Horwath HTL

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CANADIAN HOTEL INDUSTRY

Canada, a global tourism destination ranked 17th by the United Nations World Tourism Organization, has been recording continued increases in occupancy and average daily rate over the past six years, and 2016 will not be the exception. Despite the important difficulties registered by three of its ten provinces, the result of the ongoing oil crisis and the low cost of crude, Canada's year-to-date June trends indicate that the national occupancy will likely remain comparable to that of 2015 while the national average daily rate should increase by 3%.

Introduction

Canada, a vast country covering an area of close to ten million square kilometres, is home to 36 million Canadians stretched out from the East (Atlantic Ocean) to the West coasts (Pacific Ocean).

Canada is also an important tourism destination worldwide, ranking 17th in terms of inbound international tourist visitation and having attracted an estimated 16.5 million tourists in 2014, or 1.5% of the total global tourism visitation according to the United Nations World Tourism Organization.

As a global tourism destination, the country has unfortunately dropped from 8th to 17th over the past 14 years, losing favour to more popular top 10 destinations and emerging countries.

Canada now registers a tourism deficit as spending by foreign tourists in comparison to spending in foreign countries by Canadian residents has been registering a shortfall of approximately $18 billion since 2012.

One of the results of this ever increasing deficit is a growing dependence on domestic tourism to ensure the stability and growth of the national tourism industry. At a national level, it is estimated that less than 20% of tourism activity is international in origin, with domestic travel representing more than 80% of tourism activity.

It is important to note that American tourism to Canada represents over 75% of all international tourism to the country – meaning that a marketing strategy aimed at Canadians and Americans targets an estimated 95% of the country's current tourism demand.

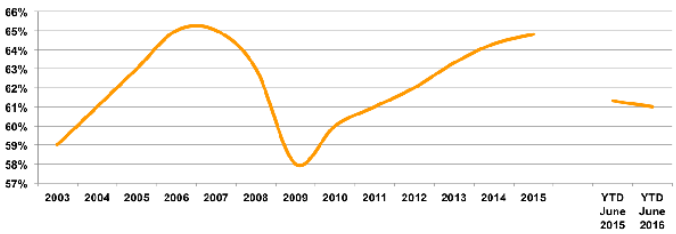
In addition to the aforementioned points, Canada's tourism and hotel industries have also been prone to the effects of the 2008 economic slowdown, the 2009 recession, the fluctuating currency exchange rates, particularly with regards to the US dollar, the introduction of the Western Hemisphere Travel Initiative (requiring passport or approved documents to travel into the US), the discovery of the SARS virus in 2003, and more recently, the low cost of crude oil and its effects on the Alberta and Newfoundland economies, among others.

At this point, the two primary factors influencing tourism, and hence hotel demand, in Canada are undoubtedly the Canadian dollar's decreased value and the oil crisis. The first tends to push international tourism to Canada upwards and often keeps a larger portion of Canadians home as their tourism dollars buys less in the international tourism marketplace. The second has resulted in tough times for the Western Canadian hotel industry, and particularly Alberta as it is a major player in Canada's oil and gas sector.

Canadian Hotel Industry

Despite Canada's reliance on a domestic demand and its decreasing rank among international tourism destinations, the Canadian hotel industry has performed well in recent years, with year-end 2015 registering a sixth annual increase in both occupancy and average daily rate.

Canada occupancy rate - 2003 to Year-to-date June 2016



Source: Smith Travel Research (STR) and Horwath HTL Compilation.

As a result of the credit crisis, the economic downturn and the resulting recession in 2009, the number of hotel projects in the pipeline slowed considerably between the 2009 and 2011.

The result was, understanding that it typically takes from 18 to 36 months between the beginning of a project and its opening, that the national hotel inventory registered very few hotel additions between 2012 and 2015.

This fact, combined with the growth in demand for commercial lodging across Canada since 2010, has led to a steady increase in occupancy rates over the past six years.

This trend continued into 2014 and 2015, as demand increased concurrent to a more or less stagnant hotel supply.

The year-to-date June 2016 trend seems to indicate that the year-end will see similar occupancy results as were registered in 2015, both just a slim margin under the 2006 and 2007 peaks in occupancy.

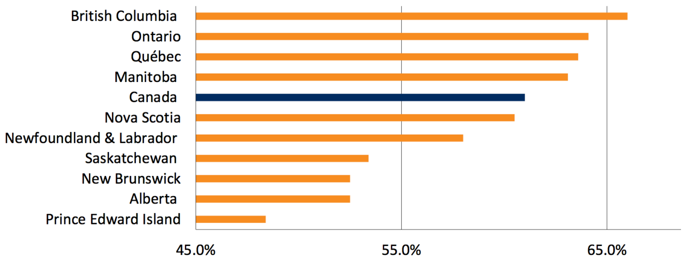
Key Performance Indicators by Province

The following exhibits illustrate the estimated performance metrics for the Canadian hotel industry for year-to-date June 2016.

Occupancy Rates

- The year-to-date June 2016 provincial occupancy rates oscillate between 48% and 66%, resulting in a Canadian occupancy rate of 61%; representing a very slight shortfall of only 0.3 percentage points over year-to-date 2015.

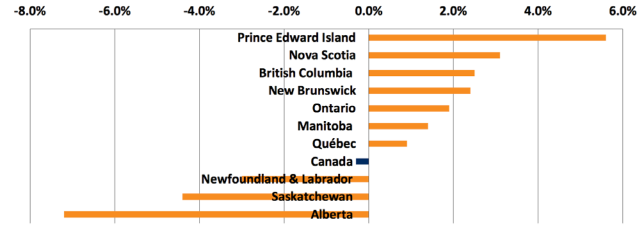
Occupandy rates - Canadian provinces - Year-to-date June 2016



Source: Smith Travel Research (STR).

- The three provinces with the greatest increases in occupancy rates are: Prince Edward Island, Nova Scotia and British Columbia, followed by New Brunswick, Ontario, Manitoba and Québec. Each registered an increase of between one to six percentage points.

Occupancy rate variations - Canadian provinces - Year-to-date June 2016 (in percentage points)



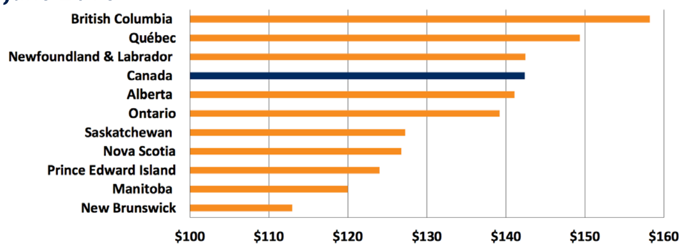
Source: Smith Travel Research (STR) and Horwath HTL Compilation.

- Occupancy rates in Newfoundland & Labrador, Saskatchewan and Alberta, however, declined during this six month period, dropping between three to seven percentage points.

- Occupancies in seven of Canada's major cities (Toronto, Montréal, Vancouver, Calgary, Ottawa, Québec City, and Halifax) are estimated to have ranged between 56% and 74% as of year-to-date June 2016. While two cities have more or less stagnated in occupancy (Montréal and Ottawa), four have registered increases of approximately three percentage point (Toronto, Vancouver, Québec City and Halifax). Calgary, at the heart of the Canadian oil crisis, continues to register decreasing occupancies.

Average Daily Rates

Average daily rates - Canadian provinces - Year-to-date June 2016

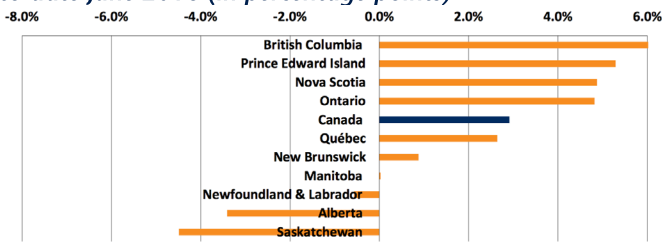


Source: Smith Travel Research (STR).

- Provincial average daily rates have oscillated between $113 and $160 during the first six months of 2016, which results in a Canadian average daily rate of approximately $142, representing an increase of more or less 3.0% over the same period in 2015.

- Strong increases in average daily rates, estimated at more than 4%, were recorded in British Columbia, Prince Edward Island, Nova Scotia, and Ontario. Québec and New Brunswick are estimated to have recorded average growth rates of between 1% and 3%.

Average daily rate variations - Canadian provinces - Year-to-date June 2016 (in percentage points)



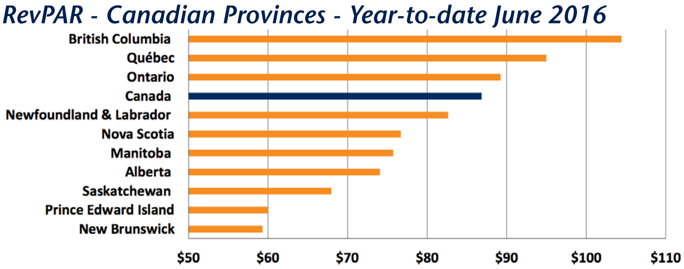
Source: Smith Travel Research (STR) and Horwath HTL Compilation.

- As for the seven major Canadian cities, they will have recorded average daily rates ranging from $130 to $165 during the first six months of 2016.

- Trending similarly to the occupancy rates, four of the cities have seen an estimated two to five percent increase in average daily rate (Québec City, Montréal, Ottawa and Halifax), while two have registered increases of six to eight percent (Toronto and Vancouver). As was the case with the occupancy rates, Calgary has been registering continued decreases in average daily rate since 2015.

Revenues Per Available Room

RevPAR - Canadian Provinces - Year-to-date June 2016

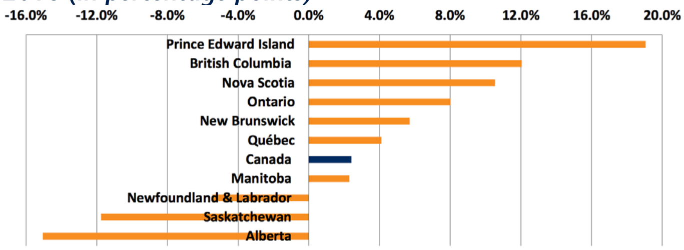


Source: Smith Travel Research (STR).

- Provincial indications of revenues per available room, or REVPAR, have varied from $60 and $105 during the first six months of 2016, resulting in a Canadian REVPAR estimated at approximately $87. This REVPAR is therefore estimated to have increased by more or less 2.4% over the same period in 2015.

- Strong increases in REVPAR, estimated at between 8% and 20%, were recorded in Prince Edward Island, British Columbia, Nova Scotia, and Ontario. Similarly to average daily rates, Québec, New Brunswick and Manitoba have also recorded average growth rates varying from 2% to 4%.

RevPAR Variations - Canadian Provinces - Year-to-date June 2016 (in percentage points)



Source: Smith Travel Research (STR) and Horwath HTL Compilation.

- As a result of decreased occupancy and average daily rates, the provinces of Newfoundland & Labrador, Saskatchewan and Alberta come in last again, with declines in REVAPR estimated at between 6% and 15% during the first six months of 2016.

- Looking at the seven major Canadian cities, they have recorded REVPARs ranging from $80 to $123 during the first six months of 2016.

- All of the major cities considered, with the exception of Calgary, have registered improvements of between 2.5% and 13.0% in REVPAR. Calgary, as a result of the decline in both occupancy and ADR, has seen an important decrease in REPVAR estimated at close to 20%. Meanwhile, Toronto, Vancouver, and Halifax, with combined increases in occupancy and average daily rates, have registered improvements in their REVPARs estimated at over 10% each.

Conclusion

Canada continues to maintain a pace during the first six months of 2016 that is similar to 2015, and this despite the important difficulties registered by the provinces of Alberta, Saskatchewan and Newfoundland & Labrador.

While occupancy is trending to come in at the same level as year-end 2015 (64%), average daily rate at a national level continues to trend upwards, increasing by close to 3.0% during the first half of 2016.

2016 should be another strong year for Canada, with REVPAR ending at close to 3% higher than in 2015, and this despite the fact that three of the ten provinces are trending downward by between 5% and 15%, in part as a result of the continued oil crisis.

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Mr. Gaudet has a bachelor's degree in marketing and management from the Universite de Moncton in New Brunswick. With 30 years in the hospitality industry and more than 20 years working as a consultant, Peter has completed a wide variety of tourism related mandates ranging from market studies for hotels, health clubs, banquet halls, spas and convention centres, to asset valuation and appraisals of hotel properties and interim asset management.

Subsequent to several front office positions at both Hilton Hotels International and Canadian National Hotels, Peter has been a consultant with the Hospitality, Tourism & Leisure division for over 20 years and has been involved in numerous appraisals, market studies, and financial and operational analyses for a wide range of clients within the lodging, restaurant and leisure related industries, throughout Canada, Mexico and French Polynesia.

Mr. Gaudet has also been instrumental in our asset/interim management practice with mandates including the review and management of both chain affiliated and independent hotels, including a boutique hotel and a select-service independent hotel operation in downtown Montreal, as well as an important convention hotel located in St. John's, Newfoundland. As Vice-President of Horwath HTL Consultants in Montreal, he has also participated as a guest speaker with regards to industry trends both within the Quebec and Atlantic Provinces.

Peter currently supervises the firm's annual industry overview for the province of Quebec, the latter which provides industry professionals with numerous operating performance statistics and ratios.

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