

John A.D. Vellone
T (416) 367-6730
F 416.367.6749
jvellone@blg.com

Borden Ladner Gervais LLP
Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada M5H 4E3
T 416.367.6000
F 416.367.6749
blg.com



January 16, 2019

Delivered by Email, RESS & Courier

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor, Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: North Bay (Espanola) Acquisition Inc. Phase 1 MAADs Application to Acquire Espanola Regional Hydro Distribution Corporation and Related Approvals

We are counsel to the Applicant, North Bay (Espanola) Acquisition Inc. (“**NBEAI**”), and are pleased to submit this Application to the Ontario Energy Board (the “**Board**”) for:

- Leave to acquire 100% of the issued and outstanding common shares of Espanola Regional Hydro Holdings Corporation (“**ERHHC**”) and 100% of the special shares of Espanola Regional Hydro Distribution Corporation (“**ERHDC**”) from The Corporation of the Town of Espanola and The Corporation of the Township of Sables-Spanish Rivers, pursuant to section 86(2)(b) of the *Ontario Energy Board Act, 1998*; and
- Leave to amalgamate NBEAI, ERHHC and ERHDC to create a new company operating under the name Espanola Regional Hydro Distribution Corporation, made pursuant to section 86(1)(c) of the *Ontario Energy Board Act, 1998*; and
- Approval of the proposed rate making framework under section 78 of the *Ontario Energy Board Act, 1998*; and
- A determination to not review the accompanying notice of proposal under section 82 of the *Ontario Energy Board Act, 1998*, or in the alternative, approving the proposal on the basis that it will not adversely affect the development and maintenance of a competitive market and it is not inconsistent with the objectives of the Board or the purposes of the *Electricity Act, 1998*.

Background

NBEAI is an affiliate of North Bay Hydro Distribution Limited (“**NBHDL**”).

NBHDL is a licensed electricity distributor (ED-2003-0024) that owns and operates the electricity distribution system that provides service to approximately 24,117 mostly residential and commercial electricity customers in the City of North Bay.

North Bay Hydro Services Inc. ("NBHSI"), another affiliate of NBEAI, is a licensed electricity generator (EG-2013-0253) that owns and operates the Merrick Landfill Gas Project with an installed capacity of 1.6MW.

ERHDC is a licensed electricity distributor that owns and operates the electricity distribution system that serves approximately 3,288 electricity customers in the Town of Espanola and the Township of Sables-Spanish Rivers. ERHDC's office is located in the Town of Espanola.

The proposed transaction involves two Northern Ontario utilities that operate very similar service territories and provides an opportunity for a smaller utility to draw upon the corporate structure and resources, including in-house expertise, of a near-by larger northern LDC.

Why is this Transaction Unique?

ERHDC is, in part, a virtual utility.

ERHDC has 7 employees, who are actively involved in the day to day operation of the company. ERHDC is also party to a Services Agreement with PUC Services Inc. ("PUC") that will continue until February 2022, pursuant to which PUC provides a comprehensive suite of management services, customer services and IT services to support the day-to-day operations of ERHDC.

ERHDC has not been before the Board for a cost of service application in seven (7) years, has not had rates adjusted in nearly four (4) years, and has been operating under interim rates since May 1, 2016.

In addition, ERHDC has not performed well financially over the last few years and this trend is projected to continue if the Board does not approve this Application. For example, in 2017, its achieved regulatory ROE was 2.45%, well below the Board's deemed ROE dead-band of 300 basis points.

In this circumstance, deferring rebasing of ERHDC by another 10 years following Phase 1 transaction, as permitted by the Board's Consolidation Handbook, would not be in the public interest.

For this reason, NBEAI is proposing a two-phase transaction and is seeking approval of a Proposed Rate Framework which, taken together, is customized to address the unique circumstances of this transaction while at all times conforming with the policy objectives and requirements established in the Board's Consolidation Handbook and Consolidation Report.

The Proposed Rate Framework is an integral, and non-severable component of the proposed two phase transaction and this overall Application. If the Board determines that it will deny the Proposed Rate Framework, the balance of the Application must also be denied.

The Proposed Two-Phase Transaction and the Proposed Rate Framework

This Application to the OEB is limited to the approvals required to affect the purchase by NBEAI of ERHHC and ERHDC, and the subsequent amalgamation of NBEAI, ERHHC and ERHDC, which will continue under the name ERHDC (the “**Phase 1 Transaction**”).

NBEAI proposes that following the Phase 1 Transaction, NBHDL and ERHDC be permitted to continue to operate as independent utilities until 2022 (i.e. after the PUC Services Agreement expires). Operational synergies are not yet possible because of ERHDC's obligations under, and PUC's rights under, the PUC Services Agreement. For this reason, PUC would continue to provide services to ERHDC pursuant to the PUC Services Agreement.

In this context, NBHDL is due to file its cost of service rebasing application for rates effective May 1, 2020. NBHDL intends to file such an application prior to the Phase 2 Transaction (the “**NBH Rebasing Application**”).

If the Board approves the Phase 1 Transaction, NBEAI would also **ensure** ERHDC files a cost of service rebasing application for rates effective May 1, 2021 (the “**Espanola Rebasing Application**”).

The Espanola Rebasing Application is required to maintain the ongoing financial viability of ERHDC, which earned an actual regulatory ROE of 6.29% in 2016, 2.45% in 2017, and is expected to earn a similarly low ROE in 2018.

It will also address a number of regulatory issues including:

- Bringing ERHDC back into compliance with OEB regulatory requirements by allowing ERHDC to begin the transition of residential consumers towards fully-fixed rates.
- Ending the ICM rate rider, and rolling the substation properly into rates, which will help reduce rates to the benefit of customers (the actual costs of the substation were less than what was previously forecasted).
- Filing a comprehensive five-year consolidated distribution system plan (DSP) in accordance with the OEB’s requirement.
- Disposing of Group 1 DVAs, which were last disposed of for December 31, 2013 balances, and LRAMVA which was last approved for 2014 rates for pre-2012 programs in 2011 until April 2012.
- Updating ERHDC’s load forecast, cost allocation and rate design to reflect more current information.

A fundamental component of the Proposed Rate Framework is that the NBH Rebasing Application and the ERHDC Rebasing Applications will be heard independently. No synergies are possible until the PUC Services Agreement expires.

Upon completion of the Espanola Rebasing Application, the NBH Rebasing Application, the transition of services from PUC to NBHDL, and the expiry of the PUC Services Agreement, NBHDL will bring a second application to the Board to approve the second phase (“Phase 2”) of the transaction to allow for the amalgamation of NBHDL and ERHDC under section 86(1)(c) of

the *Ontario Energy Board Act, 1998* (the “**Phase 2 Transaction**”). The ultimate amalgamated entity will operate under the name North Bay Hydro Distribution Ltd. (“**New NBHDL**”).

Following completion of the Phase 2 Transaction, NBHDL would commit to only defer rebasing and rate harmonization of the consolidated utility for five (5) years.

This would ensure that ratepayers would see the benefits of the amalgamation of NBHDL and ERHDC by 2026, a full two (2) years earlier than if the 10-year deferred rebasing period was applied following the completion of the Phase 1 Transaction. Evidence of those benefits are forecasted in the attached Application.

Sincerely,

Original signed by John A. D. Vellone

BORDEN LADNER GERVAIS LLP

CC: Matt Payne and Melissa Casson, NBEAI
Nancy Hembruff and Domenic Damiani, ERHDC

ONTARIO ENERGY BOARD

IN THE MATTER OF an application made by North Bay (Espanola) Acquisition Inc. for leave to acquire 100% of the issued and outstanding common shares of Espanola Regional Hydro Holdings Corporation and 100% of the special shares of Espanola Regional Hydro Distribution Corporation from The Corporation of the Town of Espanola and The Corporation of the Township of Sables-Spanish Rivers, made pursuant to section 86(2)(b) of the *Ontario Energy Board Act, 1998*.

AND IN THE MATTER OF an application made by North Bay (Espanola) Acquisition Inc., Espanola Regional Hydro Holdings Corporation and Espanola Regional Hydro Distribution Corporation to amalgamate to create a new company operating under the name Espanola Regional Hydro Distribution Corporation, made pursuant to section 86(1)(c) of the *Ontario Energy Board Act, 1998*.

AND IN THE MATTER OF an application made by North Bay (Espanola) Acquisition Inc. for approval of the proposed rate making framework under section 78 of the *Ontario Energy Board Act, 1998*.

AND IN THE MATTER OF the Notice of Proposal provided by North Bay (Espanola) Acquisition Inc. pursuant to section 81 of the *Ontario Energy Board Act, 1998*.

Filed: January 16, 2019

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Certification of Evidence

As President and Chief Operating Officer of North Bay (Espanola) Acquisition Inc. and in my capacity as an officer of that corporation and without personal liability, I hereby certify to the best of my knowledge and as at the date of this certification that the evidence in the Application is accurate, consistent and complete.



Matt Payne, President and Chief Operating Officer

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APPLICATION

3 **1. Introduction**

4 North Bay (Espanola) Acquisition Inc. (“**NBEAI**” or “**Acquisition Co.**” or the “**Applicant**”) is
5 filing this application (the “**Application**”) to seek the approval of the Ontario Energy Board (the
6 “**OEB**” or the “**Board**”) to purchase Espanola Regional Hydro Holdings Corporation (“**ERHHC**”)
7 from The Corporation of the Town of Espanola and The Corporation of the Township of Sables-
8 Spanish Rivers (the “**Sellers**”) pursuant to section 86(2)(b) of the *Ontario Energy Board Act, 1998*
9 (the “**OEB Act**”), and to subsequently amalgamate NBEAI, ERHHC, and Espanola Regional
10 Hydro Distribution Corporation (“**ERHDC**”), with the amalgamated entity continuing under the
11 name ERHDC pursuant to section 86(1)(c) of the OEB Act.

12 NBEAI is also applying for approval of a proposed rate framework (the “**Proposed Rate**
13 **Framework**”) under section 78 of the OEB Act, as further described below.

14 NBEAI also submits a Notice of Proposal pursuant to section 81 of the OEB Act to acquire
15 ERHDC. As more fully detailed below, an affiliate of NBEAI owns an interest in a generation
16 facility in Ontario.

17 Since the amalgamated company will continue under the name Espanola Regional Hydro
18 Distribution Corporation, NBEAI does not require a transfer of the ERHDC distribution license or
19 rate order as part of this Application.

20 The above approvals are required to complete the first phase (“**Phase 1**”) of a two-phase
21 transaction which will ultimately result in the amalgamation of North Bay Hydro Distribution Ltd.
22 (“**NBHDL**”) and ERHDC.

23 Appendix A of this Application provides a detailed description of each party’s business structure
24 both before and after Phase 1 of the proposed transactions and identifies the applicable governing
25 law for each legal entity.

26 This Application is organized to generally follow the order of requirements for consolidation
27 applications as set out in the Board’s *Handbook to Electricity Distributor and Transmitter*

1 *Consolidations* (the “**Handbook**”). The mapping of evidence provided at Appendix B pinpoints
2 the exact location of the evidence responsive to each of the Board’s requirements. This
3 Application, including the Proposed Rate Framework, is consistent with the Handbook as well as
4 the Board’s March 26, 2015 *Report of the Board on Rate-Making Associated with Distributor*
5 *Consolidation* (the “**Consolidation Report**”).

6 *1.1 Why is this Application Unique?*

7 ERHDC has not been before the Board for a cost of service application in seven (7) years, has not
8 had rates adjusted in nearly four (4) years, and has been operating under interim rates since May
9 1, 2016.

10 In addition, ERHDC has not performed well financially over the last few years and this trend is
11 projected to continue if the Board does not approve this Application. For example, in 2017, its
12 achieved regulatory ROE was 2.45%, well below the Board’s deemed ROE dead-band of 300 basis
13 points.

14 In this circumstance, NBEAI submits that deferring rebasing of ERHDC by another 10 years
15 following Phase 1, as permitted by the Handbook, would not be in the public interest.

16 For this reason, NBEAI has proposed a two-phase transaction and is seeking approval of the
17 Proposed Rate Framework which, taken together, is customized to address the unique
18 circumstances of this transaction while at all times conforming with the policy objectives and
19 requirements established in the Handbook and the Consolidation Report.

20 The Proposed Rate Framework is an integral, and non-severable component of the proposed two-
21 phase transaction and this overall Application. If the Board determines that it will deny the
22 Proposed Rate Framework, the balance of the Application must also be denied.

23 *1.2 Background*

24 ERHDC is, in part, a virtual utility.

25 ERHDC has 7 employees, who are actively involved in the day to day operation of the company.

1 In addition, ERHDC is party to a Services Agreement with PUC Services Inc. (“**PUC**”) effective
2 June 1, 2016, as amended (the “**PUC Services Agreement**”) pursuant to which PUC provides a
3 comprehensive suite of management services, customer services and IT services to support the
4 day-to-day operations of ERHDC.

5 A copy of the PUC Services Agreement is attached as Appendix C of this Application. The term
6 of the PUC Services Agreement continues until February 28, 2022. It includes a transition period
7 to allow for the orderly and timely transition of services from PUC back to ERHDC (or NBHDL).

8 PUC has been advised of this proposed transaction and continues to perform its obligations
9 pursuant to the PUC Services Agreement.

10 ERHDC has been operating under interim rates since May 1, 2016. ERHDC has not performed
11 well financially over the last few years and this trend is projected to continue if the Board does not
12 approve this Application. In 2016, ERHDC’s achieved ROE was 6.29%. In 2017, its achieved
13 regulatory ROE was 2.45%, well below the Board’s deemed ROE dead-band of 300 basis points.

14 For these reasons and as more fully detailed below, the 10-year deferred rebasing period set out in
15 the Handbook following Phase 1 would not be in the public interest. Rather, NBEAI is seeking
16 approval of the Proposed Rate Framework as described below.

17 These transactions, if approved by the Board, will restore the economic footing and financial
18 viability of ERHDC going forward and will facilitate bringing ERHDC into compliance with a
19 number of regulatory requirements.

20 *1.3 The Phase 1 Transaction*

21 This Application to the OEB is limited to the approvals required to affect the purchase by NBEAI
22 of ERHHC and the subsequent amalgamation of NBEAI, ERHHC and ERHDC (the “**Phase 1**
23 **Transaction**”).

24 Pursuant to the Securities Purchase Agreement dated October 12, 2018 between the Sellers, North
25 Bay Hydro Holdings Ltd. (“**NBHHL**”) and NBEAI (the “**Securities Purchase Agreement**”),

1 attached hereto as Appendix D, subject to the parties obtaining the required approvals, the Sellers
2 have agreed to sell, and NBEAI has agreed to purchase:

3 (i) all of the issued and outstanding common shares of ERHHC (the “**Holdings**
4 **Common Shares**”),

5 (ii) all of the issued and outstanding special shares in the capital of ERHDC
6 (“**ERHDC Special Shares**”),

7 (iii) the promissory notes issued by ERHDC in favour of the Sellers (the
8 “**Shareholder Notes**”)

9 (collectively, Holdings Common Shares, ERHDC Special Shares and Shareholder Notes
10 are referred to as the “**Purchased Securities**”).

11 The purchase price for NBEAI to acquire the Purchased Securities is \$7,989,530 (the “**Purchase**
12 **Price**”).

13 The Purchase Price is subject to adjustment following the closing date in accordance with section
14 3.4 of the Securities Purchase Agreement on the basis of any changes between the shareholders’
15 equity of ERHDC as at December 31, 2016 and the shareholders’ equity of ERHDC on the closing
16 date (based on updated financial information and documentation).

17 The closing of the acquisition of the Purchased Securities is conditional upon the receipt of all
18 required approvals and third-party consents, including the OEB’s approval of this Application.

19 The Securities Purchase Agreement also provides for certain covenants from NBEAI in favour of
20 the Sellers, such as a two-year guarantee on employment for employees of ERHDC following the
21 closing date, participation in community events and programs and the establishment of an advisory
22 committee that will provide a forum for communication and continuing dialogue between NBEAI
23 and the Sellers.

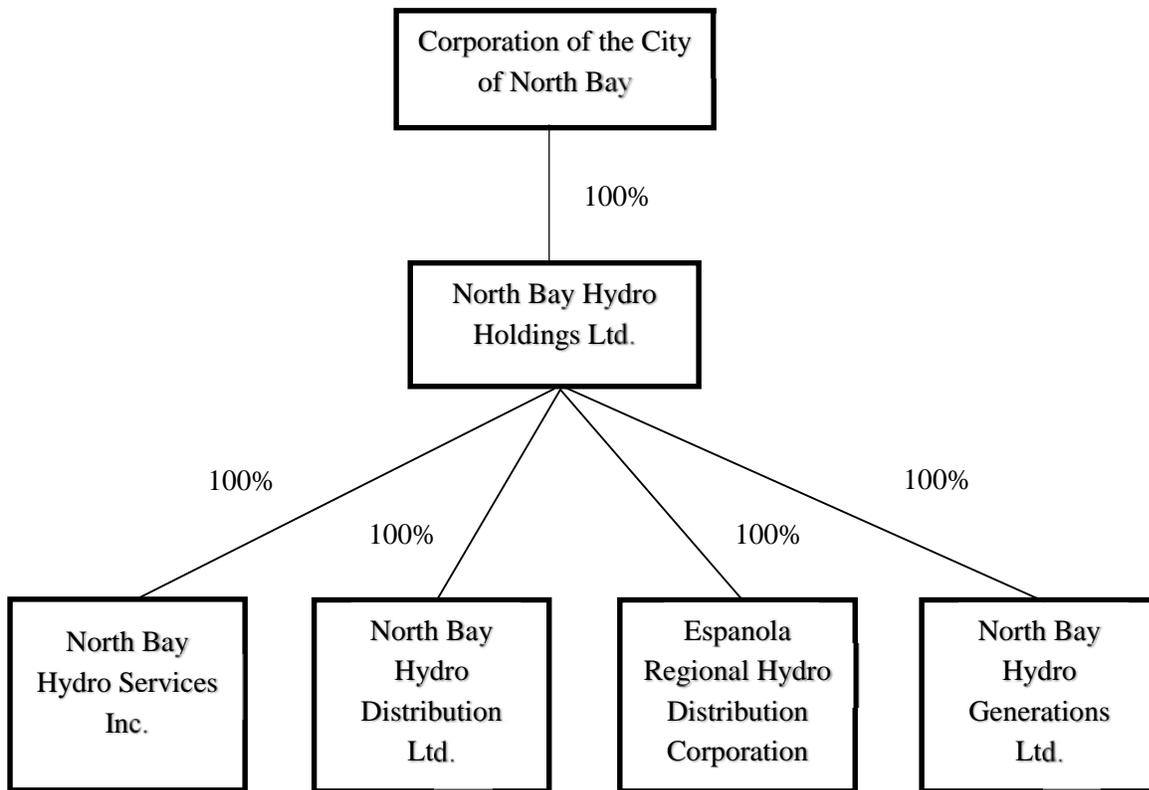
24 Once NBEAI has acquired all of the shares of ERHHC and the special shares of ERHDC, NBEAI
25 will assume 100% ownership and control of ERHHC and ERHDC.

1 On the closing date of the Phase 1 Transaction, ERHHC, ERHDC, and NBEAI, will amalgamate
2 to form a new corporation, which will continue under the name Espanola Regional Hydro
3 Distribution Corporation.

4 The following Figure 1-1 illustrates the corporate ownership structure upon the closing date of the
5 Phase 1 Transaction:

6
7

Figure 1-1: Phase 1 - Corporate Ownership Structure



1 1.4 *The Proposed Rate Framework*

2 To encourage consolidations, the OEB has introduced policies that provide consolidating
3 distributors with an opportunity to offset transaction costs with any achieved savings, by deferring
4 rebasings by up-to 10 years.

5 However, this is not a typical consolidation transaction.

6 NBEAI is proposing the following Proposed Rate Framework for approval by the Board.

7 ERHDC has not been before the Board for a cost of service rebasing application in more than
8 seven (7) years (EB-2011-0139), has been operating under interim rates since May 1, 2016 (EB-
9 2015-0068), has not had the benefit of even inflationary rate adjustments in more than three (3)
10 years, and has not made any adjustments towards fully fixed distribution rates for residential
11 customers.

12 In this context, NBEAI submits that it would not be in the public interest to defer the rebasing of
13 ERHDC rates by another 10 years following the Phase 1 Transaction, even though this would be
14 permitted in the Handbook.

15 Rather, NBEAI proposes that following the Phase 1 Transaction, NBHDL and ERHDC be
16 permitted to continue to operate as independent utilities until 2022 (i.e. after the PUC Services
17 Agreement expires). During this time, PUC would continue to provide services to ERHDC
18 pursuant to the PUC Services Agreement and NBHDL would continue to operate independently
19 as a separate utility.

20 In this context, NBHDL is due to file its cost of service rebasing application for rates effective
21 May 1, 2020. NBHDL intends to file such an application prior to the Phase 2 Transaction (as
22 defined in Section 1.5, below) (the “**NBH Rebasing Application**”). The Phase 1 Transaction
23 would have no impact on the NBH Rebasing Application, because sustainable operational
24 efficiencies are impossible to achieve while the PUC Services Agreement is in place.

1 If the Board approves the Phase 1 Transaction, NBEAI would also ensure ERHDC files a cost of
2 service rebasing application for rates effective May 1, 2021 (the “**Espanola Rebasing**
3 **Application**”).

4 The Espanola Rebasing Application is required to maintain the ongoing financial viability of
5 ERHDC, which earned an actual regulatory ROE of 6.29% in 2016, 2.45% in 2017, and is
6 forecasted to earn a similarly low ROE in 2018.

7 It will also address a number of regulatory issues including:

- 8 • Bringing ERHDC back into compliance with OEB regulatory requirements by allowing
9 ERHDC to begin the transition of residential consumers towards fully-fixed rates.
- 10 • Ending the ICM rate rider, and rolling the substation properly into rates, which will help
11 reduce rates to the benefit of customers (the actual costs of the substation were less than
12 what was previously forecasted).
- 13 • Filing a comprehensive five-year consolidated distribution system plan (DSP) in
14 accordance with the OEB’s requirement.
- 15 • Disposing of Group 1 DVAs, which were last disposed of for December 31, 2013 balances,
16 and LRAMVA which was last approved for 2014 rates for pre-2012 programs in 2011 until
17 April 2012.
- 18 • Updating ERHDC’s load forecast, cost allocation and rate design to reflect more current
19 information.

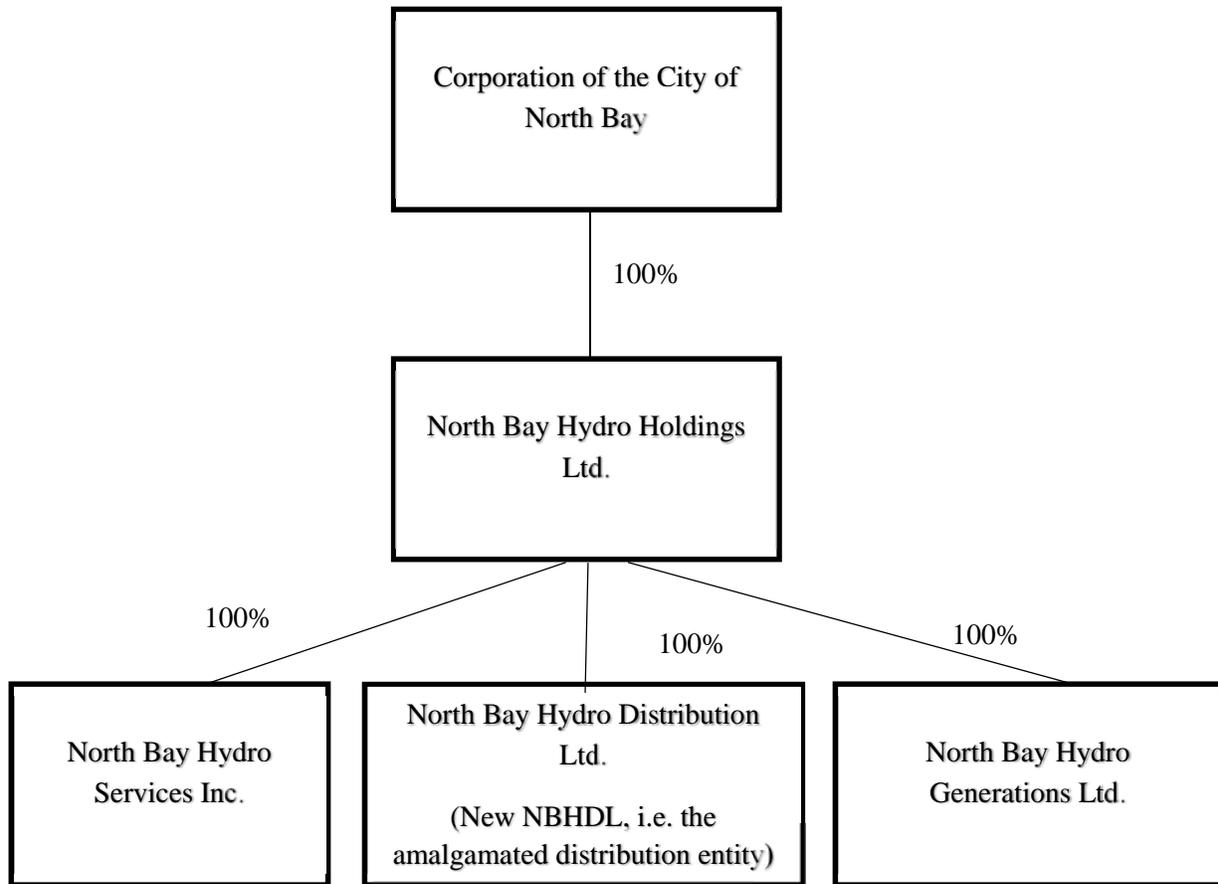
20 A fundamental component of the Proposed Rate Framework is that the NBH Rebasing Application
21 and the ERHDC Rebasing Applications will be heard independently. No synergies are possible
22 until the PUC Services Agreement expires.

1 1.5 The Phase 2 Transaction

2 Upon completion of the Espanola Rebasing Application, the NBH Rebasing Application, the
3 transition of services from PUC to NBHDL, and the expiry of the PUC Services Agreement,
4 NBHDL will bring a second application to the Board to approve the second phase (“**Phase 2**”) of
5 the transaction to allow for the amalgamation of NBHDL and ERHDC under section 86(1)(c) of
6 the *Ontario Energy Board Act, 1998* (the “**Phase 2 Transaction**”).

7 Approval for the Phase 2 Transaction will be sought from the Board following the expiration of
8 the PUC Services Agreement. The following Figure 1-2 illustrates the proposed corporate
9 ownership structure upon the completion of the Phase 2 Transaction:

10 **Figure 1-2: Phase 2 - Corporate Ownership Structure**



1 The ultimate amalgamated entity will operate under the name North Bay Hydro Distribution Ltd.
2 (“**New NBHDL**”).

3 Following completion of the Phase 2 Transaction, the final component of the Proposed Rate
4 Framework would be that NBHDL would commit to only defer rebasing and rate harmonization
5 of the consolidated utility for five (5) years.

6 This would ensure that ratepayers would see the benefits of the amalgamation of NBHDL and
7 ERHDC by 2026, a full two (2) years earlier than if the 10-year deferred rebasing period was
8 applied following the completion of the Phase 1 Transaction.

9 **2. OEB Approval Requests**

10 NBEAI is requesting the following:

11 (a) approval to acquire 100% of the issued and outstanding common shares of Espanola
12 Regional Hydro Holdings Corporation and 100% of the special shares of Espanola
13 Regional Hydro Distribution Corporation from The Corporation of the Town of
14 Espanola and The Corporation of the Township of Sables-Spanish Rivers, made
15 pursuant to section 86(2)(b) of the *Ontario Energy Board Act, 1998*.

16 (b) approval for North Bay (Espanola) Acquisition Inc., Espanola Regional Hydro
17 Holdings Corporation and Espanola Regional Hydro Distribution Corporation to
18 amalgamate to create a new company operating under the name Espanola Regional
19 Hydro Distribution Corporation, made pursuant to section 86(1)(c) of the *Ontario*
20 *Energy Board Act, 1998*.

21 (c) approval of the proposed rate making framework under section 78 of the *Ontario*
22 *Energy Board Act, 1998*.

23 NBEAI is also submitting a Notice of Proposal as is required pursuant to section 81 of the *Ontario*
24 *Energy Board Act, 1998*. NBEAI seeks a determination that the Board intends to not review the
25 proposal under section 82 of the *Ontario Energy Board Act, 1998*, or in the alternative, that it

1 approves the proposal on the basis that it will not adversely affect the development and
2 maintenance of a competitive market and it is not inconsistent with the objectives of the Board or
3 the purposes of the *Electricity Act, 1998*.

4 Since the amalgamated company will continue under the name Espanola Regional Hydro
5 Distribution Corporation, NBEAI is not requesting approval to transfer ERHDC distribution
6 license or rate order as part of this Application.

7 The Applicant respectfully requests that this Application be heard by way of a written hearing.

8 **3. Other Approvals and Considerations**

9 Pursuant to Electricity Generation Licence EG-2013-0253, North Bay Hydro Services Inc.
10 (“NBHSI”) owns and operates the Merrick Landfill Gas Project with an installed capacity of 1.6
11 MW located at Part of Annulled Lots 10, 11 and 12, Concessions IV and V and Part of Annulled
12 Lots 10 and 11, Concession VI in the unorganized Township of Merrick, District of Nipissing.

13 Accordingly, the Applicant hereby provides Notice of Proposal to the Board under section 81 of
14 the OEB Act (attached hereto at Appendix E).

15 The Applicant requests the Board’s confirmation that the Board does not intend to review the
16 proposal or, in the alternative, the Board’s approval of the proposal on the basis that:

17 (a) the impact of the proposal would not adversely affect the development and
18 maintenance of a competitive market; and

19 (b) the proposal is not inconsistent with the objectives of the Board or the purposes of
20 the *Electricity Act, 1998*. 2017, c. 2, Sched. 10, s. 2 (7).

21 **4. The No Harm Test**

22 The Handbook states that to demonstrate no harm, applicants must show that there is a reasonable
23 expectation based on underlying cost structures that the costs to serve customers following a
24 consolidation will be no higher than they would otherwise have been. The Handbook also states

1 that the impact the proposed transaction will have on economic efficiency and cost effectiveness
2 will be assessed based on an applicant's identification of the various aspects of utility operations
3 where it expects sustained operational efficiencies, both quantitative and qualitative.

4 As will be demonstrated in this Application, the proposed transaction passes the "no-harm" test as
5 the evidence demonstrates that the transaction is expected to have a positive effect on the
6 attainment of the Board's statutory objectives as follows:

- 7 • The proposed transaction is forecasted to positively impact the customers of NBHDL and
8 ERHDC with respect to price, adequacy, reliability, and quality of electricity service due
9 to the efficiencies expected to be generated from the transaction;
 - 10 ○ Although the consolidation will result in transaction and transition costs, these will
11 be offset by the cost synergies and operational efficiencies that will be realized in
12 the underlying OM&A costs once the Phase 2 Transaction is completed;
 - 13 ○ The transaction will also result in the sharing of engineering and operational
14 expertise between ERHDC and NBHDL, which will lead to higher quality
15 operations and maintenance plans that will benefit customers of both NBHDL and
16 ERHDC;
 - 17 ○ The transaction will not affect the source of electricity supply for either NBHDL
18 and ERHDC;
- 19 • The proposed transaction incorporates the benefits to be realized through voluntary
20 consolidation; it will deliver cost synergies and economy of scale benefits contemplated by
21 the Ontario Distribution Sector Review Panel and will promote the objectives contained in
22 the Board's Renewed Regulatory Framework;
- 23 • The Applicant will continue to promote the education of customers;
- 24 • The promotion of electricity conservation and demand management will continue to be a
25 focus of both LDCs and the ultimate amalgamated distribution entity; and
- 26 • The Applicant will continue to facilitate the implementation of a smart grid in Ontario; and
- 27 • The Applicant will continue to promote the use and generation of electricity from
28 renewable sources and will continue to reinforce the distribution systems throughout its

1 service territories in order to accommodate the connection of renewable energy generation
2 facilities.

3 The Board has acknowledged that consolidation enables distributors to address challenges in an
4 evolving electricity industry. The proposed acquisition and future amalgamation promotes the
5 objectives of the *OEB's Renewed Regulatory Framework for Electricity Distributors – A*
6 *Performance Based Approach*. The proposed transaction impacts are anticipated to be positive or
7 neutral.

8 There are no anticipated adverse impacts and, as such, the Applicant submits that the proposed
9 transaction meets the Board's "No Harm" test.

10 **5. Details of the Authorized Representatives of the Applicant and Other Party**

11 The Applicant requests that a copy of all documents filed with the Board be served on the
12 Applicant and the Applicant's counsel, as follows:

13 **a) The Applicant**

14 **North Bay (Espanola) Acquisition Inc.**

15 Melissa Casson, CPA, CGA

16 Vice President of Finance

17 74 Commerce Crescent

18 North Bay, ON P1A 0B4

19 Phone: 705-474-8100 ext: 300

20 Fax: 705-474-8579

21 Email: mcasson@northbayhydro.com

22 **b) Counsel to the Applicant**

23 John A.D. Vellone

24 Borden Ladner Gervais LLP

25 Bay Adelaide Centre, East Tower,

26 22 Adelaide Street West, Toronto, Ontario, Canada, M5H 4E3

27 Phone: 416-367-6730

1 Fax: 416-367-6749

2 Email: JVellone@blg.com

3 **c) ERHDC**

4 Nancy Hembruff

5 Espanola Regional Hydro Distribution Corporation

6 598 Second Street, Espanola, Ontario, P5E 1C4

7 Phone: 705-869-0378 ext. 210

8 Fax: 705-869-2433

9 Email: nhembruff@erhydro.com

10 **d) Counsel to ERHDC**

11 Domenic Damiani

12 Damiani Law

13 1-225 Edgeley Boulevard, Concord, Ontario, Canada, L4K 3Y7

14 Phone: 647-948-6030

15 Fax: 647-948-6031

16 Email: domenic@damianilaw.ca

17 **6. Description of the Business of the Parties to the Transaction**

18 *6.1 Business of each of the parties to the proposed transaction*

19 **North Bay Hydro Distribution Ltd.**

20 NBHHL is the sole owner of NBEAI, NBHSI, NBHDL, and North Bay Hydro Generations Ltd.
21 (“NBHGL”), as further described in Appendix A.

22 NBHDL is a licensed electricity distributor (ED-2003-0024) that owns and operates the electricity
23 distribution system that provides service to approximately 24,117 mostly residential and
24 commercial electricity customers in the City of North Bay. NBHDL is a corporation incorporated
25 pursuant to the *Business Corporations Act* (Ontario) with its head office in the City of North Bay.

1 NBHDL is embedded in Hydro One's 44 kV sub transmission system at the City of North Bay's
2 water treatment plant located at 248 Lakeside Dr. and at substation #17, which is located in North
3 Bay's rural area at 20 Peninsula Road. Hydro One is embedded in NBHDL's 44kV sub
4 transmission system at Bond St., also known as Wood's junction. Hydro One is also embedded in
5 NBHDL's 12 kV distribution system at the northern city limits of North Bay on Highway 11 North.

6 NBHDL does not have any transmission or high voltage assets (>50kV) deemed previously by the
7 Board as distribution assets.

8 **Espanola Regional Hydro Distribution Corporation**

9 ERHDC is a licensed electricity distributor that owns and operates the electricity distribution
10 system that serves approximately 3,288 electricity customers in the Town of Espanola and the
11 Township of Sables-Spanish Rivers. ERHDC's office is located in the Town of Espanola.

12 ERHDC is embedded within Hydro One. ERHDC does not host any utilities within its service
13 area.

14 Further details regarding the business, and corporate charts illustrating the business structures and
15 affiliate relationships, of the parties to the proposed transaction are included in Appendix A.

16 *6.2 Geographic territory served by each of the parties to the proposed transaction*

17 **NBHDL Service Area:**

18 Community served:	City of North Bay
19 Total service area:	319.05 sq. km
20 Rural service area:	270 sq. km
21 Distribution type:	Electricity distribution
22 Service area population:	approx. 53,651
23 Municipal population:	approx. 53,651

1 **ERHDC Service Area:**

2	Community served:	Town of Espanola and Township of Sables-Spanish Rivers
3	Total service area:	102 sq. km
4	Rural service area:	76 sq. km
5	Distribution type:	Electricity distribution
6	Residential Customers Served:	2,885
7	Municipal population:	8,236

8 Both NBHDL and ERHDC are bounded by Hydro One Networks Inc. on all service territory
9 boundaries.

Hydro One Networks Inc.
483 Bay St.
Toronto, ON M5G 1P5
Direct Line: 416-345-5000
Website: www.HydroOne.com

10 The service area boundaries of NBHDL and ERHDC are not contiguous and are approximately
11 175 km apart.

12 Though Espanola is two (2) hours from the City of North Bay, the two utilities operate in very
13 similar geographic territories within Northern Ontario, and many of the service area characteristics
14 are also comparable.

15 For example, the rural service territory in both communities exceeds 75% of overall territory; 75%
16 of ERHDC's territory and 85% of NBHDL's territory; and both utilities operate a primarily
17 overhead system; 92% for ERHDC and 86% for NBHDL.

18 Table 6-1 below provides a summary of the service territory characteristics between ERHDC and
19 NBHDL showing the number of square kilometres for rural and urban service areas as well as
20 kilometres of line that are overhead and underground.

1

Table 6-1: Service Territory Characteristics

Characteristics	ERHDC		NBHDL	
Rural Service Area (sq km)	76	75%	279	85%
Urban Service Area (sq km)	26	25%	51	15%
Total Service Area (sq km)	102		330	
# of Customers / sq km	32.2		73.1	
Overhead Circuit km of Line	130	92%	495	86%
Underground Circuit km of Line	11	8%	79	14%
Total Circuit km of Line	141		574	
# of Customers / km of Line	23.3		42.0	

2 Maps of the NBHDL and ERHDC service areas, and the relative distance between the two, are
 3 attached hereto at Appendix F.

4 *6.3 Proposed geographic service area after completion of the proposed transaction*

5 There will be no change to the respective geographic service areas after the completion of the
 6 Phase 1 Transaction.

7 Upon completion of the Phase 2 Transaction (which will be subject to a separate MAADs
 8 application), the service areas of ERHDC and NBHDL will be combined to be served by a single
 9 merged utility.

10 *6.4 Description of customers, including number of customers in each class, served by each of*
 11 *the parties to the proposed transaction*

12 NBHDL and ERHDC are comparable both in the types of customer classes served by each utility
 13 and the service territories in which each operate with similar characteristics and terrain.

14 Table 6-2 below provides the number of customers/connections by rate class for 2017. Excluding
 15 the classes that are based on connections, both LDCs have a customer base that is primarily driven
 16 by the residential class (87-88%), followed by smaller commercial businesses that make up the
 17 general service < 50 kW class (11-12%). Only 1% of the customer base is made of up larger
 18 customers in the general service >= 50 kW class for both LDCs.

1 Currently, neither NBHDL nor ERHDC have any customers classified as large user or sub-
 2 transmission customers.

3 **Table 6-2: 2017 Customers / Connections**

Customer Rate Classifications	2017 - Number of Customers / Connections		2017 - % of Customers	
	ERHDC	NBHDL	ERHDC	NBHDL
Customers:				
Residential	2,872	21,205	87%	88%
General Service < 50 kW	388	2,649	12%	11%
General Service >= 50 kW	28	263	1%	1%
Total Customers	3,288	24,117	100%	100%
Connections:				
Street Lights	1,065	5,424		
Sentinel Lights	34	428		
Unmetered Scattered Load	21	10		
Total Connections	1,120	5,862		
Total	4,408	29,979		

4
 5 Both communities have experienced little to no growth over the last several years, as shown in
 6 Table 6-3 below that compares 2017 customer counts against 2013 for both ERHDC and NBHDL.

7 **Table 6-3: 2017 vs. 2013 Customers**

Customer Rate Classifications	ERHDC				NBHDL			
	2017	2013	(#)	(%)	2017	2013	(#)	(%)
Customers:								
Residential	2,872	2,866	6	0%	21,205	21,064	141	1%
General Service < 50 kW	388	406	(18)	-4%	2,649	2,654	(5)	0%
General Service >= 50 kW	28	29	(1)	-3%	263	255	8	3%
Total Customers	3,288	3,301	(13)		24,117	23,973	144	
% Change - 2017 vs. 2016			0%				1%	

8

1 6.5 *Current net metering thresholds of NBHDL and ERHDC*

2 Drawing from OEB Yearbook data, the following table shows the calculated net metering
3 thresholds for both ERHDC and NBHDL, calculated as 1% of the maximum peak demand (kW)
4 averaged over a 3 year period between 2015-2017.

5 **Table 6-4: Net Metering Thresholds**

	kW
Distributor	Threshold
ERHDC	125
NBHDL	979
Total	1,104

6
7 Following the completion of the Phase 1 Transaction, both NBHDL and ERHDC will retain their
8 current, distinct, net metering thresholds at current levels. It is purposed that two net metering
9 thresholds be maintained separately because the two LDCs and the two service territories are and
10 will continue to be non-contiguous, separate and distinct.

11 6.6 *Final legal document to be used to implement the proposed transaction*

12 The final legal document to be used to implement the transaction is the Securities Purchase
13 Agreement, attached hereto as Appendix D.

14 Copies of appropriate resolutions by parties approving the proposed transaction are attached in
15 Appendix G, and include:

- 16
- 17 • North Bay Hydro Holdings Limited Board Resolution Number 2018-12 dated July 17,
18 2018 (“**NBHHL Board Resolution**”); and
 - 19 • Resolutions of the Board of Directors of North Bay (Espanola) Acquisition Inc. dated
20 August 1, 2018 (“**NBEAI Board Resolution**”).
 - 21 • By-Law No. 2018-52 of The Corporation of the Township of Sables-Spanish Rivers dated
22 October 10, 2018.

- 1 • By-Law No. 2879-18 of The Corporation of the Town of Espanola dated October 9, 2018.

2
3 **7. Objective 1 – Protect consumers with respect to prices and the adequacy, reliability and**
4 **quality of electricity service**

5 *7.1 Impact with respect to prices*

6 NBEAI is proposing a two-phase transaction that will result in the eventual amalgamation of
7 NBHDL and ERHDC after the completion of the Phase 2 Transaction into a single amalgamated
8 distribution company.

9 The proposed transaction involves two Northern Ontario utilities that operate very similar service
10 territories and provides an opportunity for a smaller utility to draw upon the corporate structure
11 and resources including in-house expertise of a near-by, larger northern LDC.

12 Following the Phase 2 Transaction, NBEAI forecasts OM&A synergies will range between
13 \$572,000 to \$686,000 per year, as shown in Table 7-1 below, which shows the proposed two-phase
14 transaction and forecasted synergies.

15 The transition begins with the Phase 1 Transaction, which is the subject matter of this Application.

16 Following the completion of the Phase 1 Transaction, there will be no impact with respect to price
17 or underlying costs due to the continuation of the PUC Services Agreement.

18 NBEAI proposes that following the Phase 1 Transaction, NBHDL and ERHDC will continue to
19 operate as separate and distinct LDCs. ERHDC will continue to receive services under the PUC
20 Services Agreement. NBHDL will continue to operate its business as usual.

21 In addition, NBHDL intends to file the NBHDL Rebasing Application for rates effective May 1,
22 2020, as currently required. This application is necessary to ensure costs, load forecast, cost
23 allocation and rate design are all appropriate prior to the Phase 2 Transaction. NBEAI will bring
24 ERHDC in to file the ERHDC Rebasing Application for rates effective May 1, 2021. The
25 advantages associated with bringing the ERHDC application are outlined below.

1 Following the completion of these two rebasing applications, and once the PUC Services
2 Agreement ends, NBEAI will apply to the Board for approval of the Phase 2 Transaction. This
3 will involve the ultimate merger of ERHDC and NBHDL.

4 The operational synergies associated with this transaction are not forecasted to arise until after
5 approval of the Phase 2 Transaction, as shown in Table 7-1 below.

6 In light of the unique circumstances associated with this two-phase transaction, and in
7 consideration of independent rebasings of both NBHDL and ERHDC prior to the Phase 2
8 Transaction, NBHDL is willing to forego its right under the Handbook to defer rebasing for up-to
9 10 years following the Phase 2 Transaction.

10 Specifically, NBHDL would only defer rebasing for five (5) years following the Phase 2
11 Transaction. This ensures that ratepayers will gain the benefits associated with this transaction by
12 2026.

13 Table 7-1 is a cost structure analysis showing the proposed two-phase transaction and forecasted
14 synergies for ERHDC and NBHDL from 2019 to 2026.

15 **Table 7-1: Proposed Two-Phase Transaction and Forecasted Synergies**

	Phase 1 Transaction YR1 - 2019	NBH COS YR2 - 2020	ERH COS YR3 - 2021	PUC Services Agreement ends; Phase 2 Transaction YR4 - 2022	YR5 - 2023	YR6 - 2024	YR7 - 2025	YR8 - 2026
OM&A Costs -								
ERH	1,556	1,594	1,633	1,673	1,714	1,756	1,799	1,843
NBH	7,234	7,411	7,628	7,818	8,014	8,214	8,417	8,624
Status Quo	8,791	9,005	9,261	9,491	9,728	9,970	10,215	10,467
Synergies	-	-	75	(572)	(657)	(667)	(676)	(686)
Proposed OM&A	8,791	9,005	9,336	8,919	9,071	9,303	9,539	9,781
				Deferred Rebasing Period				

17 *The Advantages of the Proposed Rate Framework*

18 ERHDC last appeared before the Board with a full cost of service application for the 2012 rate
19 year in the EB-2011-0139 proceeding. In the years subsequent to this (2013-2015), ERHDC rates

1 were set under the Price Cap IR mechanism providing a formulaic adjustment to distribution rates
2 and charges in the period between cost of service proceedings.

3 ERHDC has not had a rate adjustment since the 2014 proceeding (EB-2014-0071). ERHDC was
4 scheduled to complete a full cost of service application in 2016, but subsequently delayed the
5 application, agreeing to forego any rate adjustments for the 2016 rate year. At that time, the Board
6 declared ERHDC's rates interim in its decision and order in (EB-2015-0068), stating:

7 "The OEB will not declare ERHDC's rates to be final at this time. The OEB's Order for
8 Interim Rates indicated that rates were declared interim in order to ensure ERHDC's
9 customers are not harmed by further delay to ERHDC's rate application and until such time
10 as new rates are approved by the OEB (emphasis added). Declaring rates final at this time
11 or in advance of ERHDC's cost of service filing will be contrary to the spirit and intent of
12 the OEB's Order for Interim Rates."

13 For the 2017 rate year, ERHDC again agreed to forego a rate adjustment under the assumption that
14 a full cost of service application for the 2018 rate year would be filed. However, in the summer of
15 2017 the process developing a cost of service application was halted due to the decision of the
16 Sellers to seek out bidders to purchase the LDC.

17 There has been no application filed for a 2019 rate adjustment.

18 As it currently stands, ERHDC has not been before the board for a cost of service rebasing in seven
19 (7) years, has not had rates adjusted in what will be approaching four (4) years, and has been
20 operating under interim rates since May 1, 2016.

21 Given this, NBEAI's proposed two-phase transaction is necessary and appropriate. It will allow
22 both ERHDC and NBHDL to file a full cost of service application in between Phase 1 and Phase
23 2. This will ensure that rates are adjusted to reflect a more current and accurate reflection of the
24 rate base its infrastructure needs and the underlying cost structure, load forecasts are updated, and
25 cost allocation and rate design are updated.

1 The purchase and subsequent consolidation will assist ERHDC with the growing pressures placed
2 on smaller LDCs to perform at the pace of the industry standard.

3 NBEAI forecasts to provide distribution rates upon amalgamated rebasing that will be lower than
4 they would have been for ERHDC customers, and no higher than they would have been for
5 NBHDL customers, had the parties remained as status quo independent LDCs.

6 The Applicant submits that ERHDC has been outside of the rate setting structure for an extended
7 period of time and needs to have rates re-set in order to continue investing in the operational and
8 infrastructure needs of the communities it serves and to position itself in a more secure, financially
9 viable position; as of 2017 the actual regulatory ROE of 2.45% was 6.67% lower than the Board's
10 deemed rate, and far outside the 3% deadband. Customers are not best served when the financial
11 viability of an LDC is at risk.

12 ERHDC has a 5-year services agreement with PUC that is in place until 2022 in relation to
13 management, customer service and IT related services. Following a transition period upon the end
14 of the PUC Services Agreement, ERHDC and NBHDL intend to amalgamate in 2022. It is at this
15 point where significant OM&A cost savings and efficiency gains can be made through the
16 consolidation of administrative practices and economies of scale. This includes the consolidation
17 of management, billing, customer service, finance and regulatory functions.

18 The following Table 7-2 provides a historical comparison of OM&A costs per customer for
19 ERHDC and NBHDL.

20 **Table 7-2: Comparison of OM&A per Customer Metrics**

OM&A per Customer				
	ERH	NBHDL	Variance	Variance
2017	\$ 424.99	\$ 273.34	-\$ 151.66	-55%
2016	\$ 422.35	\$ 241.69	-\$ 180.66	-75%
2015	\$ 417.08	\$ 262.79	-\$ 154.28	-59%
2014	\$ 394.02	\$ 273.36	-\$ 120.67	-44%
2013	\$ 417.85	\$ 235.91	-\$ 181.93	-77%
2012	\$ 412.05	\$ 227.04	-\$ 185.01	-81%

1 The proposed 8-year cost structure for combining ERHDC and NBHDL is shown in Table 7-1
2 above. A downward movement of ERHDC's underlying cost structure is expected as a result of
3 consolidation, compared to the status quo. These synergies would not be possible if ERHDC
4 continued operating at status quo.

5 The Applicant recognizes that although ERHDC has employed some degree of distribution system
6 planning for several years, it began drafting its first formal Distribution System Plan (DSP)
7 meeting all OEB Chapter 5 Filing Requirements in 2015-2016.

8 The intention at that point in time was to file the DSP with the OEB as part of the 2017 Cost of
9 Service Application. Activity was halted on the DSP in the summer of 2017 with the announcement
10 of the pending sale of ERHDC and the possibility of associated changes to the long-term plans.

11 NBEAI believes that the drafting and completion of the DSP for ERHDCs service territory should
12 continue and notes that the experts utilized in the initial drafting are the same as those used by
13 NBHDL. NBEAI intends to plan, pace and execute on the recommendations and requirements of
14 the DSP once complete. Cost savings related to capital investments are not expected to be material
15 and have therefore not been included within the analysis of the transaction or anticipated synergies.

16 However, the substantial infrastructure requirements of ERHDC over the next 10 years are
17 primarily related to substation rebuilds and NBHDL has significant experience constructing
18 substations. NBHDL designs have been adopted by other small to medium sized LDCs across
19 Ontario, including the station most recently rebuilt at ERHDC. It is expected that ERHDC will
20 benefit significantly from this expertise in the design, planning and execution of future planned
21 rebuilds. In addition, NBHDL's design and engineering is in-house and the Engineering and
22 Operations departments work hand in hand in the design, planning, estimating, management and
23 execution of capital projects. Upon amalgamation, synergies and further operational efficiencies
24 within the context of capital infrastructure will be more thoroughly explored.

25 Relative to the status quo the proposed transaction is expected to deliver sustainable reductions to
26 the underlying cost structure of ERHDC customers, with those savings ultimately being passed on

1 to the ratepayer eight (8) years following the anticipated completion of the initial purchase by
2 NBEAI.

3 *7.2 Impact with respect to the adequacy, reliability and quality of electricity service*

4 An objective of NBHDL is that of a Northern Ontario LDC that provides effective and efficient
5 service with a focus on the communities that rely on it.

6 NBEAI believes strongly in having a local physical presence no different than what ERHDC
7 customers experience today. Service levels and quality standards will continue through both
8 proposed phases of the transaction. NBEAI is committed to maintaining the adequacy of electricity
9 service for its customers and in order to continue operating with the service that customers have
10 come to expect, it is proposed that the existing service center will continue to operate in Espanola.

11 Front line operations staff that currently respond to outages and power quality issues are expected
12 to continue to serve the same communities. The Applicant anticipates that response times will not
13 decline. Throughout both phases of this transaction, it is the intention of the Applicant to maintain
14 the service levels of both LDCs through the merging of technologies, system control, adoption of
15 best work practices, etc.

16 Historically NBHDL and ERHDC have maintained strong reliability measures in both System
17 Average Interruption Duration Index (“**SAIDI**”) and System Average Interruption Frequency
18 Index (“**SAIFI**”) metrics. SAIFI and SAIDI results for the year ending 2017 indicate that both
19 LDCs have provided their customers with excellent reliability and both utilities have expertise in
20 the elements and conditions which affect reliability in Northern Ontario. The five-year historical
21 reliability metrics for NBHDL and ERHDC are provided in Table 7-3 below.

1

Table 7-3: Historic Service Quality Indicators of ERHDC and NBHDL

Service Quality Indicators*					
	2017	2016	2015	2014	2013
SAIDI					
ERHDC	0.35	0.55	0.27	0.21	1.05
NBHDL	1.11	2.29	1.10	1.65	1.66
SAIFI					
ERHDC	0.10	1.10	0.07	0.13	0.44
NBHDL	0.94	1.98	0.88	1.13	1.63

*Please note due to ERHDC being fully embedded with HONI, the majority of weather-related events cause upstream outages which are classified as Loss of Supply and therefore are not included in the above SAIDI/SAIFI calculations, resulting in very favourable statistics for ERHDC when excluded. As such, the statistics do not provide an equal comparison between the two utilities. With this said, the numbers are forecasted to remain the same in each respective geographic location as supply configurations will not change.

2 There will be a large benefit to ERHDC customers through Phase 2 of the transaction in the form
 3 of technology enhancements in the ERHDC service territory that would otherwise not be
 4 economical to implement.

5 These benefits include:

- 6 • The extension of NBHDL SCADA system to ERHDC;
- 7 • Visibility into HONI's grid control at interfacing transmission stations via the existing
- 8 NBHDL ICCP link;
- 9 • Extension of NBHDL Geographic Information System (GIS) to include the ERHDC
- 10 service area;

- 1 • Extension of the NBHDL customer website outage map to include the ERHDC service
2 area;
- 3 • Extension of the NBHDL social media platforms (Twitter, Facebook) to include
4 ERHDC to aid in the promotion of distributor activities, engagement of customers, and
5 communication of outage information; and
- 6 • Implementation of a stable, secure information technology backbone, aligned with
7 current cyber security regulatory requirements, with full remote support from NBHDL.

8 Of great value to ERHDC will be the access to fully resourced operations, engineering and
9 customer service departments at NBHDL, providing a larger internal pool of resources to handle
10 and improve all aspects of system adequacy, reliability and quality of electrical service. Of note,
11 the ERHDC electrical system will be displayed, managed, and operated from the NBHDL Control
12 Room, an element of operation that is currently lacking at ERHDC. This change will aid in the
13 optimization of power distribution, the issuance of work, and work protection and improve the
14 overall operation and safety of the grid in normal and outage event situations. The larger resource
15 pool will also aid in the ability for ERHDC to meet the requirements of an ever-changing industry
16 and unlock the potential of technological advances and innovative projects to further promote
17 stronger adequacy, reliability, and quality of electrical service.

18 The Board states in the Handbook that its review of “no harm” in respect of the adequacy,
19 reliability and quality of service will be informed by the distributors’ metrics as filed with the
20 OEB, and its annual scorecard performance. The 2017 scorecards of both ERHDC and NBHDL
21 are provided in Appendix H. Both scorecards demonstrate extremely strong performance and
22 trending in the areas of customer service and reliability and demonstrate a further alignment of
23 objectives aimed at maintaining or improving service levels. The following highlights the
24 Customer Focus statistics:¹

¹ First Contact Resolution can be measured in a variety of ways and further regulatory guidance is necessary in order to achieve meaningful comparable information across electricity distributors. For NBHDL, First Contact Resolution is measured based on the number of customer concerns that are escalated formally to NBHDL’s President or directly to the OEB. By contrast, ERHDC’s First Contact Resolution was measured by tracking the number of electric related calls that were escalated to a Senior Customer Care Representative, Supervisor, or Manager. In 2017, ERH had 3,955

CUSTOMER FOCUS												
YEAR	New Residential/Small Business Services Connected on Time (Target: 90%)		Scheduled Appointments Met on Time (Target: 90%)		Telephone Calls Answered on Time (Target: 65%)		First Contact Resolution		Billing Accuracy (Target: 98%)		Customer Satisfaction Survey Results	
	ERH	NBHDL	ERH	NBHDL	ERH	NBHDL	ERH	NBHDL	ERH	NBHDL	ERH	NBHDL
2013	94.70%	100.00%	95.40%	100.00%	74.80%	78.20%						93.3%
2014	100.00%	100.00%	100.00%	100.00%	77.30%	78.40%	100.00%	4	99.83%	99.92%		A
2015	100.00%	100.00%	100.00%	100.00%	76.10%	82.10%	99.80%	6	99.93%	99.88%	89.00%	A
2016	100.00%	100.00%	100.00%	99.90%	76.20%	83.60%	99.17%	14	99.95%	99.70%	87.00%	85.00%
2017	100.00%	100.00%	98.18%	100.00%	72.62%	86.56%	99.60%	4	99.95%	99.74%	87.00%	85.00%

2 7.3 *Describe how the distribution systems within the service areas will be operated,*
3 *including whether the proposed transaction will cause a change of control*

4 *Change of Control*

5 As NBEAI is acquiring ERHDC the proposed transaction will result in a change of control. All
6 transmission and distribution assets in the ERHDC service territory will fall under the control of
7 NBEAI in Phase 1 and then transfer over to NBHDL in Phase 2. There will be no change of control
8 for the NBHDL transmission and distribution assets.

9 *Distribution System Operations*

10 Due to the distance between the two utilities and the importance of maintaining and/or enhancing
11 current customer service levels, it is proposed that the current operation centres will be maintained
12 in both service territories throughout the duration of this process. This will ensure the continuance
13 of local focus to ensure strong community relationships and top tier customer service for both
14 territories.

15 The following tables depict how distribution system operations will be managed over the two
16 phases.

calls, of which, 16 contacts were escalated to a higher level of management. This resulted in a First Contact Resolution percentage of 99.60%.

1 **Phase 1**

Service Territory	Operations Centre	Management Services	Control
ERHDC	Current ERHDC Office	Sault PUC (under contract)	NBEAI
NBHDL	Current NBHDL Office	NBHDL	NBHDL

2 **Phase 2**

Service Territory	Operations Centre	Management Services	Control
ERHDC	Current ERHDC Office	NBHDL	New NBHDL
NBHDL	Current NBHDL Office	NBHDL	New NBHDL

3 During Phase 2 and beyond, the main headquarters will be the current NBHDL office, located in
 4 North Bay, Ontario. Functions such as engineering, procurement, human resources, finance,
 5 regulatory, information technology, customer service and conservation will be administered and
 6 delivered from the North Bay location, with each location having Operations staffing similar to
 7 current resourcing levels.

8 Following the Phase 2 Transaction, the organization of New NBHDL’s operational structure will
 9 be implemented in a way that ensures ERHDC leverages the centralized functions at NBHDL that
 10 make NBHDL an efficient, effective, and compliant LDC while still ensuring a local presence
 11 exists in both service territories. It is extremely important to provide the same level of local service
 12 the communities are accustomed to. The adoption and extension of NBHDL’s processes and
 13 systems by ERHDC will provide an economical approach to unlocking opportunities and levels of

1 service that would otherwise be cost prohibitive to consider, or will eliminate the need for the PUC
2 Services Agreement currently in place.

3 Although the majority of the operational benefit of the acquisition flows to the customers of
4 ERHDC, NBHDL looks forward to the collaboration and distribution operation experience it will
5 gain through the retention of ERHDC staff and the formation of best operational practices through
6 the creation of New NBHDL. This will be ever evolving and New NBHDL will continue to
7 evaluate how to best engage resources and deliver service in a way to maximize benefits to
8 customers in both service territories.

9 **8. Objective 2 – Promote economic efficiency and cost effectiveness and to facilitate the**
10 **maintenance of a financially viable electricity industry**

11 *8.1 Indicate the impact of proposed transaction on economic efficiency and cost effectiveness*
12 *in the distribution of electricity; identifying the various aspects of utility operations*
13 *where the applicant expects sustained operation efficiencies (both quantitative and*
14 *qualitative).*

15 The significant potential for economic efficiencies and cost effectiveness is why NBEAI is
16 proposing to acquire ERHDC. Despite the distance in service territories and size, the similarities
17 between NBHDL and ERHDC provide value for the customers of ERHDC. NBHDL is skilled at
18 operating an overhead system in a primarily rural service territory, addressing the unique needs of
19 the community and customers that this brings, and doing so in a cost-efficient manner. This
20 management philosophy and operational expertise will be brought to ERHDC. Over the long-term
21 horizon, this acquisition is anticipated to generate sustainable administrative cost savings as a
22 result of centralizing back-office functions including management, billing, customer service,
23 finance and regulatory functions. The acquisition will also provide ERHDC with the benefit of
24 being a part of a larger strategic plan that focuses on driving the LDC forward. The core strengths
25 of NBHDL in community building, reliability, safety, operations, customer service and solid
26 financial performance will be leveraged by ERHDC through one integrated management team and
27 board of directors. The anticipated savings will be passed on to customers through lower OM&A
28 costs when New NBHDL prepares a full cost of service application in 2026.

1 With the proposal of a full cost of service application during Phase 1, NBEAI is addressing the
2 immediate need for ERHDC to realign rates and deal with a declining ROE. It is not financially
3 viable, prudent or sustainable for ERHDC to continue to sit outside of the rate setting environment,
4 operating under what could be considered an indefinite rate freeze. The rate setting process allows
5 an LDC to address its operational and infrastructure needs within the context of just and reasonable
6 rates that take into account the impact on customers. ERHDC does not have the financial ability
7 to continue executing its operational plans without a rate adjustment. Phase 2 will provide for
8 sustainable cost reductions that benefit customers over the longer term without reducing the levels
9 of customer service and reliability that ERHDC customers expect.

10 8.2 *Identify all incremental costs of the proposed transaction and how these costs will be*
11 *financed*

12 Incremental one-time transaction and transition costs are expected to be approximately \$600k.
13 These costs will not be included in the revenue requirement of NBEAI, NBHDL or New NBHDL
14 and thus will not be funded by ratepayers.

15 The parties to the proposed transactions have incurred, and will continue to incur, incremental
16 transaction costs in respect of the proposed acquisition and future consolidation. These costs
17 include but are not limited to: due diligence on the part of all parties, the costs associated with
18 negotiating the terms of the purchase, costs associated with all regulatory, legal and statutory
19 reviews in order to receive necessary regulatory approvals and internal resources. Incremental
20 transition costs that are expected as a result of Phase 2 of this transaction include information
21 technology, legal and professional advisory services.

22 Transaction Costs

23 Each of the Sellers, NBHHL and the Applicant retained its own independent legal and financial
24 advisors. Such costs are borne by each of the parties and will not carry into the new entity, or into
25 distribution rates.

1 Implementation/Integration Costs

2 The integration costs will be financed through the anticipated productivity savings expected from
3 the transaction during the period after consolidation with NBHDL. As always, there will be timing
4 differences between expense outlays and their recovery.

5 OM&A incremental transitional costs are primarily related to:

- 6 • Transition planning and execution – third party and additional staff costs related to
7 implementing the transition plan;
- 8 • IT costs – costs associated with system integration and standardization;
- 9 • Communication costs – development and execution of customer and other stakeholder
10 communications at various stages of transition; and
- 11 • Workforce training – costs associated with retraining employees on new systems, processes
12 and policies.

13 8.3 *Provide a valuation of assets or shares that will be transferred in the proposed*
14 *transaction*

15 The purchase price valuation was based on ERHDC's 2016 rate base of \$6,128,438 as per
16 ERHDC's audited December 31, 2016 financial statements (attached hereto at Schedule "G"). The
17 rate base determination is made up of net PP&E, deferred revenue related to contributions in aid
18 of construction and a substation currently included in regulatory assets. A working capital
19 allowance was determined based on a 7.5% rate calculated on the cost of power and OM&A
20 expenses.

21 8.4 *Details as to why purchase price will not have an adverse effect on the financial viability*
22 *of the acquiring utility*

23 The timeframe between Phase 1 and Phase 2 allows for a full cost of service application that will
24 address the distribution revenue requirements of the business. During this timeframe NBEAI will
25 see significant increases in its debt to equity ratios and ratios tied to liquidity will reduce, however,
26 with the proposed amalgamation in 2022 the Applicant considers this to be temporary and have

1 determined that the purchase price will not have an adverse effect on the financial viability of
2 NBEAI or New NBHDL. NBEAI has negotiated financial terms with its lender that recognize the
3 circumstances of ERHDC and the intention to amalgamate in 2022.

4 Once amalgamated, New NBHDL will have strong liquidity and debt service ratios as well as more
5 optimal debt to equity ratios with financial capacity for necessary borrowing.

6 *8.5 Details of the financing of the proposed transaction*

7 The proposed transaction will be 100% financed by new term debt from Toronto Dominion Bank.

8 *8.6 Financial statements*

9 Appendix I to this Application contains ERHDC and NBHDL's audited annual financial
10 statements for the years 2016 and 2017.

11 *8.7 Pro forma financial statements*

12 Appendix J to this Application contains the pro forma financial statements for ERHDC for the first
13 full year following close of Phase 1 of the proposed transaction.

14 **9. Rate Considerations for Consolidation Applications**

15 Phase 1 of this transaction does not contemplate NBEAI requesting a rebasing deferral period
16 greater than five years and therefore ESM will not be required; the intent is to file a full cost of
17 service application for ERHDC and NBHDL in order to have distribution rates adjusted. The
18 Applicant does not propose an ESM different from the ESM set out in the 2015 Report. Phase 2
19 of this transaction will include a proposal for a rebasing deferral period of five (5) years from the
20 date of closing Phase 2. The rates in each of the two service territories will continue to be set by

1 the Board's Price Cap IR during the rebasing deferral period with the intention of filing a cost of
2 service application in 2026 with a plan to propose rate harmonization.

3 **10. Other Related Matters**

4 *Implementation of new or the extension of existing rate riders*

5 No new rate riders are proposed by the Applicant as a result of the proposed transaction and this
6 Application. The Applicant assumes that ERHDC's current Tariff of Rates and Order, deemed
7 interim as of February 1, 2016, will continue to apply to NBEAI. Specifically, NBEAI requests
8 that the Rate Rider for Recovery of Incremental Capital (2013) continue to be in effect until
9 NBEAI files a full cost of service application.

10 *Transfer of rate order and licence / Licence amendment and cancellation*

11 Not required for the Phase 1 Transaction.

12 *Approval to continue to track costs to the deferral and variance accounts currently approved by*
13 *the OEB*

14 NBEAI requests the Board's approval to continue to track costs in the deferral and variance
15 accounts currently approved by the Board for all Ontario LDC's as well as for ERHDC.

16 *Approval to use different accounting standards for financial reporting following the closing of the*
17 *proposed transaction*

18 The Applicant does not propose the use of any different accounting standards. ERHDC adopted
19 International Financial Reporting Standards ("IFRS") on January 1, 2015 and utilizes MFIRS for
20 regulatory reporting purposes.

21 *Conservation and Demand Management*

22 The Applicant understands that the Board does not require information on Conservation and
23 Demand Management ("CDM") as part of a section 86 application. However, as conservation and

1 demand management is one of the Board's objectives under section 1 of the OEB Act, the
2 Applicant submits that it is acceptable to provide a short summary of CDM initiatives.

3 ERHDC continues to work in collaboration with other LDC's through the CustomerFirst
4 framework to jointly plan and implement CDM programs. The CustomerFirst team includes
5 NBHDL, Greater Sudbury Hydro, Northern Ontario Wires, PUC Distribution, and Newmarket-
6 Tay Hydro. This partnership allows utilities to design and deliver more cost effective CDM
7 projects resulting in greater savings for customers. The shared participation and commitment of
8 both NBHDL and ERHDC to CustomerFirst is yet another example of synergies that will be
9 accessed once Phase 2 of the proposed transaction takes place.

1 **Appendix A**

2 **Details regarding the corporate structures of the parties, the proposed transaction, and**
3 **applicable governing laws**

4 NBEAI is a corporation incorporated under the laws of the Province of Ontario. NBEAI is a special
5 purpose acquisition vehicle, and a wholly owned subsidiary of NBHHL. NBHHL is a corporation
6 incorporated under the laws of the Province of Ontario that is wholly owned by The Corporation
7 of the City of North Bay. NBHHL is also the sole owner of NBHSI, NBHDL, and NBHGL.
8 NBHGL is inactive.

9 ERHHC is a corporation incorporated under the laws of the Province of Ontario and is the legal
10 and beneficial owner of all the issued and outstanding common shares in the capital of: (i) ERHDC,
11 a corporation incorporated under the *Business Corporations Act* (Ontario), and (ii) Espanola
12 Regional Hydro Services Corporation (“**ERHSC**”), a corporation incorporated under the *Business*
13 *Corporations Act* (Ontario).

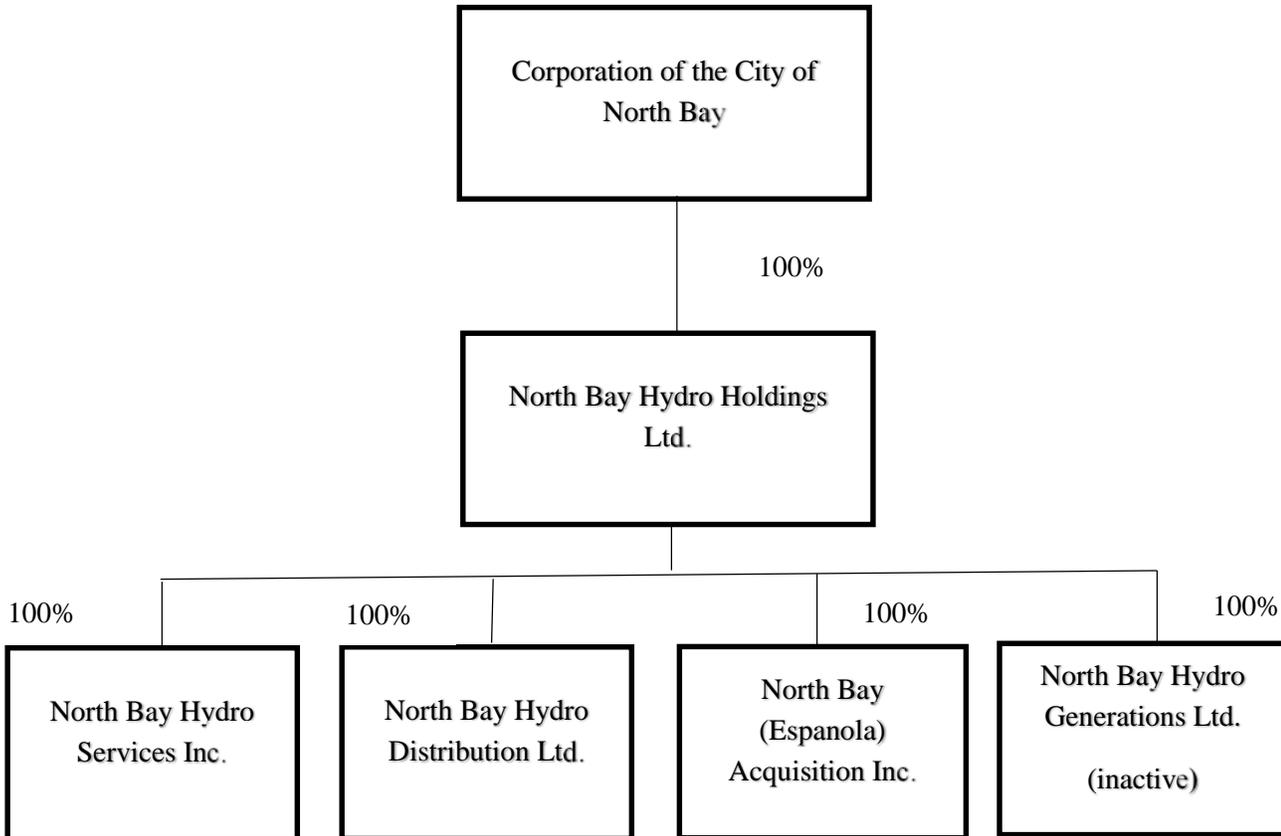
14 The Corporation of the Town of Espanola (“**Espanola**”) is a municipal corporation governed by
15 the laws of Ontario. The Corporation of the Township of Sables-Spanish Rivers (“**Sables-**
16 **Spanish**”) is a municipal corporation governed by the laws of Ontario. Espanola and Sables-
17 Spanish are collectively the legal and beneficial owners and control all of the issued and
18 outstanding common shares in the capital of ERHHC, as well as all the special shares in ERHDC.

19 Pursuant to the Securities Purchase Agreement, as further described herein, subject to the parties
20 obtaining the required approvals, Espanola and Sables-Spanish have agreed to sell, and NBEAI
21 has agreed to purchase, the following: (i) the Holdings Common Shares, (ii) the ERHDC Special
22 Shares, and (iii) the Shareholder Notes. Once NBEAI has acquired all of the shares of ERHHC
23 and ERHDC, NBEAI will assume 100% ownership and control of ERHHC and ERHDC. On the
24 closing date of the proposed transaction, ERHHC, ERHDC, and NBEAI, will amalgamate to form
25 new ERHDC, which will continue under the name “Espanola Regional Hydro Distribution
26 Corporation”. Following the closing date, ERHSC (which is inactive) will be dissolved pursuant
27 to the provisions of *the Business Corporations Act* (Ontario).

- 1 The diagrams below illustrate the Existing North Bay Ownership Structure, the proposed
- 2 transaction, the Phase 1 Transaction structure, and the Phase 2 Transaction structure.

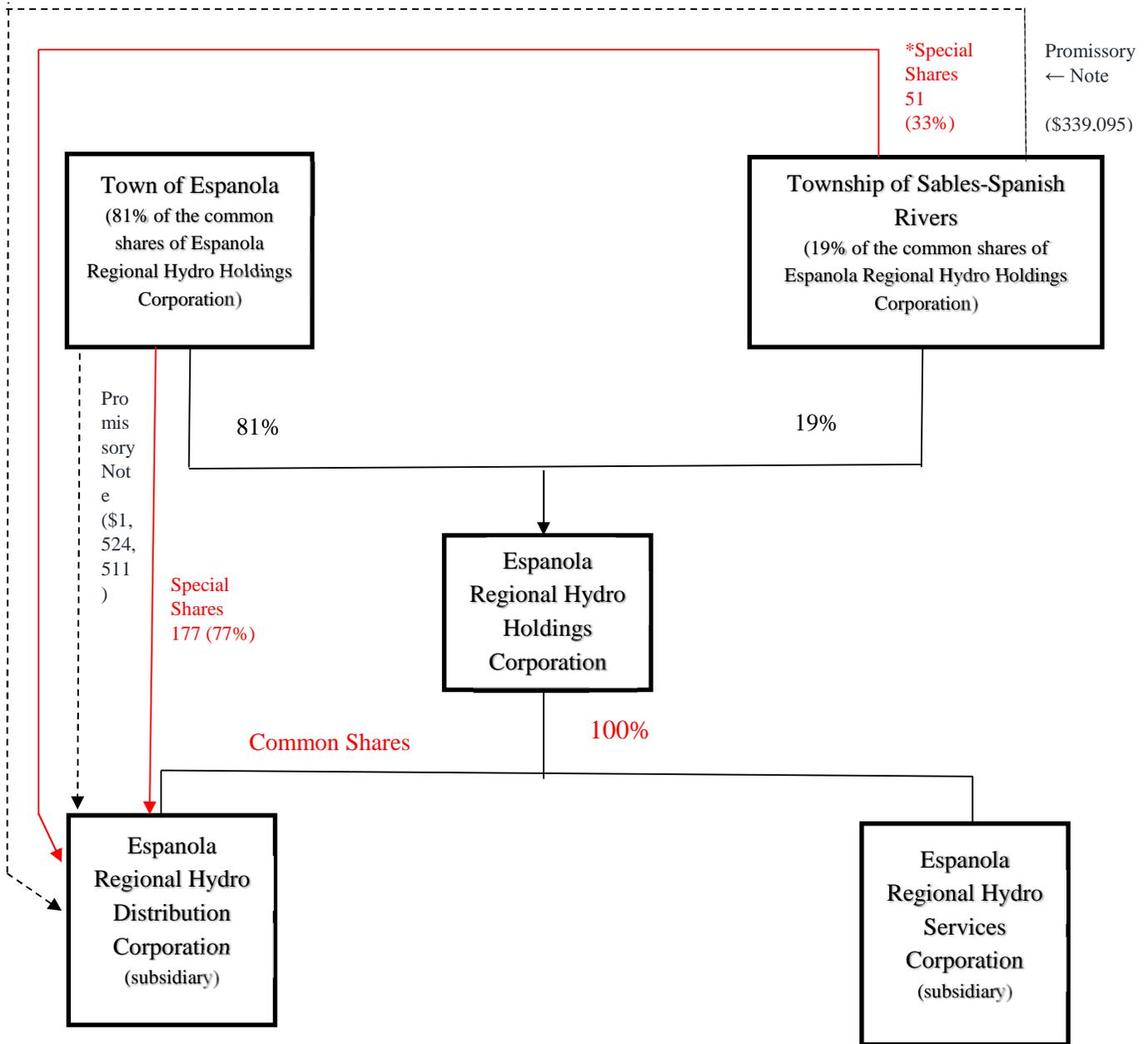
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Existing North Bay Ownership Structure



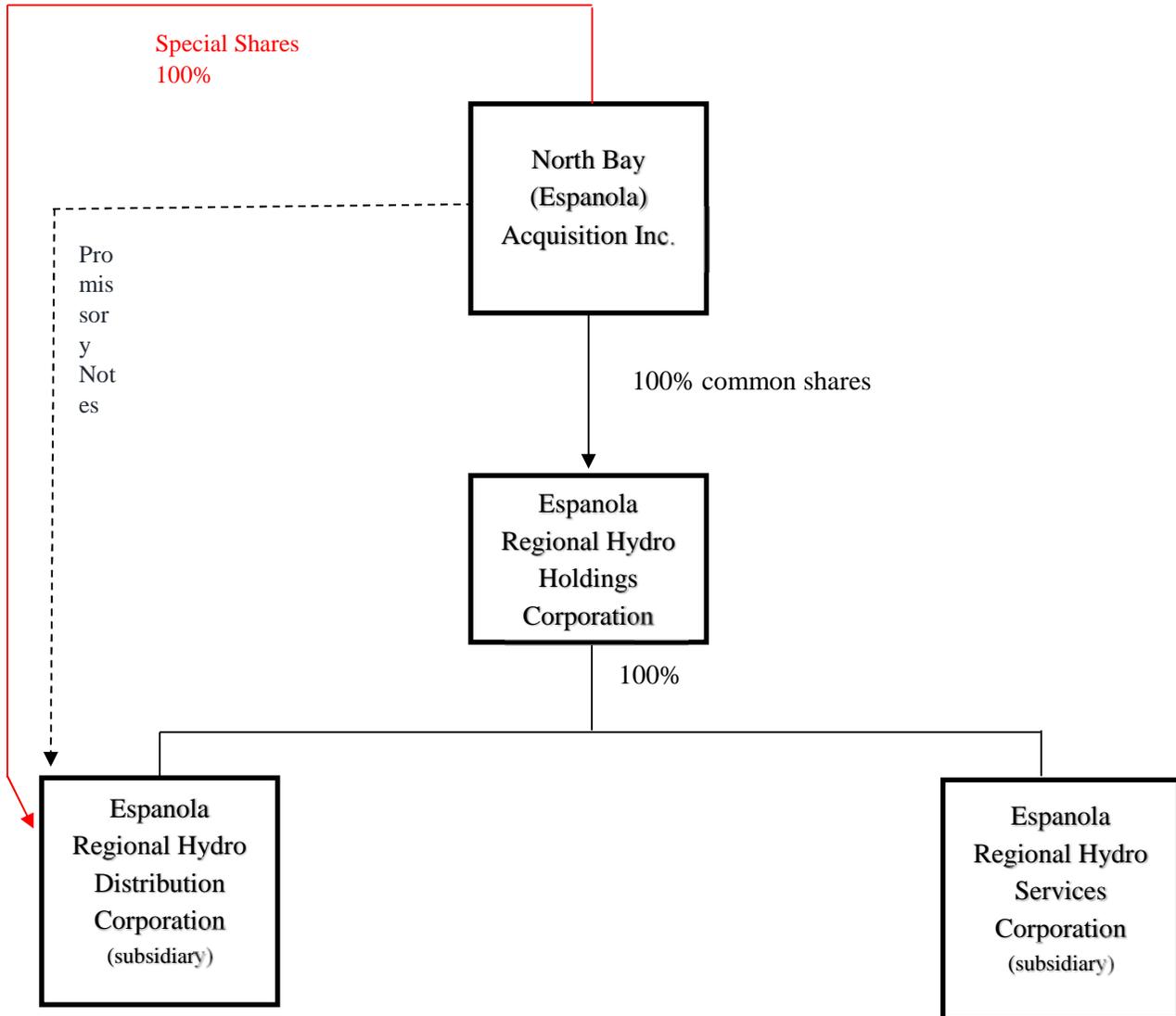
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Existing Espanola Group Ownership Structure



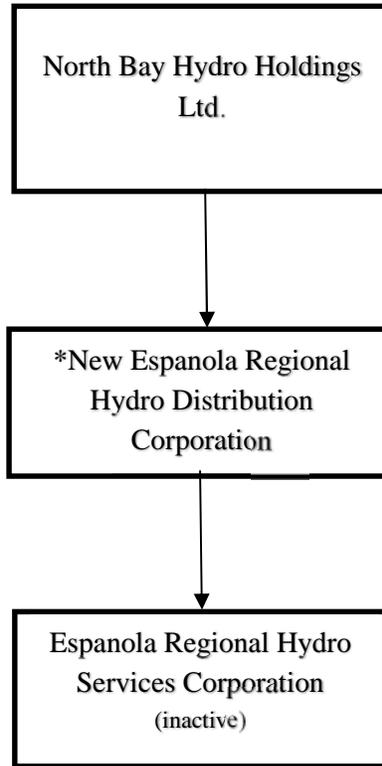
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The Phase 1 Transaction Closing Date Acquisition



1

The Phase 1 Transaction Closing Date Amalgamation



2 * Amalgamation of Espanola Regional Hydro Holdings Corporation, Espanola Regional Hydro
3 Distribution Corporation and North Bay (Espanola) Acquisition Inc. to form New Espanola Regional
4 Hydro Distribution Corporation. Espanola Regional Hydro Services Corporation will be dissolved
5 separately.

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Appendix B
Mapping of Application to filing requirements

	Filing Requirements	Reference
2.1 The Index	Index	Pages 2-3
2.2 The Application		
2.2.1 Administrative		
	Certification of the Evidence	Page 4
	Legal name of the applicant or applicants	Section 1
	Details of the authorized representative of the applicant/s, including the name, phone and fax numbers, and email and delivery addresses	Section 5
	Legal name of the other party or parties to the transaction, if not an applicant	Section 1; Section 6; Appendix A
	Details of the authorized representative of the other party or parties to the transaction, including the name, phone and fax numbers, and email and delivery addresses	Section 5
	Brief description of the nature of the transaction for which approval of the OEB is sought by the applicant or applicants	Section 1; Section 6; Appendix A
2.2.2 Description of the Business of the Parties to the Transaction		
	Describe the business of each of the parties to the proposed transaction, including each of their electricity sector affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity.	Section 6.1; Appendix A
	Describe the geographic territory served by each of the parties to the proposed transaction, including each of their affiliates, if applicable, noting whether service area boundaries are contiguous or if not the relative distance between service boundaries.	Section 6.2; Appendix F
	Describe the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.	Section 6.4

	Describe the proposed geographic service area of each of the parties after completion of the proposed transaction.	Section 6.3
	Provide a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.	Section 1.3; Section 1.5; Appendix A
	If the proposed transaction involves the consolidation of two or more distributors, please indicate the current net metering thresholds of the utilities involved in the proposed transaction.	Section 6.5
2.2.3 Description of the Proposed Transaction		
	Provide a detailed description of the proposed transaction.	Section 1.1 - Section 1.5
	Provide a clear statement on the leave being sought by the applicant, referencing the particular section or sections of the <i>Ontario Energy Board Act, 1998</i> .	Section 2
	Provide details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.	Section 1.3
	Provide all final legal documents to be used to implement the proposed transaction.	Section 6.6; Appendix D, Appendix G
	Provide a copy of appropriate resolutions by parties such as parent companies, municipal council/s, or any other entities that are required to approve a proposed transaction confirming that all these parties have approved the proposed transaction.	Appendix G
2.2.4 Impact of the Proposed Transaction		
<i>Objective 1 - Protect consumers with respect to prices and the adequacy, reliability and quality of electricity service</i>		
	Indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability and quality of electricity service.	Section 7.1; Section 7.2
	Provide a year over year comparative cost structure analysis for the proposed transaction, comparing the costs of the	Section 7.1

	utilities post transaction and in the absence of the transaction.	
	Provide a comparison of the OM&A cost per customer per year between the consolidating distributors.	Section 7.1
	Confirm whether the proposed transaction will cause a change of control of any of the transmission or distribution system assets, at any time, during or by the end of the transaction.	Section 7.2
	Describe how the distribution or transmission systems within the service areas will be operated.	Section 7.2
<i>Objective 2 - Promote Economic efficiency and cost effectiveness and to facilitate the maintenance of a financially viable electricity industry</i>		
	Indicate the impact that the proposed transaction will have on economic efficiency and cost effectiveness (in the distribution or transmission of electricity); identifying the various aspect of utility operations where the applicant expects sustained operation efficiencies (both quantitative and qualitative).	Section 8.1
	Identify all incremental costs that the parties to the proposed transaction expect to incur which may include incremental transaction costs (e.g. legal, regulatory), incremental merged costs (e.g. employee severances), and incremental on-going costs (e.g purchase and maintenance of new IT systems). Explain how the consolidated entity intends to finance these costs.	Section 8.2
	Provide a valuation of any assets or shares that will be transferred in the proposed transaction. Describe how this value was determined.	Section 8.3
	If the price paid as part of the proposed transaction is more than the book value of the assets of the selling utility, provide details as to why this price will not have an adverse effect on the financial viability of the acquiring utility.	Section 8.4
	Provide details of the financing of the proposed transaction.	Section 8.5

	Provide financial statements (including balance sheet, income statement, and cash flow statement) of the parties to the proposed transaction for the past two most recent years	Section 8.6; Section 8.7
	Provide pro forma financial statements for each of the parties (or if an amalgamation, the consolidated entity) for the first full year following the completion of the proposed transaction	Appendix J
2.2.5 Rate considerations for consolidation applications		
	Indicate a specific deferred rate rebasing period that has been chosen	Section 9
	For deferred rebasing periods greater than five years, confirm that the ESM will be as required by the 2015 Report and the Handbook	Not applicable
	If the applicants proposed ESM a different from the ESM set out in the 2015 Report, the applicant must provide evidence to demonstrate the benefit to the customers of the acquired distributor	Not applicable
2.2.6 Other Related Matters		
	Implementation of new or the extension of existing rate riders	Section 10
	Transfer of rate order and licence	Section 10
	Licence amendment and cancellation	Section 10
	Approval to continue to track costs to the deferral and variance accounts currently approved by the OEB	Section 10
	Approval to use different accounting standards for financial reporting following the closing of the proposed transaction	Section 10

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Appendix C

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PUC Services Agreement

SERVICES AGREEMENT FIRST AMENDING AGREEMENT

This **SERVICES AGREEMENT FIRST AMENDING AGREEMENT** (the "**Agreement**") dated December 21, 2018, between **PUC SERVICES INC. ("ServiceCo")** and **ESPANOLA REGIONAL HYDRO DISTRIBUTION CORPORATION** (the "**Client**").

WHEREAS, ServiceCo and Client entered into a Services Agreement executed by ServiceCo on July 11, 2016 and by Client on June 21, 2016 (the "**Services Agreement**");

AND WHEREAS, each of Espanola Regional Hydro Holdings Corporation, The Corporation of the Town of Espanola ("**Espanola**") and The Corporation of the Township of Sables-Spanish Rivers ("**SSR**") are the owners of all of the issued and outstanding shares of the Client;

AND WHEREAS, Espanola, SSR, North Bay Acquisition (Espanola) Inc. (the "**Buyer**") and North Bay Hydro Holdings Inc. entered into a Securities Purchase Agreement dated October 12, 2018 (the "**SPA**"), wherein among other things, the Buyer agreed to purchase all of the issued and outstanding shares of Espanola Regional Hydro Holdings Corporation and the Client (the "**Proposed Transaction**");

AND WHEREAS, in connection with the Proposed Transaction contemplated pursuant to the SPA, ServiceCo and the Client (collectively, the "**Parties**") have agreed to enter into this Agreement to confirm and amend various provisions of the Services Agreement;

NOW THEREFORE for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties agree as follows:

1 TERM

ServiceCo and the Client acknowledge that section 3 of the Services Agreement contained a typographical error requiring correction and ServiceCo and the Client wish to record and give effect to the original intention of ServiceCo and the Client hereby by deleting the reference to "May 31, 2020" and replacing it with "May 31, 2021".

2 TRANSITION PERIOD UPON CHANGE OF CONTROL

The Parties agree to automatically extend the term of the Services Agreement and continue the performance of the Services (as such term is defined in the Services Agreement) upon the completion of the Proposed Transaction (a "**Change of Control**") for a period of time commencing upon the completion of the term (as set forth in Section 1 above) and ending nine months thereafter (the "**Transition Period**") subject to the same terms and conditions (including pricing, subject to an escalation factor) set forth in the Services Agreement, as amended by this Agreement. For certainty and notwithstanding

section 3 of the Services Agreement, no further automatic renewal of the term of the Services Agreement will occur after the expiration of the Transition Period.

Following completion of the Proposed Transaction the Parties shall work together in good faith to develop a detailed transition plan setting out each of the Parties' respective roles and responsibilities during the Transition Period. The objective of the transition plan shall be the implementation of a seamless transition of the performance of Services from ServiceCo to the Client or such other service provider as the Client may direct in order to minimize operational impacts to the Client. The Client shall pay the additional costs and expenses incurred by ServiceCo in connection with such transition activities; provided, however that ServiceCo receives the prior written consent of the Client (acting reasonably) to incur such additional costs and expenses in connection with such transition activities. Without limiting the generality of the foregoing, during the Transition Period ServiceCo shall provide all assistance reasonably requested by Client, including the following:

- (a) transfer of all Client-owned tangible and intangible assets to Client;
- (b) transfer of all Client related data and information to Client, including data conversion assistance, as applicable;
- (c) knowledge transfer for the ongoing conduct of the Services, including all applicable procedures, standards and operating schedules applied by ServiceCo in the provision of the Services;
- (d) reasonable access to the applicable data used by the ServiceCo to provide the Services; and
- (e) such consents and assistance to transfer third party contracts used by ServiceCo in the provision of the Services and requested by Client for assignment.

3 CONFIRMATION

ServiceCo acknowledges and confirms that the Change of Control contemplated pursuant to the SPA is not subject to the provisions of Section 16.4 of the Services Agreement.

4 PROPOSED TRANSACTION NOT COMPLETED

The Client shall deliver a written notice to ServiceCo if the Proposed Transaction is not completed or terminated in accordance with the SPA no later than November 30, 2020 and, in such event, the provisions of Section 2 of this Agreement shall be inoperative and of no further force and effect.

5 GOVERNING LAW

This Agreement is a contract made under and shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable in the Province of Ontario.

6 BENEFIT OF THE AGREEMENT

This Agreement shall enure to the benefit of and be binding upon the Parties and their respective successors and permitted assigns.

7 FURTHER ASSURANCES

The Parties shall, with reasonable diligence, do all such things and provide all such reasonable assurances as may be required to effect the matters contemplated by this Agreement.

8 SEVERABILITY

If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect. To the extent permitted by applicable law, the parties hereby waive any provision of law that renders any provision hereof prohibited or unenforceable in any respect.

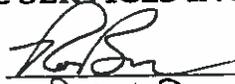
9 EXECUTION AND DELIVERY

This Agreement may be executed by the parties in counterparts and may be executed and delivered by email and all such counterparts or emails together constitute one and the same agreement.

[Remainder of page left intentionally blank. Execution page follows.]

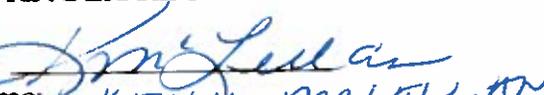
Each of the Parties has executed and delivered this Amending Agreement as of the date noted at the beginning of this Amending Agreement.

PUC SERVICES INC.

By: 
Name: Robert Brewer
Title: President & CEO

By: _____
Name:
Title:

ESPANOLA REGIONAL HYDRO DISTRIBUTION CORPORATION

By: 
Name: KELLY MCCLELLAN
Title: TREASURER, ERHDC

By: _____
Name:
Title:

Services Agreement

THIS AGREEMENT IS BETWEEN:

PUC SERVICES INC.

(Hereinafter referred to as "ServiceCo")

- And -

ESPANOLA REGIONAL HYDRO DISTRIBUTION CORPORATION

(Hereinafter referred to as the "Client")

In consideration of the mutual covenants contained in this Agreement and the sum of ten dollars now paid by each party to the other, receipt of which is hereby acknowledged, the parties agree as follows:

ARTICLE 1 - Definitions and Interpretation

1. In this Agreement, unless otherwise expressly defined or the context otherwise requires:
 - 1.1. "Agreement" means this Services Agreement and the Schedule 'A'-Services, Schedule 'B'-Fees and Schedule 'C' – Proposal.
 - 1.2. "Confidential Information" means any oral, written or electronic data and information now or hereafter existing during the currency of this Agreement, relating to the business and management of either party which is treated by such party as confidential, to which access is granted or obtained by the other party, but does not include any data or information which was known to the recipient prior to the disclosure to it by the other party; or (ii) was independently developed by the recipient as evidenced by records; or (iii) is subsequently lawfully obtained by the recipient from a third party, without breach of this Agreement by the recipient; or (iv) becomes publicly available other than through a breach of this Agreement; or (v) is disclosed where the other party has provided its prior written consent to such disclosure by the recipient; or (vi) is disclosed by legal requirement.
 - 1.3. "Data" means all information in hard copy or in electronic form, which is used in the performance of Services under this Agreement.
 - 1.4. "Due Date" means thirty days after the date of the invoice.
 - 1.5. "Service" means a service as specified in the Services Schedule, which ServiceCo provides to Client under this Agreement.
 - 1.6. "Service Level" means a service level agreed in writing by the parties as applicable to a particular measurable component of a Service.
 - 1.7. "Services Schedule" the Schedule 'A'- Services, attached hereto which describes the Services to be provided by ServiceCo to Client and any additional terms and conditions relating specifically to such Services.
 - 1.8. "Services Agreement" means this agreement between ServiceCo and Client as may be amended from time to time as provided in this Agreement.
 - 1.9. "Software" means computer programs, regardless of format or medium, their documentation and specifications.

ARTICLE 2 - Interpretation

2. In this Agreement, unless otherwise expressly provided or as the context otherwise requires:

- 2.1. headings are solely for convenience of reference and are not intended to be complete or accurate descriptions of content or to be guides to interpretation of this Agreement or any part of it;
- 2.2. an accounting term not otherwise defined in this Agreement has the meaning assigned to it, and every calculation to be made under this Agreement is to be made, in accordance with accounting principles generally accepted in Canada applied on a consistent basis;
- 2.3. reference to currency means Canadian currency;
- 2.4. a reference to a statute includes all regulations made thereunder, all amendments to the statute or regulations in force from time to time, and every statute or regulation that supplements or supersedes such statute or regulations;
- 2.5. a reference to an entity includes any successor to that entity;
- 2.6. a word importing the masculine gender includes the feminine and neuter, a word in the singular includes the plural, a word importing a corporate entity includes an individual, and vice versa;
- 2.7. a reference to "approval", "authorization" or "consent" means written approval, authorization or consent;
- 2.8. if there is any conflict or inconsistency between the terms of this Services Agreement and the Services Schedule, the terms of the Services Schedule will prevail;
- 2.9. the word "including", when following a general statement or term, is not to be construed as limiting the general statement or term to any specific item or matter set forth or to similar items or matters, but rather as permitting the general statement or term to refer also to all other items or matters that could reasonably fall within its broadest possible scope; and
- 2.10. a reference to a Part or Article is to a Part or Article of this Agreement.

ARTICLE 3 - Term

- 3. This Agreement shall remain in full force and effect for a period of five years commencing on June 1, 2016 to May 31, 2020 subject to early termination as hereinafter provided. The Agreement includes for an option to extend it for an additional five year term, subject to negotiation between the parties and mutually agreeable terms and conditions. The term will automatically renew for one year extensions unless written notification is received by either party 90 days prior to the expiration date of the current term.

ARTICLE 4 - ServiceCo Responsibilities

- 4. In the performance of Services, ServiceCo agrees to:
 - 4.1. perform the Services as described in the Services Schedule and otherwise in accordance with the terms of this Agreement and the policies and procedures in place by Client;
 - 4.2. ensure that experienced and properly qualified personnel perform the Services by ServiceCo;
 - 4.3. liaise with Client through Client's Board of Directors Chair or designate on matters of a material nature related to the Services Schedule and through the Financial Officer or designate on other Services and operations of Client;
 - 4.4. notify Client, whenever practicable, if expenses beyond the charges set forth within the Services Schedule may be incurred together with any explanation therefor;
 - 4.5. invoice Client according to the terms of the Services Schedule for the Services performed;
 - 4.6. notify Client, as appropriate, of any planned or anticipated material changes to ServiceCo procedures in the provision of Services;
 - 4.7. work cooperatively with Client and its customers as may be reasonable to facilitate the efficient provision of the Services;
 - 4.8. perform the Services contemplated herein on terms not less favourable than those provided to its own customers;
 - 4.9. observe and comply with any and all applicable government laws and regulations now or hereafter in force or effect;

- 4.10. observe Client's reasonable policies and procedures in relation to the performance of the Services such that Client's customers will not encounter any noticeable difference in the services formerly provided by Client and the Services now provided by ServiceCo in accordance with this Agreement; and
- 4.11. maintain adequate comprehensive general liability insurance showing Client as an additional insured.

ARTICLE 5 - Client's Responsibilities

5. Client agrees to:
 - 5.1. provide all necessary Data or other required materials to ServiceCo on schedule or in a timely fashion to enable ServiceCo to provide the Services;
 - 5.2. liaise with ServiceCo through Client's Financial Officer or designate for normal operations and/or the Board of Directors Chair or designate to make material decisions on behalf of Client in relation to the implementation of this Agreement and the Services and any changes thereto;
 - 5.3. reasonably provide advance consent or direction for the release of Client's reports and other information by ServiceCo to any third party, as required in the performance of the Service;
 - 5.4. restrict Client's employees and agents from interfering with, and from any unauthorized use of equipment which is owned by ServiceCo, in ServiceCo's possession, or under ServiceCo's control;
 - 5.5. ensure the accuracy, legibility, and completeness of all Data supplied to ServiceCo and be responsible for the results obtained from Client's use of any of the Services;
 - 5.6. provide information in addition to that specified in the Services Schedule as ServiceCo may reasonably require from time to time to perform the Service;
 - 5.7. allow ServiceCo the sole responsibility and authority to make any and all decisions with respect to the day-to-day operations of Client as outlined in the Services Schedule;
 - 5.8. authorize ServiceCo to make expenditures and enter into contracts for items as approved in the annual budget subject to agreed upon expenditure limits;
 - 5.9. within a reasonable time period provide a decision on the acceptance or rejection of recommendations from ServiceCo pertaining to the operation of Client;
 - 5.10. provide reasonable access to Client's computer hardware and software strictly for the purposes of correcting and repairing any problems with the equipment, hardware and/or software as they relate to this Agreement;
 - 5.11. provide adequate office space, furnishings, computer, office equipment, supplies, and communication devices for ServiceCo to perform its obligations under the Agreement; and
 - 5.12. perform any other activities as defined in the Services Schedule.

ARTICLE 6 - Data

- 6.1 All Data supplied by Client related to the performance of a Service remains Client's exclusive property. All supplied Data must be on media compatible with ServiceCo processing equipment and, where applicable, in the format which ServiceCo, acting reasonably, prescribes.
- 6.2 Client will arrange transportation of Data and reports between Client's location and ServiceCo's processing centre at its expense. Client may specify in writing an agent for the collection of Data and reports from ServiceCo's location and ServiceCo will use such service on Client's behalf. All risk of loss or damage during transportation (save and except for situations where ServiceCo is negligent or willfully reckless) will remain Client's responsibility.
- 6.3 If Client provides Software for use by ServiceCo in the provision of Services, Client warrants that:

- 6.3.1 Client has obtained any necessary permission, right and licence to enable the Software to be copied, modified and run by ServiceCo on equipment under ServiceCo's control without infringing any third party right;
 - 6.3.2 in using the Software to furnish the Services, ServiceCo will not be infringing the rights of any third parties; and
 - 6.3.3 the disclosure to ServiceCo or the use by ServiceCo of the Software will not involve a breach of any confidential or contractual relationship.
- 6.4 Client agrees to defend, indemnify and hold harmless ServiceCo against all losses, damages, costs, expenses and liabilities, including reasonable legal expenses, incurred in relation to such claim arising from any breach of the warranties stated under Article 6.3 above.
- 6.5 All Data, Software, methodology, know-how, ideas, techniques, concepts, information and processes supplied or developed by ServiceCo in the performance of a service remains ServiceCo's exclusive property.

ARTICLE 7 - Software

- 7.1. In the performance of Services, either party may provide Software to the other. Both parties agree to the following with respect to the handling of the other's Software:
- 7.1.1. not to modify the Software, except as permitted under the terms of this Agreement;
 - 7.1.2. to copy the Software only as required for use on a processor under the control of either party;
 - 7.1.3. to use the Software only as required for the applicable Service;
 - 7.1.4. to confine the use of the Software to the employees or agents of either party who require it for the Services;
 - 7.1.5. to maintain and disallow the removal of any proprietary or copyright notices; and
 - 7.1.6. to return the Software to the other party promptly on the termination of the applicable Service Schedule and warrant in writing that all copies have been returned and removed from all computers on which they were installed and that no further use will be made of them.
- 7.2. ServiceCo may inspect any of Client's Software required in the performance of this Agreement and which requires access to system control program instructions, system libraries or other secure data. If reasonably required by Client from time to time, Client may inspect any of ServiceCo's Software used in relation to the performance of this Agreement.

ARTICLE 8 - Confidentiality

- 8.1 Each of the parties agrees:
- 8.1.1 to keep all Confidential Information of the other party to which access is or has been granted to or obtained in strictest confidence and not to disclose or permit disclosure of all or any portion of such Confidential Information to any person, firm, corporation, business or other entity, except as otherwise expressly permitted by this Agreement or with the prior written consent of the other party which consent may be unreasonably withheld;
 - 8.1.2 to exercise a degree of care in protecting the confidentiality of the Confidential Information of the other party which is at least equivalent to that which the party uses to protect its own Confidential Information;
 - 8.1.3 not to use all or any portion of the Confidential Information of the other party in any way which may be reasonably considered detrimental to the business operations of the other party;
 - 8.1.4 not to reproduce any Confidential Information of the other party without the prior written consent of such party, which consent may be unreasonably withheld, except to make available the Confidential Information to such of its directors, officers, employees, agents and subcontractors

- who need to use the Confidential Information in the performance of Services and who have agreed to be bound by the terms of this Article; and
- 8.1.5 to provide access to the Confidential Information of the other party only to such of its directors, officers, agents and subcontractors with a need to use the Confidential Information in the performance of Services and who have agreed to be bound by the terms of this Article.
- 8.2 Notwithstanding anything to the contrary in this Agreement, ServiceCo will not be required to keep confidential, and may use or license without restriction, any ideas, concepts, know-how or techniques related to information processing which are developed by ServiceCo in the performance of services.

ARTICLE 9 - Patents and Copyrights

- 9.1 If a third party claims that any Software or a Service provided by either party (the "Providing Party") infringes a patent, copyright, trade secret or other intellectual property right, the Providing Party will defend, indemnify and hold harmless the other party (the "Indemnified Party") against all losses, damages, costs, expenses and liabilities, including reasonable legal expenses, incurred in relation to such claim. The Indemnified Party will promptly notify the Providing Party of any such claims and the Providing Party will have the right, in consultation with the Indemnified Party, to defend or settle such claim. The Indemnified Party may not settle or compromise any claim, action or proceeding in respect of which it may seek indemnification without the prior written consent of the Providing Party.
- 9.2 If such claim is made, the Providing Party may modify the Service delivered by it or the payments made by it as it determines necessary or advisable to address the claim, provided that any such modification will not result in a material deterioration in Services or security standards.

ARTICLE 10 – Fees and Charges

- 10.1 Fees and charges for ServiceCo's services will be specified in the Schedule 'A'-Services and Schedule 'B'-Fees. ServiceCo will, increase the charges specified in the Schedule 'B'-Fees table effective the first day of each contract year during the Term.
- 10.2 The services to be provided and the fees quoted reflect the applicable current legislated, regulatory requirements and guidelines specified by the Municipality, Federal and Ontario Provincial Government, by the Ontario Energy Board, and the Independent Electricity System Operator. If there should be a material change in the legislation, regulations or guidelines that affects the nature of the services provided, the fees shall be adjusted accordingly after agreement with Client.
- 10.3 Client will also be responsible to ServiceCo for its reasonable expenses associated with any additional services or incremental costs incurred by ServiceCo in providing the services caused by Client's failure to perform any of its obligations under this Agreement, where Client has been advised in writing of its failure to perform its obligations under this Agreement and has been given a reasonable opportunity to correct any deficiency.

ARTICLE 11 - Invoicing and Payment

- 11.1 Unless otherwise stated within the Service Schedule, ServiceCo will invoice Client in advance thirty days prior to the beginning of each month for charges for the Services to be provided in that forthcoming month. Payment of invoiced amounts will be due on the Due Date. Amounts remaining unpaid will bear interest from the Due Date at an annual rate that is the lesser of:
- 11.1.1 the rate of interest set forth on the applicable invoice; and

- 11.1.2 the rate that is five percentage points above the prime commercial annual lending rate of interest designated by the Royal Bank of Canada in effect in Canada from time to time for its most creditworthy commercial Clients on Canadian dollar loans.
- 11.1.3 Any other amount payable under this Agreement will bear interest at the rate set out above.

ARTICLE 12 - Taxes

- 12.1 Client will make timely payment of any taxes, duties or government levies related to this Agreement.

ARTICLE 13 - Warranty

- 13.1 ServiceCo represents and warrants that the service level provided by it under this agreement shall be as good as, or superior to those service levels generally enjoyed by ServiceCo's own customers and other utilities of a similar size within the Province of Ontario.
- 13.2 Except as expressly stated in this Article, ServiceCo makes no warranty, representation, condition or covenant of any kind, express or implied, oral or written, statutory or otherwise, including but not limited to, the implied warranties, representations, conditions or covenants of merchantable quality or fitness for a particular purpose or warranties arising from a course of dealing or usage of trade.
- 13.3 ServiceCo warrants that it will use reasonable skill and care in providing any Customer Services and that it will, at its expense:
 - 13.3.1 make commercially reasonable attempts to correct any errors for which ServiceCo is directly and solely responsible by rerunning the Service, provided that the Data necessary to correct such errors is available to ServiceCo;
 - 13.3.2 or at ServiceCo's option, provide a credit to Client equivalent to the charge that would have been applicable for correcting that portion of the Service that is in error, such credit will be only for errors due solely to malfunction of a system or Software provided by ServiceCo or any error made by ServiceCo's personnel in the performance of the Service; and
 - 13.3.3 if ServiceCo provides hardware, Software or firmware as part of the Services, it will make commercially reasonable efforts to obtain assurances from the vendors of such hardware and Software that such hardware and Software is capable of processing date sensitive information.
- 13.4 To obtain the rerun Service or the credit, Client must notify ServiceCo in writing of such errors within thirty days of receipt of the Data or reports believed to contain the errors.

ARTICLE 14 - Indemnity

- 14.1 Client will indemnify and hold ServiceCo harmless, to the extent that Client is responsible, against any losses, claims, damages, judgments, liabilities or expenses (including reasonable legal fees and expenses) resulting from action taken or permitted to be taken by ServiceCo in good faith in reliance on instructions or orders received from Client arising in connection with ServiceCo's performance of its obligations under this Agreement. ServiceCo will be without liability to Client with respect to anything done or omitted to be done, in accordance with the terms of this Agreement or instructions properly received pursuant to this Agreement, if done in good faith and with reasonable skill and care and without willful or wanton misconduct on ServiceCo's part.
- 14.2 Subject to Article 14, ServiceCo will indemnify and hold Client, its officers, directors, employees and servants harmless, to the extent that ServiceCo is responsible, against any losses, claims, damages, judgments, liabilities or expenses (including reasonable legal fees and expenses) resulting from action

taken or permitted to be taken by Client in good faith in reliance on instructions or orders received from ServiceCo arising in connection with Client's performance of its obligations under this Agreement. Client will be without liability to ServiceCo with respect to anything done or omitted to be done, in accordance with the terms of this Agreement or instructions properly received pursuant to this Agreement, if done in good faith and without negligence or willful or wanton misconduct on Client's part.

- 14.3 ServiceCo agrees to indemnify and save Client, its officers, directors, employees and servants, harmless from all damages, expenses or losses on account of the misuse, loss, theft or forgery of any documents or other Confidential Information.

ARTICLE 15 - Notices

- 15.1 Any notice or demand to be given by either party to the other under this Agreement will be in writing and may be delivered personally, by facsimile, e-mail or by first class prepaid mail to the following addresses:

If to ServiceCo:

PUC SERVICES INC.
500 Second Line East
P.O. Box 9000
Sault Ste. Marie, Ontario
P6A 6P2
Attention: Vice-President, Customer Engagement & Business Development

If to Client:

ESPANOLA REGIONAL HYDRO
DISTRIBUTION CORPORATION
598 Second Avenue
Espanola, Ontario
P5E 1C4
Attention: Chair, Board of Directors

- 15.2 Notices delivered in person, by e-mail or by facsimile will be effective on the date of such delivery. Notices issued by mail will be effective on the third business day following the date that the envelope containing the notice is post-marked unless between the time of mailing and the time the notice is deemed effective there is an interruption in postal service, in which case, the notice will not be effective until actually received. In the event of a postal strike or lockout, notices or demands under this Agreement must be delivered personally, by e-mail or by facsimile.

ARTICLE 16 - Termination

- 16.1 In the event of a material breach, as defined herein, of the Agreement by a party (the "Defaulting Party"), the other party (the "Non-Defaulting Party") will have the right to give written notice to the Defaulting Party to remedy the breach within thirty days after the date of such notice (the "Notice"). The Defaulting Party will make all reasonable efforts to rectify the breach to the satisfaction of the Non-Defaulting Party at the earliest possible time. If the Defaulting Party fails to remedy the breach specified in the Notice to the satisfaction of the Non-Defaulting Party within thirty days after the date of the Notice, then the Non-Defaulting Party will have the right to terminate the Agreement on giving 30 days' notice to the Defaulting Party. If the Defaulting Party corrects the breach to the satisfaction of the Non-Defaulting Party within the time prescribed in the Notice, the notice of termination of the Agreement will be void.
- 16.2 In the event that the Agreement is terminated in accordance with 16.1 or 16.4, then:

- 16.2.1 ServiceCo. will cooperate fully with Client and act in good faith toward Client and its customers in order to allow for the smooth and orderly transition of the Services to Client or its nominee. In addition, ServiceCo will make reasonable efforts to continue the Services to the extent mutually agreed to by the parties at mutually agreed to prices; and
- 16.2.2 ServiceCo will return to Client, Client's Data and supplies.
- 16.3 For the purposes of this agreement material breach shall include without limitation failure by ServiceCo to perform any of its obligations stated in Article 4 of this Agreement to the standards contained herein.
- 16.4 If Client determines to sell its business and the purchaser is not prepared to accept an assignment of this Agreement or in the event of regulatory change which results in the frustration of this Agreement, Client shall have the option to terminate this Agreement at any time after one year on 60 days prior written notice to ServiceCo and upon payment of the following amounts as liquidated damages:
- 16.4.1 During years 2 and 3; 50% of the estimated annual cost set forth in the Services Schedule.
- 16.4.2 During years 4 and 5; 25% of the estimated annual cost set forth in the Services Schedule.

ARTICLE 17 - Mediation

17. In the event a dispute arises out of or in connection with this Agreement, including a dispute as to what constitutes a material breach for the purposes of Article 18 or in respect of any defined legal relationship associated with or derived from this Agreement, the parties will follow the step-by-step correction and resolution procedure set out below:

Step 1. The non-breaching party will advise the other party in writing of the alleged breach.

Step 2. The party allegedly in breach will investigate the allegation and provide a written report to the other party within five business days of receiving the notice alleging breach given under Step 1 to the effect that

- (a) the investigation reveals that the alleged breach was not committed;
- (b) the breach has been cured; or
- (c) the breach remains uncured.

Step 3. If the party alleging the breach

- (a) is not satisfied that the other party is not, or is no longer in breach; or
- (b) wishes to pursue the dispute, then the party will immediately notify the other party in writing that it wishes to escalate the dispute to Step 4.

Step 4. Each party, will within two business days after receipt of the notice in Step 3, submit to the following people, or their delegates, a written report on the facts of the dispute, any relevant provisions of this Agreement and any other relevant information:

ServiceCo - Vice-President, Customer Engagement & Business Development

Client: - Chair, Board of Directors

Step 5. If the parties referred to in Step 4 cannot resolve the dispute through mediation, the dispute may be referred to arbitration in accordance with the arbitration provisions of this Agreement.

ARTICLE 18 - Arbitration

18. Except for applications for injunctions or restraining orders, any disputes arising out of or in connection with this Agreement or in respect of any defined legal relationship associated therewith or derived therefrom, including any failure of the parties to reach agreement will be referred to and finally resolved or

determined by arbitration under the Arbitrations Act (Ontario). In the event that this Agreement has been terminated in accordance with Article 14 above and an arbitrator under this article determines that a material breach did not exist, the arbitrator's jurisdiction shall be limited to the extent of awarding compensation for damages resulting from the failure to give proper notice of termination.

ARTICLE 19 - General

- 19.1 Neither party will be responsible for any failure to fulfill its respective obligations under this Agreement due to causes beyond its reasonable ability to control provided that the party affected by such cause has used and continues to use all reasonable efforts to perform its obligations and makes reasonable attempts to notify the other party in writing within five business days of its inability to fulfill its obligations under this Agreement. Regardless of the foregoing, ServiceCo will continue to provide all Services deemed by Client to be critical to its business, notwithstanding any strike by or labour dispute with ServiceCo's personnel.
- 19.2 Client and ServiceCo agree not to assign or transfer this Agreement or any of their respective rights or obligations under this Agreement, without the prior written consent of the other party, which such consent shall not be unreasonably or arbitrarily withheld, notwithstanding the foregoing in the event of a sale of its business Client shall have the right to assign this Agreement without the consent of ServiceCo provided that the Purchaser agrees to assume Client's obligations under this Agreement.
- 19.3 If either party becomes insolvent or bankrupt within the meaning of the *Bankruptcy and Insolvency Act* (Canada), the other party may, with notice in writing, immediately terminate this Agreement.
- 19.4 No changes to the terms and conditions of this Agreement will be effective unless specified in an amendment to the Agreement signed by both parties.
- 19.5 If any portion of this Agreement is found by a court of competent jurisdiction to be invalid, illegal or unenforceable, that portion will be severed from this Agreement and will not affect the validity, legality or enforceability of the remaining provisions of this Agreement and the remainder of the Agreement will continue in full force and effect.
- 19.6 Nothing contained herein and no actions taken in accordance with this Agreement shall constitute ServiceCo, or any of its officers, directors, employees, or servants as employees of Client and the parties agree that the nature of ServiceCo's relationship with Client is that of independent contractor.
- 19.7 Any waiver by either party of any obligation under this Agreement must be in writing and will not be deemed or constitute a waiver of that or any other provision (whether or not similar) nor will such waiver constitute a continuous waiver unless otherwise expressly provided.
- 19.8 On termination of this Agreement, all accrued obligations or liabilities and the provisions that by their nature are intended to endure beyond such termination will remain in effect including without limitation, obligations of confidentiality.
- 19.9 This Agreement will be binding on and inure to the benefit of both parties and their respective successors and permitted assigns.
- 19.10 This Agreement will be governed by the laws of the Province of Ontario and in the event that the parties are required to make application to court, the parties agree to be subject to the jurisdiction of the courts of the Province of Ontario.
- 19.11 Each party will execute and deliver such further and other agreements, documents and instruments and do such further acts and things as are within its power and as may be necessary or desirable to fully implement and carry out the intent of this Agreement.

ARTICLE 20 - Acceptance

20. Both parties, by authorized signatures below, agree that this Agreement is the complete agreement between the parties and replaces all prior communications, agreements and understandings related to the subject matter of this Agreement. There are no warranties, representations, conditions, covenants or other agreements between the parties in connection with the subject matter of this Agreement except those specifically set out herein. The execution of this Agreement has not been induced by, nor do either of the parties rely on or regard as material, any representations not included in this Agreement. No supplement, modification or waiver of this Agreement will be binding unless executed by the parties.

PUC SERVICES INC.

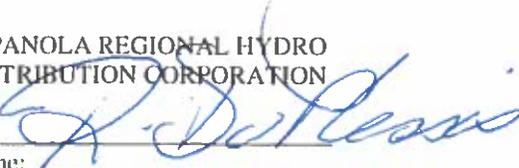
Per: 
Name: D. Parrella
Position: President & C.E.O.

Per: 
Name: K. D. Bell
Position: Vice President, Customer Engagement & Business Development

Date: 2016-07-11

We have the authority to bind the Corporation.

ESPANOLA REGIONAL HYDRO
DISTRIBUTION CORPORATION

Per: 
Name:
Position:

Per: 
Name:
Position:

Date: JUNE 21, 2016

I/ We have the authority to bind the Corporation.

SCHEDULE 'A' - SERVICES

The intent of this agreement is to have ServiceCo undertake the oversight, management and control of the business for Client as well as providing identified regular ongoing utility functions, with the aim of providing a stable and reliable electricity distribution service to its customers at a reasonable cost through the provision of the services described below.

DESCRIPTION OF MANAGEMENT SERVICES

The following summary description is intended to set forth the various activities to be undertaken by ServiceCo on behalf of Client under provision of Management Services:

1. Board attendance in person on a quarterly basis or by conference call/video for those meetings not attended to in person.
2. Provision of management oversight and direction to Client's Supervisor, Line Operations.
3. Provision of human resource functions including the evaluation of staff performance, hiring, discharge, promotion, remuneration and planning for training.
4. Oversight, awareness and monitoring for the following requirements:
 - Ongoing operation of the utility including work planning,
 - Regulatory and legislative requirements,
 - Contract administration including labour negotiations and collective agreement as well as third party contracts,
 - Purchasing of capital and operational items,
 - Financial requirements including the review of monthly and annual financial statements, cash flow, regulatory reporting and statistical reporting.
5. Preparation of annual capital and OM&A budgets including a 5 year forecast.
6. Recommending policy to the Board and ensuring that approved policy is carried out.
7. Provision of monthly management reports.

DESCRIPTION OF CUSTOMER SERVICES

The following summary description is intended to set forth the various activities to be undertaken by ServiceCo on behalf of Client under provision of Customer Services:

1. Customer invoice preparation and mailing for both electricity and water consumption. This will include inputting consumption reads provided to ServiceCo by Client, data validation, invoice generation, reporting of hi/low readings, and billing adjustments. This does not include requirements which are the result of the provincial government smart meter initiative, integration with the IESO's MDM/R and implementation and MDMR administration of time-of-use billing.
2. Scheduling and arranging for hydro meter readings having regard to the current time or times that same are scheduled by Client.
3. Cash processing including inputting and processing payments to customer accounts.
4. Collections including monitoring account activity, notifying customers of past due accounts and advising Client of past due accounts as specified by Client policies.
5. Customer service activities including handling customer calls with respect to service, rates, consumption and billing, and issuing customer notifications as required by regulation. Calls not related to services covered by this Agreement will be redirected to Client.
6. Procedures and applications required to support billing requirements as of the date of this Agreement stipulated in the Standard Service Supply and Retail Settlement codes. This will include Electronic Business Transactions, Retail Settlement and MDMA – MV90 services.
7. Billing for unmetered electricity customers including sentinel lights and street lighting.
8. The cost per meter per month rate is to provide the above services for up to 3,700 meters for residential and general service customers.

9. Hosting of the Harris Customer Information System (CIS) and eCare software. This includes administration of software updates and program fixes as covered under the Harris Software Maintenance Agreement. Enhancements for requirements specific to Client and those that are the result of new legislative requirements will be billed at cost plus 10%. Direct software licence and maintenance fees payable by Client are subject to change in accordance with the price schedule from Harris.
10. Costs payable for Electronic Business Transaction (EBT) hub services for retail electricity customers is premised on fees payable to our EBT Service Provider. Current fees are \$0.25 per customer and are subject to a minimum monthly charge of \$150.00. Invoices will be billed at cost plus 15%. Fees payable by Client are subject to change in accordance with the price schedule from the EBT Service Provider.

CLIENT RESPONSIBILITIES

Client's permanent staff that is in place at the start of the Agreement will continue to perform their current duties. Any changes to Client's staffing levels will be agreed to by ServiceCo and Client.

1. Maintenance on software other than as provided in the Service Schedule.
2. Customization of any software to meet requirements specific to Client.
3. Setup, operations and any charges for communications service between Sault Ste. Marie and Espanola.
4. Any additional licensing fees (Unix, Terminal Server, GUI, etc.) Client will maintain an adequate service level with respect to the number of users.
5. Purchase of additional software that may be required to meet legislative and regulatory requirements.
6. Staff input to annual capital and OM&A budget.

ADDITIONAL SERVICES

The costs of the following services are not included in the estimated cost of services noted above:

- Cost-of-service study
- Rate applications
- Application of legislation, regulations and code changes
- Ongoing costs related to Smart Meter initiative and the IESO Smart Metering Entity (SME) contract requirements including AMI Network operations
- Engineering services including distribution system design
- Client obligations for IESO FIT Program
- Ontario Regulation 22/04 requirements and compliance
- Accounting services including payroll, account payable, inventory, miscellaneous billing
- Purchasing
- Training required to satisfy legislation and due diligence
- Implementation of International Financial Reporting Standards (IFRS)
- Conservation and Demand Management (CDM) Code requirements and compliance inclusive of the development of a CDM Strategy and achievement of OEB energy conservation targets.

These services will be performed as approved by Client as part of the budget process. The services may be performed by ServiceCo or a third party as approved by Client subject to clause 5.8 above or as otherwise approved by Client. ServiceCo agrees to cooperate and work with such third parties for the purposes of its performance under this agreement.

SCHEDULE 'B' – FEES

Price Table

Price (*)	Year 1	Year 2	Year 3	Year 4	Year 5
Management Services	\$156,141.32	\$160,044.86	\$164,045.98	\$167,326.90	\$170,673.44
Customer Services	\$5.26/ meter/month	\$5.39/ meter/month	\$5.53/ meter/month	\$5.64/ meter/month	\$5.75/ meter/month
IT Server Hosting Services	\$7,500.00	\$7,687.50	\$7,879.69	\$8,037.28	\$8,198.03

Please Note: (*) Applicable taxes not included.

	June 1 2016: 2.75%	June 1 2017: 2.50%	June 1 2018: 2.50%	June 1 2019: 2.0%	June 1 2020: 2.0%
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1 **Appendix D**
2 **Securities Purchase Agreement dated October 12, 2018 between North Bay Hydro**
3 **Holdings Ltd., North Bay (Espanola) Acquisition Inc., The Corporation of the Town of**
4 **Espanola and The Corporation of The Township Of Sables-Spanish Rivers.**

THE CORPORATION OF THE TOWN OF ESPANOLA

- AND -

THE CORPORATION OF THE TOWNSHIP OF SABLES - SPANISH RIVERS

- AND -

NORTH BAY HYDRO HOLDINGS LTD.

- AND -

NORTH BAY (ESPANOLA) ACQUISITION INC.

SECURITIES PURCHASE AGREEMENT

October 12, 2018

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This **SECURITIES PURCHASE AGREEMENT** is made October 12, 2018 (the *Effective Date*)

BETWEEN:

THE CORPORATION OF THE TOWN OF ESPANOLA
a municipal corporation governed by the laws of Ontario

(*Espanola*)

AND

THE CORPORATION OF THE TOWNSHIP OF SABLES-SPANISH RIVERS
a municipal corporation governed by the laws of Ontario

(*Sables-Spanish*)

AND

NORTH BAY HYDRO HOLDINGS LTD.
a corporation governed by the laws of Ontario

(the *Guarantor*)

AND

NORTH BAY (ESPANOLA) ACQUISITION INC.
a corporation governed by the laws of Ontario

(the *Purchaser*)

RECITALS:

- A. Espanola and Sables-Spanish are hereinafter collectively referred to as the *Vendors*.
- B. The Vendors are the legal and beneficial owners and control all of the issued and outstanding shares in the capital of Espanola Regional Hydro Holdings Corporation (the *Company*), a corporation incorporated under the *Business Corporations Act* (Ontario), as more particularly set forth in Section 2.1.1(a).
- C. The Company is the legal and beneficial owner of all the issued and outstanding common shares in the capital of: (i) Espanola Regional Hydro Distribution Corporation (*ERHDC*), a corporation incorporated under the *Business Corporations Act* (Ontario), and (ii) Espanola Regional Hydro Services Corporation (*ERHSC*), a corporation incorporated under the *Business Corporations Act* (Ontario).

Act (Ontario) (ERHDC and ERHSC are collectively referred to as the *Subsidiaries* and individually, a *Subsidiary*).

- D. The Vendors are the legal and beneficial owners and control all of the issued and outstanding special shares in the capital of ERHDC, as more particularly set forth in Section 2.1.1(a).
- E. The Vendors are the legal and beneficial owners and control the Shareholder Notes, as more particularly set forth in Section 2.1.1(b).
- F. The Vendors have agreed to sell to the Purchaser and the Purchaser has agreed to purchase from the Vendors all of the Purchased Securities, on the terms and conditions of this Agreement.

THEREFORE, the Parties agree as follows:

1 DEFINITIONS

Unless the context otherwise requires, capitalized terms used in this Agreement will have the meanings given to them in Schedule A.

2 PURCHASE AND SALE

2.1 ACTION BY VENDORS AND PURCHASER

Subject to the provisions of this Agreement, at the Closing Time:

2.1.1 Purchase and Sale of Purchased Securities.

- (a) The Vendors shall sell, and the Purchaser shall buy, the Purchased Shares, as set forth below:

<u>Class of Shares</u>	<u>Issued</u>	<u>Entity</u>	<u>Shareholder</u>
Special	177	ERHDC	Espanola
Common	810	Company	Espanola
Special	51	ERHDC	Sables-Spanish
Common	190	Company	Sables-Spanish

- (b) The Vendors currently hold promissory notes issued by ERHDC in the following principal amounts (each, a *Shareholder Note*):

<u>Principal Amount</u>	<u>Shareholder</u>	<u>Debtor</u>
\$1,185,416	Espanola	ERHDC
\$339,095	Sables-Spanish	ERHDC

Each Vendor and ERHDC shall: (i) amend and restate each Shareholder Note in its entirety on the Closing Date on the same terms and conditions applicable to such Shareholder Note on the Effective Date, subject in each case to a reduction of the principal amount of such Shareholder Note to the aggregate amount of the indebtedness outstanding on the Closing Date under such Shareholder Note (the *Amended and Restated Shareholder Notes*), and (ii) cancel, without interest or penalty, each existing Shareholder Note.

2.1.2 Payment of Purchase Price.

The Purchaser shall pay the Purchase Price to the Vendors as provided in Section 3.1.

2.1.3 Transfer and Delivery of the Purchased Securities.

On Closing, the Vendors shall transfer and deliver to the Purchaser: (i) share certificates representing the Purchased Shares duly endorsed in blank for transfer, or accompanied by irrevocable security transfer powers of attorney duly executed in blank, in either case by the holders of record, and (ii) the Amended and Restated Shareholder Notes, together with a duly executed assignment in favour of the Purchaser in respect of such Amended and Restated Shareholder Notes.

2.1.4 Other Documents.

The Vendors shall deliver all such other deeds, conveyances, assurances, transfers and assignments and any other instruments necessary or reasonably required to transfer the Purchased Securities to the Buyer with good title, free and clear of all Encumbrances.

2.2 ELECTRONIC CLOSING AND USB FORMAT RECORD BOOKS

The Closing will take place on the Closing Date by means of an electronic closing in which the closing documentation will either be: (i) delivered by electronic mail, or (ii) uploaded to an electronic data site, and all signature pages in pdf or functionally equivalent electronic format will be exchanged between the Parties by e-mail or uploaded to such electronic data site, as applicable, which delivery will be effective without any further physical exchange of the originals or copies of the originals, subject

to prior delivery of the original Purchased Securities and minute books of the Company, ERHDC and ERHSC to the offices of the Purchaser's solicitors, Borden Ladner Gervais LLP located at East Tower, Bay Adelaide Centre, 22 Adelaide St. W., Suite 3400, Toronto, Ontario, M5H 4E3, to be held in escrow by the Purchaser's solicitors until Closing. After the Closing, the Purchaser's solicitors will deliver three (3) USB format "memory" sticks containing complete electronic copies of the closing documentation to the Vendors' solicitor, Damiani Law, 1-225 Edgeley Blvd, Concord, Ontario L4K-3Y7.

2.3 TENDER

Any tender of documents under this Agreement shall be made upon the Parties or their respective counsel. Any tender of money under this Agreement shall be made by wire transfer to an account designated in writing by the Party entitled to receive the payment.

3 PURCHASE PRICE

3.1 PURCHASE PRICE

The aggregate amount payable by the Purchaser for the Purchased Securities shall be **SEVEN MILLION NINE HUNDRED AND EIGHTY-NINE THOUSAND FIVE HUNDRED AND THIRTY (\$7,989,530.00) DOLLARS**, as adjusted in accordance with the procedures set forth in Section 3.4 for any increase or decrease, as the case may be, for any changes between the Initial Shareholders' Equity and the Closing Date Shareholders' Equity, which change represents the cumulative comprehensive net income or loss of ERHDC from December 31, 2016 to the Closing Date, less any cumulative dividends paid between December 31, 2016 and the Closing Date.

3.2 DEPOSIT

3.2.1 Concurrently with the execution of this Agreement, the Purchaser will pay to the Purchaser's solicitors in trust, the sum of \$200,000 as a deposit (the *Deposit*). The Deposit shall be held by the Purchaser's solicitors pending Closing in an interest-bearing account under the terms of the Escrow Agreement and will be dealt with in accordance with the following provisions:

- (a) If the Closing does not occur by reason of the failure of the Purchaser to satisfy its obligations set out in Section 8.2, the full amount of the Deposit will be released from trust and forfeited and become the property of and be retained by the Vendors and the Parties will issue a joint instruction in accordance with the terms of the Escrow Agreement to that effect, unless the Purchaser disputes that the Deposit should be forfeited. The entitlement of the Vendors to retain the Deposit in such circumstances shall not limit the Vendors' rights to exercise any

other remedies which the Vendors may have against the Purchaser in respect of the non-completion of the transactions contemplated by this Agreement.

- (b) If the Closing does not occur for any reason other than as set forth in Section 3.2.1(a), the Deposit will be released from trust (together with any interest thereon) and returned to the Purchaser, and the Parties will issue a joint instruction in accordance with the terms of the Escrow Agreement to that effect.

3.3 PAYMENT OF PURCHASE PRICE

Subject to adjustment in accordance with Section 3.1 and Section 3.4, the Purchase Price for the Purchased Securities shall be paid to the Vendors on the Closing Date as follows:

- 3.3.1 at the Closing Time by release of the Deposit to the Vendors; and
- 3.3.2 as to the balance of the Purchase Price, by wire transfer from the Purchaser to the Vendors' solicitor, in trust.

3.4 PURCHASE PRICE ADJUSTMENT

- 3.4.1 Within ninety (90) days after Closing, the Vendors will cause to be prepared and delivered to the Purchaser:

- (a) audited non-consolidated financial statements of the Company and its Subsidiaries for the fiscal period ended on the day immediately prior to the Closing Date, prepared in accordance with IFRS, consistently applied and on the same basis as the Financial Statements, consisting of a balance sheet as of such date and statements of operation, retained earnings and cash flow for such period, together with notes thereto as of such date (the *Closing Date Financial Statements*); and
- (b) a statement that calculates the change between the Initial Shareholders' Equity and the Closing Date Shareholders' Equity prepared in accordance with Schedule B (the *Purchase Price Adjustment Statement*).

- 3.4.2 The Purchaser will have fifteen (15) days following delivery to review the Purchase Price Adjustment Statement. The Purchaser will be deemed to have accepted and agreed to the Purchase Price Adjustment Statement unless the Purchaser delivers a written notice to the Vendors setting forth the specific items disputed by the Purchaser on or prior to the fifteenth (15th) day following the delivery of the Purchase Price Adjustment Statement (the *Purchaser's Objection*). If the Purchaser delivers a Purchaser's Objection, the Vendors and the Purchaser will, within fifteen (15) days following the delivery of the Purchaser's Objection to the Vendors (the *Purchase Price Adjustment Statement Resolution Period*), attempt to resolve the matters set forth in the Purchaser's Objection.

3.4.3 If the Purchaser and the Vendors do not resolve all disputed items in the Purchaser's Objection by the end of the Purchase Price Adjustment Statement Resolution Period, within fifteen (15) days after the expiration of the Purchase Price Adjustment Statement Resolution Period, all items remaining in dispute shall be submitted by the Parties to a senior partner of a Neutral Auditor. Each Party will deliver to the Neutral Auditor a written statement concerning the disputed items setting out, with particularity, the Party's position with respect to such disputed items and the material facts that such Party is relying upon in connection therewith. The Neutral Auditor shall act as an arbitrator to resolve those items in dispute. All fees and expenses relating to the work, if any, to be performed by the Neutral Auditor will be borne equally by the Parties. The Neutral Auditor will deliver to the Purchaser and the Vendors a written determination (such determination will include a work sheet setting forth all material calculations used in arriving at such determination and to be based solely on information provided to the Neutral Auditor by the Purchaser and the Vendors within ten (10) days of the items in dispute having been submitted to the Neutral Auditor) of the disputed items within fifteen (15) days of receipt of the disputed items, which determination will be final, binding and conclusive on the Parties. The final, binding and conclusive purchase price adjustment statement, which is either:

(a) agreed upon by the Purchaser and the Vendors (and which agreement may still arise regardless of whether the Parties proceed to have the matter determined by a senior partner of a Neutral Auditor); or

(b) delivered by the Neutral Auditor in accordance with this Section 3.4.3,

will be the *Conclusive Purchase Price Adjustment Statement*.

In the event that either the Purchaser or the Vendors fail to submit their statements regarding any items remaining in dispute within the time determined by the Neutral Auditor in accordance with this Section 3.4.3, the Neutral Auditor shall render its decision based solely on the statement and supporting evidence submitted to the Neutral Auditor by the applicable Parties. The Closing Date Financial Statements will be modified to the extent required to give effect to the Neutral Auditor's determination and will be deemed to have been approved as of the date of the Neutral Auditor's decision.

3.4.4 On the second Business Day following the date on which the Conclusive Purchase Price Adjustment Statement is final and binding on the Parties in accordance with Section 3.4.3, the Purchase Price will be adjusted as follows:

(a) if the Closing Date Shareholders' Equity exceeds the Initial Shareholders' Equity, the Purchase Price will be increased by the amount of that excess;

- (b) if the Closing Date Shareholders' Equity has decreased from the Initial Shareholders' Equity, the Purchase Price will be decreased by the amount of that decrease; and
- (c) if the Closing Date Shareholders' Equity is equal to the Initial Shareholders' Equity, the Purchase Price will not be adjusted.

The aggregate adjustment to the Purchase Price pursuant to this Section 3.4.4 shall be the *Purchase Price Adjustment*. The Vendors or the Purchaser, as the case may be, will then immediately pay an amount equal to the Purchase Price Adjustment owed to the applicable Party, if any, as a result of the adjustments set forth in this Section 3.4.4.

3.5 **THIRD PARTY CONSENTS**

The Vendors will, at their sole cost and expense, obtain all consents with, to or from third parties (other than the OEB), including the parties to the Material Contracts and the Permitted Financing on terms and conditions acceptable to the Purchaser, acting reasonably, so that the change in control of the Company and its Subsidiaries and the transactions contemplated by this Agreement may be completed without resulting in the violation of, or a default under, or any termination, amendment (except for any amendments expressly contemplated by this Agreement) or acceleration of any obligation under any Material Contract, the Permitted Financing or affecting the Business, the Company or any Subsidiary, including those listed on Schedule Q (collectively, the *Third Party Consents*). The Purchaser shall cooperate with the Vendors and provide such reasonable assistance and provide such information as may be reasonably required by such third parties in connection with obtaining such consent.

3.6 **ALLOCATION OF PURCHASE PRICE**

The Purchase Price shall be allocated in accordance with the provisions of Schedule C, provided that if the Purchase Price is adjusted by a Purchase Price Adjustment pursuant to Section 3.4, the amount of such Purchase Price Adjustment shall be allocated to the common shares in the capital of the Company. Each of the Vendors and the Purchaser shall report the purchase and sale of the Purchased Securities in any Tax Returns in accordance with the provisions of Schedule C.

4 **REPRESENTATIONS AND WARRANTIES OF THE VENDORS**

Each Vendor represents and warrants to the Purchaser as follows in this Section 4 and acknowledges that the Purchaser is relying upon these representations and warranties in connection with the purchase of the Purchased Securities.

4.1 **EXISTENCE**

Each Vendor is a municipal corporation validly existing under the laws of the Province of Ontario.

4.2 ORGANIZATION

4.2.1 The Company is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has all necessary corporate power, authority and capacity to own its assets and to carry on its Business as presently conducted.

4.2.2 Each of the Subsidiaries is a corporation duly incorporated and validly existing under the laws of the Province of Ontario and has all necessary corporate power, authority and capacity to own its assets and to carry on its Business as presently conducted.

4.3 RESIDENCE

Each of the Vendors, the Company and the Subsidiaries is not a non-resident of Canada for the purposes of the *Income Tax Act* (Canada).

4.4 SUBSIDIARIES

The Company does not have any subsidiaries other than the Subsidiaries and does not have any Contracts of any nature to acquire, directly or indirectly, any securities in any Person and the Company does not have any Contracts to acquire or lease by any manner whatsoever any other business operations of any kind. The Subsidiaries do not have any subsidiaries and do not have any Contracts of any nature to acquire, directly or indirectly, any securities in any Person and no Subsidiary has any Contracts to acquire or lease by any manner whatsoever any other business operations of any kind.

4.5 TITLE TO PURCHASED SECURITIES AND RIGHT TO SELL

Each Vendor is the legal and beneficial owner of the Purchased Securities set opposite the Vendor's name in Section 2.1.1(a) and Section 2.1.1(b) and has good title to them, free and clear of any Encumbrances (other than the rights of the Purchaser hereunder). At Closing, each Vendor will have the absolute and exclusive right to sell and transfer the Purchased Securities to the Purchaser as contemplated by this Agreement and such sale and transfer does not and will not violate, contravene, breach or offend against or result in any default under any Contract, charter or by-law provision of the Vendors, the Company and its Subsidiaries, any Order, judgment, decree, license, permit or Law to which the Vendors are a party or subject or by which the Vendors are bound or affected. The Company is the sole legal and beneficial owner of all of the common shares in the capital of ERHDC and ERHSC and has good title to them, free and clear of any Encumbrances.

4.6 CAPITALIZATION

The authorized and issued share capital of the Company and each of the Subsidiaries is as set forth in Schedule D. All of the Purchased Shares and all the common shares in each of the Subsidiaries have been duly and validly issued and are outstanding as fully paid and non-assessable shares. No options, warrants or other rights to purchase shares or other securities of the Company or of any of the Subsidiaries (whether by Law, pre-emptive right, contractual right or otherwise) and no securities or obligations convertible into or exchangeable for shares or other securities of the Company or any of the Subsidiaries have been authorized or agreed to be issued or are issued and outstanding. There are no other shares in the capital of the Company and its Subsidiaries issued and outstanding shares other than as set out as set forth in Schedule D.

4.7 DUE AUTHORIZATION AND ENFORCEABILITY OF OBLIGATIONS

Each Vendor has all necessary power, authority and capacity to enter into this Agreement and to carry out its obligations under this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement have been duly authorized by all necessary action on the part of each Vendor. This Agreement constitutes a valid and binding obligation on each Vendor, enforceable against each of them in accordance with its terms subject to any limitations imposed by Law.

4.8 ABSENCE OF CONFLICTS

4.8.1 Except for the requirement for the Required Approval and Third Party Consents, none of the Company or any of the Subsidiaries is a party to, bound or affected by or subject to any:

- (a) Contract;
- (b) charter or by-law; or
- (c) Laws or Governmental Authorizations

taken as a whole, which would be violated, breached by, or under which default would occur or an Encumbrance would be created as a result of the execution and delivery of, or the performance of obligations under, this Agreement or any other agreement to be entered into under the terms of this Agreement.

4.8.2 There has been no sale, assignment, subletting, licensing or granting of any rights in or other disposition of or in respect of any of the Company's or any of the Subsidiaries' assets or any granting of any agreement or right capable of

becoming an agreement or option for the purchase, assignment, subletting, licensing or granting of any rights in or other disposition of any of such assets other than pursuant to the provisions of, or as disclosed in, this Agreement or in the Ordinary Course.

4.9 **CONSENTS AND APPROVALS**

No approval, Order, consent of or filing with any Governmental Authority or any third party is required, other than:

- 4.9.1 the Required Approval;
- 4.9.2 the notice contemplated in Section 7.2; and
- 4.9.3 the Third Party Consents

on the part of each Vendor or the Company and its Subsidiaries, as applicable, in connection with the execution, delivery and performance of this Agreement or any other documents and agreements to be delivered under this Agreement or the performance of each Vendor's obligations under this Agreement or any other documents and agreements to be delivered under this Agreement other than those approvals, Orders, consents or filings were any failure to obtain or perform would not have a Material Adverse Effect.

4.10 **FINANCIAL STATEMENTS, 2017 FINANCIAL STATEMENTS AND CLOSING DATE FINANCIAL STATEMENTS**

The Financial Statements and the 2017 Financial Statements:

- 4.10.1 have been, and the Closing Date Financial Statements will be, prepared in accordance with IFRS, applied on a basis consistent with that of the preceding periods;
- 4.10.2 are, and the Closing Date Financial Statements will be, complete and accurate in all respects;
- 4.10.3 accurately disclose, and the Closing Date Financial Statements will accurately disclose, the assets, liabilities and financial condition of the Company and each Subsidiary on a non-consolidated basis and the results of the operations of the Company and each Subsidiary on a non-consolidated basis, as at the dates thereof and for the periods covered thereby;
- 4.10.4 reflect, and the Closing Date Financial Statements will reflect, all proper accruals as at the dates thereof and for the periods covered thereby of all amounts which,

though not payable until a time after the end of the relevant period, are attributable to activities undertaken during or prior to that period; and

- 4.10.5 contain or reflect, and the Closing Date Financial Statements will contain or reflect, adequate provision for all liabilities and obligations of the Company and each Subsidiary as at the date thereof.

No information has become available to the Vendors, the Company or any Subsidiary that would render the Financial Statements or the 2017 Financial Statements incomplete or inaccurate.

4.11 **SHAREHOLDER NOTES AND NON-ARM'S LENGTH TRANSACTIONS**

There are no debts, liabilities or other obligations owing by the Company or any of the Subsidiaries to each of the Vendors other than:

- 4.11.1 the Shareholder Notes;
- 4.11.2 any outstanding amounts for water and wastewater collected on behalf of Espanola by ERHDC pursuant to the terms of the PUC Services Agreement; and
- 4.11.3 trade receivables and trade payables incurred in the Ordinary Course, which, in the aggregate, are not material to a purchaser of the Purchased Securities.

Except for the Shareholder Notes, none of the Company nor any Subsidiary has made any payment or loan to, or borrowed any moneys from or is otherwise indebted to, any officer, director, Employee, shareholder or any other Person not dealing at arm's length with the Company or any Subsidiary (within the meaning of the Tax Act), except for usual employee reimbursements and compensation paid in the Ordinary Course and except for benefits paid in accordance with Benefit Plans. Except for Contracts of employment and Benefit Plans, none of the Company nor any Subsidiary is a party to any Contract with any officer, director, Employee, shareholder or any other Person not dealing at arm's length with the Company or any Subsidiary (within the meaning of the Tax Act). No officer, director or shareholder of the Company or any Subsidiary and no entity that is an Affiliate of one or more of those Persons, owns, directly or indirectly, any interest in, or is a lessor, lessee, supplier, distributor or sales agent of the Business.

4.12 **ABSENCE OF UNDISCLOSED LIABILITIES**

The Company and the Subsidiaries have not incurred any liabilities, obligations, indebtedness or commitments and is not a party to or bound by any agreement of guarantee, support, indemnification, assumption or endorsement of, or any other similar commitment with respect to the liabilities, obligations, indebtedness or commitments (whether accrued, absolute, contingent or otherwise), which continue to

be outstanding except as disclosed in the Closing Date Financial Statements, Schedule E or incurred in the Ordinary Course and which do not have a Material Adverse Effect.

4.13 ABSENCE OF CHANGES AND UNUSUAL TRANSACTIONS

4.13.1 Since the date of the Financial Statements, except as contemplated by this Agreement, there has not been:

- (a) any change in the financial condition, operations, results of operations, or business of the Company and its Subsidiaries, which has had a Material Adverse Effect; or
- (b) any loss, labour trouble, or other event or development suffered by the Company and its Subsidiaries which, has had, or may reasonably be expected to have, a Material Adverse Effect.

4.13.2 Since the date of the Financial Statements, the Company and its Subsidiaries have carried on their respective Business and conducted their operations and affairs only in the Ordinary Course and the Company and its Subsidiaries have not:

- (a) made or suffered any Material Adverse Effect;
- (b) suffered any damage, destruction or loss (whether or not covered by insurance) affecting their assets;
- (c) incurred any liability, obligation, indebtedness or commitment (whether accrued, absolute, contingent or otherwise, and whether due or to become due), other than unsecured current liabilities, obligations, indebtedness and commitments incurred in the Ordinary Course;
- (d) paid, discharged or satisfied any Encumbrance, liability, obligation, indebtedness or commitment of the Company or its Subsidiaries other than payment of accounts payable, loan instalments and Tax liabilities incurred in the Ordinary Course;
- (e) declared, set aside or paid any dividend or made any other distribution with respect to any shares in the capital of the Company or its Subsidiaries or redeemed, repurchased or otherwise acquired, directly or indirectly, any such shares;
- (f) issued or sold or entered into any Contract for the issuance or sale of any shares in the capital of or securities convertible into or exercisable for shares in the capital of the Company or its Subsidiaries;

- (g) made or granted, or entered into any agreement to make or grant, any licence, sale, assignment, transfer, disposition, pledge, mortgage or security interest or other Encumbrance of, on or over any of the assets of the Company or its Subsidiaries;
- (h) made any write-down of the value of any accounts receivable of a material nature or any portion thereof;
- (i) cancelled any debts or claims or made any amendment, termination or waiver of any rights thereto;
- (j) made any capital expenditures or commitments of the Company or its Subsidiaries in excess of \$50,000 not otherwise disclosed in writing to the Purchaser;
- (k) made any forward purchase commitments in excess of \$50,000;
- (l) made any change in the accounting, costing or tax practices followed by the Company or its Subsidiaries;
- (m) made any change adopted by the Company in its depreciation or amortization policies or rates;
- (n) terminated, cancelled or modified or received any notice of a request for termination, cancellation or modification of any Material Contract; or
- (o) authorized or agreed to or otherwise committed to do any of the foregoing.

4.14 TITLE TO CERTAIN ASSETS

Each of the Company and the Subsidiaries is the sole legal and beneficial owner of all of its Tangible Personal Property and other undertakings, property and assets not otherwise the subject of specific representations and warranties in this Section 4 including all of the Tangible Personal Property, undertakings, property and assets reflected in the most recent balance sheet included in the Financial Statements with good and marketable title, free and clear of all Encumbrances other than Permitted Encumbrances.

4.15 CONDITION OF CERTAIN ASSETS

All Tangible Personal Property are in good operating condition and repair and are reasonably fit and usable for the purposes for which they are being used, having regard to ordinary wear and tear, usage, age and scheduled maintenance. All Tangible Personal Property have been maintained in accordance with Applicable Law.

4.16 BUSINESS IN COMPLIANCE WITH LAW

Each of the Company and the Subsidiaries is conducting its Business in compliance with all applicable Laws where failure to do so would have a Material Adverse Effect. The Company and the Subsidiaries do not conduct the Business within any jurisdictions other than the Province of Ontario.

4.17 REAL PROPERTY

- 4.17.1 Schedule F sets forth a complete and accurate list of the Real Property including complete legal descriptions. Neither the Company nor any Subsidiary are the beneficial or registered owner of any Real Property other than as set forth in Schedule F. The Company and its Subsidiaries do not lease any real property of any kind.
- 4.17.2 Schedule G sets forth a complete and accurate list of the Easements and the Unregistered Easements. Neither the Company nor any Subsidiary are the beneficial or registered owner of any Easements other than as set forth in Schedule G. Neither the Company nor any Subsidiary use or occupy any real property in connection with the undertaking of the Business except with respect to the Real Property, the lands that are the subject of the Easements, Unregistered Easements and, to the Vendors' Knowledge, any lands that are the subject of Uncovered Real Estate Rights.
- 4.17.3 The Company or the named Subsidiary, as the case may be, have the exclusive right to possess, use and occupy the Real Property and the Easements, and are the legal and beneficial owner of the Real Property and the Easements, free and clear of all Encumbrances or other restrictions of any kind other than Permitted Encumbrances. Neither the Company nor any of the Subsidiaries has agreed to acquire or lease any real property.
- 4.17.4 Neither the Vendors, the Company nor any of the Subsidiaries has received any notices of violation of any Applicable Laws against or affecting any Real Property, the Easements, the lands which are subject to the Easements, the Unregistered Easements and any lands which are subject to the Uncovered Real Estate Rights, and, to the Vendors' Knowledge, there are no pending or threatened notices of violation of any Applicable Laws against or affecting any Real Property or the Easements, or the interest of ERHDC in the lands which are subject to the Easements, Unregistered Easements and any lands which are subject to Uncovered Real Estate Rights.
- 4.17.5 The Real Property and the Easements provides the required rights of occupancy, possession, use, entry and exit, as applicable, as are reasonably necessary to carry on the Business applicable to such Real Property. To the Vendor's Knowledge,

the Unregistered Easements provide the required rights of occupancy, possession, use, entry and exit, as applicable, as are reasonably necessary to carry on the Business applicable to such Unregistered Easements.

- 4.17.6 The Real Property and the Easements the current uses of and the conduct of the Business on the Real Property and the Easements applicable to such Real Property complies with all Applicable Laws, and comply with all applicable restrictive covenants which constitute Permitted Encumbrances. To the Vendor's Knowledge, the current uses of and the conduct of the Business on the Unregistered Easements and the Uncovered Real Estate Rights applicable to such Unregistered Easements and such Uncovered Real Estate Rights comply with all Applicable Laws and comply with all applicable restrictive covenants which constitute Permitted Encumbrances.
- 4.17.7 Other than as listed in Schedule S, no Person has any right to purchase any of the Real Property or any Easement and no Person other than the Company or any of the Subsidiaries is using or has any right to use, is in possession or occupancy, of any part of the Real Property. To the Vendors' Knowledge (which for the purposes of this Section 4.17.7, Vendors' Knowledge means the best of the knowledge, information and belief of the Vendors after having asked the relevant representatives of the Company, its Subsidiaries and PUC Services Inc. and, reviewed the relevant records in the possession of the Vendors, the Company, the Subsidiaries and PUC Services Inc. and nothing further), no Person has any right to purchase any of the lands subject to the Easements, Unregistered Easements and Uncovered Real Estate Rights and no Person other than the Company or any of the Subsidiaries is using or has any right to use, is in possession or occupancy, of any part of the Easements, Unregistered Easements or any Uncovered Real Estate Rights.
- 4.17.8 Neither the Vendors, the Company or any of the Subsidiaries has entered into any contract to sell, transfer, encumber or otherwise dispose of or impair the right, title and interest of the Company or any of the Subsidiaries in and to the Real Property, the Easements and the Unregistered Easements, except in connection with any Permitted Encumbrances.
- 4.17.9 Neither the Vendors, the Company or any of the Subsidiaries, has received any notification of:
- (a) any current non-compliance (other than non-compliances which are legal non-conforming under relevant zoning by laws) with Applicable Law, including, building and zoning by-laws and regulations with respect to the Real Property, the Easements, the Unregistered Easements or Uncovered Real Estate Rights; and/or

- (b) any outstanding or incomplete work orders in respect of any Fixed Assets located on Real Property, the Easements, the Unregistered Easements or Uncovered Real Estate Rights.

To the Vendors' Knowledge, no municipal by-laws which would reasonably be expected to have a Material Adverse Effect on the Business is currently being contemplated by the Vendors.

4.17.10 All accounts for work and services performed or materials placed or furnished upon or in respect of the construction and completion of any Fixed Assets on Real Property, Unregistered Easements and Uncovered Real Estate Rights on behalf of the Vendors, the Company or any of the Subsidiaries have been fully paid or accrued, and, to the Vendors' Knowledge, no Person is entitled to claim a lien under the *Construction Lien Act* (Ontario) or similar legislation for such work.

4.17.11 To the Vendors' Knowledge (which for the purposes of this Section 4.17.11 Vendors' Knowledge means the best of the knowledge, information and belief of the Vendors after having asked the relevant representatives of the Company, its Subsidiaries and PUC Services Inc. and, reviewed the relevant records in the possession of the Vendors, the Company, the Subsidiaries and PUC Services Inc. and nothing further), there are no matters affecting the right, title and interest of the Company or any of the Subsidiaries, as applicable, in and to the Real Property, the Easements, the Unregistered Easements and Uncovered Real Estate Rights which could have a Material Adverse Effect on the ability of the Company or any of the Subsidiaries to carry on its Business thereon.

4.17.12 No part of the Real Property or the Easements or, to the Vendors' Knowledge, the lands subject to the Unregistered Easements have been taken or expropriated by any competent Governmental Authority nor has any notice or proceeding in respect thereof been given or commenced.

4.17.13 To the Vendors' Knowledge, the Permitted Encumbrances constitute all of the Encumbrances, Contracts and other matters that affect the Real Property of the Company or the named Subsidiary, as the case may be, and there is no breach or default under any of the Permitted Encumbrances.

4.17.14 To the Vendors' Knowledge, there are no material or structural repairs or replacements that are necessary to the building located at 598 Second Avenue, Espanola, Ontario.

4.17.15 No amount of Taxes payable in respect of any Real Property or the Easements other than current accounts in respect of which the payment due date has not yet passed; and there are no levies, charges or fees assessed against the Real Property

by any Governmental Authority (including without limitation development or improvement levies, charges or fees) which have not been paid in full or accrued.

4.18 INTELLECTUAL PROPERTY

Schedule H sets forth and describes all trade secrets and any licensed property or technology used in whole or in part by the Business, and all material trademarks, trade names, service marks, brand names, patents, copy rights, industrial designs and other industrial property rights, and all applications therefor (collectively, the *Intellectual Property*), in each case specifying whether the item is owned by the Company or any Subsidiaries or is used by the Company or any Subsidiaries under a licence agreement or arrangement from another Person. The use by the Company and each Subsidiary of any Intellectual Property owned by third parties is valid, and neither the Company nor any Subsidiary is in default or breach of any licence agreement relating to that Intellectual Property, and there exists no state of facts which, after notice or lapse of time or both, would constitute a default or breach. The conduct by the Company and each Subsidiary of its Business does not infringe the Intellectual Property of any Person.

4.19 ENVIRONMENTAL MATTERS

The Company and the Subsidiaries have been and are in compliance with all Environmental Laws other than non-compliance which in the aggregate does not have a Material Adverse Effect. Any Release by the Company or any Subsidiaries of any Hazardous Substance into the Environment complied and complies in all material respects with all applicable Environmental Laws. To the Vendors' Knowledge, all Environmental Approvals required for the operation of the Business have been obtained and are valid and in full force and effect. To the Vendors' Knowledge, each such Environmental Approvals is held in the name of ERHDC and is valid, subsisting and in good standing and neither the Company nor any Subsidiary are in default or breach of any Environmental Approval and no proceeding is pending or threatened to revoke or limit any Environmental Approval. None of the Company or any of the Subsidiaries or any of their respective operations is the subject of any Remedial Order or, to the Vendors' Knowledge, is any investigation or evaluation threatened as to whether any such Remedial Order is necessary. The Company or its Subsidiaries have never been prosecuted for or convicted of any offence under Environmental Laws, nor have any of them been found liable in any proceeding to pay any damages, fine or judgment to any Person as a result of any Release or threatened Release of any Hazardous Substance into the Environment or as the result of any breach of any Environmental Laws. No notice has been received by the Vendors or by the Company or its Subsidiaries of any investigation or evaluation by any Governmental Authority or of any Claims, pending or threatened, and there are no investigations or evaluations threatened or commenced as to whether any offence under Environmental Laws by any of the foregoing has occurred. There are no Claims that have been threatened or commenced against the Company or its Subsidiaries as a result of any Release or

threatened Release of any Hazardous Substance into the Environment or as the result of the breach of any Environmental Laws. To the Vendors' Knowledge, there are no Hazardous Substances in, on or under the Real Property. The Company and its Subsidiaries have not caused or permitted the Release of any Hazardous Substance at, on or under the Real Property or real property to which the Unregistered Easements, any real property previously owned, leased, occupied or used by the Company or its Subsidiaries or off-site of such properties, except in compliance with Environmental Laws. No underground or above-ground storage tanks of PCB storage facilities are or, to the Vendors' Knowledge, have been located on any Real Property or real property previously owned, leased occupied or used by the Company and its Subsidiaries.

4.20 EMPLOYEES

4.20.1 The Confidential Disclosure Schedule contains a complete and accurate list of the names of all individuals who are employees of the Company or any Subsidiaries (the *Employees*) specifying name, job title, hire date, professional designation, whether they are union or non-union, regular hours of work, hourly rate and any salary to which they are entitled (the *Employee Fact Sheet*).

4.20.2 Except as disclosed in the Employee Fact Sheet, no Employee is on disability or other type of leave, or receiving benefits pursuant to the *Workplace Safety and Insurance Act* (Ontario).

4.20.3 The Company and the Subsidiaries have operated in material compliance with all applicable Laws relating to employees, including employment standards and all laws relating to full or in part to the protection of employee health and safety, human rights, labour relations and pay equity. Except as disclosed in the Employee Fact Sheet:

- (a) there have been no Claims in the past four (4) years nor, to the best of the Vendors' Knowledge, are there any threatened Claims, under such laws against the Company or any Subsidiaries;
- (b) to the Vendors' Knowledge, nothing has occurred in the past four (4) years which might lead to a Claim or complaint against the Company or any Subsidiaries, under any such Laws; and
- (c) there are no outstanding decisions or settlements or pending settlements which place any obligation upon the Company or any Subsidiaries to do or refrain from doing any act with respect to its Employees, save and except as provided in this Agreement.

Except as disclosed in the Employee Fact Sheet, all assessments under the *Workplace Safety and Insurance Act* (Ontario) in relation to the Business of the Company or any Subsidiaries have been paid or accrued and the Company and the Subsidiaries are not

subject to any special or penalty assessment under such legislation which has not been paid or accrued.

4.21 EMPLOYMENT CONTRACTS AND COMMITMENTS

Except as set forth in the Employee Fact Sheet or the Confidential Disclosure Schedule, the Company and the Subsidiaries is not a party to or bound by any of the following:

- 4.21.1 any offer, employment or consulting Contract or any other written Contract with any officer, employee or consultant, including any agreements or arrangements relating to compensation, other than oral Contracts of indefinite hire terminable by the Company or any Subsidiaries without cause on reasonable notice;
- 4.21.2 any offer, employment or consulting Contract for the employment or retainer of any Person which provides for annual salary and bonus payments of more than \$100,000 in the aggregate to any single Person;
- 4.21.3 retention bonus agreement or employment Contract providing for cash or other compensation or benefits upon the consummation of the transactions contemplated by this Agreement;
- 4.21.4 subject to any restrictions and conditions in OEB licences or applicable Laws, contract or commitment limiting the freedom of the Company or any Subsidiaries to engage in any line of business or to compete with another Person; or
- 4.21.5 any agreement obligating the Company or any Subsidiaries to provide payment to any employee or other compensation or benefits upon or as a result of the transactions contemplated by this Agreement.

4.22 COLLECTIVE AGREEMENTS

- 4.22.1 Schedule I sets forth a complete and accurate list of all collective bargaining agreements between the Company and the Subsidiaries and their respective employees. Except as set forth in Schedule I (the *Collective Agreement*), neither the Company or any of the Subsidiaries are a party to or bound by or subject to any other agreement or arrangement with any labour union or employee association and neither the Company or any of the Subsidiaries have made any commitment to or conducted any negotiation or discussion with any labour union or employee association with respect to any future agreement or arrangement and no labour union or employee association has any bargaining or representation rights in respect of the Company or any of the Subsidiaries or any employee of the applicable Company or any of the Subsidiaries.

4.22.2 As of the Effective Date, there is no strike or lockout occurring or affecting, or to the Vendors' Knowledge threatened against the Company or any of the Subsidiaries. There is no work stoppage or other concerted action, grievance or dispute existing or, to the Vendors' Knowledge, threatened against the Company or any of the Subsidiaries with respect to any of their employees.

4.23 BENEFIT PLANS

Schedule J sets forth a complete accurate list of all Benefit Plans. Except as set forth in Schedule J, neither the Company or any of the Subsidiaries are party to, bound by, subject to and does not have any liability relating to any of the following:

- 4.23.1 any Benefit Plans, whether funded or unfunded, formal or informal, written or unwritten, that is maintained, administered, contributed to, or required to be maintained or contributed to, by the Company or any Subsidiary, or to which the Company or any Subsidiary is a party, for the benefit of the Employees and their respective beneficiaries and dependents, other than Statutory Plans;
- 4.23.2 other than the OMERS Plan, a true and complete copy of each Benefit Plan (as amended to date) together with true and complete copies of all material documents relating to each Benefit Plan, including, as applicable, all current booklets, summaries, notices or manuals prepared for or circulated to Employees generally concerning each Benefit Plan and all premium and rate tables, most recent actuarial valuation reports, financial statements and reports and all documents that create and support each Benefit Plan, and all contracts or other agreements through which the Company or any Subsidiary obtains, funds or provides benefits under the Benefit Plans have been provided to the Purchaser;
- 4.23.3 all employee data necessary to administer the Company or any Subsidiary participation in the Benefit Plans and is complete and correct in all material respects and in a form which is sufficient in all material respects for the proper administration of the Company or any Subsidiary's participation in the Benefit Plans in accordance with the terms thereof and all Applicable Laws;
- 4.23.4 other than the OMERS Plan there are no pension or retirement plans or arrangements in which Employees or former employees of the Company or any Subsidiary (as applicable) participate and/or to which the Company or any Subsidiary contribute to in respect of such Employees or former employees, as applicable;
- 4.23.5 to the Vendors' Knowledge there is no investigation by a Governmental Authority or Claim (other than routine claims for payment of benefits) pending or threatened involving any Benefit Plan (including the OMERS Plan) or its assets, and no facts exist which could reasonably be expected to give rise to any

such investigation or Claim (other than routine claims for payment of benefits); and

4.23.6 to the Vendors' Knowledge, the level of insurance reserves or accruals, if any, under any insured or self-insured Benefit Plan, is reasonable and sufficient to provide for all incurred but unreported claims, and the transactions contemplated in this Agreement will not alone or together with any additional or subsequent event, result in or require any payment or severance, or the acceleration, vesting or increase in benefits under any Benefit Plan. To the Vendors' Knowledge, all financial obligations and accrued liabilities with respect to each Benefit Plan have been or will be satisfied and paid in full as of the Closing Date, or full and adequate disclosure of and provision for such financial obligations and accrued liabilities have been or will be made in the Books and Records, the Financial Statements, the 2017 Financial Statements and the Closing Date Financial Statements.

4.24 **BANK ACCOUNTS**

The Confidential Disclosure Schedule sets forth a true, accurate and complete list of every financial institution in which the Company or any Subsidiaries maintains any depository account, trust account or safety deposit box and the names of all Persons authorized to draw on or who have access to such accounts or safety deposit box.

4.25 **MATERIAL CONTRACTS AND OTHER CONTRACTS**

Schedule K sets forth a true, accurate and complete list of every Material Contract. The Material Contracts listed in Schedule K are all in full force and effect unamended and there are no outstanding material defaults under any such Material Contract on the part of the Company or any of the Subsidiaries which have a Material Adverse Effect. The Company and each Subsidiary have performed all of the obligations required to be performed by them and are entitled to all benefits under, and is not in default in respect of, any Material Contract. No Material Contracts have been assigned, or if applicable subleased, in whole or in part. Except as set out in Schedule K, neither the Company nor any Subsidiary are party to or bound by:

4.25.1 any continuing Contract for the purchase of materials, supplies, equipment or services which involves payment under that Contract of more than \$50,000;

4.25.2 any employment or consulting Contract or any other written Contract with any officer, Employee or consultant (other than oral Contracts of indefinite hire terminable by the employer without cause on reasonable notice) or any Contract in relation to any Benefit Plan;

- 4.25.3 any trust indenture, mortgage, hypothec, promissory note, debenture, loan agreement, guarantee or other Contract for the borrowing of money or a leasing transaction of the type required to be capitalized in accordance with IFRS;
- 4.25.4 any agreement of guarantee, support, indemnification, assumption or endorsement of, or any other similar commitment with respect to, the liabilities, obligations, indebtedness, or commitments (whether accrued, absolute, contingent or otherwise) of any Person;
- 4.25.5 any Contract for charitable contributions or gifts;
- 4.25.6 any Contract for capital expenditures in excess of \$50,000 in the aggregate;
- 4.25.7 any Contract for the sale of any of the assets or any part of the Business;
- 4.25.8 any confidentiality, secrecy or non-disclosure Contract relating to any proprietary or confidential information or any non-competition or similar Contract other than any confidentiality, secrecy or non-disclosure agreements entered into by the Vendors in connection with the transactions contemplated by this Agreement;
- 4.25.9 any Contract which has or which could have a Material Adverse Effect; or
- 4.25.10 any Contract entered into by the Company or any Subsidiary other than in the Ordinary Course.

4.26 LITIGATION

There are no Claims (whether civil, quasi-criminal or criminal, and whether or not purportedly against or on behalf of the Company or any Subsidiaries), investigations or other proceedings, including appeals and applications for review, in progress or pending or, to the Vendors' Knowledge, threatened against or affecting the Company or any of the Subsidiaries before any Governmental Authority, which, if determined adversely to the Company or any of the Subsidiaries, would have:

- 4.26.1 a Material Adverse Effect;
- 4.26.2 individually or in the aggregate, could result in an order greater than \$50,000 to the Company or any of the Subsidiaries or order for injunctive relief; or
- 4.26.3 prevent the Vendors from fulfilling any of their obligations set out in, or arising in connection with, this Agreement.

4.27 TAX MATTERS

Each of the Company and the Subsidiaries, in all material respects, have duly and timely made or prepared all Tax Returns required to be made or prepared by it, have duly and timely filed all Tax Returns required to be filed by it with the appropriate Governmental Authority and have duly, completely and correctly reported all income and all other amounts and information required to be reported thereon.

Each of the Company and the Subsidiaries have filed in the prescribed manner and within the prescribed times all Tax Returns required to be filed in all applicable jurisdictions with respect to taxation periods ended within four (4) years prior to the Closing Date. All such Tax Returns are complete and correct and disclose all Taxes required to be paid for the periods covered thereby. The Company and the Subsidiaries have never been required to file any Tax Returns with, and have never been liable to pay or remit Taxes to, any Governmental Authority outside Ontario or Canada. The Company and the Subsidiaries have paid in full when due all Taxes and all instalments of Taxes due prior to the Closing Date. There are no liens for unpaid Taxes on any of Real Property. Without restricting the generality of the foregoing, all Taxes shown on all Tax Returns or on any assessments or reassessments in respect of any such Tax Returns have been paid in full when due except to the extent that the Company or the Subsidiaries have properly objected to such assessments or reassessments in accordance with applicable Law.

Except as disclosed in Schedule R, there are no audits, assessments, reassessments or other Claims in progress or, to the knowledge of the Vendors, threatened against the Company or the Subsidiaries, in respect of any Taxes and, in particular, there are no currently outstanding reassessments or written enquiries which have been issued or raised by any Governmental Authority relating to any such Taxes. The Vendors are not aware of any contingent liability of the Company or the Subsidiaries for Taxes or any grounds that could prompt an assessment or reassessment for Taxes, and the Company or the Subsidiaries have not received any indication from any Governmental Authority that any assessment or reassessment is proposed with respect to the Pre-Closing Tax Period.

Each of the Company and the Subsidiaries have not entered into any agreements, waivers or other arrangements with any Governmental Authority providing for any extension or reassessment, the filing or any Tax Return, nor the payment of any Taxes by or in respect of the Company or any of the Subsidiaries. The Company and the Subsidiaries are not a party to any agreements or undertakings with respect to Taxes.

Espanola Regional Hydro Distribution Corporation is a registrant for purposes of the ETA and the HST registration number is 86489 8390 RT0001, Espanola Regional Hydro Services Corporation is a registrant for purposes of the ETA and the HST registration number is 86490 2598 RT001. The Company is not a registrant for purposes of the ETA.

During the past four (4) years, all input tax credits claimed by the Company and the Subsidiaries pursuant to the ETA have been proper, correctly calculated and documented. The Company and the Subsidiaries have collected and timely remitted to the appropriate Governmental Authority when due all Taxes (including all HST) as required by tax legislation.

The Company and the Subsidiaries have deducted, withheld, collected and remitted when due to each Governmental Authority, all Taxes which they are required to deduct, withhold, collect and remit during the past four (4) years. Without limiting the generality of the foregoing, the Company and each of the Subsidiaries have withheld from each amount paid or credited or deemed to have been paid or credits, and each taxable benefit conferred upon or distribution paid or deemed to have been paid to any of its past or present employees, officers or directors, and to any non-resident of Canada, the amount of all Taxes and other deductions required to be withheld therefrom, including without limitation, all employee and employer portions for Workers' Compensation, Canada Pension Plan, Employer Health Tax and Employment Insurance and has paid the same to the proper Governmental Authority within the time required under any applicable legislation.

Neither the Company nor any of the Subsidiaries have received any requirement, demand or request from any Governmental Authority pursuant to section 224 of the Tax Act or any similar provision of applicable Law that remains unsatisfied in any respect.

Except as set out in Schedule R, none of sections 80 to 80.04, both inclusive, of the Tax Act have applied or will apply to the Company or its Subsidiaries at any time up to and including the Closing Date. None of the Company or its Subsidiaries have any unpaid amounts that may be required to be included in income under Section 78 of the Tax Act for a taxation year ending after the Closing Date. None of the Company or its Subsidiaries have made any payments and none of the Company or its Subsidiaries is obligated to make any payments that may not be deductible by virtue of Section 67 of the Tax Act.

Neither the Company nor the Subsidiaries are a party to, bound by or obligated under; nor has the Company or the Subsidiaries made any undertaking regarding any Tax allocation, indemnity or sharing contract or arrangement such that it could be liable for the Taxes of any other Person as a transferee or successor, by contract or otherwise.

Assessments under the Electricity Act have been issued to Company and the Subsidiaries covering all periods up to and including their fiscal year ended December 31, 2016.

Espanola Regional Hydro Distribution Corporation and Espanola Regional Hydro Services Corporation are corporations to which paragraph 149(1)(d.6) of the Tax Act

applies. The Company is a corporation to which paragraph 149(1)(d.5) of the Tax Act applies. As a result, the Company and the Subsidiaries have been at all material times, exempt from Tax under the Tax Act and the CTA but are required to make PILs payments under the Electricity Act in an amount equal to the Tax that they would be liable to pay under the Tax Act and CTA if they were not exempt from Tax under those statutes.

4.28 BOOKS AND RECORDS

The Vendors have disclosed the existence of and made available for review by the Purchaser all Books and Records. The Books and Records accurately reflect the basis for the financial condition and the revenues, expenses and results of the operations of the Company and its Subsidiaries as shown in the Financial Statements and the 2017 Financial Statements. As of the Effective Date, neither Vendor has in its possession or control any documents or information relating to the Company and its Subsidiaries and the Business (including with respect to Taxes) or the Benefit Plans that are not in the possession of the Company and its Subsidiaries.

4.29 ABSENCE OF GUARANTEES

Neither the Company nor any Subsidiaries has given, agreed to give and shall not give, nor is a party to or bound by, any guarantee or indemnity in respect of indebtedness, or other obligations, of any Person, or any other commitment by which the Company or any Subsidiaries is, or is contingently, responsible for such indebtedness or other obligations.

4.30 NO BROKER

The Vendors have carried on all negotiations relating to this Agreement and the transactions contemplated in this Agreement directly and without intervention on its behalf of any other party in such manner as to give rise to any valid claim for a brokerage commission, finder's fee or other like payment against the Purchaser, the Company or any of the Subsidiaries.

4.31 LIMITATION

The Vendors make no representation or warranty to the Purchaser except as specifically set forth in this Agreement and any agreement, instrument, certificate or other document delivered pursuant to this Agreement and this Agreement and the agreements, instruments, certificates or other documents delivered pursuant to this Agreement contain all of the representations and warranties of the Vendors relating to the Purchased Securities.

4.32 DISCLOSURE

All disclosure contained in a particular representation and warranty set forth in this Agreement (or any Schedule referred to therein) shall be deemed for the purposes of this Agreement to have been made with respect to all of the representations and warranties contained in Section 4 to which such would be reasonably apparent to a Person other than the Vendors, the Company or the Subsidiaries. Notwithstanding anything else contained herein, the Vendors shall have no liability to the Purchaser with respect any failure by them to disclose the existence of any matter, document or thing, or to make any other disclosure in the context of a particular representation and warranty set out in this Section 4 where the existence of such matter, document or thing is disclosed as part of another representation or warranty contained in this Agreement or in any Schedule attached hereto and its relevance to such first particular representation or warranty would be reasonably apparent to a Person other than the Vendors, the Company or any Subsidiaries.

5 REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser represents and warrants to each Vendor as follows in this Section 5 and acknowledges that the Vendors are relying upon these representations and warranties in connection with the sale of the Purchased Securities.

5.1 STATUS OF THE PURCHASER

The Purchaser is a corporation validly existing under the laws of the Province of Ontario.

5.2 DUE AUTHORIZATION AND ENFORCEABILITY OF OBLIGATIONS

The Purchaser has all necessary corporate power, authority and capacity to enter into this Agreement and to carry out its obligations under this Agreement. The execution and delivery of this Agreement and the consummation of the transaction contemplated under this Agreement have been duly authorized by all necessary corporate action of the Purchaser. This Agreement constitutes a valid and binding obligation of the Purchaser enforceable against it in accordance with its terms subject to any limitations imposed by Law.

5.3 ABSENCE OF CONFLICTS

The Purchaser is not a party to, bound or affected by or subject to any material:

5.3.1 indenture, mortgage, lease, agreement, obligation or instrument;

5.3.2 charter or bylaw provision; or

5.3.3 Laws or Governmental Authorizations;

which would be violated, breached by, or under which default would occur or an Encumbrance would be created as a result of the execution and delivery of, or the performance of obligations under, this Agreement or any other agreement to be entered into under the terms of this Agreement.

5.4 FINANCIAL ABILITY

The Purchaser has sufficient funds in place or has commitments to obtain funds to pay the Purchase Price on the Closing Date on the terms and conditions contained in this Agreement.

5.5 INVESTMENT CANADA

The Purchaser is a “Canadian” within the meaning of the *Investment Canada Act* (Canada). The Purchaser is not a “non-resident” for tax purposes.

5.6 MUNICIPAL ELECTRICAL UTILITY

The Purchaser is, and will be at Closing:

- 5.6.1 a municipal electricity utility within the meaning of Section 88 of the Electricity Act; and
- 5.6.2 exempt from tax under subsection 149(1) of the Tax Act.

5.7 CROWN CORPORATION

The Purchaser is not a Crown Corporation as described in paragraph 149(1)(d) or (d.2) of the Tax Act.

5.8 LITIGATION

There are no Claims, investigations, complaints or other proceedings, including appeals and applications for review, in progress or, to the knowledge of the Purchaser, pending or threatened against or relating to the Business, which, if determined adversely to the Purchaser, may prevent the Purchaser from fulfilling any of its obligations set out in this Agreement or arising from this Agreement.

5.9 NO BROKER

The Purchaser has carried on all negotiations relating to this Agreement and the transactions contemplated in this Agreement directly and without the intervention on its behalf of any other party in such manner as to give any valid claim for a brokerage

commission, finder's fee or other like payment against the Vendors or the Company and its Subsidiaries.

5.10 **LIMITATION**

The Purchaser makes no representation or warranty to the Vendors except as specifically set forth in this Agreement and any agreement, instrument, certificate or other document delivered pursuant to this Agreement and this Agreement and the agreements, instruments, certificates or other documents delivered pursuant to this Agreement contain all of the representations and warranties of the Purchaser relating to the transactions contemplated in this Agreement.

5.11 **DUE DILIGENCE BY PURCHASER**

The Purchaser acknowledges and agrees with the Vendors that it has had the opportunity to conduct due diligence and investigation with respect to the purchase of the Purchased Securities. To the extent that the Purchaser by reason of conducting due diligence and investigation, or otherwise, have actual knowledge (and not constructive, implied or imputed knowledge) of a breach of any representation and warranty made by the Vendors in this Agreement, the Purchaser must promptly notify the Vendors in writing. If the Purchaser fails to provide such written notice prior to Closing despite having such actual knowledge, the Purchaser will not have the right to make a Claim against the Vendors for Losses in respect of the breach of that representation and warranty.

6 **SURVIVAL**

6.1 All representations, warranties and covenants contained in this Agreement on the part of each of the Parties shall survive:

6.1.1 the Closing;

6.1.2 the execution and delivery under this Agreement of any share transfer instruments or other documents of title to any of the Purchased Securities; and

6.1.3 the payment of the consideration for the Purchased Securities.

6.2 The representations and warranties of the Vendors set out in Section 4 shall continue in full force and effect for the benefit of the Purchaser provided, however, that no Claim in respect thereof shall be valid unless it is made within a period of two (2) years from the Closing Date and, upon the expiry of such limitation period, the Vendors shall have no further liability to the Purchaser with respect to the representations and warranties referred to in such section, except in respect of Claims which have been made by the Purchaser to the Vendors in writing prior to the expiration of such period, provided that the

representations and warranties of the Vendors set out in Section 4.27 (Taxes) shall survive the Closing and continue in full force and effect until, but not beyond, the fourth anniversary of the Closing Date.

- 6.3 The representations and warranties of the Purchaser set out in Section 5 shall continue in full force and effect for the benefit of the Vendors provided, however, that no Claim in respect thereof shall be valid unless it is made within a period of two (2) years from the Closing Date and, upon the expiry of such limitation period, the Purchaser shall have no further liability to the Vendors with respect to the representations and warranties referred to in such section, except in respect of Claims which have been made by the Vendors to the Purchaser in writing prior to the expiration of such period.

7 COVENANTS

7.1 **REQUIRED APPROVAL**

Each of the Purchaser and the Vendors shall as promptly as practicable after the execution of this Agreement (but in no event later than thirty (30) days after the execution of this Agreement), file or cause to be filed with the OEB an application required to be made under Subsection 86(1) and Subsection 86(2) of the *OEB Act* in respect of the OEB's approval as it relates to the sale of the Purchased Securities (the *Required Approval*). Each of the Purchaser and the Vendors shall use their best efforts (which shall not be less than commercially reasonable efforts) to cooperate and assist to the other, so that the Required Approval can be obtained as soon as reasonably possible, and in any event prior to the Outside Date. Each Party will bear its own costs and expenses in connection with the application for the Required Approval.

7.2 **ONTARIO MINISTRY OF FINANCE NOTICE**

The Vendors shall as promptly as practicable after the execution of this Agreement (but in no event later than the day before the Closing Date), file or cause to be filed with the Ontario Minister of Finance the notification required under Subsection 4(2) of Ontario Regulation 124/99 made under the Electricity Act. If necessary, the Vendors will also file or cause to be filed with the Ontario Ministry of Finance such notification as required by Section 7 of Ontario Regulation 124/99 within thirty (30) days after the Closing Date. The Purchaser shall be responsible for the costs incurred in connection with the Ontario Ministry of Finance Notice.

7.3 **CONDUCT OF BUSINESS PRIOR TO CLOSING**

- 7.3.1 During the period from the Effective Date to the Closing Time, the Vendors shall cause the Company and each of the Subsidiaries to do the following:

- (a) conduct the Business in the Ordinary Course and refrain from taking any action or engaging in any course of conduct to disparage the Business;
- (b) use commercially reasonable efforts to continue in force and effect all policies of insurance maintained by or for the benefit of the Company or any of the Subsidiaries;
- (c) cooperate with the Purchaser with respect to obtaining the Required Approval;
- (d) continue in force and effect the PUC Services Agreement and all other Material Contracts;
- (e) cause the Company and each of the Subsidiaries not to change any method of Tax accounting, make or change any material Tax election, file any materially amended Tax Return, settle or compromise any material Tax liability, agree to an extension or waiver of the statute of limitations with respect to the assessment or determination of Taxes, enter into any agreement with respect to any Tax or surrender any right to claim a material Tax refund;
- (f) cause the Company and each of the Subsidiaries to report all claims to its insurers under the Insurance Policies in a due and timely manner to the Closing Date and provide copies of those reports to the Purchaser;
- (g) cause the Company and its Subsidiaries to pay and discharge the liabilities and Taxes of the Company and its Subsidiaries in the Ordinary Course in accordance and consistent with the previous practice of the Company and its Subsidiaries, except those contested in good faith by the Company and its Subsidiaries and subject to the remaining provisions of this Section 7.3; and
- (h) deliver copies of all monthly management reports issued by PUC Services Inc. pursuant to the terms of the PUC Services Agreement and report, to the Purchaser as it requests concerning the state of the Company, its Subsidiaries and the Business.

7.3.2 Without limiting the generality of the foregoing, the Vendors shall cause the Company and each of the Subsidiaries not to do any of the following without the prior written consent of the Purchaser, which consent may be withheld in its sole discretion:

- (a) amalgamate, merge or consolidate with or acquire or agree to acquire all or substantially all of the shares or assets of any Person, not to acquire or lease or agree to acquire or lease any business operations or any equity interests in any other Person, acquire or agree to acquire any legal or beneficial interest in any real property (except for the correction, rectification or remediation or conversion, as applicable, of an Unregistered Easement and/or Uncovered Real

Estate Right into a registered Easement) and occupy, lease, manage or control or agree to occupy, lease or manage or control any facility or property;

- (b) do any act or thing of the kind described in Sections 4.11 and 4.13;
- (c) enter into any compromise or settlement of any litigation, proceeding or government investigation relating to the Business;
- (d) make any material modification to its usual sales, human resource, accounting, software, or management practices, processes or systems;
- (e) enter into any Contract of the kind described in Section 4.25;
- (f) move any material part of the Business to any other location from which the Company or any Subsidiary does not carry on the Business at the date hereof;
- (g) make any change to its articles or bylaws;
- (h) change its taxation year;
- (i) hire, engage or retain any new Employees or independent contractors to be employed, engaged or retained in connection with the Business (except those new Employees disclosed to the Purchaser prior to the date of this Agreement);
- (j) terminate any Employees or transfer any Employees to any other position;
- (k) increase the remuneration of Employees before the Closing Date except such increases in remuneration of the Employees of ERHDC that are set forth in ERHDC's 2018 budget and the 2019 budget (as approved by the Purchaser in accordance with Section 7.3.6(b));
- (l) take any action to materially increase the aggregate benefits payable to Employees (including granting or modifying any bonus, change of control or termination arrangements, whether monetary or otherwise);
- (m) take any action to materially amend any Contract with any Employee;
- (n) take any action to materially amend any Collective Agreement or enter into a replacement thereof in connection with Section 7.3.6(d);
- (o) change its methods of accounting in effect except as required by changes in IFRS; and
- (p) cause ERHDC or ERHSC to actively carry on any business of any kind other than the Business.

- 7.3.3 ERHDC shall continue to pay interest on the Shareholder Notes provided that:
- (a) the Company and its Subsidiaries can continue to pay and discharge all of their other liabilities and Taxes in the Ordinary Course; and
 - (b) ERHDC maintains sufficient cash liquidity and cash reserves at all applicable times to carry on business in the Ordinary Course.
- 7.3.4 In the event that ERHDC cannot comply with the foregoing, each of the Vendors shall be required to:
- (a) waive any default under the Shareholder Notes without penalty to ERHDC; and
 - (b) irrevocably waive any interest due under the Shareholder Notes without adjustment to the Purchase Price
- until such time as sufficient cash liquidity and cash reserves are restored, as the case may be.
- 7.3.5 The Purchaser shall have the right to approve, acting reasonably, the terms and conditions of a connection agreement for an embedded distributor or a sub-transmission customer with Hydro One Networks Inc. (a "DCA") in the event that it is necessary to execute and deliver a DCA prior to the Closing Time. The Purchaser's response to any such request for approval from the Vendors shall be provided within a reasonable period of time and shall provide specific revisions the Purchaser may require to the DCA. The Purchaser will cooperate with ERHDC, and the Vendors will cause ERHDC to cooperate with the Purchaser, to permit ERHDC to complete any negotiations of a DCA prior to the Closing Time on terms and conditions satisfactory to ERHDC and the Purchaser, respectively.
- 7.3.6 The Vendors shall:
- (a) obtain the Purchaser's prior written consent in connection with any single capital expenditure or disposition of assets by the Company or any Subsidiary that exceeds \$50,000;
 - (b) obtain the Purchaser's prior written approval of ERDHC's 2019 budget;
 - (c) cause ERHDC to institute a tendering process to acquire a new bucket truck for an aggregate purchase price of approximately \$350,000, and, prior to ERHDC entering into an agreement or purchase order to acquire such bucket truck, shall obtain the Purchaser's prior written consent (acting reasonably) of the terms and conditions of such agreement or purchase order, as well as any related financing arrangements; and

- (d) subject to the consent of Canadian Union of Public Employees and its Local 4705, permit representatives of the Purchaser to attend and participate in discussions and negotiations with the Canadian Union of Public Employees and its Local 4705 in connection with the negotiation of a replacement or amendment to the Collective Agreement; provided; however, that if the Canadian Union of Public Employees and its Local 4705 do not consent to such participation the Vendors will, upon the request of the Purchaser, cause ERHDC to appoint a representative of the Purchaser as a representative of ERHDC to attend such discussions and negotiations.

7.3.7 The Vendors may elect to cause ERHDC to prepare (or cause PUC Services Inc. to prepare on ERHDC's behalf) and file an incentive regulation mechanism application with the OEB in respect of ERHDC's distribution rates for the then applicable year (the "**IRM Application**"). If the IRM Application is denied, the Vendors may in their sole discretion, request that the Parties meet and discuss in good faith the terms upon which ERHDC may prepare (or cause PUC Services Inc. to prepare on ERHDC's behalf) and file a cost of service application with the OEB in respect of ERHDC's distribution rates for the then applicable year prior to July 31, 2019.

7.4 ACCESS

The Vendors shall permit the Purchaser and its representatives, between the Effective Date and the Closing Time, without interference to the Ordinary Course, to have reasonable access during normal business hours upon reasonable advance notice, for purposes consistent with this Agreement, to (a) the Real Property, (b) the Books and Records, (c) the properties and assets of the Company or any of the Subsidiaries, and (d) provided that the Purchaser may not conduct any environmental investigations in, on, under or near any Real Property including any sampling or interview any Employees without the Vendors' prior consent.

Notwithstanding the foregoing, without the prior written consent of the Vendors, the Purchaser shall not contact, and shall instruct its counsel, financial advisors, auditors and other authorized representatives not to contact, any of the suppliers, customers, clients or financing sources of the Company or any of the Subsidiaries with respect to the Company or any of the Subsidiaries or the transactions contemplated by this Agreement.

Notwithstanding anything to the contrary in this Agreement, all communications involving solicitor-client confidences between the Vendors, the Company and its Subsidiaries and their legal counsel relating to the negotiation, documentation and consummation of the transactions contemplated by this Agreement shall not be subject to the provisions of this Section 7.4.

7.5 EMPLOYMENT AND LOCATION GUARANTEES

Subject to the terms of this Agreement, any existing Contracts with Employees and the Collective Agreement and the right of the Purchaser and/or ERHDC to dismiss any such Employee for cause (or otherwise in accordance with the terms the existing Contracts with Employees and the Collective Agreement), the Purchaser will cause the continued employment of each Employee who is an employee of ERHDC on the Closing Date on materially similar terms of their respective employment as at the Closing Date for a period of at least 2 years following the Closing Date (the “**E&L Period**”), including the same or not less favourable:

7.5.1 benefits in the aggregate;

7.5.2 compensation; and

7.5.3 position and seniority.

Subject to the foregoing, the Purchaser will, and will cause ERHDC to, give due consideration to the continued employment of each non-management Employee who is an employee of ERHDC (or any successor) on the Closing Date for an additional three (3) years following the E&L Period. The provisions of this Section 7.5 shall survive the Closing Date for a period of five (5) years.

7.6 PARTICIPATION IN COMMUNITY EVENTS

After Closing, the Purchaser shall cause the Company and the Subsidiaries to use commercially reasonable efforts to provide community assistance to the Vendors in accordance with the terms of the in-kind community services agreement in the form attached hereto as Schedule L for a period of seven (7) years following the Closing Date.

7.7 ADVISORY COMMITTEE

On Closing, the Purchaser shall establish a six (6) member municipal advisory committee (the *Advisory Committee*) to provide a forum for continued communication and dialogue between the Vendors and Purchaser. Three (3) members of the Advisory Committee shall be appointed by the Purchaser and the Vendors shall, amongst themselves, appoint the remaining three (3) members. From the Closing Date and for a period of two (2) years, the members of the Advisory Committee shall meet in person or by teleconference at least four (4) times per year. Each of the Vendors and Purchaser shall be permitted to change their respective representatives on the Advisory Committee upon written notice to the other Parties. The provisions of this Section 7.7 shall survive the Closing Date for a period of two (2) years.

7.8 CONTINUED USE OF “ESPANOLA REGIONAL HYDRO” NAME

Subject to applicable Law and provided that ERHDC has all necessary rights and interests to its name as at the Closing Date and any associated or related Intellectual Property without material adverse claims of others, the Purchaser covenants and agrees with the Vendors that it shall continue to use “Espanola Regional Hydro” as a trade name within the ERHDC’s current service territory for a period of ten (10) years following the Closing Date. The Purchaser further covenants and agrees to retain the colour scheme used on ERHDC’s existing trucks, equipment and invoices for such period of time following the Closing Date as the Purchaser determines is reasonably required to reflect the local community where the services are provided. The provisions of this Section 7.8 shall survive the Closing Date for a period of ten (10) years. This Section 7.8 is subject to there being no threatened or actual litigation arising from rights in or to the “Espanola Regional Hydro” name prior to the Closing Date.

7.9 RATES AND RATE HARMONIZATION

- 7.9.1 Subject to any requirements of applicable Law and the prescribed requirements of the OEB, including all policies, procedures, handbooks, guidance and other documentation promulgated by the OEB and Section 9.3, the Purchaser covenants and agrees with the Vendors that it shall:
- (a) subject to Section 7.9.2, maintain the existing rates for the customers of ERHDC, adjusted solely by the OEB’s Price Cap Incentive Rate-setting option, or any amendment, modification, successor or replacement thereof established by the OEB until May 1, 2021;
 - (b) for the period commencing on May 1, 2021 and ending on April 30, 2026: (i) comply with the OEB’s Filing Requirements for Electricity Distribution Rate Application policy or any amendment, modification, successor or replacement thereof established by the OEB, including measures with respect to rate mitigation; and (ii) use commercially reasonable efforts to assess the implementation of other measures to smooth impacts on customer bills; and
 - (c) use commercially reasonable efforts to harmonize rates for the customers of the North Bay Hydro Distribution Limited and ERHDC on May 1, 2026.
- 7.9.2 Notwithstanding Section 7.9.1(a), if the Purchaser, ERHDC or its successor incurs Losses pursuant to Section 7.18.2, Section 9.5.5 and/or Section 10.1.1 in excess of \$200,000 prior to May 1, 2021 the Purchaser may, at its option, cause ERHDC to prepare (or cause PUC Services Inc. to prepare on ERHDC’s behalf) and file a cost of service application with the OEB in respect of ERHDC’s distribution rates for the then applicable year.
- 7.9.3 The Vendors covenant and agree with the Purchaser to:

- (a) cause ERHDC to start to prepare (or cause PUC Services Inc. to prepare on ERHDC's behalf) a cost of service application in respect of ERHDC's 2021 distribution rates if the Required Approval has not been obtained by July 31, 2019; and
- (b) file such cost of service application with the OEB if the Required Approval has not been obtained by August 31, 2020 (subject to any earlier date imposed by the OEB).

If the Required Approval has not been obtained by July 31, 2019 the Purchaser shall, if requested by the Vendors, loan ERHDC an amount equal to the costs and expenses incurred by ERHDC in connection with such cost of service application (not to exceed \$100,000) pursuant to the terms of a demand promissory note bearing interest at rate of 6% per annum.

7.9.4 The provisions of this Section 7.9 shall survive the Closing Date for a period of eight (8) years.

7.10 CAPITAL PROGRAM

The Purchaser will act in good faith and use commercially reasonable efforts to make expenditures in accordance with ERHDC's current capital plan. The provisions of this Section 7.10 shall survive the Closing Date for a period of one (1) year.

7.11 CONTINUED POLE ACCESS AND CHARGES

On Closing, the Vendors (and any other public sector entity the Vendors may so authorize) will be granted access to use hydro poles owned by ERHDC for the purposes of street lighting, traffic signals, fibre optic and other communication lines, signs and other municipal attachments in accordance with the terms and conditions of the joint use pole agreement to be executed and delivered by ERHDC and the Vendors (the *Joint Use Agreement for Power Utility Distribution Poles*) the form of which is attached to this Agreement as Schedule M.

7.12 AMENDMENT TO PUC SERVICES AGREEMENT

ERHDC and PUC Services Inc. shall enter into an amending agreement in respect of the PUC Services Agreement wherein, among other things:

- 7.12.1 the parties shall confirm that the term of the PUC Services Agreement shall expire on May 31, 2021;
- 7.12.2 the provision for water billing services shall be removed from the Services Agreement effective on the Closing Date;

7.12.3 acknowledges and confirms that a change of control of ERHDC will occur assuming the completion of the transactions contemplated by this Agreement; and

7.12.4 confirms that the PUC Services Agreement is in good standing, as amended, and that no defaults have occurred or are outstanding.

7.13 **RIGHT OF FIRST OFFER AGREEMENT**

On Closing, Espanola and ERHDC shall enter into a Right of First Offer Agreement that shall provide Espanola with a right to purchase the premises located at 598 Second Avenue, Espanola, Ontario (the *Right of First Offer Agreement*), the form of which is attached to this Agreement as Schedule N.

7.14 **ADVERTISEMENT OF BOARD VACANCIES**

For a period of no less than 10 years following the closing date, the Purchaser shall advertise any board of director vacancies of the Purchaser, or its successor, in the geographic areas of the Town of Espanola and the Township of Sables Spanish Rivers pursuant to substantially similar standards and methods for advertising used by the Purchaser in the City of North Bay. The Purchaser will consider any such applicants from the geographic areas of the Town of Espanola and the Township of Sables Spanish Rivers on a fair and equitable basis with other proposed candidates to the board of directors of the Purchaser. The provisions of this Section 7.14 shall survive the Closing Date for a period of ten (10) years.

7.15 **INSURANCE**

To the extent required, the Vendors covenant and agree to provide any relevant information in its possession or control in connection with any claims under the Insurance Policies which relate to matters, events or circumstances existing or occurring prior to the Closing Date.

7.16 **WATER BILLING SERVICES AGREEMENT**

The Purchaser covenants with Espanola to cause an Affiliate of the Purchaser to use commercially reasonable efforts to negotiate the terms of a services agreement for the provision for water billing services that are removed from the PUC Services Agreement on terms and conditions satisfactory to Espanola and such Affiliate.

7.17 **CHANGE IN LAW**

If a Change in Law occurs at any time after the date of this Agreement that may result, directly or indirectly, in any increased costs or expenses in excess of an aggregate of \$50,000 or that may result in a Material Adverse Effect in order for the Purchaser or

ERDHC, as applicable, to comply with covenants set forth in Sections 7.6, 7.7, 7.8,, 7.10 and 7.14, the Parties will meet and discuss in good faith any requested amendments to this Agreement by the Purchaser to address and mitigate any such increased costs or expenses in excess of an aggregate of \$50,000 or such Material Adverse Effect.

7.18 UNREGISTERED EASEMENTS AND UNCOVERED REAL ESTATE RIGHTS

- 7.18.1 The Vendors may, at their option and at their sole cost and expense, cause the correction, rectification, remediation or conversion, as applicable, of any Unregistered Easements and/or Uncovered Real Estate Rights into a registered Easement (together with any necessary changes or amendments to account for the passage of time, changes in land description, changes in easement description and/or changes in ownership) including those identified in the draft distribution system plan of ERHDC prepared by METSCO dated April 2017 prior to the Closing Date.
- 7.18.2 Each of the Vendors shall, as a separate and distinct obligation, indemnify and hold the Purchaser harmless from and against the full amount of any Loss that the Purchaser, ERHDC or its successor may suffer in connection with all Claims and Third Party Claims that require the replacement and/or relocation of any Fixed Assets located on lands for which there is an Unregistered Easement and/or Uncovered Real Estate Rights that do not provide the required rights of occupancy, possession, use, entry and exit, as applicable, as reasonably necessary to maintain Fixed Assets on such real property, including any Claims or Third Party Claims in connection with any encroachment of Fixed Assets on real property.
- 7.18.3 The Purchaser, ERHDC or its successor shall use commercially reasonable efforts to defend any Claims or Third Party Claims and mitigate any Loss which it may suffer or incur that arise directly or indirectly out of or in connection with an Unregistered Easement and/or any Uncovered Real Estate Rights as further described in Section 7.18.2, which mitigation shall include using commercially reasonable efforts to oppose an initial complaint or initial demand made by a landowner, tenant, licensee or occupier of real property in respect of an Unregistered Easement and/or an Uncovered Real Estate Right.
- 7.18.4 Any indemnity payments made by the Vendors under Section 7.18.2 in respect of any Claims or Third Party Claims (after accounting for any Real Estate Deductible) will be reduced by the recovery of the capital cost attributable to such new Fixed Assets and the costs of rectifying such Unregistered Easement and/or an Uncovered Real Estate Rights pursuant to the provisions of this Section 7.18.4. Specifically, the Purchaser shall cause ERHDC or its successor to include the aggregate capital cost attributable to such new Fixed Assets and the costs of

rectifying such Unregistered Easement and/or an Uncovered Real Estate Rights (collectively, the *Aggregate Claims Amount*) within the next cost of service application in respect of ERHDC or its successor (the *COS Application*). The portion of the Aggregate Claims Amount that is actually paid by the Vendors as an indemnity payment under Section 7.18.2 in respect of any Claims or Third Party Claims is referred to in this Section 7.18.4 as the *Indemnity Amount*. If all or a portion of the Aggregate Claims Amount is approved by the OEB or its successor as recoverable capital costs (e.g., included in rate base) or expenses in connection with such COS Application (the *Aggregate Recoverable Amount*), the Purchaser, ERHDC or its successor will pay to the Vendors (after accounting for the Real Estate Deductible) up to 100% of the Indemnity Amount actually paid by the Vendors (the *Refundable Amount*) within six months following the approval of such COS Application by the OEB.

By way of example only, an Indemnity Amount may be paid by the Vendors under Section 7.18.2 as follows:

$$A - B = C$$

Where:

A = Aggregate Claims Amount (e.g., \$100,000);

B = Per Claims Real Estate Deductible (\$30,000); and

C = Indemnity Amount (e.g. \$70,000);

By way of example only, a Refundable Amount may repaid under Section 7.18.4 as follows:

$$A - B = C$$

Where:

A = Aggregate Recoverable Amount (e.g., \$90,000);

B = Per Claims Real Estate Deductible (\$30,000); and

C = Refundable Amount (e.g. \$60,000).

In this example, the Indemnity Amount is paid by the Vendors in the fourth year following the Closing Date and is included in the next COS Application (e.g., filed in 2026) and the Refundable Amount will be paid to the Vendors by the Purchaser within six months following the approval of such COS Application.

The provisions of this Section 7.18 shall survive the Closing Date and end on the earlier of:

- (a) 8 years following the Closing Date, and
- (b) the date that the customer rates of North Bay Hydro Distribution Limited and ERHDC are harmonized in accordance with Section 7.9.

Notwithstanding the foregoing, the Purchaser's covenant to pay the Refundable Amount as provided in Section 7.18.4 shall survive until the Refundable Amount has been repaid in full to the Vendors.

7.18.5 The indemnity contained in Section 7.18.2 shall not apply to any Claims or Third Party Claims that arise if the Purchaser, ERHDC or its successor or any agent, contractor or other Person on behalf of the Purchaser, ERHDC its successor initiates discussions in the first instance with a landowner, tenant, licensee or occupier of real property that is subject to an Unregistered Easement or Uncovered Real Estate Right to correct, rectify, remediate or convert, as applicable, an Unregistered Easement and/or Uncovered Real Estate Right into a registered Easement unless such initial discussions relate to:

- (a) the ongoing operations of ERHDC or its successor from and after the Closing Date, resulting from major maintenance and/or replacement of Fixed Assets, whether scheduled or unscheduled due to emergencies and the applicable landowner, licensee or occupier of real property for which there is an Unregistered Easement and/or Uncovered Real Estate Right refuses to grant an Easement; and/or
- (b) new capital works and capital projects in respect of Fixed Assets and the applicable landowner, licensee or occupier of real property for which there is an Unregistered Easement and/or Uncovered Real Estate Right refuses to grant an Easement.

8 CONDITIONS OF CLOSING

8.1 **CONDITIONS OF CLOSING IN FAVOUR OF THE PURCHASER**

The obligation of the Purchaser to complete the purchase of the Purchased Securities under this Agreement is subject to the satisfaction of, or compliance with, at or before the Closing Time, of each of the following conditions (each of which is acknowledged to

be inserted for the exclusive benefit of the Purchaser and may be waived by it in whole or in part).

8.1.1 Truth and Accuracy of Representations of Vendors at the Closing Time.

The representations and warranties of the Vendors contained in this Agreement which are qualified as to materiality shall be true and correct and those not qualified as to materiality shall be true and correct in all material respects at Closing, with the same force and effect as if such representations and warranties were made at and as of such time, and a certificate of a senior officer of each of the Vendors dated the Closing Date to that effect shall have been delivered to the Purchaser.

8.1.2 Compliance with Vendors' Covenants.

All of the obligations, covenants and agreements contained in this Agreement to be complied with or performed by the Vendors at or prior to Closing shall have been complied with or performed, and a certificate of a senior officer of each of the Vendors dated the Closing Date to that effect shall have been delivered to the Purchaser.

8.1.3 Receipt of Closing Documentation.

The Purchaser shall have received copies of all such documentation or other evidence as it may reasonably request in order to establish the consummation of the transactions contemplated by this Agreement and the taking of all proceedings (corporate or otherwise) in connection with such transactions in compliance with these conditions. In addition, the Vendors shall deliver, and shall cause to be delivered, to the Purchaser or make available to it at ERHDC's premises, the Books and Records and all documents (except in the case of those required by applicable Law to be retained by the Vendors, copies thereof) and other data, technical or otherwise, which are owned by either Vendor at the Closing Date, relating to the Company and its Subsidiaries or the Business.

8.1.4 Third Party Consents and Required Approval

The Third Party Consents and the Required Approval will have been obtained on terms and conditions satisfactory to the Purchaser, acting reasonably, by no later than the Outside Date. All other consents, approvals, Orders and authorizations of any Governmental Authority or pursuant to any other Material Contract which, if not obtained, would render completion of the transactions contemplated by this Agreement

unlawful or result in a Material Adverse Effect, shall have been obtained by the Vendors.

8.1.5 Material Adverse Effect

There shall not have occurred any Material Adverse Effect since the date of this Agreement.

8.1.6 No Proceedings.

There shall be no Order issued preventing, and no pending or threatened Claim, or proceeding, judicial or administrative or investigation against any Party by any Governmental Authority, for the purpose of enjoining or preventing the consummation of the transactions contemplated by this Agreement.

8.1.7 Directors and Officers of the Company and Subsidiaries

All directors and officers of the Company and each Subsidiary shall have tendered their resignations as directors and officers and each director and shall have duly executed and delivered comprehensive mutual releases of all their respective claims against each other. For greater certainty, the Parties acknowledge and confirm that the resignations herein contemplated do not imply that any such Person has resigned as an Employee of the Company or any Subsidiary.

8.1.8 Release

The Vendors will release the Company and each Subsidiary from any and all possible Claims that the Vendors have against the Company and each Subsidiary other than any Claim by a third party against the Vendors related to ERHDC or the Business arising from any act, matter or thing arising at or prior to the Time of Closing.

8.1.9 Delivery of Ancillary Agreements

The Vendors shall have delivered duly executed copies of the Joint Use Agreement for Power Utility Distribution Poles, the PUC Services Agreement Amending Agreement, the In-Kind Services Agreement and the Right of First Offer Agreement.

8.1.10 No Transfer or Departure Tax Payable.

None of the Vendors, the Purchaser or the Company and the Subsidiaries shall be liable for Transfer Tax or Departure Tax or any similar Tax in any successor statute, in relation to the sale or purchase of the Purchased Shares.

If any of the foregoing conditions in this Section have not been fulfilled by Closing, the Purchaser may terminate this Agreement by notice in writing to the Vendors, in which event the Parties will be released from all obligations under this Agreement and the

Vendors shall direct the Escrow Agent to refund the Deposit and all accrued interest thereon to the Purchaser. However, the Purchaser may waive compliance with any condition in whole or in part if it sees fit to do so, without prejudice to its rights of termination in the event of non-fulfilment of any other condition.

8.2 CONDITIONS OF CLOSING IN FAVOUR OF THE VENDORS

The obligation of the Vendors to complete the sale of the Purchased Securities under this Agreement shall be subject to the satisfaction of or compliance with, at or before the Closing Time, of each of the following conditions (each of which is acknowledged to be inserted for the exclusive benefit of the Vendors or and may be waived by it in whole or in part).

8.2.1 Truth and Accuracy of Representations of the Purchaser at Closing Time.

The representations and warranties of the Purchaser contained in this Agreement which are qualified as to materiality shall be true and correct and those not qualified as to materiality shall be true and correct in all material respects as at the Closing Time and with the same effect as if made at and as of the Closing Time and the Vendors shall have received a certificate of the Purchaser confirming the truth and correctness of such representations and warranties.

8.2.2 Performance of Obligations.

All of the obligations, covenants and agreements contained in this Agreement to be complied with or performed by the Purchaser at or prior to Closing shall have been complied with or performed, and a certificate of a senior officer of the Purchaser dated the Closing Date to that effect shall have been delivered to the Vendors.

8.2.3 Third Party Consents and Required Approval

The Third Party Consents and the Required Approval will have been obtained by no later than the Outside Date. All other consents, approvals, Orders and authorizations of any Governmental Authority or pursuant to any other Material Contract which, if not obtained, would render completion of the transactions contemplated by this Agreement unlawful or result in a Material Adverse Effect, shall have been obtained.

8.2.4 No Transfer or Departure Tax Payable.

The Vendors shall not be liable for Transfer Tax or Departure Tax or any similar Tax in any successor statute, in relation to the sale or purchase of the Purchased Shares.

If any of the foregoing conditions in this Section have not been fulfilled by Closing, the Vendors may terminate this Agreement by notice in writing to the Purchaser, in which event the Parties are released from all obligations under this Agreement. However, the

Vendors may waive compliance with any condition in whole or in part if it sees fit to do so, without prejudice to its rights of termination in the event of non-fulfilment of any other condition.

9 FURTHER COVENANTS

9.1 CONFIDENTIALITY

9.1.1 Prior to the Closing, the Purchaser shall keep confidential all information disclosed to it by the Vendors or its agents relating to the Company or any of the Subsidiaries, except information which:

- (a) is part of the public domain;
- (b) can be demonstrated to have been in the possession of the Purchaser before disclosure by the Vendors; or
- (c) was received in good faith from an independent Person who was lawfully in possession of such information free of any obligation of confidence.

Such information is confidential and proprietary to the Company or the Subsidiaries and the Purchaser shall only disclose such information to those of its employees that need to know such information for the purposes of evaluating and implementing the transaction contemplated in this Agreement. Notwithstanding the foregoing, the Purchaser shall keep confidential all Personal Information except in accordance with applicable Law. If this Agreement is terminated without completion of the transactions contemplated by this Agreement, the Purchaser shall promptly return all documents, work papers and other written material (including all copies) obtained from the Vendors, the Company or any Subsidiaries in connection with this Agreement, and not previously made public and shall continue to maintain the confidence of all such information.

9.1.2 After the Closing, the Vendors shall keep confidential all Personal Information it disclosed to the Purchaser and all other information relating to the Company or any of the Subsidiaries, except information which:

- (a) is part of the public domain;
- (b) becomes part of the public domain other than as a result of a breach of these provisions by the Vendors; or
- (c) was received in good faith after Closing from an independent Person who was lawfully in possession of such information free of any obligation of confidence.

9.1.3 The Confidentiality Agreement dated October 13, 2017 between the Vendors and Purchaser (the *Confidentiality Agreement*) and the provision of this Section 9.1, shall continue to bind the Vendors and Purchaser. To the extent that one or more provisions of the Confidentiality Agreement are inconsistent with the provisions of this Section, then the provisions of the Confidentiality Agreement shall prevail.

9.2 ACTIONS TO SATISFY CLOSING CONDITIONS

Each of the Parties will take or cause to be taken all actions that are within its power to control, and will make all commercially reasonable efforts to cause other actions to be taken which are not within its power to control, so as to ensure its compliance with, and satisfaction of, each of the conditions and covenants set forth in Section 7, Section 8, and Section 9 which are for the benefit of any other Party.

9.3 REQUIRED APPROVAL PROCEDURE

The Parties shall cooperate with each other, and the Purchaser shall keep the Vendors informed as to the status of the proceeding relating to the Required Approval and provide the Vendors with copies of applications, notifications, filings and other communications in draft form, deleting information that is confidential to the Purchaser, or on an external - counsel only basis, or as may be agreed by the Parties in writing.

The Purchaser shall not participate, or permit its Affiliates to participate, in any substantial of meeting or discussion, either in person or by telephone with any Governmental Authority in connection with the consummation of the transactions contemplated by this Agreement unless it consults with the Vendors in advance and, to the extent not prohibited by such Governmental Authority, gives the Vendors the opportunity to attend and participate. In the event the Purchaser is of the opinion that the Required Approval will not be obtained, in whole or in part, on terms and conditions satisfactory to the Purchaser, acting reasonably (in each case, an *Adverse Determination*), the Purchaser may provide written notice to the Vendors of such potential Adverse Determination. The Parties agree to cooperate and negotiate to reach agreement with respect to any desirable or required amendments to this Agreement to address a potential Adverse Determination.

9.4 PRESERVATION OF RECORDS

The Purchaser shall take all commercially reasonable steps to preserve and keep the Books and Records delivered to it in connection with the completion of the transactions contemplated by this Agreement for a period of four (4) years from the Closing Date, or for any longer period as may be required by any Law and shall provide reasonable access to such Books and Records to the Vendors but the Purchaser will not be

responsible or liable to the Vendors for or as a result of any accidental loss or destruction of or damage to any Books and Records.

9.5 TAX MATTERS

9.5.1 Preparation and Filing of Tax Returns.

Following the Closing, the Purchaser shall cause to be prepared and timely filed all Tax Returns required to be filed by the Company and the Subsidiaries after the Closing Date (including all Straddle Period Tax Returns) other than Tax Returns that relate to or include a Pre-Closing Tax Period (other than a Straddle Period Tax Return). For any Tax Return that relates to or includes a Pre-Closing Tax Period (other than a Straddle Period Tax Return), the Vendors will prepare such Tax Return in accordance with Applicable Law and in a manner consistent with past practice of the Company and the Subsidiaries. For greater certainty, Tax Returns that relate to or include any Straddle Period shall be prepared by the Purchaser. The Purchaser shall, and shall cause the Company and the Subsidiaries to, fully cooperate with and assist the Vendors (including allowing access to the Vendors and its Representatives to the Company and the Subsidiaries' Books and Records and allowing the Vendors (and its Representatives) to make copies thereof) in connection with the preparation of any such Tax Returns, and the Vendors (and its Representatives) shall not be charged with any cost or expense for the assistance rendered by the Purchaser or the Company and the Subsidiaries in connection therewith.

9.5.2 Provision of Tax Returns to Purchaser.

The Vendors shall provide the Purchaser with a copy of each such Tax Return that relates to or includes a Pre-Closing Tax Period (other than a Straddle Period Tax Return) at least thirty (30) days (or, in the case of debt retirement charges or HST, ten (10) days) prior to the last date for timely filing such Tax Return. The Pre-Closing Tax Returns shall be prepared in a manner consistent with prior practice of the Company and its Subsidiaries and Applicable Law. The Vendors shall permit the Purchaser to review, comment on and suggest changes and corrections to each such Tax Return that relates to a Pre-Closing Tax Period. The Vendors shall reasonably and in good faith consider such revisions to such Tax Returns as are requested. In the event of any dispute regarding the matters set forth in this Section 9.5.2, the Purchaser shall provide the Vendors with written notice thereof within fourteen (14) days (or, in the case of an HST Tax return or debt retirement charge, five (5) days) of its access to such Tax Returns, and the Parties shall act in good faith to resolve such dispute. If the Parties cannot resolve such dispute within fourteen (14) days (or in the case of an HST Tax return or debt retirement charge, five (5) days) of notice thereof, the Purchaser may file such Tax Return with the appropriate Governmental Authority in such form determined by the Purchaser in its discretion, provided that such filing shall be without prejudice to the Vendors' right to contest any Claim made by the Purchaser for the

payment of Pre-Closing Taxes with respect to such Tax Return. The Purchaser shall timely file all Tax Returns that relate to or include a Pre-Closing Tax Period that are prepared by the Vendor. The Vendors shall pay or accrue any Pre-Closing Taxes shown as being payable on such Tax Returns paid by the Vendors, plus the portion of Taxes allocable to a Pre-Closing Tax Period that is attributable to a Straddle Period as set out in Section 9.5.3. The Purchaser shall pay or cause to be paid all other Taxes shown as being payable on such Tax Returns.

9.5.3 Allocation of Taxes for Straddle Periods.

All Taxes and Tax liabilities with respect to the Company and the Subsidiaries that relate to a Straddle Period shall be apportioned between the Pre-Closing Tax Period and the Post-Closing Tax Period on the basis that the Straddle Period consisted of two (2) taxable periods, one that ended at the close of business on the day immediately before the Closing Date and the other that began on the Closing Date, and such Taxes shall be allocated between such two (2) periods in the following manner: (a) in the case of Taxes imposed on a periodic basis (such as real or personal property Taxes), the amount of Tax allocable to a portion of the Straddle Period shall be the total amount of such Tax for the entire Straddle Period multiplied by a fraction, the numerator of which is the number of days in such portion of such Straddle Period and the denominator of which is the total number of days in such Straddle Period, and (b) in the case of any other Taxes (such as Taxes based upon or measured by net income or gain, activities, events, transfers or supplies), the amount of such Tax that is allocable to the portion of such Straddle Period that ends on the day immediately before the Closing Date shall be deemed to be equal to the amount that would be payable if the relevant Straddle Period had ended at the close of business on the day immediately before the Closing Date. Notwithstanding the preceding, as it pertains to the allocation of Taxes and Tax liabilities of the Company and the Subsidiaries for a Straddle Period, any payment required in respect of a Straddle Period or the remittance of an insufficient Tax installment amount in respect of a Straddle Period shall be reasonably allocated between (i) to the Pre-Closing Tax Period to the extent that such amount is attributable to an action or omission of the Corporation that occurred prior to the Closing Date, and (ii) otherwise to the Post-Closing Tax Period. The Purchaser shall reasonably and in good faith consider any comments made by the Vendors as it pertains to the allocation of the portion of Taxes of a Straddle Period to a Pre-Closing Tax Period.

9.5.4 Notification Requirements.

The Purchaser shall promptly afford to the Vendors all written notifications and other written communications from any Governmental Authority received by the Purchaser, the Company or the Subsidiaries relating to Taxes of the Company or the Subsidiaries for all Pre-Closing Tax Periods and Straddle Periods, and shall promptly inform the Vendors of any audit proposed to be undertaken and any adjustment proposed in writing to be made by any Governmental Authority in respect of a Pre-Closing Tax

Period and Straddle Period.

9.5.5 Vendors' Indemnification.

From and after the Closing Date, the Vendors shall be responsible for and shall indemnify and save harmless the Purchaser for all Taxes payable by the Company and the Subsidiaries for all such periods that are a Pre-Closing Tax Period (and except to the extent such Taxes payable are recorded as liabilities on the Closing Date financial statements). The Purchaser shall pay to the Vendors as an increase in the Purchase Price any Tax refunds received by or credited to the Company and the Subsidiaries after the Closing Date (net of any costs or Taxes incurred in respect of such a refund or obtaining same) provided that such Tax refunds relate to a Pre-Closing Tax Period (and except to the extent that such Tax refunds have been recorded as assets on the Closing Date Financial Statements).

9.5.6 Purchaser's Contest Rights.

Subject to Section 9.5.7, the Purchaser shall have the sole right to control, defend, settle, compromise, or prosecute in any manner an audit, examination, investigation, and any other proceeding with respect to any Tax of the Company or the Subsidiaries. The Purchaser shall keep the Vendors duly informed of any proceedings in connection with any matter for which the Purchaser may have a right to indemnification pursuant to this Section 9.5 or Section 10.1 and promptly provide the Vendors with copies of all correspondence and documents relating to those proceedings. The Vendors shall execute or cause to be executed such documents and shall take such action as reasonably requested by the Purchaser to enable the Purchaser to take any action the Purchaser deems appropriate with respect to any proceedings in respect of which the Purchaser has contest rights under this Agreement.

9.5.7 Vendors' Contest Rights.

- (a) The Vendors may at any time by written notice to the Purchaser elect to control, defend, settle, compromise or prosecute in any manner an audit, examination, investigation, or other proceeding (a *Tax Proceeding*) with respect to Taxes related to any matter in respect of which the Purchaser may have a right of indemnification pursuant to this Section 9.5 or Section 10, except that: (i) the Vendors shall deliver to the Purchaser a written agreement that the Purchaser is entitled to indemnification for all Losses arising out of that Tax Proceeding and that the Vendors shall be liable for the entire amount of those Losses; (ii) the Vendors may not, without the written consent of the Purchaser, settle or compromise Taxes or Tax issues related to the Tax Proceeding or any matter which may affect Tax liabilities of the Company or any Subsidiaries for a period following Closing; and (iii) the Vendors shall pay to the Purchaser the amount of all Taxes (including, for greater certainty, interest and penalties) specified in

the notice of assessment or other Claim from the Governmental Authority which are due and payable and to which the Purchaser's indemnity Claim relates within ten (10) Business Days before the amount is required to be paid to the Governmental Authority or within ten (10) Business Days after the Purchaser has forwarded to the Vendors a Claim for indemnity.

- (b) The Purchaser and/or the Company or any Subsidiaries, as applicable, shall execute or cause to be executed such documents or take such action as reasonably requested by the Vendors to enable the Vendors to take any action it deems appropriate with respect to any proceedings in respect of which the Vendors has contest rights under this Agreement. In addition: (i) the Vendors shall keep the Purchaser duly informed of any proceedings in connection with any matter which may affect the Taxes payable by the Purchaser, the Company or any Subsidiaries; and (ii) the Purchaser shall be promptly provided with copies of all correspondence and documents relating to those proceedings and may, at its option and its own expense, participate in those proceedings through counsel of its choice.
- (c) The provisions of this Section 9.5.7 shall not apply to the extent that: (i) in the reasonable opinion of counsel to the Purchaser, an actual or potential differing interest exists between the Purchaser and Vendors (such as the availability of different defences) that would make such separate representation advisable; or (ii) if the Vendors, having elected to assume such control, thereafter fails to defend the Tax Proceeding within a reasonable time, the Purchaser shall be entitled to assume such control and the Vendors shall be bound by the results obtained by the Purchaser with respect to such Tax Proceeding.

9.5.8 **Indemnification Procedures.**

Except to the extent expressly provided to the contrary in this Section 9.5, the general procedures regarding notice and pursuit of indemnification Claims set forth in Section 10 shall apply to all Claims for indemnification made under this Section 9.5, except that notwithstanding any provision of Section 10 to the contrary, if a Claim for indemnification involves any matter covered in this Section 9.5, then the contest provisions of Section 9.5.6 and Section 9.5.7, as applicable, shall control regarding the defence and handling of any such third party Claim that could give rise to an indemnification obligation on the part of the Vendors. Notwithstanding Section 6, the time period during which a Claim for indemnification may be made under this Section 9.5 shall survive Closing and continue in full force and effect until, but not beyond, the one hundred and eightieth (180th) day following the expiration of the period, if any, during which an assessment, reassessment or other form of recognized document assessing liability for Taxes under applicable Tax legislation in respect of any taxation year to which those representations and warranties and provisions under this Section 9.5 could be issued under that Tax legislation to the Company or any Subsidiaries. For

greater certainty, any indemnification payment made under this section shall constitute an adjustment to the Purchase Price as provided under Section 10.9.

9.6 RISK OF LOSS

If the assets of the Company or any of the Subsidiaries, are lost, damaged or destroyed or appropriated, expropriated or seized by any Person, on or prior to the Closing Date, and if such acts or events and the loss, damage, destruction, appropriation, expropriation or seizure constitutes a Material Adverse Effect, then the Purchaser at its sole discretion may either: (a) terminate this Agreement in accordance with the provisions of Section 8.1, or (b) complete the purchase of the Purchased Securities without reduction of the Purchase Price, in which event all proceeds of insurance or compensation for appropriation, expropriation or seizure, less the aggregate of all deductibles paid by the Purchaser and for which the Purchaser has not been reimbursed, shall be paid to the Company or its Subsidiaries, as applicable, to the Purchaser.

9.7 SEVERAL AND PROPORTIONATE LIABILITY

The liability of each of the Vendors in respect of a Claim for indemnification by the Purchaser pursuant to the terms of this Agreement shall be allocated between the Vendors in accordance with the following proportions: (a) The Corporation of the Town of Espanola, as to eighty-one percent (81%); and The Corporation of the Township of Sables-Spanish Rivers, as to nineteen percent (19%).

10 INDEMNIFICATION

10.1 INDEMNIFICATION BY THE VENDORS

10.1.1 The Vendors shall indemnify and save harmless the Purchaser:

- (a) from and against all Losses suffered or incurred by the Purchaser as a result of or arising directly or indirectly out of or in connection with any Claim relating to: (i) any non-fulfilment or breach of any covenant or agreement on the part of the Vendors contained in this Agreement or in any agreement, certificate or other document delivered pursuant hereto; and (ii) any misrepresentation or any incorrectness in or breach of any representation or warranty of the Vendors contained in this Agreement or in any agreement, instrument, certificate or other document delivered pursuant to this Agreement;
- (b) pursuant to Section 7.18.2; and
- (c) pursuant to Section 9.5.5.

10.1.2 The Vendors' obligations under Section 10.1.1 shall be subject to the following limitations:

- (a) the Vendors shall not be required to pay any amount until the aggregate of Losses claimed under Section 10.1.1(a) exceeds \$500,000 and then only the excess over such amount (the *Deductible*); and
- (b) the Vendors shall not be required to pay any amount claimed under Section 7.18.2 until the Losses in respect of an individual Claim or individual Third Party Claim exceeds \$30,000, and then only the excess over such amount (the *Real Estate Deductible*).

10.1.3 Subject to Section 10.1.4, the Vendors' total liability for Losses and maximum aggregate amount of indemnification which may be payable by the Vendors under Section 10.1.1(a) and Section 10.1.1(b) shall, together, not exceed an aggregate of \$1,000,000. For greater certainty, the amount of any Real Estate Deductible shall count towards, and be included in, the Deductible.

10.1.4 For the period of time commencing on the date that is 24 months following the Closing Date and ending on earlier of:

- (a) 8 years following the Closing Date, and
- (b) the date that the customer rates of North Bay Hydro Distribution Limited and ERHDC are harmonized in accordance with Section 7.9,

the maximum amount payable by the Vendors under Section 10.1.1(b) shall not exceed \$500,000 (the *Real Estate Cap*); provided; however an amount equal to any Refundable Amounts received by the Vendors will be automatically added back to the Real Estate Cap and shall be available to the Purchaser to satisfy claims for indemnification made pursuant to Section 7.18.

10.2 INDEMNIFICATION BY THE PURCHASER

10.2.1 The Purchaser shall indemnify and save harmless the Vendors from and against all Losses suffered or incurred by the Vendors as a result of or arising directly or indirectly out of or in connection with any Claim:

- (a) any non-fulfilment or breach of any covenant or agreement on the part of the Purchaser contained in this Agreement or in any agreement, certificate or other document delivered pursuant hereto; and
- (b) any misrepresentation or any incorrectness in or breach of any representation or warranty of the Purchaser contained in this Agreement or in any agreement, instrument, certificate or other document delivered pursuant to this Agreement.

10.3 NOTICE OF CLAIM

10.3.1 In the event that any Party (the “**Indemnified Party**”) become aware of any Claim in respect of which the other Party (the “**Indemnifying Party**”) agreed to indemnify the Indemnified Party pursuant to this Agreement, the Indemnified Party shall promptly give written notice thereof to the Indemnifying Party. Such notice shall specify whether the Claim arises as a result of a Claim by a third party (a “**Third Party**”) against the Indemnified Party (a “**Third Party Claim**”) or whether the Claim is by an Indemnified Party against an Indemnifying Party which does not result from a Third Party Claim (a “**Direct Claim**”), and shall also specify with reasonable particularity (to the extent that the information is available):

- (a) the factual basis for the Claim; and
- (b) the amount of the Claim, if known.

10.3.2 If, through the fault of the Indemnified Party, the Indemnifying Party does not receive notice of a Direct Claim or Third Party Claim in time to effectively contest the determination of any liability capable of being contested, the Indemnifying Party will be entitled to set off against the amount claimed by the Indemnified Party the amount of any Loss incurred by the Indemnifying Party resulting from the Indemnified Party’s failure to give an Indemnity Notice on a timely basis.

10.4 DIRECT CLAIMS

With respect to any Direct Claim, following receipt of notice from the Indemnified Party of the Claim, the Indemnifying Party shall have thirty (30) days to make such investigation of the Claim as is considered necessary or desirable. For the purpose of such investigation, the Indemnified Party shall make available to the Indemnifying Party the information relied upon by the Indemnified Party to substantiate the Claim, together with all such other information as the Indemnifying Party may reasonably request. If both parties agree at or prior to the expiration of such thirty (30) day period (or any mutually agreed upon extension thereof) to the validity and amount of such Claim, the Indemnifying Party shall immediately pay to the Indemnified Party the full agreed upon amount of the Claim, failing which the matter shall be referred to a court of competent jurisdiction.

10.5 INDEMNIFICATION PROCEDURES FOR CLAIMS

10.5.1 With respect to any Third Party Claim, the Indemnifying Party has the right, by notice to the Indemnified Party given not later than 30 days after receipt of the notice set forth in Section 10.3.1, to assume control of the defence, compromise or settlement of the Third Party Claim provided that:

- (a) the Third Party Claim involves only money damages and does not seek any injunctive or other equitable relief; and
- (b) if the named parties in any Third Party Claim include both the Indemnifying Party and the Indemnified Party, representation by the same counsel would, in the judgment of the Indemnified Party, still be appropriate notwithstanding any actual or potential differing interests between them (including the availability of different defences); and
- (c) settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the judgment of the Indemnified Party, likely to establish a precedent, custom or practice adverse to the continuing business interest of the Indemnified Party.

If any Third Party Claim is of a nature such that the Indemnified Party is required by Applicable Law to make a payment to any Third Party with respect to the Third Party Claim before the completion of settlement negotiations or related legal proceedings, the Indemnified Party may make such payment and the Indemnifying Party shall, forthwith after demand by the Indemnified Party, reimburse the Indemnified Party for such payment. If the amount of any liability of the Indemnified Party under the Third Party Claim in respect of which such a payment was made, as finally determined, is less than the amount that was paid by the Indemnifying Party to the Indemnified Party, the Indemnified Party shall, forthwith after receipt of the difference from the Third Party, pay the amount of such difference to the Indemnifying Party.

10.5.2 Upon the assumption of control of the Third Party Claim by the Indemnifying Party as set out in Section 10.5.1, the Indemnifying Party shall diligently proceed with the defence, compromise or settlement of the Claim at its sole cost and expense, including if necessary, employment of counsel reasonably satisfactory to the Indemnified Party and, in connection there with, the Indemnified Party shall cooperate, but at the expense of the Indemnifying Party with respect to any out-of-pocket expenses incurred, to make available to the Indemnifying Party all relevant information in its possession or under its control (provided that it does not cause the Indemnified Party to breach any confidentiality obligations) and the Indemnified Party will take such other steps as are, in the reasonable opinion of counsel for the Indemnified Party, necessary to enable the Indemnifying Party to conduct that defence, provided always that:

- (a) no admission of fault may be made by or on behalf of the Purchaser without the prior written consent of the Purchaser; and

- (b) the Indemnified Party is not obligated to take any measures which, in the reasonable opinion of its legal counsel, could be prejudicial or unfavourable to the Indemnified Party.

10.5.3 If the Indemnifying Party fails to assume control of the defence of any Third Party Claim, the Indemnified Party shall have the exclusive right to contest, settle or pay the amount claimed. Whether or not the Indemnifying Party assumes control of the negotiation, settlement or defence of any Third Party Claim, the Indemnifying Party shall not settle any Third Party Claim without the written consent of the Indemnified Party, which consent shall not be unreasonably withheld or delayed.

10.6 EXCLUSIVE REMEDY

The rights of indemnity set forth in Section 7.18.2, Section 9.5.5 and Section 10 are the sole and exclusive remedy of each Party in respect of any misrepresentation, incorrectness in or breach of any representation or warranty, or breach of covenant, by the other Parties under this Agreement other than a Claim for specific performance or injunctive relief. The Parties agree that if a Claim for indemnification is made by one Party in accordance with Section 7.18.2, Section 9.5.5 or Section 10, as the case may be, and there has been a refusal by any other Party to make payment or otherwise provide satisfaction in respect of such Claim, then a legal proceeding is the appropriate means to seek a remedy for such refusal. This Section 10.6 shall remain in full force and effect in all circumstances and shall not be terminated by any breach (fundamental, negligent or otherwise) by any Party of its representations, warranties or covenants under this Agreement or under any Closing document or by any termination or rescission of this Agreement by any Party.

10.7 ONE RECOVERY

A Party shall not be entitled to double recovery for any Losses even though they may have resulted from the breach of more than one of the representations, warranties, agreements and covenants made by the other Parties to this Agreement.

10.8 DUTY TO MITIGATE

Nothing in this Agreement shall in any way restrict or limit the general obligation at law of a Party to mitigate any loss which it may suffer or incur by reason of the breach by the other Party of any representation, warranty or covenant of that other Party under this Agreement. If any Claim can be reduced by any recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other Person, a Party shall take all appropriate steps to enforce such recovery, settlement or payment.

10.9 ADJUSTMENT TO PURCHASE PRICE

Any payment made by the Parties under this Section 10 shall constitute an adjustment to the Purchase Price.

11 GUARANTEE

The Guarantor unconditionally and irrevocably guarantees to the Vendors the full and prompt payment and performance of all of the Purchaser's obligations under this Agreement. The Vendors shall be entitled to enforce the guarantee set forth in this Section 11 against the Guarantor if:

- 11.1 a claim has been made against the Purchaser under this Agreement;
- 11.2 the Purchaser has either agreed to pay and satisfy such claim or the Purchaser's liability in respect of such claim has been finally determined by a court of competent jurisdiction; and
- 11.3 the Purchaser has not paid the amount of such claim to the Vendors within 30 days of the date of such agreement to pay or determination to pay by a court of competent jurisdiction.

12 SCHEDULES

The schedules to this Agreement, listed below, are an integral part of this Agreement:

Schedule	Description
Schedule A	Definitions
Schedule B	Purchase Price Adjustment Calculation Methodology
Schedule C	Allocation of Purchase Price
Schedule D	Capitalization
Schedule E	Disclosed Liabilities
Schedule F	List of Real Property
Schedule G	List of Registered and Unregistered Easements
Schedule H	Intellectual Property
Schedule I	Collective Agreement
Schedule J	Employee Plans
Schedule K	Material Contracts
Schedule L	Form of In-Kind Services Agreement
Schedule M	Form of Joint Use Agreement
Schedule N	Form of Right of First Offer Agreement
Schedule O	Financial Statements
Schedule P	Permitted Encumbrances
Schedule Q	Third Party Consents
Schedule R	Tax Matters

Schedule S Permitted Financing

13 **ENTIRE AGREEMENT**

This Agreement and the agreements and other documents required to be delivered pursuant to this Agreement, constitute the entire agreement between the Parties and set out all the covenants, promises, warranties, representations, conditions and agreements between the Parties in connection with the subject matter of this Agreement and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, pre-contractual or otherwise included, without limitation, the Letter of Intent. There are no covenants, promises, warranties, representations, conditions, understandings or other agreements, whether oral or written, pre-contractual or otherwise, express, implied or collateral, whether statutory or otherwise, between the Parties in connection with the subject matter of this Agreement except as specifically set forth in this Agreement and any document required to be delivered pursuant to this Agreement.

14 **CURRENCY**

Unless otherwise specified, all references to money amounts are to lawful currency of Canada.

15 **GOVERNING LAW**

This Agreement is a contract made under and shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable in the Province of Ontario.

16 **HEADINGS**

Headings of Sections are inserted for convenience of reference only and do not affect the construction or interpretation of this Agreement.

17 **INCLUDING**

In this Agreement, where the word “including” or “includes” is used, it means “including (or includes) without limitation”.

18 **NO STRICT CONSTRUCTION**

The language used in this Agreement is the language chosen by the Parties to express their mutual intent and no rule of strict construction shall be applied against any Party.

19 **NUMBER AND GENDER**

In this Agreement, unless the context otherwise requires, words in the singular includes the plural and vice versa and words in one gender include all genders.

20 **SEVERABILITY**

If, in any jurisdiction, any provision of this Agreement or its application to any Party or circumstance is restricted, prohibited or unenforceable, such provision shall, as to such jurisdiction, be ineffective only to the extent of such restriction, prohibition or unenforceability without invalidating the remaining provisions of this Agreement and without affecting the validity or enforceability of such provision in any other jurisdiction or without affecting its application to other Parties or circumstances.

21 **STATUTORY REFERENCES**

In this Agreement, a reference to a statute includes all regulations made pursuant to such statute.

22 **TIME**

Time is of the essence in the performance of the Parties' respective obligations.

23 **TIME PERIODS**

Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next Business Day following if the last day of the period is not a Business Day.

24 **WAIVER OF RIGHTS**

Any waiver of, or consent to or departure from, the requirements of any provision of this Agreement is effective only if it is in writing and signed by the Party giving it, and only in the specific instance and for the specific purpose for which it has been given. No failure on the part of any Party to exercise, and no delay in exercising, any right under this Agreement operates as a waiver of that right. No single or partial exercise of any such right precludes any other or further exercise of that right or the exercise of any other right.

25 **NO THIRD PARTY BENEFICIARY**

This Agreement is solely for the benefit of the Parties and no third party accrues any benefit, claim or right of any kind pursuant to, under, by or through this Agreement.

26 **ARBITRATION**

Any dispute, controversy or claim arising out of or in connection with, or relating to, this Agreement, including the Confidentiality Agreement, or the performance, breach, termination or validity thereof, shall be finally settled by arbitration. Any Party may initiate arbitration within a reasonable time after any such dispute, controversy or claim has arisen, by delivering a written demand for arbitration upon the other Parties. The arbitration shall be conducted in accordance with the *Arbitration Act, 1991* (Ontario). The arbitration shall take place in North Bay, Ontario, and shall be conducted in English.

The arbitration shall be conducted by a single arbitrator having no financial or personal interest in the outcome of the arbitration. The arbitrator shall be appointed jointly by agreement of the Parties. If the Parties are unable to agree on the appointment of the arbitrator within 10 days after notice of a demand for arbitration is given by any Party, then any Party shall be free to apply to the Ontario Superior Court of Justice for an Order appointing the arbitrator. Absent agreement or award in the arbitration to the contrary, the arbitration fees and expenses shall be borne by the Parties equally.

The arbitrator shall have the authority to award any remedy or relief that a court could order or grant in accordance with this Agreement, including, without limitation, specific performance of any obligation created under this Agreement, the issuance of an interim, interlocutory or permanent injunction, or the imposition of sanctions for abuse or frustration of the arbitration process.

The arbitral award shall be in writing, stating the reasons for the award and be final and binding on the Parties with no rights of appeal. The award may include an award of costs, including reasonable legal fees and disbursements in fees and expenses of the arbitrator. Judgment upon the award may be entered by any court having jurisdiction thereof or having jurisdiction over the relevant Party or its assets.

27 **PUBLIC NOTICES**

The Parties shall make a joint public announcement with respect to this Agreement and the transactions herein contemplated, at such time and in such manner as may be mutually agreed upon by the Parties. Except as required by applicable Laws, no other public announcement, press release, notices, statements and communications to third parties shall be made by either Party hereto without the prior consent and approval of the other Party, provided that the Parties hereby acknowledge that the Parties may be compelled to disclose details of this Agreement and the transactions contemplated

herein in respect of the Required Approval and that the Vendors or the Purchaser may be compelled to disclose details of this agreement and the transactions herein contemplated pursuant to the *Municipal Freedom of Information and Protection of Privacy Act* (Ontario) or the *Freedom of Information and Protection of Privacy Act* (Ontario).

28 EXPENSES

Except as provided in this Agreement, each of the Parties shall pay their respective legal, accounting, and other professional advisory fees, costs and expenses incurred in connection with the purchase and sale of the Purchased Securities and the preparation, execution and delivery of this Agreement and all documents and instruments executed pursuant to this Agreement and any other costs and expenses incurred. The Purchaser shall be responsible for all filing fees related to the Required Approval.

29 BROKERAGE, COMMISSIONS, ETC.

It is understood and agreed that no broker, agent or other intermediary has acted for the Vendors, the Company, the Subsidiaries, or the Purchaser, in connection with the transaction herein contemplated. The Vendors agree to indemnify and save harmless the Purchaser from and against any claim for commission or other remuneration payable for alleged to be payable to any broker, agent or other intermediary who purports to act or to have acted for the Vendors in connection with the transactions herein contemplated. The Purchaser agrees to indemnify and save harmless the Vendors from and against any claim for commission or other remuneration payable or alleged to be payable to any broker, agent or other intermediary who purports to act or to have acted for the Purchaser in connection with the transactions herein contemplated.

30 NOTICES

Any notice, consent or approval required or permitted to be given in connection with this Agreement (a *Notice*) shall be in writing and shall be sufficiently given if delivered (whether in person, by courier service or other personal method of delivery), or if transmitted by email:

- 30.1 in the case of a notice to Espanola addressed to it at: 100 Tudhope Street, Suite 3, Espanola, Ontario P5E 1S6, e- mail: ctownsend@espanola.ca;
- 30.2 in the case of a notice to Sables-Spanish addressed to it at: 11 Birch Lake Road, Massey, Ontario P0P 1P0, e-mail: kasloss@sables-spanish.ca;
- 30.3 in the case of a Notice to the Purchaser at: 74 Commerce Crescent, North Bay, Ontario P1A 0B4; Attention: Matthew Payne; Email: mpayne@northbayhydro.com; and

30.4 in the case of a Notice to the Guarantor at: 74 Commerce Crescent, North Bay, Ontario P1A 0B4; Attention: Matthew Payne; Email: mpayne@northbayhydro.com.

Any Notice delivered or transmitted to a Party as provided above shall be deemed to have been given and received on the day it is delivered or transmitted, provided that if delivered or transmitted on a Business Day prior to 5:00 p.m. local time or if such day is not a Business Day then the Notice shall be deemed to have been given and received on the next Business Day. Any Party may, from time to time, change its address by giving Notice to the other Parties in accordance with the provisions of this Section.

31 ASSIGNMENT

No Party may assign this Agreement or any rights or obligations under this Agreement without the prior written consent of the other Party.

32 SUCCESSORS

This Agreement enures to the benefit of and is binding upon the Parties and their respective successors (including any successor by reason of amalgamation of any Party) and permitted assigns.

33 AMENDMENT

No amendment, supplement, modification or waiver or termination of this Agreement and, unless otherwise specified, no consent or approval by any Party, is binding unless executed in writing by the Party to be bound thereby.

34 FURTHER ASSURANCES

The Parties shall, with reasonable diligence, to all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated by this Agreement, and each Party shall provide such further documents or instruments required by any other Party as may be reasonably necessary or desirable to effect the purpose of this Agreement and carry out its provisions, whether before or after the Closing, provided that the costs and expenses of any actions taken after Closing at the request of a Party shall be the responsibility of the requesting Party.

35 EXECUTION AND DELIVERY

This Agreement may be executed by the Parties in counterparts and may be executed and delivered by email and all such counterparts or emails together constitute one and the same agreement.

[Remainder of page left intentionally blank. Execution page follows.]

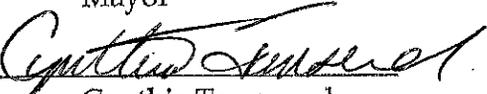
IN WITNESS OF WHICH the Parties have executed this Agreement.

THE CORPORATION OF THE TOWN OF ESPANOLA

By: 

Name: Ron Piche

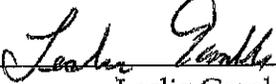
Title: Mayor

By: 

Name: Cynthia Townsend

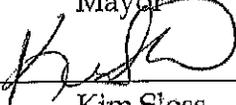
Title: Chief Administrative Officer & Treasurer

THE CORPORATION OF THE TOWNSHIP OF SABLES-SPANISH RIVERS

By: 

Name: Leslie Gamble

Title: Mayor

By: 

Name: Kim Sloss

Title: Clerk-Administrator

NORTH BAY HYDRO HOLDINGS LTD.

By: _____

Name:

Title:

By: _____

Name:

Title:

NORTH BAY (ESPANOLA) ACQUISITION INC.

By: _____

Name: Matthew Payne

Title: President and Chief Operating Officer

By: _____

Name: Melissa Casson

Title: Vice President of Finance

IN WITNESS OF WHICH the Parties have executed this Agreement.

THE CORPORATION OF THE TOWN OF ESPANOLA

By: _____
Name: Ron Piche
Title: Mayor

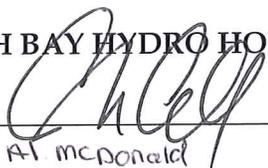
By: _____
Name: Cynthia Townsend
Title: Chief Administrative Officer & Treasurer

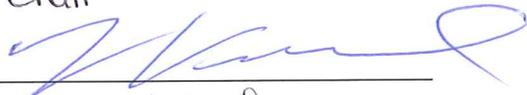
THE CORPORATION OF THE TOWNSHIP OF SABLES-SPANISH RIVERS

By: _____
Name: Leslie Gamble
Title: Mayor

By: _____
Name: Kim Sloss
Title: Clerk-Administrator

NORTH BAY HYDRO HOLDINGS LTD.

By:  _____
Name: Al McDonald
Title: Chair

By:  _____
Name: Tanya Vrebosch
Title: Vice-Chair

NORTH BAY (ESPANOLA) ACQUISITION INC.

By:  _____
Name: Matthew Payne
Title: President and Chief Operating Officer

By:  _____
Name: Melissa Casson
Title: Vice President of Finance

SCHEDULE A - DEFINED TERMS

In this Agreement, the following terms will have the following meanings:

2017 Financial Statements means the unaudited financial statements of the Company and Espanola Regional Hydro Services Corporation, and the audited financial statements of Espanola Regional Hydro Distribution Corporation for the fiscal year ended December 31, 2017, consisting of the balance sheet and the statements of earnings and retained earnings and cash flows and all notes thereto.

Advisory Committee has the meaning given in Section 7.7.

Affiliate has the meaning given in the *Business Corporations Act* (Ontario).

Aggregate Claims Amount has the meaning given in Section 7.18.4.

Aggregate Recoverable Amount has the meaning given in Section 7.18.4.

Agreement means this securities purchase agreement, including all schedules, and all amendments or restatements, as permitted, and references to "Section" means the specified Section of this Agreement.

Amended and Restated Shareholder Notes has the meaning given in Section 2.1.1.

Applicable Law means: (a) any domestic (federal, provincial or municipal) or foreign statute, law (including common and civil law), code, ordinance, rule, regulation, order-in-council, restriction or by-law (zoning or otherwise); (b) any judgment, order, writ, injunction, directive, decision, ruling, decree or award; (c) any regulatory policy, practice, standard or guideline; (d) any published administrative position; or (e) any Permit of any Governmental Authority, binding on or affecting the Person referred to in the context in which the term is used or binding on or affecting the property of that Person or binding on or affecting an Employee Plan referred to in the context in which the term is used, and for greater certainty includes the Tax Act in respect of an Employee Plan that qualifies for or purports to qualify for a particular type of plan thereunder or that has or purports to have Tax-favoured treatment.

Benefit Plans means all plans that provide pension benefits for the benefit of Employees or former Employees, and their respective beneficiaries, and all Employee benefit, fringe benefit, supplemental unemployment benefit, bonus, incentive, profit sharing, termination, change of control, compensation, retirement, salary continuation, stock option, stock purchase, stock appreciation, health, welfare, medical, dental, accident, disability, life insurance and other plans, arrangements, agreements, programs, policies, practices or undertakings, whether oral or written, funded or unfunded, registered or unregistered, insured or self-insured: (a) that are sponsored or maintained or funded, in

whole or in part, by the Company or any Subsidiary, or to which the Company or any Subsidiary contributes or is obligated to contribute for the benefit of Employees or former Employees, and their respective beneficiaries; or (b) under which the Company or any Subsidiary has any liability or contingent liability, excluding Statutory Plans.

Books and Records means books and records of the Company and the Subsidiaries, including financial, corporate, operations, records, books of account, sales and purchase records, list of suppliers and customers, formulae, business reports, plans and projections and all other documents, surveys, plans, files, records, assessments, correspondence, and other data and information, financial or otherwise, including all data, information and data bases stored on computer related or other electronic media.

Business means: (a) in respect of the Company, a holding body corporate; (b) in respect of ERHDC, the distribution of electricity in the Town of Espanola and the Township of Sables-Spanish Rivers; and (c) in respect of ERHSC, no active business operations.

Business Day means any day, other than a Saturday or Sunday, statutory holiday in the Province of Ontario or any other day on which the principal chartered banks in Toronto, Ontario are not open for commercial banking business during normal banking hours.

Change in Law means the adoption, enactment, promulgation, modification, amendment, or revocation of any applicable Law made or issued by the Province of Ontario (including by, or in respect of, the OEB).

Claims means claims, demands, complaints, grievances, actions, applications, suits, causes of action, Orders, charges, indictments, prosecutions, information or other similar processes, assessments or reassessments, judgments, debts, liabilities, expenses, costs, damages or losses, contingent or otherwise, including loss of value, reasonable professional fees, including fees and disbursements of legal counsel and all actual and documented costs incurred in investigating or pursuing any of the foregoing or any proceeding relating to any of the foregoing.

Closing means the completion of the sale to and purchase by the Purchaser of the Purchased Securities under this Agreement.

Closing Date means the first date which is the first Business Day of a month and no earlier than five (5) Business Days and no later than thirty-five (35) days following the date that the Required Approval has been obtained, provided that the Closing Date shall be no later than the Outside Date.

Closing Date Financial Statements has the meaning given in Section 3.4.1(a).

Closing Date Shareholders' Equity means the shareholders' equity of ERHDC set forth in the Closing Date Financial Statements.

Closing Time means 10:00 o'clock a.m. North Bay time, on the Closing Date or such other time on such date as the Parties may agree in writing as the time at which the Closing shall take place.

Collective Agreement has the meaning given in Section 4.22.1.

Company has the meaning given in Recital B.

Conclusive Purchase Price Adjustment Statement has the meaning given in Section 3.4.3.

Confidential Disclosure Schedule means that confidential disclosure schedule dated as of the Effective Date which the Vendors delivered to the Purchaser contemporaneously with the execution and delivery of this Agreement.

Confidentiality Agreement has the meaning given in Section 9.1.3.

Contracts means contracts, licenses, leases, agreements, obligations, promises, undertakings, understandings, arrangements, documents, commitments, entitlements or engagements to which the Company or any of the Subsidiaries is a party or by which any of them are bound or under which the Company or any of the Subsidiaries has, or will have, any liability or contingent liability (in each case, whether written or oral, express or implied), and includes any quotations, orders, proposals or tenders which remain open for acceptance and warranties and guarantees.

COS Application has the meaning given in Section 7.18.4.

CTA means the *Taxation Act, 2007* (Ontario) and any regulation made thereunder.

Deductible has the meaning given in Section 10.1.2(a).

Departure Tax means the tax payable pursuant to Section 93 of the Electricity Act and calculated according to Section 12 of O.Reg. 162/01 *Payments in Lieu of Corporate Taxes – Municipal Electricity Utilities* promulgated pursuant to the Electricity Act, or similar tax or replacement or substitution thereof.

Deposit has the meaning given in in Section 3.2.1.

Direct Claim has the meaning given in Section 10.3.1.

E&L Period has the meaning given in Section 7.5.

Easements means all rights of way, licences, rights of occupation, easements or other similar rights to use, traverse, enjoy or have access to, over, in or under any real property.

Effective Date has the meaning given in the first paragraph of this Agreement.

Electricity Act means the *Electricity Act, 1998* (Ontario), as now enacted or as the same may from time to time be amended, re-enacted or replaced, and any regulations thereunder.

Employee Fact Sheet has the meaning given in Section 4.20.1.

Employees has the meaning given in Section 4.20.1.

Encumbrances means pledges, liens, charges, security interests, leases, title retention agreements, mortgages, options, adverse claims or encumbrances of any kind or character whatsoever.

Environment means the environment or natural environment as defined in any Environmental Laws and includes air, surface water, groundwater, land surface, soil, subsurface.

Environmental Laws means Laws relating to the protection of the Environment, and includes Laws relating to the storage, generation, use, handling, manufacture, processing, transportation, treatment, Release and disposal of Hazardous Substances.

ERHDC has the meaning given in Recital C.

ERHSC has the meaning given in Recital C.

ETA means the *Excise Tax Act* (Canada) and any regulations made thereunder.

Financial Statements means the unaudited financial statements of the Company and Espanola Regional Hydro Services Corporation, and the audited financial statements of Espanola Regional Hydro Distribution Corporation for the fiscal year ended December 31, 2016, consisting of the balance sheet and the statements of earnings and retained earnings and cash flows and all notes thereto, a copy of which are annexed as Schedule O.

Fixed Assets means fixed assets, furniture, furnishings, parts, tools, personal property fixtures, plants, buildings, structures, erections, improvements, appurtenances, machinery, equipment, fixtures, vehicles, computer hardware and software, substations, transformers, vaults, distribution lines, transmission lines, conduits, ducts, types, wires, rods, cables, fibre optic strands, devices, appliances, material, poles, pipelines, fittings and any other similar or related items of the Business.

Governmental Authorities means governments, regulatory authorities, governmental departments, agencies, commissions, bureaus, officials, ministers, Crown corporations, the OEB, courts, bodies, boards, tribunals or dispute settlement panels or other law, rule

or regulation making organizations or entities having or purporting to have jurisdiction on behalf of any nation, province, territory or state or other geographic or political subdivision of any of them, or exercising, or entitled or purporting to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power.

Hazardous Substances means pollutants, contaminants, waste of any nature, hazardous substances, hazardous materials, toxic substances, prohibited substances, dangerous substances or dangerous goods in excess of that permitted by Environmental Laws.

HST means all taxes payable under Part IX of the ETA (including where applicable both the federal and provincial portion of those taxes) or under any provincial legislation imposing a similar value added or multi-staged tax.

IFRS means International Financial Reporting Standards.

Indemnified Party has the meaning given to it in Section 10.3.1.

Indemnifying Party has the meaning given to it in Section 10.3.1.

Indemnity Amount has the meaning given in Section 7.18.4.

Initial Shareholders' Equity means the shareholders' equity of ERHDC set forth in the Financial Statements, which, as of December 31, 2016 was \$3,143,012.

Joint Use Agreement for Power Utility Distribution Poles has the meaning given in Section 7.11.

Law or *Laws* means currently existing applicable statutes, bylaws, rules, regulations, Orders, ordinances or judgments, in each case of any Governmental Authority having the force of law.

Letter of Intent means the letter of intent dated November 30, 2017 submitted by the Purchaser in connection with the proposed purchase and sale of the Company and its Subsidiaries, together with two extension letters dated December 18, 2017 and December 22, 2017, as amended by: (a) a letter of intent amending agreement executed by all of the parties dated February 2, 2018, (b) a second letter of intent amending agreement executed by all of the parties dated March 23, 2018, and (c) a third letter of intent amending agreement executed by all of the Parties dated May, 2018.

Lender means Ontario Infrastructure and Lands Corporation and its successors.

Lender Agreement means the financing agreement between the Lender and Espanola Regional Hydro Distribution Corporation dated as of October 28, 2015, as amended by Amending Agreement No. 1 dated November 23, 2015.

Losses means any and all loss, liability (whether accrued, actual, contingent, latent or otherwise), damage, cost, expense (including interest, court costs and reasonable fees of lawyers, accountants and other experts and professionals), Taxes, charge, line, penalty or assessment, suffered or incurred by the Person seeking indemnification, directly resulting from or arising out of any Claim, including the cost and expenses of any action, suit, proceeding, investigation, inquiry, arbitration award, grievance, demand, assessment, judgment, settlement or compromise relating thereto, including without limitation a gross up to account for any tax payable or a reduction in the “cost amount”, as defined in subsection 248(1) of the Tax Act of any property owned by the Purchaser or the Company or any Subsidiaries or a successor entity of any of the foregoing in the taxation year as a result of receiving the indemnification amount but: (a) excluding any contingent liability until it becomes actual; (b) reduced by any net Tax benefit; (c) reduced by any recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other Persons; and (d) excluding any incidental, indirect, special or consequential loss, liability or damage and loss of profits other than as may be included in damages of a third-party in respect of a Third Party Claim.

Material Adverse Effect means any change, effect or circumstance that is materially adverse or is reasonably likely to be materially adverse to the financial condition or results of operations of the Company and the Subsidiaries or the Business taken as a whole; excluding: (a) any adverse change, effect or circumstance relating generally to financial markets or general economic conditions; and (b) war, act of terrorism, civil unrest or similar event.

Material Contracts means Contracts involving payments to or by the Company or any of the Subsidiaries in excess of \$50,000.

Neutral Auditor means an independent auditor mutually acceptable to the Purchaser and the Vendors.

Notice has the meaning given in Section 30.

OEB means the Ontario Energy Board and its successors.

OEB Act means the *Ontario Energy Board Act, 1998*, as in effect on the date of this Agreement.

Orders means orders, injunctions, judgments, administrative complaints, decrees, rulings, awards, assessments, directions, instructions, penalties or sanctions issued,

filed or imposed by any Governmental Authority or arbitrator and includes Remedial Orders.

Ordinary Course means, with respect to an action taken by a Person, that the action is consistent with the past practices of the Person and is taken in the normal day-to-day operations of the Person.

Outside Date means December 31, 2020.

Parties means the Vendors and the Purchaser collectively, and **Party** means any one of them.

Permitted Encumbrances means: (a) the Encumbrances listed in Schedule P; (b) servitudes, restrictions, rights-of-way and other similar rights in real property or any interest therein, provided that those servitudes, restrictions, rights-of-way and similar rights are not of such a nature as to have a Material Adverse Affect on the use or value of the property subject thereto; (c) undetermined or inchoate liens, charges and privileges incidental to current construction or current operations, except for liens, charges and privileges related to Taxes; (d) statutory liens, charges, adverse claims, security interests or Encumbrances of any nature whatsoever claimed or held by any Governmental Authority that have not at the time been filed or registered against the title to the asset or served on the Company pursuant to Applicable Law or that relate to obligations not due or delinquent, except for statutory liens, charges, adverse claims, security interests or Encumbrances related to Taxes; (e) security given in the Ordinary Course of the Business to any public utility or Governmental Authority in connection with the operations of the Business, other than security for borrowed money; and (f) the reservations in any original grants from the Crown of any Real Property or interest therein and statutory exceptions to title that do not materially detract from the value of the Real Property concerned or materially impair its use in the operation of the Business.

Permitted Financing means the financings identified in Schedule S.

Person means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, a body corporate, Governmental Authority, and where the context requires any of the foregoing when they are acting as trustee, executor, administrator or other legal representative.

Personal Information means information in the possession or under the control of the Company, its Subsidiaries and the Vendors about an identifiable individual.

PILs means payment in lieu of corporate taxes required to be made under Part VI of the Electricity Act or any similar tax or replacement or substitution thereof.

Post-Closing Tax Period means any Tax period beginning on or after the Closing Date, and with respect to a Straddle Period, the portion of such Tax period beginning on the Closing Date.

Pre-Closing Tax Period means any Tax period ending on or before the day immediately prior to the Closing Date and with respect to a Straddle Period the portion of any such Tax Period deemed to end on the day prior to the Closing Date.

PUC Services Agreement means the services agreement between PUC Services Inc. and Espanola Regional Hydro Distribution Corporation dated June 21st, 2016.

Purchase Price means the aggregate amount payable by the Purchaser for the Purchased Securities as set forth in Section 3.1.

Purchase Price Adjustment has the meaning given in Section 3.4.4.

Purchase Price Adjustment Statement has the meaning given in Section 3.4.1(b).

Purchase Price Adjustment Statement Resolution Period has the meaning given in Section 3.4.2.

Purchased Shares means all of the issued and outstanding common shares in the capital of the Company and all of the issued and outstanding special shares in the capital of ERHDC.

Purchased Securities means the Purchased Shares and the Amended and Restated Shareholder Notes.

Purchaser's Objection has the meaning given in Section 3.4.2.

Real Estate Cap has the meaning given in Section 10.1.4.

Real Estate Deductible has the meaning given in Section 10.1.2(b).

Real Property means the real property owned by the Company or any of the Subsidiaries, including plants, buildings, structures, fixtures, erections, improvements, and other appurtenances situate on or forming part of such real property.

Release has the meaning prescribed in any Environmental Laws and includes any release, spill, leak, pumping, pouring, emission, emptying, discharge, injection, escape, leaching, disposal, dumping, deposit, spraying, burial, abandonment, incineration, seepage, placement or introduction.

Refundable Amount has the meaning given in Section 7.18.4.

Remedial Orders means Orders issued, filed or imposed by any Governmental Authority pursuant to any Environmental Laws and include Orders requiring remediation of any site or any remediation or cleanup of any Hazardous Substance, or requiring that any Release be reduced, modified or eliminated.

Required Approval has the meaning given in Section 7.1.

Right of First Offer Agreement has the meaning given in Section 7.13.

Shareholder Notes has the meaning given in Section 2.1.1(b).

Statutory Plans means statutory benefit plans which the Company or any of the Subsidiaries are required to participate in or comply with, including the Canada Pension Plan and plans administered pursuant to applicable health tax, workplace safety and insurance and employment insurance obligations.

Straddle Period means any Tax period that begins prior to the Closing Date and includes but does not end on the Closing Date.

Subsidiaries and **Subsidiary** has the meaning given to it in Recital C.

Tangible Personal Property means the property and assets used by the Company or any of the Subsidiaries to conduct its Business, including without limitation, the Fixed Assets.

Tax or **Taxes** means all domestic and foreign federal, provincial, municipal, territorial or other taxes, imposts, duties, premiums, rates, levies, assessments and government fees, charges or dues lawfully levied, assessed or imposed including, without limitation, all income, capital gains, sales, excise, use, property, capital, transfer, land transfer, goods and services, HST, business transfer and value added taxes, all customs and import duties, workers' compensation premiums, Canada Pension Plan contributions, employment insurance premiums, and includes PILs, Departure Tax, and Transfer Tax and payments pursuant to Part VI of the Electricity Act together with all interest, additions, fines and penalties with respect thereto.

Tax Act means the *Income Tax Act* (Canada) and any regulations thereunder.

Tax Proceeding has the meaning given to it in Section 9.5.7.

Tax Return means all returns, information returns, declarations, designations, forms, schedules, elections, reports and other documents of every nature whatsoever (and includes related or supporting information, and including any withholding tax returns and reports and information returns and reports) filed, or required to be filed with any Governmental Authority with respect to any Taxes, including those required pursuant to Part VI of the Electricity Act or with respect to the administration of any applicable

Laws or administrative requirements relating to any Taxes and any amendments thereof.

Third Party has the meaning given in Section 10.3.1.

Third Party Claim has the meaning given in Section 10.3.1.

Third Party Consents has the meaning given in Section 3.5.

Transfer Tax means the tax payable pursuant to Section 94 of the Electricity Act or any similar tax or replacement or substitution thereof.

Uncovered Real Estate Right means an interest with respect to using, traversing, enjoying or having access to, over in or under any real property used in connection with the Business which is not documented or is not held by ERHDC to provide the required rights of occupancy, possession, use, entry and exit, as applicable, as reasonably necessary to carry on the Business on such real property and/or maintain Fixed Assets on such real property.

Unregistered Easements means the unregistered Easements described in Schedule G.

Vendors has the meaning given to it in Recital A.

Vendors' Knowledge means the best of the knowledge, information and belief of the Vendors after making due inquiries regarding the relevant matter of all relevant representatives of the Company, its Subsidiaries and PUC Services Inc.

SCHEDULE B - PURCHASE PRICE ADJUSTMENT CALCULATION

PURCHASE PRICE ADJUSTMENT CALCULATION									
Shareholders' equity of Espanola Regional Hydro Distribution Corporation as at the Closing Date						TBD	A		
Less: Shareholders' equity of Espanola Regional Hydro Distribution Corporation as at December 31, 2016						<u>3,143,012</u>	B		
Purchase Price Adjustment (*)						<u>TBD</u>	A - B		
(*) A positive Purchase Price Adjustment results in a dollar-for-dollar increase in the Purchase Price, while a negative Purchase Price Adjustment results in a dollar-for-dollar decrease in the Purchase Price.									

SCHEDULE D - CAPITALIZATION

<u>Entity</u>	<u>Issued</u>	<u>Class of Shares</u>
Company	1,000	Common
ERHDC	1,000	Common
	228	Special
ERHSC	1000	Common

SCHEDULE E - DISCLOSED LIABILITIES

Nil.

SCHEDULE F - LIST OF REAL PROPERTY

PIN 73406-0049(LT): PCL 26231 SEC SWS SRO; PT LT 8 CON 4 MERRITT PT 1, 53R7704; ESPANOLA

PIN 73408-0043(LT): PCL 29422 SEC SWS; PT LT 7 CON 5 MERRITT PT 1 & 2 53R12344; ESPANOLA

PIN 73408-0046(LT): PCL 4928 SEC SWS; PT LANE PL M38 MERRITT PT 3 TO 5 53R8031; PT LT 2 PL M38 MERRITT AS IN LT4640; LT 3 PL M38 MERRITT; ESPANOLA

PIN 73409-0965(LT): PCL 17836 SEC SWS; FIRSTLY: PT WATSON AV PL M77 MERRITT (CLOSED); SECONDLY: PT LT 311 PL M77 MERRITT; THIRDLY: PT PUBLIC LANE PL M77 MERRITT (CLOSED); FOURTHLY: PT LT 312 PL M77 MERRITT AS IN LT183874; T/W PT 2 53R17449 AS IN LT966421; ESPANOLA

PIN 73409-1137(LT): PCL 31609 SEC SWS; PT BLK A PL M883 MERRITT PT 1 53R17449; T/W PT 2 53R17449 AS IN LT966421; ESPANOLA

PIN 73426-0349(LT): PCL 1 SEC D264; UNIT 1 PL D264 SALTER; SABLES-SPANISH RIVERS

PIN 73423-0390(LT): PCL 49 SEC D264; UNIT 49 PL D264 SALTER; SABLES-SPANISH RIVERS

SCHEDULE G - LIST OF EASEMENTS AND UNREGISTERED EASEMENTS

Easement No.	Land Description	Easement Description	Transferor/ Customer	File Folder	Easements	Registration Date	Status	Area**
P15633	Part of Lot 11 N 1/2 Concession V Township of Merritt County of Sudbury	5 Poles 3 Anchors Clearing & Cutting Rights Low Tension Line	Director the Veteran's Land Act/ The Hydro Electric Power Commission of Ontario Espanola Development Co. Ltd/ The Hydro Electric Power Commission of Ont. Property Div.	Red File Folder in Safe		26-Jul-56	Unregistered	7192 JRD
P228845	Lot N 1/2 9 Con. V Twp. Merritt District Sudbury	1 Pole 1 Anchor Clearing & Cutting Rights Distribution Lines		Red File Folder in Safe		25-Aug-60	Unregistered	R.P. M-77
P375523	Part of 9 Con. 4 Twp. Merritt District Sudbury	1 Pole 1 Anchor Clearing & Cutting Rights Transmission Line	Espanola Ski Club Inc. / Ontario Hydro	Red File Folder in Safe		29-Jul-82	Unregistered	Plan #RP53R5019
P399578	Lot 4 Conc. 3 Twp. Merritt District Sudbury	Clearing & Cutting Rights Transmission Line	The Canadian Jesuit Missions / Ontario Hydro	Red File Folder in Safe		11-Sep-84	Unregistered	Parcel 10601 sws
P399691	Lot 9 Parts of 4, 5, 6,7 Conc. 3 Twp. Merritt Dist. Sudbury	Clearing & Cutting Rights Transmission Line	Henry Roland Aubertin / Ontario Hydro	Red File Folder in Safe		29-Oct-84	Unregistered	Parcel 2834
P501807	Lot 12 Sub Lot PT 2 Con. 2 Twp. Merritt Dist. Sudbury	1 Anchor	Arthur Aubrey / Ontario Hydro	Red File Folder in Safe		02-Jun-98	Unregistered	792 Pleasant Valley Rd. Espanola, Ont.
P236714	Lot 12 Con. II Twp. Merritt Dist. Sudbury	8 Poles 1 Anchor Clearing & Cutting Rights Distribution Lines	Earl Aubrey / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe		20-Sep-61	Unregistered	
P236710	Lot 11 Con. III Twp. Merritt Dist. Sudbury	3 Poles 2 Anchors Clearing & Cutting Rights Distribution Lines	Albert Auge / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe		21-Sep-61	Unregistered	

P356773		3 Poles, 3 Anchors, Occupational Rights & Clearing Rights						
	Lot 9 Con. 3 Twp. Merritt Dist. Sudbury	Transmission Lines	Regis & Mary Auge / Ontario Hydro	Red File Folder in Safe	18-Sep-79	Unregistered		
P366289		2 Poles 3 Anchors Clearing & Cutting Rights						
	Lot 9 Part 2 & 4 Con. 3 Twp. Merritt Dist. Sudbury	Occupational Rights Transmission Lines	Regis & Mary Auge / Ontario Hydro	Red File Folder in Safe	18-Mar-81	Unregistered	Parcel 10964	
P375521		1 Pole 1 Anchor Clearing & Cutting Rights						
	Lot 9 Con. 3 Twp. Merritt Dist. Sudbury	Transmission Line	Regis & Mary Auge / Ontario Hydro	Red File Folder in Safe	12-Jul-82	Unregistered	Parcel 10964 Plan 53R-8925	
P411374		1 Anchor No permission req'd to raise elevation of ground. Add anchor rods to keep guy steel above ground. Any damage to landscaped area to be rectified to owners satisfaction at expense of Ontario Hydro						
	Lot 9 Part 1 Con. 3 Twp. Merritt Dist. Sudbury		Wilfred & Rita Auge / Ontario Hydro	Red File Folder in Safe	22-Aug-86	Unregistered	Parcel 25495 Plan 53R-4953	
P495905		1 Pole Occupational Right.						
	Lot 9 Part 1 Con. 3 Twp. Merritt Dist. Sudbury	Transmission Lines	Wilfred & Rita Auge / Ontario Hydro	Red File Folder in Safe	11-Jan-95	Unregistered	Plan 53R-4953	
P366259		1 Anchor						
	Lot 10 Con. 6 Twp. Merritt Dist. Sudbury	Transmission Line	Marcial & Rita Barnes / Ontario Hydro	Red File Folder in Safe	03-Mar-81	Unregistered	Parcel 7513	

P345382	Part of S.E. 1/4 Lot 10 Con. 3 Twp. Merritt Dist. Sudbury	1 Anchor Clearing & Cutting Rights Transmission Lines	Marcel & Gisele Berthelot / Ontario Hydro	Red File Folder in Safe	20-Jun-78	Unregistered	
P375224	Lot 9 Con. 5 Twp. Merritt Dist. Sudbury	1 Pole Transmission Line	Helen Bieniek	Red File Folder in Safe	12-Jan-82	Unregistered	Parcel SW6356
P365860	E 1/2 Lor 9 Con. 5 Twp. Merritt Dist. Sudbury	2 Poles Cutting & Clearing Rights Transmission Lines	Helen Bieniek	Red File Folder in Safe	02-Jul-80	Unregistered	Parcel SW5 6356
P280331	Lot 12 Con. V Twp. Merritt Dist. Sudbury	Cutting & Clearing Rights Distribution Lines	Clifford & Victoria Bisson / Hydro Electric Power Commission of Ontario	Red File Folder in Safe	06-Nov-68	Unregistered	
P480583	Lot 11 Conx. 5 Twp. Merritt Dist. Sudbury	1 Anchor Transmission Line	Albert & Elizabeth Budge / Ontario Hydro	Red File Folder in Safe	13-May-92	Unregistered	Parcel 20786 Plan SR-1898
P365484	Lot 4 Conc. 6 Twp. Merritt Dist. Sudbury	Clearing & Cutting Rights Transmission Line	Francis William & Mary Buott / Ontario Hydro	Red File Folder in Safe	12-Dec-79	Unregistered	Line #FS 1701
P217063	Lot 7 Conc. V Twp. Merritt Dist. Sudbury	2 Anchors with wire Transmission Lines	Mary Burtnyk / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	27-May-58	Unregistered	Pcl. SWS 6671
P399708	Lot 9 Conc. 3 Twp. Merritt Dist. Sudbury	Clearing & Cutting Rights Transmission Line	Jean Claude Bussieres & Cindy Bourgeault / Ontario Hydro	Red File Folder in Safe	20-Nov-84	Unregistered	53R 10039
P345410	West 1/2 Lot 10 Conc. 3 Twp. Merritt Dist. Sudbury	5 Anchors Clearing & Cutting Rights Transmission Lines	Jean & Marie Bussieres / Ontario Hydro	Red File Folder in Safe	20-Jun-78	Unregistered	510 Albert St. Espanola
P236711	North 1/2 11 Con. 2 Twp. Merritt Dist. Sudbury	3 Poles & 2 Anchors Clearing & Cutting Rights Distribution Lines	Elmer Beckett / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	21-Sep-61	Unregistered	Approx. 1/2 acre of mixed bush
P231440	North 1/2 10 Conc. V Twp. Merritt Dist. Sudbury	Damages resulting from work on Transmission Line FS 18 x 1863	John Boniakowski / The Hydro Electric Comission of Ontario	Red File Folder in Safe	27-Oct-60	Unregistered	Parcel 6257

P411388	Lot 8 Conc. 2 Twp. Merritt Dist. Sudbury Sub-Lot CLS98706	Occupational Rights Cutting & Clearing Rights Padmount Transformer Transmission Line	Real Bourcier / Ontario Hydro	Red File Folder in Safe	03-Sep-86	Unregistered	Parcel 6323 Crown Lands T-2958
P435022	Lot 3 Conc. 1 Twp. Merritt Dist. Sudbury	1 Pole 3 Anchors Occupational Rights Cutting Rights Transmission Line	Cynda Lou Carson / Ontario Hydro	Red File Folder in Safe	15-Sep-88	Unregistered	Parcel 11868 SWS Loon Lake to Island
P230567	Lot 6 Conc. IV Twp. Merritt Dist. Sudbury	One Pole One Anchor Right to cut & clear Distribution Lines	Phyllis D. Castagnoli / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	17-Oct-60	Unregistered	
P469218	Lot 5 Conc. 3 Twp. Merritt Dist. Sudbury Sub-Lot Part 2	Occupational Rights Right to cut & trim Distribution Lines	Gregory John & Edna Clark / Ontario Hydro	Red File Folder in Safe	02-Nov-90	Unregistered	Parcel 26646 Plan 53R-8133
P282835	Lot 9 Conc. 2 Twp. Merritt Dist. Sudbury	Overhanging wires. Right to cut & clear. Distribution Lines	Daniel F. Coleman / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	20-Mar-69	Unregistered	Apsey Lake South End
P411239	Lot 10 (part of the east half) Conc. 3 Twp. Merritt Dist. Sudbury	One Pole One Anchor Right to cut & clear Transmission Lines	James & Stephanie Constantineau / Ontario Hydro	Red File Folder in Safe	15-Jul-86	Unregistered	Plan 53R - 8843
P94649	Lot 10 Conc. V Twp. Merritt Dist. Sudbury	3 Poles 2 Anchors Transmission Lines	Napoleon Cyr / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	19-May-54	Unregistered	
P236712	Lot South 1/2 11 Conc. II Twp. Merritt Dist. Sudbury	Distribution Lines 6 Poles 3 Anchors Right to cut & clear Distribution Lines	Pierre Delisle / The Hydro Electric Power Commision of Ontario	Red File Folder in Safe	20-Sep-61	Unregistered	Parcel 6440 Sudbury West Section
P333040	Lot 11 Conc. 2 Twp. Merritt Dist. Sudbury	4 Poles & 4 Anchors Right to cut & clear Transmission Lines	Almoes Delisle / Ontario Hydro	Red File Folder in Safe	31-Mar-76	Unregistered	

P237331	Lot 10 Conc. II Twp. Merritt Dist. Sudbury	7 Poles 3 Anchors Right to cut & clear Distribution Lines	Louis Delisle / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	18-Oct-61	Unregistered	
P333038		4 Poles & 7 Anchors Right to cut & clear Transmission Lines	Louis Delisle / Ontario Hydro	Red File Folder in Safe	31-Mar-76	Unregistered	Apsey Lake
P333039	Lot 10 Conc. 2 Twp. Merritt Dist. Sudbury	Transmission Line 6 Poles & 7 Anchors	Louis Delisle / Ontario Hydro	Red File Folder in Safe	31-Mar-76	Unregistered	Apsey Lake
P356813	Lot 11 Conc. 5 Twp. Merritt Dist. Sudbury	1 Anchor Transmission Line	Richard Duranleau / Ontario Hydro	Red File Folder in Safe	16-Oct-79	Unregistered	Old Webbwood Rd.
P411392	Lot 8 Conc. 2 Twp. Merritt Dist. Sudbury Lot #11186 Parcel 13222	Padmount Transformer Right to cut & clear Transmission Line	Rev. Jean Claude Etienne / Ontario Hydro	Red File Folder in Safe	03-Sep-86	Unregistered	Algoma Area # 8781
P345409	Lot East 1/2 11 Conc. 3 Twp. Merritt Dist. Sudbury	Right to cut & clear Transmission Line	Harvey Dodge / Ontario Hydro	Red File Folder in Safe	20-Jun-78	Unregistered	Bass Lake Rd. Dump
P227027	Lot East 1/2 9 Conc. IV Twp. Merritt Dist. Sudbury	Four Poles Four Anchors Right to cut & clear Distribution Lines	Elzear Denommee / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	25-Apr-60	Unregistered	
P94650		One Pole 2 Anchors for Transmission Lines	Arthur Fouceault / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	04-May-54	Unregistered	Parcel #5286
P94651	Lot 10 Conc. VI Twp. Merritt Dist. Sudbury	2 Poles 4 Anchors for Transmission Lines	rthur Fouceault / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	03-Nov-53	Unregistered	
P207413	Lot 8 Conc.V Twp. Merritt Dist. Sudbury	1 Anchor Cutting & Clearing Rights Distribution Lines	Elizabeth Favreau / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	28-May-58	Unregistered	

P452340	Lot 5 Conc. 3 Parcel 28488 Twp. Merritt Dist. Sudbury	1 Anchor Cutting & Clearing Rights Transmission Lines	William & Phyllis Forbes / Ontario Hydro	Red File Folder in Safe	13-Sep-89	Unregistered	Plan 53R - 8133
P220589	Lot 6 Conc. IV Twp. Merritt Dist. Sudbury	1 Pole Cutting & Clearing Righths Distribution Lines	Jules Genereux / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	24-Aug-59	Unregistered	Summer Resort Location, Griffin Lake
P252632	Lot North 1/2 6 Con. III Twp. Merritt Dist. Sudbury	2 Poles 1 Anchor Cutting & Clearing Rights Distribution Lines	Roland Godmer / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	24-Jan-64	Unregistered	
P242043	Lot 6 Conc. III Twp. Merritt Dist. Sudbury	6 Poles 5 Anchors Cutting & Clearing Rights Distribution Lines	Roland Godmer / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	14-Jul-62	Unregistered	
P386019	Lot 6 Con. 3 Twp. Merritt Dist. Sudbury	2 Poles 1 Anchor Cutting & Clearing Rights Transmission Line	Roland Godmer / Ontario Hydro	Red File Folder in Safe	08-Feb-83	Unregistered	Parcel 8133 Plan SR 138
P411238	Lot 6 Conc. 3 Twp. Merritt Dist. Sudbury	1 Anchor Cutting & Clearing Rights Transmission Line	Roland Godmer / Ontario Hydro	Red File Folder in Safe	15-Jul-86	Unregistered	Parcel 8133 Plan 53R - 10886
P365825	Lot 6 Conc. 3 Twp. Merritt Dist. Sudbury	1 Pole 2 Anchors Cutting & Clearing Rights Transmission Line	Roland Godmer / Ontario Hydro	Red File Folder in Safe	23-Jun-80	Unregistered	
P365483	Lot 4 conc. 6 Twp. Merritt Dist. Sudbury	1 Anchor Cutting & Clearing Rights Transmission Line	Robert Hannah / Ontario Hydro	Red File Folder in Safe	31-Oct-79	Unregistered	
P411276	Lot 9 Conc. 3 Twp. Merritt Dist. Sudbury	3 Anchors Cutting & Clearing Rights Transmission Lines	Ron Harris / Ontario Hydro	Red File Folder in Safe	23-Jul-86	Unregistered	Parcels 6152 & 10964
P411334	Lot 9 conc. 3 Twp. Merritt Dist. Sudbury	One Anchor Occupational Rights Right to Cut Transmission Lines	Ron Harris / Ontario Hydro	Red File Folder in Safe	20-Aug-86	Unregistered	Parcel 10964 sws

P303417		2 Poles 2 Anchors Right to cut & clear	Eugene N. Hayes / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	10-Jan-72	Unregistered	
	Lot 12 Conc. 4 Twp. Merritt Dist. Sudbury	Transmission Lines					SR1085 Part 1 Parcel 20681
P365855							SR1085 Part 2 Parcel 20682
	Lot 9 Conc. 5 Twp. Merritt Dist. Sudbury	Right to cut & clear Transmission Line	Fred Huot / Ontario Hydro	Red File Folder in Safe	30-Jun-80	Unregistered	
P365856							
	Lot 9 Conc. 5 Twp. Merritt Dist. Sudbury	Right to cut & clear Transmission Line	Lawrence Huot / Ontario Hydro	Red File Folder in Safe	02-Jul-80	Unregistered	SR-1085 Part 4
P365857							
	Lot 9 Conc. 5 Twp. Merritt Dist. Sudbury	Right to cut & clear Transmission Line	John & Theresa Huot / Ontario Hydro	Red File Folder in Safe	30-Jun-80	Unregistered	SR-1085 Part 6 Parcel 20683
P365858							
	Lot 9 Conc. 5 Twp. Merritt Dist. Sudbury	Right to cut & clear Transmission Line	Lucien Sirard & Lawrence Huot	Red File Folder in Safe	02-Jul-80	Unregistered	SR-1085 Part 5
P411411							
	Lot 8 Conc. 2 Twp. Merritt Dist. Sudbury	1 Padmount Transformer Occupational Rights Transmission Line	George Kelly / Ontario Hydro	Red File Folder in Safe	03-Sep-86	Unregistered	Parcel 13311 Plan Crown Lands T-2958
P229653							
	Lot 8 Conc. IV Twp. Merritt Dist. Sudbury	2 Poles 2 Anchors Right to cut & clear Distribution Lines	Alex Kozachanko / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	27-Oct-60	Unregistered	
P386005							
	Lot 6 Conc. 3 Twp. Merritt Dist. Sudbury	2 Poles Right to cut & clear No herbicides to be used in area covered by this easement Transmission Lines	Patricia Anne O'Reilly / Ontario Hydro	Red File Folder in Safe	04-Feb-83	Unregistered	Parcel 27186 Sub Lot Part 1 & Part 2 Plan 53R-8998
P411410							
	Lot 8 Conc. 2 Twp Merritt Dist. Sudbury	Occupational Rights 1 Padmount Transformer	Maurice A. Lafoley / Ontario Hydro	Red File Folder in Safe	03-Sep-86	Unregistered	Parcel 14232 Sub- lot CLS113752 Plan Crown

		1 Switching Kiosk Transmission Line						Lands T- 2958
P220587	Lot 10 Conc. VI Twp. Merritt Dist. Sudbury	4 poles 6 Anchors Right to cut & clear Distribution Lines	Alex Lachance / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	25-Aug-59	Unregistered		
P207409	Lot 8 Conc. V Twp. Merritt Dist. Sudbury	Overhanging wires only. Right to cut & clear Distribution lines	Anita Lachapelle / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	27-May-58	Unregistered		
P356796	Lot 11 Conc. 5 Twp. Merritt Dist. Sudbury	2 Anchors Transmission Line	Dave & Diane Leblanc / Ontario Hydro	Red File Folder in Safe	26-Sep-79	Unregistered		
P469217	Lot 5 Conc. 3 Twp. Merritt Dist. Sudbury	Transmission Line Occupational Rights, Right to Cut & Trim	Denis Leblanc / Ontario Hydro	Red File Folder in Safe	19-Oct-90	Unregistered	Parcel 26645 Sub- lot Part 1 Plan 53R- 8133	
P452358	Lot 5 Conc. 3 Twp. Merritt Dist. Sudbury	Transmission Line Occupational Rights, Right to Cut	Claude Leblanc / Ontario Hydro	Red File Folder in Safe	19-Sep-89	Unregistered	Parcel 26648 Sub- lot Part 4 Plan 53R- 8133	
P282837	Lot 5 Conc. 3 Twp. Merritt Dist. Sudbury	Distribution Lines 2 Poles 1 Anchor	Raymond LeBlanc / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	20-Mar-69	Unregistered		
P356638	Lot 5 Conc. 3 Twp. Merritt Dist. Sudbury	1 Pole Occupational Rights & Clearing Rights Transmission Lines	Roland & Yvonne Leblanc / Ontario Hydro	Red File Folder in Safe	26-Jun-79	Unregistered		
P452321	Lot 5 Conc. 3 Twp. Merritt Dist. Sudbury	1 Pole Transmission Line	Roland & Yvonne Leblanc / Ontario Hydro	Red File Folder in Safe	12-Sep-89	Unregistered	Parcel 21435 Sub- lot Part 1 Plan SR3290	
P207412	Lot 8 Conc. 5 Twp. Merritt Dist. Sudbury	Distribution Lines Overhanging Wire Only	Albert L. Leclaire / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	27-May-58	Unregistered	Parcels 10340 & 12040 S.W.S.	

P220570	Lot 6 Conc. IV Twp. Merritt Dist. Sudbury	Distribution Lines One Pole One Anchor	Raoul Marenger / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	24-Aug-59	Unregistered	Summer Resort Location, Griffin Lake
P436101		Submarine cable from existing pole to shoreline					
P386673	Lot 3 Conc. 1 Twp. Merritt Dist. Sudbury	Occupational rights & Cutting rights	Armand & Veronica Marenger / Ontario Hydro	Red File Folder in Safe	27-Aug-88	Unregistered	Parcel 12637 SWS
P365482	Lot 11 Conc. 5 Twp. Merritt Dist. Sudbury	1 Anchor Transmission Line	Donald & Viola MacDonald / Ontario Hydro	Red File Folder in Safe	19-Mar-84	Unregistered	Parcel 7248 Plan SR- 1898
P365502	Lot 4 Conc. 6 Twp. Merritt Dist. Sudbury	Transmission Line	Chantal Martel / Ontario Hydro	Red File Folder in Safe	25-Sep-79	Unregistered	
P375522	Lot 4 Conc. 6 Twp. Merritt Dist. Sudbury	1 Pole 1 Anchor Transmission Line	Chantal Martel / Ontario Hydro	Red File Folder in Safe	03-Jan-80	Unregistered	
P255403	Lot 8 Conc. 4 Twp. Merritt Dist. Sudbury	Transmission Line	Kenneth McNally / Ontario Hydro	Red File Folder in Safe	20-Jul-82	Unregistered	Plan 53R- 8925
P375512	Lot 10 conc. 1 Twp. Merritt Dist. Sudbury	1 Pole 1 Anchor Distribution Line	Gino & Frances Mei / The Hydro Electric Power Commision of Ontario	Red File Folder in Safe	23-Jun-64	Unregistered	
P399697	Lot 8 Conc. 3 Twp. Merritt Dist. Sudbury	1 Pole 1 Anchor Transmission Line	Len Morley / Ontario Hydro	Red File Folder in Safe	20-Jul-82	Unregistered	Parcel 5341 Plan 53R- 8925
P411285	Lot 9 Conc. 3 Twp. Merritt Dist. Sudbury	1 Anchor Transmission Line	Ian Morley / Ontario Hydro	Red File Folder in Safe	19-Nov-84	Unregistered	Parcel 28040 Part 3-53R-10310
P386458	Lot 9 Conc. 3 Twp. Merritt Dist. Sudbury	1 Anchor Occupational Rights Cutting Rights Transmission Line	Ian Morley / Ontario Hydro	Red File Folder in Safe	25-Jul-86	Unregistered	Plan 53R- 10310
	Lot 6 Conc. 3 Twp. Merritt Dist. Sudbury	Damage Claim due to spraying of herbicides by Ontario Hydro Forestry crews	Ontario Hydro / Vincent Peter O'Reilly	Red File Folder in Safe	01-Nov-83	Unregistered	Plan 53R- 4524 Parcel S.W.S. & Plan 53R- 8998 Parcel 27186 S.W.S

P228003	South 1/2 Lot 9 Conc. V Twp. Merritt Dist. Sudbury	1 Anchor Transmission Line	Stephen & Catherine Ostroski / The Hydro Electric Power Commission on Ontario	Red File Folder in Safe	04-Aug-60	Unregistered	Parcel 10958
P386006		Transmission Line No Herbicides to be used in area covered by this Easement	Vincent Peter O'Reilly / Ontario Hydro	Red File Folder in Safe	04-Feb-83	Unregistered	Plan 53R- 4524 Remainder of Parcel 23569
P220572	Lot 6 Conc. 3 Twp. Merritt Dist. Sudbury						Summer Resort Location, Griffin Lake
P501967	Lot 6 Conc. IV Twp. Merritt Dist. Sudbury	2 Poles 1 Anchor Distribution Lines Occupation Rights Cutting Rights	Rosaire Pelletier / The Hydro Electric Power commission of Ontario	Red File Folder in Safe	24-Aug-59	Unregistered	
P496836	Lot 9 Conc. 1 Twp. Merritt Dist. Sudbury	Transmission Lines	John & Wanda Petko / Ontario Hydro	Red File Folder in Safe	29-May-98	Unregistered	Sub-Lot Part 2 Plan SR- 440
P411240	Lot 12 Conc. 5 Twp. Merritt Dist. Sudbury	1 pole Transmission Line	Richard & Catherine Petrus / Ontario Hydro	Red File Folder in Safe	29-May-95	Unregistered	Sub-lot Plan 1 Plan 53R- 8789
P345381	Lot 10 Conc. 3 Twp. Merritt Dist. Sudbury	1 Anchor Occupational Rights Cutting Rights Transmission Line	Irene Piche / Ontario Hydro	Red File Folder in Safe	14-Jul-86	Unregistered	Parcel 6871 S.W.S. Plan 53R-7763
P386648	NE 1/4 Lot 10 Conc. 3 Twp Merritt Dist. Sudbury	1 Anchor Right of Way Clearing Transmission Line	Stephen & Irene Piche / Ontario Hydro	Red File Folder in Safe	20-Jun-78	Unregistered	
P277696	Lot 10 conc. 3 Twp. Merritt Dist. Sudbury	1 Anchor Transmission Line	Stephen & Irene Piche / Ontario Hydro	Red File Folder in Safe	23-Feb-84	Unregistered	Parcel 26228 Plan 53R-7763
P502595	Lot North 1/2 4 Conc. II Twp. Merritt Dist. Sudbury	3 Poles 1 Anchor Right to Cut Distribution Lines	John & Rose Pichoski / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	16-May-68	Unregistered	
	Lot 9 Conc. 1 Twp. Merritt Dist. Sudbury	1 Anchor Occupational Rights Cutting Rights Transmission Line	Dan & Maxine Pichoskie / Ontario Hydro	Red File Folder in Safe	23-Jul-98	Unregistered	parcel 9779 SWS Plan SR-440

P237046	Lot 10 conc. 1 Twp. Merritt Dist. Sudbury	2 Anchors Transmission Line	Frances Pichoskie / The Ontario Hydro Electric Power commission of Ontario	Red File Folder in Safe	20-Sep-61	Unregistered	
P282779	Lot N1/2 9 Conc. 1 Twp. Merritt Dist. Sudbury	Four Poles Four Anchors Clearing Rights Cutting Rights Distribution Lines	Frank Pichoskie / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	19-Mar-69	Unregistered	
P218369	Lot 8 Conc. IV Twp. Merritt Dist. Sudbury	1 Anchor Transmission Line	The Hydro Electric Power Commission of Ontario / Hope I. Richer	Red File Folder in Safe	19-May-59	Unregistered	
P282887	Lot 9 Conc. 1 Twp. Merritt Dist. Sudbury	One Pole One Anchor Transmission Line	Emilin Richer / The Hydro Electric Power Commission on Ontario	Red File Folder in Safe	28-Mar-69	Unregistered	
P436152	Lot 11 Conc. 2 Twp. Merritt Dist. Sudbury	Occupational Rights Transmission Lines	Isobel & Wallace Rutherford / Ontario Hydro	Red File Folder in Safe	02-Nov-88	Unregistered	Parcel 6400 Sub-lot Part 1 Plan 53R- 10802
P365481	Lot 4 Conc. 6 Twp. Merritt Dist. Sudbury	1 Anchor Clearing Rights Transmission Line	Ernest A Sear / Ontario Hydro	Red File Folder in Safe	06-Dec-79	Unregistered	
P267218	Lot 3 Conc. I Twp. Merritt Dist. Sudbury	6 Poles 4 Anchors Distribution Lines	Alfred Secord / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	21-Jun-66	Unregistered	
P267217	Lot 4 Conc I Twp. Merritt Dist. Sudbury	2 Poles 2 Anchors Distribution Lines	Alfred Secord / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	22-Jun-66	Unregistered	Loon Lake
P337867	Lot 10 conc. 4 Twp. Merritt Dist. Sudbury	1 Stub Pole 2 Anchors Transmission Lines	James Secord, Robert Secord / Ontario Hydro	Red File Folder in Safe	22-Nov-76	Unregistered	P111523
P111523	Lot 10 Conc. 5 Twp. Merritt Dist. Sudbury	1 Anchor Underground Wire	Fred Schreeve / Ontario Hydro	Red File Folder in Safe	10-Nov-86	Unregistered	Parcel 17802 Sub- lot 1 Plan SR-174
P280334	Lot 6 Conc. IV Twp. Merritt Dist. Sudbury	2 Poles 1 Anchor Cutting Rights Distribution Lines	Joseph Sicard / the Hydro Electric Power Commission of Ontario	Red File Folder in Safe	06-Nov-68	Unregistered	

P226542	Lot South 1/2 6 Conc. IV Twp. Merritt Dist. Sudbury	10 Poles 5 Anchors Clearing Rights Distribution Lines	Joseph Sicard / the Hydro Electric Power Commission of Ontario	Red File Folder in Safe	12-Apr-60	Unregistered	
P229971	Lot 6 Conc. IV Twp. Merritt Dist. Sudbury	5 Poles 5 Anchors Clearing Rights Distribution Lines	Joseph Sicard / the Hydro Electric Power Commission of Ontario	Red File Folder in Safe	17-Oct-60	Unregistered	
P220640	Lot 6 Conc. IV Twp. Merritt Dist. Sudbury	3 Anchors Distribution Lines	Joseph Sicard / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	24-Aug-59	Unregistered	
P365859	Lot 9 Conc. 5 Twp. Merritt Dist. Sudbury	Clearing Rights Transmission Lines	Lucien & Lillian Sirard / Ontario Hydro	Red File Folder in Safe	30-Jun-80	Unregistered	Plan SR 1085 Part 6 Parcel 20684
P453085	Lot 11 Conc. 4 Twp. Merritt Dist. Sudbury	1 Anchor Transmission Line	Debbie & Jerry Sokoloski / Ontario Hydro	Red File Folder in Safe	22-Aug-90	Unregistered	Part 8 Plan SR-1683
P267152	Lot 3 Conc. I Twp. Merritt Dist. Sudbury	1 Pole 1 Anchor Clearing Rights Distribution Lines	Fred Stevens / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	21-Jun-66	Unregistered	
P220644	West Part Lot 10 Con IV Twp. Merritt Dist. Sudbury	2 Anchors Transmission Line	The Hydro Electric Power Commission of Ontario / Monica Tennant	Red File Folder in Safe	31-Jul-59	Unregistered	
P237045	Lot 10 Conc. 2 Twp. Merritt Dist. Sudbury	2 Anchors Transmission Line	The Hydro Electric Power Commission of Ontario / Reverend Joseph J. Tourigny	Red File Folder in Safe	22-Sep-61	Unregistered	Parcel 4302
P282778	Lot 9 Conc. 2 Twp. Merritt Dist. Sudbury	2 Poles 2 Anchors Clearing Rights Distribution Lines	The Hydro Electric Power Commission of Ontario / Rolando Veccia	Red File Folder in Safe	19-Mar-69	Unregistered	Apsey Lake South End Parcel
P375412	Lot 11 Conc. 6 Twp. Merritt Dist. Sudbury	Clearing Rights Transmission Lines	Edmund & Nancy Tremblay / Ontario Hydro	Red File Folder in Safe	26-May-82	Unregistered	27138 S.W.S Plan 8787 S.W.S

P375416

		2 Poles 3 Anchors Brush control on existing trees. No new trees to be planted on specified easement that exceed 2 m in height.					
	Lot 11 Conc. 6 Twp. Merritt Dist. Sudbury	Transmission Lines.	Blanche Dorothy Tremblay / Ontario Hydro	Red File Folder in Safe	27-May-82	Unregistered	Parcel 8076 S.W.S
P220631	Lot N1/2 11 Conv. VI Twp. Merritt Dist. Sudbury	1 Anchor Transmission Line	The Hydro Electric Power Commission of Ontario / Sonat Tremblay	Red File Folder in Safe	15-Aug-59	Unregistered	
P469216		1 Anchor Occupational Rights Cutting Transmission Line	Robert & Sandra Whaley / Ontario Hydro	Red File Folder in Safe	28-Nov-90	Unregistered	Parcel 26647 Plan 53R-8133
P215915	Lot 5 Conc. 3 Twp. Merritt Dist. Sudbury	1 Pole 1 Anchor Clearing Rights Distribution Lines	Fred J. Thibedeau / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	19-May-59	Unregistered	
P215916	Lot Part 6 Conc. IV Twp. Merritt Dist. Sudbury	1 Pole 1 Anchor Clearing Rights Distribution Lines	Ray Vanier / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	19-May-59	Unregistered	
P227028	Lot Pt. 9 Coonc. IV Twp. Merritt Dist. Sudbury	1 Pole 1 Anchor Clearing Rights Distribution Lines	Ray Vanier / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	19-May-59	Unregistered	
	Lot W1/2 9 & E1/2 10 Conc. IV Twp. Merritt Dist. Sudbury	8 Poles 6 Anchors Clearing Rights Distribution Lines	Raymond J. Vanier / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe	20-Apr-60	Unregistered	Parcel 6223 S.W.S & 6083
P228006		Clearing & Cutting Rights Transmission Lines	The Hydro Electric Power Commission of Ontario / Raymond J. Vanier	Red File Folder in Safe	02-Aug-60	Unregistered	Parcels 6223 & 6083 S.W.S,
P399579	Lot 9 & 10 Conc. IV Twp. Merritt Dist. Sudbury	Clearing & Cutting Rights 1 Pad Mounted Transformer Transmission Lines	Norman James Williamson / Ontario Hydro	Red File Folder in Safe	10-Sep-84	Unregistered	Parcel 6550 S.W.S

P399582	Lot S1/2 5 Conc. 4 Twp. Merritt Dist. Sudbury	4 Poles 4 Anchors Clearing & Cutting Rights Transmission Line	Norman James Williamson / Ontario Hydro	Red File Folder in Safe		10-Sep-84	Unregistered	Part of Parcel 6550 S.W.S
P277682	Lot 11 & 12 Conc. IV Twp. Merritt Dist. Sudbury	1 Anchor Occupational Rights Clearing & Cutting Rights Distribution Lines	Viola M. Yocom / The Hydro Electric Power Commission of Ontario	Red File Folder in Safe		01-May-68	Unregistered	
779352 & 779356			Hydro One / Espanola Regional Hydro Distribution Corporation		Transfer of all of above Easements from Ontario Hydro to Espanola Regional Hydro Distribution Corporation	13-Jul-01	Unregistered	
SD 66981		Right of Way Transmission Line	Town of Massey/ Massey Public Utilities Corporation	Easement Massey Ougr Mountain	Parcel 1 Section D-264 Unit 1, Plan D-264 Town of Massey Parcel 49 Section D-264 Unti 49, Plan D- 264 Town of Massey		Unregistered	
269453	Lot 9 Conc. 5 Twp. Merritt Dist. Sudbury	Right of Way to maintain Hydro Lines	Robert Kennedy / Espanola Regional Hydro Distribution Corporation	File Cabinet	Part of Parcel 9722 Sec SWS; Parts 2 & 4 Plan 53R-18157 Plan Sr-2245 Part of Pc. 20548 Plan SR- 2246 Part of Pcl 20549 Plan SR- 2247 Part of Pcl 20548 Plan SR- 2248 Part of Pcl 20549	05-Dec-06	Registered	00881 Second Ave. Espanola
	Town of Espanola Dist. Sudbury	Transfer of Easement	Ontario Housing Corporation / The Bell Telephone Co. of Canada & The Hydro Electric Commission	Bois St. Subdivision File Cabinet		31-Jan-69	Unregistered	

Lot 7 Conc. 5 Town of Espanola Twp. Merritt	Right of Way Transmission Line	Chris Parent / The Hydro Electric Commission of The Town of Espanola	File Cabinet	Plan no. M-177		Unregistered	248 Algoma St. Espanola
Lot 22 Block 23 Town of Espanola Twp. Merritt	Right of Way Transmission Line	Irene Germain Beaudry / The Hydro Electric Commission of The Town of Espanola	Arthur Court Easements	Plan 53M-1256		Unregistered	Block 23 Arthur Court
Lot 21 Block 23 Town of Espanola Twp. Merritt	Right of Way Transmission Line	Carlyle Construction Ltd. & McCulloch Construction (Espanola) Ltd. / The Hydro Electric Commission fo The Town of Espanola	Arthur Court Easements	Plan 53M-1256		Unregistered	Block 23 Arthur Court
Lot 20 Block 23 Town of Espanola Twp. Merritt	Right of Way Transmission Line	Douglas Lorne Collins & Jeannette Noella Bouillon / The Hydro Electric Commission of The Town of Espanola	Arthur Court Easements	Plan 53M-1256		Unregistered	Block 23 Arthur Court
Lot 61 Town of Espanola Twp. Merritt	Right of Way Transmission Line	Maurice, Michel, Marcel Dault / The Hydro Electric Commission of The Town of Espanola	Park St.	Plan no. M77 Parcel 18342	26-Nov-90	Unregistered	102 Park St. Espanola
Lot 190 Conc. 5 Town of Espanola Twp. Merritt	Right of Way 1 Anchor	Ben & Jane Theriault / The Hydro Electric Commission of The Town of Espanola	Bois St.	Parcel 25794	Agreement dated 09Aug1994	Unregistered	406 Bois St. Espanola
South Part of Lot 10 Conc. 5 Town of Espanola Twp. Merritt	Right of Way 1 Anchor Transmission Line	Conrad Laframboise / The Hydro Electric Commission of The Town of Espanola	Easement Conrad Laframboise Barber St.		Agreement date 20May1993	Unregistered	Parcel 6958 Barber St. Espanola
Lot 7 Town of Espanola Twp. Merritt	1 Pole 1 Anchor Cutting & Clearing Rights Transmission Line	B & H 101 Investments Ltd. / The Hydro Electric Commission of The Town of Espanola	B&H Investment Dodge Haulage McCulloch Construction	Plan no. 53R- 7588 Part 1 & 5	Transfer of Easement dated 30August1993	Unregistered	

794291	Part of Lot 15 Town of Espanola Dist. Sudbury Lot 8 Conc. 5 M75-lot25 Town of Espanola Twp. Merritt	Right of Way to Service Transformer	Carlyle Construction Ltd. & McCulloch Construction (Espanola) Ltd. / The Hydro Electric Commission fo The Town of Espanola	Carlyle/McCulloch Subdivision	Parcel 53M-1256-15 Plan 53M-1256 Part 1 on Plan 53R-15055	14-Oct-94	Unregistered	
	Lot 8 Conc. 5 Plan no. M77 Town of Espanola Twp. Merritt	1 Pole Cutting & Clearing Rights Transmission Line	Kelli & Mitchell Dubreuil / The Hydro Electric Commission of The Town of Espanola	Dubreuil		Tsf. & Grant of Easement 18July1995	Unregistered	Parcel 9797 469 Albert St.
	Lot 8 Conc. 5 Plan no. M77 Town of Espanola Twp. Merritt	Electrical Cable Cutting & Clearing Rights Transmission Line	E.B. Eddy Forest Products / The Hydro Electric Commission of The Town of Espanola	E.B. Eddy Easement for Masonic Hall 1992		Tsf. & Grant of Easement 04Nov1992	Unregistered	Parcel 25377C 69 Mead Blvd.
514050	Part of 5th St. Plan M-38 Part 1 Town of Espanola Dist. Sudbury	Right of Way	Fernande Laurin / The Espanola Hydro Electric Power Commission	Fifth St. along CPR Tracks	Enter that part of Fifth St. on Plan M-38 Part 1	07-Jun-82	Unregistered	Plan 53R-9545
	Lot 10 Conc. 10 Town of Espanola Twp. Merritt	Right of Way Transmission Line	David Convery / The Hydro Electric Commission of The Town of Espanola	Giroux Dr.		30-Oct-90	Unregistered	Parcel M1136 - 10 Plan No. M1136 Hong Kong Restaurant Plan no. M74 lot 151-152 Parcel 11282
	Lot 8 Conc. 5 Town of Espanola Twp. Merritt	1 Anchor Right of Way	Yiu Man Yue / the Hydro Electric Commission of The Town of Espanola	Hong Kong Anchor Easement		29-Mar-00	Unregistered	
770635	Part of Lot 15 Plan M-174 Parts 2, 3, & 4 Plan 53R-14561 Town of Espanola Twp. Merritt Dist. Sudbury	Clearing & Cutting rights Transmission Line	Murray McDermid, Vincent McLaughlin, Kenneth Beacock & Harvey Piche / The Hydro Electric Commission of The Town of Espanola	Hwy. #6		31-Aug-93	Unregistered	Parcel 17234 S.W.S Kelly Lumber
770637	Part of Lot 14 Plan M-174	Cutting & Clearing Rights Distribution Lines	366809 Ontario Ltd. / The Hydro Electric Commission of The Town of Espanola	Hwy #6	Part 1 on Plan 53R-14561 "The Strip	12-Aug-93	Unregistered	The Strip

Lot 8 Conc. 5 Plan M-74 Town of Espanola Twp. Merritt	Anchors Right of Way Transmission Line	Dave & Marguerite Krakana / The Hydro Electric Commission of The Town of Espanola	Jacklin Road Easements	Anchor Agreement	05-Jun-96	Unregistered	Parcel 6585 Lot 32
Lot 40 Conc. 5 Plan M-76 Town of Espanola Twp. Merritt	Anchors Right of Way Transmission Line	Doug & Kathy Gervais / The Hydro Electric Commission of The Town of Espanola	Jacklin Road Easements	Anchor Agreement	13-Oct-93	Unregistered	Parcel 9854
Lot 9 Conc. 4 Town of Espanola Twp. Merritt	1 Pole 1 Anchor Clearing & Cutting Rights Transmission Line	Donald & Ruth McIntyre / The Hydro Electric Commission of The Town of Espanola			29-Jun-92	Unregistered	Plan no. 53R-12393 Part 1
Lot 10 Conc. V Plan no. 53R- 13574 Town of Espanola Twp. Merritt	1 Pole 2 Anchors Cutting & Clearing Rights Transmission Line	Fred & Agnes Shreeve / The Hydro Electric Commission of The Town of Espanola	Old Webbwood Rd. Shreeve Property		01-Nov-94	Unregistered	Parcel 18702 Old Webbwood Rd.
Lot 8 Conc. 4 Plan no. 53R- 10959 Town of Espanola Twp. Merritt	1 Pole Right to cut & clear Transmission Line	Laureen Parsons / The Hydro Electric Commission of The Town of Espanola	Ken Champagne Single Phone line from Water Tower		16-Nov-92	Unregistered	Parcel 29 448
Lot 7 Conc. 4 Twp. Merritt Dist. Sudbury	Right of Way Transmission Line	The Corporation of The Town of Espanola, Carlyle Development Corp., John Edgar White, Douglas & Judith Scutt / The Hydro Electric Commission of The Town of Espanola	Clear Lake Dr.	Easement over Parcels 19930, 9913, 2511, 4685 Parts 1,2,3,4,5,6,7,8	27-Sep-99	Unregistered	Clear Lake Dr.
Lot 6 Plan no. M1136 Town of Espanola Twp. Merritt	1 Pole 2 Anchors Cutting & Clearing Rights Transmission Line	Phil Hearn / The Hydro Electric Commission of The Town of Espanola	Clear Lake Dr.	Transfer of Easement	30-Oct-90	Unregistered	431 Clear Lake Dr.
Lot 13 Conc. 5 Plan no. M-63 Town of Espanola Twp. Merritt	1 Anchor Right of Way Transmission Lines	Pat Hobbs / The Hydro Electric Commission of The Town of Espanola	Mead St. Easements	Transfer of Easement	10-May-00	Unregistered	Parcel 20455503 Mead St.

498708	Lot 57 Conc. 5 Plan no. M-74 Part Lot 57 Town of Espanola Twp. Merritt	1 Anchor Right of Way Transmission Lines	Albert & Gladys Cormier / The Hydro Electric Commission of The Town of Espanola	Mead St. Easements	Transfer of Easement	10-May-00	Unregistered	Parcel 6303
	Part of Lots 4 & 5 Plan 53R-9366	Cutting & Clearing Rights Construction of a Utility Line	F & R Properties / Espanola Hydro Electric Commission	F & R Properties Clear Lake	Parts 1 & 2 fo Survey 53R- 9366Transfer of Easement	12-Jun-81	Unregistered	Subdivision M-1136
	Lot 8 Conc. 5 plan M77-lot 123 Town of Espanola Twp. Merritt	1 Pole 1 Anchor Cutting & Clearing Rights Transmission Line	Vincent Patrick Sweeney / The Hydro Electric Commission of The Town of Espanola	Anchor & Easement Agreements	Transfer of Easement	18-Aug-95	Unregistered	Parcel 22320
	North 1/2 Lot 5 Conc. 6 Twp. Merritt	1 Anchor Right of Way Right to Clear & Cut	Leo Tremblay / Espanola Regional Hydro Distribution Corporation	Anchor Agreements	Tree Trimming & Anchor Agreement	25-Feb-02	Unregistered	Parcel 29788 650 Jacklin Rd.
SD245062	Part 66 Conc. 5 Plan no. 53R- 13600 Town of Espanola Twp. Merritt	Anchors Right of Way Transmission Lines	J & R Investments / The Hydro Electric Commission of The Town of Espanola	Part 66 in the 5th Concession Barber 7 Queensway		10-Mar-94	Unregistered	
	Lot 8 Conc. 5 PT 5 53R-18945 Lot 7 Conc. 5 PT 53R-18945 Town of Espanola	Right of Way Right to Cut & Clear Transmission Lines	Bardon Automotive Ltd. / Espanola Regional Hydro Distribution Corporation Ltd.	Hwy . #6 Centre St.	Transfer Easement	08-Feb-13	Registered	350 Centre St. Espanola
SD245061	PL M444 PT 3 Plan 53R-18945 Town of Espanola	Right of Way Right to Cut & Clear Transmission Lines	The Corporation of the Municipality having Jurisdiction (Town of Espanola) / Espanola Regional Hydro Inc.	Hwy . #6 Centre St.	Transfer Easement	08-Feb-13	Registered	100 Tudhope St. Espanola
SD245060	Lot 8 Conc. 5 Merritt PT 2 53R-18645 Espanola	Right of Way Right to Cut & Clear Transmission Lines	Thos. Farquhar sons Co. Ltd. / Espanola Regional Hydro Inc.	Hwy . #6 Centre St.	Transfer Easement	08-Feb-13	Registered	265 Centre St. Espanola

SD245059	Lot 8 Conc. 5 Merritt PT 1 53R-18945 Espanola	Right of Way Right to Cut & Clear Transmission Lines	Thos. Farquhar sons Co. Ltd. / Espanola Regional Hydro Inc.	Hwy . #6 Centre St.	Transfer Easement	08-Feb-13	Registered	265 Centre St. Espanola
SD245063	PT LT 741 PL M444 Merritt PT 4 Plan 53R- 18945 Espanola	Right of Way Right to Cut & Clear Transmission Lines	Flogby Realty Ltd. / Espanola Regional Hydro Inc.	Hwy . #6 Centre St.	Transfer Easement	08-Feb-13	Registered	
	Lot 5 Conc. 6 Plan 53R-13252 Twp. Merritt	Right to cut & clear Transmission Line	Manfred Klepits / Espanola Regional Hydro Distribution Corporation	650 Jacklin Rd.	Tree Trimming Agreement	08-Oct-02	Unregistered	Parcel 6208
	Lot N. 1/2 5 Conc. 6 Twp. Merritt	1 Anchor Right to cut & clear	Leo Tremblay / Espanola Regional Hydro Distribution Corporation	650 Jacklin Rd.	Tree Trimming & Anchor Agreement	25-Feb-02	Unregistered	Parcel 29788 650 Jacklin Rd.
	Lot 5 Conc. 6 Twp. Merritt	2 Anchors Right to cut & clear	Donald Dupuis / Espanola Regional Hydro Distribution Corporation	650 Jacklin Rd.	Tree Trimming & Anchor Agreement	25-Sep-02	Unregistered	Parcel 5672
SD244366	Lot 7 Conc. 4 PT 1 53R18572 Town of Espanola Twp. Merritt	Right of Way Right to Cut & Clear Distribution Line Transmission Lines	Trail Side Sports Ltd. / Espanola Regional Hydro Inc.	Panache Lake Rd.	Transfer Easement	29-Jan-13	Registered	50 McCulloch Dr. Espanola
SD244367	Lot 6 Conc. 4 PT 5 53R-18572 Town of Espanola Twp. Merritt	Right of Way Right to Cut & Clear Distribution Line Transmission Line	O.J. Graphix Inc. / Espanola Regional Hydro Inc.	Panache Lake Rd.	Transfer Easement	29-Jan-13	Registered	
SD185945	Part of Lot 7 Conc. 4 Plan 53R-18572 Town of Espanola Twp. Merritt & Part of Lot 6 Conc. 4 Plan 53R-18572 Town of Espanola Twp. Merritt	Right of Way Right to Cut & Clear Distribution Line Transmission Line	The Corporation of The Town of Espanola / Espanola Regional Hydro Inc.	Panache Lake Rd.	Part 2 & Parts 3 & 4 Transfer of Easement	01-Nov-10	Registered	100 Tudhope St. Suite #2 Espanola

	Part of Lot 490 Plan M-77 Plan 53R-10626 Twp. Merritt Dist. Sudbury	Right of Way Right to Cut & Clear	John Eugene Bednarski / Espanola Hydro Electric Commission	Watson Ave North	Part 2 Transfer of Easement	1987	Unregistered	100 Tudhope St. Espanola
775696	Lot 8 Conc. 5 Town of Espanola Twp. Merritt	Right of Way Transmission Line 3 poles 3 anchors Cutting &	Tim O'Halloran / The Hydro Electric Commission of The Town of Espanola	122 Wilson Cres.	Plan SR 148 Part 1 Anchor Agreement	14-Nov-90	Unregistered	122 Wilson Cres. Espanola
	Lot 10 Conc. 4 Town of Espanola Twp. Merritt	Clearing rights Right of Way Transmission Lines	Robert Secord / The Hydro Electric Commission of The Town of Espanola	Trailer Park Yocum Dr.	Transfer & Grant of Easement	03-Nov-93	Unregistered	Parcel 10363
	Lot 67 Conc. 4 Town of Espanola Twp. Merritt	Transmission Lines	J & R Trailer Park / The Hydro Electric Commission of The Town of Espanola	Trailer Park	Anchor Agreement	11-Sep-91	Unregistered	

SCHEDULE H - INTELLECTUAL PROPERTY

1. Software License and Support Agreement dated December 3, 2009, between N. Harris Computer Corporation and ERHDC.
2. ERHDC procures services on a purchase order basis from the following service providers:
 - a. Util-Assist Inc. (sync operator services)
 - b. Sensus Canada Inc. (metering infrastructure)
 - c. Miramar Design Studio (website hosting and ancillary services)
 - d. Vianet (ongoing internet services).
3. Services Agreement dated July 11, 2016 between PUC Services Inc. and ERHDC.
4. Bell Mobility Corporate Account dated May 6, 2015 between Bell Mobility Inc. and ERHDC.
5. Bell Canada corporate account dated November 22, 2011 between Bell Canada and ERHDC.
6. Copier Rental Services Agreement dated August 12, 2016 between Xerox Canada Ltd and ERHDC.

SCHEDULE I - COLLECTIVE AGREEMENT

Collective Agreement dated January 16, 2017 between ERHDC and the Canadian Union of Public Employees, and its Local 4705 for the period from April 1, 2016 to March 31, 2019.

SCHEDULE J - EMPLOYEE PLANS

The Mearie Group Employee Benefit Plan for ERHDC which provides dental care, extended health care, preferred vision services, long term disability, life insurance, basic life insurance, dependent life insurance and basic accident insurance.

ERHDC pays certain post-employment health and dental benefits on behalf of its retired employees as set forth in Note 10 of the Financial Statements.

SCHEDULE K - MATERIAL CONTRACTS

1. Services Agreement dated July 11, 2016 between PUC Services Inc. and ERHDC.
2. ERHDC procures services on a purchase order basis from the following service providers:
 - a. Anixter Power Solutions Canada Inc. (wire and cable supplies)
 - b. Asplundh Canada ULC (tree trimming services)
 - c. Stella-Jones Inc. (pole supplier)
3. Advanced Metering Infrastructure Sale and Services Agreement dated July 10, 2009 between Sensus Metering Systems Inc. and ERHC.
4. External Audit Services Contract 2016-001 dated September 21, 2016 between Freelandt, Caldwell, Reilly LLP and ERHDC.
5. Third Party Access and Operation Agreement between Hydro One Networks Inc. and Espanola Regional Hydro Distribution Corporation.

SCHEDULE L - FORM OF IN-KIND SERVICES AGREEMENT

This **IN-KIND SERVICES AGREEMENT** made the • day of •, • (the “**Effective Date**”)

BETWEEN:

THE CORPORATION OF THE TOWN OF ESPANOLA
a municipal corporation governed by the laws of Ontario

(“*Espanola*”)

AND

THE CORPORATION OF THE TOWNSHIP OF SABLES-SPANISH RIVERS
a municipal corporation governed by the laws of Ontario

(“*Sables-Spanish*”)

AND

ESPANOLA REGIONAL HYDRO DISTRIBUTION CORPORATION
a corporation governed by the laws of Ontario

(“*ERHDC*”)

RECITALS

- A. Reference is made to a securities purchase agreement dated October 12, 2018 between Espanola and Sables-Spanish (individually a “**Municipality**” and together, the “**Municipalities**”), North Bay (Espanola) Acquisition Inc. (the “**Purchaser**”) and North Bay Hydro Holdings Ltd. (the “**SPA**”).
- B. It is a condition of the SPA that the Municipalities and ERHDC enter into an agreement in respect of the community in-kind services to be provided by ERHDC and each party to this Agreement desires to enter into such arrangement.
- C. The Municipalities and ERHDC intend that this Agreement will constitute an agreement in writing between a corporation and a municipality for services to be carried on within the geographical boundaries of the applicable municipality for the purposes of paragraph 149(1.2)(a) of the *Income Tax Act* (Canada) (“**Tax Act**”).

IN CONSIDERATION of the mutual covenants and agreements contained in this Agreement and for other good and valuable consideration (the receipt and adequacy of which are acknowledged), the parties agree as follows:

1 **Representations of the Municipalities**

Each Municipality represents and warrants to ERHDC as follows: (a) each Municipality is a municipality in Canada pursuant to paragraph 149(1)(c) of the Tax Act; and (b) the activities described in Section 2 are or will be carried out within the geographical boundaries of each Municipality.

2 **Participation in Community Events and Programs**

For a period of seven (7) years following the Effective Date and subject to Section 3 below, ERHDC will use commercially reasonable efforts to provide community assistance to the Municipalities and their respective communities by carrying out such initiatives, all without charge to each Municipality, as listed in Schedule A.

3 **Non-Applicability to Services Outside Geographical Boundaries**

The Municipalities and ERHDC agree that ERHDC will not be obliged to carry out any of the activities described in Section 2 if such activities would have to be carried out by ERHDC outside the geographical boundaries of each Municipality.

4 **Governing Law**

This Agreement is entered into under, and will be governed and construed in accordance with, the laws of the Province of Ontario and the laws of Canada applicable therein.

5 **Successors and Assigns**

This Agreement is binding on, and enures to the benefit of the parties and their respective heirs, administrators, executors, successors and permitted assigns.

6 **Electronic Execution**

Delivery of an executed signature page to this Agreement by any party by electronic transmission will be as effective as delivery of a manually executed copy of the Agreement by such Party.

7 **Counterparts**

This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original, and all of which taken together will be deemed to constitute one and the same instrument.

[Signature page follows.]

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the day and year first above written.

THE CORPORATION OF THE TOWN OF ESPANOLA

By: _____

Name: ●

Title: ●

By: _____

Name: ●

Title: ●

THE CORPORATION OF THE TOWNSHIP OF SABLES-SPANISH RIVERS

By: _____

Name: ●

Title: ●

By: _____

Name: ●

Title: ●

ESPANOLA REGIONAL HYDRO DISTRIBUTION CORPORATION

By: _____

Name: ●

Title: ●

By: _____

Name: ●

Title: ●

SCHEDULE A – PARTICIPATION IN COMMUNITY EVENTS AND PROGRAMS

- Massey Agricultural Fall Fair;
- Espanola Fall Pumpkin and Fiber Arts Festival;
- Canada Day festivities;
- Elementary school presentations at schools regarding electricity safety; and
- Giant Outdoor Film Night which requires ERHDC only to close public lighting in the specific area of the event to permit outdoor film viewing.
- The execution of Temporary Item Work (as such term is defined in the Joint Use Agreement For Power Utility Distribution Poles dated ●, 201● between Espanola, Sables-Spanish and ERHDC (the “**Joint Use Agreement**”)) pursuant to section 5.2 of the Joint Use Agreement.

SCHEDULE M – FORM OF JOINT USE AGREEMENT

This **JOINT USE AGREEMENT FOR POWER UTILITY DISTRIBUTION POLES** made the ● day of ●, ● (the “**Effective Date**”).

BETWEEN:

THE CORPORATION OF THE TOWN OF ESPANOLA
a municipal corporation governed by the laws of Ontario

(“**Espanola**”)

AND

THE CORPORATION OF THE TOWNSHIP OF SABLES-SPANISH RIVERS
a municipal corporation governed by the laws of Ontario

(“**Sables-Spanish**”)

AND

ESPANOLA REGIONAL HYDRO DISTRIBUTION CORPORATION
a corporation governed by the laws of Ontario

(“**ERHDC**”)

RECITALS:

- D. Espanola, Sables-Spanish (collectively, the “**Licensees**”), North Bay (Espanola) Acquisition Inc. (the “**Purchaser**”) and North Bay Hydro Holdings Ltd., entered into a Securities Purchase Agreement dated October 12, 2018 (the “**SPA**”), wherein, among other things, the Purchaser acquired all of the issued and outstanding shares in the capital of Espanola Regional Hydro Holdings Corporation (“**ERHHC**”).
- E. ERHHC owns all of the issued and outstanding shares in the capital of ERHDC, a local distribution company incorporated under the *Business Corporations Act* (Ontario) that distributes electricity within the Service Area.
- F. Pursuant to the terms of the SPA, Espanola, Sables-Spanish and the Purchaser agreed that ERHDC and the Licensees would enter into this Agreement on Closing (as defined in the SPA) in connection with the Attachments to the hydro poles owned by ERHDC.

NOW THEREFORE, THIS AGREEMENT WITNESSES THAT in consideration of the respective covenants, agreements, representations and warranties of the Parties herein contained and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged by each Party, the Parties covenant and agree as follows:

ARTICLE 1 INTERPRETATION

Section 1.1 Defined Terms. In this Agreement, including the recitals, the following terms shall have the respective meanings specified or referred to below and grammatical variations of such terms shall have corresponding meanings:

- (a) “**Agreement**” means this joint use agreement for power utility distribution poles, as amended, supplemented, restated and replaced from time to time in accordance with its provisions.
- (b) “**Applicable Law**” means any and all applicable laws in the Province of Ontario and the laws of Canada applicable in that province, including Environmental Laws, common law, statutes, codes, licensing requirements, directives, rules, regulations, protocols, policies, by laws, guidelines, orders, injunctions, rulings, awards, judgments, decrees or any requirement or decision or agreement with or by any Government Authority.
- (c) “**Applying Licensee**” has the meaning attributed to that term in Section 4.1.
- (d) “**Attachments**” means any assets or equipment owned or leased by the Licensees and attached to, either by being carried on or supported by, the Joint Use Poles, as of the date of this Agreement or in the future, including, without limitation:
 - (i) mast arms, luminaires, supply conductors, relays and other equipment required to operate a street lighting system;
 - (ii) traffic signals, power and control cables, junction and splice boxes and any other equipment and/or devices normally required for the operation of traffic signals;
 - (iii) traffic signs;
 - (iv) decorative lighting;
 - (v) flower pots;
 - (vi) Temporary Items; and
 - (vii) telecommunications equipment, if any.
- (e) “**Damages**” means any loss, liability, damage or expense (including reasonable legal fees, accountants’, investigators’, engineers’ and consultants’ fees and expenses, interest, penalties and amounts paid in settlements), whether resulting from any action, suit, proceeding, arbitration, claim or demand that is instituted or asserted by a third party, or any cause, matter, thing, act or omission or state of facts not involving a third party, but excluding any incidental, indirect, special or consequential loss, liability or damage and loss of profits other than damages of a third party in respect of a third party claim.

- (f) “**Effective Date**” has the meaning set forth above.
- (g) “**Electrical Safety Authority**” means the electrical safety authority designated by the Province of Ontario pursuant to the regulations to the *Electricity Act, 1998* (Ontario) or any similar or successor Governmental Authority.
- (h) “**Environment**” means the environment or natural environment as defined in any Environmental Law and includes air, surface water, ground water, land surface, soil, sub surface strata and sewer system.
- (i) “**Environmental Laws**” means all Applicable Law relating to (i) the protection of the Environment; and (ii) the manufacture, processing, distribution, use, treatment, storage, disposal, discharge, transportation or handling of Hazardous Substances, including those pertaining to occupational health and safety.
- (j) “**ERHHC**” has the meaning attributed to that term in Recital A.
- (k) “**Existing Attachments**” means all Attachments affixed to Joint Use Poles within the Service Area prior to the date of this Agreement.
- (l) “**Future Attachments**” means all Attachments to be affixed to Joint Use Poles within the Service Area, that a Licensee applies for a Permit pursuant to Section 4.1.
- (m) “**Good Utility Practice**” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry in the Province of Ontario during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgement in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition.
- (n) “**Governmental Authority**” means any domestic government, whether federal, provincial, territorial, local, regional, municipal, or other political jurisdiction, and any agency, authority, instrumentality, court, tribunal, board, commission, bureau, arbitrator, arbitration tribunal or other tribunal, or any quasi-governmental or other entity, insofar as it exercises a legislative, judicial, regulatory, administrative, expropriation or taxing power or function of or pertaining to government.
- (o) “**Hazardous Substances**” means any hazardous substance or any pollutant or contaminant, toxic or dangerous waste, substance, or material as defined in or regulated by any Environmental Law including, without limitation, friable asbestos and poly chlorinated biphenyls.
- (p) “**In-Span**” means a position between Joint Use Poles or a Joint Use Pole and another object.
- (q) “**Joint Use Pole(s)**” means a Pole in respect of which ERHDC has granted the Licensees a Permit to affix its Attachments pursuant to Section 2.1 hereof.

- (r) “**Licenseses**” has the meaning attributed to that term in Recital A.
- (s) “**Make-ready Work**” means work that is necessary and required solely for the purpose of directly accommodating the Attachment(s) that the Licensees wishes to attach to Joint Use Poles and includes, but is not limited to, initial line clearing, any changes or additions to or rearrangement of ERHDC’ poles or ERHDC’ attachments. Without restricting the generality of the foregoing, Make-ready Work does not include the replacement of defective poles, or previously scheduled betterment programs initiated by ERHDC.
- (t) “**OEB**” means the Ontario Energy Board and its successors.
- (u) “**OEB Tariffs**” has the meaning attributed to that term in Section 5.1.
- (v) “**Party**” means Espanola, Sables-Spanish or ERHDC, as the case may be, and “**Parties**” means Espanola, Sables-Spanish and ERHDC collectively.
- (w) “**Permit**” means the permission granted by ERHDC to the Licensees to affix its Attachments, as specified in the Permit, to Joint Use Poles or In-Span.
- (x) “**Pole**” means any hydro pole owned by ERHDC or its Affiliates within the Service Area.
- (y) “**Pole Rental Rate**” means the annual fee payable by the Licensees to ERHDC pursuant to the terms of this Licence.
- (z) “**Post-Termination Period**” has the meaning attributed to that term in Section 3.4.
- (aa) “**Purchaser**” has the meaning attributed to that term in Recital A.
- (bb) “**Service Area**” means the service territory of the Town of Espanola and the Township of Sables-Spanish Rivers in the Province of Ontario.
- (cc) “**SPA**” has the meaning attributed to that term in Recital A.
- (dd) “**Temporary Item Work**” means work that is required to attach and remove Temporary Items to Joint Use Poles but excludes all Make-ready Work.
- (ee) “**Temporary Items**” means event lighting, standards or banners and seasonal decorations.
- (ff) “**Term**” has the meaning attributed to that term in Section 3.1.
- (gg) “**Transfer**” means the removal of Attachment(s) from one Joint Use Pole and placing the same Attachment(s) and such incidental materials as may be required on another Joint Use Pole.

Section 1.2 Computation of Time. In this Agreement, unless specified otherwise or the context otherwise requires:

- (a) a reference to a period of days is deemed to begin on the first day after the event that started the period and to end at 5:00 p.m. on the last day of the period, but if the last day of the period does not fall on a Business Day (as defined in the SPA), the period ends at 5:00 p.m. on the next succeeding Business Day;
- (b) all references to specific dates mean 11:59 p.m. on the dates;
- (c) all references to specific times are references to Toronto time; and
- (d) with respect to the calculation of any period of time, references to “from” mean “from and excluding” and references to “to” or “until” mean “to and including”.

Section 1.3 Performance on Business Days. If any action is required to be taken pursuant to this Agreement on or by a specified date that is not a Business Day, the action is valid if taken on or by the next succeeding Business Day.

Section 1.4 Calculation of Interest. In calculating interest payable under this Agreement for any period of time, the first day of the period is included and the last day is excluded.

ARTICLE 2 GRANT OF LICENCE

Section 2.1 License. ERHDC hereby grants to the Licensees for the duration of the Term, the right to affix and maintain Attachments to Joint Use Poles within the Service Area as designated on one or more Permits. For certainty, all Existing Attachments are hereby deemed to be ratified and approved by ERHDC and will not require the issuance of any Permit.

ARTICLE 3 TERM AND TERMINATION

Section 3.1 Term. The term of this Agreement commences upon the Effective Date and will end twenty (20) years after the Effective Date, unless this Agreement is terminated prior to the expiration of the Term in accordance with Section 3.2 or Section 3.3.

Section 3.2 Termination by ERHDC.

- (a) ERHDC shall be entitled to terminate any Permit issued under this Agreement upon ninety (90) days written notice to the applicable Licensee to which such Permit was issued, where such Licensee fails to maintain its Attachments and keep its Attachments in a safe condition in accordance with Section 5.1, Good Utility Practice and Applicable Law.
- (b) ERHDC shall be entitled to terminate this Agreement with respect to a Licensee, if such Licensee fails to pay any undisputed amount(s) due and owing to ERHDC under this Agreement, provided that the applicable Licensee shall have been given written notice of such failure to pay or to comply and: (i) a period of ninety (90) calendar days within which to cure

or commence action to cure such failure to pay or to comply, as applicable; or (ii) such other reasonable period of time if the default is of such a nature that it cannot be cured within ninety (90) calendar days, provided the Licensee is making diligent attempts to remedy the default.

- (c) Notwithstanding any other provision to the contrary, a Permit shall not be terminated due to Joint Use Poles being replaced in accordance with Section 5.2.

Section 3.3 Termination by Licensees. The Licensees shall be entitled to terminate this Agreement and/or any Permit issued under this Agreement upon ninety (90) calendar days' written notice to ERHDC.

Section 3.4 Removal of Attachments Upon Termination. In the event of termination of this Agreement the Licensees shall, at its expense, remove its Attachments from the applicable Joint Use Poles within five (5) years or such additional period as the parties may agree upon the effective date of termination of this Agreement (the "**Post-Termination Period**"); provided; however, that the Licensees shall continue to maintain its Attachments during the Post-Termination Period in accordance with the terms of this Agreement. In the event of the termination of a Permit, the Licensees shall, at their expense, remove the Attachments from the applicable Joint Use Poles: (i) within the time period specified for removal in such Permit; or (ii) within two (2) years from the date of termination of the applicable Permit if no time period is specified in such Permit for the removal of the applicable Attachments; provided that in each case the Licensees shall continue to maintain their Attachments during the Post-Termination Period in accordance with the terms of this Agreement. If the Licensees fail to complete the required removal, ERHDC will complete this work and the Licensees will reimburse ERHDC for its costs to do so.

ARTICLE 4 PERMITS

Section 4.1 Permitting Process. A Licensee will inform ERHDC that it intends to seek permission to Affix and maintain an Attachment to a Joint Use Pole or In-span prior to making a formal application for a Permit pursuant to this Article 4 (an "**Applying Licensee**"). The Applying Licensee will deliver such preliminary information as may be reasonably requested by ERHDC. ERHDC may arrange for a joint field visit by ERHDC and the Applying Licensee for which a formal application has been submitted, to inspect the site of the proposed affixing of Attachments by the Licensee. The Applying Licensee shall also be entitled to require that ERHDC arrange and attend such joint field visit. Subsequent to the joint field visit, if any, ERHDC shall inform the Applying Licensee, as to the feasibility of the proposed affixing of the Attachments by the Licensee, which opinion shall be communicated to the Licensee within a reasonable period of time. ERHDC will prepare an estimate of the costs of any Make-ready Work and deliver such estimate to the Licensee together with its preliminary opinion. In making its determination, ERHDC may base its opinion and conclusions on the following requirements: (i) health and safety of the personnel required to install an Attachment; (ii) the potential material degradation to the operation and maintenance of the applicable Pole(s) for which the Applying Licensee has made a formal application for a Permit; and (iii) material compliance with Applicable Law. If ERHDC informs the Licensees that proposed affixing of the

Attachments by the Licensee is not feasible on any one or more of the foregoing grounds such decision will be final and binding upon the Parties.

Section 4.2 Permit Issuance. If the Licensees accepts the estimate delivered to it pursuant to Section 4.1, the Permit, in duplicate, shall be prepared, executed and delivered by ERHDC to the Applying Licensee. The Applying Licensee will deliver an executed copy of the Permit together with copies of all drawings, plans or designs in respect of the Attachments that are subject to the Permit, certified or otherwise, and where required by Applicable Law the Applying Licensee will include certificate of approval of the drawings by the Electrical Safety Authority. If a Permit is cancelled by the Applying Licensee, the Applying Licensee shall reimburse ERHDC for the cost of any Make-ready Work completed on the Licensee's behalf upon receiving the invoice for such Make-ready Work. ERHDC will not unreasonably withhold or delay any Permit nor will any Permit be subject to any additional terms, conditions and/or qualifications other than the terms, additional terms, conditions and/or qualifications required by this Agreement.

Section 4.3 Effect of Issuance and Expiration of Permit. Each Permit, once issued pursuant to Section 4.2 shall be deemed to have been issued pursuant to this Agreement, and shall be read and construed in accordance with this Agreement. Upon expiration of a Permit, ERHDC shall remove the Attachments from the applicable Joint Use Poles within the time period set forth in Section 3.4.

Section 4.4 Easements. The Licensees shall be responsible for obtaining any and all easements, rights of way, authorizations or permissions from other persons, including required authorizations or permissions to locate on private property, municipal or provincial road allowances, or any other applicable authorization or required permission required for private property or from Governmental Authority having jurisdiction with respect to the affixing and maintaining of the Attachments provided for in a Permit.

ARTICLE 5 FEES AND INVOICES

Section 5.1 Fees. The one-time fee for all Existing Attachments and all additional Attachments is an aggregate amount of \$10, the receipt of which is hereby acknowledged by ERHDC. Notwithstanding the foregoing, at any time during the Term, ERHDC will be permitted to charge the Licensees additional costs, fees, expenses, pole attachment charges, pole tariffs or rental rates pursuant to:

- (a) any applicable rate order issued by the OEB after the Effective Date (the "**OEB Tariffs**");
- (b) any tariff imposed by ERDHC or its successor after the Effective Date provided that corresponding tariffs are imposed by North Bay Hydro Distribution Limited within the service territory of the City of North Bay at such time ("**Utility Tariffs**") provided; however, that ERDHC will not apply to the OEB for the approval of a separate Utility Tariff that applies solely in respect of the Service Area at any time prior to the harmonization of rates for the customers within the Service Area and the customers within the service territory of the City of North Bay in accordance with section 7.9 of the SPA;

- (c) the costs and expenses of any Make-ready Work pursuant to Section 4.1; and
- (d) the costs and expenses of any Temporary Item Work above the amount set forth in **Error! Reference source not found.**

Section 5.2 Temporary Item Work. ERHDC will not charge the costs and expenses it incurs in connection with the performance of any Temporary Item Work for and behalf of either one or both of the Licensees provided that the costs and expenses of such Temporary Item Work do not exceed \$2,500 per work request from the Licensee. For clarity, the Licensees may perform any Temporary Item Work directly at their own risk, subject to the terms of this Agreement.

Section 5.3 Invoices. Payment of amounts owing for OEB Tariffs, Utility Tariffs, the costs and expenses of any Make-ready Work pursuant to Section 4.1 and any Temporary Item Work in excess of \$2,500 and not disputed by the Licensees to ERHDC will be made within thirty (30) days of receipt of the invoice by the Licensees from ERHDC. Payments will be made to an account specified by ERHDC in writing. A Licensee may issue a dispute notice to ERHDC if a Licensee disputes the amount of the OEB Tariffs, Utility Tariffs, the costs and expenses of any Make-ready Work pursuant to Section 4.1 and any Temporary Item Work in excess of \$2,500 payable to ERHDC; otherwise the Licensees will pay all amounts hereunder that are not in dispute.

ARTICLE 6 INDEMNIFICATION AND LIMITATION OF LIABILITY

Section 6.1 Indemnification. Each Licensee shall indemnify and save harmless ERHDC from and against (i) all Damages caused by or resulting from the acts, omissions, wilful acts, default or gross negligence of such Licensee, its agents, contractors, invitees, or a Licensee with respect to the performance of its obligations under this Agreement other than to the extent such Damages result from the acts, omissions, wilful acts, default, or negligence of ERHDC, its agents, contractors, invitees, licensees or other persons for whom ERHDC is responsible, and (ii) all Damages to Joint Use Poles caused by the Attachments. The indemnity of the Licensees in this Section 6.1 shall apply only to such Licensee for which items (i) and/or (ii) in this Section 6.1 pertain and the indemnity is joint and not joint and several.

Section 6.2 Limitation of Liability. Licensees shall not be liable for any indirect, incidental, special, consequential or punitive damages of any kind arising out of or in connection with this Agreement.

Section 6.3 Insurance. ERHDC shall obtain and maintain in full force and effect during the Term with respect to the Joint Use Poles insurance against such occurrences and in such amounts, on such terms and with such deductible(s) as required by Applicable Law and as would a prudent owner of Joint Use Poles in accordance with Good Utility Practice. Licensees shall obtain and maintain in full force and effect during the Term with respect to the Attachments insurance against such occurrences and in such amounts, on such terms and with such deductible(s) as would be in place with similar municipalities located in the Province of Ontario.

ARTICLE 7
GENERAL PROVISIONS

Section 7.1 Notices.

(a) Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be delivered in person, transmitted by telecopy or sent by registered mail, charges prepaid, addressed as follows:

(i) if to the Licensees: in the case of a notice to Espanola addressed to it at 100 Tudhope Street, Suite 3, Espanola, Ontario P5E 1S6, e- mail: ctownsend@espanola.ca;

in the case of a notice to Sables-Spanish addressed to it at 11 Birch Lake Road, Massey, Ontario P0P 1P0, e-mail: kasloss@sables-spanish.ca

(ii) if to ERHDC: c/o 74 Commerce Crescent, North Bay, Ontario P1A 0B4, e-mail:
mpayne@northbayhydro.com

(b) Any such notice or other communication shall be deemed to have been given and received on the day on which it was delivered or transmitted (or, if such day is not a Business Day, on the next following Business Day) or, if mailed, on the third Business Day following the date of mailing; provided, however, that if at the time of mailing or within three Business Days thereafter there is or occurs a labour dispute or other event that might reasonably be expected to disrupt the delivery of documents by mail, any notice or other communication hereunder shall be delivered or transmitted by telecopy as aforesaid.

(c) Either Party may at any time change its address for service from time to time by giving notice to the other parties in accordance with this Section 7.1.

Section 7.2 Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original and all of which taken together shall constitute one and the same instrument.

Section 7.3 Assignment. No Party may assign or transfer, whether absolutely, by way of security or otherwise, all or any part of its rights or obligations under this Agreement to any Person without the prior written consent of the other Party, which consent may be not be unreasonably withheld or delayed.

Section 7.4 Successors. This Agreement is binding on, and enures to the benefit of, the Parties and their respective successors.

Section 7.5 Governing Law. This Agreement is governed by, and interpreted and enforced in accordance with, the laws of the Province of Ontario and the laws of Canada applicable in that province, excluding the choice of law rules of that province.

Section 7.6 Waiver of Rights. Any waiver of, or consent to depart from, the requirements of any provision of this Agreement is effective only if it is in writing and signed by the Party giving it, and only in the specific instance and for the specific purpose for which it has been given. No failure on the part of any Party to exercise, and no delay in exercising, any right under this Agreement operates as a waiver of that right. No single or partial exercise of any such right precludes any other or further exercise of that right or the exercise of any other right.

Section 7.7 No Third Party Beneficiary. This Agreement is solely for the benefit of the Parties and no third party accrues any benefit, claim or right of any kind pursuant to, under, by or through this Agreement.

Section 7.8 Force Majeure. Neither Party shall be in breach of the performance of this Agreement by reason of the happening of an event that is beyond the reasonable control of that party, provided that that Party shall have taken all reasonable steps to perform its obligations.

Section 7.9 Entire Agreement. This Agreement shall constitute the entire Agreement between the Parties with respect to the matters addressed herein, and there is no representation, warranty, collateral agreement or condition affecting this other than as is expressed herein in writing. This Agreement shall be read with all changes of gender and number required by the context.

Section 7.10 Planning Act. This Agreement shall be effective to create an interest in the lands only if the subdivision control provisions of the *Planning Act* (Ontario) are complied with on or before completion. The land or any use of or right therein is being acquired for the purpose of an electricity distribution line, electricity transmission line or hydrocarbon line within the meaning of Part VI of the *Ontario Energy Board Act, 1998*.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first noted above.

THE CORPORATION OF THE TOWN OF ESPANOLA

By: _____
Name: ●
Title: ●

By: _____
Name: ●
Title: ●

THE CORPORATION OF THE TOWNSHIP OF SABLES-SPANISH RIVERS

By: _____
Name: ●
Title: ●

By: _____
Name: ●
Title: ●

ESPANOLA REGIONAL HYDRO DISTRIBUTION CORPORATION

By: _____
Name: ●
Title: ●

By: _____
Name: ●
Title: ●

SCHEDULE N - FORM OF RIGHT OF FIRST OFFER AGREEMENT

This **RIGHT OF FIRST OFFER AGREEMENT** (the *Agreement*) dated ●, 201● between **ESPANOLA REGIONAL HYDRO DISTRIBUTION CORPORATION** (the *Vendor*) and **THE CORPORATION OF THE TOWN OF ESPANOLA** (the *Purchaser*).

WHEREAS, the Vendor is the owner of the lands and premises municipally known as 598 Second Avenue, Espanola, Ontario, legally described in Schedule A attached hereto (the *Property*); and

WHEREAS, the Vendor has agreed to grant the Purchaser the right of first offer to purchase the Property upon the terms and provisions hereinafter set out.

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the payment of the sum of Ten (\$10.00) Dollars of lawful money of Canada by the Purchaser to the Vendor and other good and valuable consideration (the receipt and sufficiency whereof are hereby acknowledged by the Vendor), the parties hereto agree one with the other as follows:

- 1 The Vendor hereby grants to the Purchaser a right of first offer to purchase the whole of the Property (the *First Right*), on the terms and conditions set out in this Agreement.
- 2 The Vendor covenants and agrees that it shall not market the Property in any manner or accept any offer to purchase, whether or not on a conditional basis, in respect of the Property without first having offered to sell the Property to the Purchaser pursuant to the First Right, on the terms herein set out herein.
- 3 Upon the Vendor determining, in its sole discretion, to sell the Property, the Vendor shall, subject to Sections **Error! Reference source not found.**, deliver a notice in writing to the Purchaser (the *First Right Notice*) offering to sell the Property to the Purchaser.
- 4 The First Right Notice shall include a form of offer to purchase / agreement of purchase and sale (the "**Offer**") which shall contain all of the required terms and conditions relating to the Property, including, without limiting the generality of the foregoing:
 - 4.1 the purchase price of the Property (the "**Purchase Price**");
 - 4.2 a deposit equal to 10% of the Purchase Price payable within five (5) business days of the acceptance of Offer by the Vendor;
 - 4.3 a due diligence condition (the "**Due Diligence Condition**") that shall run for a period of thirty (30) days from the acceptance date of the Offer by the Vendor (the "**Due Diligence Period**"),

to permit the Purchaser to complete such required due diligence matters as is customary for transactions of purchase and sale of a Property in the Province of Ontario;

- 4.4 a covenant by the Vendor to deliver all studies, reports, documents, studies, plans, agreements, or other materials in its possession or control to the Purchaser within two (2) days of the acceptance date of the Offer by the Vendor;
 - 4.5 a closing date which shall be thirty (30) days following the waiver and/or satisfaction of the Due Diligence Condition;
 - 4.6 standard representations and warranties by each of the Vendor and Purchaser, it being agreed that save and except for environmental representations and warranties, that the Purchaser shall be acquiring the Property on an as is, where is basis; and
 - 4.7 such other terms and conditions that the Vendor may reasonably require.
- 5 The Purchaser shall have the right to exercise its First Right by delivery to the Vendor within sixty (60) calendar days following receipt of such valid First Right Notice, of an executed offer to purchase and required deposit in accordance with the requirements of the First Right Notice, which the Vendor shall be obligated to execute and accept upon receipt. The Purchaser may, during such sixty (60) calendar day period, cause the preparation of a property appraisal report by a provincially recognized property evaluation company at the Purchaser's sole cost and expense solely for its own use.
- 6 If the Purchaser declines to exercise its First Right to purchase the Property, the Vendor shall thereafter have the right to offer to sell the Property and sell the Property, as may be applicable, to any party on terms and conditions satisfactory to the Vendor as the Vendor may determine in its sole and absolute discretion without need for further notice to the Purchaser.
- 7 If the Purchaser exercises its First Right to purchase the Property, but the transaction fails to close for any reason save and except by reason of default of the Vendor, then the Vendor shall thereafter have the right to offer to sell the Property and sell the Property, as may be applicable, to any party on terms and conditions satisfactory to the Vendor as the Vendor may determine in its sole and absolute discretion without need for further notice to the Purchaser.
- 8 The address for delivery of any notice to:
- 8.1 the Purchaser shall be: The Corporation of the Town of Espanola, 100 Tudhope Street, Suite 2, Espanola, Ontario P5E 1S6 Attention: Cynthia Townsend, Chief Administrative Officer, or such other address as the Purchaser shall have advised the Vendor in writing; and
 - 8.2 the Vendor shall be: Espanola Regional Hydro Distribution Corporation c/o North Bay Hydro Distribution Limited, 74 Commerce Crescent, North Bay, Ontario P1A 0B4 Attention:

Matthew Payne, President and CEO, or such other address as the Vendor shall have advised the Purchaser in writing.

Any notice or other communication required or permitted to be given or made under this Agreement must be in writing and is sufficiently given or made if sent by prepaid courier service. Any notice sent in accordance with this Section, shall be deemed to have been received if delivered prior to or during normal business hours on a business day in the place where the notice is received, on the date of delivery.

- 9 This Agreement shall terminate on the 20th anniversary date of this Agreement.
- 10 Notice of this Agreement may be registered on title to the Property at the Purchaser's election and at the Purchaser's sole cost and expense, and the Vendor shall execute any documents required to complete such registration on title to the Property. Upon expiration of the First Right, the Purchaser shall forthwith discharge from title to the Property any notice of this Agreement, failing which the Vendor shall have the right to do so at the Purchaser's sole cost and expense.
- 11 This Agreement is subject to compliance by the Vendor with the provisions of the Planning Act of Ontario.
- 12 This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.
- 13 If any provision of this Agreement or its application to any party or circumstance is restricted, prohibited or unenforceable, that provision will, be ineffective only to the extent of that restriction, prohibition or unenforceability without invalidating the remaining provisions of this Agreement.
- 14 This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together constitute one agreement.

[Remainder of page left intentionally blank. Signature page follows.]

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first written above.

THE CORPORATION OF THE TOWN OF ESPANOLA

Per: _____
Name: ●
Title: ●

Per: _____
Name: ●
Title: ●

I / We have authority to bind the corporation.

ESPANOLA REGIONAL HYDRO DISTRIBUTION CORPORATION

Per: _____
Name: ●
Title: ●

Per: _____
Name: ●
Title: ●

I / We have authority to bind the corporation.

SCHEDULE A - LEGAL DESCRIPTION OF PROPERTY

PIN 73409-1137(LT)

PCL 31609 SEC SWS; PT BLK A PL M883 Merritt designated as Part 1, Plan 53R-17449; TW PT 2, 53R17449 AS IN LT966421; ESPANOLA

PIN 73409-0965

PCL 17836 SEC SWS; PT MASON AV PL M77 MERRITT (CLOSED); SECONDLY: PT LT 311 PL M77 MERRITT; THIRDLY: PT PUBLIC LANE PL M77 MERRITT (CLOSED); FOURTHLY: PT LT 312 PL M77 MERRITT AS IN LT183874; TW PT 2 53R17449 AS IN LT966421; ESPANOLA

SCHEDULE O - FINANCIAL STATEMENTS

**ESPANOLA REGIONAL HYDRO
HOLDINGS CORPORATION**

**Financial Statements
(unaudited – see notice to reader)**

Year Ended December 31, 2016

NOTICE TO READER

On the basis of information provided by management, we have compiled the non-consolidated balance sheet of **ESPANOLA REGIONAL HYDRO HOLDINGS CORPORATION** as at **December 31, 2016**.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

Freelandt Caldwell Reilly LLP

FREELANDT CALDWELL REILLY LLP

Chartered Professional Accountants
Licensed Public Accountants

Sudbury, Ontario
April 4, 2017

ESPANOLA REGIONAL HYDRO HOLDINGS CORPORATION

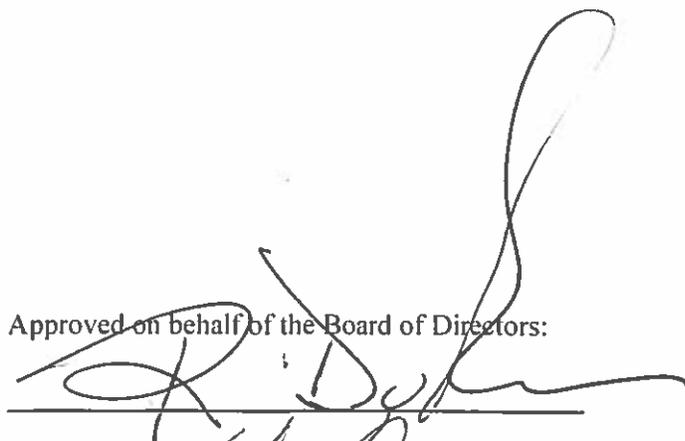
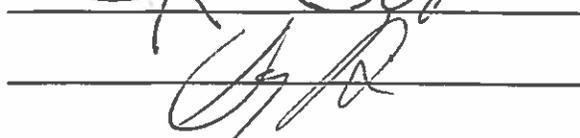
Non-Consolidated Balance Sheet

December 31, 2016 with comparative figures for 2015

(unaudited – see notice to reader)

	2016	2015
	\$	\$
Assets		
Investment - Espanola Regional Hydro Services Corporation	1,000	1,000
Investment - Espanola Regional Hydro Distribution Corporation	1,000	1,000
	<u>2,000</u>	<u>2,000</u>
Liabilities and Shareholders' Equity		
Advances from Espanola Regional Hydro Services Corporation	1,000	1,000
Shareholders' equity		
Capital stock	1,000	1,000
	<u>2,000</u>	<u>2,000</u>

Approved on behalf of the Board of Directors:

**ESPANOLA REGIONAL HYDRO
SERVICES CORPORATION**

**Financial Statements
(unaudited – see notice to reader)**

Year ended December 31, 2016



NOTICE TO READER

On the basis of information provided by management, we have compiled the balance sheet of **ESPANOLA REGIONAL HYDRO SERVICES CORPORATION** as at December 31, 2016, and the statement of operations and deficit for the year then ended.

We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, we express no assurance thereon.

Readers are cautioned that these statements may not be appropriate for their purposes.

Freelandt Caldwell Reilly LLP

FREELANDT CALDWELL REILLY LLP

Chartered Professional Accountants
Licensed Public Accountants

Sudbury, Ontario
April 4, 2017

ESPANOLA REGIONAL HYDRO SERVICES CORPORATION

Balance Sheet

December 31, 2016 with comparative figures for 2015

(unaudited – see notice to reader)

	2016	2015
	\$	\$
Assets		
Advances to Espanola Regional Hydro Holdings Corporation	1,000	1,000
	1,000	1,000
Liabilities and Shareholder's Equity		
Advances from shareholders	294,568	294,568
Shareholder's equity		
Deficit	(294,568)	(294,568)
Capital stock	1,000	1,000
	(293,568)	(293,568)
	1,000	1,000

Approved on behalf of the Board of Directors:

ESPANOLA REGIONAL HYDRO SERVICES CORPORATION

Statement of Operations and Deficit

December 31, 2016 with comparative figures for 2015

(unaudited – see notice to reader)

	2016	2015
	\$	\$
Revenue	-	-
Expenses	-	-
Net earnings	-	-
Deficit, beginning of year	(294,568)	(294,568)
Deficit, end of year	(294,568)	(294,568)

Espanola Regional Hydro Distribution Corporation

Financial Statements

Year ended December 31, 2016



INDEPENDENT AUDITOR'S REPORT

To: The Shareholders of
Espanola Regional Hydro Distribution Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of **Espanola Regional Hydro Distribution Corporation**, which comprise the statement of financial position as at **December 31, 2016**, and the and the statements of comprehensive earnings, retained earnings and accumulated other comprehensive earnings, and cash flows for the year then ended 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 International Financial Reporting Standards, 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.

Auditor's 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 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 corporation'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 corporation'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.

INDEPENDENT AUDITOR'S REPORT, continued

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Espanola Regional Hydro Distribution Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Freelandt Caldwell Reilly LLP

FREELANDT CALDWELL REILLY LLP

Chartered Professional Accountants
Licensed Public Accountants

Sudbury, Ontario
April 4, 2017

Espanola Regional Hydro Distribution Corporation
Statement of Financial Position
December 31, 2016 with comparative figures for 2015

	2016	2015
Assets		
Current		
Cash	\$ 2,283,367	\$ 1,729,079
Accounts receivable (note 4)	1,210,602	1,151,249
Unbilled revenue - energy sales	661,902	580,897
Unbilled revenue - distribution	153,828	155,199
Inventory	75,846	72,050
Prepaid expenses	28,860	27,807
Payment in lieu of taxes	144,571	209,787
	4,558,976	3,926,068
Payment in lieu of deferred taxes (note 5)	9,826	20,418
Property, plant and equipment (note 6)	4,153,459	3,897,732
Total assets	8,722,261	7,844,218
Regulatory assets (note 7)	2,448,317	2,414,943
Payment in lieu of deferred tax regulatory assets (note 7)	24,697	29,100
Total assets and regulatory assets	\$ 11,195,275	\$ 10,288,261

Approved on behalf of the Board of Directors:

Director

Director

Espanola Regional Hydro Distribution Corporation
Statement of Financial Position
December 31, 2016 with comparative figures for 2015

	2016	2015
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities	\$ 677,059	\$ 730,987
Payable for energy purchases	2,609,369	1,780,689
Current portion of long-term debt	80,645	77,933
	3,367,073	2,589,609
Customer deposits	180,550	170,726
Payment in lieu of deferred taxes (note 5)	31,098	-
Contributions in aid of construction (note 9)	291,194	252,597
Employee future benefits (note 10)	65,507	63,994
Long-term obligations (note 11)	2,241,422	2,322,067
Notes payable (note 12)	1,524,511	1,524,511
	7,701,355	6,923,504
Shareholders' equity		
Share capital (note 13)	2,281,000	2,281,000
Retained earnings	842,731	722,515
Accumulated other comprehensive earnings	19,281	20,610
	3,143,012	3,024,125
Total liabilities and shareholders' equity	10,844,367	9,947,629
Regulatory liabilities (note 7)	347,483	291,114
Payment in lieu of deferred tax regulatory liabilities (note 7)	3,425	49,518
Total liabilities, shareholders' equity and regulatory liabilities	\$ 11,195,275	\$ 10,288,261

Commitments (note 15)

Espanola Regional Hydro Distribution Corporation
Statement of Comprehensive Earnings
Year ended December 31, 2016 with comparative figures for 2015

	2016	2015
Revenue		
Energy sales	\$ 7,667,169	\$ 6,564,351
Distribution	1,647,513	1,733,774
	9,314,682	8,298,125
Cost of Energy	7,644,174	7,389,436
Gross Profit	1,670,508	908,689
Operating expenses (note 14)		
General and administration	352,003	426,815
Billing and collecting	385,597	389,658
Distribution - operations	296,264	343,194
Distribution - maintenance	353,325	213,149
Depreciation	138,395	96,039
Interest on notes payable	153,586	67,231
	1,679,170	1,536,086
Earnings (loss) before other income and payment in lieu of taxes	(8,662)	(627,397)
Other income (expenses)		
Loss on disposal of property, plant and equipment	-	(4,329)
Interest	19,791	33,469
Labour, rental and other charges	99,196	96,747
Amortization of contributions in aid of construction	8,735	7,785
	127,722	133,672
Earnings (loss) before payment in lieu of taxes, change in regulatory asset and liability balances and other comprehensive earnings (loss)	119,060	(493,725)
Payments in lieu of taxes (note 5)		
Current	(24,151)	(107,852)
Deferred	41,690	53,190
	17,539	(54,662)
Net earnings (loss) before change in regulatory asset and liability balances and other comprehensive earnings (loss)	101,521	(439,063)
Change in regulatory assets and liabilities (note 7)		
Change in regulatory asset and liability account balances related to profit and loss	(22,995)	825,085
Change in payment in lieu of deferred tax balances related to regulatory assets and liabilities	41,690	53,190
	18,695	878,275
Net earnings before other comprehensive earnings (loss)	120,216	439,212
Other comprehensive earnings (loss)		
Remeasurement of employee future benefits liability, net of tax	(1,329)	28,237
Net earnings	\$ 118,887	\$ 467,449

Espanola Regional Hydro Distribution Corporation
Statement of Retained Earnings and Accumulated Other Comprehensive Earnings
Year ended December 31, 2016 with comparative figures for 2015

	Share capital	Retained earnings	Accumulated other comprehensive earnings (loss)	Total
Balance, December 31, 2015	\$ 2,281,000	\$ 722,515	\$ 20,610	\$ 3,024,125
Net earnings before other comprehensive earnings (loss)	-	120,216	-	120,216
Other comprehensive loss	-	-	(1,329)	(1,329)
Balance, December 31, 2016	2,281,000	842,731	19,281	3,143,012
Balance, December 31, 2014	2,281,000	283,303	(7,627)	2,556,676
Net earnings before other comprehensive earnings (loss)	-	439,212	-	439,212
Other comprehensive earnings	-	-	28,237	28,237
Balance, December 31, 2015	\$ 2,281,000	\$ 722,515	\$ 20,610	\$ 3,024,125

Espanola Regional Hydro Distribution Corporation
Cash Flows Statement
Year ended December 31, 2016 with comparative figures for 2015

	2016	2015
Cash flows from operating activities		
Net earnings before other comprehensive earnings (loss)	\$ 120,216	\$ 439,212
Adjustments to reconcile earnings to cash provided by (used in) operations:		
Depreciation	160,986	144,661
Amortization of contributions in aid of construction	(8,735)	(7,785)
Provision for payment in lieu of deferred taxes	41,690	53,190
Loss on disposal of property, plant and equipment	-	4,329
Provision for payment in lieu of taxes	(24,151)	(107,852)
Interest charges on notes payable	153,586	67,231
	443,592	592,986
Change in non-cash working capital items		
Accounts receivable	(59,353)	137,028
Unbilled revenue - energy sales	(81,005)	43,502
Unbilled revenue - distribution	1,371	10,991
Inventory	(3,796)	3,298
Prepaid expenses	(1,053)	6,058
Payment in lieu of taxes paid	89,367	(64,784)
Accounts payable and accrued liabilities	(220,279)	137,744
Payable for energy purchases	995,031	108,251
Interest on notes payable paid	(153,586)	(67,231)
	1,010,289	907,843
Cash flows from investing activities		
Purchase of property, plant and equipment	(416,713)	(269,376)
Regulatory assets	(28,971)	(515,173)
	(445,684)	(784,549)
Cash flows from financing activities		
Customer deposits	9,824	33,126
Regulatory liabilities	10,276	(363,102)
Contributions in aid of construction received	47,332	4,713
Employee future benefits	184	1,161
Proceeds on long-term debt	-	1,100,000
Repayment of long-term debt	(77,933)	-
	(10,317)	775,898
Increase in cash	554,288	899,192
Cash, beginning of year	1,729,079	829,887
Cash, end of year	\$ 2,283,367	\$ 1,729,079

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

1. Nature of operations

Espanola Regional Hydro Distribution Corporation was incorporated on November 1, 2000 under the laws of the province of Ontario, Canada. The incorporation was required in accordance with the Electricity Act, 1998, Ontario (the EA). The Corporation is a wholly owned subsidiary of Espanola Regional Hydro Holdings Corporation and was incorporated for the purpose of providing regulated electricity distribution services to customers in the Town of Espanola and the Township of Sables-Spanish Rivers from its head office located at 598 Second Street, Espanola Ontario, Canada.

The Corporation and other electricity distributors purchase their electricity from the wholesale market administered by the Independent Electricity System Operator (IESO) and recover the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the Ontario Energy Board (the OEB).

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The Ontario Energy Board Act, 1998 sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles and the filing process requirements for rate-setting purposes.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity and the responsibility for ensuring that electricity distribution companies fulfil their obligations to connect and service customers.

Regulatory developments in Ontario's electricity industry may affect distribution rates and the permitted recovery or settlement or the timing of recovery or settlement of certain regulatory assets and liabilities.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards applying the accounting policies set out below on a consistent basis in all years presented in these financial statement. The significant policies are detailed as follows:

(a) Statement of compliance and basis of measurement

These financial statements are the representation of the Corporation's management and are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The Corporation adopted IFRS as of January 1, 2015 with a transition date of January 1, 2014. The Corporation's accounting policies are based on IFRS applicable as at December 31, 2016. The Corporation has adopted the requirements of IFRS 14 - Regulatory Deferral Accounts, which permits the Corporation to account for regulatory deferral account balances in accordance with its previous GAAP when it adopted IFRS. Previously, the financial statements of the Corporation were prepared in accordance with Canadian generally accepted accounting principles.

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as "fair value through profit or loss" and "available for sale" financial assets which have been measured at fair value.

These financial statements are presented in Canadian dollars and were approved by the Corporation's Board of Directors on April 4, 2017.

(b) Effects of rate regulation

The Ontario Energy Board (OEB) is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfil obligations to connect and service customers. 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 been applied in a non rate regulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting and approval process.

(c) Cash and cash equivalents

Cash and cash equivalents are defined as cash and highly liquid investments, consisting primarily of term deposits, with terms to maturity of three months or less at the date of purchase.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(d) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

(e) Property, plant and equipment

Property, plant and equipment are measured at historical cost or deemed cost less accumulated depreciation and impairment losses, if any. The Corporation elected to use the carrying amount, as previously determined under Canadian GAAP, as the deemed cost at January 1, 2014, the transition date to IFRS. In circumstances where parts of an item of property, plant and equipment have different useful lives they are accounted for as separate components of property, plant and equipment. The Corporation provides for depreciation using the straight-line method at rates designed to depreciate the cost of the property, plant and equipment over their estimated useful lives. A full year's depreciation is recorded in the year of acquisition. No depreciation is recorded in the year of disposal. The carrying amount of an item of property, plant and equipment is derecognized on disposal. The annual depreciation rates and useful lives are reviewed annually and are as follows:

Buildings	50 years
Furniture and equipment	5-10 years
Vehicles	15 years
Transmission and distribution equipment	40-60 years

Construction in progress includes assets not currently in use and therefore not yet subject to depreciation.

In certain cases, non-refundable contributions are received in aid of construction or acquisition of property, plant and equipment. Contributions in aid of construction are classified as liabilities and are amortized at the same rate as the assets to which they relate.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

2. **Significant accounting policies, continued**

(f) **Impairment of non-financial assets**

At the end of each reporting period, the Corporation reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in operations.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in operations.

(g) **Provisions**

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate, net of tax, that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) **Borrowing costs**

Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment, which take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in operations in the period in which they are incurred.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(i) Asset retirement obligations

Accounting standards require the Corporation to determine the fair value of future expenditures required to settle legal obligations to remove property, plant and equipment. If reasonably estimable, the Corporation recognizes a liability for the estimated current value of future expenditures required to settle obligations for the retirement of property, plant and equipment. Decommissioning liabilities are recorded at fair value, with a corresponding increase to the recorded amount of property, plant and equipment. Accretion of decommissioning liabilities is included in operations. Differences between the recorded amount of decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the period of settlement.

Some of the Corporation's distribution system assets may have asset retirement obligations. As the Corporation expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of the related asset retirement obligation cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

(j) Revenue recognition

Distribution and energy related revenues attributable to the supply and distribution of electricity are based on OEB approved rates and revenue is recognized as electricity is delivered to customers based on periodic meter readings. At the end of an accounting cycle, there is energy used by consumers for which meter readings are not available and no bills have been issued. This unbilled revenue is estimated and recorded in current assets on the statement of financial position at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

The difference between the amount paid by the Corporation to Hydro One for the purchase of energy and related service costs and the amount billed by the Corporation to its customers for energy sales based on regulated rates are recorded on the statement of financial position as regulatory assets and liabilities until their final disposition is decided by the OEB. In accordance with IFRS 14, the change in these regulatory assets and liabilities are reported, net of tax, with regulatory balances in the statement of comprehensive earnings.

Labour, rental and other charges revenue is recognized in the period in which these services are provided.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(k) Payment in lieu of taxes

Pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act (Canada) (ITA) and remit such amounts computed there under to the Ontario Electricity Financial Corporation (OEFC). These amounts, referred to as payments in lieu of taxes (PILs) under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro now owing by the OEFC.

Payment in lieu of deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of assets and liabilities and their tax bases. Payment in lieu of deferred tax assets are also recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are likely to be realized. These amounts are measured using enacted or substantively enacted tax rates and are re-measured annually for changes in these rates. Any payment in lieu of deferred income tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in operations in the period of the change.

As prescribed by regulatory rate order, payment in lieu of taxes are recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of payment in lieu of deferred taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Accordingly, payment in lieu of deferred tax regulatory assets or liabilities are recognized for the amount of payment in lieu of deferred taxes which are expected to be included in future rates and recovered from or refunded to customers in future periods through the rate setting and approval process.

(l) Employee future benefits

The Corporation's net obligation in respect of its employee future benefit plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value. Any unrecognised past service costs are deducted. The discount rate is the interest rate at the reporting date on high quality debt instruments with duration similar to the duration of the plan.

The cost of these employee future benefits is expensed as earned by employees through employment service. The accrued benefit obligation and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management's best estimate of certain underlying assumptions. Re-measurements arising from employee benefit plans are recognized immediately in operations. When the benefits of a plan are improved, these increases are recognized immediately in operations.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(m) Financial instruments

(i) Measurement of financial instruments

Financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL"), are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. Transactions to purchase or sell these items are recorded on the trade date. During the year, there have been no reclassifications of financial instruments.

The Corporation has classified cash and cash equivalents as a financial asset at fair value through profit or loss. Any gain/loss arising as a result of the difference between the carrying amount and fair value is recognized in operations.

The Corporation has classified accounts receivable and unbilled revenue as loans and receivables. Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in operations upon de-recognition or impairment.

The Corporation has classified accounts payable and accrued liabilities, payable for energy purchases, long-term debt, and notes payable as financial liabilities measured at amortized cost. Financial liabilities measured at amortized cost are measured at their amortized cost subsequent to initial recognition. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in operations upon de-recognition or impairment.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(m) Financial instruments, continued

(ii) Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in operations. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in operations.

(n) Measurement uncertainty

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant, including changes as a result of future decisions made by the Ontario Energy Board (OEB). All estimates are reviewed periodically and adjustments are made and recognized in operations, as appropriate, in the year they become known. Accounts specifically affected by estimates and assumptions in these financial statements are as follows:

(i) Property, plant and equipment

Amounts recorded in the financial statements for depreciation are based on the estimated useful lives of the Corporation's property, plant and equipment. These useful lives are management's best estimate of the service lives of these assets and are reviewed annually. Changes to these estimated useful lives could materially affect the amount of depreciation recorded in the financial statements.

The Corporation's policy relating to property, plant and equipment is described in note 2 (e). In applying this policy, management uses judgment in determining whether certain costs are additions to the carrying amount of property, plant and equipment or expensed in operations as repairs and maintenance. Judgment is also necessary in determining the appropriate componentization structure of the Corporation's property, plant and equipment.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(n) Measurement uncertainty, continued

(ii) Decommissioning liabilities

The Corporation recognizes a liability for the estimated current value of future expenditures required to settle obligations for the retirement of property, plant and equipment. Decommissioning liabilities are recorded at fair value, with a corresponding increase to the recorded amount of property, plant and equipment. Accretion of decommissioning liabilities is included in operations. Differences between the recorded amount of decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the period of settlement.

(iii) Employee future benefits

The Corporation provides certain health and dental benefits to retired employees. The estimated cost of providing these benefits is accounted for on an accrual basis in the period in which employees render their services and are actuarially determined using the projected benefit method pro-rated on service and include management's best estimate of salary escalations, retirement ages and expected health care cost escalations.

(iv) Regulatory assets and liabilities

When recognizing regulatory assets and liabilities management assumes that such credits or costs will be recovered from customers or refunded to customers in future years through the rate setting and approval process. Refund or recovery of these regulatory assets and liabilities are subject to the review and approval of the OEB. Consequently, there is risk that some or all of the regulatory assets and liabilities will not be approved by the OEB which could have a material affect on the Corporation's comprehensive income in the year of the OEB decision.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

3. Future changes to significant accounting policies

The Corporation has not yet adopted the following new and revised International Financial Reporting Standards that have been issued but are not yet effective:

Financial Instruments IFRS 9

In July 2014, the IASB issued a new standard, IFRS 9 - Financial Instruments, which will replace IAS 39 - Financial Instruments: Recognition and Measurement. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is part of the first phase of this project. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Corporation is assessing the impact of IFRS 9 on its results of operations, financial position and disclosures.

Revenue Recognition IFRS 15

In May 2014, IFRS 15 - Revenue from Contracts with Customers was issued, which replaces IAS 11 - Construction Contracts, IAS 18 - Revenue and various interpretations. IFRS 15 establishes principles regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard requires entities to recognize revenue for the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is assessing the impact of IFRS 15 on its results of operations, financial position and disclosures.

Leases IFRS 16

In January 2016, IFRS 16 - Leases was issued. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS 17 and is effective for periods beginning on or after January 1, 2019. The Corporation is assessing the impact of IFRS 16 on its results of operations, financial position and disclosures.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

4. **Accounts receivable**

	2016	2015
Electrical energy receivables	\$ 917,878	\$ 858,803
Water and sewer receivables	233,858	237,229
Other receivables	58,866	55,217
	\$ 1,210,602	\$ 1,151,249

	2016	2015
Aging of accounts receivable		
Current	\$ 1,126,253	\$ 1,078,046
30 days	17,267	14,898
60 days	8,825	10,379
Over 90 days	58,257	47,926
	\$ 1,210,602	\$ 1,151,249

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

5. **Payment in lieu of deferred taxes**

(a) The components of payment in lieu of deferred tax balances are as follows:

	2016	2015
Payment in lieu of deferred tax assets:		
Difference between tax basis of property, plant and equipment and carrying amount	\$ -	\$ 10,499
Difference between tax basis of employee future benefits obligation and carrying amount	9,826	9,919
Payment in lieu of deferred tax liabilities:		
Difference between tax basis of property, plant and equipment and carrying amount	(31,098)	-
	<u>\$ (21,272)</u>	<u>\$ 20,418</u>

(b) The provision for payment in lieu of taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 15.0% (2015 - 15.5%) to the earnings for the years as follows:

	2016	2015
Earnings for the year before payment in lieu of taxes, change in regulatory asset and liability balances and other comprehensive earnings (loss)	\$ 119,060	\$ (493,725)
Change in regulatory asset and liability account balances related to profit and loss	(22,995)	825,085
Remeasurement of employee future benefits liability included in other comprehensive income	(1,329)	28,237
	<u>\$ 94,736</u>	<u>\$ 359,597</u>
Anticipated income tax	\$ 14,210	\$ 55,738
Tax effect of the following:		
Tax payable (recoverable) at general corporate tax rate	-	(35,704)
Change in payment in lieu of deferred tax regulatory asset	(4,403)	(98,151)
Tax effect of change in payment in lieu of deferred tax regulatory liability	6,914	23,455
Adjustment due to change in tax rate	818	-
Provision for (recovery of) payment in lieu of taxes	<u>\$ 17,539</u>	<u>\$ (54,662)</u>

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

6. Property, plant and equipment

	2016						
	Land	Buildings	Transmission & Distribution Equipment	Vehicles	Furniture and Equipment	Construction In Progress	Total
Cost							
Balance, beginning of year	\$ 88,880	180,812	3,553,949	272,025	26,793	63,790	\$ 4,186,249
Additions	-	3,019	309,996	43,617	4,658	55,423	416,713
Transfers	-	-	65,113	-	-	(65,113)	-
Disposals	-	-	-	-	-	-	-
Balance, end of year	88,880	183,831	3,929,058	315,642	31,451	54,100	4,602,962
Accumulated Amortization							
Balance, beginning of year	-	8,943	229,012	38,412	12,150	-	288,517
Depreciation	-	4,572	130,108	22,592	3,714	-	160,986
Disposals	-	-	-	-	-	-	-
Balance, end of year	-	13,515	359,120	61,004	15,864	-	449,503
Net book value	\$ 88,880	170,316	3,569,938	254,638	15,587	54,100	\$ 4,153,459
	2015						
	Land	Buildings	Transmission & Distribution Equipment	Vehicles	Furniture and Equipment	Construction In Progress	Total
Cost							
Balance, beginning of year	\$ 88,880	176,883	3,317,321	284,053	23,336	38,428	\$ 3,928,901
Additions	-	3,929	322,404	-	3,457	198,784	528,574
Transfers	-	-	(85,776)	-	-	(173,422)	(259,198)
Disposals	-	-	-	(12,028)	-	-	(12,028)
Balance, end of year	88,880	180,812	3,553,949	272,025	26,793	63,790	4,186,249
Accumulated Amortization							
Balance, beginning of year	-	4,431	117,593	23,774	5,757	-	151,555
Depreciation	-	4,512	111,419	22,337	6,393	-	144,661
Disposals	-	-	-	(7,699)	-	-	(7,699)
Balance, end of year	-	8,943	229,012	38,412	12,150	-	288,517
Net book value	\$ 88,880	171,869	3,324,937	233,613	14,643	63,790	\$ 3,897,732

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

7. Regulatory assets and liabilities

	January 1, 2016	Regulatory activity	December 31, 2016
Settlement variances (a)	\$ 667,123	\$ 179,219	\$ 846,342
Stranded meters (b)	20,387	(8,927)	11,460
Substation (c)	1,727,433	(136,918)	1,590,515
Payment in lieu of deferred tax regulatory assets (d)	29,100	(4,403)	24,697
Total regulatory assets	2,444,043	28,971	2,473,014
Settlement variances (a)	291,114	56,369	347,483
Payment in lieu of deferred tax regulatory liabilities (d)	49,518	(46,093)	3,425
Total regulatory liabilities	340,632	10,276	350,908
Net regulatory assets (liabilities)	\$ 2,103,411	\$ 18,695	\$ 2,122,106

	January 1, 2015	Regulatory activity	December 31, 2015
Settlement variances (a)	\$ 207,955	\$ 459,168	\$ 667,123
Stranded meters (b)	44,516	(24,129)	20,387
Substation (c)	1,549,148	178,285	1,727,433
Payment in lieu of deferred tax regulatory assets (d)	127,251	(98,151)	29,100
Total regulatory assets	1,928,870	515,173	2,444,043
Settlement variances (a)	473,395	(182,281)	291,114
Payment in lieu of deferred tax regulatory liabilities (d)	200,859	(151,341)	49,518
Other regulatory liabilities	29,480	(29,480)	-
Total regulatory liabilities	703,734	(363,102)	340,632
Net regulatory assets (liabilities)	\$ 1,225,136	\$ 878,275	\$ 2,103,411

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

7. Regulatory assets and liabilities, continued

Regulatory assets and liabilities arise as a result of the rate setting and approval process through the OEB.

(a) The difference between the amount paid by the Corporation to Hydro One for the purchase of energy and related service costs and the amount billed by the Corporation to its customers as energy sales based on regulated rates are recorded on the statement of financial position as settlement variances until their final disposition is decided by the OEB. The Corporation recognizes settlement variances as an asset or liability based on the expectation that these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The settlement variance asset (liability) represents the excess (deficiency) of amounts billed to the Corporation by Hydro One for the purchase of energy over the amounts charged by the Corporation to its customers as energy sales.

Recovery or refund of the settlement variances is done on an annual basis through application to the OEB. Currently, no amount has been approved for recovery or refund. Accordingly, the timing of the recovery or refund is unknown.

(b) The stranded meter regulatory assets represent the unrecovered net book value of decommissioned analog meters. The net book value of the stranded meters has been reclassified to the regulatory asset account for recovery to the end of March 2017.

(c) The substation asset represents the cost of construction of a new substation in the Town of Espanola. During the year \$nil (2015 - \$21,291) of interest was capitalized to the cost of the substation during the construction period. The OEB approved the recovery of \$168.193 per year in the Corporation's rates until their next cost of service rate order.

(d) The payment in lieu of deferred tax regulatory asset and liability relate to the expected increase in or reduction of distribution rates for customers arising from temporary differences which give rise to payment in lieu of deferred tax assets and liabilities.

For certain of the regulatory assets and liabilities, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. The Corporation continually assesses the likelihood of recovery of each of its regulatory assets and refund of each of its regulatory liabilities and continues to believe that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the Corporation determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

8. Bank credit facilities

A revolving demand credit facility has been granted by the Royal Bank of Canada to a maximum of \$500,000 bearing interest at the bank's prime rate plus 0.8% per annum.

A reducing facility by way of leases has also been granted by the Royal Bank of Canada to a maximum of \$200,000, terms of which are governed by separate lease agreements.

The above credit facilities are secured by a first ranking general security agreement.

At the year-end date, no amount has been drawn on these credit facilities.

9. Contributions in aid of construction

In certain cases, non-refundable contributions are received in aid of construction or acquisition of property, plant and equipment. Contributions in aid of construction are deferred and amortized to other revenue at the same rate as the assets to which they relate.

	2016	2015
Balance, beginning of year	\$ 252,597	\$ 255,669
Contributions received in the year	47,332	4,713
Amortization of contributions in aid of construction	(8,735)	(7,785)
Balance, end of year	\$ 291,194	\$ 252,597

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

10. Employee future benefits

The Corporation pays certain post-employment health and dental benefits on behalf of its retired employees. Accounting standards for employee future benefits require that these post-retirement costs be recognized in the period in which the employees rendered their services. Information about the Corporation's accrued benefit liability and the related expense are based on results and assumptions by actuarial valuation at December 31, 2016 and are as follows:

	2016	2015
Accrued benefit liability, beginning of year	\$ 63,994	\$ 91,070
Current service cost recognized in operations	509	603
Interest cost recognized in operations	2,565	3,494
Benefits paid by employer	(2,890)	(2,936)
Net actuarial gain/(loss) recognized in other comprehensive income	1,329	(28,237)
Accrued benefit liability, end of year	\$ 65,507	\$ 63,994

The main assumptions employed for the valuations are as follows:

The health benefit cost is estimated to increase at rate from 6.25% per annum over. The dental benefit cost is estimated to increase at a rate of 4.5% per annum.

The obligation at year-end and the present value of future liabilities and the related expense, were determined using an annual discount rate of 3.95% per annum (2015 - 4.1%) representing an estimate of the yield on high quality corporate bonds with a duration similar to the duration of the plan.

Future general salary and wage levels were assumed to increase at 2.6% per annum (2015 - 2.6%).

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

11. Long-term debt

	2016	2015
Infrastructure Ontario non-revolving term loan, repayable in blended monthly installments of \$2,860 including interest at 2.73% per annum, secured by a general security agreement ranking behind the first ranking general security agreement registered by the Royal Bank of Canada and maturing December 2025	\$ 273,546	\$ 300,000
Infrastructure Ontario non-revolving term loan, repayable in blended monthly installments of \$10,831 including interest at 3.78% per annum, secured by a general security agreement ranking behind the first ranking general security agreement registered by the Royal Bank of Canada and maturing December 2040	2,048,521	2,100,000
	2,322,067	2,400,000
Less current portion	80,645	77,933
	\$ 2,241,422	\$ 2,322,067

The Ontario Infrastructure loans require the Corporation to meet a debt service coverage ratio of a minimum of 1:25 to 1 and a debt to total assets ratio of less than 60%. At December 31, 2016 the corporation is in compliance with these covenants.

Estimated principal repayments are as follows:

2017	\$ 80,645
2018	83,452
2019	86,359
2020	89,370
2021	92,489
Subsequent years	1,889,752
	\$ 2,322,067

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

12. Notes payable

	2016	2015
Note payable to the Town of Espanola	\$ 1,185,416	\$ 1,185,416
Note payable to the Township of Sables-Spanish Rivers	339,095	339,095
	\$ 1,524,511	\$ 1,524,511

Notes payable to the Town of Espanola and Township of Sables-Spanish Rivers are without security, are due on demand with one year's written notice, include interest at 4.41% per annum (2015 - 4.41%) and are convertible into special shares of the Corporation at a rate of \$10,000 per share. During the year, the Corporation paid interest in the amount of \$52,277 (2015 - \$52,277) to the Town of Espanola and \$14,954 (2015 - \$14,954) to the Township of Sables-Spanish Rivers.

13. Share capital

	2016	2015
Authorized		
Unlimited number of common shares		
Unlimited discretionary non-cumulative dividend paying, redeemable at \$10,000 per share, non-voting special shares		
Issued		
1,000 common shares	\$ 1,000	\$ 1,000
228 special shares	2,280,000	2,280,000
	\$ 2,281,000	\$ 2,281,000

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

14. Operating expenses

For internal management reporting purposes the Corporation's operating expenses are reported by function. Operating expenses reported by nature are as follows:

	2016	2015
Salaries, wages and benefits	\$ 434,419	\$ 433,836
Office and administration	291,263	333,104
Contracted services	393,886	380,419
Operations and maintenance	204,078	167,244
Depreciation	160,986	96,039
Interest on long-term debt and notes payable	153,586	67,231
Bad debts	40,952	58,213
	<u>\$ 1,679,170</u>	<u>\$ 1,536,086</u>

15. Commitments

The Corporation has entered into a contract for management, billing, collecting, customer service, software and data hosting services and support with PUC Services Inc. for a five year period ending May 31, 2021, at an annual base cost as follows:

2017	\$ 166,028
2018	170,178
2019	173,949
2020	177,423
2021	74,530

In addition to the above charges, a monthly charge of \$5.26 to \$5.75 per meter, for up to 3,700 meters for residential and general service customers, will apply.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

16. Related party transactions

The Corporation is related to the Town of Espanola by virtue of the fact that the Town is an 81% owner of the Corporation's sole shareholder. Likewise, the Township of Sables-Spanish Rivers is a 19% owner of the Corporation's sole shareholder.

In the normal course of business, the Corporation provides electrical energy to the Town of Espanola and the Township of Sables-Spanish Rivers at the same regulated rates and terms approved by the OEB as other similar customers, based on the amount of electricity consumed.

The Corporation also provides water and waste water billing and collection services on behalf of the Town of Espanola. Included in other charges revenue is \$18,136 (2015 - \$18,136) earned with respect to these services. Also, included in accounts payable and accrued liabilities is \$440,661 (2015 - \$430,122) relating to amounts collected by the Corporation on behalf of the Town of Espanola for water and waste water billing. Correspondingly, included in accounts receivable is \$233,858 (2015 - \$237,229) relating to amounts receivable from customers for water and waste water services.

17. Capital disclosure

The Corporation's objectives when managing capital are:

- (a) Ensure ongoing access to capital at a reasonable cost in order to maintain and improve the electricity distribution system of the Corporation to ensure the continued delivery of safe, reliable electricity services to customers, and to safeguard the Corporation's ability to continue as a going concern and provide a reasonable rate of return to its shareholders;
- (b) Align the Corporation's capital structure with the debt to equity structure deemed appropriate by the OEB.

The Corporation's capital consists of shareholder's equity and notes payable to the Town of Espanola and Township of Sables-Spanish Rivers. There have been no changes in the Corporation's approach to managing capital during the year.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

18. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring financial risks to or from another party. The Corporation is exposed to the following risks associated with financial instruments and transactions it is a party to:

(a) Fair value

The fair value of current financial assets and current financial liabilities approximates their carrying value due to their short-term maturity dates. The fair value of long-term financial liabilities approximates their carrying value based on the presumption that the Corporation is a going concern and thus expects to fully repay the outstanding amounts.

(b) Credit risk

Credit risk is the risk that one party to a financial transaction will fail to discharge a financial obligation and cause the other party to incur a financial loss. The Corporation's main credit risks are associated with its cash and cash equivalents and accounts receivable.

The Corporation minimizes credit risk associated with its cash and cash equivalents balances by ensuring that these financial assets are held with large reputable financial institutions with high credit ratings.

The Corporation incurs amounts due from its customers in the regular course of business and has credit risk associated with its accounts receivable balances of \$1,210,602 (2015 - \$1,151,249). The Corporation reduces its exposure to credit risk through management's on-going monitoring of its accounts receivable balances and collections. Credit valuations are performed on a regular basis and credit is granted upon a review of the credit history of the applicant. An allowance for bad debts is recorded when applicable.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation cannot repay its obligations when they become due to its creditors. The Corporation has liquidity risk associated with its accounts payable and accrued liabilities, payable for energy purchases, customer deposits, long-term debt and notes payable. The Corporation reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due and budgets to maintain adequate cash resources including a line of credit to repay creditors including long-term debt interest and principal as liabilities become due.

19. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. These changes do not affect prior year earnings.

SCHEDULE P - PERMITTED ENCUMBRANCES

PIN 73408-0046

Instrument No. LT233385 is a By-Law registered June 28, 1966.

SCHEDULE Q - THIRD PARTY CONSENTS

1. The consent of Ontario Infrastructure and Lands Corporation pursuant to the terms of financing agreement between Espanola Regional Hydro Distribution Corporation and Ontario Infrastructure and Lands Corporation dated October 28, 2015, as amended by Amending Agreement No. 1 dated November 23, 2015.
2. The consent of Royal Bank of Canada pursuant to the terms of a letter agreement between Royal Bank of Canada and Espanola Regional Hydro Distribution Corporation dated October 17, 2011, as amended by a Letter Amending Agreement dated June 9, 2014.

SCHEDULE R - TAX MATTERS

On January 12, 2018, the Ontario Ministry of Finance initiated an audit of Espanola Regional Hydro Distribution Corporation's T2 corporate income tax returns (for PILs purposes under the Electricity Act) for taxation years 2013, 2014, and 2015. This audit is currently in the information gathering stage and is, according to the Vendors, expected to be completed in August 2018.

SCHEDULE S - PERMITTED FINANCING

1. Financing Agreement (13esp9304313062FA) dated October 28, 2015, between Espanola Regional Hydro Distribution Corporation and Ontario Infrastructure and Lands Corporation, as amended by Amending Agreement No. 1 dated November 23, 2015.
2. Facility Letter Agreement dated October 17, 2011, between Royal Bank of Canada and Espanola Regional Hydro Distribution Corporation, as amended by Amending Agreement dated June 9, 2014.

1

Appendix E

2

NBEAI's Notice of Proposal to the Board

Ontario Energy Board

Preliminary Filing Requirements
For a Notice of Proposal under Sections 80 and 81
Of the *Ontario Energy Board Act, 1998*

INSTRUCTIONS:

This form applies to all applicants who are providing a Notice of Proposal to the Ontario Energy Board (the "Board") under sections 80 and 81 of the *Ontario Energy Board Act, 1998* (the "Act"), including parties who are also, as part of the same transaction or project, applying for other orders of the Board such as orders under sections 86 and 92 of the Act.

The Board has established this form under section 13 of the Act. Please note that the Board may require information that is additional or supplementary to the information filed in this form and that the filing of the form does not preclude the applicant from filing additional or supplementary information.

PART I: GENERAL MINIMUM FILING REQUIREMENTS

All applicants must complete and file the information requested in Part I.

1.1 Identification of the Parties

1.1.1 Applicant

Name of Applicant North Bay (Espanola) Acquisition Inc. ("NBEAI")	File No: (Board Use Only)	
Address of Head Office 74 Commerce Crescent North Bay, ON P1A 0B4	Telephone Number 705-474-8100	
	Facsimile Number 705-474-8579	
	E-mail Address mcasson@northbayhydro.com	
Name of Individual to Contact Melissa Casson, CPA, CGA Vice President of Finance	Telephone Number 705-474-8100 ext: 300	
	Facsimile Number 705-474-8579	
	E-mail Address mcasson@northbayhydro.com	

1.1.2 Other Parties to the Transaction or Project

If more than one attach list

Name of Other Party Espanola Regional Hydro Distribution Corporation (“ERHDC”) Espanola Regional Hydro Holdings Corporation (“ERHHC”)	File No: (Board Use Only)	
Address of Head Office 598 Second Street, Espanola, Ontario, P5E 1C4	Telephone Number 705-869-2771	
	Facsimile Number 705-759-6510	
	E-mail Address customerservice@erhydro.com	
Name of Individual to Contact Nancy Hembruff	Telephone Number 705-869-0378 ext. 210	
	Facsimile Number 705-869-2433	
	E-mail Address nhembruff@erhydro.com	

Name of Other Party The Corporation Of The Town Of Espanola (“Espanola”)	Board Use Only	
Address of Head Office 100 Tudhope Street, Suite 2 Espanola, ON P5E 1S6	Telephone Number 705-869-1540	
	Facsimile Number 705-869-0083	
	E-mail Address rpiche45@gmail.com	
Name of Individual to Contact Ron Piche (Mayor)	Telephone Number 705-862-2772	

	Facsimile Number 705-869-0083	
	E-mail Address rpiche45@gmail.com	

Name of Other Party The Corporation Of The Township Of Sables–Spanish Rivers (“Sables-Spanish”)	Board Use Only	
Address of Head Office 11 Birch Lake Road Massey, Ontario P0P 1P0	Telephone Number 705-865-2646	
	Facsimile Number 705-865-2736	
	E-mail Address inquiries@sables-spanish.ca	
Name of Individual to Contact Les Gamble (Mayor)	Telephone Number 705-865-2655	
	Facsimile Number 705-865-2736	
	E-mail Address les.gamble49@gmail.com	

1.2 Relationship between Parties to the Transaction or Project

1.2.1

Attach a list of the officers, directors and shareholders of each of the parties to the proposed transaction or project.

North Bay (Espanola) Acquisition Inc.

Officers

Melissa Casson, Vice President of Finance
Matt Payne, President and Chief Operating Officer

Directors

John Krieg
Richard Peters
David Wolfe

Shareholders

North Bay Hydro Holdings Ltd.

North Bay Hydro Holdings Ltd.

Officers

Allan McDonald, Chairman
Tanya Vrebosch, Vice-Chair
David Euler, Chief Executive Officer
Margaret Karpenko, Treasurer
Peter E.G. Leckie, Secretary

Directors

Mike Anthony
Mac Bain
Chris Mayne
Tanya Vrebosch
John Krieg
Allan McDonald
David Hoover
Mark King
Bill Vrebosch
Johanne Brosseau
Scott Robertson
Dave Mendicino
Marcus Tignanelli

Shareholder

City of North Bay

Espanola Regional Hydro Holdings Corporation

Officers

Nancy Hembruff, Chief Financial Officer

Directors

Leslie Gamble
Ron Piche
Ted Petrus
Doug Bois
Ronald Duplessis

Shareholders

The Corporation Of The Town Of Espanola
The Corporation Of The Township Of Sables–Spanish Rivers

Espanola Regional Hydro Distribution Corporation

Officers

Nancy Hembruff, Chief Financial Officer
Kelly McLellan, Treasurer
Robert Brewer, President

Directors

Ronald Duplessis
Alex Poikkimaki
Ted Petrus
Ron Piche
Doug Gervais
Doug Bois

Shareholder

Espanola Regional Hydro Holdings Corporation

The Corporation Of The Town Of Espanola

Council

Ron Piche (Mayor)
Ray Dufour (Councillor)
Ken Duplessis (Councillor)
Ron Duplessis (Councillor)
Bill Foster (Deputy Mayor)
Heather Malott (Councillor)
Robert Yocom (Councillor)

Staff

Cynthia Townsend (Chief Administrative Officer / Treasurer)
Paula Roque (Clerk / Manager of Planning Services)
Cathy Tessier (Manager of Financial Services)
Joel Yusko (Manager of Leisure Services)
Joel Yusko (Manager of Public Works)
Dave Parker (Assistant Manager of Public Works)
Todd Zimmerman (Police Chief)
Mike Pichor (Fire Chief)
Dan Rivet (Chief Building Official)
Rosemary Rae (Chief Librarian)
Christine Desjardins (Manager of Court Administration)
Cheryl Kennelly (Economic Development Officer/Program Manager)

Shareholders

N/A

The Corporation Of The Township Of Sables–Spanish Rivers

Council

Les Gamble (Mayor)
Kevin Burke (Councillor)
Patricia Hnatuik (Councillor)
Glenda Massicotte (Deputy Mayor)
Cheryl Phillips (Councillor)
Dale Rivers (Councillor)
Susan Sonnenburg (Councillor)

Staff

Kim Sloss (Clerk-Administrator)
Patricia Deline (Treasurer/Tax Collector)

	<p>Mike Campbell (Building Official) Mark Van Breda (Director of Operations) Kelli Hansson (Economic Development Officer) Paul Panesar (Fire Chief) Brady Ropp (Parks & Recreation Coordinator)</p> <p>Shareholders N/A</p>	
1.2.2	<p>Attach a corporate chart describing the relationship between each of the parties to the proposed transaction or project and each of their respective affiliates.</p> <p>See Appendix A of the attached MAADs Application.</p>	

1.3 Description of the Businesses of Each of the Parties

1.3.1	<p>Attach a description of the business of each of the parties to the proposed transaction or project, including each of their affiliates licenced under the OEB Act to operate in Ontario for the generation, transmission, distribution, wholesaling or retailing of electricity or providing goods and services to companies licenced under the OEB Act in Ontario ("Electricity Sector Affiliates").</p> <p>See section 6 and Appendix A of the attached MAADs Application.</p>	
1.3.2	<p>Attach a description of the geographic territory served by each of the parties to the proposed transaction or project, including each of their Electricity Sector Affiliates, if applicable, and the geographic location of all existing generation facilities.</p> <p>See section 6 and Appendix F of the attached MAADs Application.</p>	
1.3.3	<p>Attach a breakdown of the annual sales (in C\$, and in MWh) as of the most recent fiscal year end of the existing generation output among the IESO Administered Markets ("IAM"), bilateral</p>	

	contracts, and local distribution companies. In 2017 fiscal year, the Applicant and its affiliates had total annual revenues from generation of \$936,181, which corresponds to the gross electricity generation of approximately 7,830 MWh. The generated electricity was supplied to Hydro One Networks Inc.	
1.3.4	<p>Attach a list identifying all relevant Board licences and approvals held by the parties to the proposed transaction or project and each of their Electricity Sector Affiliates, and any applications currently before the Board, or forthcoming. Please include all Board file numbers.</p> <p>NBHDL</p> <ol style="list-style-type: none"> 1. Electricity Distribution Licence (ED-2003-0024) 2. 2019 IRM Application (EB-2018-0057) <p>North Bay Hydro Services Inc. ("NBHSI")</p> <ol style="list-style-type: none"> 1. Electricity Generation Licence (EG-2013-0253) 2. NBHSI has filed an application for a retailer licence and a generation licence for its proposed Community Energy Park facility. (The application was submitted to the Board on Dec. 12, 2018; no file number has been issued to date) <p>ERHDC</p> <ol style="list-style-type: none"> 1. Electricity Distribution Licence (ED-2002-0502) 2. Rate Order (Nov 1, 2012) (EB-2011-0319) 3. Order for Interim Rates (February 10, 2016) (EB-2015-0068) 	

1.4 Current Competitive Characteristics of the Market

1.4.1	<p>Describe the generation capacity (in MW), within the Province of Ontario, of the parties to the proposed transaction or project, including each of their respective Electricity Sector Affiliates, prior to the completion of the proposed transaction or project.</p> <p>Pursuant to Electricity Generation Licence EG-2013-0253, NBHSI owns and operates the Merrick Landfill Gas Project with an installed capacity of 1.6 MW located at Part of Annulled Lots 10, 11 and 12, Concessions IV and V and Part of Annulled Lots 10 and 11, Concession VI in the unorganized Township of Merrick, District of Nipissing.</p>	
1.4.2	<p>Describe the generation market share based on actual MWh production as a percent of the Annual Primary Demand, within the Province of Ontario, of the parties to the proposed transaction or project, including each of their respective Electricity Sector Affiliates, prior to completion of the proposed transaction or project.</p> <p>According to the IESO, in 2017 the total annual Ontario energy demand was 132.1 TWh (or 132,100,000 MWh).</p> <p>The actual MWh production of the Merrick Landfill Gas Project in Ontario in 2017 was 7,830 MWh. This represents 0.0059% of the total annual Ontario energy demand.</p>	

1.5 Description of the Proposed Transaction or Project and Impact on Competition - General

1.5.1	<p>Attach a detailed description of the proposed transaction or project, including geographic locations of proposed new transmission or distribution systems, or new generation facilities.</p> <p>See section 1 of the attached MAADs Application.</p>	
1.5.2	<p>Describe the generation capacity (in MW), within the Province of Ontario, of the parties to the proposed transaction or project, including each of their respective Electricity Sector Affiliates, after the completion of the proposed transaction or project.</p> <p>The generation capacity of NBHSI will remain unchanged after the completion of the proposed transaction (i.e. the capacity of the Merrick Landfill Gas Project will continue to be 1.6 MW).</p>	
1.5.3	<p>Describe the generation market share based on anticipated MWh production as a percentage of the Annual Primary Demand, within the Province of Ontario, of the parties to the proposed transaction or project, including each of their respective Electricity Sector Affiliates, after the completion of the proposed transaction or project.</p> <p>The generation market share will remain unchanged after the completion of the proposed transaction or project.</p>	
1.5.4	<p>Attach a short description of the impact, if any, of the proposed transaction or project on competition. If there will be no impact on competition, please state the reasons. Cite specifically the impacts of the proposal on customer choice regarding generation, energy wholesalers, and energy retailers.</p> <p>The proposed transaction will not impact competition. The proposed transaction will effect the eventual amalgamation (after phase 2) of two Northern Ontario distributors—NBHDL and ERHDC. The OEB has acknowledged that consolidation enables distributors to address challenges in an evolving electricity industry. The proposed acquisition and future amalgamation promotes the objectives of the OEB's Renewed Regulatory Framework for Electricity Distributors – A Performance Based Approach. The proposed transaction impacts are anticipated to be positive or neutral.</p>	
1.5.5	<p>Provide confirmation that the proposed transaction or project will have no impact on open access to the transmission or distribution system of the parties or their affiliates. If open access will be affected explain how and why.</p> <p>The proposed transaction will have no impact on open access to the transmission or distribution system of the parties or their affiliates.</p>	

1.6 Other Information

1.6.1	<p>Attach confirmation that the parties to the proposed transaction or project are in compliance with all licence and code requirements, and will continue to be in compliance after completion of the proposed transaction or project.</p> <p>The parties to the proposed transaction are in compliance with all licence and code requirements, and will continue to be in compliance after completion of the proposed transaction or project.</p>	
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PART II: SECTION 80 OF THE ACT—TRANSMITTERS AND DISTRIBUTORS ACQUIRING AN INTEREST IN GENERATORS OR CONSTRUCTING A GENERATION FACILITY

All applicants filing a Notice of Proposal under section 80 of the Act must complete and file the information requested in Part II.

Not Applicable

2.1 Effect on Competition

2.1.2	Describe whether the proposed generation output will be primarily offered into the IAM, sold via bilateral contracts, or for own use.	
2.1.3	Provide a description of the generation including fuel source, technology used, maximum capacity output, typical number of hours of operation in a year, and peaking versus base-load character.	
2.1.4	Provide details on whether the generation facility is expected to sign a “must run” contract with the IESO.	
2.1.5	Provide details of whether the generation facility is expected to serve a “load pocket”, or is likely to be “constrained on” due to transmission constraints.	

2.2 System Reliability

Section 2.2 must be completed by applicants who are claiming that the proposed transaction or project is required for system reliability under section 82(2)(b) of the Act.

2.2.1	Provide reasons why the proposal is required to maintain the reliability of the transmission or distribution system. Provide supporting studies.	
2.2.2	Discuss the effect of the proposal on the adequacy (ability of supply to meet demand) of supply in the relevant control area or distribution region, citing effects on capacity plus reserve levels in comparison to load forecasts.	
2.2.3	Discuss the effect of the proposal on the security (ability of supply to respond to system contingencies) of supply.	
2.2.4	Provide a copy of the IESO Preliminary System Impact Assessment Report, if completed, and the IESO Final System Impact Assessment Report, if completed. If the IESO is not conducting a System Impact Assessment Report, please explain.	

PART III: SECTION 81 OF THE ACT—GENERATORS ACQUIRING AN INTEREST IN OR CONSTRUCTING A TRANSMISSION OR DISTRIBUTION SYSTEM

All applicants filing a Notice of Proposal under section 81 of the Act must complete and file the information requested in Part III.

3.1 Effect on Competition

3.1.1	<p>Provide a description of the transmission or distribution system being acquired or constructed.</p> <p>The ERHDC distribution system is being acquired. ERHDC is a licensed electricity distributor that owns and operates the electricity distribution system that serves approximately 3,288 electricity customers in the Town of Espanola and the Township of Sables-Spanish Rivers. ERHDC is embedded within Hydro One. ERHDC does not host any utilities within its service area.</p> <p>ERHDC Service Area: Community served: The Town of Espanola and the Township of Sables-Spanish Rivers Total service area: 102 sq. km Rural service area: 76 sq. km Distribution type: Electricity distribution Residential Customers Served: 2885 Municipal population: 8236</p>	
3.1.2	<p>Provide details on whether the generation facilities owned by the acquiring company are or will be directly connected to the transmission or distribution system being acquired or constructed.</p> <p>The generation facility owned by NBHSI will not be directly connected to the ERHDC distribution system, which is being acquired NBEAL.</p>	
3.1.3	<p>Provide details of whether the generation facility is expected to serve a “load pocket”, or is likely to be “constrained on” due to transmission constraints.</p> <p>The generation facility is <u>not</u> expected to serve a “load pocket”, and is <u>not</u> likely to be “constrained on” due to transmission constraints.</p>	
3.1.4	<p>Provide details on whether the generation facilities are expected to sign a “must run” contract with the IESO.</p> <p>The generation facility has <u>not</u>, and is <u>not</u> expected to, sign a “must run” contract with the IESO.</p>	

How to Contact the Ontario Energy Board

The Ontario Energy Board is located at:

P.O. Box 2319
2300 Yonge Street, Suite 2701
Toronto, Ontario
M4P 1E4

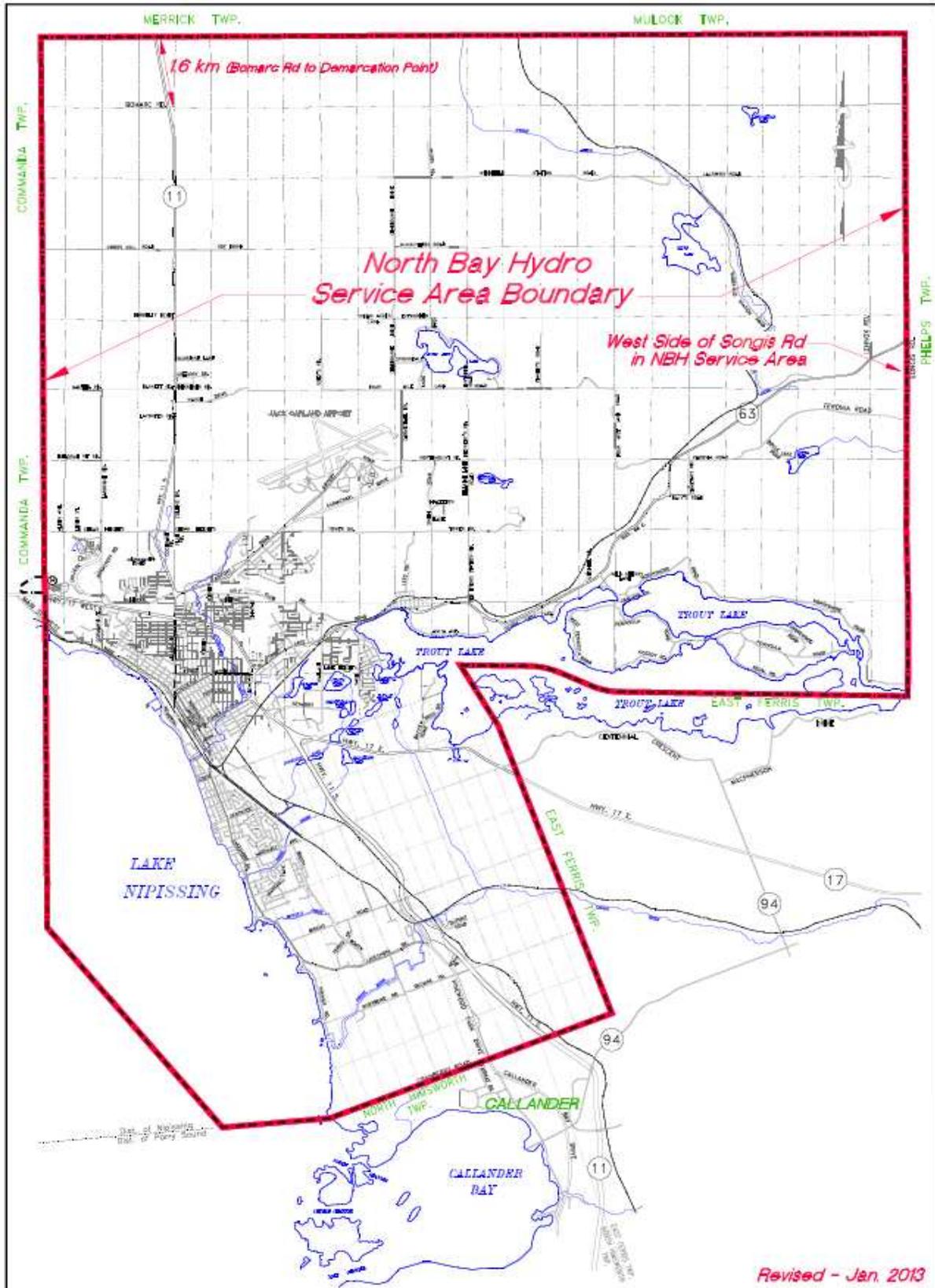
Telephone:	416-481-1967
Toll Free Number:	1-888-632-6273
Fax:	416-440-7656
Website:	http://www.oeb.gov.on.ca
Board Secretary's e-mail address:	boardsec@oeb.gov.on.ca

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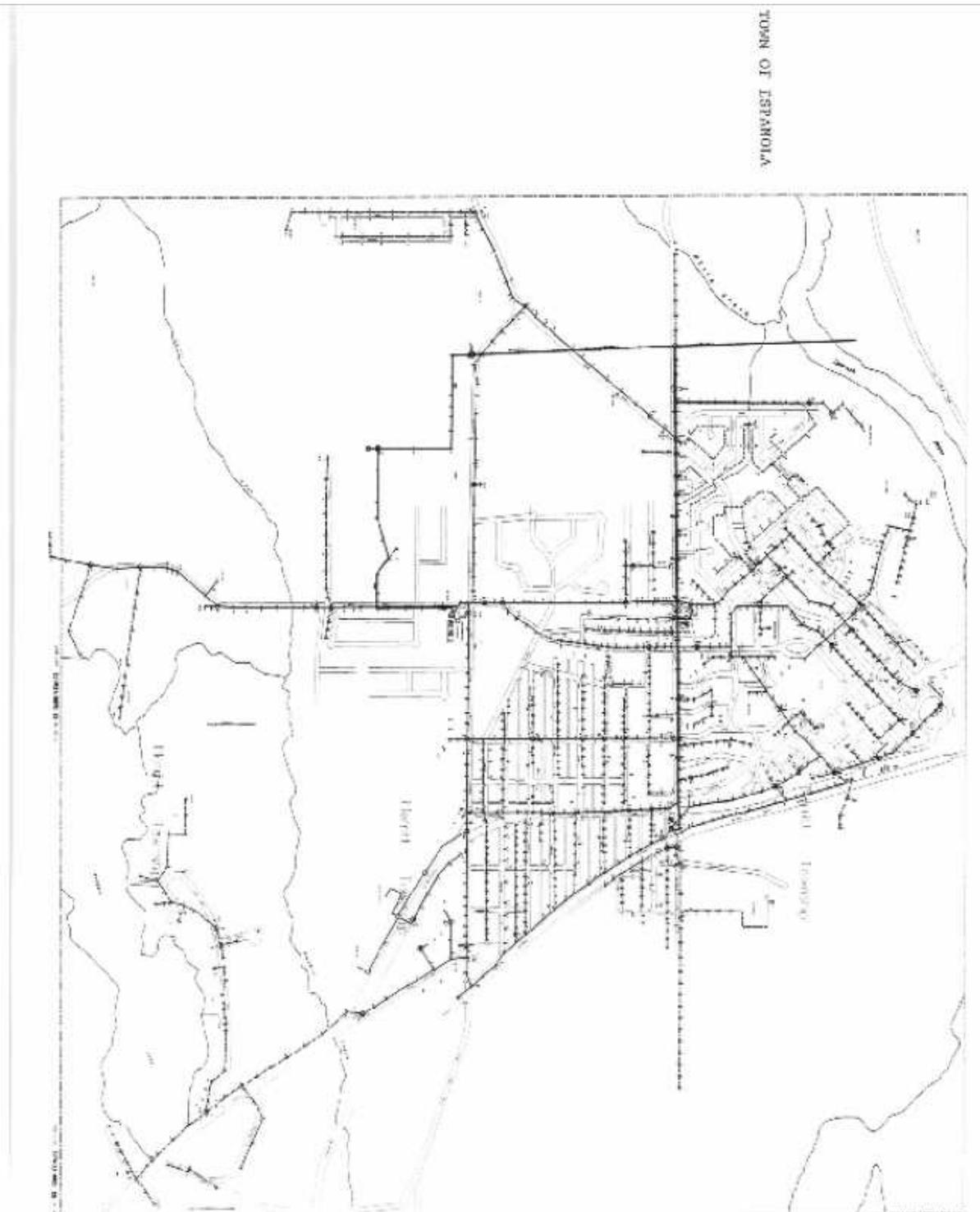
Appendix F

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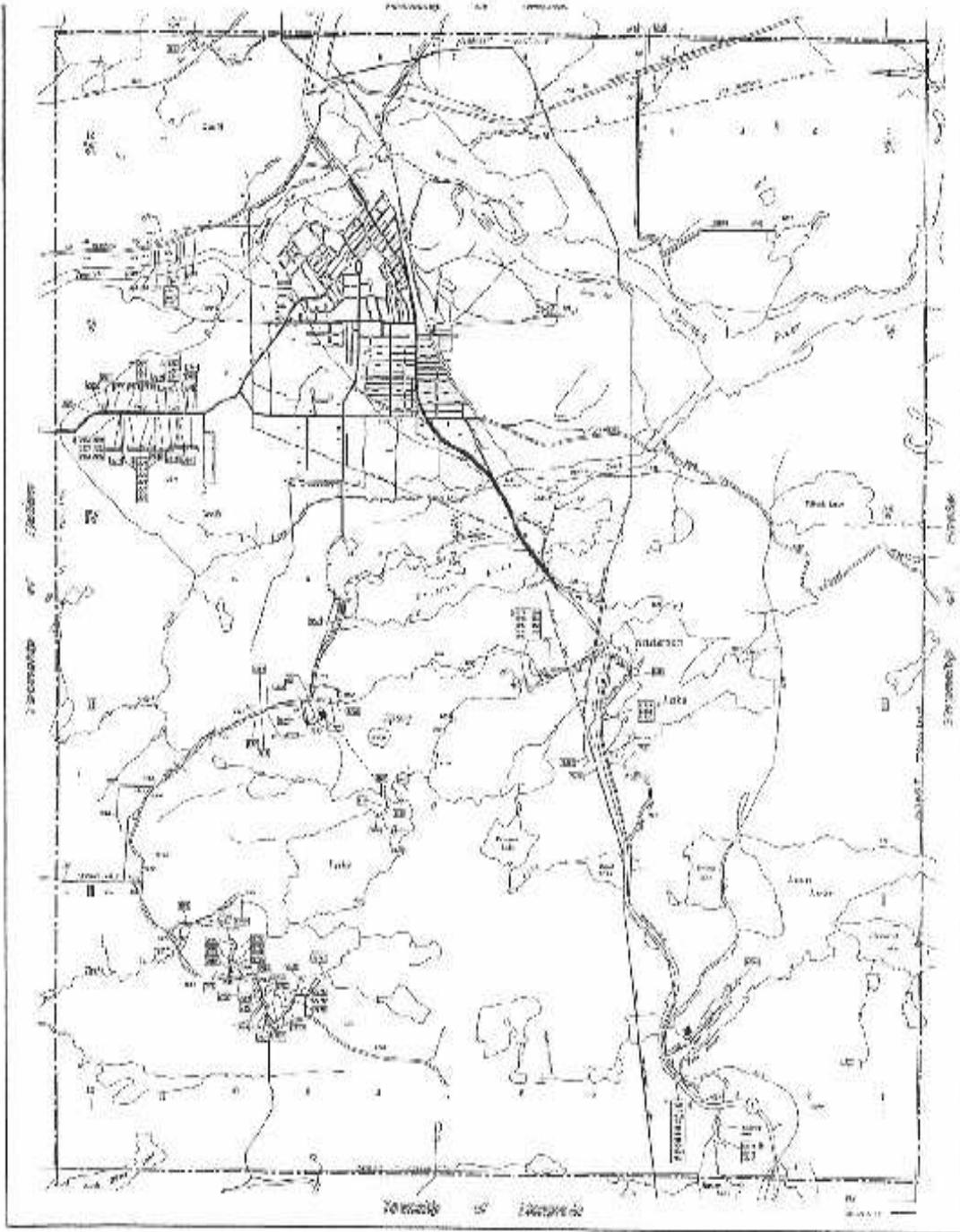
NBHDL map of distribution service territory and distribution system



1 **ERHDC map of distribution service territory and distribution system**

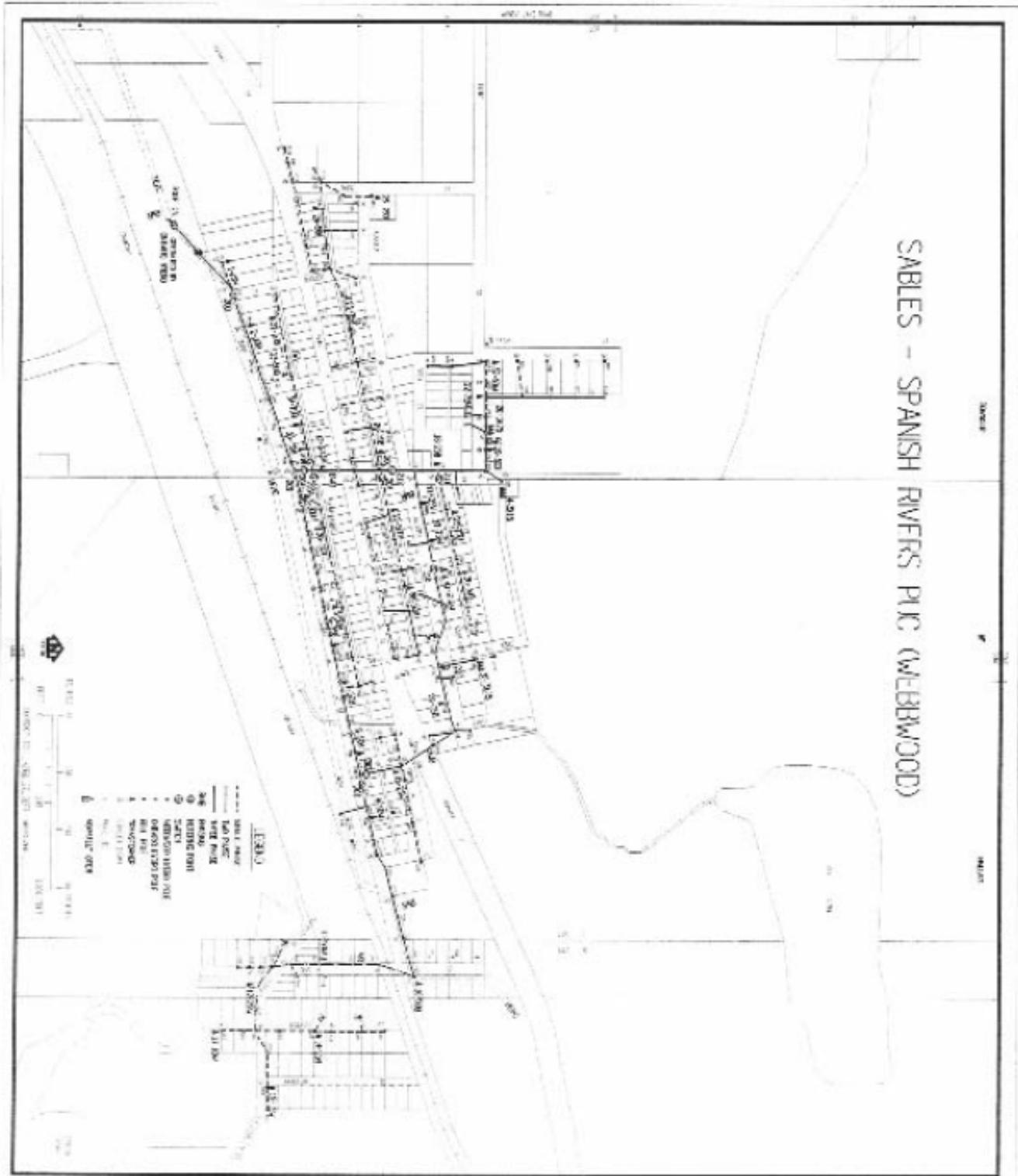


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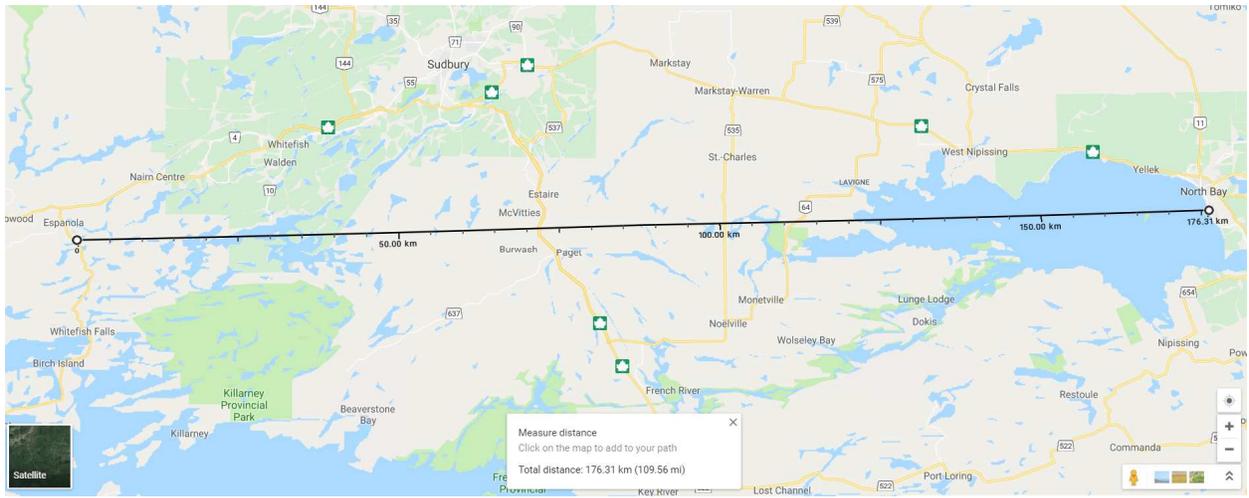


FERRITT TOWNSHIP

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1 **Map showing the relative distance between the service territories of NBHDL and ERHDC**



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Appendix G

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Resolutions by Parties Approving the Proposed Transaction

North Bay Hydro Holdings Limited

2018 - 12

Subject: Project Eddie

File No. _____

Res. No. 2018 - 12

Moved by: Mac Bain

Seconded by: George Maroosis

WHEREAS the Township of Espanola and the Township of Sables-Spanish Rivers (together, the “**Vendors**”) issued a confidential information memorandum (the “**CIM**”) in connection with the proposed sale of all of the issued and outstanding shares in the capital of Espanola Regional Hydro Holdings Corporation and its subsidiaries, Espanola Regional Hydro Distribution Corporation (“**ERHDC**”) and Espanola Regional Hydro Services Corporation (collectively, the “**Espanola Group**”);

AND WHEREAS North Bay Hydro Distribution Limited submitted a binding letter of intent pursuant to the terms of the CIM dated November 30, 2017 to bid on the acquisition of the Espanola Group and was selected as the preferred proponent;

AND WHEREAS North Bay Hydro Distribution Limited and the Vendors have negotiated the form of a securities purchase agreement in connection with the purchase and sale of the Espanola Group, a draft of which has been provided to the board of directors (the “**Securities Purchase Agreement**”);

AND WHEREAS in connection with the Securities Purchase Agreement, North Bay Hydro Holdings Ltd. (the “**Corporation**”) proposes to (i) form a wholly-owned subsidiary under the name “North Bay (Espanola) Acquisition Inc.” (or such other name as the directors and officers of North Bay Hydro Distribution Limited deem appropriate) (the “**Acquisition Vehicle**”), and (ii) execute and deliver the Securities Purchase Agreement as a guarantor of the obligations of the Acquisition Vehicle.

The Board of Directors moves that:

1. The Corporation is authorized to incorporate and organize the Acquisition Vehicle pursuant to the *Business Corporations Act* (Ontario) and make such nominations and appointments of directors and officers of the Acquisition Vehicle as the Corporation deems necessary and advisable.
2. The Corporation is authorized to enter into, execute and deliver the Securities Purchase Agreement and to perform its obligations thereunder.
3. The Corporation is authorized to enter into, execute and deliver and perform all other agreements, documents, certificates and instruments contemplated by the Securities Purchase Agreement (the “**Related Documents**”).
4. Any director or officer, for and on behalf of the Corporation, is authorized to negotiate, finalize, execute and deliver the Securities Purchase Agreement and the Related Documents and to do all such other acts and things which such director or officer may determine to be necessary or

North Bay Hydro Holdings Limited

advisable, or as the Corporation may be advised by counsel are necessary or advisable, to give effect to the foregoing provisions of these resolutions and the execution and delivery of the Securities Purchase Agreement such further Related Documents or other agreements and amendments or the doing of any such other act or thing by such director or officer being conclusive evidence of such determination.

In the event the Corporation is required to pay or perform any obligations of the Acquisition Vehicle under the Securities Purchase Agreement the Corporation will cause North Bay Hydro Distribution Limited to pay or perform such obligations, as applicable.

Carried Carried as amended Lost
Conflict _____ Endorsement of Chair _____

Record of Vote (*Upon Request of Board Member Tanya Vrebosch*)

Yeas Tanya Vrebosch Al McDonald Nays Mark King
Chris Mayne Derek Shogren
Daryl Vaillancourt Mac Bain
George Maroosis Dave Hoover
John Krieg

Signature of Corporate Secretary A. Dyck Date: July 17, 2018

**RESOLUTIONS OF THE BOARD OF DIRECTORS
OF
NORTH BAY (ESPANOLA) ACQUISITION INC.
(the "Corporation")**

WHEREAS the Township of Espanola and the Township of Sables-Spanish Rivers (together, the "**Vendors**") issued a confidential information memorandum (the "**CIM**") in connection with the proposed sale of all of the issued and outstanding shares in the capital of Espanola Regional Hydro Holdings Corporation and its subsidiaries, Espanola Regional Hydro Distribution Corporation ("**ERHDC**") and Espanola Regional Hydro Services Corporation (collectively, the "**Espanola Group**");

AND WHEREAS North Bay Hydro Distribution Limited submitted a binding letter of intent pursuant to the terms of the CIM dated November 30, 2017 to bid on the acquisition of the Espanola Group and was selected as the preferred proponent;

AND WHEREAS North Bay Hydro Distribution Limited and the Vendors have negotiated the form of a securities purchase agreement in connection with the purchase and sale of the Espanola Group, a draft of which has been provided to the board of directors (the "**Securities Purchase Agreement**");

AND WHEREAS in connection with the Securities Purchase Agreement, North Bay Hydro Holdings Ltd. formed the Corporation as a wholly-owned subsidiary of the Corporation to execute and deliver the Securities Purchase Agreement;

BE IT RESOLVED that:

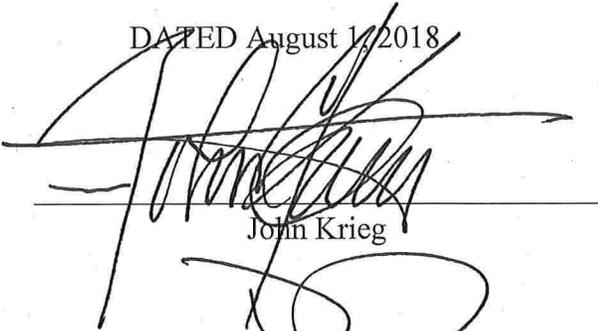
1. The Corporation is authorized to enter into, execute and deliver the Securities Purchase Agreement and to perform its obligations thereunder.
2. The Corporation is authorized to enter into, execute and deliver and perform all other agreements, documents, certificates and instruments contemplated by the Securities Purchase Agreement (the "**Related Documents**").
3. Any director or officer, for and on behalf of the Corporation, is authorized to negotiate, finalize, execute and deliver the Securities Purchase Agreement and the Related Documents and to do all such other acts and things which such director or officer may determine to be necessary or advisable, or as the Corporation may be advised by counsel are necessary or advisable, to give effect to the foregoing provisions of these resolutions and the execution and delivery of the Securities Purchase Agreement such further Related Documents or other agreements and amendments or the doing of any such other act or thing by such director or officer being conclusive evidence of such determination.

4. These resolutions may be executed in counterparts and by electronic means, each of which when so executed and delivered shall be an original, and all such counterparts shall together constitute one and the same instrument.

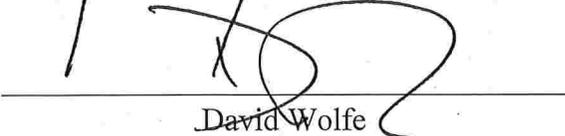
[SIGNATURE PAGE FOLLOWS]

The foregoing resolution is passed as evidenced by the signature of all of the directors of the Corporation pursuant to the provisions of the *Business Corporations Act* (Ontario).

DATED August 1, 2018

A large, stylized handwritten signature in black ink, written over a horizontal line.

John Krieg

A large, stylized handwritten signature in black ink, written over a horizontal line.

David Wolfe

A handwritten signature in blue ink, written over a horizontal line.

Richard Peters

THE CORPORATION OF THE TOWNSHIP OF SABLES-SPANISH RIVERS

BYLAW NUMBER 2018-52

Being a Bylaw for the Purpose of Entering into a Securities Purchase Agreement
And Escrow Agreement for the Sale of Espanola Regional Hydro Holdings Corporation

WHEREAS Section 10(1) of the Municipal Act, R.S.O. 2001, as amended, provides that a municipality may provide any service or thing that the municipality considers necessary or desirable for the public;

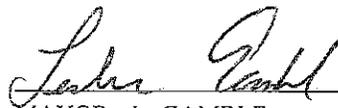
AND WHEREAS Section 10(2) provides that a municipality may pass bylaws relating to the financial management and public assets of the municipality;

AND WHEREAS it is deemed expedient to enter into a Securities Purchase Agreement with the Corporation of the Town of Espanola, North Bay Hydro Holdings Ltd., North Bay (Espanola) Acquisition Inc. and a subsequent Escrow Agreement, for the sale of Espanola Regional Hydro Holdings Corporation and Subsidiaries;

NOW THEREFORE the Council of the Corporation of the Township of Sables-Spanish Rivers ENACTS AS FOLLOWS:

1. That the said Securities Purchase Agreement is attached hereto as Schedule 'A' to this bylaw;
2. That the said Escrow Agreement is attached hereto as Schedule 'B' to this bylaw;
3. That the Mayor and Clerk are hereby authorized and directed to execute the attached agreements.

READ A FIRST AND SECOND TIME THIS 10TH DAY OF OCTOBER, 2018.


MAYOR -L. GAMBLE


CLERK -K. SLOSS

READ A THIRD AND FINAL TIME AND PASSED IN OPEN COUNCIL THIS 10TH DAY OF

OCTOBER, 2018.


MAYOR -L. GAMBLE


CLERK -K. SLOSS



The Corporation of the Town of Espanola

Bylaw No. 2879/18

**Being a Bylaw to execute an Agreement
Between the Corporation of the Town of Espanola
and The Corporation of the Township of Sables-Spanish Rivers and North
Bay Hydro (Espanola) Acquisition Inc.**

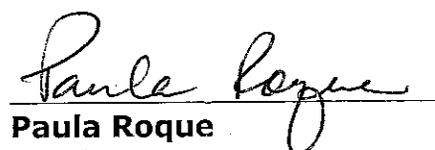
THAT the Council of the Corporation of the Town of Espanola enacts as follows:

That the Mayor and CAO/Treasurer are hereby authorized to execute a Securities Purchase Agreement Between the Corporation of the Town of Espanola and The Corporation of the Township of Sables-Spanish Rivers and North Bay Hydro (Espanola) Acquisition Inc.

2. That the agreement shall be attached to and become part of the bylaw.

Read a first, second and third time in open Council on this 9th day of October 2018.


Ron Piche
Mayor


Paula Roque
Clerk

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Appendix H
2017 Scorecards of ERHDC and NBHDL

Scorecard - Espanola Regional Hydro Distribution Corporation

Performance Outcomes	Performance Categories	Measures	2013	2014	2015	2016	2017	Trend	Target	
									Industry	Distributor
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time	94.70%	100.00%	100.00%	100.00%	100.00%	↑	90.00%	
		Scheduled Appointments Met On Time	95.40%	100.00%	100.00%	100.00%	98.18%	↑	90.00%	
		Telephone Calls Answered On Time	74.80%	77.30%	76.10%	76.20%	72.62%	↓	65.00%	
	Customer Satisfaction	First Contact Resolution		100%	99.8	99.17 %	99.60			
		Billing Accuracy		99.83%	99.93%	99.95%	99.95%	↑	98.00%	
		Customer Satisfaction Survey Results			89%	87 %	87 %			
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public Awareness			85.00%	85.00%	84.00%			
		Level of Compliance with Ontario Regulation 22/04 ¹	C	C	C	C	C	→	C	
		Serious Electrical Incident Index	Number of General Public Incidents	0	0	0	0	0	→	0
	Rate per 10, 100, 1000 km of line		0.000	0.000	0.000	0.000	0.000	→	0.000	
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted ²	1.05	0.21	0.27	0.55	0.35	↓	0.67	
		Average Number of Times that Power to a Customer is Interrupted ²	0.44	0.13	0.07	1.10	0.10	↑	0.33	
	Asset Management	Distribution System Plan Implementation Progress		In progress	On Track	On Track	On Track			
	Cost Control	Efficiency Assessment	2	2	2	2	2			
		Total Cost per Customer ³	\$612	\$602	\$658	\$670	\$661			
		Total Cost per Km of Line ³	\$14,642	\$14,388	\$15,465	\$15,702	\$15,421			
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Conservation & Demand Management	Net Cumulative Energy Savings ⁴			20.83%	35.54%	80.32%		2.41 GWh	
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time			0.00%	0.00%				
		New Micro-embedded Generation Facilities Connected On Time	100.00%	100.00%		100.00%	100.00%	→	90.00%	
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)	1.17	0.83	1.47	1.34	1.17			
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	0.76	1.10	1.30	1.22	1.17			
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	9.12%	9.12%	9.12%	9.12%	9.12%		
			Achieved	29.90%	28.00%	15.91%	6.29%	2.45%		

1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).

2. The trend's arrow direction is based on the comparison of the current 5-year rolling average to the distributor-specific target on the right. An upward arrow indicates decreasing reliability while downward indicates improving reliability.

3. A benchmarking analysis determines the total cost figures from the distributor's reported information.

4. The CDM measure is based on the new 2015-2020 Conservation First Framework.

Legend:

5-year trend
 up down flat

Current year
 target met target not met

Appendix A – 2017 Scorecard Management Discussion and Analysis (“2017 Scorecard MD&A”)

The link below provides a document titled “Scorecard - Performance Measure Descriptions” that has the technical definition, plain language description and how the measure may be compared for each of the Scorecard’s measures in the 2017 Scorecard MD&A:

[http://www.ontarioenergyboard.ca/OEB/ Documents/scorecard/Scorecard Performance Measure Descriptions.pdf](http://www.ontarioenergyboard.ca/OEB/Documents/scorecard/Scorecard%20Performance%20Measure%20Descriptions.pdf)

Scorecard MD&A - General Overview

In 2017, Espanola (“ERH”) had a successful year in meeting and exceeding all of the performance targets for the measures which have been established by the Ontario Energy Board (OEB) in this scorecard.

ERH had a strong performance in Operational Effectiveness in 2017. Not only has ERH exceeded the 5 year rolling average distributor target in both reliability performance metrics, ERH has also, for a fifth year in a row, had zero public incidents in relation to safety.

For the fifth year in a row, ERH has maintained an efficiency assessment rating of Group 2 which is defined as having actual costs between 10% and 25% below predicted costs under the PEG model. ERH’s Total Costs per Customer and Km of Line has decreased in 2017 compared to 2016.

In 2018, ERH will continue working towards maintaining its high level of customer satisfaction and operational effectiveness.

Service Quality

- **New Residential/Small Business Services Connected on Time**

In 2017, ERH connected 21 eligible low-voltage residential and small business customers (connections under 750 volts) to its distribution system, with 100% of these connections completed with the five-day timeline prescribed by the Ontario Energy Board (OEB). This score exceeds the OEB mandated threshold of 90%.

- **Scheduled Appointments Met On Time**

In 2017, ERH scheduled 56 appointments with customers to complete customer requested work (e.g. meter installs/removals, service disconnects/reconnects, meter locates etc.) ERH exceeded the OEB target of 90% by meeting this performance measure 98.18% of the time.

- **Telephone Calls Answered On Time**

In 2017, ERH's Customer Care Department received 3,955 calls from its customers. Of those calls, a Customer Care Representative answered the call in 30 seconds or less, 72.62% of the time. Although a slight decrease from the 2016 results, ERH exceeded the OEB target of 65%. Unexpected staffing shortages can be attributed in part to the slight decline for this measure, as well as an increase in call volume due to being a multi utility contact center. ERH will continue to monitor this performance measure to identify opportunities for improvement.

Customer Satisfaction

- **First Contact Resolution**

ERH's First contact Resolution was measured by tracking the number of electric related calls that were escalated to a Senior Customer Care Representative, Supervisor, or Manager. This was accomplished by tracking two specific call types in our Customer Information System (CIS), which are queried to provide the number of customer concerns that were escalated.

In 2017, ERH had 3,955 calls, of which, 16 contacts were escalated to a higher level of management. This resulted in a First Contact Resolution percentage of 99.60%.

- **Billing Accuracy**

ERH issued approximately 40,000 bills for the period from January 1, 2017 – December 31, 2017 and achieved an accuracy of 99.95%. This compares favorably to the prescribed OEB target of 98%. ERH continues to monitor its billing accuracy results and processes to identify opportunities for improvement.

- **Customer Satisfaction Survey Results**

ERH conducts a customer satisfaction survey every two years with the last one conducted in 2016. Our next survey is scheduled for 2018.

Safety

- **Public Safety**

The Public Awareness of Electrical Safety measure (Component A) was introduced by the OEB in 2015 and focuses on the safety of the distribution system from a customer's point of view. The Electrical Safety Authority (ESA) provides an assessment as it pertains to Component B – Compliance with Ontario Regulation 22/04 and Component C – Serious Electrical Incident Index.

- **Component A – Public Awareness of Electrical Safety**

A representative sample of ERH's service territory population was surveyed in 2017 to gauge the public's awareness level of key electrical safety concepts related to distribution assets. The purpose of the survey was to provide a benchmark level concerning the public's electrical safety awareness and to identify opportunities where additional education and outreach may be required.

Results of the survey were analyzed in 2018 for opportunities to improve existing customer care processes and identify any public safety communication needs. ERH is pleased to report it received an index score of 84% on the 2017 survey.

- **Component B – Compliance with Ontario Regulation 22/04**

Ontario Regulation 22/04 establishes objective based electrical safety requirements for the design, construction and maintenance of electrical distribution systems owned by licensed distributors. Specifically, the regulation requires the approval of equipment, plans, and specifications, and the inspection of construction before they are put in service.

Component B is comprised of an External Audit, a Declaration of Compliance, Due Diligence Inspections, Public Safety Concerns, and Compliance Investigations. All these elements are evaluated as a whole to determine the status of compliance. Over the past seven years, ERH was found to be compliant with Ontario Regulation 22/04 (Electrical Distribution Safety). ERH attributes this continued success to our strong commitment to safety, and adherence to company policies and procedures.

- **Component C – Serious Electrical Incident Index**

Section 12 of Ontario Regulation 22/04 specifies the requirement to report to the ESA any serious electrical incidents of which they become aware within 48 hours after the occurrence. ERH had no serious electrical incidents to report for 2017. The utility has not had a serious electrical incident to report in the last five years. For 2017, the results are zero incidents with a rate of 0.0 per 100 km of line.

ERH remains strongly committed to both the safety of staff and the general public. ERH regularly provides its customers with electrical

safety information via its website and bill inserts. Additionally, ERH has made significant maintenance and capital infrastructure investments in the past several years to enhance system safety and reliability.

System Reliability

A key change for 2017, as required by the OEB, is the revised reporting of reliability data with respect to Major Events. Specifically the change serves to a) adjust the reliability data to remove the impact of Major Events and b) require reporting of criteria to monitor the distributor's performance related to the Major Event. The 2017 Scorecard system reliability data, excludes both Loss of Supply and Major Events. The adjusted reliability measures capture interruptions caused by circumstances within the distributor's control and are published in the 2017 scorecard.

A "Major Event" is defined as an event that is beyond the control of the distributor and is:-

- a) Unforeseeable;
- b) Unpredictable;
- c) Unpreventable; or
- d) Unavoidable.

Such events disrupt normal business operations and occur so infrequently that it would be uneconomical to take them into account when designing and operating the distribution system. Such events cause exceptional and/or extensive damage to assets, they take significantly longer than usual to repair, and they affect a substantial number of customers.

In 2017 there were three major event days that occurred on July 7, October 24 and Nov 10. All were the result of a loss of supply.

- **Average Number of Hours that Power to a Customer is Interrupted**

The System Average Interruption Duration Index (SAIDI) of 0.35 in 2017 was below the target of 0.67. There are ongoing efforts to improve reliability including replacing aging infrastructure and improving vegetation management.

- **Average Number of Times that Power to a Customer is Interrupted**

The System Average Interruption Frequency Index (SAIFI) of .10 in 2017 was below the target of 0.33. Consistent with SAIDI, there are ongoing efforts to improve reliability including replacing aging infrastructure and improving vegetation management.

Asset Management

• Distribution System Plan Implementation Progress

Although ERH has employed some degree of distribution system planning for several years, it began drafting its first formal Distribution System Plan (DSP) meeting all OEB Chapter 5 Filing Requirements in 2015-2016. The intention was to begin filing with the OEB as part of the 2017 Cost of Service Application. Activity was halted however in the summer of 2017 with the announcement of the pending sale of ERH to another LDC and the possibility of associated changes to the long term plans.

Cost Control

• Efficiency Assessment

The total costs for Ontario local electricity distribution companies are evaluated by the Pacific Economics Group LLC (PEG) on behalf of the OEB to produce a single efficiency ranking. The PEG econometrics model attempts to standardizes costs to facilitate more accurate cost comparisons among distributors by accounting for differences such as number of customers, treatment of high and low voltage costs, kWh deliveries, capacity, customer growth, length of lines, etc. All Ontario electricity distributors are divided into five groups based on the magnitude of the difference between their respective individual actual costs versus the PEG model predicted costs. The following table summarizes the distribution of all distributors across the 5 groupings for 2017.

Group	Demarcation Points for Relative Cost Performance	Group Ranking	# of Ontario LDCs in Group
1	Actual costs are 25% or more below predicted costs	Most Efficient	6
2	Actual costs are 10% to 25% below predicted costs	More Efficient	16
3	Actual costs are within +/-10% of predicted costs	Average Efficiency	29
4	Actual costs are 10% to 25% above predicted costs	Less Efficient	11
5	Actual costs are 25% or more above predicted costs	Least Efficient	3

In 2017, for the fifth year in a row, ERH was placed in Group 2, where a Group 2 distributor is defined as having actual costs between 10% and 25% below predicted costs under the PEG model. ERH's efficiency performance based on the PEG model was under the predicted costs by 23.1% in 2017 compared to 20.9% in 2016.

- **Total Cost per Customer**

Total cost per customer is calculated as the sum of ERH's capital and operating costs, including certain adjustments to make the costs more comparable between distributors (i.e. under the PEG econometrics model) and dividing this cost figure by the total number of customers that ERH serves. The cost performance result for 2017 is \$661 per customer which is a 1.34% decrease over 2016.

Overall, ERH's Total Cost per Customer has increased on average by 2.04% per annum over the period 2013 through 2017. ERH will continue to replace distribution assets proactively in a manner that balances system risks and customer rate impacts. Customer engagement initiatives that commenced in 2016 will continue in order to ensure customers have an opportunity to share their viewpoint on ERH's capital spending plans.

- **Total Cost per Km of Line**

This measure uses the same total cost that is used in the Cost per Customer calculation above. The Total Cost is divided by the kilometers of line that the company operates to serve its customers. ERH's 2017 rate is \$15,421 per Km of line, a 1.79% decrease over 2016.

ERH continues to experience a low level of growth in its total kilometers of lines due to a low annual customer growth rate. Such a low growth rate has reduced the ability to fund capital renewal and increasing operating costs through customer growth. As a result, total cost per Km of line has increased an average of 1.37% since 2013 with the increase in capital and operating costs.

Conservation & Demand Management

- **Net Cumulative Energy Savings**

ERH is 80.32% towards its 2020 target. This is a positive testament to the channel partner outreach that has been happening throughout the program. We have also been working with the local township to decrease the consumption at its facilities including the local hospital.

On the residential side we continue to engage customers out in the community through public outreach events. We reach out to customers at these events to discuss conservation, give tips on how to reduce their consumption and hear stories from people about how they conserve hydro.

Connection of Renewable Generation

- **Renewable Generation Connection Impact Assessments Completed on Time**

Electricity distributors are required to conduct Connection Impact Assessments (CIAs) within 60 days of receiving authorization for their project from the Electrical Safety Authority.

For the year 2017 no CIA requests were received. However, ERH maintains its processes to ensure all applications are processed within the prescribed timelines if and when they are received.

- **New Micro-embedded Generation Facilities Connected On Time**

In 2017, Interest in micoFIT program was less than in previous years. ERH received only one application and connected within the prescribed time frame of five business days representing a performance score of 100%. The minimum acceptable performance level for this measure is 90%. Outside of the micoFIT program, no applications for net metering (load displacement) installations were received.

Financial Ratios

- **Liquidity: Current Ratio (Current Assets/Current Liabilities)**

As an indicator of financial health, a current ratio that is greater than 1 is considered good as it indicates that the company can pay its short term debts and financial obligations. Companies with a ratio of greater than 1 are often referred to as being "liquid". The higher the number, the more "liquid" and the larger the margin of safety to cover the company's short-term debts and financial obligations.

ERH's current ratio decreased from 1.34 in 2016 to 1.17 in 2017 which is still above 1.

- **Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio**

The OEB uses a deemed capital structure of 60% debt, 40% equity for electricity distributors when establishing rates. This deemed capital mix is equal to a debt to equity ratio of 1.5 (60/40). A debt to equity ratio of more than 1.5 indicates that a distributor is more highly levered than the deemed capital structure. A high debt to equity ratio may indicate that an electricity distributor may have difficulty generating sufficient cash flows to make its debt payments. A debt to equity ratio of less than 1.5 indicates that the distributor is less levered than the deemed capital structure. A low debt to equity ratio may indicate that an electricity distributor is not taking advantage of the increased profits that financial leverage may bring.

ERH has a debt to equity ratio of 1.17 in 2017 which is below the deemed capital structure.

- **Profitability: Regulatory Return on Equity – Deemed (included in rates)**

ERH's current distribution rates were approved by the OEB and include an expected (deemed) regulatory return on equity of 9.12%. The OEB allows a distributor to earn within +/- 3 percentage points of the expected return on equity. When a distributor performs outside of this range, the actual performance may trigger a regulatory review of the distributor's revenues and costs structure by the OEB.

- **Profitability: Regulatory Return on Equity – Achieved**

ERH's return on equity achieved in 2017 was 2.45%, which is below the +/-3 percentage points range allowed by the OEB. The achieved return on equity is 2.45% primarily due to unfavourable Distribution Revenue as ERH has not had a rate increase in 3 years, higher OM&A expenses and an increase in Regulated Deemed Debt.

Note to Readers of 2017 Scorecard MD&A

The information provided by distributors on their future performance (or what can be construed as forward-looking information) may be subject to a number of risks, uncertainties and other factors that may cause actual events, conditions or results to differ materially from historical results or those contemplated by the distributor regarding their future performance. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and the weather. For these reasons, the information on future performance is intended to be management's best judgement on the reporting date of the performance scorecard, and could be markedly different in the future.

Scorecard - North Bay Hydro Distribution Limited

9/24/2018

Performance Outcomes	Performance Categories	Measures	2013	2014	2015	2016	2017	Trend	Target		
									Industry	Distributor	
Customer Focus Services are provided in a manner that responds to identified customer preferences.	Service Quality	New Residential/Small Business Services Connected on Time	100.00%	100.00%	100.00%	100.00%	100.00%	↔	90.00%		
		Scheduled Appointments Met On Time	100.00%	100.00%	100.00%	99.90%	100.00%	↓	90.00%		
		Telephone Calls Answered On Time	78.20%	78.40%	82.10%	83.60%	86.56%	↑	65.00%		
	Customer Satisfaction	First Contact Resolution			4	6	14	6			
		Billing Accuracy			99.92%	99.88%	99.70%	99.74%	↓	98.00%	
		Customer Satisfaction Survey Results	93.3%	A	A	85%	85%				
Operational Effectiveness Continuous improvement in productivity and cost performance is achieved; and distributors deliver on system reliability and quality objectives.	Safety	Level of Public Awareness			81.00%	81.00%	81.00%				
		Level of Compliance with Ontario Regulation 22/04 ¹	C	C	C	C	C	↔		C	
		Serious Electrical Incident Index	Number of General Public Incidents	0	0	0	0	0	↔		0
	Rate per 10, 100, 1000 km of line		0.000	0.000	0.000	0.000	0.000	↔		0.000	
	System Reliability	Average Number of Hours that Power to a Customer is Interrupted ²	1.66	1.65	1.10	2.29	1.11	↓		2.10	
		Average Number of Times that Power to a Customer is Interrupted ²	1.63	1.13	0.88	1.98	0.94	↓		1.99	
	Asset Management	Distribution System Plan Implementation Progress		87%	94%	106%	118%				
	Cost Control	Efficiency Assessment	3	3	3	3	3				
		Total Cost per Customer ³	\$614	\$659	\$675	\$659	\$672				
Total Cost per Km of Line ³		\$25,228	\$27,926	\$28,297	\$27,680	\$28,233					
Public Policy Responsiveness Distributors deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board).	Conservation & Demand Management	Net Cumulative Energy Savings ⁴			20.96%	102.04%	129.07%			20.26 GWh	
	Connection of Renewable Generation	Renewable Generation Connection Impact Assessments Completed On Time									
		New Micro-embedded Generation Facilities Connected On Time	100.00%	100.00%	100.00%	100.00%	100.00%	↔	90.00%		
Financial Performance Financial viability is maintained; and savings from operational effectiveness are sustainable.	Financial Ratios	Liquidity: Current Ratio (Current Assets/Current Liabilities)	1.65	1.84	2.07	2.09	1.92				
		Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio	0.72	0.81	0.94	0.95	1.01				
		Profitability: Regulatory Return on Equity	Deemed (included in rates)	9.85%	9.85%	9.30%	9.30%	9.30%			
			Achieved	8.88%	7.17%	10.65%	9.01%	8.56%			

1. Compliance with Ontario Regulation 22/04 assessed: Compliant (C); Needs Improvement (NI); or Non-Compliant (NC).

2. The trend's arrow direction is based on the comparison of the current 5-year rolling average to the distributor-specific target on the right. An upward arrow indicates decreasing reliability while downward indicates improving reliability.

3. A benchmarking analysis determines the total cost figures from the distributor's reported information.

4. The CDM measure is based on the new 2015-2020 Conservation First Framework.

Legend:

5-year trend
 up down flat

Current year
 target met target not met

2017 Scorecard Management Discussion and Analysis (“2017 Scorecard MD&A”)

The link below provides a document titled “Scorecard - Performance Measure Descriptions” that has the technical definition, plain language description and how the measure may be compared for each of the Scorecard’s measures in the 2017 Scorecard MD&A:

http://www.ontarioenergyboard.ca/OEB/Documents/scorecard/Scorecard_Performance_Measure_Descriptions.pdf

Scorecard MD&A - General Overview

In 2017 North Bay Hydro Distribution Ltd. (“NBHDL”) once again met or exceeded all performance targets, continuing the 5-year trend that consistently shows an efficient, stable business meeting industry objectives.

- ✓ In 2017 NBHDL achieved 129% of its 2015-2020 Conservation and Demand (“CDM”) target. A significant driver of this achievement is the leading edge, technologically advanced cogeneration plant that went into operation in late 2016 at the North Bay Regional Health Centre. This project continues to be a great success for all partners involved. NBHDL’s strength is in its CDM team and its foundation. Implementing best practices with local contractors as well the direct customer base has ensured a stronger participation rate in both residential and business programs. 58 commercial businesses in the community participated in incentive programs in 2017 and the team has also developed and delivered innovative pilot programs to its residential customers.
- ✓ NBHDL continues to be a leading example of how locally based LDCs play a critical and unique role in the distributed energy future Ontario is embracing and the delivery of energy efficiency programs. Continuing with the forward-thinking approach, NBHDL broke ground on the first microgrid of its kind in Canada on the local Community Energy Park, which looks to be in operation in late 2018/early 2019. This project will be a significant example to LDCs looking to provide green energy and resiliency to its communities.
- ✓ NBHDL continues to work in collaboration with other LDC’s through the CustomerFirst framework to jointly plan and implement CDM programs. The CustomerFirst team includes Greater Sudbury Hydro, Northern Ontario Wires, PUC Distribution, Espanola Hydro, Newmarket-Tay Hydro, and NBHDL. This partnership allows utilities to design and deliver more cost effective CDM projects resulting in greater savings for customers.
- ✓ Effective customer engagement continued to be a priority in 2017. A focus has been made on providing a more responsive and interactive social media presence, as shown by a 65% increase in our following, as well as continuing to better inform customers of outages, programs, assistance and opportunities that are available to them.
- ✓ The tree replacement initiative continues to be an encouragingly well-received program that results in an annual waiting list. In an effort to promote a Green Canopy and to give back to customers affected by NBHDL’s vegetation management work, staff have planted over 100 trees/shrubs throughout the City.
- ✓ NBHDL has delivered on another successful year while addressing the considerable challenges of an aging workforce, a trend seen across the industry. 2017 represented the start of a significant transition in the senior management team that will continue through 2018 as the company continues to execute on a succession plan that has been in development over the last several years.
- ✓ NBHDL continues to participate in many community-based events, made possible because of our presence in North Bay and the significant relationships NBHDL has fostered at the local level. The positive outreach, commitment and dedication found through these opportunities, such as bucket rides at the annual Christmas walk and safety presentations at local children centres, ensures that NBHDL continues to be an integral part of our City.

The details provided in this report on service quality, customer satisfaction, safety, system reliability, asset management, cost control, CDM results, and financial ratios confirm NBHDL’s continuing strong performance in 2017.

Service Quality

- **New Residential/Small Business Services Connected on Time**

In 2017 approximately 43 eligible low-voltage residential and small business customers were connected to the system within the five-day timeline prescribed by the OEB, 100% of the time. NBHDL has achieved results above the industry target of 90% since 2009 and has done so through a continued commitment to customers and through adherence to processes in place to meet the five-day window.

Where feasible, NBHDL coordinates connection activities with other planned construction activities undertaken by the utility and throughout the City of North Bay. NBHDL attends the annual utilities meeting held by the City's engineering department and is involved on the City Development and Review Team ("DART") where representatives from all utilities, City departments (Public Works, Parks and Rec, Economic Development Office (EDO), Fire, etc.) and local agencies (MTO, North Bay and Mattawa Conservation Authority, etc.) review applications put forth to the City that involve new development/servicing, zoning changes, and site plan and control. A strong relationship exists between NBHDL and the EDO and this provides the City with the ability to easily obtain information that helps in attracting new development into the NBHDL service territory.

- **Scheduled Appointments Met On Time**

Almost 3,800 appointments were scheduled with customers in 2017 for various activities including, but not limited to, work requested by customers, conservation and demand management initiatives, providing underground locate services, meter access and investigation when requested by customers. NBHDL also meets with customers regarding the tree trimming program that includes not only discussing the program itself, but addressing customer concerns and questions and obtaining the proper permissions for tree removal or trimming. NBHDL met all of these appointments on time, exceeding the industry target of 90%. NBHDL strives to maintain this high standard and has maintained a 99.9% average since 2009.

NBHDL maintains routine appointment scheduling for different activities (ex; service spots are completed every Thursday) and strives to meet appointments on time at all times. If the appointment is initiated by NBHDL, customers are contacted and scheduled at a time that best meets their schedule. An automated system handles underground locate requests which flow through Ontario One Call; once a customer calls into Ontario One Call an email is sent to NBHDL and a work order is automatically created and sent to mobile units in the field. Field staff schedule the work within a 5 day window. This automation has created a very efficient process for both customers and employees and, unlike many utilities, NBHDL completes this program with in house staff for quality assurance and flexibility to respond to requests.

- **Telephone Calls Answered On Time**

In 2017 Customer Service Representatives ("CSR") handled almost 24,000 in-coming calls from customers; over 86.6% of those calls were answered in 30 seconds or less. This result exceeds the OEB mandated 65% target for timely call response. NBHDL has averaged over 26,700 calls per year to its Customer Service Centre over the last 5 years and has consistently performed ahead of the OEB's target while experiencing improvement in the performance metric resulting in 2017's best result, almost 20% ahead of the industry target for the second year in a row.

NBHDL's Customer Service department is centralized to handle all inquiries; customers can call and speak with a representative that is able to handle all types of inquiries or concerns eliminating the need to transfer customers to different individuals or departments – a one-stop shop. It is important to note that, though not a statistic the OEB measures, CSRs served over 10,000 walk-in customers and handled over 5,000 outbound calls in 2017. The number of walk-ins and daily customer interactions lends support to NBHDL's belief that customers benefit from having the option to walk into an office, within their community, and have a face to face conversation with knowledgeable staff who are on hand to help with any concern they may have.

Customer Satisfaction

With the exception of Billing Accuracy, specific customer satisfaction measurements have not been defined across the industry. The OEB has instructed utilities to review and develop measurements in these areas and begin tracking with plans to review information provided by utilities over the next few years and implement a commonly defined measure for these areas in the future. As a result, each utility may have different measurements of performance until such time as the OEB provides specific direction regarding a commonly defined measure.

- **First Contact Resolution**

First Contact Resolution can be measured in a variety of ways and further regulatory guidance is necessary in order to achieve meaningful comparable information across electricity distributors.

Due to customer demand, NBHDL is one of few utilities to still offer counter service to walk-in customers and front line staff are trained to resolve customers' issues directly, both on the phone and in-person. For NBHDL, First Contact Resolution is measured based on the number of customer concerns that are escalated formally to NBHDL's President or directly to the OEB. NBHDL's CSRs endeavor to resolve all customer concerns directly, however, calls can be escalated to department managers either by customer request or in cases where management input is required. Much like the front line staff, management makes every attempt to resolve the concern in a matter that satisfies the customer and meets internal policies. As a customer centric service provider, NBHDL staff and management are typically able to resolve customer issues, however, in 2017 six (6) concerns were escalated; one (1) to the President and six (6) to the OEB. This represents less than .02% of NBHDL's 24,000 customers.

A large proportion of customer complaints are related to the overall cost of hydro, which is a real concern for everyday people and businesses across the Province. NBHDL recognizes the impact costs have on customers and we strive to find on-going and sustainable efficiencies within the business, however, NBHDL is only responsible for approximately 20% of the total bill for residential customers; the remaining 80% of costs are collected by NBHDL on behalf of various provincial entities. NBHDL is the frontline for the broader electricity sector and with this position comes the responsibility for answering customers' questions and concerns that are the result of the actions of other sector participants and outside the scope of NBHDL's direct control. This can be both challenging and frustrating for customers.

In all instances of customer concerns the issue is addressed directly and every attempt is made to ensure the proper processes and policies are in place, and followed, to prevent future escalations and to ensure fairness to all customers and NBHDL while delivering an efficient customer service experience.

- **Billing Accuracy**

After consultation with electricity distributors, the OEB has prescribed a measurement of billing accuracy which must be used by all utilities. An industry target of 98% billing accuracy was established.

In 2017 just over 302,500 bills were issued to customers and NBHDL achieved a billing accuracy of 99.7%, exceeding the prescribed OEB target of 98%. Over the last four years, NBHDL has averaged 99.8% in this metric and continuously monitors its billing accuracy and processes to identify opportunities for improvement and to ensure accurate bills are produced for customers.

- **Customer Satisfaction Survey Results**

The OEB introduced the Customer Satisfaction Survey Results measure beginning in 2013. At a minimum, electricity distributors are required to measure and report a customer satisfaction result at least every other year. At this time the OEB is allowing electricity distributors' discretion as to how they implement this measure.

Regardless of the OEB's formal introduction of Customer Satisfaction Survey Results customer engagement has always been important to the success of NBHDL, the purpose of which has been to focus on addressing issues of concern raised directly by customers. NBHDL is both proactive and reactive in its customer engagement consultations, the majority of which provide helpful insight in to the day to day operations of NBHDL. Historically NBHDL has relied on direct, day-to-day, real time interactions with customers to inform decision making, to advise of issues important to customers and to address communication and customer service needs.

For the 2016 filing, NBHDL once again engaged the commonly used UtilityPULSE for the bi-annual formal customer satisfaction survey. This survey is widely utilized among LDCs in Ontario and the results of the survey contribute to benchmarking scores from electric utility customers across Canada. The survey covers a wide range of issues relating to customer satisfaction, service levels, business operations, reliability, conservation, smart meters and smart grid. The survey provides information that supports improving customer care at every level of the business. In addition to providing NBHDL customer responses to a variety of questions, both provincial and national results were provided to give NBHDL a sense of not only where the company stands in terms of customer perception, but how NBHDL fares across other LDCs in Ontario and across the board in Canada.

The results of the survey provided a snapshot of performance based on customer responses on 6 categories: Customer Care (Price/Value), Company Image (Corporate Leadership/Stewardship) and Management Operations (Operational Effectiveness/Power Quality & Reliability). As the statistic evolved, NBHDL has determined that a percentage (%) result would be more informative, aligned with the other scorecard metrics and provide for easier comparability. NBHDL believes one of the key metrics within the UtilityPULSE survey is the 'Customer Experience Performance rating (CEPr) score'. This is an effectiveness rating and is affected by many dimensions of service. Every touch point with customers on the phone, website or in-person influences what customers think and feel about the organization. NBHDL scored 85% on this metric, exceeding the Ontario LDC average of 80% and the National average of 82%. NBHDL believes that this metric provides an overall picture of customer experience and satisfaction and will use this result for future comparisons until such time as the OEB determines a measure across the industry. For comparison purposes with the 2014-2015 scorecard results, NBHDL was once again graded with an overall "A" compared to an Ontario and National average of "B" and "B+" respectively.

NBHDL sets a high standard for performance when it comes to customer care and is especially proud of this result considering the increase in customer concerns over pricing and value across the Province. NBHDL strives to deliver customer excellence and value and believes this is shown in the various results of the survey including the category of demonstrating credibility and trust, where NBHDL once again exceeded 80%. In fact, the customer satisfaction results of the survey increased from 87% to 89% after customers went through the entire survey. NBHDL takes great pride in this. We feel that once customers see the big picture of what happens at the local level, within the community, the value of the work we do to provide safe and reliable power and excellent customer service becomes more apparent.

NBHDL will continue to use the bi-annual survey results to benchmark improvement and to identify additional opportunities to enhance customer satisfaction. Ongoing, daily interactions that leave the customer with the information they need will remain NBHDL's highest priority.

Safety

NBHDL is committed to protecting our workforce, customers, the public and the environment. In addition to achieving compliance with applicable laws, we strive for excellence in our environmental, health and safety performance through adopting good management practices and setting clear objectives and targets for achieving continual improvement. To achieve this, we ensure that environmental, health and safety management accountabilities and responsibilities are clearly defined and understood, that our employees are competent and effectively trained, and that appropriate resources are made available.

NBHDL has a Joint Health and Safety Committee that meets monthly or as determined by the Committee. Multiple safety training sessions are held for staff throughout the year. While formal meetings and training programs are important, safety is a daily focus and practice for all employees. NBHDL makes every effort to eliminate accidents/incidents in the workplace and should an accident/incident occur, it is investigated for cause(s) and recommended action(s) are put in place when necessary to prevent a reoccurrence.

In 2017 NBHDL had a serious electrical contact incident at a substation. Fortunately, the worker did not sustain serious injuries and the accident did not result in any lost time. Prior to this incident NBHDL employees had worked 2,271 days and 550,930 hours without a lost time incident. Although some may consider the incident a one-time event NBHDL took the situation with the utmost seriousness, re-evaluated the current practices, and reset the safety culture. The new safety culture instilled now focuses on awareness, involvement, accountability and most importantly the continuous improvement of safety in order to ensure that a situation like the 2017 incident is prevented and every worker returns home safely at the end of each and every day.

- **Public Safety**

The OEB introduced the Safety measure in 2015. This measure looks at safety from a customers' point of view as safety of the distribution system is a high priority. The Safety measure is generated by the Electrical Safety Authority (ESA) and includes three components: Public Awareness of Electrical Safety, Compliance with Ontario Regulation 22/04, and the Serious Electrical Incident Index.

- **Component A – Public Awareness of Electrical Safety**

In order to gauge overall electrical safety awareness amongst the general public, the ESA was tasked with developing standardized survey questions and methodology in consultation with the Ontario Energy Board and key stakeholders, including distributors. The survey is intended to measure the level of public awareness, within the distributor's service territory, of electrical safety information and precautions related to distribution system assets and 2015 was the first year that the data for this component of measure was shown on utility scorecards. The 2nd bi-annual survey was conducted in early 2018 resulting in a score of 81%, remaining steady as compared to the 2015 survey. It's important to note that this survey is not focused on utility customers only; it is completed by randomly-selected residents, 18 years or older, residing in a utility's service territory. In our case, the survey was conducted by telephone among a representative sample of 400 residents of the City of North Bay. NBHDL's score indicates that the public in our service territory have good knowledge about electrical safety, though we believe there is always room for improvement, especially when it comes to safety.

Six core questions were developed and an index score was applied to each response to allow comparability of utilities across the Province. The categories deemed significant to public safety awareness were the likelihood to call before you dig, the impact of touching a power line, the safe proximity to overhead power lines, the danger of tampering with electrical equipment, the safe proximity to a downed power line, and actions taken in vehicle in contact with wires. During February 2018 a random sample of 400 residents of the City of North Bay were contacted by a reputable research group, working on behalf of NBHDL, and asked to complete the public awareness survey. The general public's responses are an impressive benchmark for NBHDL to monitor and compare and NBHDL is proud to see residents maintaining a high level of safety awareness.

Slightly less than half of the respondents (48%) would definitely call before digging while another 18% are 'most likely to call'; NBHDL reminds customers that is it the

LAW to call before you dig! A high number of respondents (87%) think touching a power line is very dangerous (we agree!), but we would remind all of this simple fact: it is very dangerous to touch an overhead power line with your body or any object. Close to 1-in-4 respondents (24%) believe you should maintain a distance of 3 to 6 metres (while more than half (53%) believe you should maintain a distance of 6 metres or more). A high number of the public (83%) know that tampering with equipment is very dangerous, but this should be 100%. Please stay away from all electrical equipment, it is incredibly dangerous to touch or tamper with and the consequences could be irreversible. A majority (78%) believe you should maintain a distance of 10 metres or more from downed power lines, and a strong majority (86%) believe you should stay in the vehicle until power has been disconnected from the line. Always remember, should your vehicle come in contact with power lines, staying in the vehicle is your best and safest option until the power is disconnected.

After calculating the Public Safety Awareness Index Score, in accordance to OEB parameters, North Bay Hydro had an overall score of 81% for general public awareness. The City of North Bay's public awareness result is one that NBHDL is very proud of and we will continue to do the best job we can to get the message of electrical safety out to the public. While respondents did not pick the 'best' answer for the safe proximity to overhead lines (3 to 6 meters), NBHDL will always caution the public to stay as far away as possible from power lines and encourages a distance of 6 meters or more – you can never be too safe when it comes to electrical safety.

While not a formal component of the scorecard, NBHDL engages the public on the importance of safety through several avenues. An annual school program for grade school students provides an overview of electrical safety, safety messages, dangers in the home, safety tips and what to do, how to stay aware, and hazards – a dill pickle gets electrocuted in the process! NBHDL's website includes a page dedicated to safety. The information provides the hazards and tips on generator safety, what to do when the power goes out, indoor electrical safety, outdoor safety, safety tips for kids, and safety information related to vegetation management. NBHDL also promotes the "Call Before You Dig!" campaign with Ontario One Call.

- **Component B – Compliance with Ontario Regulation 22/04**

Over the past five years, NBHDL was found to be compliant with Ontario Regulation 22/04 (Electrical Distribution Safety). This was achieved by the company's strong commitment to safety, and adherence to company procedures & policies. Ontario Regulation 22/04 - *Electrical Distribution Safety* establishes objective based on electrical safety requirements for the design, construction, and maintenance of electrical distribution systems owned by licensed distributors. Specifically, the regulation requires the approval of equipment, plans, specifications and inspection of construction before they are put into service.

- **Component C – Serious Electrical Incident Index**

NBHDL has not had any serious incidents due to contact with its infrastructure by the public over the last five years.

System Reliability

As a percentage of total sustained outages in the NBHDL system, the majority continues to be attributed to the following OEB categories: Foreign Interference, Tree Contacts, and Defective Equipment. Since the NBHDL system is predominantly overhead with a substantial portion running through rural areas, trend data will always correlate with the number and severity of storms that roll through the City each year.

Outages that are caused by tree contacts are mitigated with a cycled five (5) year Vegetation Management Program. In order to achieve this 5-year cycle, NBHDL's approach to vegetation management has changed from primarily trimming/topping to performing full removals in order to address the high number of large trees located in close proximity to live conductors. Once all areas within NBHDL's service territory are completed to the new standard, it is expected that the overall number of tree related outages will be reduced and in turn, since trees will be at a much greater separation from poles and high voltage lines, there will be a reduction in the potential of animal contact situations (reducing foreign interference outages). In addition, the new standards will help reduce tree related damage in storm situations and make the system safer for the general public and Power Line Maintainers.

As a proud and active member of the North Bay community, NBHDL has committed to doing its part in restoring the tree canopy in the urban part of the City. As such, NBHDL has continued to maintain efforts to re-green the City while addressing the need for safe tree clearance with respect to power lines. In 2017, NBHDL planted over 100 new trees as part of the re-greening campaign.

Outages involving defective equipment are mitigated through periodic inspections of the distribution system, regular maintenance activities, and system renewal and rejuvenation projects. NBHDL is committed to reducing outages caused by equipment failure and continues to invest in upgrading its system and rebuilding its aging infrastructure.

- **Average Number of Hours that Power to a Customer is Interrupted**

During normal hours of operations, NBHDL's control room can remotely manage the local grid rerouting power and dispatching crews to respond to outages quickly and efficiently. Outside hours of operations, NBHDL maintains an emergency response crew on call to restore power as quickly as possible at all times.

In 2017, NBHDL's average number of hours in which power to a customer was interrupted (outage hours) was 1.11 and well below the target range of 2.10. NBHDL's system reliability continues to trend in an improved manner over a five-year period, however, it is important to note that in any given year, outage hours will correlate with storm occurrences and severity. Tree Contact and Foreign Interference related outages accounted for 52% of the hours in which power to a customer was interrupted while Defective Equipment contributed to 17%.

- **Average Number of Times that Power to a Customer is Interrupted**

In 2017, NBHDL's average number of customer interruptions (i.e., frequency) was 0.94 and well below the target range of 1.99. As stated above, occurrence of storms is a significant factor in annual reliability statistics. Foreign Interference and Tree Contact related outages accounted for 35% of the times in which power to a customer was interrupted while Defective Equipment contributed to 11%.

As explained below in the Asset Management section, NBHDL has put together an extensive plan to address aging infrastructure that addresses old and high risk defective equipment. This plan provides a proactive, balanced approach to distribution system planning, infrastructure investment and replacement programs to address immediate risks associated with end-of-life assets; manage distribution system risks; ensure the safe and reliable delivery of electricity; and balance ratepayer and utility affordability. NBHDL has a largely overhead supplied system and as a result, power lines are more exposed to the elements. While this leads to more outages than underground supplied systems, the trade-off is lower costs to customers. NBHDL will be transitioning to an automated system for the tracking of reliability metrics, including the analysis of worst performing feeder information and is implementing this project in a further effort to improve reliability.

Asset Management

- **Distribution System Plan Implementation Progress**

Distribution System Plan (DSP) implementation progress is a performance measure instituted by the OEB in 2013. Consistent with other new measures, utilities were given an opportunity to define it in the manner that best fits their organization. The DSP outlines a utility's forecasted capital expenditures, over a five year period, required to maintain (and for some utilities expand) the distributor's system to serve its current and future customers. This measure is intended to assess NBHDL's effectiveness at planning and implementing the DSP.

NBHDL owns and operates sixteen (16) municipal stations, has almost 600,000 meters of overhead lines and underground cable circuits and there are fifty-five (55) distribution feeders, eight (8) substation feeders, and 3,199 distribution transformers. A significantly large percentage of the assets employed on NBHDL's distribution system have been in service for much longer than their typical useful life and the main focus of the capital program is investments in system renewal. Specifically, NBHDL has been adhering to a plan to complete a voltage conversion program that began in 1977/1978 – the completion of this project will harmonize the entire system to one distribution voltage for optimal efficiency. An Asset Condition Assessment was utilized in the development of the DSP which uses data related to the health and condition of assets, including asset age, results of testing and visual inspections to determine the risk of asset failure in order to find the right balance between capital investments in new infrastructure and operating and maintenance costs so that the combined total cost over the life of the asset is minimized. NBHDL has based the DSP implementation progress as a percentage (%) of budgeted gross capital spending compared to actual spending. NBHDL achieved 118% of the DSP forecasted budget of \$6.1M in 2017. NBHDL is aligned with total DSP spending to date as variances to budget in a given year are typically addressed in the overall picture of the 5 year plan spending. Given the dynamic nature of the business, a number of issues emerge over the course of a year that require the management to postpone, re-prioritize or otherwise amend the capital work plan adopted at the start of the year. External factors such as extreme cold weather and a deep frost line are the type of elements that can have an impact on the ground when executing the work and cause delays that are outside NBHDL's control.

Significant construction work, totaling almost \$2M, continued on the downtown area throughout 2017 as part of the final aspects of the City-wide voltage conversion project to standardize and harmonize the system. McIntyre, Ferguson, Sherbrooke and Fraser were the primary focus. Substation work of \$1.7M included the replacement of a transformer and equipment at MS16 (Gormanville Rd.) and equipment replacement at MS19 (McIntyre W), in addition to work completed at 6 other stations across the City and other technology upgrades. Customer demand work, and general operational requirements such as building upgrades, IT requirements and planned updates to the fleet also occurred in 2017.

NBHDL makes every effort to maximize the utilization of assets without compromising reliability or safety and will continue to do so in the future while executing on the DSP. In an effort to manage costs and keep rates low, NBHDL anticipates that capital spending will remain reasonably stable and paced for the 2015 - 2019 planning horizon.

Cost Control

- **Efficiency Assessment**

The total costs for Ontario local electricity distribution companies are evaluated by the Pacific Economics Group LLC (PEG) on behalf of the OEB to produce a single efficiency ranking. The electricity distributors are divided into five groups based on the magnitude of the difference between their respective individual actual and predicted costs. In 2017 for the sixth year in a row NBHDL was placed in Group 3, which is defined as having actual costs within +/- 10% of predicted costs. Group 3 is considered “average efficiency” – in other words, NBHDL’s costs are within the average cost range for distributors in the Province of Ontario. In 2017, 44% (28 distributors) of the Ontario distributors were ranked as “average efficiency”; 34% were ranked as “more efficient”; 22% were ranked as “least efficient”. A core objective of NBHDL is to maintain in Group 3.

- **Total Cost per Customer**

Total cost per customer is calculated as the sum of NBHDL’s capital and operating costs and dividing this cost figure by the total number of customers that NBHDL serves. The cost performance result for 2017 is \$672/customer which is a \$13 (1.97%) increase per customer over 2016. The average increase over the last 5 years is approx. 1.9% per year. This total cost figure does not reflect NBHDL’s actual costs. Rather, these figures represent econometric values derived by the PEG model in order to rank Ontario utilities on a comparative “same size” basis. The total cost used in these measures reflects the mature state of development seen in Northern Ontario and in North Bay; an aging population with increased demands on service.

NBHDL continually strives to manage costs without unduly affecting service to customers or creating significant rate increases while addressing increasing customer expectations of an interactive, value added service provider. NBHDL understands that the service we provide is an essential part of daily life for customers and increasing bills are a concern for all. NBHDL’s costs account for approximately 20% of a typical residential customer’s bill and the company actively monitors costs against prudent budgets set for both capital and operating costs which are aligned with NBHDL’s most recent Cost of Service rate application in 2015. Operating costs are those associated with the maintenance, inspection and operation of the system and those associated with metering, billing and collections. NBHDL has experienced a significant increase in its OM&A workload as a result of increased demand by customers for services and has managed this substantial increased workload without a major change to staffing levels. This has been done primarily through productivity improvements. NBHDL intends to continue managing workload increases in this manner and expectations are for a consistent staffing level in the future. NBHDL’s capital program is explained in the Asset Management section.

From the fall of 2013 through to the fall of 2015 NBHDL was actively involved in a Cost of Service Application that detailed all operating and capital costs of the company from 2010 through to a forecast of 2015. The 2015 costs then form the basis of rates for the next 5 years. Staff at the OEB and intervenors, representing various customer groups, go through thousands of pages of evidence supporting NBHDL’s case for rates and test that evidence for reasonability, prudence and justification. Similar to most utilities in the province, NBHDL has experienced increases in its total costs required to deliver quality and reliable services to customers. Province wide programs such as Smart Meters and Time of Use pricing, growth in wage and benefits costs for employees, increased customer engagement, an extensive overhaul to the vegetation management program, increased information technology costs supporting new regulated and internal business processes, as well as investments in the renewal of the distribution system, have all contributed to increased operating and capital costs at NBHDL.

NBHDL will continue to seek cost savings and improve efficiency while maintaining quality customer service and effective asset management as detailed throughout the 2015 rate application that set out the capital and operating investment needs of the business for the next 5 years.

- **Total Cost per Km of Line**

This measure uses the same total cost that is used in the cost per customer calculation above, but the total cost is divided by the kilometers of line that NBHDL operates to serve its customers. NBHDL's 2017 rate is \$28,233 per Km of line, a \$553 (2.0%) increase over 2016; with an average increase of 2.3% per year over the last 5 years. NBHDL's capital focus is asset renewal which is simply replacing (and in some cases reducing) the same Km of line, not increasing total Km; this results in increasing renewal costs each year, but with the same (or lower) total Km of line. NBHDL also experiences a low level of growth in its total kilometers of lines due to a low annual customer growth rate.

The City of North Bay has experienced limited growth typical of municipalities in Northern Ontario. Utilities situated in or clustered around the GTA have growth both in customers and lines to service these customers, which are often built by developers. Their metrics can be different than areas or communities served more remote from Toronto. NBHDL uses multiple measures, beyond those used by the OEB to compare 'same size' utilities, to monitor the efficiency of the business and strives to manage costs while delivering on capital and maintenance programs, and will continue to do so.

Conservation & Demand Management

- **Net Cumulative Energy Savings (Percent of target achieved)**

NBHDL is committed to helping our customers understand their energy usage by offering programs that enable them to become more energy efficient. We have a history of excellence in Conservation and Demand Management (CDM) program delivery and results and this includes exceeding each of our annual targets in the Conservation First Framework years of 2015 and 2016. The strong program results have continued in 2017, having achieved 129% of its 2020 persistent energy savings target. NBHDL was one of only eight LDCs to have exceeded 100% of its energy target, with 71% of its energy savings coming from the non-residential sector.

In 2015 NBHDL was able to demonstrate the value of locally owned and operated LDC's by bringing a cogeneration project into service, on time and under budget, working together with many partners including the North Bay Regional Health Centre. This project had a number of technical challenges to overcome, but NBHDL was able to innovate with its partners to overcome problems unique in the north. In 2016, the IESO finalized the savings of this project and it has contributed to over 70% of NBHDL's target. These results, including customer satisfaction, the cost effectiveness of the results and the aggregate kWh savings emphasize how critical it is for CDM programs to be delivered by LDCs. The Co-Gen project has been a major success for NBHDL and the customer.

NBHDL is very pleased with the strength of its CDM team in building relationships with its customers through local delivery of the residential and business programs, and recognizes this as the perfect delivery mechanism for continued success. NBHDL has been innovative and progressive in developing and delivering pilot programs to its business and residential customers. Residential customers can participate in the new Instant Savings Program (ISP), the new Pool Pump Program (PPP) along with existing programs; Deal Days, the Heating and Cooling Incentive and the Home Assistance Program. NBHDL has had strong participation by local commercial customers in our retrofit and energy efficient lighting programs. The combined efforts of all such programs and participants from both residents and businesses made the achievement of substantial energy savings possible.

NBHDL also recognizes that collaborations are a key component to our overall success. To help meet NBHDL's conservation goals under the Conservation First Framework that was introduced in 2015 by the Independent Electricity System Operator (IESO), NBHDL is working with other Utilities in the province through a collaborative group called CustomerFirst to design and deliver cost effective conservation programs for our customers. The six participating utilities in the CustomerFirst group continue to perform above the average on energy savings and are currently operating under their allocated budget. By working together, CustomerFirst utilities have found efficiencies in the delivery of conservation and this will lead to further cost savings for electricity customers.

NBHDL is committed to providing our customers with cost effective conservation programs to help them save electricity and lower their electricity bills. All sectors and customer types are covered in the joint plan and customers will have access to multiple province-wide, local and pilot programs. The joint CDM plan includes pilot programs that will be developed and launched to meet the local needs of our customers. Through the CustomerFirst joint CDM Plan, NBHDL will continue to work collaboratively with the other CustomerFirst utilities to find efficiencies and reduce costs. The group will be sharing resources and working together in all areas of CDM including sales, marketing, customer and project support to provide value to ratepayers.

Connection of Renewable Generation

Ontario runs two renewable generation programs. FIT (“Feed-in Tariff”) applicants are those customers setting up solar or other renewable generation equipment to generate more than 10 kW of electricity at a time. MicroFIT applicants are those customers applying to generate electricity at a level less than or equal to 10 kW of electricity at a time. NBHDL encouraged customers to participate in the FIT and microFIT programs, and has been able to meet all timelines for assessments and connections. The microFIT program stopped accepting applicants at the end of 2017.

- **Renewable Generation Connection Impact Assessments Completed on Time**

Electricity distributors are required to conduct Connection Impact Assessments (CIAs) within 60 days of receiving authorization from the Electrical Safety Authority. There were no CIAs in 2017. NBHDL has three (3) FIT installations with generating capacity of 1.89 MW, including the Merrick Landfill.

- **New Micro-embedded Generation Facilities Connected On Time**

In 2017, NBHDL connected 4 new micro-embedded generation facilities (microFIT projects of less than 10 kW) within the prescribed time frame of five business days. The minimum acceptable performance level for this measure is 90% of the time. The workflow to connect these projects is very streamlined and NBHDL works closely with its customers and their contractors to tackle any connection issues to ensure the project is connected on time. NBHDL has forty-eight (48) MFIT installations with generating capacity of .41 MW.

Financial Ratios

- **Liquidity: Current Ratio (Current Assets/Current Liabilities)**

As an indicator of financial health, a current ratio that is greater than 1 is considered good as it indicates that the company can pay its short term debts and financial obligations. Companies with a ratio of greater than 1 are often referred to as being “liquid”. The higher the number, the more “liquid” and the larger the margin of safety to cover the company’s short-term debts and financial obligations. NBHDL’s current ratio decreased from 2.09 in 2016 to 1.92 in 2017 primarily due to decreased accounts receivable. NBHDL’s current ratio in subsequent years is expected to remain at current levels or slightly increase with future borrowing and continual management of accounts receivable and liabilities.

- **Leverage: Total Debt (includes short-term and long-term debt) to Equity Ratio**

The OEB uses a deemed capital structure of 60% debt, 40% equity for electricity distributors when establishing rates. This deemed capital mix is equal to a debt to equity ratio of 1.5 (60/40). A debt to equity ratio of more than 1.5 indicates that a distributor is more highly levered than the deemed capital structure. A high debt to equity ratio may indicate that an electricity distributor may have difficulty generating sufficient cash flows to make its debt payments. A debt to equity ratio of less than 1.5 indicates that the distributor is less levered than the deemed capital structure. NBHDL took on additional debt in 2017 to further align with the deemed capital structure and allow for investment in the business which is reflected in the increased ratio of 1.01 in 2017 as compared to .95 in 2016.

NBHDL manages its liquidity and debt to support its financial obligations and execute its operating and capital plans as well as maintain capacity and access to capital to support future development of the business. NBHDL’s liquidity and leverage ratios are strong compared to the required covenant levels imposed by lenders.

- **Profitability: Regulatory Return on Equity – Deemed (included in rates)**

NBHDL’s last Cost of Service application was finalized in November 2015 and approved rates included an expected (deemed) regulatory return on equity of 9.30%. The OEB allows a distributor to earn within +/- 3% of the expected return on equity. When a distributor performs outside of this range, the actual performance may trigger a regulatory review of the distributor’s revenues and costs structure by the OEB.

- **Profitability: Regulatory Return on Equity – Achieved**

NBHDL’s achieved return in 2017 was 8.56%, which is within the +/-3% range allowed. Productivity improvements and operational efficiencies continue to be a priority for the business. NBHDL will continue to seek process improvements, find efficiencies and manage costs while delivering on the operational and capital programs that have been put before the OEB. NBHDL will continue to deliver electricity to its customers in a safe, reliable and efficient manner that provides good value for money while being responsive to customer and community needs and contributing to provincial and local public policy objectives.

Note to Readers of 2017 Scorecard MD&A

The information provided by distributors on their future performance (or what can be construed as forward-looking information) may be subject to a number of risks, uncertainties and other factors that may cause actual events, conditions or results to differ materially from historical results or those contemplated by the distributor regarding their future performance. Some of the factors that could cause such differences include legislative or regulatory developments, financial market conditions, general economic conditions and the weather. For these reasons, the information on future performance is intended to be management's best judgement on the reporting date of the performance scorecard, and could be markedly different in the future.

1 **Appendix I**
2 **December 31, 2016 and December 31, 2017 Audited Financial Statements of Espanola**
3 **Regional Hydro Distribution Corporation and North Bay Hydro Distribution Limited**

Espanola Regional Hydro Distribution Corporation

Financial Statements

Year ended December 31, 2016



INDEPENDENT AUDITOR'S REPORT

To: The Shareholders of
Espanola Regional Hydro Distribution Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of **Espanola Regional Hydro Distribution Corporation**, which comprise the statement of financial position as at **December 31, 2016**, and the and the statements of comprehensive earnings, retained earnings and accumulated other comprehensive earnings, and cash flows for the year then ended 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 International Financial Reporting Standards, 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.

Auditor's 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 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 corporation'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 corporation'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.

INDEPENDENT AUDITOR'S REPORT, continued

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Espanola Regional Hydro Distribution Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Freelandt Caldwell Reilly LLP

FREELANDT CALDWELL REILLY LLP

Chartered Professional Accountants
Licensed Public Accountants

Sudbury, Ontario
April 4, 2017

Espanola Regional Hydro Distribution Corporation
Statement of Financial Position
December 31, 2016 with comparative figures for 2015

	2016	2015
Assets		
Current		
Cash	\$ 2,283,367	\$ 1,729,079
Accounts receivable (note 4)	1,210,602	1,151,249
Unbilled revenue - energy sales	661,902	580,897
Unbilled revenue - distribution	153,828	155,199
Inventory	75,846	72,050
Prepaid expenses	28,860	27,807
Payment in lieu of taxes	144,571	209,787
	4,558,976	3,926,068
Payment in lieu of deferred taxes (note 5)	9,826	20,418
Property, plant and equipment (note 6)	4,153,459	3,897,732
Total assets	8,722,261	7,844,218
Regulatory assets (note 7)	2,448,317	2,414,943
Payment in lieu of deferred tax regulatory assets (note 7)	24,697	29,100
Total assets and regulatory assets	\$ 11,195,275	\$ 10,288,261

Approved on behalf of the Board of Directors:

Director

Director

Espanola Regional Hydro Distribution Corporation
Statement of Financial Position
December 31, 2016 with comparative figures for 2015

	2016	2015
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities	\$ 677,059	\$ 730,987
Payable for energy purchases	2,609,369	1,780,689
Current portion of long-term debt	80,645	77,933
	3,367,073	2,589,609
Customer deposits	180,550	170,726
Payment in lieu of deferred taxes (note 5)	31,098	-
Contributions in aid of construction (note 9)	291,194	252,597
Employee future benefits (note 10)	65,507	63,994
Long-term obligations (note 11)	2,241,422	2,322,067
Notes payable (note 12)	1,524,511	1,524,511
	7,701,355	6,923,504
Shareholders' equity		
Share capital (note 13)	2,281,000	2,281,000
Retained earnings	842,731	722,515
Accumulated other comprehensive earnings	19,281	20,610
	3,143,012	3,024,125
Total liabilities and shareholders' equity	10,844,367	9,947,629
Regulatory liabilities (note 7)	347,483	291,114
Payment in lieu of deferred tax regulatory liabilities (note 7)	3,425	49,518
Total liabilities, shareholders' equity and regulatory liabilities	\$ 11,195,275	\$ 10,288,261

Commitments (note 15)

Espanola Regional Hydro Distribution Corporation
Statement of Comprehensive Earnings
Year ended December 31, 2016 with comparative figures for 2015

	2016	2015
Revenue		
Energy sales	\$ 7,667,169	\$ 6,564,351
Distribution	1,647,513	1,733,774
	9,314,682	8,298,125
Cost of Energy	7,644,174	7,389,436
Gross Profit	1,670,508	908,689
Operating expenses (note 14)		
General and administration	352,003	426,815
Billing and collecting	385,597	389,658
Distribution - operations	296,264	343,194
Distribution - maintenance	353,325	213,149
Depreciation	138,395	96,039
Interest on notes payable	153,586	67,231
	1,679,170	1,536,086
Earnings (loss) before other income and payment in lieu of taxes	(8,662)	(627,397)
Other income (expenses)		
Loss on disposal of property, plant and equipment	-	(4,329)
Interest	19,791	33,469
Labour, rental and other charges	99,196	96,747
Amortization of contributions in aid of construction	8,735	7,785
	127,722	133,672
Earnings (loss) before payment in lieu of taxes, change in regulatory asset and liability balances and other comprehensive earnings (loss)	119,060	(493,725)
Payments in lieu of taxes (note 5)		
Current	(24,151)	(107,852)
Deferred	41,690	53,190
	17,539	(54,662)
Net earnings (loss) before change in regulatory asset and liability balances and other comprehensive earnings (loss)	101,521	(439,063)
Change in regulatory assets and liabilities (note 7)		
Change in regulatory asset and liability account balances related to profit and loss	(22,995)	825,085
Change in payment in lieu of deferred tax balances related to regulatory assets and liabilities	41,690	53,190
	18,695	878,275
Net earnings before other comprehensive earnings (loss)	120,216	439,212
Other comprehensive earnings (loss)		
Remeasurement of employee future benefits liability, net of tax	(1,329)	28,237
Net earnings	\$ 118,887	\$ 467,449

Espanola Regional Hydro Distribution Corporation
Statement of Retained Earnings and Accumulated Other Comprehensive Earnings
Year ended December 31, 2016 with comparative figures for 2015

	Share capital	Retained earnings	Accumulated other comprehensive earnings (loss)	Total
Balance, December 31, 2015	\$ 2,281,000	\$ 722,515	\$ 20,610	\$ 3,024,125
Net earnings before other comprehensive earnings (loss)	-	120,216	-	120,216
Other comprehensive loss	-	-	(1,329)	(1,329)
Balance, December 31, 2016	2,281,000	842,731	19,281	3,143,012
Balance, December 31, 2014	2,281,000	283,303	(7,627)	2,556,676
Net earnings before other comprehensive earnings (loss)	-	439,212	-	439,212
Other comprehensive earnings	-	-	28,237	28,237
Balance, December 31, 2015	\$ 2,281,000	\$ 722,515	\$ 20,610	\$ 3,024,125

Espanola Regional Hydro Distribution Corporation
Cash Flows Statement
Year ended December 31, 2016 with comparative figures for 2015

	2016	2015
Cash flows from operating activities		
Net earnings before other comprehensive earnings (loss)	\$ 120,216	\$ 439,212
Adjustments to reconcile earnings to cash provided by (used in) operations:		
Depreciation	160,986	144,661
Amortization of contributions in aid of construction	(8,735)	(7,785)
Provision for payment in lieu of deferred taxes	41,690	53,190
Loss on disposal of property, plant and equipment	-	4,329
Provision for payment in lieu of taxes	(24,151)	(107,852)
Interest charges on notes payable	153,586	67,231
	443,592	592,986
Change in non-cash working capital items		
Accounts receivable	(59,353)	137,028
Unbilled revenue - energy sales	(81,005)	43,502
Unbilled revenue - distribution	1,371	10,991
Inventory	(3,796)	3,298
Prepaid expenses	(1,053)	6,058
Payment in lieu of taxes paid	89,367	(64,784)
Accounts payable and accrued liabilities	(220,279)	137,744
Payable for energy purchases	995,031	108,251
Interest on notes payable paid	(153,586)	(67,231)
	1,010,289	907,843
Cash flows from investing activities		
Purchase of property, plant and equipment	(416,713)	(269,376)
Regulatory assets	(28,971)	(515,173)
	(445,684)	(784,549)
Cash flows from financing activities		
Customer deposits	9,824	33,126
Regulatory liabilities	10,276	(363,102)
Contributions in aid of construction received	47,332	4,713
Employee future benefits	184	1,161
Proceeds on long-term debt	-	1,100,000
Repayment of long-term debt	(77,933)	-
	(10,317)	775,898
Increase in cash	554,288	899,192
Cash, beginning of year	1,729,079	829,887
Cash, end of year	\$ 2,283,367	\$ 1,729,079

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

1. Nature of operations

Espanola Regional Hydro Distribution Corporation was incorporated on November 1, 2000 under the laws of the province of Ontario, Canada. The incorporation was required in accordance with the Electricity Act, 1998, Ontario (the EA). The Corporation is a wholly owned subsidiary of Espanola Regional Hydro Holdings Corporation and was incorporated for the purpose of providing regulated electricity distribution services to customers in the Town of Espanola and the Township of Sables-Spanish Rivers from its head office located at 598 Second Street, Espanola Ontario, Canada.

The Corporation and other electricity distributors purchase their electricity from the wholesale market administered by the Independent Electricity System Operator (IESO) and recover the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the Ontario Energy Board (the OEB).

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The Ontario Energy Board Act, 1998 sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles and the filing process requirements for rate-setting purposes.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity and the responsibility for ensuring that electricity distribution companies fulfil their obligations to connect and service customers.

Regulatory developments in Ontario's electricity industry may affect distribution rates and the permitted recovery or settlement or the timing of recovery or settlement of certain regulatory assets and liabilities.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards applying the accounting policies set out below on a consistent basis in all years presented in these financial statement. The significant policies are detailed as follows:

(a) Statement of compliance and basis of measurement

These financial statements are the representation of the Corporation's management and are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The Corporation adopted IFRS as of January 1, 2015 with a transition date of January 1, 2014. The Corporation's accounting policies are based on IFRS applicable as at December 31, 2016. The Corporation has adopted the requirements of IFRS 14 - Regulatory Deferral Accounts, which permits the Corporation to account for regulatory deferral account balances in accordance with its previous GAAP when it adopted IFRS. Previously, the financial statements of the Corporation were prepared in accordance with Canadian generally accepted accounting principles.

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as "fair value through profit or loss" and "available for sale" financial assets which have been measured at fair value.

These financial statements are presented in Canadian dollars and were approved by the Corporation's Board of Directors on April 4, 2017.

(b) Effects of rate regulation

The Ontario Energy Board (OEB) is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfil obligations to connect and service customers. 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 been applied in a non rate regulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting and approval process.

(c) Cash and cash equivalents

Cash and cash equivalents are defined as cash and highly liquid investments, consisting primarily of term deposits, with terms to maturity of three months or less at the date of purchase.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(d) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

(e) Property, plant and equipment

Property, plant and equipment are measured at historical cost or deemed cost less accumulated depreciation and impairment losses, if any. The Corporation elected to use the carrying amount, as previously determined under Canadian GAAP, as the deemed cost at January 1, 2014, the transition date to IFRS. In circumstances where parts of an item of property, plant and equipment have different useful lives they are accounted for as separate components of property, plant and equipment. The Corporation provides for depreciation using the straight-line method at rates designed to depreciate the cost of the property, plant and equipment over their estimated useful lives. A full year's depreciation is recorded in the year of acquisition. No depreciation is recorded in the year of disposal. The carrying amount of an item of property, plant and equipment is derecognized on disposal. The annual depreciation rates and useful lives are reviewed annually and are as follows:

Buildings	50 years
Furniture and equipment	5-10 years
Vehicles	15 years
Transmission and distribution equipment	40-60 years

Construction in progress includes assets not currently in use and therefore not yet subject to depreciation.

In certain cases, non-refundable contributions are received in aid of construction or acquisition of property, plant and equipment. Contributions in aid of construction are classified as liabilities and are amortized at the same rate as the assets to which they relate.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

2. **Significant accounting policies, continued**

(f) **Impairment of non-financial assets**

At the end of each reporting period, the Corporation reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in operations.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in operations.

(g) **Provisions**

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate, net of tax, that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) **Borrowing costs**

Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment, which take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in operations in the period in which they are incurred.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(i) Asset retirement obligations

Accounting standards require the Corporation to determine the fair value of future expenditures required to settle legal obligations to remove property, plant and equipment. If reasonably estimable, the Corporation recognizes a liability for the estimated current value of future expenditures required to settle obligations for the retirement of property, plant and equipment. Decommissioning liabilities are recorded at fair value, with a corresponding increase to the recorded amount of property, plant and equipment. Accretion of decommissioning liabilities is included in operations. Differences between the recorded amount of decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the period of settlement.

Some of the Corporation's distribution system assets may have asset retirement obligations. As the Corporation expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of the related asset retirement obligation cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

(j) Revenue recognition

Distribution and energy related revenues attributable to the supply and distribution of electricity are based on OEB approved rates and revenue is recognized as electricity is delivered to customers based on periodic meter readings. At the end of an accounting cycle, there is energy used by consumers for which meter readings are not available and no bills have been issued. This unbilled revenue is estimated and recorded in current assets on the statement of financial position at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

The difference between the amount paid by the Corporation to Hydro One for the purchase of energy and related service costs and the amount billed by the Corporation to its customers for energy sales based on regulated rates are recorded on the statement of financial position as regulatory assets and liabilities until their final disposition is decided by the OEB. In accordance with IFRS 14, the change in these regulatory assets and liabilities are reported, net of tax, with regulatory balances in the statement of comprehensive earnings.

Labour, rental and other charges revenue is recognized in the period in which these services are provided.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(k) Payment in lieu of taxes

Pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act (Canada) (ITA) and remit such amounts computed there under to the Ontario Electricity Financial Corporation (OEFC). These amounts, referred to as payments in lieu of taxes (PILs) under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro now owing by the OEFC.

Payment in lieu of deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of assets and liabilities and their tax bases. Payment in lieu of deferred tax assets are also recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are likely to be realized. These amounts are measured using enacted or substantively enacted tax rates and are re-measured annually for changes in these rates. Any payment in lieu of deferred income tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in operations in the period of the change.

As prescribed by regulatory rate order, payment in lieu of taxes are recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of payment in lieu of deferred taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Accordingly, payment in lieu of deferred tax regulatory assets or liabilities are recognized for the amount of payment in lieu of deferred taxes which are expected to be included in future rates and recovered from or refunded to customers in future periods through the rate setting and approval process.

(l) Employee future benefits

The Corporation's net obligation in respect of its employee future benefit plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value. Any unrecognised past service costs are deducted. The discount rate is the interest rate at the reporting date on high quality debt instruments with duration similar to the duration of the plan.

The cost of these employee future benefits is expensed as earned by employees through employment service. The accrued benefit obligation and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management's best estimate of certain underlying assumptions. Re-measurements arising from employee benefit plans are recognized immediately in operations. When the benefits of a plan are improved, these increases are recognized immediately in operations.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(m) Financial instruments

(i) Measurement of financial instruments

Financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL"), are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. Transactions to purchase or sell these items are recorded on the trade date. During the year, there have been no reclassifications of financial instruments.

The Corporation has classified cash and cash equivalents as a financial asset at fair value through profit or loss. Any gain/loss arising as a result of the difference between the carrying amount and fair value is recognized in operations.

The Corporation has classified accounts receivable and unbilled revenue as loans and receivables. Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in operations upon de-recognition or impairment.

The Corporation has classified accounts payable and accrued liabilities, payable for energy purchases, long-term debt, and notes payable as financial liabilities measured at amortized cost. Financial liabilities measured at amortized cost are measured at their amortized cost subsequent to initial recognition. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in operations upon de-recognition or impairment.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(m) Financial instruments, continued

(ii) Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in operations. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in operations.

(n) Measurement uncertainty

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant, including changes as a result of future decisions made by the Ontario Energy Board (OEB). All estimates are reviewed periodically and adjustments are made and recognized in operations, as appropriate, in the year they become known. Accounts specifically affected by estimates and assumptions in these financial statements are as follows:

(i) Property, plant and equipment

Amounts recorded in the financial statements for depreciation are based on the estimated useful lives of the Corporation's property, plant and equipment. These useful lives are management's best estimate of the service lives of these assets and are reviewed annually. Changes to these estimated useful lives could materially affect the amount of depreciation recorded in the financial statements.

The Corporation's policy relating to property, plant and equipment is described in note 2 (e). In applying this policy, management uses judgment in determining whether certain costs are additions to the carrying amount of property, plant and equipment or expensed in operations as repairs and maintenance. Judgment is also necessary in determining the appropriate componentization structure of the Corporation's property, plant and equipment.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

2. Significant accounting policies, continued

(n) Measurement uncertainty, continued

(ii) Decommissioning liabilities

The Corporation recognizes a liability for the estimated current value of future expenditures required to settle obligations for the retirement of property, plant and equipment. Decommissioning liabilities are recorded at fair value, with a corresponding increase to the recorded amount of property, plant and equipment. Accretion of decommissioning liabilities is included in operations. Differences between the recorded amount of decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the period of settlement.

(iii) Employee future benefits

The Corporation provides certain health and dental benefits to retired employees. The estimated cost of providing these benefits is accounted for on an accrual basis in the period in which employees render their services and are actuarially determined using the projected benefit method pro-rated on service and include management's best estimate of salary escalations, retirement ages and expected health care cost escalations.

(iv) Regulatory assets and liabilities

When recognizing regulatory assets and liabilities management assumes that such credits or costs will be recovered from customers or refunded to customers in future years through the rate setting and approval process. Refund or recovery of these regulatory assets and liabilities are subject to the review and approval of the OEB. Consequently, there is risk that some or all of the regulatory assets and liabilities will not be approved by the OEB which could have a material affect on the Corporation's comprehensive income in the year of the OEB decision.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

3. Future changes to significant accounting policies

The Corporation has not yet adopted the following new and revised International Financial Reporting Standards that have been issued but are not yet effective:

Financial Instruments IFRS 9

In July 2014, the IASB issued a new standard, IFRS 9 - Financial Instruments, which will replace IAS 39 - Financial Instruments: Recognition and Measurement. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is part of the first phase of this project. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Corporation is assessing the impact of IFRS 9 on its results of operations, financial position and disclosures.

Revenue Recognition IFRS 15

In May 2014, IFRS 15 - Revenue from Contracts with Customers was issued, which replaces IAS 11 - Construction Contracts, IAS 18 - Revenue and various interpretations. IFRS 15 establishes principles regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard requires entities to recognize revenue for the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is assessing the impact of IFRS 15 on its results of operations, financial position and disclosures.

Leases IFRS 16

In January 2016, IFRS 16 - Leases was issued. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS 17 and is effective for periods beginning on or after January 1, 2019. The Corporation is assessing the impact of IFRS 16 on its results of operations, financial position and disclosures.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

4. **Accounts receivable**

	2016	2015
Electrical energy receivables	\$ 917,878	\$ 858,803
Water and sewer receivables	233,858	237,229
Other receivables	58,866	55,217
	\$ 1,210,602	\$ 1,151,249

	2016	2015
Aging of accounts receivable		
Current	\$ 1,126,253	\$ 1,078,046
30 days	17,267	14,898
60 days	8,825	10,379
Over 90 days	58,257	47,926
	\$ 1,210,602	\$ 1,151,249

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

5. **Payment in lieu of deferred taxes**

(a) The components of payment in lieu of deferred tax balances are as follows:

	2016	2015
Payment in lieu of deferred tax assets:		
Difference between tax basis of property, plant and equipment and carrying amount	\$ -	\$ 10,499
Difference between tax basis of employee future benefits obligation and carrying amount	9,826	9,919
Payment in lieu of deferred tax liabilities:		
Difference between tax basis of property, plant and equipment and carrying amount	(31,098)	-
	<u>\$ (21,272)</u>	<u>\$ 20,418</u>

(b) The provision for payment in lieu of taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 15.0% (2015 - 15.5%) to the earnings for the years as follows:

	2016	2015
Earnings for the year before payment in lieu of taxes, change in regulatory asset and liability balances and other comprehensive earnings (loss)	\$ 119,060	\$ (493,725)
Change in regulatory asset and liability account balances related to profit and loss	(22,995)	825,085
Remeasurement of employee future benefits liability included in other comprehensive income	(1,329)	28,237
	<u>\$ 94,736</u>	<u>\$ 359,597</u>
Anticipated income tax	\$ 14,210	\$ 55,738
Tax effect of the following:		
Tax payable (recoverable) at general corporate tax rate	-	(35,704)
Change in payment in lieu of deferred tax regulatory asset	(4,403)	(98,151)
Tax effect of change in payment in lieu of deferred tax regulatory liability	6,914	23,455
Adjustment due to change in tax rate	818	-
Provision for (recovery of) payment in lieu of taxes	<u>\$ 17,539</u>	<u>\$ (54,662)</u>

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

6. Property, plant and equipment

	2016						
	Land	Buildings	Transmission & Distribution Equipment	Vehicles	Furniture and Equipment	Construction In Progress	Total
Cost							
Balance, beginning of year	\$ 88,880	180,812	3,553,949	272,025	26,793	63,790	\$ 4,186,249
Additions	-	3,019	309,996	43,617	4,658	55,423	416,713
Transfers	-	-	65,113	-	-	(65,113)	-
Disposals	-	-	-	-	-	-	-
Balance, end of year	88,880	183,831	3,929,058	315,642	31,451	54,100	4,602,962
Accumulated Amortization							
Balance, beginning of year	-	8,943	229,012	38,412	12,150	-	288,517
Depreciation	-	4,572	130,108	22,592	3,714	-	160,986
Disposals	-	-	-	-	-	-	-
Balance, end of year	-	13,515	359,120	61,004	15,864	-	449,503
Net book value	\$ 88,880	170,316	3,569,938	254,638	15,587	54,100	\$ 4,153,459
	2015						
	Land	Buildings	Transmission & Distribution Equipment	Vehicles	Furniture and Equipment	Construction In Progress	Total
Cost							
Balance, beginning of year	\$ 88,880	176,883	3,317,321	284,053	23,336	38,428	\$ 3,928,901
Additions	-	3,929	322,404	-	3,457	198,784	528,574
Transfers	-	-	(85,776)	-	-	(173,422)	(259,198)
Disposals	-	-	-	(12,028)	-	-	(12,028)
Balance, end of year	88,880	180,812	3,553,949	272,025	26,793	63,790	4,186,249
Accumulated Amortization							
Balance, beginning of year	-	4,431	117,593	23,774	5,757	-	151,555
Depreciation	-	4,512	111,419	22,337	6,393	-	144,661
Disposals	-	-	-	(7,699)	-	-	(7,699)
Balance, end of year	-	8,943	229,012	38,412	12,150	-	288,517
Net book value	\$ 88,880	171,869	3,324,937	233,613	14,643	63,790	\$ 3,897,732

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

7. Regulatory assets and liabilities

	January 1, 2016	Regulatory activity	December 31, 2016
Settlement variances (a)	\$ 667,123	\$ 179,219	\$ 846,342
Stranded meters (b)	20,387	(8,927)	11,460
Substation (c)	1,727,433	(136,918)	1,590,515
Payment in lieu of deferred tax regulatory assets (d)	29,100	(4,403)	24,697
Total regulatory assets	2,444,043	28,971	2,473,014
Settlement variances (a)	291,114	56,369	347,483
Payment in lieu of deferred tax regulatory liabilities (d)	49,518	(46,093)	3,425
Total regulatory liabilities	340,632	10,276	350,908
Net regulatory assets (liabilities)	\$ 2,103,411	\$ 18,695	\$ 2,122,106

	January 1, 2015	Regulatory activity	December 31, 2015
Settlement variances (a)	\$ 207,955	\$ 459,168	\$ 667,123
Stranded meters (b)	44,516	(24,129)	20,387
Substation (c)	1,549,148	178,285	1,727,433
Payment in lieu of deferred tax regulatory assets (d)	127,251	(98,151)	29,100
Total regulatory assets	1,928,870	515,173	2,444,043
Settlement variances (a)	473,395	(182,281)	291,114
Payment in lieu of deferred tax regulatory liabilities (d)	200,859	(151,341)	49,518
Other regulatory liabilities	29,480	(29,480)	-
Total regulatory liabilities	703,734	(363,102)	340,632
Net regulatory assets (liabilities)	\$ 1,225,136	\$ 878,275	\$ 2,103,411

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

7. Regulatory assets and liabilities, continued

Regulatory assets and liabilities arise as a result of the rate setting and approval process through the OEB.

(a) The difference between the amount paid by the Corporation to Hydro One for the purchase of energy and related service costs and the amount billed by the Corporation to its customers as energy sales based on regulated rates are recorded on the statement of financial position as settlement variances until their final disposition is decided by the OEB. The Corporation recognizes settlement variances as an asset or liability based on the expectation that these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The settlement variance asset (liability) represents the excess (deficiency) of amounts billed to the Corporation by Hydro One for the purchase of energy over the amounts charged by the Corporation to its customers as energy sales.

Recovery or refund of the settlement variances is done on an annual basis through application to the OEB. Currently, no amount has been approved for recovery or refund. Accordingly, the timing of the recovery or refund is unknown.

(b) The stranded meter regulatory assets represent the unrecovered net book value of decommissioned analog meters. The net book value of the stranded meters has been reclassified to the regulatory asset account for recovery to the end of March 2017.

(c) The substation asset represents the cost of construction of a new substation in the Town of Espanola. During the year \$nil (2015 - \$21,291) of interest was capitalized to the cost of the substation during the construction period. The OEB approved the recovery of \$168.193 per year in the Corporation's rates until their next cost of service rate order.

(d) The payment in lieu of deferred tax regulatory asset and liability relate to the expected increase in or reduction of distribution rates for customers arising from temporary differences which give rise to payment in lieu of deferred tax assets and liabilities.

For certain of the regulatory assets and liabilities, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. The Corporation continually assesses the likelihood of recovery of each of its regulatory assets and refund of each of its regulatory liabilities and continues to believe that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the Corporation determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

8. Bank credit facilities

A revolving demand credit facility has been granted by the Royal Bank of Canada to a maximum of \$500,000 bearing interest at the bank's prime rate plus 0.8% per annum.

A reducing facility by way of leases has also been granted by the Royal Bank of Canada to a maximum of \$200,000, terms of which are governed by separate lease agreements.

The above credit facilities are secured by a first ranking general security agreement.

At the year-end date, no amount has been drawn on these credit facilities.

9. Contributions in aid of construction

In certain cases, non-refundable contributions are received in aid of construction or acquisition of property, plant and equipment. Contributions in aid of construction are deferred and amortized to other revenue at the same rate as the assets to which they relate.

	2016	2015
Balance, beginning of year	\$ 252,597	\$ 255,669
Contributions received in the year	47,332	4,713
Amortization of contributions in aid of construction	(8,735)	(7,785)
Balance, end of year	\$ 291,194	\$ 252,597

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

10. Employee future benefits

The Corporation pays certain post-employment health and dental benefits on behalf of its retired employees. Accounting standards for employee future benefits require that these post-retirement costs be recognized in the period in which the employees rendered their services. Information about the Corporation's accrued benefit liability and the related expense are based on results and assumptions by actuarial valuation at December 31, 2016 and are as follows:

	2016	2015
Accrued benefit liability, beginning of year	\$ 63,994	\$ 91,070
Current service cost recognized in operations	509	603
Interest cost recognized in operations	2,565	3,494
Benefits paid by employer	(2,890)	(2,936)
Net actuarial gain/(loss) recognized in other comprehensive income	1,329	(28,237)
Accrued benefit liability, end of year	\$ 65,507	\$ 63,994

The main assumptions employed for the valuations are as follows:

The health benefit cost is estimated to increase at rate from 6.25% per annum over. The dental benefit cost is estimated to increase at a rate of 4.5% per annum.

The obligation at year-end and the present value of future liabilities and the related expense, were determined using an annual discount rate of 3.95% per annum (2015 - 4.1%) representing an estimate of the yield on high quality corporate bonds with a duration similar to the duration of the plan.

Future general salary and wage levels were assumed to increase at 2.6% per annum (2015 - 2.6%).

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

11. Long-term debt

	2016	2015
Infrastructure Ontario non-revolving term loan, repayable in blended monthly installments of \$2,860 including interest at 2.73% per annum, secured by a general security agreement ranking behind the first ranking general security agreement registered by the Royal Bank of Canada and maturing December 2025	\$ 273,546	\$ 300,000
Infrastructure Ontario non-revolving term loan, repayable in blended monthly installments of \$10,831 including interest at 3.78% per annum, secured by a general security agreement ranking behind the first ranking general security agreement registered by the Royal Bank of Canada and maturing December 2040	2,048,521	2,100,000
	2,322,067	2,400,000
Less current portion	80,645	77,933
	\$ 2,241,422	\$ 2,322,067

The Ontario Infrastructure loans require the Corporation to meet a debt service coverage ratio of a minimum of 1:25 to 1 and a debt to total assets ratio of less than 60%. At December 31, 2016 the corporation is in compliance with these covenants.

Estimated principal repayments are as follows:

2017	\$ 80,645
2018	83,452
2019	86,359
2020	89,370
2021	92,489
Subsequent years	1,889,752
	\$ 2,322,067

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

12. Notes payable

	2016	2015
Note payable to the Town of Espanola	\$ 1,185,416	\$ 1,185,416
Note payable to the Township of Sables-Spanish Rivers	339,095	339,095
	\$ 1,524,511	\$ 1,524,511

Notes payable to the Town of Espanola and Township of Sables-Spanish Rivers are without security, are due on demand with one year's written notice, include interest at 4.41% per annum (2015 - 4.41%) and are convertible into special shares of the Corporation at a rate of \$10,000 per share. During the year, the Corporation paid interest in the amount of \$52,277 (2015 - \$52,277) to the Town of Espanola and \$14,954 (2015 - \$14,954) to the Township of Sables-Spanish Rivers.

13. Share capital

	2016	2015
Authorized		
Unlimited number of common shares		
Unlimited discretionary non-cumulative dividend paying, redeemable at \$10,000 per share, non-voting special shares		
Issued		
1,000 common shares	\$ 1,000	\$ 1,000
228 special shares	2,280,000	2,280,000
	\$ 2,281,000	\$ 2,281,000

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

14. Operating expenses

For internal management reporting purposes the Corporation's operating expenses are reported by function. Operating expenses reported by nature are as follows:

	2016	2015
Salaries, wages and benefits	\$ 434,419	\$ 433,836
Office and administration	291,263	333,104
Contracted services	393,886	380,419
Operations and maintenance	204,078	167,244
Depreciation	160,986	96,039
Interest on long-term debt and notes payable	153,586	67,231
Bad debts	40,952	58,213
	<u>\$ 1,679,170</u>	<u>\$ 1,536,086</u>

15. Commitments

The Corporation has entered into a contract for management, billing, collecting, customer service, software and data hosting services and support with PUC Services Inc. for a five year period ending May 31, 2021, at an annual base cost as follows:

2017	\$ 166,028
2018	170,178
2019	173,949
2020	177,423
2021	74,530

In addition to the above charges, a monthly charge of \$5.26 to \$5.75 per meter, for up to 3,700 meters for residential and general service customers, will apply.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2016 with comparative figures for 2015

16. Related party transactions

The Corporation is related to the Town of Espanola by virtue of the fact that the Town is an 81% owner of the Corporation's sole shareholder. Likewise, the Township of Sables-Spanish Rivers is a 19% owner of the Corporation's sole shareholder.

In the normal course of business, the Corporation provides electrical energy to the Town of Espanola and the Township of Sables-Spanish Rivers at the same regulated rates and terms approved by the OEB as other similar customers, based on the amount of electricity consumed.

The Corporation also provides water and waste water billing and collection services on behalf of the Town of Espanola. Included in other charges revenue is \$18,136 (2015 - \$18,136) earned with respect to these services. Also, included in accounts payable and accrued liabilities is \$440,661 (2015 - \$430,122) relating to amounts collected by the Corporation on behalf of the Town of Espanola for water and waste water billing. Correspondingly, included in accounts receivable is \$233,858 (2015 - \$237,229) relating to amounts receivable from customers for water and waste water services.

17. Capital disclosure

The Corporation's objectives when managing capital are:

- (a) Ensure ongoing access to capital at a reasonable cost in order to maintain and improve the electricity distribution system of the Corporation to ensure the continued delivery of safe, reliable electricity services to customers, and to safeguard the Corporation's ability to continue as a going concern and provide a reasonable rate of return to its shareholders;
- (b) Align the Corporation's capital structure with the debt to equity structure deemed appropriate by the OEB.

The Corporation's capital consists of shareholder's equity and notes payable to the Town of Espanola and Township of Sables-Spanish Rivers. There have been no changes in the Corporation's approach to managing capital during the year.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2016 with comparative figures for 2015

18. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring financial risks to or from another party. The Corporation is exposed to the following risks associated with financial instruments and transactions it is a party to:

(a) Fair value

The fair value of current financial assets and current financial liabilities approximates their carrying value due to their short-term maturity dates. The fair value of long-term financial liabilities approximates their carrying value based on the presumption that the Corporation is a going concern and thus expects to fully repay the outstanding amounts.

(b) Credit risk

Credit risk is the risk that one party to a financial transaction will fail to discharge a financial obligation and cause the other party to incur a financial loss. The Corporation's main credit risks are associated with its cash and cash equivalents and accounts receivable.

The Corporation minimizes credit risk associated with its cash and cash equivalents balances by ensuring that these financial assets are held with large reputable financial institutions with high credit ratings.

The Corporation incurs amounts due from its customers in the regular course of business and has credit risk associated with its accounts receivable balances of \$1,210,602 (2015 - \$1,151,249). The Corporation reduces its exposure to credit risk through management's on-going monitoring of its accounts receivable balances and collections. Credit valuations are performed on a regular basis and credit is granted upon a review of the credit history of the applicant. An allowance for bad debts is recorded when applicable.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation cannot repay its obligations when they become due to its creditors. The Corporation has liquidity risk associated with its accounts payable and accrued liabilities, payable for energy purchases, customer deposits, long-term debt and notes payable. The Corporation reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due and budgets to maintain adequate cash resources including a line of credit to repay creditors including long-term debt interest and principal as liabilities become due.

19. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year. These changes do not affect prior year earnings.

Espanola Regional Hydro Distribution Corporation

Financial Statements

Year ended December 31, 2017

INDEPENDENT AUDITOR'S REPORT

To: The Shareholders of
Espanola Regional Hydro Distribution Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of **Espanola Regional Hydro Distribution Corporation**, which comprise the statement of financial position as at **December 31, 2017**, and the and the statements of comprehensive earnings, retained earnings and accumulated other comprehensive earnings, and cash flows 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 International Financial Reporting Standards, 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.

Auditor's 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 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 corporation'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 corporation'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.

INDEPENDENT AUDITOR'S REPORT, continued

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Espanola Regional Hydro Distribution Corporation as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Freelandt Caldwell Reilly LLP

FREELANDT CALDWELL REILLY LLP

Chartered Professional Accountants

Licensed Public Accountants

Sudbury, Ontario

April 12, 2018

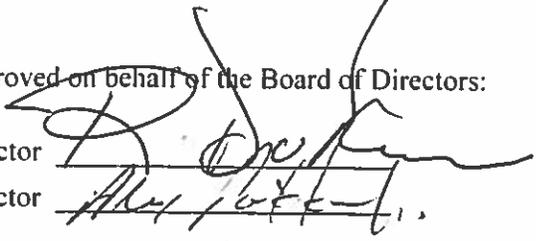
Espanola Regional Hydro Distribution Corporation
Statement of Financial Position
December 31, 2017 with comparative figures for 2016

	2017	2016
Assets		
Current		
Cash	\$ 1,483,510	\$ 2,283,367
Accounts receivable (note 4)	1,027,266	1,210,602
Unbilled revenue - energy sales	570,747	661,902
Unbilled revenue - distribution	162,262	153,828
Inventory	71,199	75,846
Prepaid expenses	28,742	28,860
Payment in lieu of taxes	63,196	144,571
	3,406,922	4,558,976
Payment in lieu of deferred taxes (note 5)	10,510	9,826
Property, plant and equipment (note 6)	4,640,045	4,153,459
Total assets	8,057,477	8,722,261
Regulatory assets (note 7)	2,680,471	2,448,317
Payment in lieu of deferred tax regulatory assets (note 7)	70,916	24,697
Total assets and regulatory assets	\$ 10,808,864	\$ 11,195,275

Approved on behalf of the Board of Directors:

Director

Director



Espanola Regional Hydro Distribution Corporation
Statement of Financial Position
December 31, 2017 with comparative figures for 2016

	2017	2016
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities	\$ 606,029	\$ 677,059
Payable for energy purchases	2,140,288	2,609,369
Current portion of long-term debt	83,452	80,645
	2,829,769	3,367,073
Customer deposits	222,090	180,550
Payment in lieu of deferred taxes (note 5)	70,560	31,098
Contributions in aid of construction (note 9)	286,384	291,194
Employee future benefits (note 10)	70,067	65,507
Long-term obligations (note 11)	2,157,971	2,241,422
Notes payable (note 12)	1,524,511	1,524,511
	7,161,352	7,701,355
Shareholders' equity		
Share capital (note 13)	2,281,000	2,281,000
Retained earnings	923,799	842,731
Accumulated other comprehensive earnings	14,954	19,281
	3,219,753	3,143,012
Total liabilities and shareholders' equity	10,381,105	10,844,367
Regulatory liabilities (note 7)	416,893	347,483
Payment in lieu of deferred tax regulatory liabilities (note 7)	10,866	3,425
Total liabilities, shareholders' equity and regulatory liabilities	\$ 10,808,864	\$ 11,195,275

Commitments (note 15)

Espanola Regional Hydro Distribution Corporation
Statement of Comprehensive Earnings
Year ended December 31, 2017 with comparative figures for 2016

	2017	2016
Revenue		
Energy sales	\$ 6,745,859	\$ 7,667,169
Distribution	1,593,631	1,647,513
	8,339,490	9,314,682
Cost of Energy	6,908,603	7,644,174
Gross Profit	1,430,887	1,670,508
Operating expenses (note 14)		
General and administration	376,015	352,003
Billing and collecting	433,424	385,597
Distribution - operations	303,433	296,264
Distribution - maintenance	285,370	353,325
Depreciation	153,005	138,395
Interest on long-term obligations and notes payable	150,875	153,586
	1,702,122	1,679,170
Loss before other income and payment in lieu of taxes	(271,235)	(8,662)
Other income		
Interest	18,732	19,791
Labour, rental and other charges	99,528	99,196
Amortization of contributions in aid of construction	8,103	8,735
	126,363	127,722
Earnings (loss) before payment in lieu of taxes, change in regulatory asset and liability balances and other comprehensive earnings (loss)	(144,872)	119,060
Payments in lieu of taxes (recovery) (note 5)		
Current	(63,196)	(24,151)
Deferred	38,778	41,690
	(24,418)	17,539
Net earnings (loss) before change in regulatory asset and liability balances and other comprehensive earnings (loss)	(120,454)	101,521
Change in regulatory assets and liabilities (note 7)		
Change in regulatory asset and liability account balances related to profit and loss	162,744	(22,995)
Change in payment in lieu of deferred tax balances related to regulatory assets and liabilities	38,778	41,690
	201,522	18,695
Net earnings before other comprehensive earnings (loss)	81,068	120,216
Other comprehensive earnings (loss)		
Remeasurement of employee future benefits liability, net of tax	(4,327)	(1,329)
Net earnings	\$ 76,741	\$ 118,887

Espanola Regional Hydro Distribution Corporation
Statement of Retained Earnings and Accumulated Other Comprehensive Earnings
Year ended December 31, 2017 with comparative figures for 2016

	Share capital	Retained earnings	Accumulated other comprehensive earnings (loss)	Total
Balance, December 31, 2016	\$ 2,281,000	\$ 842,731	\$ 19,281	\$ 3,143,012
Net earnings before other comprehensive loss	-	81,068	-	81,068
Other comprehensive loss	-	-	(4,327)	(4,327)
Balance, December 31, 2017	2,281,000	923,799	14,954	3,219,753
Balance, December 31, 2015	2,281,000	722,515	20,610	3,024,125
Net earnings before other comprehensive loss	-	120,216	-	120,216
Other comprehensive loss	-	-	(1,329)	(1,329)
Balance, December 31, 2016	\$ 2,281,000	\$ 842,731	\$ 19,281	\$ 3,143,012

Espanola Regional Hydro Distribution Corporation
Cash Flows Statement
Year ended December 31, 2017 with comparative figures for 2016

	2017	2016
Cash flows from operating activities		
Net earnings before other comprehensive earnings (loss)	\$ 81,068	\$ 120,216
Adjustments to reconcile earnings to cash provided by (used in) operations:		
Depreciation	175,597	160,986
Amortization of contributions in aid of construction	(8,103)	(8,735)
Provision for payment in lieu of deferred taxes	38,778	41,690
Provision for payment in lieu of taxes	(63,196)	(24,151)
Interest charges on long-term obligations and notes payable	150,875	153,586
	375,019	443,592
Change in non-cash working capital items		
Accounts receivable	183,336	(59,353)
Unbilled revenue - energy sales	91,155	(81,005)
Unbilled revenue - distribution	(8,434)	1,371
Inventory	4,647	(3,796)
Prepaid expenses	118	(1,053)
Payment in lieu of taxes paid	144,571	89,367
Accounts payable and accrued liabilities	(71,030)	(220,279)
Payable for energy purchases	(469,081)	995,031
Interest on long-term obligations and notes payable paid	(150,875)	(153,586)
	99,426	1,010,289
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	32,008	-
Purchase of property, plant and equipment	(694,191)	(416,713)
Regulatory assets	(278,373)	(28,971)
	(940,556)	(445,684)
Cash flows from financing activities		
Customer deposits	41,540	9,824
Regulatory liabilities	76,851	10,276
Contributions in aid of construction received	3,293	47,332
Employee future benefits	233	184
Repayment of long-term debt	(80,644)	(77,933)
	41,273	(10,317)
Increase (decrease) in cash	(799,857)	554,288
Cash, beginning of year	2,283,367	1,729,079
Cash, end of year	\$ 1,483,510	\$ 2,283,367

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

1. Nature of operations

Espanola Regional Hydro Distribution Corporation was incorporated on November 1, 2000 under the laws of the province of Ontario, Canada. The incorporation was required in accordance with the Electricity Act, 1998, Ontario (the EA). The Corporation is a wholly owned subsidiary of Espanola Regional Hydro Holdings Corporation and was incorporated for the purpose of providing regulated electricity distribution services to customers in the Town of Espanola and the Township of Sables-Spanish Rivers from its head office located at 598 Second Street, Espanola Ontario, Canada.

The Corporation and other electricity distributors purchase their electricity from the wholesale market administered by the Independent Electricity System Operator (IESO) and recover the costs of electricity and certain other costs at a later date in accordance with procedures mandated by the Ontario Energy Board (the OEB).

The OEB has regulatory oversight of electricity matters in the Province of Ontario. The Ontario Energy Board Act, 1998 sets out the OEB's authority to issue a distribution licence which must be obtained by owners or operators of a distribution system in Ontario. The OEB prescribes licence requirements and conditions including, among other things, specified accounting records, regulatory accounting principles and the filing process requirements for rate-setting purposes.

The OEB's authority and responsibilities include the power to approve and fix rates for the transmission and distribution of electricity and the responsibility for ensuring that electricity distribution companies fulfil their obligations to connect and service customers.

Regulatory developments in Ontario's electricity industry may affect distribution rates and the permitted recovery or settlement or the timing of recovery or settlement of certain regulatory assets and liabilities.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

2. Significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards applying the accounting policies set out below on a consistent basis in all years presented in these financial statement. The significant policies are detailed as follows:

(a) Statement of compliance and basis of measurement

These financial statements are the representation of the Corporation's management and are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The Corporation adopted IFRS as of January 1, 2015 with a transition date of January 1, 2014. The Corporation's accounting policies are based on IFRS applicable as at December 31, 2017. The Corporation has adopted the requirements of IFRS 14 - Regulatory Deferral Accounts, which permits the Corporation to account for regulatory deferral account balances in accordance with its previous GAAP when it adopted IFRS. Previously, the financial statements of the Corporation were prepared in accordance with Canadian generally accepted accounting principles.

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as "fair value through profit or loss" and "available for sale" financial assets which have been measured at fair value.

These financial statements are presented in Canadian dollars and were approved by the Corporation's Board of Directors on April 12, 2018.

(b) Effects of rate regulation

The Ontario Energy Board (OEB) is charged with the responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfil obligations to connect and service customers. 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 been applied in a non rate regulated company. Such change in timing involves the application of rate regulated accounting, giving rise to the recognition of regulatory assets and liabilities. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting and approval process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting and approval process.

(c) Cash and cash equivalents

Cash and cash equivalents are defined as cash and highly liquid investments, consisting primarily of term deposits, with terms to maturity of three months or less at the date of purchase.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

2. Significant accounting policies, continued

(d) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

(e) Property, plant and equipment

Property, plant and equipment are measured at historical cost or deemed cost less accumulated depreciation and impairment losses, if any. The Corporation elected to use the carrying amount, as previously determined under Canadian GAAP, as the deemed cost at January 1, 2014, the transition date to IFRS. In circumstances where parts of an item of property, plant and equipment have different useful lives they are accounted for as separate components of property, plant and equipment. The Corporation provides for depreciation using the straight-line method at rates designed to depreciate the cost of the property, plant and equipment over their estimated useful lives. A full year's depreciation is recorded in the year of acquisition. No depreciation is recorded in the year of disposal. The carrying amount of an item of property, plant and equipment is derecognized on disposal. The annual depreciation rates and useful lives are reviewed annually and are as follows:

Buildings	50 years
Furniture and equipment	5-10 years
Vehicles	15 years
Transmission and distribution equipment	40-60 years

Construction in progress includes assets not currently in use and therefore not yet subject to depreciation.

In certain cases, non-refundable contributions are received in aid of construction or acquisition of property, plant and equipment. Contributions in aid of construction are classified as liabilities and are amortized at the same rate as the assets to which they relate.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2017 with comparative figures for 2016

2. Significant accounting policies, continued

(f) Impairment of non-financial assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in operations.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in operations.

(g) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate, net of tax, that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment, which take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized in operations in the period in which they are incurred.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

2. Significant accounting policies, continued

(i) Asset retirement obligations

Accounting standards require the Corporation to determine the fair value of future expenditures required to settle legal obligations to remove property, plant and equipment. If reasonably estimable, the Corporation recognizes a liability for the estimated current value of future expenditures required to settle obligations for the retirement of property, plant and equipment. Decommissioning liabilities are recorded at fair value, with a corresponding increase to the recorded amount of property, plant and equipment. Accretion of decommissioning liabilities is included in operations. Differences between the recorded amount of decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the period of settlement.

Some of the Corporation's distribution system assets may have asset retirement obligations. As the Corporation expects to use the majority of its installed assets for an indefinite period, no removal date can be determined and consequently a reasonable estimate of the fair value of the related asset retirement obligation cannot be made at this time. If, at some future date, it becomes possible to estimate the fair value cost of removing assets that the Corporation is legally required to remove, an asset retirement obligation will be recognized at that time.

(j) Revenue recognition

Distribution and energy related revenues attributable to the supply and distribution of electricity are based on OEB approved rates and revenue is recognized as electricity is delivered to customers based on periodic meter readings. At the end of an accounting cycle, there is energy used by consumers for which meter readings are not available and no bills have been issued. This unbilled revenue is estimated and recorded in current assets on the statement of financial position at the end of each fiscal year. The related cost of energy is recorded on the basis of energy used.

The difference between the amount paid by the Corporation to Hydro One for the purchase of energy and related service costs and the amount billed by the Corporation to its customers for energy sales based on regulated rates are recorded on the statement of financial position as regulatory assets and liabilities until their final disposition is decided by the OEB. In accordance with IFRS 14, the change in these regulatory assets and liabilities are reported, net of tax, with regulatory balances in the statement of comprehensive earnings.

Labour, rental and other charges revenue is recognized in the period in which these services are provided.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2017 with comparative figures for 2016

2. Significant accounting policies, continued

(k) Payment in lieu of taxes

Pursuant to the EA, the Corporation is required to compute taxes under the Income Tax Act (Canada) (ITA) and remit such amounts computed there under to the Ontario Electricity Financial Corporation (OEFC). These amounts, referred to as payments in lieu of taxes (PILs) under the EA, are applied to reduce certain debt obligations of the former Ontario Hydro now owing by the OEFC.

Payment in lieu of deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amount of assets and liabilities and their tax bases. Payment in lieu of deferred tax assets are also recognized for the benefit of any deductions or losses available to be carried forward to future periods for tax purposes that are likely to be realized. These amounts are measured using enacted or substantively enacted tax rates and are re-measured annually for changes in these rates. Any payment in lieu of deferred income tax assets are reassessed each year to determine if a valuation allowance is required. Any effect of the re-measurement or reassessment is recognized in operations in the period of the change.

As prescribed by regulatory rate order, payment in lieu of taxes are recovered through customer rates based on the taxes payable method. Therefore, rates do not include the recovery of payment in lieu of deferred taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. Accordingly, payment in lieu of deferred tax regulatory assets or liabilities are recognized for the amount of payment in lieu of deferred taxes which are expected to be included in future rates and recovered from or refunded to customers in future periods through the rate setting and approval process.

(l) Employee future benefits

The Corporation's net obligation in respect of its employee future benefit plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value. Any unrecognised past service costs are deducted. The discount rate is the interest rate at the reporting date on high quality debt instruments with duration similar to the duration of the plan.

The cost of these employee future benefits is expensed as earned by employees through employment service. The accrued benefit obligation and the current service costs are actuarially determined by applying the projected unit credit method and incorporate management's best estimate of certain underlying assumptions. Re-measurements arising from employee benefit plans are recognized immediately in operations. When the benefits of a plan are improved, these increases are recognized immediately in operations.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2017 with comparative figures for 2016

2. Significant accounting policies, continued

(m) Financial instruments

(i) Measurement of financial instruments

Financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL"), are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. Transactions to purchase or sell these items are recorded on the trade date. During the year, there have been no reclassifications of financial instruments.

The Corporation has classified cash and cash equivalents as a financial asset at fair value through profit or loss. Any gain/loss arising as a result of the difference between the carrying amount and fair value is recognized in operations.

The Corporation has classified accounts receivable and unbilled revenue as loans and receivables. Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any reduction for impairment or uncollectibility. Net gains and losses arising from changes in fair value are recognized in operations upon de-recognition or impairment.

The Corporation has classified accounts payable and accrued liabilities, payable for energy purchases, long-term obligations, and notes payable as financial liabilities measured at amortized cost. Financial liabilities measured at amortized cost are measured at their amortized cost subsequent to initial recognition. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in operations upon de-recognition or impairment.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

2. Significant accounting policies, continued

(m) Financial instruments, continued

(ii) Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Interest on the impaired assets continues to be recognized through the unwinding of the discount.

All impairment losses are recognized in operations. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in operations.

(n) Measurement uncertainty

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant, including changes as a result of future decisions made by the Ontario Energy Board (OEB). All estimates are reviewed periodically and adjustments are made and recognized in operations, as appropriate, in the year they become known. Accounts specifically affected by estimates and assumptions in these financial statements are as follows:

(i) Property, plant and equipment

Amounts recorded in the financial statements for depreciation are based on the estimated useful lives of the Corporation's property, plant and equipment. These useful lives are management's best estimate of the service lives of these assets and are reviewed annually. Changes to these estimated useful lives could materially affect the amount of depreciation recorded in the financial statements.

The Corporation's policy relating to property, plant and equipment is described in note 2 (e). In applying this policy, management uses judgment in determining whether certain costs are additions to the carrying amount of property, plant and equipment or expensed in operations as repairs and maintenance. Judgment is also necessary in determining the appropriate componentization structure of the Corporation's property, plant and equipment.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

2. Significant accounting policies, continued

(n) Measurement uncertainty, continued

(ii) Decommissioning liabilities

The Corporation recognizes a liability for the estimated current value of future expenditures required to settle obligations for the retirement of property, plant and equipment. Decommissioning liabilities are recorded at fair value, with a corresponding increase to the recorded amount of property, plant and equipment. Accretion of decommissioning liabilities is included in operations. Differences between the recorded amount of decommissioning liabilities and the actual decommissioning costs incurred are recorded as a gain or loss in the period of settlement.

(iii) Employee future benefits

The Corporation provides certain health and dental benefits to retired employees. The estimated cost of providing these benefits is accounted for on an accrual basis in the period in which employees render their services and are actuarially determined using the projected benefit method pro-rated on service and include management's best estimate of salary escalations, retirement ages and expected health care cost escalations.

(iv) Regulatory assets and liabilities

When recognizing regulatory assets and liabilities management assumes that such credits or costs will be recovered from customers or refunded to customers in future years through the rate setting and approval process. Refund or recovery of these regulatory assets and liabilities are subject to the review and approval of the OEB. Consequently, there is risk that some or all of the regulatory assets and liabilities will not be approved by the OEB which could have a material affect on the Corporation's comprehensive income in the year of the OEB decision.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2017 with comparative figures for 2016

3. Future changes to significant accounting policies

The Corporation has not yet adopted the following new and revised International Financial Reporting Standards that have been issued but are not yet effective:

Financial Instruments IFRS 9

In July 2014, the IASB issued a new standard, IFRS 9 - Financial Instruments, which will replace IAS 39 - Financial Instruments: Recognition and Measurement. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is part of the first phase of this project. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The Corporation is assessing the impact of IFRS 9 on its results of operations, financial position and disclosures.

Revenue Recognition IFRS 15

In May 2014, IFRS 15 - Revenue from Contracts with Customers was issued, which replaces IAS 11 - Construction Contracts, IAS 18 - Revenue and various interpretations. IFRS 15 establishes principles regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard requires entities to recognize revenue for the transfer of goods or services to customers measured at the amounts an entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Corporation is assessing the impact of IFRS 15 on its results of operations, financial position and disclosures.

Leases IFRS 16

In January 2016, IFRS 16 - Leases was issued. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 replaces IAS 17 and is effective for periods beginning on or after January 1, 2019. The Corporation is assessing the impact of IFRS 16 on its results of operations, financial position and disclosures.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

4. **Accounts receivable**

	2017	2016
Electrical energy receivables	\$ 720,775	\$ 917,878
Water and sewer receivables	213,578	233,858
Other receivables	92,913	58,866
	\$ 1,027,266	\$ 1,210,602

	2017	2016
Aging of accounts receivable		
Current	\$ 964,371	\$ 1,126,253
30 days	13,904	17,267
60 days	10,950	8,825
Over 90 days	38,041	58,257
	\$ 1,027,266	\$ 1,210,602

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

5. **Payment in lieu of deferred taxes**

(a) The components of payment in lieu of deferred tax balances are as follows:

	2017	2016
Payment in lieu of deferred tax assets:		
Difference between tax basis of employee future benefits obligation and carrying amount	\$ 10,510	\$ 9,826
Payment in lieu of deferred tax liabilities:		
Difference between tax basis of property, plant and equipment and carrying amount	(70,560)	(31,098)
	<u>\$ (60,050)</u>	<u>\$ (21,272)</u>

(b) The provision for payment in lieu of taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 15.0% (2016 - 15.0%) to the earnings for the years as follows:

	2017	2016
Earnings (loss) for the year before payment in lieu of taxes, change in regulatory asset and liability balances and other comprehensive earnings (loss)	\$ (144,872)	\$ 119,060
Change in regulatory asset and liability account balances related to profit and loss	162,744	(22,995)
Remeasurement of employee future benefits liability included in other comprehensive income	(4,327)	(1,329)
	<u>\$ 13,545</u>	<u>\$ 94,736</u>
Anticipated income tax	\$ 2,032	\$ 14,210
Tax effect of the following:		
Change in payment in lieu of deferred tax regulatory asset	(23,295)	(4,403)
Tax effect of change in payment in lieu of deferred tax regulatory liability	(1,116)	6,914
Adjustment due to change in tax rate	(2,039)	818
Provision for (recovery of) payment in lieu of taxes	<u>\$ (24,418)</u>	<u>\$ 17,539</u>

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

6. Property, plant and equipment

	2017						
	Land	Buildings	Transmission & Distribution Equipment	Vehicles	Furniture and Equipment	Construction In Progress	Total
Cost							
Balance, beginning of year	\$ 88,880	183,831	3,929,058	315,642	31,451	54,100	\$ 4,602,962
Additions	-	-	635,376	-	-	58,815	694,191
Transfers	-	-	6,414	-	-	(6,414)	-
Disposals	-	-	(61,680)	-	-	-	(61,680)
Balance, end of year	88,880	183,831	4,509,168	315,642	31,451	106,501	5,235,473
Accumulated Amortization							
Balance, beginning of year	-	13,515	359,120	61,004	15,864	-	449,503
Depreciation	-	4,572	144,827	22,592	3,606	-	175,597
Disposals	-	-	(29,672)	-	-	-	(29,672)
Balance, end of year	-	18,087	474,275	83,596	19,470	-	595,428
Net book value	\$ 88,880	165,744	4,034,893	232,046	11,981	106,501	\$ 4,640,045

	2016						
	Land	Buildings	Transmission & Distribution Equipment	Vehicles	Furniture and Equipment	Construction In Progress	Total
Cost							
Balance, beginning of year	\$ 88,880	180,812	3,553,949	272,025	26,793	63,790	\$ 4,186,249
Additions	-	3,019	309,996	43,617	4,658	55,423	416,713
Transfers	-	-	65,113	-	-	(65,113)	-
Disposals	-	-	-	-	-	-	-
Balance, end of year	88,880	183,831	3,929,058	315,642	31,451	54,100	4,602,962
Accumulated Amortization							
Balance, beginning of year	-	8,943	229,012	38,412	12,150	-	288,517
Depreciation	-	4,572	130,108	22,592	3,714	-	160,986
Disposals	-	-	-	-	-	-	-
Balance, end of year	-	13,515	359,120	61,004	15,864	-	449,503
Net book value	\$ 88,880	170,316	3,569,938	254,638	15,587	54,100	\$ 4,153,459

Espanola Regional Hydro Distribution Corporation**Notes to the Financial Statements****Year ended December 31, 2017 with comparative figures for 2016**

7. Regulatory assets and liabilities

	January 1, 2017	Regulatory activity	December 31, 2017
Settlement variances (a)	\$ 846,342	\$ 366,472	\$ 1,212,814
Stranded meters (b)	11,460	41	11,501
Substation (c)	1,590,515	(134,359)	1,456,156
Payment in lieu of deferred tax regulatory assets (d)	24,697	46,219	70,916
Total regulatory assets	2,473,014	278,373	2,751,387
Settlement variances (a)	347,483	69,410	416,893
Payment in lieu of deferred tax regulatory liabilities (d)	3,425	7,441	10,866
Total regulatory liabilities	350,908	76,851	427,759
Net regulatory assets	\$ 2,122,106	\$ 201,522	\$ 2,323,628

	January 1, 2016	Regulatory activity	December 31, 2016
Settlement variances (a)	\$ 667,123	\$ 179,219	\$ 846,342
Stranded meters (b)	20,387	(8,927)	11,460
Substation (c)	1,727,433	(136,918)	1,590,515
Payment in lieu of deferred tax regulatory assets (d)	29,100	(4,403)	24,697
Total regulatory assets	2,444,043	28,971	2,473,014
Settlement variances (a)	291,114	56,369	347,483
Payment in lieu of deferred tax regulatory liabilities (d)	49,518	(46,093)	3,425
Total regulatory liabilities	340,632	10,276	350,908
Net regulatory assets	\$ 2,103,411	\$ 18,695	\$ 2,122,106

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

7. Regulatory assets and liabilities, continued

Regulatory assets and liabilities arise as a result of the rate setting and approval process through the OEB.

(a) The difference between the amount paid by the Corporation to Hydro One for the purchase of energy and related service costs and the amount billed by the Corporation to its customers as energy sales based on regulated rates are recorded on the statement of financial position as settlement variances until their final disposition is decided by the OEB. The Corporation recognizes settlement variances as an asset or liability based on the expectation that these amounts will be approved by the OEB for future collection from, or refund to, customers through the rate setting and approval process. The settlement variance asset (liability) represents the excess (deficiency) of amounts billed to the Corporation by Hydro One for the purchase of energy over the amounts charged by the Corporation to its customers as energy sales.

Recovery or refund of the settlement variances is done on an annual basis through application to the OEB. Currently, no amount has been approved for recovery or refund. Accordingly, the timing of the recovery or refund is unknown.

(b) The stranded meter regulatory assets represent the unrecovered net book value of decommissioned analog meters. The net book value of the stranded meters has been reclassified to the regulatory asset account for recovery to the end of March 2017.

(c) The substation asset represents the cost of construction of a new substation in the Town of Espanola. The OEB approved the recovery of \$168,193 per year in the Corporation's rates until their next cost of service rate order.

(d) The payment in lieu of deferred tax regulatory asset and liability relate to the expected increase in or reduction of distribution rates for customers arising from temporary differences which give rise to payment in lieu of deferred tax assets and liabilities.

For certain of the regulatory assets and liabilities, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the OEB in determining the item's treatment for rate-setting purposes. The Corporation continually assesses the likelihood of recovery of each of its regulatory assets and refund of each of its regulatory liabilities and continues to believe that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If at some future date the Corporation determines that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be charged to operations in the period the determination is made.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

8. Bank credit facilities

A revolving demand credit facility has been granted by the Royal Bank of Canada to a maximum of \$500,000 bearing interest at the bank's prime rate plus 0.8% per annum.

A reducing facility by way of leases has also been granted by the Royal Bank of Canada to a maximum of \$200,000, terms of which are governed by separate lease agreements.

The above credit facilities are secured by a first ranking general security agreement.

At the year-end date, no amount has been drawn on these credit facilities.

9. Contributions in aid of construction

In certain cases, non-refundable contributions are received in aid of construction or acquisition of property, plant and equipment. Contributions in aid of construction are deferred and amortized to other revenue at the same rate as the assets to which they relate.

	2017	2016
Balance, beginning of year	\$ 291,194	\$ 252,597
Contributions received in the year	3,293	47,332
Amortization of contributions in aid of construction	(8,103)	(8,735)
Balance, end of year	\$ 286,384	\$ 291,194

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2017 with comparative figures for 2016

10. Employee future benefits

The Corporation pays certain post-employment health and dental benefits on behalf of its retired employees. Accounting standards for employee future benefits require that these post-retirement costs be recognized in the period in which the employees rendered their services. Information about the Corporation's accrued benefit liability and the related expense are based on results and assumptions by actuarial valuation at December 31, 2017 and are as follows:

	2017	2016
Accrued benefit liability, beginning of year	\$ 65,507	\$ 63,994
Current service cost recognized in operations	530	509
Interest cost recognized in operations	2,531	2,565
Benefits paid by employer	(2,828)	(2,890)
Net actuarial loss recognized in other comprehensive income	4,327	1,329
Accrued benefit liability, end of year	\$ 70,067	\$ 65,507

The main assumptions employed for the valuations are as follows:

The health benefit cost is estimated to increase at rate from 6.25% per annum over. The dental benefit cost is estimated to increase at a rate of 4.5% per annum.

The obligation at year-end and the present value of future liabilities and the related expense, were determined using an annual discount rate of 3.50% per annum (2016 - 3.95%) representing an estimate of the yield on high quality corporate bonds with a duration similar to the duration of the plan.

Future general salary and wage levels were assumed to increase at 2.6% per annum (2016 - 2.6%).

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

11. Long-term obligations

	2017	2016
Infrastructure Ontario non-revolving term loan, repayable in blended monthly installments of \$2,860 including interest at 2.73% per annum, secured by a general security agreement ranking behind the first ranking general security agreement registered by the Royal Bank of Canada and maturing December 2025	\$ 246,360	\$ 273,546
Infrastructure Ontario non-revolving term loan, repayable in blended monthly installments of \$10,831 including interest at 3.78% per annum, secured by a general security agreement ranking behind the first ranking general security agreement registered by the Royal Bank of Canada and maturing December 2040	1,995,063	2,048,521
	2,241,423	2,322,067
Less current portion	83,452	80,645
	\$ 2,157,971	\$ 2,241,422

The Ontario Infrastructure loans require the Corporation to meet a debt service coverage ratio of a minimum of 1:25 to 1 and a debt to total assets ratio of less than 60%. At December 31, 2017 the corporation is in compliance with these covenants.

Estimated principal repayments are as follows:

2018	\$ 83,452
2019	86,359
2020	89,370
2021	92,489
2022	95,718
Subsequent years	1,794,035
	\$ 2,241,423

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2017 with comparative figures for 2016

12. Notes payable

	2017	2016
Note payable to the Town of Espanola	\$ 1,185,416	\$ 1,185,416
Note payable to the Township of Sables-Spanish Rivers	339,095	339,095
	<u>\$ 1,524,511</u>	<u>\$ 1,524,511</u>

Notes payable to the Town of Espanola and Township of Sables-Spanish Rivers are without security, are due on demand with one year's written notice, include interest at 4.41% per annum (2016 - 4.41%) and are convertible into special shares of the Corporation at a rate of \$10,000 per share. During the year, the Corporation paid interest in the amount of \$52,277 (2016 - \$52,277) to the Town of Espanola and \$14,954 (2016 - \$14,954) to the Township of Sables-Spanish Rivers.

13. Share capital

	2017	2016
Authorized		
Unlimited number of common shares		
Unlimited discretionary non-cumulative dividend paying, redeemable at \$10,000 per share, non-voting special shares		
Issued		
1,000 common shares	\$ 1,000	\$ 1,000
228 special shares	2,280,000	2,280,000
	<u>\$ 2,281,000</u>	<u>\$ 2,281,000</u>

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

14. Operating expenses

For internal management reporting purposes the Corporation's operating expenses are reported by function. Operating expenses reported by nature are as follows:

	2017	2016
Salaries, wages and benefits	\$ 421,429	\$ 450,024
Office and administration	315,933	291,263
Contracted services	421,995	393,886
Operations and maintenance	157,907	188,473
Depreciation	175,597	160,986
Interest on long-term debt and notes payable	150,875	153,586
Bad debts	58,386	40,952
	\$ 1,702,122	\$ 1,679,170

15. Commitments

The Corporation has entered into a contract for management, billing, collecting, customer service, software and data hosting services and support with PUC Services Inc. for a five year period ending May 31, 2021, at an annual base cost as follows:

2018	\$ 170,178
2019	173,949
2020	177,423
2021	74,530

In addition to the above charges, a monthly charge of \$5.26 to \$5.75 per meter, for up to 3,700 meters for residential and general service customers, will apply.

Espanola Regional Hydro Distribution Corporation

Notes to the Financial Statements

Year ended December 31, 2017 with comparative figures for 2016

16. Related party transactions

The Corporation is related to the Town of Espanola by virtue of the fact that the Town is an 81% owner of the Corporation's sole shareholder. Likewise, the Township of Sables-Spanish Rivers is a 19% owner of the Corporation's sole shareholder.

In the normal course of business, the Corporation provides electrical energy to the Town of Espanola and the Township of Sables-Spanish Rivers at the same regulated rates and terms approved by the OEB as other similar customers, based on the amount of electricity consumed.

The Corporation also provides water and waste water billing and collection services on behalf of the Town of Espanola. Included in other charges revenue is \$18,136 (2016 - \$18,136) earned with respect to these services. Also, included in accounts payable and accrued liabilities is \$443,123 (2016 - \$440,661) relating to amounts collected by the Corporation on behalf of the Town of Espanola for water and waste water billing. Correspondingly, included in accounts receivable is \$213,578 (2016 - \$233,858) relating to amounts receivable from customers for water and waste water services.

17. Capital disclosure

The Corporation's objectives when managing capital are:

- (a) Ensure ongoing access to capital at a reasonable cost in order to maintain and improve the electricity distribution system of the Corporation to ensure the continued delivery of safe, reliable electricity services to customers, and to safeguard the Corporation's ability to continue as a going concern and provide a reasonable rate of return to its shareholders;
- (b) Align the Corporation's capital structure with the debt to equity structure deemed appropriate by the OEB.

The Corporation's capital consists of shareholder's equity and notes payable to the Town of Espanola and Township of Sables-Spanish Rivers. There have been no changes in the Corporation's approach to managing capital during the year.

18. Subsequent events

On January 12, 2018 the Town of Espanola and Township of Sables-Spanish Rivers announced the acceptance of a letter of intent to purchase the shares of Espanola Regional Hydro Holdings Corporation (the Corporation's shareholder) with North Bay Hydro Distribution Ltd. The Municipalities and North Bay Hydro Distribution Ltd. will now proceed with the next phase of the purchase process which includes the completion of due diligence and the preparation of a definitive agreement of purchase and sale.

Espanola Regional Hydro Distribution Corporation
Notes to the Financial Statements
Year ended December 31, 2017 with comparative figures for 2016

19. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring financial risks to or from another party. The Corporation is exposed to the following risks associated with financial instruments and transactions it is a party to:

(a) Fair value

The fair value of current financial assets and current financial liabilities approximates their carrying value due to their short-term maturity dates. The fair value of long-term financial liabilities approximates their carrying value based on the presumption that the Corporation is a going concern and thus expects to fully repay the outstanding amounts.

(b) Credit risk

Credit risk is the risk that one party to a financial transaction will fail to discharge a financial obligation and cause the other party to incur a financial loss. The Corporation's main credit risks are associated with its cash and accounts receivable.

The Corporation minimizes credit risk associated with its cash balances by ensuring that these financial assets are held with large reputable financial institutions with high credit ratings.

The Corporation incurs amounts due from its customers in the regular course of business and has credit risk associated with its accounts receivable balances of \$1,027,266 (2016 - \$1,210,602). The Corporation reduces its exposure to credit risk through management's on-going monitoring of its accounts receivable balances and collections. Credit valuations are performed on a regular basis and credit is granted upon a review of the credit history of the applicant. An allowance for bad debts is recorded when applicable.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation cannot repay its obligations when they become due to its creditors. The Corporation has liquidity risk associated with its accounts payable and accrued liabilities, payable for energy purchases, long-term obligations and notes payable. The Corporation reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due and budgets to maintain adequate cash resources including a line of credit to repay creditors including long-term obligations interest and principal as those liabilities become due.

20. Comparative figures

Certain 2016 comparative figures have been reclassified from those previously presented to conform to the presentation of the 2017 financial statements. These changes do not affect prior year earnings.

North Bay Hydro Distribution Limited
Financial Statements
For the year ended December 31, 2016

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Tel: 705 495 2000
Fax: 705 495 2001
Toll-Free: 800 461 6324
www.bdo.ca

BDO Canada LLP
101 McIntyre Street W, Suite 301
North Bay ON P1B 2Y5 Canada

Independent Auditor's Report

To the Shareholder of North Bay Hydro Distribution Limited

We have audited the accompanying financial statements of North Bay Hydro Distribution Limited, which comprise the statement of financial position as at December 31, 2016, and the statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2016 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 International Financial Reporting Standards, 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.

Auditor's 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 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 as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit 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 North Bay Hydro Distribution Limited as at December 31, 2016 and its financial performance and its cash flows for the year ended December 31, 2016 in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

North Bay, Ontario
March 22, 2017

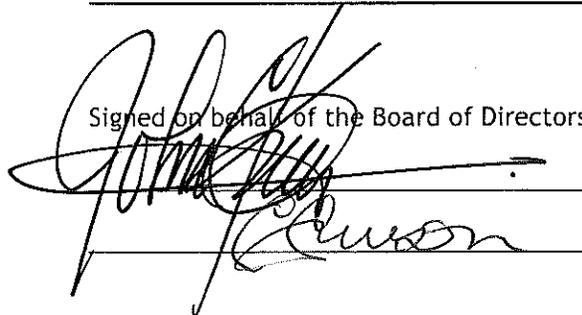
North Bay Hydro Distribution Limited
Statement of Financial Position (Expressed in Canadian Dollars)
For the year ended December 31, 2016

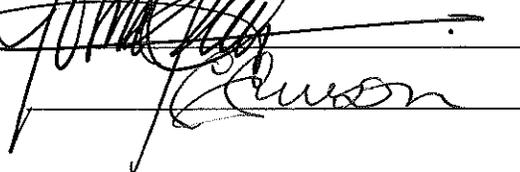
	Note	Dec 31, 2016	Dec 31, 2015
Assets			
Current assets			
Cash and short-term investments		\$ 12,270,623	\$ 11,529,841
Accounts receivable	6	7,454,008	7,388,557
Unbilled revenue		7,708,360	6,764,666
Payment in lieu of taxes receivable	7	282,871	173,806
Inventory	10	511,305	554,864
Prepaid expenses - current		662,674	683,551
Total current assets		28,889,841	27,095,285
Non-current assets			
Property, plant and equipment	4	61,257,160	57,637,563
Prepaid expenses - long-term		444,571	641,033
Financial instrument asset	14	445,411	-
Deferred taxes	7	2,868,194	4,086,015
Total non-current assets		65,015,336	62,364,611
Total assets		93,905,177	89,459,896
Regulatory deferral account debit balances	3	656,113	1,868,553
Total assets and regulatory deferral account balances		\$ 94,561,290	\$ 91,328,449

North Bay Hydro Distribution Limited
Statement of Financial Position (continued) (Expressed in Canadian Dollars)
For the year ended December 31, 2016

	Note	Dec 31, 2016	Dec 31, 2015
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	\$ 11,133,929	\$ 11,135,073
Deferred revenue		109,073	427,359
Customer deposits - current	6	90,766	57,539
Current portion of long-term debt	14	2,484,485	1,247,714
Total current liabilities		13,818,253	12,867,685
Long-term liabilities			
Customer deposits - long-term	6	617,324	918,720
Contributions in aid of construction	5	2,365,572	2,061,938
Employee future benefits	8	4,205,564	4,936,024
Payable to Corporation of the City of North Bay	9 / 14	-	19,511,601
Long-term debt	14	32,040,705	10,125,082
Financial instrument liability	14	-	227,166
Total non-current liabilities		39,229,165	37,780,531
Total liabilities		53,047,418	50,648,216
Shareholder's Equity			
Share capital	11	19,511,601	19,511,601
Retained earnings		16,628,816	13,975,520
Accumulated other comprehensive loss (income)		116,116	(396,160)
		16,744,932	13,579,360
Total shareholder's equity		36,256,533	33,090,961
Total liabilities and shareholder's equity		89,303,951	83,739,177
Regulatory deferral account credit balances	3	5,257,339	7,589,272
Total liabilities, equity and regulatory deferral account credit balances		\$ 94,561,290	\$ 91,328,449

Signed on behalf of the Board of Directors by

 Director

 Director

North Bay Hydro Distribution Limited
Statement of Comprehensive Income (Expressed in Canadian Dollars)
For the year ended December 31, 2016

	Note	2016	2015
Revenue			
Electricity sales	5	\$ 74,476,753	\$ 70,131,563
Other	5	918,505	1,069,139
		75,395,258	71,200,702
Expenses			
Cost of power		62,782,581	58,509,961
Operating expenses	12	6,355,463	6,140,727
Depreciation and amortization		2,614,481	2,537,087
(Gain) loss on disposal of property, plant and equipment		(115,544)	49,800
Loss (gain) on foreign exchange		13,352	(18,074)
		71,650,333	67,219,501
Income from operating activities		3,744,925	3,981,201
Finance income	13	253,224	249,042
Finance costs	13	(1,398,768)	(1,392,420)
Unrealized gain (loss) on investments		672,578	(152,494)
Income before provision for payment in lieu of income taxes		3,271,959	2,685,329
Provision for payment in lieu of income taxes			
Current (recovery)	7	165,881	300,000
Deferred		1,033,121	354,082
		1,199,002	654,082
Profit for the year before net movements in regulatory deferral account balances		2,072,957	2,031,247
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement	3	1,256,121	539,742
Profit for the year and net movements in regulatory deferral account balances		3,329,078	2,570,989
Other comprehensive income:			
Remeasurement of employee future benefits (net of \$184,700 in tax)	8	512,276	-
Net and comprehensive income for the year		\$ 3,841,354	\$ 2,570,989

North Bay Hydro Distribution Limited
Statement of Changes in Equity (Expressed in Canadian Dollars)
For the year ended December 31, 2016

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2015	\$ 19,511,601	\$(396,160)	\$ 12,187,708	\$ 31,303,149
Profit for the year and net movements in regulatory deferral account balances	-	-	2,570,989	2,570,989
Dividends paid	-	-	(783,177)	(783,177)
December 31, 2015	19,511,601	(396,160)	13,975,520	33,090,961
Profit for the year and net movements in regulatory deferral account balances	-	-	3,329,078	3,329,078
Other comprehensive income, net of tax	-	512,276	-	512,276
Dividends paid	-	-	(675,782)	(675,782)
Balance at December 31, 2016	\$ 19,511,601	\$ 116,116	\$ 16,628,816	\$ 36,256,533

North Bay Hydro Distribution Limited
Statement of Cash Flows (Expressed in Canadian Dollars)
For the year ended December 31, 2016

	2016	2015
Cash Flows From Operating Activities		
Profit for the year and net movements in regulatory deferral account balances	\$ 3,329,078	\$ 2,570,989
Adjustments to reconcile income to net cash used in operating activities:		
Depreciation and amortization	2,614,481	2,537,087
Amortization of contributions in aid of construction	(48,689)	(43,036)
Deferred income taxes	1,033,121	354,082
Employee future benefit expense	204,523	256,471
(Gain) loss on disposal of property, plant and equipment	(115,544)	49,800
(Gain) loss on investments	(672,578)	134,420
	6,344,392	5,859,813
Change in non-cash operating working capital:		
Accounts receivable	(65,451)	919,023
Unbilled revenue	(943,694)	216,925
Inventory	43,559	(29,939)
Prepaid expenses	217,339	(254,419)
Accounts payable and accrued liabilities	(1,144)	(1,139,101)
Deferred revenue	(318,286)	44,066
Payment in lieu of taxes	(109,065)	(148,806)
Customer deposits	(268,169)	57,591
	4,899,481	5,525,153
Net cash flows from operating activities		
Cash Flows from investing activities		
Proceeds on disposal of property, plant and equipment	183,821	24,575
Purchase of property, plant and equipment	(6,302,354)	(6,681,891)
Changes in regulatory deferral account balances	(1,119,493)	(402,757)
	(7,238,026)	(7,060,073)
Cash used in investment activities		
Cash Flows from financing activities		
Contributions received in aid of construction	352,323	703,198
Dividends paid	(675,782)	(783,177)
Employee future benefits paid	(238,007)	(249,750)
Repayment of long-term debt	(20,859,207)	(786,831)
Advances of long-term debt	24,500,000	6,000,000
	3,079,327	4,883,440
Cash provided by financing activities		
Net increase in cash	740,782	3,348,520
Cash, beginning of year	11,529,841	8,181,321
Cash, end of year	\$ 12,270,623	\$ 11,529,841

1. CORPORATE INFORMATION

North Bay Hydro Distribution Limited's (the "Company") main business activity is the distribution of electricity under authority of the Ontario Energy Board ("OEB") Act, 1998. The Company owns and operates an electricity distribution system, which delivers electricity to approximately 24,069 customers located in North Bay, Ontario.

Operating in a regulated environment exposes the Company to regulatory and recovery risk.

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 balances. All requests for changes in electricity distribution charges require the approval of the OEB.

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect distribution rates and other permitted recoveries in the future. North Bay Hydro Distribution Limited is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The address of the Company's corporate office and principal place of business is 74 Commerce Crescent, North Bay, Ontario, Canada.

The sole shareholder of the Company is the Corporation of the City of North Bay.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements of North Bay Hydro Distribution Limited have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on March 22, 2017.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars (CDN\$), which is also the Company's functional currency, and all values are rounded to the nearest dollar, unless when otherwise indicated.

c) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of the impairment of accounts receivable (Note 6)
- The recognition of regulatory debit and credit balances (Note 3)
- The determination for the provision for Payment in Lieu of Taxes since there are many transactions and calculations for which the ultimate tax determination is uncertain (Note 7); and
- The calculation of the net future obligation for certain unfunded health, dental and life insurance benefits for the Company's retired employees (Note 8).

In addition, in preparing the financial statements the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

3. REGULATORY DEFERRAL ACCOUNT BALANCES

In accordance with IFRS 14, the Company has continued to apply the accounting policies it applied in accordance with the pre-changeover Canadian GAAP for the recognition, measurement and impairment of assets and liabilities arising from rate regulation. These are referred to as regulatory deferral account balances. Regulatory deferral account balances are recognized and measured initially and subsequently at cost. They are assessed for impairment on the same basis as other non-financial assets.

Regulatory deferral account credit balances are associated with the collection of certain revenues earned in the current period or in prior period(s) that are expected to be returned to consumers in future periods through the rate-setting process.

Regulatory deferral account debit balances represent future revenues associated with certain costs incurred in the current period or in prior period(s) that are expected to be recovered from consumers in future periods through the rate-setting process. Management continually assesses the likelihood of recovery of regulatory balances. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

The balances and movements in the regulatory deferral account balances shown below are presented net of related deferred taxes. These deferred taxes are not presented within the total deferred tax asset balances shown in Note 7. All amounts deferred as regulatory deferral account balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered by customers (returned to customers) in future periods and as such regulatory deferral account balances are comprised of:

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	Remaining recovery period (years)	2016	2015
Regulatory Deferral Account Debit Balances			
Cost of Power (i)	1 - 4	\$ 61,376	\$ 1,164,138
Disposition/recovery - 2014, 2015, 2016 (iii)	1 - 4	369,068	358,393
LRAMVA (iv)	1 - 4	190,949	206,242
Smart meter initiatives (v)	1	3,027	141,100
Other (viii)	1 - 4	31,693	(1,320)
Total Regulatory Deferral Account Debit Balances		\$ 656,113	\$ 1,868,553

	Remaining recovery period (years)	2016	2015
Regulatory Deferral Account Credit Balances and related Deferred Tax			
Cost of Power - Wholesale Market Service (i)	1 - 4	\$ (1,453,016)	\$ (906,993)
IFRS Transition (ii)	.5	(844,001)	(2,532,002)
Retail cost variances (vi)	1 - 4	(89,679)	(61,812)
Deferred income taxes (vii)	5 - 25	(2,868,194)	(4,086,015)
Other (viii)	1 - 4	(2,449)	(2,450)
Total Regulatory Deferral Account Credit Balances and related Deferred Tax		\$ (5,257,339)	\$ (7,589,272)

In the absence of rate regulation, these rate regulated assets and liabilities would be recognized in income in the year in which they relate. As a result, the net effect on income for the period is as stated below.

i. Cost of Power

This account is comprised of the variances between amounts charged by the Company to customers, based on regulated rates, and the corresponding cost of non-competitive electricity service charged to the Company for the operation of the wholesale electricity market and grid, including commodity and global adjustment, various wholesale market settlement charges and transmission charges. Under the OEB's direction, the Company has deferred the settlement variances that have occurred since May 1, 2002 in accordance with the AP Handbook. Carrying charges are calculated monthly on the opening balance of the applicable variance account using a specific interest rate as outlined by the OEB. The Company did not recognize carrying charge income related to the retail settlement variance accounts for external reporting purposes prior to December 31, 2003.

The OEB allows the variances to be deferred which would normally be recorded as revenue for unregulated businesses under Modified IFRS (MIFRS). In absence of rate regulation, revenues in 2016 would have been higher by \$1,102,762 (2015 - higher by \$814,568).

As a component of the yearly Incentive Regulation Mechanism (IRM) rate application process, "Group 1" account balances (which are composed of Low Voltage, Wholesale Market, Network, Connection, Power and the Smart Meter Entity charge) are reviewed and will qualify for disposition if balances, including

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued) (Expressed in Canadian Dollars)
For the year ended December 31, 2016

carrying charges, exceed a preset threshold per kWh. The Company has proposed disposition of the 2015 audited deferral account balances, including carrying charges, over a one year disposition period in the pending 2017 IRM application for 2017 rates. In 2016, NBHDL disposed of 2014 audited balances for Group 1 accounts - see Note iii.

ii. IFRS Transition Costs

The Board approved variance Account 1576, Accounting Changes Under CGAAP, for distributors to record the financial differences arising as a result of the election to make accounting changes to depreciation; the difference is a reflection of the revised depreciation expense in comparison to the depreciation that would have been recorded under previous service life terms and thus included in rates charged to customers.

In the 2014 Cost of Service application process, the OEB approved disposition of the net amount owing to customers recorded in Account 1575 and 1576 of (\$3,376,003) through a two year rate rider beginning in July 2015. While the rate rider is recorded through the income statement in distribution revenue and the loss on regulatory assets/liabilities expense, the regulatory deferral accounts are reduced through an adjustment to depreciation expense based on a straight line amortization period that spans the same two year period of the rate rider - July 2015 through June 2017. The deferral accounts were reduced by a net of \$1,688,001 (2015 - \$906,669) in 2016.

iii. Disposition/recovery - 2014, 2015, 2016

Disposition/recovery - 2014 On August 30, 2013, the Company filed an IRM application for 2014 distribution rates (EB-2013-0157) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On March 6, 2014, the OEB approved the disposition of net regulatory assets of \$864,885 and net regulatory liabilities of \$1,594,828 over a one year period commencing May 1, 2014 and ending April 30, 2015. The amounts consisted of principal balances as of December 31, 2012 with carrying charges projected to April 30, 2014. NBHDL will seek disposition of the net residual balance of \$20,802 in a future rate application.

Disposition/recovery - 2015 On December 18, 2014, the Company filed a COS application for 2015 distribution rates (EB-2014-0099) with the OEB which included a request seeking disposition of the balances for regulatory assets and liabilities. On July 16, 2015, the OEB approved the disposition of net regulatory assets of \$1,554,186 and net regulatory liabilities of (\$4,662,850) which includes Group 1 and 2 balances, CGAAP and LRAMVA accounts. The Group 1 and 2 amounts consisted of principal balances as of December 31, 2013 with carrying charges projected to April 30, 2015 for a net total of \$455,076 being collected from customers over a one year period commencing July 1, 2015 and ending June 30, 2016. The PP&E - CGAAP and transitional amounts are being refunded to customers over a two year period beginning July 1, 2015 and ending June 30, 2016. The amount owed to customers includes the disposition of the regulatory liability of (\$3,793,377). The LRAMVA amount approved for disposition included the lost revenue for OPA programs up to December 31, 2013 plus carrying charges projected to April 30, 2015 for a total amount of \$229,637 being collected from customers over a one year period commencing July 1, 2015 and ending June 30, 2016. NBHDL will seek disposition of the net residual balance of (\$6,124) in a future rate application.

Disposition/recovery - 2016 On March 23, 2016, the Company filed an IRM application for 2016 distribution rates (EB-2015-0092) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On May 5, 2016, the OEB issued a decision approving the disposition of net regulatory assets of \$935,707. The amounts consisted of principal

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balances as of December 31, 2014 with carrying charges projected to April 30, 2016. The OEB approved disposition of \$950,051 over a one year period commencing May 1, 2016 and ending April 30, 2017 for the Global Adjustment amount; the remaining Group 1 account balances netting (\$14,344) will be refunded to customers in a future rate application.

iv. Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

On April 26, 2012 the OEB released the *Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003)* which included accounting direction on the treatment of lost revenues from forecasted/unforecasted Conservation and Demand Management (CDM) results on distribution revenue due to variances from forecasted throughput used to establish distribution rates.

The Board established an LRAM variance account ("LRAMVA") to capture the differences between the results of actual, verified impacts of authorized CDM activities undertaken by electricity distributors between 2011-2014 for both Board-Approved CDM programs and OPA-Contracted Province-Wide CDM programs in relation to activities undertaken by the distributor and/or delivered for the distributor by a third party under contract (in the distributor's franchise area) and the level of CDM program activities included in the distributor's load forecast (i.e. the level embedded into rates). At a minimum, distributors must apply for disposition of the balance in the LRAMVA the time of their Cost of Service rate applications.

In the 2014 COS application, the OEB approved disposition of LRAMVA amounts related to CDM programs up to December 31, 2013 in the amount of \$221,924; this is now included in the disposition/recovery - 2015 account. The final 2014 OPA/IESO report issued in September 2015 resulted in further adjustments to the 2013 savings and as a result, NBHDL recorded an adjustment of \$57,727 to the LRAMVA account with an offsetting increase to distribution revenue.

NBHDL proposed to dispose of the December 31, 2015 principal balance in the LRAMVA of \$202,252, plus carrying charges, over a two year period beginning in May 2016. The OEB subsequently put all LRAMVA disposition applications on hold as it reviewed the practice of calculating lost revenues for certain programs. On September 26, 2016, the Company filed an IRM application for 2017 distribution rates (EB-2016-0214) with the OEB which included a request seeking disposition of the LRAMVA balance per new guidelines. On February 8, 2017, the OEB issued a draft decision approving the disposition of the lost revenue for OPA programs up to December 31, 2014 plus carrying charges projected to April 30, 2017. The OEB approved the disposition of the principal balance of \$185,405, plus carrying charges to April 2017, to be collected from customers over a one year period commencing May 1, 2017 and ending April 30, 2018. Part of the adjustment made in 2015 related to revised 2013 program savings; the OEB has deemed that because those LRAMVA balances were approved on a final basis in the 2014 COS application, any subsequent adjustments constitute retroactive rate making and as such, a portion of the proposed disposition amount was denied. NBHDL recorded the adjustment to the LRAMVA account with an offsetting decrease to distribution revenue.

v. Smart Meter Initiatives

Upon approval of the disposition of previously incurred costs for the transition to smart meters, the Company determined an estimate of the remaining Net Book Value of the assets stranded due to the transition to smart meters. In accordance with the Guidelines provided by the OEB, the Company has recorded the disposition of the stranded assets in its 2014 PP&E with the offsetting loss set up as a regulatory asset in the amount of \$278,085. In the 2014 COS application, the OEB approved disposition of this amount to be collected from customers over a one year period beginning in July 2015. In absence

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For the year ended December 31, 2016

of rate regulation, revenues in 2016 would have been higher by \$138,073 (2015 - higher by \$136,985). NBHDL will seek disposition of the net residual balance of \$3,027 in a future rate application.

vi. Retail cost variances

Retail cost variances were established to record the difference between the amount billed and the incremental costs of providing retail services and to record the difference between the amount billed in relation to a service transaction request and the incremental costs of providing the initial screening and actual processing services for the service transaction request. Under the OEB's direction, the Company has deferred the settlement variances that have occurred since May 1, 2002. Accordingly, the Company has deferred these recoveries in accordance with the AP Handbook.

The OEB allows the variances to be deferred which would normally be recorded as revenue for unregulated businesses under IFRS. In absence of rate regulation, revenues in 2016 would have been higher by \$27,867 (2015 - lower by \$324,945). The deferred balance for unapproved settlement variances continues to be calculated in accordance with the OEB's direction. The OEB approved disposition of audited 2013 balances in the 2014 COS application - see Note iii.

vii. Deferred Income Taxes

The recovery from, or refund to, customers of future income taxes through future rates is recognized as a regulatory deferral account balance. The Company has recognized a deferred tax asset of \$2,868,194 (2015 - \$4,086,015) arising from the recognition of regulatory deferral account balances and a corresponding regulatory deferral account credit balance of \$2,868,194 (2015 - \$4,086,015). The deferred tax asset balance is presented within the total regulatory deferral account balances presented in the statement of financial position.

viii. Other

2016 costs relate to carrying charges on accounts included as regulatory credits and increased OEB cost assessments. In 2016, in addition to an increase in the OEB's internal budget, the OEB also revised its Cost Assessment Model to reflect a change in the methodology used to apportion costs. These changes resulted in a material shift in the allocation of costs. The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates, and cost assessments that will result from the application of the new cost assessment model. NBHDL has recorded \$33,658 in incremental cost assessment increases in 2016 in the deferral account in accordance with the guidance on the use of the variance account.

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the regulator in determining the item's treatment for rate-setting purposes. Management continually assesses the likelihood of recovery of regulatory assets and realization of regulatory liabilities. If recovery and realization through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated amortization. Costs may include direct material, labour, contracted services, overhead, engineering costs and interest on funds used during construction that are considered applicable to construction.

Major spares such as spare transformers and other items kept as standby/back up equipment are accounted for as property, plant and equipment since they support the Company's distribution system reliability.

Upon disposal the cost and accumulated amortization of assets are relieved from the respective accounts and any gain or loss is reflected in operations.

Depreciation of property, plant and equipment is recorded in the Statement of Comprehensive Income on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

The estimated useful lives are as follows:

Distribution Assets:

Building and fixtures	30 - 50 years
Substations	40 - 50 years
Poles, towers and fixtures	45 years
Overhead conductor and devices	60 years
Underground conduit and conductor	40 - 50 years
Distribution transformers	40 years
Overhead and underground services	40 - 60 years
Distribution meters	10 - 25 years

General Assets:

Buildings	25 - 50 years
Office equipment	10 years
Computer equipment	5 years
Transportation equipment	5 - 8 years
Small tools and miscellaneous equipment	10 years
Load management controls	6 years
System supervisory equipment	15 - 20 years

Land is not depreciated.

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	Electrical Distribution Assets	General Assets	Work in process	Total
Cost				
Balance at January 1, 2015	\$ 97,787,977	\$ 10,480,302	\$ 1,111,308	\$ 109,379,587
Additions	6,057,820	841,618	5,843,092	12,742,530
Disposals	(610,352)	(84,423)	(6,057,820)	(6,752,595)
Balance at December 31, 2015	103,235,445	11,237,497	896,580	115,369,522
Balance at January 1, 2016	103,235,445	11,237,497	896,580	115,369,522
Additions	4,720,227	850,317	731,810	6,302,354
Disposals	(331,172)	(208,400)		(539,572)
Balance at December 31, 2016	107,624,500	11,879,414	1,628,390	121,132,304
Depreciation and impairment losses				
Balance at January 1, 2015	48,451,429	7,361,025	-	55,812,454
Depreciation for the year	1,900,775	636,313	-	2,537,087
Disposals	(517,289)	(100,293)	-	(617,582)
Balance at December 31, 2015	\$ 49,834,914	\$ 7,897,045	\$ -	\$ 57,731,959
Balance at January 1, 2016	49,834,914	7,897,045	-	57,731,959
Depreciation for the year	1,969,842	644,639	-	2,614,481
Disposals	(262,896)	(208,400)	-	(471,296)
Balance at December 31, 2016	\$ 51,541,860	\$ 8,333,284	\$ -	\$ 59,875,144
Carrying amounts:				
At December 31, 2015	\$ 53,400,531	\$ 3,340,452	\$ 896,580	\$ 57,637,563
At December 31, 2016	\$ 56,082,640	\$ 3,546,130	\$ 1,628,390	\$ 61,257,160

5. REVENUE RECOGNITION

Revenue from the sale and distribution of electricity is recognized on an accrual basis. Distribution revenue is comprised of customer billings for distribution service charges. Customer billings for distribution service charges are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the fiscal year. Actual results could differ from estimates made of customer electricity usage.

As a licensed distributor, the Company 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 Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company has determined that they are acting as a principal for the electricity distribution and, therefore, have presented the electricity revenues on a gross basis.

Other revenues, which include revenues from pole use rental, collection charges and other miscellaneous revenues are recognized at the time services are provided. Where the Company has an ongoing obligation to provide services, revenues are recognized as the service is performed and amounts billed in advance are recognized as deferred revenue.

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions vary by project and are based on the criteria set forth in the Distribution System Code. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as contributions in aid of construction and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction.

The continuity of deferred contributions in aid of construction is as follows:

	December 31 2016	December 31 2015
Deferred contributions, net, beginning of year	\$ 2,061,938	\$ 1,401,776
Contributions in aid of construction received	352,323	703,198
Contributions in aid of construction recognized as distribution revenue	(48,689)	(43,036)
Deferred contributions, net, end of year	\$ 2,365,572	\$ 2,061,938

All contributions in aid of construction are cash contributions. There have not been any contributions of property plant and equipment.

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued) (Expressed in Canadian Dollars)
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6. ACCOUNTS RECEIVABLE AND CUSTOMER DEPOSITS

	December 31 2016	December 31 2015
Accounts receivable due from related parties	\$ 545,005	\$ 483,180
Other accounts receivable	6,986,912	7,873,381
Allowance for doubtful accounts	(77,909)	(1,089,150)
Total accounts receivable	<u>\$ 7,454,008</u>	<u>\$ 7,388,577</u>

Due to its short-term nature, the carrying amount of the accounts receivable due from related parties and other accounts receivable approximates its fair value. In determining the allowance for doubtful accounts, the Company considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances. In 2016, the company wrote off \$1,262,781 of uncollectible balances, all write offs were approved by upper management.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment 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 impairment at December 31, 2016 is \$77,909 (2015 - \$1,089,150). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2016, approximately \$204,234 (2015 - \$1,211,680) is considered 60 days past due. The Company has approximately 24,069 customers, the majority of which are residential.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported separately from the Company's own cash and cash equivalents. Deposits to be refunded to customers within the next fiscal year are classified as a current liability. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2%.

Customer deposits represents cash deposits from electricity distribution customers and retailers, as well as construction deposits. Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

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 contributions in aid of construction.

	December 31 2016	December 31 2015
Customer deposits - current	\$ 90,766	\$ 57,539
Customer deposits - long-term	617,324	918,720
Total customer deposits	<u>\$ 708,090</u>	<u>\$ 976,259</u>

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7. PAYMENTS IN LIEU OF TAXES PAYABLE

The Company is a Municipal Electricity Utility ("MEU") for purposes of the PIL's regime contained in the Electricity Act, 1998. As a MEU the Company is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income taxes each year to Ontario Electricity Financial Corporation ("OEFC"), commencing October 1, 2001. These payments are calculated in accordance with the rules for computing taxable income and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

PILs expense comprises of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that it relates to items recognized directly in equity or regulatory deferral account balances.

Significant judgment is required in determining the provision for PILs. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Significant components of the payments in lieu of taxes expense are as follows:

a. Expense

The Company's provision for PILs is calculated as follows:

	<u>2016</u>	<u>2015</u>
Income before provision for payment in lieu of income taxes	\$ 3,271,959	\$ 2,685,329
Regulatory assets/liabilities added (deducted) for tax purposes	(40,208)	(204,690)
Net change in reserves	(51,215)	6,721
Capital cost allowance (greater than) less than amortization expense	(1,796,819)	(1,726,123)
Other items	50,530	183,099
Unrealized (gain) loss	(672,578)	152,494
(Gain) loss on disposal of assets	(115,544)	49,800
Income (loss) for tax purposes	<u>646,125</u>	<u>1,146,630</u>
Statutory Canadian federal and provincial tax rate	26.50%	26.50%
Provision for PILs	171,223	303,857
Prior year over provision	(5,342)	(3,857)
Total tax provision	<u>\$ 165,881</u>	<u>\$ 300,000</u>

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued) (Expressed in Canadian Dollars)
For the year ended December 31, 2016

b. Deferred Taxes

Components of deferred taxes are as follows:

	2016	2015
Property, plant and equipment	\$ 1,351,902	\$ 2,306,360
Employee future benefits	1,516,292	1,779,655
Total deferred tax assets	\$ 2,868,194	\$ 4,086,015

8. EMPLOYEE FUTURE BENEFITS

Employee future benefits other than pension provided by the Company include medical and insurance benefits. These benefit plans provide benefits to certain employees when they are no longer providing active service.

The cost of these benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the cost of these benefits are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The calculation is performed by a qualified actuary using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities. The valuation is performed every third year or when there are significant changes to workforce. A full valuation was performed in 2016.

Remeasurements of the defined benefit obligation are recognized directly within equity in other comprehensive income. The remeasurements include actuarial gains and losses.

Service costs are recognized in the Statement of Comprehensive Income in operating expenses, and include current and past service costs as well as gains and losses on curtailments.

Net interest expense is recognized on the Statement of Comprehensive Income in finance costs, and is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the balance of the net defined benefit obligation, considering the effects of benefit payments during the period. Gains or losses arising from changes to defined benefits or plan curtailment are recognized immediately in the Statement of Comprehensive Income. Settlements of defined benefit plans are recognized in the period in which the settlement occurs.

The plan is exposed to a number of risks, including:

Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation.

Longevity risk: changes in the estimation of mortality rates of current and former employees.

Health care cost risk: increases in cost of providing health, dental and life insurance benefits.

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The Company has a defined benefit life insurance and health care plan covering substantially all unionized employees and most retirees. Information about the Company's defined benefit life insurance and health care plan is as follows:

	2016	2015
Prepaid benefit liability, beginning of year	\$ 4,936,024	\$ 4,929,303
Expense for the year	204,523	256,471
Benefits paid during the year	(238,007)	(249,750)
Recognized in Other Comprehensive Income	(696,976)	-
Prepaid benefit liability, end of year	<u>\$ 4,205,564</u>	<u>\$ 4,936,024</u>

Fair value of plan assets

	2016	2015
Prepaid benefit liability, end of year	\$ 4,936,024	\$ 4,936,024
Unamortized net actuarial gains	(696,976)	-
Projected accrued benefit obligation, end of year	<u>\$ 4,239,048</u>	<u>\$ 4,936,024</u>

Included in wages and employee benefits and finance costs respectively, is a net benefit expense as follows:

	2016	2015
Total service cost of the plan for the year	\$ 31,406	\$ 83,042
Interest on average liabilities	173,117	173,429
	<u>\$ 204,523</u>	<u>\$ 256,471</u>

The main actuarial assumptions employed for the valuations are as follows:

Expected average remaining service life of active employees 13 years

a. General Inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% per annum (2015 - 2.0%).

b. Interest (Discount) Rate

The obligation at year end, of the present value of future liabilities and the expense for the year ended, were determined using a discount rate of 4.8% (2015- 3.8%). The discount rate for 2016 reflects the assumed long term yield on high quality bonds as at December 31, 2016 (most recent valuation date).

c. Salary Levels

Future general salary and wage levels were assumed to increase at 3.3% (2015- 3.3%) based on expected CPI adjusted for productivity, merit and promotion as at December 31, 2016.

d. Medical Costs

Medical costs were assumed to increase 6.2% in 2017, 5.9% in 2018, 5.78% in 2019, 5.56% in 2020, 5.56% in 2021, 5.14% in 2022, 4.93% in 2023, 4.41% in 2024 and 4.5% thereafter.

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e. Dental Costs

Dental costs were assumed to increase at 4.5% (2015 - 4.6%) annually.

The Company's sick accrual is included above in the amount of \$200,400 (2015 - \$245,200) and is the accumulation of non-vested sick leave benefits under IAS 19 standards for financial reporting purposes. The Company hired an outside consulting firm to assess the future payments to be made as a result of the Company's employees' sick leave bank hours in 2015. The discount rate used was 3.8% per annum at December 31, 2015 and December 31, 2016. The Future general salary and wage levels were assumed to increase at 3.3% per annum.

Other employee benefits that are expected to be settled wholly within 12 months after the end of the reporting period are presented as current liabilities.

9. RELATED PARTY TRANSACTIONS

The Company provides administrative and other services to an affiliated company, North Bay Hydro Services Inc ("Services").

The Corporation of the City of North Bay (the "City") is the 100% owner of North Bay Hydro Holdings Inc. which is the parent company of North Bay Hydro Distribution Limited and North Bay Hydro Services Inc.

Electrical energy is sold to the City at the same prices and terms as other electricity customers consuming equivalent amounts of electricity. Streetlight maintenance services are provided at rates determined in relation to other service providers. Other construction services are provided at cost.

The following tables summarize the transactions that occurred between North Bay Hydro Distribution Limited and its affiliates.

	Sale of Goods		Purchase of Goods		Amounts owed to (from)	
	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
NBHS						
Contract services and other	\$ 511,573	\$ 434,410	\$ -	\$ -	\$ -	\$ -
Contracted Services	-	-	246,480	160,073	-	-
Total statement of earnings and retained earnings	511,573	434,410	246,480	160,073	-	-
Accounts payable	-	-	-	-	344,436	78,878
Asset sale	22,450	25,305	-	-	-	-
Total balance sheet	\$ 22,450	\$ 25,305	\$ -	\$ -	\$ 344,436	\$ 78,878
Hydro Holdings						
Administration fees	\$ -	\$ -	\$ 12,000	\$ 6,000	\$ -	\$ -
Holdco total	\$ -	\$ -	\$ 12,000	\$ 6,000	\$ -	\$ -

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued) (Expressed in Canadian Dollars)
For the year ended December 31, 2016

<u>City of North Bay</u>							
Electrical energy sales	\$ 3,992,929	\$ 3,811,847	\$ -	\$ -	\$ -	\$ -	\$ -
Street light energy	-	-	-	-	-	-	-
Construction activity sales	106,355	99,331	-	-	-	-	-
Street light maintenance	1,003	12,127	-	-	-	-	-
Fuel / water / other	-	-	328,502	349,988	-	-	-
CDM initiatives	-	-	-	135	-	-	-
Donations	-	-	1,250	1,250	-	-	-
Interest on promissory note	-	-	814,543	975,580	-	-	-
Total statement of earnings and retained earnings	\$ 4,100,287	\$ 3,923,305	\$ 1,144,295	\$ 1,326,953	\$ -	\$ -	\$ -
Accounts receivable	-	-	-	-	396,551	307,851	-
Accounts payable	-	-	-	-	(133,997)	(158,834)	-
Long term promissory note	-	-	-	-	-	(19,511,601)	-
Total balance sheet	\$ -	\$ -	\$ -	\$ -	\$262,554	\$(19,362,584)	\$ -

Management Compensation

During the year the Company compensated its senior management group \$887,000 (2015 - \$798,000), including salaries and benefits.

10. INVENTORY

Cost of inventories comprised of direct materials, which typically consists of distribution assets not deemed as major spares, unless purchased for specific capital projects in process or as spare units. Costs, after deducting rebates and discounts, are assigned to individual items of inventory on the basis of weighted average cost. Decommissioned assets that are transferred to inventory are tested for impairment once they are removed from service and placed in inventory. Inventory is recognized at the lower of cost and net realizable value. The amount of inventories consumed by the Company and recognized as an expense during 2016 was \$135,407 (2015 - \$111,498).

Inventory consists of parts, supplies and materials held for future capital expansion or maintenance and are valued at the lower of cost, determined by the weighted average method, and replacement cost

11. SHARE CAPITAL

Authorized:

Unlimited Common shares

The issued share capital is as follows:

	<u>2016</u>	<u>2015</u>
1,001 Common Shares	\$ 19,511,601	\$ 19,511,601

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued) (Expressed in Canadian Dollars)
For the year ended December 31, 2016

12. OPERATING EXPENSES BY NATURE

	2016	2015
Repairs and maintenance	\$ 1,103,929	\$ 984,042
Staff costs	3,440,927	3,350,025
General administration and overhead	1,657,940	1,597,825
Bad debts	72,850	131,849
Property taxes	79,817	76,986
	<u>\$ 6,355,463</u>	<u>\$ 6,140,727</u>

13. FINANCE INCOME AND FINANCE COST

	2016	2015
Finance Income:		
Interest income on receivables	\$ 145,466	\$ 144,454
Interest income on bank deposits	107,758	104,588
	<u>\$ 253,224</u>	<u>\$ 249,042</u>
Finance Cost:		
Interest on long-term debt	\$ 1,225,651	\$ 1,218,991
Net interest on employee future benefits	173,117	173,429
	<u>\$1,398,768</u>	<u>\$1,392,420</u>

14. LONG-TERM DEBT

a. Payable to Corporation of the City of North Bay - Promissory Note

The balance payable to the Corporation of the City of North Bay in the amount of \$NIL (2015 - \$19,511,601). On January 25, 2016 the City of North Bay gave notice of intent to demand repayment, the Company repaid the loan on November 1, 2016.

b. Other Credit Facilities

The Company negotiated a loan with the Ontario Infrastructure Projects Corporation to provide funding for the Smart Meter project. The loan is a 10 year serial loan at an interest rate of 3.90% calculated on a semi-annual basis. The loan will be repaid in 120 monthly installments which will include both principal and interest. The loan balance at the end of the year was \$1,516,667 (2015 - \$1,866,667), of which \$350,000 is repayable within one year.

The Company's agreement with the Ontario Infrastructure Projects Corporation requires a debt service coverage ratio of 1:1, a debt to capital ratio lower than 60%, and a current ratio of 1.1:1 or higher. The agreement also prevents the Company from making loans or paying dividends that would cause the violation of these covenants. As at December 31, 2016 the Company's debt service coverage ratio calculated under the terms of the agreement was .97:1, the debt to capital ratio was 50.8%, and the

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued) (Expressed in Canadian Dollars)
For the year ended December 31, 2016

current ratio was 2.09:1. As part of the financing proposal, the OIPC agreed to waive any debt service coverage ratio violation if working capital surplus was greater than the loan amount. As at December 31, 2015 the working capital surplus calculated under the terms of the contract was \$13,734,926.

The Company has three term loans in the amounts of \$6,000,000, \$4,000,000, and \$5,000,000 with a Canadian Financial Institution and has entered into interest rate derivative agreements to manage the volatility of interest rates on long-term debt for each. These loans are to be repaid over 120 months with combined repayments of \$142,043 per month principal and interest having fixed rates at 2.45%, 3.095%, and 2.36% respectively.

During the year, the Company entered into a term loan in the amount of \$19,500,000 to replace the existing loan agreement with the City of North Bay. This loan is to be repaid over 240 months with repayments of \$103,331 per month principal and interest at a rate of 2.5%.

The fair value of these loans are \$34,079,779 (2015 - \$9,733,296) which is estimated by obtaining market-to-market quotes from the Company's lending institutions. The quoted prices generally reflect the estimated amount that the Company would pay (receive) to settle these agreements at the statement of financial position date. These represent a receivable (liability) position in the amount of \$445,411 (2015 - (\$227,166)) for the Company as interest rates at the statement of financial position date were higher (lower) than the fixed rate specified in the swap agreements.

The Company must maintain Debt Service Coverage (DSC) ratio of not less than 1.20:1 on to remain in compliance with outstanding debt obligations. The Company has met these covenants at year-end.

Principal repayments for the next five years and thereafter are as follows:

	<u>2016</u>
2017	\$ 2,484,785
2018	2,539,923
2019	2,596,687
2020	2,654,938
2021	2,481,382
Thereafter	<u>21,767,475</u>
	<u>\$ 34,525,190</u>

The interest rates on these financial instruments are fixed and therefore the Company is not exposed to fluctuations in short-term interest rates in relation to these debts.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an on-going basis. The Company strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due.

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued) (Expressed in Canadian Dollars)
For the year ended December 31, 2016

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

December 31, 2015	60 days	< 1 year	1 - 5 years	> 5 years
Accounts payable	\$ 11,135,073	\$ -	\$ -	\$ -
Loans	206,271	1,041,442	5,243,999	4,881,084
	<u>\$11,341,344</u>	<u>\$1,041,442</u>	<u>\$5,243,999</u>	<u>\$4,881,084</u>
December 31, 2016	60 days	< 1 year	1 - 5 years	> 5 years
Accounts payable	\$11,133,929	\$ -	\$ -	\$ -
Loans	410,621	2,074,166	12,698,987	19,341,416
	<u>\$11,544,550</u>	<u>\$2,074,166</u>	<u>\$12,698,987</u>	<u>\$19,341,416</u>

15. CONTINGENCIES

The Company belongs to the Municipal Electrical Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a self-insurance plan that pools the risks of all of its members. Any losses experienced by MEARIE are shared amongst its members. As at December 31, 2016, the Company has not been made aware of any assessments for losses. The Company has two claims outstanding against it and expects that any potential liability under these claims will be covered under the MEARIE liability policy.

16. COMMITMENTS

On October 9, 2009 the Company entered into a 15 year contract with Sensus Metering Systems Inc. to maintain and further develop the AMI system that meets the MEU functional specifications related to the Smart Meter Project. The contract contains 3 renewal terms of 5 years each. The Company elected to have the monthly fees billed in US dollars, instead of having the currency rate set on an annual basis in October of each year. Termination penalties apply if the Company cancels the contract without cause, the related fees are based on a sliding scale for the year this takes place and the fees associated with the service option selected. Annual fees in the amount of approximately \$206,000 are expected to be incurred under this contract, however can fluctuate based on several factors including performance. This contract exposes the Company to currency risk with fluctuations in currency prices when it purchases US dollars to meet the payable commitments.

17. CREDIT FACILITY / LETTERS OF CREDIT

The Company has an authorized line of credit under a credit facility agreement with a Canadian chartered bank. The maximum draw permitted under this agreement is \$1,000,000. At year end the Company had drawn \$Nil (2015 - \$Nil) under this facility.

The Company has available a revolving term facility to a maximum draw of \$1,000,000 to finance the purchase of capital assets. At year end the Company had drawn \$Nil (2015 - \$Nil) under this facility.

The Company has a \$3.6 million letter of credit with its bank provided to the IESO to secure the Company's hydro purchase obligations. The Company has provided its financial institution with a General Security Agreement as security for this obligation.

The Company's general banking agreement which encompasses the line of credit, revolving term facility and the letter of credit contains financial covenants which include a debt to capital ratio lower than 60% and a debt service coverage ratio of not less than 1:1 and positive free cash flow. As at December 31, 2016, the Company's debt to capital ratio was 43.2% and the debt service coverage ratio and free cash flow calculated under the terms of the agreement was 1.58:1 and \$2,156,194.

The Company strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due while minimizing interest expense. The Company monitors cash balances regularly and has access to short-term borrowings, should they be required, under its credit facility agreement. If the Company were to utilize this facility it would be exposed to fluctuations in short-term interest rates.

18. PENSION AGREEMENTS

The Company makes contributions to the OMERS, which is a multi-employer pension plan, on behalf of all full-time members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The Administration Corporation Board of Directors, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. OMERS provides pension services to more than 461,000 active and retired members and approximately 1,000 employers.

Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2016. The results of this valuation disclosed total actuarial liabilities of \$82,369 million in respect of benefits accrued for service with actuarial assets at that date of \$75,392 million indicating an actuarial deficit of \$6,977 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Company does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2016 was \$420,679 (2015 - \$399,058).

19. CAPITAL DISCLOSURES

The Company considers its capital to comprise its common share capital, retained earnings, and long-term debt.

In managing its capital, the Company's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and through the payment of periodic dividends to its common shareholders. The Company also seeks to ensure that access to funding is available in order to maintain and improve the equipment used in operations and maintain financial ratios within the recommended guidelines as prescribed by the OEB. In order to achieve these objectives, the Company develops detailed annual operating budgets and seeks to maintain distribution revenue levels and control costs to enable the Company to meet its working capital requirements and strategic investment needs. In making decisions to adjust its capital structure to achieve these objectives, the Company considers both its short-term position and long-term operational and strategic objectives.

As at December 31, 2016 the Company is party to debt agreements that contain various covenants and is restricted from offering loans or paying dividends that would cause a violation of those covenants.

20. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2016 or later years. The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

- IFRS 9 - Financial Instruments; amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard.
- IFRS 15 - Revenue from Contracts with Customers; based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2017. The Company is in the process of evaluating the impact of the new standard.
- IFRS 16 - Leases; (supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The company is in the process of evaluating the impact of the new standard.

21. COMPARATIVE FIGURES

Certain comparative figures have been modified to comply with current year presentation.

North Bay Hydro Distribution Limited
Financial Statements
For the year ended December 31, 2017

North Bay Hydro Distribution Limited
Financial Statements
For the year ended December 31, 2017

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Tel: 705-495-2000
Fax: 705-495-2001
Toll-Free: 800-461-6324
www.bdo.ca

BDO Canada LLP
101 McIntyre Street W, Suite 301
North Bay ON P1B 2Y5 Canada

Independence Auditor's Report

To the Shareholder of North Bay Hydro Distribution Limited

We have audited the accompanying financial statements of North Bay Hydro Distribution Limited, which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income, changes in equity and cash flows for the year ended December 31, 2017 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 International Financial Reporting Standards, 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.

Auditor's 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 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 as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit 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 North Bay Hydro Distribution Limited as at December 31, 2017 and its financial performance and its cash flows for the year ended December 31, 2017 in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

North Bay, Ontario
March 28, 2018

North Bay Hydro Distribution Limited
Statement of Financial Position
Expressed in Canadian Dollars
For the year ended December 31, 2017

	Note	2017	2016
Assets			
Current assets			
Cash and short-term investments		\$ 12,132,663	\$ 12,270,623
Accounts receivable	6	7,519,215	7,454,008
Unbilled revenue		6,329,535	7,708,360
Payment in lieu of taxes receivable	7	21,050	282,871
Inventory	10	610,225	511,305
Prepaid expenses - current		638,161	662,674
Total current assets		27,250,849	28,889,841
Non-current assets			
Property, plant and equipment	4	65,569,846	61,257,160
Prepaid expenses - long-term		254,041	444,571
Financial instrument asset	14	1,335,704	445,411
Deferred taxes	7	2,555,522	2,868,194
Total non-current assets		69,715,113	65,015,336
Total assets		96,965,963	93,905,177
Regulatory deferral account debit balances	3	450,824	656,113
Total assets and regulatory deferral account balances		\$ 97,416,787	\$ 94,561,290

North Bay Hydro Distribution Limited
Statement of Financial Position (continued)
Expressed in Canadian Dollars
For the year ended December 31, 2017

	Note	2017	2016
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	\$ 10,575,337	\$ 11,133,929
Deferred revenue		386,415	109,073
Customer deposits - current	6	113,244	90,766
Current portion of long-term debt	14	2,983,225	2,484,485
Total current liabilities		14,058,221	13,818,253
Long-term liabilities			
Customer deposits - long-term	6	721,988	617,324
Contributions in aid of construction	5	3,022,340	2,365,572
Employee future benefits	8	4,559,762	4,205,564
Long-term debt	14	33,988,488	32,040,705
Total non-current liabilities		42,292,578	39,229,165
Total liabilities		56,350,799	53,047,418
Shareholder's Equity			
Share capital	11	19,511,601	19,511,601
Retained earnings		17,275,704	16,628,816
Accumulated other comprehensive income (loss)		(166,308)	116,116
		17,109,396	16,744,932
Total shareholder's equity		36,620,997	36,256,533
Total liabilities and shareholder's equity		92,971,796	89,303,951
Regulatory deferral account credit balances	3	4,444,991	5,257,339
Total liabilities, equity and regulatory deferral account credit balances		\$ 97,416,787	\$ 94,561,290

Signed on behalf of the Board of Directors by

Director

Director

North Bay Hydro Distribution Limited
Statement of Comprehensive Income
Expressed in Canadian Dollars
For the year ended December 31, 2017

	Note	2017	2016
Revenue			
Electricity sales		\$ 68,378,071	\$ 74,476,753
Other		836,408	918,505
		69,214,479	75,395,258
Expenses			
Cost of power		56,443,994	62,782,581
Operating expenses	12	6,576,880	6,355,463
Depreciation and amortization		2,677,812	2,614,481
(Gain) loss on disposal of property, plant and equipment		154,023	(115,544)
Loss (gain) on foreign exchange		10,733	13,352
		65,863,443	71,650,333
Income from operating activities		3,351,037	3,744,925
Finance income	13	302,724	253,224
Finance costs	13	(1,051,545)	(1,398,768)
Change in interest rate swap	14	890,292	672,578
Income before provision for payment in lieu of income taxes		3,492,508	3,271,959
Provision for payment in lieu of income taxes			
Current	7	130,864	165,881
Deferred		414,498	1,033,121
		545,362	1,199,002
Profit for the year before net movements in regulatory deferral account balances		2,947,145	2,072,957
Net movement in regulatory deferral account balances related to profit or loss and the related deferred tax movement	3	431,277	1,256,121
Profit for the year and net movements in regulatory deferral account balances		3,378,423	3,329,078
Other comprehensive income:			
Remeasurement of employee future benefits (net of (2017 - (\$101,826) in tax) (2016-\$184,700))	8	(282,424)	512,276
Net and comprehensive income for the year		\$ 3,095,999	\$ 3,841,354

North Bay Hydro Distribution Limited
Statement of Changes in Equity
Expressed in Canadian Dollars
For the year ended December 31, 2017

	Share Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2016	\$ 19,511,601	\$(396,160)	\$ 13,975,520	\$ 33,090,961
Profit for the year and net movements in regulatory deferral account balances	-	-	3,329,078	3,329,078
Other comprehensive Income, net of tax		512,276	-	512,276
Dividends paid	-	-	(675,782)	(675,782)
December 31, 2016	19,511,601	116,116	16,628,816	36,256,533
Profit for the year and net movements in regulatory deferral account balances	-	-	3,378,423	3,378,423
Other comprehensive income, net of tax	-	(282,424)	-	(282,424)
Dividends paid	-	-	(2,731,535)	(2,731,535)
Balance at December 31, 2017	\$ 19,511,601	\$ (166,308)	\$ 17,275,704	\$36,620,997

North Bay Hydro Distribution Limited
Statement of Cash Flows
Expressed in Canadian Dollars
For the year ended December 31, 2017

	2017	2016
Cash Flows From Operating Activities		
Profit for the year and net movements in regulatory deferral account balances	\$ 3,378,423	\$ 3,329,078
Adjustments to reconcile income to net cash used in operating activities:		
Depreciation and amortization	2,677,812	2,614,481
Amortization of contributions in aid of construction	(71,269)	(46,689)
Deferred income taxes	414,498	1,033,121
Employee future benefit expense	209,666	204,523
(Gain) loss on disposal of property, plant and equipment	184,022	(115,544)
Change in interest rate swap	(890,292)	(672,578)
	5,902,860	6,344,392
Change in non-cash operating working capital:		
Accounts receivable	(65,207)	(65,451)
Unbilled revenue	1,378,825	(943,694)
Inventory	(98,920)	43,559
Prepaid expenses	215,043	217,339
Accounts payable and accrued liabilities	(558,591)	(1,144)
Deferred revenue	277,342	(318,286)
Payment in lieu of taxes	261,821	(109,065)
Customer deposits	127,142	(268,169)
Net cash flows from operating activities	7,440,315	4,899,481
Cash Flows from investing activities		
Proceeds on disposal of property, plant and equipment	-	183,821
Purchase of property, plant and equipment	(7,174,523)	(6,302,354)
Changes in regulatory deferral account balances	(607,059)	(1,119,493)
Cash used in investment activities	(7,781,582)	(7,238,026)
Cash Flows from financing activities		
Contributions received in aid of construction	728,037	352,212
Dividends paid	(2,731,535)	(675,782)
Employee future benefits paid	(239,718)	(238,007)
Repayment of long-term debt	(2,553,477)	(20,859,207)
Advances of long-term debt	5,000,000	24,500,000
Cash provided by financing activities	203,307	3,079,327
Net increase in cash	(137,959)	740,782
Cash, beginning of year	12,270,623	11,529,841
Cash, end of year	\$ 12,132,663	\$ 12,270,623

North Bay Hydro Distribution Limited
Notes to the Financial Statements
Expressed in Canadian Dollars
December 31, 2017

1. CORPORATE INFORMATION

North Bay Hydro Distribution Limited's (the "Company") main business activity is the distribution of electricity under authority of the Ontario Energy Board ("OEB") Act, 1998. The Company owns and operates an electricity distribution system, which delivers electricity to approximately 24,325 customers located in North Bay, Ontario.

Operating in a regulated environment exposes the Company to regulatory and recovery risk.

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 balances. All requests for changes in electricity distribution charges require the approval of the OEB.

Regulatory developments in Ontario's electricity industry, including current and possible future consultations between the OEB and interested stakeholders, may affect distribution rates and other permitted recoveries in the future. North Bay Hydro Distribution Limited is subject to a cost of service regulatory mechanism under which the OEB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The address of the Company's corporate office and principal place of business is 74 Commerce Crescent, North Bay, Ontario, Canada.

The sole shareholder of the Company is the Corporation of the City of North Bay.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements of North Bay Hydro Distribution Limited have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on March 28, 2018.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Canadian dollars (CDN\$), which is also the Company's functional currency, and all values are rounded to the nearest dollar, unless when otherwise indicated.

c) Judgment and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving critical judgments and estimates in applying

2. BASIS OF PREPARATION (CONTINUED)

accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of the impairment of accounts receivable (Note 6)
- The recognition of regulatory debit and credit balances (Note 3)
- The determination for the provision for Payment in Lieu of Taxes since there are many transactions and calculations for which the ultimate tax determination is uncertain (Note 7); and
- The calculation of the net future obligation for certain unfunded health, dental and life insurance benefits for the Company's retired employees (Note 8).

In addition, in preparing the financial statements the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

3. REGULATORY DEFERRAL ACCOUNT BALANCES

In accordance with IFRS 14, the Company has continued to apply the accounting policies it applied in accordance with the pre-changeover Canadian GAAP for the recognition, measurement and impairment of assets and liabilities arising from rate regulation. These are referred to as regulatory deferral account balances. Regulatory deferral account balances are recognized and measured initially and subsequently at cost. They are assessed for impairment on the same basis as other non-financial assets.

Regulatory deferral account credit balances are associated with the collection of certain revenues earned in the current period or in prior period(s) that are expected to be returned to consumers in future periods through the rate-setting process.

Regulatory deferral account debit balances represent future revenues associated with certain costs incurred in the current period or in prior period(s) that are expected to be recovered from consumers in future periods through the rate-setting process. Management continually assesses the likelihood of recovery of regulatory balances. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued)
Expressed in Canadian Dollars
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3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

The balances and movements in the regulatory deferral account balances shown below are presented net of related deferred taxes. These deferred taxes are not presented within the total deferred tax asset balances shown in Note 7. All amounts deferred as regulatory deferral account balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered by customers (returned to customers) in future periods and as such regulatory deferral account balances are comprised of:

	Remaining recovery period (years)	2017	2016
Regulatory Deferral Account Debit Balances			
Cost of Power (i)	1 - 4	\$ 273,659	\$ 61,376
Disposition/recovery - 2014, 2015, 2016 (iii)	1 - 4	-	369,068
LRAMVA (iv)	1 - 4	104,243	190,949
Smart meter initiatives	1 - 4	-	3,027
Other (vii)	1 - 4	72,922	31,693
Total Regulatory Deferral Account Debit Balances		\$ 450,824	\$ 656,113

	Remaining recovery period (years)	2017	2016
Regulatory Deferral Account Credit Balances and related Deferred Tax			
Cost of Power - Wholesale Market Service (i)	1 - 4	\$ (1,022,273)	\$ (1,453,016)
Cost of Power - Global Adjustment (i)	1 - 4	(603,238)	-
Disposition/rec - 2014, 2015, 2016, 2017 (iii)	1 - 4	(151,268)	-
IFRS Transition (ii)		-	(844,001)
Retail cost variances (v)	1 - 4	(112,690)	(89,679)
Deferred income taxes (vi)	5 - 25	(2,555,522)	(2,868,194)
Other (vii)	1 - 4	-	(2,449)
Total Regulatory Deferral Account Credit Balances and related Deferred Tax		\$ (4,444,991)	\$ (5,257,339)

In the absence of rate regulation, these rate regulated assets and liabilities would be recognized in income in the year in which they relate. As a result, the net effect on income for the period is as stated below.

i. Cost of Power

This account is comprised of the variances between amounts charged by the Company to customers,

3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

based on regulated rates, and the corresponding cost of non-competitive electricity service charged to the Company for the operation of the wholesale electricity market and grid, including commodity and global adjustment, various wholesale market settlement charges and transmission charges. Under the OEB's direction, the Company has deferred the settlement variances that have occurred since May 1, 2002 in accordance with the AP Handbook. Carrying charges are calculated monthly on the opening balance of the applicable variance account using a specific interest rate as outlined by the OEB. The Company did not recognize carrying charge income related to the retail settlement variance accounts for external reporting purposes prior to December 31, 2003.

The OEB allows the variances to be deferred which would normally be recorded as revenue for unregulated businesses under Modified IFRS (MIFRS). In absence of rate regulation, revenues in 2017 would have been lower by \$39,789 (2016 - higher by \$1,648,784).

As a component of the yearly Incentive Regulation Mechanism (IRM) rate application process, "Group 1" account balances (which are composed of Low Voltage, Wholesale Market, Network, Connection, Power and the Smart Meter Entity charge) are reviewed and will qualify for disposition if balances, including carrying charges, exceed a preset threshold per kWh. The Company has proposed disposition of the 2016 audited deferral account balances, including carrying charges, over a one year disposition period in the pending 2018 IRM application for 2018 rates. In 2017, NBHDL disposed of 2015 audited balances for Group 1 accounts - see Note iii.

ii. IFRS Transition Costs

The Board approved variance Account 1576, Accounting Changes Under CGAAP, for distributors to record the financial differences arising as a result of the election to make accounting changes to depreciation; the difference is a reflection of the revised depreciation expense in comparison to the depreciation that would have been recorded under previous service life terms and thus included in rates charged to customers.

In the 2014 Cost of Service application process, the OEB approved disposition of the net amount owing to customers recorded in Account 1575 and 1576 of (\$3,376,003) through a two year rate rider beginning in July 2015. While the rate rider is recorded through the income statement in distribution revenue and the loss on regulatory assets/liabilities expense, the regulatory deferral accounts are reduced through an adjustment to depreciation expense based on a straight line amortization period that spans the same two year period of the rate rider - July 2015 through June 2017. The rate rider expired in June 2017 and as such the deferral accounts were reduced to a net of \$Nil (2016 - \$844,001) in 2017.

iii. Disposition/recovery - 2014, 2015, 2016, 2017

Disposition/recovery - 2014 On August 30, 2013, the Company filed an IRM application for 2014 distribution rates (EB-2013-0157) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On March 6, 2014, the OEB approved the disposition of net regulatory assets of \$864,885 and net regulatory liabilities of \$1,594,828 over a one year period commencing May 1, 2014 and ending April 30, 2015. The amounts consisted of principal balances as of December 31, 2012 with carrying charges projected to April 30, 2014. NBHDL will seek

3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

disposition of the net residual balance of \$17,703 in a future rate application.

Disposition/recovery - 2015 On December 18, 2014, the Company filed a COS application for 2015 distribution rates (EB-2014-0099) with the OEB which included a request seeking disposition of the balances for regulatory assets and liabilities. On July 16, 2015, the OEB approved the disposition of net regulatory assets of \$1,554,186 and net regulatory liabilities of (\$4,662,850) which includes Group 1 and 2 balances, CGAAP and LRAMVA accounts. The Group 1 and 2 amounts consisted of principal balances as of December 31, 2013 with carrying charges projected to April 30, 2015 for a net total of \$455,076 being collected from customers over a one year period commencing July 1, 2015 and ending June 30, 2016. The PP&E - CGAAP and transitional amounts are being refunded to customers over a two year period beginning July 1, 2015 and ending June 30, 2016. The amount owed to customers includes the disposition of the regulatory liability of (\$3,793,377). The LRAMVA amount approved for disposition included the lost revenue for OPA programs up to December 31, 2013 plus carrying charges projected to April 30, 2015 for a total amount of \$229,637 being collected from customers over a one year period commencing July 1, 2015 and ending June 30, 2016. NBHDL will seek disposition of the net residual balance of (\$6,316) in a future rate application.

Disposition/recovery - 2016 On March 23, 2016, the Company filed an IRM application for 2016 distribution rates (EB-2015-0092) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On May 5, 2016, the OEB issued a decision approving the disposition of net regulatory assets of \$935,707. The amounts consisted of principal balances as of December 31, 2014 with carrying charges projected to April 30, 2016. The OEB approved disposition of \$950,051 over a one year period commencing May 1, 2016 and ending April 30, 2017 for the Global Adjustment amount; the remaining Group 1 account balances netting (\$14,344) will be refunded to customers in a future rate application. NBHDL will seek disposition of the net residual balance of \$59,078 in a future rate application.

Disposition/recovery - 2017 On September 26, 2016, the Company filed an IRM application for 2017 distribution rates (EB-2016-0214) with the OEB which included a request seeking disposition of the Group 1 balances for regulatory assets and liabilities. On February 8, 2017, the OEB issued a decision approving the disposition of net regulatory assets of (\$691,352). The amounts consisted of principal balances as of December 31, 2015 with carrying charges projected to April 30, 2017. The OEB approved disposition over a one year period commencing May 1, 2017 and ending April 30, 2018. The balance owing as at December 31, 2017 is (\$221,734).

iv. Lost Revenue Adjustment Mechanism Variance Account (LRAMVA)

On April 26, 2012 the OEB released the *Guidelines for Electricity Distributor Conservation and Demand Management (EB-2012-0003)* which included accounting direction on the treatment of lost revenues from forecasted/unforecasted Conservation and Demand Management (CDM) results on distribution revenue due to variances from forecasted throughput used to establish distribution rates.

The Board established an LRAM variance account ("LRAMVA") to capture the differences between the results of actual, verified impacts of authorized CDM activities undertaken by electricity distributors between 2011-2014 for both Board-Approved CDM programs and OPA-Contracted Province-Wide CDM programs in relation to activities undertaken by the distributor and/or delivered for the distributor by

3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

a third party under contract (in the distributor's franchise area) and the level of CDM program activities included in the distributor's load forecast (i.e. the level embedded into rates). At a minimum, distributors must apply for disposition of the balance in the LRAMVA the time of their Cost of Service rate applications.

In the 2014 COS application, the OEB approved disposition of LRAMVA amounts related to CDM programs up to December 31, 2013 in the amount of \$221,924; this is now included in the disposition/recovery - 2015 account. On February 8, 2017, the OEB approved disposition of LRAMVA amounts related to CDM programs up to December 31, 2014 in the amount of \$191,584; this is now included in the disposition/recovery - 2017 account.

v. Retail cost variances

Retail cost variances were established to record the difference between the amount billed and the incremental costs of providing retail services and to record the difference between the amount billed in relation to a service transaction request and the incremental costs of providing the initial screening and actual processing services for the service transaction request. Under the OEB's direction, the Company has deferred the settlement variances that have occurred since May 1, 2002. Accordingly, the Company has deferred these recoveries in accordance with the AP Handbook.

The OEB allows the variances to be deferred which would normally be recorded as revenue for unregulated businesses under IFRS. In absence of rate regulation, revenues in 2017 would have been higher by \$23,011 (2016 - higher by \$27,867). The deferred balance for unapproved settlement variances continues to be calculated in accordance with the OEB's direction. The OEB approved disposition of audited 2013 balances in the 2014 COS application - see Note iii.

vi. Deferred Income Taxes

The recovery from, or refund to, customers of future income taxes through future rates is recognized as a regulatory deferral account balance. The Company has recognized a deferred tax asset of \$2,555,522 (2016 - \$2,868,194) arising from the recognition of regulatory deferral account balances and a corresponding regulatory deferral account credit balance of \$2,555,522 (2016 - \$2,868,194). The deferred tax asset balance is presented within the total regulatory deferral account balances presented in the statement of financial position.

vii. Other

2016 costs relate to carrying charges on accounts included as regulatory credits and increased OEB cost assessments. In 2016, in addition to an increase in the OEB's internal budget, the OEB also revised its Cost Assessment Model to reflect a change in the methodology used to apportion costs. These changes resulted in a material shift in the allocation of costs. The OEB established a variance account for electricity distributors to record any material differences between OEB cost assessments currently built into rates, and cost assessments that will result from the application of the new cost assessment model. NBHDL has recorded \$38,744 in incremental cost assessment increases in 2017 (\$33,658 - 2016) in the deferral account in accordance with the guidance on the use of the variance account.

3. REGULATORY DEFERRAL ACCOUNT BALANCES (CONTINUED)

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the regulator in determining the item's treatment for rate-setting purposes. Management continually assesses the likelihood of recovery of regulatory assets and realization of regulatory liabilities. If recovery and realization through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated amortization. Costs may include direct material, labour, contracted services, overhead, engineering costs and interest on funds used during construction that are considered applicable to construction. Major spares such as spare transformers and other items kept as standby/back up equipment are accounted for as property, plant and equipment since they support the Company's distribution system reliability. Upon disposal the cost and accumulated amortization of assets are relieved from the respective accounts and any gain or loss is reflected in operations. Depreciation of property, plant and equipment is recorded in the Statement of Comprehensive Income on a straight-line basis over the estimated useful life of the related asset. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

The estimated useful lives are as follows:

Distribution Assets:	
Building and fixtures	30 - 50 years
Substations	40 - 50 years
Poles, towers and fixtures	45 years
Overhead conductor and devices	60 years
Underground conduit and conductor	40 - 50 years
Distribution transformers	40 years
Overhead and underground services	40 - 60 years
Distribution meters	10 - 25 years
General Assets:	
Buildings	25 - 50 years
Office equipment	10 years
Computer equipment	5 years
Transportation equipment	5 - 8 years
Small tools and miscellaneous equipment	10 years
Load management controls	6 years
System supervisory equipment	15 - 20 years
Land is not depreciated.	

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued)
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4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Electrical Distribution Assets	General Assets	Work in process	Total
Cost				
Balance at January 1, 2016	\$ 103,235,445	\$ 11,237,497	\$ 896,580	\$ 115,369,522
Additions	4,720,227	850,317	731,810	6,302,354
Disposals	(331,172)	(208,400)		(539,572)
Balance at December 31, 2016	107,624,500	11,879,414	1,628,390	121,132,304
Balance at January 1, 2017	107,624,500	11,879,414	1,628,390	121,132,304
Additions	5,584,343	607,498	982,681	7,174,523
Disposals	(863,965)	(310,374)		(1,174,339)
Balance at December 31, 2017	112,344,878	12,176,538	2,611,071	127,132,488
Depreciation and impairment losses				
Balance at January 1, 2016	49,834,914	7,897,045	-	57,731,959
Depreciation for the year	1,969,842	644,639	-	2,614,481
Disposals	(262,896)	(208,400)	-	(471,296)
Balance at December 31, 2016	\$ 51,541,860	\$ 8,333,284	\$ -	\$ 59,875,144
Balance at January 1, 2017	51,541,860	8,333,284	-	59,875,144
Depreciation for the year	2,091,199	586,613	-	2,677,812
Disposals	(679,940)	(310,374)	-	(990,314)
Balance at December 31, 2017	\$ 52,953,119	\$ 8,609,523	\$ -	\$ 61,562,642
Carrying amounts:				
At December 31, 2016	\$ 56,082,640	\$ 3,546,130	\$ 1,628,390	\$ 61,257,160
At December 31, 2017	\$ 59,391,760	\$ 3,567,015	\$ 2,611,071	\$ 65,569,846

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued)
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5. REVENUE RECOGNITION

Revenue from the sale and distribution of electricity is recognized on an accrual basis. Distribution revenue is comprised of customer billings for distribution service charges. Customer billings for distribution service charges are recorded on the basis of regular meter readings and estimates of customer usage since the last meter reading date to the end of the fiscal year. Actual results could differ from estimates made of customer electricity usage.

As a licensed distributor, the Company 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 Company is required, pursuant to regulation, to remit such amounts to these third parties, irrespective of whether the Company ultimately collects these amounts from customers. The Company has determined that they are acting as a principal for the electricity distribution and, therefore, have presented the electricity revenues on a gross basis.

Other revenues, which include revenues from pole use rental, collection charges and other miscellaneous revenues are recognized at the time services are provided. Where the Company has an ongoing obligation to provide services, revenues are recognized as the service is performed and amounts billed in advance are recognized as deferred revenue.

Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions vary by project and are based on the criteria set forth in the Distribution System Code. Since the contributions will provide customers with ongoing access to the supply of electricity, these contributions are classified as contributions in aid of construction and are amortized as revenue on a straight-line basis over the useful life of the constructed or contributed asset.

When an asset is received as a capital contribution, the asset is initially recognized at its fair value, with the corresponding amount recognized as contributions in aid of construction.

The continuity of deferred contributions in aid of construction is as follows:

	December 31		December 31
	2017		2016
Deferred contributions, net, beginning of year	\$ 2,365,572	\$	2,061,938
Contributions in aid of construction received	728,037		352,323
Contributions in aid of construction recognized as distribution revenue	(71,269)		(48,689)
Deferred contributions, net, end of year	\$ 3,022,340	\$	2,365,572

All contributions in aid of construction are cash contributions. There have not been any contributions of property plant and equipment.

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued)
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December 31, 2017

6. ACCOUNTS RECEIVABLE AND CUSTOMER DEPOSITS

	December 31 2017	December 31 2016
Accounts receivable due from related parties	\$ 828,567	\$ 545,005
Other accounts receivable	6,732,023	6,986,912
Allowance for doubtful accounts	(41,375)	(77,909)
Total accounts receivable	<u>\$ 7,519,215</u>	<u>\$ 7,454,008</u>

Due to its short-term nature, the carrying amount of the accounts receivable due from related parties and other accounts receivable approximates its fair value. In determining the allowance for doubtful accounts, the Company considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances. The change in allowance for doubtful accounts related to a \$163,484 bad debt expense for the year and accounts receivable write off of \$200,018.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment 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 impairment at December 31, 2017 is \$41,375 (2016 - \$77,909). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. At December 31, 2017, approximately \$183,011 (2016 - \$204,234) is considered 60 days past due. The Company has approximately 24,325 customers, the majority of which are residential.

Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as deposits, which are reported separately from the Company's own cash and cash equivalents. Deposits to be refunded to customers within the next fiscal year are classified as a current liability. Interest rates paid on customer deposits are based on the Bank of Canada's prime business rate less 2%.

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 contributions in aid of construction.

Customer deposits represents cash deposits from electricity distribution customers and retailers, as well as construction deposits. Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

	December 31 2017	December 31 2016
Customer deposits - current	\$ 113,244	\$ 90,766
Customer deposits - long-term	721,988	617,324
Total customer deposits	<u>\$ 835,232</u>	<u>\$ 708,090</u>

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued)
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7. PAYMENTS IN LIEU OF TAXES PAYABLE

The Company is a Municipal Electricity Utility ("MEU") for purposes of the PIL's regime contained in the Electricity Act, 1998. As a MEU the Company is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate income taxes each year to Ontario Electricity Financial Corporation ("OEFC"), commencing October 1, 2001. These payments are calculated in accordance with the rules for computing taxable income and other relevant amounts contained in the Income Tax Act (Canada) and the Corporation Tax Act (Ontario) as modified by the Electricity Act, 1998, and related regulations.

PILs expense comprises of current and deferred tax. Current tax and deferred tax are recognized in comprehensive income except to the extent that it relates to items recognized directly in equity or regulatory deferral account balances.

Significant judgment is required in determining the provision for PILs. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Significant components of the payments in lieu of taxes expense are as follows:

a. Expense

The Company's provision for PILs is calculated as follows:

	<u>2017</u>	<u>2016</u>
Income before provision for payment in lieu of income taxes	\$ 3,492,508	\$ 3,271,959
Regulatory assets/liabilities added (deducted) for tax purposes	(294,387)	(40,208)
Net change in reserves (EFB)	(30,052)	(51,215)
Capital cost allowance (greater than) less than amortization expense	(1,845,871)	(1,796,819)
Other items	(53,302)	50,530
Unrealized (gain) loss	(890,292)	(672,578)
(Gain) loss on disposal of assets	154,022	(115,544)
Income (loss) for tax purposes	<u>532,626</u>	<u>646,125</u>
Statutory Canadian federal and provincial tax rate	26.50%	26.50%
Provision for PILs	141,146	171,223
Prior year over provision	(10,282)	(5,342)
Total tax provision	<u>\$ 130,864</u>	<u>\$ 165,881</u>

7. PAYMENTS IN LIEU OF TAXES PAYABLE (CONTINUED)

b. Deferred Taxes

Components of deferred taxes are as follows:

	2017	2016
Property, plant and equipment	\$ 965,944	\$ 1,433,169
Employee future benefits	1,208,337	1,114,474
Regulatory Assets / Liabilities	381,241	320,551
Total deferred tax assets	<u>\$ 2,555,522</u>	<u>\$ 2,868,194</u>

8. EMPLOYEE FUTURE BENEFITS

Employee future benefits other than pension provided by the Company include medical and insurance benefits. These benefit plans provide benefits to certain employees when they are no longer providing active service.

The cost of these benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the cost of these benefits are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The calculation is performed by a qualified actuary using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities. The valuation is performed every third year or when there are significant changes to workforce. A full valuation was performed in 2016.

Remeasurements of the defined benefit obligation are recognized directly within equity in other comprehensive income. The remeasurements include actuarial gains and losses.

Service costs are recognized in the Statement of Comprehensive Income in operating expenses, and include current and past service costs as well as gains and losses on curtailments.

Net interest expense is recognized on the Statement of Comprehensive Income in finance costs, and is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the balance of the net defined benefit obligation, considering the effects of benefit payments during the period. Gains or losses arising from changes to defined benefits or plan curtailment are recognized immediately in the Statement of Comprehensive Income. Settlements of defined benefit plans are recognized in the period in which the settlement occurs.

The plan is exposed to a number of risks, including:

Interest rate risk: decreases/increases in the discount rate used (high quality corporate bonds) will increase/decrease the defined benefit obligation.

Longevity risk: changes in the estimation of mortality rates of current and former employees.

North Bay Hydro Distribution Limited
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8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

Health care cost risk: increases in cost of providing health, dental and life insurance benefits.

The Company has a defined benefit life insurance and health care plan covering substantially all unionized employees and most retirees. Information about the Company's defined benefit life insurance and health care plan is as follows:

	<u>2017</u>	<u>2016</u>
Prepaid benefit liability , beginning of year	\$ 4,205,564	\$ 4,936,024
Expense for the year	209,666	204,523
Benefits paid during the year	(239,718)	(238,007)
Recognized in Other Comprehensive Income	384,250	(696,976)
Prepaid benefit liability , end of year	\$ 4,559,762	\$ 4,205,564
Fair value of plan assets	\$NIL	\$NIL

Included in wages and employee benefits and finance costs respectively, is a net benefit expense as follows:

	<u>2017</u>	<u>2016</u>
Total service cost of the plan for the year	\$ 62,024	\$ 31,406
Interest on average liabilities	147,642	173,117
Total Expense for the year	\$ 209,666	\$ 204,523

The main actuarial assumptions employed for the valuations are based on the full actuarial report performed in 2016, except where noted below. In 2017, the Company hired an outside consulting firm to update the actuarial valuation report based on the changes noted below, including an update of employee and retiree status.

Expected average remaining service life of active employees 13 years

a. General Inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% per annum (2016 - 2.0%).

b. Interest (Discount) Rate

The obligation at year end, of the present value of future liabilities and the expense for the year ended, were determined using a discount rate of 3.4% (2016- 3.8%). The discount rate for 2017 reflects the assumed long term yield on high quality bonds as at December 29, 2017 (most recent valuation date).

c. Salary Levels

Future general salary and wage levels were assumed to increase at 3.3% (2016- 3.3%) based on expected CPI adjusted for productivity, merit and promotion as at December 31, 2016.

8. EMPLOYEE FUTURE BENEFITS (CONTINUED)

d. Medical Costs

Medical costs were updated to reflect cost increase assumptions for 2018 and assumed to increase 5.78% in 2019, 5.56% in 2020, 5.56% in 2021, 5.14% in 2022, 4.93% in 2023, 4.41% in 2024 and 4.5% thereafter.

e. Dental Costs

Dental costs were updated to reflect cost increase assumptions for 2018 and assumed to increase at 4.5% annually.

The Company's sick accrual is included above in the amount of \$198,800 (2016 - \$200,400) and is the accumulation of non-vested sick leave benefits under IAS 19 standards for financial reporting purposes. The Company hired an outside consulting firm to assess the future payments to be made as a result of the Company's employees' sick leave bank hours in 2015. The discount rate used in 2017 was 3.4% (2016 - 3.8%). The Future general salary and wage levels were assumed to increase at 3.3% per annum.

Other employee benefits that are expected to be settled wholly within 12 months after the end of the reporting period are presented as current liabilities.

9. RELATED PARTY TRANSACTIONS

The Company provides administrative and other services to an affiliated company, North Bay Hydro Services Inc ("Services").

The Corporation of the City of North Bay (the "City") is the 100% owner of North Bay Hydro Holdings Inc. which is the parent company of North Bay Hydro Distribution Limited and North Bay Hydro Services Inc.

Electrical energy is sold to the City at the same prices and terms as other electricity customers consuming equivalent amounts of electricity. Streetlight maintenance services are provided at rates determined in relation to other service providers. Other construction services are provided at cost.

The following tables summarize the transactions that occurred between North Bay Hydro Distribution Limited and its affiliates.

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9. RELATED PARTY TRANSACTIONS (CONTINUED)

	Sale of Goods		Purchase of Goods		Amounts owed to (from)	
	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016
<u>NBHS</u>						
Contract services and other	\$ 380,270	\$ 511,573	\$ -	\$ -	\$ -	\$ -
Contracted services	-	-	399,335	246,480	-	-
Total statement of earnings and retained earnings	380,270	511,573	399,335	246,480	-	-
Accounts payable	-	-	-	-	221,433	344,436
Loan receivable	-	-	-	-	(275,265)	-
Asset (proceeds) / sale	(18,691)	22,450	-	-	-	-
Total balance sheet	\$ (18,691)	\$ 22,450	\$ -	\$ -	\$ (53,832)	\$ 344,436
<u>Hydro Holdings</u>						
Administration fees	\$ -	\$ -	\$ 12,000	\$ 12,000	\$ -	\$ -
Holdco total	\$ -	\$ -	\$ 12,000	\$ 12,000	\$ -	\$ -
<u>City of North Bay</u>						
Electrical energy sales	\$ 3,900,717	\$ 3,992,929	\$ -	\$ -	\$ -	\$ -
Construction activity sales	10,849	106,355	-	-	-	-
Street light maintenance	23,703	1,003	-	-	-	-
Fuel / water / other	-	-	325,766	328,502	-	-
CDM initiatives	-	-	6,654	-	-	-
Donations	-	-	1,250	1,250	-	-
Interest on promissory note	-	-	-	814,543	-	-
Total statement of earnings and retained earnings	\$ 3,935,269	\$ 4,100,287	\$ 333,670	\$ 1,144,295	\$ -	\$ -
Accounts receivable	-	-	-	-	368,953	396,551
Accounts payable	-	-	-	-	(130,685)	(133,997)
Total balance sheet	\$ -	\$ -	\$ -	\$ -	\$ 238,268	\$ 262,554

Management Compensation

During the year the Company compensated its senior management group \$976,900 (2016 - \$887,000), including salaries and benefits.

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued)
Expressed in Canadian Dollars
December 31, 2017

10. INVENTORY

Cost of inventories comprised of direct materials, which typically consists of distribution assets not deemed as major spares, unless purchased for specific capital projects in process or as spare units. Costs, after deducting rebates and discounts, are assigned to individual items of inventory on the basis of weighted average cost. Decommissioned assets that are transferred to inventory are tested for impairment once they are removed from service and placed in inventory. Inventory is recognized at the lower of cost and net realizable value. The amount of inventories consumed by the Company and recognized as an expense during 2017 was \$86,833 (2016 - \$135,407).

Inventory consists of parts, supplies and materials held for future capital expansion or maintenance and are valued at the lower of cost, determined by the weighted average method, and replacement cost.

11. SHARE CAPITAL

Authorized:

Unlimited Common shares

The issued share capital is as follows:

	<u>2017</u>	<u>2016</u>
1,001 Common Shares	\$ 19,511,601	\$ 19,511,601

12. OPERATING EXPENSES BY NATURE

	<u>2017</u>	<u>2016</u>
Repairs and maintenance	\$ 1,025,289	\$ 1,103,929
Staff costs	3,457,066	3,440,927
General administration and overhead	1,850,811	1,657,940
Bad debts	163,484	72,850
Property taxes	80,230	79,817
	<u>\$ 6,576,880</u>	<u>\$ 6,355,463</u>

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued)
Expressed in Canadian Dollars
December 31, 2017

13. FINANCE INCOME AND FINANCE COST

	2017	2016
Finance Income:		
Interest income on receivables	\$ 161,950	\$ 145,466
Interest income on bank deposits	140,774	107,758
	<u>\$ 302,724</u>	<u>\$ 253,224</u>
Finance Cost:		
Interest on long-term debt	\$ 903,903	\$ 1,225,651
Net interest on employee future benefits	147,642	173,117
	<u>\$ 1,051,545</u>	<u>\$ 1,398,768</u>

14. LONG-TERM DEBT

The Company negotiated a loan with the Ontario Infrastructure Projects Corporation to provide funding for the Smart Meter project. The loan is a 10 year serial loan at an interest rate of 3.90% calculated on a semi-annual basis. The loan will be repaid in 120 monthly installments which will include both principal and interest. The loan balance at the end of the year was \$1,166,667 (2016 - \$1,516,667), of which \$350,000 is repayable within one year.

The Company's agreement with the Ontario Infrastructure Projects Corporation requires a debt service coverage ratio of 1.3 or higher, a debt to capital ratio lower than 60%, and a current ratio of 1.1:1 or higher. As part of the financing proposal, the OIPC agreed to waive any debt service coverage violation if working capital surplus was greater than the loan amount. The agreement also prevents the Company from making loans or paying dividends that would cause the violation of these covenants. As at December 31, 2017 the Company was in compliance with these covenants.

The Company has four term loans in the amounts of \$4,000,000, \$6,000,000, and two \$5,000,000 loans with a Canadian Financial Institution and has entered into interest rate derivative agreements to manage the volatility of interest rates on long-term debt for each. Four of these loans are to be repaid over 120 months and one over 240 months with combined repayments of \$190,047 per month principal and interest having fixed rates at 3.095%, 2.45%, 2.36%, and 2.88% respectively.

The Company entered into a term loan in the amount of \$19,500,000 to replace the existing loan agreement with the City of North Bay. This loan is to be repaid over 240 months with repayments of \$103,331 per month principal and interest at a rate of 2.5%.

The fair value of these loans are \$35,636,009 (2016- \$34,079,779) which is estimated by obtaining market-to-market quotes from the Company's lending institutions. The quoted prices generally reflect the estimated amount that the Company would pay (receive) to settle these agreements at the statement of financial

North Bay Hydro Distribution Limited
Notes to the Financial Statements (continued)
Expressed in Canadian Dollars
December 31, 2017

14. LONG-TERM DEBT (CONTINUED)

position date. These represent a receivable (liability) position in the amount of \$1,335,702 (2016 - \$445,411) for the Company as interest rates at the statement of financial position date were higher than the fixed rate specified in the swap agreements resulting in an unrealized gain of \$890,292 (2016- \$672,578) on the statement of comprehensive income.

The Company must maintain Debt Service Coverage (DSC) ratio of not less than 1.20:1 on to remain in compliance with outstanding debt obligations. The Company has met these covenants at year-end.

Principal repayments for the next five years and thereafter are as follows:

	<u>2017</u>
2018	\$ 2,983,225
2019	3,049,425
2020	3,120,889
2021	2,960,930
2022	2,919,600
Thereafter	<u>21,937,644</u>
	<u>\$ 36,971,713</u>

The interest rates on these financial instruments are fixed and therefore the Company is not exposed to fluctuations in short-term interest rates in relation to these debts.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an on-going basis. The Company strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

December 31, 2016	<u>60 days</u>	<u>< 1 year</u>	<u>1 - 5 years</u>	<u>> 5 years</u>
Accounts payable	\$ 11,133,929	\$ -	\$ -	\$ -
Loans	410,621	2,074,166	12,698,987	19,341,416
	<u>\$11,544,550</u>	<u>\$2,074,166</u>	<u>\$12,698,987</u>	<u>\$19,341,416</u>
December 31, 2017	<u>60 days</u>	<u>< 1 year</u>	<u>1 - 5 years</u>	<u>> 5 years</u>
Accounts payable	\$10,575,337	\$ -	\$ -	\$ -
Loans	509,558	2,473,666	15,047,796	18,940,691
	<u>\$11,084,895</u>	<u>\$2,473,666</u>	<u>\$15,047,796</u>	<u>\$18,940,691</u>

15. CONTINGENCIES

The Company belongs to the Municipal Electrical Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a self-insurance plan that pools the risks of all of its members. Any losses experienced by MEARIE are shared amongst its members. As at December 31, 2017, the Company has not been made aware of any assessments for losses. The Company has one outstanding claim against it and expects that any potential liability under this claim will be covered under the MEARIE liability policy.

16. COMMITMENTS

On October 9, 2009 the Company entered into a 15 year contract with Sensus Metering Systems Inc. to maintain and further develop the AMI system that meets the MEU functional specifications related to the Smart Meter Project. The contract contains 3 renewal terms of 5 years each. The Company elected to have the monthly fees billed in US dollars, instead of having the currency rate set on an annual basis in October of each year. Termination penalties apply if the Company cancels the contract without cause, the related fees are based on a sliding scale for the year this takes place and the fees associated with the service option selected. Annual fees in the amount of approximately \$206,000 are expected to be incurred under this contract, however can fluctuate based on several factors including performance. This contract exposes the Company to currency risk with fluctuations in currency prices when it purchases US dollars to meet the payable commitments.

17. CREDIT FACILITY / LETTERS OF CREDIT

The Company has an authorized line of credit under a credit facility agreement with a Canadian chartered bank. The maximum draw permitted under this agreement is \$1,000,000. At year end the Company had drawn \$Nil (2016 - \$Nil) under this facility.

The Company has available a revolving term facility to a maximum draw of \$1,000,000 to finance the purchase of capital assets. At year end the Company had drawn \$Nil (2016 - \$Nil) under this facility.

The Company has a \$3.6 million letter of credit with its bank provided to the IESO to secure the Company's hydro purchase obligations. The Company has provided its financial institution with a General Security Agreement as security for this obligation.

The Company's general banking agreement which encompasses the line of credit, revolving term facility and the letter of credit contains financial covenants which include a debt to capital ratio lower than 60% and a debt service coverage ratio of not less than 1:1 and positive free cash flow. Distributions in excess of free cash flow are permitted when financed by cash on hand. As at December 31, 2017 the Company was in compliance with these covenants.

The Company strives to maintain a liquidity level that allows for sufficient funds to meet operational requirements so that obligations can be met as they become due while minimizing interest expense. The Company monitors cash balances regularly and has access to short-term borrowings, should they be required, under its credit facility agreement. If the Company were to utilize this facility it would be exposed to fluctuations in short-term interest rates.

18. PENSION AGREEMENTS

The Company makes contributions to the OMERS, which is a multi-employer pension plan, on behalf of all full-time members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The Administration Corporation Board of Directors, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. OMERS provides pension services to more than 482,000 active and retired members and approximately 1,000 employers.

Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2017. The results of this valuation disclosed total actuarial liabilities of \$94,431 million in respect of benefits accrued for service with actuarial assets at that date of \$89,028 million indicating an actuarial deficit of \$5,403 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Company does not recognize any share of the OMERS pension surplus or deficit. The amount contributed to OMERS for 2017 was \$437,730 (2016 - \$420,679).

19. CAPITAL DISCLOSURES

The Company considers its capital to comprise its common share capital, retained earnings, and long-term debt.

In managing its capital, the Company's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and through the payment of periodic dividends to its common shareholders. The Company also seeks to ensure that access to funding is available in order to maintain and improve the equipment used in operations and maintain financial ratios within the recommended guidelines as prescribed by the OEB. In order to achieve these objectives, the Company develops detailed annual operating budgets and seeks to maintain distribution revenue levels and control costs to enable the Company to meet its working capital requirements and strategic investment needs. In making decisions to adjust its capital structure to achieve these objectives, the Company considers both its short-term position and long-term operational and strategic objectives.

As at December 31, 2017 the Company is party to debt agreements that contain various covenants and is restricted from offering loans or paying dividends that would cause a violation of those covenants.

20. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2017 or later years. The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

- IFRS 9 - Financial Instruments; amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date for IFRS 9 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard but does not expect there to be a significant impact on the recognition and measurement of its financial instruments.
- IFRS 15 - Revenue from Contracts with Customers; based on the core principle to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 focuses on the transfer of control. IFRS 15 replaces all of the revenue guidance that previously existed in IFRSs. The effective date for IFRS 15 is January 1, 2018. The Company is in the process of evaluating the impact of the new standard but does not expect there to be a significant impact on its recognition of revenue.
- IFRS 16 - Leases; (supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The company is in the process of evaluating the impact of the new standard standard.

21. COMPARATIVE FIGURES

Certain comparative figures have been modified to comply with current year presentation.

- 1 **Appendix J**
- 2 **Proforma Financial Statements of New Espanola Regional Hydro Distribution Corporation**

Espanola Regional Hydro Distribution Inc.
Pro-forma Income Statement
Fiscal Period 2020

	2020
Electricity Sales	7,231,343
Other Revenue	129,904
Total Revenue	7,361,247
Cost of Power	5,596,470
Operating Expenses	
Operations & Maintenance	674,575
Billing, Collecting & Administration	919,748
Depreciation and Amortization	173,139
Total Operating Expenses	7,363,932
Income from Operating activities	(2,685)
Finance Costs	394,974
Income before provision for PILs	(397,659)
Income Tax	(79,532)
Net Income	(318,127)

Espanola Regional Hydro Distribution Inc.
Pro-forma Balance Sheet
Fiscal Period 2020

2020

ASSETS

Current assets

Cash and short-term investments	692,971
Accounts receivable	1,824,408
Inventory	73,793
Other	179,680
Total current assets	2,770,852

Non-current Assets

Property, plant and equipment	6,813,666
Goodwill	3,256,500
Regulatory deferral account debit balances	1,268,921

TOTAL ASSETS **14,109,940**

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities	2,846,376
Total current liabilities	2,846,376

Long-term liabilities

Customer deposits	230,182
Contributed capital / deferred revenue	325,783
Employee future benefits	70,067
Long-term debt	10,765,944
Regulatory deferral account credit balances	513,904
Total long-term liabilities	11,905,880

SHAREHOLDER'S EQUITY

Retained earnings	(642,315)
Total shareholder's equity	(642,315)

TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY **14,109,940**

Espanola Regional Hydro Distribution Inc.
Statement of Cash Flows
Fiscal Period 2020

	2020
OPERATING ACTIVITIES	
Net Income	(318,127)
Net adjustments to non-cash charges	173,139
Net change in non-cash working capital balances	9,113
Net cash flows from operating activities	(135,875)
INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(238,000)
Changes in regulatory deferral account balances	(9,789)
Cash used in investment activities	(247,789)
FINANCING ACTIVITIES	
Long term debt	132,788
Other	6,592
Cash provided by financing activities	139,381
Net increase in cash	(244,284)
Cash at beginning of year	937,255
Cash, end of the period	692,971