Persistence Has Paid Off – They're All Back! Your Guide To Potential Q1/FY17 Catalysts For Our Special Situations Stocks

January 19, 2017

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Company	Ticker	Market Cap (MM)	EV (MM)	Current Price	Target Price	Potential Return	2016 VWAP	Current Vs. 2016 VWAP	Brief Summary
Yellow Pages Ltd	Y.TO	$494	$884	$17.59	$26.00	48%	$17.32	2%	Digital advertising in Canada
The Westaim Corp	WED.V	$411	$406	$2.87	$4.00	39%	$2.29	26%	U.S. specialty P&C insurance / specialty finance
Espial Group Inc	ESP.TO	$74	$30	$2.00	$3.50	75%	$1.86	8%	IPTV software
Terra Firma Capital Corp	TII.V	$43	$51	$0.71	$1.05	48%	$0.59	20%	Real estate construction mezzanine finance
ProntoForms Corp	PFM.V	$31	$30	$0.33	$0.70	112%	$0.31	6%	Mobile forms solutions for field workers
Average						64%		12%	

	Revenue (MM)			EBITDA (MM)		
Company	2016E	2017E	Change	2016E	2017E	Change
Yellow Pages Ltd	$827.6	$836.7	1%	$236.7	$233.5	-1%
Espial Group Inc	$23.7	$39.0	65%	-$6.7	-$0.2	nmf (pos)
ProntoForms Corp	$11.9	$15.1	26%	-$2.6	-$2.8	nmf (neg)

	Book Value Per Share			EPS (f.d.)		
Company	2016E	2017E	Change	2016E	2017E	Change
The Westaim Corp	US$2.22	US$2.36	6%	-US$0.05	US$0.12	nmf (pos)
Terra Firma Capital Corp	$0.80	$0.91	15%	$0.04	$0.09	115%

Source: Thomson Reuters, Company reports, Beacon Securities.

- 2016 was a bumpy year for the above five special situation stocks we cover. While investors could obviously have done even better by successfully 'picking their spots', we note that the current share price of each of these companies is higher than their respective 2016 VWAP (i.e,. **the 'average buyer' has made gains in each case – and is up 12% on average**).

- We note **The Westaim Corp.'s (WED-V) impressive run over the past few weeks, currently putting the stock 26% ahead of its 2016 VWAP**. Additionally, we highlight Yellow Pages Limited (Y-T). Despite pulling back after Q3/FY16 results in November 2016 (concerns regarding JUICE Mobile and personnel changes overshadowed in line EBITDA and stronger than expected free cash flow), **Yellow Pages' shares have made the largest advances since the start of 2016** (up 15%).

- That said, we don't think we are done. In this report, we outline potential catalysts for the five above special situation stocks we cover and key highlights from our 2017 expectations. We have made no changes to estimates, recommendations or target prices for any of the five companies above.

All figures in C$ unless otherwise noted.

Potential Catalysts For Q1/FY17

Yellow Pages Limited (Y-T)

Background

- Mr. Julien Billot took over the position of CEO on January 1, 2014, and promptly unveiled Yellow Pages' Return To Growth Plan calling for revenue and EBITDA growth by 2018. Since then, digital revenue has risen to 69% of total revenue (from 45%), and other key metrics such as revenue growth, EBITDA declines and customer adds are trending in the right direction.

Potential Catalysts In Q1/FY17

- **Q4/FY16 Results – Likely On February 14, 2017.** Q4 is the seasonally strongest quarter for Mediative and JUICE Mobile. We are forecasting consolidated revenue of $212.3MM ($152.5MM from digital), EBITDA of $58.9MM and free cash flow of $22.8MM. We remind that in the four quarters since we have covered the company, it has exceeded our EBITDA forecast every time, with an average beat of $1.3MM (2.1%).
- **Update On Review Of Business Strategy – Handcuffs Come Off Refinancing Senior Debt On May 31, 2017.** Yellow Pages can redeem its 9.25% senior secured notes with no penalty after May 31, 2017. We estimate that the balance at that time will be $262MM ($371MM at the end of Q3/FY16). While the company's Return To Growth Plan launched in early 2014 officially calls for a debt free capital structure at the end of 2018, the Board of Directors has undergone a review of its business strategy as to what the company may look like post 2018. On one hand, with the debt behind it, Yellow Pages could be a relatively lower growth, high cash flow generating firm paying a handsome dividend. On the other, it could look to continue to consolidate the Canadian digital / local ad market via an acquisition, and have higher growth with some amount of debt. We look forward to hearing the company's plans regarding its future approach / growth prospects / capital structure and the value which may be created. **We anticipate receiving a preliminary update on the process with Q4/FY16 results.**
- **New Additions To The Team.** With its Q3/FY16 results, Yellow Pages announced that Ginette Maillé (CFO) and Doug Clarke (COO) will be retiring effective March 1, 2017. We believe the lack of replacements named at the time contributed to investor skittishness – and that announcing new appointments may help bolster investor confidence.

Valuation Highlights

- Yellow Pages' shares are currently trading at an **EV/2017E (i.e., 'Trough EBITDA') multiple of just 3.8x**. Should they simply maintain this multiple over the next 12 months, the free cash flow generation / debt

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payment alone implies a share price of $21.00 (19% return) – not even taking into account any potential savings on refinancing the debt.

- Yellow Pages shares currently offer a **17.0% forward free cash flow yield**.

Justification of Target Price

- Our $26.00 target price for Yellow Pages is derived by applying an EV/2017E EBITDA multiple of 4.4x.

Exhibit 1. Calculation of Target Price

	CURRENT			IN ONE YEAR
Share Price	**$17.59**			**$26.00**
Shares outstanding ('000s)	28,064	**4 Quarters Of Operations**		28,064
Market Cap ('000s)	**$493,644**	**Q4/FY16 - Q3/FY17**		**$729,662**
Plus: Gross Debt ('000s)	$462,866	Debt Paid Down ('000s)	-$109,100	$353,766
Less: Cash ('000s)	-$72,123	**FCF Generated ('000s)**	**$83,855**	-$46,338
EV ('000s)	**$884,387**			**$1,037,090**
FY17E EBITDA	**$233,462**			**$233,462**
EV/FY17E EBITDA	**3.8x**			**4.4x**
Net debt	**$390,743**			**$307,428**
Net debt to 2017E EBITDA	**1.7x**			**1.3x**

Source: Company reports, Beacon Securities estimates.

- Over the course of the next 12 months, we believe the company's shares can experience at least a modest trading multiple increase (to 4.4x) as:
    - The company will have delivered four more quarters of financial results. We believe this will help cement the view across the Street that 2017 will actually represent Trough EBITDA, with investors eyeing some growth in 2018.
    - The company will have meaningfully reduced its leverage, with net debt representing 1.3x Trough EBITDA versus 1.7x currently.
    - Management will have unveiled its new strategy for the period following the completion of the Return To Growth Plan.
- While not part of our official target price, we constructed a DCF to help quantify the present value of the free cash flow we believe Yellow Pages may be able to generate in the years ahead. **This DCF outputs a value of $56.00** (rounded), featuring the following key inputs (from 2018 onward): digital revenue growth maintained at 5-7% y/y; print revenue declining at 19-23% y/y; EBITDA margins trickling down to 23.5%; and a 7% discount rate.

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The Westaim Corp (WED-V)

Background

- Westaim is an investment holding company focused on the financial services industry with two main investments. Westaim has a 43.6% look-through interest in Houston International Insurance Group (HIIG), a U.S. specialty P&C insurer. Westaim also owns Arena, a U.S. specialty finance company and asset manager.

Potential Catalysts In Q1/FY17

- **Q4/FY16 Results – Likely In Late March.**
    - In terms of main themes, at HIIG, we expect to see the vast majority of the transition of internalizing the claims function to have happened by the end of 2016. While internalizing claims administration has some growing pains initially, it positions the company to be meaningfully more efficient in the long-run. Of the three pillars determining the macro outlook for HIIG, management is optimistic about the future for the economy and interest rates, while it may take time (or several catastrophes) for premium rates to rise.
    - At Arena, we believe investors will look to see a continuation of the deployment of AUM into illiquid transactions (its bread and butter). **Deployments into illiquids jumped throughout Q3/FY16** (Exhibit 2). Deployments decreased somewhat in October (the company needed to add a few junior staff to help progress its pipeline faster). At its Investor Day in November 2016. management described its pipeline as being "excellent". Within six months, the company aims to be able to deploy US$50-60MM on a monthly basis, perhaps a little more. Accordingly, management expects to be able to show a very different picture on December 31, 2017, versus December 31, 2016.

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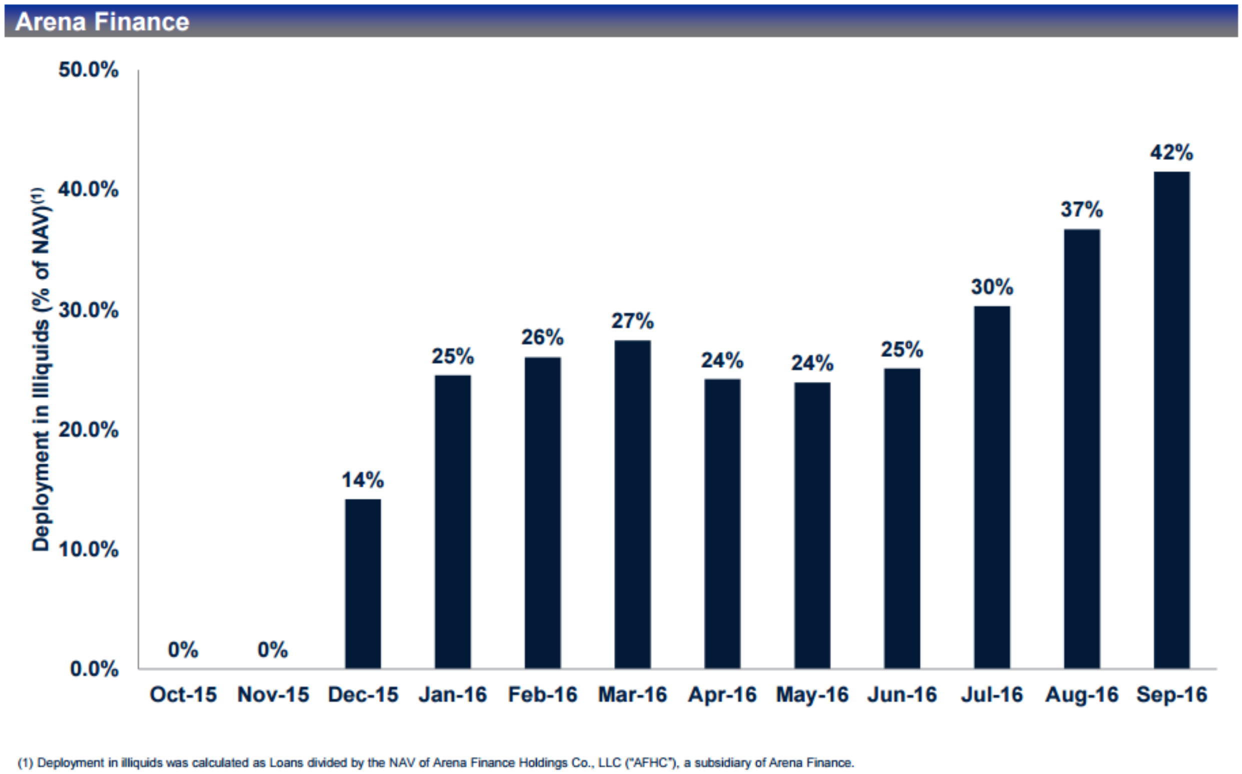
Exhibit 2. Arena Finance - % Deployed By Month



Source: Company reports.

Longer-Term Outlook

- **HIIG.** We are forecasting net income of US$1.5MM in Q4/FY16 at HIIG, and for a meaningful jump to US$23MM in 2017. We note that this translates to a 2017 ROE of only 6.7% and that HIIG generated US$19.5MM of net income in 2014 – and has made several acquisitions since.
- **Arena.** We are forecasting Arena to end the year with US$250MM of third party committed AUM, and end 2017 with US$900MM of third party AUM (US$1.1MM of total AUM). We estimate Westaim's share of Arena's net income would be US$14.3MM in 2017 (US$4.9MM in Q4/FY17).
- **Consolidated.** We are forecasting Westaim to generate US$0.12 in EPS (f.d.) in 2017 (US$0.04 in Q4/FY17) and for book value per share to rise to US$2.36 at the end of 2017 from US$2.22 at the end of 2016.

Valuation Highlights

- Westaim's shares have experienced upward momentum since its Investor Day on November 15, 2016. That said, the company's shares are still currently trading at a **Price/Book Value multiple of only 0.97x**. Westaim's shares used to trade at an average a Price/Book Value multiple of 1.18x prior to the Arena transaction. We believe this multiple will be surpassed as investors see Arena being fully deployed and generating earnings.

Justification of Target Price

Exhibit 3. Calculation of Target Price (MM) – All figures US$, except where noted

Asset	Q3/FY17 Book Value	Target Multiple			Fair Value
HIIG	$156	1.40x			$218
Arena Finance	$149	1.30x			$194
Arena Origination	$34	1.30x			$44
	2017E Net Income	**Target Multiple**	**Target Valuation**	**Westaim's Share**	
Arena Investors	$7	7.00x	$48	51%	$24
	Q3/FY17 Book Value	**Target Multiple**			
Other Net Assets	-$8	1.00x			-$8
Total Net Asset Value					$472
Forecast Shares O/S (September 31, 2017)					143
Value Per Share (US$)					$3.30
USD to CAD					$1.33
Value Per Share (C$)					C$4.38
Holdco Discount					10%
Target (C$, Rounded)					**C$4.00**
Current Price					C$2.87
Implied Return					39%
Implied Target Multiple on Q3/FY17 Book Value					1.31x

Source: Company reports, Beacon Securities.

In determining our target price:

- For HIIG, we apply a 1.40x target multiple (unchanged) to our Q3/FY17 book value estimate. For reference, a group of P&C insurers currently trade at an average P/B multiple of 1.57x and a median P/B multiple of 1.45x. Houston Casualty Corporation, previously led by Mr. Way was acquired by Tokio Marine at a 1.9x multiple and Westaim sold Jevco in 2012 at a 1.38x multiple.
- For Arena Finance and Arena Origination, we apply a 1.30x target multiple (unchanged) to our Q3/FY17 book value estimates. For reference, a group of alternative lenders trade at an average P/B multiple of 1.52x and a median P/B multiple of 1.48x.
- For Arena Investors, we apply a 7.0x multiple to our net income forecast for 2017 (unchanged), and incorporate Westaim's 51% ownership share. For reference, a group of asset managers currently trade at an average P/Trailing EPS (f.d.) multiple of 13.0x.

- To this subtotal, we subtract our Q3/FY17 forecast for other net liabilities of US$8MM and divide by shares outstanding to arrive at a net asset value per share of US$3.30.
- We then convert our forecast net asset value per share into C$ using the current f/x rate and apply a 10% holdco discount to arrive at our C$4.00 target price (rounded).
- Our target price translates to a 1.31x P/BV multiple on our Q3/FY17 book value forecast of C$3.06 (US$2.31). We believe that Westaim may at some point look to IPO HIIG and/or Arena. In our view, having a publicly available quote for one or both of its main investments could also go a long way in closing the gap between Westaim's book value and the fair value of its assets.

Espial Group Inc. (ESP-T)

Background

- Espial develops set top box and multiscreen client software solutions as well as back-office TV delivery systems for pay TV operators and smart TV manufacturers, with a focus on enhanced TV user experiences. Espial has large contracts to supply TV software for:
    - NOS SGPS SA (NOS-LS, not covered) – cableco with 1.6MM subscribers in Portugal – went live in June 2016; and
    - Tele Columbus AG (TC1n-DE, not covered) – cableco with 2.9MM subscribers in Germany – went live earlier this week.

Potential Catalysts In Q1/FY17

- **Announcing A New Major Contract Win.** After having previously described its pipeline in more general terms, on its Q3/FY16 results conference call **on November 1, 2016**, management provided a more specific timeline. It indicated that it is currently **on the short-list with a number of operators totaling 5MM subscribers, which it expects will make decisions within six months**. We remind that the last time the company provided a specific timeline for a new win, it announced one within two weeks of its provided range – and one more two months later. Espial has been working on joint bids with ARRIS International PLC (ARRS-US, not covered), the world's largest set top box manufacturer, and its partner. Putting it all together, **we feel that Espial could announce a major contract win this quarter, which would be very positive for its share price**. We note that Espial and ARRIS are both sponsoring the RDK Americas Summit conference in Denver, Colorado, on February 28, 2017, where pay TV operators and vendors will be gathering. For reference, in Exhibit 4 below we provide the share price reaction following Espial's major contract wins in the past.

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Exhibit 4. Share Price Reaction To Espial's Previous Wins

Date Announced	Market Cap Beforehand (MM)	Net Debt (Cash)	EV Beforehand (MM)	Share Price Performance 1 Day	1 Week	1 Month
Oct-16-2013	$7	$1	$8	40%	56%	63%
Jan-14-2015	$41	-$17	$24	31%	74%	89%
Mar-30-2015	$74	-$18	$56	25%	34%	36%
Current	$78	-$44	$34			

Source: Company reports, ThomsonReuters, Beacon Securities.

- **Q4/FY16 Results In Late February.** Q4/FY16 will be the first full quarter with the contribution of ARRIS' Whole Home Solution platform. We are forecasting revenue of $7.8MM and an EBITDA loss of $1.5MM.

Longer-Term Outlook

- **Seeing The Impact Of NOS And Tele Columbus This Year.** While we expect it to be lumpy by quarter, we are forecasting NOS to generate $2.2MM and Tele Columbus to generate $2.7MM of software revenue in 2017.
- **Getting Back to EBITDA Positive.** Management mentioned on the Q3/FY16 call that it is reasonable to assume that the company **will be cash flow positive in 2017**. We are of the view that Espial's current modest burn is 'by design' (i.e., secured staff in advance of future wins). We are forecasting Espial to return to being EBITDA positive in Q3/FY17.

Valuation Highlights

- Espial's shares are currently trading at **an EV/2017E Sales multiple of 0.8x** and an **EV/2018E EBITDA multiple of 4.1x**. Net cash represents 59% of the company's market cap.

Justification of Target Price

- In determining our target price for Espial's shares, we have elected to value them using EV/EBITDA and DCF approaches and average the two results.
- We derive our EV/EBITDA valuation by applying a 13.5x multiple to our EBITDA forecast for the 12 months ended September 2018 (unchanged). **Our rounded EV/EBITDA price target is $3.25** (unchanged).
- **Our rounded DCF price target is $3.50** (unchanged), **based on a 20% discount rate.** Our DCF only incorporates expected growth from the company's existing business and announced contracts (i.e., does not incorporate any future major wins).

Exhibit 5. Calculation of Target Price

EV/EBITDA Approach - Based on Forward EBITDA	
Four Quarter EBITDA Estimate (ending Sep 2018, MM)	$5.8
Target Valuation Multiple	13.5x
Enterprise Value (MM)	$77.7
Forecast Net Debt (Cash) (Sep 2017, MM)	-$39.1
Equity Value (MM)	$116.8
Shares Outstanding (ending Sep 2017, MM)	37.2
Target Price (Rounded)	**$3.25**

DCF Approach	
Target Price (Rounded)	**$3.50**

Average Target Price (Rounded)	**$3.50**
Implied Return	**75%**

Source: Beacon Securities estimates.

Terra Firma Capital Corp (TII-V)

Background

- Terra Firma is a lender which provides real estate financing solutions for developers, owners and operators who are bankable, but underserved by the conventional banks. Terra Firma's objective is to achieve equity-like returns in a debt-like structure. The company invests its own capital and earns additional yield (~300 bps) by offering its investments to syndicates.

Potential Catalysts In Q1/FY17

- **Final Resolutions To Urbancorp Situation.** Terra Firma's exposure to Urbancorp, a large Toronto developer which recently filed for bankruptcy, can be viewed as having three components.
    - **Bridlepath and Woodbine Properties – $~7MM.** Terra Firma has already received $4.7MM repayment of principal, all interest and expenses related to these properties. We expect the **remainder to be received in Q1/FY17**.
    - **Leslieville Property – $~7MM.** We anticipate Terra Firma will be able to **announce a resolution with the senior lender on the property in Q1/FY17** – which would turn the loan from being in default to being in good standing.
    - **Mattamy Aldridge JV – $~7MM.** Terra Firma acquired a 50% equity JV interest in a housing development in Etobicoke for $7MM in March 2016. Since then, the Teranet – National Bank House Price Index for Toronto is up 20% and the property in question has gone from being 'zoned but not sold' to '98% sold out'. Given these factors and our previous life as an auditor, we imagine Terra Firma will likely record a gain writing up its investment in the property to some extent with Q4/FY16 results and be able to recognize income as houses are completed throughout 2017.
- **Q4/FY16 Results – Likely Late March.** Our official forecasts call for a year-end book value per share of $0.80. However, we believe there **could be a number of one-time positive items** (catch-up of interest not recognized earlier in 2016, write-up of investment in Mattamy JV, f/x

etc.) which we have not explicitly modeled, but **would flow to book value**.

- **Evidence Of Funds Being Deployed.** In November 2016, management disclosed that it has **several signed LOIs for loans in the U.S. totaling over $40MM**. We look forward to seeing these amounts having been lent out by the time the company reports Q4/FY16 results in late March. To put this figure into context, Terra Firma's loan and mortgage portfolio was $101MM at the end of Q3/FY16.

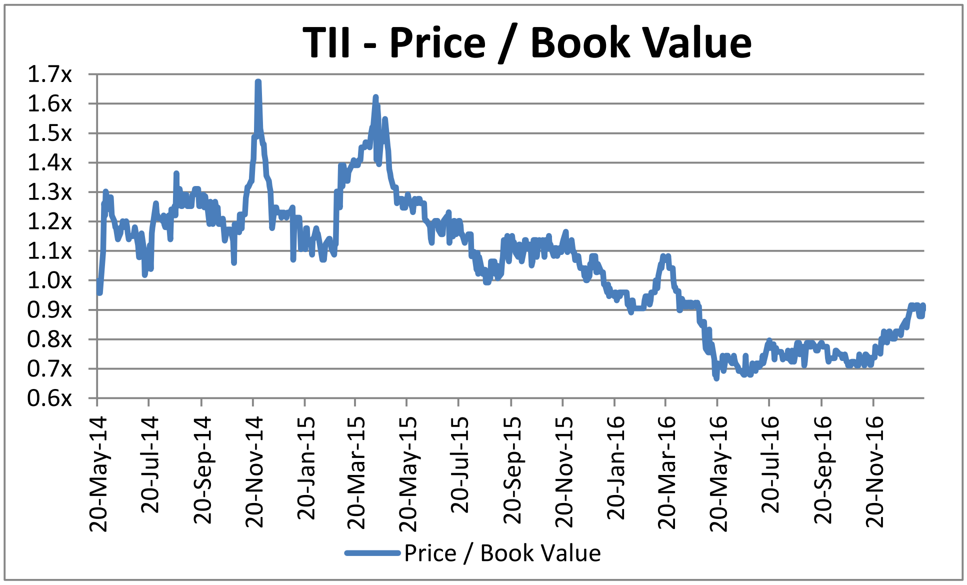
Longer-Term Outlook

- **More Normalized Earnings In 2017.** With so much capital tied up in investments it could not record income on for accounting purposes, reported EPS (f.d.) has been restrained recently. As the above issues are resolved, and the company demonstrates its ability to deploy meaningful amounts of cash in the U.S. which yield superior risk/reward characteristics, we expect EPS (f.d.) to meaningfully improve. We are forecasting Terra Firma to generate $0.09 in EPS (f.d.) in 2017 – fairly consistent with the $0.10 generated in 2015.

Valuation Highlights

- Terra Firma's shares have experienced upward momentum over the past few months. That said, the company's shares are still currently trading at a **Price/Book Value multiple of only 0.90x**. Terra Firma's shares used to average a Price/Book Value multiple of 1.17x prior to the March 31, 2016 (i.e., approximate time the Urbancorp situation came to light).

Exhibit 6. Terra Firma's P/BV Multiple



Source: Company reports, Thomson Reuters.

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Justification of Target Price

- We derive our $1.05 (rounded) target price by applying a 1.17x P/BV multiple (unchanged) to our Q3/FY17 book value per share forecast of $0.88. We note that this is the average multiple at which Terra Firma's shares have traded from when we launched coverage to March 31, 2016.

Exhibit 7. Calculation of Target Price

Q3/FY17E Book Value Per Share	$0.88
Target Valuation Multiple	1.17x
Target Price (Rounded)	**$1.05**
Implied Return	48%

Source: Beacon Securities estimates.

ProntoForms Corp (PFM-V)

Background

- ProntoForms solutions allow employees out of the office (such as field workers, sales teams, inspectors, delivery personnel etc.) to manage forms, paperwork and client relationships using a mobile device and have the data integrated within their systems in the office in real time.

Potential Catalysts In Q1/FY17

- **Q4/FY16 Results In Late March.** We are forecasting recurring revenue of $2.9MM – up 6% sequentially, representing the **fastest rate of growth in four quarters**. We are forecasting an EBITDA loss of $712K.

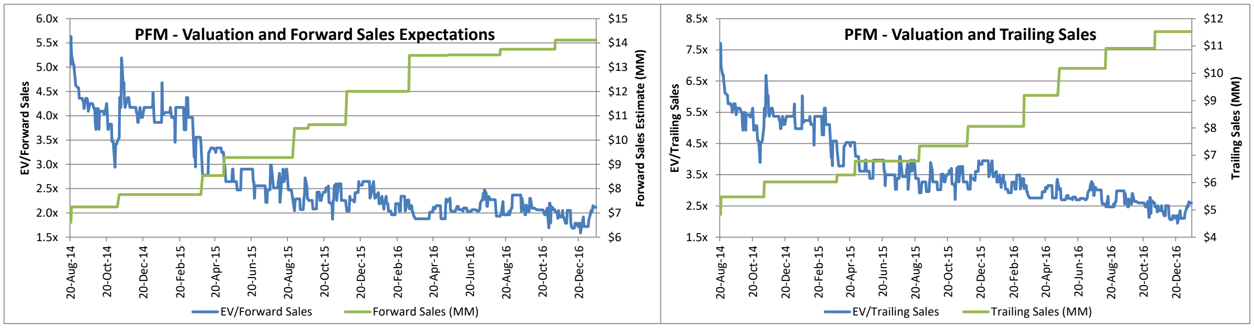
Longer-Term Outlook

- **Breakeven This Year?** Management has communicated its goal of being EBITDA breakeven by the end of 2017. Our model has this occurring in Q3/FY18. Accordingly, there **could be upside surprises along the way**.
- **Appreciation Of Takeout Potential.** On the theme of recurring revenue software takeouts, we note that QHR was recently acquired for 4.7x current year's sales. While ProntoForms isn't EBITDA positive yet, we believe the company's plan is to grow and eventually sell the company, as we do not believe there is any reason mobile forms need to exist as a separate public entity over the longer-term. For reference, applying the aforementioned 4.7x multiple to our 2017 sales forecast implies a theoretical takeout price of $0.76. Applying this multiple on our 2018 sales forecast (and our Q4/FY17 balance sheet expectations) results in a theoretical takeout price of $0.87.

Valuation Highlights

- ProntoForms' shares are currently trading at an EV/Forward Sales multiple of 2.1x and an EV/Trailing Sales multiple of 2.6x – both of which are towards the low end since we launched coverage.

Exhibit 8. ProntoForms' Historical EV/Sales Multiples and Sales Estimates



Source: Company reports, Thomson Reuters.

Justification of Target Price

- Our $0.70 target price is derived by applying an EV/Forward Sales multiple in a range of 3.25x to 3.75x (unchanged) to the company's revenue for the 12 months ended Q3/FY18.

Exhibit 9. Calculation of Target Price

Four Quarter Revenue Estimate (ending September 2018 MM)	$18.6
Target Valuation Multiple	3.6x
EV (MM)	$66.9
Forecast Net Debt (Net Cash) September 2017, MM)	$2.2
Equity Value (MM)	$64.7
Shares Outstanding (ending September 2017, MM)	94.5
Target Price (Rounded)	**$0.70**
Implied Return	**112%**

Source: Beacon Securities estimates.

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As at December 31, 2016	#Stocks	Distribution
Buy	67	77%
Speculative Buy	12	14%
Hold	3	3%
Sell	0	0%
Under Review	5	6%
Tender	0	0%
Total	87	100%

Buy	Total 12-month return expected to be > 15%
Speculative Buy	Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return is expected to be between 0% and 15%
Sell	Total 12-month return is expected to be negative
Tender	Clients are advised to tender their shares to a takeover bid or similar offer

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