Fundamental Research Corp.
Investment Analysis for Intelligent Investors

Siddharth Rajeev, B.Tech, MBA, CFA
Analyst

Daniel Iwata, BA
Research Associate

May 28, 2013

Equicapita Income Trust – Private Equity Fund Focused on SMEs in Western Canada

Sector/Industry: Private Equity **www.equicapita.com**

Summary of Offering	
Issuer	Equicapita Income Trust
Date of the OM	15-May-13
Offering	No Min or Max
Securities Offered	Preferred Trust Units & Common A LP Units
Unit Price	$1.00 per Preferred Trust Unit / $0.001 per Common A LP Unit
Minimum Subscription	$5,000
Management Fee / Compensation	No Asset Management Fees - Receives Salaries totaling $180k p.a.- Receives Common LP Units
Priority Return for Investors	10% pa (paid quarterly)
Time Horizon (Management Estimate)	5 years
Selling Comissions	10% - Selling Fee + 1% - EMD Fee
Registered Plans	Trust units will be eligible subject to meeting certain conditions / LP units are not eligible
Auditor	Collins Barrow LLP
Legal	Bennett Jones LLP

FRC Rating	
Base-Case Return (IRR)	N/A
Rating	**3 (Good)**
Risk	4 (Speculative)

Investment Highlights

- Equicapita Income Trust ("trust", "fund"), based in Calgary, is a private equity ("PE") fund focused on acquiring controlling positions in small-medium enterprises ("SME"). The primary focus will be on businesses in Western Canada.
- The trust's goal is to build a diversified portfolio of SMEs with a history of generating stable cash flows, that can be passed on as annual yield for investors.
- Management is experienced in the alternative investment space and PE.
- The trust's focus will be on businesses with enterprise values in the $2 – $20 million range.
- Approximately 50-60% of the owners of small private companies in Canada are reaching, or have already reached retirement age, which offers significant opportunities for funds, such as Equicapita, to acquire fundamentally strong companies at reasonable valuations.
- Unlike traditional PE funds, Equicapita will focus on only those businesses that can run independently without Equicapita having to make any operational/management changes or infuse capital to spur growth.
- Management is expecting to generate at least 10% p.a. priority return for investors, with the potential to exit in five years with equity-style upside. There is no asset management fee, instead, management receives common B LP units.

Risks

- Timely deployment of capital is crucial.
- As this is a blind pool, success of the investment depends heavily on the principals.
- Execution risk.
- Return of capital is not guaranteed.
- Ability to acquire companies at reasonable valuations.
- Management's ability to seek out an appropriate liquidity event, which is currently anticipated to take place after five years.
- As the offering has no minimum amount, investors' capital will be tied up in the fund, without being put to work, until the minimum required to complete the first acquisition, which we estimate is approximately $3 million, is raised.

Background and Terms of the Offering

Equicapita is an open ended trust, established on April 23, 2013. The trust, based in Calgary, is a PE fund focused on acquiring controlling positions in SMEs with a strong history of cash flow generation. The trust's primary focus will be on companies based in Western Canada.

The trust was established by Stephen Johnston, Michael Cook, and Greg Tooth. Combined, they have experience in fund management, PE and M&A advisory. This will be the principals' first exempt offering as a group**.** The trust's focus will be on SMEs **with enterprise values in the $2 – $20 million range,** generating Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA or operating income) of $1 - $5 million. Transactions of this size tend to face significant funding issues as they are generally considered too small by the capital markets. Also, approximately 50-60% of the owners of such businesses in Canada are reaching or have already reached retirement age, and are looking at ways to monetize the equity in their businesses. These two factors offer **significant opportunities for PE funds, such as Equicapita, to acquire fundamentally strong companies at reasonable valuations.**

The traditional business model of PE firms is to acquire controlling positions in private companies, restructure/repackage the companies *(through operational / management changes and/or capital infusion),* and try to maximize the value of those companies through exit strategies such as Initial Public Offerings (IPO), merger/acquisition, or refinancing/recapitalization.

Equicapita intends to use a long-term buy-hold strategy. Unlike traditional PE funds, Equicapita will focus on only those companies that can run independently without Equicapita having to make any significant operational/management changes or infuse capital to spur growth. In other words, Equicapita will be a **relatively passive owner/investor of the acquired businesses.** However, Equicapita intends to have risk controls and monitoring processes in place to manage its portfolio. Equicapita intends to **use lower leverage** (less than 25%) relative to traditional PE funds. Another major difference between Equicapita and a traditional PE fund is that traditional funds rely heavily on quick exit strategies (such as IPOs / mergers / recapitalization etc) to generate a return on their investments; while **Equicapita is less focused on the exit strategies, and more on building a diversified portfolio of SMEs that can generate annual income for investors.** Although the upside to this model is likely to be lower than typical PE transactions (as quick and successful exit strategies offer extremely high returns), we believe this model carries lower risk due to the fund's focus on streaming out the cash flow from stable businesses to generate investor returns.

Equicapita does not expect to make any significant operational changes to its portfolio companies, but will provide services that require less company specific skills/knowledge including human resources, marketing, accounting, financial and legal – which will offer significant room for cutting "General and Administrative' expenses of the businesses.

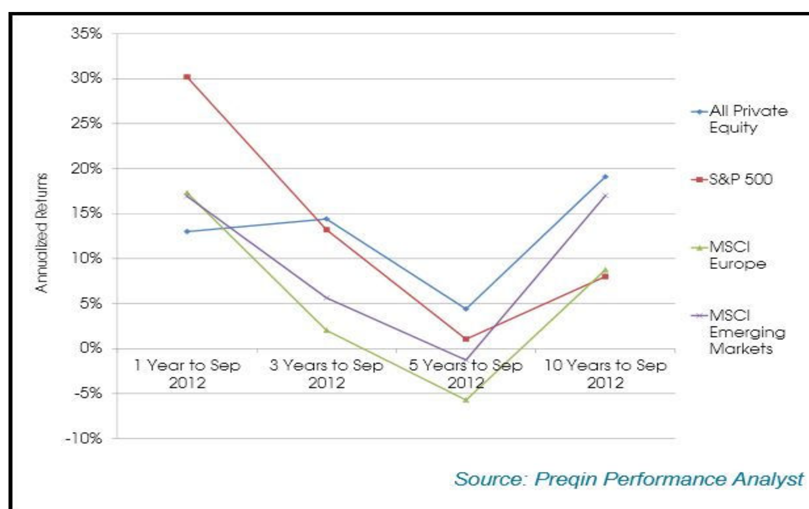
This offering is a **blind pool** implying the fund has yet to identify the businesses to be acquired. The trust intends to primarily make equity investments, but on a selective basis, it will utilize vendor financing or third-party debt financing. However, management has

FRC Fundamental Research Corp.

indicated that they intend to keep debt to capital below 25% - which is low relative to most of the buyout transactions in the space. **Management is expecting to generate a 10% p.a. priority return for investors, with a potential to exit in five years, with equity-style upside.**

Purpose The purpose of this report to evaluate the potential return and risks associated with this investment opportunity.

Private Equity Space Private equity is an alternative asset class that has offered attractive risk adjusted returns in the past. Preqin provides research on alternative investments and tracks over 6,200 PE funds worldwide. From their chart below, we can see that PE outperformed the S&P 500, and other popular benchmarks in the 3, 5, and 10 years ended September 2012.



Although the standard deviation (measure of risk) is high for private equity, the following table shows that the Sharpe ratio (risk adjusted returns) of U.S. and non-U.S. private equity have been much better than most other asset classes during the period between January 1997 and December 2006. The data in the table below is dated, but it illustrates that PE risk adjusted returns have historically performed better than most asset classes.

Asset Class Historical Return Statistics (Jan. 1997 to Dec. 2006)

Asset Class	Arithmetic Annual Return	Compounded Annual Return	Standard Deviation	Sharpe Ratio
Cash	3.69%	3.67%	1.80%	0
U.S. Bonds	6.31%	6.24%	4.00%	0.654
Non-U.S. Bonds	5.72%	5.11%	12.05%	0.169
U.S. Stocks	10.12%	8.64%	18.40%	0.350
Non-U.S. Developed Stocks	10.22%	8.33%	20.91%	0.312
Emerging Market Stocks	15.20%	10.55%	34.08%	0.338
U.S. Private Equity	29.78%	24.85%	40.73%	0.641
Non-U.S. Private Equity	25.11%	21.46%	32.37%	0.662

Source:Ibbotson

The following table shows the out-performance of Canadian PE versus US PE, and the public equity markets.

Net Horizon Returns 2009	10 Years	5 Years	3 Years
CANADA			
All buyout / mezzanine funds	14.2%	16.8%	7.2%
TSX benchmark	3.9%	4.1%	-2.5%
UNITED STATES			
Small buyouts (USD 0-250 mm)	3.4%	4.2%	0.1%
Medium buyouts (USD 250-500 mm)	4.1%	8.7%	3.6%
Large buyouts (USD 500-1000 mm)	4.9%	6.7%	2.7%
Mega buyouts (USD >1 bn)	4.7%	4.8%	-1.0%
All buyouts	4.6%	5.3%	-0.3%
Mezzanine	2.9%	2.8%	0.7%
NASDAQ	-5.6%	0.8%	-2.7%
S&P 500	-2.7%	-1.6%	-8.1%

Note 1: net horizon returns calculated as at 31 December 2009
Note 2: TSX benchmarks compare the returns for the LPs would have been had those investors invested in the TSX instead of private equity funds.
Source: CVCA data (with assistance from Thomson Reuters) and the US VC industry (Thomson Reuters data) and stock exchange benchmarks.

Investors have the ability to invest in private equity companies listed on organized exchanges or through direct investment in PE limited partnerships. The following table shows the advantages and disadvantages of each. Note that it is not possible to make a clear distinction between the two as each has its own advantages and disadvantages.

	Advantages	Disadvantages
Private Equity LP	• Tend to be smaller, and therefore, investors will have better access to management • Can invest in niche fund types, management teams, sectors etc. • Less correlated with equity markets.	• Illiquid • Longer time horizon • Project specific risk, as portfolios are smaller • Lower diversification • The actual NAV or fair value might not be known at any given time.
Listed Private Equity	• Liquidity - can buy and sell fairly quickly. • Quarterly and annual reporting is mandatory – so, higher transparency • Portfolios are usually more diversified as they are larger. • Low minimum amount to invest. • As they are publicly traded, their valuations are more transparent and up to date.	• Funds from exits are typically reinvested. • Tend to use higher debt (leverage). • Higher correlation with equity markets

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Opportunities in the Canadian SME Space

The following was compiled by Thompson Reuters for the Canadian Venture Capital & Private Equity Association, and shows the number and size of private equity deals in 2012. **The smallest segment (<$25 million – which is Equicapita's target market) had the highest number of transactions.**

Deal Range	# of Deals Done	Dollars Invested (Disclosed)
> $1 Billion	3	$3,200 Million (28%)
$500 Million - $1 Billion	1	$500 Million (4%)
$100 Million - $500 Million	27	$5,101 Million (44%)
$25 Million - $100 Million	35	$1,671 Million (14%)
< $25 Million	168	$1,134 Million (10%)
Deal Values Undisclosed	79	$0 (0%)
Total Deals With Disclosed Values: 234 (of 313) Total Invested: $11.6 Billion		

As mentioned earlier, Equicapita will primarily focus on buyouts of SMEs in western Canada. SMEs are generally defined by the number of workers employed. Industry Canada defines businesses with 1-99 employees as "small", and 100-499 as "medium". Businesses with 1-499 employees are considered SMEs. **SMEs make up 98% of all businesses within Canada.**

According to Industry Canada, there were 1.1 million small businesses, and 19,000 medium businesses in Canada. The total number of small businesses (1-99 employees), in Equicapita's primary target provinces, is shown in the following chart.

	% of Total	Number of Small Businesses
BC	15.5%	170,983
Alberta	13.6%	149,843
Saskatchewan	3.5%	38,790
Manitoba	3.2%	35,660
Total	**100.0%**	**395,276**

Source: Industry Canada "Key Small Business Statistics - July 2012"

The following displays the distribution of companies, by number of employees, in Canada.

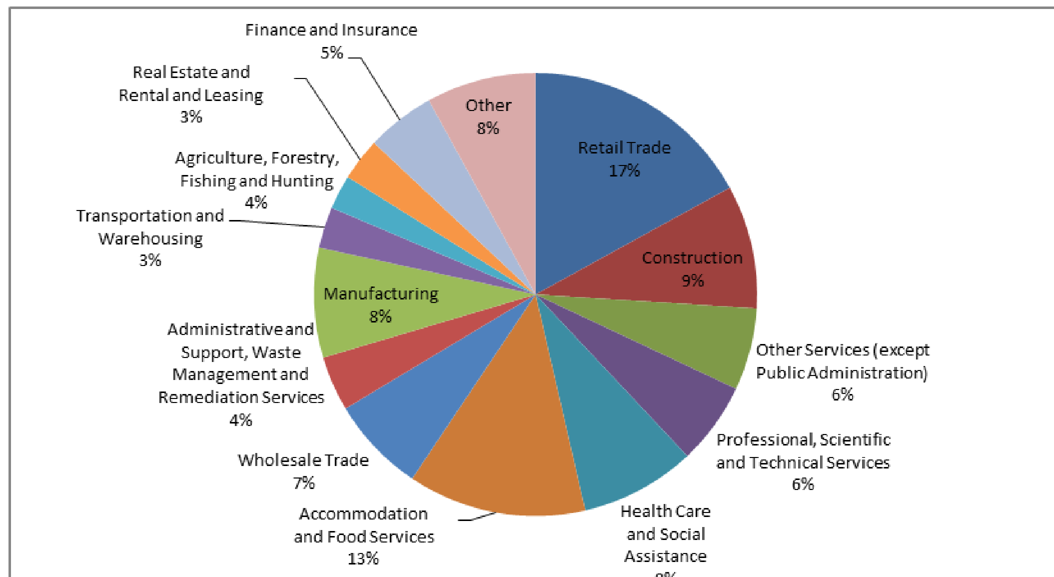
PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Number of Employees	Percent of companies
1-4	54.9%
5-9	20.1%
10-19	12.4%
20-49	8.1%
50-99	2.6%
100-199	1.1%
200-499	0.6%
500+	0.2%

Source: Industry Canada "Key Small Business Statistics- July 2012"

Equicapita's primary target will be companies with 20-100 employees. From the above table, we can see that this segment accounts for approximately 10.7% of the small businesses in all of Canada, which we assume approximates to **42,295 (395,276 *10.7%) in Western Canada, as potential targets for Equicapita.**

Although Equicapita has not placed any restrictions on industry, the following shows the breakdown of industries of small businesses with 10-99 employees in all of Canada. Retail trade, accommodation/food services, and construction account for almost 39%.

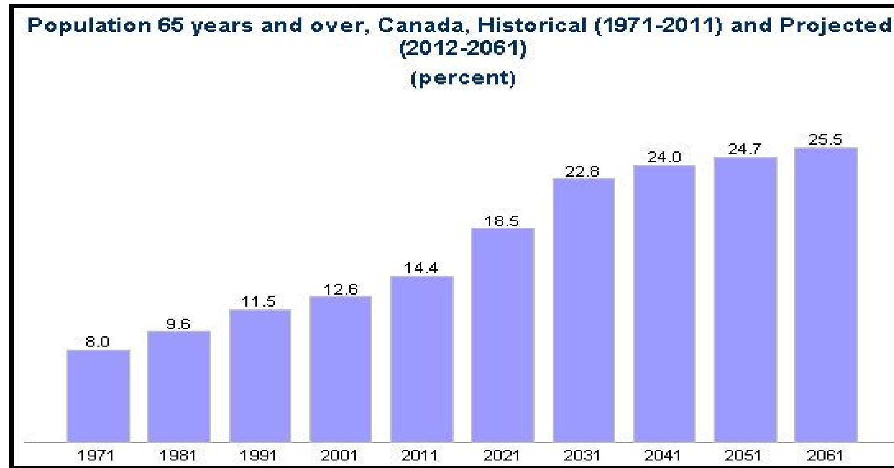


Source: Industry Canada "Key Small Business Statistics- July 2012"

The total equity financings in 2011, for companies with 20-99 employees, was $844 million. The total equity financing for companies with 1-99 employees was $3.1 billion.

Equicapita feels that due to the aging population, the amount of SMEs available for sale will increase. This conclusion is supported by the demographic trends shown in the charts below. The population over 65 is expected to account for 18.5% of the total population by 2021, up from 14.4% in 2011. This increase is much higher than the previous

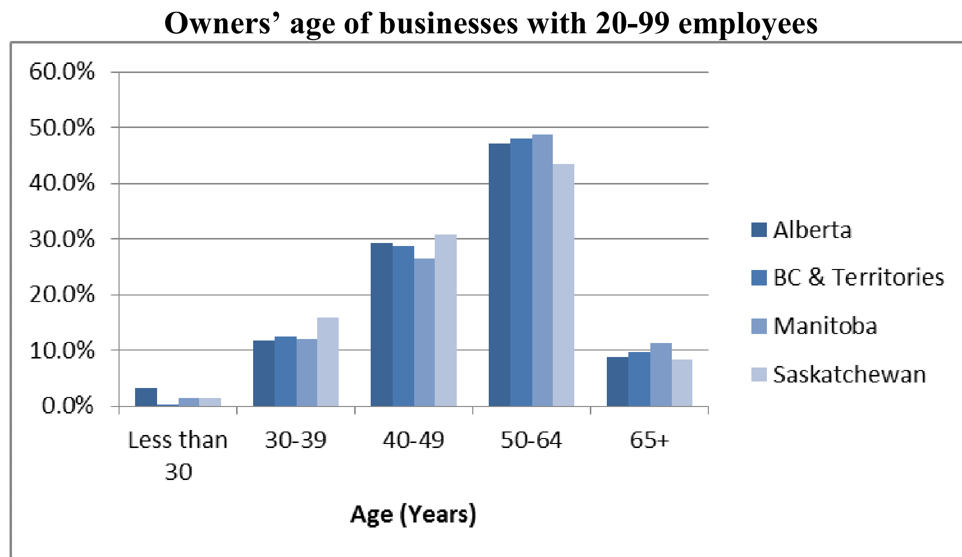
decade's increase from 12.6% to 14.4%.



Source: Human Resources & Skill Development Canada

As shown in the below chart, the majority of companies in Western Canada, with 20-99 employees, are owned by individuals nearing retirement or at retirement.

Owners' age of businesses with 20-99 employees

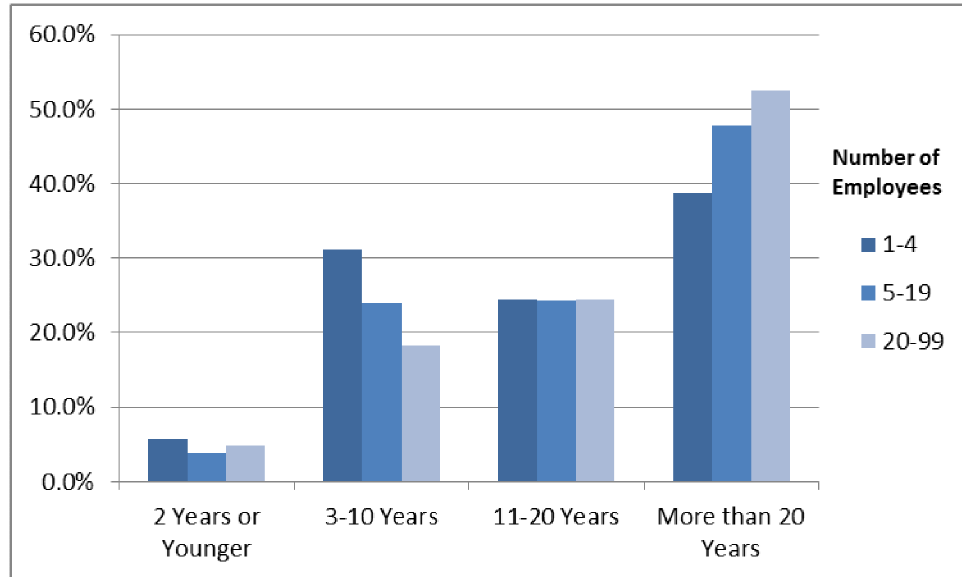


Source: Industry Canada "Survey on financing and growth 2011"

We can also see, in the chart below, that the majority of small businesses in Canada are mature and have been in operation for over 20 years.

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

FRC Fundamental Research Corp.



Source: Industry Canada "Survey on financing and growth 2011"

The Canadian Federation of Independent Business indicates that only 10% of SME owners have a formal, written succession plan; 38% have an informal, unwritten plan, and the remaining 52% do not have any succession plan at all. We feel that this shift in demographics is beneficial to Equicapita in sourcing prospective deals for the following reasons.

- **The asking price of small businesses will be reasonable** with an increasing number of businesses up for sale.
- **The market Equicapita is focusing on is underserved.** Businesses with an enterprise value (EV) of under $2 million have individual investors who are willing to purchase. Most institutional investors consider businesses with EV of under $20 million as too small. As a result, we believe, the $2-20 million range is less competitive for potential buyers/investors seeking controlling positions.

The following table shows our estimate of the number of companies that Equicapita can target every year.

Total number of small businesses in Western Canada (FRC estimate)	42,295
% of business owners over 65 years (9.5% of total)	4,018
Equicapita's target businesses per annum in the above group[1]	804
% of business owners between 50-65 years (47.0% of total)	19,879
Equicapita's target businesses per annum in the above group [2]	1,988
Total expected annual target (1) + (2)	**2,791**

1. We assume the business owners over 65 years will retire/transfer control in the next 5 years

2. We assume business owners between 50-64 years will retire/transfer control in the next 10 years

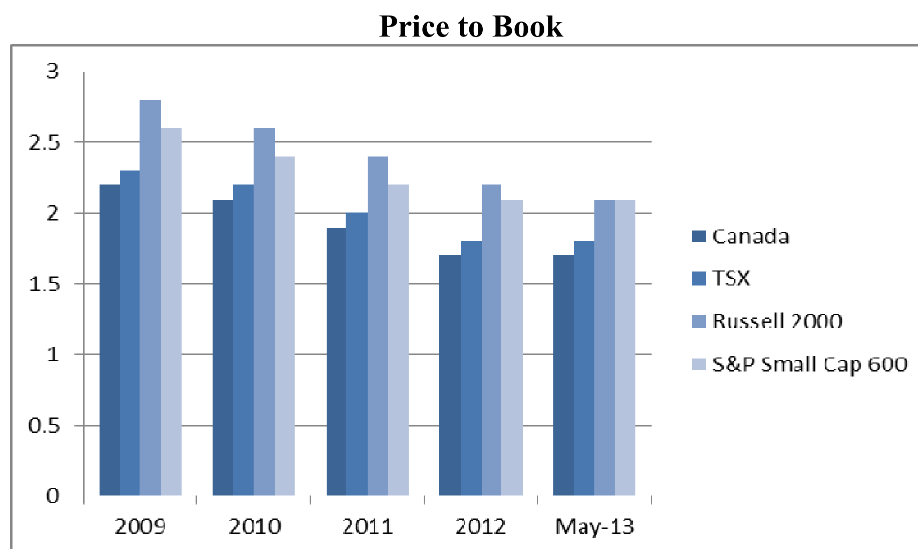
Low valuations – The International Business Brokers Association (IBBA) tracks middle market and micro market sales. In their Q4-2012 report, they reported that the number one reason owners sell their business was retirement. They also anticipate that retirements will fuel growth in lower end market transactions as the population ages. The following shows the average valuation multiple (EBITDA multiple) of private companies (in the U.S.) with values falling between $2 - $5M, and between $5 - $50M. We believe these multiples are good indicators of the current valuation of Canadian companies as well.

Enterprise Value	EBITDA Multiple
$2MM - $5MM	2.75
$5MM - $50MM	4

Source: IBBA

The following chart shows that market valuations have dropped considerably since 2009 – which is encouraging for Equicapita.

Price to Book



Source: Capital IQ

Management Team and Track Record

According to management, the three principals have participated in over 50 PE transactions with a total value in excess of $250 million. **Based on our due diligence, and interviews with the management team, we believe the three principals possess extensive experience in the PE sector**. The team has experience in fund management, PE and M&A advisory – which are critical skillsets for Equicapita's business model.

As mentioned earlier, this will be the first time the three individuals have worked together. Mr. Johnston has past experience in exempt offerings; he currently manages two other funds – one focused on farmland, and the other on oil and gas. This will be Mr. Cook and Mr. Tooth's first experience with exempt or any syndicated offerings. Brief biographies of the management team, as provided in the OM, follow on the next page.

Stephen Johnston - President and Chief Investment Officer and Director of the Administrator / General Partner
Stephen is the founder and a partner in Agcapita, a farmland investment fund and the co-founder and a partner of Petrocapita, an energy investment fund. From 1990 to 1991, Stephen practiced in the Calgary office of Milner Fenerty, Barristers & Solicitors, as a corporate lawyer. In 1994, Stephen joined AT Kearney, based in London, England, a global consulting firm, as a strategy consultant implementing trading risk management systems for Swedish investment banking clients with a focus on analyzing commercial real estate loan portfolios to quantify the accuracy of default risk metrics. From 1994 to 1998, Stephen worked as a banker for the European Bank for Reconstruction and Development on the Telecommunications and Media Team, providing debt and equity financing to companies based in Eastern Europe and the former Soviet Union. In 1998, Stephen became the head of the private equity team at Societe Generale Asset Management – Emerging Markets UK. In this capacity he was responsible for closed-end funds covering the Baltics, Central and Eastern Europe and the Middle East with US$285 million under management. In 2000, he became a principal and part owner of a £12 million early stage technology fund based in London, UK, and investing in European based start-ups. Stephen returned to Calgary in 2003 and since then has been involved in several start-up businesses including JMCK Western Publishing Corporation (from October 2003 to March 2006) and a junior oil & gas company (Western Plains Petroleum – TSXV: WPP, from November 2004 to March 2013 - a micro-cap company). Stephen has a BSc. (Honours in Biology) (1987) and a LLB from the University of Alberta (1990) and a MBA (1994) from the London Business School.

Stephen is currently a partner in other funds that raise capital via exempt market offerings - Agcapita and Petrocapita. Brief summaries of the funds, along with their performance metrics, as provided by management follow:

Agcapita Farmland Investment Fund - Agcapita is structured to allow investors to invest in farmland without the need to take on the complex responsibilities of ownership themselves. Agcapita's business model is to acquire a geographically diversified farmland portfolio (different regions/crops/farm sizes) and cash-rent that land to farmers. Agcapita aims to provide superior absolute and risk adjusted returns linked to Canadian farmland price disparities and overall agricultural commodity demand - through rents and appreciation of the land. Agcapita is currently raising capital for its fourth fund – Agcapita Farmland Fund IV. Total equity capital raised to date in funds I, II & III is approximately $31 million.

Agcapita does not provide distributions because it is structured as a growth investment. Net cash flow is accumulated on the balance sheet of each fund, and re-invested in additional farmland over the life of the fund.

The total capital raised by funds I, II and III was $28 million, as of December 31, 2012. The funds had deployed $19 million, and held $6 million in cash at that time. Funds I and II were fully invested, but fund III capital has to be completely deployed due to a typical 6-9 month lag between raising capital and deploying it. According to management, fund III closed in April 2013, and with current dealflow, plans to be fully invested by Q4-2013. We have not been able to verify these figures as the annual audited 2012 statements of the funds are yet to

be completed.

Petrocapita Income Trust - Petrocapita is a private royalty trust that utilizes funds from its offering to invest directly in oil and gas assets, primarily in western Canada. Total equity capital raised to date is approximately $31 million.

The total capital raised was $31 million, as of December 31, 2012. The trust had deployed $12 million, and held $15 million in cash at that time. We have not been able to verify these figures as the annual audited 2012 statements of the funds are yet to be completed. Management has yet to deploy a significant portion of the available capital. Management stated that the majority of the capital was raised in 2012 (the fund closed in October 2012), and with current dealflow, plans to be fully invested by Q4 2013. The trust distributed 11% (as a percentage of invested capital) in 2011, and 7% (as a percentage of invested capital) in 2012.

Michael Cook - Chief Financial Officer and Director of the Administrator / General Partner

Since 2005 Mr. Cook has run his own advisory business, Lexbury Financial Inc., working with SME businesses in many capacities (general business advisory, executive management, sell side advisory, buy side private equity and at the board of director level) over a broad range of industries (oilfield service, manufacturing, technology, distribution and oil & gas, among others). Michael has worked with SME businesses to improve operations, implement financial controls, introduce bench marking, and to focus on key drivers to increase business value. During his tenure with Lexbury Financial Inc., Michael was a partner in a boutique corporate finance firm, Links Capital Partners (2007-2010), where he focused on mid market and SME mergers & acquisitions and financing transactions. Other engagements Michael has taken on include contract president of a gas marketing company, contract chief financial officer of an oilfield service company, financial advisor to many SME business owners, and member of the Board of Directors of Inventronics Limited (TSXV: IVX, 2009 to 2013 – a micro cap company). From 1997 to 2005, Mr. Cook worked in corporate finance and private equity with: Synergy Partners Inc. (1998 to 2000), a boutique SME focused mergers & acquisitions firm (acquired by Ernst & Young), Ernst & Young Corporate Finance Inc (2001 to 2004), and Mercantile Bancorp Limited (2004 to 2005), an SME focused private equity firm. In 2013 Michael joined BCMS Corporate LLC as a Senior Vice President, Investment Banking. Mr. Cook holds Chartered Accountant (1999) and Chartered Business Valuator (2002) designations in addition to a Bachelor of Commerce in Marketing (1993) from the University of Manitoba.

Greg Tooth - Chief Operating Officer and Director of the Administrator / General Partner

Mr. Tooth has over 15 years of experience in energy derivative risk management, private equity and is a Partner in the Truck Zone Group of companies. Truck Zone is comprised of three private Alberta-based transportation service companies, as well as a portfolio of industrial real estate. Mr. Tooth was instrumental in implementing the strategic plan to source, structure and successfully acquire targeted private companies. Most recently, Mr. Tooth worked in Private Equity, with North West Capital Partners Inc. (Principal), to lead

efforts to acquire a $700 million gas fired generation facility in Western Canada, with an aim to structure a high yield public equity offering. From 1998 to 2010, Mr. Tooth led business development efforts in the energy sector for a number of sophisticated, multinational commodity trading firms, including Shell Canada, Transalta, and Enron. In this capacity, Mr. Tooth was responsible for managing client energy portfolios in excess of $300 million to achieve desired corporate risk management goals, in addition to identifying and evaluating associated energy infrastructure opportunities. From 1995 to 1997, Mr. Tooth worked in Corporate Finance at Foundation Group Merger & Acquisitions, which was subsequently acquired by Price Waterhouse Coopers. Mr. Tooth has a Bachelor of Commerce Degree from the University of Alberta (1994) and is a Chartered Financial Analyst (1999).

In summary, we believe the principals have a strong background, with a potential to run a successful fund. However, this is their first venture together, and the trust has no track record to evaluate. Key people risk is high, and we believe the success of the business is reliant on the ongoing participation of all the three principals.

Investment Strategy

Equicapita's primary investment criteria are listed below:

- businesses with a track record of generating sustainable cash flow
- at least 5 years of operating history
- sustainable competitive advantage
- EBITDA of $1+ million
- stable margins
- less capital intensive
- ability to buy up to 100% of equity
- ongoing participation of senior management in the business
- the primary area of focus will be Western Canada – however, the OM does not restrict management from investing internationally, or in other parts of Canada

Equicapita will only seek companies with sufficient management in place to allow Equicapita to adopt a passive investment approach without the need to manage/monitor the day-to-day operations. The trust will **also avoid companies that are declining in sales, and/or need capital infusion to spur growth**. As it is very essential for small company managers to have an intimate knowledge of their products/services, Equicapita's business model prefers existing management teams to continue running operations to reduce transitional risks. As the majority of the owners of small private companies are also involved in the day-to-day operations of their companies, it is essential for Equicapita to have those management teams to continue to work on the acquired businesses. In order to keep the incumbent managers motivated to run the businesses, after they are acquired, Equicapita intends to offer managers performance based compensation and other incentive plans. In certain cases, Equicapita intends to take on vendor take back loans (the seller lends a portion of the acquisition price to the buyer) to keep the owners motivated, and to ensure a seamless business transition.

Management believes a valuation multiple of 4 times EBITDA is reasonable in the current markets – which is supported by our research. Although this offering does not have any

minimum or maximum amounts, management's goal is to raise $36 million over the next four years. **Based on an average EBITDA of $1 million per acquired company, $36 million of funds has the potential to build a portfolio of nine companies generating approximately $9 million in EBITDA.**

As mentioned earlier, Equicapita's goal is to build a portfolio of stable cash flow generating business that can generate at least 10% p.a. of priority returns to investors. To put things in perspective, an acquisition price of 4x EBITDA indicates that the acquired company can return 25% of the invested capital every year. After deducting for the expenses associated with the fund, the remaining cash flows should be sufficient for investors' 10% priority returns. Any amounts generated over the 10% p.a. return will be re-invested or distributed to management and investors.

Management foresees the investment time horizon for investors of this offering as five years, with a liquidity event which may take the form of: refinancing the portfolio, use cash from retained earnings or pursue an IPO. As management does not intend to use high leverage for the acquisitions, and as the acquired companies will not be needing any significant capital infusion (post acquisition), we believe refinancing (debt or equity) at the end of five years is a realistic assumption. That being said, investors should be cautious of the potential delays in those options, and that the five year time horizon is not guaranteed.

Investment Process

As the target market is substantial, management has to ensure that they are able to review as many opportunities as possible in order to arrive at the best candidates for acquisition. According to management, they generate opportunities through the following avenues:

- In-house research and their own network in the SME community –merchant banks, advisory / business brokerage firms, etc.
- Management's relationships with individuals in the legal and accounting sectors
- Active marketing to smaller independent accounting firms, and
- Exempt Market Dealer (EMD) representatives – the principals were introduced to each other last year through a EMD executive – management believes that EMDs may be a useful source of deal flow, as EMD personnel often work with business owners in their capacity as financial advisors.

Their due diligence process will generally include the steps on the next page.

Source: Management

Risk Mitigation: Management will focus on the following to mitigate the risks associated with the fund:

- Provide mentoring support and advice on long-term strategy, profitability, future growth, etc. – although small business owners have intimate knowledge of their businesses' operations, they might not be as proficient in other non-core aspects of their business, such as financial, legal, accounting, etc - Equicapita will be able to provide assistance in these areas.
- Assist management teams to - a) identify and seek out opportunities to enter new markets, expand the products or services offered, vertically integrate and/or geographically grow, and b) estimate appropriate time to divest or acquire assets to maximize shareholder value.
- Equicapita will monitor monthly financial statements of the acquired companies.
- Equicapita may centralize accounting and cash management functions at its head office to provide additional oversight and risk control.
- Deals will be structured to reduce transitional risk by offering proper incentive to owners/senior managers to continue running the businesses.
- Maintain debt to capital below 25%

- Sellers will be encouraged to accept trust units of this offering – which will align their interests with Equicapita.

Although the offering has yet to be launched, according to management, they have already reviewed several potential deals. Equicapita provided us a general list of the companies they have reviewed to date (see table below), which gives some insight into the industry sector and deal size of Equicapita's pipeline to date. Due to the undertakings in non-disclosure agreements, management was unable to provide us any further details.

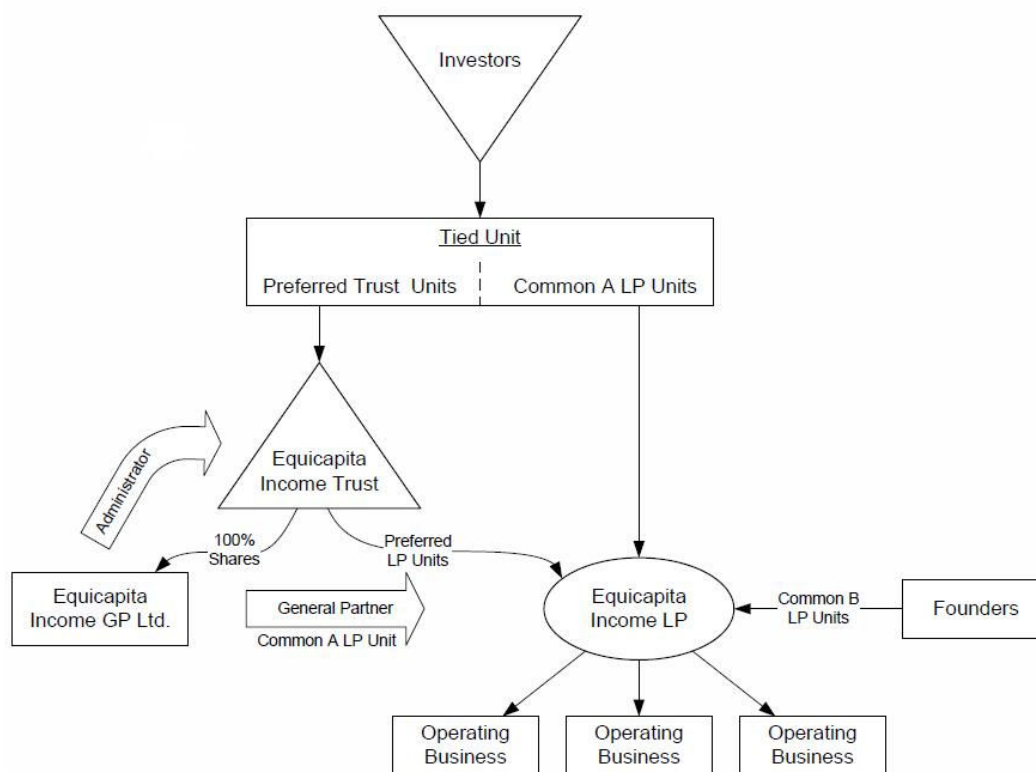
Industry	EBITDA	Notional EV
	$29,900,000	$119,600,000
		4 X
Distribution	$2,250,000	$9,000,000
Light Manufacturing	$3,500,000	$14,000,000
Distribution	$4,500,000	$18,000,000
Distribution	$2,000,000	$8,000,000
Oil and Gas Service	$2,200,000	$8,800,000
Distribution	$750,000	$3,000,000
Retail Distribution	$2,000,000	$8,000,000
Service	$1,000,000	$4,000,000
Commercial Construction	$1,700,000	$6,800,000
Steel Fabrication	$2,000,000	$8,000,000
Distribution	$2,000,000	$8,000,000
Safety Monitoring	$650,000	$2,600,000
Manufacturing	$1,200,000	$4,800,000
Fabrication	$1,300,000	$5,200,000
Fabrication	$500,000	$2,000,000
Oil and Gas Construction	$1,500,000	$6,000,000
Distribution	$850,000	$3,400,000

Source: Management

Structure

PE funds are typically structured as limited partnerships, with an asset management fee of 2% p.a., hurdle rate / preferred return of 8 – 10% p.a., and a profit sharing of 80/20 between investors and management. **This fund also has a LP structure, but the fee structure is different, as discussed below.**

The following chart shows the structure of the fund.



Source: Offering Memorandum

The trust will raise capital from investors. The trust will then purchase preferred LP units of Equicapita Income LP, which in turn will use the funds to acquire businesses. **Both the trust and LP were formed in April 23, 2013.** The administrator of the trust and the General Partner of the LP is Equicapita Income GP Ltd. The trustees are the three founders/principals.

There are no minimum or maximum amounts for this offering. Management's goal is to raise $20 million in the first 12 months.

Securities offered - The trust will issue tied-units composed of a preferred trust unit and a Common A LP unit. The LP will issue three types of units – preferred LP units (which will be issued to the trust), Common A LP units (issued to investors – included in the tied unit), and Common B LP units (issued to the three founders/principals).

For every 10 preferred trust units issued by the trust, the LP will issue 10 Common LP Units (A and B units). The ratio of Common A LP Units to Common B LP Units will be determined by the GP (or management) in its sole discretion. In order to attract and incentivize early investors, management has set out the proposed ratios for the initial tranches as discussed on the next page (note these are management's current estimates; **the OM does not stipulate or commit to these ratios and we expect that the allocation of additional A common units will decline over time as the amount of capital raised**

increases):

- **\$0 to \$3 million raise:** For every 10 A preferred trust units - six Common A LP units, and four Common B LP units will be issued – **ratio is 60:40** (investors and management)
- **\$3 million to \$6 million raise:** For every 10 A preferred trust units – five Common LP A units, and five Common B LP units will be issued – **ratio is 50:50** (investors and management)

Cash distribution – Management intends to distribute the cash generated by the LP (every quarter) as follows:

- Preferred LP unitholders (which is the trust) will receive \$0.10 per preferred LP unit, or 10% of the invested capital
- Remaining cash may be re-invested or distributed to the Common LP unit holders; to put things in perspective, if less than \$3 million has been raised, the ratio of Common A to Common B LP units is 60:40, implying investors and founders will split the residual value 60:40.

Management fee / compensation – Unlike traditional PEs, there is no asset management fee – which is a significant positive for investors of this offering. Management will receive a salary totaling \$180k p.a., and equity, as mentioned above, in the form of Common B LP units. Management's equity share *(the current estimates are 40% for the first \$3 million, and 50% for \$3 - \$6 million)* is likely to be higher than a traditional PE fund's 20%.

Registered plans - The trust intends to qualify as a "mutual fund trust" - allowing the trust units to be qualified investments for registered plans. The LP units are not eligible for registered plans.

Redemptions – Preferred units have very limited redemption options in the first five years. The trust is obligated to pay only up to \$10k per month (total) in cash for the redemptions – the balance can be paid through notes. The terms of the notes have not been set in advance, but must be issued on rates and terms that reflect prevailing market conditions at the time of issuance. The redemption price, in the first five years, will be the lesser of \$0.90 per unit, or 90% of the fair market value of the units (which will be estimated by management acting reasonably – as per the OM) – there will be no penalty after five years. **As management may re-invest the bulk of excess cash on the LP's balance sheet, investors should keep in mind that redemption options are very limited in the first five years.**

Common A LP unitholders have no redemption rights.

The trust, however, is entitled at any time, to redeem all the preferred units. The redemption price per unit will be the lesser of the fair market value or \$1 per unit. Management is allowed to return capital through a combination of cash and notes with a maximum of one year duration.

Exit – According to the OM, management will seek out an appropriate liquidity event for trust unitholders after five years. Options include – listing of the preferred LP units on an exchange, or refinancing. With regard to monetizing the Common A LP units, investors, as mentioned earlier, do not have any redemption rights. Investors will either receive distributions of excess cash flow made to the Common LP unitholders (A & B pro rata) and/or receive the value of their equity when management decides to sell their Common B LP units - we are not in a position to predict the timing of this event. However, we believe, there is an alignment of interest between investors and management, as management will seek to get the best possible valuations for the Common LP units.

Financials

The following tables show very simplified estimates of – 1) the expected cash flows from a $100 investment in the trust, and 2) a range of terminal valuations for the Common A LP units under three scenarios – acquisition multiples ranging between 3x and 5x EBITDA. Management has stated that they will be seeking targets between 3.5x and 4.5x EBITDA. Therefore, the analysis below shows a wider range of the expected scenarios.

Assumptions:

- No use of vendor financing or debt – the LP may use debt to capital of up to 25% - equity returns will improve with leverage
- No increase/decrease in valuation of the acquired businesses
- Other expenses (sustaining capital required for acquired business, G&A expenses associated with the fund) – 20% of EBITDA
- The analysis does not account for tax – the LP will be subject to tax if all the cash generated from operations are not distributed annually.

The first table assumes no reinvestment of excess cash flows generated every year, and the second table assumes that cash flows are reinvested every year at the same EBITDA multiple - which is a more optimistic assumption.

	EBITDA Multiple - 3	EBITDA Multiple - 4	EBITDA Multiple - 5
Invested Capital	$100.00	$100.00	$100.00
Selling Fees	-$11.00	-$11.00	-$11.00
Available Funds	**$89.00**	**$89.00**	**$89.00**
Expected Annual EBITDA	$29.67	$22.25	$17.80
Other Expenses (sustaining CAPEX + G&A + Management Salary) - 20% of EBITDA	-$5.93	-$4.45	-$3.56
Cash for Distribution	**$23.73**	**$17.80**	**$14.24**
Investors's 10% preferred	-$10.00	-$10.00	-$10.00
Excess Cash	$13.73	$7.80	$4.24
EV at the end of 5 years*	**$160.47**	**$129.59**	**$111.07**
Investors' Capital	-$100.00	-$100.00	-$100.00
Remaining Equity	$60.47	$29.59	$11.07
Investors' Share of Equity (50%)	$30.23	$14.80	$5.53
Management's Share of Equity (50%)	$30.23	$14.80	$5.53

** Value of the Businesses ($89) + Excess Cash Generated in 5 years ($7.8 invested @ 2% p.a. in the case of EBITDA Multiple - 4x)*

Based on a five year scenario, and an average acquisition price of 4x EBITDA, investors should expect to receive a 10% p.a. priority return, 100% of invested capital, and Common A LP units worth an additional 14.80% of the initial investment after five years. This analysis assumes a 50:50 split between Common A and Common B LP units. **Adding the equity component, investors' overall IRR is likely to range between 10.9% p.a. (EBITDA multiple – 5 scenario) and 14.5% p.a. (EBITDA multiple – 3 scenario).**

Cash flows reinvested every year at the same EBITDA multiple:

	EBITDA Multiple - 3	EBITDA Multiple - 4	EBITDA Multiple - 5
Invested Capital	$100.00	$100.00	$100.00
Selling Fees	-$11.00	-$11.00	-$11.00
Available Funds	**$89.00**	**$89.00**	**$89.00**
Expected Annual EBITDA	$29.67	$22.25	$17.80
Other Expenses (sustaining CAPEX + G&A of the Fund + Management Salary) - 20% of EBITDA	-$5.93	-$4.45	-$3.56
Cash for Distribution	**$23.73**	**$17.80**	**$14.24**
Investors's 10% preferred	-$10.00	-$10.00	-$10.00
Excess Cash	$13.73	$7.80	$4.24
EV at the end of 5 years*	**$205.43**	**$147.04**	**$118.16**
Investors' Capital	-$100.00	-$100.00	-$100.00
Remaining Equity	$105.43	$47.04	$18.16
Investors' Share of Equity (50%)	$52.71	$23.52	$9.08
Management's Share of Equity (50%)	$52.71	$23.52	$9.08

** Value of the Businesses ($89) + Excess Cash Generated in 5 years ($7.8 invested @ net yield of 20% p.a. in the case of EBITDA Multiple - 4x)*

As shown in the table above, if cash generated every year is reinvested (EBITDA multiple – 4x), investors' share of the common A LP units should be worth an additional 23.5% of the initial investment after five years. Adding the equity component, investors' overall IRR is likely to range between 11.4% p.a. (EBITDA multiple – 5 scenario) and 17.4% p.a. (EBITDA multiple – 3 scenario).

Risk

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- Timely deployment of capital is crucial.
- As this is a blind pool, success of the investment depends heavily on the three principals.
- Return of capital is not guaranteed.
- Access to high-quality transactions.
- Ability to acquire companies at reasonable valuations.
- As the fund intends to maintain a diversified portfolio of businesses, annual returns to investors is susceptible to the health of the overall economy.
- A drop in the valuations of acquired businesses can negatively impact investors' returns.
- Management's ability to seek out an appropriate liquidity event for the preferred units after five years.
- Common A LP units do not have any redemption rights.
- The ratio of Common A:Common B LP units can be lower than what is currently suggested by management. Investors' returns will be capped at 10% p.a. if management decides to issue zero Common A LP units. Investors should check their 'Subscription Agreement' to verify the ratio of Common A and Common B LP units.
- Very limited redemption options in the first five years.
- The trust has the option to redeem the units through a combination of cash and notes with a duration of no more than 1 year.
- Although the fund intends to use limited leverage, the fund is exposed to interest rate risks.
- Fair value of units (in the case of redemptions) will be estimated by management.
- As Equicapita is seeking businesses generating at least $1 million in EBITDA, the trust will have to raise at least $3 million net funds (assuming a valuation multiple of 4x EBITDA, and 25% vendor financing) to pursue its first acquisition. As the offering has no minimum, investors' capital will be tied up in the fund, without being put to work, until the first $3 million net funds is raised.

Rating

Based on our review of the offering's business model, management team, execution strategy, and the exit plan, we arrived at an overall rating of 3 (Good), with a risk rating of 4 (Speculative).

FRC Rating	
Base-Case Return (IRR)	N/A
Rating	**3 (Good)**
Risk	4 (Speculative)

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Fundamental Research Corp. Rating Scale:

Rating – 1: Excellent Return to Risk Ratio
Rating – 2: Very Good Return to Risk Ratio
Rating – 3: Good Return to Risk Ratio
Rating – 4: Average Return to Risk Ratio
Rating – 5: Weak Return to Risk Ratio
Rating – 6: Very Weak Return to Risk Ratio
Rating – 7: Poor Return to Risk Ratio
A "+" indicates the rating is in the top third of the category, A "-" indicates the lower third and no "+" or "-" indicates the middle third of the category.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk)
2 (Below Average Risk)
3 (Average Risk)
4 (Speculative)
5 (Highly Speculative)

FRC Distribution of Ratings			
Rating - 1	0%	Risk - 1	0%
Rating - 2	23%	Risk - 2	0%
Rating - 3	46%	Risk - 3	32%
Rating - 4	5%	Risk - 4	36%
Rating - 5	5%	Risk - 5	0%
Rating - 6	0%	Suspended	32%
Rating - 7	0%		
Suspended	21%		

Disclaimers and Disclosure
The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that was provided and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees have been paid by the issuer to FRC to issue this report. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC's research is ranked by Investars. Full rankings and are available at www.investars.com.

To subscribe for real-time access to research, visit http://www.researchfrc.com/subscription.htm for subscription options. This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.