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A Proposal To Privatize The Northwest Territories Power Corporation
Type of Study: Feasibility Studies
Date of Report: 1993
Author: F.f. Abbott
Catalogue Number: 9-5-376

A *Proposal to* PRIVATIZE *the* NORTHWEST TERRITORIES POWER CORPORATION

March, 1993

A PROPOSALTO PRIVATIZE THE NORTHWEST TERRITORIES POWER CORPORATION

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March 18, 1993

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1. EXECUTIVE SUMMARY

In 1988 the Government of the Northwest Territories (GNWT) purchased the Federal Government's investment in the Northern Canada Power Commission (NCPC) now Northwest Territories Power Corporation (NWTPC) for $53 million and subsequently moved the Head Office to Hay River.

The purchase was financed in the capital markets and in effect, the $53 million borrowed by the GNWT is being repaid by NWTPC.

In the Purchase Agreement, the GNWT made a commitment to examine options for private sector participation in the ownership and operation of NWTPC.

In September 1992 the "Privatization of the NWTPC Preliminary Report" was presented to Cabinet and provided to all MLAs. After reviewing the Preliminary Report, which advised that NWTPC was operating in a business-like manner and could be privatized, the GNWT requested this report,

The privatization model in this report assumes privatization through the sale of shares to the public. This best meets the needs of the GNWT and the residents of the NWT and is also consistent with the objectives established by the GNWT, at the time of the purchase of NCPC.

NWT residents would have the first right to purchase shares at the market price and only shares not purchased by NWT residents would be available for sale to others.

NWT residents would be able to buy their shares on an installment basis; assuming an initial price of $10 per share, NWT residents would pay $6 at the time of purchase and $4 one year later.

Good business practice would suggest that an employees' stock option plan would be established which would allow NWTPC employees, on a voluntary basis, to purchase stock, at or slightly below market price, with payment made through payroll deductions.

To prevent any one shareholder or any associated group of shareholders from acquiring control, the following voting regulations would apply:

- each share will have one vote
- no single shareholder may vote more than 10°/0 of the shares outstanding
- a shareholder owning more than 10°A of the shares will not have a vote

Capital West Partners (Financial Advisors) estimated the value of NWTPC to be in the range of $70 million to $90 million and for the purpose of this report the mid-point $80 million was used. On the sale of the shares of NWTPC, the GNWT could receive $80 million less expenses, which would include underwriters' and professional fees, This estimate along with a discussion of the valuation procedures utilized are contained in Capital West Partners report which is attached as Appendix "A".

The estimate of value by Capital West Partners is based on the financial market conditions as at December 9, 1992, and is subject to continuous change. The final price of the shares will be determined at the time of the sale by negotiations between GNWT and the underwriters. The proceeds to GNWT would be net of the expenses of the public issue.

Nesbitt Thomson Inc. and Wood Gundy Inc., investment dealers, made preliminary estimates of value based on a review of public information and selected NWTPC internal information. Their range of value for NWTPC falls within the range of the Capital West Partners estimate of value.

The proceeds could be used by the GNWT to fund programs that might not otherwise be affordable or possible.

Given that privatization can provide that the new company, would not move its Head Office out of the NWT, would continue to be regulated by the Northwest Territories PUB, would treat the employees fairly and equitably and would be owned by a widely dispersed group of shareholders, it is appropriate to consider privatization.

The effect privatization might have on Nunavut when established in 1999, was considered. The Coopers & Lybrand (1991) Report on Division, indicates that if two utility companies are established, administration costs would annually increase by $5.5 million and NWTPC now estimates that increase at $7.3 million. These additional costs would be included in the revenue requirement and the customers would pay more for electrical energy. Also Capital West Partners indicate that these increased administrative costs would eliminate economies of scale, make both utilities unprofitable and increase risks, so that . neither utility would warrant private sector financing. One utility operating in both Territories, and regulated by NWT Public Utilities Board and when Nunavut is established by Nunavut Public Utilities Board would have minimal impact on rates.

Privatization can be achieved in a manner that

- enables the GNWT to obtain a fair value for its shares,

- protects the employment, pay and benefits and pensions of the existing employees
- keeps the Head Office in the NWT
- ensures that the utility continues to be regulated by the PUB
- provides NWT residents with a first right of refusal to purchase shares
- makes available a low risk investment
- prevents any one shareholder from acquiring control
- provides funds which the GNWT may use for other programs and services
- through shareholding provides northerners with the opportunity to have direct input into the operations of the utility

The GNWT has an opportunity to privatize NWTPC, establish the terms by which privatization would occur and at the same time retai n overall control of the rate making process by making the utility subject to regulation by the PUB. The Preliminary Report and now Capital West Partners have indicated that the GNWT might realize an optimal return in 1994 when NWTPC reaches its allowed rate of return. The privatization model proposed provides a mechanism by which the GNWT t-night carry out privatization and achieve significant benefits for the people of the NWT.

Privatization provides northerners, including land claimants with a unique opportunity to acquire an equity position, in their public utility, which will have an attractive dividend yield and which, like other public utilities should be rated as a rather conservative equity investment.

2. INTRODUCTION

The May 5, 1988, Acquisition Agreement for the purchase of the Northern Canada Power Commission (NCPC) from the Government of Canada commits the Government of the Northwest Territories (GNWT) to examine the options for private sector participation in the ownership and operation of the Northwest Territories Power Corporation (NWTPC).

The "Privatization of the NWTPC, Preliminary Report" (the Abbott report) identified issues that should be considered and was the first step in the examination of privatization. In September 1992, the report was presented to Cabinet and provided to all Members of the Legislative Assembly (MLAs) for review. The Report was intended to provide an initial discussion of the question and to look at a number of the issues that must be addressed in the privatization process.

The preliminary report concluded that as NWTPC was operating in a business-like manner, it could be successfully privatized. If privatization occurs, an optimum return would be obtained in fiscal year 1993-94 when the Power Corporation will reach its allowed rate of return.

After reviewing the report, the GNWT concluded that the privatization issue warranted a more detailed examination. This report provides a further review of the privatization of the NWTPC, sets out a model which might be implemented, and examines the major topics.

In preparing this report reliance has been placed on information supplied by:

Capital West Partners - Financial Advisors
Howard, Mackie - Legal Counsel

Their reports and draft memoranda form part of this report and are included as Appendices. To develop a complete understanding of the information presented in this report, it is necessary to refer to these Appendices.

3. PRIVATIZATION MODEL

The privatization model chosen is based on a sale of NWTPC shares to the public. This model provides a low risk investment for northerners and meets the needs of the GNWT and the residents of the Territories.

GNWT purchased NWTPC to gain influence in its operations, to relocate the head office to the Territories and to provide regulation by the Public Utilities Board.

Having achieved these objectives, the GNWT and the residents of the NWT wish to retain those gains and would find it unacceptable if one or two large groups gained control or ownership of the utility.

Therefore, the privatization model proposed includes:

- maximum distribution of stock to NWT residents
- Head Office remains in NWT
- continued regulation by the Northwest Territories Public Utilities Board (PUB)
- 100% privatization
- voting restrictions on large blocks of stock
- taxable corporation
- continued compliance with NWT legislation

The factors outlined above could not be met to the same degree by other privatization models such as selling to a single corporate buyer or a corporate partnership.

NWTPC is owned by GNWT, as the sole shareholder. Its operations are subject to GNWT legislation and regulations and its rates are subject to PUB approval. Although the sale of NWTPC to a single purchaser might yield a different purchase price and would be less complex to achieve, it was not pursued as ownership by a single shareholder would likely move control away from the Northwest Territories. A sale to the public with a priority to NWT residents and voting restrictions on large blocks of shares, could make it difficult for any one group to obtain voting control, With the investor owned company in widely dispersed hands and rates set by PUB, NWT residents maintain maximum influence over the operations of NWTPC. Thus a public offering of shares rather than a sale to a single buyer is in the best interests of the residents of the NWT.

The report and appendices are based on the assumption that privatization would be achieved through a sale of shares to the public and, at the time of this and future offering, the residents of the NWT would have first right to purchase these shares.

4. NWTPC PRIVATIZATION

a) Background

In the late 1940s, when Giant Yellowknife Mines applied to the federal government for a license to construct a hydro plant on the Snare River, the federal government decided that, for the public good, the government should own that hydro plant so that the benefit of hydro power would be available to all of the residents of the community. The best way to achieve this was through federal government ownership. Thus, in 1948, NCPC was created by the federal government to operate the Snare River power plant and to address the growing power needs of NWT consumers.

NCPC was a branch of the federal Department of Mines and Resources and then became a branch of the Department of Indian and Northern Affairs. The employees of the new Power Commission were employees of the Government of Canada and the Head Office was in Ottawa. NCPC was the responsibility of the Deputy Minister of Indian and Northern Affairs and the Deputy Minister was the Chairman and Chief Executive Officer. In 1975, the first full-time independent Chairman was appointed by the Government of Canada.

NCPC expanded as the NWT and Yukon developed. The Power Commission quickly developed an expertise in power generation and delivery and was the logical instrument to assume control of the different utility plants that existed in the Territories in the 1950s and 1960s. In the late 1960s, NCPC began taking over existing community power plants from, among others: the Hudson Bay Company, RCMP, Department of National Defense, Transport Canada, Indian and Northern Affairs and the GNWT.

GNWT, the Yukon government and the customers of NCPC were dissatisfied with: a) the service provided, and b) the rates charged bya federal Crown Corporation located in Ottawa. Public opinion in the North indicated that NCPC was unresponsive, inefficient and did not understand the needs of its customers.

In short, NCPC was an absentee owner. The plants were located in the Yukon and the NWT but the decisions were made in Ottawa.

The customers had no say in the operation of NCPC, much less control of or input to the decision making process. NCPC was not regulated, not even by a federal regulatory authority. The call to move NCPC'S Head Office to the geographic area served by its plants continued and the head office move to Edmonton in 1973, was an unhappy compromise pleasing neither NWT nor the Yukon.

In 1975, the federal government appointed the first full-time, independent Chairman and Chief Executive Officer of NCPC. By 1986, the majority of the Board of Directors of NCPC were northerners, but the federal government still held the financial control and decision making authority.

The two territorial governments continued to press the federal government for ownership and control of the utility. In 1986, the Yukon purchased the Yukon assets and in 1988 the NWT Government purchased the outstanding shares of NCPC.

GNWT purchased the Federal Government's investment in NCPC for $53 million. The Acquisition Agreement provided that the utility was transferred as a going concern and NCPC was continued as the Northwest Territories Power Corporation.

The purchase was financed in the capital markets and in effect, the $53 million borrowed by the GNWT is being fully repaid by NWTPC.

The primary elements of the NCPC Sale Agreement were noted in a joint GNWT-Federal Government press release issued at the time of the purchase of shares:

- both governments ensure the fair and equitable treatment of all NCPC employees
- the transfer will guarantee the integrity and efficiency of the new utility
- the new utility will be accountable to northerners
- the government of Canada is committed to promote the political and economic development of the North by Northern people

By purchasing NCPC, the GNWT owned and controlled a Northwest Territories based utility. NWTPC was established as an independent Crown Corporation, to operate in a business-like manner and to move to a commercial rate of return for the shareholder.

b) Crown Corporations and Privatization

Governments in Canada have traditionally played a primary role in the field of economic development. Because the country was sparsely populated and covered a large geographic area, a number of nation building projects were not viable on their own and were financed by government, These projects signalled the beginning of government involvement in business, first through investment and ultimately as owners of Crown Corporations.

NCPC was one of the many federal Crown Corporations used to implement public policy, stabilize and promote economic growth and support the development of local infrastructure.

Federal and Provincial governments established Crown Corporations for various reasons such as:

- implementation of government social/economic policy
- boost regional development
- to save or create jobs
- to encourage risky ventures
- to stabilize immature or developing industrial sectors
- to develop new technologies
- nation building
- economic development

When creating Crown Corporations, governments explain their intervention by indicating that as the industry matures, competition develops, or as the business becomes financially sound, the operations will be sold to the private sector. Sometimes, governments continue ownership long after it may be required or even practical and, thereby miss the optimum return on the investment.

Examination of government enterprises reveal a number of sound arguments for privatizing Crown Corporations such as:

- government ownership drains available capital
- corporations become redundant and have inappropriate mandates
- government ownership inhibits Crowns from growing and diversifying in response to the market

efficiency and productivity may be maximized, especially if employees participate in the new ownership

the cost of maintaining Crowns has grown beyond the government's financial abilities

government has grown too big and must be reduced

government owns too much of the economy

unfair competition with private sector

there is less conflict for the regulator; all parties are equal

These arguments for privatization are not universally applicable but are representative of the substantive reasons governments initiated the privatization process in the 1980's.

Governments have found no shortage of willing buyers when privatizing Crown Corporations.. The privatized businesses provided cash for government accounts and they relieved the government of the onerous financial commitments required to finance the ongoing operations.

It is interesting to note that Nova Scotia Power was successfully privatized in July 1992 and that consumers in many areas of Canada are serviced by publicly traded power companies.

Crown Corporations are sold as "going" concerns with as little disruption as possible. At the time of the sale of NCPC, employees continued employment in a similar position with NWTPC and maintained the pay and benefits package and the employee pension plan. A new Collective Agreement was negotiated and the interests of the employees were maintained.

c) Privatization of NWTPC

The sale of NCPC assets to the Government of Yukon and the sale of NCPC shares to the Government of the NWT were steps in Government of Canada's privatization program. The sale to GNWT was subject to terms and conditions established by the federal Office of Privatization and staff from that Office negotiated the transaction.

The Agreement of Sale requires GNWT to:

- examine the options for public sector participation involving companies or individuals
- consider options for privatization which include equity positions held by the private sector
- develop options where private sector could finance, develop and own future electrical projects

The GNWT, in honouring the commitments in the Agreement, authorized a preliminary report entitled "Privatization of the NWTPC" which was distributed to MLAs in September 1992.

The preliminary report was the first step in the privatization process and provided government with a review of the issues. The next step is this proposal to privatize NWTPC.

The GNWT purchased the shares of NCPC in 1988 and established the NWT Power Corporation for several reasons, a number of which were outlined earlier and the federal government, on the other hand, sold NCPC for all of the classic privatization reasons.

A review of NWTPC operations since its creation in 1988 indicates that the objectives established by the GNWT when acquiring the utility have been met:

a. NWTPC has established its Head Office in Hay River and created approximately 70 jobs in the community
b. NWTPC is now fully regulated by the NWT Public Utilities Board
c. Northerners form the majority of the Board of Directors of NWTPC.
d. The Corporation has illustrated steadily growing financial performance and paid a total of $8 million in dividends to its shareholder, and it is expected that a further dividend of $3.4 million will be paid.
e. NWTPC has responded to customer requirements and has invested substantial amounts to improve and upgrade its plants
f. NWTPC operates as a viable, independent commercial business
g. NWTPC is negotiating with the Dogrib Nation for the long term supply of power from a Dogrib-owned hydro facility
h. NWTPC has the experience of borrowing capital in the private markets

In addition to these objectives, the GNWT has directed NWTPC to operate independently and in a business-like manner. This environment has enabled NWTPC to dedicate time and resources to improving the delivery of service and the physical condition of plants. Cash flow from operations has been used to fund capital projects, to improve customer service and to improve the equity position of the shareholder.

Now that the objectives of the GNWT have been met, it is time to consider if there is a higher priority for the funds invested in NWTPC.

NWTPC expansion was financed by borrowing in the capital markets with the debt guaranteed by GNWT. The financial markets, when establishing amounts a government is able to borrow and the interest rate required to be paid, are influenced by government debt and government guaranteed debt. NWTPC guaranteed borrowings may negatively impact future borrowings of the GNWT.

Government has certain assets and a credit limit. Within those financial parameters, government has a responsibility to deliver programs and services to its various constituencies. To the extent that some of those goods and services can be delivered by investors under properly controlled and regulated conditions, government then frees up assets or borrowing ability to provide programs and services that would not otherwise be financed by investors.

The GNWT could continue to own NWTPC and, as the sole shareholder, be responsible for the ongoing financial guarantees that will be required as operations continue to expand. The benefits, as sole shareholder, include receiving dividends which to date have been used to fund the electrical rate subsidy program.

However, as the GNWT has achieved its objectives surrounding the purchase of NWTPC, it is now time to consider the opportunity cost of providing financial guarantees for the existing and perhaps future borrowings of NWTPC.

When privatized, NWTPC, as an NWT company, would be subject to all of the laws of the Territories, including the Public Utilities Board Act. It would pay taxes, both Territorial and municipal and would be required to meet building code and fire and safety legislation as it does presently. The privatization legislation would require the head office to remain in the Territories and voting restrictions would prevent any one group from acquiring voting control,

There is no reason to believe that the privatization of NWTPC would affect the employees of the Corporation in a negative manner. The GNWT and NWTPC have the ability to ensure that the interests of employees are protected. Good business practices require employee matters to be of the utmost concern and necessitate fair and equitable treatment of the existing highly trained personnel.

This privatization model contemplates:

- GNWT selling the shares of NWTPC for $80 million less expenses, which would include underwriters' and professional fees;
- Northerners given the first right to purchase shares and to purchase those shares on the installment plan; and
- NWTPC continuing to make annual payments to GNWT of $5,350,000 until 1998 to cover the cost of funds borrowed to purchase NCPC.

NWTPC would continue to repay, in full, the existing long-term debt, guaranteed by GNWT but GNWT would not be required to guarantee future capital borrowings of NWTPC.

The GNWT could use the proceeds of the privatization for programs or services. New programs could be funded or the proceeds could be directed to specific areas of need where budget cutbacks have eliminated or reduced services. GNWT has an opportunity to determine whether its resources are better used in a government-owned business or to develop infrastructure and programs.

Now that the GNWT has achieved its original objectives in purchasing and owning NWTPC, it is appropriate to consider the benefits of privatization. GNWT would receive $80 million less expenses, which include underwriters' and professional fees, and would retain legislative and regulatory control over an investor-owned public utility.

d) Conclusion

Since purchasing NWTPC, the GNWT has achieved its initial objectives and now must address the pros and cons of continued ownership. The opportunity cost of the NWTPC must be weighed against other uses for the proceeds of sale of shares, which might provide greater benefit to NWT residents.

Privatization is the next step in the logical sequence of events. The privatization model proposes:

- GNWT receiving substantial funds which could be used for other purposes.
- NWTPC remains intact as a public utility.
- NWTPC continues to be subject to GNWT legislation and to regulation by the PUB.
- Protection of employees' interests.
- Wide distribution of shares to NWT residents.
- A low risk investment for NWT residents.

Privatization provides northerners, including land claimants with a unique opportunity to acquire an equity position, in their public utility, which will have an attractive dividend yield and which, like other public utilities should be rated as a rather conservative equity investment.

It is recommended that the GNWT proceed with the privatization of NWTPC.

5. VALUATION - SHARE SALE

a) Introduction

Capital West Partners (Financial Advisors) were retained to provide a recommendation regarding privatization and an estimate of the amount that GNWT would receive on the privatization of NWTPC. In addition, Capital West were requested to provide a general framework which outlines the parameters of the share sale.

Capital West Partners have estimated the value of NWTPC to be in a range of $70 million to $90 million or approximately $80 million. The final price Of the shares will be determined at the time of sale by negotiation between GNWT and the underwriters.

Nesbitt Thomson Inc. and Wood Gundy inc., investment dealers, made preliminary estimates of value based on a review of public information and selected NWTPC internal information. Their range of value for NWTPC fails within the range of the Capital West Partners estimate of value.

Following is a summary of the Capital West report. The full report is attached as Appendix "A". Reference should be made to the full report *in* order to develop a complete understanding of the Capital West recommendations.

b) Summary of the Offering

The Company: The company NWTPC generates, transmits and distributes electricity in the NWT. NWTPC's system extends throughout the Territories and provides approximately 98%

of the generation, 91% of the transmission and 61 % of the distribution of electric power consumed by the public in the NWT. NWTPC is regulated by the NWT Public Utilities Board. In 1993 the NWTPC revenues are expected to be $98,0 million and its earnings approximately $7.2 million.

Issue:	installment Receipts representing common shares of NWTPC owned by the GNWT.
Amount	$80 million
Installment Receipts:	Residents of the NWT will be eligible to purchase instalment receipts for common shares. The installment receipts allow the purchaser to pay $6 per share now and $4 in one year. Non-residents will purchase common shares,
Price:	$10 per share, or $6 per share on closing and $4 per share in one year.
Dividends:	Based on prevailing financial market conditions it is expected that NWTPC will pay an annual dividend of $.75 per share to yield 7.5% per annum. The installment Receipts will yield 12,5% per annum.
Government Ownership:	Upon completion of the offering, the GNWT will have no ownership in NWTPC.

Voting: All common shares will have one vote. No shareholder may vote more than 10% of the shares outstanding. A shareholder owning more than 10% may not vote.

Priority Allocation: Residents of the NWT will receive first right to purchase shares. Only NWT residents will be eligible to purchase installment receipts.

Use of Proceeds From Share Sale: The GNWT will receive $80 million after payment of the final installment and before deducting expenses.

Listing: The common shares and Installment Receipts will be listed on the Toronto Stock Exchange. They may be sold at any time.

Future Share Offerings: Residents of the NWT will receive a first right to purchase future public issues of shares or bonds by the NWTPC at the prevailing market price.

c) Investment Highlights

Attractive Pricing

* The shares will be offered at a price which is based on lower price -to - earnings and price-to-book multiples than competing utility investments. The shares will be offered at a price which will provide a dividend yield

which is comparable to the average of all competing utilities and higher than the two comparable utilities.

Low Risk Investment

* The generation, transmission, and distribution of electrical power is generally a low risk, stable business.
* Publicly traded power corporations are characterized by relatively low price volatility even during adverse financial market conditions.

Favorable Regulatory Environment

* The Company is regulated by the NWT Public Utilities Board which has indicated a willingness to allow companies to recover reasonable and prudent costs and earn a reasonable return.

Economic Growth

* The NWT has grown in population more rapidly than the Canadian average.
* Mining in the NWT is rapidly growing. New developments in base metals, precious metals and the recent exploration activity for diamonds all bode well for future growth.

Improved Company Operation

* Since becoming a NWT owned company, NWT Power Corporation has dramatically improved its efficiency and quality of operations.

Growthin Profitability

* **Earnings and revenues have grown at annual compound growth rates of 9.5% and 5.3% respectively over the past five years.**

Employee Commitment Through Share Ownership

* **The NWTPC is encouraging broad employee ownership to enhance employee commitment throughout the organization. All NWTPC employees will be offered shares pursuant to the employee stock purchase plan.**

Independence from Government

* **Through this offering, the GNWT will divest itself completely of any interest in NWTPC and will not be represented on NWTPC's board of directors.**

d) Estimated Value

Capital West have utilized a comparative valuation analysis to develop an estimated value for the privatization of NWTPC. This analysis considers the economic, business and financial risks of NWTPC in comparison to similar publicly traded companies.

Eight Canadian Utilities were used for comparative purposes. Two of the eight, Fortis Inc. (Newfoundland Light and Power) and Maritime Electric Co. Ltd. were more directly comparable than the others.

The risk and rate of return required by an investor is generally reflected in how a company's stock trades in relation to its earnings (price/earnings ratio) and book value (price/book value). The recent price/earnings range for Fortis Inc. and the Maritime Electric Company was 8.7 to 9.3 and the price/book value ratio was 1.2.

Based on a review of the applicable factors, as well as a review of NWTPC, comparable publicly traded power utilities and prevailing financial markets, Capital West Partners expects NWTPC to trade between 1.0 and 1.2 times estimated book value as at March 31, 1993. Accordingly, Capital West Partners estimate the value of NWTPC to be in a range of $70 million to $90 million or approximately $80 million.

6. CONFIRMATION OF ESTIMATE OF VALUE

Capital West Partners estimate the value of NWTPC to be in the range of $70 million to $90 million or approximately $80 million. This estimate of value is based on the financial market conditions at December 9, 1992 and is subject to continuous change. The final price of the shares will be determined at the time of the sale by negotiations between GNWT and the underwriters. The proceeds to GNWT will be net of the expenses of the public issue.

Nesbitt Thomson Inc. and Wood Gundy inc., investment dealers, made preliminary estimates of value based on a review of public information and selected NWTPC internal information, Their range of value for NWTPC falls within the range of the Capital West Partners estimate of value.

7. PROPOSED TRANSACTION STRUCTURE

The privatization model suggests that in orderto complete the transaction contemplated by a sale of shares to the public, the following tasks must be completed:

a. The purchase by Newco of all the NWTPC assets. The purchase price would be 8,000,000 shares of Newco and an assumption of all of the obligations of NWTPC excluding environmental liabilities.

b. The transfer of the 8,000,000 shares of Newco from the NWTPC to the GNWT for a $1 nominal price.

c. The sale of 8,000,000 shares of Newco by the GNWT in a secondary distribution to the public by way of a prospectus offering. The GNWT sells the shares to an underwriter who in turn sells the shares to the public.

Details of the proposed transactions are outlined in a draft memo prepared by Howard, Mackie and attached as Appendix “B”.

8. PRIVATIZATION PROCESS

The privatization model proposed establishes a new company under the Northwest Territories Companies Act, This new company, called Newco, will acquire the assets and liabilities of NWTPC. Newco would also assume the long-term debt now currently held by NWTPC.

The option of creating a new company was chosen because of the financial and tax advantages available. The tax matters are more fully discussed in the section entitled "Tax Issues". Legal and Investment advisors have indicated that structurally, creating a new company is the most efficient manner of privatizing NWTPC.

In order to implement the privatization model, a Privatization Act would be required. The Privatization Act will outline the legislative amendments required and might include the following:

1. Newco will be incorporated under the Companies Act and an appropriate company name selected.

2. The Companies Act applies to Newco except as provided otherwise by the "Privatization Act".

3. NWTPC changes its name to the Northwest Territories Power Finance Corporation.

4. The Minister, NWTPC and Newco would enter into transactions to transfer the net operating assets of NWTPC to Newco and the shares of Newco to GNWT.

5. Newco to assume long-term debt of NWTPC.

6. GNWT continues to guarantee existing long-term debt of NWTPC, now Northwest Territories Power Financial Corporation, which would continue to be liable for that debt.

7. Rates, rate schedule and rate base approved by Public Utilities Board would remain in place following privatization.

8. The privatization transaction would be subject to all applicable NWT and Federal legislation and regulation.

9. Shares of Newco would first be offered to residents of the Northwest Territories.

10. Expenses with respect to privatization and public offering of shares of Newco are for the account of the Government of the Northwest Territories.

11. A person or associated persons owning more than 10% of the voting shares of Newco would have 0% of the vote.

12. The head office and executive offices would be situated in the Northwest Territories.

13. Newco, its shareholders and directors shall not apply for continuance of Newco in another jurisdiction.

14. On completion of the sale, the following employment related issues must be considered:

- employees of NWTPC cease to be employees of the GNWT

- employees would be employed by Newco

- employees would receive essentially the same pay and benefits

- a new employee pension plan would be developed

- the existing Collective Agreement would terminate and Newco would assist the employees to establish a new Union and Collective Agreement

- the employees would no longer be covered by the Public Service Act but would be subject to the Canada Labour Code.

15. Money received by GNWT by way of Federal Tax rebates would be refunded to Newco.

9. TAX ISSUES

There are literally dozens of tax issues associated with privatization. This arises because:

(a) We have the sale of a major business;

(b) The vendor is an income tax exempt corporation and Newco will not be;

(c) The business is a regulated business with its own tax rebate legislation,

Legal counsel advises that there are a number of minor tax advantages to using the Newco route, including:

- The asset purchase agreement between Newco and NWTPC would apportion the purchase price being paid among the various assets. This apportionment would form the basis of the tax accounts for Newco and would simplify the task of preparing the opening tax accounts. It is estimated that valuing and classifying the assets would take two to three months.

- Newco/GNWT would be free to enter into underwriting agreements for the sale of shares without the risk of triggering an immediate year-end and an immediate change of status from non-taxable to taxable. If NWTPC entered into an underwriting agreement, the Corporation would change immediately to a taxable company.

Under the Public Utilities income Tax Transfer Act, approximately 95% of the Income Tax which a utility pays to the Federal Government is rebated to the Government of the Northwest Territories. The total amount of annual rebates to be paid by the federal government under this legislation until March 31, 1996 has been frozen at the level of rebates paid in the 1989/90 fiscal period.

There has been no determination of the impact this funding limitation may have on the rebate to be paid to the GNWT from taxes paid by Newco.

If at the time of the sale Newco is a GST registrant, the sale of assets from NWTPC to Newco will be exempt from GST.

For complete information and details regarding the discussion of tax issues, please refer to the draft memoranda prepared by Howard Mackie and attached as Appendix "B".

10. EMPLOYEE ISSUES

a) Pensions

Employees of the NWTPC currently participate in the Federal Government's pension plan under the Public Service Superannuation Act.. After privatization, the employees of Newco could not continue to participate in the Federal Government's pension plan. Accordingly, equitable arrangements will have to be negotiated with the Federal Government.

Sound business practice require management to work closely with the employees to ensure that employee pensions are maintained at a comparable level and that a new pension plan is in place as soon as possible. It is important that Management and employees develop a pension plan that provides an equitable level of benefits.

b) Union

At present, employees of NWTPC are public service employees under the Public Service Act and there is a collective agreement with the Union of Northern Workers (UNW).

After privatization and because of existing legislation, the terms and conditions of the current Collective Agreement would no longer apply.

Good management practice would require NWTPC to operate under the terms and conditions of the present contract until its expiry date or until a new agreement is reached with the employees. To facilitate that agreement, reasonable support funding and assistance should be provided by Newco to the employees for the filing of an application with the Canada Labour Relations Board.

c) Continued Employment

NWTPC and Newco are interested in continuing the employment of all employees and therefore:

- employees of NWTPC would become employees of Newco at the time of transfer
- the same terms and conditions regarding salaries and benefits would apply
- every employee would be deemed to be employed by Newco for the same period of time as the employee was employed by NWTPC

This continuation of employment is essentially the same as the commitments provided at the time of the NCPC transfer.

It is expected that Newco would work with the employees to ensure a smooth and equitable transition regarding ail employment related matters.

d) Employee Stock Purchase Plan (ESPP)

Good business practice would suggest that concurrent with the offering of shares to the public an employees' stock purchase plan would be established. While the details of this plan have not yet been established, a typical employer stock purchase plan allows employees, on a voluntary basis, to purchase at, or slightly below market price to an amount equal to, say, 5% of the employee's annual salary, with payment made through payroll deductions.

As residents of the NWT, employees will also be eligible to purchase future share issues on a first right of refusal basis. This means that employees and NWT residents would be offered shares before shares are sold in southern Canada. Over and above the ESPP plan, employees may purchase shares on the open market.

There would be further discussion of the ESPP with employees as soon as details are available.

11. WORKERS' COMPENSATION ACT ISSUES

Employees of NWTPC are deemed to be employees of the public service and are covered by the Workers' Compensation Act. As a new employer, Newco is required to notify the Workers' Compensation Board of the commencement of business and to furnish an estimate of its payroll for the balance of the year. Also, Newco, before paying any part of the purchase price of the assets and undertaking must secure from NWTPC a certificate of the Workers' Compensation Board that it has no claim against NWTPC, otherwise Newco will be liable to the Board for any amount owing by NWTPC. Since Newco is generally assuming the liabilities of NWTPC, the certificate is not important to limit Newco's liability, but because the Act imposes a duty on Newco and NWTPC in relation to the certificate, it will be necessary to obtain the certificate in a timely manner.

The Act requires an employer who ceases to be an employer to notify the Board and to provide a statement of remuneration paid during the year to date it ceased to carry on business. It appears that GNWT will be required to supply that information.

12. ENVIRONMENTAL ISSUES

Under the Purchase Agreement to be negotiated, NWTPC and GNWT would continue to be responsible for environmental claims arising from events prior to the sale of Newco and would jointly and severally indemnify Newco from all costs and damages as a result of such claims. If agreement cannot be reached on matters regarding an environmental claim, NWTPC, GNWT and Newco agree to submit the dispute to an independent environmental expert, whose decision would be final and binding on the Parties.

13. INFORMATION TO BE INCLUDED IN A PROSPECTUS

Selling shares of Newco in a secondary distribution to the public requires that a prospectus be approved by all jurisdictions in Canada in which the shares are to be sold. A prospectus is a complex document which can run 75 or more pages and which requires a certificate signed by Directors and Senior Officers confirming that the prospectus contains full, true and plain disclosure of all material facts relating to the securities offered for sale, Any Director or Officer of Newco may be personally liable for any damages arising from any misrepresentation.

The prospectus contains such detailed information on the company and its operation as a prospective investor might require. The information includes detailed financial statements for each of the last five years and a pro forma balance sheet giving effect to the offering in the prospectus.

Once the Securities Agencies in each jurisdiction are satisfied, Newco would file a final prospectus and each Security Agency would issue a receipt for the final prospectus. The shares of Newco can then be sold to the public.

Until a prospectus has been approved, no solicitation can be made and no shares can be sold.

The prospectus would need to be translated into French at both the preliminary and final stage, if the shares of Newco are to be sold in the Province of Québec.

An application would also be required to list the shares on any stock exchange in Canada and it is expected that a listing will be sought on the Toronto Stock Exchange.

For more detailed information regarding the prospectus, reference should be made to the draft memorandum prepared by Howard, Mackie and attached as Appendix "B".

14. PUBLIC INFORMATION - CONSULTATION

To ensure that residents of the NWTaremade aware that NWTPC will be privatized, there would be an intensive community consultation process. This process would provide:

a) a description of the steps involved in the privatization including the reorganization of the business and assets of the NWTPC for the purpose of effecting the privatization or any expected impact that such privatization may have on the employees, subscribers, customers or creditors of the NWTPC.

b) reference to applicable sections of this report.

The sale of the shares to the public can only take place after a prospectus has been filed with and a receipt obtained from the various Securities Commissions and so any communication with the public prior to the issuance of a receipt for the final prospectus should contain a statement along these lines:

a) the document is not an offer to sell or a solicitation of an offer to buy Newco shares;

b) no sale of Newco shares or securities will be made in any territory or province of Canada prior to the time a receipt for a final prospectus is obtained from the appropriate registrar of securities, securities commission or similar authority in such territory or province; and

c) the document is not a prospectus and for complete information with respect to any statement contained therein reference should be made to the proposed prospectus when it is issued and (unless the document is specifically intended for publication outside the Northwest Territories) that the information is intended for Northwest Territories residents only.

As it is expected that shares would be sold in many provinces, it is prudent to adhere as closely as possible to the restrictions imposed by those Securities Commissions while providing information on privatization to NWT residents.

Reference should be made to the draft memorandum “Guidelines for Communications to the Public Prior to Issuance of a Final Prospectus” prepared by Howard, Mackie, included as part of Appendix “B”.

15. BUSINESS INCENTIVE POLICY

Although, NWTPC does not currently fall under the GNWT Business Incentive Policy, it does have its own Tendering and Contracting Policies, which provides local contractors with a 10% preference up to a maximum of $150,000.

Good business practice requires that this workable policy would continue after privatization.

16. AFFIRMATIVE ACTION

NWTPC does not currently have a formal Affirmative Action policy but has based its affirmative action initiatives on the framework provided in the Public Service Staffing Appeals Regulations. Instead of a formal policy, the Power Corporation has made Affirmative Action and employment of local labour integral parts of its overall Corporate ethic.

At the present time, 37% of NWTPC'S employees qualify as affirmative action candidates. There are very few departments of government that have achieved this level of affirmative action compliance. Affirmative Action is employed on a day-to-day basis as a voluntary effort on behalf of NWTPC. Good business practice requires a continuation of these practices after privatization particularly because hiring local labour minimizes recruitment costs and ensures a stable work force.

17. NUNAVUT

The privatization of NWTPC must be considered in light of the completion of the TFN negotiations and the establishment of Nunavut in 1999. The question that must be examined is whether the current NWTPC should be split into two separate utility operations in order to coincide with Nunavut.

NWTPC is currently established as an independent Crown Corporation. The operations of NWTPC are carried out as a single entity but for the purposes of this examination, consider the East - West split which follows:

	East	West
Plants	24	25
Customers 91 /92	6,835	6,896
Revenues 91/92	$41,118,000	$51,754,000

The Coopers & Lybrand (1 991) report on Division indicates that if two utility companies are established, an additional 42 Head Office staff would be required. In addition operating costs will increase by $5.5 million dollars per year. The East will need a total of 56 staff at Head Office and the West would require a Head Office staff of 62. NWTPC recently updated the overhead costs related to division and estimated that operating costs would increase by approximately $7.3 million per year. The Coopers & Lybrand and NWTPC overhead estimates are both significant and provide a range of additional costs to be considered.

Additional staff and operating costs must be recovered from someone, and in normal business and utility operations the source is usually the customer. The Coopers & Lybrand report makes the assumption that user rates would not be increased to cover the cost of Division. Given that each utility will be subject to regulation by a Public Utility Board, it is more likely that increased operating costs would be passed on to the customers as a normal function of the rate making process.

The Coopers report also indicates that the following factors need to be considered when contemplating Division:

a. NWTPC is a young corporation and does not have spare management capability that can be transferred to a divided corporate structure.

b. The ability to recruit personnel for the new Head Office with the appropriate skills.

c. The potential revenue base to be served in each of the two regions.

A review of the above issues surrounding creation of two separate utilities, suggests that splitting the Power Corporation will mean a more costly operation and consequently higher power rates.

NWTPC has been able to go to the private market and borrow capital funds but it has been necessary to have the GNWT guarantee the debt.
The financial guarantees provided by government, would have an impact on the government's financial position because in certain calculations guarantees are considered to be similar to actual debt. The government may be limited in the total amount it can borrow if its credit limit is taken up by utility debt guarantees.

The new Territory of Nunavut will face numerous financial demands. If monies are required to support the operation of a new utility or if government guarantees are needed in order for the utility to borrow capital funds, the government would have fewer financial resources with which to fund much needed programs and services.

There is no reason why the privatization of NWTPC cannot proceed even considering the establishment of two separate governing regions within the current utility service area. The Coopers & Lybrand report contemplates the creation of two separate Public Utility Boards. One in the East and one in the West.

There are substantial economies of scale to be achieved by one utility filing two applications rather than two utilities filing two rate applications. These economies control operating costs and consequently utility rate increases.

The GNWT originally acquired NWTPC in order to gain control over the operations and move the utility to the NWT. These objectives have been achieved. NWTPC is regulated by the NWT Public Utilities Board and its Head Office has been re-located to the NWT.

If privatization proceeds, as proposed, NWTPC/Newco will be owned by private investors located throughout both eastern and western regions of the NWT and other locations in southern Canada. The GNWT will retain its control over the operations of the utility through regulation by the Public Utilities Board. At the time of Division, given that each Territory will have a Public Utility Board, the operations of the utility will be controlled by the respective jurisdictions.

The two Public Utility Boards would be independent and would set policies and guidelines to meet their own unique requirements. Each PUB will require

Newco to operate in the respective geographic region in accordance with its established policies and guidelines.

Consideration must be given to the objectives that the new Territory of Nunavut might have in establishing a Crown owned utility. If the objective is control of utility rates, this can be achieved through the Public Utility Board process. If ownership is the objective, then government must deal with the issue of increased operating costs and potential rate increases related to the addition of administrative staff.

Capital West Partners believes that an increase in administrative expenses of $7.3 million would eliminate the economies of scale associated with a single utility. These additional costs would also make both of the utilities unprofitable, based on current rates. In order to make the utilities profitable, rate increases would be required,

Capital West Partners have reviewed the financial aspects of establishing two separate utilities. Capital West have indicated that the creation of two utilities would increase the risk and decrease the imputed returns to investors so that neither utility would be sufficiently attractive to warrant private sector financing. For further information regarding Capital West's opinion on creating two separate utilities, see Appendix "A".

NWTPC can be privatized and still accommodate the aspirations of Nunavut.

The administrative cost increases and concerns of investors indicate that retaining two separate operating utilities is not economically feasible.

The establishment of Nunavut will require the creation of two Public Utilities Boards. Nunavut will be able to control electrical rates and the returns paid to investors through the PUB process.

Based on the privatization model proposed, after privatization and after Division, the ratepayers in each Territory will be in a similar position; each Territory will be served by the same investor owned public utility and each Territory will control the rate setting process through the mechanism of its PUB.

18. CONCLUSION

GNWT has achieved the original objectives which led to the acquisition of NCPC, now NWTPC. These objectives included:

- making the utility accountable to northerners
- moving the head office to the NWT
- providing employment opportunities
- providing northerners with control of the utility
- facilitating and promoting economic development.

When NCPC, now NWTPC, was purchased, GNWT made a commitment to examine options for public participation in the ownership and operation of NWTPC. As NWTPC approaches the rate of return allowed by the PUB, it now appears to be an appropriate time to examine privatization

The model outlined suggests that privatization can be achieved in a manner that:

- enables the GNWT to obtain a fair value for its shares,
- protects the employment, pay and benefits and pensions of the . existing employees
- keeps the Head Office in the NWT
- ensures that the utility continues to be regulated by the PUB
- provides NWT residents with a first right of refusal to purchase shares
- makes available a low risk investment
- prevents any one shareholder from acquiring control
- provides funds for the use of the GNWT, estimated by Capital West Partners at $80 million, less expense of the public issue

- through shareholding provides northerners with the opportunity to have direct input into the operations of the utility

The estimate of value by Capital West Partners is based on the financial market conditions as at December 9, 1992, and is subject to continuous change. The final price of the shares will be determined at the time of the sale by negotiations between GNWT and the underwriters. The proceeds to GNWT will be net of the expenses of the public issue.

Nesbitt Thomson Inc. and Wood Gundy Inc., investment dealers, made preliminary estimates of value based on a review of public information and selected NWTPC internal information. Their range of value for NWTPC falls within the range of the Capital West Partners estimate of value.

Publicly traded power corporations are a iow risk investment and with continued low interest rates are increasingly popular equity investments as evidenced by the' successful privatization, last summer, of Nova Scotia Power.

A preliminary estimate by Howard, Mackie, legal counsel, indicates that privatization can be completed in about four months, following the passing . of the Privatization Act.

NWTPC can be privatized and the current conditions appear favorable to effect privatization somewhat along the lines outlined in the model.

PREPARED FOR

THE MINISTER RESPONSIBLE FOR THE

NORTHWEST TERRITORIES POWER CORPORATION

BY

CAPITAL WEST PARTNERS

FEBRUARY 16, 1993

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Section

CAPITAL WEST
PARTNERS

February 16, 1993

The Honorable Nellie Cournoyea
Minister Responsible for the
Northwest Territories Power Corporation
P.O. Box1320
Yellowknife, NT
XIA 2L9

Dear Minister:

You have asked Capital West Partners to:

- review the proposed privatization of Northwest Territories Power Corporation ("NWTPC")
- advise the Government of the Northwest Territories ("GNWT") with respect to the privatization, and
- provide an estimate of the proceeds to the GNWT from the sale of NWTPC.

Recommendations

We have completed a review of the proposed privatization and recommend that:

- the GNWT sell its NWTPC shares via a wide distribution to the public.
- residents of the Northwest Territories ("NWT") receive a first right to purchase the shares with the remaining shares being sold to individuals and financial institutions in other jurisdictions.
- the NWTPC shares be listed on the Toronto Stock Exchange.

Estimate of Value

We have made certain assumptions which are integral to the value of NWTPC, including the following:

- the continuation of the electrical rate subsidy program, and
- the continuation of NWTPC as a single entity servicing the western and eastern Arctic.

Based on our review of a number of factors, including a review of NWTPC, comparable publicly traded power companies, and prevailing financial markets, Capital West Partners estimates the value of NWTPC to be approximately $60 million. The GNWT will receive all of the proceeds of the sale less expenses of the issue.

We believe the shares of the NWTPC will be well received by the residents of the NWT and will provide them with a conservative and profitable investment.

If you would like to discuss the above further, please contact the undersigned at your convenience.

Yours truly,

CAPITAL WEST PARTNERS

CAPITAL WEST PARTNERS

Box 1012 • 1140 - 885 West Georgia Street • Vancouver, British Columbia • V6C 3E8 • Telephone: (604) 669-8992 • Fax: (604) 669-21..

SUMMARY OF THE OFFERING

The Company	Northwest Territories Power Corporation ("NWTPC") generates, transmits, and distributes electricity in the Northwest Territories ("NWT"). NWTPC provides approximately 98% of the generation, 91 % of the transmission, and 61 % of the distribution of electric power consumed by the public in the NWT. NWTPC is regulated by the Northwest Territories Public Utilities Board ("PUB"). In 1993, the revenues of NWPTC are expected to be $98.0 million and its earnings $7.2 million.
Issue	Installment Receipts representing common shares of NWTPC owned by the Government of the Northwest Territories ("GNWT").
Amount	$80 million.
Installment Receipts	Residents of the NWT will be eligible to purchase Installment Receipts for common shares. The Installment Receipts allow the purchaser to pay $6 per share now and $4 in one year. Non-residents will purchase common shares.
Price	$10 per share, or $6 per share on closing and $4 per share in one year.
Dividends	Based on prevailing financial market conditions, NWTPC will pay an annual dividend of $.75 per share to yield 7.5°A per annum. The Installment Receipts will yield 12.5% per annum for the first year.
Government Ownership	Upon completion of the offering, the GNWT will have no ownership in NWTPC.
Voting	All common shares will have one vote. No shareholder may vote more than 10% of the shares outstanding. A shareholder owning more than 10% may not vote.
Priority Allocation	Residents of the NWT will receive a first right to purchase the shares. Only NWT residents will be eligible to purchase Installment Receipts.
Use of Proceeds From Share Sale	The GNWT will receive $80 million after payment of the final installment and before deducting the expenses of the issue.
Listing	The common shares and the Instalment Receipts will be listed on the Toronto Stock Exchange. They may be purchased or sold at any time.
Future Share Offerings	Residents of the NWT will receive a first right to purchase future public issues of shares or bonds by the NWTPC at the prevailing market price.

INVESTMENT HIGHLIGHTS

Attractive Pricing

- The shares will be offered at a price which is based on lower price-to-earnings and price-to-book multiples than competing utility investments.

- The shares will be offered at a price which will provide a dividend yield which is comparable to the average of all competing utilities and higher than the two most directly comparable utilities.

Low Risk Investment

- The generation; transmission, and distribution of electric power is generally a low risk, stable business.

- Publicly traded power corporations are characterized by relatively low price volatility even during adverse financial market conditions.

Favorable Regulatory Environment

- The NWT PUB has demonstrated a willingness to allow companies in its jurisdiction to earn reasonable rates of return.

Economic Growth

- Population growth in the NWT has exceeded the Canadian average in the past 10 years.

- Mining in the NWT is growing rapidly. New developments in base metals, precious metals, and the recent exploration activity for diamonds bode well for future growth.

Improved Company Operations

- Since being acquired by the GNWT, NWTPC has dramatically improved its operating efficiency and the quality of its operations.

Growth In Profitability

- Earnings and revenues have grown at annual compound growth rates of 9.5% and 5.3% respectively over the past five years.

Employee Commitment Through Share Ownership

- The NWTPC is encouraging broad share ownership to enhance employee commitment throughout the organization. All NWTPC employees will be offered shares pursuant to the employee stock purchase plan.

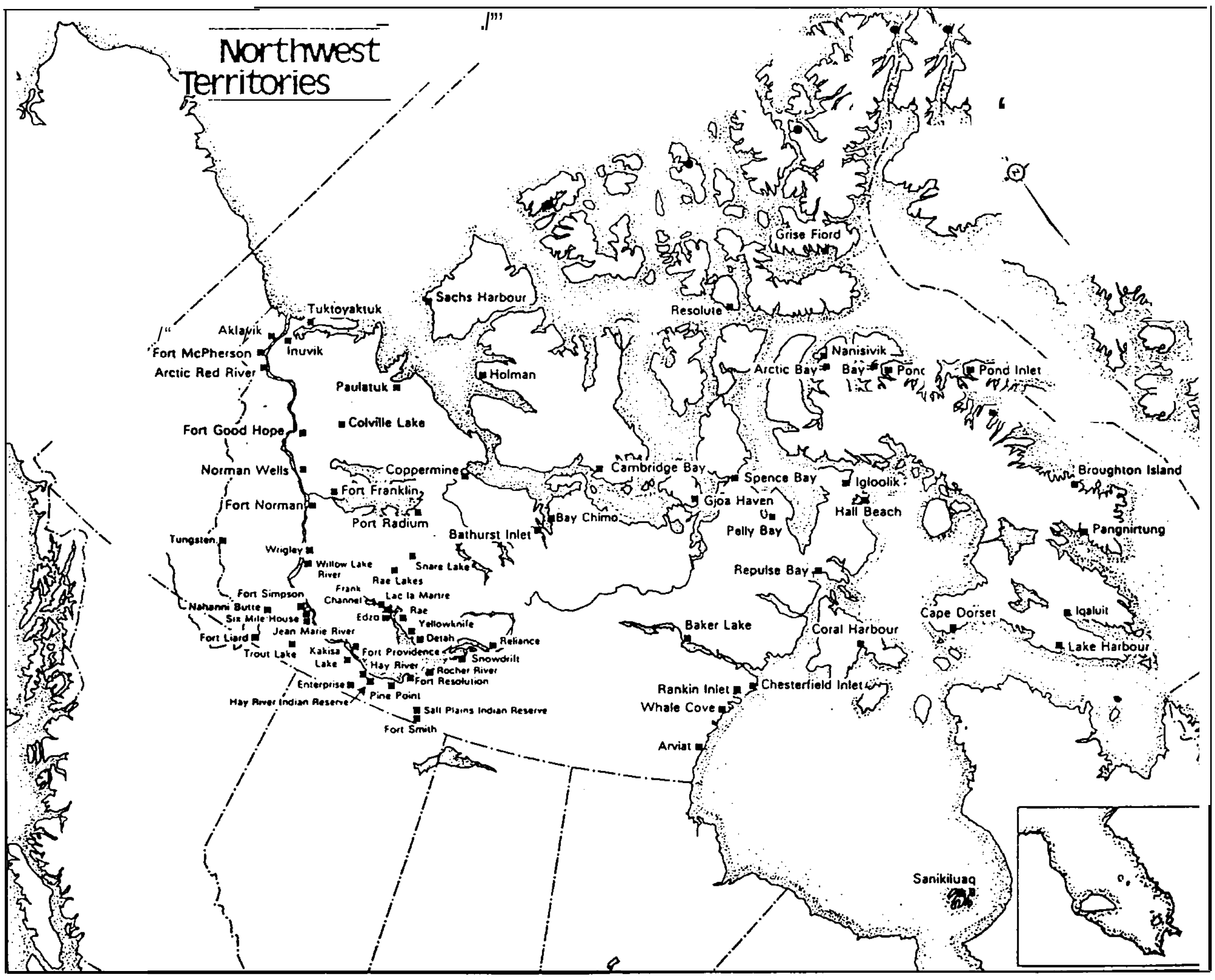
Independence From Government

- Through this offering the GNWT will divest itself completely of any interest in the NWTPC and will not be represented on NWTPC's board of directors.

THE **NORTHWEST TERRITORIES**

Geography

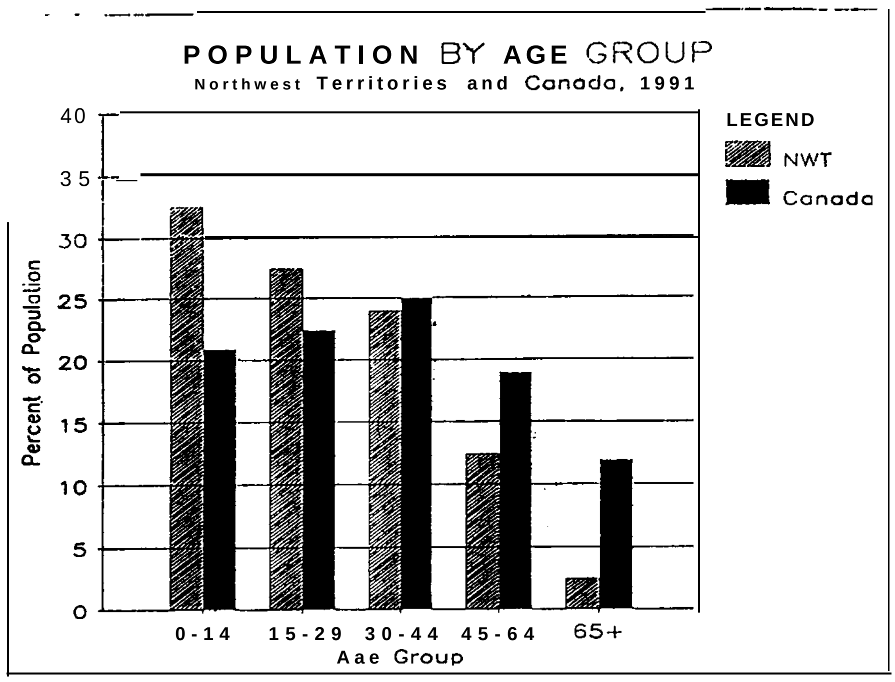
The NWT has an area of 3,376,698 square kilometres comprising 34% of Canada's land mass and 25% of Canada's coastline.



Population

The population of the NWT is approximately 60,000 and has grown at 2.3% per annum since 1991 versus 1.1 % for the rest of Canada. The population is young wfth a high birthrate.

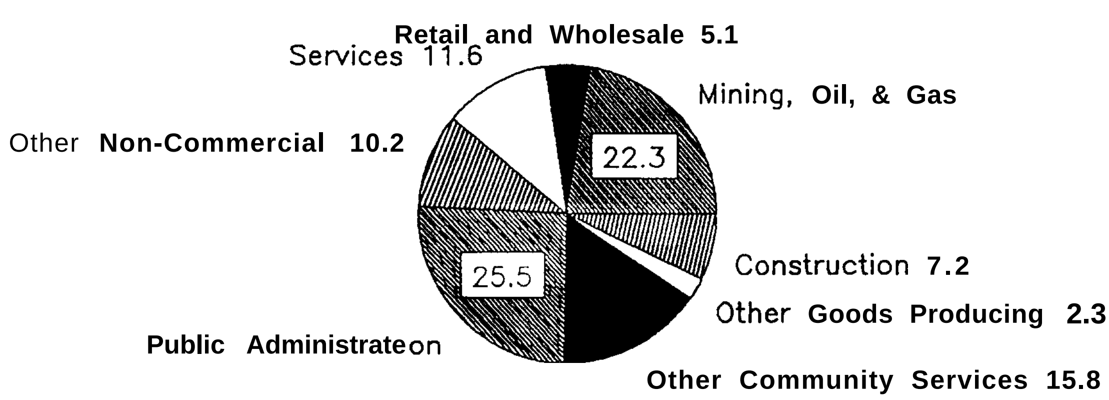
There are 59 separate communities. Yellowknife, the capital city, is the largest with approximately 14,000 residents.



The Economy

Although economic activity grew 10% faster than the Canadian average in the 1980s, the economy has since stabilized. Significant new growth is anticipated and will be fuelled by increased mining exploration and development.

GROSS DOMESTIC PRODUCT BY INDUSTRY
(%)



- The NWT is rich in mineral and hydro resources. In 1990, 21% of all zinc, 13% of all lead, 9% of all gold, and 2% of all silver produced in Canada was produced In the NWT.

- Substantial new base metal deposits are in various stages of exploration by Minnova Inc. and Metall Mining Corporation. Precious metal deposits are being explored and developed by BHP, Utah Mining, and Homestake.

- Diamond exploration has become extremely active. An area of over 76,000 square miles has been staked for exploration purposes.

Land Claim Settlements

- Continuing land claim settlements will reduce uncertainty and is expected to result in increased business activity generally, including mining exploration and development.

THE NORTHWEST TERRITORIES POWER CORPORATION

NWTPC is a pure electrical utility regulated by the NWT PUB. NWTPC has all of its assets invested in, and obtains essentially all of its revenues from, the generation, transmission and distribution of electrical energy.

The NWTPC operates a territory-wide system and provides approximately 98% of the generation, 91 % of the transmission, and 61 % of the distribution of electric power sold to the public throughout the NWT.

For the year ended March 31, 1993, NWTPC's revenues are expected to be $98.0 million, of which $89.9 million will be from electricity sales. In 1993, 39% of the electric revenue is estimated to be derived from residential customers, 38% from commercial and industrial customers, 22% from two wholesale customers, and the remaining 1 % from other services. During the five years ended March 31, 1992, NWTPC's electric revenue and the volume of electric energy sales have grown at compound annual rates of 5.3% and 2.5% respective y.

Energy Sources

NWTPC relies on two energy sources for its electric energy generation: diesel fuel and hydroelectric energy. NWTPC purchases its diesel fuel requirements throughout the year.

	Nameplate Capacity (MW)	Total Capacity (%)
Hydroelectric	46	38
Diesel	74	62
	120	100

Generating Facilities

The Corporation has 53 separate diesel plants and also owns hydro plants on the Snare and Taltson Rivers. The hydro plants provide 46 MW of generating capacity and the diesel plants can produce 74 MW of installed capacity. The operation has a peak load of 88 MW.

Yellowknife is serviced by the Jackfish Lake Diesel Plant and the Snare Hydro Plants. The transmission line from Snare to Yellowknife was replaced in 1990 and will last well into the next century. The Corporation also operates four wind turbines at Cambridge Bay.

NWTPC is investigating a number of new hydroelectric generating alternatives. An agreement is expected to be reached with the aboriginal people of the Dogrib Nation for NWTPC to purchase power from two hydroelectric developments to be constructed and owned by the Dogrib.

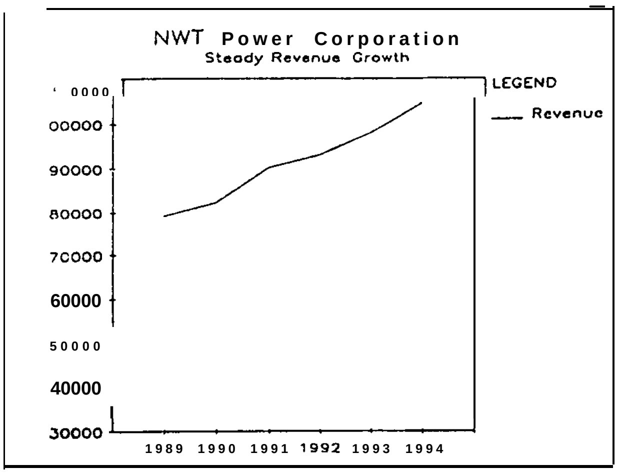
Financial Performance

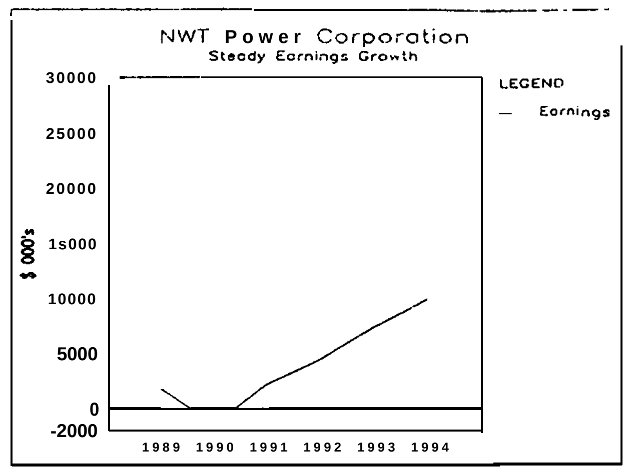
Selected Financial Information
Years Ending March 31
($000s)

	1994[1]	1993[1]	1992	1991	1990	1989
Revenue	104,466	97,995	92,872	90,086	82,191	79,169
Operating Expenses	84,649	81,041	82,450	81,760	78,421	72,104
Operating Income	19,817	16,954	10,422	8,326	3,770	7,065
Margin	19.0%	17.370	11.2%	9.2%	4.6%	8.9%
Net Income (Loss)	9,730	7,205	4,373	2,195	(1,371)	1,777
Total Assets	206,939	195,312	178,899	163,097	160,198	169,160
Long-term Debt	91,400	81,750	67,100	57,450	62,800	68,156
Shareholders' Equity	82,056	73,827	70,022	68,357	68,434	69,805

1. Capital West Partners' estimate.

Over the past five years, revenue and net income have grown at annual compound growth rates of 5.3% and 9.5% respectively. Revenue growth has been the result of a growing population throughout the NWT. Net income growth has been affected by the increase in revenues and by an improvement in operating efficiency.





ESTIMATE OF VALUE OF NORTHWEST TERRITORIES POWER CORPORATION

Capital West Partners has estimated the value of NWTPC based on the following assumptions:

- **GNWT sells all of its interest in NWTPC via a widely distributed offering to public investors.**
- **GNWT provides a right of first purchase to NWT residents.**
- **Voting is restricted to not greater than 10% for any individual or other legal entity.**
- **The offering is made on or about December, 1993.**

Factors Affecting the Value of NWTPC

Economic Environment

Economic growth has been robust in the NWTPC franchise area, but investors will be sensitive to the importance of continued government funding in light of the prevailing mood of fiscal restraint.

Investors will be sensitive to uncertainty surrounding the NERCO and Giant gold mines located in Yellowknife.

Political Environment

Investors will be unfamiliar with NWT consensus-style government and cognizant of its relative infancy. Further, the creation of Nunavut and the continuing land claims activity in the western Arctic will contribute to an air of uncertainty.

Regulatory Environment

Investors are very attuned to past regulatory decisions and will, because of the paucity of decisions to date by the PUB, be very sensitive to the results of the present application by NWTPC.

NWTPC has a good track record and soon expects to earn its allowed rate of return. Its capitalization is improving. However, NWTPC expects to make significant capital investments in the future in order to fulfil its obligations to facilitate economic development and, accordingly, is very vulnerable to a reduction in its rate base or allowed rate of return.

Financial Markets

Changes in investor perceptions concerning the future will occur continuously throughout the developmental phase and will alter the value of NWTPC.

Comparable Investments

Investor attitudes with respect to the attractiveness of public utilities investments relative to all other competing investments will have a direct impact on the value of NWTPC.

Estimate of Value

Based on a review of the above factors as well as a review of NWTPC, comparable publicly traded power utilities (see "Comparative Pricing Analysis"), and prevailing financial markets, Capital West Partners expects NWTPC to trade between eight and nine times estimated earnings for the year ending March 31, 1994 and between 1.0 and 1.2 times estimated book value as at March 31, 1993. Accordingly, Capital West Partners estimates the value of NWTPC to be in a range of $70 million to $90 million or approximately $80 million.

It is important to note that this indicated value is based on financial market conditions as at December 9, 1992 and is subject to continuous change. The final price of the shares will be determined at the time of the sale by negotiations between the GNWT and the underwriters.

Northwest Territories Power Corporation
Comparative Pricing Analysis
As at December 9, 1992

Name	Province of operation	Price at 12/09/92 ($)	Total market value ($ million)	Price to book value ratio (x)	Price/ earnings ratio (x)	Return on shareholders' equity (%)	Dividends/ earnings (%)	Dividend yield (%)
Canadian Utilities Limited	Alberta	21.00	1,300	1.5	10.9	13.3	73	6.7
Consumers' Gas Company Ltd.	Ontario	15.20	1,000	1.6	10.1	16.0	63	6.2
Fortis Inc.	Newfoundland	23.13	223	1.2	9.3	12.5	59	6.4
Gaz Metropolitain, Inc.	Quebec	12.00	1,100	1.3	10.0	18.4	100	10.0
Maritime Electric Company, Limited	PEI	15.88	55	1.2	8.7	14.0	51	5.8
Nova Scotia Power Corporation	Nova Scotia	10.75	851	1.3	11.6	11.2	81	7.0
TransAlta Utilities Corporation	Alberta	13.63	1,800	1.6	11.6	13.4	84	7.2
Union Energy Corporation	Ontario	16.75	628	1.8	11.1	16.2	37	3.3
Average				1.6	11.9	16.4	78.3	7.5
Northwest Territories Power Corp.								
1993 – forecast		10.00	80	1.1	11.1	10.0	83.3	7.5
1994 – forecast		10.00	80	1.0	8.2	12.5	61.7	7.5

CAPITAL WEST

P A R T N E R S

February 16, 1993

The Honorable Nellie Cournoyea
Minister Responsible for the
Northwest Territories Power Corporation
P.O. Box 1320
Yellowknife, NT
XIA 2L9

Dear Minister:

You have asked Capital West Partners to express an opinion on the financeability of the two entities which would result from the division of Northwest Territories Power Corporation ("NWTPC") to create a separate power corporation to serve Nunavut.

In our opinion, the division would significantly diminish the value of NWTPC and would render both of the resulting entities unfinanceable. The reasons for our opinion are:

- The estimated $7 million increase in administrative expense would eliminate the economies of scale achieved by NWTPC and would make both entities unprofitable.

- NWTPC is smaller and less well diversified than other publicly traded power corporations. Dividing NWTPC would exacerbate this weakness.

The effect of the above would be to increase risk and decrease the expected returns to investors so that neither entity would be sufficiently attractive to warrant private sector financing.

Yours truly,

CAPITAL WEST PARTNERS

CAPITAL WEST PARTNERS

FRW/jln

Box 1012 • 1140 - 885 West Georgia Street • Vancouver, British Columbia • V6C 3E8 • Telephone: (604) 669-8992 • Fax: (604) 669 21[illegible]

Memorandum

TO: David R. Wright

PROM James W. Surbey

FILE 103,145 NWTPC - Privatization

RE: Proposed Transactional Structure

1. The *Northwest Tern"tones Power Coloration Privatization Act* (the **'Privatization Act") is enacted** to become effective wholly or in various parts on the date or dates stipulated by the Commissioner in Council. The Privatization Act would vest any interest held by GNWT in the assets in Northwest Territories Power Corporation ("NWT'PC").

2. Immediately following the enactment of the Privatization Act, GNWT issues and files a secondary offering preliminary prospectus relating to the common shares of a wholly-owned subsidiary ("Newco") of NWTPC.

3. The following concurrent transactions would occur immediately following the Privatization Act becoming wholly effective:

(a) all of the property and assets of NWTPC, including shares of all subsidiaries, (the **"Transferred Assets")** are conveyed by NWTPC to Newco in exchange for eight million common shares of Newco and an assumption of all of the obligations of NWTPC excluding existing environmental liabilities, but including obligations in respect of the existing long term debt of $81.75 million (NWTPC would be released from its $26.75 million long term debt obligation to GNWT); **[Note to draft - Are there assets that should not he transferred? Will all subsidiaries he transferred?]**

(b) the shares of Newco are transferred by NWTPC to GNWT. The following alternatives are available to achieve this transfer:

(i) the Newco shares could be transferred to GNWT for $1.00- this would result in a book loss to NWTPC if that would be a potential concern for any reason;

(ii) the Newco shares could be transferred to GNWT for a note equal to their fair value - this would leave a receivable from GNWT in NWTPC if that would be a potential concern for any reason; or

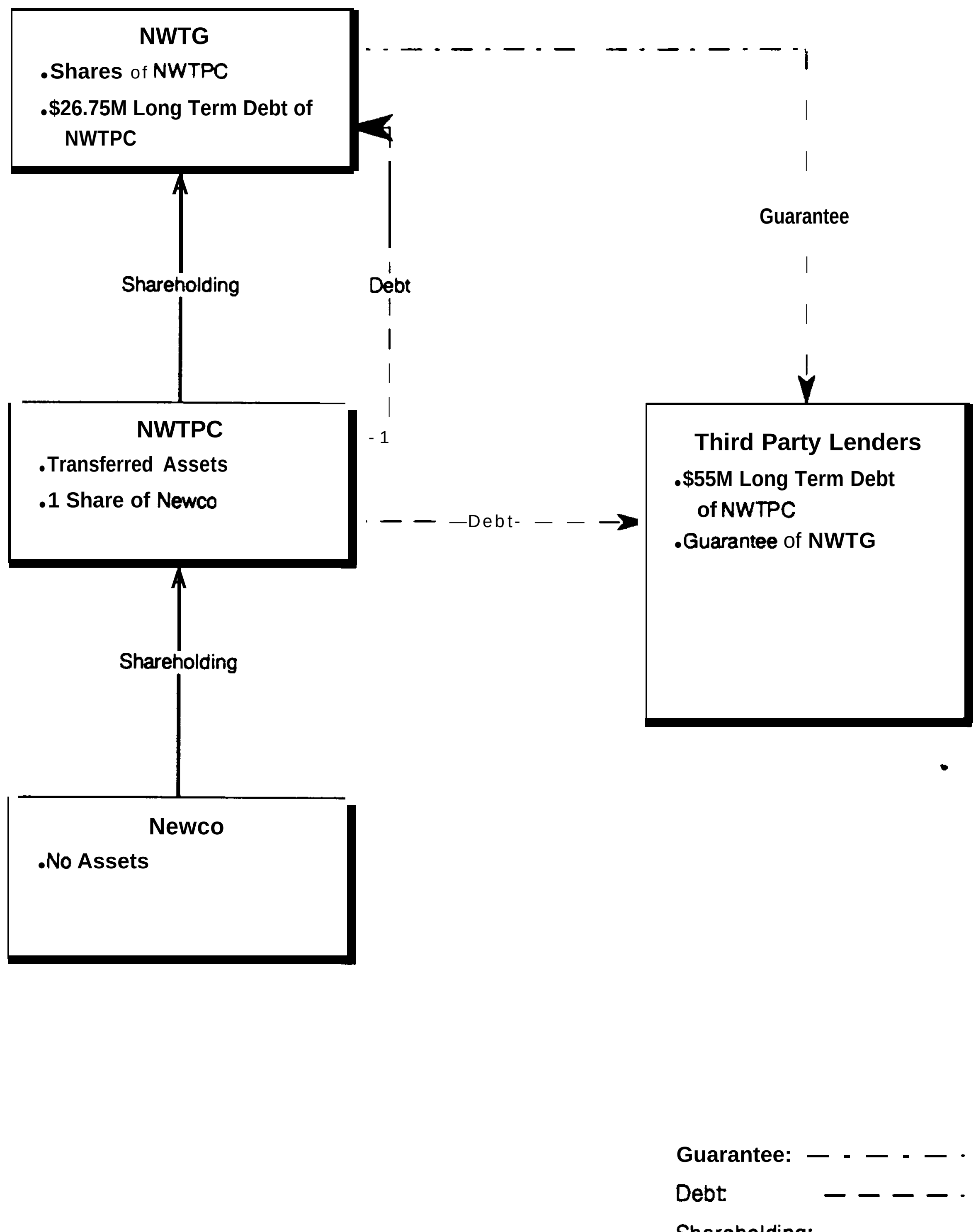
(iii) the Newco shares could be dividended, but it would then be necessary to deal with this dividend in the ***Privatization Act so as*** to override any common law and statutory restrictions on dividends and alleviate any potential liability for the directors of NWTPC; and

[Note to draft - Alternative (i) assumed for purpose of transaction maps.]

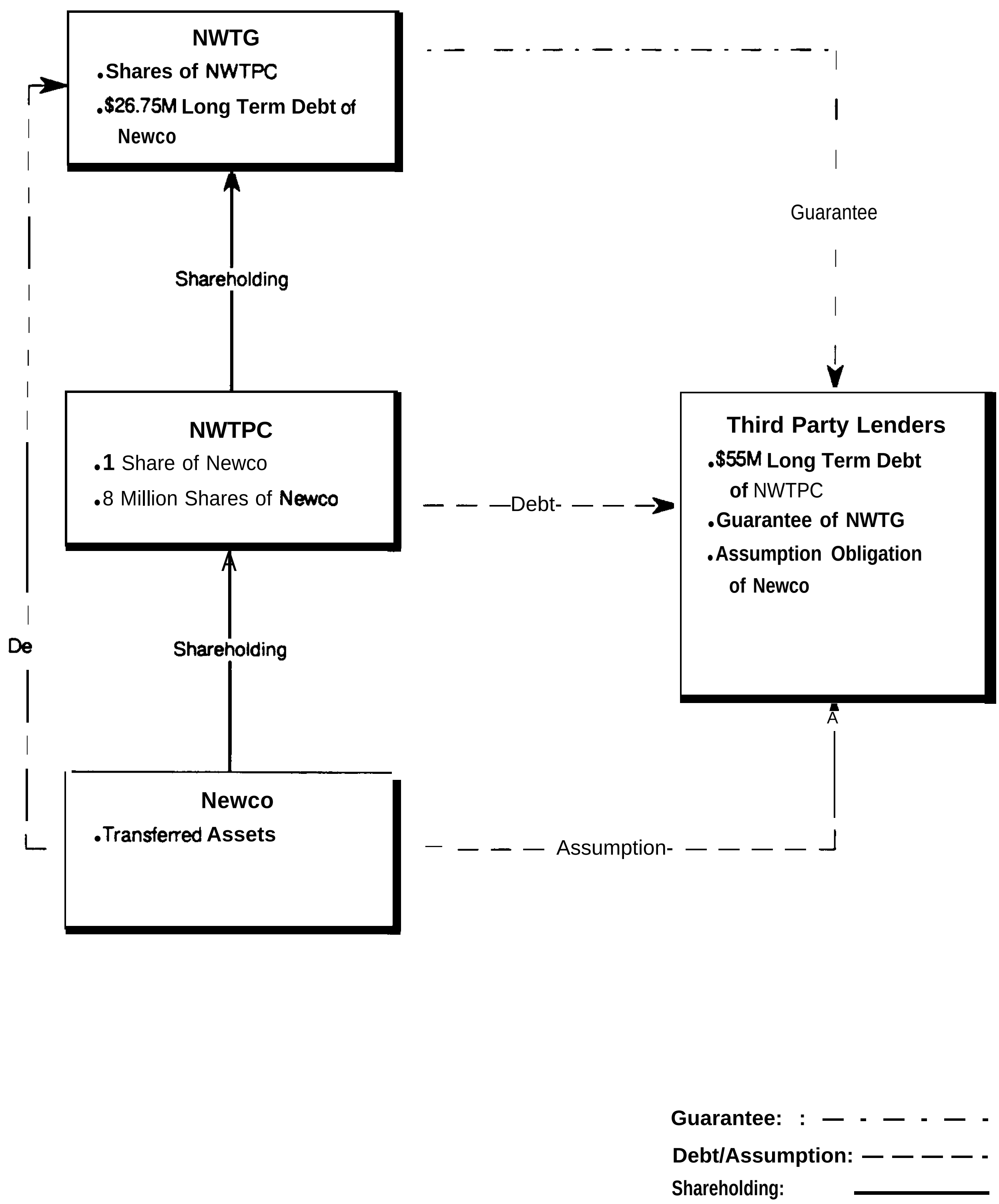
(c) GNWT sells 100% of its shares in Newco to the underwriters who resell the shares to the public subscribers either on a $6 now, $4 later installment basis (for qualified residents of the NWT) or on a full cash basis to other purchasers.

This Memorandum has been prepared on the basis of our understanding of the proposed privatization of NWTPC as at the date of this Memorandum and is intended for the sole use of the GNWT.

STATUS PRIOR TO PRIVATIZATION TRANSACTIONS



STATUS AFTER IMPLEMENTATION OF STEP 3(a) OF PRIVATIZATION TRANSACTIONS



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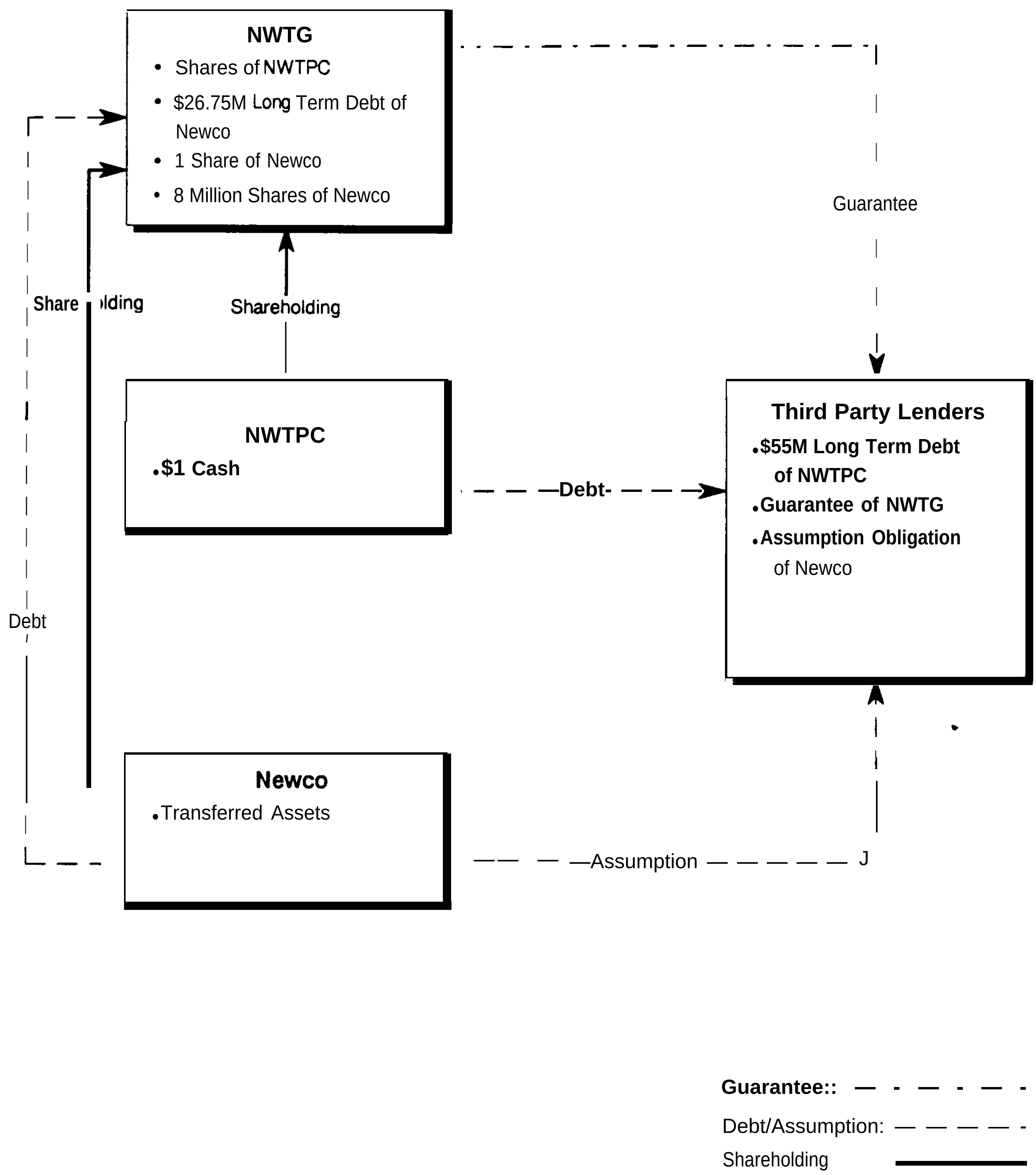
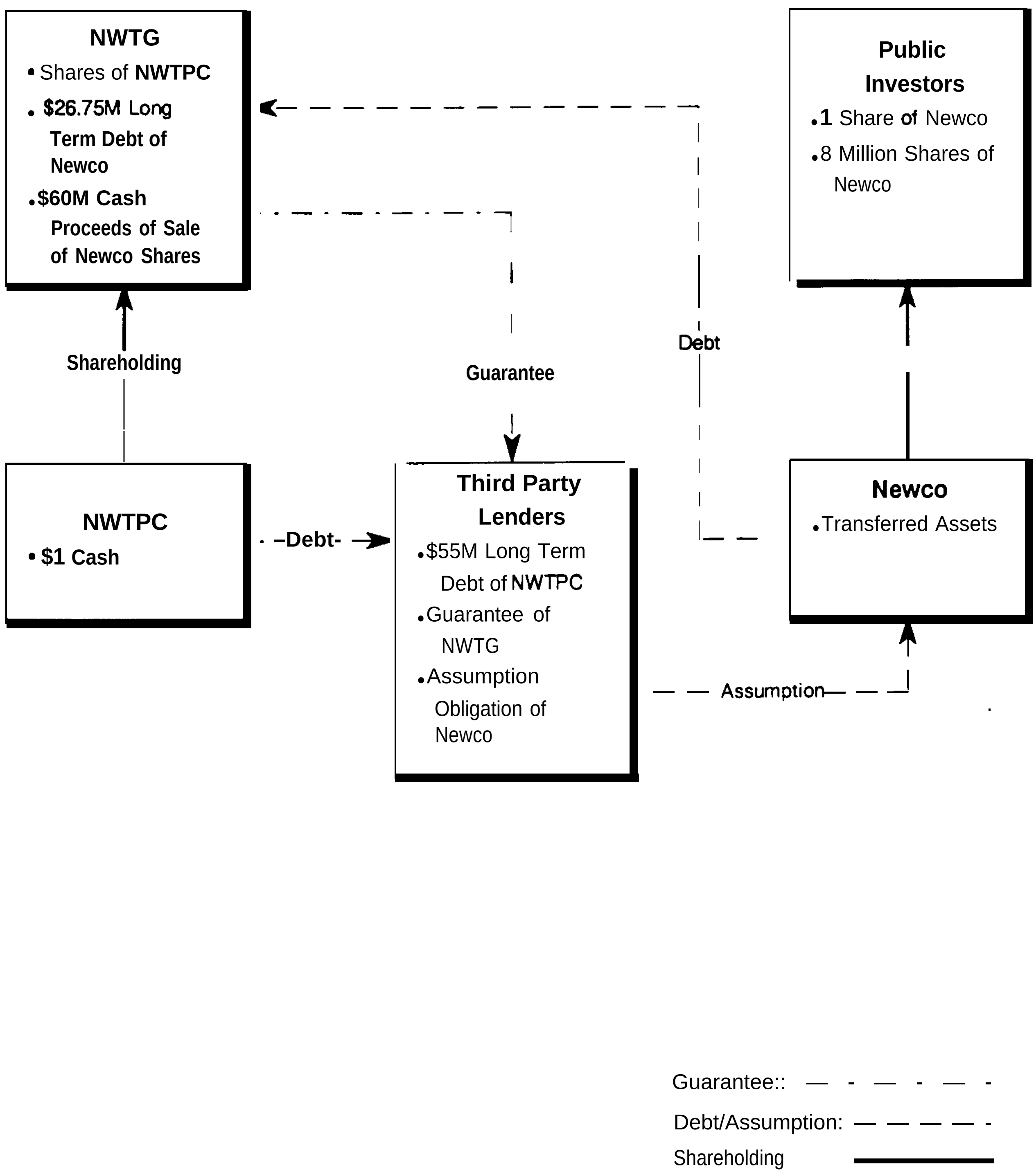
STATUS AFTER IMPLEMENTATION OF STEP 3(b) OF PRIVATIZATION TRANSACTIONS



STATUS AFTER IMPLEMENTATION OF STEP 3(c) OF PRIVATIZATION TRANSACTIONS



DRW/103145/RAR-AA-2.AF2

Draft - February 15, 1993

Memorandum

TO David R. Wright

FROM Ross D. Freeman

FILE: 103,145 NWTPC - Privatization

RE: Tax Aspects

You have asked me to address the following issues in respect of the proposed privatization of Northwest Territories Power Corporation ("NWT'PC"):

1. Identify the tax issues involved and provide a brief outline of each;

2. What are the pro's and cm's of:

   (a) a continuation of NWTPC under the Northwest Territories *Companies Act* *versus* a transfer of assets to another company; and

   (b) a sale of shares by the government versus a sale of shares by the Corporation?

TAX ISSUES

There are numerous tax issues associated with this transaction (literally dozens). This arises because:

(a) We have a sale of a major business;

(b) The vendor is a tax exempt entity while the purchaser will not be;

(c) The business is a regulated business with its own tax rebate legislation.

For these reasons, it is not possible to identify all tax issues at this time. Rather, I propose to identify generally the areas for consideration and I will endeavour to highlight some of the key issues in each area. The areas for consideration are as follows:

(a) Structure of the privatization transaction;

(b) Preparation for tax reporting obligations;

(c) Maximizing share values; and

(d) Technical requirements.

L Structure of the Privatization Transaction

There are two basic structures possible, namely converting NWTPC to an ordinary corporation by continuing it as a company under the ***Companies Act*** and then selling the shares of the company to the public or by having a company already incorporated under the ***Companies Act*** ("Newco") buy all of the assets from NWTPC and then selling the shares of Newco to the public. The tax rules are such that there is no major tax advantage to going one way or the other. There are, however, a number of minor tax advantages to going with the sale of assets to the new company including the following:

(i) The asset purchase agreement between Newco and NWTPC would apportion the purchase price being paid among the various assets. This apportionment would form the basis of the tax accounts for Newco and would simplify the task of preparing the opening tax accounts.

(ii) Newco would be free to enter into underwriting agreements for the sale of shares without the risk of triggering an immediate year end and a change of status to taxable from nontaxable which would be a risk of NWTPC entering into such underwriting agreements.

(iii) Using NWTPC rather than Newco would make it more likely that it would be necessary to go back in time in order to create historical tax records for NWTPC. This would be a costly and time consuming exercise.

option

Unless there is a non-tax reason for proceeding by way of conversion of NWTPC into a taxable corporation, consideration should be given to proceeding by way of Newco which would then acquire the assets from NWTPC. It is noted that this is how both the Nova Scotia Power and Telus privatization were effected.

2. Preparation for Tax Reporting Obligations

Newco will be a tax paying entity. As a result, it will have to maintain tax accounts in accordance with the ***Income Tax Act.*** One of the main tax deductions which will be available to Neweo is capital cost allowance ("CCA"). CCA is the tax equivalent of depreciation. CCA rates vary by class of assets. Because NWTPC does not file tax returns, it has never had to value or classify its assets by CCA class. Because NWTPC owns so many assets of a diverse nature located all across the Northwest Territories, the task of classifying all of the assets by CCA class will be a large one.

Option

Consideration be given to assessing the need for and, if considered necessary, initiating the process of valuing and classifying the assets of NWTPC by CCA class.

3. Maximizing Share Value

One of the factors which will determine the amount of funds that can be raised from the sale of shares is the level of projected after-tax income of NewCo. Currently there is federal legislation in place which requires the federal government to rebate to the government of the Northwest Territories about 95 percent of the tax which Newco will pay. There is also in place Northwest Territories legislation which will allow, but not require, the Northwest Territories government to pass on any rebate it receives to NewCo. The underwriters, on behalf of the investors, can be expected to assess the risk of one or both of these rebates being reduced or eliminated in the future. The Nova Scotia Power prospectus, for example, contains several warnings in this regard. The higher the perceived risk of the rebate being reduced or eliminated, the lower the amount that can be raised in the share issue.

Options

Investigations could be initiated to determine what, if any, steps could be taken to reduce the risk of the federal government reducing or eliminating the tax rebate in favour of the Northwest Territories government.

The Northwest Territories rebate legislation currently in place could be amended to make it mandatory rather than permissive that any rebate received from the federal government be passed on to Newco.

The Northwest Territories Power Coloration Privatization Act could provide that any federal rebate monies received will be set aside in a segregated fund for the benefit of NewCo.

The Government of the Northwest Territories ("GNWT") and Newco could enter into an agreement which would assure Newco of the existence of the Territorial rebate for some stipulated period of time.

Newco could be exempted from Northwest Territories taxation for some stipulated period of time.

Even with the rebate in place, Newco will probably be liable for some income and capital tax. By ascribing as much as possible of the purchase price to those classes of assets which have the higheat CCA rate and by taking advantage of certain tax elections and other planning opportunities, it should be possible to minimize the net amount of income and capital tax which will be payable. This in turn will increase projected after-tax income and will maximize the amount which can be raised in the share issue.

4. Technical Requirements

There are numerous technical requirements set out in the ***Income Tax Act,*** the ***Excise Tax Act*** (which contains the GST legislation) and a variety of other pieces of tax legislation. Failure to observe these technical requirements can result in payment of extra taxes as well as interest in penalties. These technical requirements apply not only to the period after privatization but also to the period of privatization.

option

Identify and consider the various technical requirements imposed by all applicable tax legislation.

PRO'S AND CON'S

The pro's and con's of continuing NWTPC under the Northwest Territories ***Companies Act versus Newco*** are discussed above. The tax rules are such that it is generally open to us to proceed either way. There are however certain tax advantages to proceeding by way of Newco.

There is no significant tax difference between the GNWT selling shares and Newco selling shares. Either way, the sale will be tax free to the vendor and the recipient will have an adjusted cost base of his shares equal to the amount paid for the shares. One difference however would be that the issuance by Newco would create paid up capital equal to the amount subscribed. Paid up capital can be returned to a shareholder tax free. However, because shareholders generally dispose of their shares by selling them to someone else rather than selling them to the company, this is generally not particularly significant.

This Memorandum has been prepared on the basis of our understanding of the proposed privatization of NWTPC as at the date of this Memorandum and is intended for the sole use of the GNWT.

Memorandum

TO David R. Wright

FROM: Ross D. Freeman

FILE: 103,145 NWTPC - Privatization

RE: Analysis of Need for Tax Planning

You have asked me to advise on the simplest and most inexpensive method of satisfying the tax aspects of the NWTPC Privatization assuming that the 95% Federal Tax Rebate remains in place. You will recall that in a previous Memorandum I identified an option that would involve investigating the continued availability of the rebate. In particular, the effect of the "cap", which has been applied to the total payments to be made by the Government of Canada under the rebate program until 1996, could be considered.

Based upon the current operating results of NWTPC and a rough estimation of the amount of capital cost allowance which will be available to Newco, Newco should have less than Two Hundred and Fifty Thousand Dollars ($250,000.00) of net annual income tax liability after taking into account the 95% rebate. This would include net capital tax. Based upon this relatively small amount, it would not be worth the time or expense of a great deal of tax planning to minimize annual tax liability in Newco. All that would be required would be to monitor the various agreements and transactions involved in the privatization to ensure that no unexpected tax liability was triggered.

If, however, the 95% Federal Tax Rebate is revoked, then Newco's annual income tax liability will be in the range of three to four million dollars. In such an event, it would probably be worthwhile to do a detailed tax plan at the outset of the privatization in order to identify all reasonable means of minimizing this ongoing liability.

This Memorandum has been prepared on the basis of our understanding of the proposed privatization of NWTPC as at the date of this Memorandum and is intended for the sole use of the Government of the Northwest Territories.

Memorandum

TO David R. Wright

FROM: **Ross** D. Freeman

FILE: 103,145 **NWTPC** - Privatization

RE: Applicability of GST to Asset Transfer

You have asked me to advise on what effect GST will have on the proposed transfer of **NWTPC's** assets to **Newco.** According to the September 18, 1992 Abbott Report, **NWTPC** is currently a GST registrant. Provided that we also registered Newco prior to completing the purchase of assets, then subsection 167(1) of the ***Excise Tax Act*** (the GST Legislation) will exempt the sale of assets from **NWTPC** to Newco from GST. Newco will have to pay GST on certain costs of completing the privatization; however, it will be entitled to an investment tax credit in respect of the GST paid.

This Memorandum has been prepared on the basis of our understanding of the **proposed** privatization of **NWTPC** as at the date of this Memorandum and is intended for the sole use of the Government of the Northwest Territories.

Memorandum

TO David R. Wright

FROM: Ross D. Freeman

FILE: 103,145 NWTPC - Privatization

RE: Time Required to Value and Classify Assets for Tax Purposes

You have asked me to estimate the length of time required to carry out the necessary classification and valuation of NWTPC's assets for tax purposes. In this regard, I reviewed certain computer printouts you provided including the following:

I. Fixed Assets Detailed Report by Plant;
II. Capital Asset Depreciation Report; and
III. Capital Asset Depreciation Report Detailed.

The reports appear to identify each asset owned by NWTPC, identify the date on which the asset was acquired and the original cost of the asset. The report also indicates how much depreciation has been taken on the asset to date for financial statement purposes which, in turn, generates a net book value for each of the assets. One of the reports sorts the assets by "CLASS". The classes are numbers generally ranging from 1 to 32. The classes are by asset type but they do not correspond to the classes set out in the income *Tax Act.* Nevertheless, the lists which are available will assist greatly in preparing the tax classification.

Once the financial details of the privatization are complete, this will determine the purchase price to be paid by Newco for the assets. It will be necessary to allocate this purchase price among the various assets purchased. This allocation will have to include not only the tangible assets which are detailed on the computer schedules but also, certain intangible assets such as the value of Newco's right to supply power in the NWT. In the course of attempting to value these intangible assets, it may be necessary to talk to certain "experts" or to look at comparable transactions. Once the amount to be allocated to the intangible assets has been determined, the remaining purchase price will be allocated to the tangible assets. I would expect that if we allocated the purchase price among the tangible assets based on net book value that, at least as a starting point, this would be a reasonable approach. Because the computer printout identifies the net book value of each asset, this should be a fairly straight forward exercise. There may, however, be circumstances where net book value is not the appropriate figure to ascribe to any particular asset so it will be necessary for someone to go through each and every asset and satisfy themselves that the portion of the purchase price we are ascribing is reasonable.

Assuming there are no unexpected problems which arise, I would estimate that the process of valuing and classifying the assets could be completed in two to three months.

This Memorandum has been prepared on the basis of our understanding of the proposed privatization of NWTPC as at the date of this Memorandum and is intended for the sole use of the Government of the Northwest Territories.

Memorandum

TO David R. Wright

PROM Kurtis T. Kulman

FILE: 103,145 NWTPC - Privatization

RE: Information to be Included in Prospectus and Offering Procedure

You have advised that the Government of the Northwest Territories ("GNWT") is proposing to "privatize" the business and operations currently carried on by the Northwest Territories Power Corporation ("NWTPC") by transferring all of the assets and undertaking of NWTPC to a company incorporated under the ***Companies Act*** (Northwest Territories) ("Newco") and thereafter selling the shares of Newco held by the GNWT in a secondary distribution to the public by way of prospectus offering (the "Public Distribution"). It is my understanding that a prospectus will be filed, and the Public Distribution will be made, in all jurisdictions in Canada. You have asked me to briefly summarize:

(a) the information required to be contained in a prospectus of this kind; and

(b) other issues relating to filing and clearing a prospectus for a nation-wide public offering.

This Memorandum is intended only as a summary of the topics discussed herein. If GNWT decides to proceed with the Public Distribution a more detailed review of the securities issues arising from such offering will have to be undertaken.

INFORMATION REQUIRED TO BE CONTAINED IN A PROSPECTUS.

1. General

Applicable securities legislation across Canada generally requires that each of the preliminary prospectus and the final prospectus of Newco must contain a certificate, to be signed by certain senior officers and directors of Newco, which provides that the preliminary prospectus or the final prospectus, as the case may be, contains full, true and plain disclosure of all material facts relating to the securities offered therein. The combined effect of this certificate and other legislative provisions is that if the preliminary prospectus or the final prospectus contain a misrepresentation, the purchaser of the securities offered thereunder will have the right to either: (i) rescind the share purchase and receive the purchase price back, or (ii) commence an action for damages arising from the misrepresentation. As well, securities legislation generally provides that, depending on the circumstances, any director or officer of Newco maybe personally liable for any damages arising from any misrepresentation.

2. *Specific* **Prospectus Disclosure Requirements**

As a guideline for the preparation of a prospectus, most Canadian jurisdictions have prescribed lists or forms which describe the information generally considered to be material to a prospectus offering and therefore which should be disclosed in the prospectus. The ***Securities Act*** (Northwest Territories) does not specifically require any information beyond that required by provincial securities legislation. Copies of Form 12 prescribed pursuant to the regulations to the ***Securities Act*** (Ontario) which contains the information required to be included in a prospectus of an industrial company filed in Ontario and of section 85 of the ***Companies Act*** which contains the information required to be included in a prospectus tiled in the Northwest Territories, are attached to this Memorandum. The requirements of the other provinces are similar to the Ontario requirements.

As a summary, the following information is generally required to be contained in both a preliminary and a final prospectus:

(a) the name and principal business address of the issuer and the jurisdiction under which it was incorporated;

(b) a description of the offering of securities under the prospectus including the price thereof, any remuneration to be paid to the underwriters and a summary of how the offering will be conducted;

(c) a description of the business carried on by the issuer and its subsidiaries and the general development of the business within the 5 preceding years;

(d) a description of the location and general character of the principal properties and assets of the issuer;

(e) a description of all material acquisitions and dispositions of shares or assets by the issuer during the past 2 years;

(f) a discussion and explanation of any substantial variation in the operating results, financial or otherwise, of the issuer over the 3 years prior to the date of the prospectus;

(g) a discussion of the capitalization of the issuer, both equity and debt;

(h) certain financial statements of the issuer (please see more detailed discussion below);

(i) a discussion of how the proceeds of the offering will be utilized;

(j) a description of the shareholders who hold more than 10% of any class of voting securities of the issuer;

(k) a description of the directors and officers of the issuer, including their respective positions with the issuer and their principal occupations for the past 5 years;

(l) a detailed description of the compensation received or to be received by the directors and officers of the issuer, including their participation in any benefit plan (ie., stock option plan, pension plan, etc.) and any rights they may have to compensation upon termination;

(m) the interest of any insider of the issuer in any material transactions of the issuer in the past 3 years;

(n) a summary of any indebtedness owing to the issuer by directors or senior officers thereof;

(o) a discussion of the risk factors of the shares offered pursuant to the prospectus including a statement as to the dilution of the net tangible book value of the issuer per share to investors who purchase shares under the offering;

(p) a summary of the federal income tax consequences resulting from the purchase of securities under the offering;

(q) a summary of any material government control or regulation with respect to the business or industry in which the issuer is involved;

(r) a description of the securities offered pursuant to the prospectus including the rights, privileges and restrictions attaching to such securities;

(s) a description of any prior sales in the past 12 months of the class of securities offered under the prospectus;

(t) a description of any market in which the securities offered under the prospectus may be sold;

(u) a description of any stock option plan of the issuer and the stock options issued thereunder

(v) a summary of all material contracts entered into by the issuer in the past *2 years;*

(w) a statement naming the auditors, transfer agent and registrar of the issuer; and

(x) a description of all material legal proceedings in which the issuer is involved;

As well, both the preliminary prospectus and the final prospectus are specifically required to contain a statement on their respective cover pages that no securities agency in Canada has in any way passed upon the merits of the securities offered thereunder. Any misrepresentation contained in the prospectus will remain solely the responsibility of Newco and its directors and officers.

The foregoing is meant to be a summary of the information generally required to be contained in a prospectus. The circumstances of any particular offering may require further disclosure of other information as <u>all material information</u> with respect to the issuer, the offering and the securities offered thereunder must be included in the prospectus.

All the information discussed above must be included in both of the preliminary prospectus and the final prospectus, except that any information with respect to the pricing of the securities and any information dependant on that pricing need not be disclosed in the preliminary prospectus.

3. **Financial Information**

1. The financial statements that are required to be contained in a prospectus include:

(a) a balance sheet of the issuer as at a date not more than 120 days prior to the issuance of a receipt for the preliminary prospectus; and

(b) a balance sheet as at the corresponding date referred to in (i) for the previous financial year.

Where the balance sheet referred to in (a) is at a date other than a financial year end, then the balance sheet referred to in (b) may be omitted if the prospectus contains balance sheets as at the two most recent financial year ends of the issuer. As well, the prospectus is required to contain:

(c) an income statement;

(d) a statement of surplus; and

(e) a statement of changes in financial position

for each of the last five financial years of the issuer as well as

(f) the statements referred to in (c), (d) and (e) made up as of the dates of the balance sheets referred to in (a) and (b).

2. All annual financial statements or statements made up as at a financial year end of the issuer must be audited and the final prospectus must be filed with a live signed auditor's report attached thereto. Interim Statements must be accompanied by a "Comfort Letter" provided by the auditors.

3. As Newco will have just been incorporated, the financial statements included in its prospectus will have to be those of NWTPC.

4. It is likely that a pro forma balance sheet giving effect to the offering should be included in the prospectus.

5. If it is deemed appropriate to include in the prospectus a forecast statement of income, compliance with the requirements of a specific national policy is required, including:

(a) the forecast must be accompanied by an auditor's report thereon in both of the preliminary prospectus and the final prospectus; and

(b) once the prospectus containing the forecast is filed, the issuer must review the forecast every time financial statements of the issuer are filed to identify any material changes to the information in the forecast.

OTHER ISSUES RELATING TO A NATION-WIDE PUBLIC OFFERING

L Selection of Principal Jurisdiction

In order to streamline the review process that occurs upon filing of a prospectus in a nation-wide distribution of this kind, a national policy concerning clearance of national distributions ("National Policy 1") has been created and accepted by each jurisdiction in Canada. Pursuant to National Policy 1, upon the filing of the preliminary prospectus Newco will be entitled to designate one of the jurisdictions in which the offering is being made as the "principal jurisdiction" (ie., the Province of Alberta or the Province of Ontario). If it accepts its role as the principal jurisdiction, the securities regulatory authority of the principal jurisdiction will act as the principal contact between Newco and the remainder of the securities regulatory authorities in the other jurisdictions with respect to the cleaning up of any deficiencies raised in the preliminary prospectus during the review process. Rather than deal with the regulators in all of the jurisdictions, Newco will generally only have to deal with the principal jurisdiction.

2. Prospectus Filing Procedure

Each of the provinces and territories of Canada have enacted their own corporate and securities legislation governing the issuance of securities in each such jurisdiction. However, for the most part, the law in each jurisdiction with respect to this type of issuance is substantially uniform. This legislation requires that, in order to make a secondary distribution of the shares of Newco, Newco and GNWT will be required to prepare a preliminary prospectus and file the same with the securities regulatory authority in each jurisdiction in Canada (the "Securities Agencies") wherein the Public Distribution is to be made. Upon being satisfied that all required documentation has been filed along with the preliminary prospectus, the Securities Agencies will each issue a "receipt" for the preliminary prospectus. Thereafter, in theory, the Securities Agencies in each jurisdiction will review or "vet" the preliminary prospectus with the view to providing comments to Newco concerning any deficiencies in the disclosure contained in the preliminary prospectus.

Pursuant to National Policy 1 discussed above, the principal jurisdiction will use its best efforts to provide its initial comments to Newco within 10 working days of the issuance of the receipt for the preliminary prospectus and to compile any further comments of the other jurisdictions within a further 5 working days. Upon receipt of each of these comments, Newco and its legal advisors will prepare and file a written response to the comments. Deficiencies raised generally relate to additional information required by the Securities Agencies concerning the offering and the issuer thereof, as well as requested changes to wording contained in the preliminary prospectus. Once the Securities Agencies in each jurisdiction are satisfied that all deficiencies have been corrected or dealt with, Newco will then file a copy of the final prospectus (which will contain all changes and revisions agreed to during the vetting process), along with certain other documentation, in each jurisdiction. Once they are satisfied that all required documentation has been filed in connection with the final prospectus, the Securities Agencies will each issue a receipt for the final prospectus.

It is our experience that, in the circumstances of a national distribution of shares by way of a long form prospectus such as that contemplated here, it generally takes about 6 to 8 weeks from the date of the issuance of the receipts for the preliminary prospectus in order for all of the deficiencies to be resolved and the final prospectus to be filed. We understand that the length of this period in the Telus privatization offering was 5 weeks.

During the period between the issuance of the receipts for the preliminary prospectus and the issuance of the receipts for the final prospectus, the underwriters of the offering may communicate to any person certain information with respect to the securities proposed to be issued under the offering, provide copies of the preliminary prospectus to such persons and "solicit expressions of interest" from prospective purchasers. However, a binding agreement to sell the securities proposed to be distributed under this offering mav not be made until the receipts for the final prospectus have been issued.

3. French Language Prospectus

It should be noted that pursuant to certain french language legislation in the Province of Quebec, both of the preliminary prospectus and the final prospectus of Newco and the financial statements contained therein will be required to be filed in Quebec in both english and french. In these circumstances we usually retain a law firm in the Province of Quebec to translate and prepare the french language prospectus. As well, the auditor of the issuer, if it is a national firm, is usually instructed to prepare french language versions of the financial statements contained in the prospectus. It is our practise in these circumstances to obtain opinions from both of the law firm and the auditing firm to the effect that the translations are in all material respects complete and accurate translations of the english version thereof. It is our experience that the Quebec law firm that we usually retain in these circumstances is able to translate all required documentation in approximately 3 to 4 days.

4. Other Translations

To the extent that the prospectus needs to be translated into other languages it•may be necessary to obtain an exempting order under the Securities *Act* (Northwest Territories) and the *Northwest Tern-tories Power Corporation Privatization Act may* have to create an exemption from the *Companies Act.*

5. Stock Exchange Listing

In order to create a market upon which the securities of Newco distributed pursuant to the Public Distribution can be subsequently traded, an application to list such securities on a stock exchange (ie., The Toronto Stock Exchange) maybe made concurrently with the prospectus offering. If the application is successful, the securities would likely be listed and posted for trading on the stock exchange shortly after the closing of the offering. We believe that such an application by Newco would be favorably received by any stock exchange in Canada provided that certain minimum listing requirements are satisfied by Newco and its prospectus offering is successfully completed.

This Memorandum has been prepared on the basis of our understanding of the proposed privatization of NWTPC as at the date of this Memorandum and is intended for the sole use of the GNWT.

Memorandum

TO: David Wright

FROM: Brian E. Roberts

FILE: 103,145 NWTPC - Privatization

RE: Guidelines for Communications to Public Prior to Issuance of Final Prospectus

The guidelines set out in this Memorandum pertain to communications of any nature in connection with the proposed privatization of Northwest Territories Power Corporation ("NWTPC") to be made by employees, agents or any other representative of the Government of the Northwest Territories ("GNWT"), NWTPC or the public company resulting from the privatization ("New(m").

suMMARY

The laws applying to such communications are different for communications made before and after a preliminary prospectus is filed with applicable securities regulators. In addition, an exemption order is proposed to be obtained under the ***SecuritiesAct*** (Northwest Territories) which will affect the types of communications that can be made in the Northwest Territories.

Prior to obtaining the exemption order, communications should be limited to the narrow range of communications described below. It is anticipated that the exemption order will thereafter permit communications regarding the existence of a planned public offering but likely will still not permit communications to contain any statements relating to the majority of matters identified below under the heading "Communications to be Avoided". Although these guidelines should be reviewed when the exemption order is obtained, it is recommended that these guidelines be followed where possible, even if the exemption order allows communications of the type described below under the heading "Communications To Be Avoided". This recommendation arises from the impact of the securities laws of other provinces to where communications may be inadvertently disseminated. For the same reason, until the preliminary prospectus is filed, to the extent possible, all communications should be limited to the Northwest Territories.

Following the filing of the preliminary prospectus, registered dealers will, in the course of the delivery of the prospectus to the members of the public, be permitted to provide and explain details regarding the privatization as set out in the prospectus. The exemption order is expected to also contain provisions regarding involvement of additional persons and communications that can be made as part of the distribution-process.

COMMUNICATIONS

During the privatization, we expect (i) the GNWT, MLAs and senior GNWT personnel (including executive assistants to Ministers, Deputy Minister and Assistant Deputy

Ministers, Press Secretaries and .), (ii) NWTPC and senior NWTPC personnel (including the Board of Directors, Chairman and Chief Executive Officer, the President and Chief Operating Officer, the Vice-President of Finance and Chief Financial Officer and ●), (iii) Newco and senior Newco personnel (including the Board of Directors, Chairman and Chief Executive Officer, the President and Chief Operating Officer, the Vice-President of Finance and Chief Financial Officer and ●) and (iv) other employees, agents and representatives of the GNWT, NWTPC and Newco will be releasing to the public prepared communications about the privatization including

- speeches to constituents, subscribers, employees or any other members of the public;
- letters, brochures, leaflets, flyers and any other prepared printed materials sent or made available to Northwest Territories residents;
- press releases issued by, and press briefings or information sessions;
- answers prepared by the GNWT or NWTPC for use by NWTPC staff responding to enquiries anticipated to be received by way of any 1-800 line including expansions from time to time to address additional potential questions to be answered through any 1-800 line [this should be deleted if a 1-800 line is not used];

  audio visual or other similar materials prepared for use at public speaking engagements or for use or adapted by the press in reporting upon the privatization; and
- radio, television or printed media advertising materials.

We also expect that MLAs, senior GNWT personnel and senior NWTPC personnel will be required on various occasions to make unprepared communications to the public about the privatization including,

- verbal responses to enquiries made directly or indirectly by the press or by members of the public;
- comments made during meetings, media interviews, speaking engagements or informal discussions other than as part of formal communications; and
- speeches, debates and comments by MLAs in the Legislative Assembly of the Northwest Territories with respect to the privatization and related matters.

COMMUNICATIONS TO BE AVOIDED

The content of communications made to the public (other than statements made by MLAs in the Legislative Assembly) between the time that the GNWT officially announces the privatization and the time that the Registrar of Securities accepts the prospectus for the privatization is particularly important. During that time, prepared and unprepared communications made to the public should, to the extent possible, be limited to residents of the Northwest Territories and should not contain any statement pertaining to:

- any suggestion of any nature inviting the public or any segment thereof to purchase shares arising out of the privatization;
- the details of the proposed privatization relating to the price and terms on which the shares will be sold;
- whether a securities commission, stock exchange or other regulatory authority has or will in any way pass on or approve the merits of the privatization or any aspect thereof or any shares arising out of the privatization;
- whether the listing of Newco shares on any stock exchange will occur or that an application has been, or will be made, to list such shares on a stock exchange;
- the value of Newco shares either at the time of issuance or in the future; or
- any form of prediction or forecast of the success of the Newco share distribution or Newco's future performance, or prospects or the value or competitiveness of Newco including any future values of any nature.

Prior to obtaining the exemption order, communications may contain a description of any part of the ***Northwest Tern"tories Power Coloration Privatization Actor*** a description of (i) the reorganization of the business and assets of NWTPC, Newco or any other company for the purpose of the privatization or (ii) any expected impact that the privatization may have on employees, customers or creditors of NWTPC, Newco or any other company. It is anticipated that the exemption order will permit communications prior to the filing of the preliminary prospectus to include statements regarding the first item noted above (ie of the existence of the proposed public offering under the privatization plan and that invitations to purchase shares will be made as part of that public offering).

It will be more difficult to observe the above guidelines in unprepared communications than in prepared communications. MLAs, senior GNWT personnel and senior NWTPC personnel should be provided with these guidelines and be requested and advised to make reasonable efforts in their unprepared communications, as circumstances permit, to avoid making statements of the type described above. However, MLAs are in no way restricted in comments or statements made in the Legislative Assembly.

Subject to any exemption order that maybe obtained, the guidelines remain applicable even after the acceptance of the prospectus by the Registrar of Securities. However, the exemption order from the Registrar of Securities is expected to also contain provisions regarding involvement of additional persons and communications that can be made as part of the distribution process within the Northwest Territories.

INCLUSIONS IN WRITTEN PREPARED COMMUNICATIONS:

Every document released to the public containing a written prepared communication about the privatization should include a statement that:

- the document is not an offer to sell or a solicitation of an offer to buy Newco shares;

- no sale of Newco shares or securities will be made in any territory or province of Canada prior to the time a receipt for a final prospectus is obtained from the appropriate registrar of securities, securities commission or similar authority in such territory or province; and

- the document is not a prospectus and for complete information with respect to any statement contained therein reference should be made to the proposed prospectus when it is issued and that the information is intended for Northwest Territories residents only.

ORDINARY COURSE COMMUNICATIONS

During the privatization period, NWTPC can continue advertising its products and services in the ordinary course of its business providing the advertising does not refer to the privatization. It can also continue to make announcements in relation to actual business or financial developments in the ordinary course of its business providing it does not refer to the privatization, the public offering or predictions as to NWTPC's or Newco's future performance or industry prospects.

Attached for your information is a case comment and other documents which indicate the seriousness with which securities regulators view communications with the public regarding the sale of securities.

This Memorandum has been prepared on the basis of our understanding of the proposed privatization of NWTPC as at the date of this Memorandum and of the anticipated form of the exemption order. This Memorandum is intended for the sole use of the GNWT.