

Northstar Landing Christmas 2015 Newsletter

December 2015

Dear Co-Owner:

A number of major milestones have been achieved with regard to the Edmonton Energy and Technology Park (EETP) within which your land holding is located:

First Major Milestone (2010)

In 2010, the Northeast Area Structure Plan (NE ASP) or the “Master Plan” (**Bylaw 15093**) was approved by Edmonton City Council for the northeast quadrant of Edmonton, wherein the permitted land use was defined. The NE ASP has been developed to guide future development in the areas of land use, transportation network, infrastructure, natural areas, staging, and implementation. With this *final ASP approval in place*, the permitted zoning in each of the respective areas of the NE ASP has been defined.

Second Major Milestone Achieved (2011)

In 2011, the name Edmonton Energy and Technology Park was formally changed to the Edmonton Energy and Technology Park (EETP). **Also in 2011, another major milestone was achieved with the amendment of Bylaw 12800 which identified the EETP as a “Special Area” and detailed “Rezoning Guidelines” were released, which defined the development rights and allows developers to *implement* the rezoning according to the approved NE ASP (Bylaw15093).**

Third Major Milestone Achieved (2012)

In 2012 a developer successfully rezoned their land parcel north of the Anthony Henday Freeway in the manufacturing permitted land use area within the EETP. They are now in the process of selling serviced lots. This is very significant development as this is the first test case of the approved bylaws being utilized to achieve rezoning. This approval will now set a precedent for subsequent rezoning applications.

Fourth Major Milestone Achieved (2013)

Early this year another land owner with their land holding within the EETP successfully rezoned their land parcel from agricultural to industrial and are now in the process of selling lots. This is the second parcel of land to be rezoned within the EETP the first of which occurred in 2012 as noted above. It shows a willingness on the part of city council to approve an application for rezoning within a 1-2 year timeline once an application has been initiated consistent with the approved (2010) NE Area Structure Plan.

Second NE Area Structure Plan Approved (2013)

In 2013, the NE ASP south of the Manning freeway was approved by Edmonton City Council. This approval paves the way for development activity to begin south of the Manning freeway. A number of prominent City of Edmonton developers have purchased land within this area in anticipation of future development activity. This area south of the Manning freeway will be residential and commercial permitted land use, whereas the EETP is industrial permitted land use. The two areas respectively will complement each other.

Fifth Major Milestone Achieved (2014)

On September 8, 2014, Edmonton City Council unanimously passed bylaw 16767 which amended the existing EETP Area Structure Plan (ASP), recognizing the ASP area as an integral part of Alberta's Industrial Heartland. The amendments to the EETP ASP allow for a wider range of industrial production facilities to be

built within the Park and will also reduce constraints on building height and footprint sizes of these facilities. The amendments also facilitate the utilization of Natural Gas Liquids (NGL), derived from natural gas, as a feedstock source to produce petrochemicals, changing the focus from bitumen. The amendments also allow for the assembly of finished goods within the Logistics precinct. These changes increase the marketability of the land within the Park to a wider range of industries, which can have a positive impact on land prices within the EETP in the coming years.

Sixth Major Milestone Achieved (2014)

On October 20th, 2014, Bylaw 16942 was passed which rezoned select land parcels within the petrochemical permitted land use areas on behalf of land owners. It also substantially widened the types of businesses that can locate within the EETP. It also removed size and height restrictions of facilities which can be built within the park. The passage of this bylaw is very significant in that just about any type of industrial or commercial facility can now locate within the park. This development can be expected to have a positive impact on land values as it has the potential increase demand for land in the EETP as it can now appeal to more types of industrial and commercial activities.

Major Milestones Achieved (2015)

Edmonton City Council Prioritize EETP for Infrastructure Funding

In October of 2015, Edmonton City Council prioritized the EETP for provincial and federal infrastructure funding. It was selected as the one of the top 3 projects in Edmonton for that privilege. The funding request included interchanges at Manning freeway and Meridian Rd, as well as for early stage arterial roads and storm water management.

This is very good news for the EETP as infrastructure improvements within the park will accelerate the development of EETP into a major industrial park, and can have significant positive impact on land values.

Pilot Sound Industrial within the EETP, Serviced Lot Sales Underway

Pilot Sound Industrial is 437.02 acres of recently zoned industrially land located within the EETP for the development of 974,350 square feet of building space. This parcel of land is further to the south of our property, immediately north of the Anthony Henday and 66 Street. Serviced lot sizes from 1.8 acres are selling priced from \$650,000 to \$750,000 per acre. Note that this parcel of land on the southern perimeter of the EETP uniquely has city services adjacent to the property, which has enabled it to be readily serviced.

Game Changer: New Shale Gas Plays in Alberta

Three large shale formation stretching for thousands of square miles stretching from Edmonton to the northwest has now become a technology feasible to extract natural gas and natural gas liquids. Natural Gas Liquids are liquids extracted from Natural Gas field from which petrochemicals can be readily made and include Ethane, Propane and Butane. The Duvernay field beneath Edmonton accounts for 11 Billion Barrels NGL, the Montney field NW of Edmonton accounts for 29 Billion Barrels NGL, and the Muskwa further to the NW of Edmonton accounts for 15 Billion Barrels of NGL. In the future, Edmonton will be known not only for oil but also as a major source for natural gas and natural gas liquids. The city of Edmonton has been working to put the policy

framework in place to meet the demand from industry to utilize natural gas as a feedstock source for value added processing. The recently passed Bylaw 16767 specifically allows for the utilization of natural gas as a feedstock source to produce petrochemicals within the EETP.

Other Petrochemical Feedstock Sources

In addition to NGL, the main other precursor substrate for petrochemical processing as envisioned in the ASP area is gasified *petcoke*. Currently, a substantial stockpile of petcoke is being accumulated as a by-product of processing bitumen into synthetic crude. In Ft. McMurray, the stockpile of petcoke is over 70 million tonnes (2011), growing at the rate of 6.5 million tonnes per year, which when gasified and brought into the ASP subject area's yet to be built Chemical Cluster facilities for processing, it will last an estimated 15 years. According to consultant FDP Associates, "The accumulation of petcoke provides a globally significant feedstock source, which will help to elevate Alberta to one of the largest petrochemical and intermediates clusters worldwide."

Alberta has an estimated 77 trillion cubic feet of conventional natural gas and over 500 trillion feet of shale and coal bed methane derived natural gas. To take advantage of this abundant supply and its relatively low price, new studies have proven the feasibility of utilizing ethane derived from natural gas as a feedstock source to produce petrochemicals in the Park. Alberta's vast petrochemical industry currently uses ethane as a feedstock source, so the technology for its utilization to produce petrochemicals is proven.

Recent Sale within the EETP

Recently 5.49 acres was sold for \$718, 931/acre at the municipal address; 2708 195 Avenue within the EETP with 3 buildings on it.

Northstar Landing Exit Strategy

The city of Edmonton rezoned select parcels within the petrochemical cluster areas of the EETP on behalf of landowners last year. This was undertaken to encourage a large player in the oil industry to locate within the park to kick start development activity. According to officials with the city managing the EETP, they have been approached by a number of major players to locate in the park, but no deal has firmed up as of yet.

The studies undertaken in the process of rezoning as noted above has been made available to us, and we are currently reviewing them. These studies can be utilized for our own rezoning efforts, and we plan to start the rezoning process this coming year where feasible.

We have been closely monitoring market conditions and land sales activity for industrial land within Edmonton. We were headed in the right direction towards an eventual surge in land prices, until the recent drop in the oil price, which we believe is a temporary phenomenon.

Our current strategy is to rezone the land parcel and exit the project at the earliest opportunity, where market conditions will allow us to realize a profit.

It is important to note that highway frontage land like the Northstar Landing within the EETP is extremely scarce and none has been available in recent years. As a result, we believe that this land parcel has significant appreciation potential provided we exit at the right time.

Edmonton Energy and Technology Park being actively promoted

EETP is being actively promoted by, Edmonton Planning and Development, Edmonton Economic Development, and by the Alberta government represented by Alberta Finance and Enterprise. It is being actively promoted both overseas and locally and this process has continued throughout 2015, and is expected to continue into 2016.

According to Alberta Finance and Enterprise statistics, as of December 2015, the total value of major projects in Alberta is well over \$200 billion. The recent drop in the price of oil is not expected to significantly impact this number unless the low oil price persists for an extended period of time.

Alberta Economic Slowdown

Over the years, Alberta has witnessed many periodic recessions, and periods of recovery and prosperity.

As in previous recessions, we expect the current economic downturn to be a temporary one brought on by the current low price of oil below \$40 per barrel (WTI). We saw a similar downturn in the economy in 2008 through 2009 triggered by the global financial crisis, and the low price of oil at that time below \$40 per barrel (WTI). Alberta economy contracted pushing GDP firmly into negative territory, but by 2011 the oil price had recovered and GDP peaked at 5.2%. We expect a similar pattern and period of recovery this time as well.

Alberta real GDP in 2015 is forecast to be -1.3%, .9% in 2016, and 2.7% in 2017. (Source RBC Provincial Outlook December 2015.)

Land Sales Activity within the EETP

There has not been much in the way of land sales activity over the last several years including in the current market, but we are encouraged that land prices have remained stable as we have seen in previous downturns. The value of your investment is therefore preserved and not subject to the volatility that we have seen in the markets.

A World Class Energy and Technology Park in the Making

Edmonton Energy and Technology Park has been modeled on the best Petro Industrial Parks World-Wide, including those in Dubai, Saudi Arabia, Antwerp, Germany, Singapore, and Houston. According to FDP Associates, a Management Consultant to the Global Chemical Industry retained by the City of Edmonton, “The realistic case provides for a significant cluster in global terms. It (Edmonton Energy and Technology Park) is second only to Jubail Industrial City (Saudi Arabia) in scale” yet “exceed Jubail in its diversity of products.” Jubail Industrial City in Saudi Arabia is currently the largest and most advanced Petro Industrial Park in the world.

Edmonton Energy and Technology Park incorporated into the Alberta Industrial Heartland

On January 29, 2010, the boundary of the Alberta Industrial Heartland (AIH), Canada’s largest hydrocarbon region with \$25 billion in projects, was expanded to include the Edmonton Energy and Technology Park. Steven Mandel now sits on the Board of Directors of the Alberta Industrial Heartland Association, representing the Edmonton Energy and Technology Park and Edmonton. ***Recent joint studies completed by the Alberta Industrial Heartland Association, the City of Edmonton, and the Province of Alberta have shown that the Alberta Industrial Heartland, which now includes the Edmonton Energy and Technology Park, has the potential to generate capital investment of \$34 billion, create more than 2,000 jobs and generate \$18 billion annually in GDP.***

How will the Edmonton Energy and Technology Park benefit Edmonton?

It is expected that the future economic benefit of the Edmonton Energy and technology Park to Edmonton will be substantial, in terms of both tax revenue, as well as jobs; hence the importance attached to this project

by Edmonton Mayor Steven Mandel, as well as by Edmonton City Council. According to Councillor Ed Gibbons, “Edmonton is made up of 80-some per cent residential tax base.” He further notes “We can’t survive on that.” There is a real and urgent need to take steps today, to expand Edmonton’s tax base. And industries that are expected to take root in the Edmonton Energy and Technology Park will provide that much needed tax revenue.

Edmonton Housing Market

Despite the downturn in the Alberta economy, real estate prices remain stable. According to the Edmonton Real Estate Board news release for December 2015,

“ A single family home in the Edmonton CMA sold for an average of \$432,862; down 1.4% from October and down 2.62% YoY. Duplex/rowhouses also dropped to an average of \$339,454 – down 5.5% from the previous month and down 3.5% from November 2014. However, the average price for condominiums (\$253,618) was up 3.8% over last month. All residential properties average price sat at \$369,559, down a modest 0.59% from October.

All residential active inventory remains strong with 6,043 residential properties available in the Edmonton CMA at the end of November, down from October by 9% but still up over last November by 55%.”

Construction helps Edmonton Economy

John Rose, the city's chief economist is predicting Edmonton will see continued growth in 2016

"Going into 2016, Edmonton will continue to be a little bit of an island in the storm as far as the provincial economy is concerned," Rose said.

Construction helped Edmonton get through 2015 in better shape than the rest of the province, Rose said, pointing to all of the construction cranes in the city's downtown.

Rose said much of that construction activity, and the \$8-billion Redwater upgrader project northeast of the city, came at exactly the right time, generating 17,000 construction jobs in the past year.

"Just as we saw a slowdown on the energy and manufacturing side of our economy, we've seen the construction sector really move forward," he said. "That's really provided the floor for employment growth in Edmonton going forward."

That crane activity downtown will see new office towers opening in the new year. Rose said he expects those new buildings will have no difficulty finding tenants because there's a lot of suppressed demand from the services sector for that office space.

Federal Infra-structure Spending

Canada’s new infrastructure minister says projects that are shovel-ready and meet the Liberal government’s national objectives will get some of the billions in new federal cash being made available.

Infrastructure Minister Amarjeet Sohi says those big objectives are threefold: grow the economy, create jobs and make the country more sustainable.

Sohi says shovel ready projects mean a municipality has done all the relevant studies, public consultation and planning — to qualify for financial help from the federal government.

“If we make a commitment to a project, and if a project has been sitting on our staff’s table for six months, that’s unacceptable,” Sohi said.

The Liberals have promised to increase infrastructure spending by an average of \$6 billion a year over the next 10 years, raising the federal investment to \$125 billion during that time.

The extra money is supposed to be spread equally to public transit projects, green infrastructure, such as wastewater facilities, and social infrastructure like affordable housing.

Sohi said the government plans to refocus the government’s marquee infrastructure program, the New Building Canada Fund, to focus on more cross-country projects like highways, ports, and border crossings to help speed up the flow of commercial goods and trade.

The Liberals made running deficits of up to \$10 billion a year to pay for the infrastructure program a key election promise. They hope the money will jolt the economy and raise federal revenues, helping to pay for their spending promises and balance the budget in four years.

Alberta will be a key recipient of that infrastructure spending. This is good news for the EETP, as infrastructure funding for the park is an important for its future growth.

(Source: Canada Press December 13th, 2015)

Alberta Provincial Infrastructure Spending

Despite budgetary challenges, new infrastructure spending to continue. Alberta Finance Minister Joe Ceci says that “it is necessary, and construction has the added benefit of creating jobs in difficult times.”

The current capital plan supports \$34 billion in spending over five years on roads, schools, hospitals, community centres and other projects. This is good news for the EETP, as we can expect to see some infrastructure funding allocated to the park, which is important for its future growth.

Debt for infrastructure is expected to surpass \$47 billion by 2020.

Ceci and his staff are crunching numbers for the next budget to be presented in February or March.

The revenue scenario remains daunting because of a continued decline in oil prices, the wellspring of Alberta's economy. The price for a barrel of West Texas Intermediate has dropped to under US\$40 a barrel from a high 18 months ago of more than US\$100.

The last budget, presented in October, has forecast a \$6.1 billion deficit. (Canada Press December 23rd, 2015).

Projects Update

The RRSP, TFSA, and LIRA eligible Energy Crossing III project is now sold out.

The Bentley RRSP, TFSA, and LIRA investment opportunity is now sold out.

Bentley Accredited Investor Offering of Class I shares is now sold out.

Thank you for those who participated in these successful offerings.

Bentley Condominium

Construction is nearing completion with possessions scheduled for the spring.

Our Bentley condominium project in Windsor Park adjacent to the University of Alberta has sold well with about 70% of the units having been sold to date. The grand opening for our on-site sales centre is scheduled for the 3rd week of January 2016. Should you be interested in purchasing a unit in this building please call Sheri Hammoud at 780-710-9556.

Happy Holidays

On behalf of the management and staff of Yorkton Group, I would like to take this opportunity to wish you and your family a Festive Holiday Season and a Happy New Year.

Sincerely,

R. (Reg) Liyanage B.Sc.
Vice-President