

Northstar Landing Christmas 2014 Newsletter

December 2014

Dear Co-Owner:

In our last newsletter of December 2012, we informed you that 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. It has become a bylaw. **The permitted zoning of the entirety of Northstar Landing is Petro-Chemical Cluster Land Use**, having amongst the highest expected land value per acre in the NE ASP area.

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.

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.

Significant discussion occurred between the City of Edmonton, Sturgeon County and Fort Saskatchewan to come to an agreement on the amendments to the ASP. "As members of Alberta's Industrial Heartland Association, we are committed to an eco-industrial approach that supports a thriving economy and a healthy environment," said Mayor Iveson. "Our collaboration realizes regional goals and demonstrates how we can work together for a sustainable and globally competitive future."

Game Changer: New Shale Gas Plays in Alberta

Three large shale formations 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 fields 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.

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.

Serviced Industrial Land Price in the Northeast of Edmonton

Serviced industrial land northeast has averaged about \$575,000 per acre.

“Early entrants to the EETP include developers such as Northern Premier Investments, WMD, and WAM, who have cumulatively acquired over 600 acres and are set to bring on the first wave of industrial land in the area over the next 2-3 years. Provided the positive outlook for the Alberta economy and the locational benefits from which it is situated, the EETP will arguably unfold to become Edmonton’s newest and most active industrial land market for years to come.” (Source: Avison Young June 2014).

Northstar Landing Exit Strategy

Yorkton has plans to coincide the rezoning and sale of the Energy Crossing land parcel, with shareholder approval, with the next major surge in land prices, when an offer to purchase acceptable to the shareholders is received. We are just coming out of a severe four year recession and land prices have some way to go to reach their peak. We expect in the coming years, we will see a boom situation in Alberta similar to what we saw leading up to 2006, the current short term price slump notwithstanding.

It is important to note that highway frontage land like the Energy Crossing land within the EETP is extremely scarce and none has been available to the best of our knowledge for sale in the past 4 years. As a result, we believe the Energy Crossing land parcel has significant appreciation potential provided we exit at the right time near the next peak in real estate cycle. It would not be wise to sell the land parcel prematurely and watch the purchaser make the vast majority of the profit.

The graph below of the Canada House Price Index gives a good indication of where the current real estate market is relative to the past and where we may be headed in the future.

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 continue throughout 2014, and is expected to be carried over throughout 2015.

Alberta Industrial Heartland (AIH) New Projects

The following is a sampling of new projects announced for the AIH:

- \$8.6 billion Northwest Upgrading and CNRL, 150,000 barrels per day bitumen refinery in the AIH.
- \$1.1billion Williams Energy propane dehydrogenation plant.
- \$8 billion Sasol Canada facility to convert natural gas to diesel.
- \$900 million Trans Canada, tank farm and rail terminal.

According to BMO Capital Markets, investments in Alberta's *oilsands* industry alone are expected to reach \$180 billion over the next decade.

With continued growth, production from Alberta's oil sands is expected to reach over 5 million barrels a day by 2030, up from 1.8 million barrels per day in 2014.

There has been significant investment in the Alberta oil industry from companies in Korea, Japan, Taiwan, and China, reflecting Alberta's emergence as a major world energy player.

According to Alberta *Finance and Enterprise* statistics, as of December 2014, the total value of major projects in Alberta is well over \$200 billion. The recent price fluctuation of oil is not expected to significantly impact this number unless the low oil price persists for an extended period of time.

Oil Price

Oil is a global commodity like any other subject to fluctuation in price based on supply and demand. Currently there is about a 2 million barrel per day surplus in supply. This fact coupled with a slower than expected global demand growth, and speculation has driven the oil price to where it is.

The oil business is unquestionably cyclical, and Canada's oil producers aren't anywhere they haven't been before. The energy industry has seen massive swings in the price of oil over the past 20 years.

Falling oil prices have forced energy firms around the world – from U.S. shale plays such as the Bakken in North Dakota and the Eagle Ford in Texas to Alberta's oil sands – to cut spending and reconsider expansion plans. The net effect will be a reduction in supply that will in the coming months and years rebalance the supply and demand equation. Oil will reach a new equilibrium and prices will recover as they have before.

Alberta has a strong and diversified economy that has withstood price fluctuations before and it will again this time as well. Oil and gas royalties account for 20 percent of Alberta's provincial revenue and according to the Alberta government the recent price drop will result in a \$7 billion cash shortfall, which the premier will address by cutting spending.

With low oil prices, costs will come down for energy-intensive industries such as transportation. Airlines and trucking companies will enjoy lower costs to operate, which will bolster their bottom lines. With companies looking to divest non-core assets, now is a good time to buy.

OPEC

The head of OPEC defended the organization's recent stand on oil production on and argued that the relentless slide of prices could be the result of speculation rather than a reflection of oversupply.

The price drop, Mr. al-Badri said, is without merit.

"The fundamentals should not lead to this dramatic reduction [in price]," he said at a conference in Dubai, speaking in Arabic through an English interpreter.

He said only a small increase in supply had led to a sharp drop in prices, adding: "I believe that speculation has entered strongly in deciding these prices."

At the end of November, OPEC decided to maintain its production at roughly 30 million barrels of oil a day. OPEC, Mr. Badri reiterated, does not have a target price for crude.

OPEC's Mr. al-Badri continued to argue the cartel's decision to maintain production was not designed to undermine the potential for oil production in North America's shale plays.

"Some people say this decision was directed at the United States and shale oil," he said. "All of this is incorrect. Some also say it was directed at Iran and Russia. That is also incorrect."

Kuwait's oil minister stated that OPEC's decision designed so the 12 member countries could retain market share, even if prices dropped.

Moody's: Alberta, Saskatchewan to Weather Oil price Decline

Both provinces carry Moody's highest AAA credit rating, with stable outlooks.

"Their enhanced creditworthiness reflects their substantial financial reserves, low debt levels and fiscal strength, which provide flexibility to cope with external shocks," says the report.

"Alberta and Saskatchewan both have financial assets that far exceed the median of Canadian provinces."

In fact, Moody's says Alberta's financial assets are more than three times higher than its debt, covering two-thirds of its annual consolidated expenditures.

If the two provinces face any challenges, it will be prioritizing and accommodating increased spending amid growing populations while maintaining their enviable financial positions, Moody's says.

In its recent second-quarter budget update, the province of Alberta said plummeting oil prices wouldn't stop it from reporting an operating budget surplus for the current fiscal year. The surplus will take a small hit, by Alberta standards.

Alberta finance minister Robin Campbell said the surplus is expected to drop to \$933 million for 2014/2015, down from the \$1.1 billion forecast in March.

"Oil revenues are down right now but understand the Alberta economy is doing great," Campbell told reporters on a conference call, according to a report from Reuters. "We have some challenges in revenue at the government level but the province from an economy point of view is doing quite well."

Speaking at a forum in the Gulf commercial hub of Dubai, Abdullah al-Badri said continued investment by Gulf nations will help prevent a shortfall in oil supplies once demand picks back up.

Northern Gateway Pipeline

On Thursday, December 19, 2013, the National Energy Board approved the \$7.9-billion Northern Gateway pipeline project. The westbound portion of the pipeline will carry up to 1,000,000 barrels per day of Alberta oil.

Canada currently exports over 1 million bbls/d of oil to US markets at discounted prices. This pipeline will not only allow us to market our oil to the rapidly growing Asian markets, but will also allow us to command higher prices for our vast oil resources. (Source: Globe and Mail December 2013)

Canadian producers are seeking new markets for their oil, 99 percent of which goes to the United States. The Northern Gateway decision "is another important step for Canada to access global markets and world prices, and earn full value for our oil resource," said Greg Stringham, vice president of the Canadian Association of Petroleum Producers, in a statement.

The federal government approved the Northern Gateway Pipeline in June 2014 with 209 conditions. The pipeline still faces significant hurdles. The recent price of oil is not expected to influence the long term planning for this project. (Source: CTV June 2014)

Energy East Pipeline

Energy East Pipeline will not only allow Alberta oil to reach eastern Canada, but will also reduce those province's dependency on foreign oil. (Source: Globe and Mail December 2013)

Energy East would see Alberta bitumen pumped from western Canada to Saint John. Project proponents say it would create thousands of jobs along the route and in Saint John.

New Brunswick Premier Brian Gallant expects the pipeline to move forward, despite the current price of oil.

"Businesses and the industry will not make decisions, in my opinion, based on short-term fluctuations," says Gallant. "They're going to look at long-term output and outlooks. With that said, there's no doubt we'll keep an eye on this." (Source: CTV Atlantic December 16th, 2014)

Value-added Petrochemical Processing in an Eco-Industrial Development

According to George Matteotti, Director, Project and Business Liaison Office, Planning & Development, "Comprehensive studies have shown there is huge economic potential for refining the by-products that are left over from oil sand production into consumer and industrial products." Upwards of 300% increase in value can be realized by processing Alberta bitumen into petrochemicals compared to selling raw bitumen.

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.

Alberta Economy

“The intensifying weakness in global crude oil markets since the September Provincial Outlook report prompted us to revise our growth forecast for the province for 2015, although we still expect Alberta’s economy to grow at a respectable pace. At this stage, record levels of investment in the oil and gas sector continue to generate tremendous activity in 2014—both directly and indirectly. In fact, booming conditions in most sectors of Alberta’s economy led us to boost our 2014 real GDP growth forecast to 4.1% from 3.9% previously. Nonetheless, we expect that the persistence of significantly lower oil prices will weigh on economic growth in Alberta in the period ahead, as it will put a squeeze on incomes—both private and public—in the province. We lowered our forecast for real GDP growth in 2015 to 2.7% from 3.5%, which would match the national average. We expect further moderation to a rate of 2.3% in 2016.”

“Indications available to date suggest that the sharp drop in crude oil prices since June 2014 has had a muted effect on activity in Alberta’s energy sector so far. Crude oil production continued to surge year to date thanks to a 14% rise in bitumen output, while rising energy exports and strong prices earlier this year contributed to impressive gains in nominal merchandise exports. Looking ahead, we expect that the ramping up of production at new and expanded oil sands projects will continue to boost non-conventional oil output in the province despite a lower oil price environment. Operations at such projects tend not to be very sensitive to short-term price fluctuations given their longer-term focus and large fixed costs of production. That being said, we expect that lower oil prices will cause capital spending in the energy sector to be curtailed in 2015.”

(Source RBC Provincial Outlook December 2014).

Edmonton Housing Statistics

The all-residential average sales price of \$381,371 was up 4.3% from last month and up 9.9% from last November. Single family detached homes sold on average for \$442,884 which is 3.76% higher than October and up substantially from last year's \$406,587. Condominium average price (\$255,167) was down 2% month-over-month (from \$260,491) but up 5.3% from a year ago (from \$242,371).

The average days on market went down for all residential properties from 57 last year to 54 days this November, with sales taking slightly longer in the single family and row house categories and significantly faster (12 days) in the condominium market. Year-to-date, homes are selling about 5 days faster this year than last.

Total residential sales are up 11% year-to-date over last year at the same time.

“The housing market has been very strong and robust this year. We are expecting to see continued growth in housing sales for some time, but at a slower and more stable pace,” said REALTORS® Association of Edmonton President Greg Steele. “It has been a great year for Real Estate. As we do every year, we expect things to cool off as the temperature drops, but we always have new homes listed and sold over the winter months. People move when life happens, which does not necessarily correlate with warm weather.”

(Source: Edmonton Real Estate Board December 2014)

Current Project Update

Currently we have two projects within the EETP with Meridian Street frontage ¼ section to the west of our Energy Crossing project at the intersection of Highway 28A and Manning Fwy. Energy Crossing II is offered under the undivided interest model, and Energy Crossing III is a securities offering offered by way of an offering memorandum that is RRSP, TFSA, and LIRA eligible. Both projects are currently selling.

The Bentley RRSP, TFSA, and LIRA investment opportunity closed at the end of November 2013. Thank you for those who participated in this offering to making it a very successful offering.

Bentley Accredited Investor Offering of Class I shares is currently underway. Minimum investment is \$100,000, and a very limited supply of shares are currently available. Should you wish to participate, please contact your sales representative or our office directly at 780-409-8228.

Bentley Condominium Sales

Our Bentley condominium project in Windsor Park adjacent to the University of Alberta is selling well with about 70% of the units having been sold to date.

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



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