Town of Collingwood Judicial Inquiry

AFFIDAVIT OF JOHN ROCKX

I, John Rockx, of the City of Burlington in the Province of Ontario, MAKE OATH AND SAY:

1. I have knowledge of the matters contained in this affidavit. Where my knowledge is based upon information and belief, I have identified the source of the information and belief and in all cases I verily believe it to be true.

2. I am a Partner in the Deal Advisory practice at KPMG. I am a Chartered Professional Accountant and a Chartered Business Valuator. I have significant experience in the Ontario electricity distribution sector. A copy of my CV is attached as **Exhibit "A"**.

Collus Power's Retainer of KPMG to Provide a Valuation of Collus Power and an Options Analysis

3. Collus Power retained KPMG to prepare a valuation and options analysis pursuant to an engagement letter dated February 24, 2011. A copy of the engagement letter is attached as **Exhibit "B"**.

4. As part of this engagement, I was responsible for preparing the valuation analysis. Specifically, I prepared a calculation of the fair market value of the shares of Collus Power as at December 31, 2010. I was not asked to value the holding company or the affiliates of Collus Power. I was not involved in developing the strategic options analysis.

5. Pursuant to KPMG's engagement letter dated February 24, 2011, the valuation was prepared to assist Collus Power and its shareholder, the Town, in the evaluation of strategic options for Collus Power. I took internal instructions from John Herhalt as the lead partner of KPMG pursuant to the engagement letter. In preparing the valuation, I dealt directly with Ed Houghton and Tim Fryer, and also attended at a meeting that included Dean Muncaster. I did not meet with representatives of the Town during the valuation assignment, or provide any direct advice to the Town.

6. I prepared a draft calculation of value report, which calculated the fair market value of all the shares of Collus Power as at December 31, 2010. The draft valuation report was dated May 20, 2011. A copy of the draft report is attached as **Exhibit "C"**. Paragraph 2 of the draft valuation states that KPMG understood that the valuation of the shares of Collus Power was required to assist the Town, as the indirect municipal shareholder, in conducting a review of its strategic options for Collus Power.

7. A "calculation of value" is not as detailed as other types of valuations, however, I believed the draft report gave a fair sense of the potential value of Collus Power for the purpose of assisting Collus Power and the Town in assessing their strategic options. I prepared the calculation of value of Collus Power in draft for discussion purposes. At the time, I had no knowledge of any plans of the Town to sell all or a portion of the Town's ownership interest in Collus Power pursuant to an RFP process or otherwise. In an auction-based sale process, the value of a company would ultimately be determined by what the market was willing to pay.

8. Paragraph 148 of the Foundation Document shows changes that I proposed to Jonathan Erling regarding the wording of KPMG's engagement letter with Collus Power. I believed that Mr. Erling's statement that KPMG's valuation could be subject to significant uncertainty due to a lack of recent transactions in the LDC sector was fair. However, I considered that this type of comment may be more appropriate for inclusion in KPMG's valuation report or a presentation of our valuation findings rather than the engagement letter.

9. I prepared the valuation from the perspective of Collus Power and its shareholder, the Town. I did not consider in detail other in-kind services that Collus Power and Collus Solutions provided to the Town, other than noting that they could be significant in an email to Jonathan Erling dated May 24, 2011, a copy of which is attached as **Exhibit "D"**.

10. I reviewed Tim Fryer's comments on the draft valuation, which he sent to Mr. Erling on or about June 14, 2011. A copy of Mr. Fryer's comments is attached as **Exhibit "E"**. I recall that his comments were not significant to the overall valuation. I did have a telephone call with Mr. Fryer on July 8, 2011 to address his comments and some additional transfer tax questions.

11. I never issued a final valuation report and do not recall anyone from Collus Power or the Town requesting a final valuation. KPMG was waiting for a copy of the final December 31, 2010 audited financial statements of Collus Power in order to finalize the report. KPMG would also have requested a signed representation letter from management to complete the valuation.

Collus Power's Retainer of KPMG Regarding the RFP

12. In November, 2011, John Herhalt asked me to get involved with the sale of a 50% share interest in Collus Power pursuant to the RFP that had been issued on October 4, 2011. Mr. Herhalt was leaving on a lengthy business trip and was not going to be able to assist with certain parts of the RFP process.

13. My role in the RFP process was to summarize the financial responses to the RFP delivered on November 16, 2011, advise the Strategic Partnership Task Team (the "**STT**") on financial matters, speak with management at Collus Power and communicate with bidders, as may be necessary, to clarify their financial bids. I understood that Collus Power and the Town, as vendor, were KPMG's clients during the RFP process.

14. I was not involved in developing the RFP or the scoring criteria. I do not know the origins of the 50%-50% ownership structure and did not consider such a structure in doing the valuation of Collus Power earlier in 2011. I am not aware of any other Ontario municipalities that have sold a 50% ownership stake in their LDC.

15. In my experience, the financial component for the sale of a majority share interest in a business is typically at least 50% of the evaluation criteria. I assumed that the weighting of 30% financial and 70% to other non-financial factors for Collus Power in the RFP was due to strategic partner compatibility being more important to the Town and Collus Power who issued the RFP than the net financial proceeds from a 50% share sale.

16. On November 21, 2011, I provided my initial thoughts on the qualitative portion of the four bids to John Herhalt and Jonathan Erling. These comments are attached as **Exhibit "F"**. As part of this process, I made some general comments regarding all the proponents' bids, including the following:

a. Collus Power's preference to engage in a 50%-50% strategic partnership, as opposed to a 100% sale, would make it more difficult to harmonize distribution rates and, in turn, could limit the achievement of cost efficiencies in some areas. I do not recall if this consideration was discussed with the STT.

b. Collus Power might not have enough equity to pursue further acquisitions, as it would be recapitalizing to the 60%-40% debt-to-equity ratio permitted by the OEB. This meant that if Collus Power or the Town wanted to participate in further LDC acquisitions, it would need to either finance any acquisitions through different sources or reliance on its new partner or partners. I do not recall if this consideration was discussed with the STT.

c. I characterized all of the bidders as potential "creeping takeover parties" in that ideally they would have preferred to own 100% of Collus Power and might seek to do so in the future. I understood that the STT wanted a long-term strategic partner and believed this would need to be addressed. I understood that this would be done through legal counsel in negotiating the potential future transaction including an appropriate shareholders' agreement.

17. I did not attend at a meeting of the STT on November 23, 2011 at which the qualitative components of the four bids were discussed by the STT.

Review of Financial Offers

18. I was provided with the financial components of the four bids on November 23, 2011. I then prepared a comparative analysis of the four bids that focused on the net cash proceeds to the Town.

19. I made certain adjustments to the financial bids to approximate an "apples to apples" comparison. I also made certain assumptions based upon the terms of the financial bids which included various provisions for purchase price adjustments, closing conditions and assumptions which, for presentation purposes and analysis, I characterized as financial conditions precedent.

20. I completed my initial analysis on Friday, November 25, 2011. Prior to completing my first analysis, I had not spoken with the representatives of the four bidders. My initial analysis was based solely on my review of the four financial bids, namely, Horizon's financial bid (**Exhibit "G"**), Hydro One's financial bid (**Exhibit "H"**), PowerStream's financial bid (**Exhibit "I"**) and Veridian's financial bid (**Exhibit "J"**). A copy of my initial analysis is attached as **Exhibit "K"**.

21. On Sunday, November 27, 2011, I contacted Rick Stevens of Hydro One to clarify parts of Hydro One's financial bid (**Exhibit "H"**). A copy of my email is attached as **Exhibit "L, M (attachment)"**. I also contacted John Glicksman of PowerStream on Sunday, November 27, 2011 to clarify parts of PowerStream's financial bid.

Scoring Meeting of the STT and December 1 Meeting

22. I attended a bid scoring meeting of the STT on the afternoon of Monday, November 28, 2011. My recollection is that Mr. Houghton and Mr. Muncaster ran the meeting. I provided an explanation of the four financial offers to the STT and indicated that Hydro One had the highest financial bid and

PowerStream had the second highest financial bid. I presented my initial comparative analysis to the STT.

23. At the meeting, I also indicated that further clarification of the financial bids was required, particularly for the amount of liabilities that were assumed to impact on the purchase price. These were the items highlighted in yellow in the comparative analysis.

24. I recall that Pam Hogg or Ed Houghton collected the proposal scores and there was a brief presentation setting out the results. Neither I nor anyone else from KPMG was responsible for collecting the STT's members' scores. Based on the scoring of proposals, the STT decided to continue to have discussions with PowerStream, who had the highest score overall, and to continue to clarify the financial bid from Hydro One, who had the highest financial bid.

25. On November 29, 2011, the day after the STT scored the financial components of the four bids, Rick Stevens of Hydro One responded to my email of November 27, 2011. A copy of Mr. Stevens' email is attached as **Exhibit "N"**. As noted in paragraph 2 of Mr. Stevens' email he noted that:

> "The proposal is based on a variety of factors and assumptions including, but not limited to, estimates for rate base and assets and liabilities (including regulatory assets and liabilities) on closing, etc. based on the review of due diligence materials received to date by Hydro One and its advisors, including Collus Power's 2010 Financial Statements. Changes in any of these variables, assumptions or estimates may impact the proposed price positively or negatively."

26. Mr. Stevens' email did not address all the matters I raised with him. I further adjusted Hydro One's bid as best I could based on the additional information provided, however, I continued to make assumptions as a result of Hydro One not providing the clarity I was looking for. A copy of my further analysis, which I completed on November 30, 2011, is attached as **Exhibit "O"**. I provided my further analysis to Ed Houghton and Dean Muncaster via email on November 30, 2011. A copy of that email is attached as **Exhibit "P"**.

27. After completing my further analysis, I attended a meeting with Collus Power's and PowerStream's representatives during the morning of Thursday, December 1, 2011. A number of items were discussed, including whether PowerStream would increase its offer for 50% of the shares of Collus Power. As I recall, either Mr. Houghton or Mr. Muncaster asked if PowerStream could increase its share price offer by $700,000 to $8.0 million, which Brian Bentz committed to doing. I reported to Mr. Herhalt later that day regarding this meeting. A copy of my email to Mr. Herhalt is attached as **Exhibit "Q"**.

28. I recall discussions at this meeting regarding PowerStream's request for the inclusion of a shotgun clause or other mechanism in an eventual share purchase agreement or shareholders' agreement between the Town, Collus Power and PowerStream. I do not recall the details of these discussions, but I recall that the matter would need to be negotiated between the lawyers for Collus Power, the Town and PowerStream. Prior to attending the meeting, I raised with John Herhalt that the shotgun clause would be a matter for discussion. A copy of this email discussion is attached as **Exhibit "R".**

29. Around 1:30 p.m. on December 1, 2011, following the meeting between Collus Power's and PowerStream's representatives, I had a call with Rick Stevens at Hydro One with a view to obtaining further clarity regarding Hydro One's financial offer. After some initial discussions, Mr. Stevens

advised that Hydro One would be prepared to further clarify the details of their bid if Collus Power signed an exclusivity agreement, which would have meant that Collus Power would need to end its discussions with other bidders. Mr. Stevens did advise me that Hydro One would be willing to review my preliminary calculation of their offer. I reported to Mr. Houghton regarding my discussion with Mr. Stevens and sought instructions to send my one-page summary of Hydro One's financial bid to Mr. Stevens. A copy of my email to Mr. Houghton reporting on my discussion with Mr. Stevens and seeking instructions is attached as **Exhibit "S"**.

30. As noted in the email thread, Mr. Houghton advised me that he would speak with Mr. Muncaster but that his first reaction was to "leave as is for now". I never received further instructions from Mr. Houghton or Mr. Muncaster to communicate further with Hydro One. As a consequence, I did not provide my one-page summary of Hydro One's financial offer to Mr. Stevens. A copy of this email thread is attached as **Exhibit "S"**.

31. Later in the day on December 1, 2011, I updated the financial comparison of the four proponent's bids to reflect the $700,000 increase in PowerStream's revised offer and sent the updated comparison to Mr. Houghton. Prior to sending the financial comparison to Mr. Houghton, I noted in an email to Mr. Houghton that PowerStream's enhanced financial offer was "near the top of the range". This statement was a reference to the fact that PowerStream's revised offer brought it closer to Hydro One's bid, which was still the highest financial offer and had been ranked and scored as such on November 28, 2011 at the meeting of the STT. A copy of this email is attached as **Exhibit "T"**.

32. In the financial comparison itself, I noted that Hydro One's offer was still approximately $1.0 million more than PowerStream's revised offer. A copy of this updated analysis is attached as **Exhibit "U"**.

33. On December 2, 2011, I attended a joint meeting of the STT and the Collus Board. I made a brief presentation of the updated comparison of the four financial offers, including comments that Hydro One had the best financial offer and that certain assumptions still needed to be clarified. At this meeting, the STT and Collus Board made a recommendation to select PowerStream as the preferred proponent to proceed with, and to recommend PowerStream as the selected proponent to Town Council.

Calculation of the Recapitalization Dividend

34. In the updated financial analysis attached as **Exhibit "U"**, PowerStream's proposed pre-closing dividend was reduced to $5.3 million. In the previous financial analysis, attached as **Exhibit "O"**, the recapitalization dividend was shown as being $5.5 million. This reduction was made as a result of further review and clarification of PowerStream's dividend calculation methodology with John Glicksman.

35. After the closing of the Collus-PowerStream transaction, Collus Power paid out approximately $4.6 million in dividends that went to the Town. I recall being disappointed with this amount given that the recapitalization dividend was at one point calculated to be as high as $5.3 million. I believe that the final dividend amount was lower than initially expected given certain changing circumstances, including:

    a. The initial recapitalization dividend calculation was based on December 31, 2010 financial statements and balance sheets, whereas the final calculation was based on the December 31, 2011 and July 31, 2012 financial statements and balance sheets, which provided a more current indication of the financial position of Collus Power; and

b. Changes in Collus Power's rate base between the 2010 and 2011 financial years.

36. These factors would have affected the recapitalization dividend proposed by the other bidders.

Entity Being Sold

37. Although I was not involved in developing the RFP, in hindsight, I would suggest that the RFP could have been structured as the sale of a 50% interest in Collus Utilities, the holding company of Collus Power. This made more sense for tax minimization purposes. However, I believe it is important to note that over 98% of the total value of Collus Utilities, the holding company, resided in its investment in Collus Power, as all other subsidiaries had nominal value and/or limited operations.

Role in Transaction

38. I provided some assistance in reviewing the sale transaction documents from a financial perspective. I also attended some meetings at lawyers' offices in Toronto. At no time did I lead negotiations or make decisions. I provided assistance on financial matters when requested.

39. During the transaction process, I primarily took instructions from Mr. Houghton.

Paul Bonwick

40. I did not know Paul Bonwick before PowerStream was selected as the preferred proponent. I recall being introduced to Mr. Bonwick at an event in March 2012 and then meeting him again in or around April 12, 2012, as reflected in the email chain attached as **Exhibit "V"**. I did not know that Mr. Bonwick was involved with PowerStream prior to these meetings.

SWORN BEFORE ME at the City of Hamilton
in the Province of Ontario on
Friday June 14, 2019

Commissioner for Taking Affidavits
(or as may be)
NORMAN JEMBLOW

John Rockx

This is Exhibit "A" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)

John Rockx

Partner

KPMG LLP
21 King Street West, Suite 700
Hamilton, ON L8P 4W7

Tel: +1-905-523-2247
jrockx@kpmg.ca

Function and Specialization

Partner – Deal Advisory - Valuations & Corporate Finance

Education, Licenses & Certifications

- Honours Bachelor of Business Administration, Wilfrid Laurier University
- Chartered Professional Accountant (CPA, CA, CPA, CMA)
- Chartered Business Valuator
- Dealing Representative -Ontario Securities Commission

Background

- John is a Partner in KPMG's Deal Advisory practice within the firm's Business Valuation practice in Southwestern Ontario. He is a Chartered Business Valuator, a Chartered Professional Accountant (Chartered Accountant and Certified Management Accountant). John has extensive experience in strategic option analyses, business valuations, corporate finance transactions and related advisory work.
- John has been with KPMG for over 34 years and has worked from the firm's offices in Toronto, North York and Hamilton. During this period, John has provided financial advisory services to private and public companies, municipalities, government agencies, not-for-profit entities, banks, lawyers, Courts and other clients.

Professional and Industry Experience

John has significant experience in the regulated Ontario electricity distribution sector. He has assisted his LDC clients in the Ontario electricity distribution sector with the following services:

- Strategic business and option reviews for a number of Ontario LDCs since market deregulation began in 1998.
- Business valuations for merger and acquisition transactions, strategic option reviews, corporate reorganizations, purchase price allocations, payment-in-lieu of income tax purposes etc..
- Divestiture assistance. John had an active role in managing the sale of several former LDCs.
- Merger assistance. John has assisted in the review of several merger transactions in Ontario, providing relative valuation assistance, synergy analyses, pro-forma distribution rate analyses etc.
- Acquisition-related assistance including pricing analysis, leading or providing negotiation support, evaluating deal potential, providing due diligence services, financial projections etc.
- Financing assistance including the preparation of financial models, business plans, financing packages, and recommending and approaching sources of capital..

This is Exhibit "B" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)
Norman Tembel

KPMG LLP
Bay Adelaide Centre, Suite 4600
333 Bay Street
Toronto ON M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

Ed Houghton
Chief Executive Officer
Collus Power
Collingwood, ON
February 24th, 2011

Dear Mr. Houghton:

KPMG is pleased to submit this proposal to Collus Power ("Collus" or "Client") to help you and your shareholder, the Town of Collingwood, evaluate the strategic options for ownership of your utility. This letter describes the objective of our engagement, the nature of the services that we will provide, and our professional arrangements.

Background:

The Ontario electricity sector underwent a significant period of change and reform in the early part of the last decade. During this period of change, the Town of Collingwood made a strategic decision to retain ownership of its electric distribution utility and to look for opportunities to grow the business through acquisitions and new business ventures. With the passage of time, the Town may now like to reconsider its ownership options and to assess the changes that have occurred in the market since its last business review. A new study will help the Town assess whether any changes in strategic direction or ownership structure would now be appropriate. You have asked KPMG to assist you in this review.

Scope of Work

To support deliberations by Collus and its shareholder, KPMG will provide an objective assessment of the ownership options open to the Town and of their likely financial and business implications.

During our work we will undertake the following tasks:

- We will meet with senior management at Collus to review the current business and financial plans of the utility. During this meeting, we will explore the current financial and operating status of the utility and identify any issues that may impact on the utility's value to the Town either in a sale transaction or as a stand-alone entity.
- We will prepare an analysis of the potential sale value of Collus. This will not be a formal valuation but rather an indicative view of the potential value of the utility in a sale transaction based on the multiples that have been observed in the marketplace for similar transactions, as well as a review of management's multi-year projections for Collus. The valuation analysis can be used to assess the financial merits of the various ownership options (i.e.; sell, retain, merger) for the utility.

- We will also prepare a summary of the advantages and disadvantages of various ownership options from the perspective of the Town, of utility ratepayers, and local ratepayers. This summary will take into account both financial and qualitative issues. It will address the implications for a local distribution utility of broader developments in the electricity sector, including the desire for a smart grid and incentives for renewable power generation.
- We will then summarize our findings from the work-steps noted above in a Power-Point style report that will identify the financial implications of alternative options and the strategic issues that may influence the Town's decision on a preferred option going forward.
- We will provide a presentation of our report to relevant stakeholders.

The Engagement Team

John Herhalt, C.A. will be the Partner on this engagement. John is the Global leader of KPMG's Government and Infrastructure Services practice and has a long history of involvement with Ontario's electricity sector. John led KPMG's strategic planning work for Collus during the initial period of restructuring about a decade ago. John has helped a large number of utilities in Ontario with strategic planning processes and assessments of their ownership options.

Jonathan Erling, P.Eng will be the Project Manager for this engagement. Like John, Jonathan was also involved in our earlier work for Collus on ownership options. Jonathan is a Managing Director in KPMG's Power and Utilities practice and has been involved in a wide variety of projects in the electricity generation, transmission, and distribution sectors. In particular, he has worked with utilities and government policy makers on issues related to rate regulation and cost allocation in the energy sector. He has provided expert testimony at the Ontario Energy Board and the Manitoba Public Utilities Board (PUB).

John Rockx, C.A. will provide support to the team on issues related to utility valuation. John is a Chartered Business Valuator (C.B.V.) and has undertaken a large number of valuation assignments in the Ontario electricity distribution sector.

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Fee Estimate

We will undertake this engagement for a fixed fee of $30,000. This fee estimate assumes that we will make three person-trips to Collingwood. One trip will be required at the beginning of the engagement to meet with senior management at Collus and officials from the Town. Our initial meetings will be assumed to occur on one business day. An allowance of two person-trips is provided at the end of this engagement for the presentation of our report.

The cost of any additional meetings or analysis will be billed in addition at hourly rates. To reflect our long working relationship with Collus and the Town, any such work will be billed at 60% of our standard rates.

KPMG

GST and out-of-pocket expenses will be billed in addition to the amounts noted above. This engagement is subject to our Terms and Conditions for Advisor and Tax Engagements, which are attached to this letter.

We would be pleased to discuss changes to our proposed scope of work or business arrangements if our proposal does not match your exact requirements. Please give me or Jonathan Erling a call at 416-777-8778 or 416-777-3206 to discuss any required changes.

In the event that the letter does address your requirements, please confirm your agreement with the foregoing by signing and dating a copy of this letter and returning it to us.

Yours very truly,

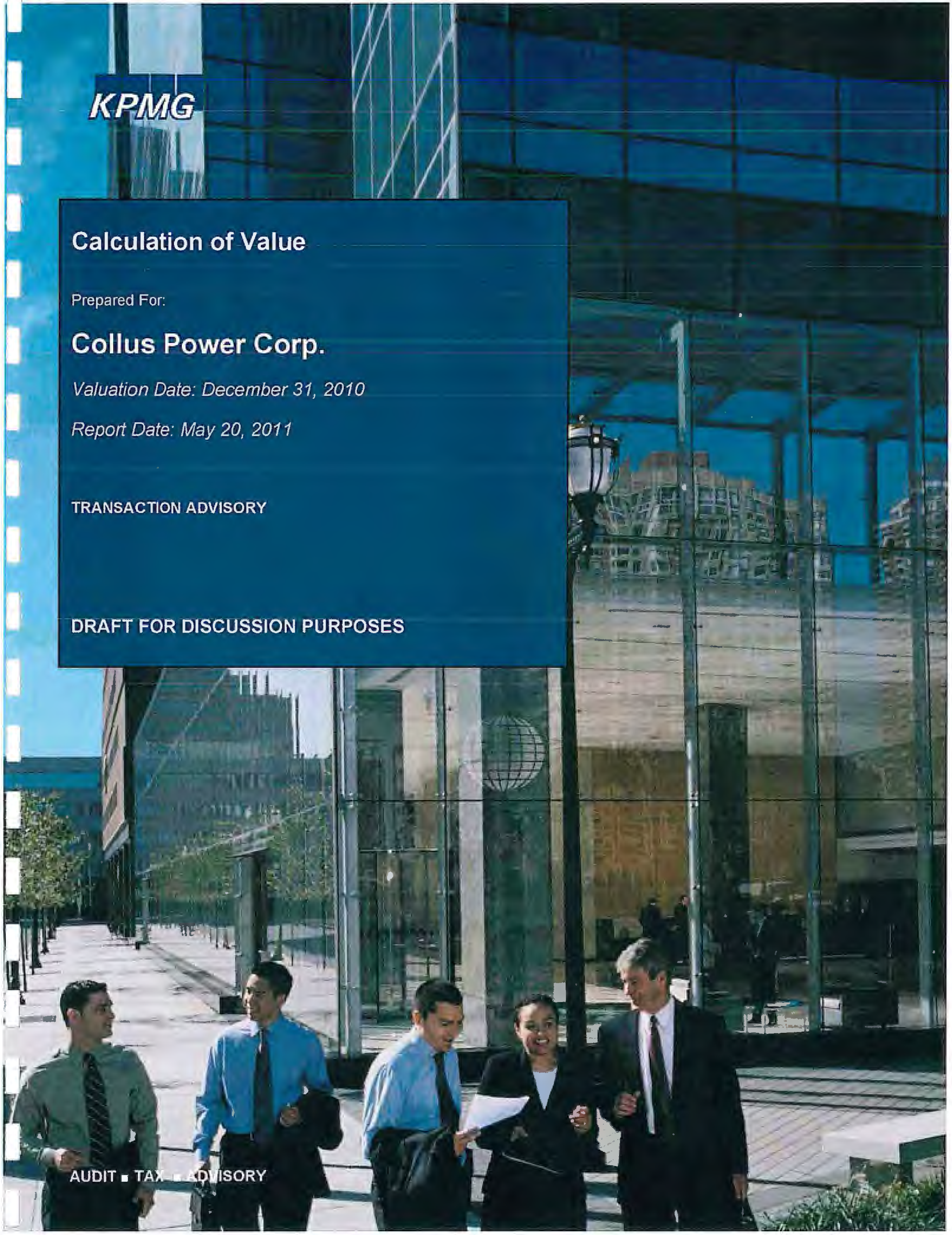
John Herhalt
Global Leader, KPMG Government and Infrastructure Services Practice

We acknowledge that we have read the foregoing agreement and agree to be bound by it.

	MARCH 11 / 2011
Collus Power	Date

This is Exhibit "C" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)



KPMG

Calculation of Value

Prepared For:

Collus Power Corp.

Valuation Date: December 31, 2010

Report Date: May 20, 2011

TRANSACTION ADVISORY

DRAFT FOR DISCUSSION PURPOSES

AUDIT ▪ TAX ▪ ADVISORY

Table of Contents

1 Introduction

1.1 Engagement Purpose

1. KPMG LLP ("KPMG") was retained to provide a calculation of the fair market value (the "Valuation") of all the common shares (the "Shares") of Collus Power Corp. ("Collus Power" or the "Company") as at a current date, which we have taken to be December 31, 2010 (the "Valuation Date") based on the availability of audited financial statements.
2. We understand that our calculation of the fair market value of the Shares of Collus Power is required to assist the Town of Collingwood (the "Town"), as the indirect municipal shareholder, in conducting a review of the strategic options for the Company.

1.2 Currency

3. All values expressed in this report and the attached schedules and appendices are expressed in terms of Canadian dollars unless otherwise noted.

1.3 Valuation Conclusion

4. Based upon the scope of our review (Appendix A), and subject to the assumptions and restrictions as noted herein (Appendix B), we have calculated the fair market value of all the issued and outstanding Shares of Collus Power Corp., as at December 31, 2010, to be in the range of $14.1 million to $16.3 million (i.e. with a midpoint value of $15.2 million).
5. Our valuation conclusions are summarized in Schedule 1.
6. In addition to the value of the Shares as presented above, the Town is entitled to receive additional amounts (e.g. outstanding note payable of $1.71 million) that were payable to the Town as at the Valuation Date.

Submitted by,

DRAFT

John Rockx, CA, CBV
Cindy Neale, CA, CBV
Jonathan Erling, PEng

Transaction Advisory Services
Valuation Services Group
KPMG LLP

2 Definition of Fair Market Value and Valuation Standards

2.1 Definition of Fair Market Value

7. For the purpose of the Valuation, fair market value is defined based on the standard definition used in Canada, pursuant to which fair market value is defined as "the highest price available in an open and unrestricted market between informed, prudent parties acting at arm's length and under no compulsion to act, expressed in terms of cash.

2.2 Fair Market Value versus Price

8. The determination of "fair market value" in a notional market must be differentiated from the concept of "price". There may be many different "prices" for a particular business, asset, and/or liability due to such factors as: differing negotiating strengths, the perception of the parties as to the future prospects of the business, costs savings or other benefits peculiar to a particular purchaser, and the purchase consideration being other than cash, as well as other factors. As a result, the price at which a sale of the business might take place may be higher or lower than the notional fair market value indicated herein.

9. The calculations and comments expressed within this report represent our calculation of the 'en bloc' fair market value of the Shares of Collus Power. Our valuation approach is based on an assessment of the operations of Collus Power, the assets and liabilities considered to be reasonable for its business operations, and other relevant factors. These factors include external industry and economic conditions which influence risks associated with the business, and internal corporate factors which affect the future profitability of the business.

10. Special purchasers are parties who, for a particular reason (e.g., economies of scale) might pay a premium to purchase the shares of a company. Unless a business is exposed for sale in the open market, it is often speculative as to whether any purchaser exists who would specifically benefit from the acquisition or whether such a purchaser would be willing to pay for this benefit. Accordingly, unless synergistic benefits and other factors can be specifically identified and quantified through actively seeking a prospective purchaser, we are of the view that a notional fair market value must be based on the approach described above.

2.3 Standards for Valuation Reports: Canadian Institute of Chartered Business Valuators

11. Under the standards of the Canadian Institute of Chartered Business Valuators ("CICBV"), there are three types of valuation reports: (i) comprehensive; (ii) estimate; and, (iii) calculation. The conclusions reported therein differ by the level of assurance provided and the extent of analysis, investigation, and corroboration performed by the valuator. The breadth of work performed by the valuator does not differ for the three types of reports, only the depth of analysis, investigation, and independent corroboration. The scope of review will be more comprehensive for a comprehensive valuation report and progressively less comprehensive for an estimate valuation report and a calculation valuation report. Our conclusions are based on a scope of work to support a calculation of value report.

2.4 Independence and Objectivity

12. The members of the KPMG engagement team are independent of Collus Power and its affiliated companies, and are acting objectively. The KPMG engagement team has no present or contemplated interest in Collus Power or any affiliates of Collus Power, nor is

any member of the engagement team an insider or associate of Collus Power or its affiliates. Moreover, our fees for this engagement are not contingent upon our findings or any other event, and the Valuation has been prepared in conformity with the practice standards of the CICBV.

2.5 Scope of Review

13. In preparing the Valuation, KPMG has reviewed various documents and information provided by Management of Collus Power (collectively "Management"), along with publicly available information. In addition, KPMG has had various discussions with Management. A list of the documents and information upon which we relied, along with the primary individuals with whom we have spoken and corresponded, is set out in Appendix A - Scope of Review.

3 Nature and History of Collus Power Corp.

14. Collus Power is the local licensed electricity distribution company that serves the businesses and residences within the Town of Collingwood ("Collingwood" or "the Town") and the neighbouring communities of Thornbury, Stayner and Creemore. Collus Power was incorporated in 2000 in response to Ontario Government legislation to de-regulate the electricity industry in Ontario.

15. The Company acquired the hydro distribution assets of Thornbury, Stayner and Creemore in July 2001.

16. Collingwood, Thornbury, Stayner and Creemore had a combined population of approximately 27,000 full-time residents (plus a large number of seasonal residents) at the Valuation Date. Collus Power has an exclusive license to distribute electricity within the municipal boundaries of Collingwood, Thornbury, Stayner and Creemore. Hydro One is the electricity distributor in most of the rural areas surrounding the service territory of Collus Power.

17. The common shares of Collus Power are wholly-owned by Collingwood Utility Services Corp, a holding company that is a wholly-owned subsidiary of the Town of Collingwood.

18. As at the Valuation Date, Collus Power had a mix of approximately 15,296 residential, industrial, commercial and institutional customers. The Company had no large use customers; however, there were 128 general use customers (i.e. 50kW to 4,999 kW customers). Growth prospects for Collus Power are quite strong in the near term due to ongoing residential and commercial development.

19. Collus Power has made significant investments in the past in order to maintain its distribution system in a good state of repair. The Company's fixed asset base can be described as follows:

3.1 Overhead and Underground Cables:

20. Currently, Collus Power's electrical system consists of __ kilometers of overhead wires and ___kilometers of underground wires. Collus Power uses high quality, durable, weather resistant cable for its distribution network.

3.2 Meters:

21. Collus Power meters meet the requirements of the Electricity and Gas Inspection Act. Over the last few years, the Company has installed new smart meters at all customer sites and is ready for the changeover to time-of-use electricity billing.

3.3 Land and Buildings:

22. Collus Power leases its head office premises located at 43 Stewart Road in Collingwood, Ontario. This __ square foot building houses the Company's administrative, engineering, operating and field personnel and rolling stock.

23. Collus Power owns and operates __ distribution stations and __ transformer stations in its service territory, as well as land for a future transformer station to be built in Creemore.

3.4 Equipment:

24. Collus Power owns various distribution and transformer station equipment as well as other equipment and vehicles.

3.5 Other Operational Matters:

25. Collus Power's employee base consists of approximately 11 employees. In addition to its direct employees, the Company subcontracts various personnel services from Collus Solutions Corp, an affiliated company, whose employees and costs are allocated approximately 60% / 40% between Collus Power and Collingwood Public Utilities Services Board / the Town, respectively. Collingwood Public Utilities Services Board / the Town provide water and wastewater utility services to the residents of Collingwood. We understand that, based on the Affiliate Relationship Code, the cost of subcontracted employees is not subject to any mark-up.

26. As at the Valuation Date, Collus Power serviced approximately 15,296 customers comprised of 13,580 residential customers, 1,588 general service customers - less than 50 kW, and 128 general service customers - 50 kW to 4,999 kW. The Company distributed approximately 313.1 million Kwh of power in calendar 2010.

4 Corporate Operating Results

4.1 Historical and Projected Operating Results

27. On Schedule 2, we have summarized the audited operating results of Collus Power for the five years ended December 31, 2010, and the projected operating results for the ten years ending December 31, 2020.

28. Historical distribution service revenues of Collus Power for the five years ended December 31, 2006 through 2010 increased from $4.45 million in 2006 to $5.44 million in 2010.

29. Distribution service revenues are projected to increase to $5.69 million in calendar 2011, an increase of 4.58% from 2010. Annual distribution revenues are projected to increase by a further 2.50% in 2012 and 10.0% in 2013. Annual distribution service revenues are expected to continue to increase annually subsequent to calendar 2013.

30. The operating income or earnings before interest and taxes ("EBIT") of Collus Power was $745,000 in 2010 and is budgeted to be $814,000 in 2011, an increase of 9.26%.

4.2 Historical and Projected Balance Sheets

31. On Schedule 3, we have summarized the audited balance sheet position of Collus Power for the five years ended December 31, 2010 as well as the projected balance sheet position for the fiscal years ending December 31, 2011 to 2020. Collus Power's primary asset at the Valuation Date was its investment in capital assets, which had a net book value of $13.04 million inclusive of software.

32. Collus Power is financed by a note payable to the Town of Collingwood in the amount of $1.71 million and a 15-year loan from Ontario Infrastructure Projects Corporation for $2.90 million. The Town's note payable has a 7.25% interest rate and the loan from Ontario Infrastructure Projects Corporation has an interest rate of 4.67%.

33. As at the Valuation Date, the net book value of shareholders' equity was of $10.78 million. The Company also had goodwill with a carrying value of $277,000.

34. Collus Power had $2.92 million of cash balances on hand at December 31, 2010. The Company also had $1.41 million of long-term net regulatory liabilities at the Valuation Date.

5 Overview of the LDC Industry

5.1 Macro Economic Forces

35. The Conference Board of Canada predicted in January 2011 that the Canadian economy would grow by 2.0% in 2011, the loonie would continue to hold strong, and interest rate hikes would not occur until the fall of 2011 as a result of the strong Canadian dollar and slow economic growth.

36. Critical to continued recovery of the global economy is the resolution of the European debt crisis.

37. The U.S. economy is in the process of recovering from the global economic downturn; however, certain sectors such as new housing and general construction are still lagging. Government spending and deficits in the United States continue to be a concern.

38. Other key indicators of economic activity at the Valuation Date were as follows:

Canadian chartered bank prime rate	3.00%
Ten year Government of Canada bond rate	3.25%
C$ / US $ exchange rate	C$1.00 = US$0.993845

5.2 Industry Specific Analysis

39. In 1998, the Ontario Government passed Bill 35, the Energy Competition Act, in order to reduce electricity prices and increase choice for Ontario electricity consumers.

40. The former Ontario Hydro was divided into the following entities:

- Ontario Power Generation("OPG") which focuses on power generation;
- Hydro One which focuses on transmission and distribution;
- Independent Electricity System Operation ("IESO") which focuses on electricity system dispatch;
- Ontario Electrical Safety Association ("ESA") which focuses on safety; and,
- Ontario Electricity Financial Corporation ("OEFC") which focuses on debt retirement.

41. The Electricity Act guaranteed an open wholesale electricity market, retail choice at the consumer level, and access to the power transmission grid to new competitors.

42. Under the OEB Act, the Ontario Energy Board ("OEB") became responsible for regulating prices in non-competitive sectors of the energy market and protecting the public from uncompetitive practices.

43. In 1999 the OEFC became responsible for Ontario Hydro's debt and consumers were made responsible for paying a portion of this debt.

44. Market-based pricing for consumers was introduced in May 2002 when the Ontario Electricity market opened. Unforeseen circumstances led to high market prices in 2002 and Bill 210, The Electricity Pricing, Conservation and Supply Act, was passed to place a cap on the price of electricity, amongst other things.

45. In December 2004, Bill 100, The Electricity Restructuring Act, was passed. Key impacts included:

- OPA ("Ontario Power Authority") was formed to ensure an adequate supply of electricity.
- A Conservation Bureau was created.

- The Ministry of Energy became responsible for setting conservation targets, renewable energy objectives and the mix of supply sources.
- The IMO was renamed the Independent Electricity System Operator ("IESO").
- Regulated prices were monitored to ensure stability for consumers.

46. In 2005, a revised price structure under the Regulated Price Plan ("RPP") was announced. Most Ontario electricity consumers were covered by the RPP or the Hourly Ontario Electricity Price ("HOEP"). The RPP charges residential and small-business electricity consumers according to a two-tier pricing model where the regulated price varies according to the level of consumption.

47. Ontario businesses that are not covered by the RPP are subject to HOEP pricing. HOEP is an average of the twelve five minute electricity prices in that hour. The rate shown on the electricity bill is the weighted average of these daily weighted average prices over the billing period.

48. Bill 150, the Green Energy and Green Economy Act, was introduced in February 2009. This bill changed the responsibilities of Ontario electricity distributors and the OEB. The purpose of the bill was to promote more renewable energy generation projects and conservation to assist in the transition to more efficient energy use.

49. Electricity distributors are required to assist consumers to reduce their peak demand and their overall consumption levels. Distributors are also permitted to own and operate renewable power generation facilities.

50. Distributors obtained more responsibilities with respect to changing local distribution networks into "smart grids" which are defined in the Green Energy Act as information systems that facilitate renewable energy, demand response and new technologies. The Green Energy legislation will bring more changes to Ontario's power industry. There should be more conservation options and clean energy solutions from local utilities in future years.

51. As at the Valuation Date, there were approximately 80 local electricity distributors in Ontario. Considerable industry consolidation has occurred since 1996, at which time there were approximately 307 electricity distributors in Ontario.

6 Valuation Approaches and Principles

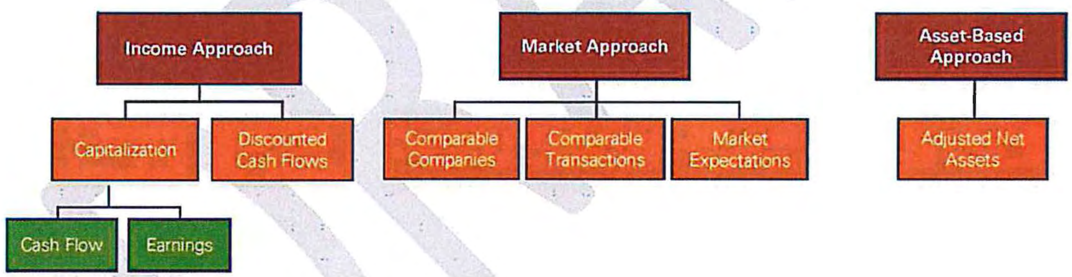
6.1 Valuation Approach

52. The estimated fair market value of a business generating a level of profitability commensurate with the assets employed should be based on a going concern approach. If, on the other hand, it is determined that a business cannot be anticipated to produce a sufficient level of discretionary cash flow or income in relation to its tangible operating assets and that the investors would benefit more by liquidating the business than by operating it, then the value to be placed on the business should be based on the liquidation approach.

53. Based upon our discussions with Management and our review of the reported financial position and historical and projected operating results of Collus Power, we concluded that the Company should be valued using a going concern approach. The going concern approach assumes that the business being valued will continue to operate profitably or will operate with a potential for future profits and positive cash flows.

54. In estimating the fair market value of a business and/or asset under the going concern approach, three different approaches may be employed: the income approach, the market approach, and/or the cost approach. While each of these approaches is initially considered, the nature and characteristics of the company and/or asset will indicate which approach or approaches are most appropriate.

Exhibit 1:



(i) Income Approach

Discounted Cash Flow Method

55. The income approach is predicated upon the value of the future cash flows that a company and/or asset will generate over its remaining life. This approach begins with the estimation of the annual cash flows that a prudent investor would expect the subject business and/or asset to generate over a discrete projection period.

56. The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the projected cash flows.

57. The present value of the estimated cash flows are then added to the present value equivalent of the residual value of the business at the end of the discrete projection period to arrive at an estimate of fair market value.

Capitalized EBITDA Method

58. An alternative under the income approach is the Capitalized EBITDA method. Under this approach, a valuator must first determine an entity's maintainable future EBITDA. This is the level of EBITDA that can reasonably be expected to be achieved on a continuing basis in future years. It does not necessarily represent a level of EBITDA that will be achieved in each and every year, but rather a reasonably maintainable EBITDA level.

59. Once the appropriate maintainable EBITDA of a business is determined, it is then capitalized by appropriate capitalization rates that reflect both the industry-related and the company-specific risks and opportunities associated with the business. Any expected future growth or decline in operating EBITDA should be considered in the selection of appropriate multiples to apply to maintainable EBITDA. The resultant value is then adjusted for any other redundant assets or liabilities associated with the business as at the valuation date.

(ii) Market Approach (Market Multiples Method)

60. The market approach could also be considered in the valuation of businesses, business ownership interests, and/or securities, to the extent that adequate and relevant information is available. Comparable market multiples are those that provide a reasonable basis for comparison to the investment characteristics of the company being valued and comparable market multiples can provide insight into valuing a subject company, or may be used for corroborative purposes.

61. Market approaches based on the market multiples method can also provide objective, empirical data for developing valuation ratios for use in business valuation, and can be classified into the following two methods:

    - *Comparable Public Company Multiples Method* – An analysis of multiples based on the publicly traded equity prices for the securities (e.g., common shares) of a public company listed on a given stock exchange.
    - *Precedent Transaction Multiples Method* – Multiples based on open market transactions, whether public or private, in which relevant financial information has been disclosed.

62. The value measure, or valuation multiple, is determined by dividing the price of the comparable company shares and/or transaction by a financial variable (such as earnings, cash flow, EBITDA, or revenue), calculated from the financial data of the comparable company. The valuation multiples are then reviewed and used as comparables in applying valuation ratios to the subject company, after making the appropriate adjustments to ensure consistency in accounting conventions, the timing of the price data used in the valuation ratios, and the selection of the underlying data used to compute the valuation ratios.

Comparable Public Company Multiples Method

63. The comparable public company multiples method requires the development of relevant valuation ratios (i.e., public company multiples) derived from the review of transactional pricing information and underlying financial data of the publicly-traded comparable companies engaged in similar lines of business that are actively traded in a free and open market, and then applying these ratios to the corresponding data of the subject company to arrive at a value.

64. Under the comparable public company multiples method, the value of the subject company can be determined using two basic approaches:

    - *Business Enterprise Value* – This is a "debt-free" approach, which is based on the multiples of the comparable companies calculated using the business enterprise value of the comparables (i.e., the market value of the common shares plus the market value of net debt). Once business enterprise value is calculated by applying "debt-free" multiples to the subject company's EBIT, EBITDA, or revenues, a deduction is made for actual net debt in order to estimate the equity value of the subject company.

- *Equity Value* – This approach is based on the market capitalization of the selected comparable public companies (i.e., market value of equity).

(iii) Comparable Transactions Approach

(iv) Under this approach, fair market value is determined by examining the purchase prices and related multiples (e.g. enterprise value multiples, invested capital multiples, customer multiples, revenue multiples) of recent publicly-disclosed transactions involving LDC's comparable to Collus Power. Specifically, we have reviewed a number of recent transactions in Ontario involving the sale of municipally-owned electricity distribution companies to arm's length purchasers such as Hydro One, PowerStream, Horizon Utilities, Niagara Falls Hydro and E.L.K. Energy.

(v) Asset-Based Approach (Cost Approach)

65. The adjusted net assets method is a methodology based on the cost approach. Under this method, a valuation analysis is performed for a company's identified fixed, financial and other assets. The estimated value of all the existing and potential liabilities is then subtracted from the aggregate value of the assets.

66. Typically, an ongoing business is worth more than the fair market value of its underlying tangible assets. This additional value is the result of several factors: the assets valued independently may not reflect economic value related to the prospective cash flows that they could generate; the synergy of the assets may not be reflected in their independent values; and intangible assets inherent in the business such as reputation, superior Management, proprietary procedures or systems, or superior growth opportunities are very difficult to measure independent of the cash flows generated by various assets.

6.2 Summary of Valuation Approaches Selected

67. In determining the most appropriate approach to use in valuing the Shares of Collus Power, we considered the nature of the Company's operations (e.g. in the LDC industry) as well as its current financial position.

68. Under both the Discounted Cash Flow and the Comparable Transactions approaches, we have assumed that Collus Power will continue to operate on the basis of maximizing the financial return to its shareholder, Collus Utility Services Corp., and the Town of Collingwood.

7 Valuation Analysis

7.1 Fair Market Value of the Company

69. As a result of constant industry restructuring, Collus Power's future financial performance may be significantly different from that of the past. Owing to this disparity, an estimate of its fair market value should be based on its future financial results.

7.2 Future Earnings and Cash Flows

70. We reviewed the financial projections of Collus Power for the three year period, 2011 to 2013, as prepared by Management and summarized on Schedule 2. We also discussed the Company's long-term business plans with:

- Mr. Ed Houghton, President & CEO;
- Mr. Dean Muncaster, Chair of the Board; and,
- Mr. Tim Fryer, CFO.

71. Total distribution revenue is projected to increase by 4.58% in calendar 2011. In calendar 2012 and beyond, revenue is projected to increase such that Collus Power will gradually move towards the recovery of full rates of return on its deemed equity base.

72. The operating income / EBIT margin of Collus Power was 12.43% of total distribution revenues in calendar 2010 before consideration of a large one-time bad debt write-off. In calendar 2011 and beyond, EBIT margins are expected to increase gradually to 25.75% by calendar 2020.

73. The projections assume that Collus Power will attempt to maximize the rate of return earned on its invested capital (i.e. equity returns of 9.85%) at its next rate rebasing that is projected to take effect on May 1, 2013.

74. Projected revenue is capped at a level which allows Collus Power to achieve a reasonable rate of return on its capital base, based on permitted rates of return, and the recovery of its projected operating costs.

75. In addition, the Company's projections assume the realization of financial returns that would flow from a deemed capital structure of 60% debt and 40% equity for periods after April 30, 2013.

7.3 Determination of Free Cash Flow

76. Projected free cash flow was based on the following:

- Projected EBIT as estimated by Management;
- Less: Cash income taxes;
- Less: Projected capital expenditures, net of contributed capital (i.e. a non-cash outlay);
- Less: Estimated net working capital requirements associated with future revenue growth.

77. Future free cash flows were discounted using a weighted average after-tax cost of capital ("WACC") of 6.90%.

7.4 Discount Rates

78. In determining the appropriate discount rate to use, we:

- Incorporated current OEB rates of return and the OEB's deemed capital structure.
- Considered the specific risk profile of Collus Power and selected a specific risk premium. In determining the specific risk premium, we considered various Company-specific factors, both positive and negative, that impacted upon Collus Power as at the Valuation Date. These Company-specific factors are discussed in Sections 7.6 and 7.7 below.
- Based upon the foregoing, we selected a weighted average cost of capital of 6.90% to apply to the future after-tax cash flows of Collus Power.

7.5 Discounted Cash Flow Valuation

79. We incorporated the projected operating results and capital expenditures of Collus Power for calendar years 2011 to 2020 into a discounted cash flow model.

80. On Schedule 4, we calculated the present value of the Company's projected free cash flow for the period January 1, 2011 to December 31, 2020 to approximate $2.99 million, using a WACC discount rate of 6.90%.

7.6 Advantages of Collus Power

81. Some of the positive factors in respect of the operations of Collus Power are as follows:

- The established customer base of Collus Power, which consists of approximately 15,296 customers. Furthermore, the Collingwood area is expected to attract considerable development and growth over the next five years;
- The attractiveness of Collus Power as an acquisition target. The Company's service territory is located in an area where consolidation could be become more active in the future, with participation by large active industry consolidators such as PowerStream and Veridian Connections;
- The low (30%/70%) current debt to equity ratio of Collus Power, which allows a large acquirer to inject additional leverage into the utility. Collus Power has a debt to equity ratio that is well below the OEB's deemed capital structure of 60% / 40%, and therefore has the capacity to take on more debt;
- The Company's distribution system has been continually upgraded over the years and is in good physical condition. The distribution system's well-maintained condition is exemplified by its low level of line loss (i.e. 3.46% in 2010);
- The Company has solid relationships with its customers and employees;
- Collus Power's operations have no economic dependence on one customer or industry sector due to the diversified economic base of the Collingwood area;
- The commercial and residential growth prospects for the Town of Collingwood and the communities of Thornbury, Creemore and Stayner are promising; and,
- A purchaser of Collus Power would be able to realize certain operating synergies through the limited assumption of employees (i.e. many employees are approaching retirement age) combined with OEB guidelines that allow certain transitional operating synergies to be retained by the purchaser in addition to regulated returns.

7.7 Disadvantages

82. Some of the disadvantages associated with operations of Collus Power are as follows:

- The general risks and uncertainties surrounding regulation of the Ontario electricity industry by the OEB;

- The inability of industry consolidators to directly recover the purchase price premiums paid for Ontario local electricity distributors through an increase in their rate base for OEB rate-setting purposes;
- The low level of distribution revenues per customer compared to other Ontario LDCs, which may make rate harmonization a lengthier process. This issue is manifested by the relatively low after-tax rates of return generated by Collus Power relative to the net book value of shareholder's equity;
- The potential dis-synergies associated with acquiring the operating personnel of Collus Power, who may require wage and benefit increases to be comparable to the employee rates of purchasers; and,
- The challenge to increase the overall level of profitability generated by Collus Power due to its limited ability to realize economies of scale.

7.8 Terminal Value

83. The terminal value of Collus Power was calculated using a capitalized EBITDA approach. Specifically, EBITDA for the terminal year was based on calendar 2020 EBITDA. Enterprise value in the terminal was determined using terminal multiples of 8.5 times to 9.0 times. On Schedule 4, we calculated the present value of the terminal value of Collus Power to fall in the range of $17.9 million to $18.96 million.

84. Under a second approach, the terminal value of Collus Power was calculated based on a multiple of its estimated rate base at the end of 2020. As presented on Schedule 4, the present value of the terminal value of Collus Power under this approach was calculated to fall in the range of $16.7 million to $18.7 million

7.9 Summary of Enterprise Value of the Company – DCF Approach

85. On Schedule 4, we have summarized the components of our calculation of the fair market value of Collus Power using the discounted cash flow approach. After adding the present value of cash flows for the period January 1, 2011 through December 31, 2020 to the present value of the terminal value, deducting outstanding net indebtedness of $4.61 million, and deducting redundant liabilities of $1.57 million, we calculated that the fair market value of all the Shares of Collus Power, as determined using the discounted cash flow approach, approximated $14.1 million to $15.7 million as at December 31, 2010. The midpoint of this value range is $14.9 million.

86. As shown later in this report, the DCF midpoint value of $14.9 million is slightly lower than the midpoint of the fair market value range as determined using the comparable transactions approach.

7.10 Comparable Transaction Approach

87. Since 1998, the electricity industry in Ontario has witnessed significant change in operations and regulation. The complexity and implications of industry deregulation as initiated by Bill 35 in November 1998 has resulted in the consolidation of the number of municipal electric utilities ("MEUs") in Ontario from approximately 307 participants in 1996 to approximately 80 participants as at the Valuation Date. In calendar years 1999, 2000 and 2001, this consolidation was accomplished primarily through the acquisition of MEUs by existing industry participants and through the amalgamation of a number of geographically clustered MEUs into larger industry participants. The most active consolidator was Hydro One, which purchased 88 MEUs between 1999 and 2001. Since 2001, other industry consolidators have included existing LDCs such as Veridian Connections, Hamilton Hydro and PowerStream.

88. We have performed a detailed analysis of the acquisition of a number of local electricity distributors in Ontario between 2001 and 2010. Included in our review were the

acquisitions of Brampton Hydro (84,000 customers), Richmond Hill Hydro (37,250 customers), Aurora Hydro (16,000 customers), St. Catharines Hydro (50,000 customers), Barrie Hydro (69,000 customers), Peninsula West Hydro (16,000 customers) and E.L.K Energy (11,000 customers).

89. The most relevant multiples are the multiples of invested capital and the multiples of debt plus equity.

90. The multiple of invested capital represents the purchase price of the equity and long-term debt of an LDC less any excess cash and redundant assets / liabilities acquired, divided by the net book value of long-term debt plus equity after the deduction of the amount of cash and redundant net assets acquired. This multiple assumes that cash is acquired on a dollar-for-dollar basis and reflects the premium paid over the net book value of debt plus equity.

91. In general, based on our review of comparable transactions, the multiples of invested capital tend to fall in the approximate range of 1.28 to 1.38.

92. We did not place much significance upon the multiples of trailing EBIT or EBITDA due to the fact that, as OEB-regulated entities, future earnings are largely based on the underlying rate base of the LDC. Similarly, the price per customer and the annual revenue multiple are broader rule-of-thumb indicators of value rather than specific indicators of value.

7.11 Valuation of Collus Power Based on Comparative Multiples

93. On Schedule 5, we have calculated the enterprise value of Collus Power based on the multiple of invested capital approach following our review of industry comparables.

94. Using multiples of invested capital of 1.25 to 1.45 times, the enterprise value of Collus Power falls in the range of $17.4 million to $20.2 million. After adding cash balances of $2.9 million and deducting redundant liabilities of $1.56 million, the combined value of debt and equity was calculated to fall in the range of $18.7 million to $21.5 million. After deducting $4.61 million of long-term debt outstanding as at the Valuation Date and rounding, we calculated the fair market of the shares of Collus Power to fall in the approximate range of $14.1 million to $16.9 million as at the Valuation Date. The midpoint of this value range is $15.5 million.

95. The enterprise value of Collus Power implies a value of $1,223 to $1,367 per customer (i.e. a midpoint of $1,295 per customer). This range is lower than that of comparable transactions in the GTA and generally reflects the cost-effective capital asset investments that Collus Power has made in the past, as well as the smaller average size of its customer base (i.e. a higher mix of residential customers).

7.12 Tangible Asset Backing

96. Tangible asset backing is defined as the fair market value of the net tangible assets underlying or supporting a business. The fair market value of tangible assets should be determined based on the going concern concept.

97. Tangible asset backing provides an indication of the investment in tangible assets required to generate the indicated earnings from operations and the perceived risk associated with an equity investment in a particular business, as well as an indication of the economic barriers to entry.

98. Tangible asset backing is calculated by adjusting the net book value of the business for any differences between the recorded net book value and the fair market value of both assets and liabilities.

99. On Schedule 6, we estimated the tangible asset backing of Collus Power to be $10.5 million as at December 31, 2010. In determining this level of tangible asset backing, we assumed that the fair market value of the fixed assets of Collus Power approximated their net book value of $12.76 million (i.e. their value for rate setting purposes).

100. No formal appraisal of the fixed assets of Collus Power was undertaken as part of this valuation engagement.

101. Any change in the fair market value of the fixed assets of Collus Power would not necessarily impact on the fair market value conclusion for the business operations of Collus Power. However, a change in the fair market value of fixed assets would impact on the amount of value allocated to goodwill and other intangible assets.

7.13 Goodwill and Intangible Assets

102. The difference between the fair market value of a business and its tangible asset backing is considered to be a measure of the goodwill and other intangible assets inherent in the operations of the business.

103. Goodwill and other intangible asset value will normally occur where a business has the ability to earn profits at a level in excess of that normally regarded as an adequate return on the tangible assets employed in the business.

104. Based on our calculation of the fair market value of the Shares of Collus Power and its tangible asset backing of $10.5 million, we calculated that the value of goodwill and other intangible assets inherent in Collus Power would fall in the approximate range of $3.60 million to $5.80 million, with a midpoint value of $4.70 million. Our implied goodwill analysis is presented in Schedule 7.

8 Conclusion on Fair Market Value

105. Based upon the scope of our review (Appendix A) and subject to the assumptions and restrictions as noted herein (Appendix B), we calculated the fair market value of all the issued and outstanding common shares of Collus Power to fall in the range of CDN $14.1 million to CDN $16.3 million as at December 31, 2010. The midpoint of this value range is CDN $15.2 million.

106. Our calculation of fair market value was based on the simple average of the discounted cash flow value and the comparable transactions value of Collus Power as at the Valuation Date. These calculations are summarized in Schedule 1.

107. The aggregate value of the common shares and the note payable held by the Town of Collingwood falls in the range of $15.81 million to $18.01 million, with a midpoint value of $16.91 million.

Appendix A: Scope of Review

A. Documents and Information Relied Upon

108. In arriving at our calculation of the fair market value of the Shares of Collus Power, we have reviewed and relied upon the following documents and information, amongst others:

- the audited financial statements of Collus Power Corp. for the five years ended December 31, 2010, as prepared by Gaviller & Company LLP **(2010 financial statements are still in draft format);**
- the federal and provincial income tax returns of Collus Power for the year ended December 31, 2009;
- Copies of the 2011 to 2013 operating and capital budgets of Collus Power as prepared by Management;
- various financial and operational information and schedules (e.g. trial balances, management discussion of 2010 results) relating to the Company as provided by Management;
- details of the Company's rate filings with the OEB;
- information as contained on the Company's website;
- the Conference Board of Canada "Canadian Outlook Winter 2011 – Executive Summary" and The Conference Board of Canada "US Outlook Winter 2011 - Executive Summary"
- Various industry related economic reports; and,
- Information as to the trading multiples of comparable public companies and details of various transactions involving companies operating in the Ontario electricity distribution industry.

109. We have not conducted an independent enquiry to verify the accuracy or completeness of the information listed above. Consequently, we accept no responsibility or liability for any losses suffered by the Company, its shareholder, the Town of Collingwood or any other party as a result of our use of, and reliance on, this information.

110. In addition to the foregoing, we have:

- generally discussed the history, current status and future prospects of Collus Power with Mr. Ed Houghton, President and CEO, Mr. Dean Muncaster, Chair of the Board of Directors, and Tim Fryer, CFO (collectively referred to herein as "Management"); and,
- visited the Company's premises located at 43 Stewart Road in Collingwood, Ontario.

B. Management Representation

111. In addition to the foregoing, we have reviewed and relied upon a letter of representation obtained from Management, wherein Management confirmed certain representations and warranties they have made to us, including a general representation that:

- Management has reviewed a copy of this report in draft form and has discussed it fully with us, to their satisfaction;
- Management is satisfied with our explanation of the valuation concepts and approaches adopted by us and as set out herein; and,
- Management has no information or knowledge of any facts not disclosed in this report which could reasonably be expected to affect the conclusions noted herein.

112. We have relied on Management to provide us with complete and accurate information. The valuation comments and conclusions noted herein are based on our discussions with Management and our review of certain publicly available information contained in our files. We have not subjected the information provided to us to any audit or other third party verification procedures, other than to review it for reasonableness. Accordingly, our reliance thereon is based on Management's representations as to its accuracy and completeness.

Appendix B: Assumptions and Restrictions

A. Assumptions

113. In preparing the Valuation, in addition to the assumptions noted elsewhere in this report and schedules, we have made the following significant assumptions:

- the Company had no contingent liabilities, unusual contractual obligations, warranty claims, substantial commitments or litigation pending or threatened, other than in the ordinary course of business, which would materially affect our valuation calculation;
- the Company and its shareholder have not received any bona-fide offers to purchase the shares and/or assets and operations of Collus Power the two years prior to the Valuation Date, except as otherwise noted;
- there were no competitive advantages or economies of scale available in the business or other considerations which would cause a special purchaser to pay a premium to purchase the assets or shares of Collus Power;
- in accordance with Management's estimates, the fair market values of current assets and liabilities and capital assets is approximated by their net book values, except as otherwise noted;
- the operating and capital projections as presented herein are reasonable expectations of the future operating performance of the Company;
- all transactions with related parties (e.g. premises rent, subcontracted labour from Collus Solutions Corp.) were conducted on terms that were reflective of arm's length transactions;
- no significant incremental value to Collus Power resides within Collus Solutions Corp. or Utility Collaborative Services Inc.; and,
- the Company will be able to increase its future after-tax cash flows through future rate applications filed with the OEB.

B. Restrictions

114. In addition to the restrictions noted within this report, the Valuation is subject to the following restrictions:

- This report is not intended for general circulation or publication nor is it to be reproduced or used for any purpose other than as outlined earlier without our prior written permission in each specific instance. We do not assume any responsibility or liability for losses occasioned to Collus Power, its shareholder, the Town of Collingwood and their affiliates, their respective directors and councillors, or to any other parties as a result of the circulation, publication, reproduction or use of the Valuation contrary to the provisions of this paragraph.
- Nothing contained in this document is to be construed as a legal interpretation of, or an opinion, on any contract, document, legal or otherwise; nor is it to be interpreted as a recommendation to invest or divest.
- The Valuation is rendered on the basis of securities markets, economic, financial and general business conditions prevailing as at the Valuation Date and the condition and prospects, financial and otherwise, of Collus Power, as they were reflected in information provided to KPMG. In preparing the Valuation, KPMG made various assumptions with respect to industry performance, general business and economic

conditions and other matters, all of which are beyond the control of KPMG or any other party;

- The Valuation is given as of the date hereof and we disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the Valuation, which would have been known or expected as of the Valuation Date, but might come or be brought to our attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Valuation after the date hereof, we reserve the right (but will be under no obligation) to change, modify, or withdraw the Valuation. Moreover, we reserve the right, but will be under no obligation, to complete any additional analyses that might subsequently be required, following the receipt of additional information;
- Our analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by us, without considering all factors and analyses together, could create a misleading view of the process underlying the estimation of value. The preparation of a valuation is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis;
- Any accounting and/or tax issues addressed in this report (if any) are exclusively the responsibility of Management. Our analysis does not constitute an opinion on these issues; and,
- The Valuation is also subject to the terms and conditions and related appendices, as set out in our Engagement Letter.

Schedule 1

Collus Power Corp.
Summary of Valuation Conclusions
($ 000's)

			Fair Market Value of Shares		
	Reference		**Low**	**High**	**Midpoint**
Discounted cash flow approach	Schedule 4	$	14,100	15,700	14,900
Comparable transactions approach	Schedule 5	$	14,100	16,900	15,500
FMV of Shares - Simple average		$	14,100	16,300	15,200
FMV of Shares - Rounded		$	14,100	16,300	15,200

		Enterprise Value		
		Low	**High**	**Midpoint**
FMV of shares	$	14,100	16,300	15,200
Note payable to the Town		1,710	1,710	1,710
FMV of Town's interest		15,810	18,010	16,910
FMV of other long-term debt		2,900	2,900	2,900
Total Enterprise Value		18,710	20,910	19,810
Total Enterprise Value - Rounded	$	18,700	20,900	19,800

DRAFT FOR DISCUSSION PURPOSES

Schedule 2

Collus Power Corp.
Summary of Historical and Projected Operating Results
($ 000's)
(Unaudited)

		For The Year Ending December 31														
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
		(Actual)	(Actual)	(Actual)	(Actual)	(Draft)	(Projected)	(Projected)	(Projected)	(Projected)	(Projected)	(Projected)	(Projected)	(Projected)	(Projected)	(Projected)
Revenue																
Distribution revenue	$	4,447	4,656	4,518	5,127	5,437	5,686	5,828	6,411	6,944	7,352	7,688	7,982	8,252	8,507	8,755
Other revenues		488	574	539	488	557	375	375	375	383	391	399	407	415	423	431
		4,935	5,230	5,057	5,615	5,994	6,061	6,203	6,786	7,327	7,743	8,087	8,389	8,667	8,930	9,186
Expenses																
Distribution and transmission		1,521	1,538	1,839	1,903	1,884	2,099	2,183	2,248	2,293	2,339	2,386	2,434	2,483	2,533	2,584
Billing and collecting		592	656	633	821	1,154	1,020	1,064	1,110	1,132	1,155	1,178	1,202	1,226	1,251	1,276
General administration		1,106	1,188	1,181	1,191	1,244	998	1,031	1,063	1,084	1,106	1,128	1,151	1,174	1,197	1,221
Depreciation and amortization		820	820	854	1,004	967	1,130	1,180	1,200	1,320	1,386	1,455	1,524	1,594	1,666	1,740
		4,039	4,202	4,507	4,919	5,249	5,247	5,458	5,621	5,829	5,986	6,147	6,311	6,477	6,647	6,821
Income from operating activities (EBIT)		896	1,028	550	696	745	814	745	1,165	1,498	1,757	1,940	2,078	2,190	2,283	2,365
Interest expense		222	212	189	179	250	249	274	274	334	314	294	274	254	234	214
Income before taxes		674	816	361	517	495	565	471	891	1,164	1,443	1,646	1,804	1,936	2,049	2,151
Income taxes		223	260	81	68	96	144	96	150	291	361	412	451	484	512	538
Net income (loss)	$	451	556	280	449	399	421	375	741	873	1,082	1,234	1,353	1,452	1,537	1,613
Rate of return on average equity		5.08%	5.93%	2.86%	4.42%	3.77%	3.83%	3.29%	6.20%	6.84%	7.88%	8.29%	8.36%	8.25%	8.05%	7.81%

Schedule 3

Collus Power Corp.
Summary of Historical and Projected Financial Position
($ 000's)
(Unaudited)

		For The Year Ending December 31														
		2006 (Actual)	2007 (Actual)	2008 (Actual)	2009 (Actual)	2010 (Draft)	2011 (Projected)	2012 (Projected)	2013 (Projected)	2014 (Projected)	2015 (Projected)	2016 (Projected)	2017 (Projected)	2018 (Projected)	2019 (Projected)	2020 (Projected)
ASSETS																
Cash and cash equivalents	$	5,273	3,640	5,113	1,389	2,923	2,550	1,742	743	742	976	1,390	1,951	2,638	3,439	4,346
Non cash working capital		6,999	8,892	7,843	6,979	8,528	8,029	7,529	7,030	7,171	7,314	7,460	7,609	7,761	7,916	8,074
		12,272	12,532	12,956	8,368	11,451	10,579	9,271	7,773	7,913	8,290	8,850	9,560	10,399	11,355	12,420
Capital assets, net		8,876	10,007	11,658	11,924	12,764	13,007	13,730	15,769	16,421	17,048	17,646	18,216	18,758	19,271	19,754
Goodwill		277	277	277	277	277	277	277	277	277	277	277	277	277	277	277
Intangible assets - software		-	-	34	338	278	278	278	278	278	278	278	278	278	278	278
Investment in Utility Collaborative Services Inc.		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Future taxes recoverable		26	90	146	179	157	157	157	157	157	157	157	157	157	157	157
Total assets	$	21,451	22,906	25,071	21,086	24,927	24,298	23,713	24,254	25,046	26,050	27,208	28,488	29,869	31,338	32,886
LIABILITIES AND SHAREHOLDER'S EQUITY																
Accounts payable and accrued liabilities	$	7,047	7,159	8,687	7,351	7,384	6,634	5,974	5,974	6,093	6,215	6,339	6,466	6,595	6,727	6,862
Customer deposits		333	359	355	355	431	331	231	231	231	231	231	231	231	231	231
Current portion - long-term debt		1,781	1,442	1,118	125	200	200	200	200	200	200	200	200	200	200	200
		9,161	8,960	10,160	7,831	8,015	7,165	6,405	6,405	6,524	6,646	6,770	6,897	7,026	7,158	7,293
Long-term debt		1,710	1,710	1,710	1,585	4,410	4,210	4,010	3,810	3,610	3,410	3,210	3,010	2,810	2,610	2,410
Employee future benefits		233	211	255	281	308	308	308	308	308	308	308	308	308	308	308
Net long-term regulatory liabities		1,249	2,370	3,012	1,006	1,412	1,412	1,412	1,412	1,412	1,412	1,412	1,412	1,412	1,412	1,412
		3,192	4,291	4,977	2,872	6,130	5,930	5,730	5,530	5,330	5,130	4,930	4,730	4,530	4,330	4,130
Shareholder's equity																
Share capital		8,067	8,067	8,067	8,067	8,067	8,067	8,067	8,067	8,067	8,067	8,067	8,067	8,067	8,067	8,067
Retained earnings (deficit)		1,031	1,588	1,867	2,316	2,715	3,136	3,511	4,252	5,125	6,207	7,441	8,794	10,246	11,783	13,396
Total shareholder's equity		9,098	9,655	9,934	10,383	10,782	11,203	11,578	12,319	13,192	14,274	15,508	16,861	18,313	19,850	21,463
Total liabilities and shareholder's equity	$	21,451	22,906	25,071	21,086	24,927	24,298	23,713	24,254	25,046	26,050	27,208	28,488	29,869	31,338	32,886

Collus Power Corp.
Valuation as at December 31, 2010
Discounted Cash Flow Valuation - Unlevered Basis
($ 000's)

Schedule 4

($ Millions)	Projected For The Year Ending December 31 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Terminal Value - EBITDA Low	High	Terminal Value - Rate Base Low	High
EBITDA	$ 1,944.0	1,925.0	2,365.0	2,818.0	3,143.0	3,395.0	3,602.0	3,784.0	3,949.0	4,105.0				
Less: Depreciation and amortization	(1,130.0)	(1,180.0)	(1,200.0)	(1,319.9)	(1,386.5)	(1,454.7)	(1,523.6)	(1,594.2)	(1,666.5)	(1,739.5)				
Income from operating activities (EBIT)	814.0	745.0	1,165.0	1,498.1	1,756.6	1,940.3	2,078.4	2,189.8	2,282.5	2,365.5				
Less: Income taxes - unlevered	(230.0)	(197.4)	(297.1)	(374.5)	(439.1)	(485.1)	(519.6)	(547.5)	(570.6)	(591.4)				
After tax cash flow - unlevered	584.0	547.6	867.9	1,123.6	1,317.5	1,455.2	1,558.8	1,642.3	1,711.9	1,774.1				
Add: Depreciation and amortization	1,130.0	1,180.0	1,200.0	1,319.9	1,386.5	1,454.7	1,523.6	1,594.2	1,666.5	1,739.5				
Less: Capital investment, net of contributed capital	(1,405.0)	(1,935.0)	(3,270.0)	(1,974.0)	(2,013.0)	(2,053.0)	(2,094.0)	(2,136.0)	(2,179.0)	(2,223.0)				
Less: Working capital investment	(351.0)	(260.0)	499.0	(22.0)	(21.0)	(22.0)	(22.0)	(23.0)	(23.0)	(23.0)				
Net Cash Flow - unlevered	(42.0)	(467.4)	(703.1)	447.5	669.9	834.9	966.4	1,077.5	1,176.4	1,267.6			20,032.2	20,032.2
													6,039.0	6,039.0
Terminal EBITDA / Rate Base											4,105.0	4,105.0	26,071.2	26,071.2
Multiples for Terminal Value											8.50X	9.00X	1.25X	1.40X
Terminal Enterprise Value											34,892.5	36,945.0	32,589.0	36,499.7
	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Present Value Factors at Discount Rate @ 6.90%	0.9672	0.9048	0.8464	0.7917	0.7406	0.6928	0.6481	0.6063	0.5671	0.5305	0.5131	0.5131	0.5131	0.5131
Present Value	$ (40.6)	(422.9)	(595.1)	354.3	496.1	578.4	626.3	653.3	667.2	672.5	17,904.2	18,957.4	16,722.2	18,728.9

	Terminal EBITDA Approach Low	High	Midpoint	Terminal Rate Base Approach Low	High	Midpoint	Simple Average of Two Approaches Low	High	Midpoint
Present value for the period Jan 1, 2011 to Dec 31, 2020	$ 2,989.5	2,989.5	2,989.5	2,989.5	2,989.5	2,989.5			
Present value of terminal value	17,904.2	18,957.4	18,430.8	16,722.2	18,728.9	17,725.6			
Enterprise value	20,893.7	21,946.9	21,420.3	19,711.7	21,718.4	20,715.1			
Less: Long-term debt									
Note payable - shareholder	(1,710.0)	(1,710.0)	(1,710.0)	(1,710.0)	(1,710.0)	(1,710.0)			
Long-term debt	(2,900.0)	(2,900.0)	(2,900.0)	(2,900.0)	(2,900.0)	(2,900.0)			
	(4,610.0)	(4,610.0)	(4,610.0)	(4,610.0)	(4,610.0)	(4,610.0)			
Equity value before redundant items	16,283.7	17,336.9	16,810.3	15,101.7	17,108.4	16,105.1			
Add/deduct: Net redundant items at December 31, 2010									
Excess (deficiency) in opening working capital position	-	-	-	-	-	-			
Less: Regulatory liabilities (long-term)	(1,412.0)	(1,412.0)	(1,412.0)	(1,412.0)	(1,412.0)	(1,412.0)			
Employee future benefits @ 50%	(154.0)	(154.0)	(154.0)	(154.0)	(154.0)	(154.0)			
	(1,566.0)	(1,566.0)	(1,566.0)	(1,566.0)	(1,566.0)	(1,566.0)			
Value of Equity - December 31, 2010	$ 14,717.7	15,770.9	15,244.3	13,535.7	15,542.4	14,539.1	14,126.7	15,656.7	14,891.7
Value of Equity - December 31, 2010 - Rounded							14,100.0	15,700.0	14,900.0

Schedule 5

Collus Power Corp.
Valuation as at December 31, 2010
Estimate of Fair Market Value
Comparable Transactions Approach
($ 000's)

Calculation of Invested Capital		
Shareholder's equity as at December 31, 2010	$	10,782
Long-term debt		4,610
Net book value of long-term debt plus equity		15,392
Add: Future employee benefits		308
Add: Long-term net regulatory liabilities		1,412
Less: Goodwill		(277)
Less: Cash balances		(2,923)
Net book value of invested capital	$	13,912

Calculation of Fair Market Value		Low	High	Midpoint
Invested capital	$	13,912	13,912	13,912
Multiple of invested capital		1.25	1.45	1.350
Enterprise value of operations		17,390	20,172	18,781
Add: Cash balances		2,923	2,923	2,923
Less: Future employee benefits @ 50%		(154)	(154)	(154)
Less: Net long term regulatory liabilities		(1,412)	(1,412)	(1,412)
Total value of debt plus equity	$	18,747	21,529	20,138
Total value of debt plus equity, rounded	$	18,700	21,500	20,100
Less: Outstanding debt		4,610	4,610	4,610
Estimated fair market value of equity	$	14,090	16,890	15,490
FMV of shares - rounded	$	14,100	16,900	15,500
Net book value of equity		10,782	10,782	10,782
Premium to net book value	$	3,308	6,108	4,708
Premium to net book value		30.68%	56.65%	43.67%

Schedule 6

Collus Power Corp.
Valuation as at December 31, 2010
Calculation of Adjusted Net Tangible Equity Value
($ 000's)

		Net Book Value As At December 31 2010 (Draft)	FMV Increase (Decrease)	Non-Core Assets and Liabilities	Estimated Fair Market Value	Notes
ASSETS						
Current Assets						
Cash	$	2,923		-	2,923	1
Other current assets		8,528			8,528	1
		11,451	-	-	11,451	
Property, plant and equipment		12,764			12,764	1
Goodwill		277	(277)		-	2
Intangible - software		278			278	1
Future taxes recoverable		157			157	1
		24,927	(277)	-	24,650	
LIABILITIES AND SHAREHOLDER'S EQUITY						
Current Liabilities						
Accounts payable and accrued liabilities		7,384			7,384	1
Customer deposits, current		431			431	1
Income taxes payable		-			-	1
Current portion of capital lease		200			200	1
		8,015	-	-	8,015	
Employee future benefit costs		308			308	1
Long-term net regulatory liabilities		1,412			1,412	1
Note payable to Town of Collingwood		1,710			1,710	1
Long-term debt - third party		2,700			2,700	1
		14,145	-	-	14,145	
Shareholder's Equity	$	10,782	(277)	-	10,505	
Add: FMV of non-core assets					-	
Adjusted Net Tangible Equity Value - December 31, 2010					$ 10,505	

Note 1: Fair market value was assumed to equal net book value as at December 31, 2010.
Note 2: Goodwill has no tangible value.

Schedule 7

Collus Power Corp.
Valuation as at December 31, 2010
Summary of Fair Market Value
($ 000's)

		Low	High	Midpoint
Allocation of FMV				
Note payable to the Town of Collingwood	$	1,710	1,710	1,710
Shares		14,100	16,300	15,200
FMV of Town's interests		15,810	18,010	16,910
Long-term debt - third party		2,900	2,900	2,900
Total enterprise value	$	18,710	20,910	19,810
Calculation of Premium to Net Book Value				
Share value	$	14,100	16,300	15,200
Less: Tangible asset backing		10,505	10,505	10,505
Premium to tangible asset backing	$	3,595	5,795	4,695
Other Value Indicators				
Multiple of net book value of shareholder's equity		1.31	1.51	1.41
Multiple of net book value of adjusted shareholder's equity		1.34	1.55	1.45
Multiple of enterprise value		1.24	1.38	1.31
Enterprise value per customer	$	1,223	1,367	1,295
Total customers 15,296				

This is Exhibit "D" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)

Message

From: Erling, Jonathan M [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA13722]
Sent: 5/24/2011 1:35:54 PM
To: Rockx, John [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17786]
Subject: RE: Draft Valuation Report

Have they ever actually paid dividends to the Town?

Jonathan Erling, Managing Director, P.Eng. | KPMG LLP | Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario M5H 2S5 CANADA
tel +1 (416) 777-3206 | fax +1 (416) 777-3515 | email: <jerling@kpmg.ca> | internet <www.kpmg.ca>

From: Rockx, John
Sent: Tuesday, May 24, 2011 1:34 PM
To: Erling, Jonathan M
Subject: Draft Valuation Report

<< File: Draft Collus Power Valuation Report - May 20.pdf >>
Jonathan:

Here is a revised valuation report for Collus Power. Same valuation conclusions, but some changes in the report's wording.

PS – See Schedule 2 – In recent years, the EBIT of Collus has declined from 2006 and 2007 levels as has the ROE. Part of this might be due to the "payment in kind" to the Town of free wastewater billing services and related IT services (about $250K per year ??). Maybe need a comment in your report about the loss of this PIK benefit without being too specific.

Best Regards,

John Rockx, CA, CBV
Associate Partner
KPMG Transaction Advisory Services
21 King Street West, Suite 510
Hamilton, Ontario L8P 4W7
Tel: 905-523-2247
Fax: 905-523-2200
Email: jrockx@kpmg

This is Exhibit "E" referred to in
the Affidavit of John-Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)

Message

From: Tim Fryer [tfryer@collus.com]
Sent: 6/14/2011 11:32:59 AM
To: Erling, Jonathan M [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA13722]
CC: Ed Houghton [ehoughton@collus.com]
Subject: RE: Draft Valuation Report and Options Analysis

Hello Jonathan:

Due to yearend work and prep for Board and Audit Committee meetings, I have only recently had an opportunity to review the documents more completely than just the brief cursory look I had previously. Based on my initial review and the fact that the numbers made sense to me from an overall total basis I didn't expect that I would have too many concerns or questions arise when I did get to it more thoroughly.

I have had a chance over the past couple of days to do that review and would like to check on some things that came up in my mind on this. I am concentrating on the calculation of value report. I will say at the outset that I don't expect anything I deal with to have any kind of major impact either way but these may simply be clarifications with no requirement for change.

1. On Page 7 for 4.1 (29) the % changes for 2012 and 2013 are correctly noted. The last sentence about the expectation of increasing service revenues should note the factor that has been used to project the increases through to 2020.
2. Knowing the factor used in item #1 may result in a situation that I would ask for a different factor to be used to indicate to me the impact overall on the valuation calculation totals. It would be used for my own purposes in my consideration of risk of the assessment.
3. The next part (30) notes that EBIT is $745,000 for 2010. I think at this point in the report it should note about the extraordinary loss that occurred in that year. I know it does later in the report at 7.2(72) on Page 13 but a "green" reader of the valuation report should know that the return would have been over $1M if it hadn't been for the item, when they are at that point in the report.
4. Regarding (72) noted above I believe the note is not stated correctly as well. It says 12.43% before consideration of a large one-time bad debt write off. It would be 18.4% before the write off in the way I am reading it.
5. It is correct for the purposes of that note to show the rate before the write down and is more comparable to use to note the change by 2020.
6. Regarding the projection of 25.75% for 2020 moving from 18.4% in 2010 I do have a bit of a concern with anticipating even just a gradual increase in the margin rate. I understand that it is a result of the factors that are being used. Historical data doesn't indicate the a rate in this kind of area has ever been achieved, in fact not exceeding even 20%.
7. The item 6 item is brought about from another area I am concerned about. This is due to the fact that a return of 9.85% has been used which of course is the current rate and this combined with the factor used to project increased revenues against the factor that is used to project increased expenses leads to an increasing EBIT margin. I would like to see an additional analysis that includes a lower amount of return, say 9%, so that I can see the impact of this on the overall valuation. I don't expect this to change anything substantially I just would prefer to have it at hand for doing my risk assessment.
8. In regards to the above I recognize and agree that the assumption is that we are a growth utility. I think though we need to keep in mind that conservation is occurring and expected to continue and this will counter some of the growth impact. That certainly is what we have seen over the past few years. We successfully received an LRAM recovery in our rates this past year. I don't know how successful we will be in the next attempts though.
9. My other comment is in regards to the 2nd bullet point on Page 15 of the report. I would be interested to see the comparative data that is used to make the statement about our low level of distribution revenue per customer compared to other Ontario LDCs. Is it a general statement or meant to convey a comparative to average? The second paragraph is not a very positive statement either but I will await the information about the comparative before commenting further.

Those are my items for now. I am hoping you can review and get back to me so I can complete my analysis on this. As I mentioned earlier I don't expect to see any major impacts I would just like clarification and perhaps to make some adjustment to terminology or statements that are being made.

Thanks very much.

Tim Fryer

Mr. T. E. Fryer CMA
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Please consider the environment before printing this email

From: Erling, Jonathan M [mailto:jerling@kpmg.ca]
Sent: Tuesday, May 24, 2011 3:36 PM
To: Ed Houghton
Cc: Tim Fryer; Rockx, John; Herhalt, John M
Subject: Draft Valuation Report and Options Analysis

Dear Ed:

Please find attached our draft valuation report and options analysis presentation. We look forward to your comments and suggestions.

Best regards,

Jonathan

<<Draft Collus Power Valuation Report - May 20.pdf>> <<Collingwood_May24th.pdf>>

Jonathan Erling, Managing Director, P.Eng. | KPMG LLP | Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario M5H 2S5 CANADA

tel +1 (416) 777-3206 | fax +1 (416) 777-3515 | email: <jerling@kpmg.ca> | internet <www.kpmg.ca>

This is Exhibit "F" referred to in
the Affidavit of John Rockx
sworn June 14, 2019

Commissioner for Taking Affidavits
(or as may be)

NORMAN TEMBELL

Message

From: Rockx, John [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17786]
Sent: 11/21/2011 10:50:39 AM
To: Erling, Jonathan M [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA13722]; Herhalt, John M [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17803]
Subject: RE: Collus proposals

I agree with Jonathan. Difficult to rank parties as significantly better or worse. All parties have their pros and cons as a partner for Collus.

Horizon
+ Appears to have lowest operating costs (OMA etc) per customer
+ Will require ongoing local presence for linemen etc.
- Far away from Collingwood; employee transfers / relocation difficult
- wants to include Collus Solutions in the deal and likely provide a lot of management services outside of Collingwood

Veridian
+ softer solution of providing Shared Services Evaluation Team to track shared services
- second furthest geographically from Collus

Hydro One
+ relocation of 20 jobs to Collingwood
+ contiguous with Collus territories
- Hydro One stigma

PowerStream
+ somewhat adjacent with Barrie and Midland presence
+ employees could relocate to Barrie offices (close enough)
+ $25K Collingwood Fund
- wants 4 of 7 directors on Board (control issue)
- perceived as highest cost operator

All Offers
- Difficult to harmonize rates (and realize lower costs) without a 100% acquisition of Collus
- May be difficult for Collus to participate in further local acquisitions without infusing equity support (unless Town leaves some excess debt in company)
+ all bidders can provide services support / management expertise and support due to larger size
+/- all bidders are creeping takeover parties

-----Original Message-----
From: Erling, Jonathan M
Sent: Monday, November 21, 2011 9:49 AM
To: Herhalt, John M; Rockx, John
Subject: RE: Collus proposals

I actually thought Hydro One's was the most professional looking, and one of the most specific in terms of detail.

Jonathan Erling, P.Eng.
Managing Director
Global Infrastructure Advisory

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jerling@kpmg.ca

-----Original Message-----
From: Herhalt, John M
Sent: Saturday, November 19, 2011 5:02 AM
To: Erling, Jonathan M; Rockx, John
Subject: Re: Collus proposals

I think we will only get pricing information after next week's meeting to discuss the qualitative parts of the proposal

If you were to rank the proposals in the none price categories noted in the RFP how would you see it as of now (it sounds like it will be tough)?

John

----- Original Message -----
From: Erling, Jonathan M
Sent: Friday, November 18, 2011 06:48 PM
To: Herhalt, John M; Rockx, John
Subject: RE: Collus proposals

John:

I've looked at the documents, but there is not much to react to. We don't appear to have the financial offers, and there is not much in the way of specific details on anything else. The documents just speak to how good each of the proponents are.

Only the following things have jumped out to me as significant so far:
- PowerStream proposes a 7 member Board, with PowerStream getting 4 members and Collingwood getting three.
- Veridian notes that it provides HR and business systems from within its LDC ("VCI"), and that this may result in regulatory impediments in terms of VCI providing services to COLLUS. However, it also discusses some potential ways around this.
- Hydro One will move 20 line service jobs into the Town of Collingwood.
- Horizon compares itself to the other bidders, and highlights some metrics that prove have much more cost-effective it is than the others.

If I see anything else, I will let you know but I think I have skimmed through most of it, if not all.

Jonathan

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-----Original Message-----
From: Herhalt, John M
Sent: Thursday, November 17, 2011 12:20 AM
To: Rockx, John; Erling, Jonathan M
Subject: Collus proposals

Hi guys

I have flipped you scanned copies of the Collus proponent proposals without attachments at this point.

Could you give them a read and send me your comments about them by first thing Monday morning if at all possible

Thanks
John

Sent from my iPad

This is Exhibit "G" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)
NORMAN J. GRIBBLE

horizon UTILITIES Looking beyond...

COLLUS Power

Purchase of Shares Proposal

November 16, 2011

horizon UTILITIES Looking beyond...

November 16, 2010

Dean Muncaster
Chair, COLLUS Power Corporation
43 Stewart Road
Collingwood, ON
L9Y 3Z5

Re: Strategic Partnership – Purchase of Shares Proposal

Dear Mr. Muncaster:

It is a pleasure to be able to outline for you and the Strategic Partnership Task Team Horizon (SPTT) Utilities Corporation's response to COLLUS Power Corporation's October 4th RFP.

Please find attached our proposal for the "Purchase of Shares". Our proposal for "Strategic Support and Services" is provided under separate cover, as requested.

We believe there are many features and benefits of COLLUS Power pursuing a strategic partnership with Horizon Utilities – ones currently enjoyed by Horizon's existing partners in Hamilton and St. Catharines – that will be attractive to the SPTT. Thank you for this opportunity.

Horizon's Uniqueness

As you will discover in our proposal, Horizon can make a unique contribution to COLLUS, even among the select utilities also included in this RFP. We have a proven track record of operating with among the lowest rates for all customer classes and among the highest returns for shareholders, while also contributing to the well-being of our communities.

What stands Horizon Utilities apart from other LDCs is the combination of its solid financial performance and its industry leading contributions to our communities and the utility sector. Here are just a few highlights:

- Sustainability Company of the Year 2010-11 – Canadian Electricity Association
- Top Employer Hamilton-Niagara 2012 – Globe and Mail
- ISO 14001 Environmental Management System Certification
- Global Reporting Initiative A+ sustainable development ranking (2010)
- Excellence in Business Award – St. Catharines-Thorold Chamber of Commerce
- Company of the Year 2009 – Ontario Energy Association
- Energy Mapping for Conservation and Demand Management – OPA funded pilot to establish best practices for whole sector
- Operational Excellence Award 2007 – Electricity Distributors Association

This track record of financial and operational performance plus deep commitment to contributing to the sustainability of our communities is also matched with superior value for COLLUS in the sale of shares through this strategic partnership.

Financial Proposal

In the attached proposal, we attribute a value to the whole of the shares of COLLUS Power of $13 to $17 million. From this determination of value, we offer a range of $6.5 to 8.5 million for the acquisition of 50% of the shares of COLLUS Power. This offer is conditional on the terms outlined in this proposal, including those below on corporate restructuring.

Horizon is prepared to make an investment in COLLUS provided that this investment would involve a 50% investment in both of COLLUS Power Corporation and COLLUS Solutions Corporation.

The success of COLLUS Power, in our view, is directly and inextricably linked to the individuals providing the services to COLLUS Power that reside within COLLUS Solutions. Indeed, we would propose to merge the two affiliates post transaction close.

We would also be interested in an investment directly into Collingwood Utility Services, although this would be the subject of another discussion should you wish to pursue this further.

Part of the Future LDC Landscape

Horizon congratulates COLLUS on its industry leadership in seeking to address the future of its LDC for its shareholders and customers in such a responsible fashion. For this reason, we welcome participation in this strategic partnership and the opportunity to work closely with COLLUS on its growth opportunities and its improved performance for customers and shareholders.

We have a similar high opinion of the Town of Collingwood. It is a remarkably vibrant community that is to be commended for rebounding from its industrial shipbuilding past to the regional hub and all-seasons recreation community it has become. We are working with our own shareholder communities on similar objectives.

When you have had a chance to review this proposal, we would appreciate an opportunity to discuss the numerous benefits with you. We believe there are many advantages to choosing Horizon as your strategic partner and we very much look forward to exploring these with you.

Yours sincerely,

Max Cananzi
President and CEO

Purchase of Shares Proposal – Table of Contents

Attachments:

Attachment 1 – Hydro Mergers: The St. Catharines Experience
Attachment 2 – Standard &Poor's Report on Horizon Holdings Inc.
Attachment 3 – Horizon Holdings Inc. 2010 MD&A and Financial statements

Non-Financial Proposal – Under Separate Cover

2. Provision of Strategic and Specialized Resources

3. Support in Growing the COLLUS Power Business

4. Customer Experience and Satisfaction

5. Supporting the Interest of the Communities We Serve

6. Competitive Distribution Rate and Cost Structure of COLLUS Power

7. Other

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1. Purchase of Shares – Horizon Proposal re. COLLUS Power

In this proposal, Horizon Utilities Corporation ("Horizon") is pleased to outline its interest in forming a Strategic Partnership with COLLUS Power Corporation ("COLLUS") in accordance with the requirements of the Request for Proposal (RFP) dated October 4, 2011.

Based on the instructions provided in the RFP (Section 3.8), our proposal is presented in two parts with the Purchase of Shares covered in one and the strategic support and service subjects covered in the other as follows:

- Financial Proposal – COLLUS Power (contained here)
- Strategic Support Proposal – COLLUS Power (under separate cover)

Our proposal is presented on a "non-binding" but highly confident basis under the terms of the Non-Disclosure Agreement between COLLUS and Horizon dated September 19, 2011. It is intended to set forth our view of the value of COLLUS, our strategic vision for COLLUS partnership, and our other general considerations in a transaction with COLLUS.

1.1 Proposed Payment for Shares

For the purposes of a strategic partnership transaction involving the acquisition of shares of COLLUS, Horizon would place a range of total value for COLLUS between $13 million and $17 million, depending on further specifics and how the deal is structured.

We respect the leadership of COLLUS in initiating this RFP. Horizon is prepared to make an investment in COLLUS provided that this investment would involve a 50% investment in both of COLLUS Power Corporation and COLLUS Solutions Corporation.

The success of COLLUS Power Corporation in our view has been directly and inextricably linked to the individuals providing the services to COLLUS Power that reside within COLLUS Solutions Corporation. Indeed, we would recommend consideration be given to merging the two affiliates.

We also understand that COLLUS Solutions Corporation provides services to the municipality beyond the electrical utility. Horizon, as a partner, would very much have an interest in respecting and continuing these services. We would be willing to consider including any reasonable assurances to this effect that COLLUS Utility Services and/or the Corporation of the Town of Collingwood required.

As an alternative, we would also consider an investment directly in COLLUS Utility Services. From our perspective, this broader opportunity is the best avenue with the greatest potential to meet all of your financial and community partner objectives.

On this basis, Horizon would be prepared to make a "non-binding" offer of from $6.5 million to $8.5 million for the acquisition of 50% of the shares of COLLUS, subject to the above conditions, additional due diligence, and the terms of the deal noted in "Pre-Closing Conditions" below.

Table 1: Horizon Value Range for COLLUS Power

Value Range ($M)	Low	High
Total Value	13	17.0
50% of Shares	6.5	8.5

For clarification purposes, in determining the value of the share equity of COLLUS, Horizon has deducted all liabilities other than current accounts payable and accrued liabilities incurred in the normal course, including interest bearing debt, accrued pension obligations, shareholder loans, and all other loans and taxes payable.

Similarly, the above range of value assumes that appropriate levels of working capital (including required cash reserves) remain in the business and that any surplus cash is not removed prior to closing.

Our offer is based on providing the full range of services outlined in the "Strategic Support and Services" proposal submitted with this financial proposal's offer for the purchase of shares. We nonetheless remain flexible and open to negotiations on the options that COLLUS would choose to utilize from Horizon as a strategic partner. In such a case, the value of our offer would be considered negotiable, with the value based on a stepped approach to the option selected.

1.2 Terms of Payment

Horizon's conditional offer, as presented above, would be an all cash offer. Horizon's conditional offer would be considered valid for 90 days subject to mutually acceptable extensions as required, but otherwise has no specific timing consideration that would affect the purchase of the shares.

1.3 Timing Considerations

Horizon has no specific timing considerations that affect the purchase of 50% of the shares of COLLUS Power other than those listed in Section 1.8 regarding regulatory approval of the transaction.

1.4 Pre-Closing Conditions

In preparing this proposal, Horizon has relied solely upon the financial and business information provided within the "data room" managed by KPMG on behalf of COLLUS. We have proceeded on the assumption that this information is accurate and complete in all material respects.

This proposal is intended as a non-binding indication of our interest and is not intended to create a binding commitment on the part of Horizon or COLLUS party.

Should it be offered the opportunity to proceed further in the process, Horizon would expect to undertake further confirmatory due diligence, including discussion with management, prior to commencing negotiations towards any form of definitive agreement.

In addition, this proposal is predicated on the following pre-closing conditions:

a) Agreement that Horizon would be acquiring an interest in both COLLUS Power and COLLUS Solution Corp. with the view of merging these two companies into one corporate entity;
b) Approval of our respective boards of directors and shareholders; and
c) Approval of the Ontario Energy Board, as noted below in Section 1.8.

1.5 Proposed Representation on Board of Directors

In its own case, Horizon adheres to the principle of proportional governance of shareholders and ensures a majority of directors are independent. In this section, we respectfully request the same for any possible share in COLLUS.

By proportional governance, we mean the Board of Directors of Horizon is selected with proportional nominees of the shareholders. In its current structuring, the shareholders are Hamilton Utilities Corporation, the holding corporation of the City of Hamilton, with 78.9% of Horizon's shares, and St. Catharines Hydro Inc., the holding company of the City of St. Catharines, with 21.1% of the shares. In practice, Hamilton Utilities Corporation nominates 8 directors and St. Catharines Hydro Inc. nominates the remaining 2 directors. This formula is designed to ensure fair and equitable representation on the Board of Directors by shareholders.

We note, as well, COLLUS's preference for selection of directors based on a majority of the board members being "independent". We believe you will take comfort in the approach and track record of Horizon on this matter.

In Horizon's case, a majority of its directors are independent and we would seek to continue this approach in an arrangement with COLLUS. Indeed, no management employees are directors of the holding company, regulated LDC or competitive affiliate and all the directors of these boards are filled with independent directors. Moreover, municipal council representatives are only present on the municipality-owned holding companies, which are Hamilton Utilities Corporation and St. Catharines Hydro Inc. In both cases, only the mayor is currently a director.

As for Horizon's potential representation on the board of COLLUS, we would reserve the right to nominate members from our board.

As for the size of the COLLUS board, and Horizon's representation on it, Horizon would want the existing board expanded from three seats to four or six seats. In consideration for a 50% share interest and based on a proportional governance approach, Horizon would want to appoint half of the new board.

1.6 Guiding Principles for Determining Annual Dividends

In purchasing a stake in COLLUS, Horizon suggests that its current dividend policy be adopted by COLLUS. This policy provides for regular dividends based on up to 60% of annual earnings. The determination of a dividend is solely at the discretion of the Board of Directors with due consideration for financial prudence. Horizon has consistently paid out 60 percent dividends since its establishment in 2005.

Horizon's vision for its shareholding in COLLUS could be summed up as: "The new entity should provide for continued low electricity costs for customers and an opportunity for increased investment value to COLLUS shareholders and through COLLUS to the Corporation of the Town of Collingwood."

Horizon's objective for acquiring 50% of the shares of COLLUS is to create an even stronger business with lower costs and rates. The purpose would be to have a business that is reliably able to generate consistently strong Net Income, and thereby ensure reasonable returns and a stable stream of shareholder dividends.

We are pleased to elaborate more on this in detail in Horizon's response to "Competitive Distribution Rate and Cost Structure of COLLUS Power" in the Non-Financial Proposal. As seen in Table 2, however, Horizon is by far the strongest option for COLLUS among its potential suitors.

Horizon needs much less revenue per customer to operate its business than PowerStream or Veridian. Moreover, it is able to do so because it operates with lower costs per customer than PowerStream or Veridian. Indeed, Horizon's revenue needs on a per customer basis, which is a proxy for rate requirements, is closest to that of COLLUS, whereas Veridian requires much more and PowerStream a great deal more.

Table 2: Average Revenue and Controllable Cost per Customer and Return on Equity (2006 - 2010)

Metric	COLLUS	Horizon	PowerStream	Veridian
Revenue / Customer / Year	$352	$380	$490	$421
OM&A / Customer / Year	$242	$161	$173	$175
Net Income / Customer / Year	$29	$59	$79	$69
Return on Equity %	4.46%	8.39%	8.24%	10.38%

NB: OM&A is the controllable cost and means Operation, Maintenance and Administration; O&M means Operation and Maintenance. Source: OEB Yearbook of Distributors: http://www.oeb.gov.on.ca/html/en/abouttheoeb/statsandmaps.htm

The Horizon five-year return on equity is marginally higher than that of PowerStream, although lower than Veridian. One reason Veridian has a higher return on equity is that it uses a higher proportion of debt than Horizon to finance its electricity distribution assets. Horizon has a more conservative debt to equity ratio than Veridian.

Horizon manages its debt levels conservatively recognizing: (i) that changes in regulation often create LDC investment requirements (e.g. Smart Meters, Market Opening); (ii) that municipal shareholders generally do not have the means to provide LDCs with additional financial support; and (iii) that LDCs cannot generally issue or sell a meaningful amount of shares without triggering Transfer Tax consequences. Generally speaking, LDCs solely rely on a limited amount of debt financing to support balance sheet growth.

The Horizon business model of low costs and low rates while earning competitive returns is, in our view, the vehicle for providing increased investment value through COLLUS for its shareholders and lower electricity costs for residents and business in Collingwood, Creemore, Stayner, and Thornbury. While other LDCs, such as PowerStream and Veridian, have had mergers and may have improved performance, Horizon's numbers suggest it has the best track record of delivering increased investment value and lower customer costs.

Horizon's track record has been earned, most recently, through the merger of Hamilton Hydro Inc. and St. Catharines Hydro Utility Services Inc. to create Horizon in 2005 and, before that, the merger of five municipal electric utilities to create Hamilton Hydro Inc. in 2000. These mergers have increased investment value for our shareholders while lowering electricity distribution costs for our customers.

Indeed, Horizon's controllable cost per customer – the costs of operations, maintenance and administration for any LDC were $165 in 2005 and still $165 in 2010. This is the proof of Horizon's operational success in lowering costs and mitigating rate increases.

The contribution that Horizon's improved performance has delivered to shareholders has been published in Municipal World, the recognized trade publication for municipal government in Canada. (See Attachment 1: "Hydro Mergers: The St. Catharines Experience", Municipal World, August 2011).

1.7 Other Considerations

Horizon has specific considerations on shareholders' agreements that affect the purchase of 50% of the shares of COLLUS Power and other financial restructuring options that are relevant to this financial proposal.

In terms of investment value to Collingwood Utility Services, and through it to the Town of Collingwood, there are financial restructuring options that will provide additional value. The details of the increased investment value are laid out in the following sub-sections.

Corporate Structure Options:

In reviewing the COLLUS RFP documents and material in the KPMG data room, Horizon is of the view that Collingwood Utility Services would arrive at greater value for itself and its own shareholder, the Town of Collingwood, by disentangling COLLUS Power's business relationships from the affiliates under Collingwood Utility Services and positioning COLLUS Power and COLLUS Solutions in the same transaction. Alternatively, the Town of Collingwood could choose to offer shares of Collingwood Utility Services.

Debt Note Repayment:

If the Town of Collingwood, through Collingwood Utility Services, wanted to call the COLLUS debt note, as Horizon was notified during the preparation of this response, this would not be an issue for Horizon. Horizon has the financial capability to assist in arranging for the debt note to be paid out as part of or subsequent to the acquisition of shares.

Currently, the Town of Collingwood is holding a debt note of $1.7 million from Collingwood Power Corporation, for 39% of the COLLUS's long-term debt.

The benefit of paying out the note extends not only to the Town of Collingwood, as the beneficial shareholder, but also to the current customers of COLLUS. The increased financial flexibility for the Town is only one of the benefits of external debt. The long-term prospect of servicing the debt at a lower rate is a benefit to shareholders in terms of lower LDC costs and higher returns and a benefit to customers in terms of lower costs creating less pressure for rate increases.

Table 3: Long-Term Debt Summary

COLLUS Power Debt Note Holder	Interest Rate	Note Amount
The Corporation of the Town of Collingwood	7.25%	$1,710,170
Ontario Infrastructure Projects Corporation	4.67%	$2,900,000

While shareholders of many LDCs hold the debt notes of their LDCs, Hamilton Hydro, one of Horizon's predecessors, paid out its debt note of $137 million in 2002, soon after incorporation, after going through the process of receiving an S&P rating. Later, when St. Catharines Hydro and Hamilton Hydro came together in 2005 to create Horizon, the newly merged entity was able to arrange for repayment of a $29 million debt note to St. Catharines.

Cost of Capital – Debt Interest Rate:

While some LDC might have difficulty getting a public or private debt placement, Horizon Holdings Inc., the holding company for Horizon Utilities, is well positioned in this regard. It has consistently received equal to the highest rating from Standard and Poor's among municipal utilities, as did Hamilton Utilities Corporation (HUC), which arranged the debt before Horizon Holdings.

Horizon Holdings debt rating, which includes the debt of all of Horizon, is rated "A" by S&P (See S&P's Report in Attachment 2). Only Hydro One Inc. has a higher rating, but this is understood to be based on the ownership of its transmission assets and the consideration of these assets as provincial government supported critical infrastructure.

The result of this debt strength is that Horizon is able to borrow at more favourable rates and with more favourable terms than many LDCs without rated debt and even other large LDCs with less favourable credit ratings. This is important in a capital-intensive business such as electricity distribution, and especially so with the new and costly initiatives facing LDCs, such as smart grid. The benefit to shareholders and customers is that the lower cost of borrowing allows Horizon a lower cost of capital, and thus a lower operating cost, and thus more room for higher Net Income and lower distribution rates.

Debt-Equity Capitalization Ratio:

The OEB now regulates Ontario's LDCs on a deemed debt-equity ratio of 60 percent debt and 40 percent equity, but many LDCs cannot support higher than 50 percent debt without substantial rate increases or decreased ability to earn a full rate of return. Horizon, however, can sustain a higher debt-to-equity structure than smaller LDCs. The use of a greater amount of debt, which being less expensive than equity, lowers the cost of business, lessens pressure for rate increases and increases returns.

Horizon represents an opportunity for increased investment value for Collingwood Utility Services. It has the track record to operate the whole business under the deemed capital structure and still derive the full rate of return.

achieved over one million hours without a lost-time incident. Health and safety is a continuous improvement project and Horizon is constantly looking for new ways to enhance our performance.

Horizon has a number of leading programs and training sessions to ensure the safety of its employees. Our Leading Indicator Safety Program was recognized by WSIB/EUSA for best practices. Stringent safety training is given to all employees and Horizon has dedicated resources for supervising contractors. Internal and external audit teams have been established to ensure that health and safety policies are adhered to but more importantly that we strive continuously on how to improve at every opportunity.

We know that it would be extremely challenging for COLLUS to be able to offer, in-house, the service levels that Horizon enjoys. On this basis, we would recommend that COLLUS utilize health and safety services from Horizon.

Environment and Sustainability Leadership – a Proposal:

Horizon's environment and sustainability leadership is provided within its Supply Chain Management business unit. Horizon has a number of significant accomplishments in this regard, including:

- ISO 14001 (Environmental Management System) in 2011 – only 3 LDCs with same
- CEA Sustainability Company of the Year 2011
- OEA Company of the Year 2009 (based on sustainability initiative)
- Global Reporting Initiative (GRI) A+ ranking 2010
- ISO 26000 – in progress
- First LDC to make a GRI filing (2008); first to receive external assurance (2009)
- First LDC to publish a triple bottom line "sustainability based annual report"
- First LDC to earn the EDA/OPG Operational Excellence Award in 2007
- One of the largest fleets of hybrid vehicles, including bucket trucks

As part of the strategic partnership, Horizon would welcome an opportunity to provide assistance to COLLUS on matters of environment, such as ISO 14001, and sustainability leadership, such as GRI. (Please see Attachment 1 for Horizon's triple bottom line "Sustainability Based Annual Report, which also provides an overview of our GRI filing).

At Horizon, we seek to contribute to the sustainability of our communities. We have the resources to do so, which will be a benefit to COLLUS in a strategic partner with Horizon.

2.2 Approach to Working with Existing Financial Information Systems

Horizon is very encouraged by the prospect of establishing a relationship with a company that has achieved so many innovative and entrepreneurial successes. One of the chief reasons strategic partnerships succeed is that the expected synergies materialize. The financial information system in use in COLLUS is one area where there can be important synergies. In the case of the sale of shares in COLLUS to Horizon, we are very excited about the potential mutual benefit that can result.

We appreciate that the Microsoft-based Great Plains financial information system is a cost effective and efficient tool for COLLUS. Our approach to this system as a shareholder would be to work with the system, but to explore what might be the advantages, possibly overtime, of integrating COLLUS into Horizon's Enterprise Resource Planning (ERP) system.

While the Great Plains system serves the intended purposes, COLLUS improved operational and financial performance can be augmented greatly by having the benefit of a sophisticated Enterprise Resource Planning (ERP) tool at its disposal. COLLUS would be hard pressed, possibly, to have access to one on its own, but a strategic partnership would be the vehicle to arrange access. For this reason, Horizon is of the view that the Great Plains financial information system, while useful and cost effective, limits the possibilities for COLLUS's success.

Through the development of a business case for ERP, and the experience to date from its implementation in 2008, Horizon has benefitted greatly from the more adaptive business system applications possible, ones that break down silos within the management and organization of business data. The scope of Horizon's ERP system involves the integration of business systems in five key areas:

- Financial Management
- Asset Management and Maintenance
- Human Resources Management
- Purchasing & Inventory Management
- Work Management and Job Costing

Through a strategic partnership with Horizon, COLLUS could jump right in and benefit from this business application and process architecture. Horizon's own objective has been to use the sophistication of this system to ensure cost and efficiency savings for its customers and shareholders, and the same could be true for COLLUS.

By coming together in a strategic partnership that leverages Horizon's investment in ERP, COLLUS can avoid the development and cost of a similar project and to have the opportunity to participate in a system with significant economies of scale. Horizon similarly has the benefit of getting additional value out of its investment.

2.3 Approach to Managing Arrangements with Employee Groups

Human Resources – a Proposal:

Horizon's Human Resources group includes Employee Relations, Training and Development and, as noted earlier, Health and Safety. We are very much committed to being an industry leader on all employee matters and having a dedicated Vice President of Human Resources is an indication of this commitment to employee engagement. As part of the strategic partnership discussion, Horizon would recommend that COLLUS Power and COLLUS Solutions make use of its performance management and leadership development program.

Horizon's Performance Management Program is designed to align individual and corporate objectives. It does so by setting goals and targets for each employee, providing both formal and informal feedback on performance with respect to these goals, and allowing employees to take charge of career and personal development.

COLLUS Power and COLLUS Solutions could also make use of Horizon's Total Compensation Program, which supports the Performance Management Program, for their respective employees. It includes both cash and non-cash rewards designed to support the organization's

Notes:


Municipal World
CANADA'S MUNICIPAL MAGAZINE SINCE 1891
AUGUST 2011
SUSTAINABLE CHOICES
How Malmö, Sweden is charting a sustainable course for its future
ALSO INSIDE:
ENERGIZING MUNICIPALITIES
WIND ENERGY BEST PRACTICES
NOT WHY I RAN FOR OFFICE ...
THE FUTURE IS HERE. AGAIN.
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by John Bergsma and Joseph Kushner

HYDRO MERGERS

The St. Catharines Experience

In 2000, the electrical industry in Ontario was restructured whereby local utilities were transformed from self-regulated public utility commissions into externally regulated private entities, and were to run like private corporations. For example, prior to restructuring, public utilities were non-profit corporations with no debt. After restructuring, they were required to take on debt whereby their debt equity ratio was to be 50 percent debt to 50 percent equity and, if they did not take on debt, they were deemed to have debt for regulatory purposes. The result has been a dramatic change in the financial complexity of local utilities, with the result that utilities needed more expertise to deal with the new regulatory regime.

With the changes, the question arose as to how municipalities should respond to the increasing regulatory complexity of their local utilities. The response was varied. Many municipalities decided to continue under the new rules. Others, such as the City of Thorold, sold their utilities to Hydro One, the successor to the provincially-owned Ontario Hydro, and others such as St. Catharines Hydro merged with Hamilton Hydro in 2005. The purpose of this article is to review the results of the 2005 St. Catharines Hamilton merger to form Horizon Utilities Corporation.

Amalgamation Process

Early after restructuring, St. Catharines Hydro Inc. presented its business plan to the City of St. Catharines, its shareholder. The plan included a strategic objective of seeking amalgamation opportunities with other utilities.

In September 2004, council was advised that due diligence of a merger with Hamilton Hydro had been completed and a merger was being recommended to the city for approval.

In October, two public information meetings were held at local high schools. The meetings were advertised in both newspapers and the radio. At the meetings, St. Catharines Hydro provided information on the proposed merger. The presentation outlined the requirements to proceed and the expected benefits to the city as the shareholder and its customers. The major benefits would be dividends to the city and low competitive rates.

A total of 131 persons attended the two meetings of which 106 were staff and directors of the utility. A report for council was prepared summarizing the questions and concerns raised and the responses by Hydro to those concerns.

The merger was opposed by unions and some members of the public who expressed concern that jobs would be lost, that the city would lose its autonomy, and that service levels would be worsened.

During the process, a management steering committee of both amalgamating utilities met on a regular basis with union, non-union, and management representatives. Assurances were given that collective agreements would continue to be honoured and that, rather than layoffs, redundant positions would be eliminated by early retirement incentive packages and voluntary separation packages. Both companies were committed to an open and transparent process.

On November 4, 2004, city staff reported back to council recommending the merger. In response to the concerns regarding the size difference between the two utilities, protective clauses were to be included in any agreement. The staff recommendation was approved by a slim majority of seven to six in favour.

Joseph Kushner served as a Commissioner of St. Catharines Hydro and as a Director of St. Catharines Hydro Inc. He is also a 35 year member of St. Catharines City Council. Currently, he is Professor of Economics at Brock University and was formerly with the Royal Military College of Canada.

John Bergsma is a Director of St. Catharines Hydro, Horizon Utilities and the Ontario Clean Water Agency. He recently served as Commissioner of Corporate Services for the Region of Niagara and fomerly as President and CEO of Union Gas Limited.

The authors wish to thank Neil Freeman from Horizon Utilities, Bob Marshall and Frank Perri from St. Catharines Hydro, and Colin Briggs and Shelley Chemnitz from the City of St. Catharines.

Table 1 Payments from St. Catharines Hydro: Post-Merger (2005-2010) and Pre-Merger (2001-2004)	
Year	Post-Merger Revenues to City from St. Catharines Hydro
2010	$2,909,791
2009	3,517,279
2008	5,779,328
2007	4,112,275
2006	2,468,000
2005	2,226,394
Total	$21,013,067
Average	$3,502,178
	Pre-Merger Revenues to City from St. Catharines Hydro
2004	$1,942,677
2003	2,019,527
2002	2,782,458
2001	406,910
Total	$7,151,572
Average	$1,787,893

Why In Theory Mergers Should be Considered

Economic theory tells us that up to a certain size, larger firms are more efficient than smaller firms due to economies of scale. Eventually, economies of scale are exhausted whereby an optimal size is reached and thereafter larger firms become more inefficient than smaller firms.

Prior to restructuring, economies of scale were not that significant. However, after restructuring, the industry changed dramatically, resulting in additional regulatory burdens that were both costly and complex. For example, utilities that were previously debt free were now forced to take on a debt, which would result in a debt equity ratio equivalent to the private sector. Larger utilities were in a better position to respond to the new complexities, such as raising capital and conservation programs, which previously were not needed. Restructuring also required the old public utilities to be separated into different corporate entities: the delivery of electricity (poles and wires distribution), the retailing of electricity; and the generation of electricity. The delivery of electricity was a monopoly to be regulated by the Ontario Energy Board, whereas the selling of electricity and production of electricity were to compete in the private sector.

With respect to economies of scale, a commonly held view was that scale economies were significant in the delivery and selling of electricity, but not so in the generation of electricity, where technological change made small producers cost competitive.

Post-Merger Experience

With St. Catharines Hydro divided into three separate corporate entities – distribution, retailing, and generation – St. Catharines and five other local utilities formed a group to examine amalgamating their retailing activities. After several months of investigation, the group determined that retailing by a unified entity was not viable because economies of scale were so significant that the minimum efficient size to be competitive was approximately one million consumers, and therefore not attainable. St. Catharines Hydro therefore exited from retailing, as did the others in the group, and instead searched for partners in the wires business where economies of scale were also significant, but to a lesser extent.

As previously indicated, the St. Catharines-Hamilton hydro merger was controversial in the City of St. Catharines. Since then, the mood has changed and those councillors who were opposed to the merger are now more than satisfied that the merger was the correct decision in terms of superior dividends to the city and favourable customer rates compared to other communities.

As indicated in Table 1, the city has received substantial payments from St. Catharines Hydro since the 2005 amalgamation. The revenue payments to the city doubled as a result of the merger from $1,787,000 per annum prior to the merger to $3,502,178 after the merger. The total payment to the city in dividends, interest and debt payment is $21,013,067, plus $29,123,000 in a repayment of a promissory note and $8,200,000 in a recapitalization dividend for a total of approximately $60 million. As a result of these revenues, the city established a Hydro Fund, now called a Civic Project Fund, which currently has $37 million in assets.

Table 2 compares St. Catharines' distribution rates with rates for the average of all other utilities in Ontario. What is striking from the two tables is that St. Catharines has substantially outperformed the rest of Ontario in mitigating cost increases, while at the same time delivering healthy dividends to the city. The superior performance would not have happened had the merger not taken place. Specifically, the above was achieved by annualized operational cost savings of five million dollars resulting in no increase in controllable expense per customer ($165 in 2005 and still $165 in 2009) compared to an increase of 12 percent for all other utilities. At the same time, the average distributor needed 16 percent more revenue per customer, compared to Horizon needing only five percent more. Moreover, net income did not suffer, and is still above the industry average on a per customer basis.

Conclusion

The St. Catharines hydro merger with Hamilton is an unqualified success. The merger has resulted in both millions of dollars of dividends transferred to the city and lower rate increases for customers than would have been the case by staying independent. In addition, service levels have been improved.

Has your local utility done as well? Rate increases since 2005 can be readily compared and in the case of dividends, the comparison can be made on a per capita basis.[1] The basis for comparison is the following St. Catharines numbers:

- 0% rate increase over five years; and

Table 2 Comparison of St. Catharines (Horizon) and other Utilities in Ontario				
Item	**Utility**	**2005**	**2009**	**%**
Operating cost per customer per year*	St. Catharines (Horizon)	$165	$165	0%
	Ontario (average of others)	$229	$257	12%
Revenue per customer per year	St. Catharines (Horizon)	$360	$378	5%
	Ontario (average of others)	$413	$479	16%
Net income per customer per year	St. Catharines (Horizon)	$50	$50	0%
	Ontario (average of others)	$37	$44	19%

* Operating cost is the standard measure of "Operations, Maintenance and Administration"
Source Data: OEB, Yearbook of Distributors, 2005 to 2009. (Data for 2010 not yet available).
<www.ontarioenergyboard.ca/OEB/Industry/Media+Room/Publications/RRR+Reports/Yearbook+of+Distributors>.

- $3,500,000 in annual post merger revenues or $26.73 per capita versus pre-merger revenues of $13.65 per capita.

If the results are not as favourable, amalgamations should be considered. In so doing, we recommend the following procedures:

- detailed due diligence to determine the benefits;
- public meetings to explain the process;
- formation of a steering committee of both utilities to meet on a regular basis with representatives of the union, non-union and management;
- legal assurances that collective agreements would be honoured;
- assurances that redundant positions would be eliminated by early retirement incentive packages and voluntary separation packages, instead of layoffs; and
- legal guarantees to protect the minority shareholder.

With due diligence and an open and transparent process, one should expect the same positive experience as the City of St. Catharines. MW

1 For more detailed data on LDC performance, see the "return on equity" figures for all LDCs in the Ontario Energy Board "Yearbook of Electricity Distributors" <www.ontarioenergyboard.ca>. Alternatively, see slides 16 to 26 of the Horizon speech to the AMO-LAS 2009 Connections Conference where the rates and costs for all LDCs are compared. <www.horizonutilities.com/pdf/HorizonAMOSpeech2010.pdf>.

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Horizon Holdings Inc.

Major Rating Factors

Corporate Credit Rating

A/Stable/--

Strengths:

- Monopoly electricity distribution assets
- Regulated cash flows
- Efficient, low-cost electricity distributor
- Limited customer concentration

Weaknesses:

- Expected moderate increase in contribution from unregulated business and higher leverage
- Mature service territory with limited demand growth and exposure to cyclical industries
- Lack of access to equity markets

Rationale

The ratings on Horizon Holdings Inc. (HHI) reflect what Standard & Poor's Ratings Services views as the excellent business risk profile of the company's key subsidiary, Horizon Utilities Corp. (Horizon or the utility; not rated), which is the low-risk regulated monopoly electricity distribution business (local distribution company [LDC]). The LDC benefits from supportive regulation and predictable operating cash flow. The ratings also reflect our expectation that the added capital expenditure requirements could result in higher debt in the medium term, as well as that the contribution from unregulated businesses could increase with HHI's planned extension into the solar energy generation business. We expect expansion into the unregulated business to be measured and that it would contribute to 10% or less of HHI's EBITDA, cash-flow generation, or fixed assets.

Hamilton Utilities Corp. (HUC; A/Stable/--) owns 78.9% of HHI, with St. Catharines Hydro Inc. (SCHI; not rated) owning the rest. HHI's other, much smaller, investments (water heater rental and street lights for St. Catharines) are not material to the rating. As of Dec. 31, 2010, total debt outstanding at HHI was C$156 million, comprising an intercompany promissory note of C$116 million from HUC and a C$40 million unsecured debenture issued in July 2010.

Although HUC and SCHI, HHI's shareholders, are owned by the City of Hamilton (AA/Stable/--) and the City of St. Catharines (not rated), respectively, the ratings on HHI are not enhanced or constrained by government ownership. In our opinion, there is a "low" likelihood that either ultimate shareholder would provide timely and sufficient extraordinary support to HHI in the event of severe financial distress. We view the link between the municipal governments and HHI as "limited" and the role of HHI of "limited importance" to the municipal government.

We believe the Ontario Energy Board's (OEB) regulatory framework supports the utility's cash flow stability, allowing for the recovery of prudent costs and the opportunity to earn a modest return. Regulatory cost recovery is generally predictable. The current environment limits the LDC's exposure to commodity risk. Although the LDC must bill electricity customers for the commodity delivered, the cost is a flow-through; Horizon has no obligation to ensure an adequate supply of electricity and is not burdened with the procurement process or power purchase agreements. A portion of the net distribution revenues are subject to modest volumetric risk due to weather. In our opinion, the near-term risk of energy policy or electricity market framework initiatives that would affect the LDC credit quality is low. We do not expect this to change despite OEB's recent announcement of a renewed electricity framework and possible increased scrutiny in its rate decision. (For more information, see related research below.)

We believe Horizon's monopoly position in its service territories and the asset-intensive and essential nature of electricity distribution limit competitive risk. The electricity distribution business carries relatively low operating risk, and exhibits solid operational performance, in our opinion. Reliability is generally better than the Canadian industry average, as reported to the Canadian Electricity Association. The LDC's above-average performance limits the potential risk to HHI's cash flows from operational disruptions.

The utility serves electricity customers in Hamilton and St. Catharines, Ont. Growth in the LDC's mature customer base averaged less than the provincial average of 1% per year for the past four. Nevertheless, we believe Hamilton's economy continues to benefit from its proximity to the Greater Toronto Area. Other key sectors, such as biotechnology and health care, figure prominently in the city's economic development strategy. Net distribution revenues are not exposed to any single industrial customer sufficient to cause a rating concern in our view. The bulk of the about 237,000 customer base is residential.

HHI's consolidated financial risk profile falls within Standard & Poor's "intermediate" category. Historically, its relatively lower leverage (three-year average adjusted debt to capital of 46%) has resulted in consistently better financial measures when compared with many of its Ontario LDC peers. However, we expect that HHI would increase debt to finance its capital expenditure and achieve more efficient use of capital in the next two-to-three years. Consequently, we expect that its adjusted debt-to-capital could increase toward 50%-55% from 48% at Dec. 31, 2010. The 'A' rating already reflects our expectation of HHI's higher leverage ratio toward 50%-55%. It is our understanding that HHI will manage its capital structure within the regulator's deemed capital structure of 60% in the foreseeable future. The dividend policy remains comparable to that of its LDC peers, at up to 60% of net income. HHI's cash flow measures also remain very stable, in our view. In 2010, HHI's adjusted funds from operations (AFFO) interest coverage was 4.6x, the same as that of the previous year, and AFFO to total debt was 24%, very marginally decreased from 25% the previous year. As HHI leverages up its capital structure in the medium term, we expect AFFO interest coverage will decline modestly to about 4.0x-4.5x of AFFO interest coverage and AFFO-to-total debt to 20%-23%, which, in our view, is still adequate for an intermediate category.

Liquidity

We view HHI's liquidity as adequate for the rating in the next 12-18 months. Our view takes into consideration that the company's ultimate majority shareholder, Hamilton, has the financial capacity to provide temporary financial support if required. Our liquidity assessment is based on the following factors and assumptions:

- We expect the company's liquidity sources to include Standard & Poor's estimate of its AFFO of C$50 million, the company's access to a fully available C$100 million committed bank credit facility maturing June 2013, and C$10 million of cash on hand as of Dec. 31, 2010. The credit facility contains a maintenance financial covenant limiting debt-to-capitalization to less than 75%, which HHI is currently within compliance.
- Given the large maturing debt of C$116 million due July 30, 2012 (owed to HUC), these sources are just sufficient to cover its repayment, the company's ongoing maintenance capital expenditure in the distribution business of about C$40 million and dividend payments, allowing for some flexibility on the timing of these uses.
- We believe that the company's stand-alone liquidity will be pressured as the maturity approaches and exposed to delay in arranging the refinancing. Although in our view the capital markets are generally accessible to the

regulated LDCs with stable and predictable cash flows, we expect HHI to take steps to arrange for refinancing in the coming months. In accordance with our criteria on liquidity (see related research), Standard & Poor's expects most investment-grade companies typically to maintain at least adequate liquidity.
- There is no other debt maturity until the C$40 million debenture matures in 2020.

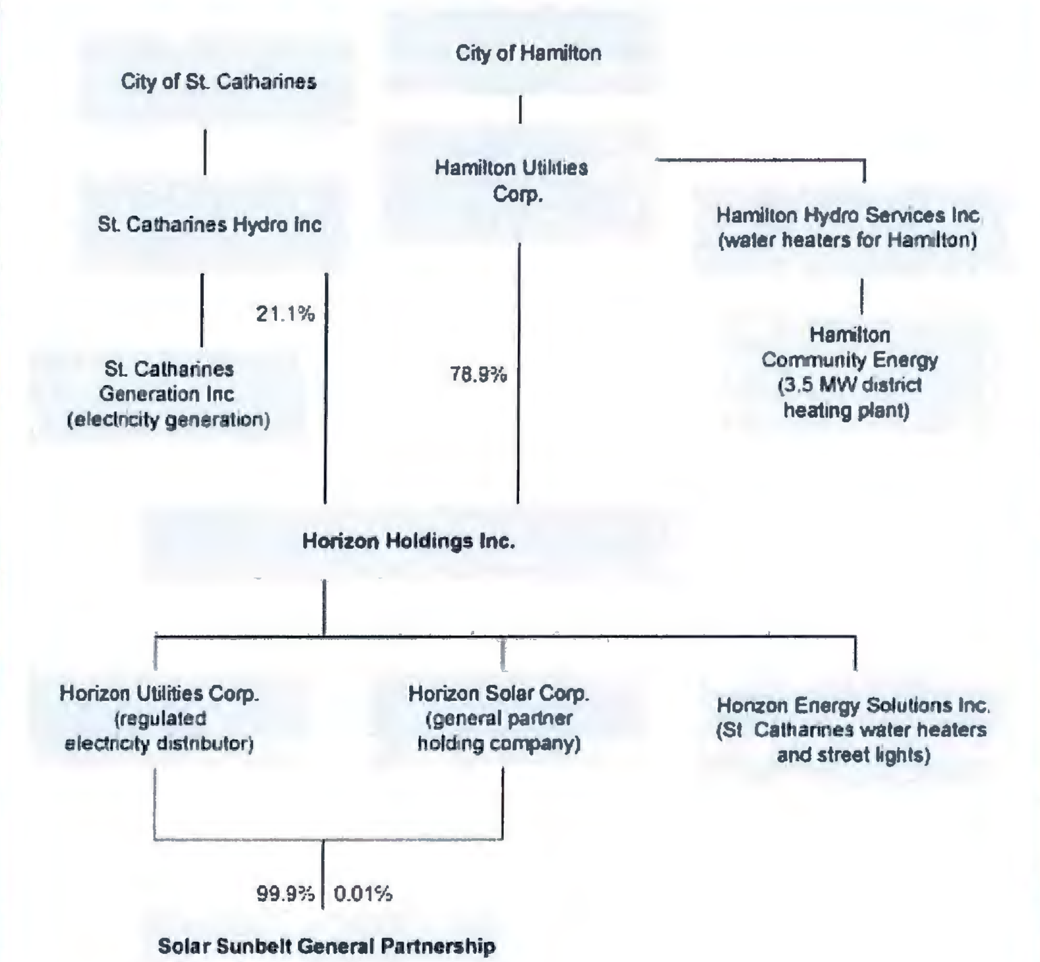
Outlook

The stable outlook reflects what we view as a predictable regulated business with an intermediate financial risk profile comparable to that of similarly rated LDCs in Ontario. An adverse regulatory ruling or market restructuring (such as the assumption of the obligation to supply), a material increase in leverage beyond the regulator's deemed capital structure, or increased exposure to the unregulated businesses to exceed 10% of consolidated EBITDA, cash flow, or fixed assets, could lead to a negative rating action. An upgrade is unlikely, but could happen if HHI refrains from increasing debt further and reverts to a materially more conservative financial risk profile than that of its peers.

Business Description

HHI is 78.9% owned by HUC, with SCHI owning the balance. HUC is wholly owned by Hamilton while SCHI is wholly owned by St. Catharines. Horizon, HHI's key subsidiary, is a regulated LDC serving residential, commercial, and industrial customers in Hamilton and St. Catharines. HHI also owns Horizon Energy Solutions Inc. (see organizational chart), a small unregulated energy services company that is not material to our credit analysis. It provides water heater rentals in St. Catharines and commercial meter services. Related to the company's unregulated solar PV generation initiatives, Horizon Solar Corp. and Solar Sunbelt General Partnership were incorporated in 2010. There are no assets under these entities at present. We expect the company's unregulated solar PV generation to progress at a measured pace and remain immaterial to the consolidated HHI's cash flows and fixed assets.

Horizon Holdings Inc.—Organizational Chart



Government ownership does not enhance the 'A' rating on HUC. In our opinion, there is a "low" likelihood that Hamilton or St. Catharines would provide timely and sufficient extraordinary support to HHI in the event of financial distress. Nevertheless, in our stand-alone credit profile assessment of HHI's financial flexibility, we have incorporated modest benefits of two supportive shareholders, such as an expectation of some flexibility regarding dividend payout in a time of financial distress.

In accordance with our criteria for government-related entities (GREs), we base our view of a "low" likelihood of extraordinary city government support on the following assessment:

- Within the context of our GRE methodology and scale for assessing the importance of a GRE's role to its government owner, we view HHI's role of "limited importance" to either municipal shareholder. Although HHI's key subsidiary provides an essential service, its default or credit stress would not, in our opinion, lead to a disruption of Horizon's activities. HHI is a profit-seeking enterprise whose activities could easily be undertaken by a private-sector entity. The municipal government is primarily interested in HHI and Horizon providing employment and attracting industry and residential growth through the reliable and cost-effective delivery of electricity. Furthermore, although electricity distributors are often an instrument of provincial policy implementation, we do not expect the provincial government to provide support to individual municipal-owned utilities.

- Within the context of our GRE methodology and scale for assessing the strength and durability of the link between the two municipal government owners and HHI, we view the link as "limited." The legislation governing electricity distribution (HHI's main cash producing activity) is a provincial matter and that the OEB sets regulated tariffs. Notwithstanding that, we recognize the municipalities as important shareholders that could potentially provide liquidity support to HHI in a time of financial distress.

Excellent Business Risk Profile

Regulation strongly influences profitability

The regulatory framework governing Horizon's tariffs strongly influences HHI's profitability. Horizon's profitability is stable but largely dictated by regulatory directives, given the cost-plus nature of the Ontario regulatory framework and the LDC's role within the electricity market. The OEB sets tariffs such that the utility should be able to recover prudent costs, including the cost of a deemed level of short- and long-term debt (60%) and equity (40%) capital. The LDC's net distribution revenues (that is, net of commodity costs) are subject to modest volume risk due to weather and regional economic conditions. Regulated distribution tariffs have a fixed as well as a variable component that serves to somewhat offset these volumetric risks. The price of electricity does not have a large impact on the LDC's profitability, as the charge for energy is passed through to the consumer. The introduction of time-of-use rates (higher electricity prices during peak periods) in 2011, after the provincially directed implementation of smart meters is complete, could lead to modestly lower consumption or simply shift the time of use, which would not affect the LDC in the short term.

A stable regulatory regime supports credit quality

The OEB provides regulatory oversight of Horizon's monopoly distribution operations. The regulatory framework supports predictable cash flow. Unexpected-but-prudent costs incurred are generally recovered through tariffs, but subject to regulatory lag. Allowed returns are relatively low in our view and constrain the upside in cash flows.

The OEB sets rates by estimating Horizon's revenue requirement, given forecast consumption. Revenue requirements are determined on a forward test year and acknowledge Horizon's capital plans and operating costs. The regulator assumes a deemed capital structure of 60% debt and 40% equity and includes the cost of debt and a return on equity in the requirement. The allowed economic return is based on a formula linked to long-term Government of Canada (AAA/Stable/A-1+) bonds plus an equity risk premium.

The OEB issued a December 2009 decision on the generic cost of capital by increasing the risk premium for equity. The return on equity formula was also adjusted so that rates would depend on both utility bond spreads and forecast long-term Government of Canada bond yields (previously, the formula only referenced government bond yields). The OEB will continue to review its formula every five years or earlier if, in the regulator's view, fair returns are in doubt. This is consistent with Standard & Poor's expectation of a supportive regulatory regime.

There is a long history of regulated entities in both Ontario and Canada being allowed to recoup unforeseen costs (regulatory assets) or having to refund the customer (regulatory liabilities) after the fact through rates. The cash recovery or repayment is subject to a prudency review and regulatory approval. Depending on the magnitude, the OEB could spread the recovery or refund over multiple years to avoid rate shock. Horizon's regulatory liabilities are manageable and Standard & Poor's expects the utility to recover them.

Removing the current commodity pass-through mechanisms or assigning an obligation to ensure adequate supply of electricity for Horizon's end-use customers would negatively influence the ratings. The LDC bills its customers for the entire cost of electricity delivered including related transmission, system operation, distribution, and commodity costs. Horizon's financial health is protected from exposure to commodity price volatility by timely settlement mechanisms that allow it to pass through the cost to customers.

Mature service area

Despite a significant industrial load (at about 26% of energy throughput), about 67% of Horizon's net distribution revenue comes from residential consumers (see table 1). The benefit of providing an essential service such as electricity to residential consumers is that their energy consumption is more immune to economic cycles than that of industrial and commercial consumers. Reflecting Horizon's mature service territory, annual growth in customer numbers is likely to be low, less than the provincial average of 1%. The unemployment rate and average per capita income are typically about the national average. The St. Catharines service territory exhibits similar demographic and growth characteristics.

Table 1

Horizon Holdings Inc.--Customer Profile 2010

(Mil. C$)	No. of customers	Customers (%)	Proportion of distribution revenue (%)	Proportion of electricity distributed (%)
Residential	214,220	90.5	66.6	29.9
General service	20,323	8.6	26.7	43.0
Large users	12	0.0	3.8	26.1
Sentinel, street lights, and other nonscattered load	2,109	0.9	2.8	0.9
Total	236,664	100.0	100.0	100.0

We understand that the rate structure applicable to the largest customers contains a relatively big 64% variable component, based on Horizon's 2008 electricity distribution rate application. Although this could result in revenue variability from this customer class in times of weak demand, it should have limited impact on the ratings in view of the small contribution from large users. The top 10 industrial customers accounted for about 5% of net distribution revenues in 2010.

Low-risk distribution with minimal operational risk

The LDC operations provide almost all of HHI's consolidated cash flow. The contribution from HHI's unregulated operations, which include water heater rentals in St. Catharines and metering services, is immaterial to Standard & Poor's analysis.

The efficiency and reliability of its electricity distribution operations, and our expectation that they will continue to perform well, support HHI's excellent consolidated business risk profile. Further supporting this is Horizon's operational performance that, in terms of reliability, is better than the industry average, as reported to the Canadian

Electricity Association (see table 2).

Table 2

Horizon Holdings Inc.--Distribution Network Operational Performance

Reliability measures	2010	2009	2008	2007	2006
System average interruption duration index (minutes)	74.3	71.0	89.7	60.9	56.1
CEA composite index--SAIDI (minutes)	N.A.	252.0	377.4	328.2	471.0
System average interruption frequency index (interruptions)	1.8	1.8	1.8	1.6	1.4
CEA composite index--SAIFI	N.A.	2.0	2.3	2.3	2.5

CEA--Canadian Electricity Association. SAIDI--System average interruption duration index. SAIFI--System average interruption frequency index. N.A.--Not available.

Negligible competition

Horizon holds a monopoly in its electricity service territories, protecting its distribution franchise from rival providers. Furthermore, HHI's relatively low-cost operations and tariffs guard against the threat of material bypass of the network. The utility's distribution license expires in 2026.

Hydro One Inc. (A+/Stable/A-1), a transmission and distribution company that the province owns, serves about 25,000 customers within the borders of the municipality of Hamilton. This is not a reflection of competitive forces but rather the legacy of a provincially directed 2002 municipal amalgamation.

Possible expansion into solar energy generation

Growth potential in the regulated distribution business is limited, with slow electricity demand growth in Horizon's service territory and no plans for any mergers or acquisitions. With the launch of the Feed-In-Tariff program by Ontario Power Authority under the Green Energy Act, LDCs can now engage in renewable energy generation activities. We believe these activities have a higher degree of revenue and cash flow variability compared with that of regulated distribution, as operators are exposed to fuel-source unpredictability and there is no assurance that the contracted prices would be sufficient to cover operating costs.

On March 26, 2011, HHI announced its launch of a commercial solar energy generation business. We expect the investments to be measured and that any increase in contribution from unregulated businesses to HHI's consolidated EBITDA, cash flow, or fixed assets would be gradual. We continue to expect HHI to keep such contribution to within 10% of consolidated total.

Intermediate Financial Risk Profile

Accounting

HHI prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles, with a Dec. 31 fiscal year-end. It is our understanding that HHI plans to adopt International Financial Reporting Standards (IFRS) effective Jan 1, 2012. We do not expect that the Canadian adoption of IFRS will materially influence our analysis of HHI or our perception of its creditworthiness.

HHI has no risk exposure to manage with derivatives. Pension obligations fall to a third party and the cost to Horizon is recovered through its regulated revenue. We have adjusted the balance sheet related to postretirement benefit obligations and negligible operating lease adjustments (see table 3).

Table 3

Reconciliation Of Horizon Holdings Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. C$)*

--Fiscal year ended Dec. 31, 2010--

Horizon Holdings Inc. reported amounts

	Debt	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations
Reported	155.6	55.1	55.1	28.0	9.7	43.7	43.7
Standard & Poor's adjustments							
Operating leases	0.5	0.3	0.0	0.0	0.0	0.3	0.3
Postretirement benefit obligations	11.5	1.0	1.0	1.0	1.0	(0.2)	(0.2)
Reclassification of nonoperating income (expenses)	N/A	N/A	N/A	0.1	N/A	N/A	N/A
Reclassification of working-capital cash flow changes	N/A	N/A	N/A	N/A	N/A	N/A	(3.3)
Total adjustments	12.0	1.4	1.1	1.2	1.1	0.1	(3.2)

Standard & Poor's adjusted amounts

	Debt	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations
Adjusted	167.6	56.5	56.2	29.2	10.8	43.8	40.6

*Horizon Holdings Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization. N/A--Not applicable.

No access to equity markets hampers financial flexibility

Supporting the utility's financial flexibility is HHI's access to a C$100 million bank credit facility maturing June 2013, cash balances of about C$10 million (as of Dec. 31, 2010), and operating cash flow of about C$40 million per year. The company's capacity to draw down additional debt through its bank line and issue new debt through its trust indenture also supports its financial flexibility.

HHI does not have access to equity markets and we have no expectation of direct equity investments in HHI from either Hamilton or St. Catharines. Nevertheless, HHI expects that it would have some flexibility to reduce dividends in times of financial stress. We believe the LDC could also temporarily defer, for a year or so, a small portion (about C$5 million-C$7 million) of its maintenance capital expenditure without compromising service levels. These two actions would be sufficient to cover about one year's interest expense. (See tables 4 and 5 for peer comparison and financials.)

Table 4

Horizon Holdings Inc.--Peer Comparison*

Industry Sector: Electric Utility

	Horizon Holdings Inc.	Enersource Corp.	Powerstream Inc.¶	Hydro Ottawa Holding Inc.	Toronto Hydro Corp.
Rating as of May 5, 2011	A/Stable/--	A/Stable/--	A	A/Stable/--	A/Stable/--

Table 4

Horizon Holdings Inc.--Peer Comparison* (cont.)

	--Average of past three fiscal years--				
(Mil. C$)					
Revenues	523.7	633.7	666.3	712.7	2,485.3
Net income from continuing operations	13.8	18.2	20.0	26.2	51.7
Funds from operations (FFO)	39.6	54.5	57.4	65.7	233.8
Capital expenditures	42.3	48.2	58.0	66.0	263.6
Cash and short-term investments	4.7	54.5	41.0	8.3	294.0
Debt	148.8	292.6	329.2	265.8	1,412.9
Preferred stock	0.0	0.0	0.0	0.0	0.0
Equity	178.5	230.1	229.5	314.5	1,001.2
Debt and equity	327.3	522.7	558.7	580.2	2,414.1
Adjusted ratios					
EBIT interest coverage (x)	2.9	2.3	2.3	4.1	1.8
FFO interest coverage (x)	4.6	3.7	3.2	6.0	3.5
FFO/debt (%)	26.6	18.6	17.4	24.7	16.5
Discretionary cash flow/debt (%)	(9.3)	(0.3)	(7.5)	(8.6)	(5.3)
Net cash flow/capex (%)	73.1	90.8	73.6	70.5	67.6
Total debt/debt plus equity (%)	45.5	56.0	58.9	45.8	58.5
Return on common equity (%)	7.8	7.7	8.6	8.4	5.0
Common dividend payout ratio (unadjusted) (%)	63.0	57.0	73.9	73.2	107.3

*Fully adjusted (including postretirement obligations). ¶Rating reflects debt rating on Electricity Distributors Finance Corp.

Table 5

Horizon Holdings Inc.--Financial Summary*

Industry Sector: Electric Utility

	--Fiscal year ended Dec. 31--			
	2010	**2009**	**2008**	**2007**
Rating history	A/Stable/--	NR	NR	NR
(Mil. C$)				
Revenues	555.9	496.2	519.1	533.2
Net income from continuing operations	12.7	13.5	15.1	14.7
Funds from operations (FFO)	40.6	38.4	39.8	36.3
Capital expenditures	39.2	45.7	42.1	39.3
Cash and short-term investments	9.7	0.0	4.4	14.4
Debt	167.6	151.8	127.0	126.6
Preferred stock	0.0	0.0	0.0	0.0
Equity	182.4	177.8	175.3	169.0
Debt and equity	350.0	329.6	302.3	295.6
Adjusted ratios				
EBIT interest coverage (x)	2.7	2.9	3.1	3.2
FFO interest coverage (x)	4.6	4.6	4.6	4.3

Table 5

Horizon Holdings Inc.--Financial Summary* (cont.)				
FFO/debt (%)	24.2	25.3	31.4	28.7
Discretionary cash flow/debt (%)	(2.1)	(17.7)	(8.7)	(6.7)
Net cash flow/capex (%)	82.8	64.3	73.7	65.8
Debt/debt and equity (%)	47.9	46.1	42.0	42.8
Return on common equity (%)	7.1	7.7	8.8	8.7
Common dividend payout ratio (unadjusted) (%)	63.8	67.0	58.6	70.9

*Fully adjusted (including postretirement obligations). NR--Not rated.

Related Criteria And Research

- General Criteria: Enhanced Methodology And Assumptions For Rating Government-Related Entities, published June 29, 2009
- Ratings On Ontario Local Distribution Companies Unaffected By Regulator's Announcement Of A Renewed Electricity Framework, published Nov. 4, 2010
- Criteria | Corporates | General:Methodology And Assumptions: Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010

Ratings Detail (As Of May 5, 2011)*	
Horizon Holdings Inc.	
Corporate Credit Rating	A/Stable/--
Senior Unsecured (1 Issue)	A
Corporate Credit Ratings History	
08-Jul-2010	A/Stable/--
Business Risk Profile	Excellent
Financial Risk Profile	Intermediate

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

horizon HOLDINGS Looking beyond...

Horizon Holdings Inc.

Management's Discussion and Analysis

For the year ended December 31, 2010

and

Auditors' Report to the Shareholders and Consolidated Financial Statements

Year ended December 31, 2010 and December 31, 2009

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Management's Discussion and Analysis

Auditors' Report to the Shareholders and Consolidated Financial Statements

Management's Discussion and Analysis

For the year ended December 31, 2010
(amounts in thousands of dollars unless otherwise noted)

The following discussion and analysis should be read in conjunction with the consolidated financial statements of Horizon Holdings Inc. for the year ended 2010 and accompanying Auditors' Report. References to financial statements or related note disclosures in this document refer to these consolidated financial statements and notes. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Overview

Horizon Holdings Inc. (the "Corporation") is an investment holding company that owns 100% of the common equity of each of Horizon Utilities Corporation ("Horizon Utilities"), Horizon Energy Solutions Inc. ("Horizon Energy"), and Horizon Solar Corp. ("Horizon Solar"). The Corporation also indirectly owns a 100% ownership interest in Solar Sunbelt General Partnership ("Solar Sunbelt GP") which is held through Horizon Utilities (99.9%) and Horizon Solar (0.1%).

The common shareholdings of the Corporation are owned by Hamilton Utilities Corporation ("HUC") (78.9%) and St. Catharines Hydro Inc. ("SCHI") (21.1%).

Horizon Utilities

The Corporation's principal operating subsidiary, Horizon Utilities, is an electricity distributor for residential and business customers within the municipalities of Hamilton and St. Catharines; the activities of which are regulated by the Ontario Energy Board ("OEB"), a Crown Corporation of the Province of Ontario. The OEB is the regulator of Ontario's natural gas and electricity industries. Horizon Utilities also provides certain non-regulated water billing and customer care services to the City of Hamilton.

Horizon Utilities is one of the largest municipally owned electricity distribution companies in Ontario. The Corporation distributes electricity through approximately 3,400 kilometers of a low-voltage distribution system to approximately 237,000 residential and business customers. The distribution system serves all residents and businesses within the borders of Hamilton and St. Catharines with the exception of approximately 25,000 rural customers located in Hamilton, which are served by another electricity distributor.

The Corporation earns revenue from this business by charging its customers for the use of the distribution system. Such electricity distribution services charges, or distribution charges, comprise a fixed periodic service charge combined with a volumetric charge based on electricity consumption. The distribution charges are subject to the approval of the OEB.

Pursuant to industry regulation, the Corporation is required to be the default billing and collecting agent for all electricity related charges for all electricity industry participants, which, in addition to its own distribution charges, include: transmission charges accruing to the provincially owned Hydro One Networks Inc.; commodity costs for electricity payable to the Independent Electricity System Operator ("IESO") and accruing to generators such as the provincially owned Ontario Power Generation Inc. ("OPGI"); service charges for market participants such as the IESO; and the "Debt Retirement Charge", which is a provincial charge directed to the repayment of certain stranded debt obligations of the former Ontario Hydro which continue in the provincially owned Ontario Electricity Financial Corporation ("OEFC"). These other non-distribution charges represent "pass-through" charges accruing to these and other electricity industry participants and amounted to approximately 83% (2009 – 82%) of gross annual amounts billed by the Corporation. With the exception of the Debt Retirement Charge, the Corporation must remit these non-distribution charges to other industry participants, irrespective of whether or not such charges are ultimately collected from customers, thus exposing the Corporation to credit risk well in excess of its own capacity to generate revenue. The Corporation has instituted credit policy to mitigate such risk.

Horizon Energy

Horizon Energy provides non-regulated energy services, the scope of which presently comprises sales and marketing services, water heater rentals, and meter services.

Horizon Solar

Horizon Solar holds a nominal partnership interest in Solar Sunbelt GP.

Solar Sunbelt GP

Solar Sunbelt GP provides a commercial rooftop solar-photovoltaic generation business ("Solar PV Business"). This partnership will develop, construct, own, finance, and operate rooftop solar photovoltaic generation equipment ("Solar PV Property"). It is the intention of Solar Sunbelt GP that the electricity generated by the Solar PV Property will be sold to the Ontario Power Authority ("OPA") under its Feed-in-Tariff ("FIT") long-term power purchase agreements ("FIT Agreements"). Horizon Utilities is the managing partner of the Partnership.

Electricity Regulation

The *Ontario Energy Board Act, 1998 (Ontario)* ("OEBA") conferred on the OEB increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote residential electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

Rate Setting

The electricity distribution rates and other regulated charges of the Corporation are determined in a manner that provides shareholders with a regulated Maximum Allowable Return on Equity ("MARE") on the amount of shareholder's equity supporting the business of electricity distribution, which is also determined by regulation.

In December 2009, the OEB concluded a Cost of Capital proceeding with the issuance of its final report thereon. The report principally dealt with the adequacy and determination of the Maximum Allowable Return on Equity ("MARE"). The Board has acknowledged that it needs to refine and reset its current formula for determining MARE to:

i) acknowledge and incorporate a utility spread off of Canada long-bonds within the Equity Risk Premium ("ERP") to better reflect utility borrowing costs (initially 141.5bps);

ii) to include a 50bps "transaction cost" component within the ERP to reflect estimated transaction costs related to utility borrowings;

iii) reduce MARE volatility from annual changes in the Canada long-bond by reducing the annual adjustment factor from 0.75 to 0.5; and

iv) reflect a more realistic and "fair" base risk premium for Local Distribution Companies ("LDCs").

The method of transition to the new MARE is through a cost of service review application, further described below.

Rate Applications

The OEB regulates the electricity distribution rates charged by LDCs, such as Horizon Utilities, using a combination of annual incentive rate mechanism ("IRM") adjustments and periodic cost of service reviews. Both such adjustments and reviews are based on applications made by LDCs to the OEB. The current ratemaking policy of the OEB requires a cost of service review every four years, which is followed by three successive years of IRM adjustments.

IRM adjustments to LDC rates are principally formulaic in nature and based on the annual change in the Gross Domestic Product Inflationary Price Index for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "Stretch Factor" determined by the relative efficiency of an electricity distributor.

The rate adjustment resulting from a cost of service review is normally based on forecast test year data, including the amount of operating and capital expenses, debt, and shareholder's equity required to support an LDC's business. The aggregate amount of debt and equity upon which an LDC may recover interest charges and MARE is equal to the "rate base" of an LDC, which is determined as the aggregate of its fixed assets in support of regulated electricity distribution activities and a working capital allowance. The proportion of debt and equity upon which an LDC may recover interest and MARE is generally 60% and 40%, respectively.

Rates have historically, and typically, been effective from May 1st to April 30th.

The last cost of service review application ("COS Application") of the Corporation was approved by the OEB on October 3, 2008, with rates effective May 1, 2008. Such approval effectively provided for 2008 service distribution revenue requirement and rate base of $93,632 and $346,420, respectively. Such amounts do not include provision for the investment of the Corporation in the Smart Meter Initiative, further elaborated below.

The Corporation had filed IRM applications to adjust its rates effective May 1, 2009 and May 1, 2010. As a result of such filings, the OEB approved electricity distribution rate adjustments for the Corporation of 1.18% effective May 1, 2009 and 0.18% effective May 1, 2010.

The Corporation has submitted a COS Application for rates effective January 1, 2011 ("2011 COS Application"). Such application was filed on August 26, 2010. However, a decision of the OEB on the 2011 COS Application is unlikely until April or May of 2011. The 2011 COS Application requests a service distribution revenue requirement and rate base of $108,708 and $376,890, respectively.

On June 23, 2009, Horizon Utilities submitted an application to the OEB for the recovery of lost revenue and shared savings related to its Conservation and Demand Management ("CDM") programs. Such recoveries proceed through prescribed Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM") and relate to activities for the years 2007 and 2008. On October 23, 2009, an amount of $840 was approved to be recovered through a rate rider for the period commencing November 1, 2009 through April 30, 2010.

Smart Meter Initiative and Time of Use Electricity Distribution Rates

The Province of Ontario has committed to have "Smart Meter" electricity meters installed in all homes and small businesses throughout Ontario by the end of 2010. Smart Meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals (Time of Use or "TOU" rates). The OEB requires that TOU rates be implemented for all residential and small commercial electricity distribution customers of the Corporation by June 2011.

In support of this initiative, the Corporation has substantially completed its deployment of Smart Meters to all residential and small commercial with 226,000 Smart Meter installations as at December 31, 2010.

The Corporation's Smart Meter capital expenditures and related operating expenses are currently being funded through a Utility-Specific Smart Meter Funding Adder in accordance with the Smart Meter Funding and Cost Recovery Guideline of the OEB. The current approved Smart Meter Funding Adder rate is $1.56 per metered customer per month. On September 24, 2010, the Corporation submitted a new application for a Utility-Specific Smart Meter Funding Adder which provides for a new rate adder of $2.14 per metered customer per month commencing March 1, 2011. OEB approval of this application is pending.

The Corporation commenced billing TOU rates for 10,000 residential customers, as part of a pilot project, in January 2010. As at December 31, 2010, TOU rates have been implemented for approximately 157,000 customers.

The Corporation anticipates meeting the June 2011 deadline of the OEB for full implementation of TOU rates.

Green Energy Act

In 2009, the government enacted the *Green Energy Act* ("GEA"). This legislation made fundamental changes to the roles and responsibilities of LDCs in the areas of renewable power generation, conservation and demand management delivery, and the development of smart distribution grids.

The GEA provides LDCs with the freedom to own and operate a portfolio of renewable power generation and will permit them to provide district heating services in their communities through co-generation. LDCs will also bear added responsibilities to assist and enable consumers to reduce their peak demand and conserve energy in an effort to meet provincial conservation targets. LDCs will also gain new responsibilities in transforming their local distribution networks into smart grids harnessing advanced technologies to facilitate the connection of small-scale generators and the two-way flow of information.

New LDC License Requirements – Conservation and Demand Management Targets

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Corporation's CDM targets include a demand reduction target of 60.36MW and a consumption reduction target of 281.42GWh. LDCs must also comply with a new CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC-specific CDM targets, annual accounting and reporting to the OEB, and eligibility criteria for performance incentive payments. The Corporation has filed its CDM Strategy with the OEB.

Other Matters

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect future electricity distribution rates and other permitted regulatory recoveries of the Corporation.

Regulatory Accounting

In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Corporation's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. The Corporation's regulatory liabilities represent costs with respect to non-distribution market related charges and variances in recoveries that are expected to be settled in future periods.

Results of Operations

Year Ended December 31, 2010 compared to Year Ended December 31, 2009.

Net Income

Net income for the year of $12,708 was lower by $813 or 6.0% compared to $13,521 in the prior year, reflecting a decrease in income from operating activities and higher net financing costs, net of lower income taxes. The decrease in income from operating activities principally reflects a start-up operating loss of $1,281 attributable to the Solar PV Business.

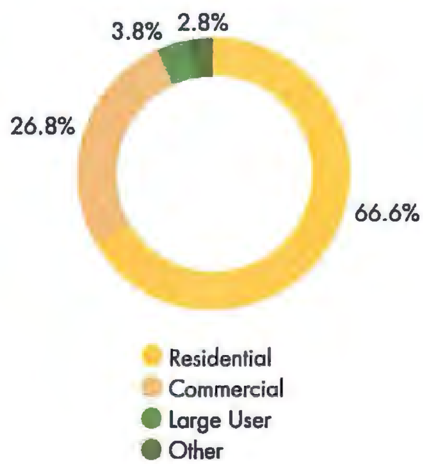
Revenues

	2010	2009
Electricity distribution service charges	$91,217	$88,583

Electricity distribution service charges for the year increased by $2,634 or 3.0% compared to the prior year, primarily reflecting higher energy consumption and an increase in distribution rates. Distribution revenue in the current year also reflects a regulatory recovery of $1,102 related to a class action settlement liability approved by the OEB. Such recovery will be collected through a fixed rate rider over a 12 month period commencing May 1, 2011 (see Note 14).

Residential consumption increased by 5.5% over 2009, principally reflecting a warmer than normal summer. Large commercial consumption increased by 16.7% during the year, but overall consumption from this customer class remains approximately 18% lower than expected from the 2008 electricity distribution rate application and underlying current distribution rates.

2010 Distribution Revenue



	2010	2009
Other income from operations	$10,763	$10,369

Other income from operations comprises income from regulated services as well as non-regulated services.

Other income from regulated services includes rate charges to customers for connection, reconnection, late payments and ancillary services as well as pole attachment charges to other utility service providers attaching to poles owned by the Corporation. Other income from regulated services in 2010 was consistent with 2009 levels.

Other income from non-regulated services includes water billing and customer care services provided to the City of Hamilton, management and other incentive fees earned for the delivery of conservation and demand management programs through programs funded by the Ontario Power Authority ("OPA"), water heater rentals, and meter services revenue. Other income from non-regulated services revenue increased by approximately $370 or 7.1% in 2010, reflecting an increase in meter services revenue earned on the construction of large scale meter upgrades.

Expenses

	2010	2009
Operating expenses	$46,881	$44,855

Operating expenses principally include salaries and benefits, materials, fleet amortization, and other third party service costs in support of the activities underlying the businesses of the Corporation including: operation and maintenance of the distribution system; development of the Solar PV Business; billing and collection; and general administration costs.

Operating expenses increased by $2,026, or 4.5% in 2010. Included in operating expenses for the year were $1,100 with respect to the Corporation's share of a class action settlement liability in respect of late payment penalties (Note 14) and $1,281 in start-up costs with respect to the launch of the Solar PV Business. Start-up costs for the Solar PV Business include professional service fees related to financial and engineering due diligence with respect to potential suppliers and manufacturers of solar panels, legal and tax consulting costs, and sales and marketing related expenditures.

Excluding the settlement liability amount and start-up costs for the solar generation business, operating expenses were slightly lower in 2010, reflecting the Corporation's continued cost deferral efforts in response to lower distribution revenue from its larger commercial customers. Such cost deferrals generally comprise business and operational improvement initiatives, human resources, facilities, and other maintenance expenditures. The Corporation has provided for these deferred costs within its 2011 COS Application.

	2010	2009
Depreciation and amortization	$27,069	$25,012

The increase in depreciation principally reflects increased levels of capital investments over the past three years with respect to the Smart Meter Initiative and distribution system renewal. In 2010, the electricity distribution business invested approximately $39,193 in capital assets, as compared to approximately $44,775 in 2009 and $42,045 in 2008. The Corporation has applied consistent amortization rates to its capital assets throughout the reporting period.

	2010	2009
Interest income	$ (70)	$ (24)
Interest expense	$9,709	$9,209

Net interest expense increased by $454 or 4.9% over the prior year and primarily reflects a higher average level of debt during the year.

	2010	2009
Payments in lieu of income taxes	$5,782	$6,471

The Corporation is currently exempt from taxes under the *Income Tax Act (Canada)* and the *Ontario Corporations Tax Act* (collectively referred to as the "Tax Acts").

The Corporation is required to compute taxes under the Tax Acts and remit such amounts to OEFC to be applied against certain stranded debt obligations of the former Ontario Hydro continuing in OEFC.

The tax basis of the Corporation's assets was valued at fair value pursuant to the provisions of the Tax Acts as at the date the Corporation became subject to PILs. This results in a long-term favourable impact on effective tax rates, resulting from a tax basis of depreciable capital property and eligible capital expenditure in excess of the book basis.

The effective rate of PILs expense in 2010 was 31.3% (2009 – 32.4%) as compared to the statutory rate of 31.0% (2009 – 33.0%).

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

The principal sources of liquidity and capital resources comprise funds generated from operations and the financing activities of the Corporation.

Funds Generated from Operating Activities

Cash provided from operations was $43,730 in 2010 as compared to $27,715 in 2009. The increase in 2010 was primarily the result of a relatively insignificant change in other assets and liabilities as compared to the change in 2009. Excluding changes in other assets and liabilities, principally resulting from timing differences between the realization of receivables and accounts payable, operating cash flows were largely consistent between 2010 and 2009.

Financing Activities

On June 30, 2010, the Corporation entered into a Credit Facility Agreement ("Credit Facility") with a Canadian chartered bank. The Corporation can borrow up to $100,000, on a revolving basis, to finance general corporate requirements, capital investments, working capital requirements, and its prudential obligations to the IESO. Borrowings may be in the form of Bankers' Acceptances ("BAs"), prime rate loans, letters of credit, and/or current account overdrafts. The Credit Facility matures on June 30, 2013. Interest rates payable on the Credit Facility are based on a margin relative to the prime or BA rate, as the case may be, determined by reference to the Corporation's debt rating.

On July 21, 2010, the Corporation issued $40,000 in Senior Unsecured Debentures bearing interest at 4.77% per annum, payable semi-annually on January 21 and July 21. The debentures mature on July 21, 2020. The proceeds of the debenture were used to reduce short-term bank indebtedness and to finance capital expenditures.

Requirements for Liquidity and Capital Resources

The Corporation's principal liquidity and capital resource requirements comprise its ongoing commitment to maintain, improve, and expand its distribution, Solar PV Business, and other infrastructure assets on a sustainable basis and in accordance with governing statutes and regulations; working capital requirements, cost of power expense; the servicing and repayment of debt obligations; and the payment of dividends to its shareholders.

Capital Expenditures

Table 1: Capital Expenditures

	2010	**2009**
Distribution system	$31,757	$33,188
Smart meters	1,370	6,044
Other	6,066	5,543
Total	**$39,193**	**$44,775**

Total capital expenditures for 2010 were $39,193; a decrease of $5,582 from the prior year. The decrease principally reflects the substantial completion of Smart Meter investment by the Corporation in 2009.

Capital expenditures for 2011 are expected to increase to $58,000, and principally comprise: distribution system capital expenditures of $35,000; anticipated investment in Solar PV Property of $11,800; investments in fleet vehicles supporting the distribution system of $1,400; Smart Meter expenditures of $1,600; technology upgrades and enhancements $5,000; facilities upgrades, and other.

Distribution System

Distribution system capital expenditures decreased by $1,431 in 2010, primarily reflecting lower capital expenditures related to renewal projects, partially offset by an increase in customer demand projects. Renewal projects in the prior year included the completion of several large multi-year voltage conversion projects deferred from 2008. The value of renewal projects will vary year over year based on the assets that are scheduled for renewal in accordance with the Corporation's asset management plan and the relative ranking of such projects in relationship to the overall capital expenditure budget. Customer demand projects in 2010 included approximately $4,000 related to the expansion and construction of two hospitals located in the cities of Hamilton and St. Catharines.

Distribution capital expenditures for 2011 reflect investments required to expand, refurbish, and replace distribution infrastructure consistent with government policy, local area supply requirements, and preventative and corrective maintenance needs to manage an aging asset infrastructure in order to ensure an adequate and reliable supply of electricity to customers.

Smart Meters

The Corporation has substantially completed its deployment of Smart Meters to all residential and small commercial customers. The Corporation has installed approximately 226,000 Smart Meters representing a total cumulative capital investment of approximately $26,000. In the latter part of 2009, the Corporation commenced the installation of Smart Meters to all General Service > 50kw customers. The Corporation expects the installation of meters in this customer class to be completed by 2012, at a total investment of $2,900.

Solar PV

In 2010, approximately $180 was incurred with respect to feasibility studies for the installation of solar rooftop equipment. The Corporation anticipates further investment of $11,800 in Solar PV Property in 2011.

Other

Other capital expenditures include computer hardware and software, facilities, transportation equipment, furniture and office equipment and other work-related equipment.

Dividend Requirements

The Corporation paid dividends in the amount of $8,113 in 2010 to its shareholders, compared to $9,063 paid in 2009. Dividends on common shares are declared at the discretion of the Board of Directors, based on its approved dividend policy and the recommendations of management. The dividend policy of the Corporation targets regular dividends of up to 60% of annual consolidated net earnings, subject to certain prudential considerations including statutory and contractual compliance, financial prudence, and providing for sustainable investment in electricity distribution infrastructure.

Risk Factors

The Audit and Risk Management Committee of the Board of Directors has adopted a mandate to identify the principal control risks in the business of the Corporation and to verify that effective control systems are in place to manage and mitigate these risks. The President and Chief Executive Officer has ultimate accountability for risk management and the Senior Vice-President and Chief Financial Officer is responsible to the President and Chief Executive Officer for the ongoing monitoring and review of the risk profile, policies, and practices of the Corporation and ensuring that the risk management program is an integral part of business strategy and planning.

Significant risk factors affecting the businesses of the Corporation include:

Regulatory Risk Related to the Electricity Distribution Business

Regulatory risk is the risk that the Province and its regulator, the OEB, could establish a regulatory regime that imposes conditions that restrict the electricity distribution business from achieving an acceptable rate of return that permits financial sustainability of its operations including the recovery of expenses incurred for the benefit of other market participants in the electricity industry such as transition costs and other regulatory assets. All requests for changes in electricity distribution charges require the approval of the OEB.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The principal source of credit risk for the Corporation relates to the realization of its customer receivables. The legislation governing the operation of Ontario's electricity industry exposes the Corporation, through its electricity distribution operations, to credit risk of several multiples of its means to generate revenue. Pursuant to Provincial regulation, electricity distribution companies in Ontario are required to act as the billing agent for all industry participants and must remit billed amounts accruing to these participants irrespective of whether such amounts are ultimately collected. With the exception of the debt retirement charge, electricity distribution companies are exposed to losses for entire amounts billed to customers. Electricity distribution companies are not compensated for assuming this level of risk nor is there a clear and mechanistic regulatory means to recover losses for non-distribution charges.

Management has implemented credit and collection policies in accordance with the OEB regulation to mitigate the exposure of the Corporation to credit risk. OEB regulation continues to impose certain restrictions on credit policy that exposes electricity distribution corporations to unmitigated and uncompensated credit risk of several multiples of their means to generate revenue.

In 2010, the OEB released new province-wide residential customer service regulations and amendments to the *Distribution Settlement Code, Retail Settlement Code*, and *Standard Supply Service Code* (the "Codes") which are intended to further standardize customer service rules, particularly as such apply to low income energy consumers.

These changes effectively extend the period between non-payment and disconnection from approximately 150 days to 210 days; reduce the effectiveness of security deposits and eliminate the right of distributors to request such in certain circumstances; and require distributors to provide an "arrears management program" for qualifying low income customers providing for the payment of arrears over an extended period.

The amendments to the Codes were implemented effective October 1, 2010 and January 1, 2011. As at December 31, 2010, the Corporation had approximately 900 customers, with overdue accounts receivable balances of approximately $200, that were enrolled in the Arrears Management Program.

The Corporation earns its revenue from a broad base of customers located in the City of Hamilton and the City of St. Catharines. There is one large commercial customer that accounts for 3% (2009 – 3%) of revenue. No other single customer in either year would account for revenue in excess of 1% of the respective reported balances.

No single customer accounts for more than 1% of accounts receivable at year-end.

Management actively monitors and manages its exposure to credit risk, within regulatory constraints, and records credit losses in the period in which, in management's opinion, the collection of related receivables becomes doubtful.

Labour Relations Risk

Approximately 71% of the Corporation's employees are represented by the International Brotherhood of Electrical Workers Union ("IBEW"). The existing collective agreement with the IBEW expires on May 31, 2011. The Corporation bears financial risk related to the ability to negotiate a collective agreement consistent with its rate orders. In the event of a labour dispute, the Corporation could face some degree of operational risk related to continued compliance with its license requirements of providing service to customers.

Workforce Demographics

Approximately 21% of the Corporation's employees in skilled trade positions are expected to retire within the next five years. Recent studies have indicated that more than 28% of the workforce in the distribution sector is expected to retire by 2012. The Corporation's inability to attract and retain the appropriate level of qualified staff to replace retiring workers may have a material adverse effect on its operations.

Condition of Distribution Assets

The Corporation continually monitors the condition and age of its distribution assets. The Corporation's capital and maintenance programs have been increasing to maintain the performance and replacement of a mature distribution system. The Corporation's ability to continue to maintain and operate the distribution system reliably and safely in the future will depend on, among other things, the OEB allowing recovery of costs in respect of the Corporation's maintenance program and capital expenditure requirements for distribution plant refurbishment and replacement.

Information Systems Technology

The Corporation's ability to operate efficiently and effectively is in part dependent upon the development, maintenance and management of complex information technology infrastructure, which is employed to operate the Corporation's distribution system, billing system, financial and other business systems. Information system failures or security breaches could have a material adverse effect on the operations of the Corporation.

Economic Conditions

The persisting general decline in the economy has impacted, and may continue to impact, overall electricity consumption; particularly in the commercial customer segments, which is the most sensitive to changing economic conditions.

Lower electricity consumption from commercial customers may continue to negatively impact the Corporation's revenue.

Extraordinary Event Risk

Unforeseen extraordinary events could disrupt the ability of the electricity distribution business to deliver electricity to all or some of its customers. These risks include weather disasters, major accidents or other involuntary events that may affect the electricity distribution system.

The Corporation has no obligation to deliver an uninterrupted supply of electricity due to extraordinary events, thereby avoiding third party liability concerns.

The Corporation may make application to the OEB for rate increases to recover costs incurred as a result of extraordinary circumstances impacting the electricity distribution system.

Emerging Accounting Changes

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that will require publicly accountable enterprises to adopt IFRS in place of Canadian GAAP, for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the CICA Handbook for qualifying entities with rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for such entities for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

Rate Regulated Accounting

In accordance with Canadian GAAP, the Corporation currently follows specific accounting policies unique to a rate regulated business.

Rate regulated entities reporting under Canadian GAAP recognize regulatory assets and liabilities in their financial statements. Regulatory assets and liabilities generally represent settlement variances arising from differences in amounts collected by a rate regulated entity from its customers on behalf of another unrelated entity and the amounts billed by the unrelated entity to the rate regulated entity. The amounts collected by the rate regulated entity are generally regulated and adjusted on a periodic basis to settle the regulatory variances.

IFRS does not currently provide guidance on accounting for the effects of rate regulation and the recognition of regulatory assets and liabilities. Currently, rate regulated entities reporting under IFRS do not recognize regulatory assets and liabilities in their financial statements. Differences between amounts collected from customers on behalf of another entity and amounts billed to the rate regulated entity by such unrelated entity are reported through income.

On July 23, 2009, the International Accounting Standards Board ("IASB") issued an Exposure Draft – Rate Regulated Activities ("RRA ED"), allowing entities that are subject to "cost of service" regulation to continue to recognize regulatory assets and liabilities at the net present value of expected future cash flows.

The IASB received a significant number of comment letters with diverging opinions with respect to the RRA ED. In October 2010, the IASB concluded that it could not resolve the matter quickly and decided to defer consideration to 2011.

As a result of uncertainty with respect to the timing, scope, and extent, if any of adoption of rate reguloted accounting under IFRS, and the potential material impact of rate regulated accounting on the Corporation's financial statements, the Corporation has elected to defer the implementation of IFRS to January 1, 2012.

On July 28, 2009, the OEB issued its Report of the Board – Transition to IFRS, which provides recommendations on regulatory reporting requirements under IFRS.

IFRS Transition Plan

The Corporation commenced its IFRS conversion project in 2008. The IFRS conversion project has a formal governance structure, including an Executive Sponsor, Steering Committee, and Project Management. The Corporation has also engaged experienced external advisors to assist with this project.

The Corporation's IFRS conversion project consists of four phases: 1) initial assessment; 2) detailed assessment; 3) design; and 4) testing and implementation. The Corporation completed Phase 1 of the IFRS conversion project in December 2008. Phase 2 was completed in March 2009 and identified the areas of accounting differences with the highest potential impact to the Corporation; including rate regulated accounting, property, plant and equipment, as well as initial adoption of IFRS under the provisions of IFRS 1 First-Time Adoption of IFRS. The Corporation completed Phase 3 in May 2010, which included the recommendation of IFRS 1 elective exemptions, the selection of accounting policies, and analyzing and designing business processes and changes to related information systems. The Corporation has commenced Phase 4, testing and implementation, which will continue throughout 2011. Phase 4 involves the development of an accounting policies and procedures manual, training for the finance and operational teams, testing the effectiveness of the changes to the business processes and information systems, and preparation of financial reports, including the opening balance sheet as at the transition date.

As a first time adopter of IFRS, the Corporation is required to apply IFRS standards retrospectively and recognize any adjustments through opening retained earnings. IFRS 1 contains all of the transitional requirements applicable for the first-time adoption of IFRS, including mandatory and optional exemptions with respect to retrospective application of the IFRS standards.

The Corporation has completed an initial assessment as to the IFRS 1 exemptions that would be elected upon transition as follows:

IFRS 1 Standard	Summary of Exemption Available	IFRS 1 Selection
IAS 16 Property, Plant and Equipment ("PP&E")	Rate regulated entities may elect to use the previous GAAP carrying amount of certain items of PP&E as deemed cost at the date of transition to IFRS.	The Corporation plans to elect to use the GAAP carrying values as the deemed cost.
IAS 23 Borrowing Costs	The Corporation may prospectively capitalize borrowing costs related to qualifying assets for which the commencement date of capitalization is on or after the date of transition or early adoption is permitted.	The Corporation plans to elect the exemption to capitalize borrowing costs after the date of transition.
IFRIC 18 Transfers of Assets from Customers	The Corporation may apply the transitional provisions in IFRIC 18 and thereby prospectively apply the interpretation prospectively to transfers of assets from customers received on or after the date of transition or early adoption is permitted.	The Corporation plans to elect the exemption to apply IFRIC 18 prospectively effective the date of transition.

IFRS 1 Standard	Summary of Exemption Available	IFRS 1 Selection
IAS 37 Decommissioning Costs	The Corporation may adjust the cost of assets at the date of transition for changes in decommissioning, restoration, and similar liabilities, and depreciate the adjusted value of assets prospectively.	The Corporation plans to elect the exemption to apply IAS 37 prospectively effective the date of transition.
IAS 19 Employee Benefits	The exemption allows the Corporation to reset all unamortized actuarial gains and losses to zero on transition to IFRS. There are several potential differences between IFRS and Canadian GAAP which will cause unamortized actuarial gains/losses and defined benefit obligations to be calculated at different amounts.	The Corporation plans to elect the exemption at the date of transition if it is determined that there is a material difference in the computation of the unamortized actuarial gains/losses under IFRS compared to Canadian GAAP.
	The IAS 19 disclosure requirements provide for four years of disclosure with respect to defined benefit plans. The exemption provides for two years of comparative disclosure.	The Corporation plans to elect the disclosure exemption and therefore plans to disclose two years of comparative information effective the date of transition.
IAS 3 Business Combinations	The exemption allows the Corporation to not apply IAS 3 to business combinations that occurred prior to January 1, 2011. Therefore, business combinations that occurred prior to the date of transition would not be restated.	The Corporation plans to elect the exemption and therefore will not apply IAS 3 to business combinations that occurred prior to January 1, 2011.
IAS 27 Investments in Subsidiaries, Jointly Controlled Entities, and Associates	The Corporation may record its investments in subsidiaries at cost or deemed cost at the date of the transition. Deemed cost is either the fair value of the investment at the date of the transition to IFRS, or the Corporation's previous Canadian GAAP carrying amount at that date.	The Corporation plans to elect the exemption to record its investments in subsidiaries at cost at the date of transition.

The Corporation has also completed a detailed assessment of the key accounting and disclosure differences between Canadian GAAP and IFRS and identified the following areas as having the potential to materially impact the consolidated financial statements on the date of transition to IFRS.

At this time, the Corporation cannot reasonably quantify the full impact of adopting IFRS to its future financial position and results of operations as a result of the uncertainty with respect to rate-regulated accounting and the impact of IFRS on the OEB electricity distribution rates application process.

IFRS Standard	Key Differences between IFRS and Canadian GAAP	Potential Impact
IAS 16 Property, Plant, and Equipment	Costs that are not directly attributable to items of Property, Plant, and Equipment cannot be capitalized under IAS 16.	General and administrative overhead, and other indirect costs, would not generally be capitalized in normal circumstances. Based on preliminary assessments, it is expected that less costs will be capitalized under IFRS.
	IAS 16 requires that an item of PP&E be separated into components when those parts are significant in relation to the total cost of the item. Each component is to be depreciated over its estimated useful life, and derecognized separately.	The Corporation has completed the componentization of its assets and assessed the respective useful lives. It is expected that the estimated useful lives will be longer, resulting in lower annual depreciation expense.
IFRIC 18 Transfers of Assets from Customers	IFRIC 18 does not allow for the netting of capital contributions received against items of Property, Plant, and Equipment.	Based on preliminary assessments, there will be a reclassification between Property, Plant, and Equipment and unearned revenue liability, with no impact on profitability.
IAS 12 Income Taxes	IAS 12 is similar to Canadian GAAP in that it is based on the balance sheet liability approach, whereby an entity recognizes deferred tax assets and liabilities for temporary differences.	The full impact of IAS 12 cannot be determined as a result of the uncertainty with respect to rate regulated accounting and other IFRS standards under revision.

Outlook

The Corporation continues its principal focus on the delivery of safe, reliable, and cost-effective electricity distribution services, providing excellent customer value, and helping to create a culture of energy conservation in Ontario.

The Corporation remains committed to meeting its strategic objectives of being the best performing utility, being easy to do business with, financial excellence, and being a great place to work for its employees. Certain supporting initiatives in 2011 to meet these objectives include continued investment in capital infrastructure renewal, new investments in the Solar PV Business, productivity improvements enabled through investments in information technology, on-going commitment to workforce labour strategy, enabling Smart Meters through TOU rates, and the achievement of provincial conservation and demand management targets.

While the overall financial position and prospects of the Corporation remain strong, the current economic climate continues to expose the Corporation to significant revenue risk related to electricity consumption in its larger commercial customer classes. Although the nature of electricity distribution costs are largely fixed, regulated electricity distribution revenues are disproportionately weighted towards electricity consumption. The Corporation has addressed this risk through its 2011 COS Application, which is pending the approval of the OEB.

Overall, management believes that the Corporation is well positioned to meets its strategic objectives while continuing to maintain a healthy financial condition.

Forward Looking Statements and Information

Certain information included herein constitutes "forward looking information". Forward looking information means disclosures regarding possible events, conditions or results that are based on assumptions about future economic conditions and courses of action. In some cases, forward looking information can be identified by terminology such as "may", "will", "should", "expect", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. Although the Corporation believes that it has a reasonable basis for the forward looking information included herein, such information is subject to a number of risks and uncertainties that may cause actual events, conditions or results to differ materially from those contemplated by the forward looking information. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and weather. The Corporation does not undertake any obligation to update publicly or to revise any of the forward looking information included herein after the date hereof, whether as a result of new information, future events or otherwise.

This management's discussion and analysis is dated as at February 24, 2011.

Management's Responsibility for Financial Reporting

The accompanying Consolidated Financial Statements of Horizon Holdings Inc. (the "Corporation") are the responsibility of management and have been approved by the Board of Directors. In management's opinion, the Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting principles are disclosed in note 2 to the Consolidated Financial Statements. The preparation of financial statements necessarily requires judgement and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgement where estimates were required, and these Consolidated Financial Statements reflect all information available to February 24, 2011.

Management maintains systems of internal controls designed to provide assurance that the assets of the Corporation are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis. The internal control systems include formal policies and procedures and an organizational structure that provides for a proper delegation of authority and segregation of incompatible responsibilities. The internal control systems are monitored by management which reports regularly to the Audit and Risk Committee of the Board of Directors.

The Consolidated Financial Statements have been examined by KPMG LLP, the external auditors of the Corporation. The responsibility of the external auditors is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit and Risk Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, which is comprised of independent directors, meets regularly with management and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit and Risk Committee reviews the Consolidated Financial Statements and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit and Risk Committee, with and without the presence of management.

On behalf of the management of Horizon Holdings Inc.:

Max A. Cananzi
President and
Chief Executive Officer

John G. Basilio
Senior Vice President and
Chief Financial Officer

February 24, 2011

Horizon Holdings Inc.

Auditors' Report to the Shareholders and Consolidated Financial Statements

Year ended December 31, 2010 and December 31, 2009

KPMG

KPMG LLP
Chartered Accountants
Box 976
21 King Street West Suite 700
Hamilton ON L8N 3R1

Telephone (905) 523-8200
Telefax (905) 523-2222
www.kpmg.ca

Auditors' Report to the Shareholders

We have audited the accompanying financial statements of Horizon Holdings Inc. ("the Entity"), which comprise the balance sheet, as at December 31, 2010 and the statements of income and retained earnings and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well os evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the balance sheet of Horizon Holdings Inc. as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Hamilton, Ontario
February 24, 2011

Consolidated Balance Sheet

(in thousands)

As at December 31, 2010	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 9,712	$ –
Accounts receivable	88,567	89,801
Inventory *[note 3]*	6,042	6,341
Other assets *[note 4]*	2,389	1,730
	106,710	97,872
Fixed assets *[note 5]*	332,919	321,595
Future payments in lieu of taxes *[note 6]*	10,770	9,939
Intangible assets *[note 7]*	4,444	5,064
Goodwill	18,923	18,923
Total assets	$ 473,766	$ 453,393
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	$ –	$ 23,967
Accounts payable and accruals	58,010	55,233
Accounts payable to corporations under common control	12,674	12,364
Credit support for service delivery *[note 8]*	20,008	22,451
	90,692	114,015
Long-term liabilities		
Long-term borrowings *[note 9]*	155,554	116,000
Employee future benefits *[note 10]*	16,670	16,421
Net regulatory liabilities *[note11]*	28,455	29,157
	200,679	161,578
Total liabilities	291,371	275,593
Shareholders' equity		
Share capital *[note 12]*	123,594	123,594
Contributed surplus	15,218	15,218
Retained earnings	43,583	38,988
Total shareholders' equity	182,395	177,800
Total liabilities and shareholders' equity	$ 473,766	$ 453,393

Commitments and contingencies *[note 14]*

On behalf of the Board:

Director

Director

Consolidated Statement of Income and Retained Earnings

(in thousands)

For the year ended December 31, 2010	2010	2009
Electricity distribution service charges *[note 15]*	$ 91,217	$ 88,583
Other income from operations *[note 16]*	10,763	10,369
	101,980	98,952
Expenses:		
Operating expenses	46,881	44,855
Depreciation and amortization *[note 5]*	27,069	25,012
	73,950	69,867
Income from operating activities	28,030	29,085
Gain on sale of assets	99	92
Interest income	70	24
Interest expense *[note 9]*	(9,709)	(9,209)
Income before payments in lieu of taxes	18,490	19,992
Payments in lieu of income taxes *[note 6]*	(5,782)	(6,471)
Net income	12,708	13,521
Retained earnings, beginning of year	38,988	34,530
Dividends paid	(8,113)	(9,063)
Retained earnings, end of year	$ 43,583	$ 38,988

Consolidated Statement of Cash Flows

(in thousands)

For the year ended December 31, 2010	2010	2009
OPERATING ACTIVITIES		
Net income	$ 12,708	$ 13,521
Add (deduct) non-cash items:		
Depreciation and amortization	28,444	26,344
Future payments in lieu of taxes	(831)	(1,628)
Net change in employee future benefits	249	127
Gain on sale of assets	(99)	(92)
Net change in other assets and liabilities	3,259	(10,557)
Cash provided by operating activities	43,730	27,715
INVESTING ACTIVITIES		
Additions to fixed assets	(39,193)	(44,775)
Proceeds received on sale of fixed assets	144	142
Cash used in investing activities	(39,049)	(44,633)
FINANCING ACTIVITIES		
Long-term borrowings	39,554	–
Net change in credit support for service delivery	(2,443)	(2,341)
Dividends paid in the year	(8,113)	(9,063)
Cash provided by (used in) financing activities	28,998	(11,404)
Net increase (decrease) in cash and cash equivalents during the year	33,679	(28,322)
Cash and cash equivalents (bank indebtedness), beginning of year	(23,967)	4,355
Cash and cash equivalents (bank indebtedness), end of year	$ 9,712	$ (23,967)
Supplemental disclosure of cash flow information		
Interest received	$ 62	$ 39
Interest paid	$ (9,136)	$ (9,186)
Taxes paid	$ (7,244)	$ (8,420)

Five-Year Consolidated Summary

(in thousands)

As at December 31, 2010	2010	2009	2008	2007	2006
STATEMENT OF INCOME					
Electricity distribution service charges	$ 91,217	$ 88,583	$ 88,335	$ 84,797	$ 79,610
Other income from operations	10,763	10,369	10,090	9,792	9,837
	101,980	98,952	98,425	94,589	89,447
Operating expenses	46,881	44,855	43,997	41,687	38,027
Depreciation and amortization	27,069	25,012	23,481	21,174	19,945
	73,950	69,867	67,478	62,861	57,972
Income from operating activities	28,030	29,085	30,947	31,728	31,475
Gain on sale of assets	99	92	45	384	50
Net interest (expense) income	(9,639)	(9,185)	(9,246)	(8,942)	(8,437)
Payments in lieu of taxes	(5,782)	(6,471)	(6,641)	(8,425)	(8,170)
Net income	$ 12,708	$ 13,521	$ 15,105	$ 14,745	$ 14,918
BALANCE SHEET					
Assets					
Current assets	$ 106,710	$ 97,872	$ 100,571	$104,061	$ 107,461
Capital assets	367,056	355,521	336,430	314,723	297,185
	$ 473,766	$ 453,393	$ 437,001	$418,784	$404,646
Liabilities and shareholders' equity					
Current liabilities	$ 90,692	$ 114,015	$ 96,739	$ 95,316	$ 93,433
Long-term debt	155,554	116,000	116,000	116,000	116,000
Other long-term liabilities	45,125	45,578	44,923	38,465	30,504
Shareholders' equity	182,395	177,800	179,339	169,003	164,709
	$ 473,766	$ 453,393	$ 437,001	$418,784	$404,646
STATEMENT OF CASH FLOWS					
Cash provided by operating activities	$ 43,730	$ 27,715	$ 39,852	$ 41,306	$ 19,848
Cash used in the purchase of capital assets	(39,193)	(44,775)	(42,045)	(39,253)	(31,425)
Cash provided by other investing activities	144	142	45	432	68
Cash provided by long-term borrowings	39,554	–	–	–	–
Cash used in financing activities	(10,556)	(11,404)	(7,903)	(7,695)	(4,504)
Net increase (decrease) in cash and cash equivalents	$ 33,679	$ (28,322)	$ (10,051)	$ (5,210)	$ (16,013)

Notes to the Consolidated Financial Statements

December 31, 2010
(in thousands)

1)Business of Corporation

On October 18, 2006, Horizon Holdings Inc. (the "Corporation") was incorporated under the Business Corporations Act (Ontario). The Corporation is an investment holding company with a 100% ownership interest in Horizon Utilities Corporation ("Horizon Utilities"), Horizon Energy Solutions Inc. ("Horizon Energy"), and Horizon Solar Corp. ("Horizon Solar"). The Corporation also indirectly owns a 100% ownership interest in Solar Sunbelt General Partnership ("Solar Sunbelt GP"), which is held through Horizon Utilities (99.9%) and Horizon Solar (0.1%).

The common shareholdings of the Corporation are owned by Hamilton Utilities Corporation (78.9%) and St. Catharines Hydro Inc. (21.1%).

Horizon Utilities is one of Ontario's largest municipally owned electricity distribution companies in Ontario, delivering electricity and related utility services to more than 237,000 residential and commercial customers in Hamilton and St. Catharines. The Corporation also holds a 99.9% ownership interest in Solar Sunbelt GP, which has been established to undertake a solar generation business.

Horizon Energy was incorporated to provide non-regulated energy services, the scope of which presently comprises sales and marketing services, water heater rentals, and meter services.

Horizon Solar is an investment holding company.

2)Significant Accounting Policies

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada consistently applied. The more significant accounting policies are summarized below:

a) Basis of consolidation

The consolidated financial statements include the accounts of the corporation and its 100% wholly owned subsidiaries. The principal operating companies are as follows:

- Horizon Utilities
- Horizon Energy
- Horizon Solar

All significant inter-company accounts and transactions have been eliminated.

b) Regulation

The *Ontario Energy Board Act, 1998 (Ontario)* ("OEBA") conferred on the Ontario Energy Board ("OEB") increased powers and responsibilities to regulate the electricity industry in Ontario. These powers and responsibilities include approving or fixing rates for the transmission and distribution of electricity, providing continued rate protection for rural and remote residential electricity consumers, and ensuring that distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and conditions of service to electricity distributors which may include, among other things, record keeping, regulatory accounting principles, separation of accounts for distinct businesses, and filing and process requirements for rate setting purposes.

Rate Setting

The electricity distribution rates and other regulated charges of the Corporation are determined in a manner that provides shareholders with a regulated Maximum Allowable Return on Equity ("MARE") on the amount of shareholder's equity supporting the business of electricity distribution, which is also determined by regulation.

In December 2009, the OEB concluded a Cost of Capital proceeding with the issuance of its final report thereon. The report principally dealt with the adequacy and determination of the Maximum Allowable Return on Equity ("MARE"). The Board has acknowledged that it needs to refine and reset its current formula for determining MARE to:

i) acknowledge and incorporate a utility spread off of Canada long-bonds within the Equity Risk Premium ("ERP") to better reflect utility borrowing costs (initially 141.5bps);
ii) to include a 50bps "transaction cost" component within the ERP to reflect estimated transaction costs related to utility borrowings;
iii reduce MARE volatility from annual changes in the Canada long-bond by reducing the annual adjustment factor from 0.75 to 0.5; and
iv) reflect a more realistic and "fair" base risk premium for Local Distribution Companies ("LDCs").

The method of transition to the new MARE is through a cost of service review application, further described below.

Rate Applications

The OEB regulates the electricity distribution rates charged by an LDC, such as Horizon Utilities, using a combination of annual incentive rate mechanism ("IRM") adjustments and periodic cost of service reviews. Both such adjustments and reviews are based on applications made by LDCs to the OEB. The current ratemaking policy of the OEB requires a cost of service review every four years, which is followed by three successive years of IRM adjustments.

IRM adjustments to LDC rates are principally formulaic in nature and based on the annual change in the Gross Domestic Product Inflationary Price Index for Final Domestic Demand ("GDP IPI-FDD") net of a productivity factor and a "Stretch Factor" determined by the relative efficiency of an electricity distributor.

The rate adjustment resulting from a cost of service review is normally based on forecast test year data, including the amount of operating and capital expenses, debt, and shareholder's equity required to support an LDC's business. The aggregate amount of debt and equity upon which an LDC may recover interest charges and MARE is equal to the "rate base" of an LDC, which is determined as the aggregate of its fixed assets in support of regulated electricity distribution activities and a working capital allowance. The proportion of debt and equity upon which an LDC may recover interest and MARE is generally 60% and 40%, respectively.

Rates have historically, and typically, been effective from May 1st to April 30th.

The last cost of service review application ("COS Application") of the Corporation was approved by the OEB on October 3, 2008, with rates effective May 1, 2008. Such approval effectively provided for 2008 service distribution revenue requirement and rate base of $93,632 and $346,420, respectively. Such amounts do not include provision for the investment of the Corporation in the Smart Meter Initiative, further elaborated below.

The Corporation had filed IRM applications to adjust its rates effective May 1, 2009 and May 1, 2010. As a result of such filings, the OEB approved electricity distribution rate adjustments for the Corporation of 1.18% effective May 1, 2009 and 0.18% effective May 1, 2010.

The Corporation has submitted a COS Application for rates effective January 1, 2011 ("2011 COS Application"). Such application was filed on August 26, 2010. However, a decision of the OEB on the 2011 COS Application is unlikely until April or May of 2011. The 2011 COS Application requests a service distribution revenue requirement and rate base of $108,708 and $376,890, respectively.

On June 23, 2009, Horizon Utilities submitted an application to the OEB for the recovery of lost revenue and shared savings related to its Conservation and Demand Management ("CDM") programs. Such recoveries proceed through prescribed Lost Revenue Adjustment Mechanism ("LRAM") and Shared Savings Mechanism ("SSM") and relate to activities for the years 2007 and 2008. On October 23, 2009, an amount of $840 was approved to be recovered through a rate rider for the period commencing November 1, 2009 through April 30, 2010.

Smart Meter Initiative and Time of Use Electricity Distribution Rates

The Province of Ontario has committed to have "Smart Meter" electricity meters installed in all homes and small businesses throughout Ontario by the end of 2010. Smart Meters permit consumption to be recorded within specific time intervals and specific tariffs to be levied within such intervals (Time of Use or "TOU" rates). The OEB requires that TOU rates be implemented for all residential and small commercial electricity distribution customers of the Corporation by June 2011.

In support of this initiative, the Corporation has substantially completed its deployment of Smart Meters to all residential and small commercial with 226,000 Smart Meter installations as at December 31, 2010.

The Corporation's Smart Meter capital expenditures and related operating expenses are currently being funded through a Utility-Specific Smart Meter Funding Adder in accordance with the Smart Meter Funding and Cost Recovery Guideline of the OEB. The current approved Smart Meter Funding Adder rate is $1.56 per metered customer per month. On September 24, 2010, the Corporation submitted a new application for a Utility-Specific Smart Meter Funding Adder which provides for a new rate adder of $2.14 per metered customer per month commencing March 1, 2011. OEB approval of this application is pending.

The Corporation commenced billing TOU rates for 10,000 residential customers, as part of a pilot project, in January 2010. As at December 31, 2010, TOU rates have been implemented for approximately 157,000 customers.

The Corporation anticipates meeting the June 2011 deadline of the OEB for full implementation of TOU rates.

Green Energy Act

In 2009, the government enacted the *Green Energy Act ("GEA")*. This legislation made fundamental changes to the roles and responsibilities of LDCs in the areas of renewable power generation, conservation and demand management delivery, and the development of smart distribution grids.

The GEA provides LDCs with the freedom to own and operate a portfolio of renewable power generation and will permit them to provide district heating services in their communities through co-generation. LDCs will also bear added responsibilities to assist and enable consumers to reduce their peak demand and conserve energy in an effort to meet provincial conservation targets. LDCs will also gain new responsibilities in transforming their local distribution networks into smart grids harnessing advanced technologies to facilitate the connection of small-scale generators and the two-way flow of information.

New LDC License Requirements – Conservation and Demand Management Targets

On November 12, 2010, the OEB amended LDC licenses to include requirements for achieving certain CDM targets over a four year period commencing January 1, 2011. The Corporation's CDM targets include a demand reduction target of 60.36MW and a consumption reduction target of 281.42GWh. LDCs must also comply with a new CDM Code of the OEB, which provides LDC requirements for the development and delivery of CDM Strategy to the OEB for the achievement of LDC-specific CDM targets, annual accounting and reporting to the OEB, and eligibility criteria for performance incentive payments. The Corporation has filed its CDM Strategy with the OEB.

Other Matters

The continuing restructuring of Ontario's electricity industry and other regulatory developments, including current and possible future consultations between the OEB and interested stakeholders, may affect future electricity distribution rates and other permitted regulatory recoveries of the Corporation.

Regulatory Accounting

In its capacity to approve or set rates, the OEB has the authority to specify regulatory accounting treatments that may differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment. The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Corporation's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. The Corporation's regulatory liabilities represent costs with respect to non-distribution market related charges and variances in recoveries that are expected to be settled in future periods.

c) Financial instruments

Under CICA Handbook Section 3855, <u>Financial Instruments – Recognition and Measurement</u> and Section 3861, <u>Financial Instruments – Disclosure and Presentation</u> all financial assets are classified as held-for-trading, held-to-maturity, loans and receivables, or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities.

All financial instruments are carried on the balance sheet at fair value except for loans and receivables, held-to-maturity investments, and other liabilities; which are measured at amortized cost.

The Corporation has classified its financial instruments as follows:

Cash and cash equivalents	Held-for-trading
Bank indebtedness	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accruals	Other liabilities
Accounts payable and accruals to corporations under common control	Other liabilities
Credit support for service delivery	Other liabilities
Long-term borrowings	Other liabilities

Effective for the 2009 annual reporting period, the Corporation adopted the amended CICA Handbook Sections 3862, Financial Instruments Disclosures, which provide new financial instrument fair value measurement and liquidity risk management disclosures. The amendments require an entity to classify fair value measurements using a fair value hierarchy, which includes three levels of inputs that may be used to measure fair value:

- Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

The amendments also provide required liquidity risk disclosures.

d) Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and note disclosures related thereto. Due to the inherent uncertainty in making estimates, actual results could differ from estimates recorded in preparing these financial statements, including changes as a result of future regulatory decisions.

Accounts receivable and regulatory assets are stated after evaluation of amounts expected to be collected and an appropriate allowance for doubtful accounts. Inventory is recorded net of provisions for obsolescence. Amounts recorded for depreciation and amortization of equipment are based on estimates of useful service life. Employee future benefits are based on certain assumptions, including interest (discount) rate, salary escalation, the average retirement age of employees, employee turnover and expected health and dental care costs.

e) Cash and cash equivalents

Cash equivalents comprise overnight deposits in an investment account with a Schedule A bank. Investments are carried at cost, which approximates fair value.

f) Inventory

Inventory, which consists of parts and supplies acquired for internal construction, consumption or recoverable work, is valued at the lower of cost and replacement cost. Cost is determined on a weighted average basis. Net realizable value is determined by replacement cost.

g) Fixed assets and depreciation

Fixed assets are recorded at cost, including the cost of work in process, and are removed from the accounts at the end of their estimated service lives, except in those instances where specific identification allows their removal at retirement or disposition. For specifically identifiable assets, gains or losses at retirement or on disposition are credited or charged to other income, otherwise, no gain or loss is recognized unless a sale has occurred.

Depreciation is calculated on a straight-line basis over the estimated service life of fixed assets as follows:

Land rights	50 years
Buildings	25-30 years
Distribution stations	30 years
Distribution lines – overhead and underground	25 years
Distribution transformers	25 years
Distribution meters	25 years
Other fixed assets	3-15 years

Work in process is not depreciated and comprises the cost of construction materials, applied labour, and overheads consumed in capital projects that are not available for productive use at the end of the fiscal year.

h) Intangible assets and amortization

Intangible assets include intangible software costs, which are stated at cost less accumulated amortization. The amortization of intangible software costs is recorded on a straight-line basis over an estimated service life of 3 years.

i) Goodwill

Goodwill represents the amount by which the purchase price of an acquired business exceeds the fair value of the net identifiable assets purchased.

Goodwill is not amortized and is evaluated for impairment on an annual basis, or more frequently if circumstances require, with any write-down of the carrying value of goodwill being charged against the results of operations. Goodwill impairment is assessed based on a comparison of the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill.

j) Credit support for service delivery

Credit support for service delivery represents cash deposits from electricity distribution customers, as well as construction deposits.

Deposits from electricity distribution customers are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individual customers upon termination of their electricity distribution service. Customer deposits are also refundable to residential electricity distribution customers demonstrating an acceptable level of credit risk, as determined by the Corporation.

Construction deposits represent cash prepayments for the estimated cost of capital projects recoverable from customers and developers. Upon completion of the capital project, these deposits are transferred to capital contributions in support of construction.

k) Deferred debt issue costs

Debt issue costs arising from the Corporation's debenture offering are recorded against the principle amount of the debentures. The debentures are accreted back to their face value using the effective interest rate method over the remaining period to maturity.

l) Employee future benefits

The Corporation pays certain health, dental and life insurance benefits, under unfunded defined benefit plans, on behalf of its retired employees.

Employee future benefits are recorded on an accrual basis. The accrued benefit obligations and current service cost are calculated using the projected benefit method pro-rated on service and reflect management's best estimate of certain underlying assumptions. The current service cost for a period is equal to the actuarial present value of benefits attributed to that period in which employees rendered their services. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. The excess of actuarial gains (losses) over 10% of the accrued benefit obligation is amortized into expense on a straight-line basis over the expected average remaining service life of active employees.

m) Pension plan

The Corporation provides a pension plan for its employees though the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The fund is a contributory defined benefit pension plan. The Corporation records the required contributions as an expense in the period they accrue.

n) Related party transactions

Transactions with related parties represent the culmination of the earnings process and are measured at the exchange amount.

o) Payments in Lieu of Taxes ("PILs")

The Corporation is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Commencing October 1, 2001 and pursuant to the *Energy Competition Act* ("ECA"), the Corporation is required to compute taxes under the ITA and OCTA and remit such amounts thereunder to the Ontario Electricity Financial Corporation ("OEFC"). These amounts, referred to as PILs under the ECA, are applied to reduce certain debt obligations of the former Ontario Hydro continuing in OEFC.

The Corporation provides for PILs using the asset and liability method. Under this method, future tax assets and liabilities are recognized, to the extent such are determined likely to be realized, for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in the period that includes the date of enactment or substantive enactment.

p) Capital contributions in support of construction

Capital contributions arise from new connection charges which are provided and paid by developers and/or customers and used to finance additions to fixed assets. Capital contributions received are treated as a "credit" contra account and are included in fixed assets. These amounts are subsequently amortized by a charge to accumulated amortization and a credit to amortization expense at an equivalent rate to that used for the depreciation of the related fixed asset.

q) Revenue recognition

Electricity distribution services charges comprise charges to customers for use of the Corporation's electricity distribution system. These charges are recorded when the related services are performed.

3) Inventory

The amount of inventories consumed by the Corporation and recognized as an expense during 2010 was $ 1,182 (2009 – $783).

4) Other Assets

Other assets comprise:

	2010	2009
Prepaid expenses	2,324	1,716
Other	65	14
	2,389	1,730

5) Fixed Assets

Fixed assets comprise:

	2010			2009		
	Original Cost	Accumulated Depreciation	Net Book Value	Original Cost	Accumulated Depreciation	Net Book Value
Land	1,483	–	1,483	1,483	–	1,483
Land rights	147	(56)	91	147	(53)	94
Buildings	28,230	(18,537)	9,693	27,612	(17,250)	10,362
Distribution stations	10,999	(7,666)	3,333	10,030	(7,371)	2,659
Distribution lines overhead and underground	360,619	(164,531)	196,088	348,293	(157,308)	190,985
Distribution transformers	93,014	(40,580)	52,434	89,462	(39,382)	50,080
Distribution meters	62,619	(19,474)	43,145	59,750	(16,565)	43,185
Other fixed assets	47,442	(30,127)	17,315	44,049	(27,618)	16,431
Work in process	9,337	–	9,337	6,316	–	6,316
	613,890	(280,971)	332,919	587,142	(265,547)	321,595

During the year, the Corporation received $8,512 (2009 – $7,962) of capital contributions from developers or customers to support new customer connections.

Total depreciation expense for the year is $28,444 (2009 – $26,344) of which $1,375 (2009 – $1,332) has been allocated to operating expenses and capital.

6) Payments In Lieu of Taxes

The provision for PILs varies from amounts which would be computed by applying the Corporation's combined statutory income tax rate as follows:

	2010	2009
Basic rate applied to income before PILs	**31.00%**	33.00%
Increase (decrease) in PILs resulting from:		
Tax basis of depreciable capital assets and goodwill in excess of accounting basis	**(4.26%)**	(4.21%)
Revaluation of Future Tax Liability at 2014 statutory rate of 25.0%	**3.76%**	3.03%
Items not deductible for tax purposes and other	**0.78%**	0.55%
Effective rate applied to income before PILs	31.28%	32.37%

At December 31, 2010, based on substantively enacted income tax rates, future income tax assets of $10,563 (2009 – $11,867) have not been recorded. Such future income tax assets relate to tax bases of depreciable capital assets in excess of amounts recorded for accounting purposes at October 1, 2001. Such future tax assets have not been recorded in the accounts as there is uncertainty as to whether the Corporation will realize the benefits related to these assets, which would be realized as relatively modest reductions of future tax liability over many future years.

7) Intangible Assets

Intangible assets comprise:

	2010	2009
Intangible software costs	**12,782**	11,740
Less: accumulated amortization	**(8,338)**	(6,676)
	4,444	5,064

8) Credit Support For Service Delivery

Credit support for service delivery comprises:

	2010	2009
Customer deposits	**14,851**	15,381
Construction deposits	**5,157**	7,070
	20,008	22,451

9) Long-Term Borrowings

Long-term borrowings comprise:

	2010	2009
$116,000 Promissory note payable to Hamilton Utilities Corporation bearing interest at 7.0% and due July 30, 2012	**116,000**	116,000
$40,000 Senior unsecured debentures bearing interest at 4.77% and due July 21, 2020	**39,554**	–
	155,554	116,000

On July 21, 2010, the Corporation issued $40,000 in senior unsecured debentures. Interest is payable on such debentures semi-annually on January 21 and July 21. During the year, the Corporation accrued interest in respect of these senior unsecured debentures in the amount of $857. There were no amounts paid in 2010.

Interest on the $116,000 promissory note is payable semi-annually on January 30 and July 30. Interest expense of $8,120 (2009 – $8,120) was paid to Hamilton Utilities Corporation.

10) Employee Future Benefits

The Corporation pays certain health, dental and life insurance benefits on behalf of its retired employees. The Corporation accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined applying the projected benefit method pro-rated on length of service. Significant assumptions underlying the valuation include management's best estimate of the interest (discount) rate, salary escalation, the average retirement age of employees, employee turnover and expected health and dental care costs.

Information about the Corporation's defined benefit plan is as follows:

	2010	2009
Accrued benefit liability, beginning of year	**16,421**	16,294
Net benefit expense:		
Current service cost	**288**	222
Interest cost	**1,048**	1,059
Amortization of net actuarial loss	**–**	–
Net benefit expense for the year	**1,336**	1,281
Benefits paid for the year	**(1,087)**	(1,154)
Accrued benefit liability, end of year	**16,670**	16,421

An actuarial valuation of the plan obligations was completed as at December 31, 2010 resulting in an unamortized net actuarial loss of $3,068. The Corporation has adopted the corridor method of accounting for the actuarially determined experience gains (losses). The excess of actuarial gains (losses) over 10% of the accrued benefit obligation is amortized into expense on a straight-line basis over the expected average remaining service life of active employees.

The main actuarial assumptions underlying the valuation are as follows:

a) General inflation

The health care cost trend for prescription drugs is estimated to increase at a declining rate from 6% to 4% over two years. Other medical and dental expenses are assumed to increase at 4% per year.

The approximate effect on the accrued benefit obligation and the estimated net benefit expense if the health care trend rate assumption was increased or decreased by 1% is as follows:

	Accrued Benefit Obligation	Periodic Benefit Cost
1% increase in health care trend rate	2,203	173
1% decrease in health care trend rate	(1,762)	(105)

b) Interest (discount) rate

The obligations at the period end and the present value of future liabilities were determined using a discount rate of 5.3% (2009 – 6.4%) representing an estimate of the yield on high quality corporate bonds as at the valuation date.

c) Salary levels

Future general salary and wage levels were assumed to increase at 3% (2009 – 3%) per year.

11) Net Regulatory Liabilities

Net regulatory liabilities (assets) comprise:

	2010	2009
Regulatory variances disposition account	**15,054**	4,444
Future payments in lieu of taxes	**8,808**	7,686
Settlement variances	**5,044**	16,315
Regulatory deferral account	**397**	624
Smart Meter deferral account	**33**	649
IFRS transition costs	**(881)**	(561)
	28,455	29,157

Net regulatory liabilities represent costs incurred by the Corporation and settlement variances with other participants in the electricity market, less recoveries, for the purpose of supporting the deregulation of the electricity industry in Ontario. These amounts have been accumulated pursuant to regulation underlying the *Electricity Act, 1998 (Ontario)* and deferred in anticipation of their future recovery or repayment in electricity distribution service charges.

Regulatory variances disposition account – represents approved regulatory asset and liability balances as at December 31, 2008, consisting of settlement variances and associated interest, less amounts paid to customers up to December 31, 2010. The recent OEB decision on the 2010 IRM Application provided for the disposition of $19,467 of the Corporation's net regulatory liabilities over a twenty-four month period commencing May 1, 2010.

Future payments in lieu of taxes – represents the amount of future income taxes expected to be included in future rates and recovered from or paid to customers through the rate setting process.

Settlement variances – represent amounts that have accumulated since January 1, 2009 and have not yet been approved in rates by the OEB and comprise:

i) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges and transmission charges, and the amounts billed to customers by the Corporation based on the OEB approved wholesale market service rate; and,

ii) variances between the amounts charged by the IESO to allow for purchases of imported electricity and the amounts billed to customers by the Corporation based on OEB approved rates.

Regulatory deferral account – represents the deferral of various operating expenditures related to the GEA, retailer expenses, and the implementation of HST, which will be subject to future disposition in accordance with the directions set out by the OEB.

Smart Meter deferral account – represents the deferral of operating expenditures, capital expenditures, and revenues related to Smart Meters.

IFRS transition costs – represents the incremental costs incurred by the Corporation in relation to the transition from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS). The Corporation is required to adopt IFRS no later than January 1, 2012. In its decision of July 28, 2009, the OEB provided that these costs be recorded by LDCs in a deferral account for a review of their recovery at their next respective COS Application. The Corporation anticipates full recovery of these costs.

12) Share Capital

Share capital comprises:

	2010	2009
Authorized:		
Unlimited Class 1 Common shares		
Unlimited Class A Common shares		
Issued:		
7,890 Class 1 Common shares	**91,134**	91,134
2,110 Class A Common shares	**32,460**	32,460
	123,594	123,594

Any invitation to the public to subscribe for shares of the Corporation is prohibited.

13) Pension Plan

The Corporation participates in the Ontario Municipal Employees Retirement Fund (OMERS), a multi-employer plan, on behalf of its employees. The plan is a contributory defined benefit pension plan.

Contributions during the year were 6.4% for employee earnings up to the year's maximum pensionable earnings ("YMPE"), as prescribed by federal tax legislation, and 9.7% above the YMPE. During 2010, the Corporation recorded pension contributions expenses totaling $2,130 (2009 – $2,014). Contributions are expected to increase by approximately 1% per year over the next three years reflecting plan amendments recently announced by OMERS.

14) Commitments and Contingencies

Commitments

Contractual Obligations

a) Connection and Cost Recovery Agreement

Pursuant to the terms of a Connection and Cost Recovery Agreement dated December 10, 2008, the Corporation had committed to upgrade the capacity of one of its transformer stations. The total commitment over a three year period was approximately $7,278 and the remaining commitment as at year-end is $nil. (2009 – $2,426).

b) Master CDM Agreement

On February 1, 2011, the Corporation entered into a Master CDM Agreement ("CDM Agreement") with the Ontario Power Authority ("OPA") for the period January 1, 2011 to December 31, 2014. The CDM Agreement provides terms under which the Corporation may engage the OPA to design and pay for Province-wide CDM programs in support of meetings its CDM Targets (Note 2(b)).

Subject to the terms of the CDM Agreement, all OPA CDM program costs are paid by the OPA. The Corporation effectively acts as a delivery agent for those programs that it participates in under the CDM Agreement. The Corporation estimates that, for those programs that it will participate in under the CDM Agreement, the total OPA CDM program costs over the four year period will be approximately $57,000, of which approximately $11,700 represent administration costs of the Corporation. The Corporation will be entitled to receive, in advance and in semi-annual installments each January and July, all of its estimated administration costs associated with each program. Any administration costs incurred by the Corporation in excess of the pre-approved estimate would not be recoverable. All other program costs incurred by the Corporation, (such as customer incentives and goods and services delivered under the programs) are recoverable from the OPA on an invoiced basis in accordance with the CDM Agreement.

Leases

The Corporation has entered into operating leases for certain computer equipment. Minimum annual lease payments required are as follows:

2010	305
2011	255
	560

Credit Facility

On June 30, 2010, the Corporation entered into a Credit Facility Agreement ("Credit Facility") with a Canadian chartered bank. The Corporation can borrow up to $100,000 to finance general corporate requirements, capital investments, working capital requirements, and prudential obligations. Borrowings may be in the form of Bankers' Acceptances ("BAs"), prime rate loans, letters of credit, and/or current account overdrafts. The Credit Facility matures on June 30, 2013. Interest rates payable on the Credit Facility are based on a margin relative to the prime or BA rate, as the case may be, determined by reference to the Corporation's debt rating. A standby fee is paid on any unutilized portion of the Credit Facility.

The Corporation has issued a $9,100 letter of credit in favour of the Independent Electricity System Operator ("IESO") as security for Horizon Utilities' purchase of electricity through the IESO. At year end, no amounts were withdrawn on the letter of credit.

Contingencies

General

From time to time, the Corporation is involved in various litigation matters arising in the ordinary course of its business. The Corporation has no reason to believe that the disposition of any such current matters could reasonably be expected to have a materially adverse impact on its financial position, results of operations, or its ability to carry on any of its business activities.

Class Action

Pursuant to its order dated July 22, 2010 (the "Order"), the Ontario Superior Court of Justice approved the settlement of a class action lawsuit, which was served on the former Toronto Hydro-Electric Commission, continuing as Toronto Hydro Corporation, on November 18, 1998. The original class action was for the amount of $500,000 and was initiated against the former Toronto Hydro-Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities ("MEU") in Ontario, of which the Corporation is a successor MEU, which have charged Late Payment charges on overdue utility bills at any time after April 1, 1981.

The Order formalized a settlement pursuant to which the defendant MEUs will pay the amount of $17,000 plus costs and taxes in settlement of all claims. The amount allocated for payment by each MEU is based on its percentage of electricity distribution service revenue, relative to that of the entire Defendant Class, over the period for which it had exposure for repayment of late payment penalties exceeding the interest rate limit set out in the federal Criminal Code. The Corporation's share of the settlement is $1,100, payable on June 30, 2011.

Under the terms of the settlement, all of the MEUs, including the Corporation, requested an order from the OEB allowing for future recovery from customers of all costs related thereto. On October 29, 2010, the OEB issued a notice of proceeding involving the entire Defendant Class to determine whether the costs and damages incurred by such are recoverable from electricity rate payers, and, if so, the form and timing of such recovery. On February 22, 2011, the OEB issued its decision on this matter and approved the recovery of all costs and damages arising from the settlement of the class action over a 12 month period commencing May 1, 2011, through a fixed rate rider.

As a result, the Corporation has recorded the settlement amount as an operating expense, with the corresponding regulatory recovery recorded through electricity distribution revenue.

15) Billings To Electricity Distribution Customers

The Corporation is licensed by the OEB to distribute electricity. As a licensed distributor, the Corporation is responsible for billing customers for electricity generated by third parties and the related costs of providing electricity service, such as transmission services and other services provided by third parties. The Corporation is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Corporation ultimately collects these amounts from customers. The Corporation may file to recover uncollected debt retirement charges from OEFC once each year. Otherwise, the Corporation is unable to recover uncollected amounts formerly remitted to these third parties. The Corporation retains only its electricity distribution services charge that is regulated by the OEB.

Electricity distribution services charges comprise:

	2010	**2009**
Gross customer billings	**545,153**	485,814
Less: Pass through charges billed by the Corporation		
Electricity charges paid through to generators	**(332,094)**	(286,387)
Transmission and miscellaneous charges	**(55,509)**	(48,351)
Market service charges	**(32,778)**	(30,564)
Debt retirement charges	**(33,555)**	(31,929)
	91,217	88,583

16) Other Income From Operations

Other income from operations comprises:

	2010	**2009**
Water and waste water billing and customer core charges	**3,628**	3,429
Collection and other service charges	**1,629**	1,618
Pole and other rental income	**1,344**	1,415
Late payment charges	**1,201**	1,168
Conservation and demand management programs	**1,028**	1,185
Meter services	**649**	353
Management and other support services	**342**	360
Scrap sales	**327**	434
Water heater rental income	**298**	310
Miscellaneous	**317**	97
	10,763	10,369

17) Capital Disclosures

The main objectives of the Corporation when managing financial capital are to:

- ensure ongoing cost effective access to such to provide adequate investment in support of its regulated electricity distribution business and its other businesses;
- compliance with covenants within its financial instruments;
- the prudent management of its capital structure, with regard for recoveries of financing charges permitted by the OEB on its regulated electricity distribution business; and
- deliver reasonable returns on the investments of its shareholders.

The Corporation's definition of capital includes shareholder's equity and long-term debt. This definition has remained unchanged from December 31, 2009.

The OEB regulates the amount of interest on debt and MARE that may be recovered by the regulated electricity distribution business of the Corporation through its electricity distribution rates. The actual capital structure for the Corporation may differ from the OEB deemed structure.

The Corporation has customary covenants typically associated with long-term debt. The Corporation is in compliance with all credit agreement covenants and limitations associated with its long-term debt.

18) Related Party Transactions

Revenue

The Corporation provides certain water and wastewater billing and customer care services to the sole shareholder of Hamilton Utilities Corporation, the City of Hamilton. Other income includes $3,628 (2009 – $3,429) earned with respect to these services. Accounts payable and accruals included $10,205 (2009 – $9,790) owing to the City of Hamilton for amounts collected on its behalf with respect to these services.

The Corporation provides certain management, billing, and administrative services to Hamilton Utilities Corporation and its subsidiary, Hamilton Hydro Services Inc. Other income includes $270 (2009 – $270) earned with respect to these agreements.

19) Financial Instruments

Recognition and Measurement

The Corporation's fair value measurements are as follows:

- Level 1 – The carrying values of cash and cash equivalents, accounts receivable, credit support for service delivery, and accounts payable and accruals approximate their respective fair values because of the short maturity of these instruments.
- Level 2 – The $40,000 4.77% senior unsecured debentures due July 21, 2020 [note 9] have a fair value of $41,315, based on year-end quoted market prices for similar debt.
- Level 3 – It is not practicable to determine the fair value of the long-term borrowing from Hamilton Utilities Corporation due to the limited amount of comparable market information available.

Risk Factors

The Corporation's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk.

i) Credit risk

Financial Assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Corporation, such as accounts receivable, expose it to credit risk. The Corporation earns its revenue from a broad base of customers located in the City of Hamilton and the City of St. Catharines. There is one large commercial customer that accounts for 3% (2009 – 3%) of revenue. No other single customer in either year would account for revenue in excess of 1% of the respective reported balances.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the income statement. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for doubtful accounts at December 31, 2010 is $1,550 (2009 – $1,150). No single customer accounts for more than 1% of accounts receivable at year-end.

The Corporation's credit risk associated with accounts receivable is primarily related to payments due from its electricity distribution customers. At December 31, 2010, approximately $1,081 of such amounts are considered 60 days past due. The Corporation has approximately 237,000 electricity distribution customers, the majority of which are residential customers. Credit risk is managed by the Corporation through its credit policies, including the collection of security deposits from customers under conditions prescribed by the OEB.

At year end, the Corporation held security deposits in the amount of $20,008 (2008 – $22,451).

ii) Market Risk

Market risks primarily refer to the risk of loss resulting from changes in commodity prices, foreign exchange rates, and interest rates. The Corporation currently does not have commodity or foreign exchange risk. The Corporation is exposed to fluctuations in interest rates as the rate of return applicable to the Corporation's distribution business (the MARE) is regulated and derived using a complex formulaic approach which is, in part, based on the forecast for long-term Government of Canada bond yields. This rate of return is approved by the OEB as part of the approval of distribution rates.

iii) Liquidity risk

The Corporation monitors its liquidity risk with respect to its operational and investment requirements for financial capital. The Corporation seeks to ensure that it has sufficient financial liquidity to meet its obligations as such become due while minimizing interest expense. The Corporation has access to a revolving credit facility and may issue long-term debentures, from time to time, under its trust indenture.

Accounts payable, as reported on the financial statements, are generally due within 60 days of the receipt of an invoice.

20) Emerging Accounting Changes

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") has adopted a strategic plan that will require publicly accountable enterprises to adopt IFRS in place of Canadian GAAP, for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

In October 2010, the AcSB approved the incorporation of IFRS 1 into Part 1 of the Canadian Institute of Chartered Accountants ("CICA") Handbook for qualifying entities with activities subject to rate regulation. Part 1 of the CICA Handbook specifies that first-time adoption is mandatory for interim and annual financial statements relating to annual periods beginning on or after January 1, 2012.

The amendment also requires entities that do not prepare its interim and annual financial statements in accordance with Part 1 of the Handbook during the annual period beginning on or after January 1, 2011 to disclose that fact.

The Corporation has decided to defer its implementation of IFRS to January 1, 2012.

21) Comparative Figures

Certain comparative data have been reclassified to conform with the presentation of the current year.

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HOLDINGS Looking beyond

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This is Exhibit "H" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)
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Laura Formusa
President & CEO

hydroOne

November 16, 2011

Confidential

Mr. Dean Muncaster
Chair
COLLUS Power Corp.
PO Box 189, 43 Stewart Rd.
Collingwood, ON
L9Y 3Z5

Dear Mr. Muncaster:

RE: Hydro One Strategic Partnership Proposal: Part 1

We are pleased to provide you with this non-binding proposal to enter into a Strategic Partnership arrangement with COLLUS Power Corp. ("COLLUS Power") in accordance with your Request for Proposal – Strategic Partnership, issued on October 4, 2011 ("RFP"). Given our geographic proximity and our knowledge of the areas we each serve in this region, we believe the value package being offered will be well-received by the municipality, COLLUS Power customers, and the employees of COLLUS Power.

As per your instructions, the payment for up to 50% of the shares as well as other considerations from section 3.1 of your RFP are included in this letter, part 1 of our response, and the balance of the proposal is included in a separate letter, part 2 of our response.

Purchase of Shares

We are interested in making an offer to purchase up to 50% interest in COLLUS Power, either directly, or indirectly through the purchase of shares in Collingwood Utilities Services ("CUS").

We are offering $13.6 million and, through a recapitalization, the municipality could receive a total cash value of $18.5 million. This price is dependent on Hydro One being given exclusive rights, beginning as soon as practically possible, to negotiate definitive agreements to complete the share purchase. Hydro One is also willing to consider an alternate ownership position and/or alternative terms and conditions, subject to appropriate price adjustments.

Recapitalization

Concurrent with the purchase of shares, Hydro One proposes that COLLUS Power be recapitalized to a 60/40 debt to equity structure as deemed to be appropriate by the Ontario Energy Board ("OEB"). Moreover, we suggest this to be a more efficient capital structure.

hydroOne

Recapitalization is estimated to require approximately $8.1 million of new debt, while retiring the $1.7 million promissory note from the Town of Collingwood. The new debt would be provided by the most favourable option, including potentially by Hydro One. The resultant $6.4 million of cash from new debt would be paid to shareholders in the form of a pro rata dividend, or otherwise; $3.2 million to CUS (or to the Town of Collingwood, if an indirect purchase), and $3.2 million to Hydro One.

Payment of Dividends

A philosophy of keeping rates as low as possible for our customers, and delivering growth and dividends to shareholders, guides our approach to declaring dividends. In all years in which COLLUS Power generates a positive net income, COLLUS Power shall consider payment of dividends to its shareholders. Common dividends will be declared at the sole discretion of the Board of Directors, and recommended by management based on results of operations and maintaining the deemed regulatory capital structure. Financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations will also be taken into consideration.

Key Terms

The following provides some of the additional terms that we would expect to negotiate with you towards a mutually-acceptable purchase and sale agreement:

1. Cash payment for shares upon closing.
2. Approval by the OEB, (Merger, Acquisition, Amalgamations and Divestitures regulation) of the transfer of up to 50% of the shares of COLLUS Power (or CUS if an indirect purchase) to Hydro One Inc., or its designate.
3. A shareholder agreement including a provision for a right of first refusal on the sale/issue of any COLLUS Power shares or assets (shares or assets of CUS if an indirect purchase), as well as shot gun clauses.
4. Each party obtaining necessary corporate and municipal approvals.
5. Customary representations, warranties, covenants and indemnities by the vendor as to various matters, including, without limitation, payment or arrangements for satisfaction of outstanding obligations of COLLUS Power, unencumbered title to, and condition and sufficiency of, the Distribution Assets; litigation or claims (threatened or actual); pension liabilities or claims; environmental matters; compliance with applicable laws; taxation; contracts and permits; and no broker's or finder's fees owing.
6. Hydro One will be allowed to conduct and be satisfied with the results of customary due diligence for transactions of this type, for a period of at least 60 days.
7. Provisions for price adjustments related to closing balances, undisclosed liabilities that affect valuation (including, for example, rate base, regulatory assets, cash and equivalents, contracts and provisions, MEARIE obligations).
8. Provisions for exclusion of liabilities for occurrences prior to the date of Closing in connection with any contracts or policies of insurance, including, without limitation MEARIE, and indemnification thereof.
9. Provisions for exclusion of present and future water liabilities under MEARIE and indemnification in respect thereof.
10. Each party retaining and paying its own legal and financial advisors.

11. The interest in COLLUS Power is to be purchased either,
    a. Indirectly, through the purchase of shares in CUS, with or without COLLUS Solutions Corp included; or
    b. Directly, through the purchase of shares in COLLUS Power, provided a legislative amendment to section 149 of the *Income Tax Act*, Canada ("ITA") is obtained that would result in COLLUS Power remaining a tax-exempt entity under the ITA.
12. COLLUS Power continuing to operate in a regular and prudent business manner, in the ordinary course of business, as it has done in the past two years.
13. The 2013 cost-of-service rate filing achieves the OEB allowed rate-of-return on equity.
14. Board composition: 20% Hydro One, 20% Collingwood Utility Services, (or the Town of Collingwood if an indirect purchase), and 60% independents.

We believe that with an efficient capital structure, together with operating synergies achieved over time, the effects of future rate increases can be mitigated. If it is the Town's desire to hold rates near current levels, we would be willing to consider such an objective; however, this will necessitate a price adjustment to reflect any lost value to shareholders.

Summary offer of payment and underlying assumptions

A cash value to the municipality of Collingwood of **$18.5 million** delivered as follows:

- Cash of $13.6 million for up to 50% equity stake
- Equity dividend or other payment of $3.2 million
- Promissory Note Payable repayment of $1.7 million

The above payments are predicated on the following assumptions:

- A 2011 rate base of $17.9 million based on the COLLUS Power 2011 budget
- Adoption of IFRS on January 1, 2012 will not materially affect either the financial statements or the forecasts of COLLUS Power
- Net balance of regulatory assets and liabilities will not have material value
- COLLUS Solutions Corp is not included in the purchase
- An ongoing capital structure of 60/40 debt/equity
- Recapitalization with financing at commercial rates
- Key Terms as included in the above section

We appreciate your careful consideration of this proposal. Hydro One is ready and willing to advance discussions as soon as possible, on an exclusive basis, to build upon our long-standing relationship in the communities. Should you have any questions regarding this proposal, please contact Mr. Rick Stevens (416-345-5893).

Yours very truly,

Laura Formusa,
President and CEO
Hydro One Inc.

This is Exhibit "I" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)
Norman Lemberg

PowerStream's Response to COLLUS Power Corp Request For Proposal

STRATEGIC PARTNERSHIP

Section 3.1 – Purchase of Shares

CONFIDENTIAL

November 16, 2011

Table of Contents

This document contains PowerStream's response to Section 3.1 of COLLUS Power Corp's Request for Proposal - Strategic Partnership, and addresses matters directly related to purchase of shares.

The remaining sections (3.2 - 3.7) of PowerStream's proposal are submitted under separate cover, as required by the RFP.

Contents

A INTRODUCTION

PowerStream is pleased to respond to the Request for Proposal document issued by COLLUS Power Corp ("COLLUS Power") on October 4, 2011.

On September 19, 2011 the PowerStream team made a presentation to the COLLUS Power Strategic Partnership Task Team. The PowerPoint presentation made at that time is attached as an appendix to PowerStream's response to the RFP in Section B.

PowerStream Inc. is the second largest municipally-owned electricity distribution company in Ontario, serving more than 330,000 customers in nine municipalities located in Simcoe County and York Region that have a combined population of approximately 1,000,000.

Created on June 1, 2004, following the merger of three York Region-based utilities (Markham Hydro, Richmond Hill Hydro and Vaughan Hydro), PowerStream Inc. is jointly owned by City of Vaughan, the Town of Markham and the City of Barrie. PowerStream's unprecedented and unrivaled expansion of its customer base from just over 192,000 in 2004 to 334,472 (as of October 31, 2011) is a result of serving an area of the province that continues to experience tremendous population growth in combination with the company's own pursuit of forming strategic partnerships and relationships with other utilities. PowerStream has successfully completed the voluntary merger of four utilities and the acquisition of another in less than five years.

Although for most companies the transitional challenges that usually follow a merger or acquisition can often impede the achievement of other corporate goals and objectives, PowerStream through these consolidations has continued to demonstrate its industry leadership in customer service, innovation and environmental stewardship.

Several major projects completed by PowerStream since its merger with Barrie Hydro Distribution Inc. on January 1, 2009, such as bringing into service the company's 11th transformer station directly connected to the provincial transmission grid and the incorporation of several smart grid features to its own distribution system, along with some impressive customer and employee satisfaction figures, are indicative of the company's ability to transition, move forward and lead at the same time. This is further evidenced by the number of awards the company has earned over in recent years including Greater Toronto's Top Employers (2012), Electricity Distributors Association's Performance Excellence Award (2011), United Way of Great Simcoe County's Campaign Merit Award (2010), Ontario Energy Association's Company of the Year Award (2010), Ministry of the Environment's Ontario Environmental Leader (2010), Vaughan Chamber of Commerce Business of the Year (2010), Electricity Distributors Association's Environmental Excellence Award (2009) and Smart Commute Employer of the Year for North Toronto, Vaughan (2009 and 2011).

PowerStream's commitment to the environment and sustainable growth has been demonstrated in several areas and on a number of occasions. The company has built two work location buildings that have been certified by the Canada Green Building Council as LEED® (Leadership in Energy and Environmental Design) Gold. No other company in Simcoe County or York Region, and no other electricity distribution utility in Ontario, operates out of multiple LEED® gold certified facilities. Further to this, PowerStream has an active solar PV generation business and is an industry leader in the delivery of conservation and demand management programs to its customers.

PowerStream believes that COLLUS Power and PowerStream share the same values which are critical to making the proposed Strategic Partnership successful. In fact, COLLUS Power's inspirational and forward-thinking value statement that the organization values "the entrepreneurial spirit to responsibly and decisively challenge the conventional" aligns well with PowerStream's vision statement of being "a socially responsible company, committed to the environment and sustainable growth, leading the way into the future with boldness, innovation, and industry best in class performance." Moreover, COLLUS Power's stated values of "trust, responsibility, sustainability, people, partnerships & collaboration and continuous improvement" are similar in intent and spirit to PowerStream's values of "respect, teamwork, performance, accountability and initiative."

PowerStream is proposing a structure which will satisfy the objectives of both COLLUS Power and the Town of Collingwood and create a partnership which will continue to operate in the best interests of the customer, employees and Shareholders in all the service territories currently served by both entities. This structure recognizes the importance of municipal ownership, growth and community involvement, principles that are held in high regard by both organizations and the customers they serve. The model, articulated to the COLLUS Power Strategic Partnership Task Team by Brian Bentz, President & CEO of PowerStream on September 19, 2011, is transferable for future regional growth with other communities and we believe that this will provide a model for further consolidation.

The structure envisaged by COLLUS Power and wholly supported by PowerStream includes:

- A proposal to purchase 50% of the equity in COLLUS Power and provide an additional cash payment by facilitating the recapitalization of COLLUS Power
- A proposal to provide strategic and specialized resources to COLLUS Power while continuing to effectively engage the COLLUS Power and affiliate employees
- A proposal to support growing the COLLUS Power business both organically and through acquisition or merger
- A proposal to provide a continued and substantial presence in the communities that COLLUS Power serves

- A proposal to provide continued and enhanced support for the interests of the communities COLLUS Power serves
- A proposal to provide continued focus on maintaining and enhancing the competitive distribution rate and cost structure of COLLUS Power

PowerStream is very pleased to have been given the opportunity by COLLUS Power to respond to the RFP and PowerStream strongly believes in the strategic, operational and financial benefits that its Proposal offers.

NOTE: In PowerStream's Response we have, assuming that we may be the successful proponent, referred to the post closing utility as "COLLUS PowerStream".

B PURCHASE OF SHARES

B.1 *Proposed Payment*

Subject to the Terms and Conditions of a Share Purchase Agreement, the Town of Collingwood would receive total cash consideration of $14,510,170 upon closing. This payment is comprised of:

Sale of 50% Equity of COLLUS Power	$7,300,000
Recapitalization Dividend	$5,500,000
Repayment of Town of Collingwood Note	$1,710,170
TOTAL CASH TO TOWN OF COLLINGWOOD	**$14,510,170**

Upon closing, PowerStream would pay $7.3 million for duly-issued shares evidencing PowerStream's ownership of 50% of the outstanding equity share capital of COLLUS Power.

PowerStream would also facilitate a special recapitalization dividend to be paid immediately prior to closing to recapitalize COLLUS Power to its deemed capital structure, as determined by its Ontario Energy Board ("OEB") defined regulatory rate base, while also maintaining a deemed level of working capital based on the 2011 audited financial statements, as at December 31, 2011. We estimate the amount of the recapitalization dividend to be approximately $5.5 million. If the 2011 audited financial statements are not final, the recapitalization dividend will be estimated based on the unaudited financial statements. If required, upon finalization of the 2011 audited and closing financial statements, a post closing adjustment would be made to reflect the difference between the estimated 2011 results and the closing financial statements.

In addition, as part of its proposal, PowerStream is prepared to offer, if the Town of Collingwood so chooses, that the existing promissory note, payable held by the Town of Collingwood, would be repaid by third party debt facilitated by PowerStream. This would give the Town of Collingwood an additional $1,710,170 as part of the sale of COLLUS Power for a potential total cash distribution to the Town of Collingwood of $14,510,170.

B.2 *Proposed Timing Considerations;* B.3 *Due Diligence Requirements;* B.4 *Pre-Closing Conditions*

If PowerStream is the successful Proponent, a Share Purchase Agreement would be prepared to effect the transaction. Such agreement would contain customary representations and warranties for a transaction of this nature. The Share Purchase Agreement would include a new Shareholder Agreement, which would, among other things, set out the composition of the Board of Directors, Unanimous Consent Items, Objectives and Guiding Principles, and Liquidity Rights. The Share Purchase Agreement will also provide for customary due diligence including, but not limited to: financial systems and record of accounts, inspection of physical plant and related assets, review of audited financial results for the fiscal year 2011, closing financial statements and other related documents, and review of Information and Technical Systems.

B.5 *Representation on Proposed New COLLUS PowerStream Board*

As noted in COLLUS Power's RFP, its the preference is that a majority of Board members on the Board be independent. Consistent with this philosophy, PowerStream proposes the following Board structure:

- 6 person Board of Directors comprised of 3 representatives each from The Town of Collingwood and PowerStream
- 2 co-chairs to be nominated by each Shareholder
- A majority of the representatives from both Shareholders would be independent

The proposed Board of Directors structure, combined with the Shareholders Agreement, would ensure that there is significant local input over the COLLUS PowerStream operations.

B.6 *Proposed Dividend Policy*

PowerStream's Proposal is conditional upon agreement on a new Dividend Policy. In 2010, COLLUS Power did not pay a dividend to its Shareholder. Starting in 2013 COLLUS PowerStream would expect to pay a dividend to its Shareholders. The proposed Dividend Policy is consistent with other dividend policies for regulated entities in Ontario.

Such Policy is based on the philosophy that the purpose of the dividend policy is to provide the Shareholders with a steady income stream from continuing operations while providing COLLUS PowerStream with an appropriate capital structure and working capital level in order to operate as a viable business. The Dividend Policy philosophy would be consistent with the objectives and guiding principles of COLLUS PowerStream.

It is proposed that Dividend amounts would be determined as follows:

- COLLUS PowerStream shall pay a minimum of 50% of annual net income, as dividends, with consideration given to the following:
  - Cash position at the beginning of the year;
  - Working capital requirements for the current year; and,
  - Net capital expenditures required for the current yet.

Based on the forecasted net income for COLLUS PowerStream, and assuming that COLLUS PowerStream earns the regulated rate of return, we anticipate that the net income in 2013 could be in the range of $800,000 to $1,000,000. As per the proposed Dividend Policy, COLLUS PowerStream would therefore pay a dividend of approximately $400,000 to $500,000.

B.7 *Other - Shareholders Agreement Matters*

PowerStream's Proposal is conditional upon the Parties agreeing upon their respective Liquidity Rights to be incorporated in the new Shareholder Agreement. As contemplated in the RFP, the new Shareholder Agreement would provide for certain buy/sell arrangements.

Such arrangements would include:

Any transfer or pledge of shares in COLLUS PowerStream would be prohibited without the written consent of the other Shareholder, provided that the Shareholders Agreement shall include liquidity provisions to be negotiated, such as:

1. In the event that either Shareholder receives a bona fide offer which it desires to accept from an arm's length third party to acquire all of the Shares owned by such Shareholder for cash (an "Offer"), the other Shareholder shall be entitled to a right of first refusal to acquire such Shares at the same price and on the same terms and conditions as set out in the Offer, failing which the Shareholder receiving such Offer shall be entitled to sell its Shares to the third party which made the Offer subject to that third party agreeing to be bound by the Shareholders Agreement;

2. At any time after 2 years from the date of closing, either Shareholder may by written notice to the other institute a buy - sell mechanism by specifying a price per Share and requiring that the recipient Shareholder in its discretion elect either to (i) purchase all of the Shares of the initiating Shareholder, or alternatively (ii) sell all of the Shares of the recipient Shareholder, in each case at the price per Share specified in the initiating notice;

3. At any time after 2 years from the date of closing, Collingwood Utility Services Corp, as the owner of 50% of the outstanding Shares of COLLUS PowerStream, shall be entitled to Put those shares to PowerStream Inc and require that the latter acquire such Shares at a price equal to their fair market value determined by the same valuation approach as was utilized in the purchase by PowerStream Inc. of its initial 50% shareholding in COLLUS PowerStream.

B.8 *Ontario Energy Board*

It is our understanding based on Section 86(2) of the OEB Act which deals with 'Acquisition of Share Control' that, as a result of COLLUS Power Corp and the Town of Collingwood selling 20% or more of their equity in COLLUS Power, a MAADS ("Mergers, Acquisitions, Amalgamation and Divestitures") application to the OEB will be required. This application will follow a process similar to that for a rate application with a newspaper notice, interrogatories from intervenors, written submissions and a written or oral hearing.

MAADs applications are evaluated based on a "no harms test", meaning that the OEB must determine that COLLUS Power and PowerStream customers will be no worse off as a result of the transaction. Although this may appear simple, the application, the subsequent additional evidence and the Decision are very important strategic information. OEB staff and intervenors will refer back to these documents for years to come.

PowerStream staff has extensive experience in the MAADs process, most recently with the Barrie-PowerStream merger. This application was approved by the OEB at the end of an oral hearing in December 2008.

PowerStream staff will support COLLUS Power staff in the MAADs application by providing strategic advice and assisting with the compilation of evidence, interrogatory responses, submissions, witness training and hearing preparation, as necessary.

C APPENDIX

C.1 *Objectives and Guiding Principles*

PowerStream proposes that the new Shareholder Agreement would set out the Guiding Principles of the Corporation, which would include the following:

- **For Profit Corporation** – COLLUS PowerStream will continue to be a for profit corporation committed to optimize its rate of return and Shareholder value. Subject to OEB approval, the maximum rate of return sought by COLLUS PowerStream from time to time will be achieved as soon as practical

- **Capital Structure** – COLLUS PowerStream will maintain a capital structure consistent with the OEB capital structure mandated by the OEB (currently 60/40 debt to equity).

- **Dividend Policy** – COLLUS PowerStream will plan to pay dividends to its Shareholders approximating 50% of the net income on an annual basis with due consideration given to the cash position at the beginning of the year, working capital requirements and net capital expenditure requirements.

- **Growth** – COLLUS PowerStream will be committed to pursuing significant growth opportunities on a prudent and profitable basis giving due consideration to the geographic footprint, size and location of LDCs in Ontario.

- **Employees** – COLLUS PowerStream will treat all employees in a fair and equitable manner. The Corporation will develop with its employees a shared commitment towards high customer service, improved productivity and workplace safety. The Corporation will ensure that all staff understand the Corporation's business plan and have the skills they require to fulfill their part in achieving those goals.

- **Customers** – The customers of the Corporation are the operational priority of the Corporation. COLLUS PowerStream will provide a reliable, effective and efficient electricity distribution system.

- **Community and stakeholders** – COLLUS PowerStream will play a significant role in the local communities in which it operates. COLLUS PowerStream will act as a good corporate citizen and a facilitator of economic development in the communities it services.

This is Exhibit "J" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)
Norman Turnbull

VERIDIAN
CORPORATION

Our Vision

We will be unsurpassed in providing innovative energy solutions that are the cornerstone for creating the sustainable communities of tomorrow.

November 16, 2011

Proposal Submitted in Response to Request for Proposal for a Strategic Partnership with COLLUS Power Corp.

SUBMISSION - PART ONE

SECTION 3.1 - PURCHASE OF SHARES

Veridian Corporation
55 Taunton Rd, Ajax
Ontario, L1T 3V3

On behalf of Veridian, we are pleased to offer this response to the COLLUS Power Corp Request for Proposal. Our non-binding proposal meets the requirements set by the Request for Proposal and remains in effect from November 16, 2011 until January 15, 2012, subject to earlier termination as set forth in Section 2.3 of this proposal.

IMPORTANT NOTICE

This document contains technical, commercial and financial information that is being supplied in confidence to COLLUS Power Corp. and the Town of Collingwood solely for its use in evaluating this document. Given the significant resources Veridian has invested in developing the information and its proprietary value, the disclosure of the information could significantly prejudice the competitive position of Veridian, result in undue loss to it and the unjust enrichment of others. The reproduction and use of this document for any purpose other than the Town of Collingwood's and/or COLLUS Power Corp.'s evaluation without the prior written consent of Veridian is strictly prohibited. The disclosure of this document for any purpose is strictly prohibited and Veridian will object to and seek an appropriate order to prevent such disclosure.

Veridian Corporation's Contact Details:

Mr. Michael Angemeer
President and CEO
Veridian Corporation
55 Taunton Road E
Ajax, ON L1T 3V3

Phone: 905-427-9870 (Ext. 2200)
Fax: 905-619-0210
Email: mangemeer@veridian.on.ca

Mr. David Clark
Executive Vice President Corporate Services
Veridian Corporation
55 Taunton Road E
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3.0 Proposal Scope and Response

3.1 Purchase of Shares

3.1.1 Proposed Payment for up to 50% of the Shares of COLLUS

Veridian has determined based upon its due diligence to date and subject to further discussion with COLLUS and the Town regarding the capitalization of COLLUS that it is prepared to pay **$6,500,000** in consideration of the acquisition of 50% of the shares of COLLUS. This offer proposes additional proceeds to COLLUS and the Town which are set forth in Section 3.1.7.

3.1.2 Terms of Payment

Veridian proposes that the form of consideration for this transaction be cash.

At closing, Veridian will pay a portion of the purchase consideration in the sum of **$250,000 (the "Holdback")** to the Town solicitors, to be held by them in escrow pursuant to the terms of an escrow agreement. Subject to the escrow agreement, the Holdback shall be held by the Town's solicitors until such time as the closing Balance Sheet, prepared in accordance with and by accountants appointed by the parties (Veridian and the Town), of COLLUS has been approved by Veridian.

3.1.3 Proposed timing considerations

At the September 12, 2011 introductory meeting we were advised by the COLLUS SPTT that the timing plan was for the Town's Municipal Council to make a decision on this proposed transaction on December 19, 2011 and work towards a transaction close date of April 2, 2012. Veridian does not identify any problems with meeting this timeline should Veridian be accepted as the successful proponent for this transaction.

3.1.4 Pre-closing Conditions

As conditions precedent to closing, the purchaser, Veridian will require:

- satisfactory due diligence by Veridian;
- that the net book value of COLLUS at the closing date is not less than the net book value of COLLUS as disclosed in the audited financial statements of COLLUS as at December 31, 2010;
- that no transfer tax or amounts shall be payable or claimed to be due and payable in connection with the transaction;
- approval of the Ontario Energy Board pursuant to Section 86 of the *Ontario Energy Board Act, 1998* (the "Act");
- compliance by COLLUS with all applicable laws including without limitation the Affiliate Relationships Code (the "ARC") and Section 71 of the Act
- finalization of a shareholders' agreement, escrow agreement and related documents on terms acceptable to both parties;
- Veridian Board approval of the proposed transaction;

- no material change in the business of COLLUS prior to closing;
- the continuation of business of COLLUS during the period between execution of the share purchase agreement and closing in the ordinary course; and
- that all representations and warranties contained in the purchase agreement are true and accurate as of the closing date.

3.1.5 Proposed Representation on COLLUS's Board of Directors.

Veridian is prepared to consider any reasonable structure for representation on the Board of Directors of COLLUS. One possible structure that would be acceptable to Veridian would be for two members to be appointed by the Town and two members to be appointed by Veridian.

It is specified within the RFP document that there is a preference for a majority of the board members to be independent. As neither shareholder of COLLUS would hold more than 50% of the shares, the structure as described above would result in a Board of Directors where all directors would be deemed to be independent under the Ontario Energy Board Affiliate Relationships Code. In any event, and to reiterate, Veridian is willing to consider other possible and reasonable governance structures.

3.1.6 Philosophy or guiding principles for determination of annual dividends paid to the shareholders

Veridian has determined its dividend policy using the following guidelines:

- all legal and financial covenants with borrowers must be complied with;
- prior to declaring dividends, funds from operations must be sufficient to meet capital expenditure requirements and debt repayment obligations;
- debt levels should not significantly exceed deemed debt levels as set out by the Ontario Energy Board;
- rate applications should be made that target income that would earn a regulated rate of return for the shareholder; and
- to provide the shareholder with as much certainty as possible for revenue projections, a plan for fixed dividend payments to shareholders should be established by the board or directors. The board of directors will confirm this payment annually and consider dividends in excess of this amount if earnings, financial position and projected cash requirements support the payment of additional dividends.

Veridian would support this same philosophy and guiding principles be used for the dividend policy of COLLUS, subject to further discussion with the Town

3.1.7 Other considerations including any proposed capital structure in shareholders' agreement matters. The shareholders' agreement will require the inclusion of buy-sell arrangements to include both right of first refusal and shotgun provisions.

Veridian acknowledges and supports the inclusion of both right of first refusal and shotgun provisions within the proposed COLLUS shareholders' agreement. Veridian also proposes that there be additional protection for shareholders through the inclusion of a piggyback provision.

Veridian would require that the COLLUS shareholders' agreement define certain matters that the COLLUS board shall not authorize without shareholder approval.

Veridian would discuss and agree with the Town on matters that would require shareholder approval. On a preliminary basis, Veridian considers that the following matters would be subject to shareholder approval:

- changing the name of COLLUS;
- creating new classes of shares;
- amending the articles;
- making, amending or repealing any by-laws of COLLUS;
- amalgamating COLLUS with another entity;
- winding up, arrangement or dissolution of COLLUS;
- applying to continue the business of COLLUS under the laws of another jurisdiction;
- any action that requires shareholder approval under any statute;
- issuing any shares of any class or any securities convertible to any shares of any class of COLLUS;
- redeem or purchase any outstanding shares of any class of COLLUS;
- acquire an electricity distribution business;
- dispose, lease or sell any part of the electricity distribution business of COLLUS which would have a financial impact greater than10% of the book value of COLLUS and its subsidiaries on a consolidated basis at the last completed financial year end;
- any changes to the business activity of COLLUS;
- any changes to the dividend policy of COLLUS;
- any changes to the return on equity policy of COLLUS;
- any changes to director compensation or benefits of COLLUS;
- any changes to the donation or sponsorship policy of COLLUS; and
- grant security for or guarantee or otherwise become liable for any debt liability or obligation or any person other than a subsidiary of COLLUS.

Veridian notes that the current debt level within COLLUS is relatively thin. The debt to capitalization level as at December 31, 2010 is approximately 36%. To maximize return on equity, Veridian would require a Return on Equity Policy that would optimize shareholder returns. A more efficient capitalization structure would improve shareholder investment returns. Veridian proposes that COLLUS operate with a debt structure closer to the Ontario Energy Board deemed capital structure being 60% debt to 40% equity. Veridian estimates that additional debt of $4 million could be managed within the COLLUS capital structure. Following the issue of this debt, each COLLUS shareholder would receive a special dividend of $2 million.

Veridian acknowledges that it is the intent of the Town to call its demand note payable by COLLUS in the amount of $1,710,170. Veridian supports and would require as a condition of this proposal that the note payable to the Town be refinanced with third party debt. The Town would therefore receive the following proceeds as part of this proposed transaction:

Sale of 50% of COLLUS Shares to Veridian	$ 6,500,000
Special Partnership Re-capitalization Dividend	2,000,000
Repayment of COLLUS Promissory Note	1,710,170
Total Proceeds from Transaction	$10,210,170

3.1.8 Actions required to satisfy the Ontario Energy Board's Merger, Acquisitions, Amalgamations and Divestiture (MADD) provisions.

Under section 86(2) (a) of the Act, an application is required for leave for a person to acquire voting securities that will exceed 20% of a distributor or transmitter. Veridian would make application to the Ontario Energy Board for such leave upon concluding a Share Purchase Agreement between Veridian and the Town. Veridian is familiar with the MAAD application process and has successfully completed the process for each acquisition and merger transaction it has been involved in. Veridian would provide all necessary documentation related to Veridian in support of the application. Documentation and information would be required from COLLUS to complete the application.

THE UNDERSIGNED HEREBY agrees to be bound by the terms of this non-binding offer.

Dated at ______________ this ________ day of **November, 2011**.

Per: VERIDIAN CORPORATION
Name: Michael Angemeer
Title: President and CEO

I have the authority to bind the Corporation.

This is Exhibit "K" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)
Norman J. C. McBee

Comparison of Proposals - Financial Considerations

Further clarification required | Key areas of difference / significance

Business Issue	Hydro One	Powerstream	Horizon Utilities	Veridian
Binding / Non-binding	Non-binding	Non-binding	Non-binding	Non-binding
Exclusivity	Yes		90 day offer, extendible	
Shares	Up to 50% of the common shares of Collus Power; would consider lower share % with price adjustment	50% of shares of Collus Power	50% of shares of Collus Power (Would also be interested in acquiring a share interest in Collus Solutions and possibly Collus Utility Services)	50% of shares of Collus Power
Share Purchase Price	$13.6 million for a 50% share interest	$7.3 million for a 50% share interest	$6.5 million to $8.5 million Assume $7.5 million for analysis	$6.5 million for a 50% share interest ($250K holdback)
Unassumed Liabilities	$4.112 million of unassumed liabilities	$1.412 million of unassumed liabilities	No unassumed liabilities (confirm)	No unassumed liabilities (confirm)
Net Share Purchase Price	$9.488 million for shares	$5.888 million for shares	$7.5 million for shares	$6.5 million for shares
Recapitalization	Recapitalization to 60% / 40% debt to equity Borrow $8.1 million of new debt $3.2 million dividend to Town $3.2 million dividend to Hydro One $1.71 million to repay shareholder loan	Recapitalization to 60% / 40% debt to equity Borrow $7.2 million of new debt $5.5 million pre-closing dividend to Town $0 million dividend to Powerstream $1.71 million to repay shareholder loan	Recapitalization to 60% / 40% debt to equity Assumed $5.7 million of new debt $2.0 million dividend to Town $2.0 million dividend to Horizon Utilities $1.71 million to repay shareholder loan	Recapitalization to 60% / 40% debt to equity Borrow $5.7 million of new debt $2.0 million dividend to Town $2.0 million dividend to Veridian $1.71 million to repay shareholder loan
Existing Shareholder Loan	$1.71 million payout	$1.71 million payout, option of the Town	$1.71 million payout	$1.71 million payout
Total cash consideration to the Town of Collingwood	$14.398 million in cash ($13.6 million + $3.2 million + $1.71 million less $4.112 million of unassumed liabilities)	$13.098 million in cash ($7.3 million + $5.5 million + $1.71 million less $1.412 million of unassumed liabilities)	$11.21 million in cash ($7.5 million + $2.0 million + $1.71 million less $0 million of unassumed liabilities) High end of range adds up to $1.0 million	$10.21 million in cash ($6.5 million + $2.0 million + $1.71 million less $0 million of unassumed liabilities)
NBV of 50% share interest (Higher is better, less debt)	$4,457,500.00 Extra value of $900K to $1.35 million (1.5X) due to lower leverage)	$3,557,500.00	$3,601,500.00	$3,601,500.00
Closing Date	Upon OEB approval	Upon OEB approval MADD application required	Upon OEB approval MADD application required	Proposed closing date of April 2, 2012 Subject to OEB approval and MADD
Future Dividend Policy	Pay dividends in profitable years Board of Directors to make decision based on cash needs etc.	Dividend policy to be determined based on policies of other LDCs Expect to pay dividends in 2013 forward Expect to pay out 50% of future net income, subject to sufficient net working capital, capex needs etc. Estimate of $400K to $500 (100% basis) of dividends paid in 2013	Adopt Horizon dividend policy Dividends up to 60% of annual net income Board of Director decision based on financial prudence	Dividend policy similar to that of Veridian Board approval of dividends based on various factors and ability to pay a dividend Need to create a Return on Equity Policy to optimize shareholder returns
Governance	Board of Directors comprised of 20% Collingwood 20% Hydro One 60% Independents	Board of Directors comprised of 50% Collingwood 50% Powerstream Majority are independents Two co-chairs	Board of Directors comprised of 50% Collingwood 50% Powerstream Majority are independents 4 or 6 directors	Board of directors comprised of 2 members appointed by each of the Town and Veridian These directors would be independent
Transfer Tax	Intention is for no transfer tax to be triggered on the transaction			Intention is for no transfer tax to be triggered on the transaction

Business Issue	Hydro One	Powerstream	Horizon Utilities	Veridian
Employee Issues	Presumably no change to Collus employees Collus Solutions employees ???	Presumably no change to Collus employees Collus Solutions employees ???	Presumably no change to Collus employees Acquire Collus Solutions employees	Presumably no change to Collus employees Collus Solutions employees ???
Base Offer	Assumes $17.9 million rate base	Work to closing December 31, 2011		Closing NBV not less than Dec 31, 2010 NBV
Closing Adjustments	Some closing adjustments TBD	balance sheet		
Legal conditions precedent				
IFRS compliance	With no major change in FS			
Due diligence		Satisfactory due diligence	Satisfactory due diligence/ mgmt discussions	Satisfactory due diligence
Shareholder Agreement	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated
Share Purchase Agreement	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated
Reps and warranties	Customary items	Customary items		
Outstanding litigation	No outstanding litigation			
Approvals	Town approval, Hydro One Board	Town approval, Powerstream Board	Town approval, Horizon Board	Town approval, Veridian Board
Mearie claims	Not assuming pre-closing claims			
Normal operations	No material change in business			No material change in business
Financial conditions precedent				
Regulatory liabilities	Nominal net regulatory liabilities			
Rate base requirement	$17.9 million minimum at Closing			
Working capital	Silent	Have deemed working capital ratio at closing	Appropriate level of WC / cash at closing	
Pension / OPEB liabilities				
Assets	Unencumbered at Closing			
Mearie obligations	No Mearie obligations			
Water liabilities	Not accepted			
Future rates of Collus	Keep rates as low as possible No harmonization of rates/separate company 2013 rate filing at maximum allowable return on equity	Keep rates as low as possible No harmonization of rates as Collus will be a separate company	Keep rates as low as possible Seek increased investment value for shareholders Horizon has low OMA costs per customer; However, no rate harmonization of rates as Collus will be a separate company	Keep rates as low as possible Need to create a Return on Equity Policy to optimize shareholder returns No harmonization of rates/separate company
Participation in future growth	Assist in organic growth of Collus Silent on approach to participating in future LDC acquisitions	Assist in organic growth of Collus Silent on approach to participating in future LDC acquisitions	Silent	Silent
Exit strategy	Right of first refusal to Hydro One	Liquidity rights to be negotiated and included in Shareholders Agreement Right of first refusal to both Parties Shot-gun clause begins two years after closing Town of Collingwood will have right to put shares to Powerstream at FMV calculated on same basis as initial transaction	Right of first refusal to both Parties Other liquidity clauses to be negotiated	Liquidity rights to be negotiated and included in Shareholders Agreement Right of first refusal to both Parties Also include a shot-gun provision and a piggy-back provision
Shared services / relationships	To be determined	To be determined Service Level Agreement to be negotiated	To be determined Need to consider management services to Water / Wastewater utility if acquire Collus Solutions; disentangle from water	To be determined
Collus Solutions	Can be included if appropriate		Ideally include Collus Solutions in the transaction with merger after closing	
Transaction Costs	Each party pays own			
Other matters				
Community Support	Yes - various financial support 20 jobs transferred to Collingwood	Town of Collingwood Community Fund - $25,000		

CPS0002668

Strictly Private and Confidential

Collus Power Corp.
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

Schedule 1

Hydro One Proformas

		Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet		
ASSETS								
Current Assets								
Cash	$	2,923	2,550	-	(10)	2,540		
Other current assets		8,528	8,029		-	8,029		
		11,451	10,579	-	(10)	10,569		
Property, plant and equipment		12,764	13,007		-	13,007		
Goodwill		277	277		-	277		
Intangible - software		278	278		-	278		
Future taxes recoverable		157	157		-	157		
		24,927	24,298	-	(10)	24,288		
LIABILITIES AND SHAREHOLDER'S EQUITY								
Current Liabilities								
Accounts payable and accruals		7,384	6,634		-	6,634		
Customer deposits, current		431	331		-	331		
Income taxes payable		-	-		-	-		
		7,815	6,965	-	-	6,965	17,046	
Employee future benefit costs		308	308		-	308		
Long-term net regulatory liabilities		1,412	1,412	(1,412)	-	-		
New financing		-	-		8,100	8,100		
Note payable to Town of Collingwood		1,710	1,710		(1,710)	-		
Long-term debt - Ontario Infrastructure		2,900	2,700	(2,700)	-	-		Could assume same debt level as PowerStream (900K)
		14,145	13,095	(4,112)	6,390	15,373		
Shareholder's Equity	$	10,782	11,203	4,112	(6,400)	8,915		
			1,710					
Town's net investment			12,913					
				Debt	8,100	47.6%		
				Equity	8,915	52.4%		
					17,015	100.0%		

	NBV	Paid to Town	
Shares (50%)	-	13,600	
Less: Unassumed liabilities	(4,112)	(4,112)	
	7,658	9,488	
Post-closing dividend	3,200	3,200	
Note payable	1,710	1,710	
Cash proceeds	8,456	14,398	
Remaining shares (50%)	4,458	6,686	(*)
Total proceeds	12,913	21,084	

(*) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

Collus Power Corp.
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

Schedule 2

PowerStream Proformas

	Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet	
ASSETS						
Current Assets						
Cash	$ 2,923	2,550	-	(10)	2,540	
Other current assets	8,528	8,029		-	8,029	
	11,451	10,579	-	(10)	10,569	
Property, plant and equipment	12,764	13,007		-	13,007	
Goodwill	277	277		-	277	
Intangible - software	278	278		-	278	
Future taxes recoverable	157	157		-	157	
	24,927	24,298	-	(10)	24,288	
LIABILITIES AND SHAREHOLDER'S EQUITY						
Current Liabilities						
Accounts payable and accruals	7,384	6,634		-	6,634	
Customer deposits, current	431	331		-	331	
Income taxes payable	-	-		-	-	
	7,815	6,965	-	-	6,965	17,046
Employee future benefit costs	308	308		-	308	
Long-term net regulatory liabilities	1,412	1,412	(1,412)	-	-	
New financing	-	-		7,200	7,200	
Note payable to Town of Collingwood	1,710	1,710		(1,710)	-	
Long-term debt - Ontario Infrastructure	2,900	2,700	-	-	2,700	
	14,145	13,095	(1,412)	5,490	17,173	
Shareholder's Equity	$ 10,782	11,203	1,412	(5,500)	7,115	
		1,710				
Town's net investment		12,913				
			Debt	9,900	58.2%	
			Equity	7,115	41.8%	
				17,015	100.0%	

Adjust to deemed working capital level at closing

	NBV	Paid to Town	Premium to NBV
Shares (50%)		7,300	
Less: Unassumed liabilities	(1,412)	(1,412)	
	3,558	5,888	
Pre-closing dividend	5,500	5,500	
Note payable	1,710	1,710	
Cash proceeds	9,356	13,098	3,743
Remaining shares (50%)	3,558	5,336 (*)	
Total proceeds	12,913	18,434	5,521

(*) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

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Collus Power Corp. **Schedule 3**
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

Horizon Proformas

		Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet	
ASSETS							
Current Assets							
Cash	$	2,923	2,550	-	(10)	2,540	
Other current assets		8,528	8,029		-	8,029	
		11,451	10,579	-	(10)	10,569	
Property, plant and equipment		12,764	13,007		-	13,007	
Goodwill		277	277		-	277	
Intangible - software		278	278		-	278	
Future taxes recoverable		157	157		-	157	
		24,927	24,298	-	(10)	24,288	
LIABILITIES AND SHAREHOLDER'S EQUITY							
Current Liabilities							
Accounts payable and accruals		7,384	6,634		-	6,634	
Customer deposits, current		431	331		-	331	
Income taxes payable		-			-	-	
		7,815	6,965	-	-	6,965	17,046
Employee future benefit costs		308	308	-	-	308	
Long-term net regulatory liabilities		1,412	1,412		-	1,412	
New financing		-			5,700	5,700	
Note payable to Town of Collingwood		1,710	1,710	-	(1,710)	-	
Long-term debt - Ontario Infrastructure		2,900	2,700	-	-	2,700	
		14,145	13,095	-	3,990	17,085	
Shareholder's Equity	$	10,782	11,203		(4,000)	7,203	
			1,710				
Town's net investment			12,913				

Debt	8,400	53.8%
Equity	7,203	46.2%
	15,603	100.0%

	NBV	Paid to Town	
Shares (50%)	-	7,500	(Range)
Less: Unassumed liabilities	-	-	
	5,602	7,500	
Post-closing dividend	2,000	2,000	(Assumed)
Note payable	1,710	1,710	
Cash proceeds	9,312	11,210	
Remaining shares (50%)	3,602	5,402	(*)
Total proceeds	12,913	16,612	

(*) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

Strictly Private and Confidential

Collus Power Corp.
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

Schedule 4

Veridian Proformas

		Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet	
ASSETS							
Current Assets							
Cash	$	2,923	2,550	-	(10)	2,540	
Other current assets		8,528	8,029		-	8,029	
		11,451	10,579	-	(10)	10,569	
Property, plant and equipment		12,764	13,007		-	13,007	
Goodwill		277	277		-	277	
Intangible - software		278	278		-	278	
Future taxes recoverable		157	157		-	157	
		24,927	24,298	-	(10)	24,288	
LIABILITIES AND SHAREHOLDER'S EQUITY							
Current Liabilities							
Accounts payable and accruals		7,384	6,634		-	6,634	
Customer deposits, current		431	331		-	331	
Income taxes payable		-			-	-	
		7,815	6,965	-	-	6,965	17,046
Employee future benefit costs		308	308		-	308	
Long-term net regulatory liabilities		1,412	1,412		-	1,412	
New financing		-			5,700	5,700	
Note payable to Town of Collingwood		1,710	1,710		(1,710)	-	
Long-term debt - Ontario Infrastructure		2,900	2,700	-	-	2,700	
		14,145	13,095	-	3,990	17,085	
Shareholder's Equity	$	10,782	11,203	-	(4,000)	7,203	
			1,710				
Town's net investment			12,913				

Debt	8,400	53.8%
Equity	7,203	46.2%
	15,603	100.0%

	NBV	Paid to Town	
Shares (50%)	-	6,500	
Less: Unassumed liabilities	-	-	
	5,602	6,500	
Post-closing dividend	2,000	2,000	
Note payable	1,710	1,710	
Cash proceeds	9,312	10,210	
Remaining shares (50%)	3,602	5,402	(*)
Total proceeds	12,913	15,612	

(*) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

This is Exhibit "L" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)
Norman J. Ciesielski

Message

From: Rockx, John [jrockx@kpmg.ca]
Sent: 11/27/2011 6:24:23 PM
To: rick.stevens@hydroone.com
CC: Ed Houghton [ehoughton@collus.com]
Subject: FW: Collus Power

Rick:

KPMG has been asked by Collus Power to seek clarification of a few items in respect of Hydro One's financial offer for a 50% share interest in Collus Power.

Here are the issues requiring clarification:

1. Hydro One has offered $13.6 million for a 50% share / equity interest in Collus Power. Can you confirm / clarify whether this share offer anticipates the inclusion of all long-term liabilities (i.e. employee future benefits, the long-term net regulatory liability, Town note payable and Ontario Infrastructure debt) without any adjustment?
2. Hydro One has also indicated the following assumptions were built into its pricing structure – a 2011 rate base of $17.9 million and an immaterial net balance of regulatory assets and liabilities. Can you comment on the quantification of, and the impact of, these assumptions on the proposed pricing structure

We have attached a copy of the December 31, 2010 audited financial statements of Collus Power to assist in your response.

We look forward to your response on these matters.

Best Regards,

John Rockx, CA, CBV
KPMG Transaction Advisory Services
21 King Street West, Suite 510
Hamilton, Ontario L8P 4W7
Tel: 905-523-2247
Fax: 905-523-2200
Email: jrockx@kpmg.ca

This is Exhibit "M" referred to in
the Affidavit of John Rockx
sworn June 4, 2019

Commissioner for Taking Affidavits
(or as may be)
NORMAN J. KIMBEE

COLLUS POWER CORP.

FINANCIAL STATEMENTS
DECEMBER 31, 2010

CONTENTS

GAVILLER & COMPANY LLP
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Shareholder of **COLLUS Power Corp.**:

Report on the Financial Statements

We have audited the accompanying financial statements of **COLLUS Power Corp.**, which comprise the balance sheet as at December 31, 2010, and the income and retained income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **COLLUS Power Corp.** as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gaviller & Company LLP

Licensed Public Accountants
Collingwood, Ontario
May 13, 2011

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2010	2009
	$	$
Assets		
Current		
Cash	2,922,832	1,388,603
Accounts receivable	4,690,260	3,480,409
Unbilled revenue	3,343,566	3,024,852
Taxes recoverable	46,486	102,231
Prepaid expenses	130,846	74,050
Inventory	317,756	297,789
	11,451,746	8,367,934
Property, plant and equipment (Note 6)		
Lands	90,439	90,439
Buildings	494,142	255,668
Distribution stations	5,219,952	3,857,578
Distribution lines	20,475,695	19,596,227
Distribution transformers	5,184,349	5,020,605
Distribution meters and services	1,767,391	1,565,562
Load control	1,521,439	1,459,235
Other	1,991,042	2,838,992
Contributions in aid of construction (Note 3)	(9,636,769)	(9,354,806)
	27,107,680	25,329,500
Less accumulated amortization	(14,344,099)	(13,405,294)
	12,763,581	11,924,206
Other		
Goodwill	276,704	276,704
Intangible asset - computer software (net of accumulated amortization of $232,256 (2009 - $130,189))	278,072	338,117
Investment in Utility Collaborative Services Inc. - at cost	100	100
Future taxes recoverable	156,997	178,811
	711,873	793,732
	24,927,200	21,085,872

Approved by directors:

______________________ Director

______________________ Director

See accompanying notes to the financial statements

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2010	2009
	$	$
Liabilities		
Current		
Accounts payable and accruals (Notes 3 and 9)	7,384,308	7,350,989
Customer deposits	430,736	355,081
Current portion of long-term (Note 5)	200,000	-
	8,015,044	7,706,070
Long-term (Note 5)	4,410,170	1,710,170
Employee future benefits (Note 12)	308,029	281,085
Other (Note 4)	1,411,987	1,005,314
Total liabilities	14,145,230	10,702,639
Shareholder's equity		
Capital stock		
Authorized		
Unlimited common shares		
Issued		
5,101,340 common shares	5,101,340	5,101,340
Miscellaneous paid in capital	2,966,014	2,966,014
Retained income	2,714,616	2,315,879
Total shareholder's equity	10,781,970	10,383,233
	24,927,200	21,085,872

See accompanying notes to the financial statements

COLLUS POWER CORP.

INCOME AND RETAINED INCOME STATEMENT
FOR THE YEAR ENDING DECEMBER 31

	2010	2009
	$	$
Revenue		
Sale of power	25,971,849	24,064,556
Distribution services	5,437,389	5,126,519
	31,409,238	29,191,075
Cost of power		
Power purchased	25,971,849	24,064,556
Distribution income (17.3%, 2009 - 17.6%)	5,437,389	5,126,519
Other revenue	556,865	488,295
	5,994,254	5,614,814
Operating and maintenance expenses (Note 9)		
Distribution and transmission	1,883,667	1,903,185
Billing and collecting	1,154,122	821,070
General administration	1,244,511	1,190,578
Amortization	967,205	1,004,161
	5,249,505	4,918,994
Operating income	744,749	695,820
Other expense		
Interest (Note 5)	249,634	179,149
Net income before taxes	495,115	516,671
Provision for (recovery of) taxes		
Current	74,564	100,906
Future	21,814	(32,937)
	96,378	67,969
Net income for the year	398,737	448,702
Retained income, beginning of year	2,315,879	1,867,177
Retained income, end of year	2,714,616	2,315,879

See accompanying notes to the financial statements

COLLUS POWER CORP.

CASH FLOW STATEMENT
FOR THE YEAR ENDING DECEMBER 31

	2010	2009
	$	$
Cash flows from (for):		
Operating activities		
Net income	398,737	448,702
Items not requiring funds		
Amortization	1,150,939	1,112,226
Future taxes	21,814	(32,937)
Gain on disposition of property, plant, and equipment	(8,852)	-
	1,562,638	1,527,991
Changes in		
Accounts receivable	(1,209,851)	347,127
Unbilled revenue	(318,714)	445,532
Inventory	(19,967)	(42,658)
Accounts payable and accruals	33,319	(1,335,717)
Prepaid expenses	(56,795)	(18,316)
Taxes payable	55,745	78,488
Customer deposits	75,655	(191)
Employee future benefits	26,944	25,976
Other liabilities	406,673	(2,709,369)
	555,647	(1,681,137)
Investing activities		
Acquisition of property, plant and equipment	(1,930,270)	(926,226)
Investment in Utility Collaborative Services Inc.	-	(100)
Proceeds from disposal of property, plant, and equipment	8,852	-
	(1,921,418)	(926,326)
Financing activities		
Repayment of long-term liabilities	(100,000)	(1,117,353)
Issuance of long-term liabilities	3,000,000	-
	2,900,000	(1,117,353)
Change in cash	1,534,229	(3,724,816)
Cash position, beginning of year	1,388,603	5,113,419
Cash position, end of year	2,922,832	1,388,603

See accompanying notes to the financial statements

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

1. Significant accounting policies

The financial statements of the company are the representations of management. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment based on available information. The most significant estimates are included in unbilled revenue and economic evaluations. The financial statements have, in the opinion of management, been properly prepared within the framework of the accounting policies summarized below:

(a) The financial statements of the company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including accounting principles prescribed by the Ontario Energy Board (OEB) through the accounting procedures handbook and directives.

(b) The company's distribution of electricity is subject to rate regulation by the OEB. This rate regulation results in the company accounting for specific transactions differently than it would if it was not rate-regulated. The differences in accounting treatment give rise to regulatory assets or liabilities. These balances will be recovered from or returned to customers by increases or decreases to rates in the future.

The electricity rates charged by the company are approved on an annual basis using performance-based regulation. For the rate year ending April 30, 2010, the company was authorized to earn 8.01% on equity and 6.25% on debt with a deemed debt to equity ratio of 1:0.89.

(c) The company recognizes revenue on an accrual basis, which includes unbilled revenue, which is an estimate of electricity consumed by customers to the end of year but not yet billed by the company.

(d) Property, plant and equipment are stated at cost. Contributions received in aid of construction of property, plant and equipment are capitalized and amortized at the same rate as the related asset. Property, plant and equipment are amortized over their estimated useful lives, using the straight-line method. Assets constructed by others and donated to the company are recorded at cost to the developer. Amortization rates are 4% except as follows:

Buildings	2%
Distribution stations	3.33%
Other	6.67% to 20%

(e) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.

(f) Taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future tax liabilities or assets. Future tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

1. Significant accounting policies (continued)

(g) The company's inventory typically consists of poles and wire, unless purchased for specific capital projects in process or as spare units. Items for specific capital projects, spare transformers and meters are recorded as capital assets. The company's inventory is valued using the moving average cost method and is recorded at the lower of cost and net realizable value.

(h) The company accounts for financial instruments using Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861 - "Financial Instruments - Disclosure and Presentation" which establishes the requirement of disclosure of risks associated with financial instruments and the management of those risks.

(i) Intangible assets

Intangible assets are externally acquired and are stated at cost. Amortization is provided on a straight-line basis over their estimated useful service lives at the following annual rates:

Computer software	20%

2. Future accounting pronouncements

The Accounting Standards Board has decided that rate regulated publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2012. The transition period is expected to begin for fiscal years beginning on or after January 1, 2011. The impact of these changes cannot be estimated at this time.

Phase 1 of the company's IFRS implementation was complete as of October 2009. Phase 1 identified the company's needs with regard to the new standards and set out recommendations to meet those needs. Phase 2 was still in progress as of the 2010 audit report date, which includes reclassifying property, plant, and equipment to comply with IFRS.

3. Contributions in aid of construction

Under the terms of the Distribution System Code, the company cannot charge a developer more than the difference between the present value of the projected capital costs and on-going maintenance costs for the equipment and the present value of the projected revenue for distribution services provided by those facilities. These amounts are determined by an economic evaluation study of the project. The company estimates that it will return $365,610 (2009 - $365,610). The liability is included in accounts payable. The balance of $9,636,769 (2009 - $9,354,806) is recorded as a reduction of the cost of property, plant, and equipment.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

4. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2010	2009
	$	$
Deferred charges-service area expansion (net of $98,899 accumulated amortization, (2009 - $90,744)	106,015	114,170
Regulatory assets		
Other regulatory assets	225,179	66,530
Smart meter variance	1,838,379	1,927,304
Total regulatory assets	2,063,558	1,993,834
Regulatory liabilities		
Purchased power cost variance	(938,916)	(2,562,776)
Regulatory recoveries	(2,562,854)	(507,194)
Other regulatory liabilities	(79,790)	(43,348)
Total regulatory liabilities	(3,581,560)	(3,113,318)
Net liability	(1,411,987)	(1,005,314)

Other regulatory assets consist of Hydro One incremental capital and pension costs from OMERS not recovered in rates. This account includes annual carrying charges accrued at the OEB quarterly interest rate in effect.

In 2010 the OEB approved the disposition of power variances from December 31, 2008. The liability is being paid back through a reduction of customer's monthly billings over a period of three years, beginning in May 2010.

The purchased power cost variance represents variances in the purchase and sale of electricity which will be recovered from or returned to customers by increases or decreases to rates in the future. Purchased power cost variance includes annual carrying charges accrued at the OEB quarterly interest rate in effect.

The smart meters regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario by 2011. The company launched its project shortly following the Province of Ontario's announcement in 2006. As at December 31, 2010, the company had installed approximately 15,000 smart meters. The company is currently authorized to collect $2.00 per residential customer per month. Carrying charges are accrued on this account for 2007 and later years at the OEB quarterly interest rate in effect. As at December 31, 2010, smart meter capital expenditures totaled $2,414,022 (2009 - $2,257,264) which is offset by revenues of $575,644 (2009 - $262,021) and accumulated amortization of $215,072 (2009 - $67,939).

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

5. Long-term liabilities

Long-term liabilities consist of the following:

	2010	2009
	$	$
4.67% loan payable to the Ontario Infrastructure Projects Corporation, secured by a General Security Agreement over all of the assets of the company. Payments are to be made semi-annually to April 15, 2025.	2,900,000	-
7.25% note payable to the Town of Collingwood, no set terms of repayment	1,710,170	1,710,170
	4,610,170	1,710,170
Current portion	(200,000)	-
	4,410,170	1,710,170

Principal payments in the next year are as follows:

	$
2011	200,000
2012	200,000
2013	200,000
2014	200,000
2015	200,000

Included in interest expense is $176,802 (2009 - $129,020) of interest on long-term liabilities.

The company is contingently liable for a letter of credit in the amount of $2,046,656 (2009 - $1,631,702) to meet the prudential requirements of the Independent Electricity System Operator.

6. Property, plant, and equipment

Effective in 2010 and under the direction of the OEB, the company had the option of moving stranded meter costs into the regulatory asset accounts or leave them in property, plant, and equipment. The company decided to keep them in property, plant, and equipment and continue to amortize the stranded meter costs. The balance of stranded meters in property, plant, and equipment is $1,529,891 and the accumulated amortization is $909,545 (2009 - $863,275).

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

7. Financial instruments

The company's financial instruments consist of cash, accounts receivable, unbilled revenue, taxes recoverable, investment in Utility Collaborative Services Inc., accounts payable and accruals, customer deposits, and long-term liabilities. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. Fair value does not vary significantly from recorded value.

8. Tax status

The company is exempt from income tax under section 149 of the Income Tax Act. The company is required to make payments in lieu of taxes calculated on the same basis as the Income Tax Act.

9. Related party transactions

Collingwood Public Utilities Service Board, COLLUS Solutions Corp., and the company are controlled by the council of the Town of Collingwood.

Related party transactions are recorded at their exchange amount and include the following:

	2010	2009
	$	$
Amounts payable to the Collingwood Public Utilities Service Board	(93,479)	(496,809)
Amounts payable to COLLUS Solutions Corp.	(135,797)	(94,769)
Amounts payable to the Town of Collingwood	(1,831,697)	(412,995)
The company is leasing its operations centre from the Collingwood Public Utilities Service Board. The lease has a one year term and is renewable annually. These costs are included in general administration expense.	200,000	200,000
Operating and maintenance expenses include services purchased from COLLUS Solutions Corp.	1,174,677	1,114,125
COLLUS Power Corp. is leasing computer equipment from Collingwood Public Utilities Service Board. This amount is included in the above netted expenses.	117,000	117,000

10. Supplemental cash flow information

Cash receipts and (payments) were as follows:

	2010	2009
	$	$
Interest paid	(221,064)	(179,149)
Interest received	49,997	68,862
Taxes paid	(121,050)	(204,160)
Taxes refunded	102,231	181,742

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

11. Line of credit

The company has a revolving line of credit with CIBC with a credit limit of $500,000. The interest rate is set at prime minus 0.75% per annum. During 2010 the company did not draw on their line of credit.

12. Employee future benefits

The employees of COLLUS Power Corp. participate in the Ontario Municipal Employees Retirement System ("OMERS"). Although the plan has a defined retirement benefit for employees, the related obligation of the company cannot be identified. The OMERS plan has several unrelated participating municipalities and costs are not specifically attributed to each participant. Amounts paid to OMERS during the year totaled $50,626 (2009 - $60,174).

In addition, COLLUS Power Corp. pays certain benefits on behalf of its retired employees. The company recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit obligation at December 31, 2010 of $308,029 and the net periodic benefit cost for 2010 was determined by actuarial valuation using discount rates of 6.0% and was adjusted by management based on new information available. Actuarial valuations will be prepared every second year or when there are significant changes to the workforce.

Information about the company's defined benefit plan is as follows:

	2010	2009
	$	$
Accrued benefit obligation		
Balance at the beginning of period	281,085	255,109
Current service cost for the period	10,157	9,582
Interest cost for the period	20,555	19,409
Actuarial loss	52,235	54,778
Prior period cost	4,531	9,063
Benefits paid for the period	(10,842)	(10,090)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	357,721	337,851
Unamortized actuarial loss	(49,692)	(52,235)
Unamortized prior service cost	-	(4,531)
Balance at end of period	308,029	281,085

	2010	2009
Components of net periodic benefit cost		
Current service cost for the period	10,157	9,582
Interest cost for the period	20,555	19,409
Amortization of actuarial loss	2,543	2,543
Amortization of prior service cost	4,531	4,531
Net periodic benefit cost	37,786	36,065

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

12. Employee future benefits (continued)

The main actuarial assumptions employed for the valuations are as follows:

(a) General inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% in 2010 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2010, of the present value of future liabilities was determined using a discount rate of 6.0%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 4.0%.

(c) Salary levels

Future general salary and wage levels were assumed to increase at 3.3% per annum.

(d) Medical costs

Medical costs were assumed to be 9.0% in 2010 and graded down 0.67% a year until 2015 after which the rate is assumed to increase 5.0% annually.

(e) Dental costs

Dental costs were assumed to increase at 5.0% in 2010 and thereafter.

13. Capital disclosures

The company's main objectives when managing capital are to:

(a) Ensure ongoing access to funding to maintain and improve the electricity distribution system and to ensure that capital needs are met.

(b) Ensure compliance with covenants related to its credit facilities and the Town of Collingwood promissory note.

(c) Ensure that the capital structure is such that the debt to equity structure deemed by the OEB is not exceeded.

As at December 31, 2010, the company's definition of capital includes shareholder's equity and long-term debt. The company's debt to equity ratio as defined by the OEB, as at December 31, 2010 is 1:2.98 (2009 - 1:2.98). There have been no changes in the company's approach to capital management during the year.

The company has met all covenants related to its credit facilities.

14. Comparative information

Certain comparative information has been reclassified to conform with the current year's financial statement presentation.

COLLUS POWER CORP.

FINANCIAL STATEMENTS
DECEMBER 31, 2010

CONTENTS

GAVILLER & COMPANY LLP
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Shareholder of COLLUS Power Corp.:

Report on the Financial Statements

We have audited the accompanying financial statements of **COLLUS Power Corp.** which comprise the balance sheet as at December 31, 2010, and the income and retained income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **COLLUS Power Corp.** as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gaviller & Company LLP
Licensed Public Accountants
Collingwood, Ontario
May 13, 2011

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2010	2009
	$	$
Assets		
Current		
Cash	2,922,832	1,388,603
Accounts receivable	4,690,260	3,480,409
Unbilled revenue	3,343,566	3,024,852
Taxes recoverable	46,486	102,231
Prepaid expenses	130,846	74,050
Inventory	317,756	297,789
	11,451,746	8,367,934
Property, plant and equipment (Note 6)		
Lands	90,439	90,439
Buildings	494,142	255,668
Distribution stations	5,219,952	3,857,578
Distribution lines	20,475,695	19,596,227
Distribution transformers	5,184,349	5,020,605
Distribution meters and services	1,767,391	1,565,562
Load control	1,521,439	1,459,235
Other	1,991,042	2,838,992
Contributions in aid of construction (Note 3)	(9,636,769)	(9,354,806)
	27,107,680	25,329,500
Less accumulated amortization	(14,344,099)	(13,405,294)
	12,763,581	11,924,206
Other		
Goodwill	276,704	276,704
Intangible asset - computer software (net of accumulated amortization of $232,256 (2009 - $130,189))	278,072	338,117
Investment in Utility Collaborative Services Inc. - at cost	100	100
Future taxes recoverable	156,997	178,811
	711,873	793,732
	24,927,200	21,085,872

Approved by directors:

______________________ Director

______________________ Director

See accompanying notes to the financial statements

COLLUS POWER CORP.

BALANCE SHEET
AS AT DECEMBER 31

	2010	2009
	$	$
Liabilities		
Current		
Accounts payable and accruals (Notes 3 and 9)	7,384,308	7,350,989
Customer deposits	430,736	355,081
Current portion of long-term (Note 5)	200,000	-
	8,015,044	7,706,070
Long-term (Note 5)	4,410,170	1,710,170
Employee future benefits (Note 12)	308,029	281,085
Other (Note 4)	1,411,987	1,005,314
Total liabilities	14,145,230	10,702,639
Shareholder's equity		
Capital stock		
Authorized		
Unlimited common shares		
Issued		
5,101,340 common shares	5,101,340	5,101,340
Miscellaneous paid in capital	2,966,014	2,966,014
Retained income	2,714,616	2,315,879
Total shareholder's equity	10,781,970	10,383,233
	24,927,200	21,085,872

See accompanying notes to the financial statements

COLLUS POWER CORP.

INCOME AND RETAINED INCOME STATEMENT
FOR THE YEAR ENDING DECEMBER 31

	2010	2009
	$	$
Revenue		
Sale of power	25,971,849	24,064,556
Distribution services	5,437,389	5,126,519
	31,409,238	29,191,075
Cost of power		
Power purchased	25,971,849	24,064,556
Distribution income (17.3%, 2009 - 17.6%)	5,437,389	5,126,519
Other revenue	556,865	488,295
	5,994,254	5,614,814
Operating and maintenance expenses (Note 9)		
Distribution and transmission	1,883,667	1,903,185
Billing and collecting	1,154,122	821,070
General administration	1,244,511	1,190,578
Amortization	967,205	1,004,161
	5,249,505	4,918,994
Operating income	744,749	695,820
Other expense		
Interest (Note 5)	249,634	179,149
Net income before taxes	495,115	516,671
Provision for (recovery of) taxes		
Current	74,564	100,906
Future	21,814	(32,937)
	96,378	67,969
Net income for the year	398,737	448,702
Retained income, beginning of year	2,315,879	1,867,177
Retained income, end of year	2,714,616	2,315,879

See accompanying notes to the financial statements

COLLUS POWER CORP.

CASH FLOW STATEMENT
FOR THE YEAR ENDING DECEMBER 31

	2010	2009
	$	$
Cash flows from (for):		
Operating activities		
Net income	398,737	448,702
Items not requiring funds		
Amortization	1,150,939	1,112,226
Future taxes	21,814	(32,937)
Gain on disposition of property, plant, and equipment	(8,852)	-
	1,562,638	1,527,991
Changes in		
Accounts receivable	(1,209,851)	347,127
Unbilled revenue	(318,714)	445,532
Inventory	(19,967)	(42,658)
Accounts payable and accruals	33,319	(1,335,717)
Prepaid expenses	(56,795)	(18,316)
Taxes payable	55,745	78,488
Customer deposits	75,655	(191)
Employee future benefits	26,944	25,976
Other liabilities	406,673	(2,709,369)
	555,647	(1,681,137)
Investing activities		
Acquisition of property, plant and equipment	(1,930,270)	(926,226)
Investment in Utility Collaborative Services Inc.	-	(100)
Proceeds from disposal of property, plant, and equipment	8,852	-
	(1,921,418)	(926,326)
Financing activities		
Repayment of long-term liabilities	(100,000)	(1,117,353)
Issuance of long-term liabilities	3,000,000	-
	2,900,000	(1,117,353)
Change in cash	1,534,229	(3,724,816)
Cash position, beginning of year	1,388,603	5,113,419
Cash position, end of year	2,922,832	1,388,603

See accompanying notes to the financial statements

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

1. Significant accounting policies

The financial statements of the company are the representations of management. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment based on available information. The most significant estimates are included in unbilled revenue and economic evaluations. The financial statements have, in the opinion of management, been properly prepared within the framework of the accounting policies summarized below:

(a) The financial statements of the company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including accounting principles prescribed by the Ontario Energy Board (OEB) through the accounting procedures handbook and directives.

(b) The company's distribution of electricity is subject to rate regulation by the OEB. This rate regulation results in the company accounting for specific transactions differently than it would if it was not rate-regulated. The differences in accounting treatment give rise to regulatory assets or liabilities. These balances will be recovered from or returned to customers by increases or decreases to rates in the future.

The electricity rates charged by the company are approved on an annual basis using performance-based regulation. For the rate year ending April 30, 2010, the company was authorized to earn 8.01% on equity and 6.25% on debt with a deemed debt to equity ratio of 1:0.89.

(c) The company recognizes revenue on an accrual basis, which includes unbilled revenue, which is an estimate of electricity consumed by customers to the end of year but not yet billed by the company.

(d) Property, plant and equipment are stated at cost. Contributions received in aid of construction of property, plant and equipment are capitalized and amortized at the same rate as the related asset. Property, plant and equipment are amortized over their estimated useful lives, using the straight-line method. Assets constructed by others and donated to the company are recorded at cost to the developer. Amortization rates are 4% except as follows:

Buildings	2%
Distribution stations	3.33%
Other	6.67% to 20%

(e) Deferred charges - service area expansion costs are being amortized on a straight-line basis over twenty-five years.

(f) Taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future tax liabilities or assets. Future tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

1. Significant accounting policies (continued)

(g) The company's inventory typically consists of poles and wire, unless purchased for specific capital projects in process or as spare units. Items for specific capital projects, spare transformers and meters are recorded as capital assets. The company's inventory is valued using the moving average cost method and is recorded at the lower of cost and net realizable value.

(h) The company accounts for financial instruments using Canadian Institute of Chartered Accountants (CICA) Handbook Section 3861 - "Financial Instruments - Disclosure and Presentation" which establishes the requirement of disclosure of risks associated with financial instruments and the management of those risks.

(i) Intangible assets

Intangible assets are externally acquired and are stated at cost. Amortization is provided on a straight-line basis over their estimated useful service lives at the following annual rates:

Computer software	20%

2. Future accounting pronouncements

The Accounting Standards Board has decided that rate regulated publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for annual reporting purposes for fiscal years beginning on or after January 1, 2012. The transition period is expected to begin for fiscal years beginning on or after January 1, 2011. The impact of these changes cannot be estimated at this time.

Phase 1 of the company's IFRS implementation was complete as of October 2009. Phase 1 identified the company's needs with regard to the new standards and set out recommendations to meet those needs. Phase 2 was still in progress as of the 2010 audit report date, which includes reclassifying property, plant, and equipment to comply with IFRS.

3. Contributions in aid of construction

Under the terms of the Distribution System Code, the company cannot charge a developer more than the difference between the present value of the projected capital costs and on-going maintenance costs for the equipment and the present value of the projected revenue for distribution services provided by those facilities. These amounts are determined by an economic evaluation study of the project. The company estimates that it will return $365,610 (2009 - $365,610). The liability is included in accounts payable. The balance of $9,636,769 (2009 - $9,354,806) is recorded as a reduction of the cost of property, plant, and equipment.

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

4. Other assets (liabilities)

Other assets (liabilities) consist of the following:

	2010	2009
	$	$
Deferred charges-service area expansion (net of $98,899 accumulated amortization, (2009 - $90,744)	106,015	114,170
Regulatory assets		
Other regulatory assets	225,179	66,530
Smart meter variance	1,838,379	1,927,304
Total regulatory assets	2,063,558	1,993,834
Regulatory liabilities		
Purchased power cost variance	(938,916)	(2,562,776)
Regulatory recoveries	(2,562,854)	(507,194)
Other regulatory liabilities	(79,790)	(43,348)
Total regulatory liabilities	(3,581,560)	(3,113,318)
Net liability	(1,411,987)	(1,005,314)

Other regulatory assets consist of Hydro One incremental capital and pension costs from OMERS not recovered in rates. This account includes annual carrying charges accrued at the OEB quarterly interest rate in effect.

In 2010 the OEB approved the disposition of power variances from December 31, 2008. The liability is being paid back through a reduction of customer's monthly billings over a period of three years, beginning in May 2010.

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COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

5. Long-term liabilities

Long-term liabilities consist of the following:

	2010	2009
	$	$
4.67% loan payable to the Ontario Infrastructure Projects Corporation, secured by a General Security Agreement over all of the assets of the company. Payments are to be made semi-annually to April 15, 2025.	2,900,000	-
7.25% note payable to the Town of Collingwood, no set terms of repayment	1,710,170	1,710,170
	4,610,170	1,710,170
Current portion	(200,000)	-
	4,410,170	1,710,170

Principal payments in the next year are as follows:

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2011	200,000
2012	200,000
2013	200,000
2014	200,000
2015	200,000

Included in interest expense is $176,802 (2009 - $129,020) of interest on long-term liabilities.

The company is contingently liable for a letter of credit in the amount of $2,046,656 (2009 - $1,631,702) to meet the prudential requirements of the Independent Electricity System Operator.

6. Property, plant, and equipment

Effective in 2010 and under the direction of the OEB, the company had the option of moving stranded meter costs into the regulatory asset accounts or leave them in property, plant, and equipment. The company decided to keep them in property, plant, and equipment and continue to amortize the stranded meter costs. The balance of stranded meters in property, plant, and equipment is $1,529,891 and the accumulated amortization is $909,545 (2009 - $863,275).

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
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The company is exempt from income tax under section 149 of the Income Tax Act. The company is required to make payments in lieu of taxes calculated on the same basis as the Income Tax Act.

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Operating and maintenance expenses include services purchased from COLLUS Solutions Corp.	1,174,677	1,114,125
COLLUS Power Corp. is leasing computer equipment from Collingwood Public Utilities Service Board. This amount is included in the above netted expenses.	117,000	117,000

10. Supplemental cash flow information

Cash receipts and (payments) were as follows:

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Interest paid	(221,064)	(179,149)
Interest received	49,997	68,862
Taxes paid	(121,050)	(204,160)
Taxes refunded	102,231	181,742

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

11. Line of credit

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12. Employee future benefits

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In addition, COLLUS Power Corp. pays certain benefits on behalf of its retired employees. The company recognizes these post-retirement costs in the period in which the employees rendered the services. The accrued benefit obligation at December 31, 2010 of $308,029 and the net periodic benefit cost for 2010 was determined by actuarial valuation using discount rates of 6.0% and was adjusted by management based on new information available. Actuarial valuations will be prepared every second year or when there are significant changes to the workforce.

Information about the company's defined benefit plan is as follows:

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	$	$
Accrued benefit obligation		
Balance at the beginning of period	281,085	255,109
Current service cost for the period	10,157	9,582
Interest cost for the period	20,555	19,409
Actuarial loss	52,235	54,778
Prior period cost	4,531	9,063
Benefits paid for the period	(10,842)	(10,090)
Projected accrued benefit obligation at end of period as determined by actuarial valuation.	357,721	337,851
Unamortized actuarial loss	(49,692)	(52,235)
Unamortized prior service cost	-	(4,531)
Balance at end of period	308,029	281,085
Components of net periodic benefit cost		
Current service cost for the period	10,157	9,582
Interest cost for the period	20,555	19,409
Amortization of actuarial loss	2,543	2,543
Amortization of prior service cost	4,531	4,531
Net periodic benefit cost	37,786	36,065

COLLUS POWER CORP.

NOTES TO THE FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

12. Employee future benefits (continued)

The main actuarial assumptions employed for the valuations are as follows:

(a) General inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% in 2010 and thereafter.

(b) Interest (discount) rate

The obligation as at December 31, 2010, of the present value of future liabilities was determined using a discount rate of 6.0%. This corresponds to the assumed CPI rate plus an assumed real rate of return of 4.0%.

(c) Salary levels

Future general salary and wage levels were assumed to increase at 3.3% per annum.

(d) Medical costs

Medical costs were assumed to be 9.0% in 2010 and graded down 0.67% a year until 2015 after which the rate is assumed to increase 5.0% annually.

(e) Dental costs

Dental costs were assumed to increase at 5.0% in 2010 and thereafter.

13. Capital disclosures

The company's main objectives when managing capital are to:

(a) Ensure ongoing access to funding to maintain and improve the electricity distribution system and to ensure that capital needs are met.

(b) Ensure compliance with covenants related to its credit facilities and the Town of Collingwood promissory note.

(c) Ensure that the capital structure is such that the debt to equity structure deemed by the OEB is not exceeded.

As at December 31, 2010, the company's definition of capital includes shareholder's equity and long-term debt. The company's debt to equity ratio as defined by the OEB, as at December 31, 2010 is 1:2.98 (2009 - 1:2.98). There have been no changes in the company's approach to capital management during the year.

The company has met all covenants related to its credit facilities.

14. Comparative information

Certain comparative information has been reclassified to conform with the current year's financial statement presentation.

This is Exhibit "N" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)
Norman J. McBee

ENGELBERG Michael

From: STEVENS Rick
Sent: Tuesday, November 29, 2011 5:56 PM
To: MEEKER William; HALL James; DHAWAN Sanjeev; SATCHELL Michael
Subject: FW: Collus Power

For your records

From: STEVENS Rick
Sent: Tuesday, November 29, 2011 5:55 PM
To: Rockx, John
Cc: Ed Houghton
Subject: RE: Collus Power

Hydro One is pleased to respond to your request for clarification as follows:

1) The $13.6 million proposed price for 50% of the shares of Collus Power assumes the following:

   - Recapitalization of Collus Power to 60/40 debt/equity, which would result in an estimated $8.1 million of new debt
   - Repayment of the $1.7 million promissory note from the Town
   - Dividend to shareholders of approximately $6.4 million ($3.2 million to each of the Town and Hydro One)

   Based on the proposed price ($13.6 million), recapitalization and promissory note repayment ($1.7 million) and dividend ($3.2 million), the Town would receive total cash proceeds of approximately $18.5 million.

   The proposal includes the assumption of the estimated pro rata share of assets and liabilities, based in part on the detail provided in the 2010 audited financial statements. The proposal includes the following long-term liabilities:
   - Employee future benefits
   - Net regulatory liability
   - Ontario infrastructure debt of $2.7 million as at Dec. 31, 2011, alternatively this debt could be refinanced with third party debt as part of the overall recapitalization

2) The proposal is based on a variety of factors and assumptions including, but not limited to, estimates for rate base and assets and liabilities (including regulatory assets and liabilities) on closing, etc. based on the review of due diligence materials received to date by Hydro One and its advisors, including Collus Power's 2010 Financial Statements. Changes in any of these variables, assumptions or estimates may impact the proposed price positively or negatively.

We hope these responses adequately clarify our response. We would be pleased to elaborate further on any matter contained in our proposal and clarification.

Regards,

Rick Stevens
Vice President Asset Management
Hydro One Networks

From: Rockx, John [mailto:jrockx@kpmg.ca]
Sent: Sunday, November 27, 2011 6:24 PM
To: STEVENS Rick
Cc: Ed Houghton
Subject: FW: Collus Power

Rick:

KPMG has been asked by Collus Power to seek clarification of a few items in respect of Hydro One's financial offer for a 50% share interest in Collus Power.

Here are the issues requiring clarification:

1. Hydro One has offered $13.6 million for a 50% share / equity interest in Collus Power. Can you confirm / clarify whether this share offer anticipates the inclusion of all long-term liabilities (i.e. employee future benefits, the long-term net regulatory liability, Town note payable and Ontario Infrastructure debt) without any adjustment?
2. Hydro One has also indicated the following assumptions were built into its pricing structure – a 2011 rate base of $17.9 million and an immaterial net balance of regulatory assets and liabilities. Can you comment on the quantification of, and the impact of, these assumptions on the proposed pricing structure

We have attached a copy of the December 31, 2010 audited financial statements of Collus Power to assist in your response.

We look forward to your response on these matters.

Best Regards,

John Rockx, CA, CBV
KPMG Transaction Advisory Services
21 King Street West, Suite 510
Hamilton, Ontario L8P 4W7
Tel: 905-523-2247
Fax: 905-523-2200
Email: jrockx@kpmg.ca

****

Any tax advice herein is based on the facts provided to us and on current tax law including judicial and administrative interpretation. Tax law is subject to continual change, at times on a retroactive

This is Exhibit "O" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)

Comparison of Proposals - Financial Considerations

Further clarification required | Key areas of difference / significance

Business Issue	Hydro One	Powerstream	Horizon Utilities	Veridian
Binding / Non-binding	Non-binding	Non-binding	Non-binding	Non-binding
Exclusivity	Yes		90 day offer, extendible	
Shares	Up to 50% of the common shares of Collus Power; would consider lower share % with price adjustment	50% of shares of Collus Power	50% of shares of Collus Power (would also be interested in acquiring a share interest in Collus Solutions and possibly Collus Utility Services)	50% of shares of Collus Power
Share Purchase Price	$13.6 million for a 50% share interest	$7.3 million for a 50% share interest	$6.5 million to $8.5 million Assume $7.5 million for analysis	$6.5 million for a 50% share interest ($250K holdback)
Unassumed Liabilities	No unassumed liabilities (confirmed)	No unassumed liabilities (confirmed)	No unassumed liabilities (confirm)	No unassumed liabilities (confirm)
Net Share Purchase Price	$9.488 million for shares	$6.2 million for shares	$7.5 million for shares	$6.5 million for shares
Recapitalization	Recapitalization to 60% / 40% debt to equity Borrow $8.1 million of new debt $3.2 million dividend to Town $3.2 million dividend to Hydro One Dividend reduced by $900K ($450k each) to equalize $1.71 million to repay shareholder loan	Recapitalization to 60% / 40% debt to equity Borrow $7.2 million of new debt $5.5 million pre-closing dividend to Town $0 million dividend to Powerstream $1.71 million to repay shareholder loan	Recapitalization to 60% / 40% debt to equity Assumed $5.7 million of new debt $2.0 million dividend to Town $2.0 million dividend to Horizon Utilities $1.71 million to repay shareholder loan	Recapitalization to 60% / 40% debt to equity Borrow $5.7 million of new debt $2.0 million dividend to Town $2.0 million dividend to Veridian $1.71 million to repay shareholder loan
Existing Shareholder Loan	$1.71 million payout	$1.71 million payout, option of the Town	$1.71 million payout	$1.71 million payout
Total cash consideration to the Town of Collingwood	$15.545 million in cash ($13.6 million + $3.2 million + $1.71 million less $1.412 million reg liabilities less $1.1 million rate base shortfall less $450K lower dividend)	$1[illegible].410 million in cash ($7.3 million + $5.5 million + $1.71 million less $1.10 million closing working capital adjustment)	$11.21 million in cash ($7.5 million + $2.0 million + $1.71 million less $0 million of unassumed liabilities) High end of range adds up to $1.0 million	$10.21 million in cash ($6.5 million + $2.0 million + $1.71 million less $0 million of unassumed liabilities)
NBV of 50% share interest (Higher is better, less debt)	$2,851,500.00	$2,851,500.00	$3,601,500.00	$3,601,500.00
Closing Date	Upon OEB approval	Upon OEB approval MADD application required	Upon OEB approval MADD application required	Proposed closing date of April 2, 2012 Subject to OEB approval and MADD
Future Dividend Policy	Pay dividends in profitable years Board of Directors to make decision based on cash needs etc.	Dividend policy to be determined based on policies of other LDCs Expect to pay dividends in 2013 forward Expect to pay out 50% of future net income, subject to sufficient net working capital, capex needs etc. Estimate of $400K to $500 (100% basis) of dividends paid in 2013	Adopt Horizon dividend policy Dividends up to 60% of annual net income Board of Director decision based on financial prudence	Dividend policy similar to that of Veridian Board approval of dividends based on various factors and ability to pay a dividend Need to create a Return on Equity Policy to optimize shareholder returns
Governance	Board of Directors comprised of 20% Collingwood 20% Hydro One 60% Independents	Board of Directors comprised of 50% Collingwood 50% Powerstream Majority are independents Two co-chairs	Board of Directors comprised of 50% Collingwood 50% Powerstream Majority are independents 4 or 6 directors	Board of directors comprised of 2 members appointed by each of the Town and Veridian These directors would be independent
Transfer Tax	Intention is for no transfer tax to be triggered on the transaction			Intention is for no transfer tax to be triggered on the transaction

Business Issue	Hydro One	Powerstream	Horizon Utilities	Veridian
Employee Issues	Presumably no change to Collus employees Collus Solutions employees ???	Presumably no change to Collus employees Collus Solutions employees ???	Presumably no change to Collus employees Acquire Collus Solutions employees	Presumably no change to Collus employees Collus Solutions employees ???
Base Offer	Assumes $17.9 million rate base	Work to closing December 31, 2011		Closing NBV not less than Dec 31, 2010 NBV
Closing Adjustments	Some closing adjustments TBD	balance sheet		
Legal conditions precedent				
IFRS compliance	With no major change in FS			
Due diligence		Satisfactory due diligence	Satisfactory due diligence/ mgmt discussions	Satisfactory due diligence
Shareholder Agreement	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated
Share Purchase Agreement	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated
Reps and warranties	Customary items	Customary items		
Outstanding litigation	No outstanding litigation			
Approvals	Town approval, Hydro One Board	Town approval, Powerstream Board	Town approval, Horizon Board	Town approval, Veridian Board
Mearie claims	Not assuming pre-closing claims			
Normal operations	No material change in business			No material change in business
Financial conditions precedent				
Regulatory liabilities	Nominal net regulatory liabilities			
Rate base requirement	$17.9 million minimum at Closing			
Working capital	Silent	Have deemed working capital ratio at closing	Appropriate level of WC / cash at closing	
Pension / OPEB liabilities				
Assets	Unencumbered at Closing			
Mearie obligations	No Mearie obligations			
Water liabilities	Not accepted			
Future rates of Collus	Keep rates as low as possible No harmonization of rates/separate company 2013 rate filing at maximum allowable return on equity	Keep rates as low as possible No harmonization of rates as Collus will be a separate company	Keep rates as low as possible Seek increased investment value for shareholders Horizon has low OMA costs per customer; However, no rate harmonization of rates as Collus will be a separate company	Keep rates as low as possible Need to create a Return on Equity Policy to optimize shareholder returns No harmonization of rates/separate company
Participation in future growth	Assist in organic growth of Collus Silent on approach to participating in future LDC acquisitions	Assist in organic growth of Collus Silent on approach to participating in future LDC acquisitions	Silent	Silent
Exit strategy	Right of first refusal to Hydro One	Liquidity rights to be negotiated and included in Shareholders Agreement Right of first refusal to both Parties Shot-gun clause begins two years after closing Town of Collingwood will have right to put shares to Powerstream at FMV calculated on same basis as initial transaction	Right of first refusal to both Parties Other liquidity clauses to be negotiated	Liquidity rights to be negotiated and included in Shareholders Agreement Right of first refusal to both Parties Also include a shot-gun provision and a piggy-back provision
Shared services / relationships	To be determined	To be determined Service Level Agreement to be negotiated	To be determined Need to consider management services to Water / Wastewater utility if acquire Collus Solutions; disentangle from water	To be determined
Collus Solutions	Can be included if appropriate		Ideally include Collus Solutions in the transaction with merger after closing	
Transaction Costs	Each party pays own			
Other matters				
Community Support	Yes - various financial support 20 jobs transferred to Collingwood	Town of Collingwood Community Fund - $25,000		

Business Issue	Hydro One	Powerstream	Horizon Utilities	Veridian
Questions	$2.7 million debt is outstanding Rate base of $17.9 million Confirm $13.6 million Closing date adjustments Regulatory liabilities Excluded liabilities Exempt from transfer taxes	Excluded liabilities OPEB liability Assume regulatory liability + nil Determine deemed NWC at closing	Clarify excluded liabilities Clarify debt recapitalization Range of values Collus Solutions in or out	

YTD FS
Year end balance sheet
Projected BS position - Dec 31, 2011
Rate base

Need some lines in the sand for price adjustments
NWC levels - changing
Regulatory liability positions
Rate base issues
IFRS matters

CPS0002699

Strictly Private and
Confidential

Collus Power Corp.
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

Schedule 1

Hydro One Proformas

	Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet	
ASSETS						
Current Assets						
Cash	$ 2,923	2,550	-	(10)	2,540	
Other current assets	8,528	8,029		-	8,029	
	11,451	10,579	-	(10)	10,569	
Property, plant and equipment	12,764	13,007		-	13,007	
Goodwill	277	277		-	277	
Intangible - software	278	278		-	278	
Future taxes recoverable	157	157		-	157	
	24,927	24,298	-	(10)	24,288	
LIABILITIES AND SHAREHOLDER'S EQUITY						
Current Liabilities						
Accounts payable and accruals	7,384	6,634		-	6,634	
Customer deposits, current	431	331		-	331	
Income taxes payable	-			-	-	
	7,815	6,965	-	-	6,965	17,046
Employee future benefit costs	308	308		-	308	
Long-term net regulatory liabilities	1,412	1,412	-	-	1,412	
New financing	-			8,100	7,200	
Reduction to new financing				(900)	-	
Note payable to Town of Collingwood	1,710	1,710		(1,710)	-	
Long-term debt - Ontario Infrastructure	2,900	2,700	-	-	2,700	Could assume same debt level as PowerStream (900K)
	14,145	13,095	-	5,490	18,585	
Shareholder's Equity	$ 10,782	11,203	-	(5,500)	5,703	
		1,710				
Town's net investment		12,913				

Debt	9,900	63.4%
Equity	5,703	36.6%
	15,603	100.0%

	NBV	Paid to Town
Shares (50%)	-	13,600
Less: Regulatory liabilities = $0		(1,412)
Less: Estimated shortfall from $17.9 m rate base		(1,100)
Less: Unassumed liabilities	-	-
	5,602	11,088
Post-closing dividend	3,200	3,200
Reduction to post-closing dividend	(450)	(450)
Note payable	1,710	1,710
Cash proceeds	10,062	15,548
Remaining shares (50%)	2,852	4,277 (*)
Total proceeds	12,913	19,825

(*) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

CPS0002699

Collus Power Corp. **Schedule 2**
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

PowerStream Proformas

		Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet	
ASSETS							
Current Assets							
Cash	$	2,923	2,550	-	(10)	2,540	
Other current assets		8,528	8,029		-	8,029	
		11,451	10,579	-	(10)	10,569	
Property, plant and equipment		12,764	13,007		-	13,007	
Goodwill		277	277		-	277	
Intangible - software		278	278		-	278	
Future taxes recoverable		157	157		-	157	
		24,927	24,298	-	(10)	24,288	
LIABILITIES AND SHAREHOLDER'S EQUITY							
Current Liabilities							
Accounts payable and accruals		7,384	6,634		-	6,634	
Customer deposits, current		431	331		-	331	
Income taxes payable		-			-	-	
		7,815	6,965	-	-	6,965	17,046
Employee future benefit costs		308	308		-	308	
Long-term net regulatory liabilities		1,412	1,412		-	1,412	
New financing		-			7,200	7,200	
Note payable to Town of Collingwood		1,710	1,710		(1,710)	-	
Long-term debt - Ontario Infrastructure		2,900	2,700	-	-	2,700	
		14,145	13,095	-	5,490	18,585	
Shareholder's Equity	$	10,782	11,203		(5,500)	5,703	
			1,710				
Town's net investment			12,913				

Debt	9,900	63.4%
Equity	5,703	36.6%
	15,603	100.0%

	NBV	Paid to Town		Premium to NBV
Shares (50%)		7,300		
Less: Closing NWC adjustment		(1,100)		
Less: Unassumed liabilities	-	-		
	2,852	6,200		
Pre-closing dividend	5,500	5,500		
Note payable	1,710	1,710		
Cash proceeds	10,062	13,410		3,349
Remaining shares (50%)	2,852	4,277	(*)	
Total proceeds	12,913	17,687		4,774

(*) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

-

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Collus Power Corp.
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

Schedule 3

Horizon Proformas

		Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet	
ASSETS							
Current Assets							
Cash	$	2,923	2,550	-	(10)	2,540	
Other current assets		8,528	8,029		-	8,029	
		11,451	10,579	-	(10)	10,569	
Property, plant and equipment		12,764	13,007		-	13,007	
Goodwill		277	277		-	277	
Intangible - software		278	278		-	278	
Future taxes recoverable		157	157		-	157	
		24,927	24,298	-	(10)	24,288	
LIABILITIES AND SHAREHOLDER'S EQUITY							
Current Liabilities							
Accounts payable and accruals		7,384	6,634		-	6,634	
Customer deposits, current		431	331		-	331	
Income taxes payable		-			-	-	
		7,815	6,965	-	-	6,965	17,046
Employee future benefit costs		308	308	-	-	308	
Long-term net regulatory liabilities		1,412	1,412		-	1,412	
New financing		-	-		5,700	5,700	
Note payable to Town of Collingwood		1,710	1,710	-	(1,710)	-	
Long-term debt - Ontario Infrastructure		2,900	2,700		-	2,700	
		14,145	13,095	-	3,990	17,085	
Shareholder's Equity	$	10,782	11,203		(4,000)	7,203	
			1,710				
Town's net investment			12,913				

Debt	8,400	53.8%
Equity	7,203	46.2%
	15,603	100.0%

	NBV	Paid to Town	
Shares (50%)	-	7,500	(Range)
Less: Unassumed liabilities	-		
	5,602	7,500	
Post-closing dividend	2,000	2,000	(Assumed)
Note payable	1,710	1,710	
Cash proceeds	9,312	11,210	
Remaining shares (50%)	3,602	5,402	(*)
Total proceeds	12,913	16,612	

(*) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

Collus Power Corp. **Schedule 4**
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

Veridian Proformas

	Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet	
ASSETS						
Current Assets						
Cash	$ 2,923	2,550	-	(10)	2,540	
Other current assets	8,528	8,029		-	8,029	
	11,451	10,579	-	(10)	10,569	
Property, plant and equipment	12,764	13,007		-	13,007	
Goodwill	277	277		-	277	
Intangible - software	278	278		-	278	
Future taxes recoverable	157	157		-	157	
	24,927	24,298	-	(10)	24,288	
LIABILITIES AND SHAREHOLDER'S EQUITY						
Current Liabilities						
Accounts payable and accruals	7,384	6,634		-	6,634	
Customer deposits, current	431	331		-	331	
Income taxes payable	-			-	-	
	7,815	6,965	-	-	6,965	17,046
Employee future benefit costs	308	308		-	308	
Long-term net regulatory liabilities	1,412	1,412		-	1,412	
New financing	-			5,700	5,700	
Note payable to Town of Collingwood	1,710	1,710		(1,710)	-	
Long-term debt - Ontario Infrastructure	2,900	2,700	-	-	2,700	
	14,145	13,095	-	3,990	17,085	
Shareholder's Equity	$ 10,782	11,203		(4,000)	7,203	
		1,710				
Town's net investment		12,913				

Debt	8,400	53.8%
Equity	7,203	46.2%
	15,603	100.0%

	NBV	Paid to Town
Shares (50%)	-	6,500
Less: Unassumed liabilities	-	
	5,602	6,500
Post-closing dividend	2,000	2,000
Note payable	1,710	1,710
Cash proceeds	9,312	10,210
Remaining shares (50%)	3,602	5,402 (*)
Total proceeds	12,913	15,612

(*) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

KPMG	14.1	16.3	15.2
Debt	1.71	1.71	1.71
	15.81	18.01	16.91

	Cash	Shares	Total
Hydro One	15,548	4,277	19,825
PowerStream	13,410	4,277	17,687
Horizon	11,210	5,402	16,612
Veridian	10,210	5,402	15,612

This is Exhibit "P" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)
Norman Jombe

Message

From: Rockx, John [jrockx@kpmg.ca]
Sent: 11/30/2011 5:15:52 PM
To: Ed Houghton [ehoughton@collus.com]; Dean Muncaster [redacted]
CC: Herhalt, John M [jherhalt@kpmg.ca]
Subject: PowerStream Meeting

<<Summary of Offersv3.xlsx>> <<Agenda.docx>>

Ed / Dean:

Please find attached a copy of an agenda of speaking points for tomorrow's meeting with PowerStream.

I have also attached a copy of a revised calculation of Hydro One's share purchase offer based on their recent response. I have adjusted Hydro One's leverage to match that of the PowerStream offer (which reduces the proposed dividend slightly), and made some adjustments to the purchase price of the shares to reflect the estimated impact of Hydro One's Closing Date requirements (nominal regulatory liabilities / rate base of $17.9 million).

I have spoken to Shawn Stern re: the tax structure.

See you at PowerStream tomorrow morning at 8:30 AM.

Best Regards,

John Rockx, CA, CBV
Partner
KPMG Transaction Advisory Services
21 King Street West, Suite 510
Hamilton, Ontario L8P 4W7
Tel: 905-523-2247
Fax: 905-523-2200
Email: jrockx@kpmg.ca

This is Exhibit "Q" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)

NORMAN J GROOT

Message

From: Herhalt, John M [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17803]
Sent: 12/1/2011 11:58:25 AM
To: Rockx, John [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17786]
Subject: Re: Collus

Great and thanks

No surprise on them promoting the PowerStream deal with the commitments made today. There really hasn't been an appetite for Hydro One even if there financial offer was better

Regards
John

Sent from my iPad

On Dec 1, 2011, at 4:52 PM, "Rockx, John" <jrockx@kpmg.ca> wrote:

> John:
>
> I will be in Collingwood tomorrow for the 10:00 Am Board meeting.
>
> I just returned from the Powerstream meeting. Ed, Dean and I met with
> Brian Bentz, John Glicksman, Mark Henderson and Dennis Nolan from
> Powerstream. A pretty good meeting where Collus confirmed a lot of
> matters in respect of the proposed transaction, including the removal of
> the shotgun clause. Ed also indicated that he needed a higher price for
> the 50% share interest in Collus, and got a commitment for an additional
> $700K (i.e. moves the share offer to $8.0 million from $7.3 million)
> from Brian Bentz (John G and Dennis Nolan expressed that the current
> price was full value already).
>
> I have a phone call with Hydro One this afternoon to confirm the details
> of their offer; which probably still is $2 million higher than that of
> Powerstream. Notwithstanding the higher price from Hydro One, Ed and
> Dean will be promoting the Powerstream deal to the Board tomorrow. The
> selection of Powerstream works under the selection criteria (70% -
> general metrics; 30% financial metrics) established for the process.
>
> PS - I will be re-issuing a new version of the financial evaluation
> matrix later today.
> I am working with Tim Fryer to get current financial information about
> Collus. Tim did not participate in the discussions with Powerstream.
>
> All for now.
>
>
>
> -----Original Message-----
> From: Herhalt, John M
> Sent: Thursday, December 01, 2011 8:59 AM
> To: Rockx, John
> Subject: Collus
>
> John
>
> Are you attending the meeting at Collus on Friday am in person? If you
> are that is great - I can only call in and can only join for about an
> hour
>
> Please confirm
>
> Thanks
> John

This is Exhibit "R" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)

Message

From: Herhalt, John M [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17803]
Sent: 11/29/2011 2:42:01 PM
To: Rockx, John [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17786]
Subject: RE: Collus and Powerstream meeting

You bet

From: Rockx, John
Sent: Tuesday, November 29, 2011 2:40 PM
To: Herhalt, John M
Subject: RE: Collus and Powerstream meeting

It should be an interesting discussion. It will be interesting to see what Powerstream's reaction will be to the proposed elimination of the shotgun clause and the possible entry into a long-term 50 / 50 relationship with the Town. Ideally, all the proponents really want to own 100% of Collus.

From: Herhalt, John M
Sent: Tuesday, November 29, 2011 2:36 PM
To: Rockx, John
Subject: Collus and Powerstream meeting

Hi John

Please send me a note after the meeting and let me know the outcome

Thanks

John

This is Exhibit "S" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

Commissioner for Taking Affidavits
(or as may be)

Message

From:	Ed Houghton [ehoughton@collus.com]
Sent:	12/1/2011 3:25:25 PM
To:	Rockx, John [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17786]
CC:	Herhalt, John M [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17803]; Dean Muncaster [[redacted]
Subject:	Re: Collus Process

John:

I have copied Dean and will give him a call to let him know about the email but my first reaction is to leave as is for now.

Let me speak to Dean and I will call you.

Ed

~~~~~~

Sent from Blackberry Mobile Device

From: Rockx, John [mailto:jrockx@kpmg.ca]
Sent: Thursday, December 01, 2011 02:44 PM
To: Ed Houghton
Cc: Herhalt, John M <jherhalt@kpmg.ca>
Subject: RE: Collus Process

Ed;

I spoke with Rick Stevens of HydroOne who also conferenced in his advisor from the National Bank. I wanted to get some clarity on the Hydro One financial offer for a 50% interest in Collus. I explained the areas over which we required some clarity, but Hydro One was somewhat non-committal in their responses. They indicated that they would respond to the issues in further detail if an exclusivity arrangement was entered into. They also indicated that some issues might be negotiable.

I indicated that the Steering Committee and the Town required some clarity on the financial offers in order to make an informed decision, and that we would have to make some assumptions about Hydro One's offer if they did not provide some clarification. At this time, they did indicate that they would be willing to look at our preliminary calculation of their offer and our assumed adjustments to it. <u>Can I provide Hydro One with the one-page summary of their offer to see if they agree with the assumed purchase price adjustments?</u>

John Rockx
905-523-2247

> **From:** Ed Houghton [mailto:ehoughton@collus.com]
> **Sent:** Thursday, December 01, 2011 1:40 PM
> **To:** Rockx, John
> **Subject:** RE: Collus Process
>
> It will be Monday evening and I think it would be good if you are available. I'm not sure how much detail we will need on the financials but I think it would be good for you to be here. Council starts at 5:00 but I don't know when we might be on.
>
> Ed
>
> Mr. Ed Houghton, President & CEO
~~~~~~

Collingwood Utility Services Corp.
P.O. Box 189, 43 Stewart Road
Collingwood , ON
L9Y 3Z5
Phone: 705-445-1800, 2222
Fax: 705-445-2549
Email: ehoughton@collus.com

From: Rockx, John [mailto:jrockx@kpmg.ca]
Sent: December-01-11 12:23 PM
To: Ed Houghton
Subject: Collus Process

Ed:

Will I be needed in Collingwood next week (Town Council discussion). If yes – what was the date? Just trying to map out my schedule for next week.

Best Regards,

John Rockx, CA, CBV
Partner
KPMG Transaction Advisory Services
21 King Street West, Suite 510
Hamilton, Ontario L8P 4W7
Tel: 905-523-2247
Fax: 905-523-2200
Email: jrockx@kpmg.ca

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Any tax advice herein is based on the facts provided to us and on current tax law including judicial and administrative interpretation. Tax law is subject to continual change, at times on a retroactive basis and may result in incremental taxes, interest or penalties. Should the facts provided to us be incorrect or incomplete or should the law or its interpretation change, our advice may be

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****

This is Exhibit "T" referred to in
the Affidavit of John Rockx
sworn June 14th, 2019

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Commissioner for Taking Affidavits
(or as may be)
NORMAN JAMES

Message

From: Rockx, John [/O=KPMG/OU=CA/CN=RECIPIENTS/CN=CA17786]
Sent: 12/1/2011 8:17:32 PM
To: Ed Houghton [ehoughton@collus.com]; Dean Muncaster [[redacted]
Subject: RE: Confidential - LDC Premiums
Attachments: Summary of Offersv4 - Meeting 2.xlsx

Ed:

Here is a copy of the revised Matrix with Powerstream's share offer included at $8.0 million. Powerstream's total offer is still $1.0 million less than Hydro One. We have continued to make a few assumptions re: Hydro One's offer as they were not helpful in addressing the impact of closing date issues on their purchase price.

See you tomorrow morning at 9:30 AM.

From: Ed Houghton [mailto:ehoughton@collus.com]
Sent: Thursday, December 01, 2011 5:58 PM
To: Rockx, John; Dean Muncaster
Subject: Re: Confidential - LDC Premiums

For sure.

Thanks for your efforts........Ed
~~~~~~
Sent from Blackberry Mobile Device

From: Rockx, John [mailto:jrockx@kpmg.ca]
Sent: Thursday, December 01, 2011 05:56 PM
To: Ed Houghton; Dean Muncaster
Subject: RE: Confidential - LDC Premiums

I agree that the enhanced Powerstream price is near the top of the range. A good deal for the Town.

From: Ed Houghton [mailto:ehoughton@collus.com]
Sent: Thursday, December 01, 2011 5:53 PM
To: Rockx, John; Dean Muncaster
Subject: FW: Confidential - LDC Premiums

John & Dean:

John Glicksman sent this to me and suggested I forward it on to you. As you can see, the $8,000,000 for 50% is paying a premium of 1.6 times book value or in other terms it is tied for 2nd for the highest price paid.

Ed

Mr. Ed Houghton, President & CEO

Collingwood Utility Services Corp.
P.O. Box 189, 43 Stewart Road
Collingwood , ON
L9Y 3Z5
Phone: 705-445-1800, 2222
~~~~~~

Fax: 705-445-2549
Email: ehoughton@collus.com

From: John Glicksman [mailto:john.glicksman@powerstream.ca]
Sent: December-01-11 5:42 PM
To: Ed Houghton
Cc: Brian Bentz; John Glicksman
Subject: Confidential - LDC Premiums

Ed,

Further to our phone discussion a short while ago, attached is a copy of a slide that we showed to our Board and Shareholders outlining the premiums that we understand to have historically been paid. As discussed, based on our calculations at 8M$ for 50% of the equity this would put the premium for Collus at 1.60 times book or pretty well the highest that has been paid in the sector. I hope you will find this information useful and please call me if you have any questions regarding it. Good luck in your meeting tomorrow and I look forward to working with you towards a successful conclusion to our negotiations and to working with you and the rest of our team to build our new partnership into a much larger regional presence. Have a great evening,

John

John Glicksman, B. SC. , MBA
EVP & Chief Financial Officer
PowerStream Inc.
161 Cityview Blvd.
Vaughan, Ontario
L4H 0A9

Direct: 905 532 4604
[redacted]

www.powerstream.ca

This is Exhibit "U" referred to in
the Affidavit of John Rockx
sworn June 4th, 2019

Commissioner for Taking Affidavits
(or as may be)

Collus Power Corp.
Comparison of Proposals - Financial Considerations

Further clarification required | Key areas of difference / significance

Business Issue	Hydro One	Powerstream	Horizon Utilities	Veridian
Binding / Non-binding	Non-binding	Non-binding	Non-binding	Non-binding
Exclusivity	Yes		90 day offer, extendible	
Shares	Up to 50% of the common shares of Collus Power; would consider lower share % with price adjustment	50% of shares of Collus Power	50% of shares of Collus Power Would also be interested in acquiring a share interest in Collus Solutions and possibly Collus Utility Services	50% of shares of Collus Power
Stated Share Purchase Price	$13.6 million for a 50% share interest	$8.0 million for a 50% share interest	$6.5 million to $8.5 million Assumed $7.5 million for this analysis (midpoint)	$6.5 million for a 50% share interest ($250K holdback)
Unassumed Liabilities	No unassumed liabilities (confirmed)	No unassumed liabilities (confirmed)	No unassumed liabilities (to be confirmed)	No unassumed liabilities (to be confirmed)
Net Share Purchase Price	$11.088 million for shares (assumed deductions of $1.412 for net regulatory liabilities and $1.1 million for estimated net working capital shortfall)	$8.0 million for shares	$7.5 million for shares (midpoint of range of $6.5 million to $8.5 million)	$6.5 million for shares
Recapitalization	Recapitalization to 60% / 40% debt to equity Borrow $8.1 million of new debt $3.2 million dividend to Town $3.2 million dividend to Hydro One $1.71 million to repay shareholder loan	Recapitalization to 60% / 40% debt to equity Borrow $8.1 million of new debt $5.3 million pre-closing dividend to Town $0 million dividend to Powerstream $1.71 million to repay shareholder loan $1.1 million used to finance estimated shortfall in closing net working capital ($0.2 million higher estimated shortfall than Powerstream)	Recapitalization to 60% / 40% debt to equity Assumed $8.1 million of new debt $2.65 million dividend to Town $2.65 million dividend to Horizon Utilities $1.71 million to repay shareholder loan $1.1 million to finance estimated shortfall in net working capital	Recapitalization to 60% / 40% debt to equity Borrow $5.7 million of new debt $2.0 million dividend to each of Town and Veridian $1.71 million to repay shareholder loan Assumed additional $2.4 million of borrowing to equalize leverage with other offers - $1.1 million to fund estimated shortfall in net working capital; $1.3 million paid as additional 50/50 dividends
Existing Shareholder Loan	$1.71 million payout	$1.71 million payout, option of the Town	$1.71 million payout	$1.71 million payout
Total cash consideration to the Town of Collingwood	$15.998 million in cash ($13.6 million + $3.2 million + $1.71 million less $1.412 million reg liabilities less $1.1 million estimated NWC shortfall from deemed NWC)	$15.010 million in cash ($8.0 million + $5.5 million + $1.71 million less $0.2 million dividend reduction for estimated additional net working capital adjustment)	$11.86 million in cash ($7.5 million + $2.65 million + $1.71 million less $0 million of unassumed liabilities) High end of range adds $1.0 million to offer	$10.86 million in cash ($6.5 million + $2.65 million + $1.71 million less $0 million of unassumed liabilities)
NBV of 50% share interest (Higher is better, less debt)	$2,951,500.00	$2,951,500.00	$2,951,500.00 (Equated)	$2,951,500.00 (Equated)
Closing Date	Upon OEB approval	Upon OEB approval MADD application required	Upon OEB approval MADD application required	Proposed closing date of April 2, 2012 Subject to OEB approval and MADD
Future Dividend Policy	Pay dividends in profitable years Board of Directors to make decision based on cash needs etc.	Dividend policy to be determined based on policies of other LDCs Expect to pay dividends in 2013 forward Expect to pay out 50% of future net income, subject to sufficient working capital, capex needs Estimate of $400K to $500 (100% basis) of dividends paid in 2013	Adopt Horizon dividend policy Dividends up to 60% of annual net income Board of Director decision based on financial prudence	Dividend policy similar to that of Veridian Board approval of dividends based on various factors and ability to pay a dividend Need to create a Return on Equity Policy to optimize shareholder returns
Governance	Board of Directors comprised of 20% Collingwood 20% Hydro One 60% Independents	Board of Directors comprised of 50% Collingwood 50% Powerstream Majority are independents Two co-chairs	Board of Directors comprised of 50% Collingwood 50% Powerstream Majority are independents 4 or 6 directors	Board of directors comprised of 2 members appointed by each of the Town and Veridian These directors would be independent
Transfer Tax	Intention is for no transfer tax to be triggered on the transaction			Intention is for no transfer tax to be triggered on the transaction

Business Issue	Hydro One	Powerstream	Horizon Utilities	Veridian
Employee Issues	Presumably no change to Collus employees Collus Solutions employees TBD	Presumably no change to Collus employees Collus Solutions employees TBD	Presumably no change to Collus employees Acquire Collus Solutions employees	Presumably no change to Collus employees Collus Solutions employees TBD
Base Offer	Assumes $17.9 million rate base	Work to closing December 31, 2011 balance sheet		Closing NBV not less than Dec 31, 2010 NBV
Closing Adjustments	Some closing adjustments TBD			
Legal conditions precedent				
IFRS compliance	With no major change in FS			
Due diligence		Satisfactory due diligence	Satisfactory due diligence/ mgmt discussions	Satisfactory due diligence
Shareholder Agreement	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated
Share Purchase Agreement	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated	Required - to be negotiated
Reps and warranties	Customary items	Customary items		
Outstanding litigation	No outstanding litigation			
Approvals	Town approval, Hydro One Board	Town approval, Powerstream Board	Town approval, Horizon Board	Town approval, Veridian Board
Mearie claims	Not assuming pre-closing claims			
Normal operations	No material change in business			No material change in business
Financial conditions precedent				
Regulatory liabilities	Nominal net regulatory liabilities (= $0)			
Rate base requirement	$17.9 million minimum at Closing			
Working capital	Silent	Have deemed net working capital at closing	Appropriate level of WC / cash at closing	
Pension / OPEB liabilities				
Assets	Unencumbered at Closing			
Mearie obligations	No Mearie obligations			
Water liabilities	Not accepted			
Future rates of Collus	Keep rates as low as possible No harmonization of rates/separate company 2013 rate filing at maximum allowable return on equity	Keep rates as low as possible No harmonization of rates as Collus will be a separate company	Keep rates as low as possible Seek increased investment value for shareholders Horizon has low OMA costs per customer; However, no rate harmonization of rates as Collus will be a separate company	Keep rates as low as possible Need to create a Return on Equity Policy to optimize shareholder returns No harmonization of rates/separate company
Participation in future growth	Assist in organic growth of Collus Silent on approach to participating in future LDC acquisitions	Assist in organic growth of Collus Silent on approach to participating in future LDC acquisitions	Silent	Silent
Exit strategy	Right of first refusal to Hydro One	Liquidity rights to be negotiated and included in Shareholders Agreement Right of first refusal to both Parties Town of Collingwood will have right to put shares to Powerstream at FMV calculated on same basis as initial transaction	Right of first refusal to both Parties Other liquidity clauses to be negotiated	Liquidity rights to be negotiated and included in Shareholders Agreement Right of first refusal to both Parties Also include a shot-gun provision and a piggy-back provision
Shared services / relationships	To be determined	To be determined Service Level Agreement to be negotiated	To be determined Need to consider management services to Water / Wastewater utility if acquire Collus Solutions; disentangle from water	To be determined
Collus Solutions	Can be included if appropriate	Can be included if appropriate	Ideally include Collus Solutions in the transaction with merger after closing	
Transaction Costs	Each party pays own			
Other matters				
Community Support	Yes - various financial support to Collingwood 20 jobs transferred to Collingwood	Town of Collingwood Community Fund - $25,000		

Business Issue	Hydro One	Powerstream	Horizon Utilities	Veridian
Questions	$2.7 million debt is outstanding Rate base of $17.9 million Confirm $13.6 million Closing date adjustments Regulatory liabilities Excluded liabilities Exempt from transfer taxes	Excluded liabilities OPEB liability Assume regulatory liability + nil Determine deemed NWC at closing	Clarify excluded liabilities Clarify debt recapitalization Range of values Collus Solutions in or out	

YTD FS
Year end balance sheet
Projected BS position - Dec 31, 2011
Rate base

Need some lines in the sand for price adjustments
NWC levels - changing
Regulatory liability positions
Rate base issues
IFRS matters

KPM0001914

Collus Power Corp. **Schedule 1**
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

Hydro One Proformas

	Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet	
ASSETS						
Current Assets						
Cash	$ 2,923	2,550	-	1,090	3,640	
Other current assets	8,528	8,029		-	8,029	
	11,451	10,579	-	1,090	11,669	
Property, plant and equipment	12,764	13,007		-	13,007	
Goodwill	277	277		-	277	
Intangible - software	278	278		-	278	
Future taxes recoverable	157	157		-	157	
	24,927	24,298	-	1,090	25,388	
LIABILITIES AND SHAREHOLDER'S EQUITY						
Current Liabilities						
Accounts payable and accruals	7,384	6,634		-	6,634	
Customer deposits, current	431	331		-	331	
Income taxes payable	-	-		-	-	
	7,815	6,965	-	-	6,965	18,146
Employee future benefit costs	308	308		-	308	
Long-term net regulatory liabilities	1,412	1,412	-	-	1,412	
Proposed new financing	-			8,100	8,100	
Note payable to Town of Collingwood	1,710	1,710		(1,710)	-	
Long-term debt - Ontario Infrastructure	2,900	2,700	-	-	2,700	
	14,145	13,095	-	6,390	19,485	
Shareholder's Equity	$ 10,782	11,203	-	(5,300)	5,903	
		1,710				
Town's net investment		12,913				

CA	11,669
CL	(6,965)
	4,704
Deemed	4,591

		NBV	Rate Base
Debt	10,800	64.7%	60.3%
Equity	5,903	35.3%	39.7%
	16,703	100.0%	100.0%

Rate Base	
10,800	60.34%
7,100	39.66%
17,900	100.00%

	NBV	Paid to Town	
Shares (50%)	-	13,600	
Less: Allowance for regulatory liabilities @ $0	-	(1,412)	(*)
Less: Estimated NWC shortfall within $17.9 million rate base	(550)	(1,100)	(**)
Less: Unassumed liabilities	-	-	
	5,602	11,088	
Post-closing dividend (50% of $8.4 million)	3,200	3,200	
Note payable	1,710	1,710	
Cash proceeds	9,962	15,998	
Remaining shares (50%)	2,952	4,427	(***)
Total proceeds	12,913	20,425	

(*) Assumed 100% allocable to Town of Collingwood
(**) Hydro One to inject $1.1 million into new share capital (or reduce $1.1 million off of dividends payable to the Town)

6,400	Dividends
(1,100)	Dividend reduction
1,700	Note
1,100	NWC
8,100	New cash
15,998	Cash
1,412	Reduction - Regulatory liabilities
1,100	Reduction - NWC
18,510	Proposed offer of $18.5 million

(*) Assumed deduction from share purchase price for 100% of estimated net regulatory liabilities at closing.
(**) Assumed deduction for 100% of estimated shortfall in net working capital at closing (within $17.9 million rate base requirement).
(***) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

Collus Power Corp.
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

Schedule 2

PowerStream Proformas

		Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet	
ASSETS							
Current Assets							
Cash	$	2,923	2,550	-	1,090	3,640	
Other current assets		8,528	8,029		-	8,029	
		11,451	10,579	-	1,090	11,669	
Property, plant and equipment		12,764	13,007		-	13,007	
Goodwill		277	277		-	277	
Intangible - software		278	278		-	278	
Future taxes recoverable		157	157		-	157	
		24,927	24,298	-	1,090	25,388	
LIABILITIES AND SHAREHOLDER'S EQUITY							
Current Liabilities							
Accounts payable and accruals		7,384	6,634		-	6,634	
Customer deposits, current		431	331		-	331	
Income taxes payable		-	-		-	-	
		7,815	6,965	-	-	6,965	18,146
Employee future benefit costs		308	308		-	308	
Long-term net regulatory liabilities		1,412	1,412		-	1,412	
Proposed new financing		-			8,100	8,100	
Note payable to Town of Collingwood		1,710	1,710		(1,710)	-	
Long-term debt - Ontario Infrastructure		2,900	2,700	-	-	2,700	
		14,145	13,095	-	6,390	19,485	
Shareholder's Equity	$	10,782	11,203	-	(5,300)	5,903	
			1,710				
Town's net investment			12,918				

CA	11,669
CL	(6,965)
	4,704
Deemed	4,591

8,100	
(1,100)	NWC
(1,700)	Note
5,300	Dividend

		NBV	Rate Base
Debt	10,800	64.7%	60.3%
Equity	5,903	35.3%	39.7%
	16,703	100.0%	100.0%

Rate Base	
10,800	60.34%
7,100	39.66%
17,900	100.00%

	NBV	Paid to Town	
Shares (50%)		8,000	
Less: Unassumed liabilities	-	-	
	2,952	8,000	
Pre-closing dividend (100%)	5,300	5,300	(*)
Note payable	1,710	1,710	
Cash proceeds	9,962	15,010	
Remaining shares (50%)	2,952	4,427	(**)
Total proceeds	12,913	19,437	

(*) $5.5 million dividend reduced by $200K for slight difference in estimated shortfall in net working capital at closing.
(**) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

Will assume net regulatory liabilities etc. without adjustment

Adjustment for estimated shortfall between actual NWC and deemed NWC (at Dec 31, 2010)

14,510	
700	
15,210	
(200)	Adjustment for NWC
15,010	Final net proceeds

To equate to $1.1 million deduction in Hydro One offer

KPM0001914

Strictly Private and Confidential

Collus Power Corp.
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

Schedule 3

Horizon Utilities Proformas

	Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet		
ASSETS							
Current Assets							
Cash	$ 2,923	2,550	-	1,090	3,640		
Other current assets	8,528	8,029		-	8,029		
	11,451	10,579	-	1,090	11,669		
Property, plant and equipment	12,764	13,007		-	13,007		
Goodwill	277	277		-	277		
Intangible - software	278	278		-	278		
Future taxes recoverable	157	157		-	157		
	24,927	24,298	-	1,090	25,388		
LIABILITIES AND SHAREHOLDER'S EQUITY							
Current Liabilities							
Accounts payable and accruals	7,384	6,634		-	6,634		
Customer deposits, current	431	331		-	331		
Income taxes payable	-	-		-	-		
	7,815	6,965	-	-	6,965	18,146	
Employee future benefit costs	308	308	-	-	308		
Long-term net regulatory liabilities	1,412	1,412	-	-	1,412		
New financing	-	-		8,100	8,100	8,100	
Note payable to Town of Collingwood	1,710	1,710	-	(1,710)	-	(1,100)	NWC shortfall
Long-term debt - Ontario Infrastructure	2,900	2,700	-	-	2,700	(1,700)	Note payable
	14,145	13,095	-	6,390	19,485	5,300	Available for dividends
Shareholder's Equity	$ 10,782	11,203	-	(5,300)	5,903		
		1,710					
Town's net investment		12,913					

		NBV	Rate Base
Debt	10,800	64.7%	60.3%
Equity	5,903	35.3%	39.7%
	16,703	100.0%	100.0%

	NBV	Paid to Town		
Shares (50%)	-	7,500	(*)	
Less: Unassumed liabilities	-			
	5,602	7,500		
Post-closing dividend (50% of $5.3 million)	2,650	2,650	(**)	
Note payable	1,710	1,710		
Cash proceeds	9,962	11,860		1.190584
Remaining shares (50%)	2,952	4,427	(***)	
Total proceeds	12,913	16,287		

(*) Represents the midpoint of the range of $6.5 million to $8.5 million.
(**) Assumed dividend from taking on increased leverage and paying a 50/50 dividend.
(***) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

Collus Power Corp.
Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

Schedule 4

Veridian Proformas

	Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)	Unassumed Liabilities	Recapitalization	Revised Balance Sheet	
ASSETS						
Current Assets						
Cash	$ 2,923	2,550	-	1,090	3,640	
Other current assets	8,528	8,029		-	8,029	
	11,451	10,579	-	1,090	11,669	
Property, plant and equipment	12,764	13,007		-	13,007	
Goodwill	277	277		-	277	
Intangible - software	278	278		-	278	
Future taxes recoverable	157	157		-	157	
	24,927	24,298	-	1,090	25,388	
LIABILITIES AND SHAREHOLDER'S EQUITY						
Current Liabilities						
Accounts payable and accruals	7,384	6,634		-	6,634	
Customer deposits, current	431	331		-	331	
Income taxes payable	-	-		-	-	
	7,815	6,965	-	-	6,965	18,146
Employee future benefit costs	308	308	-	-	308	
Long-term net regulatory liabilities	1,412	1,412	-	-	1,412	
Proposed new financing	-	-		5,700	5,700	
Incremental leverage	-	-		2,400	2,400	
Note payable to Town of Collingwood	1,710	1,710		(1,710)		
Long-term debt - Ontario Infrastructure	2,900	2,700	-	-	2,700	
	14,145	13,095	-	6,390	19,485	
Shareholder's Equity	$ 10,782	11,203	-	(5,300)	5,903	
		1,710				
Town's net investment		12,913				

		NBV	Rate Base		Rate Base	
Debt	10,800	64.7%	60.3%		10,800	60.34%
Equity	5,903	35.3%	39.7%		7,100	39.66%
	16,703	100.0%	100.0%		17,900	100.00%

	NBV	Paid to Town		
Shares (50%)	-	6,500		
Less: Unassumed liabilities	-		(*)	
	5,602	6,500		
Proposed post-closing dividend	2,000	2,000	(**)	
Incremental dividend	650	650	(**)	
Note payable	1,710	1,710		
Cash proceeds	9,962	10,860		
Remaining shares (50%)	2,952	4,427	(***)	
Total proceeds	12,913	15,287		1.183865

(*) The offer for shares was assumed to include all existing long-term liabilities.
(**) Additional borrowings of $2.4 million were assumed in order to eliminate the estimated NWC shortfall of $1.1 million and to pay an additional dividend on a 50/50 basis.
The additional borrowings were assumed for a better comparison to the other proposals.
(*) Assumes FMV equals (closing NBV x 1.50 x 50% interest).

KPMG	14.1	16.3	15.2
Debt	1.71	1.71	1.71

	15.81	18.01	16.91
Hydro One	15,998	4,427	20,425
PowerStream	15,010	4,427	19,437
Horizon	11,860	4,427	16,287
Veridian	10,860	4,427	15,287

Collus Power Corp. **Schedule A**
Calculation of Deemed Rate Base
Based on Proforma Balance Sheet as at December 31, 2011
Non-IFRS Basis
($ 000's)

		Net Book Value as at 31-Dec 2010 (Actual)	Net Book Value as at 31-Dec 2011 (Projected)
ASSETS			
Current Assets			
Cash	$	2,923	2,550
Other current assets		8,528	8,029
		11,451	10,579
Property, plant and equipment		12,764	13,007
Goodwill		277	277
Intangible - software		278	278
Future taxes recoverable		157	157
		24,927	24,298
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current Liabilities			
Accounts payable and accruals		7,384	6,634
Customer deposits, current		431	331
Income taxes payable		-	-
		7,815	6,965
Employee future benefit costs		308	308
Long-term net regulatory liabilities		1,412	1,412
New financing		-	-
Note payable to Town of Collingwood		1,710	1,710
Long-term debt - Ontario Infrastructure		2,900	2,700
		14,145	13,095
Shareholder's Equity	$	10,782	11,203
			1,710
Town's net investment			12,913

Rate Base as at 31-Dec 2010 (Actual)		
PPE		
Fixed assets	12,764	
Software	278	
	13,042	A
Allowance for NWC		
2010 Cost of power	25,972	
2010 OM&A	4,282	
Less: OMA deprecation	(184)	
Total costs	30,070	
Allowance @ 15%	4,511	B
Actual NWC		
Current assets	11,451	
Current liabilities	(7,815)	
	3,636	
Shortfall in NWC	(875)	
Rate Base	17,553	A+B
Rate Base - hurdle	17,900	

Rate Base as at 31-Dec 2011 (Projected / Budget)		
PPE		
Fixed assets	13,007	
Software	278	
	13,285	A
Allowance for NWC		
2011 Cost of power	26,491	
2011 OM&A	4,113	
Less: OMA deprecation		
Total costs	30,604	
Allowance @ 15%	4,591	B
Projected NWC		
Current assets	10,579	
Current liabilities	(6,965)	
	3,614	
Shortfall in NWC	(977)	
Rate Base	17,876	A+B
Rate Base - hurdle	17,900	

Excludes $200K - current portion of LTD
Excludes current portion of regulatory liability

This is Exhibit "V" referred to in
the Affidavit of John Rockx
sworn June 14, 2019

Commissioner for Taking Affidavits
(or as may be)

Message

From: Paul Bonwick [paulbonwick@compenso.ca]
Sent: 3/29/2012 9:28:24 PM
To: John Glicksman [/O=POWERSTREAM/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=JOHN.GLICKSMAN]
Subject: FW: LDC's Consolidation Strategy

FYI

I will set up a time to chat with you once later that week regarding their input.
Regards,
Paul

Hon. Paul Bonwick P.C.
Compenso Communications
705-445-8540
www.compenso.ca

From: Paul Bonwick [mailto:paulbonwick@compenso.ca]
Sent: Thursday, March 29, 2012 9:26 PM
To: 'Rockx, John'
Subject: RE: LDC's Consolidation Strategy

Hi John:
I would like to confirm my availability for a meeting Wednesday April 3rd, from 1-2 pm. Please provide location details for your Toronto office.
Kind Regards,
Paul

Hon. Paul Bonwick P.C.
Compenso Communications
705-445-8540
www.compenso.ca

From: Rockx, John [mailto:jrockx@kpmg.ca]
Sent: Thursday, March 29, 2012 7:03 PM
To: Paul Bonwick
Subject: RE: LDC's Consolidation Strategy

Paul :
John Herhalt and I could meet between 10:00 Am and 2:00 Pm on Wednesday April 3rd if that works for you . Preferred venue would be KPMG's Toronto office.

From: Paul Bonwick [mailto:paulbonwick@compenso.ca]
Sent: Thursday, March 29, 2012 2:20 PM
To: Rockx, John
Subject: RE: LDC's Consolidation Strategy

John:
My preference would be just me for an initial introduction and to develop some identified options or strategies. I would like to take that information away and include it in an agenda for a larger working group.

I can make myself available at your location unless you would prefer to visit my offices. I am in Toronto on a fairly regular basis.
Kind Regards,
Paul

Hon. Paul Bonwick P.C.
Compenso Communications
705-445-8540
www.compenso.ca

From: Rockx, John [mailto:jrockx@kpmg.ca]
Sent: Thursday, March 29, 2012 2:04 PM
To: Paul Bonwick
Subject: RE: LDC's Consolidation Strategy

Paul:

Would the meeting be with you initially or with a slightly larger "brain-storming" group as we discussed. Also, would the meeting be in the GTA?

From: Paul Bonwick [mailto:paulbonwick@compenso.ca]
Sent: Thursday, March 29, 2012 1:05 PM
To: Rockx, John
Subject: LDC's Consolidation Strategy

Hi John:
I wanted to first of all thank you for taking time chat at Heritage Dinner last week.
As mentioned that evening, both Ed Houghton and Brian Bentz hold KPMG and more specifically you and your colleague in high regard. It is as a result of that well earned reputation I would like to further explore potential strategies pertaining to consolidation in the LDC sector.
Please let me know if you have time available in the next couple of weeks to meet on this matter.
Thanks,
Paul

Hon. Paul Bonwick P.C.
Compenso Communications
705-445-8540
www.compenso.ca

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