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February 21, 2018

The Christian Senior Citizens Homes Society of Northern Alberta o/a Emmanuel Home  
13429-57 Street NW  
Edmonton, AB  
T5A-0T8

ATTN: Darren Sinke, Executive Director

Dear Mr. Sinke

**RE: PROPOSAL LETTER for Construction of 50 Unit 4-Story Expansion to Seniors Housing Facility**

Based on our discussions, we would be prepared to recommend for approval that Christian Credit Union Ltd. (the "Credit Union") offer financing on the following terms and conditions.

These terms are for discussion purposes only and are subject to approval. If these terms and conditions are agreeable, please sign the duplicate copy of this letter in the space provided under the heading "Application" and return same to the writer's attention.

This proposal letter is based on the following facts and assumptions:

- 1) Construction budget will include a 6% contingency and interest reserve, and will not exceed \$20,500,000.00;
- 2) Construction project will be 100% financed;
- 3) Current balance of CMHC mortgage in first position does not exceed \$2,500,000.00 and is not readvanceable;
- 4) Current AACI appraisal supports a valuation based on Income Approach in the range of \$24,900,000 - \$27,600,000 on an 'as is' basis. The appraisal also supports a valuation based on Income Approach in the range of \$41,100,000 to \$45,400,000 on a completed basis;
- 5) For lending value purposes, Christian Credit Union is assuming a mid-point valuation of the appraiser's range which is \$26,250,000 on an 'as is' basis and \$43,250,000 on a completed basis;
- 6) Total borrowings against the property legally described as Lot 51A, Block 13, Plan 1025116 including the outstanding CMHC mortgage balance, will not exceed 65% of the appraised value of land and buildings on a completed basis.

**Note:** At the request of the Borrower, the Credit Union is also willing to provide an Irrevocable Letter of Guarantee to support the Landscaping Bond required by the City of Edmonton subject to the Borrower pledging an equivalent in cash security to secure the guarantee.

1. **Borrower:** The Christian Senior Citizens Homes Society of Northern Alberta o/a Emmanuel Home  
(the "Borrower")

2. **Credit Facilities:**

**Credit Facility #1: Commercial Mortgage (Refinance)**

Original Amount: A maximum of \$4,966,968.34.

Purpose: To consolidate existing mortgage term debt.

Rate of Interest: At the Borrower's option, the following rates are available:

Open:

Interest is payable at a rate per annum equal to the Credit Union Prime Rate in effect from time to time plus 1.35% per annum, such interest to be calculated monthly, not in advance, both before and after demand, default and judgment.

A discount will be given should the Borrower maintain their day to day banking with the Credit Union.

At the date of this Offer Letter, the Credit Union Prime Rate is 3.45% per annum. The non-discounted interest rate would be 4.80%, while the discounted interest rate would be **3.80%**, per annum.

"Credit Union Prime Rate" shall mean the floating annual rate of interest established from time to time by the Credit Union as the base rate it will use to determine rates of interest on Canadian Dollar loans to its members and designated by the Credit Union as its Credit Union Prime Rate, and a change in the Credit Union Prime Rate shall on the day of any such change also vary the interest rate on this Credit Facility in the same manner.

Closed:

The Credit Union Commercial Mortgage Rate per annum fixed for a minimum one year term, payable monthly in arrears, calculated monthly.

At the date of this Offer Letter, the Credit Union Commercial Mortgage Rates are as follows:

- One year term 4.49%; discounted rate is 3.49%
- Two year term 4.44%; discounted rate is 3.44%
- Three year term 4.59%; discounted rate is 3.59%
- Four year term 4.69%; discounted rate is 3.69%
- Five year term 4.74%; discounted rate is 3.74%

Repayment: Payable, in monthly blended payments of principal and interest calculated based on rate and term chosen.

Amortization: Not to exceed remaining amortization at the time of refinance (currently 221 months as at the date of this proposal).

Prepayment: Open:

Prepayment of the principal is permitted without penalty, notice, or bonus.

Closed:

Prepayment may be made in accordance with the Credit Union's standard 20/20 prepayment privilege.

The Borrower may have the privilege, in any calendar year, to pay an additional amount of principal up to and not exceeding 20% of the original amount of the loan, without notice or bonus. Additionally, the monthly payment may be increased by an amount up to and including 20% of the original payment amount at any time during the year, once per year for the balance of the term.

Payments in excess of this privilege will be subject to an additional payment equal to the greater of an additional three month's bonus interest on the principal amount of any such additional payment or an amount in compensation for loss of interest, if any, where the interest of this Credit Facility is greater than the interest rate at the date of prepayment for reinvestment of the amount prepaid for the remainder of the term of this Credit Facility.

Profit Sharing: A portion of Credit Facility #1 may eligible for profit sharing as declared by the Credit Union Board of Directors (the "Board") from time to time. Profit sharing is not guaranteed and is in the sole discretion of the Board.

**Credit Facility #2: Commercial Construction Mortgage (NEW)**

Original Amount: A maximum of \$20,500,000.00.

Purpose: Finance construction of a 50 unit, 4 story expansion to the existing seniors' home facility located at 13429-57 Street, Edmonton, Alberta.

Rate of Interest: During Construction: Interest is payable at a rate per annum equal to the Credit Union Prime Rate in effect from time to time plus 2.25% per annum, such interest to be calculated monthly, not in advance, both before and after demand, default and judgment.

A discount will be given should the Borrower maintain their day to day banking with the Credit Union.

At the date of this Proposal Letter, the Credit Union Prime Rate is 3.45% per annum. The non-discounted interest rate would be 5.70%, while the discounted interest rate would be **4.70%**, per annum.

"Credit Union Prime Rate" shall mean the floating annual rate of interest established from time to time by the Credit Union as the base rate it will use to determine rates of interest on Canadian Dollar loans to its member and designated by the Credit Union as its Credit Union Prime Rate, and a change in the Credit Union Prime Rate shall on the day of any such change also vary the interest rate on this Credit Facility in the same manner.

Upon Completion: The Credit Union is prepared to term out the Construction Mortgage for a term of 1 to 5 years at Commercial Lending Rates. Exact rates cannot be quoted until the time of project completion.

Repayment: During Construction: Payable on demand, but until demand, in monthly interest only payments for up to 24 months from the date of initial advance.

Upon Completion: At the earlier of 6 months after completion or 24 months from initial advance, the Borrower will have the option to convert the principal balance to a mortgage loan facility. The facility will be repayable with monthly blended installments, applied firstly to interest and secondly to the principal amount outstanding from time to time based on Commercial Mortgage Interest Rates in effect at that time; the term and the amortization to be determined at time of completion.

Amortization: Up to 25 years is available upon completion of construction.

Facility Fee: Application fee of \$61,500.00 (0.30% of the Credit Facility) payable in advance.

Progress Draw fee of \$100.00 to be charged with each advance.

Prepayment: Right of First Refusal: The Borrower will grant the Credit Union Right of First Refusal to finance the outstanding principal balance by way of a mortgage loan facility upon completion of construction. Failure to provide Right of First Refusal will result in a penalty fee of \$100,000.00 (0.50% of the Credit Facility).

Profit Sharing: A portion of Credit Facility #2 may be eligible for profit sharing as declared by the Credit Union Board of Directors (the "Board") from time to time. Profit sharing is not guaranteed and is in the sole discretion of the Board.

### **3. Required Documentation and Conditions:**

The Borrower will provide the following documentation in order to review the financing request:

- a. The last three fiscal years of accountant prepared Financial Statements; *(on hand)*
- b. Annual income statement and pro forma balance sheet projections for years ones, two, three and four of operations based on the assumption the Project is fully operational and complete with occupancy projections; *(on hand)*
- c. Current mortgage statement from CMHC;
- d. Current in-house year to date financial statements for the current fiscal year; *(on hand)*
- e. Disclosure of all current capital lease obligations by the Borrower;
- f. A breakdown of current revenue structure which includes clarification on such items as rent structure, grants, supported living, assisted living, etc.;
- g. A current "blueprint" appraisal for the land and improvements confirming a market value acceptable to the Credit Union. The appraisal is to be addressed to the Credit Union confirming that it can be relied upon for mortgage lending purposes. If not, a transmittal letter from the appraiser will be required. The appraisal is to be prepared by an independent appraiser with an Accredited Appraiser Canadian Institute (AACI) designation and approved by the Credit Union. All appraisals must always include the income approach to value as well as at least one of the cost and/or direct comparison approaches to value; *(on hand)*
- h. A Phase I Environmental Site Assessment must be completed by an environmental consultant or engineer acceptable to the Credit Union. The Credit Union reserves the right to request a Phase II or III should the Phase I Environmental Site Assessment note any concerns or contamination; *(on hand)*
- i. A detailed copy of a Final Cost Budget; *(60% preliminary construction budget on hand)*
- j. A list with supporting information, documenting that there is sufficient demand to fill the current proposed units of the Project.

#### **Pre-disbursement Conditions for Credit Facility #2:**

- k. All security documentation to be completed and registered with a solicitor's letter of opinion confirming that the Credit Union's security is a valid and enforceable second charge and that any prior encumbrances will not affect that second registered position;
- l. The Credit Union's solicitor is to confirm all proper signing operating account documents and enabling resolutions have been or will be executed;
- m. Evidence confirming payment of property taxes for all the real property to be taken as security;
- n. The name, qualifications and experience of the General Contractor, Project Engineer, Architect or Quantity Surveyor;
- o. The following are to be reviewed by the Project Engineer, Architect or Quantity Surveyor and confirmed to be in order prior to the first advance:
  - i. Confirmation that all required building and development permits are in place.
  - ii. Copies of the construction plans and specifications.
  - iii. A detailed Construction Budget including the cost of land, materials, labor, and all soft costs. Soft costs are to include an interest reserve sufficient to cover interest on the loan during construction as well as during the leasing time frame.
  - iv. A Construction Schedule and a Project Cash Flow Projection for the construction phase, with same showing the estimated timing (month by month) of equity injections and loan disbursements as appropriate.

- v. Copies of zoning and development approvals, building permits, all regulatory approvals and any other agreements necessary for development of the project are to be reviewed by the Quantity Surveyor and confirmed to be in order prior to the first advance;
- p. A copy of the construction contract (preferably fixed priced) with the General Contractor must be provided to the Credit Union;
- q. Evidence of Builders' All Risk Insurance;

Disbursement Conditions for Credit Facility #2:

Prior to funding, the following conditions are to be met in a manner satisfactory to the Credit Union:

- r. Draws will be made on a cost to complete basis (i.e. sufficient loan funds will be retained at all times to cover remaining costs to complete the project in accordance with the approved plans and specifications as confirmed by the Project Engineer, Architect or Quantity Surveyor).
- s. Draw Requests will be approved by the Borrower and certified by the Project Engineer, Architect or Quantity Surveyor and will be supported with a Statutory Declaration by the General Contractor (or the Borrower) showing the original budget, current budget, percentage completed, work in place, cost to complete, the value of the draw request and the amount of holdbacks outstanding. The Statutory Declaration is also to confirm that all sub-trades and supplier accounts are in good standing and that all Workers' Compensation payments are in good standing.
- t. The Borrower is to utilize a separate account for the construction project. This account will be used solely for the Credit Union (or our solicitor) for the advance of funds to and for members to issue payments to the General Contractor. This account may be examined by the Project Engineer, Architect or Quantity Surveyor and compared to project expenditures ensuring that funds are being used for construction purposes only.
- u. Advances are to be requested not more frequently than monthly and are to generally be for no less than \$250,000.
- v. Advances will be subject to a Land Titles search confirming that no builder's liens have been registered.
- w. Any cost overruns as determined by the Project Engineer, Architect or Quantity Surveyor or by the Credit Union are to be covered by the Borrower at the time they occur before the next progress advance will be considered.
- x. If a builder's lien claim is filed or otherwise asserted against the project then, at the option of the Credit Union, a default shall have occurred. In addition to the other remedies it may have, the Credit Union shall not be required to make any further advances until the borrower satisfies the Credit Union that arrangements are in place that will ensure removal of any builder's liens.
- y. GST will be for the account of the Borrower.
- z. The Borrower agrees to maintain all holdbacks as required by the Builders' Lien Act RSA 2000, ch. B-7 as amended and acknowledges and understands that the Borrower must retain an amount in an account equal to 10% of the value of work actually done and material actually furnished under any construction contract for a period of 45 days from the date of an issue of a Certificate of Substantial Performance, where applicable, or the completion of the construction contract, where a Certificate of Substantial Performance is not issued. Where a Certificate of Substantial Performance has been issued, the Borrower must also retain an amount equal to 10% of the value of work actually done or material actually furnished on or after the date of issue of the Certificate of Substantial Performance for a period of 45 days from the date of completion of the construction contract. In addition to all of the holdbacks, the Borrower in all cases where a lien has been registered must also retain any amounts payable under the construction contract that have not been paid so long as the lien remains registered.
- aa. Upon completion of the project, the Borrower will provide the Credit Union with a statutory declaration certifying to the Credit Union that all monies payable under its contracts have been paid, that the general contractor has paid all suppliers and sub-trades and that the project is substantially complete in accordance with Builders' Lien Act. The Borrower will also provide the Credit Union with an occupancy certificate or its equivalent from the governing municipal authority as applicable.

General Conditions:

- bb. The Borrower agrees to pay all expenses, fees and charges incurred by the Credit Union in relation to the credit facilities, the preparation and registration of security, enforcement or preservation of the Credit Union's rights and remedies; whether or not any such documentation is completed or any funds are advanced,

including but not limited to legal costs (on a solicitor and his own client basis), cost of accountants, engineers, architects, consultants, appraisers and cost of searches and registrations;

- cc. The Borrower shall permit the Credit Union, or its agents, access at all reasonable times, to all premises where the collateral covered by the Credit Union security may be located and the Credit Union or its agents may inspect such collateral and all related documents and records; and
- dd. The Borrower agrees to allow for construction financing signage on the proposed site.

#### **4. Security**

The types of security, supporting resolutions and agreements to be provided by the Borrower would be in a form and content satisfactory to the Credit Union and/or its solicitors and as follows:

- a. All corporate documents including:
  - i. Borrowing Resolution,
  - ii. Certified Copy of a Resolution of the Directors approving the Loan Amount & Security granted,
  - iii. Certificate of Incumbency,
  - iv. Statutory Declaration, and
  - v. Certificate of Non-Restriction;
- b. Loan Agreement in the amount of \$4,967,000.00
- c. Loan Agreement in the amount of \$20,500,000.00;
- d. Continuing Collateral Mortgage (All Indebtedness Collateral Mortgage) registered in second position (behind CMHC) in the amount of \$25,500,000.00 against the property located at 13429-57 Street, Edmonton, Alberta and legally described as Plan 1025116, Block 13, Lot 51A (the "Property");
- e. General Assignment of Rents and Leases registered at Land Titles Office by way of Caveat on the subject Property;
- f. Environmental Indemnity Agreement on the subject Property;
- g. Real Property Report with compliance certificate or Title Insurance on the subject Property;
- h. General Security Agreement in first position covering All Present and After Acquired Personal Property registered at Alberta Personal Property Registry; and
- i. Assignment and evidence of all risk construction insurance for the full replacement cost of improvements converting to all-risk property insurance including business interruption and boiler coverage (if applicable) upon completion with loss payable to the Credit Union on the subject Property by way of mortgage endorsement;
- j. Any other securities and documents as deemed reasonably necessary by the solicitor acting on the Credit Union's behalf.

#### **5. Financial Covenants**

Unless otherwise called for and agreed to by the Credit Union, all financial covenants will be measured based on the Borrower's most recent, external accountant prepared, year-end financial statements or income tax returns.

- a. Debt to Equity ratio is not to exceed 3.00:1.00. Debt to Equity is calculated by dividing the sum of all debt by the aggregate of all equity as defined below:

Debt = All current and long term liabilities as per year end financial statements including shareholder's loans and related party loans that are not formally postponed to the Credit Union

Equity = Common share capital, retained earnings, formally assigned shareholder's loans, formally assigned preferred shares, formally assigned related party debt, and off balance sheet equity in capital assets which have been independently confirmed and approved by the Credit Union. Excluded are amounts owing by shareholders and advances to and investments in related companies if the entities do not have

the ability to repay these funds on short notice (as evidenced by recent financial statements) less intangibles such as (but not limited to) goodwill, research and development and franchise fees;

- b. Debt Service Capacity is to meet or exceed 1.15:1.00. Debt Service Coverage is calculated as Cash Flow divided by Debt Service Requirements as defined below:

Cash Flow: = Net after tax income + depreciation/amortization/CCA + interest expensed – dividends declared – reductions in shareholder's loans – gains on capital assets + loss on capital assets.

Debt Service Requirements = Interest and principal paid on all debt in the fiscal year under review;

- c. Current Ratio is to be a minimum of 1:1. The Current Ratio is calculated by dividing Current Assets by Current Liabilities as defined below:

Current Assets = All Current assets as per current financial statement – advances to related parties (if verifiable proof of immediate repayment is not available)

Current liabilities as per current financial statements; and

- d. To maintain their corporate existence and do such things as may be required in order to permit them to carry on business.

#### **6. Review:**

The implementation and continuation of these Credit Facilities is subject to review, at least annually, by the Credit Union and is also subject to no adverse change in the financial position of the Borrower. The next annual review date has been established as April 30, 2018 but may be changed at the discretion of the Credit Union.

#### **7. Assignment and Syndication:**

The Borrower understands and acknowledges that the Credit Union may, at its sole discretion, assign or syndicate these credit facilities to a third party of its choice. The undersigned consents to the disclosure by the Credit Union to any such assignee or syndication partner and its agents of personal information of the undersigned relating to these credit facilities and consents to the collection and use of such personal information by such assignee or syndication partner and its agents. The undersigned also consents to the collection and use of said personal information by third parties involved in the assignment or syndication of credit facilities and the further disclosure of such information to the third parties' agents and assignees and those parties' subsequent collection and use of the information, in each case, for the purpose of the ongoing management of the credit facilities. Any costs associated with an assignment or syndication shall be for the account of the Credit Union

#### **8. Privacy:**

The undersigned consents to the collection, use and disclosure of personal information of the undersigned relating to these credit facilities by the Credit Union for the purpose of evaluating the credit application and the ongoing maintenance of the credit facilities.



This discussion letter is open for acceptance until March 12<sup>th</sup>, 2018 and is prepared and presented solely for the use of the Borrower and is to be maintained in strict confidence. Should you wish to proceed with a formal application for credit on the basis presented please sign and return the discussion letter along with the application fee, as indicated above, in addition to the aforementioned information.

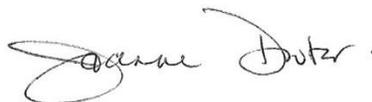
We wish to thank you for allowing Christian Credit Union the opportunity to discuss this financing project with you.

Yours truly,

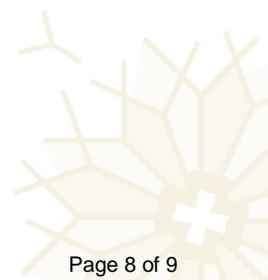
**Christian Credit Union Ltd.**



Per: \_\_\_\_\_  
Tony Seitz  
Business Banking Advisor



Per: \_\_\_\_\_  
Joanne A Drotar  
Business Banking Manager



**APPLICATION**

We hereby apply for the proposed credit facilities on the terms and conditions outlined by this Proposal Letter dated **February 22, 2018**.

Accepted this \_\_\_\_ day of \_\_\_\_\_, 2018.

**The Christian Senior Citizens Homes Society of Northern Alberta**

**Per:** \_\_\_\_\_  
Name:  
Title:  
I have authority to bind the organization.

**(c/s)**

**Per:** \_\_\_\_\_  
Name:  
Title:  
I have authority to bind the organization.

