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Natural gas slump hits hotel firms

Winnipeg-based companies facing debt squeeze

By Martin Cash

TWO publicly traded Winnipeg hotel companies that bought and built small hotels in central and north-west Alberta have been hit hard by the ongoing slump in natural gas prices.

For the second time in seven months, All In West! Capital Corp. has been forced to halt interest payments on a small debenture offering.

The micro-cap Winnipeg operation with four small hotels in Hinton and Grande Cache, Alta., took the same route in April with two other bond offerings.

The three offerings total about \$10

million.

Lakeview REIT has 18 properties spread over four provinces, but most are in Alberta and B.C., and the company has made it clear its results are also closely tied to natural gas prices.

And those prices are very low.

Cornelius William Martens, an official with All in West! Capital, said the financial challenge the company is encountering is all about the collapse of the natural gas prices.

"This is an economic issue," he said. "People out there (in northwestern Alberta) are beside themselves. They say the prices will come back, just not as quickly as everyone would like it to be."

All In West! Capital is reporting its third-quarter results next week and Martens said there will be more information then as to how the company intends to proceed.

As it stands, the company is in default of all of its mortgages and made that clear in a statement earlier this week.

It said lenders now have the right to demand the immediate payment of their respective loan principal and outstanding interest.

"Although no lender has made such a demand to date, if the payment of the full amount of any or all of the mortgages were to be demanded, the corporation would not be able to satisfy any such demands," the company said.

Lakeview's situation is not as dire. It, too, is due to report third-quarter results soon and has experienced a 7.5-per-cent decline in revenues for the first half of the year to \$16.5 million.

In August, Lakeview reported that the terms will be up on many of the mortgages on its properties in 2011.

"While Lakeview REIT believes it will be able to renew these mortgages as they come due, the cash flow of the REIT remains constrained...," a company release stated. "Renewing mortgages at higher interest rates could create challenges for the REIT."

Analysts are not optimistic that natural gas prices will improve quickly or that demand will catch up with a large increase in the supply of natural gas. Peter Tertzakian, chief energy economist at Arc Financial Corp., wrote in an

op-ed piece in the *Calgary Herald* earlier this month that it's time for the industry to press the "reset button," claiming it's not a good idea for the industry to keep drilling for more natural gas when there is no economic rationale.

This week, ConocoPhillips Canada announced it would be laying off western Canadian staff because of excess supply of natural gas.

"Prices for almost every other commodity have recovered since the crash of 2008 and 2009 except natural gas prices," Martens said.

"The majority of opinions say it will be take a while longer. There are a few contrarians who say now is good time to buy natural gas, but there are less of those than the bears."

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