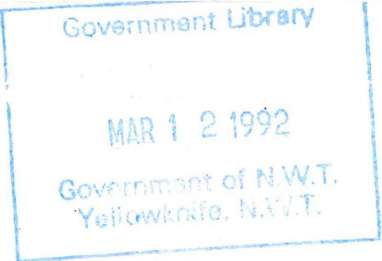


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February 12, 1992



The Honourable John Pollard, M.L.A.
 Minister of Finance, Economic Development and Tourism
 The Government of the Northwest Territories
 Box 1320
 Yellowknife, NWT
 X1A 2L9

Dear Sir: **Aurorales - Northwest Territories**
Canada Pavilion - EXPO '92
Seville, Spain

On Thursday, January 23, I met with you, Mr. Pierre R. Alvarez, Secretary to the Cabinet, and your Executive Assistant, Ms. Judy Goucher and agreed to provide, as soon as possible, a broad brush review of, and recommendations regarding, the continuation of this project.

I've completed that quick review and because it appears that EXPO '92 will be a success and because NWT has incurred all the fixed costs and is mainly facing costs which will vary in relation revenue, I suggest that Aurorales be operated for, say 30 days, under strong, on-site management to determine if a positive cash flow can be achieved. If a positive cash flow is not achieved in that period, the operations should be reviewed and decisions taken to substantially alter or close Aurorales. In the paragraphs following, I outline the data obtained and the reasoning for this suggestion.

Aurorales - a spanish word suggesting the northern lights - is the name chosen for the Northwest Territories facility in the Canadian Pavilion at EXPO '92 in Seville, Spain. The primary purpose of the 400²m restaurant/gallery is the testing and the long-term development of European markets for NWT arts, crafts and food products.

EXPO '92 is the first Universal Exposition to be held since EXPO '70 in Osaka, Japan and is the first Fair of this magnitude to be held in Europe since 1958 Brussels Fair. It will be the largest World's Fair ever held at roughly 4 times the size of Montreal's EXPO '67. Participating in EXPO '92 will be 110 countries, 23 international organizations, 17 autonomous regions of Spain, 30 multi-national organizations.

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It is interesting to note that the expected visitor count at EXPO '92 will see an average daily attendance of 4 times the total population of the NWT. These numbers must be kept in mind when assessing the project.

In a complex multifaceted project such as Aurorales commitments for design and construction of the physical facilities and for the purchase of equipment must be entered into well in advance of the commencement of operations. A review of the Department of Economic Development and Tourism's files would indicate that was the case with respect to this project. By early December of 1991, all major contracts for the design and construction of Aurorales had been signed and work had started. The fixed costs of the project, which were largely committed to, by contracts signed in October, November and early December, appear to be in the range of \$2 to \$2.5 million, most of which has been expended to date.

Some important dates regarding announcements and commitments are:

i) September 19, 1991 -

The government leader, Dennis Patterson announced in Iqaluit that Canadian North, a division of Canadian Airlines International had agreed to become NWT's first corporate sponsor in EXPO '92 in Seville, Spain. A press release was issued following the statement which he made on behalf of the Minister of Economic Development & Tourism, The Honourable Gordon Wray, M.L.A.

ii) September 16, 1991 -

Contract for design of Aurorales awarded to Bing Thom, Architects.

iii) October 31, 1991 -

Final date for acceptance by staff of offers of employment.

iv) November 8, 1991 -

NWT forwards signed copy of Memorandum of Understanding to Canada.

v) November 26, 1991 -

Moosehead Breweries Ltd. offers to supply 20,000 cases of 24 bottles of beer at very nominal cost.

vi) December 3, 1991 -

Contract awarded to Javier Abaurre for on-site leasehold improvements.

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vii) December 5, 1991 -

Reception at Canadian Pavilion with broad media coverage announcing NWT participation and describing Aurorales project.

viii) December 6, 1991 -

Contract awarded to Interior Craft Incorporated for millwork.

ix) January, 1992 -

At the time of this review, in addition to sponsors mentioned above, the following organizations had agreed to make cash contributions or to provide goods or services at substantially reduced prices:

- (a) Hiram Walker Group
- (b) Norterra Inc.
- (c) Clearly Canadian Mineral Water
- (d) Alberta Distillers
- (e) Mikes Moving - Yellowknife
- (f) Yellowknife Photo Centre
- (g) Interprovincial Pipe Lines Inc.

On Tuesday, January 28, I travelled to Seville, Spain with Mr. Allan Vaughan, the Assistant Deputy Minister, Economic Development & Tourism to inspect the EXPO '92 site, the Canadian Pavilion, the Aurorales space and to discuss the current status with Messrs. Ferrand and Scheiller, contract employees of the Department of Economic Development & Tourism and to obtain relevant information from different elements of the Seville business community.

Some of the information obtained and the observations made during our three day visit to Seville were as follows:

1. Construction of the 215 hectares site on the Isla de la Cartuja, between the two branches of the Guadalquivir River and within walking distance of downtown Seville is well advanced and will be completed for the opening date of April 20, 1992.

The Canadian Pavilion is large, well designed and easily visible from one of the main entrances. It will be completed well in time for the opening.

2. We met with Mr. Luc Lavoie, the Commissioner of the Canadian Pavilion. Mr. Lavoie and his family have been in Seville for several months and he has worked actively to promote the Canadian Pavilion and Aurorales, an integral part of the Pavilion. The Commissioner and the Canadian Pavilion have received considerable publicity in the

Spanish press, including media coverage about the NWT and its participation in EXPO '92. Aurorales was prominently featured in newspaper articles following a reception at the Canadian Pavilion on December 5, 1991.

3. The Aurorales space is virtually complete except for the installation of the kitchen equipment and certain leasehold improvements which were built in Canada and are now on route by sea. The architects most recent work plan indicates the restaurant area will be in operating condition by March 1 and that the retail sales area will be in operation by March 20.
4. I telephoned Mr. Bing Thom, the architect, for the Canadian Pavilion and the Aurorales space, and I was interested in his description of how the decor of the Pavilion and of Aurorales complimented another and of how the decor entices the Pavilion visitor to patronize Aurorales.
5. Mr. and Mrs. Ferrand, and Mr. and Mrs. Scheiller the Department's contract employees have moved into two bedroom apartments in EXPO city, which is the new attractive staff housing area. The area has been developed as condominium apartments with the intention of selling them to local residents after the Fair. These accommodations are first rate.
6. Messrs. Ferrand and Scheiller have begun to establish a network in Seville and through them we met with Carlos Norix, a cafe owner/operator in Seville who has been helpful in sourcing laundry and other services. We also met a Mr. Jose Ferendex Vaca, a supplier of table linens and small wares. In addition the contract managers had been in conversation with Antonio Lomas, a fruit and vegetable broker and a supplier of automatic coffee machines. All these Seville entrepreneurs are enthusiastic about Aurorales.
7. Together with the contract managers, we met with Agustin Oleaga Linero who is the director commercial of CODA (Centro Oficial Distribution Almacenamiento), the central receiving, customs clearing and warehousing operation for the Fair. He was very helpful and was supportive of the NWT participation.
8. With the contract managers, we also visited with a Mr. Octavio Jimenex Saurex who is the director of the cold storage warehouse to be used by CODA. He expressed an interest in acting as a distributor of NWT food products after EXPO '92.
9. We were advised by the staff at CORAL, (Centro Oficial de Reservas de Alojamiento - EXPO '97), the centralized computerized reservation system for hotel rooms, that virtually all of the hotel rooms in Seville and within a 200 km. radius were booked for the 176 days of the Fair with the exception of a relatively small number of rooms that were available in the particularly hot period from mid-July to mid-August.

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10. We were also advised that flights into Seville are very heavily booked during the period of the Fair.
11. EXPO city, the excellent staff accommodation facility, is also virtually fully booked.
12. I understand that some 85,000 season passes for EXPO '92 have been sold at \$325 each.
13. There will also be a daily night-time pass for the period 8:30 p.m. to 4:00 a.m. at a cost of \$11. It is the intention to centre the Seville nightlife on the EXPO '92 site, after the pavilions close at 10:00, and to continue entertainment and bar services into the early morning hours.
14. The population of Seville and the adjacent area is in the order of 1,300,000 and there is a great deal of national pride and indeed local pride behind EXPO '92 and thereby promoting the success of the Fair.
15. The Spanish railways have instituted a high speed, three hour, train service from Madrid and will be running some 10 to 12 trains each way, each day. This will enable "day trippers" to come from some distance.
16. Seville is within driving distance for millions of Europeans and the Fair organizers expect many visitors to arrive by car. They have built the largest parking lot I have even seen and they continue to add to it.

This information and the related observations suggest that EXPO '92 will be a success and that the Canadian Pavilion will enjoy a large number of visitors.

NWT is now within three weeks of completion of the restaurant facility and perhaps about six weeks from the completion of the retail facility. In the life of the project, this is undoubtedly the darkest hour. All of the fixed costs have been incurred, all of the commitments have been made to Canada, to sponsors, to suppliers and to employees and the revenue stream is but an estimate; yet to be proven. Thus, at this point, with \$2.5 million plus or minus, in sunk costs, any operation which produces a positive cash flow and reduces those sunk costs by any amount must be deemed to be on the success side of the ledger. It is important to recognize that moving forward with the project does not guarantee its success, but will, if all else fails, give NWT a much clearer picture of the potential European market for Arctic foodstuffs and art.

With the exception of the return airfares, with a possible cost of \$187,000 all the remaining costs would appear to be variable and related to future revenues.

Given the commitments which have been made to Canada, to suppliers, to sponsors and to employees and given that virtually all of the fixed costs have been incurred to date, the appropriate business decision is to commence the operations of Aurorales, with a strong on-site

Director of NWT Operations, and to carefully monitor the revenue stream against budget. If in the first 30 days the revenue stream is not close to forecast, a further review should be made and the operations should be substantially altered or closed.

Some barriers to success are:

- i) Aurorales is a much larger operation that was undertaken at EXPO '86.
- ii) It is in another continent, some eight time zones away.
- iii) It will operate largely in another language and in another culture.
- iv) There will be an extraordinary amount of excitement and promotion in Seville this summer and, so, Aurorales will need to stress its distinctiveness to separate it from the other Pavilions and food outlets.
- v) A possible bottleneck would be the CODA operation which will have responsibility for customs clearing, warehousing and shipment, to the Pavilions, of the majority of goods and foodstuffs. One advantage of CODA is that all Pavilions would face the same difficulties and if those became sufficiently aggravating, I believe that the, now, complex regulations would quickly be abandoned to ensure a flow of goods to and success of the Fair.
- vi) As many other operators have had senior management on-site for months and, in some cases a year or more, the Director of NWT Operations will be playing "catch-up" ball and it is, therefore, essential that he or she be on-site as soon as possible.

So as to maximize chances of success, it is important to have a senior on-site Director of NWT Operations to manage Aurorales, to maintain cordial effective relationships with the Commissioner of the Canadian Pavilion, promote Aurorales among the EXPO family and to the visitors and do all negotiations necessary for the on-going operations of Aurorales. I would suggest that this Director have full authority for decision making and that he have whatever backup he requires from the Department of Economic Development & Tourism. The Director should have direct access and full reporting responsibility to you, as Minister.

He would have two principal tasks; first to maximize the revenue and if that revenue is not close to expectations, within 30 days, to substantially alter or close the operations and secondly to identify every market opportunity for future sales of Arctic foodstuffs and art.

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It is of great importance that the Director establish and maintain harmonious and effective relationships with Luc Lavoie, Commissioner of the Canadian Pavilion, so that his staff will during their announcements and when acting as guides to the Pavilion, bring to the attention of the visitors the existence of Aurorales and encourage them to visit and patronize the operations of the NWT.

I acknowledge with appreciation the assistance provided to me by Mr. Pierre R. Alvarez, Secretary to the Cabinet, Mr. Allan Vaughan, Assistant Deputy Minister, Department of Economic Development & Tourism and Mr. Christopher (Kit) Spence, Director, EXPO '92 and Ms. Judy Goucher, your Executive Assistant.

I would welcome an opportunity to meet with the Director of NWT Operations and to provide you and your colleagues with whatever additional information you may require.

Yours very truly,

A handwritten signature in black ink, appearing to read "F.F. Abbott". The signature is written in a cursive style with a horizontal line underneath the name.

F.F. Abbott, FCA, CBV
/bw

FREDERICK F. ABBOTT, B. COMM, F.C.A., C.B.V.

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FREDERICK F. ABBOTT, B. COMM, F.C.A., C.B.V.

PROFESSIONAL EXPERIENCE:

- Substantial involvement in a leadership role on various investigative, cost control and/or budgetary assignments for corporations and different levels of government.
- Investigated and reported on disputes on commercial matters so as to assist legal counsel and where necessary provided expert testimony.
- Senior Partner of a number of audits of municipal, government and non-profit organizations including, from 1976 to 1980, the City of Calgary and the Calgary General Hospital.
- Senior Partner on the XV Olympic Winter Games Organizing Committee Audit.
- Significant audit experience relating to public and private companies in a variety of industries but with emphasis in the 1970's and 1980's on companies engaged in oil and gas industry or in related service industries.
- Assisted organizations with financial planning, budgets, feasibility studies and with the financing or refinancing of new and changing opportunities. Provided negotiating and mediation skills to organizations and individuals so as to achieve agreed results.
- Have been responsible for a wide range of professional assignments including sales, mergers and acquisitions; financing and refinancing; sick company, insolvency and receivership work; reorganizations and financial consulting as well as valuations of companies of all sizes.
- As Valuation Partner in the Calgary Office, I have prepared, over the last fifteen years, numerous professional opinions as to value of shares and/or business assets for litigation support including matrimonial disputes, sales, mergers and acquisitions, financing and refinancing, reorganizations for corporate reasons or tax planning purposes. The businesses or business assets valued have ranged in value from a few thousand dollars to seven hundred and fifty million dollars.

BUSINESS AND PROFESSIONAL ACTIVITIES:

- Past Member of Council, The Institute of Chartered Accountants
- Member, Hearing (discipline) Committee, Alberta Stock Exchange
- Member, Calgary Chamber of Commerce
- Member, Hearing (discipline) Committee, Institute of Chartered Accountants of Alberta
- Governor, Canadian Corps of Commissionaires - Southern Alberta Command

PROFESSIONAL SOCIETIES:

- The Institute of Chartered Accountants of Alberta; F.C.A. in 1985
- The Institute of Chartered Accountants of Ontario
- Order of Chartered Accountants of Quebec
- Canadian Institute of Chartered Business Valuators
- Alberta Mediation and Arbitration Institute

EDUCATION:

- B. Comm, Sir George Williams University (now Concordia University)
- C.A. (Quebec) (Ontario) (Alberta)
- Management Training Course, University of Western Ontario (Summer)
- Canadian Securities Course (Graduated with Honours)

COMMUNITY ACTIVITIES:

- University of Calgary:
 - Member of Senate
 - Executive Committee, Management Advisory Council
 - President's Circle
 - Library Club
 - Bio-medical Ethics Committee
- The Glenbow-Alberta Institute (Museum):
 - Chairman
- The Glenbow Acquisition Society:
 - Member
- Calgary Zoological Society:
 - Past President
 - Honourary Trustee
- Calgary Exhibition & Stampede:
 - Senior Associate
 - Member of Park Parade Committee
 - Member of the 1992 Theme Committee

- Naval Officers' Association of Canada:
 - National Vice-President
- The Olde 78th Fraser Highlanders (a historical military society):
 - Vice-President

SOCIAL AND SPORTS CLUBS:

- The Calgary Petroleum Club
- The Glencoe Club
- The Glencoe Golf and Country Club
- The University of Calgary - Faculty Club
- Calgary Garrison Officers' Mess
- Lord Strathcona's Horse (RC) Officers' Mess

