

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% Horizon 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		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 (= \$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		

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Schedule 1

Collus Power Corp.
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				
				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%)	-	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 \$6.4 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 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).

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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	
Town's net investment		1,710				
		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%)		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	1,127	(**)
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).

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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	
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	
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	
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).

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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	
Town's net investment		1,710				
		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%)	-	6,500	
Less: Unassumed liabilities	-	-	(*)
	5,600	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%)	2,957	4,427	(***)
Total proceeds	12,913	15,287	

(*) 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).

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Schedule A

Collus Power Corp.

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)	Rate Base as at 31-Dec 2010 (Actual)		Rate Base as at 31-Dec 2011 (Projected / Budget)	
ASSETS						
Current Assets						
Cash	\$ 2,923	2,550	PPE		PPE	
Other current assets	8,528	8,029	Fixed assets	12,764	Fixed assets	13,007
	11,451	10,579	Software	278	Software	278
				13,042		13,285
Property, plant and equipment	12,764	13,007				
Goodwill	277	277	<u>Allowance for NWC</u>		<u>Allowance for NWC</u>	
Intangible - software	278	278	2010 Cost of power	25,972	2011 Cost of power	26,491
Future taxes recoverable	157	157	2010 OM&A	4,282	2011 OM&A	4,113
	24,927	24,298	Less: OMA depreciation	(184)	Less: OMA depreciation	-
			Total costs	30,070	Total costs	30,604
			Allowance @ 15%	4,511	Allowance @ 15%	4,591
LIABILITIES AND SHAREHOLDER'S EQUITY			<u>Actual NWC</u>		<u>Projected NWC</u>	
Current Liabilities			Current assets	11,451	Current assets	10,579
Accounts payable and accruals	7,384	6,634	Current liabilities	(7,815)	Current liabilities	(6,965)
Customer deposits, current	431	331		3,636		3,614
Income taxes payable	-	-				
	7,815	6,965	Shortfall in NWC	(875)	Shortfall in NWC	(977)
Employee future benefit costs	308	308	Rate Base	17,553	Rate Base	17,876
Long-term net regulatory liabilities	1,412	1,412				
New financing	-	-	Rate Base - hurdle	17,900	Rate Base - hurdle	17,900
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				

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