Fundamental Research Corp.
Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA, CFA
Analyst

Daniel Iwata, BA
Research Associate

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Bancorp Growth Mortgage Fund II Ltd. - Residential and Commercial Mortgages in BC and AB

Sector/Industry: Alternative Investments **www.bancorpfinancial.com**

Summary of Offering	
Issuer	Bancorp Growth Mortgage Fund II Ltd.
Date of the OM	16-Apr-14
Offering	Minimum - $0 / Maximum: $25 million
Securities Offered	Class A, D, E and F shares
Unit Price	$1.00 per share
Minimum Subscription	$10,000
Annual Management Fee (Class D)	1.75%
Priority Dividends (Class D)	2-year GOC Bond Yield + 7.0%
Profit Sharing	75% Investor: 25% Management after paying out priority dividends
Auditor	Crowe Mackay LLP
Registered Plans	RRSP and RRIF Eligible

** This offering is only available to residents of BC, AB, ON, SK, and MB.*

FRC Rating	
Expected Annual Yield	8.25% - 8.75%*
Rating	2-
Risk	3

**Based on the current BoC overnight rate of 1%*

- see back of report for rating definitions

Investment Highlights

- Bancorp Growth Mortgage Fund II Ltd. ("BGMFII", "the company", "the fund") primarily invests in second mortgages secured by residential and commercial properties, and land for development, in British Columbia ("BC") and Alberta ("AB"), Canada.
- The company is managed by Bancorp Financial Services Inc. ("Bancorp"), based in Vancouver, BC. Established in 1975, Bancorp has originated $5+ billion of mortgage products since inception, and $1.4 billion since 2001. Bancorp has managed five funds since 1996. Bancorp currently manages assets totalling approximately $152 million.
- The target yield for investors ("priority dividends") of Class D shares of this offering is the two-year Government of Canada bond yield plus 7%. All profits left after paying management fees, operational expenses, and investors' priority dividends, are shared 75% for investors and 25% for management.
- Mortgage terms are typically 6-24 months, minimizing real estate price fluctuation risk, interest rate risk, and duration.
- The current portfolio has 22 loans, with a total principal outstanding of $14.1 million.
- Management owns 4% of the shares outstanding of BGMFII.

Risks

- Shareholders' principal and quarterly distributions are not guaranteed.
- Redemptions are based on availability of cash and management discretion.
- Investments are exposed to credit risks. Investments are also exposed to interest rate risks, but they are minimal as most of the investments are short-term with fixed rates.
- Second mortgages have a higher risk profile than first mortgages.
- Timely deployment of capital is critical.
- The manager is paid 25% of income over priority returns - this is an incentive for the management to acquire mortgages with high interest rates; mortgages with higher interest rates may carry higher default risk.
- The fund may utilize a line of credit in the future; although leverage has its benefits, it can increase the fund's exposure to negative events.

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Overview

Bancorp Growth Mortgage Fund II Ltd., incorporated in July 2009, invests primarily in second mortgages secured on residential, commercial properties, land for development, office and industrial properties in BC and AB. **The borrowers are typically owners and/or developers of properties** who require funds to finance inventory, development, redevelopment or renovation of properties, acquisition/development of land, etc. The fund does not typically lend to individual home owners. The mortgages underwritten are primarily second mortgages. Management intends to always keep the portfolio loan to value ("LTV") below 85%. The LTV, as of March 2014, was 65.4%.

BGMFII's current portfolio has 22 loans with a total principal outstanding of $14.1 million. Although there is no restriction geographically, the fund's mortgages are all secured on properties located in BC and AB**.** The current portfolio has a major focus on Vancouver and residential properties. **Vancouver (60%), Victoria (14%), Calgary (11%), and Edmonton (6%), combined, account for 91% of the current portfolio.** 83% of the portfolio is secured on properties in BC. Mortgages on residential properties / housing projects account for 70% of the current portfolio. The remaining 30% account for commercial mortgages.

The company qualifies as a mortgage investment corporation ("MIC"), defined under section 130.1 of the Income Tax Act (Canada), and therefore, the shares are eligible investments for registered plans. MICs can distribute profits to shareholders without payment of corporate income tax. 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 its assets in residential mortgage loans;
- have a minimum of 20 shareholders, and no shareholder can own more than 25% of the total outstanding shares;
- all investments must be in Canada

The company's strategy, like other private mortgage lenders, is to **provide short-term mortgages (typically 6 – 24 months)** that do not conform within the strict lending guidelines of banks and other traditional lenders. Private lenders are more flexible in their lending guidelines, and, therefore, can offer individually structured loans to meet the specific requirements of a borrower. Also, banks have lengthy due diligence process and are typically not able to meet borrowers' quick capital needs. The company is usually able to structure, complete its due diligence, approve and fund loans within 1 – 4 weeks. All the above reasons allow private lenders to charge a higher interest rate on their loans compared to banks/institutional lenders.

Management Team

The company was set up by privately held, Bancorp Financial Services Inc., based in Vancouver. Established in 1975, Bancorp is a real estate finance and fund management company focused on offering financing options to residential and commercial owners and developers in Western Canada. According to management, Bancorp has originated $5+ billion of mortgage products since inception, and $1.4 billion since 2001. We have viewed the audited financial statements of all of the funds under management – results of which are provided later on in this report.

As the manager, Bancorp originates mortgage loans that meet the fund's objectives. Bancorp currently has 12 employees. In addition to the President, and VP - Investor Relations & Administration, there are four Licensed Mortgage Brokers responsible for loan origination, underwriting and management of each loan, two staff manage the loan administration department, and four staff manage the accounting department.

Overall, we believe the fund has a strong management team with extensive experience in the mortgage lending space. We were impressed with their transparency, and their willingness to provide us all the information, related to the funds under management, enabling us to properly verify their track record.

Brief biographies of the senior management team, as provided by the company, follow.

Douglas Bentley - Principal, President and CEO

Doug joined Bancorp in 2001 and was appointed President and CEO in April 2011. Prior to that, he was the Chief Operating Officer of Bancorp, with various responsibilities including loan origination, loan underwriting, loan administration, loan management and fund management. Doug has a law degree from the University of British Columbia and practised law from 1980 to 1984. Between 1984 and 1988, he worked with a Canadian trust company and was responsible for a varied loan portfolio in B.C. and Arizona. In 1988, he joined a major Canadian real estate pension advisory firm where he held senior positions, established and managed a top performing lending fund and was president from 1995 to 1997, when the company was sold. From 1998 until 2001, he successfully operated his own real estate development and lending business. He is a long-standing member of real estate organizations including the Urban Development Institute and the Mortgage Investment Association of B.C. He is also a member of the Law Society of BC.

Arnold E. Miles-Pickup - Principal and Chairman

Arnie has worked in the banking and financial services industry since 1969. Between 1969 and 1986, he held a series of senior positions with the Bank of British Columbia (now HSBC). He then founded and was President and CEO of Aetna Trust Company, a highly successful residential and commercial real estate lender, financial intermediary and personal trust operation, which was sold to Canadian Western Trust in 1996. In September 2001, he joined Bancorp as its President and CEO, and subsequently worked very closely with Bancorp's investor clients. Arnie was appointed chairman of Bancorp's Board of Directors in 2011. Arnie holds a BA in economics and psychology from the University of British Columbia.

John L. (Lockie) McKinnon - Principal and Vice-President

Lockie has more than 35 years of experience in real estate financing and real estate development. Prior to joining Bancorp in 2000 he worked with a Victoria based real estate lender in the early 1990's and then became the President and managing principal of a Victoria based mortgage fund that he merged with Bancorp in 2000. Lockie started his real career in the late 1970's with and became a vice-president and partner in real estate development company. Lockie holds a BA in economics from the University of Victoria and has completed several postgraduate courses in advanced real estate finance at the

University of British Columbia.

Richard K. Nicholson - Principal and Vice-President

Rick has been with Bancorp since 1984. He was the vice-president of operations for Bancorp's offices in Phoenix, Arizona, and subsequently opened the company's Toronto office. He served as vice-president there until 1990, when he relocated to Bancorp's Victoria office. In 1997, Rick became a principal in a Victoria based mortgage company with John McKinnon. There he managed the mortgage portfolio until it merged with Bancorp in 2000. Throughout his real estate career, Rick has had primary responsibility for loan origination, underwriting and monitoring. Rick is responsible for loan origination in both British Columbia and Alberta. Rick holds a BA in economics from the University of Victoria.

Mark D. Silverwood - Principal and Vice-President

Mark originally joined Bancorp in 1990 and worked for the company for seven years as a broker. He subsequently became a commercial lender for MCAP and CareVest Capital Inc. where he was primarily responsible for deal origination, loan structuring and underwriting. Mark rejoined Bancorp in 2007. He is a graduate of the University of British Columbia with a degree in geography.

Wendy Herdin - VP, Investor Relations and Administration, Director & CFO

Wendy joined the Bancorp team in April 2007. She is responsible for shareholder relations and for managing administration of the company, its subsidiaries and associated mortgage investment corporations (MICs). Wendy has more than 30 years of experience working in the financial services sector with HSBC (formerly the Bank of BC) and Canadian Western Trust (formerly Aetna Trust). Prior to joining Bancorp, she spent seven years working for TAP Solutions, a business management consultant that provides IT solutions to financial services companies.

Management Track Record

The company has **managed five funds since 1996** - Bancorp Growth Mortgage Fund Ltd (1996), Bancorp Balanced Mortgage Fund Ltd. (1998), Bancorp Income Mortgage Fund Ltd. (2003), Bancorp Balanced Mortgage Fund II Ltd. (2009), and Bancorp Growth Mortgage Fund II Ltd. (2009). **All of the funds were/are set up as MICs.** We had initiated coverage on Balanced Mortgage Fund II in September 2013, with an overall rating of 2-, risk rating of 3, and expected annual yield of 6.0% - 6.5%.

A summary of the structure of the five funds is shown below.

	Inception	Management Fee	Profit Sharing	Priority Dividend
Bancorp Growth Mortgage Fund Ltd	1996	1.75%	25%	greater of 10% or the two-year GOC Benchmark Bond Rate plus 7%
Bancorp Balanced Mortgage Fund Ltd.	1998	1.50%	25%	two-year GOC Benchmark Bond Rate plus 4%
Bancorp Income Mortgage Fund Ltd.	2003	0.75%	25%	five-year GOC Benchmark Bond Rate plus 2%
Bancorp Growth Mortgage Fund II Ltd.	2009	1.75%	25%	two-year GOC Benchmark Bond Rate plus 7%
Bancorp Balanced Mortgage Fund II Ltd.	2009	1.50%	25%	two-year GOC Benchmark Bond Rate plus 4%

At their peaks, the Growth Mortgage Fund was managing approximately $93 million, the Balanced Mortgage Fund was at $142 million, and the Income Mortgage Fund was at $41 million.

The company is currently winding up the first three funds. The decision to wind up the first two funds was made in 2008/2009 due to the following reasons, according to management:

"With the economic downturn in 2008, the funds experienced an increase in default on payments and there was great uncertainty in the markets. Real values were hard to determine. As a result of this, it was difficult to properly evaluate the Net Asset Value (NAV) of the funds – which presented a difficult issue regarding share redemptions - too high a value to shareholders that were redeeming would have been unfair to remaining shareholders, and too low a value would be unfair to shareholders redeeming. Management and shareholders of the first two funds considered many options, and in the end determined by way of 99% shareholders' vote for each fund that the fairest way to treat all shareholders was to stop funding new loans and to wind up the two funds. As loans are repaid, all shareholders would be redeemed pro rata and no group would get treated unfairly. Balanced II and Growth II funds were established at this time as replacement funds, and have been in operation since 2009.

A decision to wind up the third fund, Bancorp Income Mortgage Fund Ltd., established in 2003, was made in 2011. The fund was primarily created to meet the investment criteria of one large financial planner who decided to re-adjust his portfolio holdings which included redeeming his shares in the fund."

Here is a quick summary of the status of the five funds under management – all the information below have been verified by us through audited financial statements.

Bancorp Balanced Mortgage Fund – 92% of the capital has been returned; the final windup is expected to take place in 2014. Bancorp Balanced Mortgage Fund II ("BBMFII") is the successor of this fund. The anticipated wind up value is approximately 98% of the invested capital.

Bancorp Growth Mortgage Fund – 98.5% of the capital has been returned; the final windup is expected to take place in 2014. Bancorp Growth Mortgage Fund II ("BGMFII") is the successor of this fund. The wind up value is approximately 84% of the invested capital.

Bancorp Income Mortgage Fund – The final wind up was in December 2013. The wind up value was 98% of the invested capital.

The yields generated by the first three funds are shown in the table below (verified by us through audited financial statements). As shown in the table below, the first three funds provided very attractive yields from inception to 2008. **Like most other MICs, all three funds were negatively impacted by the recession. Although these funds did not pay out any distributions to investors in the past few years, we believe management has done a good job in being able to return most of the principal back to investors.** As mentioned above, the anticipated wind up value as a percentage of the invested capital is 98% for Bancorp Balanced Mortgage Fund, and Bancorp Income Mortgage Fund. The Bancorp Growth Mortgage Fund, being a more riskier fund (as focus is on second mortgages), has a lower anticipated wind up value of 84%.

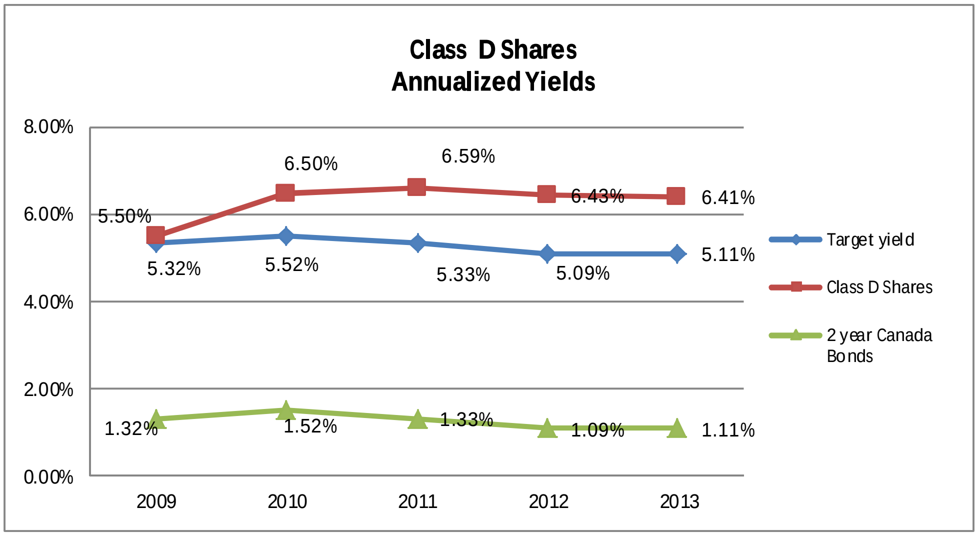
	Growth	Balanced	Income
1996	11.02	n/a	n/a
1997	14.75	n/a	n/a
1998	11.03	12.96	n/a
1999	11.12	11.57	n/a
2000	10.15	9.65	n/a
2001	10.01	8.35	n/a
2002	5.47	8.19	n/a
2003	11.14	8.61	6.66
2004	11.51	9.14	6.75
2005	11.64	9.82	6.28
2006	12.59	9.51	7.02
2007	12.17	9.90	7.53
2008	*11.17	6.98	6.79
2009		1.18	5.80
2010		2.46	5.40
2011			4.49

** 11 month yield as YE changed from July 31 to June 30*

Management notes that the performance of the funds were also negatively impacted by the funds' decision to wind up resulting in the funds not investing in new loans.

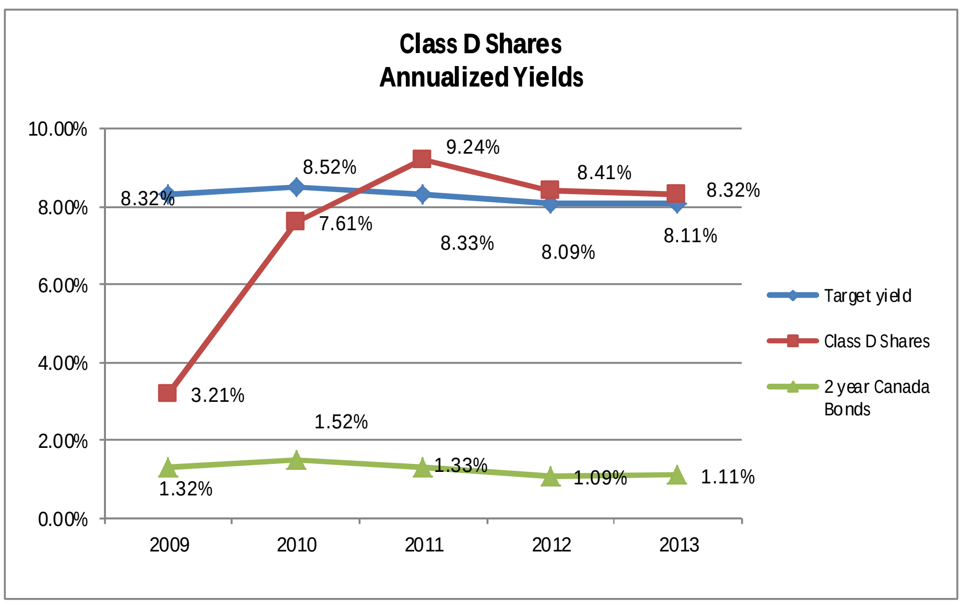
In 2009, the Balanced Fund and the Growth Fund ceased operations, and were replaced with Balanced Mortgage Fund II and Growth Mortgage Fund II. The returns of Balanced Mortgage Fund II and Growth Mortgage Fund II are shown in the table below. (verified by us through audited financial statements)

Historic Yield - Balanced Mortgage Fund II



*Fund began operation in October 2009

Historic Yield - Growth Mortgage Fund II



*Fund began operation in October 2009.

Source: Company (Audited Returns)

Balanced Fund II and Growth Fund II, combined, currently manage approximately $40 million of mortgages. The primary differences between the funds are – 1) Balanced Fund II invests primarily in first mortgages, while Growth Fund II invests primarily in second mortgages, and carry higher risks, and 2) Growth Fund II have higher priority returns to compensate for the higher risk profile.

Bancorp also manages mortgages for syndicated investors - a group of high net worth investors. According to management, in order to eliminate any conflict of interests, only those opportunities that are not funded by Balanced Fund II or Growth Fund II are offered to the syndicate investors.

Overall, Bancorp currently manages assets totalling approximately $152 million – $99M for the syndications, $13M in the funds that are currently being wound up, and $40M combined in Balanced Fund II and Growth Fund II.

Borrower Profile

BGMFII's borrowers are primarily real estate developers. These borrowers approach private lenders, such as Bancorp, instead of banks, or traditional lenders, for a variety of reasons including:

- speed in which a private lender can approve the mortgage
- private lenders can offer tailor made loan solutions that meet borrowers' specific requirements
- higher loan to values
- the quality of the service and flexibility private lenders offer

According to management, on average, five of every six loans that are funded are to repeat borrowers, and have been sourced by management directly with their client base in BC and AB. Bancorp also deals with a select group of commercial mortgage brokers, who management have typically dealt with for many years.

Current Portfolio

The current portfolio of BGMFII is comprised of 22 loans with a total principal outstanding of $14.1 million.

The loans typically have maturities with terms of 6 – 24 months, and are interest only loans (paid monthly). The terms are extendable in certain cases subject to the borrowers meeting certain criteria. **A significant part of management's due diligence is to verify whether they have a viable exit strategy to recoup their principal.** Generally, borrowers borrow from BGMFII to improve and add value to their property, with the plan to either sell or refinance the property (from a more traditional lender) in a 24 month period or shorter term.

The mortgages bear interest at a fixed rate, or a specified rate over the prime lending rate, and are often subject to a minimum rate of interest. The table below shows a summary of the outstanding mortgages as of December 31, 2013. The average LTV was 65.4%. The weighted average interest rate was 11.34%; approximately 10% above the 2 year GOC bond yields.

No.	Region	BGMFII Loan Amount	Initial Funding Date	Maturity Date	Appraised Value	Loan to Value	Interest Rate
1	Vancouver, BC	$500,000	15-Mar-11	M/M	$6,364,000	75.03%	CI Pr + 7.00% Min 13.00%
2	Port Coquitlam, BC	$600,000	14-Mar-11	31-Mar-14	$14,000,000	42.21%	CI Pr + 3.00% Min 9.75%
3	Vancouver, BC	$1,000,000	15-Feb-12	31-Jan-14	$52,980,965	71.06%	NB Pr + 6.00% Min 12.75%
4	North Vancouver, BC	$518,882	29-Mar-12	M/M	$3,400,000	74.81%	CI Pr + 4.00% Min 8.75%
5	Courtenay, BC	$292,991	01-Jun-12	M/M	$9,175,000	39.73%	CI Pr + 4.00% Min 9.00%
6	Comox, BC	$1,000,000	05-Sep-12	28-Feb-14	$6,000,000	47.51%	NB Pr + 4.00% Min 8.75%
7	Coquitlam, BC	$505,000	23-Nov-12	30-Nov-14	$5,400,000	33.33%	NB Pr + 4.00% Min 9.75%
8	Calgary, AB	$291,234	10-Jan-13	30-Jun-14	$800,000	36.40%	CI Pr + 4.00% Min 11.00%
9	Edmonton, AB	$900,000	25-Feb-13	01-Sep-14	$10,591,120	60.90%	BMO Pr + 5.00% Min 8.00%
10	Burnaby, BC	$929,775	06-Mar-13	31-Aug-14	$25,540,000	54.82%	Fixed 8.75%
11	Victoria, BC	$725,000	21-May-13	01-May-14	$2,900,000	61.55%	NB Pr + 5.00% Min 12.00%
12	Vancouver, BC	$840,000	17-Jul-13	15-May-15	$22,379,005	74.78%	Fixed 12.50%
13	Vancouver BC	$700,000	07-Jun-13	15-Jul-14	$7,580,000	71.37%	CI Pr + 6.00% Min 12.75%
14	Vancouver, BC	$700,000	17-Jun-13	15-Dec-14	$11,550,600	79.65%	BMO Pr + 7.00% Min
15	Port Coquitlam, BC	$1,305,000	27-Aug-13	28-Feb-15	$31,759,000	74.62%	Cl Pr + 5.00% Min 12.50%
16	Burnaby, BC	$942,000	30-Aug-13	28-Feb-15	$26,602,860	73.83%	NB Pr + 6.00% Min 12.50%
17	Calgary, AB	$1,200,000	08-Oct-13	31-Aug-15	$28,030,000	74.21%	NB Pr + 6.00% Min 12.75%
18	Victoria, BC	$250,000	11-Sep-13	01-Dec-14	$3,600,000	73.61%	NB Pr + 5.25% Min 11.75%
19	North Vancouver, BC	$750,000	15-Oct-13	15-Jul-15	$39,020,000	39.94%	Cl Pr + 8.00% Min 13.25%
20	North Saanich, BC	$500,000	26-Nov-13	31-Oct-14	$8,710,000	68.89%	Fixed 12.75%
21	Victoria, BC	$955,000	03-Dec-13	31-May-15	$16,800,000	78.27%	NB Pr + 6.00% Min 12.50%
22	Surrey, BC	$94,080	19-Dec-13	15-Dec-14	$15,367,000	86.60%	CI Pr + 7.00% Min 13.00%
Total					$348,549,550	65.38%	

Source: Company

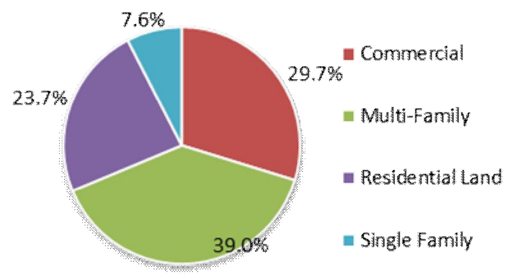
- *Second mortgages accounted for 85% of the portfolio*
- *'M/M' implies renewals on a month to month basis after initial maturity date expired.*

Approximately a fifth of the loans in the current portfolio have been renewed, of which, three were on a month to month basis. Renewals and extensions are normal in the MIC business, as the borrowers have to execute an exit (refinancing or property sale) to repay the principal to the lenders at maturity. It is normal to have delays in exits, and lenders are typically willing to extend loans, as long as the exit strategy continues to be viable, and borrowers continue to make their monthly interest payments on time. **In BGMFII's case, the audited financial statements do not indicate any default in interest payments. Management indicated that none of its loans in the fund have ever been in default.**

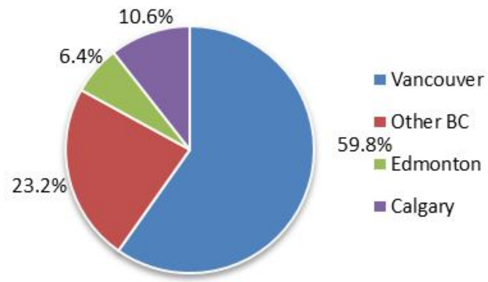
BGMFII's loans (in the current portfolio) range between approximately $100k and $1.50 million; the average loan size is $705k. Of the 22 outstanding loans, 15 loans are from repeat borrowers, and three borrowers have two loans each in the portfolio. Of the 22 loans, 20 are shared with other MICs and Bancorp's syndicated investors.

The charts below summarizes the portfolio by property type and location.

Portfolio by property type



Portfolio by location



Number of Loans in Portfolio: 22	**Average Loan to Value:** 65.40 %

** Residential land is un-serviced land;single family/multi-family is serviced and being currently developed*

Source: Company

The fund generates revenues from the interest charged on the mortgages. Mortgage originations include an upfront commitment/renewal/discharge fee of up to 2% of the principal, which is retained by the manager, and not included in the fund. Management also receives a 1.75% p.a. management fee. The manager bears all staff, premises, overhead, trailer fee commissions, and other internal expenses incurred in providing services to the fund, with the exception of fund audit, legal and bank charges. **The fund's expenses (excluding management fees) were $50k in 2013, or 0.41% of the mortgages outstanding. We believe this is very reasonable.**

Lending Criteria

BGMFII's lending criteria is as follows:

- loans do not exceed 85% of appraised value
- maximum loan to any one borrower is $2 million or 15% of total capital
- maximum loan to any one property is $2 million, or 10% of total capital
- all loans are made to arm's length borrowers
- the status of the fund is always maintained as a MIC
- will only make investments in Canada (which is a prerequisite for all MICs)

The loans typically fall into the following major loan categories –

- Interim loans - advanced to completed, or substantially completed, buildings with unsold units remaining, or commercial buildings in the process of being leased up
- Land loans - advanced to fund land acquisition and/or development
- Construction loans
- Term loans - advanced to cash-flowing completed properties

The exit strategy of all the above is typically either an asset sale or refinancing with a term lender.

Investment Process

An Investment Committee, which is comprised of four directors/officers of the company, gives the final approval on any particular loan opportunity. The final loan approval requires approval from at least three members of the Investment Committee. According to management, the entire process from reviewing a request to the final loan approval, and funding, takes an average of 1 to 4 weeks.

Bancorp's main duties are the following:

- *Source, review and analyse all potential new loans for the fund to ensure they meet the fund requirements;*
- *Complete all due diligence for each approved new loan including appraisals and required consultant reports;*
- *On-going management and administration of each loan held by the fund;*
- *All accounting and shareholder matters including record-keeping and statements*

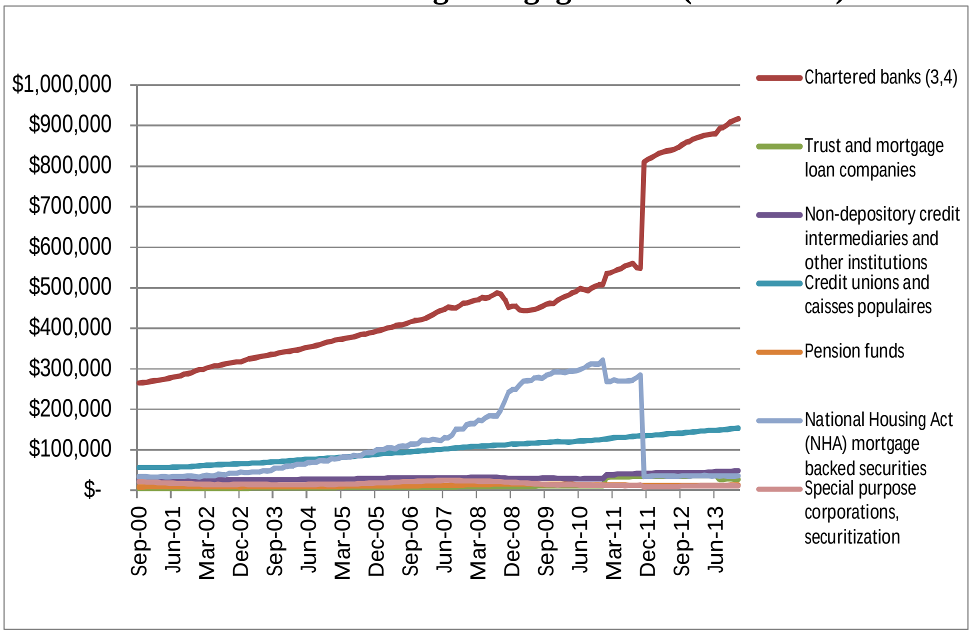
The Investment Committee is currently comprised of internal members, and does not have any independent members, which is a slight concern, as it is typical for MICs to have independent members get involved in the approval process. Our discussions with management indicated that they may bring in independent board members in the future.

According to Bancorp management, their key differentiating factor is the "high quality service" provided to borrowers. This is evident from the significant number of repeat borrowers in the current portfolio.

Private Lending Market

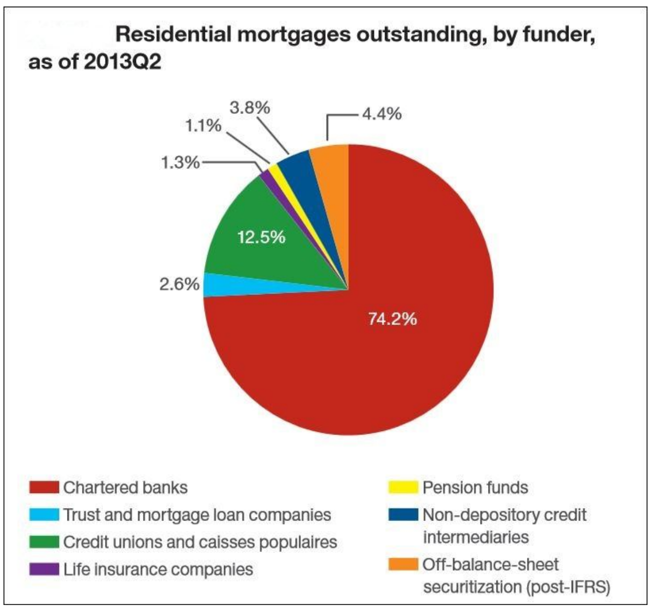
According to the Canadian Association of Accredited Mortgage Professions (CAAMP), at the end of August 2013, the amount of outstanding residential mortgages in Canada was $1.19 trillion. The following chart shows the Canadian residential mortgage market size from 2000 to 2013 for various types of lenders.

Residential outstanding mortgage credit (in millions)



Source: CAAMP

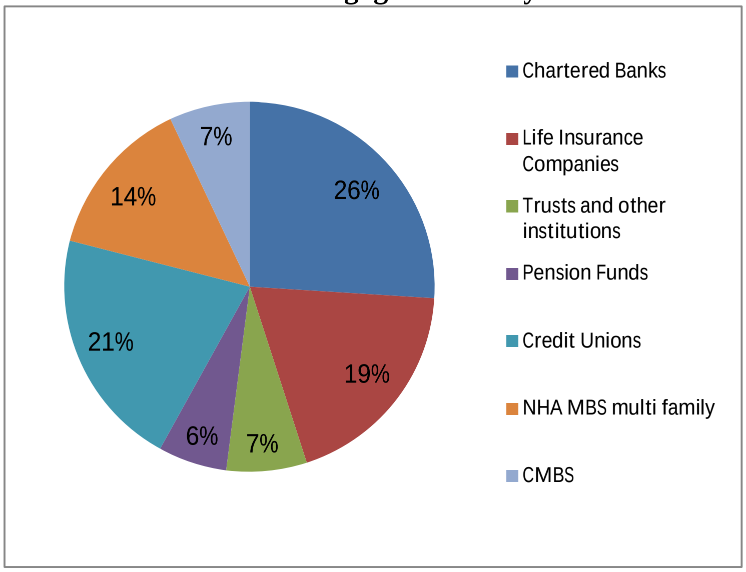
The majority of residential mortgages are funded by the chartered banks. Mortgage loan companies and trusts only account for 2.6% of the residential mortgage market. The distribution of mortgages outstanding per lender type is shown in the chart below.



Source: Bank of Canada

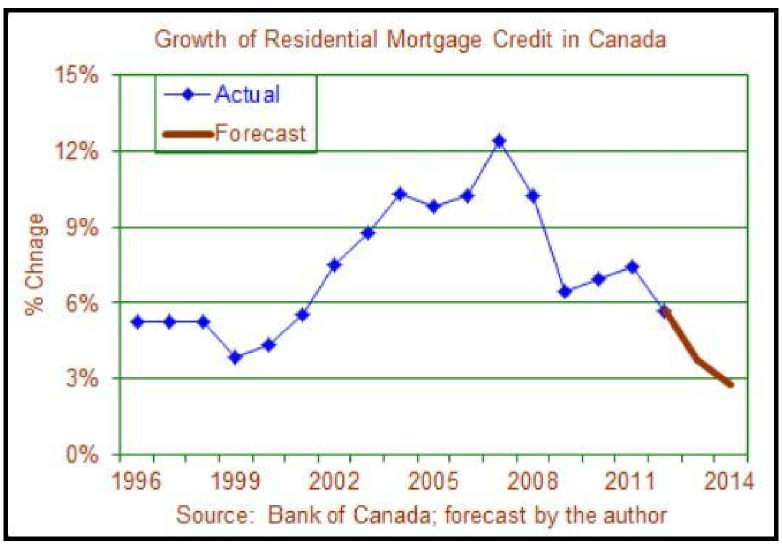
The Canadian commercial mortgage market was estimated at $139.5 billion as of May 2013, by the Real Property Association of Canada ("REALpac"). The commercial mortgage industry is much more evenly divided than residential mortgages with Credit Unions, Chartered Banks and Life insurance companies accounting for 19% - 26% each. Trusts and other institutions comprise approximately 7% of the commercial mortgage market.

Commercial mortgage market by lender



Source: Real Estate Property Association of Canada

The table below displays the annual YOY growth in the mortgage market, and anticipated growth in 2014, as estimated by CAAMP.



Source: CAAMP

As shown in the chart above, the forecast is that the market will continue to expand, but at a decreasing rate. The anticipated growth is 3.25% in 2014, followed by 3.00% in 2015 (Source: CAAMP).

The structure of BGMFII mortgages make it so their income is minimally affected by home prices and interest rates in the short term. These factors would normally be a significant concern with traditional mortgage lenders. The term of a loan for BGMFII is 6 -

24 months, allowing them to re-price interest rates almost annually. They also utilize a maximum LTV of 85%, with their current portfolio averaging 65%. There would have to be a significant one year shift in home prices to cause the LTV to rise to levels where the underlying property was valued at less than the mortgage.

In the long term, real estate prices will impact deal flow to BGMFII. Real estate prices will affect the amount of mortgage volume, sales activity and impact real estate starts and development. **If prices decrease there will be less activity, as people hold off purchasing and selling until the market stabilizes.** Not only do buyers slow their activity, developers and builders limit housing starts until demand growth returns. With the decreased activity comes lower mortgage volume and deal flow. If home prices decline, people will have less collateral to borrow with.

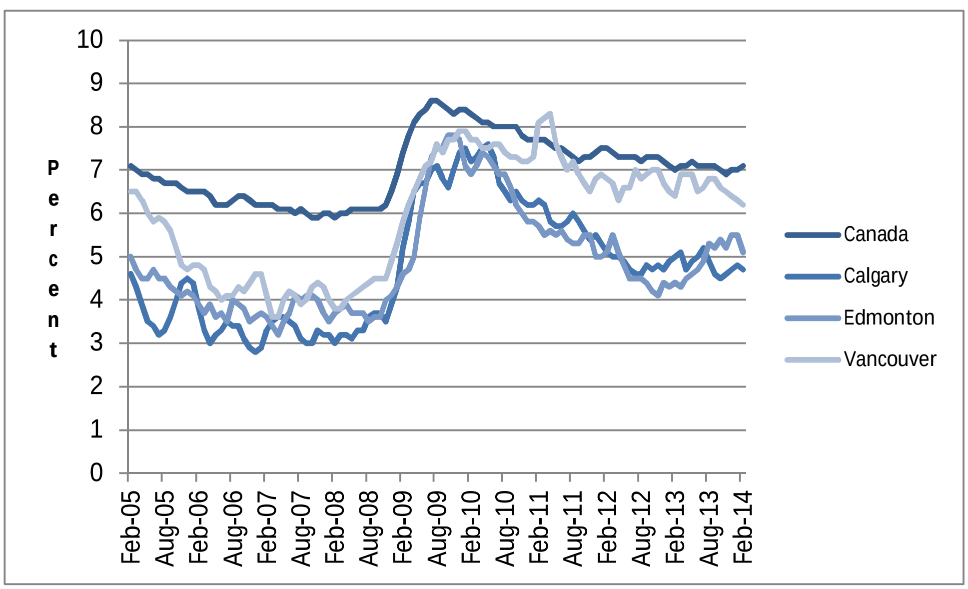
The following section presents the key parameters impacting real estate in Bancorp's primary focus areas.

GDP

The Gross Domestic Product ("GDP") of Greater Vancouver is forecasted to grow at 2.8% p.a. from 2015-2018. Over this period, Edmonton is expected to lead Canadian cities, with a GDP growth rate of 3.1% p.a. Calgary is expected to grow at 2.9% p.a.

Unemployment

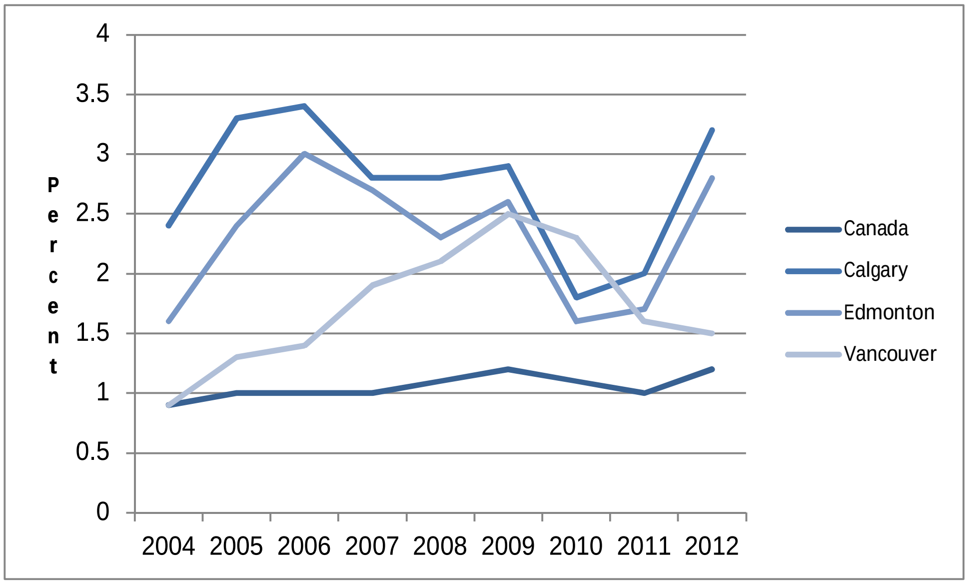
The unemployment rate for the month ended February 2014 was 6.2% for the Vancouver metropolitan area, 4.7% for Calgary, and 5.1% for Edmonton, compared to the national rate of 7.1%. The unemployment rates in these cities have been declining over the last four years. Unemployment rates since 2005 are shown below.



Source: Statistics Canada

Population

One of the main drivers of housing demand is population growth; the higher the population growth, the more the demand for housing units and mortgages. The following chart shows the YOY growth in population from 2004 to 2012. As shown, the population in Calgary, Edmonton and Vancouver grew faster than the Canadian Average.



Source: Statistics Canada

Net international migration to both Alberta and BC is also set to be on the rise over the next few years, which will positively impact the major cities in the provinces.

Housing Market

The following table shows a comparison of the average price in the three target cities. Each city is expected to experience price appreciation.

Average Price on MLS

	2011	2012	2013	2014F	2015F
Vancouver	$ 779,730	$ 730,063	$ 767,765	$ 786,500	$ 793,000
Calgary	$ 402,851	$ 412,315	$ 437,036	$ 459,000	$ 472,000
Edmonton	$ 325,595	$ 334,318	$ 344,977	$ 359,000	$ 367,000

Source: CMHC

MLS sales figures are shown in the table below. Calgary and Edmonton have experienced significant growth in volume, with sales growth expected to continue. Vancouver had a major decline in sales in 2012, but recovered in 2013, and is expected to grow in 2014.

MLS Sales

	2011	2012	2013	2014F	2015F
Vancouver	32,936	25,445	28,985	30,000	28,750
Calgary	22,466	26,634	29,954	31,300	32,100
Edmonton	16,963	17,641	19,552	19,800	20,100

Source: CMHC

Housing starts and the YOY percentage change are shown below. Of the target markets, Edmonton has shown the best growth over the last 3 years. Calgary housing showed a strong 2012 increase, but declined slightly in 2013. The growth in Vancouver has been moderate over the last two years. We anticipate stable growth in housing starts in 2014.

	Vancouver	Calgary	Edmonton
2013	18,696	12,584	14,689
	-1.7%	-2.0%	14.4%
2012	19,027	12,841	12,837
	6.5%	38.2%	37.6%
2011	17,867	9,292	9,332
	17.4%	0.3%	-6.3%
2010	15,217	9,262	9,959
	82.5%	46.6%	57.7%
2009	8,339	6,318	6,317
	-57.4%	-44.8%	-4.5%
2008	19,591	11,438	6,615
	-5.5%	-15.3%	-55.6%
2007	20,736	13,505	14,888
	10.9%	-20.8%	-0.5%
2006	18,705	17,046	14,970
	-2.7%	24.7%	12.6%

Source: CMHC

Overall, we believe the economic indicators are strong enough to keep the residential market healthy in the areas BGMFII operates.

Commercial Real Estate Market

The commercial market consists of many different sub-sectors; primarily Office, Retail, Industrial and Multi-family (apartment buildings).

The table below shows total transactions in the commercial space from 2012. As shown, transactions dropped significantly in Vancouver and Calgary, while Edmonton experienced 32% YOY growth in 2013. However, transactions in all three cities are expected to drop YOY in 2014. The primary reason for the decline in transactions is the increase in office vacancy and supply. Among all the sectors, industrial buildings are expected to fare better than the other property types.

Vancouver (total transactions in $, mm)	2012	2013	2014F
Office	$ 1,015	$ 482	$ 408
Industrial	$ 789	$ 711	$ 907
Industrial / Commercial / Institutional Land	$ 607	$ 593	$ 843
Retail	$ 793	$ 1,347	$ 730
Multi-Housing	$ 815	$ 475	$ 308
Hotel	$ 79	$ 141	$ 54
Total	**$ 4,097**	**$ 3,747**	**$ 3,249**

Calgary (total transactions in $, mm)	2012	2013	2014F
Office	$ 1,973	$ 1,148	$ 750
Industrial	$ 626	$ 674	$ 750
Industrial / Commercial / Institutional Land	$ 661	$ 368	$ 450
Retail	$ 733	$ 129	$ 225
Multi-Housing	$ 486	$ 227	$ 300
Hotel	$ 108	$ 293	$ 150
Total	**$ 4,587**	**$ 2,839**	**$ 2,625**

Edmonton (total transactions in $, mm)	2012	2013	2014F
Office	$ 380	$ 385	$ 250
Industrial	$ 324	$ 398	$ 330
Industrial / Commercial / Institutional Land	$ 761	$ 1,463	$ 1,000
Retail	$ 570	$ 310	$ 250
Multi-Housing	$ 122	$ 348	$ 300
Hotel	$ 159	$ 155	$ 50
Total	**$ 2,315**	**$ 3,060**	**$ 2,180**

Source: CBRE

Structure

The following table shows the structure of the fund:

Share Capital	24-Mar-14	% of Total
Common Shares	1,180	
Class D Shares	14,515,830	98%
Class A Shares		
Class F Shares	342,877	2%
Class E Shares	-	
Total	14,859,887	100%

The fund issues Class D, A, F and E shares. Class D shares are available to investors on a direct purchase basis. Class A shares are sold by investment dealers who receive a trailer fee of 1.0% p.a. (paid by the manager). Class F shares are sold by investment firms who charge a fee to their clients for managing their portfolio. A new class of share, the Class E share, has just been created, primarily targeting exempt market dealers. The manager will pay a sales commission of 1% - 4% at the time of purchase to the dealers/agents of Class E shares.

Class A, D, F and E shareholders have limited voting rights.

Management owns all the common shares which have voting rights. **Management combined own approximately 4% of the total outstanding number of class D shares.** Management's ownership is a good sign as it aligns investors' and management's interests.

Management fees, paid monthly, associated with the offering are shown below. These are **in line with the fees of MICs of similar size**.

	Management Fee (paid monthly)
Class D	1.75% p.a.
Class A	2.25% p..a
Class F	1.25% p.a.
Class E	2.25% p..a

Distributions - The following table shows the target dividends (paid quarterly) for the different classes of shares. Dividends will be paid after the fund's expenses and management fee.

	Dividends (paid annually)
Class D	2-year GOC Bond Yield + 7.0%
Class A	2-year GOC Bond Yield + 6.5%
Class F	2-year GOC Bond Yield + 7.5%
Class E	2-year GOC Bond Yield + 6.5%

Net profits remaining after the priority dividends are paid will be divided 75% investors: 25% to management. The typical incentive fee for MICs is 20%.

Many comparable MICs set a fixed preferred return (or priority dividends) instead of the floating structure set by BGMFFI shown above. We believe a floating structure better aligns management and investors' incentives, as it prevents management from taking additional risk in a low-interest rate environment.

Redemption – Redemptions with a notice period of 60 days are possible subject to availability of funds. Redemptions will not be allowed if – *a) the number of shareholders would be less than 20 after redemptions, b) the company ceases to qualify as a MIC, c) as a result of redemptions, one holder of shares, or a related group of holders, of any class of shares, would hold more than 25% of the outstanding shares.*

The redemption price will be reduced by 5% of the original issuance price if redeemed in less than a year, by 3.5% if between 1 and 2 years, by 2.5% if between 2 and 3 years, and by 0% if redeemed after 3 years. The fund has waived such reductions for shares redeemed after a year of their issuance for Class A, D and F shares purchased before March 28, 2015. **The company paid out $0.47 million in 2013, $0.30 million in 2012, and $0.52 million in 2011, in redemptions.**

Financials

The following table shows a summary of the company's income statements since inception.

Income Statement YE - December 31	2009 (Sept 21 - Dec 31)	2010	2011	2012	2013
Revenue					
Interest Income	$17,629	$476,975	$863,957	$1,153,391	$1,412,817
Total Revenue	**$17,629**	**$476,975**	**$863,957**	**$1,153,391**	**$1,412,817**
Expenses					
Accounting and Legal	$3,552	$16,179	$31,540	$27,632	$35,765
Bank Charges	$38	$331	$410	$389	$415
Management Fee		$92,948	$147,643	$211,271	$247,560
Office and Misc	$2,302	$2,069	$6,081	$6,185	$13,980
Performance Incentive			16,647	$11,163	$9,328
Share Issue Cost	$300	$3,110	$3,330	$2,980	$3,846
Total	**$6,192**	**$114,637**	**$205,651**	**$259,620**	**$310,894**
Income from Operations	**$11,437**	**$362,338**	**$658,306**	**$893,771**	**$1,101,923**
Dividends	$11,429	$362,258	$658,306	$893,771	$1,101,923
Net Income	**$8**	**$80**	-	-	-

Revenues grew from $0.48 million in 2010, to $1.41 million in 2013. Net Income before dividends grew from $0.36 million in 2010, to $1.10 million in 2013.

As shown in the table below, dividend yields have been higher than priority returns ever year except 2010.

% of Mortgage Receivable	2010	2011	2012	2013
Interest Income	11.47%	12.88%	12.15%	11.52%
Less:				
Management Fee	2.23%	2.23%	2.23%	2.02%
G&A Expenses	0.45%	0.57%	0.36%	0.41%
Net	**8.79%**	**10.08%**	**9.56%**	**9.09%**

** Expenses do not include Performance Incentive and Share Issue Costs*

Dividends (% of Invested Capital)	7.57%	9.23%	8.43%	8.36%
2-year GOC	1.52%	1.33%	1.09%	1.11%
2-year GOC + 7%	8.52%	8.33%	8.09%	8.11%

Management anticipates the fund to generate a yield of 8.00% - 9.00% for Class D shares in 2014.

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

Balance Sheet YE - December 31	2009	2010	2011	2012	2013
Assets					
Cash	$539,777	$762,466	$3,208,716	$2,576,336	$751,563
Prepaid Expenses		$1,853	$102,296	$3,711	$8,710
Interest Receivable	$8,409	$57,769	$80,868	$96,045	$148,310
Mortgages Receivable (Current)	$900,000	$2,698,831	$4,470,686	$6,418,927	$10,236,129
	$1,448,186	**$3,520,919**	**$7,862,566**	**$9,095,019**	**$11,144,712**
Morgages Receivable		$2,710,000	$2,652,000	$3,088,677	$3,902,000
Total Assets	**$1,448,186**	**$6,230,919**	**$10,514,566**	**$12,183,696**	**$15,046,712**
Liabilities					
Bank Indebtedness					
Accounts Payable	$2,099	$8,241	$21,254	$20,583	$22,542
Dividends Payable	$11,437	$277,863	$446,509	$555,678	$421,195
Due to Fund Manager		$9,855	$32,871	$30,179	$31,606
	$13,536	**$295,959**	**$500,634**	**$606,440**	**$475,343**
Preferred Shares	$1,433,650	$5,933,960	$10,013,921	$11,576,156	$14,570,209
Common Shares	$1,000	$1,000	$11	$1,100	$1,160
Retained Earnings					
Total Shareholders Equity+Liabilities	**$1,448,186**	**$6,230,919**	**$10,514,566**	**$12,183,696**	**$15,046,712**

Total loans issued increased from $0.90 million at the end of 2009, to $14.14 million by the end of 2013. Like most MICs, the fund's cash position varies from time to time, as loans are paid out and new loans are funded. Based on our review of the financial statements, dividend yields, and the weighted average mortgage receivables outstanding in a year, we believe the company has been fairly good with timely deployment of capital.

Line of credit – The fund does not have a line of credit at this time. However, management has indicated that they may negotiate a line of credit within the next 12 months in the $0.50 million to $1.00 million range to assist in managing cash flow. Note that using reasonable leverage is a common practice in the MIC industry.

Expected Yield

The following table shows the expected yield of the Class D shares, assuming no debt or defaults.

Capital Raised (gross)	**$100.00**
Sales Commission	$0.00
Capital Deployed (95% of available capital)	$95.00
Interest Revenue (11.34% p.a.)	**$10.77**
Management Fee (1.75% p.a. of Investors' Capital)	-$1.75
Other Expenses (0.4% of Capital Deployed)	-$0.38
Defaults (0.0% of Capital Deployed)	$0.00
Net	**$8.64**
Investors Yield (priority dividends + profit share)*	8.51%

* assumes 2-year GOC - 1.10%

Based on the above assumptions, we estimate investors could expect a yield of 8.51% in 2014.

The sensitivity of expected yields to various factors is shown below:

Sensitivity					
Default Rate (%)	0.00%	1.00%	2.00%	3.00%	4.00%
Investors' Yield	**8.51%**	**7.69%**	**6.74%**	**5.79%**	**4.84%**
% of Capital Deployed	60.00%	70.00%	80.00%	95.00%	100.00%
Investors' Yield	**4.81%**	**5.91%**	**7.00%**	**8.51%**	**8.92%**
Lending Rate (% p.a.)	8.00%	9.00%	10.00%	11.34%	13.00%
Investors' Yield	**5.47%**	**6.42%**	**7.37%**	**8.51%**	**9.69%**

Conclusion

Based on our review of the returns/risk features of the offering, we have assigned an overall rating of 2-, and a risk rating of 3, on BGMFII shares.

FRC Rating	
Expected Annual Yield	8.25% - 8.75%*
Rating	2-
Risk	3

*Based on the current BoC overnight rate of 1%

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	24%	Risk - 2	2%
Rating - 3	48%	Risk - 3	31%
Rating - 4	7%	Risk - 4	41%
Rating - 5	6%	Risk - 5	8%
Rating - 6	1%	Suspended	18%
Rating - 7	0%		
Suspended	13%		

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