

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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Timbercreek Financial Corp. (TSX: TF) – Largest MIC with a Distinctive Portfolio - Initiating Coverage

Sector/Industry: Mortgage Investment Corporation

www.timbercreekfinancial.com

Market Data (as of June 28, 2018)

Current Price	C\$9.14
Fair Value	C\$10.13
Rating*	BUY
Risk*	3 (Average)
52 Week Range	C\$8.88 - C\$9.75
Shares O/S	79,285,280
Market Cap	C\$724.67 million
Yield (forward)	7.5%
P/Adj. Earnings (forward)	12.7x
P/B	1.0x
YoY change in share price	-3.0%
YoY TSX	5.3%

*See back of report for rating and risk definitions



Investment Highlights

- Timbercreek Financial Corp. ("TF" "company") is the largest Mortgage Investment Corporation ("MIC") in the country. The MIC is managed by Timbercreek Asset Management ("Manager"), founded in 1999. The manager manages over \$8 billion in assets across multiple public and private investment vehicles.
- TF's primary focus is on first mortgages secured by income-producing commercial real estate, including multi-residential, office and retail properties.
- We believe that TF offers a unique value proposition and risk exposure to investors relative to the other large MICs in the country. We estimate that TF has the highest percentage of first mortgages (93%), mortgages on income producing properties (87%), is more diversified, and has the lowest operating cost relative to the other publicly traded MICs. TF also has a relatively lower yield as its portfolio is of lower risk.
- TF's portfolio's Loan-to-Value ("LTV") was 67.9% at the end of Q1-2018.
- The company pays \$0.0575 per share per month, reflecting a potential total of \$0.69 per share for the full year 2018.
- TF's shares are currently trading at a Price to Book ("P/B") ratio of just 1.0x versus the comparable average of 1.27x.
- **We are initiating coverage with a BUY rating, and a fair value estimate of \$10.13 per share.**

Risks

- Competition is high in the mortgage lending business.
- Timely deployment of capital is crucial.
- A downturn in the real estate sector may impact the company's deal flow.
- Diversification risks - 50% of TF's mortgages are secured by properties in Ontario.
- Commercial mortgages tend to have higher exposure to risks than residential mortgages. However, 87% of TF's portfolio is secured by income producing properties.
- Shareholders are not guaranteed minimum distributions.

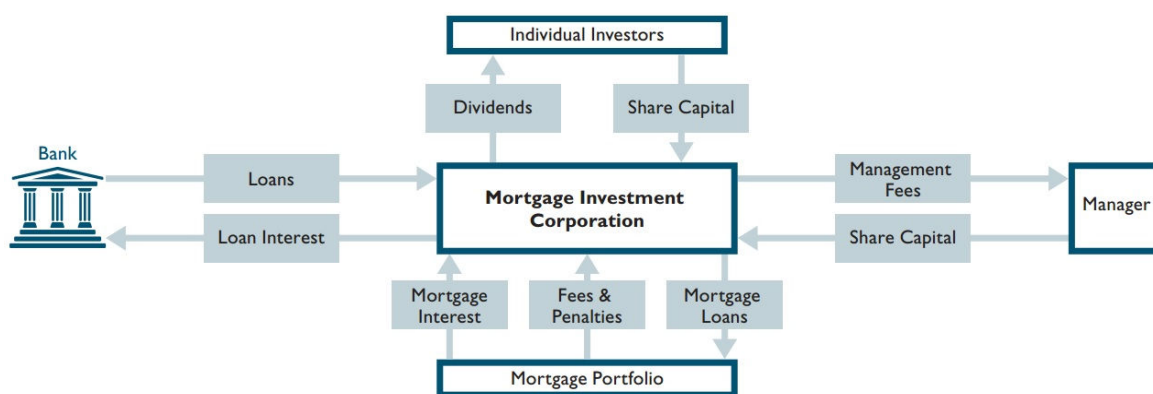
Key Financials (FYE - Dec 31) (C\$, 000s)

	2016	2017	2018(F)	2019(F)
Mortgage Receivables(net)	\$ 1,006,344	\$ 1,113,721	\$ 1,186,250	\$ 1,235,000
Revenues	\$ 61,422	\$ 88,937	\$ 91,717	\$ 98,773
Net Income	\$ 45,999	\$ 52,204	\$ 51,809	\$ 58,020
EPS	\$ 0.80	\$ 0.70	\$ 0.67	\$ 0.70
Distributable Income	\$ 42,636	\$ 55,262	\$ 56,154	\$ 62,579
Dividends per Share	\$ 0.70	\$ 0.69	\$ 0.69	\$ 0.72

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 one year) 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 asset management and/or a performance fee from the MIC, and usually receives 100% or a portion of the origination fees received from the borrower. **In Timbercreek's case, 100% of the origination / lender fees are passed on to the MIC.**
- A MIC's revenues primarily come in the form of interest earned 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.

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 development or construction.

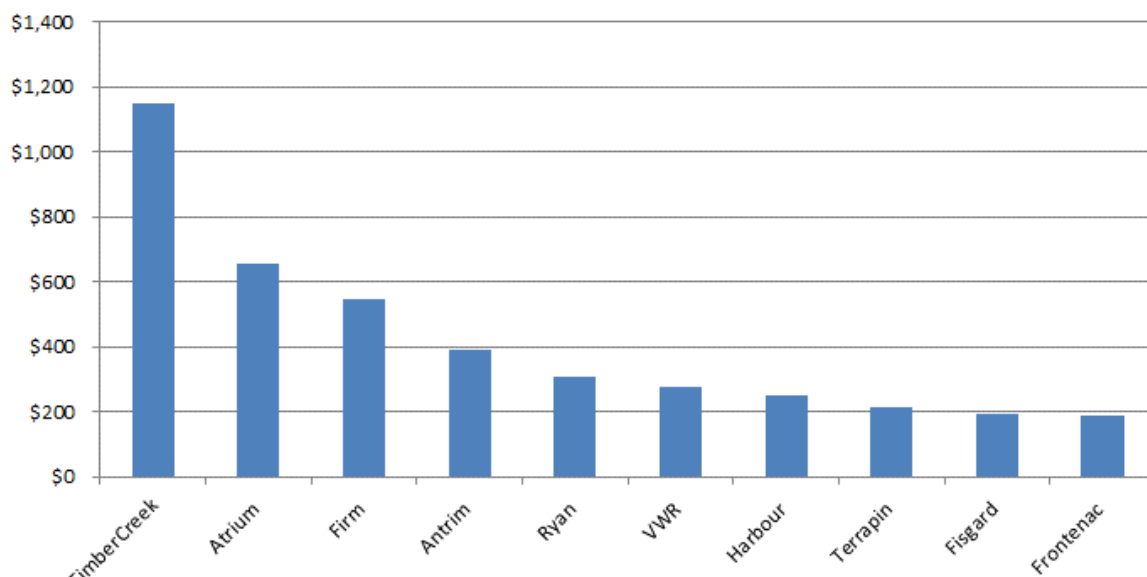
Approximately 85% - 90% of the mortgages in Canada are originated by federally or provincially regulated entities such as chartered banks, credit unions and caisses populaires. The remaining mortgages are originated by lenders that are either partially regulated or totally unregulated. MICs account for a major share of the unregulated mortgage lending sector in the country. They are considered unregulated as they are not subject to federal government mortgage lending rules, such as reserve requirements and loan to value limits. This is primarily because, unlike banks and the other major financial institutions, MICs do not take deposits. Note that MICs are audited / regulated by their respective provincial securities commissions, so the term 'unregulated' only applies to the federal mortgage lending rules.

In a recent market study conducted for the Canada Mortgage Housing Corporation ("CMHC"), we estimated that there are approximately 200 MICs in the country. Based on the quality of data we were able to gather from publicly available information, company websites, management interviews and surveys, we shortlisted 89 entities. These 89 entities, we estimate, held a total of \$8.75 billion in mortgages at the end of 2017. Since our database includes all of the large MICs (over \$100 million), we estimate that our study represents at least 75% of the total mortgages held by the MIC industry. This implies a total market size of approximately \$11 - \$12 billion.

With \$1.15 billion in mortgage receivables at the end of March 2018, Timbercreek is the largest MIC in the country.

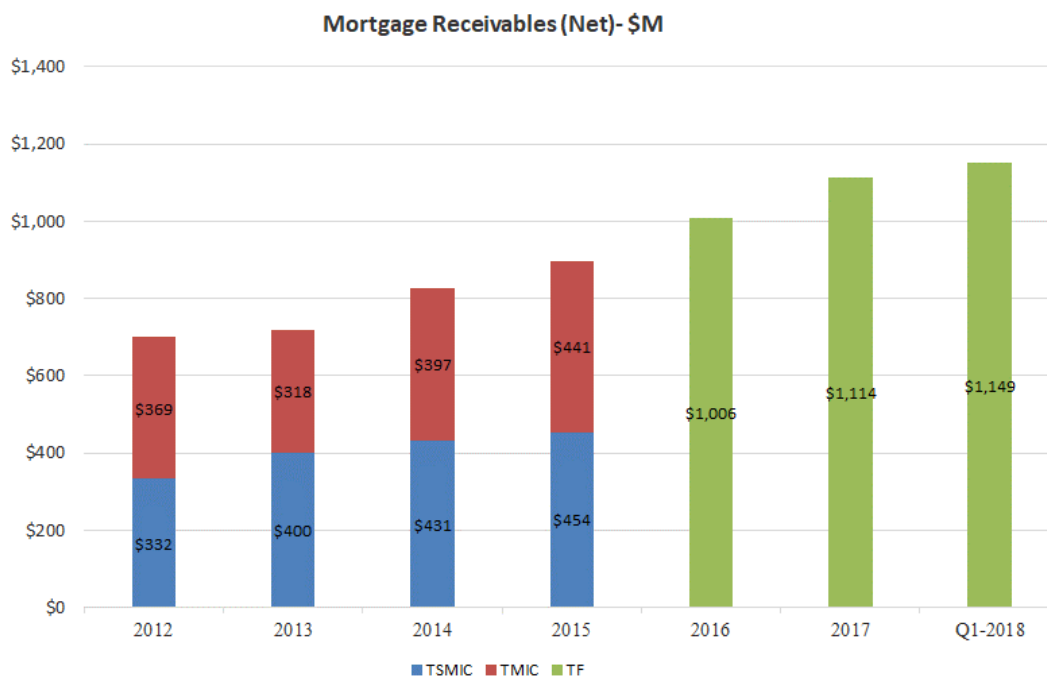
Manager

Ten Largest MICs (\$M)



Source: FRC

TF's Manager is Timbercreek Asset Management Inc. TF was formed as a result of the amalgamation of two publicly traded entities, namely Timbercreek Mortgage Investment Corporation ("TMIC") and Timbercreek Senior Mortgage Investment Corporation ("TSMIC") in June 2016. Both entities were operated by the Manager. TMIC was incorporated in 2008, and TSMIC was incorporated in late 2011. The primary difference between the two funds was that TSMIC was solely focused on first mortgages. The manager decided to merge the two entities and form a single larger entity for increased portfolio diversification, enhanced scale and liquidity, and cost savings. The following chart shows the size of each fund since 2012, as well as post-amalgamation.

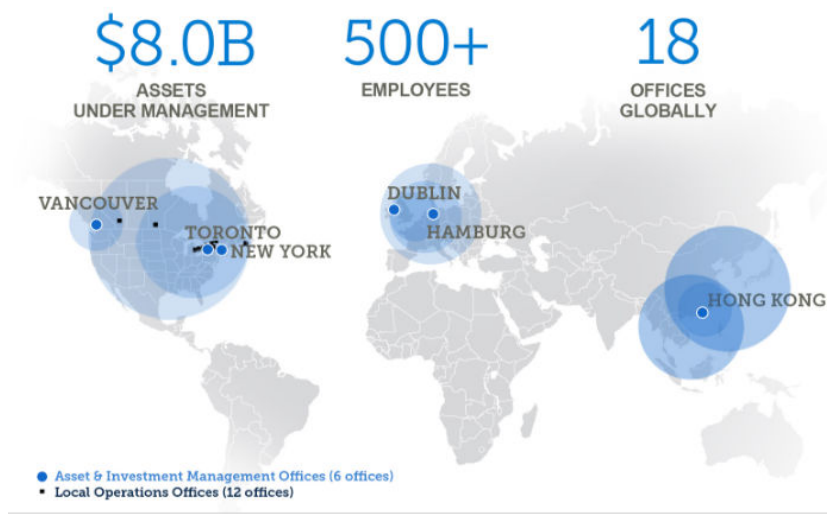


Source: FRC / Company Data

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

Headquartered in Toronto, Timbercreek Asset Management was founded in 1999 by Blair Tamblyn and Ugo Bizzarri. It manages a total of \$8 billion in assets (employing over 500 individuals), across Timbercreek Financial and a variety of other investment vehicles.

Timbercreek Asset Management (Manager)



Source: Company

*Management
and Board of
Directors*

The Manager has originated over \$4.5 billion since 2008, and has not had a loss of principal on any loan. **We consider this to be a significant achievement as we are not aware of any large MIC that has a similar track record.**

Mortgages are sourced directly as well as through third party agents. Approximately two-thirds of TF's business comes from repeat borrowers. In return for their services, the Manager charges an annual management fee (paid monthly) of 0.85% of the Assets Under Management by the MIC, and a servicing fee equal to 0.10% of the amount that is syndicated by the Manager to third-party investors. Similar to most of the large MICs, the Manager does not charge any performance fee. However, unlike most MICs, the Manager passes 100% of the origination / lender fees to the fund. **Overall, we believe the management fee, and operating expenses of the MIC, are lower than comparable MICs, which is typically in the 1.0% to 1.5% p.a. range.** We estimate that the management fee and operating expenses (net of revenues from origination / lender fees) of TF were approximately 0.52% of the net mortgage receivables in 2017.

We believe that a strong management team and board is TF's key strength. 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 interest of the company. **TF has a seven-member board of directors, four are independent, and do not hold any management position.**

Management and directors own a total of 1.58 million shares, or 2% of the total outstanding shares. Brief biographies of the senior management team and board members, as provided by the company, follow:

Cam Goodnough, MBA, LLB - Chief Executive Officer

Cam Goodnough is Chief Executive Officer of Timbercreek Financial and Managing Director, Corporate Development of Timbercreek Asset Management, an asset management company that is responsible for originating and placing commercial real estate mortgage and loan investments. In his role as Managing Director, Corporate Development, Mr. Goodnough is a senior member of the team responsible for evaluating and executing on strategies to build and grow Timbercreek. Mr. Goodnough is also responsible for the review and structuring of capital and acquisition mandates that align with Timbercreek's overall business goals. Mr. Goodnough has 20 years of experience in capital markets. Most recently, Mr. Goodnough was Managing Director with the Financial Institutions Group at TD Securities. Prior to joining TD Securities, Mr. Goodnough also worked within the investment banking groups at RBC Capital Markets, Merrill Lynch Canada and CIBC Wood Gundy. Mr. Goodnough holds two undergraduate degrees (Commerce and International Relations) from the University of Windsor and a combined Masters of Business (Schulich School of Business) and Bachelor of Laws (Osgoode Hall). Mr. Goodnough is a registered mortgage agent.

Blair Tamblyn – Chairman

Blair Tamblyn is Senior Managing Director, Chief Executive Officer and Co-Founder of Timbercreek Asset Management. In his role as Senior Managing Director & CEO, Mr. Tamblyn is responsible for identifying strategic initiatives, managing global capital markets activities and general oversight of Timbercreek's corporate operations. Mr. Tamblyn is also a member of the Investment Committee. Mr. Tamblyn has over 20 years of experience in public and private capital markets and has led the origination, structuring, capitalization and execution of all public and private Timbercreek funds that currently manages over \$6 billion in assets. Prior to co-founding Timbercreek, Mr. Tamblyn worked at Connor, Clark & Company as a licensed securities trader. Mr. Tamblyn is an independent Director of GreenSpace Brands Inc. and of StorageVault Canada Inc. Mr. Tamblyn holds a Bachelor of Arts in History and Political Science from Western University. Mr. Tamblyn also completed the small/medium sized Enterprise Board Effectiveness Program offered by Rotman and the Institute of Corporate Directors.

Ugo Bizzarri, CFA – Director

Ugo Bizzarri is Chief Investment Officer & Senior Managing Director, Global Head of Direct and Debt Investments and Co-Founder of Timbercreek Asset Management. In his role as Senior Managing Director, Global Head of Direct and Debt Investments, Mr. Bizzarri leads the team responsible for the acquisition & disposition of direct real estate and the underwriting & funding of commercial mortgage investments secured by direct real estate. Mr. Bizzarri and his team have been responsible for underwriting, financing and acquiring over \$4 billion of multi-residential real estate and have constructed and managed a diversified debt portfolio of over \$1 billion in Timbercreek-sponsored commercial mortgage investments. Mr. Bizzarri has over 20 years of experience in the valuation, acquisition and disposition of investment-grade cash-flowing real estate. Prior to founding Timbercreek, Mr. Bizzarri was in portfolio management at OTPPB where he played a leadership role in the strategic planning, corporate transactions/restructuring and property acquisitions for the real estate group. Mr. Bizzarri is an independent Director of Cymbria. Mr. Bizzarri is a graduate of the Richard Ivey School of Business and is a Chartered Financial Analyst.

Andrew Jones – Director

Andrew Jones is a member of the Board of Directors and former CEO of Timbercreek Financial. Mr. Jones has over 20 years of experience in the commercial real estate and mortgage business. Prior to joining Timbercreek, Mr. Jones was a co-founder and Managing Partner of Canadian Mortgage Strategies and Investments (CMSI), a commercial mortgage brokerage firm. Prior to founding CMSI, Mr. Jones served as Vice President, Canada at ICI Commercial Mortgages Inc. and was Vice President, Finance at Residential Equities REIT and at Dundee Realty Corporation. Mr. Jones is a graduate of the Vancouver School of Economics at University of British Columbia. Mr. Jones has been a registered mortgage broker for over 15 years and carries a mortgage broker license in three provinces.

W. Glenn Shyba – Lead Independent Director

Mr. Shyba is a Founder and Principal of Origin Merchant Partners, an independent investment bank that provides value added corporate finance, mergers and acquisitions and merchant banking services across several core industries. Mr. Shyba has over 20 years in the commercial real estate industry in Canada and is focused on the principal investing side. Prior to Origin Merchant Partners, Mr. Shyba was Executive Vice President and Chief Operating Officer at Osmington Inc., one of Canada's most active and successful private commercial real estate owners and developers. Mr. Shyba has extensive transactional experience having had corporate responsibility for \$2+ billion in acquisitions and dispositions and for the firm's finance and treasury functions. Prior to Osmington, Mr. Shyba was Vice President, Development at Bramalea Inc. Mr. Shyba has also participated in the development of Canada's first property valuation software program for commercial real estate. Mr. Shyba holds a Bachelor of Commerce degree from the University of British Columbia.

Steven R. Scott, CA - Independent Director and Audit Committee Chair

Mr. Scott is the Chairman and Chief Executive Officer of StorageVault Canada and an owner and Chief Executive Officer of The Access Group of Companies with 20 years of experience focusing on the ownership, acquisition, development and management of self storage, infill residential and commercial real estate in Canada. Mr. Scott serves as Director and Treasurer of the Canadian Self Storage Association (CSSA). In addition, he is Director and Audit Committee Chair of Park Lawn Corporation (TSXV: PLC). Mr. Scott holds a Bachelor of Commerce Degree and holds both the CPA and CA designations.

Zelick L. Altman – Independent Director

Mr. Altman is the former Managing Director and Executive Chairman of LaSalle Investment Management (Canada), a real estate investment management company and former President of the LaSalle Canadian Income & Growth Funds. Mr. Altman has over 35 years of real estate experience in institutional, public and private sectors of the industry. Prior to joining LaSalle, Mr. Altman served as a Mortgage Broker at Canada ICI Commercial Mortgages Inc. and as Senior Vice President with Dundee Realty Corp. Mr. Altman also held the position of Senior Vice President at Canadian Real Estate Investment Trust and Vice President of Counsel Property Corporation. Prior to that, Mr. Altman owned and operated Accura Properties Ltd. Mr. Altman is a graduate of the Faculty of Applied Sciences at the University of Toronto and is registered as a Professional Engineer.

Derek J. Watchorn – Independent Director and Governance Committee Chair

Mr. Watchorn is a member of the Management Committee involved in the proposed redevelopment of the Buttonville Airport in Markham and during this period he also acted as a senior advisor with respect to a joint venture involving several real estate projects in Budapest. Mr. Watchorn is also a member of the advisory committee of Graywood Developments Limited, a Toronto-based real estate development company. Mr. Watchorn has over 50 years of experience in both a legal and business background. Mr. Watchorn was a senior partner of Davies Ward Phillips & Vineberg, joining the firm in 1968 and

continuing until 2003. Mr. Watchorn was previously a director of Patheon Inc. and Canary Wharf plc. and a Trustee of IPC US REIT, a TSX listed REIT. Mr. Watchorn is currently a director of Data Communications Management Corp., a TSX listed company. Mr. Watchorn holds a Bachelor of Laws degree from the University of Toronto.

Gigi Wong, CPA, CA, CFA - Chief Financial Officer

Gigi Wong is Chief Financial Officer of Timbercreek Financial and is also Chief Financial Officer of Timbercreek Asset Management. In her role, Ms. Wong is responsible for overseeing financial and taxation reporting, treasury and corporate financings for the Company. Ms. Wong has over 20 years of experience in finance and capital markets. Most recently, Ms. Wong was Director of Capital Markets Operations at Ontario Teachers' Pension Plan. Prior to joining OTPP, Ms. Wong was CFO, Chief Compliance Officer & Secretary at CQI Capital Management LP (formerly GMP Investment Management) and prior to that, Director, Investment Finance at GMP Securities LP. Ms. Wong began her career at PwC Canada and developed her asset and risk management experience while executing on mandates at TD Bank, The Healthcare of Ontario Pension Plan and Bank of Montreal. Ms. Wong holds a Bachelor of Arts from Western University where she majored in Financial and Economic studies. Ms. Wong is a Chartered Professional Accountant and has the Chartered Financial Analyst designation.

Peter Hawkings, J.D. - Vice President and Corporate Secretary

Peter Hawkings is Vice President and Corporate Secretary of Timbercreek Financial and Executive Director, General Counsel of Timbercreek Asset Management. In his role as General Counsel, Mr. Hawkings is responsible for overseeing all corporate legal aspects of Timbercreek's investment management business. Mr. Hawkings has over 10 years of experience in corporate securities law. Prior to joining Timbercreek, Mr. Hawkings practised law at Goodmans LLP in Toronto, where he acted for a wide variety of public and private issuers in the areas of corporate finance, mergers and acquisitions and securities law. Mr. Hawkings holds a Juris Doctor from the University of Toronto Faculty of Law and a Bachelor of Arts (International Relations) from the University of British Columbia. Mr. Hawkings is a member of the Law Society of Ontario.

Carrie Morris, MBA - Vice President

Carrie Morris is Vice President of Timbercreek Financial and Managing Director, Capital Markets & Corporate Communications of Timbercreek Asset Management. In her role as Managing Director, Capital Markets & Corporate Communications, Ms. Morris is responsible for overseeing all capital market activities including new product development, investor relations, business development and client service for Timbercreek. Ms. Morris has over 11 years of experience with public and private capital markets and has overseen other key components of the business including compliance, marketing and corporate governance. Ms. Morris holds a MBA from McMaster University.

Strategy

The following table summarizes the key differences between TF's lending policies versus the traditional lenders.

Lending Criteria

	Traditional Lenders	Timbercreek
Turnaround	>1 month	<1 month
Payment	Principal + Interest	Interest only
Term	>5 years	< 5 years
Repay Flexibility	No	Yes
LTV	50% - 60%	>70%
Size	>\$50 million	<\$50 million

Source: Company

The following points highlight management's key investment strategy for TF:

- Primary focus on first mortgages (at least 75%) secured by income-producing commercial real estate, including multi-residential, office and retail properties. **We believe first mortgages on income producing properties are one of the lowest risk categories of mortgages held by MICs.**
- Borrowers are typically developers, construction companies, and real estate investors seeking bridge financing.
- Loan amounts typically range between \$2 million and \$50 million.
- The loans are primarily interest-only loans (principal is paid at maturity), and have 6 month to 5-year terms.
- Focus on urban centers of ON, B.C. and AB. Real estate prices in urban centers tend to be less volatile, and are typically less risky.
- Maximum LTV of 85%.
- No single borrower will account for more than 20% of the total portfolio.
- No single mortgage will account for over 10% of the portfolio.
- TF also invests in syndicated mortgages wherein third-party lenders take an A-note position, and TF retains subordinated B-Note position. Although TF holds B-notes (which are subordinate to A-notes), TF's position is not considered to be a second mortgage as both A and B-notes are part of a single mortgage, and TF originates / manages / controls these mortgages.

Overall, we believe management's guidelines are in line with industry best practices and indicate their intent to manage a portfolio with low risk levels. A couple of sample mortgages are shown below:

Sample Mortgages

Location: Oakville, ON

Asset Type: Office

Amount: \$3,950,000

Position: Second Mortgage

Term: 6 months

Description: Loan to assist with the acquisition and renovation of a two-storey LEED silver certified office building.



Location: Hamilton, ON

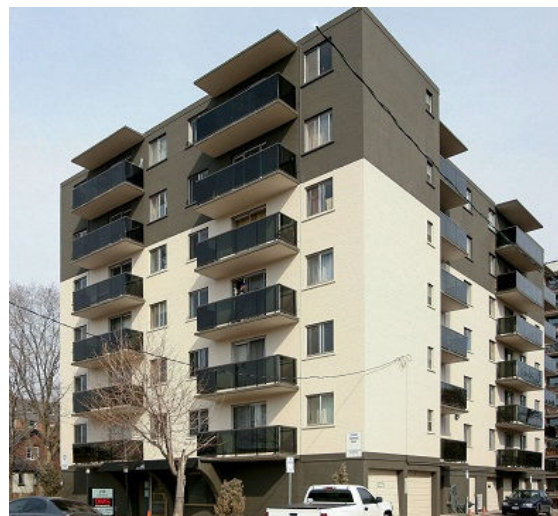
Asset Type: Multi-Residential

Amount: \$3,896,500

Position: First Mortgage

Term: 18 months

Description: Loan to assist with the refinancing and subsequent capital improvements to a multi-residential property.



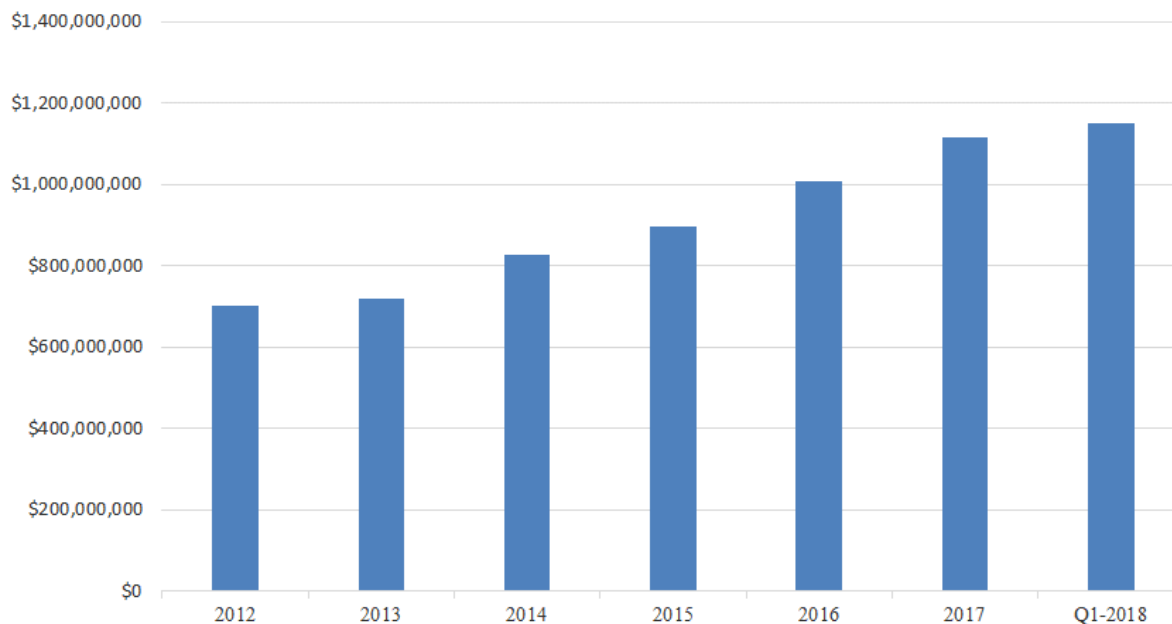
Source: Company

Portfolio Details

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

At the end of Q1-2018, the MIC had \$1.15 billion in mortgage receivables (net) across 118 properties, up 3.2% from \$1.11 billion across 114 properties at the end of 2017. The following chart shows the growth in portfolio.

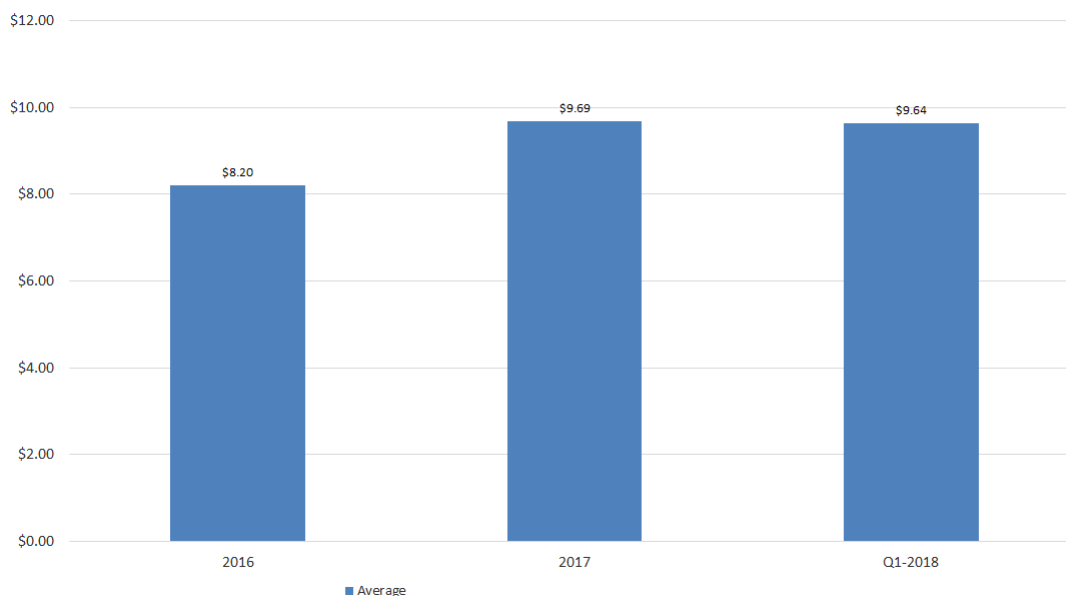
Mortgage Receivables (Net)



Data Source: Company

Mortgages by Size: The average mortgage size at the end of Q1-2018 was \$9.64 million.

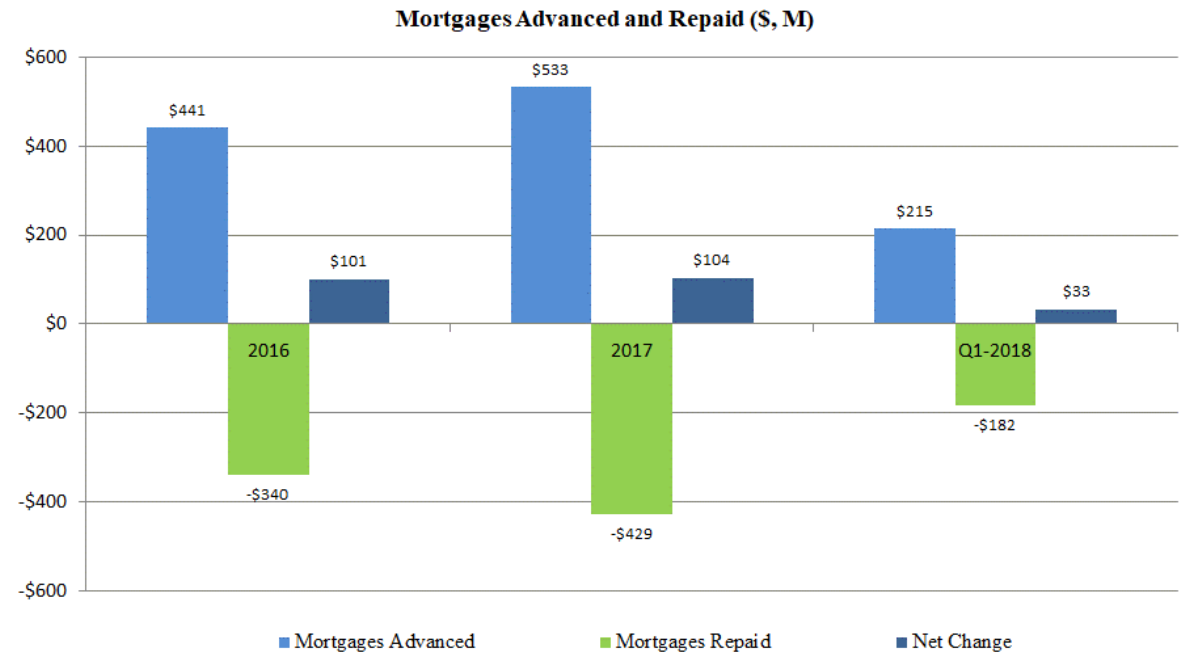
Average Mortgage Size (\$M)



Data Source: Company

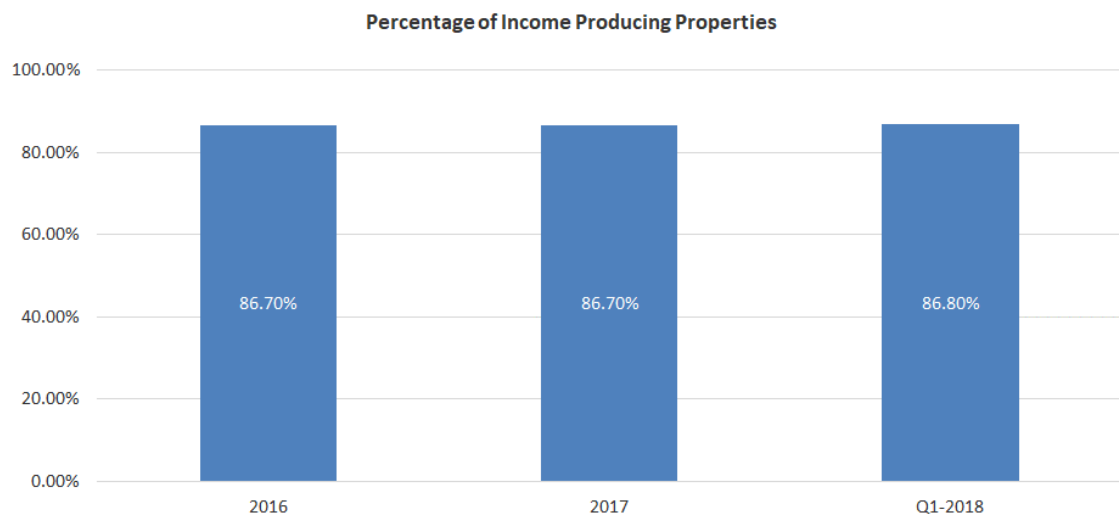
In 2017, approximately \$533 million were originated (up 21% YoY), and \$429 million (up

26% YoY) repaid.



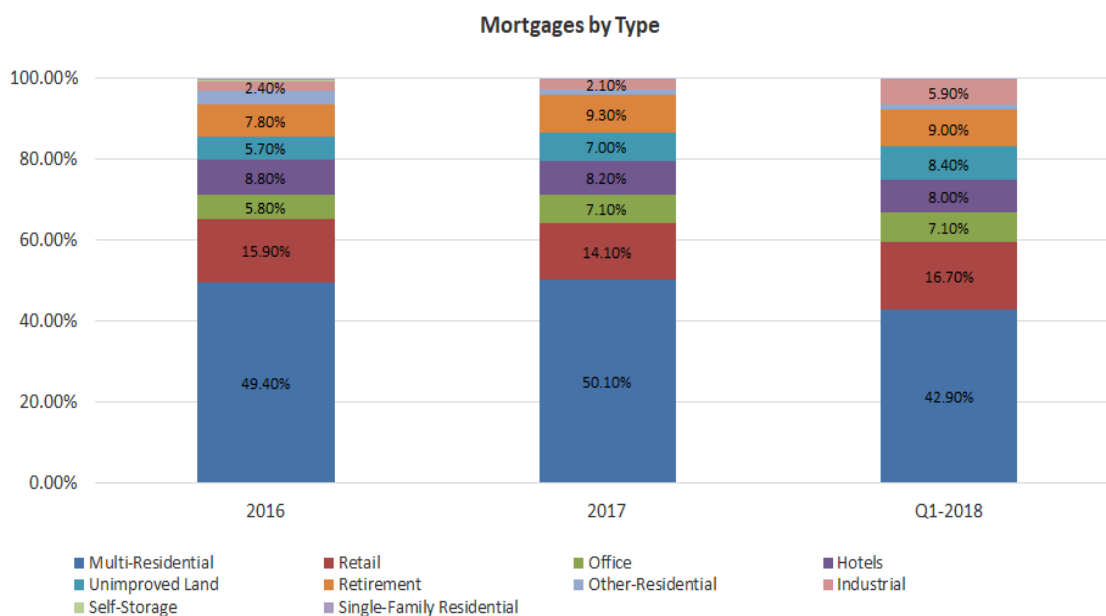
Data Source: Company

Mortgages by Type: At the end of Q1-2018, approximately 87% of the mortgages were secured by income producing properties. As shown below, the percentage has stayed relatively flat since 2016.



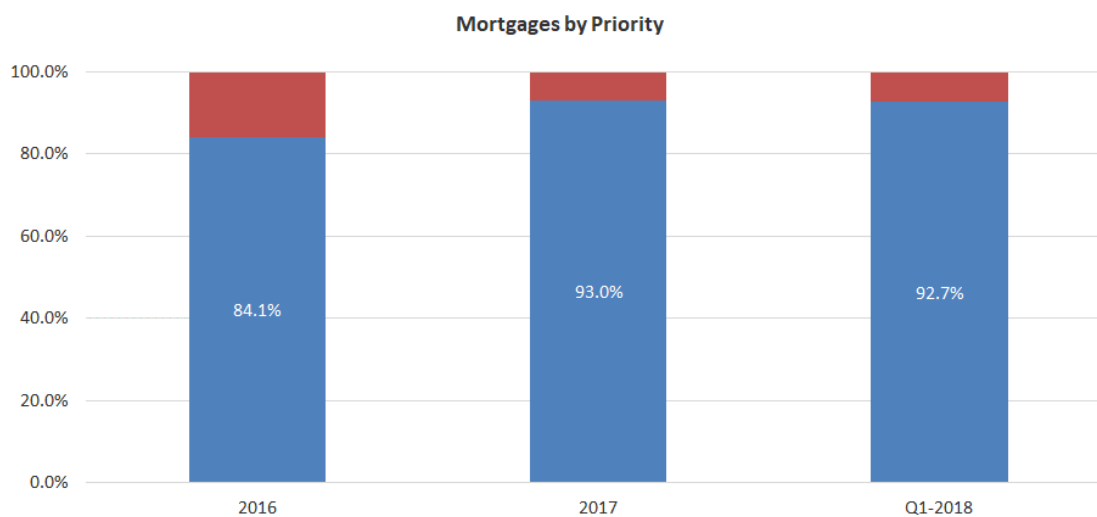
Data Source: Company

Multi-residential (42.9%) dominated the portfolio at the end of Q1, followed by retail (16.7%), retirement homes (9%), and others. Management has indicated that the company's focus remains on multi-residential assets, as set out in the company's public disclosure, and the lower allocation in Q1 is simply reflective of timing differentiation between origination and repayments/maturities at the end of the quarter.



Data Source: Company

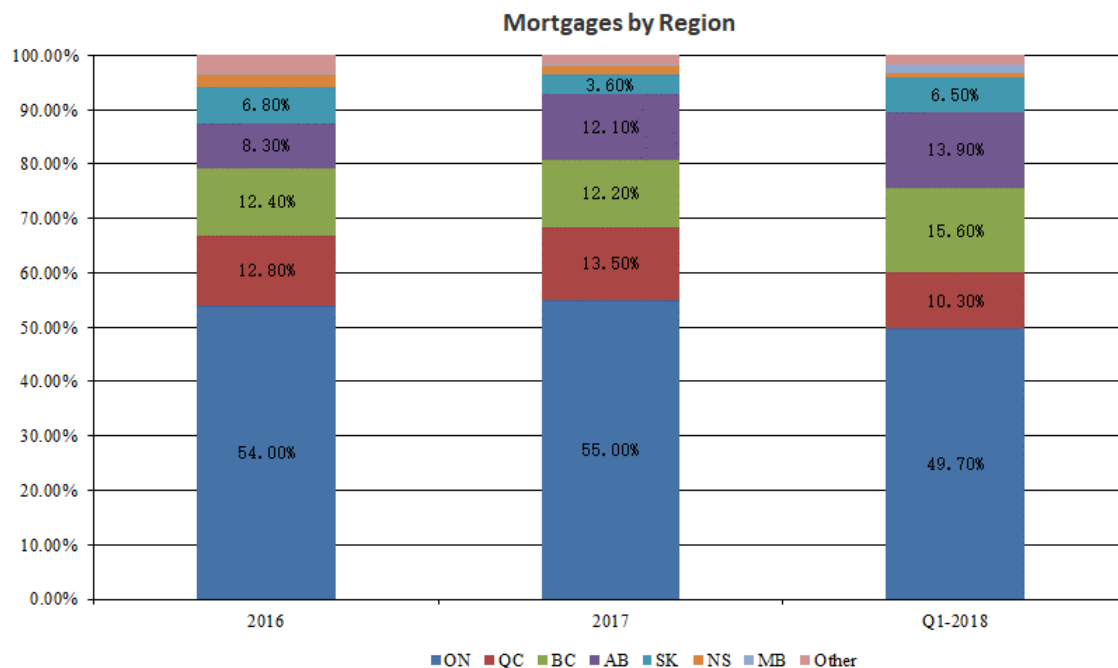
Mortgages by Priority: First mortgages accounted for 92.7% at the end of Q1-2018.



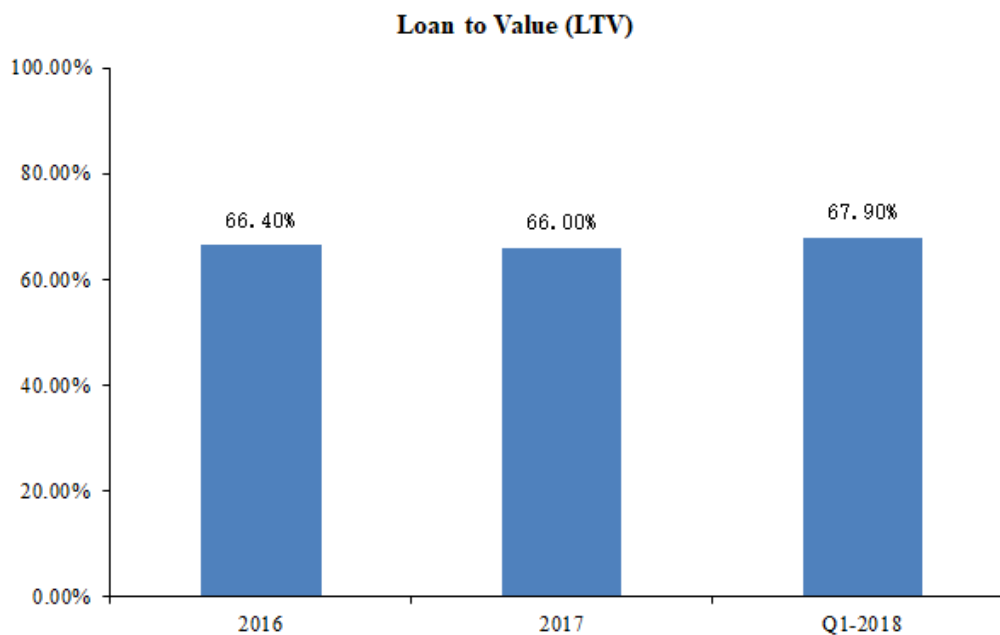
Data Source: Company

Mortgages by Region: At the end of Q1-2018, approximately 49.7% of the portfolio was

in ON, followed by 15.6% in B.C., 13.9% in AB, and 10.3% in QC. The chart below shows the distribution of mortgages by region. We believe geographical diversification is vital to reduce exposure to region specific risks.



Loan to Value (LTV): The portfolio's LTV was 67.9% at the end of Q1-2018.



Comparables

The following table shows the other key parameters of the MIC:

Other Key Parameters	2016	2017	Q1-2018
Weighted Average Interest Rate (p.a.)	7.90%	7.00%	6.80%
Weighted Average Lender Fee (p.a.)	1.20%	1.00%	1.20%
Weighted Average Term (years)	2.4	2.9	2.8
Portfolio Turnover	48.90%	40.30%	16.2%

Data Source: Company

Overall, we believe TF offers a very unique value proposition and risk exposure to investors relative to the other large MICs in the country. The following tables show the five largest MICs and their portfolios. TF, Atrium (TSX: AI) and Firm Capital (TSX: FC) are publicly traded, while Antrim and Ryan are privately held. As shown below, TF has the highest percentage of first mortgages. Among the three publicly traded MICs, TF has the highest percentage of income producing properties, is more geographically diversified, and has the lowest operating cost. TF has a relatively lower yield as its portfolio is of lower risk than the other publicly traded MICs.

Five Largest MICs

		AUM (\$, M)	Year of Inception	First Mortgage (%)	Residential (%)	Income Producing / Built Properties (%)	Dividend % of SE	Debt to Capital
1	Timbercreek Financial	\$1,149	2008	93%	62%	87%	7.8%	45.0%
2	Atrium	\$648	2001	82%	73%	42%	9.1%	42.0%
3	Firm Capital	\$548	1999	76%	77%	25%	8.6%	48.0%
4	Antrim	\$393	2007	77%	98%	90%	6.2%	8.5%
5	Ryan	\$278	1984	21%	99%	100%	9.7%	22.3%
	Average	\$603.20		70%	82%	69%	8.3%	33.2%

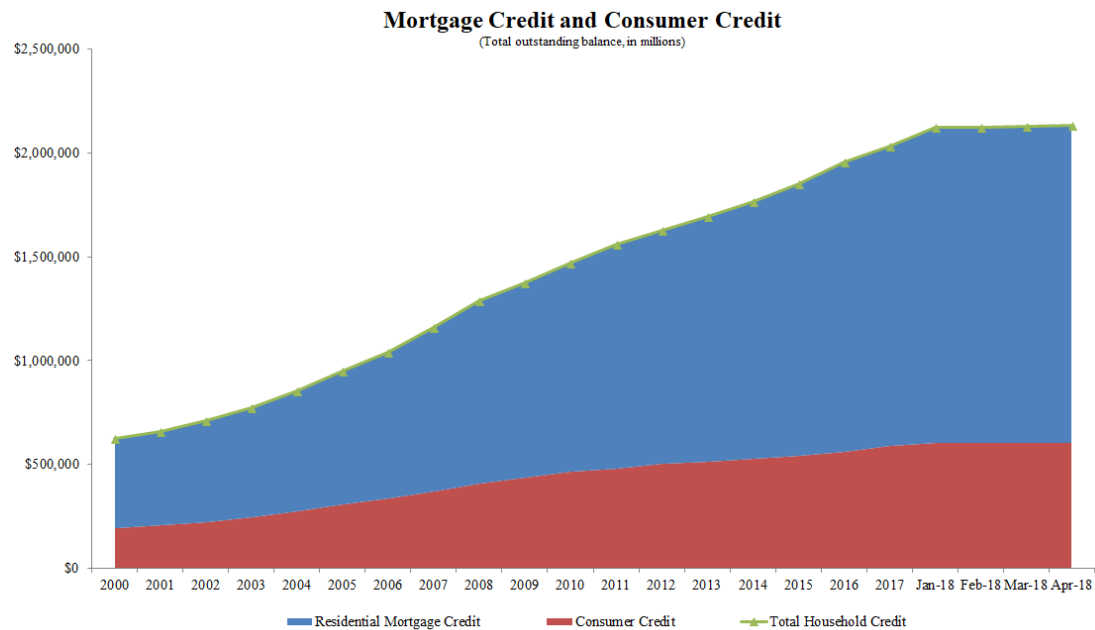
Geographical Diversification							
LTV			BC	AB	ON	Others	Total Op Exp % of Assets (incl. Management fees, excl interest and provision for losses, net of revenues from fees)
1	Timbercreek Financial	67.9%	16%	14%	50%	20.8%	0.52%
2	Atrium	61.0%	29%	3%	65%	3.4%	0.85%
3	Firm Capital	60%+	0%	4%	88%	7.8%	0.55%
4	Antrim	59.0%	95%	5%	0%	0.0%	1.55%
5	Ryan	54.3%	39%	17%	44%	0.0%	2.20%
Average		60.6%	36%	8%	49%	6%	1.13%

Source: FRC / Various Companies

Private Lending Market

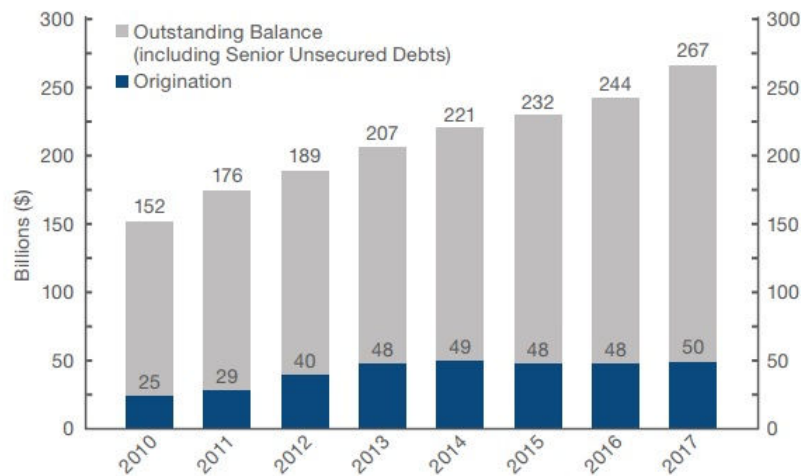
The following section provides an overview of the mortgage lending market.

At the end of April 2018, mortgage credit accounted for 72%, and consumer credit accounted for the remaining 28% of total household debt in Canada. Total residential mortgage credit in Canada (outstanding balance of the major private institutional lenders) increased from \$0.43 trillion in 2000, to \$1.53 trillion by the end of April 2018, reflecting a compounded annual growth rate (“CAGR”) of 7.6%.



Data Source: Statistics Canada

The commercial mortgage market in Canada is much smaller and was at approximately \$267 billion at the end of 2017, up from \$152 billion in 2010, reflecting a CAGR of 10.6%. Approximately \$50 billion in new loans were originated in 2017. The following chart shows the total outstanding commercial mortgages and the annual originations since 2010.



Source: Bloomberg, CMLS

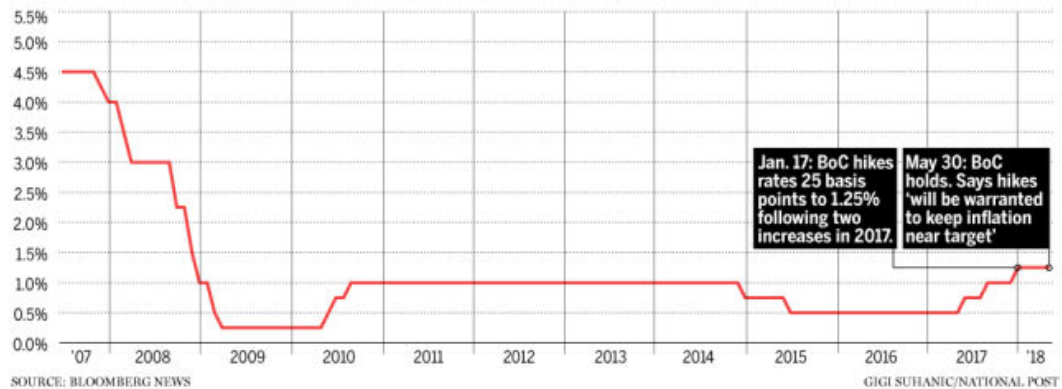
The factors that have been contributing to increased lending in Canada are the strong growth in housing prices, decreasing unemployment rates (see chart below), a low interest rate environment, and the relatively low default rates. Also, the tighter lending policies set

by banks and conventional lenders have been encouraging more and more private lenders to enter the market over the last decade.



After raising **the overnight lending rate three times** over the past 12 months (first in July 2017, second in September 2017 and the third in January 2018), the Bank of Canada decided to maintain the rate at 1.25% in their last policy meeting on May 30, 2018. However, the BoC gave clear hints that additional rate hikes could be coming in the near-future based on stronger than expected growth in Q1.

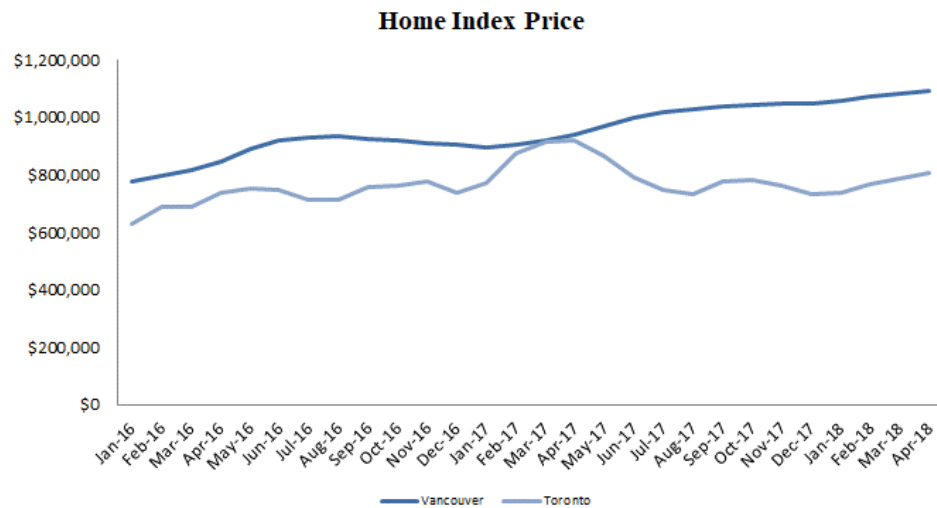
Canada - overnight lending rate



Source: Bank of Canada

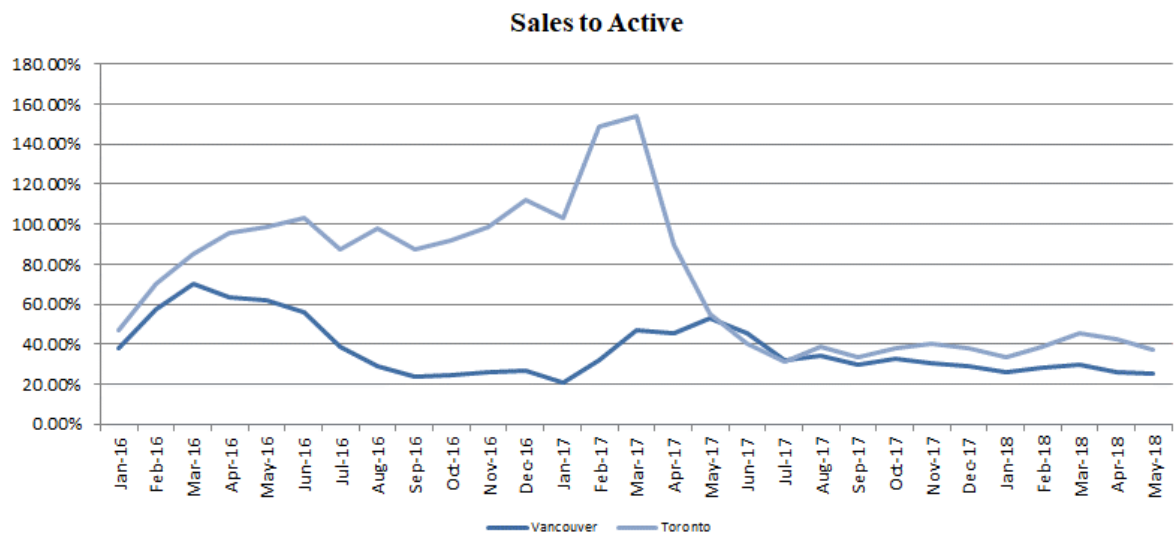
Based on an expected increase in rates, we expect MICs to continue to raise their lending rates this year.

The following chart shows the average home prices in Vancouver and Toronto – Canada's two key housing markets.



Source: TREB and REBGV

Despite a significant drop in the sales to active ratio in both markets, housing prices continue to remain strong in both markets.



Source: TREB and REBGV

We believe the strong rental market in both Vancouver and Toronto suggest a healthy outlook for multi-family residential properties (TF's key focus). For example, despite the expected slowdown in real estate sales, Vancouver's **rental market remains extremely tight**, with rental rates at historical highs, and vacancy remaining low.



The following table from a recent Goodman Report showed that the total number of apartment units in the City of Vancouver has only increased by 0.6% p.a. from 2010 to 2017. Apartment units in suburban areas increased at 0.5% p.a.

	2010 (total apartment units)	2017 (total apartment units)	Change (units)	Change (%)
City of Vancouver	54,791	57,243	+2,452	+4.48%
Suburban	104,457	108,496	+4,039	+3.9%

Source: CMHC

According to the Goodman Report, 17,229 units are currently under construction/development/planning in Metro Vancouver. These units will take at least five years to be completed, and will not be sufficient to meet demand as Vancouver's annual population is growing by 30,000–35,000.

Rising mortgage rates will also increase demand for rentals. TF's focus on income producing properties, we believe, put them in a stronger position relative to other MICs. **We note that the entire mortgage lending industry will be significantly impacted from a market downturn. In such a scenario, MICs with low LTVs and lower duration will have an edge over others.**

Financials

In Q1-2018, TF generated \$21.85 million in revenues (up 5.2% YoY) and \$11.67 million in net income (down 9.9% YoY). Net income dropped, despite the increase in revenues, because of a 49% YoY increase in interest expense. The company has since taken measures

to reduce interest expense (discussed later in this report).

Income Statement (\$000s)	2016	2017	Q1-2017	Q1-2018
YE - December 31				
Revenue				
Gross Interest and Others	\$83,002	\$115,535	\$27,866	\$28,179
Syndications	-\$21,580	-\$26,598	-\$7,102	-\$6,332
Net	\$61,422	\$88,937	\$20,764	\$21,847
Revenues from Inv. Properties		\$569		\$383
Costs		-\$376		-\$234
Net		\$193		\$149
Total Net Revenues	\$61,422	\$89,130	\$20,764	\$21,996
Expenses				
Management Fees	\$7,926	\$10,649	\$2,497	\$2,899
Servicing Fees	\$300	\$580	\$157	\$138
Performance Fees	\$1,207			
Provision for Loss		\$800	\$200	
G&A	\$758	\$1,727	\$369	\$349
Total Expenses	\$10,191	\$13,756	\$3,223	\$3,386
Interest	\$10,239	\$23,050	\$4,660	\$6,941
Operating Profit	\$40,992	\$52,324	\$12,881	\$11,669
Income from Foreclosed	\$23	\$70		
FV adj. on Foreclosed	-\$1,075	-\$190		
Others	\$6,059		\$64	-\$2
Net Income	\$45,999	\$52,204	\$12,945	\$11,667
EPS	\$0.80	\$0.70	\$0.18	\$0.15

Source: FRC (Data Source: Company)

We estimate that revenues (interest income and fees) as a percentage of mortgage receivables was 7.4% p.a. in Q1-2018. The dividend yield (dividends as a percentage of invested capital) was 7.9% p.a.

% of Mortgage Receivables + Other Inv. (net) -annualized	2016	2017	Q1-2018
Interest Income + Origination	6.43%	8.13%	7.35%
<i>Less:</i>			
Management Fees	0.83%	0.97%	0.98%
Servicing Fees	0.03%	0.05%	0.05%
Performance Fees	0.13%	0.00%	0.00%
Provision for Loss	0.00%	0.07%	0.00%
G&A	0.08%	0.16%	0.12%
Interest	1.07%	2.11%	2.34%
Others	-0.52%	-0.01%	-0.05%
Net	4.81%	4.77%	3.93%
2-Year GOC (a)	0.58%	1.49%	1.80%
Dividends Declared (\$, 000s)	\$39,893	\$50,736	\$13,383
Dividends per Share	\$0.70	\$0.69	\$0.17
Dividends as a % of BV (b)	6.15%	7.81%	7.94%
Spread (a-b)	5.57%	6.32%	6.14%

Note that the above figures may be slightly different from the figures reported by TF 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: FRC (Data Source: Company)

The following table shows the dividends and yields to investors. The company pays \$0.0575 per share per month, reflecting a potential total of \$0.69 per share for the full year versus \$0.69 per share in 2017.

Consolidated / TF	2012	2013	2014	2015	2016	2017	Q1-2018	Average
Net Interest Income	51,596,285	67,965,356	64,869,322	73,322,511	61,422,000	89,130,000	21,996,000	
Net Income	23,533,187	37,248,802	43,634,096	47,317,694	45,999,000	52,204,000	11,667,000	
Dividends	42,591,606	43,194,827	49,197,292	48,165,922	39,893,000	50,736,000	13,383,000	
Dividend Yield	6.74%	7.73%	8.16%	8.71%	6.15%	7.81%	7.94%	
Payout ratio on Earnings					86.70%	97.20%	114.70%	99.53%
Payout ratio on Distributable Inc.					93.50%	91.80%	99.10%	94.80%

Source: FRC (Data Source: Company)

At the end of Q1-2018, a loan loss provision of \$0.85 million, or 0.07% of the portfolio, was assigned. We estimate that comparable MICs typically assign 0.5% - 1.25% of their portfolios as loan loss provisions. **The MIC has had extremely low realized losses, as shown in the table below.** As mentioned earlier, the company has not had a loss of principal on any mortgage.

	2016	2017	Q1-2018
Provision for Mortgage Losses (\$000s)	\$1,150	\$1,081	\$853
General (\$000s)	\$250	\$1,081	\$853
Specific (\$000s)	\$900	\$0	\$0
Mortgage Receivable (\$000s)	\$1,006,344	\$1,113,721	\$1,149,472
Provision as a % of Receivable	0.11%	0.10%	0.07%
Actual Loss (FRC est.) - \$000s	\$0	\$869	\$577
% of Mortgage Receivable	0.00%	0.08%	0.05%

Source: FRC (Data Source: Company) ; the table above shows our estimate of the losses reflecting accrued interest, as mentioned earlier, the company has never lost principal

The following table shows a summary of the company's balance sheet. At the end of Q1-2018, the MIC had \$1.76 billion (gross) and \$1.15 billion (net) in mortgage receivables.

Balance Sheet	2016	2017	Q1-2018
YE - December 31			
Assets			
Cash	\$61	\$700	\$10,461
Other Assets	\$3,191	\$8,672	\$6,499
Mortgage Investments	\$1,549,849	\$1,554,369	\$1,763,242
Other Investments	\$9,828	\$57,934	\$55,694
Investment Properties		\$42,748	\$43,865
Foreclosed	\$11,041	\$336	\$336
Total Asset	\$1,573,970	\$1,664,759	\$1,880,097
Liabilities			
AP	\$2,188	\$5,426	\$6,600
Dividend Payable	\$4,210	\$4,271	\$4,556
Due to Manager	\$819	\$1,140	\$1,150
Mortgage Funding Holdbacks	\$137	\$200	\$702
Prepaid Mortgage Interest	\$682	\$1,960	\$1,779
Credit Facility	\$299,000	\$394,046	\$392,259
Convertible Debentures	\$76,757	\$163,946	\$164,438
Mortgage Syndication Liabilities	\$543,505	\$440,648	\$613,770
Total Liabilities	\$927,298	\$1,011,637	\$1,185,254
Total Shareholders Equity	\$646,672	\$653,122	\$694,844
Total Shareholders Equity+Liabilities	\$1,573,970	\$1,664,759	\$1,880,098
NAV per Share	\$8.76	\$8.79	\$8.77

Source: FRC (Data Source: Company)

The company has a credit facility with 10 banks for \$440 million at prime plus 1.25% p.a. At the end of Q1-2018, the aggregate bank debt was \$392 million. In addition to the above

debt, the company had \$171 million in convertible debentures outstanding.

Convertible Debentures

Amount (\$M)	Issued	Rate	Maturity	Conversion Price
\$34.50	2014	6.35%	2019	\$11.25
\$45.80	2016	5.40%	2021	\$10.05
\$46.00	2017	5.45%	2022	\$10.05
\$45.00	2017	5.30%	2024	\$11.10
\$171.30				

Source: FRC (Data Source: Company)

In February 2018, the company completed a \$45 million equity financing at \$9.30 per share. The total debt to capital dropped from 46.1% at the end of 2017, to 44.5% at the end of Q1-2018. We estimate that comparable MICs typically use debt levels ranging between 20% and 45%. **The interest coverage ratio, which was 2.7x at the end of Q1, is lower than comparable MICs. However, this is because of the high proportion of income producing properties in TF's portfolio.** For example, we estimate the typical interest coverage ratio of established Real Estate Income Trust ("REITs") is between 2x and 3x.

In order to further lower its use of debt, TF announced the following initiatives:

- In May 2018, the company announced its plans to redeem the 6.35% debentures in July.
- On June 21, 2018, the company announced an at-the-market equity program, that will allow it to issue common shares for up to \$70 million to the public from time to time, at the company's discretion.

Asset / Capital Structure

	2016	2017	Q1-2018
Mortgages receivable, net (\$,000s)	\$1,006,344	\$1,113,721	\$1,149,472
Cash (\$, 000s)	\$61	\$700	\$10,461
Debt (\$, 000s)	\$375,757	\$557,992	\$556,697
Equity (\$, 000s)	\$646,672	\$653,122	\$694,844
Total Capital (\$, 000s)	\$1,022,429	\$1,211,114	\$1,251,541
Mortgage Receivable/Total capital	98%	92%	92%
Debt to Capital	36.8%	46.1%	44.5%
Debt to Equity	58.1%	85.4%	80.1%
EBIT/ Interest expense	5.00	3.27	2.68
Adj DI / Interest expense	4.68	3.40	2.95
Syndications as a % of Total	35.1%	28.3%	34.8%

Source: FRC (Data Source: Company)

At the end of Q1, in addition to the mortgage receivables, TF had:

- \$0.34 million, or 0.03% of the total assets (net of syndications), in foreclosed assets,
- \$55.69 million, or 4.4% of the total assets (net of syndications) in ‘Other Investments’, and
- \$13.07 million (assets of \$43.87 million net of \$30.80 million in credit facility) or 1.0% of the total assets (net of syndications) in Investment Properties.

‘Other Investments’ include higher-yielding investments such as collateralized loans, debentures, joint ventures, finance lease receivables and marketable securities. ‘Investment Properties’ include a 20.46% interest in a real estate portfolio which includes 14 investment properties totaling 1,079 units located in Saskatoon and Regina, Saskatchewan. These properties generated a net profit of \$0.15 million in Q1-2018.

Options and Warrants

The company has no options or warrants outstanding.

Valuation

TF does not provide any guidance on its year-end portfolio size or other key parameters. Based on a debt to capital of 44%, we estimate TF will exit 2018 with a gross portfolio of \$1.83 billion, up from \$1.76 billion at the end of Q1. We also assume a 2019 exit portfolio of \$1.90 billion.

We forecast revenues of \$91.72 million in 2018, and \$98.77 million in 2019. Our net profit forecasts are \$51.81 million (EPS: \$0.67) in 2018 and \$58.02 million (EPS: \$0.70) in 2019. Our forecast for distributable income in 2018 is \$56.15 million, or \$0.72 per share. This implies a payout ratio of 96%, based on management’s proposed dividend of \$0.69 per share. Our forecast for distributable income in 2019 is \$62.58 million, or \$0.75 per share. We estimate dividends of \$0.72 per share in 2019.

For valuation purposes, we used the Price to Earnings (P/E), Price to Book (P/B), and Dividend Yield of the comparables. The following table shows a summary of our analysis.

	Name	P/E	P/B	Dividend Yield
1	Firm Capital MIC	13.9	1.2	7.7%
2	Atrium MIC	13.7	1.2	7.4%
3	MCAN Mortgage Corporation	10.5	1.4	8.2%
	Average (excl. outliers)	13.8	1.3	7.8%
	Thriffs and Mortgage Finance Industry	14.8	1.5	
	Timbercreek Financial (2019 forward)	12.2	1.0	7.9%
	Timbercreek Financial (2018 forward)	12.7	1.0	7.5%
	Fair Value of TF (based on 2019 est.)	\$10.38	\$11.16	\$9.27
	Fair Value of TF (based on 2018 est.)	\$9.95	\$11.13	\$8.88
	Average		\$10.13	

As shown above, TF's valuation metrics are lower than the current average of comparables. **We are initiating coverage with a BUY rating and a fair value estimate of \$10.13 per share, which was based on the average multiples of comparables (as shown in the above table).**

Rating

Investors are exposed to the following key risks:

- Credit risks
- Timely deployment of capital is crucial.
- A downturn in the real estate sector may impact the company's deal flow.
- Investments in mortgages are typically affected by macroeconomic conditions, and local real estate markets. A drop in real estate prices will result in higher LTVs, and higher default risk, as the value of collateral decreases.
- Diversification risks - 50% of TF's mortgages are secured by properties in Ontario.
- Commercial mortgages tend to have higher exposure to risks than residential mortgages. However, 87% of TF's portfolio is secured by income producing properties.
- Shareholders are 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 which carry higher risk.

- Competition is high in the mortgage lending business.

Appendix

Income Statement (\$000s)	2016	2017	2018(F)	2019(F)
YE - December 31				
Revenue				
Net	\$61,422	\$88,937	\$91,717	\$98,773
Revenues from Inv. Properties		\$569	\$1,532	\$1,563
Costs		-\$376	-\$936	-\$955
Net		\$193	\$596	\$608
Total Net Revenues	\$61,422	\$89,130	\$92,313	\$99,381
Expenses				
Management Fees	\$7,926	\$10,649	\$11,730	\$12,348
Servicing Fees	\$300	\$580	\$540	\$652
Performance Fees	\$1,207			
Provision for Loss		\$800	\$271	\$75
G&A	\$758	\$1,727	\$1,448	\$1,520
Total Expenses	\$10,191	\$13,756	\$13,988	\$14,595
Interest	\$10,239	\$23,050	\$26,515	\$26,766
Operating Profit	\$40,992	\$52,324	\$51,809	\$58,020
Income from Foreclosed	\$23	\$70		
FV adj. on Foreclosed	-\$1,075	-\$190		
Others	\$6,059			
Net Income	\$45,999	\$52,204	\$51,809	\$58,020
EPS	\$0.80	\$0.70	\$0.67	\$0.70
Distributable Income	\$42,636	\$55,262	\$6,154	\$62,579
DI per Share	\$0.74	\$0.75	\$0.72	\$0.75

Balance Sheet (\$000s)	2016	2017	2018(F)	2019(F)
YE - December 31				
Assets				
Cash	\$61	\$700	\$0	\$0
Other Assets	\$3,191	\$8,672	\$6,499	\$6,499
Mortgage Investments	\$1,549,849	\$1,554,369	\$1,825,000	\$1,900,000
Other Investments	\$9,828	\$57,934	\$55,694	\$55,694
Investment Properties		\$42,748	\$43,865	\$43,865
Foreclosed	\$11,041	\$336	\$336	\$336
Total Asset	\$1,573,970	\$1,664,759	\$1,931,394	\$2,006,394
Liabilities				
AP	\$2,188	\$5,426	\$6,994	\$7,297
Dividend Payable	\$4,210	\$4,271	\$5,086	\$5,696
Due to Manager	\$819	\$1,140	\$1,246	\$1,320
Mortgage Funding Holdbacks	\$137	\$200	\$234.82	\$244.47
Prepaid Mortgage Interest	\$682	\$1,960	\$1,801	\$2,031
Credit Facility	\$299,000	\$394,046	\$432,338	\$446,613
Convertible Debentures	\$76,757	\$163,946	\$129,438	\$129,438
Mortgage Syndication Liabilities	\$543,505	\$440,648	\$638,750	\$665,000
Total Liabilities	\$927,298	\$1,011,637	\$1,215,889	\$1,257,639
Total Shareholders Equity	\$646,672	\$653,122	\$715,505	\$748,755
Total Shareholders Equity+Liabilities	\$1,573,970	\$1,664,759	\$1,931,394	\$2,006,394

Cash Flow Statement (\$000s)	2016	2017	2018(F)	2019(F)
YE - December 31				
Operating Activities				
Net Income	\$45,999	\$52,204	\$51,809	\$58,020
Provisions		\$800		
Non cash items	\$7,598	\$17,589		
Net changes in non-cash operating items	-\$12,147	-\$1,078	\$5,662	\$1,226
Cash From Operating Activities	\$41,450	\$69,515	\$57,471	\$59,246
Investing Activities				
Foreclosed Properties	\$720	\$951		
Investment Properties		-\$42,748		
Forward Contracts		\$1,252		
Other Investments	-\$9,828	-\$42,743		
Net Mortgages	-\$91,182	-\$100,788	-\$72,529	-\$48,750
Cash used Investing Activities	-\$100,290	-\$184,076	-\$72,529	-\$48,750
Financing Activities				
Credit Facility	\$65,118	\$95,509	\$38,292	\$14,275
Convertible Debentures	\$43,498	\$86,437	-\$34,508	\$0
Interest	-\$10,167	-\$19,835		
Dividends	-\$39,688	-\$46,531	-\$51,809	-\$58,020
Common Shares		-\$331	\$62,383	\$33,250
Cash used in Financing Activities	\$58,761	\$115,249	\$14,358	-\$10,495
FOREX		-\$49		
Net Increase(Decrease) in Cash	-\$79	\$639	-\$700	\$1
Cash, Beginning	\$140	\$61	\$700	\$0
Cash, End	\$61	\$700	\$0	\$0

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

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Fundamental Research Corp. Risk Rating Scale:

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2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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