

First Rock Capital Holdings

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INFRINGEMENT IN THE APPENDIX**

Transaction Overview

First Rock Capital Holdings (FCH) is inviting investors to participate in an initial public offer (IPO) of up to 106,083,332 ordinary shares in the Capital of the Company with the right to upsize the offer by an additional 53,041,666 shares in the event of oversubscription. First Rock is an investment holding company with a focus on real estate and private equity investments.

Term Sheet

Issuer	First Rock Capital Holdings Limited
Securities	<p><u>51,053,333 US\$ Class A Ordinary Shares:</u></p> <ul style="list-style-type: none"> • 16,250,000 shares available to the general public at USD Subscription Price of US\$0.12 per share • 14,553,333 shares reserved for subscription to Key Strategic Partners at the US\$ Subscription Price of US\$0.12 per share • 20,250,000 shares reserved for subscription by First Rock Affiliates at the US\$ Reserved Price of US\$0.108 per share <p><u>55,029,999 J\$ Class B Ordinary Shares:</u></p> <ul style="list-style-type: none"> • 37,916,666 shares available to the general public at the J\$ Subscription Price of the J\$ equivalent of US\$0.12 per share calculated using the Subscription Rate • 3,613,333 shares are reserved for subscription to Key Strategic Partners at the J\$ Subscription Price of J\$ equivalent of US\$0.12 per share calculated using the Subscription Rate • 13,500,000 shares reserved for subscription by First Rock Affiliates at the J\$ Reserved Share Price of the J\$ equivalent of US\$0.108 per share using the Subscription Rate
Arranger	Lead Stock Broker – Sagicor Investments Jamaica Limited Co-Arranger – Sygnus Capital Limited
Price	<p><u>Class A</u> Subscription Price – US\$0.12 per share Reserved Price – US\$0.108 per share</p> <p><u>Class B</u> Subscription Price – J\$ equivalent of US\$0.12 per share Reserved Price – J\$ equivalent of US\$0.108 per share</p>
Minimum Subscription	1,000 Shares

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Subscription Rate	The weighted average selling rate of the US\$ in exchange for J\$ as published by the Bank of Jamaica three (3) business days prior to the Publication Date of the Invitation times a factor of 1.002
Use of Proceeds	<ol style="list-style-type: none"> I. Fund pipeline opportunities II. Pay the fees and expenses associated with the Invitation III. Continue the mandate and objectives of the Company in identifying opportunities in both local and international real estate markets
Dividend Policy	If the Shares are admitted to listing on the Main Market and the USD Market, the Board shall distribute a minimum of fifty per cent (50%) of profits to the Shareholders in the form of cash dividends to be paid quarterly.
Timetable of Key Dates	<p>Opening Date – January 13th, 2020</p> <p>Closing Date – January 31st, 2020</p> <p>(subject to the right of the Company to designate an earlier or later date in the circumstances set out in this Prospectus).</p>

Company Background

First Rock Capital Holdings Limited is an International Business Company (IBC) incorporated under the laws of St. Lucia on October 4, 2017. FRCH commenced trading activities in late March of 2019 upon the completion of a Private Placement Offer. The Company was created to “take advantage of investment opportunities in the acquisition and development of real property with the primary aim to provide its Shareholders with a tax-efficient vehicle for real estate investment, good dividend yield and capital appreciation in diversified real estate assets.”

FRCH invests primarily in real estate assets which include: income-generating investment properties; development projects (greenfield and brownfield), real estate-linked financial instruments and opportunistic private equity investments. The Company aims to invest in Jamaica, the wider Caribbean, North America, and Latin America. FRCH has three wholly-owned subsidiaries:

- First Rock USA LLC, a limited liability company incorporated in and under the laws of the State of Florida, USA;
- First Rock Capital Latam, Sociedad Anónima, a corporation incorporated in and under the laws of Costa Rica; and
- First Rock Capital Cayman Limited, a limited liability company incorporated in and under the laws of the Cayman Islands.

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The subsidiaries were formed in Cayman, USA and Costa Rica to allow for greater efficiency in these jurisdictions and allow for ease of doing further business. In the future, the Company will expand its focus to other markets that exhibit economic growth and strong prospects for growth. FRCH elected to pay income tax of one per cent (1%) in Saint Lucia. Pursuant to provisions of the CARICOM Double Taxation Treaty, dividends/distributions paid to Shareholders who are residents of CARICOM member states should be subject to withholding tax in St. Lucia at a rate of 1%, with no further taxation in the Shareholder's country of residence.

Management Company

First Rock Capital Resource Limited (FRCR) is a Jamaican management company that manages the operations of the FRCH and executes its business strategies. FRCR was issued Class A Preference Shares to ensure that the structure of the investments made and, by extension, the investment objectives of FRCH is not subverted by shareholders holding shares in the other share classes who may acquire a substantial interest in FRCH. Holders of the Class A and Class B ordinary shares cannot alter the rights, terms, and conditions of the Class A Preference Shares and the Management Agreement.

The terms of the management fee and the preference shares may not be altered by the holders of the Ordinary shares as preserving First Rock Capital Resource's relationship with the Company is believed to be a substantial factor in Investors' decision to take up Ordinary Shares. The Directors consider the issue of the preference shares to First Rock Capital Resource an effective mechanism to ensure the continuity of its relationship.

If in the future the Company issues further preference shares, they must rank subordinate to the Class A Preference Shares issued to the Management Company. Management fees and Preference Share dividends are paid to the Management Company as outlined below:

Management Fee

A management fee of two per cent (2%) of the net asset value of the Company based on the Company's audited financials. The fee is to be paid quarterly in arrears, based on the quarterly unaudited financial statements of the Company, subject to the 'clawback' provision.

Performance-Based Fee

A performance based cumulative annual dividend calculated as twenty-five per cent (25%) of the audited annual total comprehensive income of the Company in excess of eight per cent (8%) (the 'hurdle' rate). Dividends are to be paid quarterly in arrears, based on the quarterly unaudited financial statements of the Company, subject to the 'clawback' provisions.

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Clawback / Top Up Provision

Both the management fee and the performance-based dividend are subject to a 'clawback' by the Company if the audited annual financial results of the Company demonstrate a negative variance from the quarterly unaudited accounts used to determine the payment of fees/dividends. If the audited annual financial results demonstrate a positive variance from the quarterly unaudited accounts, such additional amount will be paid to the Management Company (with no interest) so that it is made whole based on the audited results.

The terms of the management fee and the preference shares may not be altered by the holders of the Ordinary shares as preserving FirstRock Capital Resource's relationship with the Company is believed to be a substantial factor in Specified Investors' decision to take up Ordinary Shares. The Directors consider the issue of the preference shares to FirstRock Capital Resource an effective mechanism to ensure the continuity of its relationship. If further preference shares are issued by the Company in the future, they must either rank *pari passu* or subordinate to the preference shares issued to FirstRock Capital Resource.

Current Ownership Structure

Shareholders	Volume of Shares	Ownership %
JCSD Trustee Services Limited - SIGMA Real Estate	15,400,000	9.27%
David Chin & Joyce Chin	10,000,000	6.02%
Beech Realty Company	10,000,000	6.02%
M F & G Trust & Finance Ltd. - A/C 58	5,300,000	3.19%
M F & G Trust & Finance Ltd. - A/C 57	5,100,000	3.07%
Airport Authority of Jamaica	5,000,000	3.01%
Philip Martin* and Sandra Martin*	5,000,000	3.01%
Ryan Kwesi Reid/Observation Group Limited	4,856,247	2.92%
Saleem Mahfood & Stephanie Mcconnell	4,000,000	2.41%
Michael Banbury	4,000,000	2.41%
York Page Seaton & Claudette Marie Seaton	3,854,158	2.32%
Gul Mansukhani & Malini Mansukhani	3,550,000	2.14%
JMMB Retirement Scheme (Moderate)	3,500,000	2.11%
JMMB Pension Fund	3,400,000	2.05%
Roosevelt Bird, Juliet Bird & Christopher bird	3,300,000	1.99%
Paul Fraser & Heather Fraser	3,040,000	1.83%
Jamaica Money Market Brokers Ltd. - FM10	3,000,000	1.81%
Gul L Khemlani & Monica Khemlani	3,000,000	1.81%
Pierre A. Shirley*	3,000,000	1.81%
Welljen Limited	3,000,000	1.81%

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Top Twenty (20) Shareholdings	101,300,405	60.98%
Other Shareholdings	64,821,663	39.02%
Total Issued Class A Ordinary Shares	166,122,068	100.00%
Total no. of shareholders	79	
* - connected party		

Ownership Structure Before and After Invitation

Class A Ordinary Shares - Before IPO			Class B Ordinary Shares - Before IPO		
Shareholders	Number of issued Class A Ordinary Shares	% of Shareholding	Shareholders	Number of issued Class B Ordinary Shares	% of Shareholding
Existing Shareholders	166,122,068	100%	Existing Shareholders	nil	0%
General Public	nil	0%	General Public	nil	0%
Reserved	nil	0%	Reserved	nil	0%
Total	166,122,068	100%	Total	nil	100%
Class A Ordinary Shares - After IPO			Class B Ordinary Shares - After IPO		
Shareholders	Number of issued Class A Ordinary Shares	% of Shareholding	Shareholders	Number of issued Class B Ordinary Shares	% of Shareholding
Existing Shareholders	166,122,068	76.5%	Existing Shareholders	nil	0%
General Public	16,250,000	7.5%	General Public	37,916,666	68.9%
Reserved	34,803,333	16.0%	Reserved	17,113,333	31.1%
Total	217,175,401	100%	Total	55,029,999	100%

Company Strategy

FRCH focuses on creating an opportunity for Shareholders to invest in a diversified portfolio of real estate assets and benefit from dividends from FRCH's real estate activities without having to buy, manage or finance properties themselves. FRCH aims to achieve its mission by carrying out the following strategies:

1. purchase and/or improvement of existing income producing properties to be managed by the Management Company;
2. purchase of properties for development whether solely by the Company or, on a case by case basis, with selected strategic partners for immediate sale upon completion or rental/income generation;
3. purchase of greenfield and/or brownfield properties with the intention of making further development or redevelopment for capital gains (less than 12 months);
4. purchase and sale of any free assets for the purposes described above, including but not limited to structured notes, Shares, preference shares and corporate bonds;
5. prudent leverage of portfolio assets for efficient management, enhancement of yield and/or to capitalize on pipeline opportunities. The debt to equity ratio on any given asset is not expected to exceed seventy-five per cent (75%).

Further to this IPO, FRCH will consider opportunities, primarily in Jamaica, for the issue of short-to-medium term structured notes and debt-type preference shares. Any further issuance of Shares to fund the Company's activities will require the approval of an ordinary majority of the Shareholders (more than

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50%) or the holders of the Class A Preference Shares, subject to the preference shareholders special voting rights.

Portfolio Allocation

The Company intends to focus initially on three jurisdictions: Jamaica - 45%, the Wider Caribbean - 25%, and the United States of America -35%. Within these regions, FRCH aims to be over allocated in commercial real estate in a ratio of 80% to 20% residential real estate. The IPO proceeds will be deployed into three categories:

- Income-producing (64%) – real estate assets which will be acquired solely for the purpose of generating rental income
- Developments (23%) – acquisition of property (green and brownfield) for commercial and/or residential developments; and
- Capital gains (13%) – where appropriate, properties may be acquired and held for capital appreciation and ultimate sale.

Recommendations for deployment of capital will be made by the Management Company's Executive team based on initial screening and due diligence of the opportunity to a five-member Asset and Risk Management Committee (ARMC) of the Management Company.

This committee will include: Chairman (FRCR); two (2) other non-executive directors of FRCR; the President and CEO of the Management Company; invitees: Manager – Finance, Risk & Compliance, Executive Vice-President – Real Estate Business and other experts. The ARMC approves all amounts up to US\$4,000,000. For amounts greater than US\$4,000,000, the ARMC seeks final approval from the Management Company's Board of Directors.

Expenses

In two to three years, FRCH intends to achieve a cost to income ratio not in excess of thirty per cent (30%). The following expenses will be borne by the Company: annual Company registration fees and any applicable taxes in respective jurisdictions; quarterly and annual financial reporting fees; accounting/audit/legal and other professional fees; administration and management fees; valuations and market reads/research fees; marketing, public relations and advertising costs; and sales commissions and selling agent fees.

FRCH is targeting a management expense ratio (MER) not exceeding three point five per cent (3.5%). The MER¹ includes management fees plus preference share dividend, portfolio or the company's day-to-day operating expense, such as record keeping, valuation costs, audit and legal fees and other general & administrative costs, as well as non-recoverable taxes.

¹ The MER is expressed as a percentage of the company's average total assets.

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Underperformance Clause

If the Management Company underperforms, the shareholders may, by a resolution passed at a general meeting, vote to wind-up the Company and the holder of the Class A Preference Shares shall not be entitled to vote on any such resolution. Underperformance in this scenario represents five (5) consecutive financial years, not including any year prior to the Financial Year 2020, where the gross return on equity is less than four per cent (4%) based on the audited financial statements.

Executed and Pipeline Opportunities

Executed Opportunities					
Properties	Location	Classification	Type	Acquisition Cost	Anticipated Net Yield
21 Balmoral Avenue	Jamaica	Commercial	Income-Producing	US\$2,600,000	8.5%
The Grove	Cayman Islands	Residential	Pre-Construction	US\$3,136,000	11%
Icon Brickell	Miami, USA	Residential	Income-Producing	US\$1,000,000	7%-8%
Medinah 21	Jamaica	Residential	Pre-Construction	US\$1,630,000	-
5 Seaview Avenue	Jamaica	Commercial	Development	US\$2,200,000	-
Torres de Heredia	Costa Rica	Residential	Income-Producing	US\$635,841	8%
Ultima Park II	Costa Rica	Commercial	Income-Producing	US\$1,129,000	9.15%
WaterMill Villas	Jamaica	Residential	Income-Producing	US\$872,426	8%

- 21 Balmoral is a stand-alone, two storey office building approximately 17,000 sq. ft. leased to Medimpex Jamaica Limited for 10 years with all ten years remaining.
- The Grove is a **mixed-use** development located along the seven-mile beach corridor in Grand Cayman. The Company is under contract to acquire five of fifty-eight one bedrooms to be built and completed in the first quarter of 2020. The units will be retained, managed and marketed to international visitors for short-term rentals.

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- Icon Brickell is one of South Florida's largest condominium developments with a mix of over 1,800 units (1,648 units used for residential purpose and 162 units used for hotel accommodation). FRCH has acquired two one-bedroom apartments; one unit is leased on a guaranteed rental income programme and benefits from additional income determined as a percentage of total rental income earned from the unit while the other is managed and marketed for short-term rentals
- Medinah 21, located on Salisbury Avenue, Kingston 6, is currently being developed as a mixed residential apartment and townhouse community – twelve standard townhouses, six townhouses with basements, and twelve apartments. FRCH is under contract to acquire two apartments and three townhouses (one standard and two with basements). Construction is expected to be completed by the fourth quarter of 2020 and thereafter, the units will be held for capital appreciation and ultimate sale
- The Seaview Avenue property is approximately 68,727 sq. ft. with an existing residential building poised for residential and/or commercial development. The Company aims to execute a commercial development subject to regulatory approvals. Some units will be sold for profits while the rest will be retained for recurring revenues.
- Torres de Heredia is a multi-block high rise apartment complex located in San Jose, Costa Rica within close proximity to several free zones and the National Convention Centre. The Complex will have six blocks upon completion. FRCH has acquired five apartments and entered a three-year guaranteed leaseback arrangement with the developer.
- Ultima Park II is located in Escazu, San Jose, Costa Rica and is a mixed-use office and warehouse development. The complex has fifty-six units with over 6,000 square metres of space. The Company acquired two units which are under three- to five-year leases.
- WaterMill Villas is located in Old Fort Bay, St. Ann, and consists of fourteen 2-bedrooms and four 4-bedrooms townhouses. FRCH has three of the 2-bedroom units. The units are being managed and marketed for local and international short-term rentals.

Pipeline Opportunities					
Properties	Location	Classification	Type	Acquisition Cost	Anticipated Net Yield
Bamboo Avenue	Jamaica	Residential	Development	US\$5,000,000	-
Shoppes at Rosehall	Jamaica	Commercial	Income-Producing	US\$13,250,000	-

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SunTrust	Virginia,USA	Commercial	Income-Producing	US\$7,000,000	-
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Corporate Governance

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The Company currently has a 7-member Board of Directors and intends for 2 additional members to be nominated and elected by the Ordinary Shareholders after the close of the Invitation.

Dr David Lowe – Chairman (Non-Executive, Independent)

Mr. Lowe brings to the Board his expertise in business and governance. He is formerly the Chief Executive Officer of Caribbean Producers Jamaica Limited a JSE listed company and currently serves as a board member of the National Health Fund and Chairman of the Western Region Health Authority (WRHA) and the National Compliance Regulatory Authority (NCRA).

Norman Reid, J.P. – Deputy Chairman (Non-Executive, Independent)

Mr. Reid is a career banker and is the Chairman of Port Security Corps Limited, Sam Sharp Teachers College and holds Directorships in the EXIM Bank, Access Financial Services Limited, Western Regional Health Authority, Embassy Loans USA LLC and Growth Tech Limited.

Douglas Halsall, O.D. – Director (Non-Executive, Independent)

Mr. Halsall has spent the last forty years in the Information Technology in Jamaica and has assisted in the implementation of the first Automated Teller Machine (ATM) in Jamaica, and in computerizing many industries ranging from Health Insurance, Credit Unions, Retail, Government Accounting and Hospitality & Tourism. He founded Advanced Integrated Systems (AIS) in 1987 and serves as its Chief Executive Officer.

York Page Seaton, C.D., J.P. – Director (Non-Executive, Independent)

Mr. Seaton is a qualified engineer and founder and CEO of Y.P. Seaton & Associates Company Limited Construction, Development, Electrical and Mechanical Engineering Contracting company in Jamaica and the wider Caribbean.

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Lisandra Rickards – Director (Non-Executive, Independent)

Ms. Rickards is currently the CEO of the Branson Centre of Entrepreneurship – Caribbean. The Centre seeks to help local businesses prosper by supporting their progress and development and assisting them to access the funding and the markets they need to scale their businesses. She brings to the board her experience funding programmes in multiple categories including equity investing, crowdfunding, lending, and grants.

Alton Morgan – Director (Non-Executive, Independent)

Mr. Morgan is an Attorney-at-Law, and the Managing Partner of Jamaican law firm Alton E. Morgan & Company. The firm specializes in legal services concerning Real Estate and Property Development.

Kisha Anderson J.P. – Director (Non-executive, Independent)

Mrs. Kisha Anderson began her tenure with Jamaica Money Market Brokers Limited (JMMB) in 1996 and has worked in several areas of the company's operations. She recently served as Country Manager of JMMB's Jamaica-based subsidiaries: Jamaica Money Market Brokers (JMMB) Limited, JMMB Merchant Bank Limited, JMMB Insurance Brokers Limited, JMMB Fund Managers Limited and JMMB Securities Limited (Jamaica). She currently sits as a director on the Boards of JMMB Insurance Brokers Ltd., JMMB Fund Managers Ltd., JMMB Securities Limited, JMMB Money Transfer Limited, JMMB Ltd., JMMB Investments (T&T) and JMMB Securities (T&T).

First Rock Capital Resource

The assets and operations of FCH will be administered and managed by FirstRock Capital Resource. The members of the Board of Directors of FRCR are:

Dr. Michael Banbury - Chairman (Non-Executive)

Dr. Michael Banbury is a Co-founder of First Rock Capital Holdings Limited and First Rock Capital Resource Limited and serves as the Chief Executive Officer of Medical Associates Hospital, where he also sits on the Board. He is a Medical Doctor with specialty in Primary Care and Diabetology. Dr. Banbury serves at the Board level of various Private and Public sector entities and brings management and business development experience.

Philip Martin – Deputy Chairman (Non-Executive)

Mr. Martin is the Chairman and Managing Director of Caribbean Fencing Limited, a leading fencing provider in the region. He is also Chairman of W.A.K Investment Limited. Mr. Martin was the Co-founding Shareholder of Dehring Bunting & Golding Limited and International Media Content (Sportsmax). He has served on numerous Private and Public sector boards, including Scotia Investments Limited.

Ryan Reid, J.P. – Director (Executive)

Mr. Ryan Reid is the Co-Founder of First Rock Capital Holdings Limited and First Rock Capital Resource Limited where he is also the President and CEO. Prior to this, he was the General Manager at Proven Wealth; a leading wealth management firm. Mr. Reid brings to the fore twelve years of experience in the real and financial sectors, with eight at the executive level

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in the financial sector. Throughout his career, he has had responsibilities of leading sales, services, accounting, investments and corporate finance teams.

He is the Co-Founder and Chairman of Growth Tech Limited (a local technology company), Chairman of Nationwide News Network Limited and holds directorships in Bumble Bee Digital Agency Limited, BrainBox Solutions and Wealth Team Incorporated. He has also held directorships in various Government of Jamaica Boards.

Paul Hoo – Director (Non-Executive)

Paul Hoo brings a wealth of experience in business development and operations. He currently serves as the Chairman of the Board of Petrojam and is a founding shareholder of Supreme Ventures Limited, of which became the President & CEO of in 2001. He was the chairman from 2004 to 2017. He has held management positions with dynamic organizations such as Grace Kennedy and Company Limited and Facey Commodity Company Limited.

Marjorie Seeberan – Director (Non-Executive)

Mrs Seeberan is a retired career banker. Her most recent post was General Manager for Corporate Banking at National Commercial Bank Jamaica Limited. She was also the Executive Director for The University of the West Indies - May 1997 - November 2002, and before that she was the Senior Vice President of JPMorgan Chase up until November 1995.

Pierre Shirley - Director (Executive)

Mr. Shirley is the Executive Vice President of First Rock Capital Resource Limited, the Jamaica affiliate of the Company with direct oversight for the real estate investment portfolio. Until earlier this year, he was the General Manager of PROVEN REIT Limited a real estate portfolio valued in excess of US\$20M.

He has been involved in the real estate sector for approximately eighteen years with experience of both residential and commercial real estate deal structuring, developments, portfolio management, property management, sales, leasing and financing, mortgage origination, processing, underwriting, and funding.

Edwin Wint – Director (Non-Executive)

Mr. Wint is currently the Chairman & CEO at Better Homes and Gardens Real Estate Jamaica. His background is a Real Estate executive with broad experience in all aspects of valuation, facilities/property management, estate management, real estate investment consulting and real estate sales. He was a Director of Real Estate Board and Commission and has also served as the President of the Realtors Association of Jamaica.

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Financial Performance to Date - USD

Profitability

For the 23 months ended September 30, 2019, FRCH reported a net profit of \$218.26K. Driving this performance was a foreign exchange gain of \$374.3K which more than offset an operating loss of \$154.66K. Revenues from contracts with customers amounted to \$9.47K while interest income totalled \$217.08K and net gain from fair value adjustment on investment property stood at \$393.04K.

Direct property operating expenses amounted to \$18.64K, management fees amounted to \$184.77K, marketing and administrative expenses totalled \$368.64K while operating expenses stood at \$194.96K. Total operating expenses amounted to \$767.43K.

The Company began commercial activities in March 2019 after the completion of its private placement offer where US\$16M was raised. As such, the financial results reflect activities of the Company from March 15, 2019 to September 30, 2019. No revenues were generated before March 15, 2019 and pre-operational expenses consisting of legal, marketing, and travel expenses amounted to \$61.94K.

Liquidity & Solvency

As at September 30, 2019, total assets amounted to \$15.9M. Non-current assets amounted to \$13.98M as investment property amounted to \$8.6M while financial assets measured at amortised cost stood at \$4.2M. Loans receivable amounted to \$755.74M while financial assets at fair value through profit & loss amounted to \$384.04K. Property, plant & equipment stood at \$35.8K.

Current assets stood at \$1.92M, consisting primarily of \$1.1M in property acquisition deposit. The cash balance stood at \$584.7L while trade and trade receivable amounted to \$135.76K. The Company had no long-term liabilities. Current liabilities amounted to \$201.45K, consisting mainly of \$113.51K in amounts due to related parties and \$68.76K in trade and other payables. The cash ratio stood at 9.53x while the current ratio was 2.90x.

Net cash used in operating activities amounted to \$363.28K while net cash used in investing activities amounted to \$13.03M as \$8.21M was expended on the acquisition of investment property and \$3.0M was spent on the purchase of investments and \$1.1M went to property acquisition deposits. Net cash provided by financing activities of \$15.48M represented the proceeds of the private share offer.

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Outlook

Jamaica

The real estate market in Jamaica may be viewed as a seller's market in the residential space, particularly in upscale urban areas where demand outstrips supply. As such, it is observed where property prices have been rising over the past few years. Adding to the demand is the rise of the short-term rental market facilitated by online sites such as Airbnb and Booking.com. Competition in the real estate sector is growing and First Rock represents just one of several companies looking to enter the space. First Rock views 138 Student Living, Kingston Properties, PanJam Investment Trust, Eppley Caribbean Property Fund Limited and Sagicor Real Estate X-Fund as the four major players in the Jamaican space. As the Company is also seeking to venture into the Wider Caribbean and the U.S., they will also face competition by local players in those jurisdictions.

Cayman Islands

In March 2019, Moody's Investor Services affirmed the Cayman Islands' investment grade Aa3 bond and issuer ratings and maintained its rating outlook at Stable. The credit ratings were supported by continued fiscal surpluses that have led to low and falling government debt metrics, high per-capita income balanced by risks posed by a small and narrow economy that is susceptible to weather-related shocks and a strong institutional framework which reflects broad consensus on macroeconomic policies. This is further supported by fiscal oversight from the United Kingdom.

These positive economic trends augur well for the real estate outlook in the Cayman Islands. According to Lalaine Delmendo from Global Property Guide², the Cayman property market is currently growing rapidly after several challenging years as it recovers from the 2010 downturn. Demand is centred along Seven Mile Beach for condominiums and Cayman Kai on the north of the island for single-family homes. There are no restrictions on foreign ownership of property in the Islands. The absence of taxes and restrictions on foreign ownership makes investing in the Cayman Islands attractive.

Costa Rica

In December 2018, Moody's reduced Costa Rica long-term issuer and senior unsecured bond ratings to B1 from Ba2 and changed its rating outlook to negative. The downgrade was driven by the continued and projected worsening of debt metrics on the back of large deficits in spite of fiscal consolidation efforts. Significant funding challenges have emerged for the nation as increasing fiscal deficit, government debt and interest costs have led to rising borrowing requirements. The negative outlook reflects Moody's

² Global Property Guide. (2019). Cayman Islands' housing market robust, with good yields and limited supply. Retrieved from <https://www.globalpropertyguide.com/Caribbean/Cayman-Is/Price-History>

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opinion that fiscal consolidation efforts present material implementation risks that could exacerbate the country's borrowing challenges if realized.

Despite these macro-economic woes, Costa Rica's housing market remains strong, buoyed by the nation's booming tourism - tourist arrivals have grown every year since 2010. San Jose, the home of the Torres de Heredia development, enjoys good rental returns with houses yielding 8.6% and apartments 7.5%³. Global Property Guide data showed almost all other provinces registering rising residential property prices during the year to July 2019. US buyers are driving property demand in Costa Rica, which is the most visited country in Central America, capturing more than 25% of market share. Americans account for more than 40% of all visitor arrivals in the country every year.

Investment Positives & Negatives

Positives

- Real estate returns have low correlations with other traditional asset classes, thereby providing diversification benefits to portfolios
- Real estate returns are directly linked to rents received from tenants. These rents are typically indexed to inflation thus providing an inflationary hedge and maintenance of real returns.
- Indirect real estate investment vehicles such as First Rock allow investors to participate in opportunities that they would typically be precluded from if they were to invest directly by pooling funds from shareholders.
- Management fees are calculated on net asset value which is a departure from the common practice of using total assets in the calculation.
- The performance-based dividend has a hurdle rate of 8% with a claw-back provision in the event that the audited results are less than the unaudited results, which are used to make the quarterly dividend payments.

Negatives

³ Global Property Guide. (2019). Costa Rica's thriving housing market. Retrieved from

<https://www.globalpropertyguide.com/Latin-America/Costa-Rica/Price-History>

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- As a recent start-up, First Rock has less than a year's worth of operational and financial history. Investors are being asked to assess the structure as presented as well as the capacity of the management team to realize their goals.
- The Company will be undertaking property development which exposes it to execution and construction risk which can be significant depending on the size and scope of the project.
- The real estate market is competitive in Jamaica and the markets the Company is aiming to expand into. As a start-up they will face challenges in acquiring market share.
- A few of the properties that the Company has acquired will be managed and marketed as short-term rentals. Investors in the real estate sector typically are seeking consistent and predictable income streams, which is provided for with long-term rentals/leases. Short-term rentals will require additional marketing and maintenance costs that come with the high turnover nature of that business line without the certainty of income flows of long-term leases.
- While the Underperformance Clause allows for the removal of the management company for poor results, it does not come into effect until after five consecutive years which is a fairly long time to not meet investor expectations.

Valuation

- The Shares are being offered at a price of US\$0.12 for the general public. Assuming a 100% take up of this Offer, the post-IPO book value per share (BVPS) would be US\$0.10, which translates to Price to Book Value (P/B) Ratio of 1.15x. Comparatively the real estate peer group⁴ P/B ratio is 0.86x. **Applying the peer group P/B ratio to the post-IPO BVPS yields a price of US\$0.09, 25.5% below the offer price of US\$0.12.** We believe the Price Multiples Approach is the most appropriate methodology to determine the fair value of the FRCH shares as a real estate investment company with limited operational financial history.
- If we applied the peer group average to the 2020 BVPS forecast of \$0.14, we get a price of \$0.12 per share. However, the prospectus does not provide any of the assumptions utilized to derive the projections stated. As such, we are unable to utilize them in our valuation process as we cannot assess how reasonable FRCH's forecasts are.

⁴ Real Estate Peer Group consists of 138 Student Living, Stanley Motta Limited, Sagicor Real Estate X Fund, Kingston Properties Limited and Eppley Caribbean Property Fund SCC Value Fund

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Recommendation

We recommend this Offer as **STRONGLY UNDERPERFORM/UNDERWEIGHT** as we believe it is priced above its fair value of US\$0.09. While we view the fee structure and the diversification potential favourably, investors who desire to partake in the IPO should be mindful that as a start-up company, this investment is of higher risk than a pre-existing entity. An entity that is operating over multiple periods has a track record that can be assessed. This investment is suitable for investors with a medium-to-long term investment horizon who are seeking to diversify their traditional investment holdings and generate income.

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, Company Financials, IPO Prospectus, Global Property Guide, Moody's Investor Service

First Rock Capital Holdings

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

MARKETPERFORM/HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

UNDERPERFORM/UNDERWEIGHT— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM/UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

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