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**Feasibility Study For A Resort And Conference
Centre Near Yellowknife, N.w.t.**

**Type of Study: Feasibility Studies Tourism,
Tourism - Northern Frontier Facilities**

Date of Report: 1984

**Author: The Economic Planning Group Of
Canada**

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FEASIBILITY STUDY FOR A RESORT AND
CONFERENCE CENTRE NEAR YELLOWKNIFE,
N.W.T.

Sector: Tourism

11-31-5

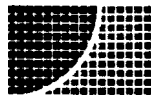
Feasibility Studies

FEASIBILITY STUDY
FOR A RESORT AND CONFERENCE CENTRE
NEAR YELLOWKNIFE, N.W.T.

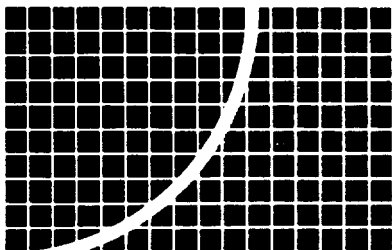
October, 1984

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Economic and Management Consultants

Offices in Ottawa, Toronto
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October 23, 1984

Mr. Dave Talbot
c/o Twin Pine Motor Inn
P.O. Box 596
Yellowknife, N. W.T.
X1A 2N4

Dear Mr. Talbot:

We are **pleased** to submit 5 copies of our final report entitled "Feasibility Study for a Resort and Conference Centre near **Yellowknife**, N.W.T.". This report presents our findings, conclusions and recommendations resulting from our research and analysis of the past several months.

In our opinion, a 50 guest room resort and conference centre located at Negus Point is a feasible proposition, if sufficient government assistance is made available. Our analysis indicates that a full 50% capital grant, the maximum available under the federal IRDP program, is necessary if the project is to be of interest to an investor.

We have enjoyed working **with** you and your associates on this unique study, and wish you well with your project.

Yours very truly,
THE ECONOMIC PLANNING GROUP OF CANADA

Signed: Gordon Phillips

Gordon Phillips
Vice president

SGP/sc

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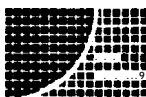


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SECTION 1

INTRODUCTION

INTRODUCTION

Mr. Dave **Talbot** and his associates in **Yellowknife** commissioned this 'study' in the spring of 1984, in order to determine the feasibility of a resort and conference centre to be established near the City of Yellowknife.

There are only limited meeting facilities in **yellowknife** or in the Northwest Territories generally, nor are there any quality resorts with drive-in accessibility. **On** the other hand, there would appear to be a latent demand for such facilities, given the extent of government employment and **activity**, the **relatively** high incomes of **N.W.T.** residents and the growing tourist activity.

This study was prepared in order to:

1. identify a suitable concept and size for a resort and conference **centre near Yellowknife**;
2. identify an appropriate site for the development;
3. establish its marketability and economic feasibility.

The research program consisted of the following steps:

- Step 1: Project Orientation and **Initial** Concept Development
- Step 2: Review of Competitive Facilities in the North and Comparable Facilities Elsewhere in Canada
- Step 3: Location and Site Analysis
- Step 4: Market Analysis
- Step 5: Concept Review and Refinement
- Step 6: Economic Feasibility Analysis
- Step 7: Analysis of Economic Impacts
- Step 8: Preparation of an Implementation Program
- Step 9: Report Preparation and Presentation

The original concept was for the development of a **small**, year-round resort and conference centre near yellowknife. An **existing** summer facility at Prelude Lake was initially considered for acquisition and expansion, but it appears that this facility is less than ideal and that better locations are available closer to Yellowknife.

You initially identified four key target market groups for the facility:

- retreat conferences, meetings and seminars;
- family summer resort;
- family winter retreat resort;
- evening dining and entertainment for yellowknife residents.

Your original concept called for a 30 to 40 room, quality facility at a location within **10-12** miles of the city.

RECOMMENDATIONS AND CONCLUSIONS

EPG's key findings, **conclusions** and recommendations are as follows:

- The proposed resort conference centre appears to be commercially feasible if substantial government assistance towards **the** capital costs is made available. A grant of approximately 50% of the costs, or \$2,400,000 is required. The federal IRDP program could potentially provide such assistance.
- Assuming grant assistance of this scope is available, the proposed development would be an attractive investment opportunity, providing a return on equity of some 30% after tax.
- The consultants recommend that 50 rooms and a full range of meeting and recreational amenities be developed. It is vitally important that the facility appeal to several different target markets if it is to achieve the projected level of occupied room nights (12,680), and the projected levels of revenue and profitability. It must similarly experience a reasonably balanced level of occupancy in each season of the year and on both weekdays and weekends throughout the year, hence a further reason that

support from several different markets is extremely important. Our recommendations as to the facilities which should be included are described in Section 4.

- Of the various potential locations considered, and the two evaluated in detail, the consultants recommend the Negus Point site, immediately south of **Yellowknife**.
- The proposed development will provide significant new employment and other economic benefits to the Yellowknife area, and to the Northwest Territories in general.

SECTION 2

THE MARKET

2



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SECTION 2THE MARKETHISTORY OF YELLOWKNIFE

Yellowknife is located on the north arm of Great Slave Lake, 966 air kilometres north of Edmonton, in the Fort Smith region of the Northwest Territories. This is the Northwest Territories' largest community, containing more than one-fifth of the entire population of the **N.W.T.** The area was first settled by **Yellowknife** Dene in the early 1800's. Gold was then discovered at **Yellowknife** Bay in 1896 by miners on their way to the Yukon, but the inaccessibility of the country precluded any great staking rush at that time. In 1934, visible gold was found on the shores of **Yellowknife** Bay and, within a few years, **Yellowknife** had become a mining boomtown. In 1967, **Yellowknife** was named capital of the Northwest Territories, and in 1970, became the Territories' only city.

THE ECONOMY

Yellowknife's role as capital has led to it becoming the administrative, transportation and communications centre of the Northwest Territories. Major economic activities are government, transportations/communications and tourism. public administration and defense employ 31.9% of the **labour force**, followed by services (23.1%) and primary industries (15.0%).

Yellowknife's 1981 average **income per capita**, at \$14,174 is 60% higher than Canada's average. However, the cost of living is also considerably higher than that of other Canadian cities. For example, the cost of living in **Yellowknife** is 30% higher than in Edmonton.

The Northwest Territories' economy is primarily resource-based. Renewable resources include fishing, hunting and trapping, marine

Although forest land comprises 17% or 54.6 million hectares of the Territories, the forestry industry is limited by problems of access, transportation, poor timber and a small local market. The commercial forestry industry is therefore of modest proportion, providing only supplemental income to residents.

Likewise, commercial agriculture remains a minor component of the Northwest Territories' economy. It is hampered by the harsh climate, scattered population, high transportation and **labour** costs, and by low yields.

Non-renewable resource industries are comprised of mining and oil and gas exploration and production. Mining **is** the largest independent economic sector in the Territories; in 1983 the **value** of mining production rose to **\$595,000,000**, an increase of 10% from 1981. Mineral exploration however, declined in 1983, **with** spending between \$20 and \$25 million, only half of 1981 levels.

Hydrocarbon exploration and development has increasingly grown in economic importance.

Current exploration agreements total more than \$2 billion for ongoing exploration in the Northwest Territories over the 1983-1988 period.

Service industries and tourism are becoming increasingly important. Tourism in particular is actively promoted by government as an industry which can be compatible with Northern community lifestyles and environmental preservation.

Arts and crafts production ranks third as a productive economic activity, distributing a greater amount of income more widely than any other activity. Although a gross dollar value for craft sales is difficult to obtain, it is estimated that it may be as high as \$13 million dollars.

POPULATION

Native Dene and **Inuit** peoples comprise the majority of the 46,000 person population of the Northwest Territories. The **fur** trade, whaling industry and, later, the gold rush brought Metis and Euro-Canadian population in the 19th and 20th centuries.

The Northwest Territories' population is predominantly rural, and sparse in relation to the land mass it occupies. The **Inuit** comprise the majority of the population in most of the Arctic, but the Dene and Metis form a large minority in the more populous Fort Smith region. The bulk of the population of the Territories' smaller communities and unorganized areas is **native**, while the non-native population occupies the urban centres.

The current population of **Yellowknife** is estimated at 10,500, having grown 15% since 1976. **Inuit**, Dene, and Metis groups comprise 14% of the ethnic distribution, while British defendants, at 44%, are the largest single origin ethnic group. Defendants of French origin account for 6% of the population, and others of single origin, 33%. Overall, 86% of the population are Canadian-born. Exhibit 1 illustrates **Yellowknife's population**, by age and ethnic origin.

TRANSPORTATION SERVICES

The Northwest Territories receives regular bus and air services. Three bus lines provide daily scheduled **service** between the more populated communities. One also provides a charter service. However, the freezing and break-up of the Mackenzie River during the late fall and early spring prohibits land access to **Yellowknife** and other communities north of the river during this period.

This reason, and the lengthy distance between communities in the Northwest Territories, has led to the growth of numerous air services **in** the region. Six scheduled services provide flights into the Northwest Territories, ten scheduled services operate within, and thirty-six charter **operations** provide services into and within the Territories. The system of scheduled air routes within and into the Northwest Territories is presented in Exhibit 2.

TOURISM IN THE NORTHWEST TERRITORIES

Yellowknife's location in the north gives it a unique tourism potential. Although its two month summer season is short and its climate, at a 20.5% C mean July high, is cooler than southern locations, the summer daylight may last as long as 22 hours. Its prominence and activity as capital of the Northwest Territories has led to the **creation** of a full service infrastructure. The area is serviced by 28 restaurants, hotels and lodges.

Yellowknife's tourism activities include camping, sport fishing, mine tours, historic interests and walking tours. A wide variety of local and territorial **sources** have contributed to a solid arts and crafts base. **Yellowknife** boasts a newly opened Performing Arts **Centre**, private galleries, theatre, and the Prince of Wales Northern Heritage Centre. A **full** range of summer and winter recreational facilities exists as well.

Yellowknife is the host **of** numerous annual festivals and Territorial events, including the Caribou Carnival and Championship Dog Derby, Sportsmen's Spiel, Spring Trade Fair and Labour Day Weekend Fair which features the **Commissioner's** Cup

EXHIBIT 1

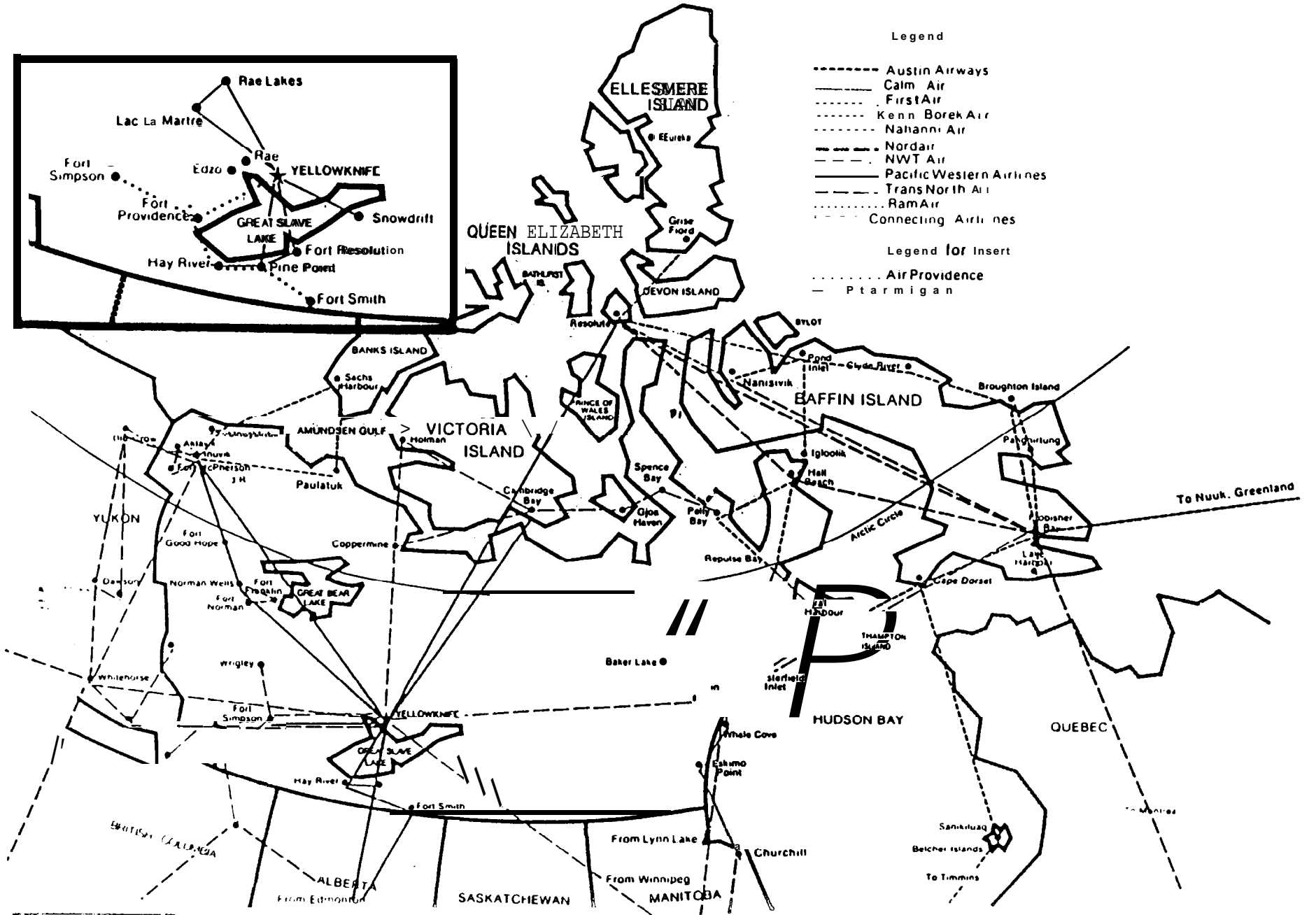
YELLOWKNIFE POPULATION

by Ethnic Origin, Age

	ALL AGES		0-4		5-19		20-34		35-59		60+	
		<u>%</u>		<u>%</u>		<u>%</u>		<u>%</u>		<u>%</u>		<u>%</u>
ALL GROUPS	9,415	100	915	9.7	2,495	26.5	3,505	37.2	2,225	23.6	265	2.8
Native Groups	1,320	100	195	14.8	465	35.2	400	30.3	200	15.2	70	5.3
- Inuit and Status Indians	735		95		275		220		100		40	
- Metis and Non-Status Indians	585		100		200		175		95		25	
Others	8,095	100	720	8.9	2,020	25.0	3,110	38.4	2,035	25.1	205	2.5

Source: Statistics Canada, 1981 census.

Scheduled Air Routes



Sailing Race. Events are continuous during the summer, and are highlighted by the Pacific Western Midnight Sun Golf Tournament, and a summer music festival, Folk on the Rocks.

Data on tourism activity was assembled from a series of travel surveys which were conducted by the Department of **Economic Development and Tourism** over the months of June through September, 1982. Extensive questionnaires surveyed the characteristics of visitors on pleasure and business trips, to the various regions of the Northwest Territories. Although the data for some northern regions is incomplete, extensive data for the Fort Smith region, where **Yellowknife** is located, was collected.

The survey found that approximately 44,000 visitors to the Northwest Territories spent \$40,000,000 or \$900 per capita during the summer of 1982. The Fort Smith region received 29,300 visitors who generated **51%** of the total tourism dollars, or \$700 per capita.

Most visitors to the Fort Smith region came from other parts of Canada; 49% were from Alberta, **14%** from British Columbia and 12% from Ontario. Most visitors, 66%, were visiting the area on vacation, the rest were in the **area for** business purposes. The main activity of vacationers was visiting friends and relatives, followed by sightseeing. However, sightseeing was the top secondary activity of vacationers and business-oriented visitors, making the activity overall the most popular one.

In the **Inuvik**, Fort Smith and Baffin regions, campgrounds were the most popular form of accommodation for visits lasting 2 days and 3-5 days, by **25%** and 32% respectively. For visits lasting 6-10 days, friends and relatives were the preferred means of accommodation of 35% of the total, and hotels and motels by 25%. Lengthier stay visitors also preferred staying with friends and relatives.

A slight majority of visitors had made at least one previous visit to the Fort **Smith** region. 51% had visited the area before, making an average of 6 previous trips. Most visitors, 35%, were prompted to go to the Fort Smith region by friends and relatives

Overall, visitors commented positively about the people and the scenery, and negatively on the conditions of roads, accommodation, transportation support services, salespersons' attitudes and the summer insect situation.

COMPETITION

Yellowknife Hotels

The major competitive facilities in the immediate **Yellowknife** area are the two Yellowknife hotels - the Explorer Hotel and the Yellowknife Inn - and a motor hotel, The Twin Pine. A fourth property, the Gold Range Hotel, is a 52 unit, **older** style hotel with a beverage room. This property is not oriented to the tourist and meetings markets and should not be considered as a major competitive facility.

Exhibit 3 describes the facilities at the two competitive properties and at The Twin Pine **Motor** Inn. The **Yellowknife** Inn is a long established, but renovated and expanded hotel, located in the centre of town. It contains 150 rental units including 22 older style rooms above the public house and 128 modern rooms. It offers no recreational facilities but does have full food and beverage service including a **small** dining room, large cafeteria, a **licenced** lounge and beer **parlour/public** house. It also contains five meeting rooms ranging in size from 16 persons to 200 persons. **Also**, the Legislative Assembly quarters are currently being constructed adjoining the rear of the **Yellowknife** Inn. This addition will be the headquarters of the **N.W.T.** Legislative Assembly for the next five years. The addition includes 1,670 **sq.m** (18,000 sq. ft.) of meeting and office space. The main Legislative Assembly Chambers will accommodate up to 400 people while separate caucus and meeting rooms (four) will hold 12 to 40 people. The premises should be available for occupancy in the fall of 1984.

This expansion is mentioned because of its availability to the hotel as a convention/conference centre. Since the Legislative Assembly only meets periodically (usually three times per year for up to 12-16 weeks in total) the facility can be booked for commercial use when the Assembly is not in session. Although

EXHIBIT 3

YELLOWKNIFE HOTEL/MOTEL FACILITIES

<u>PROPERTY</u>	<u>UNITS</u>	<u>RECREATIONAL FACILITIES</u>	<u>FOOD AND BEVERAGE</u>		<u>MEETING ROOMS</u>			<u>RATES</u>			
			<u>DESCRIPTION</u>	<u>SEATS</u>	<u>ROOMS</u>	<u>SIZE</u>	<u>STYLE</u>	<u>CATEGORY</u>	<u>S</u>	<u>D</u>	
Explorer Hotel	110	None	Dining Room	85	2	@	25	boardroom	Rack	\$89	\$99
			Coffee Shop	65	1	@	30	boardroom	Gov't	84	94
			Lounge	85	2	@	60	hollow square	(includes breakfast @ \$6.00)		
			Bar/Cabaret	200	1	@	400	banquet			
Yellowknife Inn	150	None	Dining Room	30	2	@	16	boardroom	Standard	73	80
			coffee shop	100+	1	@	20	boardroom	Suites	79	89
			Lounge	44	1	@	80	hollow square	(Gov't	72)	
			Bar/Cabaret	180	1	@	200	banquet			
Twin Pine Motor Inn	44	None	Coffee shop	20	2	@	20	boardroom	Rack	\$73	

been refurbished. It is considered **Yellowknife's** premier hotel property. The property has plans to construct a sauna/whirlpool and health club facility sometime in the future. The Explorer has an 85 seat **dining room**, a similar size lounge, a 65 seat coffee shop and a 200 seat cabaret. There are five board room style meeting rooms in the hotel ranging from 25 to 60 person capacity plus a large ballroom (divisible into three) holding 400 people for banquets.

The Twin Pine Motor Inn is a 44 unit two **storey** motel located on the main road, just up from "**Old Town**". It includes 30 kitchenette suites, a 24 seat breakfast room and two 2% seat meeting rooms. Because of its motel status and the existence of housekeeping units, the Twin Pine caters to a greater proportion of extended stay guests.

The three properties provide a total of 304 units of accommodation or some 111,000 room nights per year, capacity.

Lodges

The Northwest Territories contains approximately 50 fishing lodges and guide/outfitter camps. They exist throughout the Territories with the largest **concentration** around Great Slave Lake with approximately fifteen facilities within 200 air **kilometres** (120 air miles) of **Yellowknife**. All of these are small lodge style operations.

Although there is a wide variation in the scale of these lodge operations, they generally fall into two size categories. Those in the **10 to 15** bed category are the most common, while 2 or 3 of the Great Slave Lake facilities **can** accommodate between 24 and 44 persons. (A few properties in the Great Bear Lake area are slightly larger.) Exhibit 4 summarizes lodges in the Northwest Territories which accommodate over 20 persons (although the Yellowknife Lodge accommodates only 12 persons, it is included to illustrate its facilities and rates).

In 1980, the last year for which figures are available, it was estimated that, over an average 70 day operating period, 41 active fishing lodges received 6,458 guests. Their 41,409 guest

EXHIBIT 4

LODGES IN THE NORTHWEST TERRITORIES

FACILITY/LOCATION	SEASON	ACCOMMODATION	FEATURES/SERVICE	RATES
ARCTIC CIRCLE LODGE on Great Bear Lake, 22 km from the Arctic Circle	. maximum 34 . July, August	34	. group facilities . trophy-size fishing	
BRANSON'S LODGE east side of Great Bear Lake on Cameron Bay	maximum 40 . July, August	40	. modern plumbing, heating, carpeting throughout . scenic protected waters . side trips for Arctic Char . convention facilities . licenced lounge . local historical attrac- tions, e.g., abandoned mine	\$2,100 per 8 day package, including flight from Edmonton, meals, rooms, guides, boats, freezing facilities, tackle shop
FRONTIER FISHING LODGE east arm of Great Slave Lake, 185 km from Yellowknife	. mid June - end September	24 in lodge and cabins	. dining room, licenced facilities, sauna . conference facilities for 35 . Dene Village and handicrafts nearby	
GREAT BEAR LAKE LODGE on Dease Arm, Great Bear Lake	. July, August	54 in 16 cabins	. showers, modern plumbing . dining room, telephone . side trips for Arctic char . boats, motors, fuel, guides, airstrip	
GREAT BEAR LODGE on Leith Peninsula, Great Bear Lake	. July, August	54	. bar and rec room . modern facilities . native handicrafts . airstrip . side trips for char and grayling boats, motors, guides, " food	

EXHIBIT 4 /continued

FACILITY/LOCATION	SEASON	ACCOMMODATION	FEATURES/SERVICE	RATES
GREAT SLAVE LAKE LODGE at Taltheilel Narrows 145 km east of Yellowknife	mid-June-September	44	. modern plumbing . dining room, bar . meals, guides, boats, motors, . gas, care of fish . private air strip	
YELLOWKNIFE LODGE 39 air miles N/O Yellowknife	. June-September	12	. modern plumbing . dining room, bar, confec- tionary, fish freezing, packing, guides . conference facilities . winter group excursions	\$1,400 for 7 day all- inclusive package from Yellowknife . group and family rates available
BRABANT LODGE 51 air km from Hay River	mid June - mid September	36	. licenced lounge, dining room, telephone, guide service, angling equip- ment, boats, motors, fuel, cold storage . convention facilities	
NONACHO LAKE FISHING CAMP 346 km east of Hay River	. summer season: June - mid September	30	. supply own food and tackle . storage, freezing facilities . open in winter	\$720 week includes round trip from Hay River, boats, motors, gas, sleeping bags, shower, housekeeping facilities
RUTLEDGE LAKE LODGE 274 km east of Hay River	. June - end September	20	. supply own food and tackle . modern, fully equipped housekeeping cabins	rate includes boats, motors, gas
THUBUN LAKE LODGE 227 km northeast of Hay River	June - end September	22	. camp store sells food, liquor, tackle . fully equipped house- keeping cabins	\$560/week includes boats, motors, gas, freezing facilities

	SEASON	ACCOMMODATION	FEATURES/SERVICE	RATES
	July & August	40	<ul style="list-style-type: none"> • modern plumbing in every room • dining room, bar, commissary, telephone communications, boats, motors, guides • airstrip • air charters arranged to visit native villages • wildlife nearby, arctic char 	\$1,995 U.S./week all-inclusive from Edmonton return
	mid June - September	38	<ul style="list-style-type: none"> • dining room, carpeted cabins with plumbing 	\$1,695 U.S./week all-inclusive from Saskatoon return

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all bedding and do all cooking. Others include fully prepared meals in a lodge dining room, in a full service rustic resort atmosphere. Regardless of the scale of operations, virtually **all** facilities include comfortable accommodations, boats, fuel and tackle.

Most facilities are relatively old, having been built over the past two or three decades with some minor expansions. Most are also accessible only by air, either via chartered wheeled aircraft or private float planes.

Typical package rate charges are in the \$1,200 to \$1,900 U.S. per week (7 night, eight days). Those in the higher price range usually provide transportation from a southern city, typically Edmonton, Saskatoon or Winnipeg. In terms of equivalent per day costs, those facilities providing a completely **self-contained** fishing experience, including all meals, **guides, boats,** accommodation and related expenses, but not including air transportation, range between \$200 and \$300 CAN. per day.

The ground charges of the more rustic and self sufficient lodges, **typically range** between \$65 and \$120 CAN. per day, not including air transportation or meals. Charges do include accommodation, boats, motors and gasoline.

Food Service Establishments

Yellowknife has a variety of restaurants including take-out establishments, family restaurants and fine-dining establishments. In spite of the recessionary **effects** on restaurants elsewhere in Canada, **Yellowknife's** food service industry has been relatively unaffected. There have been no closures, and few, if any, profitability **related** property sales. In fact, a new restaurant is currently being constructed and at least two more are **rumoured** to be in the planning stages. Exhibit 5 illustrates the food service facilities and the type of service they provide.

Meeting Rooms

Yellowknife currently has approximately 15 public meeting rooms located in four different facilities (the hotels, motel and the Northern Heritage **Centre**). These range from small 12-16 person board room style rooms to large banquet rooms. The **Yellowknife** Inn is adding to this inventory with construction of the

EXHIBIT 5YELLOWKNIFE FOOD SERVICE FACILITIES

NAME	TYPE
Airporter	Coffee Shop/Restaurant
Cabin Fever	Dining Room
Eddy's	Pizza
Explorer Hotel	Coffee Shop
Explorer Hotel	Dining Room
Gallery	Licensed Lounge
Gold Range Hotel	Coffee Shop
Hoist Room	Dining Lounge
Kentucky Fried Chicken	Take-out
Luigi's Salumeria	Deli
Lunch Box	Cafeteria
Mr. Mike's	Steak House
Nettie's Pyroghy House	Dining Room
Office	Dining Lounge
Papa's Pizza House	Dining Lounge
Yellowknife Hotel	Coffee Shop
Yellowknife Hotel	Dining Room
Wildcat Cafe	Cafe
Our Place	Dining Room

Legislative Assembly Chambers which will be available for private rental when the legislature is not in session. A few of the **fly-in** lodges have also developed small meeting rooms over the past several years.

ANALYSIS OF MARKET DEMAND

Target markets for the proposed new resort and conference **centre** include a number of distinct market segments. These markets all currently exist to varying degrees at existing hotels/motels/lodges in the **yellowknife/Great Slave Lake** area. The resort-lodge development strategy is based on tapping a portion of the existing markets and creating market demand for facilities and/or services that currently do not exist.

In the following analysis we have reviewed demand base on the following criteria.

- Demand by facility type:
 - Rooms
 - government commercial
 - tours
 - transient **tourists** other
 - Food and Beverage
 - Meetings

Hotels/Motels Room Demand

Room demand at existing hotel properties is relatively stable throughout the year. The summer months are virtually full in all three main facilities while the lowest months are October, December and January. Weekends are generally the slowest part of the week.

In terms of seasonal occupancy, mid June to late August provide the highest levels with most weekday nights fully booked. Weekend vacancies lower the overall summer occupancy to the **85%-90%** range. This period enjoys the best occupancies because it is the most popular season for all market segments. It is an attractive time to hold meetings/conferences, and is popular with both government and commercial travelers. It is also the season for virtually all package tour business and fishing related business. Exhibit 6 illustrates the pattern of room demand for the three key **yellowknife** hotels.

EXHIBIT 6AVERAGE ROOM DEMAND OF COMPETITIVE HOTEL/MOTELPROPERTIES IN YELLOWKNIFE

TOTAL ROOMS AVAILABLE	304
TOTAL ROOM NIGHTS AVAILABLE	111,000

OCCUPANCY	AVERAGE NUMBER OF ROOMS SOLD	% OCCUPANCY RANGE
• Spring (May, June)	8,850	45 - 50
• Summer (July, August)	16,500	85 - 90
• Fall (September, October)	8,350	40 - 50
• Winter (November-April)	30,300	50 - 60
<hr/>		
TOTAL OCCUPANCY	64,000	55 - 60%

TABLE IIYELLOWKNIFE HOTEL/MOTEL BUSINESS CHARACTERISTICS

<u>SOURCES OF BUSINESS</u>	AVERAGE ROOM NIGHTS GENERATED	% OF TOTAL
Government	38,400	60
Meetings	5,120	8
Commercial	13,440	21
Tourist	4,480	7
Sportsmen/Other	2,560	4
<hr/>		
TOTAL	64,000	100
<hr/>		
<u>ORIGIN OF BUSINESS</u>		
N.W.T.	22,400	35
British Columbia	2,560	4
Alberta	25,600	40
Other Canada	8,320	13
U.S.A.	2,560	4
Offshore	2,560	4
<hr/>		
TOTAL	64,000	100

The winter period from about November to April has a relatively stable performance in the 50%-60% range. This period is characterized almost exclusively by business traffic, both government and commercial. Spring and fall post the lowest occupancies, but even these average out to a relatively **stable** 40%-50%.

In terms of weighted average annual occupancy, the length of the winter period reduces the significance of the relatively **short** summer season, and increases the lower spring and fall shoulder seasons. Average **annual** occupancies tend to be in the 55% to 60% range for the total inventory of just over 300 Yellowknife tourist and business oriented hotel/motel rooms.

Government business is by far the largest market segment averaging about 60% in all three properties. Commercial business averages about 21% while meetings/conferences generate an additional 8%. General tourist pleasure travel (including packaged tours) comprises about 7% of market demand and all other categories (including hunting/fishing oriented guests) totals about 4%.

There is some similarity in market areas based on guest origins in terms of proximity, with **the Northwest** Territories having the largest overall share, followed by Alberta. British Columbia and other provinces (particularly **Ontario**) are next followed by the U.S.A. and offshore countries.

Tour packages are becoming an increasingly important source of room business. This year, fourteen tour companies are offering 45 different tour packages via transportation which range from cruise ship, **motorcoach**, airplane and train, to dog team and snowmobile.

On a local level, three tours of the **Yellowknife** area are offered. Cruises "of Great **Slave** Lake are also promoted. Six outfitters package journeys which begin in the **Yellowknife** area.

Lodges Room Demand

Traditional markets for the fishing and hunting lodges have been Americans, primarily from the mid-west states, the **Atlantic** seaboard and California. One lodge, accessible by float plane from **Yellowknife**, has also built a substantial market on Yellowknife residents, primarily on weekends.

Prior to the recessionary economy of the early **1980's**, the lodge business was comfortably growing. Residents of the prime market areas were facing a continually reducing number of trophy style fishing alternatives. The lodges were well established with a long established customer base of repeat **business**. **During this**

period of the 1960's and 1970's many of these lodges would be fully booked from one season to the next.

The recession starting in mid 1981 created a fairly sharp drop in patronage with many lodges dropping to the 40%-60% occupancy level during their short summer-fall season. Current reports indicate this trend is improving with most lodges reporting increased bookings for the 1984 season.

A market segment that provides considerable market potential is the naturalist or non-consumptive wilderness user. Although this market has been forecasted to grow considerably, particularly in the non peak periods, actual growth has been slow. This appears partly due to the incompatibility of the two market groups as well as the relatively high prices charged. The prices may be perceived to be higher since there is no tangible take-away product, i.e., the trophy fish or animal. Most facilities are designed for the summer season and are not set up to cater to colder shoulder season operation. It is possible a considerable market could be generated if a facility could cater specifically to the wilderness/education market.

Those facilities in the far north or high arctic offer the barren land hunting and/or fishing **experience** while those in the south provide a sub-arctic experience. In terms of competition with the **proposed** resort/lodge, there are probably more positive aspects than negative. Since a drive-to lodge cannot offer the same remoteness as the fly-in facilities nor the quality of fishing, the proposed lodge will likely cater to a different category of guest. The guest will probably be staying at the resort for some other primary purpose than fishing, but could be enticed to experience northern fishing if conveniently accessible. This access issue is important as it infers being able to get in a boat at the resort rather than flying or driving to another location. Another market opportunity involves tying in with lodges to provide overnight service to enroute customers.

PROJECTED ROOM DEMAND

Exhibit 7 presents our analysis of likely room night demand for the proposed new facility. Total existing demand for the various target markets is illustrated in column #1, our estimates of market share in column #2, and the projected room night demand in column #3. The proposed resort will clearly have a competitive advantage in the meetings and tourist markets, given the facilities proposed, so we have indicated a high market share in these instances. The resort will have a moderate competitive disadvantage in the other markets due to its location outside the city, so a modest market share has been forecast. (A full "normal" share of the business would be represented by a 25% rate.)

EXHIBIT 7PROJECTED ROOM NIGHT DEMAND

	TOTAL ESTIMATED MARKET SIZE	MARKET SHARE %	PROJECTED ROOM' NIGHT DEMAND
<u>Source of Room Demand</u>			
Meetings			
existing market	5,120	30%	1,500
Yellowknife meetings not presently using accom- modations	(see Exhibit 10)		100
N.W.T. meetings now held elsewhere	N/A		1,000
Government	38,400	15%	5,800
Commercial	13,440	15%	2,000
Tourist			
existing market	4,480	30%	1,300
new demand generated			700
Sportsmen & Other	2,560	15%	400
TOTAL	64,000		12,800 50 rooms*

•Warranted Number of Rooms at 70% occupancy.

We have projected some very modest levels of additional demand from new markets not presently using rooms in **Yellowknife**, i.e., **meetings** held elsewhere in the **N.W.T.** which could be attracted to the resort, and "destination tourist" visits which could be attracted from **N.W.T.** residents and others. This is the most difficult component of the market potential to estimate, hence the modest projections of new demand. It is our opinion, however, that the resort will be capable of generating significant new visitation to **the Territories** and to **Yellowknife**. We fully expect our projection of new tourist demand to be exceeded. The lack of tourist-oriented accommodations in the Territories has, in the past, been a detriment to vacation travel. This new resort will therefore have "a significant impact."

We have broken out the total annual demand on a seasonal and weekday/weekend basis to ensure that the overall projected levels can be achieved. This analysis is illustrated in Exhibit 8. Only the weekdays in spring and fall will occasionally be fully booked, so a slightly lower total demand, or 12,680 room nights has been used in our analysis.

The projected "normal" level of demand of 12,000 - **13,000** room nights **could** be expected to be **achieved** by about the third year of operations. Assuming a target occupancy rate of 70%, this level of demand would warrant the construction of 50 guest rooms.

Food and Beverage Facilities Demand

The health of **Yellowknife's** food service industry appears due to the relative affluence and stability of the work force and the lack of competitive spending opportunities. Judging by the variety of dining rooms/dining lounges, this is an important part of the community structure and resident lifestyle. In addition to the resident market, the relative stability of hotels/motels provide between **100** and 300 persons requiring restaurant meals on any given day. Tourists staying with friends and relatives add to this **total**. It is noted that all but one of the **18** Yellowknife restaurants operate year round.

Current restaurant alternatives cover the range from pizza **parlours**, and fried chicken take-outs to ethnic restaurants to dining lounges and fine-dining rooms. The latter categories actually make up over one-half the inventory of restaurants.

Within the proposed resort concept, food and beverage facilities are necessary to serve overnight guests as well as local residents. Due to the proposed location outside the urban area, it is likely virtually all guests would require breakfast

EXHIBIT 8

SEASONAL PATTERN OF ROOM DEMAND

	SPRING		SUMMER		FALL		WINTER		TOTAL
	WEEK	WKND .	WEEK	WKND .	WEEK	WKND .	WEEK	WKND .	
Period	May & June		July & August		Sept. & Oct.		Nov.-April		
# Days Available	44	17	44	18	44	17	129	52	
Room Nights Available (50 rooms)	2,200	850	2,200	900	2,200	850	6,450	2,600	18,250
Projected Demand									
Meetings (90% weekday)	450	50	270	30	450	50	1,170	130	2,600
Government (95% weekday)	1,100	60	550	30	1,100	60	2,755	145	5,800
Commercial	380	20	185	15	380	20	950	50	2,000
Tourist	50	100	600	400	50	100	100	600	2,000
Other	60	20	100	60	60	20	60	20	400
TOTAL	<u>2,040</u>	<u>250</u>	<u>1,705</u>	<u>535</u>	<u>2,040</u>	<u>250</u>	<u>5,035</u>	<u>945</u>	<u>12,800</u>
Effective Demand (maximum of 90% of room nights available)	1,980	250	1,705	535	1,980	250	5,035	945	12,680
Occupancy Percentage	90%	29%	78%	59%	90%	29%	78%	36%	69%

service, although not necessarily simultaneously. Lunch trade would be limited to a portion of the room guests (meetings guests and tourists particularly). Some business could be expected from **Yellowknife** residents/businessmen and office workers if the facility was conveniently accessible (say within 10 minutes driving time). Dinner trade will depend heavily on the facility's room occupancy, and reputation as a food outlet. Since reputations can change "overnight" this **is** an important consideration.

In estimating the size of facility required, we have assessed demand generated by resort guests and business provided by **Yellowknife** residents. Based on a 50 unit facility having a guest per occupied room ratio of 1.4, a peak demand exists for 30 seats (assuming a seat turnover of 1.25 times per meal (see Exhibit 9).

In spite of the number and variety of dining establishments in **Yellowknife**, a resident demand is anticipated. This expectation is based on the success (or at least stability) of existing restaurants **and** the continued demand anticipated for unique, fine quality dining establishments. This notion is dependent on **Yellowknife's** continued economic stability, which appears very favorable, particularly **since** the effects of the 1981-1983 recession were not severe.

This analysis results in a design target expectation of up to 60 seats for the dining area. It is proposed that the same room be used for all three meals.

Beverage trade is also based on demand generated from within the resort and from **Yellowknife**. Demand is difficult to forecast due to competition among existing facilities, the quality of entertainment, and the success of special promotions. We feel that the revenue potential and compatibility with the number of units and restaurant seats warrants approximately 40 seats. This room should be located adjacent to the restaurant and both rooms should be located to take advantage of the lake views. A limited menu should be available in the lounge.

Conference/Meetings Facilities Demand

The meeting market in **Yellowknife** is very active for a community of its size. This demand is generated by business and government representatives visiting **Yellowknife**, and also by **Yellowknife** residents through a variety of clubs, associations and institutions. The corporate and government meeting requirements are heavy due to **Yellowknife's** position as the centre of territorial and federal government offices. Similarly,

EXHIBIT 9FOOD AND BEVERAGE DEMAND ANALYSIS

1.	Resort Generated Demand	
	- Accommodation Units	50
	Party Size (Existing is 60% single)	1.4
	Average persons/day (@ 70% occupancy)	
	= (50) (1.4) (.70)	49 persons
	Peak season persons/day (@ 90% occupancy)	
	= (50) (1.4) (.90)	63 persons
	Acceptable turnover rate/per meal	1.25
	Typical Resort Generated Demand	50 seats
	(63 divided by 1.25) less 4a% for meals taken off site	30 seats
2.	Yellowknife Generated Demand (Average)	
	- Breakfast trade	minimal
	- Lunch trade	10-15 persons
	- Dinner trade	15-25 persons
	Acceptable table turnover rate	1.25
	Typical Yellowknife Generated Demand	20 seats
	(25 divided by 1.25)	
3.	Contingency and Buffer	10 seats
<hr/>		
	Total Recommended Food Service Seating Capacity	60 seats
<hr/>		

Yellowknife's relative isolation is partially responsible for a large number of community clubs, groups, and associations, many with meeting requirements.

Existing facilities currently serve the demand, but there appears to be a requirement for well designed, well equipped meeting rooms that could cater to the community's diverse meeting needs. They would be sized to match the accommodation and food/beverage capacity and also to take advantage of meetings that can not comfortably be handled at present. It would include the following features:

- good quality decor and furniture
- **good** acoustics
- **efficient** ventilation, heating and cooling
- comfortable surroundings
- built in sound system
- provision of projectors, flip charts, etc.
- provision of secretarial and copying services
- be divisible into two smaller rooms

To estimate likely demand, we have estimated current demand for meeting facilities by both the hotel/motel guest market and the resident market. The **estimate for** the hotel patron market is approximately 256 meeting days while **Yellowknife** resident groups have the potential to add an additional 540 meeting room days. A reasonable target is a 30% penetration of this **market, equalling** 239 meeting days (see Exhibit 10).

It is **also** proposed that the existence of a full-service meetings-oriented resort could be responsible for generating new business to **Yellowknife**. This is a complete unknown at present but could be in the order of an additional 50 meeting days annually. **Total** meeting days are therefore estimated to be about 289.

The typical size of existing meetings are in the 10 to 25 person category. This is an ideal size to be serviced by the proposed resort. It is noted that meetings in the 25 to 80 person range cannot be adequately handled in existing facilities as most meeting rooms are either too small or too large. We suggest the following configuration:

- 1 room seating up to 80 persons, theatre style (800-1,000 Sq. ft.), divisible into two
- 1 banquet room seating up to 80 persons, banquet style (1,200-1,500 sq. ft.), divisible into two
- 2 small board rooms holding up to 20 persons each, close to the dining room

EXHIBIT 10CONFERENCE/MEETING DEMAND ANALYSISNon-Resident Demand

Room nights currently generated by meetings	5,120 room nights
- Average meeting size	20 persons
- Number of meeting days 5,120 divided by 20 (assumes 1 meeting day = 1 night)	256 meeting days
- Projected market penetration	30%
- Projected meeting days	77

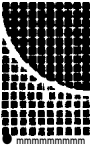
Resident Demand

Total number of local groups, government departments, businesses, clubs, associations having at least one meeting per year	200
Estimated number of groups that utilize commercial meeting facilities	60
Average number of meetings per year	6
Total annual meeting room demand	360
Average duration (days)	1.5
Total annual meeting room days	540
Projected market penetration	30%
Projected meeting days	162

New Meeting Business Generated
(N.W.T. meetings now held elsewhere)

Estimated new room night demand	1,000 room nights
- Average meeting size	20 persons
- Projected meeting days	50

Total Meeting Days Projected	289
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THE ECONOMIC PLANNING GROUP Canada

SECTION 3SITE SELECTIONBACKGROUND

The selection of a suitable site for the proposed resort has been a time consuming issue. This has been required because of the extensive amount of land available but the relative lack of locations having the necessary infrastructure. Since the site of the resort will be critical to market acceptance and ease of development, this component of the analysis required considerable attention.

Over the summer of 1984, the Economic Planning Group assessed a number of sites in the Yellowknife area. The **initial** site selection criteria required that the site be:

- within a 30 minute drive of **Yellowknife**
- accessible by road
- on a recreation oriented lake
- available for **purchase or** lease

Utilizing **topograph** mapping, a circle was drawn with a radius of approximately 30 minutes drive time. Ruling out those areas which were not accessible by road focussed attention on areas within the city limits, to the west along Highway 3, and to the east along Highway 4. Ruling out shallow, small and inaccessible lakes reduced the potential of areas to the west and north.

Utilizing the site selection issue of the property being available for acquisition also ruled out most sites within the Block Land Transfer surrounding **Yellowknife** and also Crown Land outside the Block Land Transfer boundary. This latter decision was based on the issue of potential native aboriginal land claims and the unknown long term commitment that would be necessary for the resort project.

These considerations narrowed the site selection process to property within the city limits along Highway 4, preferably privately owned.

Approximately six sites were assessed visually, mostly along Highway 4 east of **Yellowknife**. Analysis generally **favoured** a choice between two sites which ironically offered considerably **different** attributes. The differences were significant enough that the resort concept would have had to be altered depending on the site chosen. This issue arose mainly because of the locations of each site with one near the traveling threshold distance out of town (30 reins.) and the other within the city limits. The two sites are illustrated in Exhibit 11.

In any event, the positive features of both sites were significant enough that a systematic ranking system was applied to **rate** the features of both sites. The series of issues were grouped into categories. Although there were some overlaps, most selection criteria fell into one or the other following categories:

- Markets
- Development
- Operations

The two sites selected for evaluation were Negus Point and Prelude Lake. " Negus Point is located approximately 3km south of downtown **Yellowknife**. The **site** is at the end of an existing rough access road, about 2 km from the southern city limits boundary.

The Prelude Lake site is located approximately 30 km east of **Yellowknife** along Highway 4. It takes in the facilities of an existing lodge, including cabins and boat wharfs. This lodge was actively for sale during the summer of 1984.

The major difference between the two sites from a marketing viewpoint had to do with their accessibility and the resulting target markets that could be attracted to each location. Consequently ranking was applied to each, assuming that a similar type, size and style of facility were to be built at each site. The concept plan called for a 40-60 room resort/lodge with full food and beverage facilities, meeting space and recreational facilities. Based on our market research, the facility was designed to **cater** to a **mix** of markets including:

- government
- commercial
- meetings
- tourist
- **Yellowknife** dining

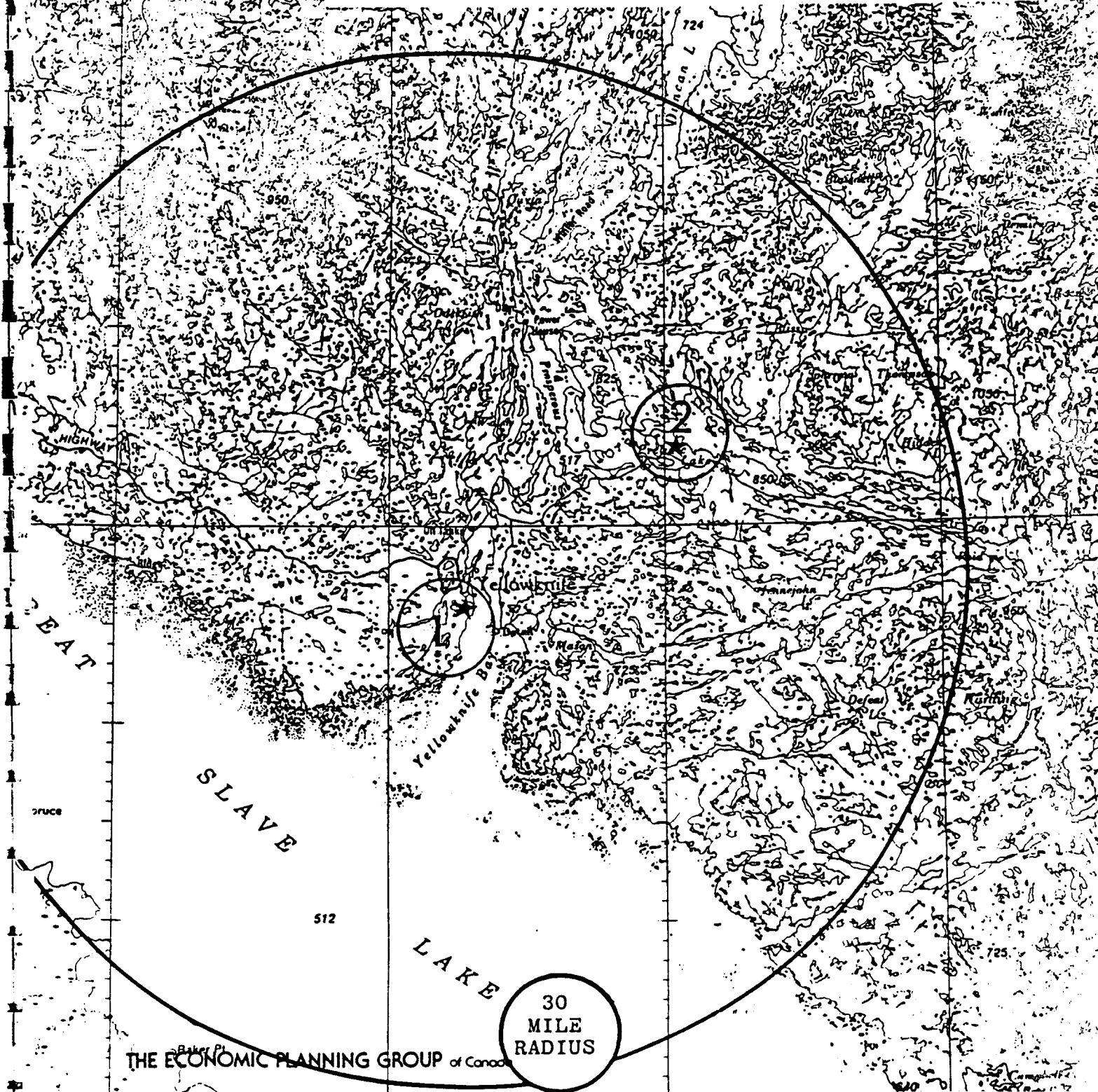
To evaluate the list of features we utilized a weighting scale referred to as a '*5 point must" system. This procedure ranks one site against the other, for each specific criterion, by assigning

EXHIBIT 11

LOCATION OF SELECTED SITES

SITE 1 - NEGUS POINT

SITE 2 - PRELUDE LAKE



5 points to the "best" site and ranking the other against it. For example, access is better at prelude Lake (5) while **Negus** Point is somewhat less, at perhaps three (3). On the other hand, the distance to Yellowknife and the resulting positive impact on marketability is better at **Negus** Point (S) and is considerably worse at **Prelude** Lake which was rated as one (1). The ranking is illustrated on Exhibit 12.

This procedure allows a relative ranking of one site against the other for a series of development considerations. Assuming the numerical values are applied with sound **judgement**, it provides a good measurement of the relative strengths and weaknesses of each site. It does not, however, **allow** a measurement of the significance of each issue in the site selection process. That is, it does not take into account that the availability of power is a significantly more important issue than the amount of space for parking. Consequently, a five-point "importance" weighting system was devised **allowing** each issue to be ranked numerically.

The final ranking of each issue was derived by multiplying the ranking on the 5-point-must scale by the weighting attributed to each development consideration.

To further ensure that the **issues** were assessed in relative importance a fine-tuning has **been** applied. This ensures that the list of development issues do not unrealistically outweigh the marketing or operations issues. In this assessment the market related factors contributed approximately 50% of the total, development issues about **30%** and operations 20%.

DEVELOPMENT ISSUES

Zoning

The **Negus** site is outside of the main urban planned area of the City of Yellowknife. The Zoning designation is "limited development" which permits a variety of possible uses, including "major tourist facilities". The zoning is clearly appropriate for the development, so little difficulty is anticipated in obtaining municipal approval.

The Prelude Lake site also has appropriate zoning in place.

Power

The provision of a reliable, expandable and cost effective power source is imperative. The **Negus** Point site can be serviced with the local utility by extending the power line about 0.5 km.

EXHIBIT 12
RANKING OF ALTERNATIVE SITES

33.

DESCRIPTION	RELATIVE IMPORTANCE WEIGHTING	NEGUS POINT		PRELUDE LAKE	
	(1)	(2)	(1)X(2)	(3)	(1)X(3)
DEVELOPMENT					
Power	5	5	25	1	5
Water	1	4	4	5	5
Sewer	1	4	4	5	5
Construction Ease	1	5	5	4	4
Telephone	1	5	5	3	3
Site Availability	1	5	5	5	5
Site Costs	2	5	10	2	4
Zoning	1	4	4	5	5
Fire Protection	1	5	5	1	1
Police Protection	1	5	5	1	1
Parking	1	2	2	5	5
Size/Shape	2	3	6	5	10
		80			
MARKETING					
Access	2	3	6	5	10
Distance from Yellowknife	3	5	15	1	3
Views	2	4	8	5	10
Visibility	1	5	5	5	1
Fishing	1	5	5	3	3
Proximity to Complementary Facilities	3	5	15	2	6
Proximity to Competitive Facilities	1	2	2	5	5
Neighboring Property Use Markets:	3	2	6	5	15
Government	4	5	20	3	12
Commercial	2	5	10	2	4
Meetings	4	5	20	4	16
Pleasure	3	3	9	5	15
Dining	1	5	5	1	1
		126		101	
OPERATIONS					
Eligibility for Government Assistance	5	3	15	5	25
Seasonality	1	5	5	3	3
Staffing	3	5	15	2	6
Taxes	1	3	3	5	5
Deliveries/Services	2	5	10	2	4
		48		43	
TOTALS			254	197	

Prelude Lake currently uses propane for light and heat, plus a small portable generator. producing sufficient power for the proposed resort would involve diesel generators (including a back-up) with the resulting problems of cost, noise and reliability.

Water

City water would **be** available at **Negus** Point through extending the existing municipal system or pumped out of the lake. Water is currently from a surface spring at prelude Lake. This would have to be winterized for all season use.

Sewer

The **Negus** Point location would be serviced by the city truck pump-out system. Separate arrangements would likely need to be contracted for Prelude Lake although the existing system is via **un-winterized** septic treatment and disposal. It may be possible to provide an expanded septic disposal system.

Construction Ease

Construction at **Negus** Point would likely be costlier because of the rocky, sloping terrain, **requiring** blasting and retaining walls. This would be offset by the close-in location and the ease of access to the site.

Telephone

Neg us Point would be serviced by Northwest Tel whereas Prelude Lake would **require** a radio telephone. This is not expected to be adequate from a marketing and operations viewpoint.

Site Availability

Negus Point is apparently **owned by** the City and is expected to be **available for** long term lease or purchase. Prelude Lake is privately owned (four acres) and a lease is expected to be possible for additional property. The existing Prelude Lake Lodge. is actively for sale for the assessed value of the property, improvements and fixtures.

Site Costs

Negus Point is expected to be available for a nominal charge as a development incentive. Prelude Lake Lodge has an asking price of approximately \$190,000 with a minimal additional lease charge **for** adjacent property.

Fire/Police Protection

Fire and police protection are available **for** Negus Point. Emergency police protection would be available at prelude Lake while fire protection would not.

Parking

Providing sufficient flat land for parking will be difficult at Negus Point due to the rocky terrain while suitable property is available at prelude Lake.

Property Size/Shape

Sufficient property in a suitable configuration is expected to be available at both locations.

MARKETING ISSUESAccess

Access **to** Negus Point will require improvement and widening of the existing rough road. Access to Prelude Lake exists and is adequate. (Scheduled paving of Highway 4 will improve access.) A shuttle bus would also be a **requirement** for Prelude Lake.

Distance from **Yellowknife**

Negus Point is within city limits, approximately a 5 minute drive from downtown. Prelude Lake requires a 30 minute drive.

Views

The Negus Point site faces Southeast offering unobstructed views across **Yellowknife** Bay. The Prelude Lake site is located in sparsely treed property, not providing particularly good views. Building sites exist that provide better views elsewhere on the property.

Visibility

Since both sites are off main travel arteries, visibility from highways are not good at either site.

Fishing

Negus Point provides access to reasonably good fishing on Great Slave Lake. Fishing on Prelude Lake is considered poor to fair.

Proximity to Complementary Facilities

Negus Point provides easy access (by car or shuttle bus) to downtown Yellowknife, with its food, beverage and entertainment facilities. Prelude Lake is not conveniently located to take advantage of **Yellowknife's** amenities.

Proximity to Competitive Facilities

Yellowknife offers a range of competitive food and beverage facilities, meeting rooms and hotel rooms. Guests at Prelude Lake would be somewhat buffered from **Yellowknife's** competitive facilities by the travel distance.

Neighboring Property Use

The most significant existing use of property at the **Negus** Point site is the Con Mine. Although the mine does not provide a particularly attractive "entrance" to the **proposed resort**, it is not visible from the site itself. Property between the mine and the resort site is currently undeveloped although it has been designated for large lot (estate) residential use. The most significant property use at Prelude Lake is a **territorial** campsite which would be compatible with the resort. **All other** property is vacant.

Markets

There are several market segments that the proposed resort would expect to tap. The likelihood of attracting significant numbers from each segment varies considerably between the two sites.

Government

Government business is the largest component of hotel/motel room rental business in **Yellowknife**, averaging over 50% of total room demand. A resort located close to **Yellowknife** could share in a sizeable proportion of this business if it was conveniently located and provided a full range of facilities. Negus Point is better located to tap this business.

Commercial

Non-government commercial business is predominantly related to the existence of Yellowknife as the seat of government, and to primary and service oriented industries. Again, the close-in location of Negus Point gives this site a marketing advantage.

Meetings

Yellowknife hosts a wide variety of meetings, including government; industry and social or local groups. For retreat oriented meetings Prelude Lake offers advantages while for typical urban hotel style meetings, proximity to town favours Negus Point.

Tourist

The extended stay tourist market would likely be best served at Prelude Lake. The advantages of remoteness would be offset, however, by the lack of convenient access to **Yellowknife's** amenities.

Dining out

Yellowknife generates a considerable market for food and beverage trade. Negus Point is considerably better located for both the lunch and dinner markets.

OPERATIONS ISSUES

Once developed there are a **series** of site related operational issues which will impact the success of the resort.

Staffing

Negus Point offers considerable ease of staffing due to proximity to Yellowknife. Prelude Lake will require construction of some staff housing and also a transportation service.

Taxes

Property taxes would be higher at Negus Point due to its location within the city limits.

Seasonality

The adverse impacts of weather will be less likely to affect Negus Point. Some possibilities for isolation exist at Prelude Lake during spring break-up and during periods of inclement weather.

Deliveries/Services

Proximity to Yellowknife would have a cost advantage **favouring** Negus Point for food and beverage supplies, cleaning, construction trades, garbage collection etc.

Eligibility for Government Assistance Programs

Although both sites should be eligible for capital cost assistance programs, Prelude Lake could have advantages because of its more "remote" location.

CONCLUSIONS

Based on the foregoing subjective analysis coupled with the attempt to provide numerical assessment, the Negus Point site is preferable. From a construction prospective it is deemed considerably more suitable. From a marketing viewpoint it is also preferable and considering operations issues it is marginally better. We have assumed in the rest of this report that the Negus Point site is the one selected. The Negus Point site is illustrated more clearly in Exhibit 13.

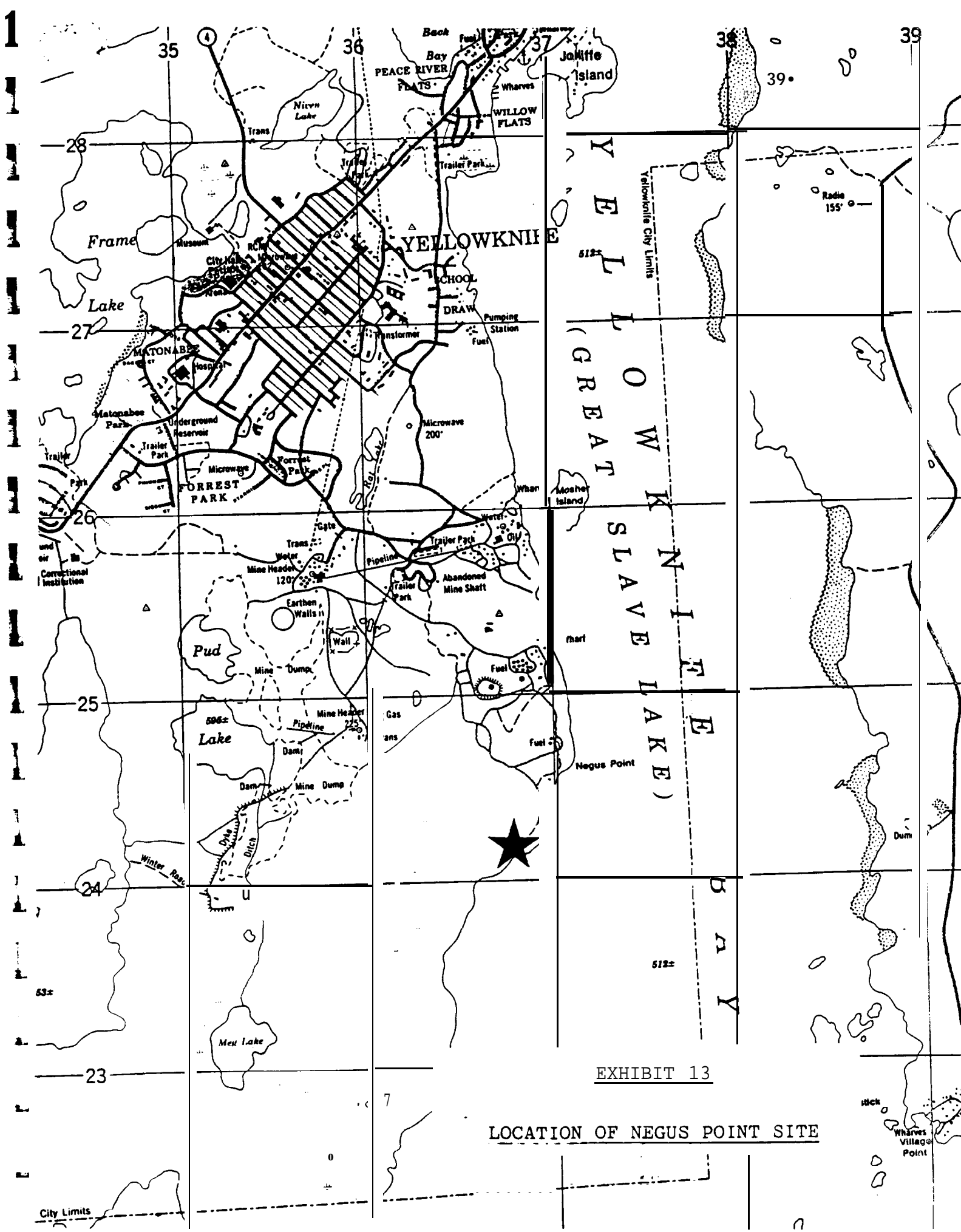


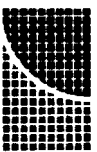
EXHIBIT 13

LOCATION OF NEGUS POINT SITE

SECTION 4

DEVELOPMENT CONCEPT

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SECTION 4

DEVELOPMENT CONCEPT

INTRODUCTION

Section 2 illustrated a number of features the resort and conference centre should have in order to make it competitive and able to achieve its projected volume of business. This section describes in more detail the recommended development.

Clearly, the facility will have to appeal strongly to a variety of target market segments if it is to achieve a sufficient and balanced level of business throughout the year. It must have competitive advantages for each of the key target markets. For the meetings market, it should have properly designed meeting facilities, a full range of meeting support services, food and beverage services, evening entertainment, recreation facilities, and quality guest rooms designed for single or double occupancy.

For the government and **commercial** markets, it should have quality guest rooms designed for single occupancy, a full range of food and beverage and other hotel services and, preferably some recreation and entertainment facilities to appeal to commercial travelers. Some 60% of the projected room night demand is estimated to be coming from these markets, so the resort must have some strong advantages to appeal to these people. Similarly, the disadvantage caused by the out-of-town location will have to be more than compensated for (**i.e.**, shuttle services to town).

For the tourist market, the resort should have guest rooms designed to cater to families and couples on vacation. Ideally they would have kitchenettes, fireplaces, and other resort-style amenities, and be available in various sizes and configurations, **i.e.**, multi-room suites, with separate living and sleeping areas. Entertainment and a range of on-site recreation facilities and programming as are the normal food

RECOMMENDED FACILITIES

Considering the projected levels of demand, the facilities and services **desired by** the key target markets and the features of the recommended location for the development, and our experience with the economics of comparable developments elsewhere, we suggest the following be included in the development program:

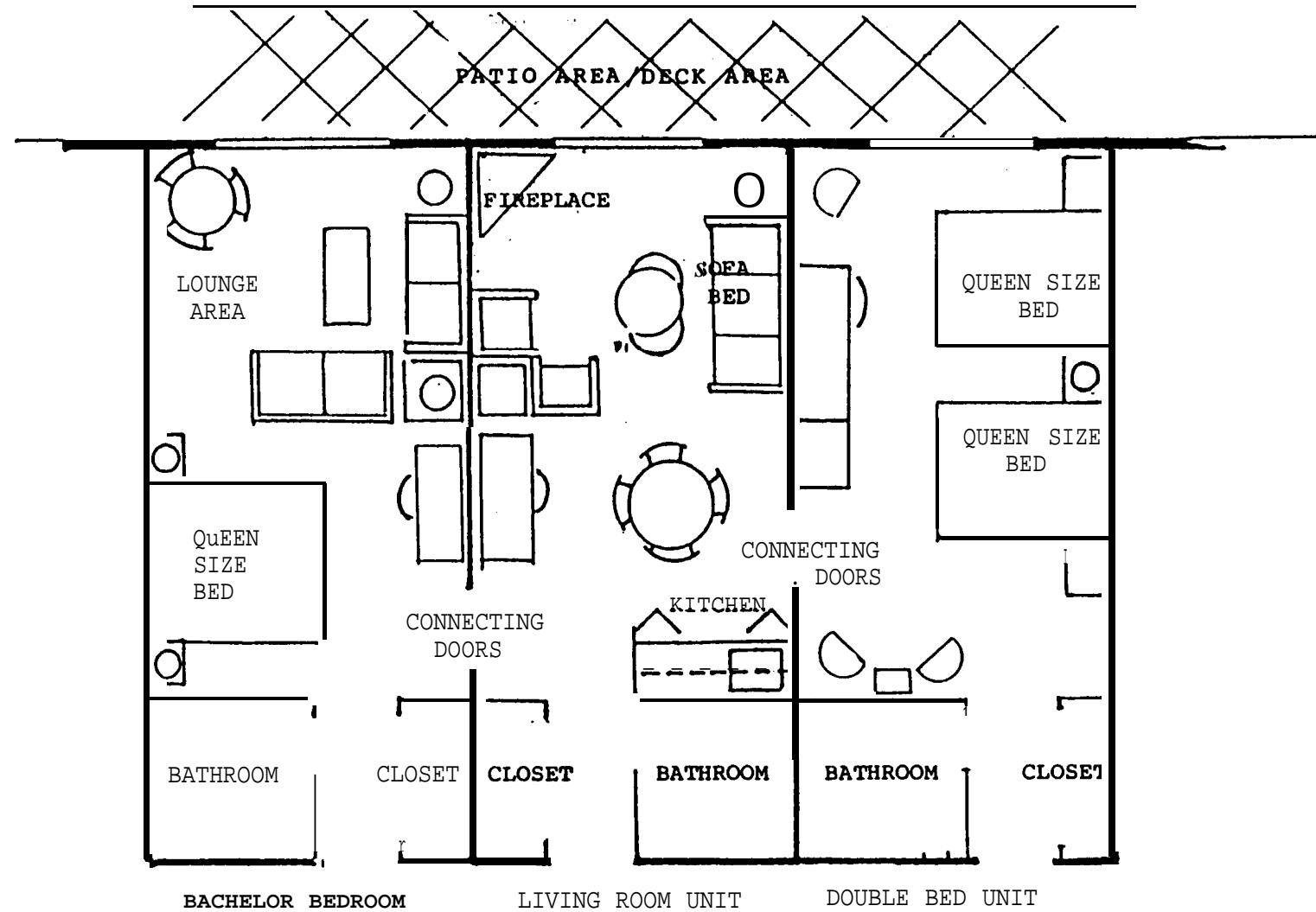
Indoor Facilities

- 50 guest rooms, designed in such a way as to make them suitable for single and double occupancy as standard hotel rooms, as well as **useable** in combination with other rooms as resort-style suites having both living areas and bedrooms. The sketch in Exhibit 14 illustrates the style of design which can accomplish both objectives. The individual rooms should be oversized (about 320 sq. ft.), to **allow** for the inclusion of kitchenettes, fireplaces and other amenities not common to standard hotel rooms. This design approach permits maximum flexibility in use, from the single hotel room at one extreme, to a three room suite at the other.
- 60 seat dining **room,** with adjacent kitchen. The kitchen must be capable of handling a concurrent banquet for up to 80 people as well as regular dining room service.
- 40 seat cocktail lounge adjacent to the dining room, designed so that it can be combined with the dining room as one area when the need warrants.
- meeting rooms, as follows:
 - two "board" rooms, with service from the kitchen available, each capable of seating 20 **or** more persons, or about 400 sq. ft. in size
 - a banquet room of about 1,500 Sq. ft., capable of seating some 80 persons banquet style with service access from the kitchen,

EXHIBIT 14

SUGGESTED GUEST ROOM CONCEPT

THE ECONOMIC PLANNING GROUP
Canada



to be broken up in various combinations. The key required features of the meeting areas are described in Section 2.

- indoor recreation facilities including:
 - swimming pool/sauna/whirlpool facility
 - children's games room
 - adult games room (with TV, billiards, library)
 - small gymnasium, permitting volleyball, badminton and similar group activities
- lobby area, gift/confectionery shop, offices, staff dining/lounge area, kitchen, laundry room, storage facilities, maintenance room, and other necessary support and service facilities.
- manager's suite

NB: Indoor facilities should either be **all** in one building, or in several buildings with indoor connections.

Outdoor Facilities

- outdoor playing field (or park area), playground and landscaped grounds
- wharf and boat slips (about 12 slips)
- parking area

Special Programs and Services

- conference planning assistance
- conference services, i.e., secretarial, audio visual, etc.
- evening entertainment
- recreation director to organize group and individual activities and events
- coordination with local attractions, events, local tours, etc.
- packages designed around special events, themes, and activities

Different kinds of programming and use of space would be scheduled for different times of the year and different days of the week. For example, recreation activities could be held in the meeting rooms on weekends and in the summer when meeting demand is low. Generally, programming and marketing should be planned around the schedule described below (only those target market segments for which specialized programming is appropriate are indicated).

SEASONAL PROGRAMMING

	SPRING		SUMMER		FALL		WINTER	
	Week - day	Week- end	Week- day	Week- end	Week- day	Week- end	Week- day	Week- end
Meetings	*				*		*	
Tourists and Packages		*	*	*		*		*

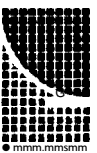
PHASING

Consideration has been given to developing the resort and conference **centre** in two stages. It can be difficult to do this if facilities are to be contained in one building. However, if some facilities can be logically contained in a separate annex connected to the main building, the annex can more readily be deferred to a second phase. We would suggest that the indoor recreation facilities, except for the swimming pool and related facilities, could, perhaps, be deferred to a second phase (i.e., gymnasium and games rooms), as well as the manager's suite and docking facilities. It would be difficult to deter any of the other facilities. Clearly, it would be preferable to develop the project all in one phase, since any major reductions in the range of facilities in the short run could significantly reduce demand in one or more of the key target markets.

In our view, the range of **facilities** proposed in this report will be very effective in allowing the resort and conference centre to capture its projected share of the various target markets. It will be a most unique and appealing facility to the key target groups. Conversely, any substantial reduction in the facilities proposed could compromise its appeal and **would likely** make it impossible to achieve the projected levels of patronage.

SECTION 5

ECONOMIC FEASIBILITY ANALYSIS



THE ECONOMIC PLANNING GROUP Canada

SECTION 5ECONOMIC FEASIBILITY ANALYSISCAPITAL COSTS

Our preliminary estimates of the capital cost of the development program described in Section 4 are summarized in Exhibit 15. These estimates are based upon costs of **similar** facilities developed elsewhere, adjusted for recent construction cost **levels** experienced in the Yellowknife area. **Dorion** Properties Ltd. of Edmonton reviewed our estimates to ensure that they were appropriate for construction in the yellowknife area. Since these estimates were prepared without the benefits of actual designs, they should be considered as being of a very preliminary nature. We have assumed that the location is the Negus point site, and that the property can be acquired at nominal **cost**.

REVENUE AND EXPENSES

Our ten year projection of **revenue** and expenses is **presented** in Exhibit 16. It is based upon the demand projections **made** in Section 2, on proposed room rates at competitive levels and on operating cost percentages typical for other similar facilities elsewhere. These have been adjusted upwards to reflect the higher costs of doing business in the Arctic. Our assumptions in each instance are documented in Exhibit 16A. The target or "normal" level of demand described in Section 2 is assumed to be reached in Year 3. We have assumed that 1986 is the first year of operations. All data has been inflated at 5% per annum from the 1984 base figures. .

Our projected room rates have been based on **hotel** rates prevailing in **Yellowknife**. In our view, the new resort and conference centre **could** charge rates comparable to the premium hotel in town, the Explorer. A summary **of** competitive rates and those projected for the new **facilitiy** are as follows:

EXHIBIT 15

PRELIMINARY ESTIMATES OF CAPITAL COST (1984 dollars)

	ESTIMATED COST
<u>INDOOR FACILITIES</u>	
50 Guest Rooms of an average 320 sq. ft. (16,000 sq. ft.) @ \$90.00 per square foot	\$1,440,000.00
Corridor/Service Area Allowance 30% of room area - 4,000 sq. ft. @ \$60.00 per square foot	288,000.00
Room Furnishings and Fixtures @ \$3,000/room	190,000.00
60 Seat Dining Room - 1,200 sq. ft. @ \$100.00/sq. ft.	120,000.00
Dining Room Fixtures and Furnishings 60 seats @ \$300.00/seat	18,000.00
Kitchen - 1,000 Sq. ft. @ \$90.00/sq. ft.	90,000.00
Kitchen Equipment	180,000.00
Food Service Storage Areas 500 sq. ft. @ \$45.00/sq. ft.	22,500.00
40 Seat Cocktail Lounge - 600 sq. ft. @ \$100.00/sq. ft.	60,000.00
Bar Area and Storage - 250 sq. ft. @ \$125.00/sq. ft.	31,250.00
Bar Fixtures and Furnishings - 40 seats @ \$300.00/seat	12,000.00
Bar Equipment	35,000.00
Meeting Rooms and Break-Out Areas 3,000 Sq. ft. @ \$90.00/sq. ft.	342,000.00
Meeting Room Service and Storage Area 100 - 380 sq. ft. @ \$45.00/sq. ft.	17,100.00
Meeting Room Furnishings and Equipment 200 seats @ \$50.00/seat	\$ 10,137.00
Indoor Pool, Sauna, Whirlpool Area (pool - 25' X 40') 2,000 sq. ft. @ \$100.00/sq. ft.	200,000.00
Pool Change Rooms and Washrooms 500 Sq. ft. @ \$100.00/sq. ft.	50,000.00
Games Rooms (500 sq. ft. each) and gymnasium (2,500 sq. ft.) 3,500 Sq. ft. @ \$65.00/sq. ft.	227,500.00
Pool, Games and Gym Furnishings and Equipment	50,000.00
Mechanical/Pool Services Area and Equipment 500 sq. ft. @ \$75.00/sq. ft.	37,500.00
Lobby/Shop Area - 800 sq. ft. @ \$110.00/sq. ft.	88,000.00

Other Areas - office space (800 sq. ft.), staff dining/lounge (350 sq. ft.), laundry closets (250 sq. ft.), maintenance room (250 sq. ft.) and other (300 sq. ft.) @ \$65.00/sq. ft.	126,750.00
Furnishings and Equipment, Lobby and Other Areas	25,000.00
Manager's Suite - 800 sq. ft. @ \$100.00/sq. ft.	80,000.00
Manager's Suite Furnishings	12,000.00
Total Indoor Facilities	\$3,752,600.00
<u>OUTDOOR FACILITIES AND SERVICES</u>	
outdoor Play Areas and Landscaping	\$ 25,000.00
Wharf and 12 Boat slips	20,000.00
Parking Area (gravel) with 85 spaces 25,500 sq. ft. @ \$4.00/sq. ft.	\$ 102,000.00
Access Road	25,000.00
Outdoor Lighting	5,000.00
Signage	15,000.00
Services - electrical - sewer - water - telephone	250,000.00
Maintenance Building and Equipment	10,000.00
Total Outdoor and Services	\$ 452,000.00
<u>OTHER COSTS</u>	
Design	\$ 50,000.00
Project Management Fees	250,000.00
Pre-Opening Expenses	100,000.00
Contingency 5% of costs (excl. other costs)	210,000.00
Total Other Costs	\$ 610,000.00
TOTAL ESTIMATED CAPITAL COSTS	\$4,814,600.00

• This is an allowance for services. An engineering assessment of requirements and costs has not been undertaken as part of this study.

EXHIBIT 16

PRO FORMA PROJECTION OF REVENUE, EXPENSE AND PROFIT #1

	1986	1987	1988	1989	1999	1991	1992	1993	1994	1995
ROOM NIGHT DEMAND	8,900	10,800	12,680	12,680	12,680	12,680	12,680	12,680	12,680	12,680
WEIGHTED AVGE NET ROOM RATE	94.70	99.44	104.41	109.63	115.11	120.86	126.91	133.25	139.92	146.91
REVENUE										
Rooms	842,830	1,073,898	1,323,878	1,390,071	1,459,575	1,532,554	1,609,181	1,689,641	1,774,123	1,862,829
Food	421,415	536,949	661,939	695,036	729,788	166,277	804,591	844,820	887,061	931,414
Beverage	168,566	214,780	264,776	278,014	291,915	306,511	321,836	337,928	354,825	372,566
Meeting Rm Rental	29,712	37,884	46,797	49,137	51,594	54,173	56,882	59,726	62,712	65,848
Other-Shop, etc.	42,142	53,695	66,194	69,504	72,979	76,628	80,459	84,482	88,706	93,141
Total	1,504,665	1,917,206	2,363,583	2,481,762	2,605,850	2,736,143	2,872,95a	3,016,597	3,167,427	3,325,798
COST OF SALES										
Food	168,566	214,780	264,716	278,014	291,915	306,511	321,836	337,928	354,825	372,566
Beverage	50,570	64,434	79,433	83,404	87,575	91,953	96,551	101,378	106,447	111,770
Other	21,071	26,847	33,097	34,752	36,489	38,314	40,230	42,241	44,353	46,571
Total	240,207	306,061	377,305	396,170	415,979	436,778	458,617	481,548	505,625	530,906
GROSS PROFIT	1,264,458	1,611,145	1,986,278	2,085,592	2,189,871	2,299,365	2,414,333	2,535,050	2,661,802	2,794,892
OPERATING EXPENSES										
Wages	421,306	479,301	590,896	620,440	651,463	684,036	718,237	754,149	791,857	831,450
Room Supp & Lndy	134,818	153,376	189,087	198,541	208,468	218,891	229,836	241,328	253,394	266,064
Mgmt Salaries	67,409	76,688	94,543	99,270	104,234	109,446	114,918	120,664	126,697	133,032
Utilities	101,113	115,032	141,815	148,906	156,351	164,169	172,377	180,996	190,046	199,548
Maintenance	67,409	76,688	94,543	99,270	104,234	109,446	114,918	120,664	126,697	133,032
General Admin	67,409	76,688	94,543	99,270	104,234	109,446	114,918	120,664	126,697	133,032
Marketing	84,261	95,860	118,179	124,088	130,293	136,8177	143,647	150,830	158,371	166,290
Other	33,704	38,344	47,272	49,635	52,117	54,723	57,459	60,332	63,349	66,516
Total	977,430	1,111,979	1,370,878	1,439,422	1,511,393	1,586,963	1,666,311	1,749,626	1,837,108	1,928,963
OPERATING PROFIT	287,028	499,165	615,400	646,170	678,478	712,402	748,1322	785,423	824,694	865,929
OTHER EXPENSES										
Depreciation	412,030	357,169	311,902	274,381	243,120	216,932	194,859	176,135	160,143	146,388
Interest #1	347,817	344,406	340,465	335,911	330,648	324,565	317,537	309,414	300,027	289,180
Interest #2										
Total	759,847	701,575	652,367	610,291	573,768	541,497	512,395	485,549	469,170	435,568
PRE-TAX INCOME	(472,819)	(202,409)	(36,967)	35,878	104,710	170,905	235,627	299,875	364,524	430,361
INCOME TAX	0	a	0	0	0	a	0	33,700	132,262	165,181
NET PROFIT	(472,819)	(262,409)	[36,967]	35,878	104,710	170,905	235,627	266,175	232,262	265,181
CASH FLOW										
Add: Depreciation	412,030	357,169	311,902	274,381	243,120	216,932	194,859	176,135	160,143	146,388
Deduct: principal	21,913	25,324	29,265	33,819	39,082	45,165	52,193	60,316	69,703	80,550
NET CASH FLOW	(82,702)	129,435	245,670	276,440	308,748	342,672	378,292	3s1,993	322,702	331,019
PRESENT VALUE OF CASH FLOW-30%	619,850									
REQUIRED EQUITY	2,414,600									
SURPLUS (DEFICIT)	(1,794,750)									

ASSUMPTIONS

Loan \$2,400,000 (15%/20 Years - 50%)
 Equity - \$2,414,600 - 50%
 Government - 0 - 0%

EXHIBIT 16A

ASSUMPTIONS USED IN PRO FORMA OF REVENUE, EXPENSES AND PROFIT

Room Night Demand

The "normal" level of demand projected in Section 2 is expected to be reached in Year 3, or 1988 and stabilize at that level. Demand in Year 1 is projected at 70% of normal levels, and in Year 2 at 85%.

Weighted Average Net Room Rate

The base year figure, in 1984 dollars, is based upon the following:

	AVERAGE REGULAR RATE PER ROOM*	ALLOWANCE FOR DISCOUNTS, COMMISSIONS, ETC.	NET RATE	PERCENTAGE OF DEMAND (ROOM NIGHTS)
Meetings	\$85.00	incl.	\$85.00	20%
Government	85.00	incl.	85.00	45%
Commercial	90.00	5%	85.50	16%
Tourist	100.00	10%	90.00	16%
Other	99.00	5%	85.50	3%
weighted Average Rate (1984 dollars)			\$85.90	

* Average of seasonal variations and variation for party size.

Food Revenue

Our assumptions are that meal purchases of hotel guests equal 60% of their total daily meal purchases, which, in turn, amount to 50% of their room rental. In other words food sales to guests amount to 30% of room revenue.

Non-guest food purchases are projected at two-thirds of the level of sales to room guests, as per the analysis presented in Section 2, Exhibit 9.

The overall result is that food revenues equal 50% of room revenues.

Beverage Revenue

Beverage revenue is projected at 40% of food revenue.

meeting Room Rentals

We assume that meeting room facilities are included at no extra charge when the group is staying in the resort. However, we assume that 17 of the 289 projected meeting days (Exhibit 9, Section 2) are of non-guest groups and that an average charge of \$500 per day is levied (\$38,500 in 1984 dollars). This is based on an average of 50 persons at each of these day-time meetings, at a per-person charge of \$10. The figures for Years 1 and 2 are 70% and 85% of these levels, respectively.

Other Revenue

Other revenue consists of slip rentals, gift shop revenue, etc. We have projected this at 5% of room revenue.

Cost of Sales

Cost of sales are projected as follows:

Food	40%
Beverage	30%
Other	50%

Operating Expenses

operating expenses have projected at 58% of total revenues, as follows:

Wages - rooms	
- food and beverage	25%
- other	
Supplies and Laundry	8%
Management Salaries	4%
Utilities	6%
Maintenance	4%
General and Administrative	4%
marketing	5%
Other	2%

Expenses in Year 1 have been inflated to 65%.

Depreciation

Depreciation has been calculated on a diminishing balance basis as follows:

Buildings & Site Improvements	5% on \$3,672,600
Furnishings, Equipment & Other Costs	20% on 1,142,000

Total Capital Cost \$4,814,600

Interest

Interest is calculated on a mortgage of \$2,400,000 at 15% amortized over 20 years.

Income Tax

Income tax is calculated at the Small Business rate of 25% on the first \$200,000 of taxable income and 50% on the balance.

	ROOM RATE			Comments
	Single	Double	Gov ' t (Single)	
Explorer Hotel	\$89	\$99	\$84	includes breakfast to \$6.00
Yellowknife Inn	73-79	80-89	72	higher rates are for suites
Twin Pine Motor Inn	73	78	70	includes continental breakfast
Proposed Resort	90	100	85	

RETURN ON INVESTMENT

Exhibit 16 also presents our projection of cash flow. Net cash flow has been discounted at a ~~rate~~ rate of 30%, representing the suggested acceptable rate of return on equity. The total discounted cash flow represents the maximum "warranted" or **justified** level of investment, given the requirement for a 30% return on equity. Although only 10 years are indicated, 20 years of cash flow has been included in the net present value figure.

We assumed approximately a 50/50 debt/equity ratio in preparing the pro forma. Debt was assumed to be \$2,400,000 and equity \$2,414,600. As noted in Exhibit 16A, the loan was assumed to bear an interest rate of 15% and an amortization period of 20 years.

It is clear from comparing the "warranted" equity investment of **\$619,850** with the required equity investment of \$2,414,600, that the project is not commercially feasible without substantial government assistance.

EXHIBIT 17

PRO FORMA PROJECTION OF REVENUE, EXPENSE AND PROFIT #2

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
ROOM NIGHT DEMAND	8,900	10,800	12,680	12,680	12,681	12,680	12,680	12,680	12,680	12,680
WEIGHTED AVGE NET ROOM RATE	94.70	99.44	104.41	109.63	115.11	1213.86	126.91	133.25	139.92	146.91
REVENUE										
Rooms	842,830	1,073,898	1,323,878	1,390,071	1,459,515	1,532,554	1,609,181	1,689,641	1,774,123	1,862,829
Food	421,415	536,949	661,939	695,036	729,788	766,277	804,591	844,821	887,061	931,414
Beverage	168,566	214,780	264,716	278,014	291,915	306,511	321,836	337,928	354,025	372,566
Meeting Rm Rental	29,712	37,884	46,797	49,137	51,594	54,173	56,882	59,726	62,712	65,848
Other-Shop, etc.	42,142	53,695	66,194	69,504	72,979	76,628	80,459	84,482	88,706	93,141
Total	1,504,665	1,917,206	2,363,583	2,481,762	2,605,850	2,736,143	2,872,950	3,016,597	3,167,427	3,325,798
COST OF SALES										
Food	168,566	214,780	264,776	278,014	291,915	306,511	321,836	337,928	354,825	372,566
Beverage	50,570	64,434	79,433	83,404	87,575	91,953	96,551	101,378	106,447	111,770
Other	21,071	26,847	33,097	34,752	36,489	38,314	40,230	42,241	44,353	46,571
Total	240,207	306,061	377,305	396,170	415,979	436,778	458,617	481,548	505,625	530,906
GROSS PROFIT	1,264,458	1,611,145	1,986,278	2,085,592	2,189,871	2,299,365	2,414,333	2,535,050	2,661,802	2,794,892
OPERATING EXPENSES										
Wages	421,366	479,301	590,896	620,440	651,463	684,036	718,237	754,149	791,857	831,450
Room Supp & Lndy	134,818	153,376	189,087	195,541	208,468	218,891	229,836	241,328	253,394	266,064
Mgmt Salaries	67,409	76,688	94,543	99,271	104,234	109,446	114,918	120,664	126,697	133,032
Utilities	101,113	115,032	141,815	148,906	156,351	164,169	172,377	180,996	190,946	199,548
Maintenance	67,409	76,688	94,543	99,270	104,234	109,446	114,918	120,664	126,697	133,032
General Admin	67,409	76,688	94,543	99,270	104,234	109,446	114,918	120,664	126,697	133,032
Marketing	84,261	95,860	118,179	124,088	130,293	136,807	143,647	151,830	158,371	166,290
Other	33,704	38,344	47,272	49,635	52,117	54,723	57,459	60,332	63,349	66,516
Total	977,439	1,111,979	1,370,878	1,439,422	1,511,393	1,586,963	1,666,311	1,749,626	1,837,108	1,928,963
OPERATING PROFIT	287,028	499,165	615,409	646,170	678,478	712,402	748,022	785,423	824,694	865,929
OTHER EXPENSES										
Depreciation	412,030	357,169	311,902	274,381	243,120	216,932	194,859	176,135	160,143	146,388
Interest #1	210,139	208,079	205,698	2112,946	199,766	196,092	191,845	186,938	181,267	174,713
Interest #2										
Total	622,169	565,247	517,600	477,327	442,807	413,023	386,704	363,072	341,410	321,101
PRE-TAX INCOME	(335,141)	(66,082)	97,800	168,843	235,592	299,379	361,319	422,351	483,285	544,828
INCOME TAX	0	0	0	0	25,253	99,689	130,659	161,175	191,642	222,414
NET PROFIT	(335,141)	(66,082)	97,800	168,843	210,339	199,689	230,659	261,175	291,642	322,414
CASH FLOW										
Add: Deprecation	412,030	357,169	311,902	274,381	243,121	216,932	194,859	176,135	160,143	146,388
Deduct: principal	13,240	15,300	17,681	20,432	23,612	27,287	31,533	36,441	42,112	48,666
NET CASH FLOW	63,649	275,787	392,021	422,791	429,847	389,334	393,984	400,869	409,674	420,137
PRESENT VALUE OF CASH FLOW-30%	1,021,460									
REQUIRED EQUITY	964,600									
SURPLUS (DEFICIT)	56,860									

ASSUMPTIONS

Loan - \$1,450,000 (15%/20 Years) - 30%
 I RDP - \$2,400,000 - 50%
 Equity - \$964,600 - 20%

On this basis, the warranted equity investment (\$1,032,822) is greater than the actual equity investment (\$944,600), so the project is commercially feasible on this basis.

A third scenario was also evaluated, and it is presented in Exhibit 18. It assumes an **I.R.D.P.** grant of 25% of project costs (\$1,125,000), rather than 50% and a loan equal to 40% of costs (\$1,825,000). This results in a warranted equity investment of \$852,024, compared to the actual required equity investment of **\$1,614,600**. This alternative is not commercially feasible. A substantial reduction in capital costs and/or a substantial improvement in profitability is required to make this one work.

In conclusion, a substantial grant, of some 50% of total capital Costs, is required to make this project commercially viable, and of investment interest to potential outside visitors.

EXHIBIT 18

PRO FORMA PROJECTION OF REVENUE, EXPENSE AND PROFIT # 3

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
ROOM NIGHT DEMAND	8,900	10,800	12,6813	12,680	12,680	12,680	12,680	12,680	12,680	12,680
WEIGHTED AvGE NET ROOM RATE	94.70	99.44	104.41	109.63	115.11	120.86	126.91	133.25	139.92	146.91
REVENUE										
Rooms	842,830	1,073,898	1,323,878	1,390,071	1,459,575	1,532,554	1,609,181	1,689,641	1,774,123	1,862,829
Food	421,415	536,949	661,939	695,036	729,788	766,277	804,591	844,820	887,061	931,414
Beverage	168,566	214,780	264,776	278,014	291,915	306,511	321,836	337,92a	354,825	372,566
Meeting Rm Rental	29,712	37,884	46,797	49,137	51,594	54,173	56,882	59,726	62,712	65,848
Other-Shop,etc.	42,142	53,695	66,194	69,504	72,979	76,628	80,459	84,482	88,7116	93,141
Total	1,504,665	1,917,206	2,363,583	2,481,762	2,605,850	2,736,143	2,872,950	3,016,597	3,167,427	3,325,79a
COST OF SALES										
Food	168,566	214,780	264,776	278,014	291,915	306,511	321,836	337,92a	354,825	372,566
Beverage	50,570	64,434	79,433	83,404	87,575	91,953	96,551	101,378	196,447	111,778
Other	21,071	26,847	33,097	34,752	36,489	38,314	40,230	42,241	44,353	46,571
Total	240,207	306,061	377,305	396,170	415,979	436,77a	458,617	481,54a	505,625	530,906
GROSS PROFIT	1,264,458	1,611,145	1,986,278	2,138,592	2,189,871	2,299,365	2,414,333	2,535,050	2,661,802	2,794,892
OPERATING EXPENSES										
Wages	421,306	479,301	590,896	620,440	651,463	684,436	718,237	754,149	791,857	831,450
Room Supp & Lndy	134,818	153,376	189,087	198,541	208,468	218,891	229,836	241,328	253,394	266,064
Mgmt Salaries	67,409	76,688	94,543	99,270	104,234	109,446	114,918	120,664	126,697	133,032
Utilities	101,113	115,032	141,815	148,906	156,351	164,169	172,377	180,996	190,046	199,548
Maintenance	67,409	76,688	94,543	99,270	104,234	109,446	114,918	120,664	126,697	133,032
General Admin	67,499	76,688	94,543	99,270	104,234	1119,446	114,918	120,664	126,697	133,832
Marketing	84,261	95,868	118,179	124,088	1313,293	136,807	143,647	150,830	158,371	166,290
Other	33,794	38,344	41,272	49,635	52,117	54,723	57,459	60,332	63,349	66,516
Total	977,430	1,111,979	1,370,878	1,439,422	1,511,393	1,586,963	1,666,311	1,749,626	1,837,108	1,928,963
OPERATING PROFIT	287,028	499,165	615,400	646,170	678,478	712,402	748,022	785,423	824,694	865,929
OTHER EXPENSES										
Depreciation	412,030	357,169	311,902	274,381	243,120	216,932	194,859	176,135	160,143	146,388
Interest #1	278,978	276,242	273,081	269,428	265,207	260,328	254,691	248,176	2413,647	231,946
Interest #2										
Total	691,008	633,411	584,983	543,809	598,327	477,260	449,549	424,316	400,790	378,334
PRE-TAX INCOME	(403,980)	(134,245)	30,416	102,361	170,151	235,142	298,473	361,113	423,904	487,595
INCOME TAX	0	0	0	8	0	0	99,159	130,556	161,952	193,797
NET PROFIT	(403,980)	(134,245)	30,416	102,361	170,151	235,142	199,314	230,556	261,952	293,797
CASH FLOW										
Add: Deprecation	412,030	357,169	311,902	274,381	243,120	216,932	194,859	176,135	160,143	146,388
Deduct: principal	17,576	20,312	23,473	27,126	31,347	36,226	41,863	48,378	55,907	64,608
NET CASH FLOW	(9,526)	202,611	318,845	349,615	381,924	415,848	352,309	358,313	366,188	375,57 a
PRESENT VALUE OF CASH FLOW-30%	824,931									
REQUIRED EQUITY	1,688,760									
SURPLUS (DEFICIT)	(863,829)									

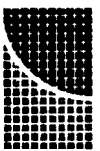
ASSUMPTIONS

Loan - \$1,925,000 (15%/20 Years) - 40%
 IRDP - \$1,200,000 - 25%
 Equity - \$1,688,760 - 35%

SECTION 6

ECONOMIC BENEFITS

5



THE ECONOMIC PLANNING GROUP of Canada

SECTION 6ECONOMIC BENEFITS

The development and operation of the proposed resort and conference centre will provide a variety of significant economic benefits to the **Yellowknife** area and to the Northwest **Territories as a whole**. Only the direct benefits from construction and operations have been estimated, since NWT data on the potential multiplier or "spin-off" effects of new economic activity are not available. **All** of the economic benefits described in this section have been calculated in 1984 dollars.

CONSTRUCTION BENEFITS

The total value of the development program for the project as described in Section 4, is approximately \$4,814,600. Estimates of the economic benefits accruing from the development are described below. It has been assumed that 50% of construction costs are **labour-related** and 50% are **related** to the purchase of materials and equipment; it has also been assumed that 75% of the construction materials are purchased in the Northwest Territories. Income taxes have been calculated using an average tax rate of 20% and assuming that **one-third** accrue to the Territorial government. The number of construction jobs created is full-time job equivalents based on an average income per man year of \$25,000.

CONSTRUCTION BENEFITS

Jobs*	96
Employment Income	\$2,407,300
purchases in the NWT	\$1,805,475
Income Taxes (NWT)	\$ 158,880

* Man-years of employment. Includes both on and off-site **labour**. Average income per man-year of \$25,000.

OPERATIONAL BENEFITS

The projected economic benefits arising from the operation of the proposed facility are summarized below on an annual basis (1984 dollars). They are based on the actual

operating costs described in Section 5 and assume that 75% of supplies and services are purchased in the Northwest Territories. The number of jobs represents man years of employment based on an average income per man year of employment of \$15,000. Other assumptions, relating to income taxes, are the same as those described under construction benefits. The calculation of operational benefits is based on a normal year of operations, i.e., the third year.

OPERATIONAL BENEFITS		TOTAL FOR
	ANNUAL	10 YEAR PERIOD
Jobs*	40	400
Employment Income	\$602,800	\$6,028,000
Purchases in the NWT	\$597,400	\$5,974,000
Income Taxes Paid	\$ 39,800	\$ 398,000

* Full time, year round job equivalents. Average income per man year is \$15,000.

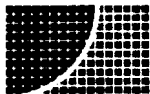
TOTAL ECONOMIC BENEFITS

The estimated total direct economic benefits accruing to the Northwest Territories from both the construction and operation of the proposed development for a ten year period, are summarized below:

TOTAL ECONOMIC BENEFITS	
(Direct Only)	
Man Years of Employment in NWT	496
Employment Income in the NWT	\$8,435,300
Purchases in the NWT	\$7,779,475
Income Taxes Paid	\$ 556,880

SECTION 7

IMPLEMENTATION



THE ECONOMIC MANNING GROUP of Canada

SECTION 7IMPLEMENTATION

This final section considers a number of **key** issues respecting the implementation of the development **program** and the operation of the facility. We reviewed the following issues:

- . government assistance
- . financing
- . management
- . marketing

GOVERNMENT ASSISTANCE

Appendix I describes four government programs which offer financial assistance towards the capital costs of a tourist facility such as that proposed. They include:

- . Industrial and Regional Development Program (**I.R.D.P.**)
- . Economic Development Agreement (**E.D.A.**)
- . Native Economic Development Program (**N.E.D.P.**)
- . Federal Business Development Bank (**F.B.D.B.**)

The **I.R.D.P.** program is the most interesting in terms of this project. It offers grants or "contributions" in other forms (i.e., repayable, no interest loans, etc.) of up to 50% of the eligible capital costs of the development.

The **E.D.A.** is of limited interest since project grants are limited to \$50,000 **per** project. This level of assistance would make little impact on a project of this scale.

The **N.E.D.P.** program does not appear to have any limits to the level of assistance; the program appears to be able to fund up to 100% of costs. Native people must own or **control** the development, however.

F.B.D.B. provides loans on a commercial basis to commercially viable undertakings. Recently their interest rates have been non-competitive.

The I. R. D. P. program is clearly of greatest interest for this project. In our projections in Section , we have evaluated the impact of an I. R. D. P. grant of 50% or \$2,500,000 of total development costs. Clearly the project will require government capital assistance of this scale in order to make the project interesting to potential investors.

FINANCING

The economic feasibility analysis in Section 5 initially assumed a 50/50 debt/equity ratio, and then two alternate scenarios were evaluated, the first with a 50% I. R. D. P. grant, 30% debt and 20% equity and the second with a 25% I. R. D. P. grant, 40% debt and 35% equity.

As discussed in Section 5, the project is commercially feasible only under the second scenario, i.e., with a 50% (\$2,400,000) I. R. D. P. grant. Under the I. R. D. P. guidelines, the principals must invest at least 20% of the total project cost in the form of equity. In this instance, the remaining 30% debt financing (\$1,450,000) should be reasonably available from commercial sources for a project of this nature.

Our assumptions regarding this debt are that it would be repayable over 20 years at an interest rate of 15%. These are reasonable assumptions under current economic/interest rate conditions. It should be noted that a commercial lender can be expected to demand a first charge on all assets of the business, as well as restrictions on new capital expenditures, dividends, bonuses to management and other such matters.

The equity requirement of \$964,600 under this financing scenario can be assembled in several ways. We understand the current principals have been intending to invest all of the equity themselves. We would suggest, however, that consideration be given to raising some of the equity through a limited partnership offering, given the tax advantages available to investors in a project of this nature and in the limited partnership taxation provisions.

MANAGEMENT

Mr. David Talbot, the lead principal in this project, has clearly demonstrated his capabilities of managing a quality hotel operation. As General Manager of the Twin Pine Motor Inn over the past 6 years, he has been responsible for outstanding improvements in revenue and profitability of that operation.

A second principal, Albert Eggenberger has similarly demonstrated his abilities by establishing and managing several successful businesses in the Arctic.

Several additional key personnel will be required for the success of the operation as well, in particular a Marketing Manager, a Guest Programs/Conference Coordinator, a Chef, a Food and Beverage Supervisor and a Front Desk/Rooms/Reservations Supervisor. Most of these supervisors would be "working" supervisors. The proposed organization plan is illustrated in Exhibit 19.

MARKETING

During the course of this study, each of the key potential market groups was studied and the major competitive properties analyzed. As a result of this research, a number of effective approaches to the potential markets were identified. While it is indeed a considerable challenge to determine market needs and translate these into the right quality and quantity of facilities, it is perhaps an even greater challenge to make the market aware of their existence and to convince them to visit.

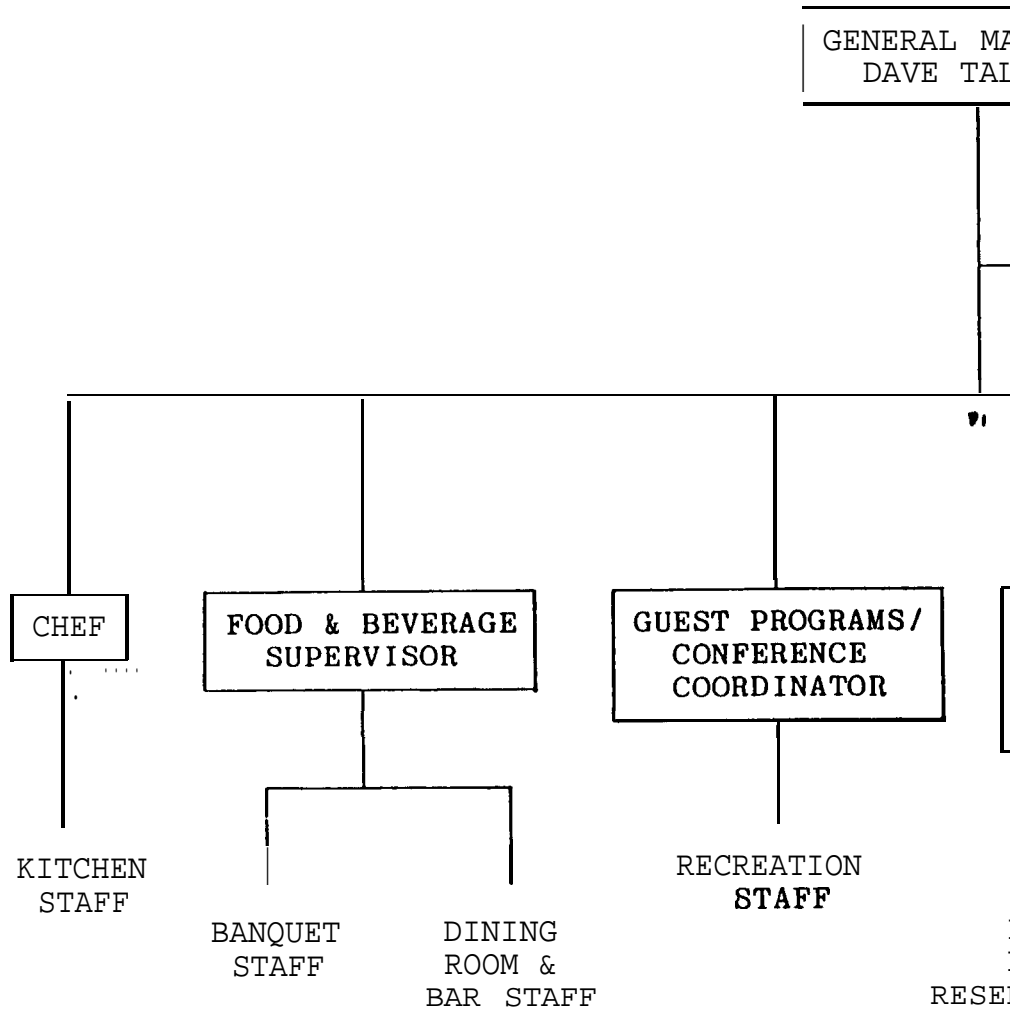
The basic objective of the marketing strategy must, therefore, be to selectively attract patronage from the various market segments within the geographical area considered to have the greatest potential for the proposed resort, and to convince these groups of the competitive advantages of the proposed facility.

In its market positioning, the resort should first try to clearly portray its unique selling points. The key ones might include the following:

- a complete four-season family vacation centre.
- a complete resort conference centre, adjacent to Yellowknife.
- the most attractive and modern resort accommodation in the region, in a most attractive setting.
- wide range of indoor and outdoor recreation and entertainment facilities available on site and nearby.

The resort should be constructed and operated as a first-class facility. This level of standard is required to attract the target markets and due to the existence of competitive hotels in the area. The resort's ability to attract the potential demand identified in this study will be both a function of the quality and variety of facilities provided and the quality of service given.

PROPOSED ORGANIZATION



Target Markets

The various target markets for the resort were considered in detail earlier in this report. Clearly, it will be important to "customize" the appeals and approaches used to each type of target market group.

It was not possible within the terms of reference of this feasibility study to develop detailed marketing plans for each sector. However, we have identified key activities and these are described below:

- the marketing of packages, particularly in the **off-season**, in Yellowknife and northern communities. This would be achieved primarily through media advertising and direct mail;
- advertisement in the PWA and Northwest Territorial in-flight magazines;
- newspaper and television advertising in yellowknife, particularly for dining, meetings and packages;
- billboard advertising in yellowknife;
- cooperative promotions and packages with area attractions and complementary suppliers (i.e., airlines);
- direct mail to and sales calls on conference/meeting prospects;
- direct sales calls on key tour operators;
- participation in travel trade shows, such as those organized by Tourism Canada in Canadian and U.S. cities;
- the holding of special events at the resort;
- listings in various travel guides such as AAA, the Explorer's Guide, etc.;
- direct mailings to past guests.

All of these efforts and other activities should be overseen by a marketing manager. He should also have some part-time sales assistance; specializing in different target markets.

Marketing Budget

Our pro forma projections provide for a marketing budget of \$84,000 in year #1, rising to \$118,000 by year 3.

APPENDIX I

SOURCES OF GOVERNMENT FINANCIAL ASSISTANCE

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THE ECONOMIC PLANNING GROUP of Canada

APPENDIX I

SOURCES OF GOVERNMENT FINANCIAL ASSISTANCE

A review of sources of government financial assistance was carried out to determine whether the proposed development program would be eligible for support under any of these programs. The following is a brief description of the government assistance programs available to the tourism industry in the Northwest Territories. Only those programs offering capital assistance for development were reviewed.

Industrial and Regional Development Program (I.R.D.P.)

The Industrial and Regional Development Program (I.R.D.P.) is a financial assistance program administered by the Federal Department of Regional Industrial Expansion. I.R.D.P. can provide financial assistance to both businesses and to non-profit organizations through grants, contributions, repayable contributions, "participation" loans and loan guarantees. The level of financial assistance available is dependent on the region in which the business is located and the "tier" designation assigned to that region. There are four tier designations, based on the relative level of unemployment, level of personal income and fiscal capacity of the region involved.

Financial assistance is made available for feasibility studies, modernization, and expansion as well as for the establishment of new facilities. For the Northwest Territories, which is a tier III region, federal assistance for establishing new tourism facilities is available for up to 50% of total capital costs. Land acquisition costs are not eligible.

We understand that no I.R.D.P. assistance has yet been given to any tourism project in the Territories, so we are unsure of the exact criteria and guidelines that will be applied. For projects in southern Canada, applications are usually considered on the

Territories (G.N.W.T.) and the federal government. A total Of \$1,000,000 is available for grants to assist tourism operators to develop or expand tourism facilities, under the Tourism Superstructure Program of the E.D.A.

Assistance is in the form of a direct contribution to the owner/operator for up to 60% of the eligible capital costs identified for each project. A minimum of \$1,000 and a maximum of \$50,000 will be available. Priority will be given to applications for projects from areas where a tourism study has been undertaken and which has indicated potential for tourism development.

Applications must include an assessment of the degree to which the proposal supports the program objectives and demonstrates satisfactory viability, management and equity. In addition, all proposals must:

- establish that the applicant will provide an equity of at least 20% of the eligible capital costs of the projects;
- be consistent with the five year development and/or marketing strategies of the government of the Northwest Territories;
- be consistent with the relevant community/regional strategy (where they exist) and show evidence of community support;
- be designed to indicate how community residents can derive maximum employment and/or economic benefits;
- show the extent of benefits to the region and/or communities which have expressed an interest in, and have potential for sustaining viable tourism activities;
- be made by residents or resident businesses of the N.W.T.;
- show the degree of resulting disruption to the

- A business plan including:
 - i) the objectives of the project;
 - ii) the proposed activities and expected measurable results;
 - iii) a time-phased and costed work plan;
 - iv) identification of market.
- The relationship of the project to federal government national and regional strategies and priorities.
- The degree to which other sources of funding will become available to the applicant as a result of a contribution by the program.
- The degree of investment in the project from other sources including applicant equity.
- For projects involving new products or processes, substantiating scientific and feasibility information.

Federal Business Development Bank (F.B.D.B.)

The Federal Business Development Bank is a Crown Corporation which promotes and assists in the establishment and development of small and medium-sized business enterprises in **Canada** by providing them with financial and management services. **F.B.D.B.** can provide both equity financing and financial assistance through term" loans and/or guarantees.

Equity financing from **F.B.D.B.** will involve a partial ownership position by the **F.B.D.B.** in the company through the purchase of common or preferred shares or through a right to *acquire* shares. The investment must offer the bank the potential to earn a return commensurate with the perceived risk. **F.B.D.B.** normally intends to recover its investment by encouraging the company or its principals to buy back the shares.

F.B.D.B. can also provide financing in the form of term loans with interest rates in line with those generally offered in the lending business. Repayment terms are flexible; however, most of the loans are repaid within ten to fifteen years.