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PRIVATE AND CONFIDENTIAL

February 17, 2017

MLT Aikins LLP
Suite 2200
10235 101 Street
Edmonton, AB T5J 3G1

Attention: Ms. Eleanor A. Olszewski, Q.C.

Dear Madam:

**RE: IN THE MATTER OF JEAN CARTER, ET AL AND
NORTHWEST TERRITORIES POWER CORPORATION
CLAIM FOR COMPENSATION
APPLICATION NO.: MV2011L4-0002**

RESPONSE TO ODYSSEY REPORT

Further to the report, dated April 23, 2012, prepared by Odyssey Chartered Accountant & Advisor in this matter ("the Odyssey Report"), we provide the following response to the Odyssey Report, as well as an executive summary of our economic loss report, dated March 15, 2012 in this matter ("the KRP Report"). This report must be read in conjunction with the KRP Report.

EXECUTIVE SUMMARY OF DAMAGES

We note that the Reasons for Judgment of the Honourable Justice K. Shaner, dated March 7, 2014, in *Carter v. Northwest Territories Power Corp.*, 2014 NWTSC 19 ("Reasons for Judgment") states that past losses are not allowable in this matter. Accordingly, we provide the following executive summary of the KRP Report, excluding any past losses otherwise disclosed in the KRP Report, and updated for the effective water licence period.¹

We note that Schedules 3A, 3-1A, 4A, and 4-1A (which correspond to Schedules 3, 3-1, 4 and 4-1 of the KRP Report) are attached hereto which are reflective of the above noted update for the water licence period and exclusion of past losses.

¹ We have been advised that the water licence at issue in this matter began on August 31, 2012 and will expire on August 31, 2027. The KRP Report had assumed that said water license would begin on January 1, 2012 and expire on December 31, 2027. As a result, we have disclosed revised calculations reflective of a water licence beginning August 31, 2012 to August 31, 2027.

Loss of income and Out-of-Pocket costs over the duration of the water licence in this matter are summarized as follows:

Heads of Damage		165 Patrons Lost per Annum	Average Loss per Annum
Loss of Income			
Future loss (2012 - 2027)	<i>Schedule 3A</i>	\$2,069,461	\$ 137,964
Out-of-Pocket Costs			
Future Out-of-Pocket Costs	<i>Schedule 4A</i>	\$ 905,113	

Further, we note that the above disclosed out-of-pocket costs may be segregated as follows:

Future Out-of-Pocket Costs

Future costs related to clean-up costs caused by water levels	\$ 60,070
Future loss of assets at end of Water Licence	591,713
Future costs of remediation at end of Water Licence	253,330
	\$ 905,113

Multiplier Tables

Additionally, to assist the Board in this matter, we enclose the following loss of income multipliers to permit the Board to quantify damages where alternative loss of income assumptions are considered for the Carter Family. Said multipliers are reflective of the contribution margin and discount calculations contained herein and in the KRP Report. For the Board's ease of use, we provide the multipliers in a worksheet format that may be used to input the estimated annual loss of customer patronage of the Nonacho Lake Lodge and estimate the loss of income damages thereon (next page):

	Patrons Lost	Annual Multiplier	Annual Loss of Contribution Margin (Contingency Adjusted and Discounted)
	A	B	(A x B)
2012		\$ 1,012	
2013		994	
2014		975	
2015		956	
2016		937	
2017		911	
2018		884	
2019		859	
2020		834	
2021		809	
2022		786	
2023		763	
2024		741	
2025		719	
2026		698	
2027		678	
TOTAL LOSS OF INCOME DAMAGES (in 2012 dollars)			

Further, we provide the following multiplier table with respect to out-of-pocket costs:

	Out-of-Pocket Costs	Annual Multiplier	Annual Out-of-Pocket Costs (Discounted)
	A	B	(A x B)
2012		0.992	
2013		0.974	
2014		0.955	
2015		0.936	
2016		0.918	
2017		0.892	
2018		0.866	
2019		0.841	
2020		0.817	
2021		0.793	
2022		0.770	
2023		0.747	
2024		0.726	
2025		0.705	
2026		0.684	
2027		0.664	
TOTAL OUT-OF-POCKET DAMAGES (in 2012 dollars)			

RESPONSE TO THE ODYSSEY REPORT

Based upon our review of the Odyssey Report, it is unclear whether or not the author of the Odyssey Report understands that the water level on Nonacho Lake has fluctuated materially (as discussed and graphed in paragraphs 6.05 and 6.06 of the KRP Report) as a direct result of the operation of the Taltson Facility by the Northwest Territories Power Corporation (“NTPC”). A failure to identify the conditions that the Nonacho Lake Lodge is subject to is a material limitation of the Odyssey Report.

We are of the view that there is little to no evidence within the Odyssey Report that is influential in this matter. We note the following responses to assertions of the Odyssey Report:

The Odyssey Report incorrectly asserts that the sale of assets led to decline in revenues

We note that the Odyssey Report has described the historical sale of assets by Carter Air Services Ltd. (“the Company”) and has purported that such events are evidence of external factors that have contributed to the decline in the patronage of the Nonacho Lake Lodge operated by the Company.

The Odyssey Report notes capital asset dispositions in 1989, 1993 and 1995 by the Company. The Odyssey Report (page 6) asserts, “it is common for businesses to realize decreases in revenues as they divest themselves of assets and the ability to service customers.” We note that the assets disposed of by the Company are aircraft. Based upon our discussions with management of Nonacho Lake Lodge, a business decision was made to charter aircraft for the transportation of guests to and from the Nonacho Lake Lodge rather than incur the repairs and maintenance and other costs associated with the ownership of its own aircraft.

Therefore, we assert that the decision to divest aircraft is a ‘lease vs. buy’ decision that affects costs rather than a divestiture of assets that would be expected to materially influence revenues and the Company’s ability to service its customers. It is unclear if the author of the Odyssey Report makes this distinction.

Further, the Odyssey Report (page 7) references a ‘termination bonus paid to employees’ in 1995; however we note that based upon our discussions with the Carter family, the line item described in the financial statements as “Employee termination bonuses” of \$178,000 is, in fact, amounts paid to Jean and Merlyn Carter. That is, notwithstanding the financial statement description of the amount, said amount was not paid to third parties, was entirely discretionary in nature, and had no correlation to the operations and / or staffing levels at the Nonacho Lake Lodge.

The Odyssey Report incorrectly characterizes lease revenue

The Odyssey Report (page 8) asserts that “in 2007 through 2010 (possibly even starting as early as 2006 depending on accounting revenues classification), the Lodge appears to have entered into a lease agreement which may be for the lease of a certain number of weeks of the cabins to a third party tour operation in the amount of \$48,000 per annum ... it is possible that the family decided to take a more passive approach to the operation of the Lodge and become effectively a landlord as opposed to a tour operator.” However, we note that based upon our discussions with the external accountant of the Company, the \$48,000 of Lease Revenue per annum relates to the lease of property of the Company that is not located on Nonacho Lake. Therefore, the lease revenue is not in any way related to the operation of the Nonacho Lake Lodge.

The Odyssey Report references to the passing of Mr. Merlyn Carter

The Odyssey Report (page 8) makes reference to the passing of Mr. Merlyn Carter in 2005 and asserts that “it is very common for the owners to exhibit what is referred to as personal goodwill in small owner managed businesses and this may have been the case with the Lodge ... if this is the case, it may take a number of years for a replacement individual in Mr. Carter’s previous role to re-establish relationships to drive higher patron numbers.”

As noted in the KRP Report, the Nonacho Lake Lodge was closed for the 2005 year as result of the passing of Mr. Merlyn Carter. However, the Nonacho Lake Lodge has always been operated as a family business where Ms. Jean Carter and the children and family of Jean and Merlyn Carter have all been heavily involved and influential in the operation of the Nonacho Lake Lodge. Further, we note that the patronage of the Nonacho Lake Lodge immediately prior to and subsequent to 2005 are not materially different. That is, the patronage of the Nonacho Lake Lodge between 2003 and 2007 (two years prior to and subsequent to 2005) was 53, 33, 6, 48, and 55, respectively.

Therefore, given the significant involvement of other family members in the Nonacho Lake Lodge and the demonstrated patronage immediately prior to and subsequent to 2005, we assert that the effects of the passing of Mr. Merlyn Carter on the Nonacho Lake Lodge have been, to their credit, largely mitigated by the Carter Family.

The Odyssey Report ignores the conditions and first-hand accounts of those at the Nonacho Lake Lodge

We assert that while the Odyssey Report makes references to industry trends and other factors external to the Nonacho Lake Lodge, the Odyssey Report makes little to no mention of the actual conditions at the Nonacho Lake Lodge. We understand that the changes to the lake conditions, the shoreline esthetic, and fishing conditions at the Nonacho Lake Lodge have been dramatic as a result of the fluctuating water levels. While other external influences may influence the patronage at the Nonacho Lake Lodge, said lodge is providing a tourist destination for patrons based upon the appeal of the lake and location, and the fishing conditions. We assert that it is the conditions on Nonacho Lake that are most influential to the lodge’s word-of-mouth customer recommendations and repeat patronage.

It is important to note that while industry conditions may influence the Nonacho Lake Lodge, not all lodges are going to be impacted in the same manner. We understand that the Nonacho Lake Lodge is unique in a number of respects: is a comparatively large lake (to grow large fish) but with bays and coves to offer isolated locations, there is significant name recognition with the Carter family (Jean and Merlyn Carter were inducted into the Canadian Tourism Hall of Fame in Ottawa), the camp has been praised for its cleanliness and quality of the camp experience, and the Carter family are experts in the operation of the lodge.

Even upon a cursory overview of the Odyssey Report, it is unclear whether or not the author of the Odyssey Report understands the material change in the conditions at the Nonacho Lake Lodge that have resulted from the fluctuating water level.

The loss of income calculations within the KRP Report are predicated upon a loss of 165 patrons per annum. However where the Board determines that the loss is something other than 165 patrons per year, we have included multiplier tables herein to allow the Board to consider alternative losses based on the totality of the evidence (including the effects of the increased water levels on the Nonacho Lake Lake) that the Board hears.

The Odyssey Report questions reliability of financial information

The Odyssey Report references the variability of the Nonacho Lake Lodge Revenues and Contribution Margin and identifies said variability as an indicator of possible lack of reliability or voracity of the financial statements of the Nonacho Lake Lodge. However, we note that it is due to the variability that we have relied upon a long-term average (15 years) in our determination of revenue per patron and contribution margin percentage. That is, because the duration of the water licence (15 years ended August 31, 2027) that is the subject of this matter is long-term, it is appropriate to consider a long-term average revenue per patron and contribution margin percentage to give regard to the operations of the Nonacho Lake Lodge over a long-term period of time. As the number of patrons, duration of stay, size of groups, etc. can and will vary between years, it is expected that there will be variability to the Nonacho Lake Lodge Revenues and Contribution Margin.

By using a long-term average, we have considered a relatively large sample size (which considers 15 years of economic changes and cycles, foreign exchange rates, etc.) to have a reliable average to apply to the duration of the water licence in this matter.

Correlation Coefficient

The Odyssey Report states that the correlation coefficients contained within the KRP Report cannot be verified because the author of the Odyssey Report does not know the approach or methodology used. However, we note that the correlation coefficient utilized is that of the standard Microsoft Excel function CORREL, which utilizes a Pearson product-moment correlation coefficient. Said CORREL function is a statistical formula described in the Microsoft Excel documentation as “Returns the correlation coefficient ... use the correlation coefficient to determine the relationship between two properties ... for example, you can examine the relationship between a location’s average temperature and the use of air conditioners.” We assert that this statistical calculation of a correlation coefficient is typical in damage quantification calculations.

Odyssey Report usage of industry benchmarks

The analysis considered in the Odyssey Report relies upon industry benchmarks for normalized expenses of the Nonacho Lake Lodge. Of note, said industry benchmarks consider 23.6% (as a percentage of revenue) for staff and guides (page 24 of the Odyssey Report). However, as the staff and guides of the Nonacho Lake Lodge are predominantly family members of the Carter family, we assert that it is inappropriate to artificially reduce damages to the Carter family for notional ‘staff and guides’ expenditures.

The Odyssey Report relies upon an industry benchmark to estimate the “Pro forma or expected sellers’ discretionary earnings” (Table 12 of the Odyssey Report) of the Nonacho Lake Lodge, which is the primary input into the Odyssey Report’s purported “Valuation Calculation of Lodge.” However, in determining said sellers’ discretionary earnings, the Odyssey Report has deducted the notional ‘staff and guides’ expense that is not applicable to the calculation of damages to the Carter family.

All else being equal, where the ‘staff and guides’ component of the industry benchmark relied upon by the Odyssey Report was excluded, the Valuation Calculation contained in the Odyssey Report would be over three times greater than as otherwise disclosed in the Odyssey Report.

The Odyssey Report Valuation Calculation

The Odyssey Report prepares a purported valuation calculation with respect to the Nonacho Lake Lodge. However, in doing so, the Odyssey Report does not recognize the efforts of the Carter family as “Staff and Guides” expense is deducted in coming up with the Sellers’ Discretionary Earnings (“SDE”) on page 27 of the Odyssey Report. As noted in paragraph 7.02 of the Odyssey Report, the definition of SDE includes owner salaries. Therefore, the Odyssey Report has misapplied the definition of SDE; and by deducting owner salaries, the valuation calculation contained within the Odyssey Report is understated.

The Carter Family describes the Nonacho Lake Lodge as “their life”. Accordingly, the expectation is that the Carter Family will continue to operate the Nonacho Lake Lodge for the foreseeable future, so to suggest that 1 to 3 times SDE (as calculated by the Odyssey Report) is appropriate compensation does not fit with the facts of the situation.

The Odyssey Report Suggestions Regarding ‘Loss Compensation Model’

The Odyssey Report suggests, “based on our experience in quantifying expropriation matters, that the appropriate loss compensation model be based on the lower of reasonable economic losses that can be directly attributable to the Taltson Facility and the Fair Market Value ... of the Lodge.”

However, we assert that: 1) the Expropriation Act is not the subject of this matter, and 2) if expropriation was appropriate guidance, the Odyssey Report has failed to properly consider appropriate expropriation methodology. That is, the Odyssey Report gives no consideration to the disturbance and nuisance costs, moving, and re-establishment costs that would be applicable in an expropriation scenario. We assert that given the remote location of the Nonacho Lake Lodge, moving and re-establishment costs would be significant as all of the materials at the Nonacho Lake Lodge were flown in. As a result, we assert that damages in an expropriation matter would be significantly greater than as suggested by the Odyssey Report.

Therefore, we do not accept the evidence of the Odyssey Report regarding its purported ‘Valuation Calculation’ as being evidence of economic losses in this matter. As noted herein, we do not accept the valuation calculations within the Odyssey Report, nor do we accept the Odyssey Report’s assertions that Fair Market Value is the appropriate basis for compensation. As noted above, in asserting Fair Market Value as a component of loss compensation, the Odyssey Report makes reference to expropriation matters, but the Odyssey Report has not properly considered expropriation methodology.

Summary

In summary, the Odyssey Report effectively implies that the business, lifestyle, and occupations of the Carter family at the Nonacho Lake Lodge are not worth anything, which we assert disregards the facts of the situation.

RESTRICTIONS

Our report is not intended for general circulation or publication, nor is it to be reproduced or used for any purpose other than in connection with the hearing in this matter without our written permission in each specific instance. Notwithstanding, we hereby acknowledge that this report may be used in the civil proceedings for which it was commissioned and we will not unreasonably withhold our consent for such use.

By relying upon our report, you agree that Kingston Ross Pasnak LLP and its partners and employees (collectively referred to herein as "KRP") do not assume any responsibility for losses occasioned to you, the Carter Family and respective legal counsel, the NTPC and respective legal counsel, or to any other parties as a result of the circulation, publication, reproduction or use of this report contrary to the preceding paragraph.

Our report will be based on the information available to us as detailed in the notes therein. We reserve the right to review and, if we consider it necessary, amend our report in light of any information which was unknown to us at the date of our report but becomes known to us after its release.

We confirm that we are independent and objective in the preparation of our report. Additionally, we confirm that our compensation for the preparation of our report is not contingent in any way upon the results of said report. That is, our fees are not calculated nor based on any form of contingency.

Limitation Of Liability

By relying upon our report, you agree that KRP's entire liability to the client under this engagement for damages from any cause whatsoever, and regardless of the form of action or the cause of action, whether in contract or in tort (including negligence), strict liability, breach of a fundamental term, fundamental breach or otherwise, shall not exceed the aggregate of the amounts paid by you pursuant to this report.

In no event shall KRP be liable to the client under this engagement for special, indirect, incidental or consequential damages, including, without limitation, loss of profits or revenue, loss of goodwill, loss of data, loss of capital, cost of capital, howsoever caused, even if such damages are foreseeable or we have been advised of the possibility of such damages.

The indemnity obligation shall survive the delivery of our report and the completion of KRP's duties.

Indemnity Against Third Party Liability

Except for any willful misconduct or gross negligence by KRP, the parties agree to indemnify KRP to the fullest extent permitted by law against all liabilities, losses, claims, demands and reasonable expenses, including but not limited to legal fees and expenses and internal management time and administrative costs, brought against KRP by any party or person whatsoever, other than the engaged parties, in connection with or arising out of this engagement.

MLT Aikins LLP
February 17, 2017
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Should you have any questions regarding the above, please contact the undersigned directly at (780) 420-4764.

Yours truly,

Kingston Ross Pasnak LLP
Chartered Professional Accountants

A handwritten signature in black ink, appearing to read "Randy G. Popik". The signature is stylized with large, sweeping loops and a prominent initial "R".

Randy G. Popik, BCom, CPA, CA, CBV, ASA, CFI, CFF
Partner
Practice Area Leader - Financial Litigation Support, Business Valuations,
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RGP/MGJ/RGP511780

Enclosure (Schedules 3A, 3-1A, 4A, and 4-1A)

Schedule 3A
In The Matter of Jean Carter, et al and Northwest Territories Power Corporation - Claim for

**Present Value of Loss of Income
 Annual Loss of Contribution Margin Approximated by the Loss of 165 Patrons**

Year	Annual Loss of Contribution Margin A	Contingencies Business Failure B	Future Loss of Income C	Net Discount Rate D	Factor E	Present Value of Future Loss as at March 1, 2012 F	Cumulative G
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Redacted

In The Matter of Jean Carter, et al and Northwest Territories Power Corporation - Claim for Compensation
 Loss of Contribution Margin
 Annual Loss of Contribution Margin Approximated by the Loss of 165 Patrons

Year	Average Revenue/ Patron	Projected Patrons	Actual Patrons	Loss of Patrons	Loss of Revenue	Contribution Margin Percentage	Loss of Contribution Margin
	A	B	C	D	E	F	G

Redacted

Lodge Revenue	Actual Patrons	Revenue/ Patron	Core CPI Base	Core CPI Year	Factor	Revenue/ Patron 2012 dollars
i	ii	iii	iv	v	vi	vii

Redacted

Actual patrons for fiscal years 1997 to 2011, inclusive, as represented by management of the Company.

In The Matter of Jean Carter, et al and Northwest Territories Power Corporation - Claim for Compensation
Loss of Contribution Margin
Annual Loss of Contribution Margin Approximated by the Loss of 165 Patrons

<u>Year</u>	<u>Lodge Revenue</u>	<u>Variable Direct Costs</u>	<u>Contribution Margin</u>	<u>Contribution Margin %</u>
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Redacted

In The Matter of Jean Carter, et al and Northwest Territories Power
Present Value of Future Costs of Cleanup and Loss of Capital Assets

Year	Future Costs of Cleanup A	Net Discount		Present Value of Future Costs of Cleanup as at March 1, 2012 D	Cumulative E
		Rate B	Factor C		

Redacted

In The Matter of Jean Carter, et al and Northwest Territories Power Corporation - Claim for Compensation
Future Costs of Cleanup and Loss of Capital Assets

Year	Shed Materials	Shed Metal Siding	Shed Freight on Shed	Tree Removal	10' x 28' Wooden Dock	Remediation of Camp Site	Damage to Lund Boats/ Outboard Motors	Value of Capital Assets (Net of Salvage)	Total
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