



POWERSTREAM INC

Collus Power – RFP Update

Board of Directors

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October 24, 2011



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Background



- On September 19th, PowerStream made a presentation to the Collus Power Task Team as part of Collus Power's strategic partnership review.
- On October 4th, PowerStream received Collus Power's Request for Proposal for a Strategic Partnership.
- Responses to the proposal are due on November 16th. It is expected that the proposals will be reviewed and evaluated by the Collus Power Strategic Task Team with the goal of completing the selection process by the end of December.
- PowerStream has engaged John McNeil of BDR Energy as its financial advisor to assist with the valuation and financial due diligence of Collus Power.
- PowerStream has been providing updates to all three Shareholders and their representatives on Collus Power. PowerStream Management has been asked to provide a further update to the Shareholders' representatives on October 19th.

Proposal Criteria



- Proposals will be evaluated using the following criteria and weightings:

Payment for up to 50% of the shares and other financial considerations	30%
Provision of strategic and specialized resources and support in growing the Collus business	30%
Support for employees and their careers	10%
Customer experience and satisfaction and supporting the interests of the communities we serve	10%
Competitive distribution rate and cost structure of Collus	10%
Cultural and synergistic fit	10%

Overview of Collus



- Collus Power is owned by Collingwood Utility Services Corp., a holding company that is a wholly-owned subsidiary of the Town of Collingwood.
- Collus Power services the residents of the Town of Collingwood, Thornbury, Stayner and Creemore who combined have a population of approximately 27,000 full time residents (plus a large number of seasonal residents).
- Collus's customer base is comprised of approximately 13,600 residential and 1,730 general service customers for a total of 15,330 customers.
- At the end of 2010, Collus's rate base was approximately \$16.8M and its capital structure was 30/70 (debt-to-equity).
- In 2010, Collus's net income was \$400K and its return on equity was:
 - Return on Actual Equity – 3.7%
 - Return on Deemed Equity – 5.9%
- Based on unaudited financial statements, in 2011, Collus is tracking ahead of its 2011 budgeted net income.
- Collus Power has a \$1.71M note payable to the Town of Collingwood that pays interest of 7.25% per annum.

CHEC Group Overview



- The Cornerstone Hydro Electric Concepts Association (“CHEC”) group is a group of 12 utilities modeled after a cooperative to share resources and proficiencies. The CHEC group focuses on maximizing value for investment by combining resources and competencies while simultaneously maintaining the high standards of locally supplied service.

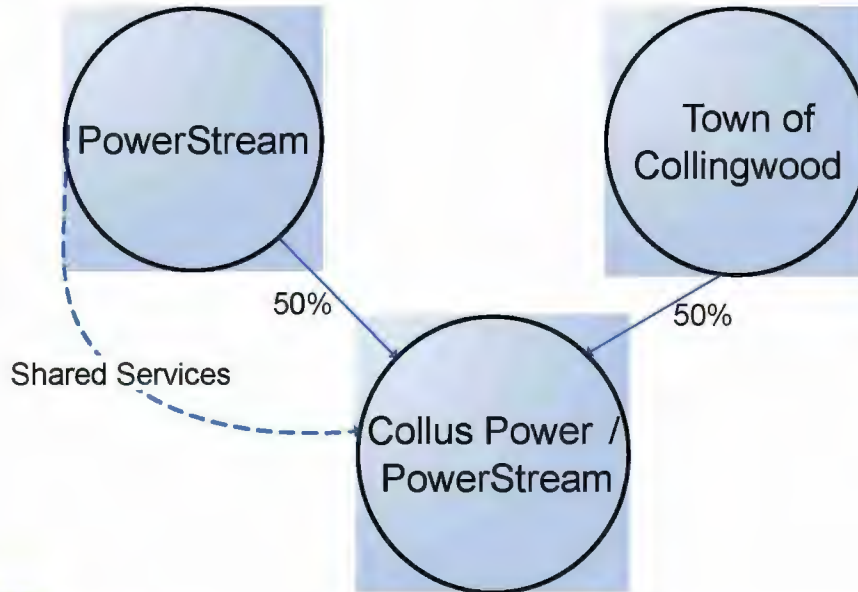
Utility	Number of Customers	Rate Base
Centre Wellington Hydro	6,463	\$8,544,924
Collus Power	15,533 *	\$16,882,152 *
Innisfil Hydro	14,707 *	\$24,201,502 *
Lakefront Utilities	9,571	\$14,300,706
Lakeland Power Distribution	9,439	\$15,983,322
Midland Power	6,914 *	\$13,218,329 *
Orangeville Hydro	11,256	\$17,487,164
Parry Sound Power	3,377	\$5,366,741
Rideau St. Lawrence Distribution	5,818	\$5,737,906
Wasaga Distribution	12,046 *	\$10,889,079 *
Wellington North Power	3,613	\$6,224,704
West Coast Huron Energy	3,770	N/A
TOTAL	102,507	\$138,836,529

* - Utility is located within PowerStream’s geographic footprint. The target area for future growth of PowerStream is Simcoe County, York Region and the service territory of Hydro One Brampton.



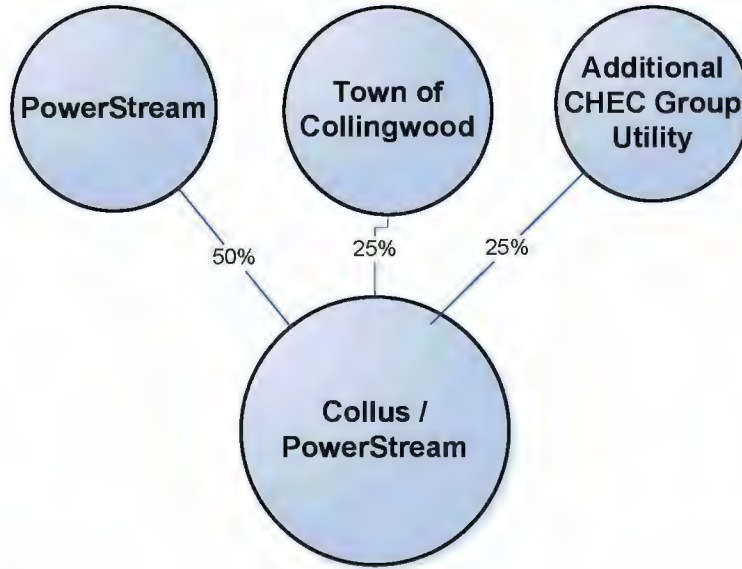
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Proposed Initial Structure



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Additional Acquisition Structure



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Purchase of Shares



- The RFP asks for offers to purchase up to 50% of the shares
- Recapitalizing Collus' capital structure to leverage the utility to a 60/40 debt-to-equity ratio would provide Collus with approximately \$5M to \$6M to give to the Town of Collingwood as a dividend.
- Collus Power's deemed equity is \$6.8M.
- Based on BDR's initial financial analysis the enterprise value of Collus is in the range of \$24 to \$26 million.
- BDR values Collus Power's Shareholder Equity in the range of \$12M to \$16M; therefore, 50% of the equity would be in the range of \$6M to \$8M.
- The total cash that the Town of Collingwood could receive for a 50% sale of Collus Power shares could be in the range of \$11M to \$14M (incl. the re-capitalization).

Financial Assumptions



- BDR's financial model has assumed the following:
 - 20-year model;
 - Collus rebases every 4 years and will seek to earn the maximum rate of return allowable by the OEB; for modeling purposes BDR has assumed the ROE will be 9% for 20 years;
 - Residential growth rate of 2% from 2011 – 2015 and 1% thereafter;
 - General Service growth rate of 1% from 2011 – 2015 and 0.5% thereafter;
 - Synergies and cost savings that may arise through the merger are not built in to the financial valuation

- PowerStream is reviewing the shared services and the potential to maximize efficiencies and realize any synergies over a 2 – 3 year period.

LDC Acquisition Premiums



Transaction Date	Utility Acquired	Purchaser	Enterprise price/book
May-00	Uxbridge	Veridian	1.69
Jun-00	Carleton Place	Hydro One	1.32
Apr-01	Thorold	Hydro One	1.60
Apr-01	Owen Sound	Hydro One	1.26
May-01	Lindsay	Hydro One	1.60
May-01	Quinte West	Hydro One	1.38
May-01	Port Hope	Veridian	1.35
Jul-01	Brampton	Hydro One	1.29
Aug-01	Caledon	Hydro One	1.25
Dec-01	Richmond Hill	Markham/Vaughan	1.33
Avg			1.41
May-02	Cornwall Electric	Fortis	1.25
Sep-05	Gravenhurst	Veridian	1.56
Sep-05	Aurora	PowerStream	1.29
Sep-05	West Nipissing	Sudbury	1.28
Jan-09	ELK Energy	Town of Essex	1.36
Aug-09	Great Lakes Power	Fortis	1.26
Avg			1.33
Overall Avg			1.37

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Proposed purchase price of Collus of \$26M is approximately 1.6x enterprise price / book value.

Governance



- The Request for Proposal states that Collus' preference is that a majority of the Board members be independent.

- The recommended Board structures are:
 - Alternative 1 (preferred):
 - 3 representatives each from Collus and PowerStream
 - 2 Co-Chairs
 - A majority of the representatives from both sides would be independent

 - Alternative 2:
 - 3 representatives each from Collus and PowerStream
 - 1 independent Chair
 - A majority of the representatives from both sides would be independent

Governance (cont'd)



- The current members of the Collus Board are Dean Muncaster (ex-CEO of Canadian Tire) and David McFadden (Gowlings) and Mayor Sandra Cooper (Mayor of the Town of Collingwood).
- The President and CEO of Collus Power is supportive of the transaction. In addition, the President and CEO has played a key role both in the EDA and in establishing the CHEC group.
- The Principles and Objectives of the Shareholder Agreement will guide any potential Shareholder disputes.

Dividend Policy



- The purpose of the dividend policy is to provide the Shareholders with a steady income stream from dividends.
- Collus - PowerStream maintains a capital structure consistent with the OEB's deemed capital structure of 60/40 (debt-to-equity).
- Collus - PowerStream shall pay a minimum of 50% of net income with consideration given to cash position at the beginning of the year, working capital requirements for the current year, and net capital expenditures required for the current year.

Objectives and Guiding Principles



It is PowerStream's intent to include in our proposal objectives and guiding principles such as:

- For Profit Corporation – Collus - PowerStream will be a for profit corporation, with the objective of optimizing 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.
- Dividends and Capital Structure – will be consistent with the dividend policy presented on slide 8.
- Customers – the distribution customers of Collus - PowerStream are the Corporation's optimal priority with respect to its electricity distribution business. Collus - PowerStream will provide a reliable, effective and efficient electricity distribution system.

Objectives and Guiding Principles (cont'd)

- Employees – Collus - PowerStream will treat all employees in a fair and equitable manner.
- Community – With consideration given to the optimization of the rate of return and Shareholder value, Collus - PowerStream will play a significant role in the local communities in which it operates. Collus - PowerStream will strive to be a good corporate citizen and a facilitator of economic development in the Collus – PowerStream’s service territory.
- Growth – Collus - PowerStream is committed to pursuing significant growth opportunities on a prudent and profitable basis given due consideration to the geographic footprint and size of the Local Distribution Company.

Buy/Sell Provisions



- The RFP contemplates that in the Shareholders Agreement a requirement will be the inclusion of buy-sell arrangements to include both right of first refusal and Shareholder buy-sell provisions.
- Unanimous consent items will be negotiated and agreed upon in the Shareholder Agreement.

Community



- Establishing Town of Collingwood Community Fund as part of PowerStream's bid.
- Initial annual fund will be \$25,000 to support community events in consultation with the Mayor and Town of Collingwood
- An incentive would be provided to the Town of Collingwood for future successful M&A (e.g., the Town of Collingwood Community Fund could increase).

Next Steps



Meeting with Shareholders' Representatives	October 19 th
Approval by PowerStream Board of Directors	October 24 th
Approval of PowerStream's bid by Shareholders	Before November 16 th
Response submitted to Collus Power	November 16 th
Collus Power Task Team Decision	December 2011