

## EXHIBIT 5 - COST OF CAPITAL AND RATE OF RETURN

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**OVERVIEW:**

The purpose of this evidence is to summarize the method and cost of financing capital requirements for the 2013 Test Year. PDI wishes to adopt the Board's guidelines for the cost of capital and confirms that the cost of capital parameters will be updated in accordance with the Board's guidelines at the time of the Board's decision.

**Capital Structure:**

PDI has prepared this rate application with a deemed capital structure of 56% long term debt, 4% short term debt, and 40% equity to comply with the Report of the Board on Cost of Capital for Ontario's Regulated Utilities issued December 11, 2009.

**Return on Equity:**

PDI is requesting a return on equity ("ROE") for the 2013 Test Year of 8.93% in accordance with the Cost of Capital Parameter Updates for 2013 Cost of Service Applications issued by the OEB on November 15, 2012. PDI understands that the OEB will be finalizing the ROE for rates effective May 1, 2013 based on January 2013 market interest rate information. PDI's use of an ROE of 8.93% is without prejudice to any revised ROE that may be adopted by the OEB in early 2013.

**COST OF DEBT:**

**Long Term Debt**

PDI is requesting a return on Long Term Debt for the 2013 Test Year of 4.29%. At December 31, 2013 PDI's Long Term Debt is forecasted to be made up of \$33.9 million of third party debt at rates ranging from 4.0 to 5.36% and \$1.5 million of affiliated debt at 1.75%.

At the end of 2011 the majority of PDI's long term debt was with affiliated companies. During 2012 PDI undertook to replace the high rate affiliate debt with the City of Peterborough Holdings Inc. ("CoPHI) with more cost effective third party debt. A summary of PDI's Long Term Debt at the end of 2013 is provided below in Table 5.1.

**Table 5-1 Long-Term Debt as at December 31, 2011**

Long Term Debt As at December 31, 2011 (\$ thousands)				
	2011		Term	Rate
City of Peterborough Holdings Inc.	21,658	Affiliate	Demand	6.25%
City of Peterborough	1,500	Affiliate	Demand	1.75%
TD Bank	5,613	Third Party	10 years	4.55%
TD Bank	9,083	Third Party	10 years	5.36%
Total Long Term Debt	37,854			

At the end of 2012, \$18.0 million of the \$21.7 million loan with the CoPHI has been replaced by third party debt from the TD Bank. Early in 2013 the remainder of the CoPHI loan was repaid and replaced with additional TD debt. This new TD debt facility currently bears interest at the TD prime lending rate less 0.25% or applicable BA rates plus a stamping fee. Under this lending facility PDI has the option to fix the interest rate and term up to 30 years. PDI is currently reviewing this proposal and others with the intention of fixing the interest rate on this debt in 2013. On November 29, 2012 PDI received indicative rate quotes from a potential lender which included a 30 year fixed rate of 4.0%. PDI expects the ultimate placement of this debt will be approximately at these rates. Accordingly, this loan has been included in the weighted average cost of debt at a rate of 4.00%. A summary of PDI's forecasted Long Term Debt at the end of 2013 is provided below in Table 5.2. Table 5.5 provides weighted average debt calculations for 2009 through 2013.

**Table 5-2 Long-Term Debt Forecast for December 31, 2013**

Long Term Debt Forecast for December 31, 2013 (\$ thousands)				
	2013		Term	Rate
City of Peterborough Holdings Inc.	0	Affiliate	Demand	n/a
City of Peterborough	1,500	Affiliate	Demand	1.75%
TD Bank / or other third party	20,996	Third Party	30 years	4.00% est
TD Bank	4,877	Third Party	10 years	4.55%
TD Bank	8,061	Third Party	10 years	5.36%
Total Long Term Debt	35,434			

**Profit or Loss on Redemption of Debt**

PDI has not had any profit or loss recognized on redemption or cancellation of its debt. Additionally, it does not anticipate there will be any profit or loss recognized with conversion of its affiliated debt to third party debt in 2012 and 2013.

**Short Term Debt**

PDI is requesting a return on Short Term Debt for the 2013 Test year of 2.08% in accordance with the Cost of Capital Parameter Updates for 2013 Cost of Service Applications issued by the OEB on November 15, 2012. PDI understands that the OEB will be finalizing the return on Short Term Debt for 2013 rates effective May 1, 2013 based on January 2013 market interest rate information. PDI's use of a Return on Short Term Debt of 2.08% is without prejudice to any revised Short Term Debt rate that may be adopted by the OEB in early 2013.

**Rate Base and Rate of Return**

Table 5.3 of Exhibit 5, Tab 1, Schedule 2 details PDI's rate base, deemed debt/equity ratios, deemed rate of return, actual debt/equity ratios and actual rates of returns for 2009 Actual, 2010 Actual, 2011 Actual, and 2012 Bridge and 2013 Test Year Forecast.

Table 5.4 provides Capital Structure Rate Base calculations. More details on rate base calculations is available in Exhibit 2.

1 **CAPITAL STRUCTURE**

2 **Table 5-3 – Deemed Capital Structure 2009 to 2013**

**Appendix 2-OA  
Capital Structure and Cost of Capital**

2009					
Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		Application			
		(%)	(\$)	(%)	(\$)
	<b>Debt</b>				
1	Long-term Debt	52.70%	\$28,508,316	6.31%	\$1,797,743
2	Short-term Debt	4.00%	\$2,163,819	1.33%	\$28,779
3	<b>Total Debt</b>	56.7%	\$30,672,135	5.95%	\$1,826,521
	<b>Equity</b>				
4	Common Equity	43.30%	\$23,423,342	8.01%	\$1,876,210
6	<b>Total Equity</b>	43.3%	\$23,423,342	8.01%	\$1,876,210
7	<b>Total</b>	100.0%	\$54,095,477	6.84%	\$3,702,731

2010					
Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		Application			
		(%)	(\$)	(%)	(\$)
	<b>Debt</b>				
1	Long-term Debt	56.00%	\$30,606,129	5.38%	\$1,646,861
2	Short-term Debt	4.00%	\$2,186,152	1.33%	\$29,076
3	<b>Total Debt</b>	60.0%	\$32,792,281	5.11%	\$1,675,937
	<b>Equity</b>				
4	Common Equity	40.00%	\$21,861,520	8.01%	\$1,751,108
6	<b>Total Equity</b>	40.0%	\$21,861,520	8.01%	\$1,751,108
7	<b>Total</b>	100.0%	\$54,653,801	6.27%	\$3,427,044

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2011					
Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
	Application				
		(%)	(\$)	(%)	(\$)
	<b>Debt</b>				
1	Long-term Debt	56.00%	\$31,711,469	5.07%	\$1,609,024
2	Short-term Debt	4.00%	\$2,265,105	1.33%	\$30,126
3	<b>Total Debt</b>	60.0%	\$33,976,574	4.82%	\$1,639,150
	<b>Equity</b>				
4	Common Equity	40.00%	\$22,651,049	8.01%	\$1,814,349
6	<b>Total Equity</b>	40.0%	\$22,651,049	8.01%	\$1,814,349
7	<b>Total</b>	100.0%	\$56,627,623	6.10%	\$3,453,499

2012 - Bridge Year - CGAAP						
Line No.	Particulars	Capitalization Ratio			Cost Rate	Return
	Application					
		(%)		(\$)	(%)	(\$)
	<b>Debt</b>					
1	Long-term Debt	56.00%		\$35,429,981	4.54%	\$1,609,405
2	Short-term Debt	4.00%		\$2,530,713	1.33%	\$33,658
3	<b>Total Debt</b>	60.0%		\$37,960,694	4.33%	\$1,643,063
	<b>Equity</b>					
4	Common Equity	40.00%		\$25,307,129	8.01%	\$2,027,101
6	<b>Total Equity</b>	40.0%		\$25,307,129	8.01%	\$2,027,101
7	<b>Total</b>	100.0%		\$63,267,823	5.80%	\$3,670,164

2013 - Test Year - CGAAP, Kinetricks Useful Lives					
Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
	Application				
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$37,133,730	4.29%	\$1,592,984
2	Short-term Debt	4.00%	\$2,652,409	2.08%	\$55,170
3	Total Debt	60.0%	\$39,786,139	4.14%	\$1,648,154
	Equity				
4	Common Equity	40.00%	\$26,524,093	8.93%	\$2,368,601
6	Total Equity	40.0%	\$26,524,093	8.93%	\$2,368,601
7	Total	100.0%	\$66,310,232	6.06%	\$4,016,755

1 Table 5-4 – Capital Structure Rate Base Calculations

2009			2010		
Description	Deemed Portion	Effective Rate	Description	Deemed Portion	Effective Rate
Long-Term Debt	52.70%	6.30603%	Long-Term Debt	56.00%	5.3808%
Short-Term Debt	4.00%	1.33000%	Short-Term Debt	4.00%	1.3300%
Return On Equity	43.30%	8.01000%	Return On Equity	40.00%	8.0100%
<b>Weighted Debt Rate</b>		5.95499%	<b>Weighted Debt Rate</b>		5.1108%
<b>Regulated Rate of Return</b>		6.84481%	<b>Regulated Rate of Return</b>		6.27%

  

WORKING CAPITAL ALLOWANCE FOR 2009			WORKING CAPITAL ALLOWANCE FOR 2010		
Distribution Expenses	\$		Distribution Expenses		
Distribution Expenses - Operation	1,484,674		Distribution Expenses - Operation	1,361,253	
Distribution Expenses - Maintenance	1,091,936		Distribution Expenses - Maintenance	976,884	
Billing and Collecting	2,132,552		Billing and Collecting	1,859,141	
Community Relations	-		Community Relations	-	
Administrative and General Expenses	1,853,270		Administrative and General Expenses	1,981,314	
Taxes Other than Income Taxes	121,846		Taxes Other than Income Taxes	121,930	
<b>Total Eligible Distribution Expenses</b>	<b>6,684,278</b>		<b>Total Eligible Distribution Expenses</b>	<b>6,300,522</b>	
Power Supply Expenses	61,066,556		Power Supply Expenses	64,275,502	
<b>Total Working Capital Expenses</b>	<b>67,750,834</b>		<b>Total Working Capital Expenses</b>	<b>70,576,024</b>	
Working Capital Allowance @	15.00%	10,162,625	Working Capital Allowance @	15.00%	10,586,404

  

RATE BASE CALCULATION FOR 2009			RATE BASE CALCULATION FOR 2010		
Fixed Assets Opening Balance 2009	44,255,428		Fixed Assets Opening Balance 2010	43,610,276	
Fixed Assets Closing Balance 2009	43,610,276		Fixed Assets Closing Balance 2010	44,524,519	
<b>Average Fixed Asset Balance for 2009</b>	<b>43,932,852</b>		<b>Average Fixed Asset Balance for 2010</b>	<b>44,067,398</b>	
Working Capital Allowance	10,162,625		Working Capital Allowance	10,586,404	
<b>Rate Base</b>	<b>54,095,477.1</b>		<b>Rate Base</b>	<b>54,653,801</b>	
Regulated Rate of Return	6.84%		Regulated Rate of Return	6.27%	
<b>Regulated Return on Capital</b>	<b>3,702,731</b>		<b>Regulated Return on Capital</b>	<b>3,427,044</b>	
Deemed Interest Expense	1,826,521		Deemed Interest Expense	1,675,936	
Deemed Return on Equity	1,876,210		Deemed Return on Equity	1,751,108	



1 Table 5-4 - Capital Structure Rate Base Calculations (CONTINUED)

2011			2012		
Description	Deemed Portion	Effective Rate	Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	5.0739%	Long-Term Debt	56.00%	4.5425%
Short-Term Debt	4.00%	1.3300%	Short-Term Debt	4.00%	1.3300%
Return On Equity	40.00%	8.0100%	Return On Equity	40.00%	8.0100%
<b>Weighted Debt Rate</b>		4.82%	<b>Weighted Debt Rate</b>		4.33%
<b>Regulated Rate of Return</b>		6.10%	<b>Regulated Rate of Return</b>		5.80%

  

WORKING CAPITAL ALLOWANCE FOR 2011			WORKING CAPITAL ALLOWANCE FOR 2012		
Distribution Expenses			Distribution Expenses		
Distribution Expenses - Operation		1,464,706	Distribution Expenses - Operation		1,649,704
Distribution Expenses - Maintenance		1,487,519	Distribution Expenses - Maintenance		1,245,267
Billing and Collecting		1,900,286	Billing and Collecting		2,287,891
Community Relations		-	Community Relations		-
Administrative and General Expenses		2,021,018	Administrative and General Expenses		2,172,806
Taxes Other than Income Taxes		101,960	Taxes Other than Income Taxes		126,150
<b>Total Eligible Distribution Expenses</b>		<b>6,975,489</b>	<b>Total Eligible Distribution Expenses</b>		<b>7,481,818</b>
Power Supply Expenses		68,935,892	Power Supply Expenses		83,502,874
<b>Total Working Capital Expenses</b>		<b>75,911,381</b>	<b>Total Working Capital Expenses</b>		<b>90,984,692</b>
Working Capital Allowance @	15.00%	11,386,707	Working Capital Allowance @	15.00%	13,647,704

  

RATE BASE CALCULATION FOR 2011			RATE BASE CALCULATION FOR 2012		
Fixed Assets Opening Balance 2011		44,524,519	Fixed Assets Opening Balance 2012		45,957,312
Fixed Assets Closing Balance 2011		45,957,312	Fixed Assets Closing Balance 2012		53,282,818
<b>Average Fixed Asset Balance for 2011</b>		<b>45,240,916</b>	<b>Average Fixed Asset Balance for 2012</b>		<b>49,620,065</b>
Working Capital Allowance		11,386,707	Working Capital Allowance		13,647,704
<b>Rate Base</b>		<b>56,627,623</b>	<b>Rate Base</b>		<b>63,267,769</b>
Regulated Rate of Return		6.10%	Regulated Rate of Return		5.80%
<b>Regulated Return on Capital</b>		<b>3,453,498</b>	<b>Regulated Return on Capital</b>		<b>3,670,161</b>
Deemed Interest Expense		1,639,149	Deemed Interest Expense		1,643,062
Deemed Return on Equity		1,814,349	Deemed Return on Equity		2,027,099

1 Table 5-4 – Capital Structure Rate Base Calculations (CONTINUED)

2013		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	4.29%
Short-Term Debt	4.00%	2.08%
Return On Equity	40.00%	8.93%
<b>Weighted Debt Rate</b>		4.14%
<b>Regulated Rate of Return</b>		6.06%

WORKING CAPITAL ALLOWANCE FOR 2013		
Distribution Expenses		
Distribution Expenses - Operation		1,939,510
Distribution Expenses - Maintenance		1,440,822
Billing and Collecting		2,474,467
Community Relations		-
Administrative and General Expenses		3,383,992
Taxes Other than Income Taxes		105,000
<b>Total Eligible Distribution Expenses</b>		<b>9,343,791</b>
Power Supply Expenses		83,514,611
<b>Total Working Capital Expenses</b>		<b>92,858,402</b>
Working Capital Allowance @	13.00%	12,071,592

RATE BASE CALCULATION FOR 2013	
Fixed Assets Opening Balance 2013	53,282,818
Fixed Assets Closing Balance 2013	55,194,462
<b>Average Fixed Asset Balance for 2013</b>	<b>54,238,640</b>
Working Capital Allowance	12,071,592
<b>Rate Base</b>	<b>66,310,232</b>
Regulated Rate of Return	6.06%
<b>Regulated Return on Capital</b>	<b>4,016,755</b>
Deemed Interest Expense	1,648,154
Deemed Return on Equity	2,368,601

1 Table 5-5 – Actual Weighted Average Cost of Long-Term Debt

Year 2009

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)
1	Demand Loan	City of Peterborough	Affiliated	Variable Rate	1-Jan-00		\$ 1,500,000	1.00%	\$ 15,000
2	Demand Loan	City of Peterborough Holdings	Affiliated	Fixed Rate	1-Jan-00		\$ 21,657,680	7.62%	\$ 1,650,315
3	Term Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	24-Dec-08	10	\$ 6,285,904	4.55%	\$ 286,009
4	Term Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	22-Dec-09	10	\$ 10,000,000	5.36%	\$ 536,000
5									\$ -
Total							\$ 39,443,584	6.31%	\$ 2,487,324

Year 2010

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)
1	Demand Loan	City of Peterborough	Affiliated	Variable Rate	1-Jan-00		\$ 1,500,000	1.75%	\$ 26,250
2	Demand Loan	City of Peterborough Holdings	Affiliated	Fixed Rate	1-Jan-00		\$ 21,657,680	5.87%	\$ 1,271,306
3	Term Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	24-Dec-08	10	\$ 5,957,214	4.55%	\$ 271,053
4	Term Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	22-Dec-09	10	\$ 9,553,529	5.36%	\$ 512,069
5									\$ -
Total							\$ 38,668,423	5.38%	\$ 2,080,678

Year 2011

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)
1	Demand Loan	City of Peterborough	Affiliated	Variable Rate	1-Jan-00		\$ 1,500,000	1.75%	\$ 26,250
2	Demand Loan	City of Peterborough Holdings	Affiliated	Fixed Rate	1-Jan-00		\$ 21,657,680	5.32%	\$ 1,152,189
3	Term Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	24-Dec-08	10	\$ 5,613,253	4.55%	\$ 255,403
4	Term Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	22-Dec-09	10	\$ 9,082,531	5.36%	\$ 486,824
5									\$ -
Total							\$ 37,853,464	5.07%	\$ 1,920,665

1 Table 5-5 – Actual Weighted Average Cost of Long-Term Debt – Continued

Year 2012

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)
1	Demand Loan	City of Peterborough	Affiliated	Variable Rate	1-Jan-00		\$ 1,500,000	1.75%	\$ 26,250
2	Demand Loan	City of Peterborough Holdings	Affiliated	Fixed Rate	1-Jan-00		\$ 3,657,680	4.41%	\$ 161,304
3	Term Loan	Toronto Dominion Bank	Third-Party	Variable Rate	20-Dec-12	3	\$ 18,000,000	4.41%	\$ 793,800
4	Term Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	24-Dec-08	10	\$ 5,253,311	4.55%	\$ 239,026
5	Term Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	22-Dec-09	10	\$ 8,585,658	5.36%	\$ 460,191
Total							\$ 36,996,649	4.54%	\$ 1,680,571

Year 2013

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)
1	Demand Loan	City of Peterborough	Affiliated	Variable Rate	1-Jan-00		\$ 1,500,000	1.75%	\$ 26,250
2	Term Loan	Toronto Dominion Bank	Third-Party	Variable Rate	20-Dec-12	30	\$ 20,995,918	4.00%	\$ 839,837
3	Term Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	24-Dec-08	10	\$ 4,876,645	4.55%	\$ 221,887
4	Term Loan	Toronto Dominion Bank	Third-Party	Fixed Rate	22-Dec-09	10	\$ 8,061,489	5.36%	\$ 432,096
Total							\$ 35,434,052	4.29%	\$ 1,520,070

**APPENDIX K**  
**Debt Agreements with Affiliates**

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## PROMISSORY NOTE

Peterborough Distribution Inc.  
EB-2012-0160  
Exhibit 5  
Appendix K

Principal: \$437,000  
lawful money of Canada

Made and delivered  
at Peterborough, Ontario  
as of this 28<sup>th</sup> day of September, 2001

FOR VALUE RECEIVED, PETERBOROUGH DISTRIBUTION INC., a corporation incorporated pursuant to the laws of the Province of Ontario, the maker hereof and hereinafter referred to as the "Debtor" hereby unconditionally promises to pay to the order of the CORPORATION OF THE CITY OF PETERBOROUGH, a municipal corporation, and hereinafter referred to as the "City" the principal sum of Four Hundred and Thirty-Seven Thousand Dollars (\$437,000.00) (the "principal sum"), in lawful money of Canada and interest thereon at the rate and in accordance with the terms and conditions stated below:

### 1. LOAN AGREEMENT

This Promissory Note is issued pursuant to and is subject to the terms of a loan agreement dated December 13, 2001 between the City, the Debtor and others. In addition, this Promissory Note has been issued in connection with the acquisition by the Debtor of all issued and outstanding shares in the capital stock of Asphodel-Norwood Distribution Inc.

### 2. INTEREST RATE

Interest on the unpaid principal sum of this Promissory Note shall accrue at a rate per annum equal to the Prime Rate in effect on the date of advance, less 1.25%. "Prime Rate" means at any time the prime lending rate of interest expressed as the rate per annum which the Royal Bank of Canada establishes at its head office in Toronto as the reference rate of interest it will charge at such time for demand loans in Canadian dollars to its Canadian customers, and which it refers to as its "Prime Rate". Interest hereunder shall be calculated and payable monthly in arrears from the date hereof until payment in full, both before and after default and judgment, with interest on overdue interest at the same rate. The first interest payment will be due on December 31, 2001 and subsequent payments will be due each month thereafter until the payment of this Promissory Note in full.

### 3. TERMS OF PAYMENT

The principal sum and all interest due under this Promissory Note shall be payable on demand as follows:

- (a) the principal sum shall be due and payable on demand; and

- (b) the interest accrued on the principal sum prior to its repayment shall be due and payable monthly commencing on August 31, 2001 with the first payment due and payable on September 30, 2001.

4. PREPAYMENT

The Debtor may at any time, without penalty, repay in whole or in part the principal amount and interest owing under this Promissory Note. Any prepayment shall be applied first to interest until it has been paid in full and then to principal.

5. EVENT OF DEFAULT

The principal amount due hereunder together with the interest will accelerate and become due if an Event of Default (hereinafter defined) occurs. An "Event of Default" shall exist under this Promissory Note if the Debtor: (i) petitions or applies to any tribunal for or consents to the appointment of the receiver, trustee or liquidator of the Debtor or of all or any substantial part of its properties or assets, (ii) admits in writing its inability to pay its debts as they mature, (iii) makes a general assignment for the benefit of its creditors, (iv) is adjudicated bankrupt or insolvent; (v) files voluntarily or has filed against it a petition in bankruptcy or a petition seeking reorganization or an arrangement with creditors to take advantage of any statute, or (vi) breaches any of its obligations or is in default under this Promissory Note or the security described in section 12 hereof made in favour of the City and executed the date hereof by the Debtor.

6. WAIVER OF NOTICE IN EVENT OF DEFAULT

The Debtor hereby waives demand, protest and notice of maturity, non-payment or protests, and any other requirements necessary to hold it liable as maker and endorser of this Promissory Note. The Debtor further agrees to pay all costs of collection, including legal fees on a solicitor and client basis, in case the principal of this Promissory Note or any payment on the principal or interest thereon is not made at the maturity thereof or when otherwise due, or in case it becomes necessary to protect the security referred to in section 12 and whether or not legal proceedings are commenced.

7. INTEREST RATE AFTER DEFAULT AND/OR MATURITY

During the period of any default under the terms of this Promissory Note and following maturity thereof, the interest rate on the entire indebtedness then outstanding shall be at the aforesaid rate, computed from the date of default and/or maturity. If any payment of interest is not made when due, interest on the overdue interest shall be due and payable, calculated at the aforesaid rate.



8. RIGHTS AND REMEDIES IN EVENT OF DEFAULT

The rights and remedies of the City under this Promissory Note and under the security described in section 12 which secures payment and performance of this Promissory Note, which the City may have at law or in equity against the Debtor, or any other persons or legal entities, shall be distinct, separate and cumulative, and shall not be deemed inconsistent with one another, and none of the said rights whether or not exercised by the City, shall be deemed to be to the exclusion of any other, and any one or more of said rights and remedies may be exercised at the same time. The obligations of this Promissory Note shall continue until the entire debt evidenced hereby is paid, notwithstanding any court action or actions taken by the City which may be brought to recover any amounts due and payable under this Promissory Note. No delay or failure by the City in the enforcement of any covenant, promise or agreement of the Debtor hereunder shall constitute or be deemed to constitute a waiver of such right. Any waivers of the City shall only occur and be valid when set forth in writing by the City. No waiver of any event of default shall discharge or release any person at any time liable for the payment of this Promissory Note from such liability. No single or partial exercise of any of the City's powers hereunder shall preclude other and further exercise thereof or the exercise of any other power. The City may extend the maturity of this Promissory Note from time to time without in any way affecting the liability of the Debtor under the security referred to in section 12.

9. ASSIGNMENT

This Promissory Note may be assigned by the City in whole or in part and without restraint, and upon notice of such assignment to the Debtor the assignee hereof shall for all purposes be deemed to be a holder or the holder of a beneficial interest herein, as the case may be.

10. GOVERNING LAW

This Promissory Note shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein, which laws shall be applicable to the interpretation, construction and enforcement thereof.

11. GENERAL PROVISIONS

This Promissory Note may not be changed, modified, discharged or cancelled, orally or in any manner, other than by agreement in writing signed by the parties hereto or their respective successors and assigns, and the provisions hereof shall bind and enure to the

benefit of the respective successors and assigns of the Debtor and the City.

12. SECURITY

This Promissory Note shall be secured by a security agreement which shall grant to the City a security interest in all of the personal property of the Debtor and a charge against the real property of the Debtor and in all of the assets of Asphodel-Norwood Distribution Inc.

IN WITNESS WHEREOF the Debtor has duly executed this Promissory Note as of the date first appearing above.

PETERBOROUGH DISTRIBUTION INC.

By: Robert L. Loe Pres.

By: \_\_\_\_\_

## PROMISSORY NOTE

Peterborough Distribution Inc.  
EB-2012-0160  
Exhibit 5  
Appendix K

Principal: \$1,063,000  
lawful money of Canada

Made and delivered  
at Peterborough, Ontario  
as of this 28<sup>th</sup> day of September, 2001

FOR VALUE RECEIVED, PETERBOROUGH DISTRIBUTION INC., a corporation incorporated pursuant to the laws of the Province of Ontario, the maker hereof and hereinafter referred to as the "Debtor" hereby unconditionally promises to pay to the order of the CORPORATION OF THE CITY OF PETERBOROUGH, a municipal corporation, and hereinafter referred to as the "City" the principal sum of One Million, Sixty-Three Thousand Dollars (\$1,063,000.00) (the "principal sum"), in lawful money of Canada and interest thereon at the rate and in accordance with the terms and conditions stated below:

### 1. LOAN AGREEMENT

This Promissory Note is issued pursuant to and is subject to the terms of a loan agreement dated December 13, 2001 between the City, the Debtor and others. In addition, this Promissory Note has been issued in connection with the acquisition by the Debtor of all issued and outstanding shares in the capital stock of Lakefield Distribution Inc.

### 2. INTEREST RATE

Interest on the unpaid principal sum of this Promissory Note shall accrue at a rate per annum equal to the Prime Rate in effect on the date of advance, less 1.25%. "Prime Rate" means at any time the prime lending rate of interest expressed as the rate per annum which the Royal Bank of Canada establishes at its head office in Toronto as the reference rate of interest it will charge at such time for demand loans in Canadian dollars to its Canadian customers, and which it refers to as its "Prime Rate". Interest hereunder shall be calculated and payable monthly in arrears from the date hereof until payment in full, both before and after default and judgment, with interest on overdue interest at the same rate. The first interest payment will be due on December 31, 2001 and subsequent payments will be due each month thereafter until the payment of this Promissory Note in full.

### 3. TERMS OF PAYMENT

The principal sum and all interest due under this Promissory Note shall be payable on demand as follows:

- (a) the principal sum shall be due and payable on demand; and

- (b) the interest accrued on the principal sum prior to its repayment shall be due and payable monthly commencing on August 31, 2001 with the first payment due and payable on September 30, 2001.

4. PREPAYMENT

The Debtor may at any time, without penalty, repay in whole or in part the principal amount and interest owing under this Promissory Note. Any prepayment shall be applied first to interest until it has been paid in full and then to principal.

5. EVENT OF DEFAULT

The principal amount due hereunder together with the interest will accelerate and become due if an Event of Default (hereinafter defined) occurs. An "Event of Default" shall exist under this Promissory Note if the Debtor: (i) petitions or applies to any tribunal for or consents to the appointment of the receiver, trustee or liquidator of the Debtor or of all or any substantial part of its properties or assets, (ii) admits in writing its inability to pay its debts as they mature, (iii) makes a general assignment for the benefit of its creditors, (iv) is adjudicated bankrupt or insolvent; (v) files voluntarily or has filed against it a petition in bankruptcy or a petition seeking reorganization or an arrangement with creditors to take advantage of any statute, or (vi) breaches any of its obligations or is in default under this Promissory Note or the security described in section 12 hereof made in favour of the City and executed the date hereof by the Debtor.

6. WAIVER OF NOTICE IN EVENT OF DEFAULT

The Debtor hereby waives demand, protest and notice of maturity, non-payment or protests, and any other requirements necessary to hold it liable as maker and endorser of this Promissory Note. The Debtor further agrees to pay all costs of collection, including legal fees on a solicitor and client basis, in case the principal of this Promissory Note or any payment on the principal or interest thereon is not made at the maturity thereof or when otherwise due, or in case it becomes necessary to protect the security referred to in section 12 and whether or not legal proceedings are commenced.

7. INTEREST RATE AFTER DEFAULT AND/OR MATURITY

During the period of any default under the terms of this Promissory Note and following maturity thereof, the interest rate on the entire indebtedness then outstanding shall be at the aforesaid rate, computed from the date of default and/or maturity. If any payment of interest is not made when due, interest on the overdue interest shall be due and payable, calculated at the aforesaid rate.

8. RIGHTS AND REMEDIES IN EVENT OF DEFAULT

The rights and remedies of the City under this Promissory Note and under the security described in section 12 which secures payment and performance of this Promissory Note, which the City may have at law or in equity against the Debtor, or any other persons or legal entities, shall be distinct, separate and cumulative, and shall not be deemed inconsistent with one another, and none of the said rights whether or not exercised by the City, shall be deemed to be to the exclusion of any other, and any one or more of said rights and remedies may be exercised at the same time. The obligations of this Promissory Note shall continue until the entire debt evidenced hereby is paid, notwithstanding any court action or actions taken by the City which may be brought to recover any amounts due and payable under this Promissory Note. No delay or failure by the City in the enforcement of any covenant, promise or agreement of the Debtor hereunder shall constitute or be deemed to constitute a waiver of such right. Any waivers of the City shall only occur and be valid when set forth in writing by the City. No waiver of any event of default shall discharge or release any person at any time liable for the payment of this Promissory Note from such liability. No single or partial exercise of any of the City's powers hereunder shall preclude other and further exercise thereof or the exercise of any other power. The City may extend the maturity of this Promissory Note from time to time without in any way affecting the liability of the Debtor under the security referred to in section 12.

9. ASSIGNMENT

This Promissory Note may be assigned by the City in whole or in part and without restraint, and upon notice of such assignment to the Debtor the assignee hereof shall for all purposes be deemed to be a holder or the holder of a beneficial interest herein, as the case may be.

10. GOVERNING LAW

This Promissory Note shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein, which laws shall be applicable to the interpretation, construction and enforcement thereof.

11. GENERAL PROVISIONS

This Promissory Note may not be changed, modified, discharged or cancelled, orally or in any manner, other than by agreement in writing signed by the parties hereto or their respective successors and assigns, and the provisions hereof shall bind and enure to the benefit of the respective successors and assigns of the Debtor and the City.

12. SECURITY

This Promissory Note shall be secured by a security agreement which shall grant to the City a security interest in all of the personal property of the Debtor and a charge against the real property of the Debtor and in all of the assets of Lakefield Distribution Inc.

IN WITNESS WHEREOF the Debtor has duly executed this Promissory Note as of the date first appearing above.

PETERBOROUGH DISTRIBUTION INC.

By: Robert L. Falar Pres.

By: \_\_\_\_\_