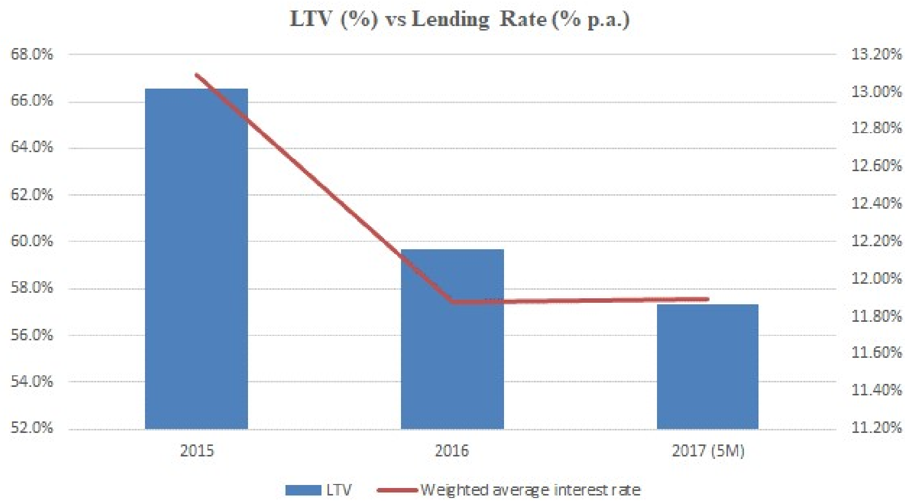
Mortgage by Security: Second mortgages accounted for 69.5% of the portfolio as of May 2017.



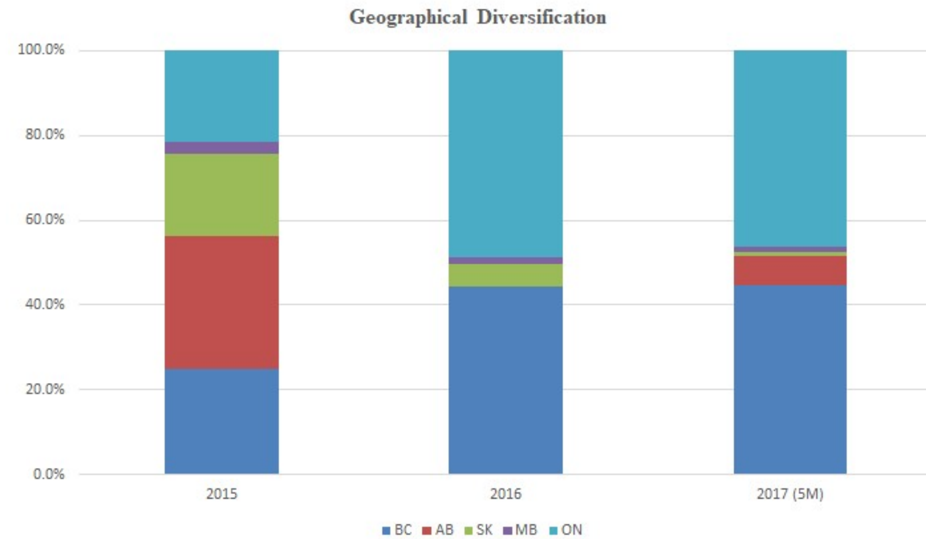
Mortgage Term: As of May 2017, approximately 47% of the portfolio had mortgages with terms less than 12 months.



Loan to Value (LTV) – The portfolio's LTV was 57.3% as of May 31, 2017. The weighted average lending rate was 11.89% p.a. in the first five months of the year.



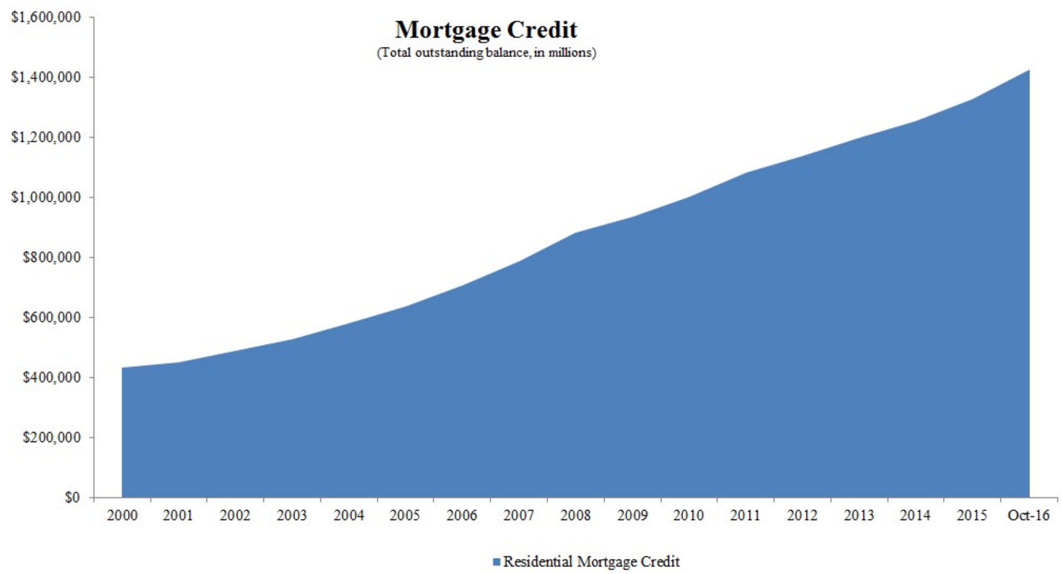
Geographical Diversification: As of May 2017, approximately 46% of the portfolio was secured by properties in ON, and 45% secured by properties in BC. AB was at 7%.



Our discussions with management indicated that they will continue to focus on ON and BC.

Private Lending Market

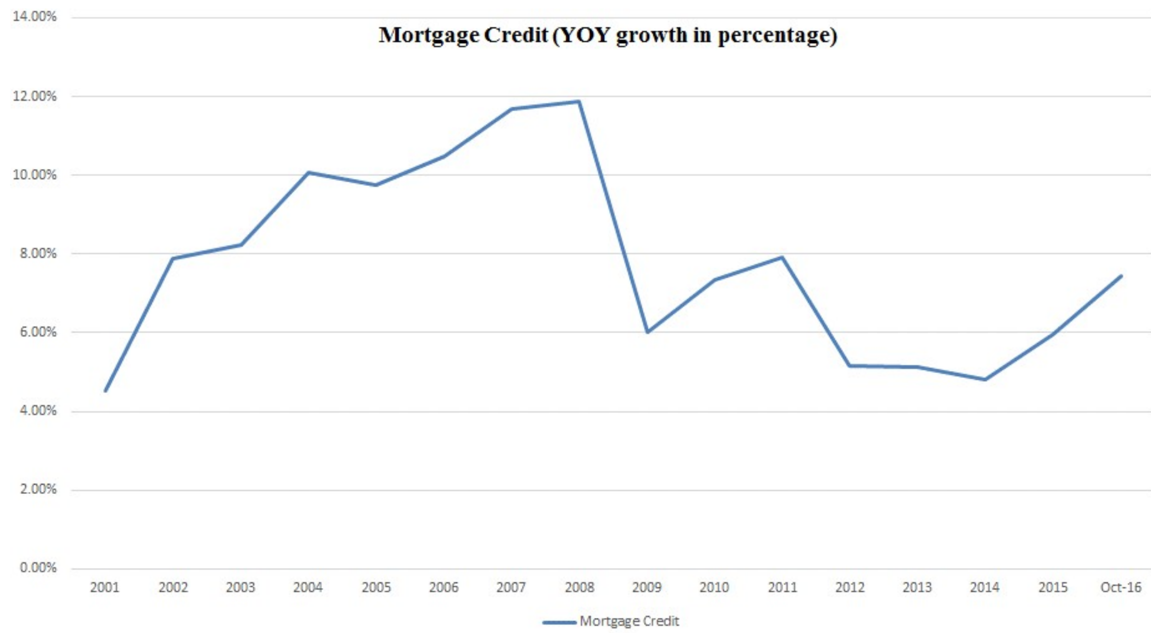
The total residential mortgage credit in Canada (outstanding balance of the major private institutional lenders) increased from $0.43 trillion in 2000, to $1.43 trillion by October 2016, reflecting a compounded annual growth rate ("CAGR") of 7.8%, and a 7.4% YOY increase.



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 the 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.

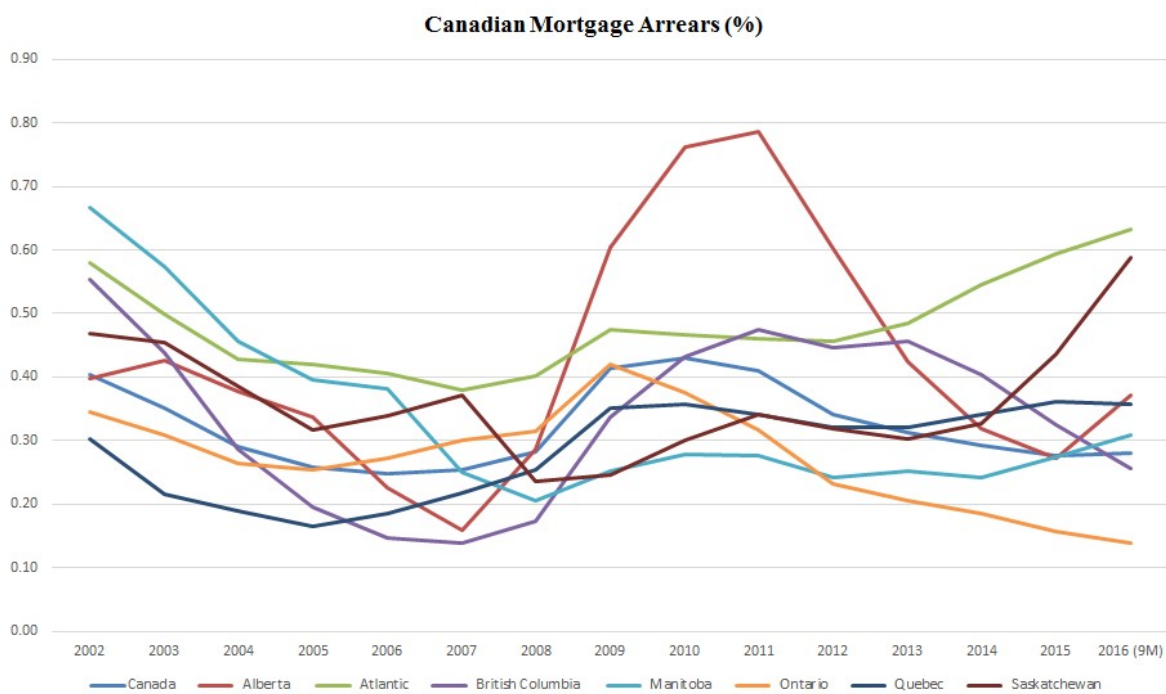
- New reporting rules for the primary residence capital gains exemption.

- The government is considering options to shift some of the risk of default 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. We see these changes as likely to drive more borrowers to MICs and other private lenders

The other factors that have been contributing to the 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).

U.S. Mortgage Arrears (%)

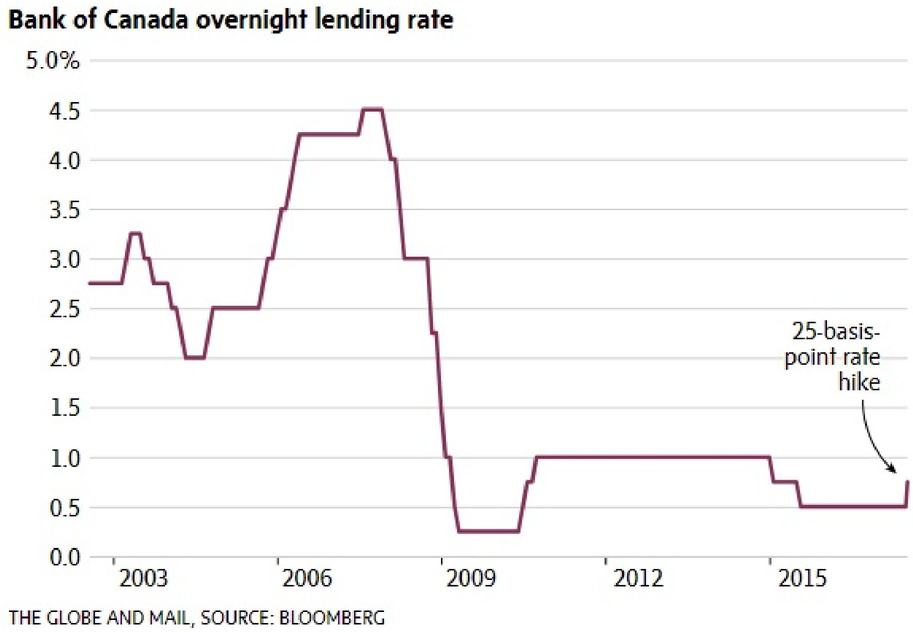
Source: CMHC

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, was well below the historical average of 0.34%. Ontario's ("ON") rate of 0.13% in Q3-2016, was well below the historical average 0.27%. 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

Despite the recent hike in the overnight lending rate, interest rates continue to be at historical lows. The low interest rate environment is another factor that has been driving lending. The following chart shows the overnight lending rate since 2007.



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

Toronto RE Market Update

In an effort to cool down the housing market in the Greater Toronto Area, the Ontario government announced a few changes to the existing rules. Among the changes, the key ones are a 15% tax on non-resident buyers of properties in the Greater Golden Horseshoe area, tax on vacant homes, and expanded rent control measures. The first two changes were in line with the changes seen in Vancouver last year. We believe the correction in Vancouver prices after these initiatives came into play in 2016 may have prompted the Ontario government to move in a similar direction. The tighter rent control measures, we believe, are likely to soften investment into apartment projects, which will impact lenders.

As a result of the above move, Toronto's MLS sales dropped by 20% YoY in May, and then by 37% YoY in June, after reporting a significant YoY increase in the first three months of the year. Despite the drop in sales, the average price was up 6% YoY in June. The price was down 8% MoM. The table below summarizes the key parameters.

Toronto	Jan-16	Jan-17	YoY	Feb-16	Feb-17	YoY	Mar-16	Mar-17	YoY
Residential Sales	4,672	5,188	11%	7,621	8,014	5%	10,326	12,077	17%
New Listings	8,906	7,338	-18%	11,234	9,834	-12%	14,795	17,051	15%
Active Listings	9,966	5,034	-49%	10,902	5,400	-50%	12,132	7,865	-35%
Sales to Listings	46.88%	103.06%		69.90%	148.41%		85.11%	153.55%	
MLS Home Price Index	630,193	770,745	22%	685,738	875,983	28%	688,011	916,567	33%

Toronto	Apr-16	Apr-17	YoY	May-16	May-17	YoY	Jun-16	Jun-17	YoY
Residential Sales	12,016	11,630	-3%	12,790	10,196	-20%	12,725	7,974	-37%
New Listings	16,190	21,630	34%	17,356	25,837	49%	16,918	19,614	16%
Active Listings	12,554	12,926	3%	12,931	18,477	43%	12,327	19,680	60%
Sales to Listings	95.71%	89.97%		98.91%	55.18%		103.23%	40.52%	
MLS Home Price Index	739,762	920,791	24%	752,100	863,910	15%	747,018	793,915	6%

Source: Toronto Real Estate Board

A factor that indicates health of the real estate market is the sales to active listings ratio – which dropped from a record high of 154% in March to 41% by June.

The following table shows that sales dropped across almost all property types in June:

Toronto sales by type	Jan-16	Jan-17	YoY	Feb-16	Feb-17	YoY	Mar-16	Mar-17	YoY
Detached	2,109	2,261	7%	3,627	3,721	3%	4,954	5,887	19%
Semi - Detached	452	423	-6%	725	651	-10%	986	1,002	2%
Att/Row/Townhouse	375	421	12%	591	619	5%	830	937	13%
Condo Townhouaw	356	356	0%	511	546	7%	721	789	9%
Condo Apartment	1,302	1,636	26%	2,046	2,360	15%	2,641	3,261	23%
Link	67	81	21%	103	99	-4%	177	170	-4%
Co-op Appt	7	3	-57%	7	7	0%	7	11	57%
Det Condo	1	2	100%	3	7	133%	5	13	160%
Co ownership Apt	3	5	67%	8	4	-50%	5	7	40%
Total	**4,672**	**5,188**	**11%**	**7,621**	**8,014**	**5%**	**10,326**	**12,077**	**17%**

Toronto sales by type	Apr-16	Apr-17	YoY	May-16	May-17	YoY	Jun-16	Jun-17	YoY
Detached	6,062	5,887	-3%	6,500	4,757	-27%	6,307	3450	-45%
Semi - Detached	1,137	1,002	-12%	1210	930	-23%	1265	759	-40%
Att/Row/Townhouse	980	937	-4%	975	802	-18%	987	652	-34%
Condo Townhouaw	862	789	-8%	889	711	-20%	903	629	-30%
Condo Apartment	2,809	3,261	16%	3,056	2,854	-7%	3,114	2371	-24%
Link	205	170	-17%	217	113	-48%	180	87	-52%
Co-op Appt	17	11	-35%	7	14	100%	15	10	-33%
Det Condo	4	13	225%	7	7	0%	20	9	-55%
Co ownership Apt	9	7	-22%	9	8	-11%	3	7	133%
Total	**12,085**	**12,077**	**0%**	**12,870**	**10,196**	**-21%**	**12,794**	**7,974**	**-38%**

Source: Toronto Real Estate Board

We maintain a cautious outlook on the Toronto real estate market, and believe that it has become riskier.

Vancouver RE Market Update

Vancouver's real estate sales continued to drop, but at a lower rate in May and June, compared to the first four months of the year.

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%		57.16%	31.93%		70.30%	47.18%	
MLS Home Price Index	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	Jun-16	Jun-17	YoY
Residential Sales	4,781	3,553	-26%	4,769	4,364	-8%	4,400	3,897	-11%
New Listings	6,127	4,907	-20%	5,875	5,721	-4%	6,289	6,044	-4%
Active Listings	7,550	7,813	3%	7,726	9,168	19%	7,812	8,515	9%
Sales to Listings	63.32%	45.48%		61.73%	47.60%		56.32%	45.77%	
MLS Home Price Index	844,800	941,100	10%	889,100	967,500	9%	917,800	998,700	9%

Source: Real Estate Board of Greater Vancouver

The decline in Vancouver's real estate sales was primarily a result of the B.C. government's announcement in July 2016 to add a 15% property transfer tax on foreign nationals buying real estate in Metro Vancouver. Another factor that contributed to the slowdown is the federal government's announcement to increase the required down payment for properties over $500k.

As shown in the table above, property prices continue to rise despite the drop in sales.

The sales to active ratio was 46% in June 2017 versus 56% in June 2016. This decline is not as steep relative to previous months. We consider this a positive development as it indicates a stabilization of the market.

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

Vancouver sales by type	Apr-16	Apr-17	YoY	May-16	May-17	YoY	Jun-16	Jun-17	YoY
Detached	1,979	1,211	-39%	1,865	1,548	-17%	1,562	1,324	-15%
Apartments	2,107	1,722	-18%	2,150	2,025	-6%	2,108	1,905	-10%
Attached Property	695	620	-11%	754	791	5%	730	668	-8%
Total	4,781	3,553	-26%	4,769	4,364	-8%	4,400	3,897	-11%

Source: Real Estate Board of Greater Vancouver

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$. 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.

Structure

Management owns 80% of the common shares. The remaining 20% is owned by an independent director (see page 6).

Investors receive non-voting Series A1, A2, A3, A4 and A5 shares. The terms of the various series are shown below.

Shares	Term (years)	Dividend Rate	2017
Series A1	1	Base Rate - 4.00% p.a.	3.50%
Series A2	2	Base Rate - 3.00% p.a.	4.50%
Series A3	3	Base Rate - 2.00% p.a.	5.50%
Series A4	4	Base Rate - 1.00% p.a.	6.50%
Series A5	5	Base Rate	7.50%

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.

At the end of May 2017, 6.49 million shares were outstanding, of which, 89% of them were Series A5 shares. All the shares were issued at, and currently priced at, $1 per share.

Shares Oustanding	31-May-17	% of Total
Series A1 (1 year)	152,998	2.4%
Series A2 (2 years)		
Series A3 (3 years)	551,102	8.5%
Series A4 (4 years)		
Series A5 (5 years)	5,783,944	89.1%
Total	**6,488,044**	**100.0%**

According to management, currently, approximately 98% of the capital is raised internally. The fund is offering EMDs a commission of up to 7.5% (for Series A5) for raising capital.

Management Fees – The MIC incurs a total fee of 1.95% p.a. (paid monthly) of the sum of investors' capital and bank debt. Management does not charge any performance based fee. We believe that it is a common practice for medium-risk funds, with a heavy focus on second mortgages, to charge a performance fee

Financials

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

In the first five months of 2017, revenues were $247k. The following table shows a summary of the income statement since inception. **We have reviewed all the audited financial statements.**

Income Statement	2015	2016	2017 (5M)
Revenues			
Interest	75,880	281,231	221,502
Other	1,496	20,696	25,901
Total Revenues	**77,376**	**301,927**	**247,403**
Expenses			
Financing costs	3,502		
Management fees			34,604
General & Administrative	16,031	56,671	18,560
Interest	133		
Provision for loss	4,610	42,503	33,049
Dividends on redeemable shares	53,100	202,826	161,189
Total Expenses	**77,376**	**302,000**	**247,402**
Net Income	- -	**73**	**1**

YE – Dec 31st

Interest + Other income as a percentage of mortgage receivables were 11.41% p.a. in the first five months of 2017. **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	2015	2016	2017 (5M)
Interest	12.36%	10.23%	10.22%
Other	0.24%	0.75%	1.19%
	12.60%	**10.98%**	**11.41%**
Less:			
Financing costs	-0.57%	0.00%	0.00%
Management fees	0.00%	0.00%	-1.60%
General & Administrative	-2.61%	-2.06%	-0.86%
Interest	-0.02%	0.00%	0.00%
Provision for loss	-0.75%	-1.55%	-1.52%
	-3.95%	**-3.61%**	**-3.98%**
Net (excluding dividends)	**8.65%**	**7.37%**	**7.43%**
Investors' Returns as a % of Invested Capital	7.80%	6.97%	7.07%
2-year GOC	0.54%	0.62%	0.75%
Spread	7.26%	6.35%	6.32%

- *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 7.43% p.a. of the net mortgage receivables in the first five months of 2017. Management waived their management fees in 2015 and 2016.

Investors returns since inception are shown below:

Series of Shares	2015	2016	2017
Series A5 Redeemable Preferred Shares	7.50%	7.50%	7.50%
Series A4 Redeemable Preferred Shares	6.50%	6.50%	6.50%
Series A3 Redeemable Preferred Shares	5.50%	5.50%	5.50%
Series A2 Redeemable Preferred Shares	4.50%	4.50%	4.50%
Series A1 Redeemable Preferred Shares	3.50%	3.50%	3.50%

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

	2015	2016	2017 (5M)
No. of Delinquencies			
Foreclosured Properties			
No.			1
Value			59,155
Provision for loss	4,610	42,503	33,049
Total Allowance at the end of the period	4,610	46,322	81,528
Gross Receivables	1,232,811	4,318,795	6,215,522
Total Allowance % of Gross Receivables	0.37%	1.07%	1.31%
Actual losses (FRC est.)	0	791	-2,157
Actual losses (Fisgard est.)			
Actual Losses (% of mortgage receivable)	0.00%	0.00%	0.00%
Reinvested		163,997	128,653
Reinvested (as a % of Distributions)	0.0%	80.9%	79.8%

At the end of May 2017, one property was foreclosed with a mortgage amount of $59k. The company had assigned a loan loss provision of $81k, or 1.31% of the portfolio at the end of May 2017.

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

Balance Sheet (YE - Dec 31st)	2015	2016	Q2-2017
Assets			
Cash & cash equivalents	115,593	200,552	402,729
Other current assets	22,571		
Mortgages loans - current	1,228,201	4,272,473	6,133,994
Total Assets	**$1,366,365**	**$4,473,025**	**$6,536,723**
Liabilities			
Accounts payable and accruals	3,751	15,781	48,253
Redeemable shares - current	114	74,472	70,060
Redeemable shares - LT	1,362,000	4,382,345	6,417,983
Shareholders' Equity			
Share capital	500	500	500
Retained earnings	-	73	- 73
SE + Liabilities	**$1,366,365**	**$4,473,025**	**$6,536,723**
Mortgages Invested	$1,228,201	$4,272,473	$6,133,994
Mortgages + Investments + Cash	$1,343,794	$4,473,025	$6,536,723
Total Assets	$1,366,365	$4,473,025	$6,536,723
Investors' Capital + Debt	$1,362,114	$4,456,817	$6,488,043
Investors' Capital	$1,362,114	$4,456,817	$6,488,043
Net Asset Value	$1,362,614	$4,457,244	$6,488,470
NAV per share	$1.00	$1.00	$1.00
Debt	$0	$0	$0
Debt to Capital	0%	0%	0%

At the end of May 2017, the fund had $6.13 million (net of allowances) in mortgages, and $0.40 million in cash.

The Net Asset Value ("NAV") was $1.00 per share at the end of May 2017.

Line of credit – The MIC has yet to start using debt. Fisgard Capital has a line of credit with the Canadian Western Bank. According to management, Fisgard Capital II will apply for a line of credit in due course.

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):

- Second mortgages are exposed to higher risks than first mortgages.
- The MIC may invest in construction mortgages and commercial mortgages, which are of relatively high risk.
- There is no guaranteed return on investment.
- Loans are short term and need to be sourced and replaced quickly.
- 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.
- Shareholders' principal is not guaranteed, as the NAV per unit could decrease from current levels (as a result of loan losses).
- MICs have 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.
- 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 3.

FRC Rating	
Target Yield	5% - 7%
Rating	3
Risk	3

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	26%	Risk - 2	6%
Rating - 3	49%	Risk - 3	38%
Rating - 4	9%	Risk - 4	35%
Rating - 5	4%	Risk - 5	9%
Rating - 6	1%	Suspended	11%
Rating - 7	0%		
Suspended	10%		

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