

**FEASIBILITY STUDY
PROPOSED 60-ROOM HOTEL DEVELOPMENT
TOWN OF MORINVILLE, ALBERTA
JUNE 2010**

PREPARED BY:



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June 17, 2010

Mr. Gord Putnam
Smartland Inc.
9703A – 100th Street
Morinville, Alberta
T8R-1R3

Dear Mr. Putnam –

In accordance to the terms of our agreement, Rich Eichler Consulting Inc. ("R.E.C.I.") has completed a Feasibility Study for a potential new hotel development to be located in the Town of Morinville, Alberta. The overall objective of the Study was to analyze the market and financial operating performance of a proposed 60-room, limited-service, chain-affiliated hotel to be developed within the corporate Town limits of Morinville.

No particular hotel site has been considered and/or analyzed within this Study. While one potential site exists adjacent to a new Community Cultural Centre which is now under construction along 100th Avenue east of 100th Street, projections herein have not incorporated into its findings the impact on the potential hotel operating performance of any one particular site.

In addition to the various mix of guest rooms and suites proposed for the hotel, it has been assumed for the purpose of this analysis that the property would include a lobby area breakfast

room, a small boardroom, an indoor swimming pool and waterslide, exercise room, a small food/sundry item and internet kiosk adjacent to the front desk, and a coin-operated laundry room. As a result of the new Community Cultural Centre being built in town, no additional meeting/conference facilities have been envisaged for the property.

Please note that any findings, conclusions and/or recommendations herein are only based on the most applicable information that R.E.C.I obtained through the course of the Study research, which extended up until Friday, June 18th, 2010. As well, while R.E.C.I assures Smartland Inc. that all research elements as part of this Study were undertaken in the most thorough and comprehensive manner possible, there are no guarantees that the projections made herein will be achieved.

Thank you for your cooperation and assistance during the course of this assignment. Please inform if there are any questions and/or comments you may have regarding the Study findings.

Yours truly,

RICH EICHLER CONSULTING INC.

STUDY METHODOLOGY

To accomplish the Study objectives, a number of research elements were undertaken during the course of the assignment. These included:

- An Initial start-up meeting plus several follow-up conversations with Smartland Inc. as well as Town of Morinville municipal officials to discuss the Study methodology and to fully gauge their views as to what type of hotel facility they envisage, and what potential locations could be suitable for development;
- A review of prospective hotel sites, addressing area aesthetics, site access, egress, visibility, and proximity to demand generators;
- A review of published information highlighting the recent performance of the Edmonton and local Morinville area hotel industries to measure top line revenue performance (occupancy and average daily room rates), supply and demand growth, and financial operating results;
- Interviews with local and regional area municipal planning officials to determine the current status of the local economy, and the potential for new development which may generate demand for a proposed hotel in Morinville;
- A review of published information pertaining to the historic and current performance of the Greater Edmonton and Alberta economies;
- Telephone interviews with approximately 30 local and trade area businesses and organizations to gauge the nature and frequency in which they utilize hotels within the region;
- Approximately 15 telephone interviews with representatives of local area golf courses, sports/leisure/recreation centres, plus churches and community halls, to determine the nature and frequency of their meeting/conference/banquet demand, as well as to discuss general trends in recent booking activity;
- Personal and/or telephone interviews with representatives of competitive and/or comparable hotels in the Morinville trade area including St. Albert, Redwater, Legal, Gibbons, and Westlock. The purpose was to gauge their opinions related to the status of the competitive hotel marketplace, as well as to assess any proposed expansion and/or renovation plans;

- Preparation of five-year projected occupancy and average daily room rates for the subject 60-room hotel in Morinville based on Study research; and,
- Preparation of a five-year pro forma operating statement of Revenues and Expenses for the subject hotel, assuming an opening year of 2012.

The following provides a detailed overview of all Study findings, conclusions, and recommendations.

SECTION A - AREA REVIEW

ALBERTA

Research indicates that Alberta has been one of the strongest and fastest growing economies of any province in Canada over the past decade. Between 2004 and 2008 alone, it achieved the highest annual average rate of economic growth of any province, at 4.1% Gross Domestic Product (G.D.P). While there are many reasons as to why such favourable growth has occurred, one primary explanation is that it has an abundance of natural resources such as energy, agriculture, and forestry, which have all contributed to the foundation of its thriving economy.

As a result of its diverse mix of natural resources, Alberta has experienced unprecedented growth since the mid-1990's including strong in-migration, rising employment opportunities, and significant new construction, development and investment activity of all types. In fact, relative to other provinces, Alberta has consistently recorded the highest levels of investment per capita in Canada, with a total of \$80.7 billion worth in 2007, and a projected total of \$83.8 billion in 2008. In 2007, Alberta's investment per capita was \$23,230 versus a national average of \$9,780. This investment includes all forms of residential and non-residential construction such as the billions of dollars which have been committed towards various mega mining, pipeline and energy projects.

While good fortunes in the energy sector has been the main driver of the Alberta economy in the past decade, the Province has also capitalized on its strengths in other industries such as manufacturing, telecommunications, wholesale/retail trade, plus business and commercial services. This growth has served to support not only a more dynamic, but also more diversified economy, making Alberta one of the most desirable places to live anywhere in Canada.

Alberta is now however in the midst of recovering from its first recession since 1986. After posting an increase in G.D.P of 1.5% in 2008, growth decelerated quite significantly and declined by 4.0% in 2009. While the recession was generally felt throughout most countries of the developed world, Alberta was impacted somewhat harder, as after many years of successive and unparalleled growth, its economy began to naturally slow to a more normalized pace of activity

in mid-2008, which was approximately the same time at which the first signs of a global economic recession surfaced. A cooling off of the Alberta economy was therefore not only expected, but was also welcomed by many, as it was unrealistic to assume that the pace of its growth could be sustained at the levels it was experiencing year after year since the late 1990's.

As such, the approximate 4.0% decline in G.D.P in Alberta in 2009 was triggered by a 25.0% drop in real business investment due to sharp declines in both energy prices and tight credit markets. Although recently announced government infrastructure and incentive programs tempered otherwise severe job losses in most industry sectors, the unemployment rate in Alberta was also expected to rise to approximately 6.5%, which was almost double the 3.6% rate it recorded in 2008. Alberta in fact had posted the lowest unemployment rate of any province in 2008 prior to the onset of the economic recession.

With the worst of the recession now over, analysts such as those with the Royal Bank of Canada (R.B.C) suggest that initial concerns that Alberta would remain stalled in an economic recovery have dissipated, as signs of a slow but steady increase in activity are becoming more apparent. Key sectors that lost strength in 2009, such as construction and investment, are now growing quite favourably. The housing sector for example has significantly rebounded with large volumes of new construction, with levels this spring nearly three times those that prevailed a year ago.

On the non-residential investment side, there is also renewed interest in Alberta's oil and gas sector according to R.B.C, reflecting both improved market conditions and recent changes to the Province's royalty regime that restored Alberta's royalty competitiveness against other regions in Canada and the U.S. So far in 2010, land sales for oil and gas development have surged in both value and acreage. Oilsands and conventional licenses are also up relative to 2009.

Activity during this past winter's oil and gas drilling season have also picked up considerably from depressed levels, and the industry now expects the higher drilling levels to be sustained throughout the remainder of 2010 according to R.B.C. Approximately 11,600 wells in Canada are forecasted to be drilled during the course of 2010, which while substantially lower from 2007

totals, is 36.0% higher than projections made last October. And with expectations of major oilsands projects continuing to move forward, this should go even further towards boosting non-residential investments into Alberta.

Further aiding the economy is a return to consumer spending. R.B.C reports that retail sales in Alberta rose strongly in the first-quarter of 2010 - so much so in fact that Alberta is now forecasted to post the fastest growth in retail sales among all provinces. This is quite a turnaround considering that Alberta recorded the sharpest decline in retail sales during the course of 2009.

While Alberta's economy recovers from the recent recession, it has yet however to make any material gains within the job market. R.B.C reports that employment in Alberta has been mostly stagnant in the past year, and the unemployment rate is still near its highest point in 14 years - although some positive signs have emerged recently. This lackluster performance, especially compared to visibly improving prospects elsewhere in the country, appears to have dimmed the attractiveness of the Province as a place for other Canadians to move. In recent quarters, Alberta has shown its first net inter-provincial migration losses since 1994. Nonetheless, as the recovery shifts into higher gear in the period ahead, steady gains in jobs are expected which should help re-establish positive immigration flows.

Overall, according to R.B.C., the G.D.P outlook for Alberta is now forecasted to grow at 3.1% in 2010. This is up from 2.5% in the previous March 2010 R.B.C forecast. There is even stronger growth forecasted of 4.2% in 2011, as the recovery is anticipated to spread more broadly across industrial sectors.

Should in fact a 4.2% increase result in 2011, it will be only second to Saskatchewan in terms of G.D.P growth among all ten provinces. The national average G.D.P increase in 2011 is forecasted at 3.5%.

City of Edmonton

Edmonton is the provincial capital of Alberta and the sixth largest city in Canada. As part of the Greater Edmonton Capital Region, it has metropolitan population of over 1.25 million people. Along with its outlying communities, Edmonton has enjoyed a strong decade of growth, driven by rising energy prices, substantial construction activity, and unparalleled investment in oil sands and related projects. While the oil sands projects are generally located in the northern areas of Alberta, Edmonton is the main manufacturing hub for the provincial oil and gas industry.

Edmonton has exceeded the Canadian average of G.D.P growth in 8 of the last 10 years. The Edmonton Economic Development Corporation (E.E.D.C) in fact has indicated that between 1995 and 2005, real G.D.P increased by 47.0%. Edmonton is also expected to be one of the top economic performing cities of any in Canada over the long-term according to the E.E.D.C.

However, with the recent worldwide economic recession as well as continued depressed natural gas prices that directly impact the Alberta market, the real G.D.P forecast for Edmonton in 2009 was estimated at -2.0%. Activity is however expected to improve in 2010 to a 4.1% increase according to a recent C.B.R.E Realty Advisors report. This is due in part to an estimated \$60 billion of new construction projects slated for development within the City. Some are new projects, while others are for projects that were temporarily delayed due to the economic recession.

With regard to Edmonton's downtown office market, 2009 saw a drop in demand according to C.B.R.E. The vacancy rate rose to 7.7%, and is expected to increase throughout 2010. No new significant office supply however is expected to enter the downtown core until late 2011. The suburban office vacancy rate was 11.9% at year end 2009, with an expected climb into 2010. There is approximately 22 million square feet of office inventory in the Edmonton market.

In terms of the industrial sector, 2009 was the first year since 2004 that the market experienced consecutive years of rising availability. There was nearly 400,000 square feet of negative industrial space absorption in 2009, and 1.5 million square feet of new supply. No major new industrial projects are slated for completion in 2010. Currently, Edmonton occupies

approximately 100 million square feet of industrial space inventory.

Overall transaction investment (for existing non-residential product) in Edmonton was more than 25.0% lower in 2009 versus 2008 according to C.B.R.E. Whereas total volumes reached \$853 million in 2008, they were just over \$625 million in 2009. The decline was primarily due to the economic recession and tight credit markets. With credit availability now easing somewhat among financial institutions, the consensus among most industry analysts is that 2010 will lead to a heightened level of transaction activity.

As noted in Table A-1, total new construction activity in Edmonton during 2009 as measured by the value of building permits, reached approximately \$2.45 billion, and despite the economic recession, it actually outpaced 2008 results by \$150 million. While the most substantial gains were in residential housing and not within key business sectors such as commercial and industrial developments, the fact that overall construction activity increased during the harsh recessionary period demonstrates the general strength and diversity of the Edmonton economy.

In terms of 2010, building permit values are once again ahead of 2009 totals. To the end of May, overall construction activity in Edmonton reached \$1.28 billion versus \$782 million for the first five months of 2009. The most notable gains were recorded in the commercial and residential sectors.

	2005	2006	2007	2008	2009
Commercial	\$358,841	\$533,648	\$871,218	\$878,802	\$715,379
Industrial	\$127,107	\$88,842	\$92,991	\$155,979	\$128,639
Institutional	\$312,917	\$227,117	\$112,837	\$249,395	\$281,062
Residential	\$1,302,298	\$1,442,948	\$1,369,962	\$999,366	\$1,310,255
Miscellaneous	<u>\$9,586</u>	<u>\$13,160</u>	<u>\$14,519</u>	<u>\$12,387</u>	<u>\$13,264</u>
TOTAL	\$2,110,749	\$2,305,715	\$2,461,527	\$2,295,930	\$2,448,601
Source: City of Edmonton					

City of St. Albert

The City of St. Albert is part of the Greater Edmonton Capital Region. It is located in the northwest quadrant of Greater Edmonton, and approximately 15 kilometres south of Morinville along Highway 2. The current population of St. Albert sits at just over 60,000 residents.

Because of its close proximity to the City of Edmonton, St. Albert is considered to be a "bedroom community", with research indicating in fact that many St. Albert residents commute on a daily basis to Edmonton for work, educational, and/or leisure purposes. In its own right however, as St. Alberta has grown and developed over the years, it has become its own self-sustaining community with over 2,200 businesses (an increase of 300 since 2005), including a diverse range of commercial, retail, education, health/medical and leisure/recreational uses plus a broad mixture of single and multi-family residential housing.

Upwards of 35,000 people work within St. Albert according to the most recent 2006 Canada Census statistics. This is up nearly 11.0% from 2001. Being a large and growing retail and commercial centre, the greatest increases in employment between 2001 and 2006 were in sectors including "sales and service" and "trades, transport and equipment". Occupations within all primary-related industries led all sectors of growth between 2001 and 2006 with a 33.0% increase.

St. Albert is also known as a "gateway" to Northern Alberta, as it is situated along Highway 2 which leads to strategically important centres such as Fort McMurray and Peace River. It should be noted however that although Highway 2 carries many travellers through the year between Greater Edmonton and Fort McMurray, the majority of this travel occurs east of Highway 2 along the Highways 28 & 63 corridors.

While the economy of St. Albert has flourished in recent years along with the general Edmonton region on whole, a disadvantage it has relative to certain other neighboring communities of Edmonton is its lack of industrial employers. Such employers are most often major demand generators for area hotels and motels. Although there are certain areas of St. Albert that have pockets of manufacturing, warehouse and distribution companies, its volume of inventory is

quite small compared to other centres such as Nisku/Leduc, Sherwood Park, and Spruce Grove/Acheson Industrial Park.

Nevertheless, overall construction activity in St. Albert continues to grow, and despite the recession which negatively impacted the entire Edmonton economy, the value of building permits for St. Albert during 2009 actually surpassed 2008 totals. Whereas in 2008, \$104 million in total construction activity was recorded, there was over \$145 million in 2009. The increase was mainly due to a heightened level of new residential development, plus the initial construction of a 200,000 square feet, \$25 million development called the "Hole Enjoy Centre", which upon scheduled completion in the fall of 2010, will feature a variety of attractions including production greenhouses and nurseries, retail and event space, a spa, health and beauty clinic, and an assortment of food and beverage outlets.

In terms of other tourist/recreation oriented developments, a new 92-room Best Western Hotel is under construction in St. Albert, which is scheduled for opening in the late summer or early fall of 2010. The hotel will primarily be limited-service in nature, with no on-site restaurant or meeting space. It will however feature an exercise room and indoor swimming pool.

With regard to building activity, it should be further noted that thus far into 2010, total combined construction in St. Albert is \$43 million to the end of May versus \$27 million to the end of May 2009. This represents an increase of nearly 60.0%.

Sturgeon County and the Town of Morinville

The Town of Morinville is surrounded by Sturgeon County, which is generally located on the northern boundaries of both the Cities of Edmonton and St. Albert. The County is primarily rural, with much of its economy being agriculturally focused, although its close proximity to both Edmonton and St. Albert provide easy driving distance to and from the respective communities. As such, Sturgeon County has all the benefits of a rural municipality, yet with easy access to all key city services.

According to the latest 2006 Statistics Canada Census figures, there are approximately 19,000 residents within the rural areas of Sturgeon County. This is up 3.1% from the 2001 Census. The primary urban centres within Sturgeon County include Morinville (population approximately 7,600), Gibbons (2,600), Redwater (2,200), Bon Accord (1,500), and Legal (1,100). When including these urban centres, the entire population of Sturgeon County is upwards of 34,000 residents.

The general rural landscape of Sturgeon County lends itself well towards a mixed balance of food and agriculture production, which ranges from traditional field crop production of wheat, oat, barley and canola, to livestock and specialized vegetable and nursery operations. While the County has long been known as a farming and agricultural region, over the past decade, the most significant contributor to its economy has been within developments stemming from the industrial sector, namely within a variety of mega oil, gas, energy, and petro-chemical related projects.

This is due to Alberta's vast oil sands resources, which are recognized as a significant future source of the world's energy supply. In fact, 70.0% of Canada's crude oil comes from Alberta. The Province also produces 80.0% of the country's natural gas and 46.0% of its coal. Alberta's oil sands reserves contain an estimated 1.7 trillion barrels of bitumen in place, exceeding the oil reserves of Saudi Arabia.

A recent report by the Canadian Association of Petroleum Producers (C.A.P.P) further suggests despite the recent worldwide recession and downturn in oil and gas markets, the emergence of new oilsands projects and investments in Alberta should lift overall crude production quite notably over the long-term. Although the 10 to 15 year outlook had been somewhat uncertain, recent investments such as those committed by Sinopec Corp., Petro-China, Athabasca Oil Sands Corp., and Total SA's Northern Light projects, have significantly altered in a favourable way the long-term forecast scenario. In fact, in 2010 alone, investments in Alberta's oilsands are expected to jump by \$2 billion from 2009, to a total of \$13 billion.

As a result of these and other new and re-generated projects expected to occur, oilsands production in Alberta is anticipated to nearly triple within the next 15 years and represent the

majority of Canada's crude supply, according to C.A.P.P officials. Previous forecasts made by C.A.P.P had predicted Alberta's oilsands to double by 2020, not triple. With new forecasts in place, total production in Canada could now reach as high as 4.3 million barrels per day by 2025, although more conservative estimates may be within the 3 million per day range. For reference purposes, in 2009, Canada produced on average 2.72 million barrels of oil per day.

While Alberta's oil reserves are abundant, the bitumen within the oil sands requires processing, or "upgrading" before it can be transformed into traditional petroleum products such as transportation and heating fuels. The industrial units which undertake the processing of bitumen are therefore called upgraders. Many companies involved in bitumen processing have found conditions within the Sturgeon County and City of Fort Saskatchewan areas to be perfectly suited for upgraders to be built.

To date, there is one major upgrader in the region that is in operation. It is owned by Shell Canada. Shell has recently completed an expansion of its Phase I upgrader, but has long term plans to add up to four more separate phases with a new upgrader project. There are several other companies that have purchased land in the area which are either presently analyzing plans to develop upgraders, or are in the midst of regulatory approval discussions.

Sturgeon County and areas surrounding Fort Saskatchewan however have not been the only locations where new upgrader/petro-chemical plants have been proposed to be built, as other immediate surrounding regions have also generated interest from several oil and energy companies. So to ensure the sustainability of the entire region as a key future manufacturing centre for petro-chemicals and other related uses, Sturgeon County, along with the City of Fort Saskatchewan and the Counties of Strathcona and Lamont, began a new model of co-operation in 1998 in which the "Alberta Industrial Heartland" was formed. The City of Edmonton has also recently joined the Industrial Heartland association.

Since its inception, the Heartland Region has developed into Canada's single largest hydrocarbon processing area. The region spans over 350 square kilometre, making it the most viable site in Alberta with respect to the capability of cost effective, value added processing of the oil sands bitumen and petro-chemical feedstock.

Designated for long-term heavy and medium industrial growth related to the oil and petro-chemical industry, the Heartland Region is already home to over 35 world-class companies, including over 20 in Fort Saskatchewan alone. To date, it has had over \$25 billion in new petroleum, petro-chemical and chemical processing facilities built. Although Shell is the only upgrader project in the region at present, several other internationally based suppliers and producers of chemical goods have established a presence in the region including Dow Chemical, Imperial Oil, British Petroleum, Agrium, Sherritt International, Praxair, Air Liquide and Chevron. And in addition to the new and prospective upgraders in the region are other construction projects related to the supply and servicing of upgraders such as pipeline and railway line installations.

Table A-2 provides an overview of the major upgrader projects in the Heartland Region as well as their current status of operations and/or development. It should be noted that while the size and scale of the various upgrader projects are significant by any standards, there are currently fewer proposed for development than there were in recent years. This is mainly because of the recent global economic recession.

Further, the global credit crisis which first surfaced in late 2008 has made it difficult for many oil companies to secure project financing. This is particularly so seeing that upgraders are generally large, expensive and quite capital intensive projects. As well, gaining government approval from the Alberta Utilities and Energy Board can be a long and arduous process, particularly as each upgrader project must successfully pass an environmental impact assessment before they are given clearance to proceed. As a result of these circumstances, certain upgrader facilities which had been previously proposed, have since been terminated or put on an indefinite hold.

At the same time however, with prospects of new upgrader projects being built, the economic impact and spin-off benefits they may bring to a region, including that of local area hotels, is generally quite significant. This is in part because of having sizeable labour requirements once the upgraders are operational, as well as generating several hundreds if not thousands of construction jobs while upgraders are being built.

TABLE A-2
ALBERTA INDUSTRIAL HEARTLAND MAJOR PRIVATE PROJECTS SUMMARY
AS OF JUNE 2010

LOCATION	PROJECT DESCRIPTION	CAPITAL COST	STATUS
Alberta Sulphur Terminal (Hazco) – Lamont County	Sulphur Forming and Shipping Facility	\$30 million	Regulatory approval received in August 2009. Construction will depend on timing and construction of upgraders in Heartland area
BA Energy – Strathcona County	160,000 barrel/day bitumen upgrader	\$2.9 billion	Construction halted by company in 2008. To be reviewed in 4 to 5 years
Fort Hills Energy – Sturgeon County	350,000 barrel/day bitumen upgrader	Unknown	Joint Venture between Suncor, UTS, and Teck Cominco. Merger between Suncor and Petro-Canada completed in August 2009. Project received all regulatory approvals from ERCB(*) and Alberta Environment. Future construction dependent on review currently underway at Suncor re: timing of their bitumen extraction and upgrading assets
Keyera – Fort Saskatchewan	Lease of 6 inch, 30 km pipeline and associated construction to augment current pipeline system	Unknown	In regulatory process
Kinder Morgan – Strathcona County	Sulphur forming and handling facility	\$50-\$60 million	In regulatory process
King Tech Resources – Strathcona County	Spent catalyst recovery	Unknown	In regulatory process
Maxim Power Corporation – Lamont County	Natural gas power generation facility that produces 190 MW	\$140 million	Received regulatory approval in June 2008. Ongoing discussions and project planning
Northwest Upgrading – Sturgeon County	150,000 barrel/day bitumen upgrader and diesel refinery	\$4.2 billion	In May 2010, selected for the Government of Alberta's Bitumen Royalty in Kind program. Also announced partnership with Canadian Natural Resources in January 2010 for the project. Has received all regulatory approvals from ERCB and Alberta Environment. Facility planned to be operational in 2013 with Phases 2 and 3 to follow
Shell Canada – Strathcona County	100,000 barrel/day expansion to existing upgrader	Unknown	Construction of Phase 1 upgrader completed in 2010. Commissioning to commence in late 2010/early 2011
Shell Canada – Strathcona County	Four additional expansions of 100,000 barrel/day each to upgrading facility	Unknown	Environmental impact Assessment Report complete and submitted to ERCB. Hearing for all phases of the expansion to occur during the course of 2010

TABLE A-2 (continued)
ALBERTA INDUSTRIAL HEARTLAND MAJOR PRIVATE PROJECTS SUMMARY
AS OF JUNE 2010

LOCATION	PROJECT DESCRIPTION	CAPITAL COST	STATUS
Shell Quest Carbon Capture and Storage Facility – Strathcona County	Fully integrated project including the capture, transport, injection and storage of carbon dioxide. Over 1 million tonnes of carbon dioxide to be captured by 2015. To be then transported to an injection location near Scotford complex and stored more than 2 km below thick layers of impermeable geological formations	\$1.35 billion	In regulatory process. June 2009 announcement indicated that Quest was one of 3 projects chosen by the Government of Alberta to receive funding for carbon capture storage projects
Statoil Canada – Strathcona County	240,000 barrel/day bitumen upgrader	\$14.4 billion	Company withdrew regulatory application in 2008
Total E&P – Strathcona County	300,000 barrel/day bitumen upgrader	\$28.6 billion	ERCB hearing scheduled for June 2010. Financial review to be conducted by company before commencement of the project
Williams Energy – Sturgeon County	12 inch pipeline to transport high vapour pressure liquids from Fort McMurray to Sturgeon County	Unknown	Application submitted to ERCB in June 2009. Regulatory review expected in 2010. Pipeline expected to be operational by 2012
* ERCB – Energy Resources Conservation Board			
Source: Alberta Industrial Heartland			

As noted in Table A-2, two upgrader projects that were initially proposed have been deferred. In 2008, Statoil withdrew its application to build an upgrader, citing reasons that included prohibitive construction costs, the state of the global economy, uncertain oil prices, and a lack of legislative clarity. It was to be a \$14.4 billion project requiring more than 5,500 construction workers and an operational workforce of 600 once completed.

As well in 2008, BA Energy decided to indefinitely defer their upgrader project and focus instead on their bitumen extraction facilities in the Fort McMurray area. They have indicated however that they will re-examine their Fort Saskatchewan area upgrader project in 4-5 years.

Notwithstanding the obvious employment and economic benefits that upgrader projects may create, there has been rising opposition in recent years by various special interest groups who fear the outcomes of pollution and toxic emissions that the upgraders would produce. Although the mandate of the Heartland Region is to encourage and facilitate industrial development, it is also governed by the principals of an "eco-industrial" framework which is to ensure that the utmost interests of the community, its residents, and the surrounding environment are being met.

To date, the Alberta government has approved the majority of upgrader projects in the region, but at the same time, they have also promised to ensure the integrity of the environment and surrounding residential communities by capping the level of carbon dioxide emissions. A recent report by the Pembina Institute concluded that Alberta should not approve all upgrader projects until there is a solid plan to limit pollution and fresh-water use.

The report states that if all the upgraders proposed were to be established by 2020, they would consume water ten times as much as the City of Edmonton each year, and emit 45 megatonnes of greenhouse gases. In response to these concerns, the government has stated that delaying the upgraders would drive away investment from the Province and lead to more bitumen being shipped out of Alberta for processing, which would certainly cost thousands of jobs.

As such, with all funding, capital cost, market, labour, regulatory and environmental impact requirements needed to be addressed prior to the development of upgrader projects, it is not possible for anyone to predict the timing of any new or expanded facilities, and the recent recession and decline in crude oil prices have only added to the uncertainty.

There is however renewed optimism that within a two year timeframe, the economic outlook for both Alberta and the rest of the world's industrialized nations will be much improved. In fact, as previously discussed, the Royal Bank of Canada has predicted that by 2011, Alberta should once again be one of the top performing provinces in the country, and this is in part attributable to an expected and appreciable rise in the price of crude oil.

Although there are no projections that the price of oil will return anytime soon to the level of \$147 U.S a barrel which it recorded in the summer of 2008, expectations are that prices will be

high enough to justify a continuation of various upgrader projects that have either recently been terminated or indefinitely delayed. While it is not just a favourable price of oil that will potentially re-generate upgrader projects, it is known that few if any would proceed unless a reasonable price of oil can be sustained.

There is no particular price that is considered to be a minimum which would trigger new and/or expanded upgrader projects, although in discussions with representatives of various oil companies as part of this Study research, it appears that oil would need to comfortably be within the \$80.00 U.S. a barrel range to be considered economically feasible. While oil prices have risen quite notably over the last year from \$35.00 a barrel to its current price of approximately \$75.00 a barrel, prices have stagnated in recent months. Several analysts however such as Merrill Lynch have forecasted oil to be within the \$85.00 U.S. a barrel range by the end of 2010, and that by year end 2011, a \$100.00 barrel of oil could be possible.

It should also be noted on the positive front that as a result of the recent recession, construction costs in general have fallen relative to 2007/2008 when the economy was strong. This no doubt helps to alleviate certain concerns with regard to the large capital outlay requirements that upgrader projects have. As well, the recession has cooled the once tight labour market in Alberta, and now with a larger labour pool available, there are more reasonable costs associated with hiring construction crews and trades personnel.

Overall therefore, there is no certainty as to which if any new upgrader projects will be built, although in May 2010, the Alberta government selected Calgary based North West Upgrading to build a \$4.2 billion bitumen refinery in Sturgeon County near Redwater, an approximate one-half hour drive from Morinville.

The government's involvement in selecting North West Upgrading is part of Alberta's plan to use bitumen that will become available under its new Bitumen Royalty In Kind (B.R.I.K) program, which was designed to help revive stalled upgrader projects and keep jobs within Alberta. Under its agreement, the B.R.I.K initiative would collect oil sands bitumen in place of cash royalties, which can then be used to encourage upgrading, refining, and petro-chemical developments in Alberta.

The North West Upgrading facility itself would be the world's first refinery to use a one-step bitumen conversion process with an integrated carbon dioxide management solution. The refinery would be built in three phases, eventually reaching production capacity of 150,000 barrels per day. It would process 75,000 barrels per day of bitumen received by the Province in lieu of royalties (through the B.R.I.K program). Canadian Natural Resources Limited of Calgary has also agreed to provide bitumen and financial support in a 50/50 joint venture with North West.

While the project is not finalized in full, government and industry analysts alike firmly contend that it will proceed in development as planned. North West has already invested \$400 million into the project. And while not also firmly known, the most recent estimates are such that the project would employ up to 3,000 construction workers in each of its three planned phases. According to North West officials, initial construction of the first phase could commence as early as this fall, with an eventual completion date of late 2013.

Indications of how Sturgeon County and other Alberta Industrial Heartland regions have benefitted economically over the past five years due to new upgrader and related projects are evident in recent year building permit data as highlighted in Tables A-3, A-4 and A-5.

BUILDING PERMIT VALUES – STRATHCONA COUNTY (\$000's)				
	2006	2007	2008*	2009
Commercial/Institutional	\$65,679	\$60,266	\$280,508	\$93,951
Industrial	\$59,012	\$470,439		\$64,423
Residential	<u>\$256,054</u>	<u>\$310,329</u>	<u>\$147,968</u>	<u>\$179,573</u>
TOTAL	\$380,745	\$841,034	\$428,476	\$337,947
* \$208,508 combines all commercial, industrial and institutional construction activity				
Source: Strathcona County				

TABLE A-4

BUILDING PERMIT VALUES – CITY OF FORT SASKATCHEWAN (\$000's)

	2006	2007	2008*	2009
Residential	\$82,183	\$130,754	\$51,093	\$65,820
Commercial	\$6,664	\$2,403	\$36,550	\$8,400
Institutional	\$547	\$436	\$1,646	\$50,200
Industrial	<u>\$6,518</u>	<u>\$7,201</u>	<u>\$25,409</u>	<u>\$8,400</u>
TOTAL	\$95,911	\$140,793	\$114,698	\$132,800

Source: City of Fort Saskatchewan

TABLE A-5

DEVELOPMENT PERMIT VALUES – STURGEON COUNTY (\$000's)

	2006	2007	2008	2009
Residential	\$57,504	\$110,211	\$81,389	\$59,414
Commercial	\$610	\$1,150	\$141,000	\$5,338
Industrial	\$17,259	\$180,523	\$43,765	\$74,733
Institutional	<u>\$0</u>	<u>\$255</u>	<u>\$30</u>	<u>\$43,643</u>
TOTAL	\$75,373	\$292,139	\$124,325	\$183,120

Source: Sturgeon County

As noted in Table A-3 for Strathcona County where the majority of upgrader and refinery projects exist, 2008 construction activity was considerably weaker than in 2007. This was mainly due to beginning signs of a slowing economy and rapidly declining oil prices as of late summer 2008. The decrease in fact was nearly 50.0% from \$841 million in 2007 to \$428 million in 2008.

The residential and non-residential sectors were both impacted quite severely in Strathcona County. In terms of non-residential construction, declines were mainly attributable to upgrader and related pipeline projects as well as within commercial and manufacturing activity. Construction activity was even weaker in 2009, although year to date results for 2010 (to the end

of May) suggest that total building permit values are 18.0% higher than for the first five months of 2009.

The same is true for recent construction activity in Fort Saskatchewan. As indicated in Table A-4, permit values were lower in 2008 relative to 2007, although higher totals were recorded in 2009, with year to date totals thus far into 2010 being 65.0% higher.

With regard to Sturgeon County, construction activity in recent years has generally been recorded by *development permit* values and not by *building permits* values. As such, while development permits provide a good indication as to what may be constructed, they are not as firm an indicator as are actual building permits. Statistics as in Table A-5 nevertheless show that development permits rose substantially in Sturgeon County between 2006 and 2009. This reflects in part the various upgrader, oil, gas, pipeline, and petro-chemical related projects that were proposed for construction in the County during that time period.

Actual building permit values began to be recorded in Sturgeon County as of 2008, with results indicating a total of \$95 million in combined residential, commercial, industrial and institutional construction. This compared to just \$21 million of total activity in 2009, although year to date information for 2010 indicates that values are considerably higher mainly due to a much stronger housing sector. Whereas for the first three months of 2010 Sturgeon County recorded close to \$18 million in new home construction, it was just below \$6 million for the first three months of 2009.

With specific regard to the Town of Morinville, as previously indicated, it is located approximately 15 kilometres north of St. Albert along Highway 2. While situated in close proximity to the large centres of both St. Albert and Edmonton, Morinville has retained its unique, small-town historic character, with long-standing roots from English, French and German heritage.

With a full-time resident population of over 7,600, it is the largest urban community within Sturgeon County, and to a degree, acts as a regional trade area centre to smaller outlying communities within the County such as Bon Accord, Gibbons and Legal. The trade area of Morinville, based on a 20 minute driving commute range for goods and services, has a population base of over 90,000 residents.

Morinville's population has grown quite significantly in recent years according to Town officials. Whereas between the 2001 and 2006 Canadian Census, its population increased by just 0.7%, it has grown by nearly 13.0% between 2006 and 2009. The Town anticipates that annual population growth over the foreseeable future will be within the 2-3.0% range.

Further evidence of a growing population stems from Alberta Ministry of Transportation data which indicates that in Morinville, there were 5,950 vehicles per day on average in 2002 that travelled either north or southbound on Highway 2 near the intersection of Highway 642. In 2009, the average annual daily traffic volume was 6,520 vehicles. This represents an increase over nearly 10.0%. This growth is indicative of how Morinville is becoming a more popular route for commercial and leisure travellers alike, as will be further discussed in following sections of this Study.

There are also new signaling lights and transportation routes being planned for Morinville and vicinity over the long-term. According to Ministry of Transportation officials, while no specific timeframes for these projects have been confirmed, it includes plans for an expansion of certain portions of Highway 2 both north and south of Morinville from two to four lanes. Although the eventual completion may take upwards of ten years, specific segments of the highway should be upgraded and expanded within a two year period.

Other key demographic statistics related to Morinville are that it is considered to be quite a young and family-oriented community. While the median age of Greater Edmonton residents is 36, it is 33.8 in Morinville. Further, the average family household income in Alberta is \$73,823 while in Morinville, it is \$79,432.

The Morinville economy is supported by a number of sectors including educational services, health and welfare, transportation and communication, manufacturing, construction, oil and gas, finance, insurance & real estate, wholesale/retail trade, plus business and government services. There are also a variety of value-added agriculture and processing industries.

Major employers in Morinville include Champion Pet Foods, Sobeys and Extra Foods, Flynn Brothers Construction, Frontier Honda, K & T Metals, R.V. City, Target Products, plus the administrative offices of the Town of Morinville and Sturgeon County.

One of the larger and growing employers in Morinville stems from the Edmonton Garrison Canadian Forces Base. While situated some 20 kilometres southeast of Town, many military families reside in Morinville when they re-locate to Edmonton, and have found the community to be an extremely welcoming one. The Canadian Forces Base is one of the new generation "super-bases" which has resulted from the consolidation of the military across Canada.

Similar to how St. Albert in many respects is considered as a bedroom community to the City of Edmonton, so to is Morinville to the City of St. Albert. Because it is just approximately 15 kilometres between Morinville and St. Albert, many residents of Morinville access St. Albert for a wide variety of work, educational, shopping and general leisure/recreation purposes. It is estimated however that 22.0% of Morinville's residents are locally employed within the Town.

One of the reasons why Morinville's population has increased in recent years is due to the fact that areas of both Edmonton and St. Albert have become increasingly expensive to live. As a result, several residents have opted to move from Greater Edmonton to Morinville where certain housing inventory is more affordably priced. Others have moved from Edmonton for quality of life reasons, as Morinville offers a more relaxed, tranquil environment. And supported by a strong economy over the last decade, there are also an increasing number of work opportunities in Morinville.

It should be noted however that despite new and expanding work opportunities in the local area, Morinville does not contain a significant number of large employers or key, nationally-represented commercial, industrial or manufacturing firms. Rather, the majority of businesses in Town are small in nature with 10 or less employees.

The single largest project now underway in Morinville is the construction of a \$12 million Community Cultural Centre, scheduled for opening by the spring of 2011. This will coincide with the Town's 100th anniversary of incorporation. The two-storey Centre is being designed as a

multi-purpose facility to accommodate theatre, dance and musical productions, as well as weddings, re-unions, anniversary banquet celebrations and other social events, plus meetings and conferences. It is being built on land adjacent to the Morinville Community High School.

The meeting/conference/banquet facilities to be built will be flexible and state-of-the-art in design. Five separate meeting rooms ranging from 250 to 500 square feet each will be provided. All five rooms however will be situated adjacent to each other and be fully divisible to allow for up to 2,300 square feet of contiguous meeting/conference space. Another main feature of the Centre will be an 8,000 square foot multi-purpose hall in which numerous events such as banquets, theatre, musical performances, trade shows and/or exhibits may be held.

Due to the construction of the new Centre, building permit records for the Town are quite inflated for 2010, as they reflect most of the \$12 million cost for the facility. Nevertheless, while residential permit values in both 2008 and 2009 in Morinville were significantly down relative to 2006 and 2007, much stronger results are being posted thus far into 2010.

In fact, for all of 2009 there was \$14.2 million of new residential construction in Morinville, while in just the first 3 months of 2010, it already surpassed \$11.3 million. As such, with the Community Cultural Centre plus renewed strength in the residential sector, building permit values for the Town are expected to largely outpace both 2008 and 2009 results. Table A-6 overviews historic building permit values in Morinville between 2005 and 2009.

	2005	2006	2007	2008	2009
Residential	\$19,666	\$31,374	\$50,897	\$18,658	\$14,175
Non-Residential	<u>\$2,310</u>	<u>\$3,513</u>	<u>\$2,483</u>	<u>\$3,278</u>	<u>\$3,664</u>
TOTAL	\$21,976	\$34,887	\$53,380	\$21,936	\$17,839
Source: Town of Morinville					

Finally, with respect to leisure, recreation and sports activities in Morinville, the Town and surrounding area offer a plentiful mix of year round opportunities for all ages. Among the area events and attractions include:

- The St. Jean Baptiste Park, Church, Centennial Clock Tower, plus the annual St. Jean Baptiste Summer Festival
- Ray McDonald Sports Centre (ice rink/curling rink/outdoor soccer fields/lacrosse/ball hockey)
- Skyline and Meadow Ball Diamonds (4 diamonds at Skyline with lights for night tournaments, concession outlet, covered picnic shelter, 2 diamonds at Meadow)
- Musee Morinville Museum, featuring bilingual exhibits and illustrations
- Fish and Game Pond
- Bob Foster Extreme Sports Park
- Morinville Splash Park
- Senior Citizens Rendezvous Club/Hall
- Lion's Park/Teen Centre
- Rotary Park, Champlain Heights Park, Grandin Heights Park, Belle Park, Sunnysdale Park and Sunshine Lake Park
- 3 outdoor tennis courts
- Fitness Centre
- 18-hole Cardiff Golf & Country Club
- Heritage Lake & Campground R.V. Park (54 serviced sites)
- Events including "Le Tour del' Alberta" (bike tournament), "Fly Ball" (dog competition), and "Tearin' Up the Turf" (agricultural exhibition), and,
- Walking/nature trails

Morinville further offers a relatively broad range of service clubs, plus sports and community organizations. A select number of these include a Chamber of Commerce, Knights of Columbus, Lions Club, Rotary Club, Royal Canadian Legion, Fish & Game Club, Curling Club, Minor Hockey, Junior "B" Hockey, Minor Soccer, plus Minor Baseball/Slo-Pitch.

SECTION B – HOTEL MARKET ANALYSIS

In assessing the potential operating performance of any new proposed hotel, there are typically other hotels in the surrounding vicinity to which comparisons can be made, particularly in relation to what relative strengths and weaknesses the proposed hotel would have. There are several factors that are included in such a comparative analysis, including location, size, price, product quality, mix of on-site facilities, independent versus chain affiliation, and the nature of the clientele that is being served.

Related to Morinville, these measurements can generally not be made as there is considered to be just one hotel competitor in the local Morinville market - that being the 28-room Morinville Plaza & Suites located at 10219-100th Avenue. But despite being situated in Morinville, it is R.E.C.I.'s opinion that notwithstanding a recent renovation and refurbishment undertaken at the hotel, the property would not be considered as a strong competitor to the subject 60-room hotel proposed for development. This is primarily based on three reasons, the first of which being the general physical condition of the hotel. While renovations have certainly upgraded and modernized it to a higher standard, it would differ from the subject hotel quite notably in terms of overall product quality.

The second reason is that the subject hotel would substantially differ from the Morinville Plaza & Suites in terms of its range of on-site guest facilities and services, as well as in terms of branding. Whereas the Morinville Plaza & Suites is generally a "rooms-only" property, recommendations for the subject hotel as part of this Study are much more broad and envisage a lobby area breakfast room, a small food/sundry item kiosk adjacent to the front desk, an internet kiosk, a small boardroom, coin-operated guest laundry room, exercise room, plus an indoor swimming pool and waterslide. The hotel would also substantially differ because it would likely be affiliated with an internationally recognized brand.

And finally, the third reason, which may perhaps be the most convincing in terms of why the hotels may not strongly compete, is based on the exceptionally poor reputation that the Morinville Plaza & Suites has had in the past, both in terms of product and guest service. Research as part of this analysis confirms that many businesses, sports teams, leisure travellers

and other "end-user" groups who have in the past utilized the hotel, suggest that it would be difficult if not impossible to win back their patronage despite new ownership, management and renovations.

In order to therefore project how the subject hotel property would fare should it be developed as proposed, several research elements were undertaken, with consideration given to the following:

- For a population of 7,600, Morinville appears to be under-serviced in terms of hotel product. While the number of hotels a market has often depends on the mix of its employers, what attractions it has, and its location relative to other larger centres, a community with 7,600 residents should in theory have more than one primary overnight accommodation facility. And with particular regard to Morinville, despite its close proximity to St. Albert and the City of Edmonton, the Town does have a relatively diversified mix of business, commercial, and recreation uses. As previously noted however, it does not contain a significant base of large and/or nationally-represented manufacturing/industrial employers.
- Based on discussions with the current owners of the Morinville Plaza & Suites, it appears that there would be room to support the development of a new hotel in Town. Despite many unsatisfied end-users of the hotel in the past, it has been utilized by a wide variety of individuals and groups (both business and leisure based), because quite simply there are no other true overnight fixed-lodging accommodation choices in Town. There is a small property, the Morinville Hotel, at the corner of 100th Avenue and 100th Street, although it is a very old facility with less than 10 guest rooms, and it primarily operates as a pub. As such, it too would be discounted as a competitor to the subject hotel.
- Based on more detailed research and discussions with ownership and management of the Morinville Plaza & Suites, hotel demand in the past has apparently stemmed from a wide range of corporate, commercial and government travellers, leisure travellers, the "visiting friends and relatives" market who need overnight accommodations in Morinville as part of area weddings, anniversary, or re-union celebrations, and for funerals. Demand has also been generated by participants in sport team and tournament league

play such as baseball, basketball, curling and hockey, plus work crews and construction crews stationed in the area for either long or short periods of time.

- The large majority of total hotel demand in the past at the Morinville Plaza & Suites on an annual basis has been from work crews stationed in the area. This is not only because in recent years the region surrounding Morinville has had several oil, gas, pipeline and other general construction work projects, but also because the Morinville Plaza & Suites was considered to be a popular choice for work crews. This is due in part to the inexpensive room rates the hotel has charged in the past. Work crews typically require blocks of guest rooms for extended periods of time, and they are also generally rate sensitive. This will more often than not make them choose area motels that are both basic in accommodation, and, offer the most affordable room rates. Work crews have also represented the majority of total hotel demand throughout the course of the year at the Morinville Plaza & Suites because the work that they undertake is generally conducted on five of the seven nights of the week between Monday and Friday.
- A final reason as to why the work crew sector has been the largest sector of hotel demand in the past at the Morinville Plaza & Suites is because many other corporate, commercial, government, leisure or sports team markets have chosen the hotel only on a "worst case" basis, and despite the potential farther distance, have opted to stay at better quality hotels and motels in either St. Albert or Greater Edmonton.

In order to further gauge the level of support for a new hotel development in Morinville, a series of telephone interviews were conducted with representatives of approximately 50 area businesses, government organizations, associations, sports teams and tournament organizers, and hotels & motels. These included contacts locally within Morinville, as well as other regions of Sturgeon County and the Industrial Heartland as well as within St. Albert.

Assessing the potential level of hotel demand from the corporate/business community was considered to be especially important to the operational viability of the subject hotel, as the majority of such demand would generally occur over the crucial five day work period from Monday through Friday.

The feedback from telephone interviews varied, and results were not tabulated in any scientific or statistical manner. However, definite trends and/or preferences became evident. The following provides an overview of the general findings collected through the survey interview process.

- Employers within Morinville are not on any regular basis significant generators of hotel demand. While several of the companies contacted require accommodations at certain times throughout the year for their clients, suppliers, staff, etc., the number of these occasions is generally quite few in number.
- Within Sturgeon County, there are several large companies located in Sturgeon Industrial Park which generates large volumes of hotel demand. As the Park however is situated close to the City of Fort Saskatchewan, virtually all interview respondents contacted suggested that they would rarely if ever consider Morinville as a possible hotel alternative. And if Fort Saskatchewan hotels were not available, properties in Sherwood Park would be the next preferred choice - thus generally precluding much potential hotel demand stemming from Sturgeon Industrial Park and areas east into the Fort Saskatchewan region.
- Two other areas of Sturgeon County with commercial/industrial pockets are Pro-North Industrial Park (10 kilometres southwest of Morinville), and the Villeneuve Airport Industrial Park (30 kilometres southwest of Morinville). In discussions with various employers based in both Parks, indications were such that a new hotel in Morinville would not be a logical choice given more nearby hotels in St. Albert and/or Spruce Grove, Stony Plain or west Edmonton.
- Regardless of their nature being "business" or "leisure" oriented, hotels in St. Albert or Greater Edmonton are often selected first and foremost when overnight accommodations are required. This is not only because of the lack of quality hotel choices within Morinville, but also because of the close proximity of Morinville to both St. Albert and Greater Edmonton. Furthermore, in addition to having more hotel choices available in these communities, there are also many more attractions available such as food, shopping and entertainment. Accordingly, a number of interview respondents indicated that even if a new, quality were to be built in Morinville, St. Albert would remain as a popular, and often "first" choice.

- St. Albert appears to be the primary choice of hotels for the corporate, government, leisure and sports team markets when overnight accommodation is required rather than the west end of Edmonton. This is mainly because of its closer proximity to Morinville. However, while St. Albert provides a greater and more diverse complement of hotel and motel facilities than Morinville, it was not always perceived by interview respondents to be their preferred choice. This is because the St. Albert Inn is often considered to be "too busy" or "too expensive", and therefore beyond the general acceptance level of would-be Morinville hotel demand. Conversely, the other accommodation choices in St. Albert are generally basic motel properties, whose physical condition was generally considered to be of the same quality as the Morinville Plaza & Suites.
- Certain interview respondents indicated that even with a new hotel proposed for Morinville, not all of their overnight requirements would be fulfilled by the property due to the fact that they often select hotels that are either more central to the downtown Edmonton area and/or the Edmonton International Airport.
- Discussions with representatives in Morinville that organize recreation sports and tournaments within the assorted venues in Town indicate that events generally occur on many weekends throughout the year. This is as a result of Morinville having a large complement of both summer and winter time recreational activities. Baseball, basketball, curling and hockey are among the four largest sports, and during many weekends in the year, there are tournaments which often attract visiting teams from communities far enough away from Morinville that generate overnight hotel demand. Due to its close proximity to St. Albert however, some of the tournaments involve both communities. Despite many specific Morinville based tournaments, hotels and motels in St. Albert are most often selected. This again is not only because of the close proximity to Morinville, but also because of the lack of choices available locally. Research as well indicates that in the past, there have been times in which tournament organizers could not find space at the Morinville Plaza & Suites because they had been full. This would be expected with only 28 guest rooms. Recreation organizers suggest that the obvious preference would be to have more local area hotels, so that teams and/or their family members can stay in Town, and not be forced to drive back and forth between Morinville and St. Albert, particularly during winter and/or other inclement weather conditions.

- Certain sports team organizers indicate that additional tournaments (provincial and/or other) could be created in Morinville if a new and good quality hotel were to be built. Currently however, with few rooms available in the market, as well as the poor perception that many people attribute towards the Morinville Plaza & Suites, it is reasonable to assume that the addition of new, quality rooms to the market such as the subject hotel, should help attract and retain overnight rooms demand from sports teams on many occasions throughout the year.
- While not as large as Morinville, several other smaller surrounding communities such as Bon Accord, Gibbons and Legal also have a certain variety of sporting events and activities through the year that periodically generates demand for hotel use. Their location relative to Morinville suggests that a new hotel development would be favourably perceived, especially since the few motels situated in these communities are primarily old, limited in terms of number of guest rooms, and in inferior physical condition.
- The same would be true of certain long-term work crews which have in the past stayed in small, older motel properties in outlying communities of Morinville. While as previously indicated, although work crews generally seek the most basic and affordably priced motels while in the field, they may not have as many choices at times when area hotels and motels fill with work crew demand. This may particularly result in strong economic times when several work crew projects are being commissioned at the same time and hotel demand for such outstrips the available room supply. This is what generally occurred during the 2006 to 2008 period when Fort Saskatchewan area hotels were virtually full year round as a result of various upgrader and related projects that were being built. With an alarmingly high labour shortage in Greater Edmonton at that time, many trade personnel from other regions of Canada were able to secure long-term work opportunities in the Edmonton Region. This necessitated them however to find overnight lodging for extended periods of time. Hotels and motels in Fort Saskatchewan and other regions of Sturgeon County were obvious benefactors of the tight labour market.
- A further reason as to why certain work crews could favour new and perhaps more expensive hotels over basic and more affordable motel properties, is that there are preferences among certain crews for higher quality product, especially if guest rooms were more spacious and included kitchenette units. A free continental breakfast service is also favourably perceived by many crew workers. As such, with the majority of area

motels not providing such amenities or services, it stands to reason that certain work crews would opt for newer hotels which did offer an expanded array of facilities. It is suggested however that the hotel would still need to be competitively priced within the market in order to attract the work crew sector.

- Discussions with management of certain community and banquet halls in Morinville indicate that they are often aware of situations in which visitors to town are unable to find overnight accommodations in the local area. This particularly occurs in the summer season when several weddings, anniversary parties and/or re-unions take place. Community and banquet hall organizers believe that St. Albert hotels receive the majority of overnight demand requests, although again the preference would be to have more hotel inventory available in Morinville so that the event at hand would be in close proximity to the overnight lodging.

SECTION C – PROJECTED OCCUPANCY PERFORMANCE, SUBJECT HOTEL

A number of considerations were given in arriving at the projected occupancy performance of the subject 60-room hotel proposed for development in Morinville. In part, consideration was made based on industry knowledge of other western Canadian communities that have similarities to Morinville in terms of size, location, hotel inventory, and mix of employers. Most consideration however was based on research findings from the approximate 50 personal and telephone interviews conducted with local and regional economic development officials, area hotel and motel operators, tourist, leisure, banquet/community hall representatives, and several "end-user" individuals and groups including local and regional businesses, associations, First Nations and other government/public sector employers, plus sports teams and tournament organizers.

Typically, when a market has a representative mix of hotels and motels, the most effective manner in which to determine how a new hotel may fare in terms of its future occupancy and average daily room rate (A.D.R) performance, a "capture rate" analysis is undertaken. This analysis essentially involves an assessment of the new hotel's relative strengths and weaknesses by each of the individual demand sectors that a hotel generally relies on through the course of the year in terms of occupancy support. For a market such as Morinville, these major demand sectors would typically be 1) corporate/government 2) tourist/leisure 3) sports team, and 4) work crew.

The corporate/government sector relates to the wide range of commercial businesses in Morinville and region plus other municipal or provincial government agencies stationed in the vicinity. Once the Community Cultural Centre is built, demand would also include overnight meeting/conference activity. The majority of hotel demand stemming from the corporate/government sector occurs throughout the year, but particularly on weekdays from September through to June.

Tourist and leisure travellers represent a diverse source of demand, but generally include those that wish to stay in the Morinville area for the purpose of visiting friends and relatives. This may include social gatherings such as weddings, anniversary parties and family re-unions. It also includes funeral visitations. The majority of tourist/leisure travel occurs in the summer season, holiday periods, and on

weekends. There are other tourists in the area who are on leisure trips in the region, and as part of their visit either to, or through Greater Edmonton, may opt to stay overnight in the Morinville vicinity.

As previously discussed, Morinville also attracts a variety of groups which participate in year round organized sporting events and tournaments. These most often occur on weekends during the spring, summer and fall seasons, but can also occur on weekends and holiday periods. Morinville also attracts certain overnight non-sports groups to Town. These are groups which are involved in various service clubs plus community organizations and associations such as the Lions Club, Rotary Club and the Royal Canadian Legion.

As also previously discussed, the work crew sector has up until recently been an extremely active source of hotel demand in the Greater Edmonton and Sturgeon County region due to several long-term oil, gas, pipeline, petro-chemical and construction projects. While the economic recession significantly curtailed the amount of work crew activity, there are indications that it is returning, largely on account of a more favourable outlook in the Alberta economy and higher oil and natural gas prices.

Given the fact that Morinville itself does not have a defined competitive set of hotels, and as previously suggested, the Morinville Plaza & Suites would not be considered as a strong competitor to the subject hotel, a "capture rate" analysis is not possible to undertake. And although there are several outlying hotels and motels situated within a half hour radius of Morinville including the communities of St. Albert, Fort Saskatchewan, Bon Accord, Gibbons, Legal, and Redwater, there are reasons to suggest that a new hotel in Morinville such as that proposed would not normally compete with them in any direct manner.

In regard to St. Albert, its main hotel is the full-service, 148-room St. Albert Inn & Suites, which would be much larger and more diverse in facilities relative to the subject 60-room property. The two other properties in St. Albert are primarily limited-service "rooms only" motels - the 35-room Sleep Inn Motel, and the 31-room Horizon Motel. While both motels have adjacent restaurants, they have no other on-site meeting/conference or recreation facilities. They are also quite old and in inferior physical condition. Hence, the three lodging choices in St. Albert would be quite different from what would likely be developed as part of the subject hotel in Morinville.

In addition to the differences in the Morinville and St. Albert hotel product are further differences that exist between the two communities themselves in terms of their size, economic base and the general mix of employers. As such, it is unlikely that the two markets would compete in terms of generating hotel demand. It is suggested however that a new hotel in Morinville would lure certain demand away from St. Albert. This is based on research with owners and operators of St. Albert hotels and motels who believe that should a new hotel be built in Morinville, some pockets of demand they currently attract from the area would disappear.

These findings are also based on research from various corporate, government, leisure, sports team and work crew travellers who may have a preference to use Morinville hotels. For these travellers, the main reason for currently staying in St. Albert is either because there are at times no rooms available in Morinville (such as at the Morinville Plaza & Suites), and/or because of an unwillingness to stay locally at the Morinville Plaza & Suites due to its poor perception.

Within the hotel industry, examples of these two above instances are commonly referred to as "unsatisfied" and "induced" demand. Unsatisfied demand refers to new rooms demand that could potentially be accommodated in a market as a result of new hotel inventory being introduced. With just one hotel in the market, Morinville has times throughout the year in which no rooms are available. This may have been due to them being occupied by certain work crews, leisure travellers or sports teams. The introduction however of new supply into the market such as the subject 60-room hotel, should satiate a portion of previous "unsatisfied demand" by now being able to accommodate it to a greater degree - thus not forcing as many travellers to seek overnight accommodation elsewhere such as in St. Albert.

Induced demand refers to additional overnight occupancy that may be generated in a market if new, quality and/or unique features are introduced to an area. The introduction of the subject hotel is a prime example of induced demand, as it would not only be a new and quality property, but would also offer a different range of on-site facilities than what currently exists in Morinville. Adding such new and/or unique facilities like a swimming pool for example, would "induce" certain travellers to stay in the market. If a pool or other similar features were not made available, there would then be a greater chance that demand would continue to opt for accommodation choices elsewhere outside of the market such as in St. Albert.

A further "induced" demand generator would be the new Community Cultural Centre being built in town. As a result of it being developed with specific meeting/conference/banquet facilities, it will be considered as a new and unique addition to Morinville. With strong sales and marketing efforts in place, this should no doubt act as an impetus to generating new overnight hotel support to Morinville.

It should be re-emphasized however that a new hotel in Morinville will not lure all hotel demand away from St. Albert. Despite any preferences to stay locally in Morinville, there will remain many travellers who will opt to stay in area hotels and motels in St. Albert for a number of reasons including it being closer to Edmonton, having a greater variety of hotel and motel choices available (including a new 92-room Best Western hotel opening this fall), plus a much broader mix of shopping, foodservice and entertainment. The fact that it is an easy 15 minute commute between Morinville and St. Albert will also dissuade a number of would-be overnight hotel Morinville travellers from staying locally in Town.

With regard to Fort Saskatchewan, research strongly indicates that it is too far removed from Morinville to be considered directly competitive, and at best, a Morinville hotel would primarily generate only overflow demand when hotels in Fort Saskatchewan fill to capacity. However, despite new hotels expected to open in Fort Saskatchewan over the next year, prospects for stronger hotel demand in that market should result given the recent announcement of plans to begin construction of the North West upgrader refinery in nearby Redwater. If hotel occupancy rates increase as expected in Fort Saskatchewan because of the North West upgrader, Morinville hotels should also anticipate a degree of overflow demand.

Further, the mix of motel facilities in the communities of Bon Accord, Gibbons, Legal and Redwater would not be considered as direct competitors to the new subject hotel in Morinville. This is based in part on their locations which are somewhat removed from Morinville, but mainly due to their limited size and their overall product quality. Most of the motels in these communities are quite small, old, and dated in appearance. While a new hotel in Morinville may attract certain area work crews, it stands to reason that the likely room rates of the subject hotel may be beyond the general acceptance level of certain others.

In summary, given all of the above and with specific reference related to how the subject hotel in Morinville may perform therefore, the following analysis considers a number of both positive and negative influences, which are highlighted below:

Positive Influences

- The Alberta and Greater Edmonton economies are now returning to more normal levels of growth after being quite negatively impacted by the late 2008 and 2009 recession. Analysts such as R.B.C suggest in fact that in large part due to expected increases in both oil and natural gas prices, Alberta will be one of the top performing economies of any Province in Canada over the medium to long-term. Edmonton is also expected to be one of the top economic performing cities of any in Canada over the long-term according to the Edmonton Economic Development Corporation.
- With regard to Morinville, it has reaped the positive economic benefits that the rest of Alberta experienced over the last decade. Particularly favourable with respect to economic growth is that the town has witnessed a large increase in its population base as well as a growing and diversified mix of businesses. This too has been shared by Sturgeon County plus other surrounding municipalities and Counties including Fort Saskatchewan, Strathcona County and Lamont County. Several large oil, gas, pipeline, petro-chemical and other general construction projects have been undertaken in these regions over the past decade, with favourable prospects that they will continue in the near-term with a more promising economic outlook for Alberta.
- Being the largest urban centre within Sturgeon County, Morinville should also remain as a key regional service centre to many smaller, outlying communities.
- Based on discussions with a variety of oil and gas analysts as well as representatives with the Alberta Industrial Heartland association, it is likely that the North West upgrader refinery near Redwater will commence construction either late in 2010 or early 2011. While it is expected that the large majority of labourers and work crews hired to construct the project will be from the Edmonton region, there will be many trades personnel who will require overnight accommodation in the area for extended periods of time. This in fact was the case when the Shell upgrader refinery was built near Fort Saskatchewan.

- Hotels and motels in Fort Saskatchewan and Redwater will likely be the main benefactors of overnight hotel demand as the North West upgrader is built, although for the purpose of this analysis, it has been assumed that a new hotel in Morinville should attract overflow rooms demand as well. An estimated 200 nightly rooms per month at the subject hotel beginning in 2012 have therefore been incorporated into the occupancy projections herein. While it is unknown at present as to how many workers will require overnight accommodations in the Redwater region due to the construction of the North West upgrader project, early estimates indicate that it may be in the range of 3,000.
- Aside from the North West upgrader project, other work crew related projects should be expected over the medium to long-term in the Sturgeon County area. This is also due to forecasts of a more favourable economic outlook in Alberta. Research suggests that a number of hotels and motels in outlying regions of Morinville achieved quite high occupancy rates prior to the economic recession mainly due to many such long-term work projects. On the basis that room rates would be competitively positioned therefore, it has been assumed for the purpose of this analysis that the subject hotel would be favourably perceived by certain work crews when extended-stay opportunities arise for them in the region.
- Possibilities exist that along with the North West upgrader project, temporary, modular-designed campsites may be built to accommodate area labourers and work crews. In discussions however with companies that operate such campsites in other oil and gas fields in western Canada, nightly rates for both room and board can be upwards of \$150.00 per person. Despite the fact that this rate includes 3 meals a day, \$150.00 is considered to be quite expensive, particularly in comparison to what certain hotels and motels in the region would likely position their nightly rates at in order to attract this business. Furthermore, while possibilities exist in hotels and motels for workers to share rooms (and hence split costs), guest rooms within the campsites are generally no more than 120 square feet in area, thus precluding two people from sharing a room.
- Aside from oil and gas industry, research indicates that a new hotel in Morinville would generate overnight hotel support from other local area employers which currently utilize hotels elsewhere in the region such as St. Albert. As previously discussed, this is due to certain times of the year in which the Morinville Plaza & Suites is full, and/or the

unwillingness of certain individuals and user groups to stay overnight at the Morinville Plaza & Suites.

- Further hotel occupancy support should stem from several soldiers, officers, other administrative personnel and their families affiliated with the Edmonton Garrison Base when they are either re-locating to, or from, Morinville. Discussions with Base officials indicate that a new hotel in Morinville would act as a popular temporary location for their military personnel because many of them choose Morinville to reside in while being stationed at the Garrison. Other large centres in the region such as the Alexander First Nation west of Morinville, would also have periodic needs for overnight hotel use, although research suggests that it would not be substantial.
- For obvious reasons, the hotel should benefit by way of overnight rooms demand in activity stemming from the new Community Cultural Centre. The \$12 million development is being built in part to attract many non-local meetings, conferences, trade shows/exhibits, banquets and other performing arts events, which should induce overnight hotel demand from a wide variety of sources.
- Several sports teams would utilize the subject hotel for their competitions and tournaments, particularly if the venues for the event are held in Morinville. At present, a number sports teams do not stay overnight in Morinville, either because of capacity constraints or an unwillingness to stay locally at the Morinville Plaza & Suites. The addition of new quality hotel rooms to the market should help in such situations and keep tournament players and their families within town as much as possible.
- An indoor swimming pool and waterslide has been recommended for development within the hotel. This is based on research which indicates that at present, there are no indoor pools or waterslides in Morinville or any of the smaller communities in the County. It has therefore been assumed that should an indoor pool and waterslide be developed as part of the subject hotel, it would attract many families and other groups such as sports teams and tournaments.
- Finally, the hotel is recommended to be affiliated with an internationally recognized chain. As part of being affiliated with a reputable brand, the hotel should not only reap the benefits of having links to a worldwide central reservations system, but also be supported by way of sales, marketing, and yield management/revenue support. While there are obvious costs to affiliate with a brand name chain, it is R.E.C.'s opinion that

they would be outweighed by its long-term benefits, particularly as there are no chain affiliated hotels at present within an approximate half-hour radius of Morinville. This includes St. Albert. The closest region in which branded hotels exist is within Fort Saskatchewan. It should be noted however that the new 92-room hotel now being built in St. Albert will be operated as a Best Western.

Negative Influences

- Despite the fact that Morinville continues to expand and diversify, it remains a relatively small community with a rather limited base of manufacturing and industrial employers. And as previously noted, the principal finding from discussions held with the majority of large employers in the Morinville area is that they are not significant generators of hotel demand. While most companies require accommodations at certain times throughout the year for their clients, suppliers, staff, etc., the number of these occasions is generally quite few in number.
- Heightened oil and gas development activity within the Alberta Industrial Heartland should continue to provide employment opportunities to the region and help support hotel demand. However, the majority of oil, gas and petro-chemical projects including the prospective North West upgrader refinery are situated much closer to Fort Saskatchewan, with research herein suggesting that Morinville would primarily get overflow hotel demand from these developments.
- There are also potential risks that fewer than expected labourers and work crews will require overnight hotel accommodations once the construction of upgrader projects commence. Should for example the Alberta economy be weaker than anticipated over the near term, there could be a plentiful supply of trades personnel from the Edmonton region who may be able to fulfill the majority of construction work and hence limit potential hotel requirements. And while Fort Saskatchewan hotels were primary benefactors of demand when the Shell upgrader was built, this was during a time that the Alberta economy was strong and labour markets were particularly tight.
- Notwithstanding previous discussions suggesting that the Morinville Plaza & Suites has a poor reputation, the fact that it has been recently upgraded and is now under new

ownership and management should help in re-attracting certain pockets of demand to the property.

- With regard to other hotels and motels such as those within St. Albert, despite them being fundamentally different from what would likely be developed at the subject hotel in Morinville, St. Albert will always be considered as an attractive alternative because of the close proximity between the two communities, as well as St. Albert being situated closer to Edmonton and having a much more extensive range of shopping, foodservice and entertainment.
- In terms of highway traffic, and with specific reference to the subject hotel potentially capturing key overnight demand from travellers entering Edmonton from Fort McMurray, Highway 2 is generally utilized less than the combined Highway 63 and 28 corridors. This is in part due to Highway 28 being more closely situated to Fort Saskatchewan where the majority of upgrader and refinery projects exist.
- While the new Community Cultural Centre should no doubt create new overnight hotel demand in Morinville, there are several other comparable-like facilities in the region which already exist (such as in St. Albert, Fort Saskatchewan, etc. There is also a sports/recreation/community hall being expanded in Redwater that will feature new facilities upon completion in early 2011. This will include public assembly space that will accommodate up to 450 people for theatre-style seating and 300 persons for a sit-down banquet.

Summary

Based on all preceding research elements including the various positive and negative influences that would be expected to impact the hotel demand performance of the subject hotel in Morinville, five-year occupancy projections have been forecasted as presented in Table C-1. Projections assume a 2012 opening date, and that the hotel would be branded and developed as proposed with 60 guest rooms and suites including the other aforementioned on-site facilities such as a lobby area breakfast room, a small food/sundry item kiosk adjacent to the front desk, an internet kiosk, a small boardroom, coin-operated laundry room, exercise room, plus an indoor swimming pool and waterslide.

TABLE C-1 PROJECTED YEAR-END HOTEL OCCUPANCY PERFORMANCE					
	2012	2013	2014	2015	2016
Market Occupancy	66.0%	68.0%	69.5%	69.5%	69.5%
Source: Rich Eichler Consulting Inc. research					

In arriving at the forecasted occupancy rates, "zero-based" demand projections were made for the hotel's initial year of operations whereby annual room night estimates were projected. This was done by estimating the number of room nights that could potentially be generated by the hotel from respondents of the approximate 50 telephone demand interviews which were conducted.

It is important to note however that despite interviews being held with either the largest and/or most notable employers or hotel "end-users" in the Morinville region, they represent just a small percentage of other potential sources of hotel demand that were not contacted during the course of the study research due to both time and budget restrictions. For example, several small employers in Morinville were not interviewed, and while it would be likely that their annual hotel requirements would be minimal, overnight hotel requirements would obviously rise if all small commercial and retail business operators were contacted.

Research could also not include specific interviews with all sports teams, tournaments, and associations that may have overnight hotel requirements in Morinville, although as previously discussed, several of these groups were contacted. Further, there are many residents of Morinville that have regular needs for hotel use due to hosting friends and relatives, as well as a number of social occasions such as weddings, re-unions etc. which are held in town. Accordingly, for the purpose of this analysis, "best guess" estimates were incorporated into the occupancy projections along with results from actual surveys which were able to be conducted.

In combing all elements of research findings, as indicated in Table C-1, a year-end occupancy rate of 66.0% for the subject hotel has been projected in its assumed first year of operation, 2012.

As further noted in Table C-1, occupancy rate projections post 2012 are expected to rise and reached a stabilized rate of 69.5% by 2014. In arriving at the improved occupancy rate performance projections, a number of assumptions were made including the following:

- As forecasted by the Royal Bank of Canada and other industry analysts, the economic outlook for Alberta and Greater Edmonton will remain favourable and improve over the near to medium term;
- The construction and operating phases of the North West Upgrader refinery will occur as proposed;
- As the hotel opens, its operations will mature and become more broadly recognized within the marketplace and the general region; and,
- Similarly, as operations of the new Community Cultural Centre will mature and become more broadly recognized, it too will attract a larger variety of meetings, conferences, banquets, trade shows, and exhibits which should generate certain levels of hotel demand.

There may also be upside to the occupancy projections should Calgary based Enbridge Inc. proceed with their Northern Gateway Pipeline project, which essentially involves a new twin pipeline system that would extend from the Fort Saskatchewan region to a new marine terminal in Kitimat, British Columbia.

The estimated cost of the capital project is \$5.5 billion, and while it is not yet determined if or when it will proceed, plans are well underway towards its initialization. Morinville may particularly be impacted should the project proceed, as it is situated within close proximity to where the pipeline is to be installed. It has been assumed therefore that several work crews in the area would be needed as part of the installation process, and should overnight hotels be required, Morinville should greatly benefit. However, due to the current preliminary nature of this project, its potential impact on the subject hotel cannot be measured.

SECTION D – PROJECTED AVERAGE DAILY ROOM RATE (A.D.R) PERFORMANCE, SUBJECT HOTEL

In projecting how the subject hotel would perform in terms of its A.D.R, several issues were considered including an assessment of the hotel's proposed location, concept, market orientation, mix of on-site facilities and brand affiliation.

Consideration was also given towards the recent historic A.D.R performance of other comparable hotels in the Greater Edmonton region, rates charged at other hotels and motels in the region, plus the fact that the subject hotel would be among the newest in the market. The majority of properties in the region would not only be older, but also less diverse in terms of guest facilities. As such, while still considered to be a mid-priced property, the hotel's room rates would likely be positioned higher relative to most motels in the area including Morinville, St. Albert, Gibbons, Legal and Redwater. Rates should however be expected to be below other larger and/or more full-service hotels such as the St. Albert Inn, or certain properties in Fort Saskatchewan that have had quite high room rates in the past due to strong occupancy levels.

It will therefore be important for management to be mindful of rates being set at other hotels in the area order to protect market share and remain competitive. This may be especially true since there will no doubt be periods throughout the year in which demand will weaken and slower occupancies will result. This could trigger some degree of rate discounting, or "price wars" among hotels.

In combining all of the above factors into the analysis, it is projected that in its first year of operation in 2012, the subject hotel's A.D.R would be at \$109.50, rising to \$123.84 by 2016 as highlighted in Table D-1.

	2012	2013	2014	2015	2016
Projected A.D.R – Competitive Market	\$109.50	\$113.33	\$116.73	\$120.23	\$123.84
Percentage Change	-	3.5%	3.0%	3.0%	3.0%
Source: Rich Eichler Consulting Inc.					

SECTION E - PRO FORMA STATEMENT OF REVENUES & EXPENSES

The preceding research and market analysis concluded with forecasted occupancy and A.D.R projections for the subject 60-room hotel in Morinville. The following incorporates these projections into an overall five-year Pro Forma Statement of Revenues & Expenses for the entire hotel operation (as presented in Exhibit E-1), which has assumed that all of the aforementioned recommended facilities would be developed as proposed.

Projections have been based in part on general hotel industry knowledge of how comparable type hotels operate in similar size market areas. Support has also been provided by benchmark data from industry consultants including Pannell Kerr Forster (PKF) Consulting, which produces an annual "Trends in the Canadian Hotel Industry" report. The "Trends" publication is a statistical review of financial operating data contributed by hotels, motels and resorts from across Canada. In their latest 2009 edition, the Canadian sample size included 550 properties representing over 105,000 guest rooms. Data is segmented into various sample sizes, and relevant to the subject hotel, there is separate information for "Western Canadian limited-service hotels", as well as "Canadian hotels under 126 rooms". As such, a review of these two sample groups helped formulate the basis of certain revenue and expense projections for the subject motel.

In terms of inflation throughout the 2012 to 2016 period, revenues and expenses are anticipated to grow by an annual rate of 2.5% unless otherwise specified. In certain revenue and expense line items however, inflation is not the sole basis for change, as operations are also impacted by changes in sales volume and/or the number of occupied rooms being generated. An explanation of the various revenue and expense line items within the Pro Forma follows:

Rooms Department

Revenue for the rooms department has been derived utilizing the average daily room rates and occupancy levels projected for the subject hotel within the preceding sections of this Study.

Operating costs include wages, salaries and benefits for front desk, housekeeping and laundry personnel. Based on industry standards for Alberta limited service hotels, benefits of 18% have been utilized. It has also been assumed that the front desk would be covered by a minimum of one staff member per shift with periodic assistance from the hotel manager. Other costs include the continental breakfast service (at a general industry standard of approximately \$4.00 per occupied guest room), plus laundry and dry cleaning, guest supplies, travel agent commissions, contract cleaning and cleaning supplies at approximately \$4.50 per occupied guest room.

Other Income

Based on industry standards for comparable type hotels, other income includes revenues and related expenses from miscellaneous sources including telephone calls, in-room movies, swimming pool rentals (kid's birthday parties etc.), plus commission income from any vending and/or coin operated laundry machines.

Administration and General

Expenses in this category include salary and benefits for a full-time hotel General Manager. Other costs within this department include credit card commissions, office supplies, accounting and legal expenses, office equipment and other office related expenses. Based on industry standards, approximately 50.0% of Administration & General costs have been assumed for payroll and benefit expenses while the remaining 50.0% has been attributed towards all other general administrative expenses such as those noted above. Credit card commissions are typically in the range of 1.0% of gross revenues.

Sales and Marketing

This expense is based on industry standards for smaller, limited-service hotels which do not contain any food, beverage or meeting/conference facilities. Expenses for Sales and Marketing generally include advertising, signage, public relations and other promotions that are undertaken by the hotel. It has been assumed that the General Manager would mainly be responsible for carrying out these functions.

Property Operation and Maintenance

This expense includes costs related to the general upkeep of the hotel and its premises including the swimming pool and waterslide. No maintenance personnel have been included within the projections herein, as it has been assumed that any repairs or maintenance concerns would be handled on an "as needed" basis by an outside contractor. As such, expenses herein have generally been estimated at 35-40.0% for labour, and 60-65.0% for upkeep, supplies and repair costs.

Energy

Energy expenses relate to all heat, light and power generation costs for the hotel. Costs have been based on other comparable sized limited-service hotels in western Canada.

FIXED EXPENSES

Property Tax

General property and business taxes have been based on discussions with Morinville and regional tax assessment officials.

Management Fees

Management fees typically relate to an experienced, professional, third-party operator that is hired by the hotel to guide operations of the property. For a small hotel such that the subject property is, an outside third-party operator may not be considered as a requirement. However, even if plans are to self-manage the hotel by the ownership group, a management fee should nevertheless be incorporated into the pro forma projections as an internal accounting measure, as well as for general industry standard, benchmark purposes.

For Canadian hotels, management fees may typically be within the 2.5-5.0% range of total revenue. This may depend however on the sales volumes of other departments within the hotel such as restaurants, lounges, and meeting/conference/banquet facilities. For the purpose of this analysis, management fees for the subject hotel have been projected at 2.5% of Gross Revenues throughout the forecast period.

Insurance

This expense relates to the cost of insuring the hotel building and contents against damage or destruction by fire, water, weather and/or other mechanical emergencies.

Franchise Fees

It has been assumed that the subject property would be affiliated by way of a franchise agreement with an internationally recognized hotel company. While not known at present which hotel chain the hotel would be affiliated with, franchise expenses, projected at 6.5% of rooms revenue in 2012 and increased to 7.0% of rooms revenue by year three, would be due to the parent company and are based on general industry standards in Canada for a small, limited-service hotel, which include royalty fees, reservation fees, plus central marketing and brand program fees.

Reserve for Asset Replacement

A standard within the hotel industry is to provide an annual provision for capital replacement to ensure that the property retains its quality and style of operation. Many full-service hotels today typically utilize a reserve amount equal to 4.0% of Gross Revenues. With the subject hotel being limited-service and new, a phasing of fees has been projected, beginning in year one at 3.0% of Gross Revenues, increasing to a stabilized 3.5% rate by year three.

CONCLUSION

In summary, the five-year Pro Forma Statement of Revenues and Expenses for the subject 60-room hotel in Morinville as presented in Exhibit E-1, projects a "bottom line" Net Operating Income of \$614,545 in 2012, which increases to \$738,220 by 2016. For hotels, Net Operating Income, or N.O.I, is generally defined as income before other fixed charges such as interest, taxes, depreciation, and amortization.

The projected N.O.I of \$614,545 in 2012 represents 37.0% of Gross Revenues. In 2016, N.O.I of \$738,220 represents 37.3% of Gross Revenues. In comparing this general range to industry standards, the 2008 N.O.I for the PKF sample of "Western Canadian Limited-Service Hotels" in 2008 was 52.3%. It must be noted however that the PKF data does not include information for management fees, franchise fees or reserve for asset replacement expenses. There are a variety of reasons for this. First, related to franchise fees, many hotels within the PKF sample are not affiliated with a chain, and therefore have no franchise fees to account for. Furthermore, as previously noted, franchise fees are often subject to negotiations between the hotel owner and the parent franchisor. As such, there is no particular industry standard.

Management fees are also not necessarily reflected in every hotel's operating statement. Many hotels do not have management fees, while for others that do, there is no specific industry standard that exists. And with regard to reserve for asset replacement expenses, many hotels do not reflect them within the reporting of their financial operating statements. Therefore, to provide for a more meaningful "line by line" comparison of results, management fees, franchise fees and reserve for asset replacement expenses are omitted within the information collected by PKF.

When removing these fees from the PKF sample, the percentage of N.O.I would be approximately 39.0% for the subject hotel. At an estimated N.O.I percentage of 37.3% for the subject hotel, this would be within the range of industry standards for the PKF sample as noted above. The slightly higher N.O.I percentage for the PKF sample would primarily be due to a higher occupancy rate, which was 71.6% in 2008.

EXHIBIT E-1
STATEMENT OF REVENUES AND EXPENSES
PROPOSED 60-ROOM LIMITED SERVICE HOTEL
MORINVILLE, ALBERTA
JANUARY 1, 2012 TO DECEMBER 31, 2016

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	60	60	60	60	60
# of Rooms					
# of Available Rooms per Year	21,900	21,900	21,900	21,900	21,900
Occupancy %	66.0%	68.0%	69.5%	69.5%	69.5%
# of Occupied Rooms per Year	14,454	14,892	15,221	15,221	15,221
Average Daily Room Rate	\$109.50	\$113.33	\$116.73	\$120.23	\$123.84
REVENUES					
Rooms	\$1,582,713	\$1,687,748	\$1,776,727	\$1,830,028	\$1,884,929
Other Income	\$79,136	\$83,572	\$87,551	\$89,740	\$91,983
TOTAL DEPARTMENTAL REVENUES	\$1,661,849	\$1,771,320	\$1,864,278	\$1,919,768	\$1,976,912
EXPENSES					
Rooms	\$428,311	\$448,354	\$468,000	\$481,000	\$495,000
Other Income	\$47,481	\$50,143	\$52,531	\$53,844	\$55,190
TOTAL DEPARTMENTAL EXPENSES	\$475,792	\$498,497	\$520,531	\$534,844	\$550,190
DEPARTMENTAL INCOME	\$1,186,056	\$1,272,822	\$1,343,747	\$1,384,924	\$1,426,723
UNDISTRIBUTED EXPENSES					
Administration & General	\$100,000	\$105,000	\$109,200	\$113,022	\$116,978
Sales & Marketing	\$55,000	\$57,750	\$59,194	\$60,674	\$62,190
Property Operation & Maintenance	\$63,600	\$65,826	\$68,130	\$70,514	\$72,982
Energy	\$72,000	\$75,600	\$79,380	\$81,761	\$84,214
TOTAL UNDISTRIBUTED EXPENSES	\$290,600	\$304,176	\$315,904	\$325,971	\$336,365
GROSS OPERATING PROFIT	\$895,456	\$968,646	\$1,027,843	\$1,058,953	\$1,090,358
OTHER FIXED CHARGES					
Property Taxes	\$75,000	\$78,000	\$81,120	\$84,365	\$87,739
Management Fees	\$41,546	\$44,283	\$46,607	\$47,994	\$49,423
Insurance	\$11,633	\$12,399	\$13,050	\$13,438	\$13,838
Franchise Fees	\$102,876	\$118,142	\$124,371	\$128,102	\$131,945
Reserve for Asset Replacement	\$49,855	\$57,568	\$65,250	\$67,192	\$69,192
TOTAL FIXED CHARGES	\$280,911	\$310,392	\$330,397	\$341,091	\$352,138
NET OPERATING INCOME	\$614,545	\$658,254	\$697,446	\$717,862	\$738,220
	37.0%	37.2%	37.4%	37.4%	37.3%

Source: R.E.C.I