Fundamental Research Corp.
Investment Analysis for Intelligent Investors

November 9, 2023

Three Point Capital Corp.

A Compelling Sector to Consider When Interest Rates Decline

Expected Yield (2024): 7.8%
Rating*: 2
Risk*: 2

Sector: Mortgage Investment Corporations

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Highlights

- In 2022, the yield was 5.9% (in line with our forecast) vs 6.0% in 2021. In **2023 (9M), the yield was 7.6% vs our forecast of 7.1%.** Net income was up 42% YoY, beating our estimate by 6% amid higher than expected lending rates, and lower than expected loan loss provisions
- At the end of Q3-2023, **mortgage receivables were $185M (the highest in Three Point's history)**, up 2% YTD.
- The MIC remains focused on first mortgages on single family residential units. **We believe the portfolio's risk profile has decreased.** We were pleasantly surprised to observe a decrease in stage three (impaired) mortgages, considering that comparables have reported higher stage three mortgages this year.
- As of Q2-2023, the nationwide mortgage delinquency rate remained unchanged YoY at 0.15%. We note that property developers and owners **have been hit harder than individual homeowners** (Three Point's target market) due to high borrowing costs, low pre-sales, and dampened real estate activity. Therefore, we anticipate that MICs specializing in individual borrowers, such as Three Point, will probably encounter fewer impaired mortgages vs MICs lending to property developers or landlords.
- Due to rising financial instability, and cooling inflation, we anticipate the Bank of Canada will start slashing rates within the next six months. **We expect transaction volumes/lending to surge in 2024, driven by lower rates.**
- Housing markets in key areas continue to display resilience. As of October 2023, residential real estate prices in Toronto and Vancouver were up 1% YoY and 4% YoY, respectively.
- Anticipating a decline in rates within the next 12 months, **we find high-yielding funds, such as Three Point, increasingly appealing.**
- We are projecting a yield of 7.8% in 2024 vs 7.7% in 2023.

Offering Summary	
Issuer	Three Point Capital Corp.
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 >$150M)
Sales Commissions	up to 1% p.a.
Auditor	Grant Thornton

Financial Summary	2021	2022	2023E	2024E
Mortgage Investments (net)	$136,120,907	$181,102,955	$185,000,000	$200,000,000
Debt as a % of Mortgage Outstanding	25%	34%	32%	37%
Revenue	$9,256,099	$13,091,999	$18,075,559	$19,297,311
Net Income	$5,826,514	$6,708,840	$9,759,533	$10,171,459
Net Asset Value	$1.00	$1.00	$1.00	$1.00
Investors' Returns (% of Invested Capital)	6.04%	5.90%	7.70%	7.82%

***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, delinquent mortgages, and loan size

Three Point's yield is slightly lower as it has a lower risk profile

The following table shows how Three Point's portfolio compares to that of other similar MICs (with AUM of over $100M) focused on single-family residential units.

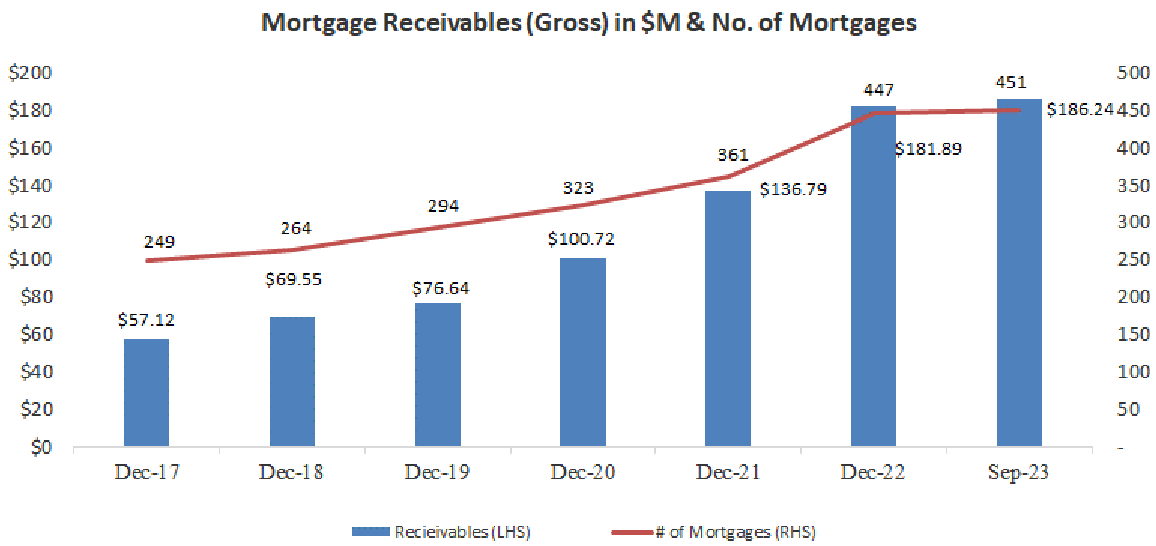
	ThreePoint	Average
First Mortgage	91%	80%
B.C.	55%	40%
ON	38%	46%
AB	6%	6%
Others	1%	8%
LTV	55%	58%
Yield	7.6%	7.8%
Debt to Capital	32%	23%
Average Loan Size	$412,949	$596,004
Delinquent/Foreclosures	0.2%	2.1%
Provision	0.5%	0.5%

Source: FRC / Various

Portfolio Update

In 2022, gross mortgage receivables were up 33% YoY to $182M vs our estimate of $175M

At the end of Q3-2023, receivables were $186M, up 2% YTD, in line with our estimate



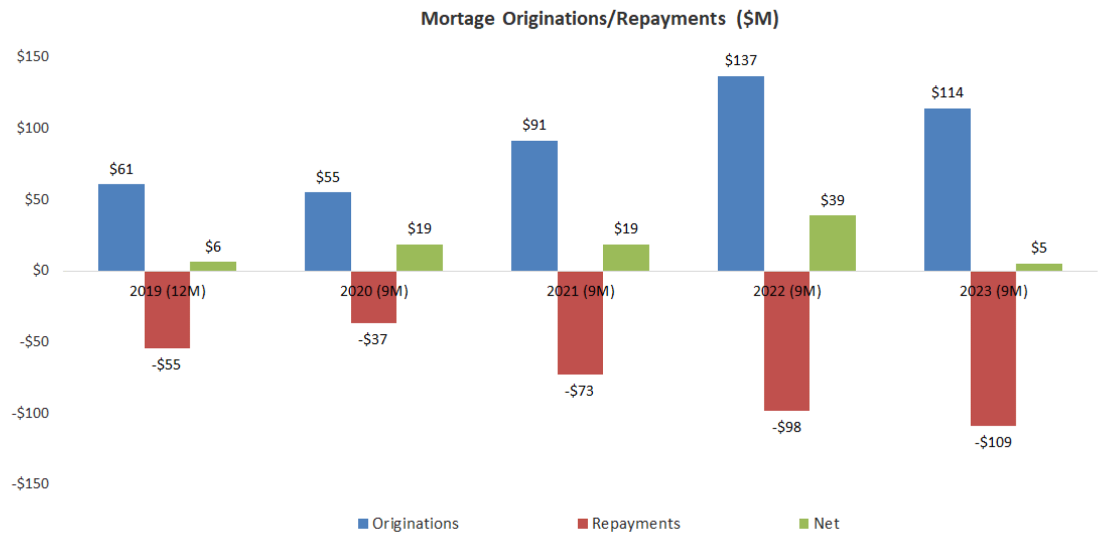
Source: Company / FRC

At the end of Q3-2023, debt to capital was 32%; we note that comparables have debt to capital of 20%-40%

The interest coverage ratio is in line with that of comparables

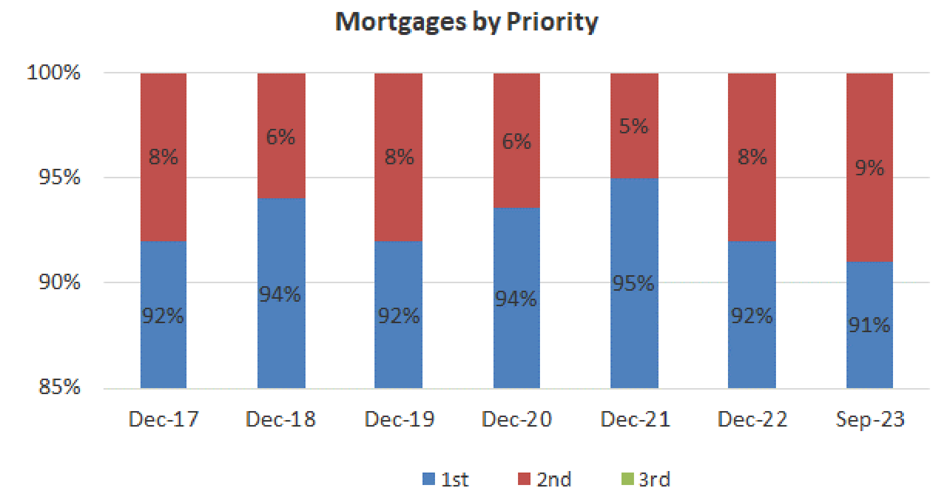
Balance Sheet	2019	2020	2021	2022	Q3-2023
Assets					
Cash	2,239,159	-	-		
Accounts Receivable		55,174	74,878		
Prepaid Expense	16,722	31,292	36,849	215,068	202,013
Mortgage Investments (net)	76,376,262	100,066,946	136,120,907	181,102,955	185,339,164
Total Assets	**$78,632,143**	**$100,153,412**	**$136,232,634**	**$181,318,023**	**$185,541,177**
Liabilities					
Loan Payable and accruals					
LOC		$15,319,156	$33,054,302	$60,309,386	$57,541,582
Promissory Notes			$451,844	$1,430,915	$850,145
A/P & Accrued Liabilities*	$194,630	$255,983	$307,195	$696,945	$750,627
Dividends payable	$736,725	$1,284,079	$891,789	$703,171	
Total Liabilities	**$931,355**	**$16,859,218**	**$34,705,130**	**$63,140,417**	**$59,142,354**
Share capital	$77,403,629	$77,403,629	$100,808,942	$117,248,060	$123,735,985
Retained earnings	$297,159	$297,159	$718,562	$929,546	$2,662,838
Net Asset	$77,700,788	$83,294,194	$101,527,504	$118,177,606	$126,398,823
SE + Liabilities	**$78,632,143**	**$100,153,412**	**$136,232,634**	**$181,318,023**	**$185,541,177**
Debt to Capital	0%	16%	25%	34%	32%
Debt as a % of Mortgage Outstanding	0%	15%	25%	34%	32%
Interest Coverage Ratio	20.3	28.4	10.3	3.6	3.3

Mortgages advanced decreased 17% YoY in 2023 (9M); repayments were up 11% YoY

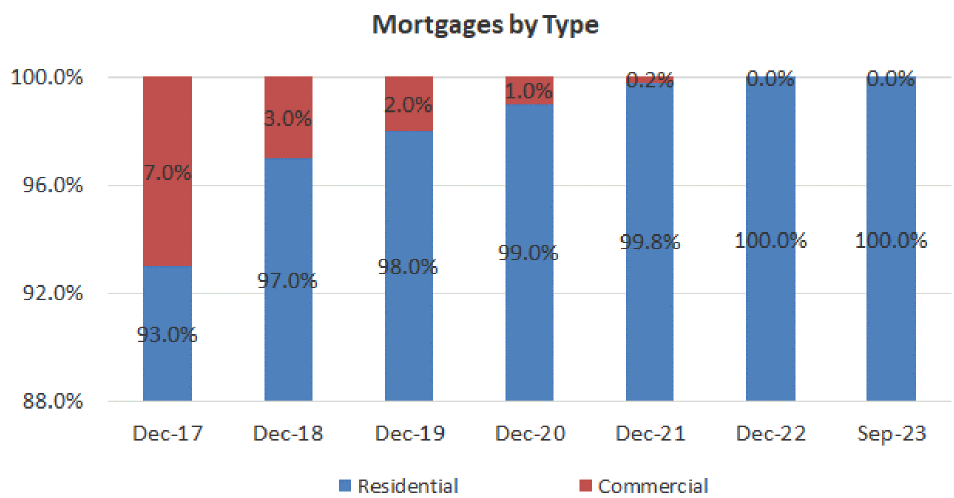


Source: Company / FRC

Exposure to first mortgages decreased, but remain in line with the historic range of 90%-95%



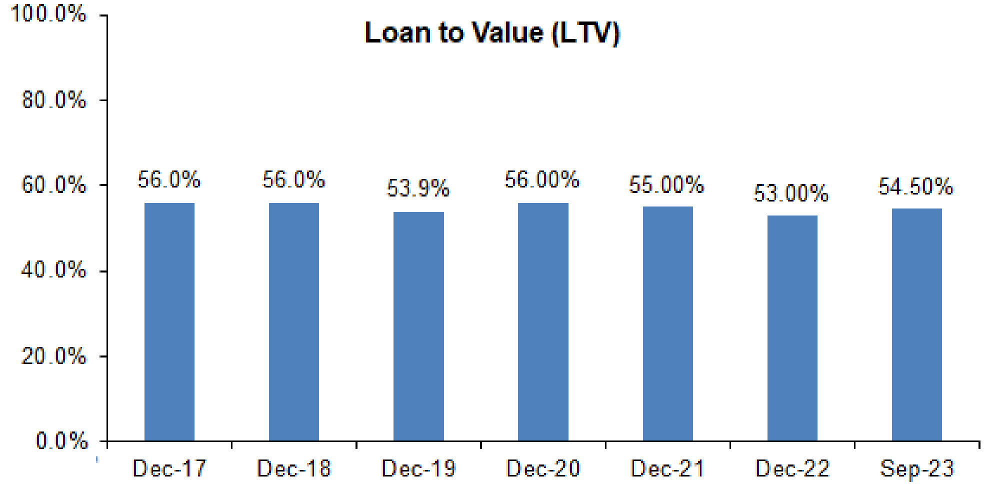
Focus remains on already-built single family residential properties



Loan by borrower type	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Sep-23
Residential Homes	79.0%	89.0%	92.0%	94.4%	97.0%	94.0%	96.0%
Vacant Land	3.0%	3.0%	2.0%	1.4%	1.0%	1.0%	2.0%
Construction	11.0%	5.0%	4.0%	4.4%	1.8%	5.0%	2.0%
Residential	93.0%	97.0%	98.0%	99.0%	99.8%	100.0%	100.0%
Commercial	7.0%	3.0%	2.0%	1.0%	0.2%	0.0%	0.0%
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

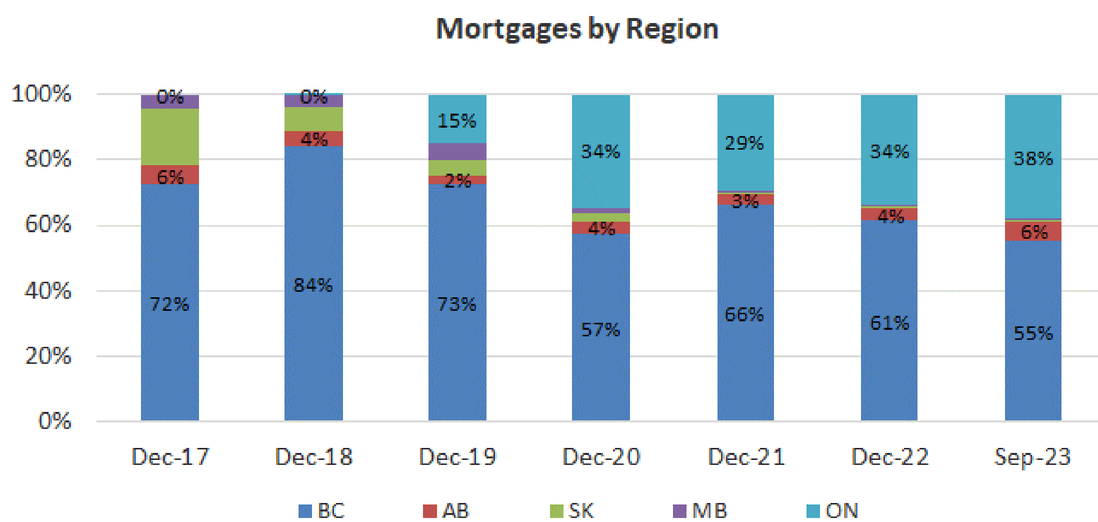
Source: Company / FRC

No material change in LTV



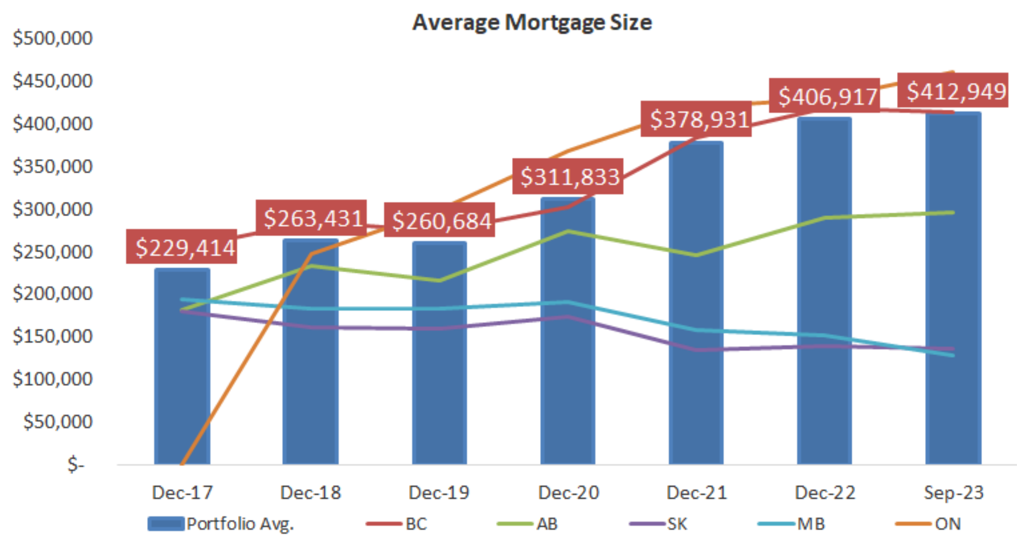
Mortgage LTV distribution	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
<25%	3%	3%	2%	2%	3%
25% to 45%	15%	14%	12%	19%	26%
46% to 65%	46%	50%	53%	44%	41%
66% to 75%	35%	30%	31%	34%	30%
>75%	1%	2%	2%	1%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Increased exposure to ON, and reduced exposure to B.C., implying enhanced geographical diversification

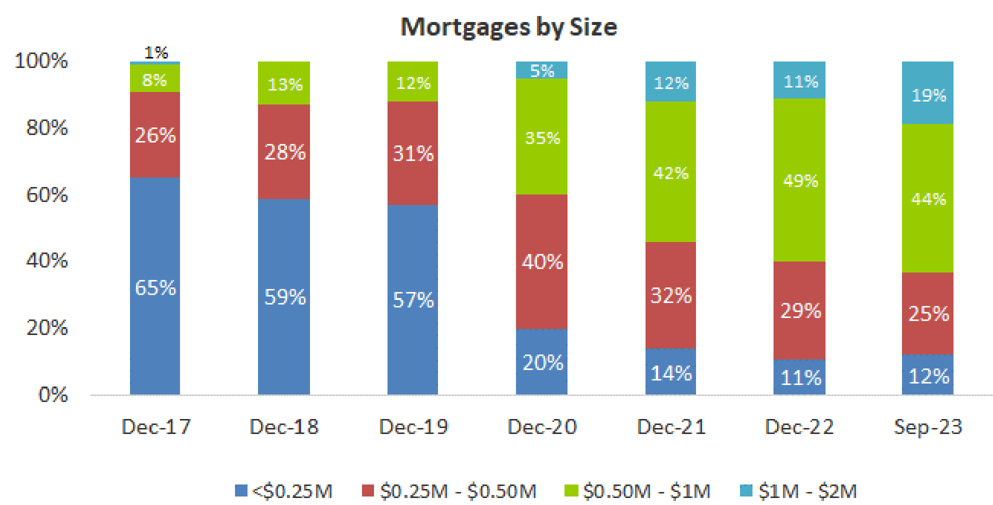


Source: Company / FRC

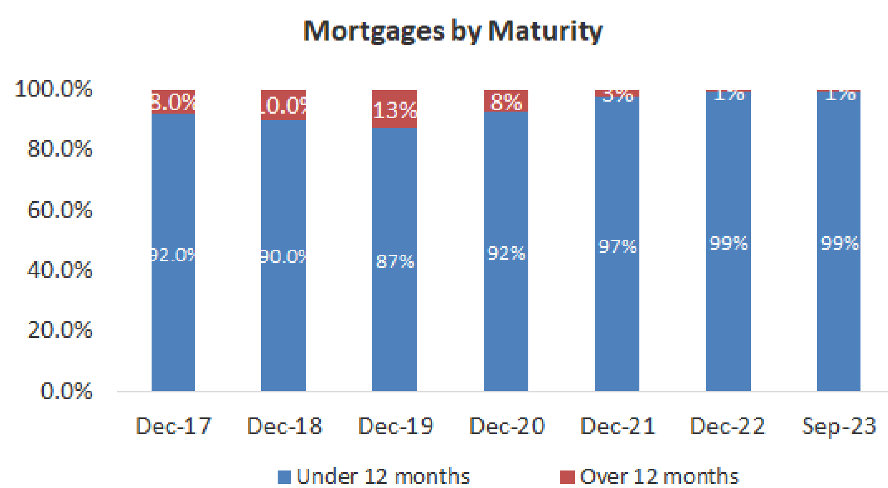
The average mortgage size was up 1% YTD



At the end of 2022, 49% of mortgages were in the $0.5-$1.0M range



At the end of Q3-2023, 99% of mortgages had terms of <12 months



Source: Company / FRC

Lending rates increased with market rates

	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Sep-23
Weighted Average Lending Rate	**8.35%**	**8.59%**	**8.65%**	**7.88%**	**6.94%**	**7.98%**	**10.01%**

Interest rate distribution	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Sep-23
<7%	10%	9%	11%	25%	59%	32%	1%
7.00% - 7.99%	25%	19%	19%	33%	30%	21%	3%
8.00% - 8.99%	37%	30%	32%	26%	7%	18%	10%
9.00% - 9.99%	21%	34%	26%	10%	3%	20%	38%
10.00% -10.99%	3%	5%	9%	4%	1%	7%	37%
11.00% - 11.99%	3%	2%	2%	1%	0%	1%	6%
12.00% - 12.99%	1%	1%	1%	1%	0%	1%	5%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Stage three mortgages declined 0.18 ppt in 2022, and 0.24 ppt in 2023 (9M); we note that comparables had reported YoY increases in stage three mortgages in 2023 (9M)

For conservatism, we are modeling a 100% increase in loan loss allowances in the next 12 months

	2019	2020	2021	2022	2023 (9M)
Actual Losses	9,852	83,025	71,140	322	3,237
% of Mortgage Receivables	0.01%	0.09%	0.06%	0.00%	0.00%
Stage Three	-	2,168,452	878,221	851,047	433,303
% of Mortgage Receivables	0.00%	2.15%	0.65%	0.47%	0.23%
Distributions	$4,923,754	$5,067,078	$5,611,535	$6,497,856	$6,021,797
Reinvested	$3,704,564	$3,421,060	$4,706,926	$5,028,216	$4,462,024
% of Distributions	75%	68%	84%	77%	74%
Redemptions	$3,586,595	$6,308,266	$3,557,363	$4,018,062	$4,288,084
% of Invested Capital	5.3%	7.8%	3.8%	3.7%	3.5%
Loan loss reported	$75,966	$296,090	$86,334	$116,329	$115,481
Loan loss allowance (year/quarter ended)	$444,883	$657,948	$673,142	$789,149	$901,393
% of Mortgage Receivables	0.58%	0.66%	0.49%	0.44%	0.49%

Source: Company / FRC

At the end of Q3-2023, 0.6% of the portfolio, or three mortgages ($1.1M), were in default (60+ days delinquent) vs 1%, or $1.96M at the end of Q3-2022.

In summary, we believe the portfolio's risk profile has decreased, amid a decrease in stage three mortgages

Parameter	Risk Profile
Average Mortgage Size	↑
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

2022 net income was up 15% YoY, exactly in line with our estimate

2023 (9M) net income was up 42% YoY, beating our estimate by 6%, amid higher than expected lending rates, and lower than expected loan loss provisions

Income Statement	2019	2020	2021	2022	YoY	2022 (9M)	2023 (9M)	YoY
Revenue								
Interest Income	$6,355,245	$6,967,749	$8,378,222	$11,807,705	41%	$8,407,393	$11,916,123	42%
Fees & penalties	$729,865	$746,262	$877,877	$1,284,294	46%	$985,769	$1,174,324	19%
	$7,085,110	**$7,714,011**	**$9,256,099**	**$13,091,999**	41%	**$9,393,162**	**$13,090,447**	**39%**
Expenses								
G&A	$117,499	$230,690	$399,823	$460,592	15%	$333,203	$342,174	3%
Management Fees	$1,519,888	$1,721,234	$2,316,858	$3,218,179	39%	$2,373,608	$2,543,412	7%
Loan Loss Provision	$75,966	$296,090	$86,334	$116,329	35%	$87,324	$115,481	32%
Interest on Loan Payable	$264,778	$192,495	$626,570	$2,588,059	313%	$1,628,955	$3,037,464	86%
	$1,978,131	**$2,440,509**	**$3,429,585**	**$6,383,159**	86%	**$4,423,090**	**$6,038,531**	**37%**
Net Income	**$5,106,979**	**$5,273,502**	**$5,826,514**	**$6,708,840**	15%	**$4,970,072**	**$7,051,916**	**42%**
Dividends	$4,923,754	$5,067,078	$5,611,535	$6,497,856	16%	$5,057,440	$5,318,626	5%
Net Asset Value	$0.99	$0.99	$1.00	$1.00	0%	$1.00	$1.01	1%
Shares Outstanding	78,319,904	83,822,734	101,886,694	118,370,586	16%	116,607,397	124,899,424	7%
Payout Ratio	96%	96%	96%	97%		102%	75%	

Source: FRC/Company

2022 yield was 5.9% (in line with our forecast) vs 6.0% in 2021

2023 (9M) yield was 7.6% vs our forecast of 7.1%

% of Mortgage Receivable	2019	2020	2021	2022	2023 (9M)*
Interest Income	8.73%	7.90%	7.09%	7.44%	8.67%
Fees & penalties	1.00%	0.85%	0.74%	0.81%	0.85%
Interest Income + Others	**9.74%**	**8.74%**	**7.84%**	**8.25%**	**9.53%**
Less:					
Management Fee	-2.09%	-1.95%	-1.96%	-2.03%	-1.85%
G&A Expenses	-0.16%	-0.26%	-0.34%	-0.29%	-0.25%
Loan Loss Provision	-0.10%	-0.34%	-0.07%	-0.07%	-0.08%
Interest	-0.36%	-0.22%	-0.53%	-1.63%	-2.21%
Net	**7.02%**	**5.98%**	**4.93%**	**4.23%**	**5.13%**
Investors' Returns (% of Invested Capital)	**7.21%**	**6.25%**	**6.04%**	**5.90%**	**5.83%**
Yield	**7.03%**	**6.28%**	**6.04%**	**5.90%**	**7.64%**

*Annualized

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

FRC Projections and Rating

We are projecting a yield of 7.8% in 2024

Our estimate for the 2024 yield varies between 6.8% and 8.3% using various YoY increases in loan loss allowances

Financial Summary	2019	2020	2021	2022	2023E	2024E
Mortgage Investments (net)	$76,376,262	$100,066,946	$136,120,907	$181,102,955	$185,000,000	$200,000,000
Debt as a % of Mortgage Outstanding	0%	15%	25%	34%	32%	37%
Revenue	$7,085,110	$7,714,011	$9,256,099	$13,091,999	$18,075,559	$19,297,311
Net Income	$5,106,979	$5,273,502	$5,826,514	$6,708,840	$9,759,533	$10,171,459
Net Asset Value	$0.99	$0.99	$1.00	$1.00	$1.00	$1.00
Investors' Returns (% of Invested Capital)	7.21%	6.25%	6.04%	5.90%	7.70%	7.82%

Allowance for Losses (X% Increase)	2024 Yield (FRC Est.)
0%	8.32%
50%	8.07%
100%	7.82%
200%	7.32%
300%	6.82%

Source: FRC

We are reiterating our overall rating of 2, and a risk rating of 2. We believe a major highlight of Three Point is its relatively low risk-profile, reflected by a higher percentage of first mortgages, low LTV, and limited exposure to stage three mortgages. Anticipating a decline in rates within the next 12 months, **we find high-**

yielding funds, such as Three Point, increasingly appealing. Key risks include a softer mortgage origination market, and higher default rates.

Risks

- Loans are short term and need to be sourced and replaced quickly
- Timely deployment of capital is crucial
- Lower housing prices will result in higher LTVs
- **Shareholders' principal is not guaranteed**, as the NAV per share could decrease from current levels (due to loan losses)
- 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
- **Default rates can rise during recession**

APPENDIX

Income Statement	2021	2022	2023E	2024E
Revenue				
Interest Income	$8,378,222	$11,807,705	$16,474,633	$17,613,750
Fees & penalties	$877,877	$1,284,294	$1,600,926	$1,683,561
	$9,256,099	**$13,091,999**	**$18,075,559**	**$19,297,311**
Expenses				
G&A	$399,823	$460,592	$455,810	$529,375
Management Fees	$2,316,858	$3,218,179	$3,477,978	$3,657,500
Loan Loss Provision	$86,334	$116,329	$217,340	$652,020
Interest on Loan Payable	$626,570	$2,588,059	$4,164,898	$4,286,956
	$3,429,585	**$6,383,159**	**$8,316,026**	**$9,125,852**
Net Income	**$5,826,514**	**$6,708,840**	**$9,759,533**	**$10,171,459**
Dividends	$5,611,535	$6,497,856	$9,369,152	$9,764,601
Net Asset Value	$1.00	$1.00	$1.00	$1.00
Shares Outstanding	101,886,694	118,370,586	124,870,586	124,870,586
Payout Ratio	96%	97%	96%	96%

Balance Sheet	2021	2022	2023E	2024E
Assets				
Cash	-		0	0
Accounts Receivable	74,878		-	-
Prepaid Expense	36,849	215,068	225,821	237,112
Mortgage Investments (net)	136,120,907	181,102,955	185,000,000	200,000,000
Total Assets	**$136,232,634**	**$181,318,023**	**$185,225,822**	**$200,237,113**
Liabilities				
Loan Payable and accruals				
LOC	$33,054,302	$60,309,386	$58,687,713	$73,218,639
Promissory Notes	$451,844	$1,430,915		
A/P & Accrued Liabilities*	$307,195	$696,945	731,792	768,382
Dividends payable	$891,789	$703,171	738,330	775,246
Total Liabilities	**$34,705,130**	**$63,140,417**	**$60,157,834**	**$74,762,267**
Share capital	$100,808,942	$117,248,060	$123,748,060	$123,748,060
Retained earnings	$718,562	$929,546	$1,319,927	$1,726,786
Net Asset	$101,527,504	$118,177,606	$125,067,987	$125,474,846
SE + Liabilities	**$136,232,634**	**$181,318,023**	**$185,225,822**	**$200,237,113**
Debt to Capital	25%	34%	32%	37%
Debt as a % of Mortgage Outstanding	25%	34%	32%	37%

Cash Flow Statement	2023E	2024E
Operating Activities		
Net Income	$9,759,533	$10,171,459
Loan Loss Provision		
	$9,759,533	$10,171,459
Changes in non-cash Working Capital		
Accounts Payable and Accured Liabilities	$34,847	$36,590
Interest Payable*	$35,159	$36,916
Prepaid Expenses	-$10,753	-$11,291
Cash from Operating Activities	**$9,818,786**	**$10,233,675**
Investing Activities		
Net Puchase of Mortgage Investments	-$3,897,045	-$15,000,000
Cash from Investing Activities	**-$3,897,045**	**-$15,000,000**
Financing Activities		
Debt Proceeds	-$3,052,589	$14,530,927
Dividends	-$9,369,152	-$9,764,601
Cash Received on Subscription	$6,500,000	$0
Cash from Financing Activities	**-$5,921,740**	**$4,766,325**

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	33%	Risk - 2	10%
Rating - 3	45%	Risk - 3	41%
Rating - 4	8%	Risk - 4	32%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	9%		

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