

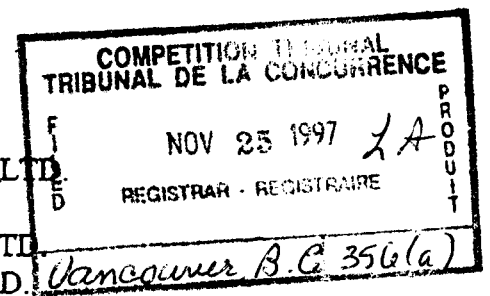
THE COMPETITION TRIBUNAL

IN THE MATTER OF an application by Southam Inc., et al, under section 106 of the *Competition Act*, R.S.C. 1985, C.C-34, as amended;

AND IN THE MATTER OF the direct and indirect acquisitions by Southam Inc. of equity interests in the business of publishing *The Vancouver Courier*, the *North Shore News* and the *Real Estate Weekly*

BETWEEN:

- SOUTHAM INC.
- LOWER MAINLAND PUBLISHING LTD.
- RIM PUBLISHING INC.
- YELLOW CEDAR PROPERTIES LTD.
- NORTH SHORE FREE PRESS LTD.
- SPECIALTY PUBLISHERS INC.
- ELTY PUBLICATIONS LTD.



Applicants

-and-

THE DIRECTOR OF INVESTIGATION AND RESEARCH

Respondent

AFFIDAVIT OF D. JEFFREY HARDER
(OCTOBER 24, 1997)

PUBLIC VERSION

COMPETITION TRIBUNAL
TRIBUNAL DE LA CONCURRENCE

File No. CT-90/1

Name of Applicant Southam Inc. et al. Director

File No. UR-166

Filed on Nov. 25, 1997

Déposée le L. Austin

Registrar

Greffier

AFFIDAVIT

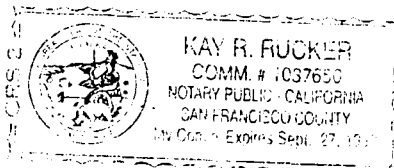
I, D. JEFFREY HARDER, of the City of Vancouver, and the Province of British Columbia, make oath and say as follows:

1. I am a Chartered Accountant, a Chartered Business Valuator, a Certified Management Consultant and an Accredited Senior Appraiser. My curriculum vitae is attached as Exhibit A. Since 1989 I have been a partner in the Firm of BDO Dunwoody, Chartered Accountants and Consultants. From 1980 to 1989 I was employed by BDO Dunwoody, Chartered Accountants and Consultants. My professional practice is in the areas of business and securities valuation, mergers and acquisitions, litigation support and financial consulting.
2. I have been retained by the Director of Investigation and Research in connection with this proceeding to carry out business valuation, financial analyses, and consulting services in regard to Southam Inc.'s direct and indirect acquisitions of equity interests in the business of publishing *The Vancouver Courier*, the *North Shore News*, and the *Real Estate Weekly*; to consider the business and strategic implications to a potential purchaser of the divestiture by Lower Mainland Publishing Ltd. of either the *North Shore News Real Estate Homes Supplement* or the *Real Estate Weekly North Shore Edition*; and to consider the business and strategic implications of the purchase of the *Real Estate Weekly North Shore Edition* by Michael W. Delesalle through a company named North and West Voice Publishing Ltd.

SUBSCRIBED AND SWORN BEFORE ME)
at the City of San Francisco, in the State of)
California on the 24 day of October, 1997)

Kay R. Rucker)

D. Jeffrey Harder
D. JEFFREY HARDER



D. JEFFREY HARDER
CURRICULUM VITAE

PROFESSIONAL STATUS

Partner, BDO Dunwoody, Chartered Accountants and Consultants,
Vancouver, British Columbia
Senior Officer, BDO Valuation Inc., Chartered Business Valuators,
Vancouver, British Columbia
Senior Officer, BDO Corporate Finance Inc., Vancouver, British Columbia

EDUCATION AND PROFESSIONAL DESIGNATIONS

BA, Political Science (Brandon University) 1979
CA, Institutes of Chartered Accountants of Manitoba and British Columbia
(University of Manitoba, Faculty of Administrative Studies) 1983
CBV, Canadian Institute of Chartered Business Valuators (University of
Toronto, Programme of Studies in Business and Securities Valuation) 1987
CMC, Institute of Certified Management Consultants of Canada 1989
ASA, Senior Member of The American Society of Appraisers 1990
CFE, Association of Certified Fraud Examiners 1994

AREAS OF PRACTICE

Business and securities valuations
Mergers and acquisitions
Litigation support
Investigative and forensic accounting
Financial consulting

PROFESSIONAL EXPERIENCE

Four years in BDO Dunwoody's general practice areas of accounting, auditing and taxation.

Thirteen years in BDO Dunwoody's special practice areas involved exclusively in business and securities valuations, mergers and acquisitions, litigation support, investigative and forensic accounting and financial consulting.

Business and securities valuations of private and public companies in a national and international context for:

Income tax matters
Corporate reorganizations
Expropriations
Loan guarantees
Matrimonial settlements
Employee share purchases

**D. JEFFREY HARDER
CURRICULUM VITAE**

PROFESSIONAL EXPERIENCE (Continued)

- Purchase and sale of business interests
- Securities regulations and public offerings (OSC9.1, VSE and ASE)
- Estate and retirement matters
- Insolvency related assignments
- Shareholder/partner disputes
- Venture capital investment

Litigation support assignments in a national and international context includes:

- Economic loss calculations
- Loss of profit claims
- Construction claims
- Insurance claims
- Expropriations
- Forensic accounting investigations
- Insolvency related assignments
- Income tax matters
- Matrimonial settlements
- Shareholder/partner disputes
- Product liability claims
- Guarantor actions
- Anti-competition matters
- Special investigation

Investigative and forensic accounting assignments includes:

- Insurance investigations
- Employee theft and fraud
- Securities matters
- Accounting for hidden assets and earnings
- Insolvency matters

Financial consulting assignments in a national and international context includes:

- Mergers, acquisitions and divestitures
- Feasibility and investment analysis
- Financial proposals
- Workouts and investment monitoring
- Business and strategic planning
- Capital raising

D. JEFFREY HARDER
CURRICULUM VITAE

PROFESSIONAL EXPERIENCE (Continued)

Industry experience in a national and international context includes:

- A broad range of manufacturing industries
- Service, retail/wholesale trading and distribution
- Analytical laboratories and environmental testing
- Communications, media and entertainment
- Professional practices
- Hotels, restaurants and tourism and recreation facilities
- Golf courses and ski resorts
- Consumer products
- Property ownership, construction and management
- Transportation, including rail, sea, road and air
- Forest products, including logging, sawmilling and pulp mills
- Mining
- Oil and gas
- Electric energy
- Food processing and agribusinesses
- Computer hardware and software
- A broad range of technology businesses
- Automotive and aerospace industries
- Health care
- Farming and ranching

GENERAL

Mr. Harder is currently the President and a member of the Canadian Institute of Chartered Business Valuators' national Board of Directors. Mr. Harder is past Secretary and President of the British Columbia Chapter of the Canadian Institute of Chartered Business Valuators.

Mr. Harder is Chairman of BDO Dunwoody's National Financial Advisory Services Committee. He has lectured on financing for the Canadian Institute of Chartered Accountants and on valuation issues for law firms, financial institutions, the Canadian Institute of Chartered Business Valuators and the American Society of Appraisers. Mr. Harder has written articles on valuation subjects for several professional publications, including CA Magazine.

Mr. Harder has qualified as an expert witness and given testimony in the British Columbia Courts, the Tax Court of Canada, before the Competition Tribunal of Canada, the British Columbia Expropriation Compensation Board and in arbitration. Mr. Harder acted as a Review Team member in a provincial special investigation in regard to international electric energy investments made by BC Hydro, a crown corporation, and a related private placement.

Mr. Harder is a member of the Investigative and Forensic Accounting Interest Group of the Canadian Institute of Chartered Accountants and the Canadian Tax Foundation.

EXHIBIT B

REPORT TO: THE DIRECTOR OF INVESTIGATION AND RESEARCH

BY: D. JEFFREY HARDER

RE: THE DIVESTITURE BY LOWER MAINLAND PUBLISHIGN LTD.
OF EITHER THE NORTH SHORE NEWS REAL ESTATE HOMES
SUPPLEMENT OR THE REAL ESTATE WEEKLY NORTH SHORE
EDITION

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INTRODUCTION

1. I have been retained by the Director of Investigation and Research (the "Director") in connection with this proceeding to carry out business valuation, financial analyses and consulting services in regard to Southam Inc.'s direct and indirect acquisitions of equity interests in the businesses of publishing *The Vancouver Courier*, the *North Shore News* and the *Real Estate Weekly*; and to consider the business and strategic implications to a potential purchaser of the divestiture by Lower Mainland Publishing Ltd. of either the *North Shore News* Real Estate Homes Supplement or the *Real Estate Weekly* North Shore Edition; and to consider the business and strategic implications of the purchase of the *Real Estate Weekly* North Shore Edition by Michael W. Delesalle through a company named North and West Voice Publishing Ltd.

2. In the context of this report, the following is a summary of certain defined terms used throughout:
 - *North Shore News* ("NSN");
 - *North Shore News* Real Estate Homes Supplement ("NSN Homes Supplement");
 - *Real Estate Weekly* ("REW");
 - *Real Estate Weekly* North Shore Edition ("REW North Shore");
 - Collectively NSN Homes Supplement and REW North Shore (the "publications");
 - Lower Mainland Publishing Ltd. ("LMPL");
 - Elty Publications Ltd. ("Elty");
 - Southam Inc. ("SNG");
 - *North & West Voice* ("Voice");
 - Featureline Films Inc. ("Featureline"); and
 - North and West Voice Publishing Ltd. ("Voice Publishing").

3. On August 15, 1991 I completed my first Affidavit ("1991 Affidavit") and on October 23, 1992 I completed my second Affidavit ("1992 Affidavit") in connection with these proceedings. For purposes of this Affidavit I have assumed that since the completion of my 1991 and 1992 Affidavits, there has been no material change in the operations of either LMPL, NSN, NSN Home Supplement, REW or REW North Shore.

SCOPE OF REVIEW

4. My 1991 and 1992 Affidavits set out the documents made available to me by the Director. In addition to the materials I reviewed in the preparation of my 1997 Affidavit, I reviewed the following information received by Davis & Company up to October 23, 1997:
- Letter of Engagement dated June 2, 1997 between LMPL and Dilon, Whittall, Gill & Company Ltd.;
 - "Potential Purchasers" contact list dated June 16, 1997;
 - "Potential Purchasers Expressing Serious Interest" list dated July 31, 1997;
 - Corporation Income Tax Return for North Shore Free Press Ltd. for the year ended August 31, 1996;
 - REW – Top 10 Advertisers 1996;
 - Summary of Real Estate Weekly Fixed Assets;
 - Elty – Capital Asset Detail 1992 – 1996;
 - NSN – Top 25 Advertisers 1996;
 - NSN – List of Fixed Asset Net Book Value at March 31, 1997;
 - North Shore Free Press Ltd. – Segmented Balance Sheet as at April 1997;
 - Letter from LMPL dated August 13, 1997 and related materials about the diversitures of either NSN or REW;
 - Letters of intent from
and Michael W. Delesalle;
 -
 - REW - Confidential Information Memorandum from Dilon, Whittall, Gill & Company Ltd.;
 - REW North Shore - Confidential Information Memorandum from LMPL;

5. In addition to reviewing these documents, I:

- met with representatives of Dillon, Whittall, Gill & Company Ltd. and LMPL to discuss the progress of the sale of either NSN or REW;
- met with Michael Delesalle and his professional advisors to discuss his business plan for the operation of the Voice in combination with the REW North Shore; and
-

**MICHAEL W. DELESALLE OPTION TO ACQUIRE THE REAL ESTATE WEEKLY
NORTH SHORE EDITION**

6. I understand that pursuant to a letter of intent dated June 25, 1997 Michael Delesalle intends to purchase the REW North Shore for a cash purchase price payable on the closing of the proposed transaction

7. The principal components of Michael Delesalle's proposed purchase of the REW North Shore as I understand them were as follows:

-
-
-
-
-

-
-

8. I understand that the offering price for the REW North Shore c was based on estimated revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") for REW North Shore's last fiscal year as follows:

9. This information was extracted from the REW North Shore Confidential Information Memorandum ("IM") dated May 27, 1997 prepared by LMPL and Elty. The EBITA operating margin is [REDACTED] of revenues which is reflective In comparison the EBITA operating margin of all REW editions was 19% in fiscal 1996, [REDACTED] for the NSN Home Supplement and [REDACTED] for NSN in fiscal 1996. It should be noted that the EBITDA information for REW North Shore shown in the IM are estimates made by Elty and are subject to certain assumptions about how the publication will be produced,

printed and distributed on a stand alone basis. Consequently, there can be no assurance given that an acquiror of the REW North Shore will achieve these pro forma results.

10. Based on a purchase price of _____ for 100% of REW North Shore as compared to operating revenues and operating earnings for fiscal 1996, the valuation multiples are as follows:

Multiple of operating revenues

Multiple of operating earnings

The multiple of operating earnings represents a pre-tax capitalization rate of

In my opinion Michael Delesalle's proposed purchase price

_____ This may be because of the commercial restrictions which the draft Asset Purchase Agreement outlines.

11. I note that there is a difference between the assets which Michael Delesalle has offered to purchase versus what Elty is prepared to sell. The following summarizes the assets relative to REW offered by Elty.

12. The following is a summary of certain of the key differences between the assets and rights which Michael Delesalle requested from Elty and what is contained in the draft Asset Purchase Agreement:

13.

NORTH AND WEST PUBLISHING LTD. AND
THE NORTH & WEST VOICE

14.

15.

16. The Voice is currently a twice per month free distribution tabloid style newspaper which commenced in July 1996. Since the summer of 1997 approximately 50 thousand copies have been distributed to all postal codes between Deep Cove and Lions Bay, although in the older neighbourhoods of North Vancouver and West Vancouver only apartment delivery occurred until the September 1997 issues. Bulk drops currently occur in North

and West Vancouver, racks located in North Vancouver and West Vancouver and Whistler; and distribution in boxes occurs in North Vancouver and West Vancouver. I am unsure as to the frequency and pattern of the Voice distribution prior to June 1997, but it was less extensive than now.

17. The Voice operates from a single location in North Vancouver. The publication employs approximately █ full-time staff and contracts out its printing and distribution functions. Produced in a community magazine format the Voice has no separate real estate section and limited flyer inserts.

18.

19.

Either operating revenues have to grow or the cost-base of operations has to decrease in order for the publication to become financially successful.

THE BUSINESS PLAN FOR THE NORTH & WEST VOICE AND
THE REAL ESTATE WEEKLY NORTH SHORE

20.

21. I understand that Michael Delesalle believes that the REW North Shore under his ownership in combination with the Voice will be immediately profitable for the following reasons:

22. Based on this business plan and these proposed areas of improvements, Michael Delesalle has prepared the following projection for the first year of combined operations after acquisition of REW North Shore by Voice Publishing.

23. The financial viability of the two publications under the stewardship of Voice Publishing is difficult to assess because the Voice and Voice Publishing's management do not have a track record of financial performance against which the projections can be compared. As well, it is unclear as to the asset rights for REW North Shore which will be vended to Voice Publishing by Elty. I have the following comments about the projection:

- The Voice is not an established publication with an editorial concept which is accepted and read by consumers such that advertisers will consistently be willing to place display ads or flyer inserts with this publication. Consequently, the projected growth in advertising and flyer revenue is aggressive.
 - Voice Publishing assumes that it can obtain printing contracts which are at a lower cost than the Voice now has and that after its contract maintenance arrangement with Elty, it can secure at least as favourable printing rates with another party.
 - There will be both a maintenance of existing advertising revenues in the Voice and REW North Shore and substantial growth in Voice display revenues by virtue of advertising sales support, without any passage of time to ensure that readers and consumers accepts this print media concept.
24. In summary, Michael Delesalle is an entrepreneur who has a vision to create a new print media business on the North Shore and in the Squamish to Whistler corridor. He wants to use REW North Shore as an anchor to support this concept to revitalize Voice Publication. Whether his vision for a revitalized Voice is financially successful,

ultimately depends on consumer acceptance and readership. Without distribution and readership, REW North Shore advertisers will not likely support the publication. Since the Voice in combination with the REW North Shore is essentially a new print media entrant to this market, only time will determine whether the Voice will gain sufficient readership to be financially successful.