

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
being Schedule B to the *Energy Competition Act, 1998 S.O.*
1998, c. 15;

AND IN THE MATTER OF an Application by Horizon Utilities
Corporation to the Ontario Energy Board for an Order or
Orders approving or fixing just and reasonable rates and
other service charges for the distribution of electricity as of
January 1, 2011.

HORIZON UTILITIES CORPORATION

PUBLIC REDACTED VERSION
PROVIDED PURSUANT TO THE
BOARD'S DECISION ON
CONFIDENTIALITY MAR. 30, 2011
- EB-2010-0131

**RESPONSE TO SCHOOL ENERGY COALITION
INTERROGATORY #6(a)**

DELIVERED JANUARY 28, 2011

CON

PUBLIC REDACTED VERSION
PROVIDED PURSUANT TO THE
BOARD'S DECISION ON
CONFIDENTIALITY MAR. 30, 2011
- EB-2010-0131

**TO BE PLACED ON THE
RECORD**

CONFIDENTIAL

EXECUTION VERSION

PUBLIC REDACTED VERSION
PROVIDED PURSUANT TO THE
BOARD'S DECISION ON
CONFIDENTIALITY MAR. 30, 2011
- EB-2010-0131

HORIZON HOLDINGS INC.

- and -

HORIZON UTILITIES CORPORATION

CREDIT AGREEMENT

Dated as of June 30, 2010

CREDIT AGREEMENT

THIS CREDIT AGREEMENT is dated as of the 30th day of June, 2010

B E T W E E N:

HORIZON HOLDINGS INC., a corporation incorporated under
the laws of the Province of Ontario

("HHI")

- and -

HORIZON UTILITIES CORPORATION a corporation
amalgamated under the laws of the Province of Ontario

("Horizon Utilities")

RECITALS:

- A. Horizon Utilities has requested that HHI establish a credit facility in favour of Horizon Utilities in the maximum aggregate amount of Cdn. \$95,000,000 on the terms and conditions set forth in this Agreement.

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the covenants and agreements contained in this Agreement and for other good and valuable consideration, and intending to be legally bound, the parties agree as follows:

**ARTICLE ONE
GENERAL TERMS AND CONDITIONS**

1.01 Incorporation of the Terms of the [REDACTED] Credit Agreement

The parties acknowledge and agree that:

- (a) except as otherwise expressly provided in this Agreement, it is the intention of the Parties that the credit facility established by this Agreement be subject to the terms and conditions of the credit facility established by the Credit Agreement dated as of June 30, 2010 between HHI and [REDACTED], a copy of which is annexed as Appendix A (the "Credit Agreement");
- (b) except as expressly provided in Articles 2, 3 and 4 of this Agreement, all provisions of the [REDACTED] Credit Agreement are incorporated by reference (the "Incorporated Provisions") and constitute part of this Agreement and references to "this Agreement", "hereof" and similar expressions mean and include the Incorporated Provisions; and

- (c) the Incorporated Provisions shall be interpreted, *mutatis mutandis*, as if references to "the Lender" are reference to HHI, as if references to "HHI" are references to Horizon Utilities and generally, as if HHI were the lender thereunder and Horizon Utilities were the borrower thereunder and each of HHI and Horizon Utilities agrees to comply with and abide by the Incorporated Provisions as if the Incorporated Provisions were set forth in full in this Agreement.

1.02 **Specific Provisions**

- (a) **Interest Rates, Fees and Charges:** Without limitation of Section 1.01 or Section 4.01:

- (i) subject to Section 1.02(a)(ii), each of HHI and Horizon Utilities agree to comply with Sections 4.02, 4.03, 4.04 and 4.05 of the [REDACTED] Credit Agreement, *mutatis mutandis*, as if Sections 4.02, 4.03, 4.04 and 4.05 of the [REDACTED] Credit Agreement were set forth in full in this Agreement and Horizon Utilities shall pay to HHI all amounts owing thereunder; and

- (ii) the fees, charges and amounts owing by Horizon Utilities to HHI under Sections 4.02, 4.03, 4.04 and 4.05 of the [REDACTED] Credit Agreement incorporated by reference, shall be calculated on the following basis:

A. any fees, charges and amounts specified in Sections 4.02, 4.03, 4.04 and 4.05 of the [REDACTED] Credit Agreement that are calculated or computed without regard to the actual utilization of the credit facility established under the [REDACTED] Credit Agreement (the "[REDACTED] Credit"), shall be calculated on a *pro rata* basis, having regard to the maximum amount available under the [REDACTED] Credit and the maximum amount available under the Credit specified in Section 2.01, each at the time of calculation, and

B. any fees, charges and amounts specified in Sections 4.02, 4.03, 4.04 and 4.05 of the [REDACTED] Credit Agreement that are calculated or computed having regard to the actual utilization of the [REDACTED] Credit, shall be calculated on a *pro rata* basis, having regard to the actual usage of the maximum amount available under the [REDACTED] Credit and the maximum amount available under the Credit specified in Section 2.01, each at the time of calculation.

1.03 **Defined Terms**

Capitalized terms used but not defined in this Agreement have the respective meanings defined in the [REDACTED] Credit Agreement and shall be interpreted, *mutatis mutandis*, in accordance with Section 1.01(c).

**ARTICLE TWO
THE CREDIT**

2.01 The Credit

Subject to the terms and conditions of this Agreement, HHI shall make available to Horizon Utilities a revolving operating credit (the "Credit") not in excess, at any time, of NINETY-FIVE MILLION CANADIAN DOLLARS (Cdn. \$95,000,000).

2.02 Purpose of the Credit

Advances under the Credit shall be used by Horizon Utilities to finance its general corporate and working capital requirements, energy price excursions and capital investments and to satisfy its prudential requirement to the IESO from time to time including, without limitation of the foregoing, financing payment of dividends and distributions to its Shareholders from time to time to the extent permitted under the [REDACTED] Credit Agreement and making Investments and providing Financial Assistance to the extent permitted under the [REDACTED] Credit Agreement.

2.03 Drawdown Options

On the terms and subject to the conditions hereof, Horizon Utilities may obtain Advances hereunder:

- (a) by way of Overdraft Availment (as hereinafter defined);
- (b) from time to time requesting HHI to provide Horizon Utilities Advances hereunder by way of Prime Rate Borrowings; and
- (c) from time to time requesting HHI to procure the issuance of Letters of Credit for the benefit of Horizon Utilities under the [REDACTED] Credit Agreement;

provided however, that the aggregate of all Advances hereunder shall at no time exceed Cdn. \$95,000,000. For the purposes hereof, an "Overdraft Availment" shall be deemed to have been made by HHI to Horizon Utilities at any time when:

- (i) Horizon Utilities presents to [REDACTED] for payment any item drawn by Horizon Utilities on any of its Canadian current accounts with [REDACTED], which [REDACTED] pays or otherwise honours, or
- (ii) Horizon Utilities gives instructions to [REDACTED] to complete a funds transfer from any of its Canadian current accounts with [REDACTED] and [REDACTED] completes such funds transfer,

which, in either case, when charged against the applicable account of Horizon Utilities, creates an overdraft or increases an overdraft in such account (without having regard to any cash consolidation arrangements then in effect with respect to such account or accounts) and the amount of any such Overdraft Availment is the amount of the overdraft created or the increase in the overdraft, as applicable.

2.04 Revolving Nature of the Credit

Subject to the provisions of this Agreement, Horizon Utilities may increase or reduce the principal amount of the outstanding Advances under the Credit by borrowing and repaying, and issuing and refunding, Advances made thereunder, to the extent that the Credit has not been terminated pursuant to this Agreement and provided that such Advances do not at any time exceed the maximum authorized principal amount of the Credit.

ARTICLE THREE
TERMINATION OF THE CREDIT, REPAYMENT, PREPAYMENT AND MATURITY

3.01 Mandatory Repayments and Termination

Subject to the terms of this Agreement, on the Maturity Date, Horizon Utilities shall repay all of the Obligations, the Credit will be terminated and HHI shall have no obligation to make any further Advance hereunder.

3.02 Time and Place of Payment by Horizon Utilities Corporation

Each payment required or permitted to be made by Horizon Utilities to HHI hereunder (whether on account of principal, interest, costs or any other amount) shall be made to HHI not later than 3:00 p.m. on the date for payment of the same in immediately available funds, and if any payment made by Horizon Utilities hereunder is made after 3:00 p.m. on any day, such payment will be deemed to have been made on the immediately following Banking Day for the purpose of the calculation of interest, and interest will accrue due to such following Banking Day.

3.03 Payments to be Made on Banking Days

Whenever any payment to be made hereunder is due on a day that is not a Banking Day, such payment will be due on the immediately following Banking Day and interest will accrue due to such following Banking Day if payment is made on that day.

3.04 Maturity Date

This agreement will expire no later than June 30, 2013 at which time it may be renewed.

3.05 Renewal

This agreement will automatically renew for a period coterminous with the extension or renewal period, as the case may be, for the [REDACTED] Credit Agreement, but in no circumstances exceeding one year, upon reaching the Maturity Date and each subsequent Maturity Date. Either party may opt out of any renewal by providing the other party with its written notice not to renew 60 days prior to the Maturity Date or any subsequent Maturity Date.

3.06 Termination of the [REDACTED] Credit Agreement

Without limitation of any other provision of this Agreement, in the event of termination of the [REDACTED] Credit Agreement or the exercise by [REDACTED] of any of its remedies under the [REDACTED] Credit Agreement prior to the Maturity Date, all amounts owing under this Agreement, may, at the option of HHI, become immediately due and payable and HHI shall be under no obligation to provide further Advances under this Agreement.

3.07 Termination on Mutual Agreement

Notwithstanding any other provision of this Agreement, the parties agree that this Agreement may be terminated at any time upon their mutual agreement to do so, the date of termination being so agreed upon being deemed to be the Maturity Date (or such other date as may be mutually agreed) for all purposes of this Agreement thereafter.

**ARTICLE FOUR
INTEREST RATES AND CHARGES**

4.01 Interest Rates

Interest shall accrue on the aggregate outstanding principal amount of all Overdraft Availments and Prime Rate Borrowings from time to time at a variable rate per annum equal to the sum of HHI's borrowing rate in effect under the [REDACTED] Credit Agreement, calculated daily and payable monthly by the 15th Banking Day of the following month (or such later Banking Day as may be agreed) until all indebtedness in respect of Overdraft Availments or Prime Rate Borrowings, as applicable, is repaid in full, and shall be based upon a calendar year of 365 or 366 days, as the case may be. Horizon Utilities shall pay to HHI, in respect of any Letter of Credit, the issuance of which HHI has procured for Horizon Utilities under the [REDACTED] Credit Agreement, a fee in respect thereof equal to the fee required to be paid by HHI to [REDACTED] under the [REDACTED] Credit Agreement in respect thereof, in each case by the 15th Banking Day of the following month (or such earlier or later Banking Day as may be agreed). Any amount required to be paid by HHI in respect of a drawing under any Letter of Credit, the issuance of which HHI has procured for Horizon Utilities under the [REDACTED] Credit Agreement, which is not immediately reimbursed by Horizon Utilities shall bear interest at the rate otherwise applicable to Prime Rate Borrowings under this Agreement from and including the date upon which HHI made such payment to but excluding the date upon which Horizon Utilities reimbursed HHI in full for such amount.

**ARTICLE FIVE
MISCELLANEOUS**

5.01 Governing Law


This Agreement has been made in the Province of Ontario and shall be construed, interpreted and performed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

[SIGNATURE PAGE FOLLOWS]


- S1 -

IN WITNESS WHEREOF the parties hereto have duly executed this
Agreement.

HORIZON HOLDINGS INC.

By: 

Max A. Cananzi
President and Chief Executive Officer


By: 

John G. Basilio
Senior Vice President and Chief Financial
Officer

HORIZON UTILITIES CORPORATION

By: 

Max A. Cananzi
President and Chief Executive Officer

By: 

John G. Basilio
Senior Vice President and Chief Financial
Officer

*[Execution page for Intercompany Credit Agreement between Horizon Holdings Inc. and
Horizon Utilities Corporation]*

APPENDIX A

[REDACTED] CREDIT AGREEMENT

HORIZON HOLDINGS INC.

- and -



CREDIT AGREEMENT

Dated as of June 30, 2010

McCARTHY TÉTRAULT LLP

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CREDIT AGREEMENT

THIS CREDIT AGREEMENT is dated as of the 30 day of June, 2010

BETWEEN:

HORIZON HOLDINGS INC., a corporation incorporated under the laws of the Province of Ontario

- and -

[REDACTED] a bank
chartered under the laws of Canada

WHEREAS HHI has requested the Credit and the Lender has agreed to provide the Credit to HHI on the terms and conditions herein set forth;

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the covenants and agreements contained herein and for other good and valuable consideration, the parties hereto agree as follows:

**ARTICLE ONE
INTERPRETATION**

1.01 Definitions

In this Agreement (including the recitals hereto), unless the context otherwise requires, the following terms shall have the following meanings:

"Accommodation" means Prime Rate Borrowings, Overdraft Borrowings, Bankers' Acceptances, Letters of Credit and refers to any one or more of such types thereof where the context requires.

"Acquisition" shall mean any purchase or other acquisition, regardless of how accomplished or effected (including any such purchase or other acquisition effected by way of amalgamation, merger, arrangement, business combination or other form of corporate reorganization or by way of purchase, lease or other acquisition arrangements), of (a) any other Person (including any purchase or acquisition of such number of the issued and outstanding securities of, or such portion of an equity interest in, such other Person that such other Person becomes a Subsidiary of the purchaser or of any of its Affiliates) or of all or substantially all of the Property of any other Person, or (b) any division, business, operation or undertaking of any other Person or of all or substantially all of the Property of any division, business, operation or undertaking of any other Person. For greater certainty, an Acquisition shall not be treated as an Investment.

"Advance" means any amount advanced or deemed to be advanced by the Lender to HHI under the Credit, and includes a Prime Rate Borrowing, a Bankers' Acceptance, an Overdraft Borrowing and issuance of a Letter of Credit, and any reference relating to the amount of Advances shall mean the sum of the principal amount of all outstanding Prime Rate Borrowings, Overdraft Borrowings, whether as a result of an Advance or deemed Advance plus the face amount of all outstanding Bankers' Acceptances and the maximum amount payable under Letters of Credit.

"Affiliate" means, with respect to any Person, any other Person that, directly or indirectly, Controls or is Controlled by such Person, or is under the common Control of a third Person.

"Agreement" means this credit agreement and all schedules attached hereto and includes all written amendments, restatements, amendments and restatements, modifications, supplements and replacements hereto and thereto from time to time entered into.

"Annual Business Plan" means, in respect of any Financial Year, the consolidated annual business plan of HHI with financial projections with respect to HHI's operations for such Financial Year, approved by the board of directors of HHI, and in such detail as the Lender may reasonably require.

"Applicable Laws" shall mean, in respect of any Person, property, transaction, event or other matter, as applicable, all international, federal, provincial, state, municipal or local laws, rules, statutes, regulations, treaties, orders, judgments and decrees and all official directives, rules, guidelines, orders, policies and other requirements of any Governmental Authority, including all legally binding codes, rules, guidelines, decisions and reports of the OEB and the IESO, (collectively the "Law") relating or applicable to such Person, property, transaction, event or other matter, and shall also include any interpretation of the Law or any part of the Law by any Person having jurisdiction over it or charged with its administration or interpretation.

"Applicable Margin" means with respect to any Advance under the Credit, the percentage rate per annum determined in accordance with clauses (a) and (b) below, based (in the case of clause (a)) on the Debt Rating as at the end of HHI's most recently completed fiscal quarter (in this definition such fiscal quarter is the "Relevant Quarter"). The Applicable Margin to be applied with respect to an Advance under the Credit shall be the Applicable Margin on the relevant date of the Drawdown. The Applicable Margin shall change, if required, only once per fiscal quarter, on the third Banking Day (the "Applicable Margin Adjustment Date"), after the unaudited quarterly financial statements required to be delivered pursuant to Section 7.01(4)(a) for the Relevant Quarter and the related Compliance Certificate required to be delivered pursuant to Section 7.01(4)(c) are required to be delivered to the Lender. Each Applicable Margin shall be adjusted on the Applicable Margin Adjustment Date. For greater certainty, there shall be no adjustments to Bankers' Acceptances and Letters of Credit that are outstanding on the Applicable Margin Adjustment Date.

(a)

Level	Debt Rating	Prime Rate Margin	BA Stamping Fee Rate/ Letter of Credit Fee Rate	Standby Fee Rate
I	AA- or higher	0.00%	0.35%	0.0875%
II	A+	0.00%	0.40%	0.1000%
III	A	0.00%	0.55%	0.1375%
IV	A-	0.00%	0.80%	0.2000%
V	BBB+	0.10%	1.10%	0.2750%

(b) Upon the occurrence of, and during the continuance of, an Event of Default, the Applicable Margin shall be increased by 1.5% per annum.

"Applicable Margin Adjustment Date" has the meaning set forth in the definition of Applicable Margin.

"Assignee" has the meaning set forth in Section 10.03(1).

"Assignment" has the meaning set forth in Section 10.03(1).

"Associate", where used to indicate a relationship with any Person, has the meaning set forth in the *Business Corporations Act* (Ontario).

"Auditors" means KPMG LLP or any other nationally recognized firm of chartered accountants selected by HHL.

"BA Discount Proceeds" means, with respect to a particular Bankers' Acceptance, the following amount:

$$\frac{F}{1 + \frac{D \times T}{365}}$$

where

"F" means the face amount of such Bankers' Acceptance;

"D" means the applicable BA Discount Rate for such Bankers' Acceptance; and

"T" means the number of days to maturity of such Bankers' Acceptance,

with the amount as so determined being rounded up or down to the fifth decimal place and .000005 being rounded up.

"BA Discount Rate" means, with respect to any Bankers' Acceptance, the rate quoted by the Lender that appears on the Reuters Screen CDOR page (or if no rate is quoted, the discount rate of the Lender determined in accordance with its normal practice) in such circumstances at or about 10:00 a.m. on the date of acceptance of such Bankers' Acceptance as the discount rate applicable to bankers' acceptances accepted and purchased by the Lender on such date, based upon a year of 365 or 366 days, as applicable, and having a comparable face value and an identical maturity date to the face value and maturity date of such Bankers' Acceptance.

"BA Stamping Fee" means the amount calculated by multiplying the face amount of a Bankers' Acceptance by the BA Stamping Fee Rate and then multiplying the result by a fraction, the numerator of which is the number of days to elapse from and including the date of acceptance of such Bankers' Acceptance up to but excluding the maturity date of such Bankers' Acceptance and the denominator of which is 365 or 366, as applicable.

"BA Stamping Fee Rate" means, with respect to a Bankers' Acceptance, the applicable percentage rate per annum indicated in the column headed "BA Stamping Fee Rate/Letter of Credit Fee Rate" in the definition of "Applicable Margin" relevant to the period in respect of which a determination is being made.

"Bankers' Acceptance" means a depository bill as defined in the *Depository Bills and Notes Act* (Canada) denominated in Canadian Dollars which has been signed by or on behalf of HHI and accepted by the Lender in accordance with Section 2.10.

"Banking Day" means a day, other than Saturday or Sunday, on which the offices of the Lender are open for normal business in the City of Toronto, Ontario.

"Borrower's Accounts" means the current accounts, operating accounts and other bank accounts maintained from time to time by HHI in connection with the operation of HHI's business with the Lender.

"Borrower's Counsel" means Borden Ladner Gervais LLP, Toronto, Ontario or such other firm as HHI may appoint from time to time as its counsel hereunder.

"Branch" means the branch of the Lender located at [REDACTED] Ontario, or such other branch as the Lender may designate in writing.

"Business" means with respect to HHI and its Subsidiaries, the business of (a) owning, leasing and operating electricity distribution systems; (b) distributing electricity; (c) providing telecommunications services; (d) generating or distributing electricity or any other energy product; (e) carrying on any other business which Affiliates of electricity distributors are permitted by Applicable Law to engage in; and (f) developing, owning and operating other utility-like businesses.

"Canadian Dollars", "Cdn. Dollars", "Dollars", "\$", and "Cdn.\$" mean lawful currency of Canada.

"Capital Lease" means a capital lease or a lease that should be treated as a capital lease under GAAP.

"CDOR" means, for any day and relative to Cdn. Dollar Bankers' Acceptances having any specified term and face amount, the average of the annual rates for Cdn. Dollar Bankers' Acceptances having such specified term and face amount (or a term and face amount as closely as possible comparable to such specified term and face amount) of the banks named in Schedule I of the *Bank Act* (Canada) that appears on the Reuters Screen CDOR page as of at 10:00 a.m. on such day (or, if such day is not a Banking Day, as of 10:00 a.m. on the preceding Banking Day), provided that if such rate does not appear on the Reuters Screen CDOR page at such time on such date, CDOR for such date will be the annual discount rate of interest (rounded upward to the nearest whole multiple of 1/100 of 1%) as of 10:00 a.m. on such date at which the Lender is then offering to purchase bankers' acceptances accepted by it having a comparable aggregate face amount and identical maturity date to the aggregate face amount and maturity date of such Bankers' Acceptances.

"Change of Control" means any circumstances whereby (i) each of the City of Hamilton and HUC ceases, without the prior written consent of the Lender, which consent shall not be unreasonably withheld, to Control HHI, or (ii) HHI ceases, without the prior written consent of the Lender, which consent shall not be unreasonably withheld, to Control any of its Subsidiaries (including, without limitation, Horizon Utilities Corporation and Horizon Energy Solutions Inc. but excluding Non-Recourse Entities).

"City of Hamilton" means the New City of Hamilton as incorporated pursuant to the *City of Hamilton Act, 1999* (Ontario).

"Closing Date" means June 30, 2010, or such other date as is agreed upon by the Lender and HHI.

"Commitment" means the obligation of the Lender to make available to HHI an aggregate principal amount up to but not exceeding the amount set out in Schedule A to the extent not otherwise cancelled, reduced or terminated pursuant to this Agreement.

"Compliance Certificate" means a certificate of HHI, in substantially the form attached hereto as Schedule B, executed by an authorized signing officer.

"Contaminant" means any pollutants, dangerous substances, liquid waste, industrial waste, hauled liquid waste, toxic substances, hazardous wastes, hazardous materials, hazardous substances or contaminants, including polychlorinated biphenyls, or any of the foregoing as defined in any Environmental Law.

"Contingent Obligation" means any obligation, whether secured or unsecured, of any Person guaranteeing or indemnifying, or in effect guaranteeing or indemnifying, any indebtedness, leases, dividends, letters of credit or other monetary obligations (the **"primary obligations"**) of any other Person (the **"primary obligor"**) other than the first Person in any manner, whether directly or indirectly, including any obligation of the first Person as an account party in respect of a letter of credit or letter of guarantee issued to assure payment by the primary obligor of any such primary obligation and any obligations of the first Person, whether or not contingent, (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (b) to advance or supply funds for the

purchase or payment of any such primary obligation or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (c) to purchase property, securities or services primarily for the purpose of assuring the obligee under any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (d) otherwise to assure or hold harmless the obligee under such primary obligation against loss in respect of such primary obligation; provided, however, that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business.

"Control" (including with correlative meanings the terms "controlled by" and "under common control of") means the power to direct or cause the direction of the management and policies of any Person, whether through the ownership of shares or by contract or otherwise.

"Credit" means the revolving operating credit, as described in Section 2.01.

"DBRS" means Dominion Bond Rating Service.

"Debentures" means those debentures designated as "senior unsecured debentures" that may be issued after the date hereof by HHI.

"Debt" means, with respect to any Person, without duplication, at the date of determination, (a) all indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services, (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all obligations of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (whether or not the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all obligations of such Person as lessee under leases that have been or should be recorded as Capital Leases in accordance with GAAP, (f) all obligations, contingent or otherwise, of such Person under acceptance, letter of credit and similar facilities, (g) all obligations of such Person to purchase, redeem, retire, defease or otherwise acquire for value any partnership or shareholder or other equity interests of such Person, (h) all net financial obligations of such Person in respect of rate protection contracts and hedge arrangements and all financial obligations under any similar contract to which such Person is a party, (i) all Contingent Obligations of such Person, (j) the amount of all trade payables and other accrued liabilities to the extent the same are past due the due date thereof by more than 90 days (except to the extent that such payables and liabilities are being properly contested by such Person with the Person to whom same are owing) and (k) any other obligation arising under arrangements or agreements, off-balance sheet or otherwise, that, in substance, provide financing to such Person.

"Debt Rating" means until such time as HHI has its own senior unsecured debt rating, HUC's senior unsecured debt rating and thereafter, HHI's senior unsecured debt rating, in each case, as identified by S&P or DBRS or if not rated by S&P or DBRS such other nationally recognized rating agency acceptable to the Lender, acting reasonably.

"Default" means an event or condition the occurrence of which is an Event of Default or would, with the lapse of time or the giving of notice, or both, become an Event of Default.

"Dividend Policy" means the dividend policy of HHI as described in Schedule E attached hereto.

"Documents" means this Agreement and all certificates and all other documents now or hereafter delivered to the Lender pursuant to the terms of this Agreement in connection with any Accommodation made hereunder or pursuant to any Document and, when used in relation to any Person, the term **"Documents"** shall mean and refer to those Documents executed and delivered by such Person.

"Draft" shall have the meaning ascribed thereto in Section 2.10(1).

"Drawdown" means any one or all of the following:

- (a) the availing by HHI of Accommodation in a form permitted by Section 2.03;
- (b) the issue of Bankers' Acceptances hereunder;
- (c) the issue of Letters of Credit hereunder;
- (d) any Rollover Drawdown.

"Drawdown Day" means a Banking Day on which a Drawdown pursuant to the Credit is made by HHI from the Lender.

"Drawdown Notice" means a notice in the form of Schedule C delivered in accordance with Section 2.08.

"Electricity Act" means the *Electricity Act, 1998* (Ontario).

"Environmental Activity" means any past, present or future activity, event or circumstance in respect of a Contaminant, including its storage, use, holding, collection, accumulation, generation, manufacture, processing, treatment, stabilization, disposal, handling or transportation or its Release, escape, leaching, dispersal or migration into the natural environment, including the movement through or in the air, soil, surface water or groundwater.

"Environmental Law" means any and all Applicable Laws relating to the environment or any Environmental Activity.

"Event of Default" means an event of default as defined in Section 8.01 hereof.

"Existing L/C" means the letter of credit (reference no. SBT733830) dated February 28, 2005 issued by the Lender to the IESO at the request of HUC with a face amount of \$23,500,000 as amended on September 25, 2007 in which the face amount was decreased to \$9,100,576.

"Financial Assistance" means, without duplication and with respect to any Person, all loans granted by that Person and guarantees or Contingent Obligations incurred by that Person for the purpose of or having the effect of providing financial assistance to another Person or Persons, including, without limitation, letters of guarantee, letters of credit, legally binding comfort letters or indemnities issued in connection therewith, endorsements of bills of exchange (other than for collection or deposit in the ordinary course of business), obligations to purchase assets regardless of the delivery or non-delivery thereof and obligations to make advances or otherwise provide financial assistance to any other entity and for greater certainty "Financial Assistance" shall include any guarantee of any third party lease obligations provided however, that none of (i) the difference, from time to time, between the aggregate amount owed by HHI to the IESO in relation to electricity supplied by Horizon Utilities to its customers and the amount collected from such customers in relation to such electricity supplied, including the balance from time to time in the Retail Settlement Variance Account (as defined in the OEB's Retail Settlement Code) and the balance from time to time in other regulated variance accounts, (ii) issuance of L/Cs for the account of Horizon Utilities Corporation under the Credit and (iii) the posting of cash collateral by Horizon Utilities Corporation with the IESO shall not constitute "Financial Assistance" for the purposes of this Agreement.

"Financial Statements" means audited or unaudited (as stipulated herein), consolidated financial statements of HHI, consisting of not less than a balance sheet, a statement of income and retained earnings and a statement of changes in financial position, accompanied, in the case of such audited statements, by the notes to such financial statements, and by the report or opinion of the Auditors.

"Financial Year" means the Financial Year of HHI ending on December 31 in each year, or such other date as may be agreed by the Lender, acting reasonably, or required by the OEB.

"Funded Debt" includes, with respect to any Person, without duplication, at the date of determination, each of items (a), (b), (c), (d), (e), (f) and (k) in the definition of "Debt".

"Funded Debt to Capitalization Ratio" means the ratio, on a consolidated basis (but excluding Non-Recourse Entities), of Funded Debt to the sum of Funded Debt and Shareholders Equity.

"GAAP" means generally accepted accounting principles in Canada, and statements and interpretations (if applicable) which are issued by the Canadian Institute of Chartered Accountants and any successor body in effect from time to time, unless otherwise stated, applied on a consistent basis.

"Good Utility Practices" means any of the practices, methods and activities engaged in or approved by a significant portion of the North American electricity distribution utility industry during the relevant time period, or any of the practices, methods or activities which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result consistent with good business practices, reliability, safety and expedition at a reasonable cost. Good Utility Practices are not intended to be limited to the optimum practices, methods or acts to the

exclusion of all others, but rather to be a spectrum of possible practices, methods or acts employed by prudent North American electric utility distributors having regard to applicable electrical, safety and maintenance codes and standards and Applicable Laws.

"Governmental Authority" means any nation, federal government, province, state, municipality or other political subdivision of any of the foregoing, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including the OEB and the IESO.

"HHI" means the borrower hereunder, being Horizon Holdings Inc., a corporation incorporated and existing under the laws of the Province of Ontario.

"HUC" means Hamilton Utilities Corporation, a corporation incorporated and existing under the laws of the Province of Ontario.

"IESO" means the Independent Electricity System Operator, or its successor, established under Part II of the Electricity Act.

"IFRS" means the International Financial Reporting Standards as issued by the International Accounting Standards Board, which are in effect from time to time.

"Inchoate Lien" means, with respect to any property or asset of any Person, the following Liens:

- (a) any Lien for taxes or assessments not yet due or being contested in good faith by appropriate proceedings and for which a reasonable reserve has been provided;
- (b) any liens of carriers, warehousemen, contractors, subcontractors, suppliers, mechanics or materialmen in respect of charges accruing in favour of such Person, so long as such charges are not yet due or are being contested in good faith by appropriate proceedings and for which a reasonable reserve has been provided; and
- (c) undetermined or inchoate liens, privileges or charges incidental to current operations which have not at such time been filed pursuant to law against such Person's property or assets or which relate to obligations not due or delinquent.

"Investment" in any Person means any direct or indirect acquisition of any shares of capital stock or other equity securities of such Person. The amount of any Investment shall be the original cost of such Investment, plus the cost of all additions thereto and minus the amount of any portion of such Investment repaid to such Person in cash as a return of capital, but without any other adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment. In determining the amount of any Investment involving a transfer of any property other than cash, such property shall be valued at its fair market value at the time of such transfer. For greater certainty an Investment shall not be treated as an Acquisition.

"Lender" means [REDACTED] and its successors and assigns.

"Lender's Counsel" means McCarthy Tétrault LLP, Toronto, Canada or such other firm or firms as the Lender may appoint from time to time as counsel to the Lender hereunder.

"Letter of Credit" means a standby letter of credit or a letter of guarantee issued hereunder by the Lender and **"Letters of Credit"** means all outstanding Letters of Credit.

"Letter of Credit Fee Rate" means, with respect to a Letter of Credit, the applicable percentage rate per annum indicated in the column headed "BA Stamping Fee Rate/Letter of Credit Fee Rate" in the definition of "Applicable Margin".

"Lien" means any mortgage, hypothec, title retention, pledge, lien, charge, security interest or other encumbrance whatsoever, whether fixed or floating and howsoever created or arising.

"Material Adverse Effect" means the occurrence of any event or circumstance which has a material adverse effect on the ability of HHI, on a consolidated basis, to perform its obligations under this Agreement.

"Material Contract" means each contract to which HHI or any of its Subsidiaries is a party, the loss or termination of which could result in a Material Adverse Effect.

"Maturity Date" means June 30, 2013 as such date may be extended pursuant to the terms hereof.

"Non-Recourse Entity" means a Person (a) that is incorporated or otherwise formed under the laws of a Canadian jurisdiction, (b) that is wholly or partially owned by HHI or a Subsidiary of HHI, (c) to the extent that it has any Debt, there is no recourse to HHI or any Subsidiary of HHI (other than a Subsidiary which is, itself, a "Non-Recourse Entity"), and (d) that is designated, in accordance with Section 1.10, as a "Non-Recourse Entity" and **"Non-Recourse Entities"** means, collectively, all Persons designated from time to time as a Non-Recourse Entity.

"Obligations" means all of HHI's present and future indebtedness, liabilities and obligations of any and every kind, nature or description whatsoever (whether direct or indirect, joint or several or joint and several, absolute or contingent, matured or unmatured, in any currency and whether as principal debtor, guarantor, surety or otherwise, including any interest that accrues thereon after or would accrue thereon but for the commencement of any case, proceeding or other action, whether voluntary or involuntary, relating to the bankruptcy, insolvency or reorganization whether or not allowed or allowable as a claim in any such case, proceeding or other action) to the Lender under, in connection with, relating to or with respect to each of the Documents, and any unpaid balance thereof.

"OEB" means the Ontario Energy Board continued pursuant to Part II of the OEB Act.

"OEB Act" means the *Ontario Energy Board Act, 1998* (Ontario), as amended.

"Overdraft Borrowings" means all Advances pursuant to the Credit by way of cheques drawn by HHI on a Borrower's Account which creates or increases an overdraft in such

account, in each case pursuant to an overdraft lending agreement in the standard form used by the Lender from time to time.

"Participant" has the meaning set forth in Section 10.03(1).

"Participation" has the meaning set forth in Section 10.03(1).

"Permitted Liens" means, with respect to any property or asset of any Person, the following Liens:

- (a) any Inchoate Lien;
- (b) minor encumbrances, title defects or irregularities, including easements, rights of way, encroachments, restrictive covenants, servitudes or other similar rights in land granted to or reserved by other Persons, rights of way for sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties;
- (c) any right reserved to or vested in any Governmental Authority by the terms of any lease, licence, franchise, grant or permit acquired by such Person, or by any statutory provision to terminate any such lease, licence, franchise, grant or permit, or to require annual or other periodic payments as a condition of the continuance thereof;
- (d) security or deposits given by such Person to a public utility or any Governmental Authority when required by such utility or Governmental Authority in connection with the operations of such Person and in the ordinary course of its business;
- (e) reservations, limitations, provisos and conditions, if any, expressed in any original grants from the Crown;
- (f) Liens securing appeal bonds or other similar Liens arising in connection with court proceedings (including surety bonds, security for costs of litigation where required by law and letters of credit) or any other instruments serving similar purpose;
- (g) applicable municipal and other restrictions of any Governmental Authority, including municipal by-laws and regulations, affecting the use of land or the nature of any structures which may be erected thereon, provided such restrictions have been complied with;
- (h) Liens given to a public utility or any municipality or governmental or other public authority when required by such utility or other authority in connection with the operation of the business or the ownership of the assets of the Person, provided that such Liens do not materially interfere with their use in the operation of the business of the Person;
- (i) servicing agreements, development agreements, site plan agreements, pole attachment agreements, utility agreements and other agreements with Governmental Authorities and others pertaining to the use or development of any of the assets of the

Person, provided that the same are complied with and do not materially interfere with their use in the operation of the business of such Person;

- (j) cash collateral posted by HHI with the IESO to satisfy HHI's and/or Horizon Utilities Corporation's prudential requirements to the IESO;
- (k) the right reserved to or vested in any Governmental Authority by any statutory provision or by the terms of any lease, licence, franchise, grant or permit of the Person, to terminate any such lease, licence, franchise, grant or permit, or to require annual or other payments as a condition to the continuance thereof;
- (l) Liens not excepted by paragraphs (a) to (k) above which secure indebtedness in an aggregate amount of not more than \$10,000,000;
- (m) Liens granted in connection with indebtedness incurred for specific projects in which the scope of such Liens extend solely and exclusively to such project assets and revenues and the holder of such indebtedness and Liens enters into an intercreditor agreement with, *inter alia*, the Lender confirming the limitation of such Liens; and
- (n) any Lien granted from time to time in favour of the Lender.

"Person" includes an individual, a partnership, a corporation, a trust, an unincorporated organization, a Governmental Authority or any department or agency thereof or any other entity whatsoever and the heirs, executors, administrators or other legal representatives of an individual.

"Prime Rate" means a fluctuating rate of interest per annum, expressed on the basis of a year of 365 or 366 days, as applicable, which is equal at all times to the greater of (a) the reference rate of interest (however designated) of the Lender for determining interest chargeable by it on Canadian Dollar commercial loans made in Canada; and (b) 1.0% above CDOR from time to time for one month Canadian Dollar bankers' acceptances having a face amount comparable to the face amount in respect of which the applicable Prime Rate calculation is being made.

"Prime Rate Borrowing" means an Advance to HHI in respect of which interest is calculated by reference to the Prime Rate.

"Prime Rate Margin" means, for any period, the applicable percentage rate per annum applicable to that period as indicated below the reference to "Prime Rate Margin" in the definition of "Applicable Margin".

"Regular Dividends" has the meaning attributed to such term in Schedule E.

"Release" includes discharge, spray, inject, abandon, deposit, spill, leak, seep, pour, emit, empty, throw, dump, place and exhaust and, when used as a noun, has a similar meaning.

"Rollover Drawdown" means any Drawdown under the Credit, if the proceeds of such Drawdown will be used to retire one or more outstanding Drawdowns (or any portion thereof).

"Shareholders' Equity" of HHI on any date means, on a consolidated basis (but excluding Non-Recourse Entities), the sum of the contributed and paid up capital and retained earnings of HHI on such date.

"S&P" means Standard & Poors Rating Group, a division of the McGraw Hill Companies.

"Special Dividends" has the meaning attributed to such term in Schedule E.

"Subsidiary" means, at any time, as to any Person, any other Person, if at such time the first mentioned Person owns, directly or indirectly, securities or other ownership interests in such other Person, having ordinary voting power to elect a majority of the board of directors or persons performing similar functions for such other Person, and shall include any other Person in like relationship to a Subsidiary of such first mentioned Person.

"Taxes" means, at any time, all taxes, rates, levies, imposts, assessments, government fees, dues, stamp taxes, duties, charges to tax, fees, deductions, withholdings and similar impositions, whether current or deferred, that are payable to, levied, collected, withheld or assessed by, any Governmental Authority, and also includes all payments to the Province of Ontario or Ontario Electric Financial Corporation in lieu of Taxes and payments to municipalities in lieu of Taxes, including all payments required to be made by HHI under Part VI of the Electricity Act.

1.02 **Number and Gender**

Where the context so requires, in this Agreement words importing the singular include the plural, and vice versa, and words importing gender include the masculine, feminine and neuter genders.

1.03 **Headings, Etc.**

The table of contents and the headings of all articles, sections and schedules are inserted for convenience of reference only and shall not affect the construction or interpretation of the Agreement. The words "**hereunder**", "**hereto**", "**hereof**" and "**herein**" shall, unless the context clearly indicates the contrary, refer to the whole of this Agreement and not to any particular article, section or other subdivision of this Agreement, and the words "**Article**", "**Section**" and "**Schedule**" followed by a number or letter and no reference to another agreement mean and refer to the specified Article, Section or Schedule of this Agreement.

1.04 **Currency**

Unless otherwise expressly stated, all monetary amounts set out herein refer to the lawful money of Canada.

1.05 Accounting Terms and Principles

All financial and other calculations, ratios and other determinations hereunder with respect to HHI shall be made on a consolidated basis. All calculations required to be made hereunder pursuant to any definition used herein, or otherwise, shall in each case be made without duplication of the deduction, or inclusion, of any amount in such calculation. All references to determination of any "value" shall be expressed in monetary terms and shall refer to the fair market value thereof, unless otherwise expressly stated. All calculations for the purposes of determining compliance with the financial ratios and other financial covenants contained in this Agreement shall, unless otherwise indicated, be made in accordance with GAAP. In the event of a change in such GAAP, including the adoption of IFRS, the Borrower and the Lender shall negotiate in good faith to revise (if appropriate) such financial ratios and other financial covenants to reflect GAAP or IFRS, as applicable, as then in effect, in which case all calculations thereafter made for the purpose of determining compliance with the financial ratios and other financial covenants contained in this Agreement shall be made on a basis consistent with GAAP in existence as at the date of such revisions.

1.06 Computation of Time Periods

Unless otherwise expressly provided herein, the computation of any time period referred to herein which is not a defined term shall exclude the day of the occurrence of the event to which the period relates and shall include the last day of such period. Unless otherwise expressly provided herein, in the event that any time period referred to herein ends on a day which is not a Banking Day, such time period shall be deemed to end on the next following Banking Day. Unless otherwise expressly provided herein, any reference to a specific time shall be deemed to be such time in Toronto, Ontario.

1.07 Extended Meaning

A reference to any one or more of the parties to this Agreement shall be deemed to be a reference to the respective successors and permitted assigns of such party, as the case may be.

1.08 Statutory References

References herein to any statute or any provision thereof include such statute or provision thereof as amended, revised, re-enacted and/or consolidated from time to time and any successor statute thereto.

1.09 Determinations by HHI

All provisions contained herein requiring HHI to make a determination or assessment of any event or circumstance or other matter to the best of its knowledge shall be deemed to require HHI to make all due inquiries and investigations as may be necessary or prudent in the circumstances before making any such determination or assessment.

1.10 Designation of Non-Recourse Entities

Unless otherwise expressly specified therein, the provisions of Article 6, Article 7 and Article 8 of this Agreement shall not apply to or include any Non-Recourse Entity and any reference to "Subsidiary", "Affiliate" or "Associate" in the provisions of Article 6, Article 7 or Article 8 shall be interpreted to exclude Non-Recourse Entities. From time to time, HHI may provide written notice to the Lender identifying the designation of any particular Person as a "Non-Recourse Entity". For greater certainty, Horizon Utilities Corporation and Horizon Energy Solution Inc. may not be designated as Non-Recourse Entities.

1.11 Schedules

The following are the schedules annexed hereto which form an integral part of this Agreement:

Schedule A	Commitment
Schedule B	Compliance Certificate
Schedule C	Drawdown Notice
Schedule D	Litigation
Schedule E	Dividend Policy

**ARTICLE TWO
THE CREDIT**

2.01 The Credit

Subject to the terms and conditions hereof and relying upon the representations and warranties contained in Article Six hereof, the Lender shall make available to HHI a revolving operating credit in the maximum principal amount of ONE HUNDRED MILLION CANADIAN DOLLARS (Cdn. \$100,000,000).

2.02 Purpose of the Credit

Advances under the Credit shall be used by HHI to (a) finance general corporate and working capital requirements of HHI and of its Subsidiaries through inter-corporate advances to Subsidiaries of HHI (including Non-Recourse Entities but subject to the limitation provided for in Section 7.03(3)), (b) to assist in meeting HHI's prudential obligations and those of its Subsidiaries to the IESO pursuant to Applicable Law, (c) for other Letter of Credit requirements of HHI, its Subsidiaries and Non-Recourse Entities subject, in the case of Non-Recourse Entities, to the limit of \$10,000,000 and further subject to compliance with the limitation contained in Section 7.03(3), and (d) subject to the provisions of Section 7.03(8), make payment of Regular Dividends (but not, for certainty, Special Dividends) to the shareholders of HHI in accordance with the Dividend Policy provided that Advances used for such purpose in any given Financial Year shall not exceed 60% of HHI's consolidated annual net income (net earnings) for the prior year.

2.03 Drawdown Options

On the terms and subject to the conditions hereof, HHI may from time to time obtain Accommodation under the Credit by way of Prime Rate Borrowings, Overdraft Borrowings, Bankers' Acceptances, Letters of Credit or any combination of the foregoing.

2.04 Revolving Nature of the Credit

Subject to the provisions of this Agreement, HHI may increase or reduce the principal amount of the outstanding Advances under the Credit by borrowing and repaying, and issuing and refunding, Advances made thereunder, to the extent that the Credit has not been terminated pursuant to this Agreement and provided that such Advances do not at any time exceed the maximum authorized principal amount of the Credit.

2.05 Minimum and Maximum Amounts

Advances under the Credit shall only be made in the following respective minimum amounts:

- (a) each Prime Rate Borrowing, other than an Overdraft Borrowing, shall be in a minimum amount of \$100,000 and shall be a whole multiple of \$1,000 thereafter; and
- (b) each Bankers' Acceptance shall have a minimum face amount of \$500,000 and shall be a whole multiple of \$1,000 thereafter.

2.06 Promissory Notes

HHI's obligations to pay the principal amount of the Credit may be evidenced by promissory notes if the Lender shall so require. HHI shall execute and deliver to the Lender such replacement promissory notes as may be requested by the Lender from time to time. HHI hereby authorizes the Lender to record, from time to time, in its records or on the reverse side of any promissory note or any schedule attached to any promissory note, the date and amount of each Drawdown, the unpaid balance thereof, and all payments received by the Lender, as the case may be, on account of the principal of such indebtedness or interest thereon and such other information provided for in such schedule. All amounts so recorded shall be *prima facie* evidence of such unpaid principal balance and interest. The failure to record, or any error in recording, any such amount shall not, however, limit or otherwise affect the obligations of HHI to repay all of the Obligations.

2.07 Evidence of Indebtedness

Notwithstanding Section 2.06, the indebtedness outstanding from time to time of HHI under the Credit may also be evidenced by the accounts kept by the Lender. The Lender shall debit therein the amount of all such indebtedness of HHI to the Lender hereunder and shall credit therein each refunding or repayment in respect of such indebtedness by appropriate entries. The accounts kept by the Lender shall, absent manifest error, constitute conclusive evidence of the indebtedness of HHI hereunder, the date the Advance was made or deemed to be made to HHI, the amounts from time to time which may be prepaid by HHI on account of such indebtedness, the amount of such

indebtedness repaid by HHI and the dates of such prepayments and repayment, provided that the failure of the Lender to record any such amount or date shall not affect the obligation of HHI to pay amounts due hereunder in accordance with this Agreement. If there is any conflict or inconsistency between the accounts maintained by the Lender pursuant to this Section 2.07 and any promissory note, the accounts maintained by the Lender shall govern.

2.08 Drawdowns other than Overdraft Borrowings

If HHI wishes to obtain a Drawdown pursuant to the Credit other than an Overdraft Borrowing, it shall deliver to the Lender a Drawdown Notice not later than 10:00 a.m. on the Banking Day prior to the day on which HHI wishes a Bankers' Acceptance to be accepted or a Letter of Credit issued and on the Banking Day on which HHI wishes a Prime Rate Borrowing to be advanced, specifying, among other things, the amount of the Advance to be provided and the Drawdown Day (which shall be a Banking Day). Any Drawdown Notice given by HHI to the Lender shall be irrevocable, and HHI shall be obligated to borrow the stated amount of the Advance on the stated Drawdown Day in accordance with the Drawdown Notice.

2.09 Rollover Drawdowns

If HHI wishes to obtain a Rollover Drawdown pursuant to the Credit, it shall deliver to the Lender a Drawdown Notice not later than 10:00 a.m. on the Banking Day prior to the day on which HHI wishes a Rollover Drawdown in the form of a Bankers' Acceptance to be accepted and on the Banking Day on which HHI wishes a Rollover Drawdown in the form of a Prime Rate Borrowing, requesting one or more Rollover Drawdowns under the Credit in accordance with the Drawdown Notice.

2.10 Bankers' Acceptances

(1) To facilitate the procedures contemplated in this Agreement, HHI irrevocably appoints the Lender from time to time as the attorney-in-fact of HHI to execute, endorse and deliver on behalf of HHI drafts in the forms prescribed by the Lender for bankers' acceptances denominated in Cdn. Dollars (each such executed draft which has not yet been accepted by the Lender being referred to as a "Draft") in accordance with Drawdown Notices received from HHI under which Bankers' Acceptances have been requested. Each Bankers' Acceptance executed and delivered by the Lender on behalf of HHI as provided for in this Section 2.10 shall be as binding upon HHI as if it had been executed and delivered by a duly authorized officer of HHI.

(2) Notwithstanding Section 2.10(1), HHI shall from time to time as required by the Lender, provide to the Lender an appropriate number of Drafts drawn by HHI upon the Lender and either payable to a clearing service (if the Lender is a member thereof) or payable to HHI and endorsed in blank by HHI (if the Lender is not a member of such clearing service). The dates, the maturity dates and the principal amounts of all Drafts delivered by HHI shall be left blank, to be completed by the Lender as required by this Agreement in accordance with Drawdown Notices received from HHI under which Bankers' Acceptances have been requested. All such Drafts shall be held by the Lender subject to the same degree of care as if they were the Lender's own property and kept at the place at which the Drafts are ordinarily kept by the Lender. The Lender, upon written request of HHI, will promptly advise HHI of the number and designation, if any, of the Drafts then

held by it. The Lender shall not be liable for its failure to accept a Draft as required by this Agreement if the cause of such failure is, in whole or in part, due to the failure of HHI to provide on a timely basis appropriate Drafts to the Lender as may be requested by the Lender on a timely basis from time to time.

(3) All Drafts to be accepted from time to time by the Lender (if it is a member of a clearing service) shall be payable to such clearing service. The terms of all Bankers' Acceptances issued pursuant to any Drawdown Notice shall be identical. Each Bankers' Acceptance shall be dated the Drawdown Day on which it is issued and shall be for a term of up to 180 days subject to availability provided that in no event shall the term of a Bankers' Acceptance extend beyond the Maturity Date.

(4) The Lender shall complete and accept on the applicable Drawdown Day a Draft having a face amount (or Drafts having the face amounts) and term as provided for in the Drawdown Notice. The Lender shall purchase on the applicable Drawdown Day the Bankers' Acceptance or Bankers' Acceptances accepted by it, for an aggregate price equal to the BA Discount Proceeds of such Bankers' Acceptance (or Bankers' Acceptances). HHI shall ensure that there is delivered to the Lender (if it is a member of a clearing service), and the Lender is hereby authorized to release the Bankers' Acceptance accepted by it to such clearing service upon receipt of confirmation that such clearing service holds such Bankers' Acceptance for the account of the Lender.

(5) HHI shall pay to the Lender in respect of each Draft tendered by HHI to and accepted by the Lender, as a condition of such acceptance, the BA Stamping Fee.

(6) Upon acceptance of each Draft, HHI shall pay to the Lender the BA Stamping Fee specified in Section 2.10(5), and to facilitate payment the Lender shall be entitled to deduct and retain for its own account the amount of the BA Stamping Fee from the amount to be transferred by the Lender for the account of HHI pursuant to this Agreement in respect of the sale of the related Bankers' Acceptance.

(7) If the Lender determines in good faith, which determination shall be final, conclusive and binding upon HHI, and so notifies HHI that there does not exist at the applicable time a normal market in Canada for the purchase and sale of bankers' acceptances, any right of HHI to require the Lender to purchase Bankers' Acceptances under this Agreement shall be suspended until the Lender determines that such market does exist and gives notice thereof to HHI and any Drawdown Notice requesting Bankers' Acceptances shall be deemed to be a Drawdown Notice requesting a Prime Rate Advance in a similar aggregate principal amount.

(8) On the date of maturity of each Bankers' Acceptance, HHI shall pay to the Lender in Canadian Dollars an amount equal to the face amount of such Bankers' Acceptance. The obligation of HHI to make such payment shall not be prejudiced by the fact that the holder of such Bankers' Acceptance is the Lender. No days of grace shall be claimed by HHI for the payment at maturity of any Bankers' Acceptance. If HHI does not make such payment from the proceeds of an Advance obtained under this Agreement or otherwise, the amount of such required payment shall be deemed to be a Prime Rate Advance to HHI.

(9) The signature of any duly authorized officer of HHI on a Draft may be mechanically reproduced in facsimile, and all Drafts bearing such facsimile signature shall be as binding upon HHI as if they had been manually signed by such officer, notwithstanding that such Person whose manual or facsimile signature appears on such Draft may no longer hold office at the date of such Draft or at the date of acceptance of such Draft by the Lender or at any time thereafter.

(10) A Bankers' Acceptance may not be repaid prior to its stated maturity date. Notwithstanding the foregoing, HHI may defease a Bankers' Acceptance prior to its maturity by depositing with the Lender cash collateral in an amount equal to the face amount of such Bankers' Acceptance.

2.11 Letters of Credit

(1) If HHI wishes to request a Drawdown under the Credit by way of issuance of a Letter of Credit, HHI shall, at the time it delivers a Drawdown Notice pursuant to Section 2.08, execute and deliver the Lender's usual documentation relating to the issuance and administration of letters of credit. In the event of any inconsistency between the terms of such documentation and this Agreement, the terms of this Agreement shall prevail.

(2) No Letter of Credit shall be issued for a period in excess of one (1) year or beyond the Maturity Date. The aggregate face amount of all outstanding Letters of Credit shall at no time exceed \$50,000,000. If the IESO requests an increase in the prudential requirements of HHI or its Subsidiaries, HHI may request that the Lender increase the maximum aggregate face amount of Letters of Credit available hereunder beyond the current limit of \$50,000,000 and the Lender shall not unreasonably withhold consent to such request. Subject to compliance with the provisions of Section 7.03(3), Letters of Credit may be issued to meet the needs of Non-Recourse Entities provided that the aggregate face amount of all such Letters of Credit outstanding at any given time may not exceed \$10,000,000.

(3) If at any time a demand or request for payment is made under a Letter of Credit, HHI shall be deemed to have requested a Prime Rate Borrowing of the amount demanded from the Lender under such Letter of Credit, together with all charges and expenses incurred by the Lender in connection with such Letter of Credit, and such Prime Rate Borrowings (following payment by the Lender) shall be immediately due and owing.

(4) HHI hereby undertakes to indemnify and hold harmless the Lender from and against all liabilities and costs (including, without limitation, any costs incurred in funding any amount which falls due from the Lender under any Letter of Credit issued hereunder) to the extent that such liabilities or costs are not satisfied or compensated by the payment of interest on sums due pursuant to this Agreement in connection with any Letter of Credit, except where such liabilities or costs result from the gross negligence or wilful misconduct of the Person claiming indemnification.

(5) The Lender shall at all times be entitled, and is irrevocably authorized by HHI, to make any payment under the Letters of Credit for which a request or demand has been made in the required form (together with the delivery of any documentation required by such Letter of Credit) without any further reference to HHI and any investigation or enquiry. The Lender need not concern itself with the propriety or validity of any claim made or purported to be made under the terms of

such Letters of Credit (except as to compliance with the payment conditions of such Letters of Credit) and shall be entitled to assume that any Person expressed in such Letters of Credit as being entitled to make demand or receive payments thereunder is so entitled. Accordingly, so long as a request or demand has been made as aforementioned it shall not be a defence to any demand made of HHI hereunder, nor shall HHI or its obligations hereunder be impaired by the fact (if it be the case) that the Lender was or might have been justified in refusing payment, in whole or in part, of the amounts so claimed so long as there has been compliance with the payment condition of such Letters of Credit.

(6) A certificate of the Lender as to the amounts paid out under any Letter of Credit shall, in the absence of manifest error, be prima facie evidence of the existence and amount of such payment in any legal action or proceeding arising out of or in connection herewith.

(7) For so long as any Letter of Credit is outstanding, HHI shall pay to the Lender a fee equal to the Letter of Credit Fee Rate on the full face amount of each Letter of Credit in Canadian Dollars in advance beginning on the date of issuance of such Letter of Credit. Such fees shall be calculated on the basis of a calendar year and the number of days the Letter of Credit will be outstanding during such period.

(8) The full face amount of each Letter of Credit issued by the Lender on behalf of HHI shall be deemed to be an Advance hereunder, which Advance shall be retired upon the earlier of:

- (a) the return of the Letter of Credit to the Lender for cancellation;
- (b) the expiry date of the Letter of Credit; or
- (c) the deeming of the amount demanded or requested to be paid on the Letter of Credit to be a Prime Rate Borrowing.

(9) If any Letter of Credit is outstanding upon the occurrence of an Event of Default or on the Maturity Date, HHI shall forthwith pay to the Lender an amount (the "deposit amount") equal to the undrawn principal amount of the outstanding Letter of Credit, which deposit amount shall be held by the Lender for application against the Obligations by HHI to the Lender in respect of any demand or request for payment on the outstanding Letter of Credit. If the Lender is not called upon to make full payment on the outstanding Letter of Credit prior to its expiry date, the deposit amount, or any part thereof as has not been paid out, shall, so long as no Event of Default then exists, be returned to HHI.

(10) The obligations of HHI with respect to Letters of Credit shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including, without limitation, the following circumstances:

- (a) any lack of validity or enforceability of any Document or the Letters of Credit;
- (b) any amendment or waiver of or any consent to or actual departure from this Agreement;

- (c) the existence of any claim, set-off, defence or other right which HHI may have at any time against any beneficiary or any transferee of a Letter of Credit (or any Persons for which any such beneficiary or any such transferee may be acting), the Lender or any other Person, whether in connection with this Agreement, the transactions contemplated herein or in any other agreements or any unrelated transactions;
- (d) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent, invalid or similarly insufficient in any respect or any statement therein being untrue or inaccurate in any respect except for non-compliance with the payment conditions of such Letter of Credit; or
- (e) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

The *Uniform Customs and Practice* for documentary credits of the International Chamber of Commerce current on the issue of each Letter of Credit shall be binding on HHI and the Lender with respect to each such Letter of Credit. HHI assumes all risks of the acts or omissions of the beneficiary of each Letter of Credit with respect to each such Letter of Credit. In furtherance of, and not in limitation of the Lender's rights and powers under such *Uniform Customs and Practice*, but subject to all other provisions of this Section 2.11, it is understood and agreed that the Lender shall not have any liability for, and that HHI assumes all responsibility for: (i) the genuineness of any signature; (ii) the form, validity, genuineness, falsification and legal effect of any draft, certification or other document required by a Letter of Credit or the authority of the Person signing the same; (iii) the good faith or acts of any Person other than the Lender and its agents and employees; (iv) the existence, form or sufficiency or breach or default under any agreement or instruments of any nature whatsoever (other than those agreements or instruments required to be delivered in connection with or a draw under a Letter of Credit); (v) any delay in giving or failure to give any notice, demand or protest; and (vi) any error, omission, delay in or non-delivery of any notice or other communication, however sent. The determination as to whether the required documents are presented prior to the expiration of a Letter of Credit and whether such other documents are in proper and sufficient form for compliance with a Letter of Credit shall be made by the Lender in its sole discretion, which determination shall be conclusive and binding upon HHI absent manifest error. It is agreed that the Lender may honour, as complying with the terms of a Letter of Credit and this Agreement, any documents otherwise in order and signed or issued by the beneficiary thereof. Any action, inaction or omission on the part of the Lender under or in connection with the Letters of Credit or any related instruments or documents, if in good faith and in conformity with such laws, regulations or commercial or banking customs as the Lender may reasonably deem to be applicable, shall be binding upon HHI, and shall not affect, impair or prevent the vesting of any of the Lender's rights or powers hereunder or HHI's obligation to make full reimbursement of amounts paid or drawn under the Letters of Credit.

(11) The Lender and HHI agree that, effective as of the date of this Agreement and subject to HUC executing an amendment to the Existing L/C and the Lender receiving an acknowledgement from the IESO authorizing the change in the name of the applicant, that the Existing L/C shall be deemed to be a Letter of Credit issued hereunder and shall be subject to the terms contained herein. HHI shall pay to the Lender a fee in connection with the Existing L/C in accordance with the provisions contained herein commencing on the Closing Date.

ARTICLE THREE
TERMINATION OF THE CREDIT, REPAYMENT, PREPAYMENT AND MATURITY

3.01 Mandatory Repayments and Termination

Subject to the terms hereof, on the Maturity Date HHI shall repay all of the Obligations, the Credit will be terminated and the Lender shall have no obligation to make any further Advance hereunder.

3.02 Optional Cancellation of the Credit

Upon giving to the Lender not less than two Banking Days' notice, HHI may permanently cancel any undrawn commitment under the Credit. Any cancellation under the Credit shall be permanent and shall be in a minimum amount of \$1,000,000 and in integral multiples of \$100,000 thereafter.

3.03 Time and Place of Payment by HHI

Each payment required or permitted to be made by HHI to the Lender hereunder (whether on account of principal, interest, costs, or any other amount) shall be made to the Lender at the Branch not later than 3:00 p.m. on the date for payment of the same in immediately available funds, and if any payment made by HHI hereunder is made after 3:00 p.m. on any day, such payment will be deemed to have been made on the immediately following Banking Day for the purpose of the calculation of interest, and interest will accrue due to such following Banking Day.

3.04 Payments to be Made on Banking Days

Whenever any payment to be made hereunder is due on a day that is not a Banking Day, such payment will be due on the immediately following Banking Day and interest will accrue due to such following Banking Day if payment is made on that day.

3.05 Manner of Payment; No Set-Off

All payments to be made by HHI pursuant to this Agreement including principal and interest will, except as otherwise expressly provided herein, be payable in Canadian Dollars. All payments to be made by HHI pursuant to this Agreement shall be made in freely transferable, immediately available funds and without set-off, withholding or deduction of any kind whatsoever except to the extent required by Applicable Law, and if any such set-off, withholding or deduction is so required and is made, HHI will, as a separate and independent obligation to the Lender, be obligated to pay to the Lender all such additional amounts as may be required to fully indemnify and save harmless the Lender from such set-off, withholding or deduction and as will result in the effective receipt by the Lender of all the amounts otherwise payable to it in accordance with the terms of this Agreement.

3.06 Extension of Maturity Date

Between the 90th and the 60th day preceding the Maturity Date, HHI may, upon giving written notice thereof to the Lender, request from the Lender an extension of the Maturity Date of

the Credit for a further period of 365 days. The Lender shall notify HHI within 30 days of receipt of an extension request whether the Lender, in its sole discretion, shall agree to the extension of the Maturity Date for the Credit. Any agreed extension shall commence on the first day following the Maturity Date. If the Lender does not respond to HHI's request, the Lender shall be deemed not to have agreed to an extension of the Maturity Date.

ARTICLE FOUR

INTEREST RATE, FEES AND CHARGES

4.01 Interest Rate

Interest shall accrue on the aggregate outstanding principal amount of all Prime Rate Borrowings and Overdraft Borrowings from time to time at a variable rate per annum equal to the sum of the Prime Rate in effect from time to time per annum plus the Prime Rate Margin, calculated daily and payable monthly on the last Banking Day of each month until all indebtedness in respect of Prime Rate Borrowings and Overdraft Borrowings is repaid in full, and shall be based upon a calendar year of 365 or 366 days, as the case may be.

4.02 Overdue Interest

If interest is not paid on the Obligations or any part thereof, as and when interest is due and payable hereunder, unpaid interest shall bear interest until paid, before as well as after demand, default, maturity, and judgment, at the rates provided for in Section (b) of the definition of Applicable Margin.

4.03 General Interest Provisions

(1) Notwithstanding the provisions of this Article Four or any other provision of this Agreement, in no event shall the aggregate "interest" (as that term is defined in Section 347 of the *Criminal Code* (Canada)) exceed the effective annual rate of interest on the "credit advanced" (as defined therein) lawfully permitted under that section. The effective annual rate of interest shall be determined in accordance with generally accepted actuarial practices and principles over the term of the Credit, and in the event of a dispute, a certificate of a Fellow of the Canadian Institute of Actuaries appointed by the Lender will be conclusive for the purposes of such determination.

(2) A certificate of an authorized signing officer of the Lender as to each amount and/or each rate of interest payable hereunder from time to time shall be *prima facie* evidence of such amount and of such rate.

(3) For greater certainty, whenever any amount is payable under this Agreement or any Document by HHI as interest or as a fee which requires the calculation of an amount using a percentage per annum, each party to this Agreement acknowledges and agrees that such amount shall be calculated as of the date payment is due without application of the so-called "deemed reinvestment principle" or the "effective yield method". As an example, when interest is calculated and payable monthly, the rate of interest payable per month is 1/12 of the stated rate of interest per annum.

(4) In no event shall any interest, fees or other amounts payable hereunder exceed the maximum rate permitted under applicable law. In the event any such interest, fee or other amount exceeds such maximum rate, such interest or fee shall be reduced to the maximum rate recoverable under applicable law assuming that the parties had agreed to such amount by contract.

4.04 Standby Fees

HHI shall pay to the Lender a standby fee in Canadian Dollars calculated at the rate per annum specified as the applicable "Standby Fee Rate" in the table contained in the definition of "Applicable Margin" on the amount by which the daily average of the aggregate of all Advances outstanding under the Credit during a calendar quarter is less than the maximum amount available under the Credit. The standby fee shall be determined daily beginning on the date hereof and shall be calculated on the basis of a calendar year of 365 or 366 days, as the case may be, and shall be payable by HHI quarterly in arrears on the first Banking Day of each calendar quarter with the first payment due June 30, 2010 and the last payment due on the Maturity Date.

4.05 Expenses and Legal Fees

Whether or not any or all of the transactions contemplated herein shall be consummated, HHI shall pay to the Lender on demand, all reasonable fees, costs and out-of-pocket expenses (including travel costs), including reasonable legal fees and disbursements (on a solicitor and his own client basis) and reasonable fees of other professional advisors, incurred from time to time by the Lender and any agent or consultant retained or appointed by any of them, with respect to:

- (a) the preparation of this Agreement and all other Documents, and all matters relating or incidental thereto, including all supplements, revisions, restatements, replacements and registrations thereof;
- (b) obtaining advice of Lender's Counsel and other professional consultants as to its rights and responsibilities under any of the Documents or in the event of exercise of any or all of its remedies thereunder, other than where in any proceedings a court or other tribunal of competent jurisdiction orders the Lender to pay such amounts;
- (c) the exercising of any or all of the rights, remedies and powers of the Lender under any of the Documents or in defending or taking any measures to defend any action, claim, cause of action in proceeding directly or indirectly relating to the provisions of any Document, other than where in any proceedings a court or other tribunal of competent jurisdiction orders the Lender to pay such amount; and
- (d) any or all of the taking of, recovering, processing or realizing on any assets or property of HHI any proceedings taken for the purpose of enforcing the remedies provided herein or in any other Document or otherwise taken in relation to any assets or property of HHI, or taken by reason of any non-payment or non-performance of the obligations of HHI hereunder, other than where in any proceedings a court or other tribunal of competent jurisdiction orders the Lender to pay such amount.

**ARTICLE FIVE
CONDITIONS PRECEDENT**

5.01 Conditions Precedent to this Agreement becoming Effective

The obligation of the Lender to make available any Drawdown on or subsequent to the Closing Date is subject to and conditional upon each of the following terms and conditions being satisfied on or before the applicable Drawdown Day:

- (1) Execution and delivery by HHI of this Agreement.
- (2) A certificate from a senior officer of HHI certifying as to its constating documents, shareholders agreements, incumbency and including an authorizing resolution in respect to the execution and delivery of this Agreement.
- (3) A certificate from an officer of HUC certifying that the City of Hamilton owns all of the capital stock of HUC.
- (4) At the time of such Drawdown no Default or Event of Default shall have occurred and be continuing.
- (5) Except as notified to and accepted by the Lender, in its sole discretion, the representations and warranties contained in Article Six shall be true and correct on such Drawdown Day (other than those represented to be true and correct as of a particular specified date), with the same effect as if made on such date.
- (6) The Lender shall be satisfied with the status of any litigation to which HHI and any of its Subsidiaries (excluding Non-Recourse Entities) are a party.
- (7) The Lender shall have received all information necessary in order for the Lender to comply with legal and internal requirements in respect of money laundering legislation, proceeds of crime legislation and know your customer requirements.
- (8) Payment of any upfront fees owing to the Lender in connection with the execution and delivery of this Agreement.
- (9) The Lender shall have received all of the following, in form and substance satisfactory to the Lender:
 - (a) the applicable Drawdown Notice (except for Overdraft Borrowings) not less than the required number of Banking Days prior to the Drawdown Day;
 - (b) the favourable opinion of Borrower's Counsel;
 - (c) payment of all fees and reimbursable expenses payable by HHI at the time of such Drawdown;

- (d) such further agreements, instruments and other documents, if any, as the Lender may reasonably require in relation to such Drawdown requested; and
- (e) all documents and instruments required by the terms hereof shall have been duly executed and delivered by all parties thereto and shall be in full force and effect.

5.02 Conditions Precedent to Subsequent Drawdown

The obligation of the Lender to make available any Drawdown following the Closing Date is subject to and conditional upon each of the following terms and conditions being satisfied on or before the applicable Drawdown Day:

- (1) At the time of such Drawdown no Default or Event of Default shall have occurred and be continuing.
- (2) The representations and warranties contained in Article Six shall be true and correct on such Drawdown Day (other than those represented to be true and correct as of a particular specified date), with the same effect as if made on such date.
- (3) The Lender shall have received all of the following, in form and substance satisfactory to the Lender:
 - (a) the applicable Drawdown Notice (except for Overdraft Borrowings) not less than the required number of Banking Days prior to the Drawdown Day;
 - (b) payment of all outstanding fees and expenses, if any, payable by HHI at the time of such Drawdown; and
 - (c) such further agreements, instruments and other documents, if any, as the Lender may reasonably require in relation to such Drawdown requested.

5.03 Conditions Solely for Lender's Benefit

All conditions precedent to any Accommodation set forth in Section 5.01 and Section 5.02 are imposed solely and exclusively for the benefit of the Lender and its successors and assigns, and no other Person is entitled to require satisfaction of such conditions. Notwithstanding the non-fulfilment of any condition referred to above, the Lender may, in its discretion, provide Accommodation hereunder, and the provision of such Accommodation, either before or after the fulfilment of all applicable conditions, will not constitute an approval, acceptance or waiver by the Lender of any other condition or Default.

ARTICLE SIX REPRESENTATIONS AND WARRANTIES

6.01 Representations and Warranties

To induce the Lender to enter into this Agreement, HHI hereby represents and warrants to the Lender, and acknowledges that the Lender is relying upon such representations and warranties in entering into this Agreement and making any Advance, that:

(1) Incorporation and Corporate Power: Each of HHI and its Subsidiaries is, as applicable, a corporation or other form of business organization duly incorporated or formed and organized, and subsisting under the laws of its jurisdiction of incorporation or formation, and has all necessary corporate power and capacity to own or lease its properties and assets and to carry on the Business as now being conducted by it, and, in the case of HHI, to authorize, create, execute, deliver and perform all of its obligations under the Documents in accordance with their respective terms.

(2) Licences: Each of HHI and its Subsidiaries has obtained all material licences, permits, registrations and approvals necessary or advisable to own its properties and assets and to carry on the Business in each jurisdiction in which it does so; and HHI is not aware of any event or circumstance which could reasonably be expected to have an adverse effect on its rights or the rights of any of its Subsidiaries to hold, and obtain renewals of, all such licences, permits, registrations and approvals in the ordinary course of the Business. Each of HHI and its Subsidiaries, as applicable, is in compliance with its distributor's licence issued by the OEB.

(3) Due Authorization and No Conflict: HHI has taken all necessary corporate action to authorize the creation, execution, delivery and performance of the Documents and the borrowing of money hereunder, and no such action requires the consent or approval of any Governmental Authority or any other Person that has not been obtained, nor is any such action in contravention of or in conflict with any Applicable Law, or the articles, by-laws or resolutions of directors or shareholder of HHI, or any material term, covenant or condition under or in respect of any judgment, order, indenture, instrument, agreement or undertaking to which HHI or any of its Subsidiaries is a party, or to which it or the Business may be subject.

(4) Compliance with Laws: None of HHI or any of its Subsidiaries is in violation of any terms of its incorporating or other governance documents, by-laws, resolutions of its directors or shareholder, or any Applicable Law, the violation of which would have a Material Adverse Effect.

(5) Enforceability: Each of the Documents to which HHI is a party has been duly executed and delivered by HHI and, subject to the availability of equitable remedies and any applicable bankruptcy, insolvency or other similar laws affecting the rights of creditors generally, constitutes a legal, valid and binding obligation of HHI, enforceable against HHI in accordance with its terms.

(6) Environmental Compliance: Except as disclosed by HHI and consented to by the Lender in accordance with Section 7.01(13) or in respect of which HHI has provided to the Lender notice in writing of a breach or violation of an Environmental Law and has set forth, to the satisfaction of the Lender, the manner in which it will rectify such breach or violation, each of HHI and its Subsidiaries (i) is in compliance in all material respects with all applicable Environmental

Laws and (ii) maintains environmental policies and guidelines which are prudent for a business of its type and in its industry.

(7) Taxes:

- (a) Each of HHI and its Subsidiaries has filed all Tax returns required to be filed by it with any Governmental Authority and has paid all Taxes which were due and payable by it on or before the date of this Agreement (subject to amounts that are in dispute, are being contested in good faith and in which adequate reserves have been set aside in accordance with GAAP), and there are no agreements, waivers, or other arrangements providing for an extension of time with respect to the filing of any Tax return by it;
- (b) there are no material actions, suits or proceedings pending against HHI or any of its Subsidiaries which could result in a material liability in respect of Taxes (subject to amounts that are in dispute, are being contested in good faith and in which adequate reserves have been set aside in accordance with GAAP); and
- (c) each of HHI and its Subsidiaries, as applicable, has withheld and remitted (where applicable) from each payment to each of its present and former officers, directors, and employees all Taxes and other amounts, including income tax and other deductions, required to be withheld therefrom (subject to amounts that are in dispute, are being contested in good faith and in which adequate reserves have been set aside in accordance with GAAP).

(8) No Defaults: As of the date hereof, none of HHI and its Subsidiaries is, as applicable, in default of any material term, covenant or condition under or in respect of any judgment or order to which it is a party or to which it or any of its properties or assets or the Business may be subject, and no event has occurred and is continuing, and no circumstance exists which has not been waived, which constitutes a Default hereunder.

(9) No Litigation: As of the date hereof and except as disclosed on Schedule D, there are no actions, suits, proceedings, inquiries or investigations existing, pending or threatened against or adversely affecting HHI or any of its Subsidiaries in any court or before any Governmental Authority, commission, board, tribunal, bureau or agency, whether Canadian or foreign, or before any arbitrator, which has or could be reasonably expected to expose HHI or any of its Subsidiaries to liability in excess of \$10,000,000, nor is HHI or any of its Subsidiaries subject to any judgment, order, writ, injunction, decree, award, rule or regulation of any court, arbitrator or Governmental Authority, commission, board, bureau, agency or instrumentality, Canadian or foreign, which, either separately or in the aggregate, may result in a Material Adverse Effect.

(10) Financial Statements: The audited Financial Statements of HHI for the Financial Year ended 2009, true copies of which have been provided to the Lender, fairly present in all material respects the assets, liabilities and financial position of HHI as at the respective dates thereof and the results of the operations and changes in cash flow of HHI for the periods covered thereby, all in accordance with GAAP; and all other Financial Statements of HHI that have been, or shall hereafter be, provided to the Lender, have been duly prepared in accordance with GAAP and fairly

present the financial condition and the results of the operations of HHI (except that unaudited Financial Statements are and will be subject to audit and year end adjustments), and all other written information, certificates, schedules, reports and other papers and data furnished to the Lender by or on behalf of HHI (including all documentation and information relating to the Business) or its officers or other representatives are, or will be, at the time such information, certificates, schedules, reports and other papers and data are so provided, accurate, complete and correct in all material respects (provided however, it is acknowledged that all such material which contains forward looking information, such as forecasts and projections, whether contained in the Annual Business Plan or otherwise, shall be based on HHI's good faith estimation of the results provided for therein).

(11) Capital Structure: As at the Closing Date, 78.9% of the outstanding shares and capital stock of HHI are owned by HUC with the remaining shares being owned by St. Catherines Hydro Inc. As at the Closing Date, all of the issued and outstanding shares in the capital stock of Horizon Utilities Corporation and Horizon Energy Solutions Inc. are owned by HHI. At the date hereof, no Person has an agreement or option or any other right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement or option, including convertible securities, warrants or convertible obligations of any nature, for the purchase, subscription, allotment or issuance of any unissued shares in the capital stock of HHI or any of its Subsidiaries.

(12) Title: HHI and its Subsidiaries have good and (with respect to owned real property) marketable title, free and clear of any Lien other than Permitted Liens or a valid leasehold interest or otherwise has the right to use all property and assets necessary or required to carry on the Business.

(13) Benefit and Pension Plans: The benefit and pension plans, if any, of HHI and its Subsidiaries (including all Non-Recourse Entities) are fully insured or otherwise funded in accordance with Applicable Laws and all premiums and other payments due by HHI, or its Subsidiaries (including all Non-Recourse Entities) thereunder, and all benefits and pension payments due thereunder, have been fully paid.

(14) Insurance Policies: Each of HHI and its Subsidiaries maintains insurance which is in full force and effect and that complies with all of the requirements of this Agreement.

(15) Debt: Other than indebtedness permitted pursuant to Section 7.03(4), neither HHI nor any of its Subsidiaries have other Debt. Neither HHI nor any of its Subsidiaries are in default under any guarantee, bond, debenture, note or other instrument evidencing any Funded Debt.

(16) Full Disclosure: None of the information and material delivered or communicated to the Lender contains any untrue statement of a material fact or has omitted a material fact necessary to make the statements contained therein not misleading, and all such statements, taken as a whole, together with this Agreement, do not contain any untrue statement of a material fact or omit a material fact necessary to make the statements contained herein or therein not misleading. There is no fact known to HHI which has not been disclosed to the Lender in writing which may have a Material Adverse Effect.

(17) Material Contracts: No event has occurred and is continuing which would constitute a breach of or a default under any Material Contract.

(18) No Material Adverse Effect Since the date of HHI's most recent annual audited financial statements and HHI's most recent unaudited financial statements (which have been prepared in accordance with GAAP, subject to usual year end adjustments and the absence of full note disclosure) provided to the Lender, there has been no condition (financial or otherwise), event or change in its business, liabilities, operations, results of operations, assets or prospects which constitutes or has, or could reasonably be expected to constitute, or cause, a Material Adverse Effect. All financial statements provided to the Lender will be prepared in accordance with GAAP (subject, in the case of quarterly financial statements, to usual year end adjustments and the absence of full note disclosure).

6.02 Survival of Representations and Warranties

All representations and warranties of HHI, on behalf of itself and its Subsidiaries, as set forth herein shall survive any Advance made by the Lender and all such representations and warranties, unless expressly stated to be made as of the Closing Date or other specified date, shall be continuously represented until this Agreement has been fully performed and all of the Obligations have been repaid and satisfied in full.

**ARTICLE SEVEN
COVENANTS OF HHI**

7.01 Affirmative Covenants

HHI covenants and agrees with the Lender that, until there are no Obligations outstanding, the Credit has been terminated and the Lender has no commitment or obligation hereunder:

(1) Payment of Principal, Interest and Expenses: HHI shall duly and punctually pay or cause to be paid to the Lender, all moneys due to the Lender under or by virtue of the Documents, whether principal, interest, fees or other expenses, at the times and places and in the manner provided for herein and therein.

(2) Use of Funds: HHI shall use and employ each Drawdown under the Credit solely for the purposes and subject to the limitations set forth in Section 2.02 hereof.

(3) Books and Records: HHI shall, and shall cause each of its Subsidiaries to, maintain at all times a system of books and records established and administered in accordance with GAAP and in accordance with sound business practices and will therein make complete, true and correct entries of all financial transactions and the assets and properties of HHI and its Subsidiaries (including all Non-Recourse Entities), as applicable. All Financial Statements furnished to the Lender will fairly present the financial condition and the results of the operations of HHI reported therein, and all other information furnished to the Lender will be accurate, complete and correct in all respects.

(4) Financial Statements and Annual Budget: HHI shall deliver to the Lender:

(a) as soon as available and in any event within 60 days after the end of each fiscal quarter during each Financial Year of HHI (excluding the final quarter of the Financial Year), unaudited consolidated Financial Statements for such fiscal quarter,

together with a comparison of such Financial Statements to the Annual Business Plan, certified by a senior officer of HHI;

- (b) as soon as available and in any event within 120 days after the end of each Financial Year of HHI, audited consolidated Financial Statements for such Financial Year, together with a comparison of such Financial Statements to the Annual Business Plan;
- (c) together with the submission of the Financial Statements pursuant to Section 7.01(4)(a) and Section 7.01(4)(b), a Compliance Certificate and a reconciliation to the Financial Statements with respect to the exclusion of Non-Recourse Entities;
- (d) not less than 120 days following to the end of each Financial Year of HHI, the Annual Business Plan for the next succeeding Financial Year of HHI and, during each Financial Year, all proposed material amendments, revisions, supplements or replacements of such Annual Business Plan, together with such other information as the Lender reasonably requests;
- (e) copies of all management letters received from the Auditors; and
- (f) promptly upon request by the Lender, such other documents and information related to the conduct of the Business or the financial condition of HHI as the Lender may reasonably request from time to time.

(5) Access and Information: HHI shall discuss and review with the Lender and any of its authorized representatives any matters relating to the Business or pertaining to all or any part of its and its Subsidiaries' properties and assets as the Lender may reasonably request on reasonable notice, and will, and shall cause each of its Subsidiaries to, permit any authorized representative of the Lender to visit, inspect and have access to its and its Subsidiaries' property and assets at reasonable times upon reasonable notice. HHI will, and shall cause each of its Subsidiaries to, permit, at reasonable times and upon reasonable notice, the Lender and its authorized representatives to examine all of its and its Subsidiaries' books of account, records, reports, documents, papers and data and to make copies and take extracts thereof, and to discuss business affairs, finances and accounts with its senior officers, accountants and other financial advisors. The Lender agrees to maintain information that it receives from HHI and its Subsidiaries as confidential in accordance with its customary practices and procedures.

(6) Notices: Upon having knowledge of:

- (a) any Default or Event of Default;
- (b) any notice of expropriation of a material part of the assets of HHI or any of its Subsidiaries, or material action or proceeding, including any notice or action in respect to the termination or material variation of material licences or material permits issued to HHI or any of its Subsidiaries by the OEB or the IESO;

- (c) any claim, proceeding or litigation in respect of HHI or any of its Subsidiaries, which if adversely determined, would result in liability for an amount greater than \$10,000,000, whether or not any such claim, proceeding or litigation is covered by insurance;
- (d) any material application or filing in respect of HHI or any of its Subsidiaries submitted to the OEB, IESO or any other Governmental Authority and any material decision issued by the OEB, IESO or any other Governmental Authority in respect of HHI or any of its Subsidiaries;
- (e) any Material Adverse Effect;
- (f) any proposed amalgamation, merger, consolidation or other fundamental change to the constitution of HHI or any of its Subsidiaries;
- (g) any material default in respect of HHI's or any of its Subsidiaries' obligations to the IESO;
- (h) any proposed Acquisition by HHI or any of its Subsidiaries in which the purchase price of such Acquisition exceeds \$10,000,000;
- (i) any damage to or destruction of any property, real or personal, of HHI or any of its Subsidiaries having a replacement cost in excess of \$5,000,000 and that is not insured for such damage or destruction; or
- (j) any damage to or destruction of any property, real or personal, of HHI or any of its Subsidiaries having a replacement cost of less than \$5,000,000 that is not insured for such damage or destruction and in which such property is material to the operation of the business of such Person.

HHI shall promptly provide the Lender with written notice thereof, specifying details of the nature of such Default, notice, action, claim, suit, proceedings, violation, or other matter described above, and the action taken or proposed to be taken by HHI with respect thereto.

(7) Corporate Status and Qualification: HHI shall, and shall cause each of its Subsidiaries to, at all times preserve and maintain its existence and its qualification to do business where such qualification is necessary, and will diligently preserve and at all times renew or cause to be preserved and renewed, all the rights, powers, privileges, franchises and goodwill owned by it and at all times comply in all material respects, with Applicable Laws.

(8) Conduct of Business: HHI shall, and shall cause each of its Subsidiaries to, conduct the Business in the ordinary course and in accordance with Good Utility Practices, and shall not undertake or permit any material variation therefrom, and HHI shall, and shall cause each of its Subsidiaries to, maintain and operate its properties and assets in accordance with Good Utility Practices and, subject to the terms hereof, shall take all necessary steps to maintain and preserve its assets and properties and its title thereto.

(9) Governmental Compliance: HHI shall, and shall cause each of its Subsidiaries to, preserve and maintain all of the permits, licences, approvals, authorizations and registrations that it requires, or is required to have, to own its properties and assets and to carry on the Business, the absence of which would have a Material Adverse Effect. HHI shall, and shall cause each of its Subsidiaries (including Non-Recourse Entities) to, comply in all material respects, with all Applicable Laws.

(10) Rate Applications: HHI shall, and shall cause each of its Subsidiaries to, file, as applicable to it, on a timely basis applications to the OEB in respect of its distribution rates from time to time and shall diligently pursue such applications.

(11) Taxes: HHI shall, and shall cause each of its Subsidiaries to, pay and discharge all Taxes assessed, levied or imposed upon it, any of its Subsidiaries, or the Business as and when the same become due and payable except any such Tax or claim which is being contested diligently, in good faith and by proper proceedings and for which adequate provision for payment has been made.

(12) Insurance: HHI shall, and shall cause each of its Subsidiaries to, maintain or cause to be maintained with reputable insurers, coverage against risk of loss or damage to its or any of its Subsidiaries' property and assets (including public liability and damage to property of third parties), business interruption insurance, fire and extended peril insurance and boiler and machinery insurance of such types as is customary in the case of corporations or public utilities with an established reputation engaged in the same or similar business and in an amount equal to the full insurable value of all such property and assets and provide to the Lender, on request, evidence of such coverage.

(13) Environmental Compliance: HHI shall, and shall cause each of its Subsidiaries (including Non-Recourse Entities) to:

- (a) at all times comply in all material respects with all applicable Environmental Laws; and
- (b) immediately notify the Lender of any matter, occurrence or other event which is in the breach or violation of any material Environmental Law or, unless the Lender has otherwise consented in writing to the existence or continuation thereof, take all necessary action to forthwith rectify or cure the breach or violation of such Environmental Law arising as a result thereof.

(14) Pari Passu Ranking of Obligations. HHI shall ensure that the Obligations rank at all times *pari passu* to all other Funded Debt of HHI except for any Funded Debt which is secured by a Permitted Lien or which is subordinated to other Debt owing by HHI including the Debt owing to the Lender.

7.02 Financial Covenant

HHI shall ensure that its Funded Debt to Capitalization Ratio is at all times not greater than 75%.

7.03

Negative Covenants

HHI covenants and agrees with the Lender that until there are no Obligations outstanding, the Credit has been terminated, and the Lender has no commitment or obligation hereunder, without the prior written consent of the Lender:

(1) **Encumbrances:** Neither HHI nor any of its Subsidiaries shall grant, create, assume or suffer to exist any Lien on any of its property or assets now owned or hereafter acquired other than Permitted Liens.

(2) **Amalgamation and Acquisitions:** Neither HHI nor any of its Subsidiaries shall amalgamate or otherwise merge or consolidate with any Person or complete an Acquisition unless (i) at the time of such action no Default or Event of Default exists, and (ii) the Debt Rating following such action is no less than BBB. In the case of any merger, amalgamation, consolidation or otherwise of HHI, any successor corporation shall enter into any agreement required by the Lender to evidence its assumption of all the terms, liabilities and obligations contained herein. Until such time that HHI obtains its own Debt Rating, neither HHI nor any of its Subsidiaries shall permit all or a substantial portion of its property and assets to become the property of any Person unless (i) at the time of such action no Default or Event of Default exists, and (ii) the Debt Rating following such action is no less than BBB.

(3) **Investments:** HHI and its Subsidiaries shall not, subject to the terms hereof, make any Investments in or loans to (or issue Letters of Credit on behalf of) (a) non-regulated Subsidiaries and Affiliates (excluding Non-Recourse Entities) or (b) Non-Recourse Entities, except that they may make Investments in and loans to (or issue Letters of Credit on behalf of) (aa) non-regulated Subsidiaries and Affiliates (excluding Non-Recourse Entities), and (bb) Non-Recourse Entities (whether regulated or non-regulated), in an aggregate amount for (aa) and (bb) not to exceed 30% of Shareholders' Equity. The value of the property and assets transferred by HHI and its Subsidiaries pursuant to Section 7.07(b) shall be deemed to be an Investment in a Non-Recourse Entity. HHI and its Subsidiaries may make Investments in and loans to regulated Subsidiaries and Affiliates (but excluding Non-Recourse Entities) as long as at the time of such action there exists no Default or Event of Default and the taking of such action will not result in the occurrence of a Default or an Event of Default. Investments and loans to (or issuance of Letters of Credit on behalf of) non-regulated Subsidiaries and Affiliates (including Non-Recourse Entities) will not be permitted should, at the time of such action, there exists a Default or Event of Default or should the taking of such action result in the occurrence of a Default or an Event of Default.

(4) **Indebtedness:** Neither HHI nor any of its Subsidiaries shall create, incur, assume or permit to exist any Debt except in each case:

- (a) Debt created hereunder or otherwise owing to the Lender;
- (b) Debt owing by a Subsidiary of HHI to HHI in accordance with the terms of Section 7.03(3) hereof;
- (c) the Debentures provided that at the time of issuance and immediately following issuance of such Debentures there exists no Default or Event of Default;

- (d) any other Debt of HHI provided that at the time of incurrence of such Debt and immediately thereafter there exists no Default or Event of Default;
- (e) Contingent Obligations arising in the normal course of the Business of HHI or any of its Subsidiaries including Contingent Obligations owed to the IESO;
- (f) Debt secured by Permitted Liens; and
- (g) trade debts, obligations, or other liabilities incurred in the ordinary course of business (other than in relation to the borrowing of money) including obligations to the IESO provided however that HHI may incur other liabilities or obligations in an amount not to exceed \$200,000 at any time with financial institutions other than the Lender for the sole purpose of obtaining use of purchase cards from such institutions.

(5) Contingent Obligations and Financial Assistance: Neither HHI nor any of its Subsidiaries shall incur, create, or assume any Contingent Obligations, or give any Financial Assistance to any Person (including a Non-Recourse Entity), other than (a) Financial Assistance to HHI or to a Subsidiary of HHI in compliance with the provisions of Section 7.03(4)(b), (b) Financial Assistance to a Non-Recourse Entity subject to the limitation provided for in Section 7.03(3), (c) obligations owing by HHI or a Subsidiary to the Lender, (d) subject to the limitation provided for in Section 7.03(3), Letters of Credit issued on behalf of HHI for the benefit of a Non-Recourse Entity in an aggregate face amount not to exceed \$10,000,000, and (e) other indebtedness permitted pursuant to the terms of Section 7.03(4) hereof.

(6) Transactions with Related Parties: Neither HHI nor any of its Subsidiaries shall enter into, undertake or permit any transaction between itself and any Affiliate or Associate (including in each case Non-Recourse Entities) other than *bona fide* transactions entered into by HHI or any of its Subsidiaries in the ordinary course of its business, in accordance with Applicable Law and in respect of which compensation or returns on capital are paid at commercially competitive reasonable rates. For greater certainty, arrangements entered into on the Closing Date or existing arrangements as of the date of this Agreement between HHI and/or its Subsidiaries and St. Catherines Hydro Inc. or St. Catharines Hydro Generation Inc. shall not be prohibited hereunder.

(7) Disposal of Assets: None of HHI or any of its Subsidiaries shall sell, exchange, lease, release or abandon or otherwise dispose of, all or any part of its regulated assets or properties to any Person, other than sales of obsolete equipment or equipment that is no longer useful to the Business, all conducted in the ordinary course of business and in accordance with Applicable Law. Notwithstanding the foregoing, HHI and its Subsidiaries may sell or dispose of (i) surplus non-regulated real property and (ii) so long as there is no Default or Event of Default, non-regulated assets and property that are sold for fair market value. Notwithstanding the foregoing or anything contained herein to the contrary, (a) a wholly-owned Subsidiary of HHI may transfer its property and assets to any other wholly owned Subsidiary of HHI (other than a Non-Recourse Entity) or to HHI, and (b) Horizon Utilities Corporation may transfer the property and assets comprising the solar business to a Non-Recourse Entity provided that there exists no Default or Event of Default subject to compliance with the provisions of Section 7.03(3).

(8) **Dividends and Distributions:** HHI shall not declare or pay any dividends on any shares of its capital, whether now outstanding or hereafter issued, or make any other distribution, repurchase or return of capital in respect thereof, either directly or indirectly, and whether in cash or property, pay any amounts (howsoever characterized) to any shareholder, or in respect of any shareholder loans or make any payments or other distributions to any shareholder or any Associate or Affiliate (including in each case Non-Recourse Entities) of any employee, officer, director or shareholder, either directly or indirectly, and whether in cash or property, set aside funds for any of the foregoing purposes or make any withdrawals of capital, unless (a) at the time of making such dividend or distribution there exists no Default or Event of Default and the making of such payment will not result in the occurrence of a Default or Event of Default, and (b) there exists no material adverse change in the financial position of HHI and the paying of such dividend or distribution would not cause a material adverse change in the financial position of HHI.

(9) **Material Change:** HHI shall not make or permit and shall not permit its Subsidiaries to make or permit any material change in the Business.

ARTICLE EIGHT DEMAND AND ACCELERATION

8.01 **Events of Default**

Upon the occurrence of any of the events listed below (each such event being an "Event of Default") and during the continuance of such event, the Obligations, whether absolute or contingent and/or unmatured, shall at the option of the Lender become immediately due and payable, the right of HHI to request or receive any further Advances shall cease, and the Lender may, in its discretion, proceed to exercise any and all rights under this Agreement.

(1) **Failure to Pay Principal:** HHI fails to make punctual payment when due of any principal amount of the Obligations.

(2) **Failure to Pay Interest:** HHI fails to make punctual payment when due of any interest, fee, or other amount payable hereunder, by virtue hereof, or pursuant to any Document and such failure to pay has continued for a period of five days.

(3) **False Representations:** Except as notified to and accepted by the Lender in writing, any representation or warranty made or given herein is incorrect in any material respect when given, so as to make such representation or warranty materially misleading and such misrepresentation continues to be incorrect for a period of twenty days, unless the representation is not capable of being cured within such notice period in which case an Event of Default shall have occurred upon the representation being incorrect without the requirement of notice or lapse of time.

(4) **Default in Covenants:** HHI fails in the observance or performance of any of the terms, conditions, provisions or covenants to be performed or observed by it in any Document and such default shall have continued for a period of twenty days, unless the covenant is not capable of being cured within such notice period or the covenant is contained in Section 7.01(4), 7.02 or 7.03 hereof, in which case an Event of Default shall have occurred upon the breach of such covenant without the requirement of notice or lapse of time.

(5) Default of Debt: There is a default or event of default under any Debt of HHI or any of its Subsidiaries that has a value greater than \$10,000,000, or there is a default or event of default under any documentation evidencing or securing such Debt and as a consequence thereof any amount owing thereunder has become, or could then be declared to be, due and payable under such Debt.

(6) Repudiation: If HHI denies or repudiates its obligations under this Agreement or claims any portion of the Agreement to be invalid or withdrawn in whole or in part.

(7) Loss of Material Licence: If HHI or any of its Subsidiaries receives notice from a Governmental Authority of an impending termination, rescission or withdrawal of a licence which is material to its ability to carry on the Business, if a licence which is material to HHI's or any of its Subsidiaries' ability to carry on its business is terminated, rescinded or withdrawn.

(8) Voluntary Proceedings: HHI or any of its Subsidiaries ceases, or threatens to cease, to carry on the Business or makes a general assignment for the benefit of creditors; or any proceeding or filing is instituted or made by HHI or any of its Subsidiaries seeking relief on its behalf as debtor, or to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or relief of debtors (including the *Bankruptcy and Insolvency Act* (Canada), the *Winding Up and Restructuring Act* (Canada) and the *Companies' Creditors Arrangement Act* (Canada)), or seeking appointment of a receiver, trustee, liquidator, custodian or other similar official for it or for any part of its properties or assets; or HHI or any of its Subsidiaries takes any corporate action to authorize any of the actions set forth in this Section 8.01(8) or otherwise acknowledges its insolvency in any manner whatsoever.

(9) Involuntary Proceedings: A proceeding or filing is instituted or made against HHI or any of its Subsidiaries seeking to have an order for relief entered against it as debtor or to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding-up, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors (including the *Bankruptcy and Insolvency Act* (Canada) and the *Companies' Creditors Arrangement Act* (Canada)), or seeking appointment of a receiver, manager, receiver manager, trustee, custodian or other similar official for it or any of its Subsidiaries or for any part of its or any of its Subsidiaries' properties or assets, unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed or vacated within 30 days.

(10) Appointment of Receiver: A receiver, manager, receiver manager, liquidator, trustee, or other Person or officer with like powers is appointed with respect to, or an encumbrancer shall take possession of, all or any material part of the properties or assets of HHI or any of its Subsidiaries.

(11) Judgments: A final judgment or award by a court, arbitrator, Governmental Authority or a similar Person for the payment of money is rendered against HHI or any of its Subsidiaries in an amount greater than \$10,000,000.

(12) Executions, Distress: An execution, sequestration, extent, or other similar process of any court becomes enforceable against HHI or any of its Subsidiaries, or a distress or an analogous process is levied against any of the properties or assets of HHI or any of its Subsidiaries and the aggregate amount claimed pursuant to all such executions or other processes which are not being actively and diligently contested in good faith or in respect of which the creditors are not being effectively restrained from enforcing such executions or other processes, exceeds \$10,000,000.

(13) Change in Applicable Law: There is a change in Applicable Law as it relates to the distribution of electricity or to the provision of standard supply services that the Lender determines in good faith is likely to result in a Material Adverse Effect.

(14) Material Adverse Effect: The Lender determines in good faith that a Material Adverse Effect has occurred.

(15) Change of Control: A Change of Control occurs.

(16) Qualified Audit: If any report of the Auditors on the consolidated financial statements of HHI contains any qualification in respect of HHI that is unacceptable to the Lender acting reasonably.

8.02 Remedies

After default and acceleration under Section 8.01 hereof, the Lender, may, commence such legal action or proceedings against HHI or its properties and assets as may be permitted hereunder or at law or in equity all at such times and in such manner as the Lender in its discretion may deem expedient and all without any additional notice, presentment, demand, or any other similar proceeding, all of which are hereby expressly waived.

8.03 Remedies Cumulative

The rights and remedies of the Lender under the Documents are cumulative and are in addition to and not in substitution for any rights or remedies provided by law or by equity, and any single or partial exercise by the Lender of any right or remedy for a default or breach of any term, covenant, condition or agreement herein contained shall not be deemed to be a waiver of or to alter, affect, or prejudice any other right or remedy or other rights or remedies to which the Lender may be lawfully entitled for the same default or breach, and any waiver by the Lender of the strict observance, performance or compliance with any term, covenant, condition or agreement herein contained, and any indulgence granted by the Lender shall be deemed not to be a waiver of any subsequent default. If the Lender proceeds to enforce any such right, remedy or power contained and such proceedings shall have been discontinued or abandoned for any reason, by written agreement between the Lender and HHI, then in each such event HHI and the Lender shall be restored to their former positions and the rights, remedies and powers of the Lender shall continue as if no such proceedings had been taken.

8.04 Set-Off

In addition to and not in limitation of any rights now or hereafter granted under Applicable Law, the Lender may at any time and from time to time, to the extent permitted by

Applicable Law, with written notice to HHI: (i) combine, consolidate or merge any or all of the deposits or other accounts of HHI held by or owing to the Lender (whether term, notice, demand or otherwise and whether matured or unmatured) and the Obligations or any other costs or amounts payable to the Lender hereunder, and (ii) set-off, apply or transfer any or all sums standing to the credit of any such deposits or accounts in or towards the satisfaction of any of the Obligations or any other costs or amounts payable to the Lender hereunder, and may do so notwithstanding that the balances on such accounts and the Obligations or such other costs or amounts may not be expressed in the same currency, and the Lender is hereby authorized to effect any necessary conversions at the applicable rate of exchange of the Lender.

8.05 Cash Collateral Accounts

Upon the occurrence of any Event of Default and in addition to any other rights or remedies of the Lender, the Lender, as and by way of collateral security, shall be entitled to deposit and retain in an account to be maintained by the Lender amounts that are received by the Lender from HHI hereunder to the extent such amounts may be required to satisfy any contingent or unmatured obligations or liabilities of HHI to the Lender.

**ARTICLE NINE
CHANGE IN CIRCUMSTANCES AND INDEMNITIES**

9.01 Increased Costs

If at any time the Lender determines in good faith and gives notice to HHI specifying the nature of the event or circumstance that any present or future law, regulation, order, treaty, official directive or guideline (relating to capital adequacy or otherwise, but not relating to general income tax liability of the Lender, and whether or not having the force of law), or any change therein or in the interpretation or application thereof by any authority charged with the administration thereof, including the Superintendent of Financial Institutions for Canada, or by any court or any compliance by the Lender with any request, directive or guidelines of any applicable monetary, fiscal or other governmental agency or authority, including the Superintendent of Financial Institutions for Canada (whether or not having the force of law), has the effect in respect of any Drawdown or commitment to make available the Credit of:

- (a) increasing the cost to the Lender of making, maintaining or funding such Drawdown or the Credit;
- (b) reducing the amount of principal, interest, fees or other amounts received or receivable by the Lender hereunder or its effective return hereunder; or
- (c) causing the Lender to make any payment, or to forego any interest or other return on or calculated by reference to, any sum received or receivable by it hereunder;

then in any such case, upon demand being made from time to time by the Lender, HHI shall forthwith pay to the Lender such amount as shall compensate the Lender for such additional cost, reduction, payment, foregone interest or other return incurred or arising after such demand, unless the event or circumstance giving rise to such demand shall be retroactive in which case the demand on HHI may include, and HHI shall compensate the Lender, for such additional cost, reduction,

payment, foregone interest or other return from the time that such event or circumstance became effective. The Lender shall provide reasonably detailed calculations in this respect.

9.02 Losses

HHI shall at all times indemnify, defend and hold harmless the Lender and its directors, officers, employees, Associates, Affiliates and agents from and against any and all costs, losses, expenses, damages or liabilities (other than indirect or consequential losses) which such party may sustain or incur as a result of entering into this Agreement, except to the extent that such costs, losses, expenses, damages or liabilities are caused by the gross negligence or wilful misconduct of the Lender or its directors, officers, employees, Associates, Affiliates or agents. Without limiting the generality of the foregoing, the foregoing indemnity shall extend to any loss (other than indirect or consequential losses), premium, penalty or expense which may be incurred by the Lender in liquidating deposits from third parties required to make, maintain or fund a Drawdown or any part thereof or any amount due or to become due under this Agreement.

9.03 Environmental Indemnity

(1) HHI shall at all times indemnify, defend and hold harmless the Lender and its directors, officers, Associates, Affiliates, employees and agents against and from any and all claims, liabilities, suits, actions, debts, damages, costs (including any costs for preparing necessary environmental assessment reports or other such reports), losses, obligations, judgments, charges, and expenses, of any nature whatsoever suffered or incurred by any such Person (except for any such claims, liabilities, suits, actions, debts, damages, costs, losses, obligations, judgments, charges and expenses caused directly by the gross negligence or wilful misconduct of any such Person) whether upon realization of any security, or as a lender to HHI, or as agent for the Lender hereunder, or as successor to or assignee of any right or interest of HHI, or as a result of any order, investigation or action by any Governmental Authority relating to the Business (including the Business carried on by Non-Recourse Entities) or HHI's property, or as mortgagee in possession, or as successor-in-interest to HHI by foreclosure deed or deed in lieu of foreclosure, under or on account of any Environmental Law including the assertion of any Lien thereunder, with respect to:

- (a) the Release of a Contaminant or the presence of any Contaminant;
- (b) any costs of removal or remedial action incurred by the Lender, any agent of the Lender or any Governmental Authority, or any costs incurred by any Person or damages from injury to, destruction of, or loss of natural resources, including reasonable costs of assessing such injury, destruction or loss incurred pursuant to any Environmental Law;
- (c) liability for personal injury or property damage arising under any statutory or common law tort theory, including damages assessed for the maintenance of a public or private nuisance or for the carrying on of a dangerous activity; or
- (d) any other environmental matter within the jurisdiction of any Governmental Authority.

(2) HHI acknowledges that the Lender has agreed to make the Credit available in reliance upon HHI's indemnity in this Section 9.03. It is the intention of HHI and the Lender that HHI shall be liable for any obligations arising under this Section 9.03 even if the amount of liability incurred exceeds the amount of the Credit outstanding at any time.

9.04 Tax Indemnity

All payments to be made to the Lender pursuant to the Documents shall be made free and clear of, and without reduction for or on account of, any present or future Taxes; provided, however, if any Taxes are required by Applicable Law to be withheld from any interest or other amount payable to the Lender under any Document, the amount so payable to the Lender shall be increased to the extent necessary to yield to the Lender, on a net basis after payment of all Taxes (including all Taxes imposed on any additional amounts payable under this Section 9.04), interest or any such other amount payable under such Document at the rate or in the amount specified in such Document. HHI shall be fully liable and responsible for and shall, promptly following receipt of a request from the Lender, pay to the Lender any and all Taxes in the nature of sales, use, and goods and services Taxes payable with respect to any and all goods and services made available under the Documents to HHI by the Lender. Whenever any Taxes are payable by HHI, as promptly as possible thereafter it shall send to the Lender, a certified copy of an original official receipt showing payment of such Taxes. If HHI fails to pay any Taxes when due or fails to remit to the Lender the required documentary evidence of such payment, HHI shall indemnify and save harmless the Lender from any incremental Taxes, interest, penalties or other liabilities that may become payable by the Lender or to which the Lender may be subjected as a result of any such failure. A certificate of the Lender as to the amount of any such Taxes, interest or penalties and containing reasonable details of the calculation of such Taxes, interest or penalties shall be prima facie evidence of the amount of such Taxes, interest or penalties, as the case may be.

9.05 Indemnities

Each of the indemnities in Sections 9.02, 9.03 and 9.04 shall constitute an obligation separate and independent from the other obligations contained in this Agreement, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by the Lender from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum in respect of an amount due under this Agreement or any other Document or under any judgment or order. A separate action or actions may be brought and prosecuted against HHI in respect of each of such indemnities, whether or not any action is brought against any other Person or whether or not any other Person is joined in such action or actions.

9.06 Survival of Indemnities

The obligations of HHI pursuant to this Article 9 shall survive notwithstanding the payment of all Obligations and the cancellation or termination of the Credit and this Agreement.

**ARTICLE TEN
ASSIGNMENT AND PARTICIPATION**

10.01 Benefit and Burden of Agreement

This Agreement shall be binding upon HHI and its successors. This Agreement shall enure to the benefit of and shall be binding upon the Lender and its successors and assigns.

10.02 No Assignment by HHI

The rights and benefits of HHI hereunder shall not be assigned by HHI.

10.03 Assignment or Participation by Lender

(1) The rights, benefits and obligations of the Lender under or in respect of this Agreement (the "Rights") may, in whole or in part (subject to, prior to the occurrence of an Event of Default, a minimum amount of \$5,000,000), be assigned ("Assigned" or an "Assignment") or participated ("Participated" or a "Participation") by the Lender with one or more Persons (each an "Assignee" or a "Participant", as the case may be), subject to the prior written consent of HHI, which consent shall not be unreasonably withheld or delayed. Prior to the occurrence of a Default or an Event of Default, the Lender shall not assign any Rights to a Person that is not a Schedule I or Schedule II bank as identified in the *Bank Act* (Canada). Notwithstanding the foregoing, the Rights may, in whole or in part, be Participated or Assigned by the Lender with one or more Participants or Assignees without notice to or the consent of HHI if a Default or Event of Default has occurred. An Assignment or Participation hereunder that requires the consent of HHI shall become effective upon receipt by the Lender of the written consent of HHI. An Assignment or Participation that does not require the consent of or notice to HHI shall become effective upon execution of the applicable documentation by the Lender, as applicable, and the Participant or Assignee, as the case may be. HHI shall execute all such further documentation as the Lender may request with respect to any Assignment or Participation and any prospective Assignee shall execute such documentation as HHI may reasonably request for the purpose of ensuring that the Assignee is bound by the terms of this Agreement.

(2) Any Assignee of Rights shall be and be treated in respect of such Rights as if it were the Lender for all purposes of this Agreement, shall be entitled to the benefit hereof, and shall be subject to the obligations of the Lender in respect of such Rights, to the same extent as if it were an original party in respect of the Rights and the Lender assigning such Rights shall be released and discharged from its obligations hereunder in respect of such Rights. To the extent that the Rights are the subject of a Participation, all references in this Agreement to the Lender shall, with respect to such Rights that are subject to the Participation, thereafter be construed as a reference to the Lender and its Participants, provided that HHI shall be entitled to deal with the Lender as if it were the sole owner of the Rights and the Lender shall not be released from obligations hereunder by virtue of the Participation. HHI acknowledges and agrees that the Lender shall be entitled, in its own name, to enforce for the benefit of, or as agent for, any Participants, any and all rights, claims and interests of such Participants, in respect of the Rights and that Participants shall not be entitled to demand payment or exercise any other right or remedy pursuant hereto.

(3) For the purposes of any Assignment or Participation hereunder, the Lender may disclose on a confidential basis to a potential Assignee or Participant such information about HHI as the Lender may see fit, provided that such potential Assignee or Participant has executed a confidentiality agreement in favour of the Lender.

(4) Should the Lender elect to assign a portion of the Credit, the parties agree that this Agreement shall be amended in order to include such language as the Lender, acting reasonably, views as necessary and appropriate in order to incorporate the inclusion of an administrative agent.

10.04 Amendments

HHI agrees to make such amendments to this Agreement as may be reasonably requested by the Lender to facilitate the Assignment or Participation by the Lender of the Rights. HHI shall execute and deliver at the request of the Lender, acting reasonably, such deeds, documents, instruments, and assurances as the Lender may reasonably request in relation to having an Assignee or Participant become a party to this Agreement and in relation to making such changes in this Agreement as may be appropriate in the circumstances.

ARTICLE ELEVEN MISCELLANEOUS

11.01 Rights and Waivers

The rights and remedies of the Lender under the Documents and in connection therewith: (i) are cumulative, (ii) may be exercised as often and in such order as the Lender considers appropriate, (iii) are in addition to its rights and remedies under Applicable Law, and (iv) shall not be capable of being waived or varied except by virtue of an express waiver or variation in writing signed by an officer of the Lender. Any failure to exercise or any delay in exercising any of such rights and remedies shall, to the extent permitted by Applicable Law, not operate as a waiver or variation of that or any other such right or remedy. Any defective or partial exercise of any of such rights shall, to the extent permitted by Applicable Law, not preclude any other or future exercise of that or any other such right or remedy. No act or course of conduct or negotiation on the part of the Lender shall, to the extent permitted by Applicable Law, in any way preclude the Lender from exercising any such right or remedy or constitute a suspension or variation of any such right or remedy.

11.02 Performance by Lender

If HHI fails to perform any of its obligations under any Document, the Lender may, but shall not be obligated to, after notice to HHI perform any or all such obligations, and all costs, charges, expenses, fees, outlays and premiums incurred by the Lender in connection with such performance shall be payable by HHI forthwith upon demand by the Lender and shall bear interest from the date incurred by the Lender at the highest rate currently applicable to the Credit, calculated and compounded monthly and payable on demand, with interest on overdue interest at the rate provided for in subsection (b) of the definition of Applicable Margin. Any such performance by the Lender shall not constitute a waiver by the Lender of any right, power, or privilege under this Agreement or any Document.

11.03 Non-Merger

The taking of a judgment or judgments (other than a final order of foreclosure) or any other action or dealing whatsoever by the Lender in respect of any security shall not operate as a merger of any indebtedness or liability of HHI or in any way suspend payment or affect or prejudice the rights, remedies and powers, legal or equitable, which the Lender may have in connection with such liabilities, and the surrender, cancellation or any other dealings with any security for such liabilities shall not release or affect the liability of HHI hereunder or under any security held by the Lender.

11.04 Notices

Any notice, demand or other communication which may be or is required to be given or made pursuant to this Agreement shall, unless otherwise expressly provided herein, be in writing and shall be deemed to have been sufficiently and effectively given if signed by or on behalf of the party giving notice and delivered or transmitted by facsimile to the party for which it is intended.

- (a) Communications sent to HHI shall be addressed as follows:

Horizon Holdings Inc.
55 John Street North
Hamilton, Ontario
L8R 3M8

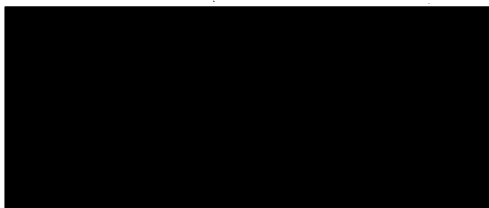
Attention: Corporate Secretary
Facsimile No.: (905) 522-0119

with a copy to:

Borden Ladner Gervais LLP
Scotia Plaza
40 King St. West
Toronto, Ontario
M5H 3Y4

Attention: Linda Bertoldi/Joanne Foot
Facsimile No.: (416) 361-7383/(416) 361-7099

- (b) Communications sent to the Lender shall be addressed as follows:



with a copy to:

McCarthy Tétrault LLP
Barristers & Solicitors
Suite 5300, Toronto Dominion Bank Tower
Toronto, Ontario
M5K 1E6

Attention: Joel Scoler
Facsimile No.: (416) 868-0673

Any notice, demand or communication which may or is required to be given or made shall be made or given as herein provided or to such other address or to such other officer as a party may from time to time advise the other parties hereto by notice in writing as aforesaid and shall not be deemed received until actual receipt thereof by the party to whom such notice is given except if sent by facsimile, in which case it shall be deemed received on the Banking Day next following the date of transmission. Any notice or other communication given pursuant to this Section 11.04 is herein called a "notice".

11.05 Severability

The invalidity, for any reason, of any term or provision of this Agreement or of any Document shall not in any manner invalidate or cause the invalidation of any other term or provision thereof but the same shall be deemed to have been severed therefrom so that the validity, legality and enforceability of the remaining terms and provisions shall not be affected, prejudiced or impaired thereby.

11.06 Governing Law

This Agreement has been made in the Province of Ontario and shall be construed, interpreted and performed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

11.07 Time of Essence

Time is of the essence of this Agreement, and a forbearance by the Lender of the strict application of this provision shall not operate as a continuing or subsequent forbearance.

11.08 Further Assurances

HHI shall from time to time and at all times hereafter, upon every reasonable request of the Lender, make, do, execute, and deliver or cause to be made, done, executed and delivered all such further acts, deeds, assurances and things as may be necessary in the opinion of the Lender for more effectually implementing and carrying out the intent and meaning of this Agreement.

11.09 Entire Agreement

This Agreement and all other Documents constitute the entire agreement between the parties to this Agreement with respect to the Credit and the other matters contemplated in this Agreement as of the date of this Agreement, and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, with respect to the Credit. No amendment, modification or termination of the Documents shall be effective unless made in writing and signed by the party intended to be bound thereby.

11.10 No Third Party Beneficiaries

Except for the indemnities contemplated by Sections 9.02, 9.03 and 9.04 and the Assignees and Participants contemplated by Section 10.03, this Agreement is for the sole benefit of the Lender and HHI, and is not for the benefit of any other Person.

11.11 Counterparts

This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original and all of which when taken together constitute but one and the same agreement; any party may execute this Agreement by signing any counterpart of it.

11.12 Relationship of Parties

The provisions contained in this Agreement shall not create or be deemed to create any relationship as between HHI and the Lender, other than that of borrower and lender.

11.13 Anti-Money Laundering Legislation

The Borrower acknowledges that, pursuant to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada) and other applicable anti-money laundering, anti-terrorist financing, government sanction and "know your client" laws (collectively, including any guidelines or orders thereunder, "AML Legislation"), the Lender may be required to obtain, verify and record information regarding the Borrower, its directors, authorized signing officers, direct or indirect shareholders or other Persons in control of the Borrower, and the transactions contemplated hereby. The Borrower shall promptly provide all such information, including

supporting documentation and other evidence, as may be reasonably requested by the Lender, or any prospective assignee or participant of the Lender in order to comply with any applicable AML Legislation, whether now or hereafter in existence.

[Signature pages to follow.]

- S1 -

IN WITNESS WHEREOF the parties hereto have duly executed this Agreement.

HORIZON HOLDINGS INC.

By: 

Max A. Cananzi
President and Chief Executive Officer

By: 

John G. Basilio
Senior Vice President and Chief
Financial Officer

- S2 -



[Execution page for Credit Agreement relating to Horizon Holdings Inc.]

SCHEDULE A
COMMITMENT

The Credit

Cdn.\$100,000,000

SCHEDULE B
COMPLIANCE CERTIFICATE

TO:

RE: Credit Agreement dated as of June 30, 2010, made between Horizon Holdings Inc. ("HHI") and the Lender (as amended, modified, revised, restated or replaced from time to time, the "Credit Agreement")

The undersigned, the • of HHI, hereby certifies, in that capacity and not personally, that:

1. I have read and am familiar with the provisions of the Credit Agreement and have made such examinations and investigations, including a review of the applicable books and records of HHI as is necessary to enable me to express an informed opinion as to the matters set out herein. Unless otherwise defined herein terms used herein have the meanings ascribed thereto in the Credit Agreement.
2. I have made or caused to be made such examinations or investigations as are, in my opinion, necessary to furnish this Certificate, and I have furnished this Certificate with the intent that it may be relied upon by the Lender as a basis for determining compliance by HHI with its respective covenants and obligations under the Credit Agreement and the other Documents as of the date of this Certificate.
3. Except as previously notified to and accepted by the Lender in writing, the representations and warranties contained in each of the Documents are true and correct on the date of this Certificate with reference to facts subsisting on such date, with the same effect as if made on such date except for those representations and warranties which speak to a specific date which shall be true as of such date except _____.
4. All of the covenants required by the Credit Agreement have been observed, performed or satisfied, as applicable, and no Default or Event of Default has occurred and is continuing on the date of this Certificate except _____.
5. The attached financial statements for the [fiscal quarter/fiscal year] ending [insert date] fairly present in all material respects the information contained in such financial statements, and such financial statements, and all calculations of financial covenants and presentation of financial information in this Certificate have been prepared in accordance with GAAP.

[Specify nature and period of existence of any Default or Event of Default and any action which HHI has taken or proposes to take with respect thereto.]

6. As of • (the "Computation Date"):

The Funded Debt to Capitalization Ratio was •%, calculated as follows:

- | | | |
|-------|--|-----|
| (i) | Funded Debt (with details of such attached hereto) | \$• |
| (ii) | Shareholders Equity (with details of such attached hereto) | \$• |
| (iii) | (i) + (ii) | \$• |
| (iv) | (i) divided by (iii) | \$• |

The maximum Funded Debt to Capitalization Ratio pursuant to Section 7.02 of the Credit Agreement is 75%.

7. As of the Computation Date, the Debt Rating is _____.

Dated the _____ day of _____, _____.

By: _____
Name:
Title:

SCHEDULE C
DRAWDOWN NOTICE

TO:



DATE:

•

1. This notice of request for Advance is delivered to you pursuant to the credit agreement dated as of June 30, 2010, between Horizon Holdings Inc. ("HHI") and the Lender, as amended, supplemented, restated or replaced from time to time (the "Credit Agreement"). All defined terms set forth, but not otherwise defined, in this notice shall have the respective meanings set forth in the Credit Agreement, unless the context requires otherwise.

2. The undersigned hereby requests an Advance under the Credit follows:

(a) Date of Advance: _____

(b) Type and Amount of Advances (check appropriate boxes)

() Prime Rate Advance Amount
Cdn.\$ _____

() Bankers' Acceptances:

<u>Amount</u>	<u>Term</u>	<u>Rollover Amount</u>
Cdn.\$ _____	_____	_____
_____	_____	_____
_____	_____	_____

() Letter of Credit:

<u>Amount</u>	<u>Term</u>
Cdn.\$ _____	_____

3. Except as previously notified by HHI to the Lender and accepted by the Lender, all of the representations and warranties of HHI set forth in Section 6.01 of the Credit Agreement, other than those which by their terms are made only as of a specific date, and other than changes thereto and to the Schedules referred to therein that would not be prohibited pursuant to the Credit Agreement are true and accurate as at the date hereof, as though made on and as of the date hereof.

- 2 -

4. All of the covenants of HHI contained in Article 7 of the Credit Agreement together with all of the conditions precedent to the Advances hereby requested and all other terms and conditions contained in the Credit Agreement to be complied with by HHI have been fully complied with.
5. No Default or Event of Default has occurred and is continuing nor will any such event occur as a result of the aforementioned Advances.

HORIZON HOLDINGS INC.

By: _____

Name:

Title:

SCHEDULE D
LITIGATION

Nil

SCHEDULE E

HORIZON HOLDINGS INC. DIVIDEND POLICY

The dividend policy of HHI is predicated on the mandate of the Board of Directors which includes maximizing shareholder value. Such value is generally realized by the shareholder through dividends or the appreciation of shareholder investment. It is the intention of the Board of Directors of HHI to use its best efforts to declare and pay dividends from available earnings and cash flow, subject to certain conditions precedent outlined below, as follows:

- (a) **"Regular Dividends"** at a target dividend payment rate (DPR) of up to 60% of annual net earnings;
- (b) **"Special Dividend"** periodic payments to maintain the approved capital structure of HHI (currently approved at up to 60% of debt in total capitalization after consideration for any off-balance sheet contingencies);

Conditions Precedent to the Payment of Dividends

Dividends will be paid to the extent that such would not otherwise cause:

- (a) non-compliance with relevant statutes and regulations;
- (b) a breach of contract or the immediate or anticipated failure to otherwise meet the terms of financing arrangements;
- (c) an impairment in the operations and maintenance of electricity distribution infrastructure;
- (d) an impairment in financial prudence including capital investment in electricity distribution infrastructure to sustain reliability;
- (e) a deterioration in the credit rating of HHI or otherwise not support an "A" range or equivalent rating from credit rating agencies that rate HHI and/or its securities;
- (f) an impairment in the maintenance and growth of approved businesses, or logical extensions of existing or related businesses, in line with a Board approved business plan.

Payment of Dividends

Regular Dividends

Each year, at its meeting to approve the annual budget for the next fiscal year, the Board of Directors will forecast the annual dividend by applying the DPR to budgeted earning for the next fiscal year. Quarterly dividends will, subject to meeting the above criteria, be targeted at \$1.5MM and paid March 1st (or shortly following the approval of the annual audited financial statements of the preceding year), June 1st, September 1st and December 1st. The first dividend of the fiscal year,

targeted for payment on March 1st, will also include any adjustment to bring the total annual dividend for the preceding year to the full DPR level.

The payment of Regular Dividends is subject, in each instance, to the review and approval of the Board of Directors in accordance with this policy and subject to the Conditions Precedent noted above.

Special Dividends

Each year, at its meeting to approve the annual audited financial statements, the Board of Directors will review the current and forecast shareholder equity requirements of HHI and compare such to the approved capital structure of HHI. Subject to the Conditions Precedent, the Board of Directors shall declare and pay a dividend, if any, equal to the excess of actual shareholder equity over that required to support the approved capital structure of HHI. Where a Special Dividend has been declared, the Board of Directors will endeavour to pay such dividend on March 1st of the year in which the audited financial statements of the preceding year have been approved.

Reporting to Shareholder

In the event that the Board of Directors does not approve a payment of a Regular Dividend, the Board will promptly report the circumstances underlying the non-payment to the shareholder and, thereafter, provide progress reports on a quarterly basis until such time as the payment of Regular Dividends resumes.