Fundamental Research Corp.
Investment Analysis for Intelligent Investors

December 16, 2021

Three Point Capital Corp.

Well Positioned to Benefit from Rising Demand for Alternative Lending

Target Yield (2022): 5.5%-6.0%
Rating*: 2-
Risk*: 2

Sector / Industry: Mortgage Investment Corporations

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Highlights

- Despite the pandemic, **mortgage receivables grew 17% YTD, to $118M**.
- Three Point maintains a low-risk profile. At the end of Q3-2021, 95% of the portfolio were first mortgages, and 95% was secured by already-built single family residential units. **The MIC has a low LTV (56%) relative to its comparables.**
- 2021 (9M) yield declined 11 bps to 6.17%, amid lower market lending rates, and increased exposure to first mortgages.
- As the Bank of Canada is expected to start raising rates in the latter half of H1-2022, we are expecting yields to remain relatively low over the next six months. **We believe investors' appetite for high-yield investments (such as Three Point) will remain strong.**
- We maintain a positive outlook on the residential real estate market. The CMHC has a low-risk rating for 'overvaluation' on both Vancouver and Toronto. Although the emergence of Omicron has increased uncertainties, we are **expecting a surge in new immigrants and international students** once conditions normalize. Note that Canada is one of the most highly vaccinated countries in the world, and one of the most preferred destinations for immigration.
- We are **expecting a rise in demand for alternative lending**, especially due to the pandemic-induced rise in self-employment and entrepreneurship. We are also seeing a rise in home ownership among millennials. Demand for alternative lending is higher among millennials, self-employed individuals, and entrepreneurs, as these groups have difficulty obtaining loans/mortgages from conventional lenders.

Offering Summary	
Issuer	Three Point Capital Corp.
Date of OM	March 2021
Securities Offered	Class A Shares
Unit Price	$1
Minimum Subscription	N/A
Distribution to Investors	Monthly
Redemption (penalties)	n/a
Management Fee	1.95% p.a. of NAV (AUM <$100M) 1.75% p.a. ($100M <AUM < $150M) 1.50% p.a. (AUM >$150 million)
Sales Commissions	up to 1% p.a.
Auditor	Grant Thornton

Financial Summary	2018	2019	2020	2021E	2022E
Mortgage Investments (net)	$69,167,136	$76,376,262	$100,066,946	$135,000,000	$170,000,000
Debt as a % of Mortgage Outstanding	15%	0%	15%	22%	26%
Revenues	$5,778,729	$7,085,110	$7,714,011	$9,339,504	$12,428,750
Net Income	$3,659,283	$5,106,979	$5,273,502	$5,954,785	$7,057,764
Net Asset Value	$0.993	$0.992	$0.994	$0.997	$1.000
Investors' Returns (% of Invested Capital)	7.06%	7.21%	6.25%	6.09%	5.95%

***See last page for important disclosures, rating and risk definitions. All figures in C$ unless otherwise specified.**

Three Point has higher first mortgages, and lower LTV, loan size, and debt to capital

Yield is lower as Three Point has a lower risk profile

Gross mortgage receivables were up 17% YTD, to $118M, by the end of Q3

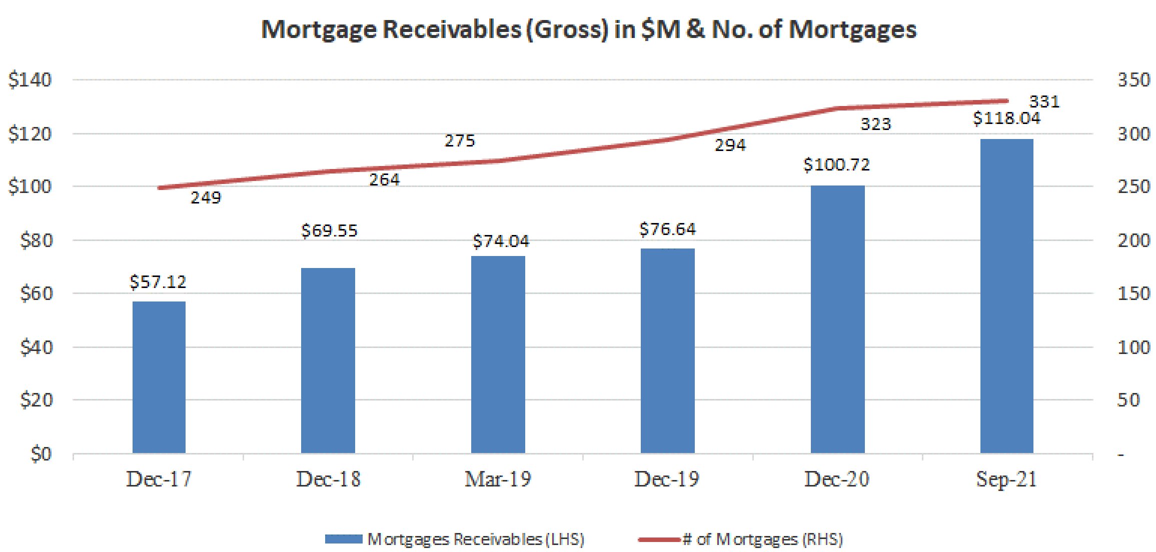
In a study conducted for the Canada Mortgage Housing Corporation/CMHC, we estimated that Assets Under Management ("AUM"), held by MICs across the country, grew 3% YoY to $13.2B by the end of 2020, versus 7% growth in residential mortgages nationwide. At the end of 2020, MICs accounted for 0.80% of total outstanding residential mortgages in Canada ($1.6T).

The following table shows how Three Point's portfolio compares to its direct comparables (lenders focused on mortgages on single-family residential units). All these entities have over $100M in assets, with mortgages focused almost exclusively on individual borrowers.

	ThreePoint	Average
First Mortgage	95%	81%
B.C.	64%	36%
ON	32%	49%
AB	2%	8%
Others	2%	7%
LTV	56%	58%
Yield	6.2%	6.9%
Debt to Capital	15%	17%
Average Loan Size	$356,619	$512,666
Delinquent/Foreclosures	1.0%	2.6%
Actual Loss	0.1%	0.2%
Provision	0.6%	0.6%

Source: FRC / Various

Portfolio Update



Source: Company / FRC

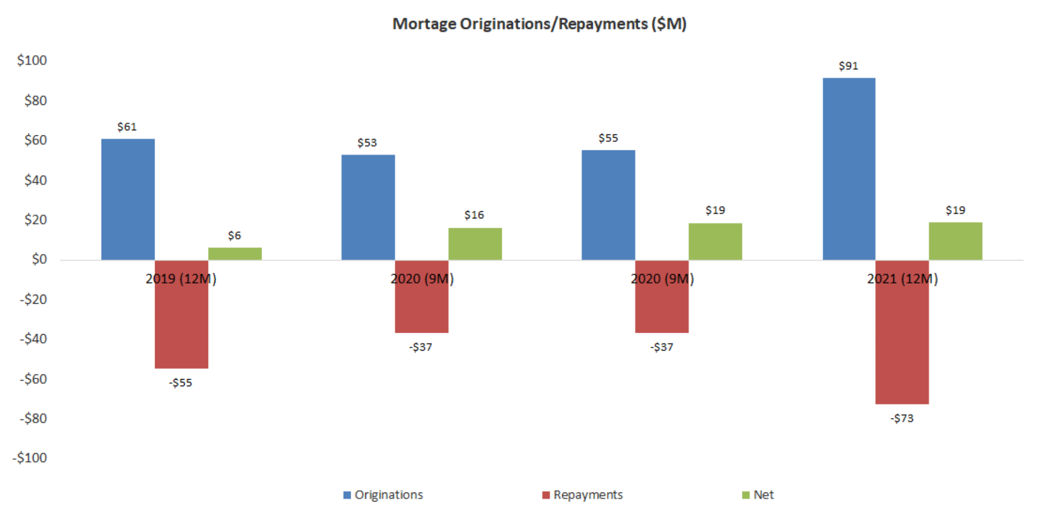
Three Point's debt to capital of 15% is slightly below that of comparables

Balance Sheet	2017	2018	2019	2020	Q3-2021
Assets					
Cash	-	-	2,239,159	-	-
Accounts Receivable	$139,830	$0		55,174	
Prepaid Expense	$22,509	$20,596	16,722	31,292	73,785
Mortgage Investments (net)	$57,125,378	$69,167,136	76,376,262	100,066,946	117,391,748
Total Assets	**$57,287,717**	**$69,187,732**	**$78,632,143**	**$100,153,412**	**$117,465,533**
Liabilities					
Loan Payable and accruals	$11,052,914	$7,581,036			
LOC				$15,319,156	$17,581,356
Promissory Notes	$3,429,664	$3,036,033			
A/P & Accrued Liabilities	$259,956	$173,059	$194,630	$255,983	$254,354
Dividends payable		$573,106	$736,725	$1,284,079	
Total Liabilities	**$14,742,534**	**$11,363,234**	**$931,355**	**$16,859,218**	**$17,835,710**
Net Asset	$42,545,183	$57,824,498	$77,700,788	$83,294,194	$99,629,823
SE + Liabilities	**$57,287,717**	**$69,187,732**	**$78,632,143**	**$100,153,412**	**$117,465,533**
Debt to Capital	25%	16%	0%	16%	15%
Debt as a % of Mortgage Outstanding	25%	15%	0%	15%	15%
Interest Coverage Ratio	7.0	8.3	20.3	28.4	13.0

Source: Company / FRC

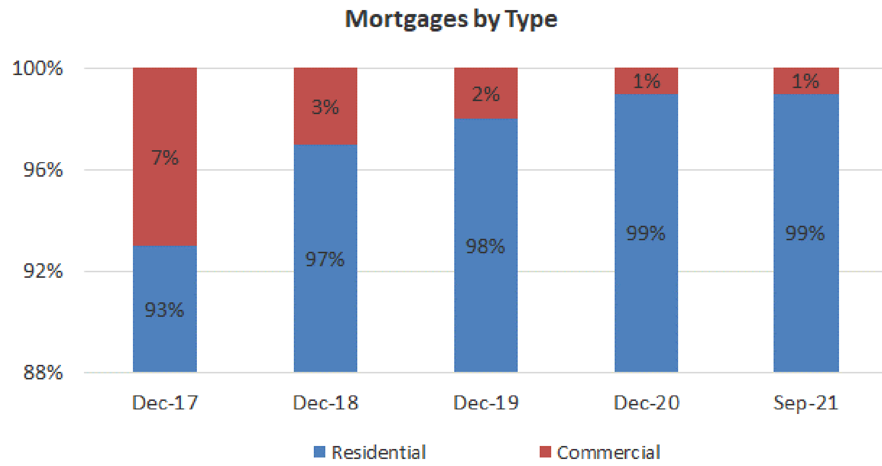
Management's estimate for 2021 year-end portfolio size is $135M.

Mortgages advanced increased 66% YoY to $91M in 2021 (9M)



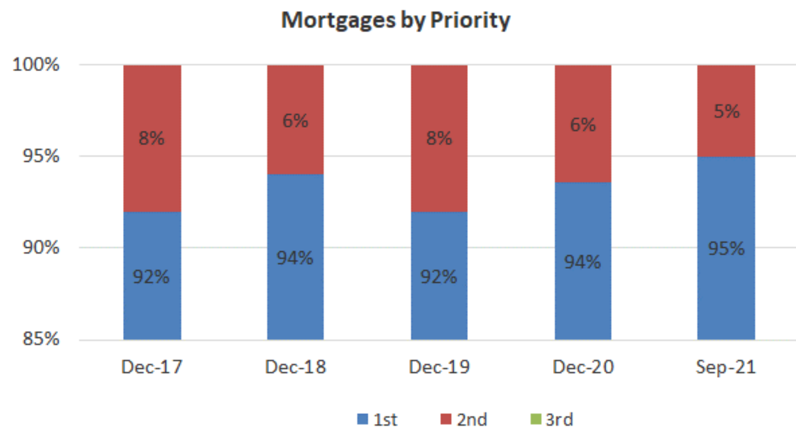
Source: Company / FRC

Focus remains on already-built single family residential properties; we believe this category has lower risk than other types of real estate

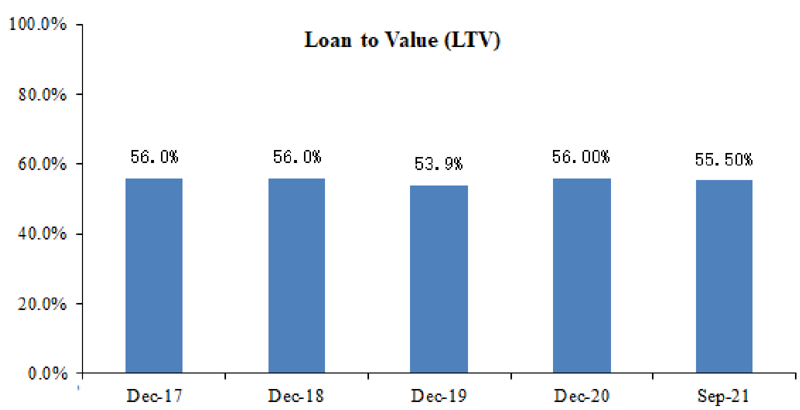


Loan by borrower type	Dec-17	Dec-18	Dec-19	Dec-20	Sep-21
Residential Homes	79%	89%	92%	94%	95%
Vacant Land	3%	3%	2%	1%	2%
Construction	11%	5%	4%	4%	2%
Residential	93%	97%	98%	99%	99%
Commercial	7%	3%	2%	1%	1%
Total Loan	**100%**	**100%**	**100%**	**100%**	**100%**

Exposure to first mortgages increased, lowering portfolio risk



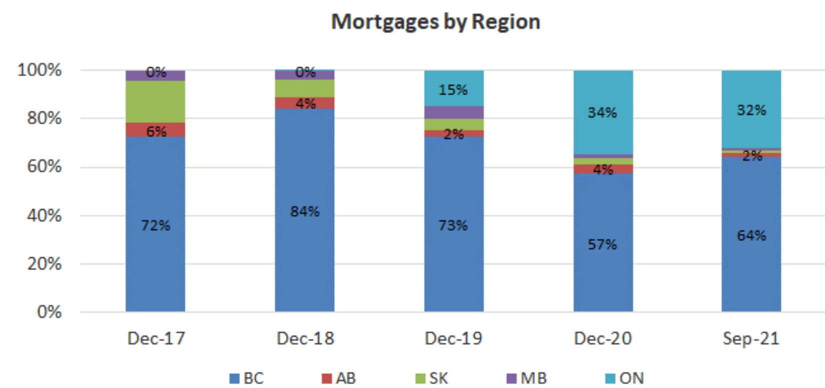
LTV relatively flat, but remains on the lower end of comparables (typically 50% to 70%)

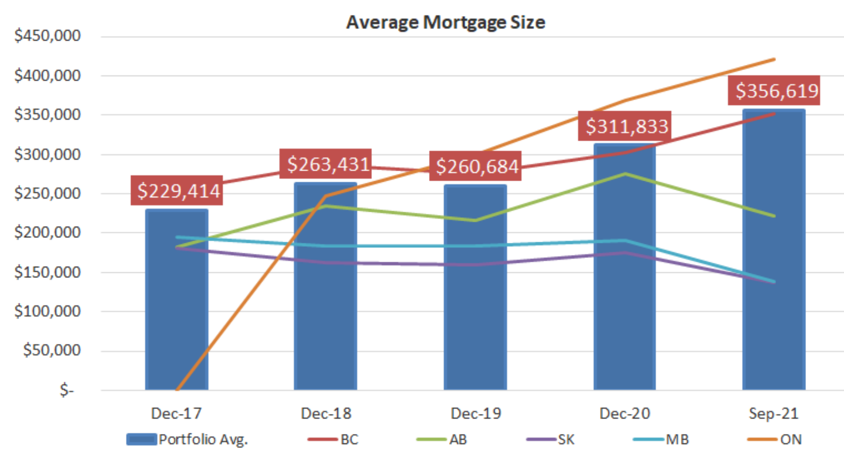


Source: Company / FRC

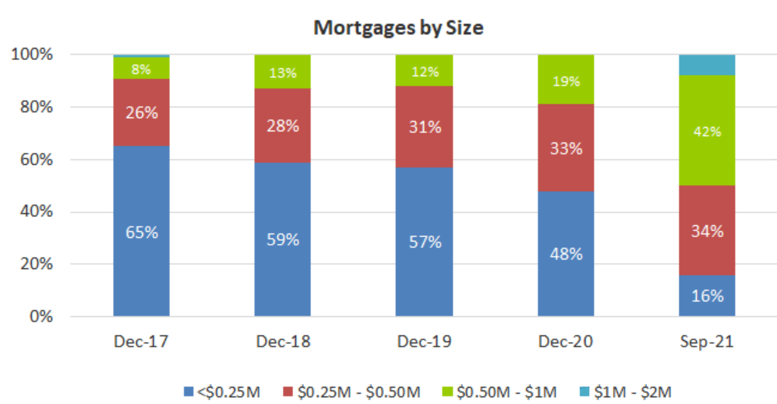
Mortgage LTV distribution	Dec-18	Dec-19	Dec-20	Sep-21
<25%	3%	3%	2%	3%
25% to 45%	15%	14%	12%	11%
46% to 65%	46%	50%	53%	51%
66% to 75%	35%	30%	31%	34%
>75%	1%	2%	2%	1%
Total	**100%**	**100%**	**100%**	**100%**

Focus remains on B.C. and ON



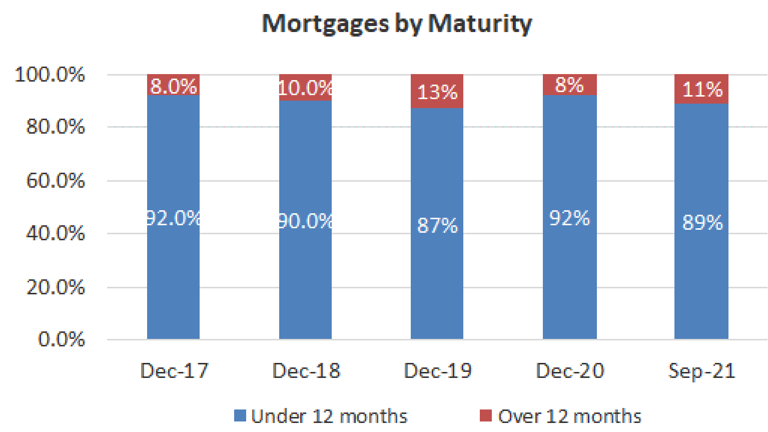


Average mortgage size rising due to higher first mortgages



Source: Company / FRC

Duration increased slightly, implying higher interest-rate risks



Lending rates declined with market rates; we expect market rates to remain low in H1-2021

	Dec-17	Dec-18	Dec-19	Dec-20	Sep-21
Weighted Average Interest rate	**8.35%**	**8.59%**	**8.65%**	**7.88%**	**7.16%**

Interest rate distribution	Dec-17	Dec-18	Dec-19	Dec-20
<7%	10%	9%	11%	25%
7.00% - 7.99%	25%	19%	19%	33%
8.00% - 8.99%	37%	30%	32%	26%
9.00% - 9.99%	21%	34%	26%	10%
10.00% -10.99%	3%	5%	9%	4%
11.00% - 11.99%	3%	2%	2%	1%
12.00% - 12.99%	1%	1%	1%	1%
Total	**100%**	**100%**	**100%**	**100%**

Realized losses remain very low

	2018	2019	2020	2021 (9M)
Actual Losses	17,239	9,852	83,025	10,231
% of Mortgage Receivables	0.03%	0.01%	0.09%	0.02%
Stage Three	-	-	2,168,452	2,343,856
% of Mortgage Receivables	0.00%	0.00%	2.15%	1.70%
Distributions	$3,558,899	$4,923,754	$5,067,078	$3,450,014
Reinvested	$2,440,946	$3,704,564	$3,421,060	$2,715,772
% of Distributions	69%	75%	68%	79%
Redemptions	$1,711,136	$3,586,595	$6,308,266	$2,954,696
% of Invested Capital	3.4%	5.3%	7.8%	3.2%
Loan loss reported	$210,175	$75,966	$296,090	$2,733
Loan loss provision (year/quarter ended)	$378,769	$444,883	$657,948	$650,450
% of Mortgage Receivables	0.55%	0.58%	0.66%	0.55%

Source: Company / FRC

In summary, we believe the portfolio's risk profile has declined due to the steep decline in delinquent mortgages, and increased exposure to first mortgages

At the end of Q3, 1% of the portfolio, or three mortgages ($1.3M), were in default (60+ days delinquent) vs 4%, or $3.9M at the end of 2020.

Parameter	Risk Profile
AUM	↑
Average Mortgage	↑
Diversification	-
Debt to Capital	-
Priority	↑
LTV	-
Property Type (lower-risk properties)	↓
Default	↓
Duration	↑

- red (green) indicates an increase (decrease) in risk level

Source: FRC

Financials

Revenue up 19% YoY, and net income up 13% in 2021 (9M) due to higher mortgage receivables, and lower loan loss provisions

Income Statement	2018	2019	2020	2020 (9M)	2021 (9M)	
Revenues						
Interest Income	$5,197,158	$6,355,245	$6,967,749	$5,071,011	$6,021,173	19%
Fees & penalties	$581,571	$729,865	$746,262	$501,770	$631,646	26%
Interest re: investments and bank accounts				$13,012		
	$5,778,729	**$7,085,110**	**$7,714,011**	**$5,585,793**	**$6,652,819**	**19%**
Expenses						
G&A	$125,187	$117,499	$230,690	$128,708	$256,975	100%
Management Fees	$1,281,610	$1,519,888	$1,721,234	$1,243,355	$1,653,984	33%
Loan Loss Provision	$210,175	$75,966	$296,090	$235,766	$2,733	-99%
Interest on Loan Payable	$502,474	$264,778	$192,495	$101,528	$364,450	259%
	$2,119,446	**$1,978,131**	**$2,440,509**	**$1,709,357**	**$2,278,142**	**33%**
Net Income	**$3,659,283**	**$5,106,979**	**$5,273,502**	**$3,876,436**	**$4,374,677**	**13%**
Share issuance costs deductible for tax purposes		-$183,225				
Dividends	$3,558,899	$4,923,754	$5,067,078	$2,761,952	$3,450,014	25%
Net Asset Value	$0.993	$0.992	$0.994	$1.00	$1.00	0%
Shares Outstanding	58,212,515	78,319,904	83,822,734	78,569,395	99,271,009	26%
Payout Ratio	97%	96%	96%	71%	79%	

Source: Company / FRC

Due to lower lending rates, yield declined 11 bps, to 6.17% in 2021 (9M)

% of Mortgage Receivable	2018	2019	2020	2021 (9M)*
Interest Income	8.23%	8.73%	7.90%	7.38%
Fees & penalties	0.92%	1.00%	0.85%	0.77%
Interest Income + Others	**9.15%**	**9.74%**	**8.74%**	**8.16%**
Less:				
Management Fee	-2.03%	-2.09%	-1.95%	-2.03%
G&A Expenses	-0.20%	-0.16%	-0.26%	-0.32%
Loan Loss Provision	-0.33%	-0.10%	-0.34%	0.00%
Interest	-0.80%	-0.36%	-0.22%	-0.45%
Trailer				
Net	**5.79%**	**7.02%**	**5.98%**	**5.36%**
Investors' Returns (% of Invested Capital)	**7.06%**	**7.21%**	**6.25%**	**5.49%**
Actual Dividends	**7.17%**	**7.03%**	**6.28%**	**6.17%**

Note that the above figures may be slightly different from the figures reported by Three Point 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.

Source: Company / FRC

Risks

Investors of Three Point are exposed to the following risks:

- 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.
- Shareholders' principal is not guaranteed, as the NAV per share could decrease from current levels (due to loan losses). Shareholders are also not guaranteed minimum distributions.
- The fund has the ability to use leverage, which would increase the exposure of the fund to negative events.
- Although the MIC's primary focus is on first mortgages, it may invest in second mortgages that carry higher risk.
- Annual redemptions may be limited to 10% of the total invested capital.

FRC Projections and Rating

We are expecting a 5.95% yield in 2022; management's guidance is 5.5% - 6.0%

Financial Summary	2018	2019	2020	2021E	2022E
Mortgage Investments (net)	$69,167,136	$76,376,262	$100,066,946	$135,000,000	$170,000,000
Debt as a % of Mortgage Outstanding	15%	0%	15%	22%	26%
Revenues	$5,778,729	$7,085,110	$7,714,011	$9,339,504	$12,428,750
Net Income	$3,659,283	$5,106,979	$5,273,502	$5,954,785	$7,057,703
Net Asset Value	$0.993	$0.992	$0.994	$0.997	$1.000
Investors' Returns (% of Invested Capital)	7.06%	7.21%	6.25%	6.09%	5.95%

Source: FRC

As a result of the steep decline in delinquent mortgages, and increased exposure to first mortgages, **we are lowering our risk rating from 3 to 2**, while maintaining our overall rating of 2-. As interest rates are expected to remain low in H1-2022, we expect investors' appetite for high-yield investments (such as Three Point) to remain strong.

FRC Rating	
Expected Yield (2022)	5.5% - 6.0% (Management Guidance) / 5.95% (FRC estimate)
Rating	2-
Risk	2

APPENDIX

Income Statement	2018	2019	2020	2021E	2022E
Revenues					
Interest Income	$5,197,158	$6,355,245	$6,967,749	$8,480,040	$11,132,500
Fees & penalties	$581,571	$729,865	$746,262	$859,464	$1,296,250
Interest re: investments and bank accounts					
	$5,778,729	**$7,085,110**	**$7,714,011**	**$9,339,504**	**$12,428,750**
Expenses					
G&A	$125,187	$117,499	$230,690	$370,377	$480,566
Management Fees	$1,281,610	$1,519,888	$1,721,234	$2,383,882	$3,050,000
Loan Loss Provision	$210,175	$75,966	$296,090	$87,333	$350,000
Interest on Loan Payable	$502,474	$264,778	$192,495	$543,126	$1,490,420
	$2,119,446	**$1,978,131**	**$2,440,509**	**$3,384,718**	**$5,370,986**
Net Income	**$3,659,283**	**$5,106,979**	**$5,273,502**	**$5,954,785**	**$7,057,764**
Share issuance costs deductible for tax purposes		-$183,225			
Dividends	$3,558,899	$4,923,754	$5,067,078	$5,716,594	$6,775,454
Net Asset Value	$0.993	$0.992	$0.994	$0.997	$1.000
Shares Outstanding	58,212,515	78,319,904	83,822,734	103,822,734	123,822,734
Payout Ratio	97%	96%	96%	96%	96%

Balance Sheet	2018	2019	2020	2021E	2022E
Assets					
Cash	-	2,239,159	-	0	0
Accounts Receivable	$0		55,174	57,933	60,829
Prepaid Expense	$20,596	16,722	31,292	32,857	34,499
Mortgage Investments (net)	$69,167,136	76,376,262	100,066,946	135,000,000	170,000,000
Total Assets	**$69,187,732**	**$78,632,143**	**$100,153,412**	**$135,090,790**	**$170,095,329**
Liabilities					
Loan Payable and accruals	$7,581,036				
LOC			$15,319,156	$29,941,339	$44,582,717
Promissory Notes	$3,036,033				
A/P & Accrued Liabilities	$173,059	$194,630	$255,983	268,782	282,221
Dividends payable	$573,106	$736,725	$1,284,079	1,348,283	1,415,697
Total Liabilities	**$11,363,234**	**$931,355**	**$16,859,218**	**$31,558,404**	**$46,280,635**
Net Asset	$57,824,498	$77,700,788	$83,294,194	$103,532,385	$123,814,694
SE + Liabilities	**$69,187,732**	**$78,632,143**	**$100,153,412**	**$135,090,790**	**$170,095,329**
Debt to Capital	16%	0%	16%	22%	26%

Cash Flow Statement	2021E	2022E
Operating Activities		
Net Income	$5,954,785	$7,057,703
Loan Loss Provision		
	$5,954,785	$7,057,703
Chnges in non-cash Working Capital		
Accounts Receivable	-$2,759	-$2,897
Accounts Payable and Accured Liabilities	$12,799	$13,439
Interest Payable	$64,204	$67,414
Deferred Mortgage Income		
Prepaid Expenses	-$1,565	-$1,643
Cash from Operating Activities	**$6,027,465**	**$7,134,017**
Investing Activities		
Net Puchase of Mortgage Investments	-$34,933,054	-$35,000,000
Cash from Investing Activities	**-$34,933,054**	**-$35,000,000**
Financing Activities		
Debt Proceeds	$14,622,183	$14,641,378
Distributions	-$5,716,594	-$6,775,395
Cash Received on Subscription	$20,000,000	$20,000,000
Cash from Financing Activities	**$28,905,589**	**$27,865,983**

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	31%	Risk - 2	8%
Rating - 3	47%	Risk - 3	40%
Rating - 4	8%	Risk - 4	33%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	9%		

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