# Yorkton Equity Group Inc.
## (TSXV: YEG)

**N/A**
**Current Price: $0.35**
**Fair Value: N/A**
**Risk*: 3**

## Building a Portfolio of Multi-Family Rental Properties in B.C. - Initiating Coverage

**Sector / Industry: Real Estate**

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## Investment Highlights

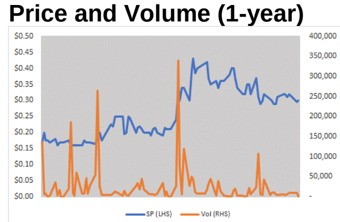
- YEG's strategy is to build a portfolio of stable cash flowing multi-family residential properties in B.C., that can **generate a steady stream of cash flow, and capital gains for investors**.
- Management is targeting to grow the portfolio to over $500M within three to five years, and initiate dividends when the portfolio reaches $1B.
- **We believe the multi-family residential rental market is one of the most attractive markets in Canadian real estate in the near-term**. We are expecting a surge in both new immigrants and students once travel restrictions are relaxed and conditions normalize post-pandemic.
- The company went public in November 2020. Its portfolio includes a 100% interest in the Pacific Mall (Alberta/AB), and the Riviera Gardens multi-residential property (AB), and a 25% interest in the Yorkton 108 project (B.C.). YEG has purchase contracts to acquire two more residential rental properties in Kelowna and Langford (Victoria). **These projects have combined appraised values of approximately $58M, and $24M in net asset value.**
- Management has a 30+ year track record in the sector. YEG recently completed an oversubscribed $2.85M financing.
- As the company is in an acquisition-mode, we are not assigning a valuation on the company at this time. **Management is actively seeking/evaluating equity financing options to pursue multiple acquisitions in the near-term.** Market conditions are conducive to obtaining long-term mortgages at low-rates.

## Risks

- Longer than expected impact of COVID-19.
- **Investments in real estate are typically affected by macroeconomic conditions, and the health of local rental markets.**
- Interest rate risks.
- A downturn in the rental market will impact the company's portfolio.

**Sid Rajeev, B.Tech, MBA, CFA**
Head of Research

**Price and Volume (1-year)**




| | YTD | 12m |
|---|---|---|
| Ret. | 40% | N/A |
| TSX | 9% | 74% |

**Company Data**

| | |
|---|---|
| 52 Week Range | $0.15 - $0.45 |
| Shares O/S | 111.24M |
| Market Cap. | $39M |
| Yield (forward) | N/A |
| P/E (forward) | N/A |
| P/B | 1.7x |

| Key Financials (FYE - Dec 31) (C$) | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E |
|---|---|---|---|---|---|---|
| Cash | $282,736 | $134,693 | $39,489 | $1,059,018 | $822,671 | $967,554 |
| Working Capital | -$6,504,410 | -$6,501,350 | -$6,645,355 | -$1,517,319 | -$19,010,863 | -$18,890,480 |
| Debt to Capital | 66% | 57% | 56% | 20% | 46% | 46% |
| Assets | $14,066,213 | $14,186,884 | $14,205,697 | $14,944,188 | $57,896,266 | $58,090,149 |
| Revenue | $461,899 | $512,587 | $538,336 | $443,597 | $930,000 | $1,420,000 |
| Net Income | $27,348 | $176,282 | $208,229 | -$422,355 | -$87,044 | $120,383 |
| EPS | | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 |

*See last page of this report for important disclosures, rating and risk definitions. All figures in C$ unless otherwise specified.

## Background and Management Track Record

*30+ year track record in real estate*

YEG went public in 2020 through a RTO. It was formed by the Yorkton Group, which has a 30+ year track record in property management, construction, condo land development, redevelopment, commercial leasing, commercial brokering, and hotel operations. According to management, senior management has been involved in hundreds of transactions totaling over $1B. The Yorkton Group of Companies hold a large portfolio of assets with over 600 acres of land within the City of Edmonton, including land for high-rise developments, hundreds of rental units, and retail, industrial and commercial properties in Western Canada. The following table shows the ROI of a select few exited properties, provided by management. We note that these are exceptional returns, but have not been able to verify the returns of their other properties.

**Exited Properties**

| Property | Location | ROI | Years |
|---|---|---|---|
| Bellamy Hill Apartments | Edmonton, AB | 1650% | 7 |
| Valleyview Terrace Condos | Abbotsford, B.C. | 830% | 15 |
| Sunlight Condos | Edmonton, AB | 800% | 7 |
| Plaza 101 | Edmonton, AB | 700% | 5 |
| Tipton Apartments | Edmonton, AB | 314% | 5 |
| Oliver Tower | Edmonton, AB | 300% | 10 |
| Jasper Court | Edmonton, AB | 200% | 2 |
| Marquis Apartments | Edmonton, AB | 120% | 4 |
| | | | |
| Yorkton Place (Development) | Surrey B.C. | 20% | <1 |
| Ridgemont Estates | Strathcona, AB | 8% p.a. | 10 |

*Source: Company / FRC*

## Investment Strategy

YEG's strategy is to build a portfolio of cash flowing multi-family rental properties, that can generate a steady stream of annual distributions, and capital gains for investors. Key focus areas are listed below:

*Building a portfolio to generate a steady stream of cash flows and capital gains*

- Acquire multi-family residential rental properties in cities with strong population growth, with an initial focus in B.C.
- Grow rent organically, and through development/repositioning/renovations, and optimization strategies.
- Acquire properties with debt service coverage of at least 1.15x.
- Maximum portfolio debt to value of 75%.
- Target to grow the portfolio to over $500M within three to five years.

As interest rates are expected to remain low in the next 12 months, we believe market conditions are conducive to obtaining long-term mortgages at low rates, and pursuing acquisitions.

## Current Portfolio

The company went public with the Pacific Mall acquisition as its qualifying transaction.

*Combined NOI of $1.4M, and net asset value of $24M*

### Portfolio Summary

| Project | Pacific Mall | Yorkton 108 | Riviera Gardens | Larson Place | Langford | Total |
|---|---|---|---|---|---|---|
| Location | Edmonton, AB | Surrey, B.C. | Edmonton, AB | Kelowna, B.C. | Langford, B.C. (Victoria) | |
| Type | Two storey retail/commercial building | Residential development | 62-unit condo building | 19-unit townhouse development | 4-storey building with 15 two-bed/three-bed units & one commercial unit | |
| Appraised Value | $13.36M | $21.3M ($81.1M upon completion) | $8.1M | $8.9M | $6.1M | $57.8M |
| Status | 100% owned | 25% equity interest | 100% owned | 100% equity (expected to close in July 2021) | 100% equity (expected to close in July 2021) | |
| NOI (Stabilized) | $0.44M | n/a | $0.41M | $0.35M | $0.22M | $1.42M |
| Cap Rate | 6.75% | n/a | 5.00% | 4.00% | 3.65% | 5.09% |
| Mortgage | $2.7M | $2.6M | $3.5M | $6.6M | $4.4M | $19.8M |
| YEG's Equity | $10.66M | $4.68M | $4.60M | $2.30M | $1.70M | $23.9M |

*Source: FRC / Company*

The following section summarizes each property.

## Pacific Mall, AB

This property (built in 1982) has been held by the Yorkton Group since 2008, Lui International Group Inc., is the property manager. The mall underwent a $0.7M renovation recently.

*Retail/commercial building with HSBC as the anchor bank tenant*

*HSBC accounts for approximately 25% of revenue, and offers stable/long-term rental revenue*

*Retail and service tenants accounts for 10% each*

### Property Summary

| Project | Pacific Mall |
|---|---|
| Location | Edmonton, AB |
| | 98th Street and 105 Avenue (Edmonton City Centre area adjacent to the Ice District and the Rogers Place Arena) |
| Type | Two storey retail/commercial building |
| Size | 26,400 sq.ft. land base & 34,845 sq. ft. gravel parking lot |
| Tenants | 95% leased |
| | **HSBC (anchor bank tenant) and the largest banquet restaurant in Edmonton** |
| | Retail tenants account for less than 10% of total |
| | Service tenants account for approx. 10% of total |
| Development Plans | Rezoned for mixed use development, with a shopping mall, and up to 38-storey twin towers, comprised of 296 condos |
| Appraised Value | $13.36M |
| Status | 100% owned |
| NOI (Stabilized) | $0.44M |
| Cap Rate | 6.75% |

*Source: FRC / Appraiser*

*Strategically located in Edmonton's China Town*


*Source: Company / FRC*

*Steady stream of rental revenue, averaging $0.49M per year in the last four years*

*Rental revenue dropped in 2020 due to the pandemic*

| Income Statement<br>YE - December 31 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| Rental Revenue | $486,222 | $527,060 | $562,693 | $484,770 |
| Recovery of OPEX | $457,439 | $480,186 | $470,302 | $439,969 |
| Common Area Costs | -$481,762 | -$494,659 | -$494,659 | -$481,142 |
| **Net Revenue** | **$461,899** | **$512,587** | **$538,336** | **$443,597** |

*The property was valued at $13.4M at the end of 2020*

*Debt to capital was 26% at the end of 2020*

| | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| Investments | $13,700,000 | $13,985,000 | $14,065,000 | $13,360,000 |
| Cash | $282,736 | $134,693 | $39,489 | $1,059,018 |
| Working capital | -$6,504,410 | -$6,501,350 | -$6,645,355 | -$1,517,319 |
| LT debt | $2,422,867 | $2,495,150 | $2,258,969 | $1,026,802 |
| Debt | $9,162,092 | $9,088,977 | $8,847,372 | $3,786,223 |
| Debt to Capital | 65.5% | 64.5% | 63.0% | 25.8% |

*Source: Company / FRC*

The property was rezoned in 2014, which permits a $200M mixed-use development, consisting of twin 28- and 38-storey towers (296 condos), and a shopping mall with underground parking. As YEG intends to operate using a low-risk model, management has no intent to re-develop the property. That said, our discussion with management indicated that they might be open to sell the property to a developer, or the Yorkton Group, at fair market value, and use those proceeds to acquire multi-family revenue properties in B.C. There is also a possibility for the Yorkton Group to acquire, re-develop, sell the property back to YEG, as YEG's focus is on cash-flowing residential properties.

*Twin towers consisting of 296 condos*

**Proposed Development**


*Source: Company*

## Yorkton 108, B.C.

In May 2021, the company acquired a 25% interest in Yorkton 108, from an entity controlled by the CEO, for $3.65M, by issuing 14.59M at $0.25 per share.

*60,000 sq. ft land parcel in Surrey, B.C.*

**Property Summary**

| Project | Yorkton 108 |
|---|---|
| Location | Surrey, B.C. |
| | 108 Avenue, City Centre of Surrey |
| Type | Residential development |
| Size | 60,000 sq. ft land parcel |
| Development Plans | Rezoning for two six-storey condo buildings (193 units) |
| Appraised Value | $21.3M ($81.1M upon completion) |
| Status | 25% equity interest |
| NOI (Stabilized) | n/a |
| Cap Rate | n/a |

*Source: Company / FRC*

The property package includes four parcels of contiguous land with two single-family residences (constructed in 2002 and 2005; currently rented), and two empty.

**Four Parcels**


*Source: City of Surrey / Company*

Its well located, 900 m from a Skytrain station, and a five to ten-minute drive from major shopping malls, including Central City Shopping Centre, and Guilford Shopping Centre, Surrey Memorial Hospital (one of the largest hospitals in B.C.), and Simon Fraser University, as well as a secondary public school.

*Well located, within 900 m from a SkyTrain station*

**Well Located**


*Source: City of Surrey / Company*

The project is currently in the process of being developed as a 193-unit residential condominium complex, consisting of two six-storey buildings, including 119 one-bed, 51 two-bed, 5 three-bed units and 18 studios. A third reading of the rezoning application was approved by the City of Surrey in December 2020.

**Proposed Development**

*Source: Company*

*193-unit condo development consisting of two 6-storey buildings*

*Land appraised at $21M*

A recent third-party appraisal valued the land package at $21M. A third-party appraisal valued the completed project at $81M, based on 120,000 sq. ft of sellable area, and a comparable projects' average $/SF of $675. The project's total cost is estimated to be $60M, implying a net profit of $21M.

*Completed property appraised at $81M*

*$21M in estimated net profit*

| Third Party Appraisal ($M) | |
|---|---|
| **Property Value (estd.)** | **$81.1** |
| Hard Costs | $34.9 |
| Developer's Profit | $12.2 |
| Others | $12.8 |
| **Total Costs** | **$59.9** |
| Net Profit | $21.3 |

*Source: Company / Appraiser*

According to management, the project has a $2.6M mortgage. The Yorkton Group will complete project development (two years), and divest the asset, offering YEG an opportunity to generate capital gains on its 25% equity. YEG might also consider acquiring a 100% interest in the project, upon completion.

## Riviera Gardens, AB

In May 2021, the company acquired this property from an entity controlled by the CEO for $4.24M, by issuing 16.94M shares at $0.25 per share.

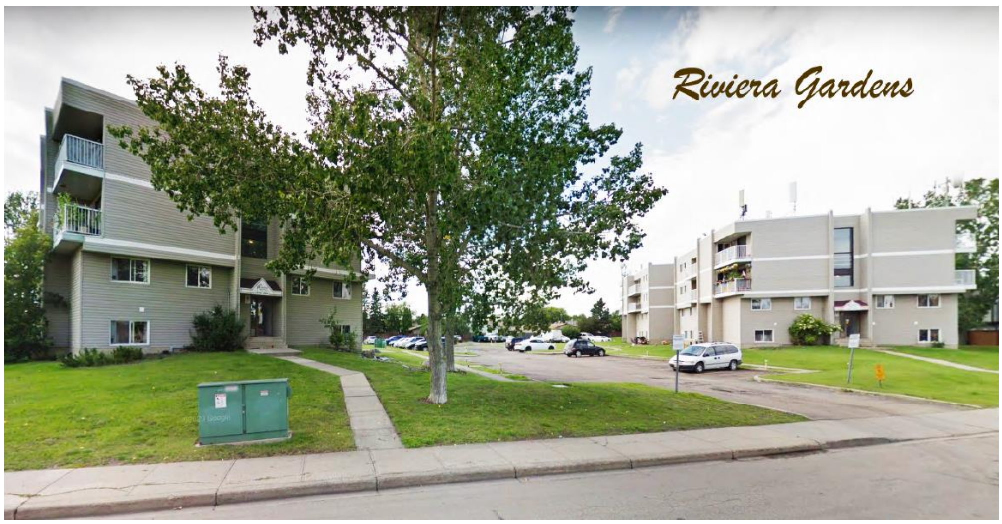
*62 units; $0.20M budgeted to upgrade 40% of units*

*Rents ranging between $900 and $1,400 per month*

*Appraised at $8.1M*

**Project Summary**

| Project | Riviera Gardens |
|---|---|
| Location | Edmonton, AB |
| | 137 Avenue and 24 Street |
| Type | 62-unit condo building |
| Appraised Value | $8.1M |
| Status | 100% owned |
| NOI (Stabilized) | $0.41M |
| Cap Rate | 5.00% |
| Mortgage | $3.5M |




*Source: Company*

Built in 1978, this property was extensively upgraded in 2008. It includes two 4-storey buildings on two-acres of land. It has 16 one-bed, 38 two-bed, and eight three-bed units.

**Units by Size**

| Suite Type | No. of Units | Size Range (Sq. Ft.) |
|---|---|---|
| One Bedroom | 16 | 544 |
| Two Bedroom | 20 | 707 |
| Two Bedroom Bi-level | 18 | 718 – 747 |
| Three Bedroom Bi-level | 8 | 974 – 1,054 |
| Total: | 62 | |

*Source: Company*

The property's current appraisal is $8.1M. There is a $3.5M mortgage on the property.

## Larson Place, Kelowna, B.C.

In April 2021, the company entered into a purchase contract for the acquisition (from a nonrelated party) of a townhouse complex in Kelowna for $8.9M. The acquisition is expected to be completed next month.

*Appraised at $8.9M*

**Property Summary**

| Project | Larson Place |
|---|---|
| Location | Kelowna, B.C. |
| Type | 19-unit townhouse development |
| Appraised Value | $8.9M |
| Status | 100% equity (expected to close in July 2021) |
| NOI (Stabilized) | $0.35M |
| Cap Rate | 4.00% |
| Mortgage | $6.6M |

*$0.35M in NOI*

| In Place Rents | Min | Max | Average | Average/SF |
|---|---|---|---|---|
| Two Bedroom | $1,750 | $1,850 | $1,799 | $1.59 |
| Two Bed + Den | $2,000 | $2,200 | $2,100 | $1.55 |
| Three Bedroom | $1,900 | $2,000 | $1,931 | $1.70 |
| Three Bed + Den | $2,100 | $2,200 | $2,160 | $1.60 |

| Unit Type | Number of Units | Proportion | Average Above Grade Rentable Area (SF) |
|---|---|---|---|
| Two Bedroom - A | 7 | 37% | 1,133 |
| Two Bed + Den - B | 2 | 11% | 1,354 |
| Three Bedroom - C | 8 | 42% | 1,133 |
| Three Bed + Den - D | 2 | 11% | 1,354 |
| | 19 | 100% | 1,180 |

*Less affluent, but re-developing area of Kelowna*

*Source: Appraisal Report / Company/FRC*

A recent third-party appraisal valued the property at $8.9M. It is a fully occupied 19-unit townhouse development, constructed in 2019. Kelowna's current vacancy rate is 2.4%, and below the provincial average. The development has three buildings -

a 10-plex, a 9-plex, and a common garage/storage building. MCAP has committed to a $6.6M mortgage.

The property's NOI is $354k, with an average rent per unit of $1,924 per month. The appraisers believe the property's rents are 10% below market rates. Management believes that they will be able to boost rents to market rates by deploying efficient property management strategies.

### Langford, B.C.

In March 2021, the company entered into an agreement to acquire the Langford apartment property (from an unrelated party) in Victoria for an undisclosed price. Built in 2014, this property has three one-bed, 12 two-bed units, a commercial unit, and 16 covered parking stalls.

*15 residential and one commercial unit*

**Property Summary**

| Project | Langford |
|---|---|
| Location | Langford, B.C. (Victoria) |
| Type | 4-storey building with 15 two-bed/three-bed units & one commercial unit |
| Appraised Value | $6.1M |
| Status | 100% equity (expected to close in July 2021) |
| NOI (Stabilized) | $0.22M |
| Cap Rate | 3.65% |
| Mortgage | $4.4M |

RENTAL UNIT SUMMARY

| Unit Type | Average Unit Size | Unit Count | Average Monthly Rent/SF |
|---|---|---|---|
| 1 Bed + Den | 694 SF | 3 | $1.95 |
| 2 Bed | 800 SF | 12 | $1.87 |
| Commercial | 659 SF | 1 | |
| **Total** | | **16** | |

*Built in 1978; well-maintained; 100% occupied*



*Source: Company/FRC*

*Appraised at $6M*

**Located in Downtown Langford - the largest West Shore community**


*Source: Company*

The appraisal report stated that the property is in a desirable location for Langford. West Shore is an affordable area, and has a high proportion of younger families. Being affordable, there is an increasing demand for rental units in the area. There is expansion in public facilities and services in the area. The appraiser also stated that demand for rental units in Langford will outpace the rest of Greater Victoria.

The appraisal valued the property at $6.1M, based on approximately $375k per unit. Through this acquisition, YEG will obtain 100% equity in the property, with a $4.4M mortgage (expected).

Based on $1.91/sq. ft in rent and 25% of gross revenue as OPEX, the property has a NOI of $225k, implying a cap rate of 3.7%.

*$225k in NOI, implying a cap rate of 3.7%*

**Rents**

| 1st | Type | SF | Rent | Rent/SF |
|---|---|---|---|---|
| **2nd** | | | | |
| 201 | 2 bed | 790 | $1,600 | $2.03 |
| 202 | 2 bed | 811 | $1,600 | $1.97 |
| 203 | 1 bed + den | 694 | $1,240 | $1.79 |
| 204 | 2 bed | 811 | $1,500 | $1.85 |
| 205 | 2 bed | 790 | $1,395 | $1.77 |
| **3rd** | | | | |
| 301 | 2 bed | 790 | $1,600 | $2.03 |
| 302 | 2 bed | 811 | $1,574 | $1.94 |
| 303 | 1 bed + den | 694 | $1,375 | $1.98 |
| 304 | 2 bed | 811 | $1,420 | $1.75 |
| 305 | 2 bed | 790 | $1,485 | $1.88 |
| **4th** | | | | |
| 401 | 2 bed | 790 | $1,450 | $1.84 |
| 402 | 2 bed | 811 | $1,600 | $1.97 |
| 403 | 1 bed + den | 694 | $1,450 | $2.09 |
| 404 | 2 bed | 811 | $1,625 | $2.00 |
| 405 | 2 bed | 790 | $1,455 | $1.84 |
| **Totals / Average** | | **11,688** | **$22,639** | **$1.91** |

*Source: Company / Appraiser*

## Management and Board of Directors

*The CEO is the largest shareholder*

| Management/Board Member | Position | No. Shares | % Ownership |
|---|---|---|---|
| Ben Lui | President, CEO & Director | 82,511,845 | 74.17% |
| Bill Smith | Chairman (Independent) | 27,500 | 0.02% |
| DeEtte Mack | CFO | | |
| Mark Wilbert | Independent Director | 125,000 | 0.11% |
| Jason Theiss | Independent Director | | |
| Total | | 82,664,345 | 74.31% |

*Source: Sedi / FRC*

**Three out of four directors are independent.** Brief biographies of the senior management team and board members, as provided by the company, follow:

**Bill Smith – Chairman (Independent)**
Mr. Smith was previously the Chairman and Senior VP of a publicly trading company listed on the TSX Venture Exchange, and Director and Senior VP of a private Alberta corporation. His career includes that of a professional athlete (Edmonton Eskimos), and the Mayor for the City of Edmonton, for three terms. He has also served on a number of public and private boards as director and Chairman.

**Ben Lui - President, Chief Executive Officer and Director**
Mr. Lui graduated from the University of Toronto with a Bachelor of Science degree majoring in Computer Science and Commerce. Mr. Lui has since gained diverse professional experience in information systems and business management consulting, as well as business owner and operator in property management, manufacturing, import and distribution, media publication and hospitality industries. In the mid 1980's, Mr. Lui has started his real estate business encompassing investment, development and asset management, and has achieved multiple Award of Excellence in Multi Family Residential development.

**DeEtte Mack - CFO**
Mrs. Mack obtained her CPA, CA designation in 1993 and has since spent more than 20 years, of which 15 years were with public companies trading on TSX, working as a Senior Financial Executive. She has a wide range experience in several industries at varying scales including construction, petroleum, and pharmaceuticals. DeEtte continues to add value to Yorkton Equity Group through public company reporting, internal controls, and governance.

**R. (Reg) Liyanage - Executive Vice President**
Mr. Liyanage holds a B.Sc. degree from the University of Alberta and comes from a financial services background and has held leadership positions, as well as ownership in a variety of businesses. In the commercial real estate field, Mr. Liyanage has over 30 years of experience with a focus on the successful marketing of a variety of commercial real estate properties as well as syndications. In addition,

Mr. Liyanage has extensive experience in property management, development, and redevelopment of commercial properties.

**Mark Wilbert - Independent Director**
Mr. Mark Wilbert is a partner at a real estate brokerage and has over 10 years of experience in both commercial and residential transactions, focusing on investment properties from distressed assets to apartment buildings. His background includes real estate investment, commercial banking, international logistics and international law. Mr. Wilbert holds a Bachelor of Commerce degree from the University of Alberta and graduated from the Department of International Relations at Fudan University in Shanghai.

**Jason Theiss – Independent Director**
Mr. Theiss is a Chartered Professional Accountant who has over 12 years post designation accounting experience in managing finance and accounting personnel. Since June 2007, Mr. Theiss has been the Chief Financial Officer of a publicly trading company listed on the TSX. Mr. Theiss has been involved in an executive management role for several public and private corporations. He has a Chartered Professional Accountant designation and a Bachelor of Business Administration degree.

## Economic Recovery to Support Multi-Residential

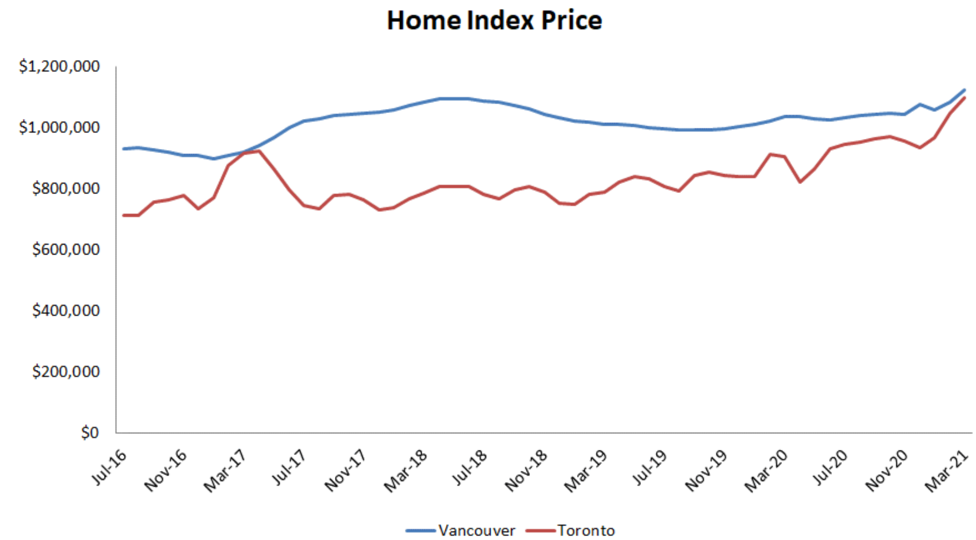
Lack of new immigrants and international students had a significant impact on the country's rental market. The pandemic resulted in higher vacancy rates and lower rents in major Canadian cities. **Considering the rollout of vaccines, we expect an economic recovery in H2-2021**. 56.9% of Canada's population has received at lease one dose vs 52.0% at the same time last week. Health Canada has stated that restrictions could be lifted when 75% have at least one dose, and 20% have their second dose. At current rates, we suspect this could happen by August 2021.

*Rental demand to pick up*

We expect a surge in both new immigrants and students once travel restrictions are relaxed and conditions normalize. **The Federal Government recently increased its immigration targets for the next three years to make up for last year's decline due to the pandemic.**

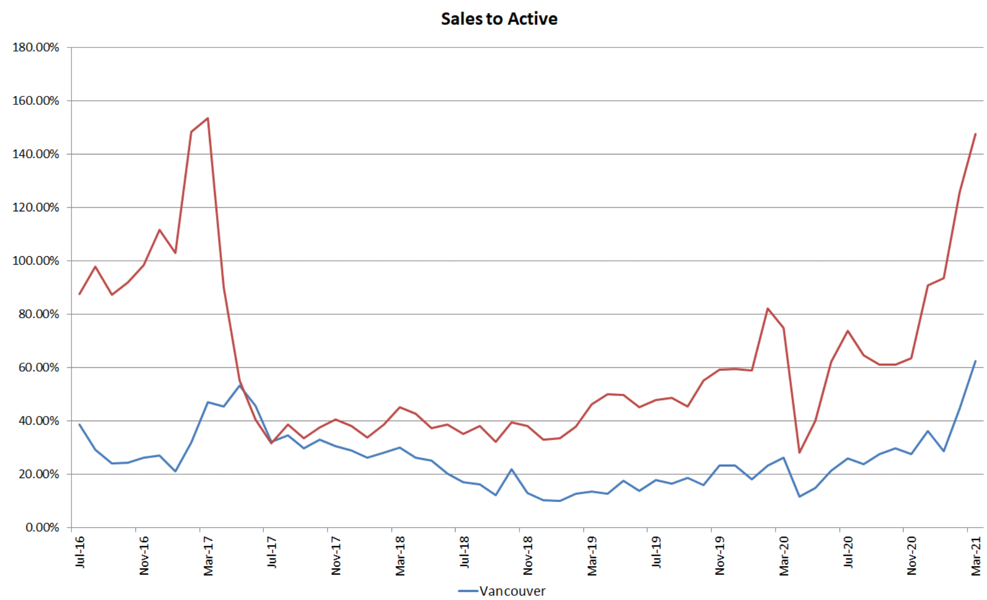
Another driver of rental demand is the sharp rebound in prices of residential units in Vancouver. Prices were up 11% in Vancouver in April 2021. The sales to active ratio is also up significantly YoY.

*There is pressure on the federal government to take initiatives to cool the housing market*




| Metro Vancouver | Jan-20 | Jan-21 | YoY | Feb-20 | Feb-21 | YoY | Mar-20 | Mar-21 | YoY | Apr-20 | Apr-21 | YoY |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Residential Sales | 1,571 | 2,389 | 52% | 2,150 | 3,727 | 73% | 2,524 | 5,703 | 126% | 1,109 | 4,903 | 342% |
| New Listings | 3,872 | 4,480 | 16% | 4,002 | 5,048 | 26% | 4,436 | 8,287 | 87% | 2,313 | 7,938 | 243% |
| Active Listings | 8,617 | 8,306 | -4% | 9,195 | 8,358 | -9% | 9,606 | 9,145 | -5% | 9,389 | 10,245 | 9% |
| Sales to Listings | 18.23% | 28.76% | | 23.38% | 44.59% | | 26.28% | 62.36% | | 11.81% | 47.86% | |
| MLS Home Price Index | $1,008,700 | $1,056,600 | 5% | $1,020,600 | $1,084,000 | 6.2% | $1,033,700 | $1,123,300 | 8.7% | $1,036,000 | $1,152,600 | 11% |

*However, we believe the low interest rate environment, and the expected surge in new immigrants and students will support, or at least prevent, residential prices in urban areas from crashing*




*Source: TREB and REBGV*

The OFSI raised the mortgage stress test level for uninsured mortgages to 5.25%, or 2% + the market rate, whichever is higher. This is a 10% increase from prior levels. **We estimate that this increase will result in a 5% reduction in borrowers' purchasing power, which will push a segment of potential homebuyers to continue renting.** Based on the above factors, we maintain a positive outlook on B.C.'s multi-family residential rental market.

## Financials

*Average net revenue of $500k per year from Pacific Mall*

| Income Statement<br>YE - December 31 | 2018 | 2019 | 2020 | Q1-2020 | Q1-2021 |
|---|---|---|---|---|---|
| Rental Revenue | $527,060 | $562,693 | $484,770 | $132,029 | $113,625 |
| Recovery of OPEX | $480,186 | $470,302 | $439,969 | $115,678 | $109,397 |
| Common Area Costs | -$494,659 | -$494,659 | -$481,142 | -$121,229 | -$130,321 |
| **Net Revenue** | **$512,587** | **$538,336** | **$443,597** | **$126,478** | **$92,701** |
| | | | | | |
| **Expenses** | | | | | |
| G&A | $59,698 | $40,263 | $151,436 | $6,015 | $188,424 |
| Management Fee | $340,000 | $380,000 | | $66,816 | |
| Interest | $110,452 | $116,782 | $92,403 | $28,251 | $20,920 |
| **Total Expenses** | **510,150** | **537,045** | **243,839** | **101,082** | **209,344** |
| | | | | | |
| **EBT** | **2,437** | **1,291** | **199,758** | **25,396** | **-116,643** |
| FV Changes and Others | $246,128 | -$29,243 | -$1,811,786 | | |
| Tax | -$72,283 | $236,181 | $1,189,673 | | |
| **Net Income** | **$176,282** | **$208,229** | **-$422,355** | **$25,396** | **-$116,643** |

| | 2018 | 2019 | 2020 | Q1-2020 | Q1-2021 |
|---|---|---|---|---|---|
| Funds from Operations | $12,746 | $104,942 | -$5,747 | $35,346 | -$81,787 |
| CFO | $45,436 | $121,651 | -$222,453 | $43,874 | -$203,722 |
| CFI | -$48,081 | -$94,649 | $72,573 | -$48,821 | -$80,483 |
| CFF | -$145,398 | -$122,206 | $1,169,409 | $45,433 | -$118,683 |
| FCF | -$2,645 | $27,002 | -$149,880 | -$4,947 | -$284,205 |

*Debt to capital of 20% at the end of Q1-2021*

| | 2018 | 2019 | 2020 | Q1-2021 |
|---|---|---|---|---|
| Investments | $13,985,000 | $14,065,000 | $13,360,000 | $13,440,483 |
| Cash | $134,693 | $39,489 | $1,059,018 | $656,130 |
| Working capital | -$6,501,350 | -$6,645,355 | -$1,517,319 | -$1,660,509 |
| LT debt | - | - | - | - |
| Debt | $6,593,827 | $6,588,403 | $2,759,421 | $2,661,474 |
| Debt to Capital | 56.9% | 55.9% | 20.3% | 19.8% |
| EBIT/ Interest expense | 1.0 | 1.0 | 3.2 | -4.6 |

*Source: FRC / Company*

*Raised $2.83M*

On May 13, 2021, YEG completed a $2.83M financing (oversubscribed by 40%) at $0.25 per unit. Each unit consisted of a common share and one full warrant (exercise price of $0.40 per share for two years).

**Stock Options and Warrants –** The company has 1.22M options (weighted average exercise price of $0.21) and 19.12M warrants ($0.27) outstanding. All the options and warrants are in-the-money, implying a potential to raise up to $5.40M.

## Conclusion and Rating

As the company is in an acquisition-mode, we are not assigning a valuation at this time. Management is actively seeking/evaluating equity financing options to pursue multiple acquisitions in the near-term. Market conditions are conducive to obtaining long-term mortgages at low-rates. We have a positive outlook on the multi-family residential rental market Canada, YEG's business model, and believe that management's 30+ year track record will allow them to identify attractive opportunities.

## Risks

We believe the company is exposed to the following key risks:

- Longer than expected impact of COVID-19.
- Investments in real estate are typically affected by macroeconomic conditions, and health of the local markets.
- Like all real estate companies, YEG takes on leverage.
- Interest rate risks.
- A downturn in the real estate sector will impact the company's portfolio.

**We are assigning a risk rating of 3 (Average).**

# APPENDIX

| Income Statement<br>YE - December 31 | 2018 | 2019 | 2020 | 2021E | 2022E |
|---|---|---|---|---|---|
| **Net Revenue** | **$512,587** | **$538,336** | **$443,597** | **$930,000** | **$1,420,000** |
| | | | | | |
| **Expenses** | | | | | |
| G&A | $59,698 | $40,263 | $151,436 | $706,590 | $727,788 |
| Management Fee | $340,000 | $380,000 | | | |
| Interest | $110,452 | $116,782 | $92,403 | $295,947 | $591,893 |
| **Total Expenses** | **510,150** | **537,045** | **243,839** | **1,002,537** | **1,319,681** |
| | | | | | |
| Depreciation | | | | | |
| **EBT** | **2,437** | **1,291** | **199,758** | **-72,537** | **100,319** |
| FV Changes and Others | $246,128 | -$29,243 | -$1,811,786 | | |
| Tax | -$72,283 | $236,181 | $1,189,673 | -$14,507 | $20,064 |
| **Net Income** | **$176,282** | **$208,229** | **-$422,355** | **-$87,044** | **$120,383** |

| Balance Sheet<br>YE - December 31 | 2018 | 2019 | 2020 | 2021E | 2022E |
|---|---|---|---|---|---|
| Assets | | | | | |
| | | | | | |
| Cash | $134,693 | $39,489 | $1,059,018 | $822,671 | $967,554 |
| Receivables and Prepaid | $19,544 | $55,024 | $479,575 | $93,000 | $142,000 |
| Investments | $37,516 | | | | |
| **Current Assets** | **$191,753** | **$94,513** | **$1,538,593** | **$915,671** | **$1,109,554** |
| | | | | | |
| Equipment | $10,131 | $46,184 | $45,595 | $45,595 | $45,595 |
| Investments | $13,985,000 | $14,065,000 | $13,360,000 | $56,935,000 | $56,935,000 |
| **Total Asset** | **$14,186,884** | **$14,205,697** | **$14,944,188** | **$57,896,266** | **$58,090,149** |
| | | | | | |
| **Liabilities** | | | | | |
| Account payable and accrued liabilities | $38,028 | $90,612 | $239,236 | $139,500 | $213,000 |
| Mortgages | $2,535,556 | $2,423,288 | $2,629,779 | $19,729,779 | $19,729,779 |
| Loans | 3915942 | 3,955,842 | | | |
| Related Party | $142,329 | $209,273 | $129,642 | | |
| Security Deposits | $61,248 | $60,853 | $57,255 | $57,255 | $57,255 |
| **Current Liabilities** | **$6,693,103** | **$6,739,868** | **$3,055,912** | **$19,926,534** | **$20,000,034** |
| Non-Current Liabilites | $2,495,150 | $2,258,969 | $1,026,802 | $1,026,802 | $1,026,802 |
| Non-Controlling | | | | $14,025,000 | $14,025,000 |
| **Total Shareholders Equity** | **$4,998,631** | **$5,206,860** | **$10,861,474** | **$22,917,930** | **$23,038,313** |
| **Total Shareholders Equity+Liabilities** | **$14,186,884** | **$14,205,697** | **$14,944,188** | **$57,896,266** | **$58,090,149** |

| Cash Flow Statement<br>YE - December 31 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **Operating Activities** | | | | | |
| Net Income | $176,282 | $208,229 | -$422,355 | -$87,044 | $120,383 |
| Adjustments | -$163,536 | -$103,287 | $416,608 | $0 | $0 |
| **FFO** | **$12,746** | **$104,942** | **-$5,747** | **-$87,044** | **$120,383** |
| Change in WC | $32,690 | $16,709 | -$216,706 | $157,197 | $24,500 |
| **Cash From Operating Activities** | **$45,436** | **$121,651** | **-$222,453** | **$70,153** | **$144,883** |
| **Investing Activities** | | | | | |
| Investing Activities | -$48,081 | -$94,649 | -$205,260 | -$4,000,000 | |
| Others | | | $277,833 | | |
| **Cash used Investing Activities** | **-$48,081** | **-$94,649** | **$72,573** | **-$4,000,000** | **$0** |
| **Financing Activities** | | | | | |
| Equity | | | $1,134,888 | $3,693,500 | |
| Debt | -$145,398 | -$122,206 | $34,521 | | |
| **Cash used in Financing Activities** | **-$145,398** | **-$122,206** | **$1,169,409** | **$3,693,500** | **$0** |
| **Net Increase(Decrease) in Cash** | -$148,043 | -$95,204 | $1,019,529 | -$236,347 | $144,883 |
| Cash, Beginning | $282,736 | $134,693 | $39,489 | $1,059,018 | $822,671 |
| **Cash, End** | **$134,693** | **$39,489** | **$1,059,018** | **$822,671** | **$967,554** |

**Fundamental Research Corp. Equity Rating Scale:**
**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
**Hold** – Annual expected rate of return is between 5% and 12%
**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
**Suspended or Rating N/A—** Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**
**1 (Low Risk) -** The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

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

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

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

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

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