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December 12, 2013

Ontario Energy Board
P.O. Box 2319
27th Floor, 2300 Yonge Street
Toronto, Ontario
M4P 1E4
Attention: Ms. K. Walli, Board Secretary

**Re: Application for an Order from Ontario Energy Board (the “Board”)
granting leave to Amalgamate**

Dear Ms. K. Walli:

Lakeland Power Distribution Ltd. and Parry Sound Power Corporation (the “Applicants”) apply to the Board for leave pursuant to section 86 (1) (c) of the *Ontario Energy Board Act, 1998*.

The Applicants have outlined in the attached Application summary and the Board’s Preliminary Filing Requirements the nature of the proposed transaction and the relief sought from the Board.

As per the Board’s requirements, 2 copies of the Application are enclosed via mail and a pdf version will be submitted via email to Board Secretary.

Should there be any questions, please contact me at the number above.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read "Margaret Maw".

Margaret Maw
Chief Financial Officer
Lakeland Power Distribution Ltd.

ONTARIO ENERGY BOARD

IN THE MATTER OF *the Ontario Energy Board Act, 1998*;

S.O. 1998, c.15, Sched B, as amended;

AND IN THE MATTER OF an application by Lakeland Power
Distribution Ltd. and Parry Sound Power Corporation under
section

86 of the Ontario Energy Board Act, 1998 seeking an order for
leave to amalgamate;

AND IN THE MATTER OF an application by Lakeland Power
Distribution Ltd. and Parry Sound Power Corporation under
section 74 of the

Ontario Energy Board Act, 1998 seeking an order to amend
the distribution licence of Lakeland Power Distribution Ltd.

AND IN THE MATTER OF a request by Parry Sound Hydro Corporation
under section 77(5) of the *Ontario Energy Board Act, 1998* seeking the
cancellation of its distribution licence.

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ONTARIO ENERGY BOARD

IN THE MATTER OF *the Ontario Energy Board Act, 1998*;

S.O. 1998, c.15, Sched B, as amended;

AND IN THE MATTER OF an application by Lakeland Power Distribution Ltd. and Parry Sound Power Corporation under section 86 of the Ontario Energy Board Act, 1998 seeking an order for leave to amalgamate;

AND IN THE MATTER OF an application by Lakeland Power Distribution Ltd. and Parry Sound Power Corporation under section 74 of the *Ontario Energy Board Act, 1998* seeking an order to amend the distribution licence of Lakeland Power Distribution Ltd.

AND IN THE MATTER OF a request by Parry Sound Hydro Corporation under section 77(5) of the *Ontario Energy Board Act, 1998* seeking the cancellation of its distribution licence.

APPLICATION

Lakeland Power Distribution Ltd. ("LPDL") and Parry Sound Power Corporation ("PSPC") hereby jointly apply to the Ontario Energy Board (the "Board" or the "OEB"), pursuant to section 86(1)(c) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B) (the "Act"), seeking leave to amalgamate LPDL and PSPC. LPDL and PSPC are collectively referred to in this application as the "Applicants" or "Parties" and the amalgamated company is referred to as "MergeCo". The amalgamation is referred to as the "Proposed Transaction".

The closing date of the Proposed Transaction is the day following the approval of this application by the Board. If the Board grants leave to LPDL and PSPC to amalgamate, upon closing of the Proposed Transaction, PSPC requests, pursuant to section 77(5) of the Act, that its electricity distribution licence be cancelled. LPDL has requested, under section 74 of the Act, that its distribution licence be amended to include in its service area the area currently served by PSPC.

LPDL owns, operates and manages assets associated with the distribution of electricity within the geographic territory and municipal boundaries of the Town of Bracebridge, Town of Huntsville, Town of Sundridge, Village of Burk's Falls, and Municipality of Magnetawan, as described in its electricity distribution licence (ED-2002-0540).

PSPC owns, operates and manages assets associated with the distribution of electricity within the geographic territory and municipal boundaries of the Town of Parry Sound, as described in its electricity distribution licence (ED-2003-0006).

This Application meets the requirements of the Board's Decision regarding three separate Applications (RP-2005-0018/EB-2005-0234/EB-2005-0254/EB-2005-0257) under section 86 of the Act (the "Section 86 Decision"). The Section 86 Decision established the scope of issues that the Board will consider in determining applications under section 86 of the Act. This Application is also based on the Report of the Board on *Rate-making Associated with Distributor Consolidation* (EB-2007-0028). The Application is supported by the attached filing "Application form for Applications under Section 86 of the *Ontario Energy Board Act, 1998*".

Currently, Lakeland Holding Ltd. (LHL) owns 100% of the shares of LPDL. LHL is owned by the Town of Bracebridge, Town of Huntsville, Town of Sundridge, Village of Burk's Falls, and Municipality of Magnetawan in their share percentages established at the time of the merger of their LDCs at September 1, 2000.

Currently, Parry Sound Hydro Corporation (PSHC) owns 100% of the shares of PSPC. PSHC, in turn, is wholly owned by the Town of Parry Sound.

LPDL, PSPC and their respective shareholders (the “Parties”) are all parties to the Proposed Transaction. There are no other parties to the Proposed Transaction.

Upon completion of the Proposed Transaction, the share percentages of the municipalities in the holding company (LHL) will be as follows:

Town of Bracebridge	54.97%
Town of Huntsville	21.22%
Town of Sundridge	3.66%
Village of Burk's Falls	3.34%
Municipality of Magnetawan	1.24%
Town of Parry Sound	15.57%

Following the closing date of the Proposed Transaction, MergeCo will be known as Lakeland Power Distribution Ltd.

The No-Harm Test

The details of the Proposed Transaction were negotiated over the course of 18 months by the Parties to the Merger Agreement (Exhibit 9). The Parties had due consideration for the “no harm” test as defined in the Section 86 decision to ensure that the Proposed Transaction would not have an adverse effect relative to the status quo of each of the Applicants and their customers in keeping with the Board’s statutory objectives. The board of directors of both LPDL and PSPC as well as the management team, created a Mergers and Acquisitions committee to work on a fair and equitable arrangement amongst the parties. A set of guiding principles were used to lead the negotiations for the merger (Exhibit 1).

LPDL and PSPC each conducted due-diligence reviews in the areas of physical asset conditions and operating performance, employee lists, conditions of employment, and employment contracts, required regulatory licences and approvals, environmental matters, all existing contracts, outstanding litigation, financial statements, operation and capital budgets and tax assessments. The focus was to ensure full disclosure of all material issues to the Parties for the purposes of identifying and evaluating the likely benefits to be gained, as well as the risks to which the Parties may be exposed. The results of the reviews were positive and demonstrated that neither company nor its customers will be negatively impacted in the long term by the Proposed Transaction.

The Parties submit that the Proposed Transaction will not have an adverse effect in terms of the factors identified in the Board’s objectives in section 1 of the Act. These objectives include, among others, to protect the interests of consumers with respect to prices and the adequacy, reliability and quality of electricity service, and the promotion of economic efficiency and cost effectiveness. Accordingly, the Parties submit that the Proposed Transaction passes the “no harm” test.

Price, Adequacy, Reliability and Quality of Electricity Service

The proposed transaction is expected to contribute to reducing the upward pressure on electricity rates in the long term through the efficient use of all resources. Through the ability to incorporate the parties into one billing/one financial and one operations system, these fixed costs will be spread over a larger customer base.

Service levels will be maintained or improved. Response time to the northern areas will now be serviced from a closer operations centre, located in Parry Sound, reducing travel time by 25% in those areas, improving customer reliability.

LPDL and PSPC have high capital investment plans and with the merging of the staff, particularly line staff, it creates an opportunity to complete capital projects with a larger team, more efficiently, with less contractor labour and improved scheduling. Material purchasing costs will also be reduced using volume discounts as MergeCo will become part of the Northern buying group.

Promotion of Economic Efficiency and Cost Effectiveness

This transaction will create a partnership of all the municipalities which will retain public control of this essential service. This is an important factor to customers within both existing service territories.

The projected net synergy savings are expected to be in excess of \$300 K annually. Merger net transition costs are expected to be equal to approximately 1 year's projected net synergy savings.

Capital expense savings through improved purchasing and better utilization of crews are expected to average approximately \$50 K to \$100 K annually.

Implementation of best practice processes and systems in customer service as well as operations will help improve the merged company's quality of service. Currently both entities belong to CHEC

group and participation will continue which assists to reduce costs in the areas of Finance and Regulatory.

There will be no direct involuntary employee layoffs of union, non-union nor management staff. Natural attrition with upcoming retirements will occur, leading to continued savings as remaining staff will be more efficient and able to absorb workload.

A new robust program for health & safety (Springboard Management) has implemented continuous improvement training for all staff with a focus on safety and will be incorporating all the staff into the program. This should improve safety in the workplace as well as customers and provide employees opportunity to learn new skill sets. With a larger organization, the opportunity for succession planning and new skills training is enhanced.

The increased customer base and value of MergeCo will enhance the company's ability to raise lower cost of capital as required going forward.

Incremental Transition Costs

Both parties to the Proposed Transaction will have incurred some incremental costs associated with the transaction. These include costs incurred for due diligence, to negotiate and complete the transactions, costs associated with all necessary regulatory approvals, and the integration costs to transfers the customers into the same systems. These costs will be financed through the productivity gains associated with the transaction and will not be included in LPDL's revenue requirement at the time of its next rebasing, thus will not be funded by ratepayers.

Timing for Rebasing

The LDC Consolidation Report provides that “the ability to retain any achieved savings for a sufficient amount of time to provide a reasonable opportunity to at least offset the costs of a transaction will be an important factor in a distributor’s consideration of the merits of consolidation” (p. 4)

As anticipated by the Board, the ability of MergeCo to retain savings attributable to the consolidation, was an important factor in the Parties’ consideration of the merits of the Proposed Transaction. The deferral of rebasing MergeCo combined with the Board’s incentive rate mechanism will give MergeCo time to retain savings to offset costs while protecting the interests of consumers.

With respect to scheduling the deferral of rebasing to reflect costs attributable to the consolidation, the LDC Consolidation Report allows a consolidated entity to defer rebasing any costs attributable to a consolidation for up to 5 years from the closing date of a transaction. It states: “Allowing a distributor the option of scheduling the rate rebasing for the consolidated entity at any time up to the five year limit accommodates distributors that may require an increase in operating, maintenance or capital expenditures shortly after closing of the transaction, as well as distributors that wish to have the benefit of a longer period in which to off-set transaction costs with efficiency savings” (p.5)

Consistent with this approach, the Applicants propose to defer the rate rebasing of the consolidated MergeCo up to December 31, 2017, which is within the period of up to 5 years from the closing date of the Proposed Transaction. Under the current rate regime, LPDL would be rebasing for May 1, 2018 rates and would propose that MergeCo follow this same timing (may apply for January 1, 2018 effective rates).

PSPC, under the current regime, it due to rebase at January 1, 2015 and currently has requested a deferral on this timing from the Board pending the outcome of this merger.

The rates of MergeCo will be subject to 4th GIRM up to the time of rebasing MergeCo's rates.

Rate Harmonization

The Applicants propose to harmonize rates at the time of rebasing which is within 5 years from the date of closing the Proposed Transaction.

Until that time the Applicants propose to retain the two separate zones for customers in each of the service areas – that is those currently served by LPDL and those currently served by PSPC.

Estimated merger savings and rate harmonization changes have been calculated on the basis of the standalone LPDL and PSPC post January 1, 2014 rates.

The Proposed Timeline is therefore:

January 1, 2014	Parry Sound Power 4 th GIRM rate adjustment
May 1, 2014	Lakeland Power 4 th GIRM rate adjustment
January 1, 2015	Merged Co - Parry Sound Power rate classes 4 th GIRM rate adjustment
May 1, 2015	Merged Co - Lakeland Power rate classes 4 th GIRM rate adjustment
January 1, 2016	Merged Co - Parry Sound Power rate classes 4 th GIRM rate adjustment
May 1, 2016	Merged Co - Lakeland Power rate classes 4 th GIRM rate adjustment
January 1, 2017	Merged Co - Parry Sound Power rate classes 4 th GIRM rate adjustment
May 1, 2017	Merged Co - Lakeland Power rate classes 4 th GIRM rate adjustment
January 1, 2018	Merged Co – rebasing Cost of Service

Net Metering Threshold

The current net metering thresholds of LPDL and PSPC are 436 kW and 195 kW respectively. The parties respectfully submit that the Board add together the kW threshold amounts allocated to the individual utilities and assign the sum to the merged company (631 kW). The parties do not see any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the merged company.

CDM Activities and Targets

Currently, LPDL has a CDM Co-ordinator to administer OPA-approved CDM programs in order to meet the 2011-2014 CDM targets. This position will assume those duties for MergeCo, allowing programs to be rolled out more effectively and in better co-ordination. The combined target for distribution licence will be as follows:

	Lakeland Power	Parry Sound Power	MergeCo
Consumption (kWh)	10,180,000	4,160,000	14,340,000
Demand (kW)	2,320	740	3,060

Relief Sought

The Applicants accordingly apply to the Board, for the following Orders:

- a) An Order granting Lakeland Power Distribution Ltd. and Parry Sound Power Corporation leave to amalgamate pursuant to section 86 of the Act on terms that approve the Applicants' proposals for Time of Rebasing, Rate Harmonization and Net Metering Threshold;
- b) An Order under section 74 of the Act amending the distribution licence of Lakeland Power Distribution Ltd. ED-2002-0540;
- c) An Order under section 77(5) of the Act cancelling licence ED-2003-0006 for Parry Sound Power Corporation; and
- d) An Order deeming the net metering threshold for MergeCo to be 631 kw.

The Applicants will provide the Board notice of the completion of the Proposed Transaction so that items referred to numbers (b) through (d) can be completed.

LPDL requests the Board to give reasons, in writing, for its final decision and order(s) in this proceeding. This request is made pursuant to subsection 17(1) of the *Statutory Powers Procedure Act*.

Contacts

The following are the names and addresses of LPDL and PSPC's authorized representatives and its counsel for the purpose of serving documents on LPDL in this proceeding:

a) Authorized representatives:

Mr. Christopher Litschko
President & CEO
Lakeland Holding Ltd.

200-395 Centre St. N.
Huntsville, ON
P1H 2M2
705-789-5442 (telephone)
705-789-3110 (facsimile)
chris@lakelandholding.com

Mr. Miles Thompson
Vice President & Financial Officer
Parry Sound Hydro Corporation

125 William Street
Parry Sound, ON
P2A 1V9
705-746-5866 (telephone)
705-746-7789 (facsimile)
mthompson@pspower.ca

b) Counsel:

Ms. Bernadette Corpuz
Borden Ladner Gervais LLP

Suite 4100, Scotia Plaza
40 King Street West
Toronto, ON
M5H 3Y4
416-367-6747 (telephone)
416-361-7318 (facsimile)
BCorpuz@blg.com

Dated December 12, 2013 at Huntsville, Ontario

Mr. Christopher Litschko
President & CEO
Lakeland Holding Ltd.

(Christopher Litschko)

Ontario Energy Board
Commission de l'énergie de l'Ontario



Application Form for Applications under Section 86 of the *Ontario Energy Board Act, 1998*

Application Instructions

1. Purpose of this Form

This form is to be used by parties applying under section 86 of the *Ontario Energy Board Act, 1998* (the "Act"). Please note that the Board may require information that is additional or supplementary to the information filed in this form and that the filing of the form does not preclude the applicant from filing additional or supplementary information.

For applications made under section 86(1)(b) of the Act that involve the sale of assets between licensed distributors or transmitters, the applicant must use the application form for Applications Under Section 86(1)(b) of the *Ontario Energy Board Act, 1998*. For transactions involving a non-licensed entity, please contact Market Operations at market.operations@oeb.gov.on.ca for further guidance.

Persons required to provide a Notice of Proposal under section 80 or 81 of the Act must also complete the "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*" form in addition to this form.

Depending on the nature of the proposed transaction, the parties to the proposed transaction may be required to apply for the cancellation of an existing licence, an amendment to an existing licence, the issuance of a new licence or any combination thereof. Such applications are to be made under separate cover; however, parties may apply for the cancellation of an existing licence, an amendment to an existing licence, the issuance of a new licence or any combination thereof at the same time the parties apply for approval of the proposed transaction.

2. Completion Instructions

The applicant must:

- (a) provide responses to all questions; and
- (b) print and sign two copies of the form.

Please send both copies of the completed form and two copies of the responses and attachments to:

Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

If you have any questions regarding the completion of this application, please contact the Market Operations Hotline by telephone at 416-440-7604 or 1-888-632-6273 or e-mail at market.operations@oeb.gov.on.ca.

The Board's "Performance Standards for Processing Applications" are indicated on the "Corporate Information and Reports" section of the Board's website at www.oeb.gov.on.ca. Applicants are encouraged to consider the timelines required to process applications to avoid submitting applications too late. If the submitted application is incomplete, it may be returned by the Board or there may be a delay in processing the application.

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4
Telephone: 1-888-632-6273
Facsimile: (416) 440-7656

Commission de l'énergie l'Ontario
C.P. 2319
2300, rue Yonge
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Toronto ON M4P 1E4
Téléphone: 1-888-632-6273
Télécopieur: (416) 440-7656



Application Form for Applications under Section 86 of the *Ontario Energy Board Act, 1998*

For Office Use Only	
Application Number	EB -
Date Received	

PART I : GENERAL INFORMATION

1.1 Nature of Application

1.1.1 Application Type

- ☐ For leave for a transmitter or distributor to sell, lease or otherwise dispose of its transmission or distribution system as an entirety or substantially as an entirety (section 86(1)(a))
- ☐ For leave for a transmitter or distributor to sell, lease or otherwise dispose of that part of its transmission or distribution system that is necessary in serving the public (section 86(1)(b))
- ☒ For leave for a transmitter or distributor to amalgamate with any other corporation (section 86(1)(c))
- ☐ For leave for a person to acquire voting securities that will exceed 20% of a distributor or transmitter (section 86(2)(a))
- ☐ For leave for a person to acquire control of a company that holds more than 20% of the voting securities of a transmitter or distributor if such voting securities constitute a significant asset of the corporation (section 86(2)(b))

1.1.2 Notice under section 80 or 81 of the Act

Is a notice of proposal required under section 80 or 81 of the Act?

- ☐ Yes
- ☒ No

If yes, the applicant must also file a completed "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*" with the Board.

1.2 Identification of the Parties

1.2.1 Name of Applicant

Legal name of the applicant: Lakeland Power Distribution Ltd.

Name of Primary Contact:

Mr. <input checked="" type="radio"/>	Mrs. <input type="radio"/>	Last Name	First Name	Initial
Miss <input type="radio"/>	Ms. <input type="radio"/>	Litschko	Christopher	
Other <input type="radio"/>		Title/Position		
		President & CEO		

Address of Head Office:

City	Province/State	Country	Postal/Zip Code
Huntsville	Ontario	Canada	P1H 2M2
Phone Number	Fax Number	E-mail Address	
705-789-5442	705-789-3110	chris@lakelandholding.com	

1.2.2 Other Party to the Transaction (if more than one attach a list)

Name of the other party: Parry Sound Power Corporation

Name of Primary Contact:

Mr. <input checked="" type="radio"/>	Mrs. <input type="radio"/>	Last Name	First Name	Initial
Miss <input type="radio"/>	Ms. <input type="radio"/>	Thompson	Miles	
Other <input type="radio"/>		Title/Position		
		Vice President/ Financial Officer		

Address of Head Office:

City	Province/State	Country	Postal/Zip Code
Parry Sound	Ontario	Canada	P2A 1V9
Phone Number	Fax Number	E-mail Address	
705-746-5866	705-746-7789	mthompson@pspower.ca	

Description of the Business of Each of the Parties

- 1.3.1 *Please provide a description of the business of each of the parties to the proposed transaction, including each of their affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity ("Electricity Sector Affiliates").*

Lakeland Power Distribution Ltd. (LPDL)

LPDL owns and is responsible for the operation, maintenance and management of the assets associated with the distribution of electrical power and energy within its service territory, as specified in Distribution License ED-2002-0540 (a copy of which is provided in Exhibit 3). LPDL is a wholly-owned subsidiary of Lakeland Holding Ltd (LHL), a holding company.

Lakeland Holding Ltd. (LHL)

LHL is a holding company, wholly-owned by the municipalities of Bracebridge, Huntsville, Sundridge, Burk's Falls and Magnetawan.

Bracebridge Generation Ltd. (BGL)

BGL owns and is responsible for the operation, maintenance and management of the assets associated with the generation of hydro-electric power, as specified in License EG-2003-0120. BGL is a wholly-owned subsidiary of Lakeland Holding Ltd (LHL), a holding company.

Lakeland Energy Ltd. (LEL)

LEL owns and is responsible for the operation, maintenance and management of the assets associated with fibre optic telecommunications services, hot water

tanks, tankless water heaters. In addition, LEL provides streetlight maintenance for various municipalities as well as GIS services and IT support for businesses, municipalities and internal companies. LEL is a wholly-owned subsidiary of Lakeland Holding Ltd (LHL), a holding company.

Parry Sound Power Corporation (PSPC)

PSPC owns and is responsible for the operation, maintenance and management of the assets associated with the distribution of electrical power and energy within its service territory, as specified in Distribution License ED-2003-0006 (a copy of which is provided in Exhibit 4). PSPC is a wholly-owned subsidiary of Parry Sound Hydro Corporation (PSHC), a holding company.

Parry Sound Hydro Corporation (PSHC)

PSHC is a holding company, wholly-owned by the Town of Parry Sound.

Parry Sound Generation Corporation (PSGC)

PSGC owns and is responsible for the operation, maintenance and management of the assets associated with the generation of hydro-electric power, as specified in License EG-2003-0128. PSGC also provides water heater rentals, streetlight maintenance, and forestry. PSGC is a wholly-owned subsidiary of Parry Sound Hydro Corporation (PSHC), a holding company.

1.3.2 *Please provide a description of the geographic territory served by each of the parties to the proposed transaction, including each of their Electricity Sector Affiliates, if applicable.*

Lakeland Power Distribution Ltd. (LPDL)

As defined in Schedule 1 to its Distribution License, LPDL serves the geographical territory described as follows:

1. In the former Town of Bracebridge as at April 1, 1999, the service area:
 - South West corner of Muskoka Concession 10 Lot 14 and goes East along Concession 10 to the South East corner of Muskoka Concession 10 Lot 2.
 - It then goes south along the border of Muskoka Lot 2, Concession 9 and Muskoka Lot 1, Concession 9 to the southwest corner of Muskoka Lot 1, Concession 8.
 - It then turns easterly along the border of Muskoka Lot 1, Concession 7 and Muskoka Lot 1, Concession 8.
 - It then follows an irregular line along the west and south edges of the registered properties known as 1181 and 1188 Campbell's Road, Gravenhurst to the border of Muskoka Lot 1, Concession 7 and Draper Lot A Concession 7 approximately 125m south of the Draper Lot 1, Concession 8 and Draper Lot A, Concession 7 border.
 - It then goes south along the Muskoka and Draper Concession Border to the South West Corner of Draper Concession 7 Lot A.
 - It then continues East North East along Draper Concession 6 and Draper Concession 7 border to the corner of Draper Concession 7 Lot 4.

- It then goes North North West to the North West corner of Draper Concession 12 Lot 5.
- It then follows the West side of Hwy 11 until 100m West of the corner of Macaulay Concession 2 Lot 7.
- It then Continues East North East between Macaulay Concession 1 and Macaulay Concession 2 to the South West corner of Macaulay Concession 2 Lot 21.
- Then it goes North North West to the North East corner of Macaulay Concession 5 Lot 21.
- It then goes West South West along the border of Macaulay Concession 6 and Macaulay Concession 5 to the East side of Hwy 11 and heads North North West along Hwy. 11 to 50m East of the corner of Macaulay Concession 7 Lot 8.
- It then goes West South West along the border of Macaulay Concession 7 and Macaulay Concession 8 to the North West corner of Macaulay Concession 7 Lot 1.
- It then goes North North West to the corner of Monck Concession A Lot 13 and heads West South West to the North West corner of Monck Concession A Lot 13.
- It then goes South South West to the North East corner of Monck Concession 7 Lot 3.
- It continues West South West to the North West corner of Monck Concession 7 Lot 4.

- It continues South South East to the North West corner of Monck Concession 6 Lot 4.
- It continues West South West along the border of Monck Concession 7 and Monck Concession 6/5 to the North West Corner of Monck Concession 6 Lot 21.
- It then heads South South East 800m into Lake Muskoka, then 2350m East South East in Lake Muskoka.
- It then continues 2130m South East in Lake Muskoka and then goes South South West 1790m in Lake Muskoka, then goes South East 1090m in Lake Muskoka and then heads south 2800m in Lake Muskoka.
- It then heads East to the Shore of Muskoka Concession 9 Lot 14 then heads North North East to the South West Corner of Concession 10 Lot 14.
- Includes Islands of Auburn Island, Ennis Island, Caisse Island, Sandspit Island, McVittie Island, Peninsula Island, Summer Island and Frank Island;
- Excludes the consumer located at 154 Beaumont Drive.

2. The former Village of Sundridge as at July 3, 1963.

3. The Village of Burk's Falls as at March 1, 1951 in the district of Parry Sound.

4. The former town of Huntsville as of December 31, 1970 excluding the consumer located at 61 Domtar Road.

5. The former village of Magnetawan as of December 31, 1997, now in the Township of Magnetawan.

Parry Sound Power Corporation (PSPC)

As defined in Schedule 1 to its Distribution License, PSPC serves the geographical territory described as follows:

1. The Town of Parry Sound as of January 1, 1982

Exhibit 5 – Service Territory Maps

- 1.3.3 Please provide a description of the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.

Lakeland/Parry Sound Merger

Customer Information

Source: 2012 Annual RRR Filing - 2.1.5

Customer Rate Class	Lakeland Power	Parry Sound Power	Merged Entity - Lakeland Power
Residential	8,003	2,876	10,879
General Service <50 kW	1,582	533	2,115
General Service >50 kW	100	71	171
Street lighting Connections	1,801	1,004	2,805
Sentinel Lighting Connections	44	12	56
Unmetered Scattered Load Connections	38	19	57
Total	11,568	4,515	16,083

- 1.3.4 Please provide a description of the proposed geographic service area of each of the parties after completion of the proposed transaction.

The newly amalgamated entity will retain the name Lakeland Power Distribution Ltd. (LPDL) and as such LPDL's geographic service area will be amended to include The Town of Parry Sound as of January 1, 1982 as stated in Schedule 1 of ED-2003-0006.

- 1.3.5 Please attach a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.

Please refer to Exhibit 2 for corporate charts of LHL and PSHC, respectively.

1.4 Description of the Proposed Transaction

1.4.1 Please provide a detailed description of the proposed transaction.

Discussions commenced in early 2012 and proceeded to determine if a merger between the two companies was feasible and benefiting to all stakeholders. The two companies are structured similarly, similar geographic terrain and located in close proximity to each other. Systems and operating processes were also similar so it is believed that a merger of the two companies would promote greater efficiencies and financial viability. The resulting transaction proposal is for the similar entities within the structures to amalgamate into one holding company, one distribution company, one generation company, and one energy services company. The employees, assets, debt structure would all remain as a straight addition of the two entities. There is no exchange of cash, shares, assets, new debt nor change in ownership.

LPDL and PSPC propose to amalgamate with each other and continue as a corporation amalgamated under the laws of Ontario with the corporate name "Lakeland Power Distribution Ltd." This will occur after all regulatory and government approvals are obtained.

Exhibit 6 – Corporate Chart after merger

1.4.2 Please provide the details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.

As set out in the Shareholders Agreement (Exhibit 9), LHL will hold 100% of the shares in LPDL. LHL will issue as fully paid and non-assessable the shares in the following percentages in exchange for all of the issued and outstanding shares held by the current municipal shareholders of LHL and PSHC respectively.

Town of Bracebridge	54.97%
Town of Huntsville	21.22%
Town of Sundridge	3.66%
Village of Burk's Falls	3.34%
Municipality of Magnetawan	1.24%
Town of Parry Sound	15.57%

1.4.3 Please attach the financial statements (including balance sheet, income statement, and cash flow statement) of the parties to the proposed transaction for the past two most recent years.

Please refer to the following attachments to Exhibit 7 for a copy of the audited financial statements for the past two (2) most recent years:

- Attachment 1 2012 Lakeland Holding Ltd. Consolidated
- Attachment 2 2011 Lakeland Holding Ltd. Consolidated
- Attachment 3 2012 Lakeland Power Distribution Ltd.
- Attachment 4 2011 Lakeland Power Distribution Ltd.
- Attachment 5 2012 Parry Sound Hydro Corporation Consolidated
- Attachment 6 2011 Parry Sound Hydro Corporation Consolidated
- Attachment 7 2012 Parry Sound Power Corporation
- Attachment 8 2011 Parry Sound Power Corporation

Note that although the respective municipal shareholders, Bracebridge Generation Ltd, Lakeland Energy Ltd., and Parry Sound Generation Corporation are parties to this transaction, their financial statements have not been included, as they are not relevant to the transaction.

1.4.4 Please attach the pro forma financial statements for each of the parties (or if amalgamation, the one party) for the first full year following the completion of the proposed transaction.

Exhibit 8 – Proforma Financial Statements of MergeCo

– based on 2012 audited data, 2014 rates and capital spending from asset management plans

1.5 Documentation

1.5.1 Please provide copies of all annual reports, proxy circulars, prospectuses or other information filed with securities commissions or similar authorities or sent to shareholders for each of the parties to the proposed transaction and their affiliates within the past 2 years.

Neither party is publically traded on any exchange. As this is a proposed amalgamation, prior year financial statements (Exhibit 7) were provided to all parties. The documents in Exhibit 9 – Merger Agreement (draft), Shareholder Agreement (draft), and Third Party review (Hoey &

Assoc) were also circulated to all parties.

1.5.2 Please list all legal documents (including those currently in draft form if not yet executed) to be used to implement the proposed transaction.

A copy of the draft merger agreement and draft shareholder agreement are provided in Exhibit 9. Merger agreement has a closing date of the day after the OEB MAAD application approval with an effective date of the same date.

1.5.3 Please list all Board issued licences held by the parties and confirm that the parties will be in compliance with all licence, code and rule requirements both before and after the proposed transaction. If any of the parties will not be in compliance with all applicable licences, codes and rules after completion of the proposed transaction, please explain the reasons for such non-compliance. (Note: any application for an exemption from a provision of a rule or code is subject to a separate application process.)

Pending approval of this transaction, the distribution business activities of both parties, currently under Electricity Distribution Licence ED-2003-0006 and ED-2002-0540, will be amalgamated into Electricity Distribution Licence ED-2002-0540 under the operating name Lakeland Power Distribution Ltd. The customers, assets, systems, processes and operations of both parties will be integrated together into the new entity.

LPDL confirms that as of the date of the application, to the best of its knowledge, it is currently in compliance with all licence and code requirements per its Electricity Distribution Licence ED-2002-0540. It is expected that following the approval and completion of the transaction, it will continue to be materially compliant with all applicable Legislation, Regulations, Market Rules, other Licence Conditions and Codes.

PSPC confirms that as of the date of the application, to the best of its knowledge, it is currently in compliance with all licence and code requirements per its Electricity Distribution Licence ED-2003-0006.

1.6 Consumer Protection

- 1.6.1 *Please explain whether the proposed transaction will cause a change of control of any of the transmission or distribution system assets, at any time, during or by the end of the transaction.*

PSPC is currently 100% owned by PSHC who in turn is 100% owned by The Town of Parry Sound. LPDL is 100% owned by LHL who in turn is owned by the 5 municipalities in the following percentages:

Town of Bracebridge	65.11%
Town of Huntsville	25.13%
Town of Sundridge	4.33%
Village of Burk's Falls	3.96%
Municipality of Magnetawan	1.47%

After the Proposed Transaction, MergeCo will be 100% owned by LHL who in turn is owned by the 6 municipalities in the following percentages:

Town of Bracebridge	54.97%
Town of Huntsville	21.22%
Town of Sundridge	3.66%
Village of Burk's Falls	3.34%
Municipality of Magnetawan	1.24%
Town of Parry Sound	15.57%

Relative value was determined using discounted cash flow (DCF) to determine percentage ownership of the Holding company through Electric & Water Financial Services (T. Fryer). Hoey & Associates were retained to vet the DCF calculation and determine whether the forecast savings are reasonable and achievable, this was confirmed – Exhibit 9.

- 1.6.2 *Please indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability and quality of electricity service.*

As a result of the proposed transaction, the merged entity will ensure that the existing customers will be held harmless. The new entity is proposing to retain two separate distribution rates schedules for customers in each of the service areas with effective dates as they exist prior to the amalgamation (January 1 for PSPC customers, May 1 for LPDL customers).

As will be described below, the new entity expects to continue on the capital plans/asset management plans submitted in the respective Cost of Service applications, EB-2012-0145 for

LPDL and EB-2010-0140 for PSPC.

LPDL and PSPC each conducted due-diligence reviews in the areas of physical asset conditions and operating performance, employee lists, conditions of employment, and employment contracts, required regulatory licences and approvals, environmental matters, all existing contracts, outstanding litigation, financial statements, operation and capital budgets and tax assessments. The focus was to ensure full disclosure of all material issues to the Parties for the purposes of identifying and evaluating the likely benefits to be gained, as well as the risks to which the Parties may be exposed. The results of the reviews were positive and demonstrated that neither company nor its customers will be negatively impacted in the long term by the Proposed Transaction.

1.6.3 Please describe the steps, including details of any capital expenditure plans, that will be taken to ensure that operational safety and system integrity are maintained after completion of the proposed transaction.

As a result of the due diligence process, a number of capital projects in the PSPC were identified as being a priority for system integrity and safety. These were addressed in PSPC asset management plan and will be undertaken by MergeCo as early as possible in 2014. All other capital plans filed in LPDL's asset management plan through its 2013 CoS filing will also be completed. A complete GIS mapping and conversion to SCADA for the PSPC service territory will also be undertaken. A methodical approach to the conversion of systems around billing and smart meter data will also be undertaken with a timeline for completion in Q4 2014.

1.6.4 Please provide details, including any capital expenditure plans, of how quality and reliability of service will be maintained after completion of the proposed transaction. Indicate where service centres will be located and expected response times.

As a result of the proposed merger, the service centre in Parry Sound will provide easier and faster access to the three northern service areas of LPDL (Sundridge, Magnetawan and Burk's Falls). This should reduce travel time to those areas by 25% or more, allowing line staff to restore power in less time. The implementation of SCADA in PSPC integrated into the outage management process with LPDL should allow operations to locate and troubleshoot areas more efficiently. The larger crew should enable capital as well as maintenance programs to be rolled out more effectively, in shorter time, with less reliance on outside contractors. PSPC and LPDL run on the same Smart Meter technology (Elster) thus providing more efficiency as only one type of system is being used and staff are well trained in the similar technologies, resulting in faster times to troubleshoot and repair communication issues.

The service centre in LPDL will remain as is servicing areas closer to it (Bracebridge and Huntsville). The stores area at the Bracebridge location is large enough to house inventory with long lead times allowing emergency repairs to be handled more efficiently and with shorter outage time.

With the merging of staff comes the expansion of knowledge base and a wider breadth of skill sets now available to all service areas.

1.6.5 Please indicate whether the parties to the proposed transaction intend to undertake a rate harmonization process after the proposed transaction is completed. If yes, please provide a description of the plan.

The parties to the proposed transaction intend to retain the two separate rate zones for customers in each of the service areas until the 2018 Cost of Service application. At that time the proposal would be to merge the rate zones taking into account synergies and efficiencies arising from the merger and establish an effective date of January 1, 2018.

Based on the 2012 RRR filing of customer data, and using the 2014 proposed rates, PSPC distribution revenue rates are higher than LPDL by 8%. The specific differences are as below:

Lakeland Power Distribution Ltd. - May 1, 2014 Rates					
Price Escalator	1.70%	Choose Stretch Factor Group		III	
Productivity Factor	0.00%	Associated Stretch Factor Value		0.30%	
Price Cap Index	1.40%				
Rate Class	Current MFC	Current Volumetric	Price Cap Index to be Applied to	Proposed MFC	Proposed Volumetric
RESIDENTIAL	19.66	0.0144	1.40%	19.94	0.0146
GENERAL SERVICE LESS THAN 50	42.59	0.0087	1.40%	43.19	0.0088
GENERAL SERVICE 50 TO 4,999 K	300.00	2.6976	1.40%	304.20	2.7354
UNMETERED SCATTERED LOAD	12.18	0.0055	1.40%	12.35	0.0056
SENTINEL LIGHTING	6.10	21.1229	1.40%	6.19	21.4186
STREET LIGHTING	5.03	15.3996	1.40%	5.10	15.6152

**Parry Sound Power Corporation -
January 1, 2014 Rates**

Price Escalator	1.70%	Choose Stretch Factor Group	III
Productivity Factor	0.00%	Associated Stretch Factor Value	0.30%
Price Cap Index	1.40%		

Rate Class	Current MFC	Current Volumetric	Price Cap Index to be Applied to	Proposed MFC	Proposed Volumetric
RESIDENTIAL	21.90	0.0175	1.40%	22.21	0.0177
GENERAL SERVICE LESS THAN 50	32.73	0.0134	1.40%	33.19	0.0136
GENERAL SERVICE 50 TO 4,999 K	188.66	3.7885	1.40%	191.30	3.8415
UNMETERED SCATTERED LOAD	22.66	0.1323	1.40%	22.98	0.1342
SENTINEL LIGHTING	4.23	16.4018	1.40%	4.29	16.6314
STREET LIGHTING	2.69	27.0019	1.40%	2.73	27.3799

**Parry Sound Power Corporation -
January 1, 2014 Rates**

- using 2012 RRR filing data

Rate Class	2012 RRR Data Customer or Connection	2012 RRR Data Annual Volume kWh/kW	Proposed PSPC 2014 MFC	Proposed PSPC 2014 Volumetric	PSPC 2014 Rates Distribution Revenue	Proposed LPDL 2014 MFC	Proposed LPDL 2014 Volumetric	LPDL 2014 Rates Distribution Revenue	Difference	% change
RESIDENTIAL	2,876	30,953,151	22.21	0.0177	\$ 1,315,658	19.94	0.0146	\$ 1,139,971	-\$ 175,687	-13.4%
GENERAL SERVICE LESS THAN 50 KW	533	14,850,648	33.19	0.0136	\$ 414,057	43.19	0.0088	\$ 407,229	-\$ 6,828	-1.6%
GENERAL SERVICE 50 TO 4,999 KW	71	81,419	191.30	3.8415	\$ 475,763	304.20	2.7354	\$ 481,889	\$ 6,126	1.3%
UNMETERED SCATTERED LOAD	19	49,820	22.98	0.1342	\$ 11,922	12.35	0.0056	\$ 3,094	-\$ 8,829	-74.1%
SENTINEL LIGHTING	12	36	4.29	16.6314	\$ 1,216	6.19	21.4186	\$ 1,662	\$ 445	36.6%
STREET LIGHTING	1,004	2,421	2.73	27.3799	\$ 99,150	5.10	15.6152	\$ 99,254	\$ 105	0.1%
Total					\$ 2,317,766			\$ 2,133,098	-\$ 184,667	-8.0%

PSPC is due to file a rebasing application for January 1, 2015 rates which would likely increase the separation between the two zones. To this end, the parties recommend that the rates in the respective zones continue under the 4th GIRM rate adjustment until rebasing for January 1, 2018 rates. This would allow for all efficiencies from the merger to be fully implemented and capital plans previously submitted in prior cost of service rate applications to be fulfilled.

1.6.6 *If the application is for an amalgamation, please provide a proposal for the time of rebasing the consolidated entity in accordance with the five-year limit set by the Board.*

January 1, 2014	Parry Sound Power 4 th GIRM rate adjustment
May 1, 2014	Lakeland Power 4 th GIRM rate adjustment
January 1, 2015	Merged Co - Parry Sound Power rate classes 4 th GIRM rate adjustment
May 1, 2015	Merged Co - Lakeland Power rate classes 4 th GIRM rate adjustment
January 1, 2016	Merged Co - Parry Sound Power rate classes 4 th GIRM rate adjustment
May 1, 2016	Merged Co - Lakeland Power rate classes 4 th GIRM rate adjustment
January 1, 2017	Merged Co - Parry Sound Power rate classes 4 th GIRM rate adjustment
May 1, 2017	Merged Co - Lakeland Power rate classes 4 th GIRM rate adjustment
January 1, 2018	Merged Co – rebasing Cost of Service

1.6.7 *Please identify all incremental costs that the parties to the proposed transaction expect to incur. These may include incremental transaction costs, (i.e., legal), incremental merged costs (i.e., employee severances), and incremental ongoing costs (i.e., purchase and maintenance of new IT systems). Please explain how the new utility plans to finance these costs.*

The incremental costs that the parties expect to incur are consulting due diligence and legal costs surrounding the agreement preparations and transition. In addition, penalties to cancel existing outsourcing contracts will also be incurred. As all employees will be retained, severance costs will not be incurred. It is expected that the systems currently in place at LPDL will be sufficient to incorporate the PSPC operations. In the long term, because fixed costs of operations will be spread over a wider customer base, distribution customers should see a small price benefit. In total, the parties estimate that they will incur a one-time transition cost of \$280 K equivalent to a year of synergy savings. These costs will be financed through productivity gains.

- Legal/consulting/MAAD/tax \$100 K
- IT transition costs \$180 K

1.6.8 *Please describe the changes, if any, in distribution or transmission rate levels (as applicable) and the impact on the total bill that may result from the proposed transaction.*

The newly formed company intends on harmonizing rates during its rebasing rate application for January 1, 2018 rates.

For LPDL customers the projected range of total bill impact of rate harmonization by customer class is reflected below. These changes represent a range of results developed by comparison of projected 2014 rates. The changes represent the total bill effect at average consumption levels:

Residential rates increased between 0.96% and 1.00%

General Service decreased between .04% and .07%

General Service increased between 0.86% and 0.97%

For PSPC customers the projected range of total bill impact of rate harmonization by customer class is reflected below. These changes represent a range of results developed by comparison of projected 2014 rates. The changes represent the total bill effect at average consumption levels:

Residential rates decreased between 2.58% and 2.70%

General Service increased between 0.07% and 0.09%

General Service decreased between 1.15% and 1.19%

1.6.9 Please provide details of the costs and benefits of the proposed transaction to the customers of the parties to the proposed transaction.

The proposed transaction is expected to contribute to reducing the upward pressure on electricity rates in the long term through the efficient use of all resources. Through the ability to incorporate the parties into one billing/one financial and one operations system, these fixed costs will be spread over a larger customer base.

Service levels will be maintained or improved. Response time to the northern areas will now be serviced from a closer operations centre, reducing travel time by more than 25% in those areas, improving customer reliability.

LPDL and PSPC have high capital investment plans and with the merging of the staff, particularly line staff, it creates an opportunity to complete capital projects with a larger team, more efficiently, with less contractor labour and improved scheduling. Material purchasing costs will also be

reduced using volume discounts as the merged entity will now be part of Northern buying group, a group of LDCs using combined purchasing power to obtain preferred pricing.

A new robust program for health & safety (Springboard Management) has implemented continuous improvement training for all staff with a focus on safety and will be incorporating all the staff into the program. This should improve safety in the workplace as well as customers and provide employees opportunity to learn new skill sets. With a larger organization, the opportunity for succession planning and new skills training is enhanced.

This transaction will create a partnership of all the municipalities which will retain public control of this essential service. This is an important factor to customers within both existing service territories.

The projected net synergy savings are expected to be in excess of \$300 K annually. Merger net transition costs are expected to be equal to approximately 1 year's projected net synergy savings.

Capital expense savings through improved purchasing and better utilization of crews are expected to average approximately \$50 K to \$100 K annually.

There will be no direct involuntary employee layoffs of union, non-union nor management staff. Natural attrition with upcoming retirements will occur, leading to continued savings as remaining staff will be more efficient and able to absorb workloads.

Implementation of best practice processes and systems in customer service as well as operations will help improved the merged company's quality of service.

1.7 Economic Efficiency

- 1.7.1 *Please indicate the impact the proposed transaction will have on economic efficiency and cost effectiveness (in the distribution or transmission of electricity). Details on the impacts of the proposed transaction on economic efficiency and cost effectiveness should include, but are not limited to, impacts on administration support functions such as IT, accounting, and customer service.*

Response incorporated into 1.6.9 above

1.8 Financial Viability

- 1.8.1 *Please provide a valuation of any assets or shares that will be transferred in the proposed transaction. Provide details on how this value was determined, including any assumptions made about future rate levels.*

See response to section 1.4.2

Staff prepared estimated stand-alone valuations for the purpose of providing a benchmark to assess the incremental value of the formation of the merged holding company and the relative value of the two entities. It was based on the financial projections that each of the holding companies could reasonably expect to achieve in the absence of the merge.

1.8.2 *If the price paid as part of the proposed transaction is significantly more than the book value of the assets of the selling utility, please provide details as to why this price will not have an adverse affect on the economic viability of the acquiring utility.*

Not applicable as proposed transaction is an amalgamation

1.8.3 *Please provide details of the financing of the proposed transaction.*

No leasing arrangements are contemplated by the proposed transaction.

1.8.4 *If the proposed transaction involves a leasing arrangement , please identify separately any assets in the service area that are owned, from those assets that are encumbered by any means, e.g., subject to a lease or debt covenant.*

Not applicable as proposed transaction is an amalgamation

1.8.5 *Please outline the capital (debt /equity) structure, on an actual basis, of the parties to the proposed transaction prior to the transaction and on a pro forma basis after completion of the proposed transaction. In order to allow the Board to assess any potential impacts on the utility's financial viability, please include the terms associated with the debt structure of the utility as well as the utility's dividend policy after the completion of the proposed transaction. Please ensure that any debt covenants associated with the debt issue are also disclosed.*

Capital Structure - Debt/Equity Ratio	Lakeland Power	Parry Sound Power	Merged Entity
2010 LDC Financial Statements	46/54	69/31	
2011 LDC Financial Statements	48/52	63/37	
2012 LDC Financial Statements	45/55	61/39	
Proforma 2014 LDC Financial Stmts			47/53

The terms of the debt structure currently in place for both parties will be the same for the merged company resulting in no potential impact on the utility's financial viability. Currently there is no dividend policy in place at either of the LDC companies. A fixed dividend is in place at LHL

however funds are provided from the other affiliates, not the LDC.

Both LPDL and PSPC have an ongoing banking relationship with Toronto Dominion (TD) Bank. PSPC also has a promissory note with The Town of Parry Sound. Copies of the financing agreements are attached in Exhibit 10.

1.8.6 Please provide details of any potential liabilities associated with the proposed transaction in relation to public health and safety matters or environmental matters. These may be matters that have been identified in the audited financial statements or they may be matters that the parties have become aware of since the release of the most recently audited financial statements. If there are any pre-existing potential liabilities regarding public health and safety matters or environmental matters for any party to the proposed transaction, provide details on how the parties propose to deal with those potential liabilities after the transaction is completed. Specify who will have on-going liability for the pre-existing potential liabilities.

During the due diligence process, it was identified that PSPC potentially had remaining PCB transformers in the field. A program to test and remove all PCB transformers will be undertaken in 2014 and 2015, well ahead of regulatory mandate.

1.9 Other Information

1.9.1 *If the proposed transaction requires the approval of a parent company, municipal council or any other entity please provide a copy of appropriate resolutions indicating that all such parties have approved the proposed transaction.*

The unanimous resolutions of the six (6) municipal councils are attached in Exhibit 11.

1.9.2 *Please list all suits, actions, investigations, inquiries or proceedings by any government body, or other legal or administrative proceeding, except proceedings before the Board, that have been instituted or threatened against each of the parties to the proposed transaction or any of their respective affiliates.*

There is one potential litigation in Bracebridge Generation, an affiliate of one of the parties. It involves a potential litigation regarding a July 2008 drowning near a generation station. In respect to any potential claim, LHL believes that insurance coverage is adequate and that no material exposure exists. No further action has been taken at this time.

1.9.3 *Regarding net metering thresholds, the Board will, absent exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Please indicate the current net metering thresholds of the utilities involved in the proposed transaction. Please also indicate if there are any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the new or remaining utility.*

The current net metering thresholds of LPDL and PSPC are 436 kW and 195 kW respectively. The parties respectfully submit that the Board add together the kW threshold amounts allocated to the individual utilities and assign the sum to the merged company (631 kW). The parties do not see any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the merged company.

1.9.4 *Please provide the Board with any other information that is relevant to the application. When providing this additional information, please have due regard to the Board's objectives in relation to electricity.*

PART II: CERTIFICATION AND ACKNOWLEDGMENT

2.1.1 Certification and Acknowledgment

I certify that the information contained in this application and in documents provided are true and accurate.

Signature of Key Individual	Print Name of Key Individual Christopher Litschko	Title/Position President & CEO
	Date	Company Lakeland Holding Ltd.

(Must be signed by a key individual. A key individual is one that is responsible for executing the following functions for the applicant: matters related to regulatory requirements and conduct, financial matters and technical matters. These key individuals may include the Chief Executive Officer, the Chief Financial Officer, other officers, directors or proprietors.)

Exhibit 1
Officers, Directors and Shareholders
for all Parties
Guiding Principles for Merger

Lakeland Holding Ltd. (LHL) – holding company

Officers:

Christopher Litschko	President & CEO
Margaret Maw	Chief Financial Officer
Vince Kulchycki	Chief Operations Officer

Directors:

Tom Peppiatt	Chair
Don Waddington	Vice-Chair
Phil Matthews	Director
William Ingram	Director
Chris Litschko	Director

Shareholders:

Town of Bracebridge
Town of Huntsville
Town of Sundridge
Village of Burk's Falls
Municipality of Magnetawan

Lakeland Power Distribution Ltd. (LPDL) – distribution company

Officers:

Christopher Litschko	President & CEO
Margaret Maw	Chief Financial Officer
Vince Kulchycki	Chief Operations Officer

Directors:

Tom Peppiatt	Chair
Don Waddington	Vice-Chair
Bruce Flowers	Independent Director

Shareholder:

Lakeland Holding Ltd	100% wholly owned
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Bracebridge Generation Ltd. (BGL) – generation company

Officers:

Christopher Litschko	President & CEO
Margaret Maw	Chief Financial Officer
Vince Kulchycki	Chief Operations Officer

Directors:

Tom Peppiatt	Chair
Don Waddington	Vice-Chair
Phil Matthews	Director
William Ingram	Director
Chris Litschko	Director

Shareholder:

Lakeland Holding Ltd	100% wholly owned
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Lakeland Energy Ltd. (LEL) – energy services company

Officers:

Christopher Litschko	President & CEO
Margaret Maw	Chief Financial Officer
Vince Kulchycki	Chief Operations Officer

Directors:

Tom Peppiatt	Chair
Don Waddington	Vice-Chair
Phil Matthews	Director
William Ingram	Director
Chris Litschko	Director

Shareholder:

Lakeland Holding Ltd	100% wholly owned
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Parry Sound Hydro Corporation (PSHC) – holding company

Officers:

Calvin Epps	President
Miles Thompson	Vice President, Financial Officer

Directors:

Roger Alexander	Chair
Gord Rempel	Director
Bill Lawrence	Director
Paul Borneman	Director

Shareholder:

Town of Parry Sound	100% wholly owned
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Parry Sound Power Corporation (PSPC) – distribution company

Officers:

Miles Thompson	Vice President, General Manager
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Directors:

Al Downing	Chair
Paul Borneman	Director
Roger Alexander	Director

Shareholder:

Parry Sound Hydro Corporation	100% wholly owned
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Parry Sound Generation Corporation (PSGC) – generation & services company

Officers:

Calvin Epps	Vice President, General Manager
Miles Thompson	Financial Officer

Directors:

Gord Rempel	Chair
Paul Borneman	Director
Bill Lawrence	Director

Shareholder:

Parry Sound Hydro Corporation	100% wholly owned
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The following principles were agreed upon to guide the merger negotiations:

Objectives and Guiding Principles

The Parties recognize the following as the objectives and guiding principles of the Corporation:

Business: The Corporation will engage in the Business of the distribution, generation and communications and any other business unanimously approved by the Board.

The Corporation will, not less than every three (3) years, update and revise the Strategic Plan to reflect business opportunities available, consistent with the Ontario Energy Board Act and all other regulatory requirements, which builds upon its excellence in electricity distribution, generation and communications.

In all cases, business expansion will only occur where there is a valid business case which demonstrates that the project will optimize the Corporation's rate of return and Shareholder value.

For-Profit Corporation: The Corporation will be a for-profit corporation, with the objective of optimizing its rate of return and Shareholder value. Subject to OEB approval, the maximum rate of return sought by the Corporation from time to time will be achieved as soon as practical.

Dividends and Capital Structure: The Board will establish policies to develop and maintain a financial and capitalization structure for the Corporation consistent with industry standards and sound financial principles in order to provide the Shareholders with regular dividend payments.

Customers: The customers of the Corporation are the operational priority of the Corporation. The Corporation will provide a reliable, effective and efficient electricity distribution, generation and communications system. The Corporation will harmonize, within OEB guidelines, its distribution rates for customers.

Employees: The Corporation will treat all employees in a fair and equitable manner. The Corporation will develop with its employees a shared commitment towards high customer service, improved productivity and workplace safety.

The Corporation will ensure that all staff understands the Corporation's business plan and direction, and that they have the skill required to fulfil their part in achieving those goals.

Community: With due consideration to the optimization of the rate of return and Shareholder value, the Corporation will be an integral participant and play a significant role in the local communities in which it operates. The Corporation will strive to be a

good corporate citizen and a facilitator of economic development throughout the Corporation's service area. The Corporation shall not facilitate economic development in a way that would favour one community over another, or discriminate against any community within the Corporation's service area.

Shareholders: This Agreement has been entered into in the spirit of a mutually cooperative partnership of the Shareholders. The Shareholders shall at all times in carrying out their rights, duties and obligations hereunder strive to act fairly and equitably in the interest of all of the communities within the Corporation's service area.

Growth: The Corporation is committed to pursuing significant growth opportunities on a prudent and profitable basis where it enhances the Corporation's strategic position and economies of scope and scale. Specifically, the Corporation will pursue opportunities for the acquisition, merger or other business arrangements with neighbouring local distribution companies within the Geographic Footprint and will consider from time to time other opportunities for acquisition, merger or other business arrangements with other Persons which other opportunities will, upon the recommendations of management and the board of the Corporation, be reviewed and considered by each Shareholder acting in good faith, all in a manner consistent with the foregoing objectives and principles.

Distribution System Performance, Reliability and Planning, Customer Service and Employee and Community Safety: The Corporation shall implement a comprehensive review of the foregoing principles and standards and recommend the desired standards and practices to be followed by the Corporation on a unified basis. The review shall give due consideration to service reliability, costs, and risks. The recommended standards shall be presented to the Board for consideration and, if appropriate, approval.

Environmental Stewardship: The Corporation will act as a responsible steward over the resources it manages, exercising a strong commitment to energy conservation and environmental sustainability. The Corporation will employ business and operating practices which seek to minimize its impact on the environment.

Merger Negotiations

April 5, 2012 – Special Lakeland Shareholder meeting held – resolution passed to enter merger negotiations

October 15, 2012 – Mergers & Acquisition teams from Parry Sound and Lakeland meet for negotiations

November 1, 2012 – Non Disclosure Agreement signed by each Company

January 15, 2013 - Mergers & Acquisition teams from Parry Sound and Lakeland meet for negotiations

January 18, 2013 – Special Lakeland Shareholder meeting held to update on benefits of merger and discuss Memorandum of Understanding

January 31, 2013 – Memorandum of Understanding signed by each company

February 12, 2013 - Mergers & Acquisition teams from Parry Sound and Lakeland meet for negotiations

February 14 - Mergers & Acquisition teams from Parry Sound and Lakeland meet for negotiations

March 7, 2013 – Press Release sent out regarding possible merger

April 3, 2013 - Mergers & Acquisition teams from Parry Sound and Lakeland meet for negotiations

May 16, 2013 – Lakeland Mergers and Acquisitions Committee recommends merger to Board of Directors

May 22, 2013 – Lakeland Board of Directors accepts recommendation for merger and will bring to Shareholders for approval

May 23, 2013 – Final details of merger are successfully negotiated

May 31, 2013 – merger recommendation and preliminary report brought to Shareholder at Annual meeting

July, 2013 – Independent Third Party Hoey Associates engaged to conduct Review of merger

Exhibit 2

Corporate Affiliate Chart

Municipal Shareholders

Town of Bracebridge	65.11%
Town of Huntsville	25.13%
Town of Sundridge	4.33%
Village of Burk's Falls	3.96%
Municipality of Magnetawan	1.47%

LAKELAND HOLDING LTD.

**BRACEBRIDGE
GENERATION LTD.**

**LAKELAND POWER
DISTRIBUTION LTD.**

Distribution system within the municipal boundaries of the
Shareholders

**LAKELAND
ENERGY LTD.**

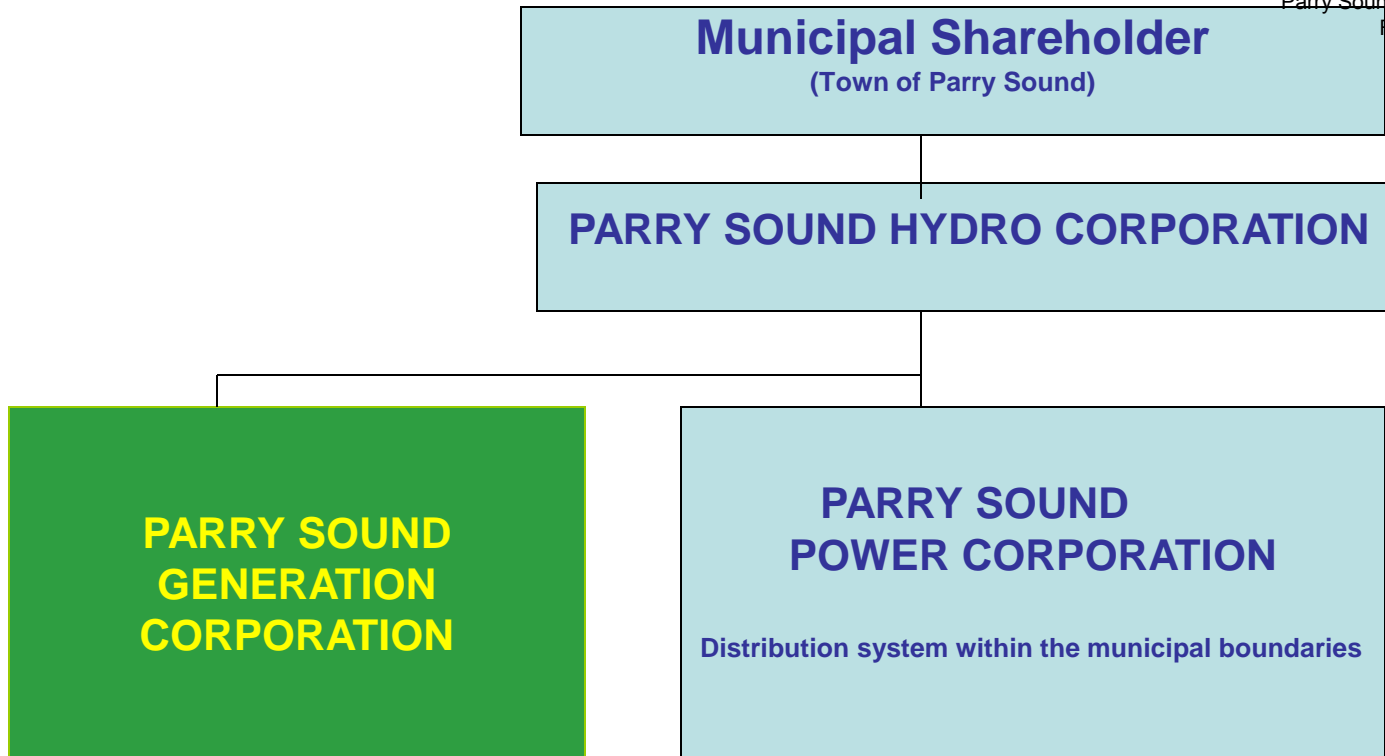


Exhibit 3
Lakeland Power Distribution Ltd.
Electricity Distribution Licence
ED-2002-0540



Electricity Distribution Licence

ED-2002-0540

Lakeland Power Distribution Ltd.

Valid Until

March 31, 2023

Original signed by

Jennifer Lea

Counsel, Special Projects

Ontario Energy Board

Date of Issuance: October 15, 2003

Date of Amendment: November 12, 2010

Date of Amendment: March 29, 2011

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th. Floor
Toronto, ON M4P 1E4

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
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Toronto ON M4P 1E4

Lakeland Power Distribution Ltd.
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1 Definitions

In this Licence:

“Accounting Procedures Handbook” means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

“Act” means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

“Affiliate Relationships Code for Electricity Distributors and Transmitters” means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

“Conservation and Demand Management” and **“CDM”** means distribution activities and programs to reduce electricity consumption and peak provincial electricity demand;

“Conservation and Demand Management Code for Electricity Distributors” means the code approved by the Board which, among other things, establishes the rules and obligations surrounding Board approved programs to help distributors meet their CDM Targets;

“distribution services” means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

“Distribution System Code” means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

“Electricity Act” means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

“Licensee” means Lakeland Power Distribution Ltd.

“Market Rules” means the rules made under section 32 of the Electricity Act;

“Net Annual Peak Demand Energy Savings Target” means the reduction in a distributor’s peak electricity demand persisting at the end of the four-year period (i.e. December 31, 2014) that coincides with the provincial peak electricity demand that is associated with the implementation of CDM Programs;

“Net Cumulative Energy Savings Target” means the total amount of reduction in electricity consumption associated with the implementation of CDM Programs between 2011-2014;

“OPA” means the Ontario Power Authority;

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"Performance Standards" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

"Provincial Brand" means any mark or logo that the Province has used or is using, created or to be created by or on behalf of the Province, and which will be identified to the Board by the Ministry as a provincial mark or logo for its conservation programs;

"Rate Order" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"regulation" means a regulation made under the Act or the Electricity Act;

"Retail Settlement Code" means the code approved by the Board which, among other things, establishes a distributor's obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

"service area" with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

"Standard Supply Service Code" means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

"wholesaler" means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

- 2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this Licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

- 3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence:
- a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence;

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- b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and
- c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act.

4 Obligation to Comply with Legislation, Regulations and Market Rules

- 4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.
- 4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

- 5.1 The Licensee shall at all times comply with the following Codes (collectively the “Codes”) approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:
 - a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;
 - b) the Distribution System Code;
 - c) the Retail Settlement Code; and
 - d) the Standard Supply Service Code.
- 5.2 The Licensee shall:
 - a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and
 - b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Obligation to Provide Non-discriminatory Access

- 6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee’s distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

7 Obligation to Connect

- 7.1 The Licensee shall connect a building to its distribution system if:
 - a) the building lies along any of the lines of the distributor’s distribution system; and

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- b) the owner, occupant or other person in charge of the building requests the connection in writing.
- 7.2 The Licensee shall make an offer to connect a building to its distribution system if:
- a) the building is within the Licensee's service area as described in Schedule 1; and
 - b) the owner, occupant or other person in charge of the building requests the connection in writing.
- 7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.
- 7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the Act or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.
- 8 Obligation to Sell Electricity**
- 8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.
- 9 Obligation to Maintain System Integrity**
- 9.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.
- 10 Market Power Mitigation Rebates**
- 10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.
- 11 Distribution Rates**
- 11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.
- 12 Separation of Business Activities**
- 12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

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13 Expansion of Distribution System

- 13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules.
- 13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

14 Provision of Information to the Board

- 14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.
- 14.2 Without limiting the generality of paragraph 14.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.

15 Restrictions on Provision of Information

- 15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.
- 15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:
- a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;
 - b) for billing, settlement or market operations purposes;
 - c) for law enforcement purposes; or
 - d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.
- 15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.
- 15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.
- 15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed.

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16 Customer Complaint and Dispute Resolution

16.1 The Licensee shall:

- a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;
- b) publish information which will make its customers aware of and help them to use its dispute resolution process;
- c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;
- d) give or send free of charge a copy of the process to any person who reasonably requests it; and
- e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

17 Term of Licence

17.1 This Licence shall take effect on October 15, 2003 and expire on March 31, 2023. The term of this Licence may be extended by the Board.

18 Fees and Assessments

18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.

19.2 All official communication relating to this Licence shall be in writing.

19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

- a) when delivered in person to the addressee by hand, by registered mail or by courier;
- b) ten (10) business days after the date of posting if the communication is sent by regular mail; and
- c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

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20 Copies of the Licence

20.1 The Licensee shall:

- a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and
- b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

21 Conservation and Demand Management

21.1 The Licensee shall achieve reductions in electricity consumption and reductions in peak provincial electricity demand through the delivery of CDM programs. The Licensee shall meet its 2014 Net Annual Peak Demand Savings Target of 2.320 MW, and its 2011-2014 Net Cumulative Energy Savings Target of 10.180 GWh (collectively the "CDM Targets"), over a four-year period beginning January 1, 2011.

21.2 The Licensee shall meet its CDM Targets through:

- a) the delivery of Board approved CDM Programs delivered in the Licensee's service area ("Board-Approved CDM Programs");
- b) the delivery of CDM Programs that are made available by the OPA to distributors in the Licensee's service area under contract with the OPA ("OPA-Contracted Province-Wide CDM Programs"); or
- c) a combination of a) and b).

21.3 The Licensee shall make its best efforts to deliver a mix of CDM Programs to all consumer types in the Licensee's service area.

21.4 The Licensee shall comply with the rules mandated by the Board's Conservation and Demand Management Code for Electricity Distributors.

21.5 The Licensee shall utilize the common Provincial brand, once available, with all Board-Approved CDM Programs, OPA-Contracted Province-Wide Programs, and in conjunction with or co-branded with the Licensee's own brand or marks.

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SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

1. In the former Town of Bracebridge as at April 1, 1999, the service area:

- South West corner of Muskoka Concession 10 Lot 14 and goes East along Concession 10 to the South East corner of Muskoka Concession 10 Lot 2.
- It then goes south along the border of Muskoka Lot 2, Concession 9 and Muskoka Lot 1, Concession 9 to the southwest corner of Muskoka Lot 1, Concession 8. It then turns easterly along the border of Muskoka Lot 1, Concession 7 and Muskoka Lot 1, Concession 8. It then follows an irregular line along the west and south edges of the registered properties known as 1181 and 1188 Campbell's Road, Gravenhurst to the border of Muskoka Lot 1, Concession 7 and Draper Lot A Concession 7 approximately 125m south of the Draper Lot 1, Concession 8 and Draper Lot A, Concession 7 border.
- It then goes south along the Muskoka and Draper Concession Border to the South West Corner of Draper Concession 7 Lot A. It then continues East North East along Draper Concession 6 and Draper Concession 7 border to the corner of Draper Concession 7 Lot 4.
- It then goes North North West to the North West corner of Draper Concession 12 Lot 5. It then follows the West side of Hwy 11 until 100m West of the corner of Macaulay Concession 2 Lot 7.
- It then Continues East North East between Macaulay Concession 1 and Macaulay Concession 2 to the South West corner of Macaulay Concession 2 Lot 21.
- Then it goes North North West to the North East corner of Macaulay Concession 5 Lot 21. It then goes West South West along the border of Macaulay Concession 6 and Macaulay Concession 5 to the East side of Hwy 11 and heads North North West along Hwy. 11 to 50m East of the corner of Macaulay Concession 7 Lot 8.
- It then goes West South West along the border of Macaulay Concession 7 and Macaulay Concession 8 to the North West corner of Macaulay Concession 7 Lot 1.
- It then goes North North West to the corner of Monck Concession A Lot 13 and heads West South West to the North West corner of Monck Concession A Lot 13. It then goes South South West to the North East corner of Monck Concession 7 Lot 3.
- It continues West South West to the North West corner of Monck Concession 7 Lot 4. It continues South South East to the North West corner of Monck Concession 6 Lot 4.
- It continues West South West along the border of Monck Concession 7 and Monck Concession 6/5 to the North West Corner of Monck Concession 6 Lot 21.
- It then heads South South East 800m into Lake Muskoka, then 2350m East South East in Lake Muskoka.

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- It then continues 2130m South East in Lake Muskoka and then goes South South West 1790m in Lake Muskoka, then goes South East 1090m in Lake Muskoka and then heads South 2800m in Lake Muskoka.
 - It then heads East to the Shore of Muskoka Concession 9 Lot 14 then heads North North East to the South West Corner of Concession 10 Lot 14.
 - Includes Islands of Auburn Island, Ennis Island, Caisse Island, Sandspit Island, McVittie Island, Peninsula Island, Summer Island and Frank Island;
 - Excludes the consumer located at 154 Beaumont Drive.
2. The former Village of Sundridge as at July 3, 1963.
 3. The Village of Burk's Falls as at March 1, 1951 in the district of Parry Sound.
 4. The former town of Huntsville as of December 31, 1970 excluding the consumer located at 61 Domtar Road.
 5. The former village of Magnetewan as of December 31, 1997, now in the Township of Magnetewan.

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SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act.

1. The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with paragraph 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

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SCHEDULE 3 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the Licensee has been exempted.

1. The Licensee is exempt from the requirements of section 2.5.3 of the Standard Supply Service Code with respect to the price for small volume/residential consumers, subject to the Licensee offering an equal billing plan as described in its application for exemption from Fixed Reference Price, and meeting all other undertakings and material representations contained in the application and the materials filed in connection with it.

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APPENDIX A

MARKET POWER MITIGATION REBATES

1. Definitions and Interpretations

In this Licence

“embedded distributor” means a distributor who is not a market participant and to whom a host distributor distributes electricity;

“embedded generator” means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

“host distributor” means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity

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consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

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Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

ONTARIO POWER GENERATION INC. REBATES

For the payments that relate to the period from May 1, 2006 to April 30, 2009, the rules set out below shall apply.

1. Definitions and Interpretations

In this Licence

“embedded distributor” means a distributor who is not a market participant and to whom a host distributor distributes electricity;

“embedded generator” means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

“host distributor” means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

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- i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

"ONTARIO POWER GENERATION INC. rebate"

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Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

Exhibit 4
Parry Sound Power Corporation
Electricity Distribution Licence
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Electricity Distribution Licence

ED-2003-0006

Parry Sound Power Corporation

Valid Until

December 21, 2023

Original signed by

Kirsten Walli

Board Secretary

Ontario Energy Board

Date of Issuance: December 22, 2003

Date of Amendment: November 12, 2010

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th. Floor
Toronto, ON M4P 1E4

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4

Parry Sound Power Corporation
Electricity Distribution Licence ED-2003-0006

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1 Definitions

In this Licence:

“Accounting Procedures Handbook” means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

“Act” means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

“Affiliate Relationships Code for Electricity Distributors and Transmitters” means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

“Conservation and Demand Management” and **“CDM”** means distribution activities and programs to reduce electricity consumption and peak provincial electricity demand;

“Conservation and Demand Management Code for Electricity Distributors” means the code approved by the Board which, among other things, establishes the rules and obligations surrounding Board approved programs to help distributors meet their CDM Targets;

“distribution services” means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

“Distribution System Code” means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

“Electricity Act” means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

“Licensee” means Parry Sound Power Corporation

“Market Rules” means the rules made under section 32 of the Electricity Act;

“Net Annual Peak Demand Energy Savings Target” means the reduction in a distributor’s peak electricity demand persisting at the end of the four-year period (i.e. December 31, 2014) that coincides with the provincial peak electricity demand that is associated with the implementation of CDM Programs;

“Net Cumulative Energy Savings Target” means the total amount of reduction in electricity consumption associated with the implementation of CDM Programs between 2011-2014;

“OPA” means the Ontario Power Authority;

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“Performance Standards” means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

“Provincial Brand” means any mark or logo that the Province has used or is using, created or to be created by or on behalf of the Province, and which will be identified to the Board by the Ministry as a provincial mark or logo for its conservation programs;

“Rate Order” means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

“regulation” means a regulation made under the Act or the Electricity Act;

“Retail Settlement Code” means the code approved by the Board which, among other things, establishes a distributor’s obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

“service area” with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

“Standard Supply Service Code” means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

“wholesaler” means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

- 2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens. Where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

- 3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence:
- a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence;

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- b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and
- c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act.

4 Obligation to Comply with Legislation, Regulations and Market Rules

- 4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.
- 4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

- 5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:
 - a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;
 - b) the Distribution System Code;
 - c) the Retail Settlement Code; and
 - d) the Standard Supply Service Code.
- 5.2 The Licensee shall:
 - a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and
 - b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Obligation to Provide Non-discriminatory Access

- 6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee's distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

7 Obligation to Connect

- 7.1 The Licensee shall connect a building to its distribution system if:
 - a) the building lies along any of the lines of the distributor's distribution system; and

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- b) the owner, occupant or other person in charge of the building requests the connection in writing.
- 7.2 The Licensee shall make an offer to connect a building to its distribution system if:
- a) the building is within the Licensee's service area as described in Schedule 1; and
 - b) the owner, occupant or other person in charge of the building requests the connection in writing.
- 7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.
- 7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the Act or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.
- 8 Obligation to Sell Electricity**
- 8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.
- 9 Obligation to Maintain System Integrity**
- 9.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.
- 10 Market Power Mitigation Rebates**
- 10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.
- 11 Distribution Rates**
- 11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.
- 12 Separation of Business Activities**
- 12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

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13 Expansion of Distribution System

- 13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules.
- 13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

14 Provision of Information to the Board

- 14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.
- 14.2 Without limiting the generality of paragraph 14.1 the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.
- 14.3 The licensee shall inform the Board as soon as possible of any material changes to the service agreement with *Name of Service Company* (the "Service Agreement").
- 14.4 If either party to the Service Agreement provides notice of its intention to exercise a right to terminate or discontinue any services under the services agreement, the Licensee shall:
- a) Immediately notify the Board in writing of the notice; and
 - b) provide a plan to the Board as soon as possible, but no later than ten (10) days after the receipt of the notice, as to how the affected distribution services will be maintained in compliance with the terms of this Licence.
- 14.5 In the event of termination of the Service Agreement for any reason, the Licensee shall:
- a) ensure there is no interruption of distribution services to the consumers as a result of the termination;
 - b) notify the Board of the name of the new company that will provide the distribution services; and
 - c) file with the Board the distribution services agreement with the new company.

15 Restrictions on Provision of Information

- 15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.

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- 15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:
- a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;
 - b) for billing, settlement or market operations purposes;
 - c) for law enforcement purposes; or
 - d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.
- 15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.
- 15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.
- 15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed.

16 Customer Complaint and Dispute Resolution

- 16.1 The Licensee shall:
- a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;
 - b) publish information which will make its customers aware of and help them to use its dispute resolution process;
 - c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;
 - d) give or send free of charge a copy of the process to any person who reasonably requests it; and
 - e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

17 Term of Licence

- 17.1 This Licence shall take effect on December 22, 2003 and expire on December 21, 2023. The term of this Licence may be extended by the Board.

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18 Fees and Assessments

18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.

19.2 All official communication relating to this Licence shall be in writing.

19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:

- a) when delivered in person to the addressee by hand, by registered mail or by courier;
- b) ten (10) business days after the date of posting if the communication is sent by regular mail; and
- c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

20 Copies of the Licence

20.1 The Licensee shall:

- a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and
- b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

21 Conservation and Demand Management

21.1 The Licensee shall achieve reductions in electricity consumption and reductions in peak provincial electricity demand through the delivery of CDM programs. The Licensee shall meet its 2014 Net Annual Peak Demand Savings Target of 0.740 MW, and its 2011-2014 Net Cumulative Energy Savings Target of 4.160 GWh (collectively the "CDM Targets"), over a four-year period beginning January 1, 2011.

21.2 The Licensee shall meet its CDM Targets through:

- a) the delivery of Board approved CDM Programs delivered in the Licensee's service area ("Board-Approved CDM Programs");
- b) the delivery of CDM Programs that are made available by the OPA to distributors in the Licensee's service area under contract with the OPA ("OPA-Contracted Province-Wide CDM Programs"); or

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- c) a combination of a) and b).
- 21.3 The Licensee shall make its best efforts to deliver a mix of CDM Programs to all consumer types in the Licensee's service area.
- 21.4 The Licensee shall comply with the rules mandated by the Board's Conservation and Demand Management Code for Electricity Distributors.
- 21.5 The Licensee shall utilize the common Provincial brand, once available, with all Board-Approved CDM Programs, OPA-Contracted Province-Wide Programs, and in conjunction with or co-branded with the Licensee's own brand or marks.

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SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

1. The Town of Parry Sound as of January 1, 1982.

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SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act.

1. The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with paragraph 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

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SCHEDULE 3 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the Licensee has been exempted.

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APPENDIX A

MARKET POWER MITIGATION REBATES

1. Definitions and Interpretations

In this Licence

“embedded distributor” means a distributor who is not a market participant and to whom a host distributor distributes electricity;

“embedded generator” means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

“host distributor” means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity

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consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

“ONTARIO POWER GENERATION INC. rebate”

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

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Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

ONTARIO POWER GENERATION INC. REBATES

For the payments that relate to the period from May 1, 2006 to April 30, 2009, the rules set out below shall apply.

1. Definitions and Interpretations

In this Licence

“embedded distributor” means a distributor who is not a market participant and to whom a host distributor distributes electricity;

“embedded generator” means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

“host distributor” means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

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- i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

"ONTARIO POWER GENERATION INC. rebate"

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Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

Exhibit 5

Service Territory Maps

Lakeland Power Distribution Ltd. Service Area

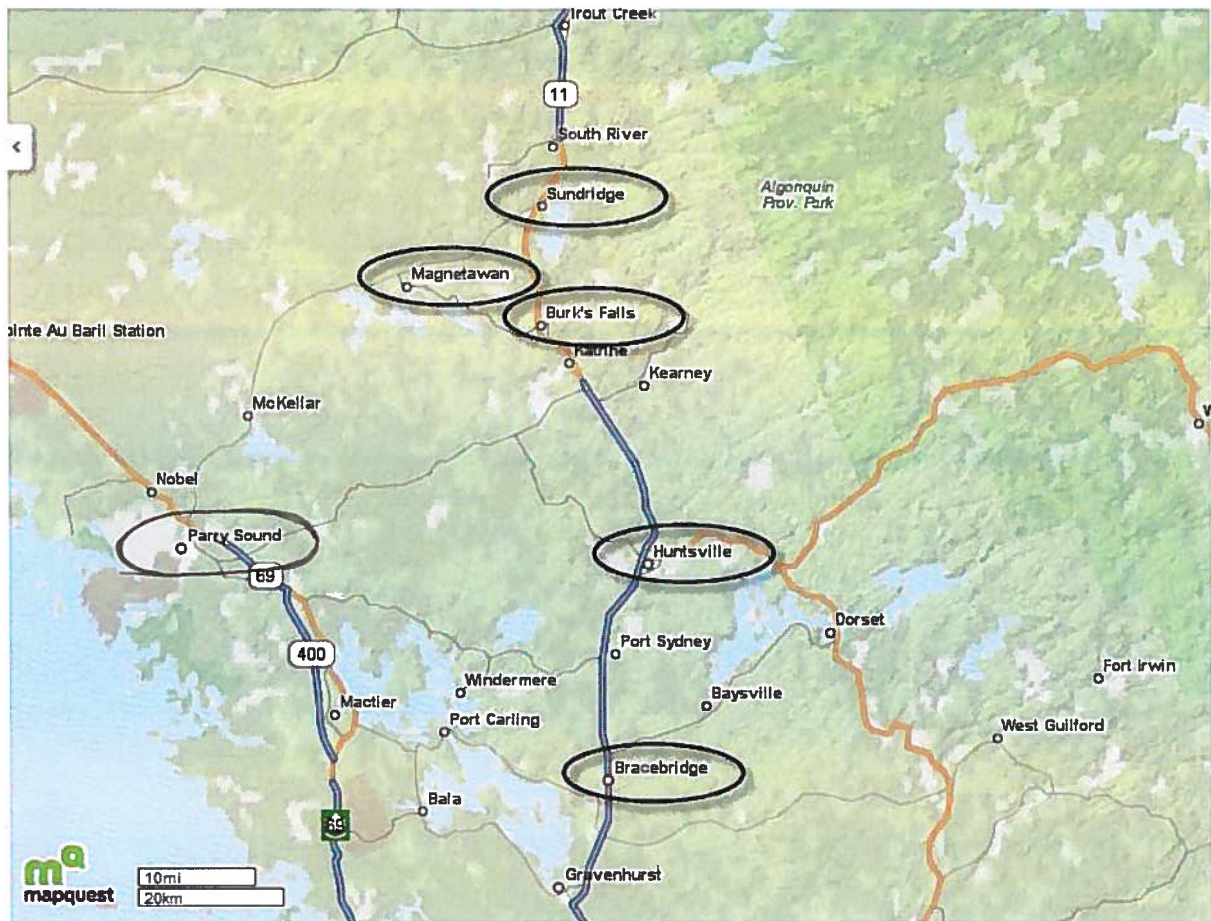


Exhibit 6

MergeCo Organization Chart

Municipal Shareholders

Town of Bracebridge	54.97%
Town of Huntsville	21.22%
Town of Sundridge	3.66%
Village of Burk's Falls	3.34%
Municipality of Magnetawan	1.24%
Town of Parry Sound	15.57%

LAKELAND HOLDING LTD.

merge of LHL and PSHC

BRACEBRIDGE GENERATION LTD.

Merge of BGL & PSGC

LAKELAND POWER DISTRIBUTION LTD.

Distribution system within the municipal boundaries of the
Shareholders – merge of LPDL and PSPC

LAKELAND ENERGY LTD.

No change

Exhibit 7
Audited Financial Statements
2011 and 2012
For
Lakeland Holding Ltd. Consolidated
Lakeland Power Distribution Ltd.
Parry Sound Hydro Corporation Consolidated
Parry Sound Power Corporation



Consolidated Financial Statements

Lakeland Holding Ltd.

December 31, 2011

Lakeland Holding Ltd.

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Independent Auditor's Report

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Orillia, ON
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To the Shareholders of Lakeland Holding Ltd.:

We have audited the accompanying consolidated financial statements of Lakeland Holding Ltd., which comprise the consolidated balance sheet as at December 31, 2011, and the consolidated statement of earnings and retained earnings and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lakeland Holding Ltd. as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Orillia, Canada
April 26, 2012

Chartered Accountants
Licensed Public Accountants

Lakeland Holding Ltd.

Consolidated Statements of Earnings and Retained Earnings

Year Ended December 31	2011	2010
Revenue	\$ 23,155,056	\$ 21,711,431
Power purchased	<u>18,600,838</u> 4,554,218	<u>17,170,452</u> 4,540,979
Other revenues		
Generation	1,926,830	2,128,851
Energy	1,260,727	900,839
Late Payment/Collection charges	148,522	168,252
Utility service on customer owned property	168,041	187,031
Other income	21,726	34,198
Gain on disposal of property and equipment	-	13,275
Investment income	<u>73,609</u>	<u>34,162</u>
	<u>8,153,673</u>	<u>8,007,587</u>
Expenses		
Administration and general	1,402,424	1,470,262
Amortization (Note 12)	1,722,864	1,598,079
Billing and collecting	613,349	683,266
Taxes other than income taxes	87,463	104,436
Interest (Note 13)	273,917	225,571
Operations and maintenance	2,248,692	2,145,356
Payments in lieu of capital tax	<u>276</u>	<u>6,432</u>
	<u>6,348,985</u>	<u>6,233,402</u>
Earnings before payments in lieu of income taxes	<u>1,804,688</u>	<u>1,774,185</u>
Payments in Lieu of income taxes (Note 7)		
Current-Payments in Lieu of income taxes (PILs)	292,004	225,814
Future-Payments in Lieu of income taxes (PILs)	<u>113,000</u>	<u>67,167</u>
	<u>405,004</u>	<u>292,981</u>
Net earnings	\$ <u>1,399,684</u>	\$ <u>1,481,204</u>
Retained earnings, beginning of year	\$ 10,085,721	\$ 9,104,517
Net earnings	1,399,684	1,481,204
Dividends (Note 14)	<u>(500,000)</u>	<u>(500,000)</u>
Retained earnings, end of year	\$ <u>10,985,405</u>	\$ <u>10,085,721</u>

See accompanying notes to the consolidated financial statements.

Lakeland Holding Ltd. Consolidated Balance Sheet

December 31 2011 2010

Assets

Current

Cash and cash equivalents	\$ 492,980	\$ 1,081,951
Receivables	3,335,548	2,663,417
Unbilled revenue	2,262,157	2,355,046
Inventory	205,739	255,726
Prepays	234,667	217,533
Payments in lieu of income taxes recoverable	-	47,330
	<u>6,531,091</u>	<u>6,621,003</u>

Property and equipment (Note 4)	40,856,401	27,426,423
Intangible assets (Note 5)	994,000	949,259
Regulatory assets (Note 6)	2,576,365	2,178,990
Future income tax assets (Note 7)	<u>931,074</u>	<u>1,044,074</u>
	<u>\$ 51,888,931</u>	<u>\$ 38,219,749</u>

Liabilities and shareholders' equity

Current

Construction loan (Note 8)	\$ 16,107,899	\$ 4,901,624
Payables and accruals	7,894,262	5,749,610
Payments in lieu of income taxes payable	13,449	-
Deferred revenue	218,760	167,837
Current portion of long-term debt (Note 9)	<u>221,416</u>	<u>144,289</u>
	<u>24,455,786</u>	<u>10,963,360</u>

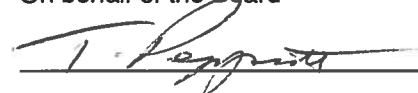
Long-term debt (Note 9)	3,487,500	3,708,916
Customer deposits	205,809	240,224
Regulatory liabilities (Note 6)	121,681	588,778
Other non-current liabilities	<u>23,100</u>	<u>23,100</u>
	<u>28,293,876</u>	<u>15,524,378</u>

Shareholders' equity

Share capital (Note 11)	12,609,650	12,609,650
Retained earnings	<u>10,985,405</u>	<u>10,085,721</u>
	<u>23,595,055</u>	<u>22,695,371</u>
	<u>\$ 51,888,931</u>	<u>\$ 38,219,749</u>

Contingent liabilities (Note 10)

On behalf of the Board

 Director

 Director

See accompanying notes to the consolidated financial statements

Lakeland Holding Ltd.

Consolidated Statement of Cash Flows

Year Ended December 31	2011	2010
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net earnings	\$ 1,399,684	\$ 1,481,204
Amortization (Note 12)	1,868,923	1,734,783
Gain on disposal of capital assets	-	(13,274)
Future payments in lieu of income taxes	<u>113,000</u>	<u>67,167</u>
	3,381,607	3,269,880
Change in non-cash working capital		
Receivables	(672,131)	(756,471)
Unbilled revenue	92,889	307,459
Inventory	49,987	25,954
Prepays	(17,134)	(45,040)
Payables and accruals	2,144,652	1,542,460
Deferred revenue	50,923	(49,494)
Payment in lieu of income taxes	<u>60,779</u>	<u>(56,247)</u>
	5,091,572	4,238,501
Customer deposits	(34,415)	37,058
Regulatory assets and liabilities	<u>(864,472)</u>	<u>(209,033)</u>
	4,192,685	4,066,526
Financing activities		
Construction loan advances	11,206,275	4,901,624
Repayment of long-term debt	(144,289)	(144,284)
Dividends paid	<u>(500,000)</u>	<u>(500,000)</u>
	10,561,986	4,257,340
Investing activities		
Proceeds from sale of property and equipment	-	13,274
Purchase of property and equipment	(15,561,181)	(8,152,882)
Contributions received in aid of construction	324,442	560,961
Acquisition of intangible assets	<u>(106,903)</u>	<u>(92,337)</u>
	(15,343,642)	(7,670,984)
(Decrease) increase in cash and cash equivalents	(588,971)	652,882
Cash and cash equivalents, beginning of year	1,081,951	429,069
Cash and cash equivalents, end of year	\$ 492,980	\$ 1,081,951

See accompanying notes to the consolidated financial statements.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

1. Nature of operations

The Company is incorporated under the laws of Ontario. Two of the subsidiaries are also incorporated under the laws of Ontario and operate as local utility companies producing and distributing hydro electric power to users in Bracebridge, Huntsville, Sundridge, Burk's Falls and Magnetawan, Ontario. These businesses are granted license to operate and are regulated by the Ontario Energy Board (OEB). A third subsidiary is incorporated under the laws of Ontario and sells utility related products and services.

2. Summary of significant accounting policies

a) Reporting entity

The consolidated financial statements include all transactions of the companies in which the Company has a controlling interest. All significant intercompany transactions and balances have been eliminated on consolidation.

The assets, liabilities and operations of the following subsidiaries are included in these consolidated financial statements:

Bracebridge Generation Ltd.
Lakeland Energy Ltd.
Lakeland Power Distribution Ltd.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, and bank indebtedness.

c) Inventory

Inventory consists of repair parts, supplies and materials valued at the lower of average cost and net realizable value. Cost includes all direct costs plus any related shipping and freight costs. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable selling expenses. The company classifies rebates received from vendors as a reduction to the cost of inventory. Amount of inventory expensed during the year was \$295,823 (2010 - \$287,288).

d) Property and equipment

Property and equipment are recorded at cost less accumulated amortization which includes internal labour and allocated overhead. Stranded meters have been taken out of service and are no longer being amortized. Amortization is provided on the straight line basis over the estimated useful life of the assets as follows:

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

2. Summary of significant accounting policies (continued)

d) Property and equipment (continued)

Distribution plant

Buildings and fixtures	30 & 50 years
Conductors and devices	25 years
Distribution station equipment	25 years
Line transformers	25 years
Meters	25 years
New services distribution	25 years
Poles, towers and fixtures	25 years
Underground conduits	25 years

General plant

Building and fixtures	30 & 50 years
Communication equipment	10 years
Computer hardware and software	5 years
Office furniture and equipment	10 years
Stores equipment	10 years
Tools and garage equipment	10 years
Transportation equipment	5 & 8 years
Leasehold improvements	5 years

Generation plants

Buildings and fixtures	5 to 25 years
Generation plants	25 years
Transportation equipment	5 to 8 years
Fibre optics	10 years
Water heaters and sentinel lights	10 years

e) Contributions in aid of construction

Certain property and equipment may be acquired or constructed with financial assistance in the form of non-refundable contributions from customers. These contributions are netted against property and equipment and amortized on the same basis as the capital assets to which they relate.

f) Impairment of long-lived assets

The Company tests for impairment loss of long-lived assets whenever events or changes in circumstances occur, which may cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

2. Summary of significant accounting policies (continued)

g) Property and equipment retirement obligations

Canadian generally accepted accounting principles require the Company to determine the fair value of the future expenditures required to settle legal obligations to remove property and equipment on retirement. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated property and equipment.

Some of the Company's assets may have asset retirement obligations. As the Company expects to use the majority of its property and equipment for an indefinite period, no removal date can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

h) Intangible assets

Intangible assets consists of land rights, waterpower lease and computer software, which are recorded at cost less accumulated amortization and are amortized over the useful life of the asset. Computer software is amortized on a straight line basis over 5 years. Land rights and waterpower lease both have an indefinite life and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount and no impairment has been recorded to date.

i) Regulatory assets and liabilities

The rates of the Company's electricity transmission and distribution businesses are subject to regulation by the Ontario Energy Board (OEB). The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities that management believes will be settled in future rates to customers.

Specific regulatory assets and liabilities are described below and disclosed in (Note 6).

Smart meters

This amount consists of the net balance of capital and operating expenditures for smart meters, less recoveries received from the rate adder charged to customers. Effective May 1, 2010, the OEB increased the respective monthly rate adder to \$2.50 per month per metered customers.

Renewable generation

These assets relate to the Green Energy Act with the distributor being responsible for the cost of expansion up to the value of the generators renewable energy expansion cost of \$90,000 per MW generation capacity. These amounts have not yet been submitted for recovery.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

2. Summary of significant accounting policies (continued)

i) Regulatory assets and liabilities (continued)

Retail settlement variance accounts

These accounts reflect the difference between the cost of electricity and the amounts billed to consumers that have not yet been approved for recovery.

Regulatory assets and liabilities approved for recovery

These assets and liabilities have been approved for recovery by the OEB and are currently included in rates being charged to the customers.

j) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes to Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with rules contained in the Income Tax Act, as modified by the electricity Act, 1998, and related regulations.

The Company follows the asset and liability method of accounting for payments in lieu of income taxes (PILs). Under this method, current PILs are recognized for the estimated PILs payable (receivable) for the current year. Future PILs assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes, that are likely to be realized. Future PILs are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled.

k) Revenue recognition

Revenue is recognized as power is transmitted and delivered to customers. Revenue is recognized on the accrual basis, which includes an estimate of electricity consumed by customers in the year, but billed subsequent to year end. This revenue is recorded as unbilled service revenue.

Generation revenues are recognized in the period power is generated based on fixed rate contracts which have a CPI index included.

Energy revenues are recognized over the term of the lease as they are earned. Initial setup revenues on monthly contracts are recognized over a twelve month period.

Utility service revenue on customer owned property is recognized under the completed contract method, whereby contract revenue billed and the related contract expenses are deferred until substantial completion of the contract. If losses are anticipated on contracts prior to substantial completion, full provision is made for such losses.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

2. Summary of significant accounting policies (continued)

k) Revenue recognition (continued)

Gain on disposal of property and equipment is recognized when property and equipment is sold in excess of carrying cost of the asset's corresponding net book value.

Investment, late payment/collection charges and other income are recognized as revenue when they are earned. Carrying charges on Regulatory Assets, at prescribed interest rates by the Ontario Energy Board, are also included in investment income.

l) Pension plan

The Company is an employer member of the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer, defined benefit pension plan. The OMERS Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. The Company has adopted defined contribution plan accounting principles for this plan because insufficient information is available to apply defined benefit plan accounting principles. The Company recognizes the expense related to this plan as contributions are made. The required contributions made by the Company to OMERS were \$201,838 (2010 - \$172,030).

m) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's historical experience, best knowledge of current events and actions that the Company may undertake in the future. Significant accounting estimates include allowance for doubtful accounts, unbilled revenue, inventory obsolescence, estimated useful lives of property and equipment and remaining recovery (settlement) period for regulated assets (liabilities). Actual results could differ from those estimates.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

2. Summary of significant accounting policies (continued)

n) Financial instruments

i) Financial instrument categories

The Company classifies its financial instruments into one of the following categories, based on the purpose for which the asset was acquired. The fair value of these financial instruments approximates their carrying values, unless otherwise noted. The Company's accounting policy for each category is as follows:

Assets or liabilities held-for-trading

Cash and cash equivalents have been classified as "held-for-trading". They are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income in the period during which the change occurs. Transaction costs are expensed when incurred.

Loans and receivables

Receivables are classified under "loans and receivables". They are recorded at cost, which, upon their initial measurement, is equal to their fair value. Subsequent measurements of accounts receivable are recorded at amortized cost which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Other financial liabilities

Bank indebtedness, the construction loan, payables and accruals and long term debt are classified as "other financial liabilities". They are initially measured at fair value and the gains and losses resulting from their subsequent measurement at amortized cost, at the end of each period, are recognized in net income.

ii) Risks arising from financial instruments

Credit risk

The Company's cash is all held at The Toronto-Dominion Bank (TD Bank). The Company's credit risk associated with receivables is related to payments from LDC customers. The Company collects security deposits from customers in accordance with directions provided by the Ontario Energy Board. Current customer deposits total \$205,809 (2010 - \$240,224). In addition, the Company holds credit risk insurance on all its commercial and industrial customers thereby minimizing its overall credit risk. The carrying amount of receivables is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the consolidated statement of operations. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations.

Interest rate risk

The long-term debt bears fixed interest rates. Consequently, the long-term interest rate risk exposure is minimal. The bank indebtedness and construction loan bear interest at floating rates which gives rise to a risk that the Company's future income (loss) and cash flows may be adversely impacted by fluctuations in interest rates.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

2. Summary of significant accounting policies (continued)

n) Financial instruments (continued)

ii) Risks arising from financial instruments (continued)

Liquidity risk

The Company manages its liquidity risk to ensure access to sufficient funds to meet operational needs. Liquidity risks are comprised of liabilities totaling \$24,455,786 which are due within one year and long-term debt of \$3,487,500 to be repaid over the next 3 years. Included in this amount is a construction loan of \$16,107,899 that has been converted to a long-term debt instrument on March 30, 2012 as a 10 yr term swap loan, 3.74% fixed interest, 20 yr amortization.

3. New accounting pronouncements

International financial reporting standards (IFRS)

In 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the adoption of IFRS would be effective for interim and annual periods beginning on or after January 1, 2012 for Canadian publicly accountable profit-oriented enterprises. In March 2012, the AcSB decided to permit rate regulated entities to defer their IFRS implementation date to January 1, 2013. IFRS will replace Canada's current GAAP for these enterprises upon adoption. Comparative IFRS information for the previous fiscal year will also have to be reported. As such, the Company will apply IFRS to its consolidated financial statements ending December 31, 2013.

The Company is currently in the process of evaluating the potential impact of IFRS on the future consolidated financial statements. This will be an ongoing process. The consolidated financial statements as disclosed under current GAAP may be significantly different when presented in accordance with IFRS.

One area that is expected to change will be that regulatory assets and liabilities will not be permitted for separate treatment under IFRS. If these items do not qualify as assets or liabilities under IFRS they will be recorded on the statement of earnings. This would have resulted in increased earnings of \$156,992 (2010 - \$53,641), and an increase of property and equipment of \$320,053 (2010 - \$244,995).

4. Property and equipment

	<u>2011</u>		<u>2010</u>	
	<u>Asset</u>	<u>Accumulated</u>	<u>Asset</u>	<u>Accumulated</u>
	<u>Cost</u>	<u>Amortization</u>	<u>Cost</u>	<u>Amortization</u>
Distribution Plant				
Buildings and fixtures	\$ 1,840,984	\$ 176,034	\$ 652,936	\$ 135,437
Conductors and devices	5,246,219	1,559,747	4,820,122	1,354,596

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

4. Property and equipment (continued)

	<u>2011</u>		<u>2010</u>	
	<u>Asset</u>	<u>Accumulated</u>	<u>Asset</u>	<u>Accumulated</u>
	<u>Cost</u>	<u>Amortization</u>	<u>Cost</u>	<u>Amortization</u>
Distribution Plant (continued)				
Distribution station equipment	3,222,714	890,246	3,174,761	745,212
Line transformers	5,913,575	2,266,034	5,520,518	1,979,831
Meters	266,941	59,653	193,262	49,747
Stranded meters	1,006,849	419,887	1,006,849	419,887
New services distribution	561,603	122,088	484,652	101,164
Poles, towers and fixtures	5,892,793	2,865,206	5,556,074	2,579,897
Underground conduits	<u>3,110,633</u>	<u>1,490,104</u>	<u>3,036,781</u>	<u>1,350,576</u>
	<u>27,062,311</u>	<u>9,848,999</u>	<u>24,445,955</u>	<u>8,716,347</u>
General Plant				
Land	278,455	-	278,455	-
Buildings and fixtures	174,386	51,204	174,386	45,062
Communication equipment	188,721	128,762	188,721	114,459
Computer hardware	622,994	447,140	510,796	388,144
Office furniture and equipment	232,043	126,099	166,164	115,135
Store equipment	10,960	8,576	10,960	7,756
Tools and garage equipment	251,749	173,429	238,014	157,183
Transportation equipment	1,345,326	863,229	1,316,643	720,570
Leasehold improvements	<u>193,371</u>	<u>131,954</u>	<u>193,371</u>	<u>93,280</u>
	<u>3,298,005</u>	<u>1,930,393</u>	<u>3,077,510</u>	<u>1,641,589</u>
Construction in progress	<u>18,228,261</u>	<u>-</u>	<u>6,115,364</u>	<u>-</u>
Generation Plants and Other				
Land	54,646	-	51,723	-
Buildings and fixtures	254,857	131,508	250,384	109,327
Generation plants	8,896,117	2,602,953	8,824,223	2,248,560
Fibre optics	1,739,372	488,026	1,260,938	338,011
Water heaters/sentinel lights	<u>649,645</u>	<u>401,817</u>	<u>608,354</u>	<u>362,130</u>
	<u>11,594,637</u>	<u>3,624,304</u>	<u>10,995,622</u>	<u>3,058,028</u>
	60,183,214	15,403,696	44,634,451	13,415,964
Less contributions in				
Aid of construction	<u>4,997,238</u>	<u>1,074,121</u>	<u>4,672,796</u>	<u>880,732</u>
	<u>\$ 55,185,976</u>	<u>\$ 14,329,575</u>	<u>\$ 39,961,655</u>	<u>\$ 12,535,232</u>
		<u>\$ 40,856,401</u>		<u>\$ 27,426,423</u>

Lakeland Holding Ltd. Notes to the Consolidated Financial Statements

December 31, 2011

5. Intangible assets

	<u>2011</u>		<u>2010</u>	
	<u>Asset</u> <u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Asset</u> <u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>
Computer software	\$ 536,671	\$ 299,965	\$ 439,997	\$ 225,382
Land rights	516,004	15,147	493,354	15,147
Waterpower lease	<u>256,437</u>	<u>-</u>	<u>256,437</u>	<u>-</u>
	<u>\$ 1,309,112</u>	<u>\$ 315,112</u>	<u>\$ 1,189,788</u>	<u>\$ 240,529</u>
		<u>\$ 994,000</u>		<u>\$ 949,259</u>

In 2005, the Company acquired a Water Power Lease Agreement with the Ministry of natural Resources through the acquisition of Burk's Falls Waterpower Corporation. The lease provides access to crown lands and water beds and is considered to have an indefinite life. The lease has been in existence since 1985.

6. Regulatory assets and liabilities

	<u>2011</u>	<u>2010</u>
Regulatory assets		
Smart meters	\$ 1,893,095	\$ 1,965,730
Other	32,582	-
Renewable generation	249,798	-
Retail settlement variances	400,890	-
Regulatory assets approved for recovery	<u>-</u>	<u>213,260</u>
	<u>\$ 2,576,365</u>	<u>\$ 2,178,990</u>
Regulatory liabilities		
Regulatory liabilities approved for recovery	121,681	-
Retail settlement variances	<u>-</u>	<u>588,778</u>
	<u>\$ 121,681</u>	<u>\$ 588,778</u>

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

7. Future income tax assets

Future income tax assets at December 31, 2011, which arise from differences between the carrying amounts and tax bases of the Company's assets, are as follows:

	<u>2011</u>	<u>2010</u>
Future income taxes assets		
Difference of tax basis of property and equipment and intangibles from the carrying value	\$ 780,504	\$ 929,500
Regulatory assets and liabilities (tax effective)	-	(87,000)
Corporate minimum tax credit carry forward	112,326	112,048
Tax losses for carryforward	7,524	30,726
Transitional credit	<u>30,720</u>	<u>58,800</u>
	<u>\$ 931,074</u>	<u>\$ 1,044,074</u>

Reconciliation of total payments in lieu of income taxes

Earnings before payments in lieu of income taxes	\$ 1,804,688	\$ 1,774,185
Current effective tax rate	<u>28.25%</u>	<u>29.95%</u>
Expected payments	509,824	531,368
Tax rate change	24,813	(151,734)
Regulatory asset and liabilities (tax effective)	(87,000)	-
Small business deduction	(36,240)	(48,018)
Difference in current effective tax rate with expected future tax rates	-	(55,886)
Manufacturing and processing deduction	(24,063)	-
Other	<u>17,670</u>	<u>17,251</u>
	<u>405,004</u>	<u>292,981</u>
Payments in lieu of income taxes		
Current payments in lieu of income taxes	292,004	225,814
Future payments in lieu of income taxes	<u>113,000</u>	<u>67,167</u>
	<u>\$ 405,004</u>	<u>\$ 292,981</u>

The "transitional credit" of \$22,433 was utilized during 2011, leaving \$30,720 available to reduce tax per year from 2009 until 2013. Any credit amount that is not required to reduce taxes in a particular year will be available to claim in a subsequent year. Any credit amounts not required to reduce taxes left in 2013 will expire.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

8. Construction loan

The demand loan is with a TD bank to assist with the construction of new generation stations. Interest is at the bank's prime lending rate.

Security for the revolving facility is provided by a General Security Agreement with the TD Bank, a floating and fixed charge over all assets and evidence of adequate liability insurance.

The agreement covering the above facility contains certain restrictions regarding interest coverage and debt capitalization tests, which have been met.

On March 8, 2012 an agreement was made to convert the construction loan into an interest rate swap effective March 31, 2012. Terms are 10 yr loan, 3.74% fixed interest, 20 yr. amortization.

9. Long-term debt	<u>2011</u>	<u>2010</u>
TD bank committed installment loan, interest payable monthly at 2.48% annual, due April 2012	\$ 221,416	\$ 365,705
TD bank term loan, payments of interest only, payable monthly at 5.41%, due March 2013	1,162,500	1,162,500
TD bank term loan, payments of interest only, payable monthly at 5.03%, due March 2013	<u>2,325,000</u>	<u>2,325,000</u>
	3,708,916	3,823,205
Less current portion	<u>221,416</u>	<u>144,289</u>
	\$ 3,487,500	\$ 3,708,916

Principal payments required on long-term debt for the next two years are due as follows:

2012	\$ 221,416
2013	<u>3,487,500</u>
	\$ 3,708,916

The TD bank committed installment loan was renewed in 2011 at the same terms as are currently in place.

Security for TD bank term loans is provided by a General Security Agreement with the TD Bank, conveying a first floating and fixed charge over all assets of Lakeland Power Distribution Ltd. and Bracebridge Generation Ltd. and evidence of adequate liability insurance.

The agreement covering the above facility contains certain restrictions regarding interest coverage and debt capitalization tests, which have been met.

Lakeland Holding Ltd.
Notes to the Consolidated Financial Statements
December 31, 2011

10. Contingent liability

Environmental contingency

On September 17, 2008, Environment Canada published its final regulations governing the management, storage and disposal of PCBs by 2020. The regulations impose timelines for disposal of PCBs based on certain criteria. It is management's plan to have all affected assets tested and removed by the end of 2012 to be in advance of government requirements. No accrual has been reflected in these financial statements as these costs have not yet been determined.

Legal contingency

The Company is involved in potential litigation regarding a July 2008 drowning at a generation station. In respect to any potential claim, the Company believes that insurance coverage is adequate and that no material exposure exists. No further action has been taken at this time.

The Company has invoked liquidated damages against the civil contractor on the generation upgrade projects for late start-up. The Company does not feel that the outcome will have any adverse effect on these statements.

11. Share capital

		<u>2011</u>	<u>2010</u>
Authorized			
Unlimited	Common shares		
Issued			
10,000	Common shares	\$ <u>12,609,650</u>	\$ <u>12,609,650</u>

12. Amortization of property and equipment

The amortization of property and equipment amounted to \$1,868,923 for the year (2010 - \$1,734,783). The lime item *Amortization* on the statement of earnings reflects \$1,722,864 (2010 - \$1,598,079) because the transportation and communication equipment amortization of \$146,059 (2010 - \$136,704) has been expensed and capitalized to operating lines where the equipment was used.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

13. Statement of cash flow supplementary information

During the year, the Company paid (received) the following amounts in cash:

	<u>2011</u>	<u>2010</u>
Interest	\$ <u>273,917</u>	\$ <u>225,571</u>
Payments (refunds) in lieu of income taxes	\$ <u>251,540</u>	\$ <u>282,061</u>

14. Related party transactions

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties) which approximates the arm's length equivalent value.

The following table summarizes the Company's related party shareholder transactions for the year:

	<u>2011</u>	<u>2010</u>
Purchases		
Town of Bracebridge		
Dividends	\$ 325,548	\$ 325,548
Operating expenses	51,910	65,174
Town of Huntsville		
Dividends	125,648	125,648
Operating expenses	4,635	5,398
Village of Burk's Falls		
Dividends	19,800	19,800
Operating expenses	1,181	1,033
Village of Sundridge		
Dividends	21,652	21,652
Operating expenses	45	-
Municipality of Magnetawan		
Dividends	7,352	7,352
Sales		
Town of Bracebridge	\$ 1,051,156	\$ 1,197,591
Town of Huntsville	458,953	668,341
Village of Burk's Falls	117,231	114,925
Village of Sundridge	125,011	116,639
Municipality of Magnetawan	32,403	34,797

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2011

15. Capital disclosures

The Company defines its capital to be its long-term debt, share capital and retained earnings. The Company's objectives when managing its capital are:

- To safeguard its ability to continue as a going concern which will allow it to continue to service its customers
- To provide adequate returns to its shareholders
- To ensure ongoing access to funding to maintain and improve the electricity distribution system
- To ensure compliance with covenants related to its credit facilities.

Annual budgets are developed along with three year business plans and actual results are reviewed on a regular basis to monitor the Company's capital and ensure it is maintained at an appropriate level. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company will adjust the amount of dividends paid to its shareholders. The Company's externally imposed capital requirements consist of banking covenants related to its long-term debt (Note 9). One of the covenants limits the debt to 60% of the Company's total capitalization.

There have been no changes in the Company's capital management strategy in relation to the prior year.

16. Comparative figures

Certain comparative figures presented in the financial statements have been reclassified to conform to the presentation adopted for the current year.



Consolidated Financial Statements

Lakeland Holding Ltd.

December 31, 2012

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Independent Auditor's Report

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To the Shareholders of Lakeland Holding Ltd.:

We have audited the accompanying consolidated financial statements of Lakeland Holding Ltd., which comprise the consolidated balance sheet as at December 31, 2012, and the consolidated statements of earnings and comprehensive loss, shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Lakeland Holding Ltd. as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Orillia, Canada
April 22, 2013

Chartered Accountants
Licensed Public Accountants

Lakeland Holding Ltd.

Consolidated Statements of Earnings and Comprehensive Loss

Year Ended December 31	2012	2011
Power Revenue	\$ 25,888,572	\$ 23,155,056
Power purchased	<u>20,179,772</u> 5,708,800	<u>18,600,838</u> 4,554,218
Other revenues		
Generation	4,918,918	1,926,830
Energy	1,424,392	1,260,727
Miscellaneous income	222,852	338,289
Gain on disposal of property and equipment	12,700	-
Investment income	<u>59,684</u>	<u>73,609</u>
	<u>12,347,346</u>	<u>8,153,673</u>
Expenses		
Administration and general	1,669,708	1,402,424
Amortization (Note 13)	2,039,092	1,722,864
Billing and collecting	721,277	613,349
Taxes other than income taxes	74,238	87,463
Interest	803,992	273,917
Operations and maintenance	2,583,487	2,248,692
Payments in lieu of capital tax	<u>-</u>	<u>276</u>
	<u>7,891,794</u>	<u>6,348,985</u>
Earnings before payments in lieu of income taxes	<u>4,455,552</u>	<u>1,804,688</u>
Payments in Lieu of income taxes (Note 7)		
Current-Payments in Lieu of income taxes (PILs)	303,044	292,004
Future-Payments in Lieu of income taxes (PILs)	<u>750,800</u>	<u>113,000</u>
	<u>1,053,844</u>	<u>405,004</u>
Net earnings	\$ <u>3,401,708</u>	\$ <u>1,399,684</u>
Other comprehensive loss		
Change in fair value of the interest rate swap	\$ <u>(578,495)</u>	\$ <u>-</u>

See accompanying notes to the consolidated financial statements.

Lakeland Holding Ltd.

Consolidated Statement of Shareholders' Equity

	<u>Share Capital</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
Balance, beginning of the year	\$ 12,609,650	\$ -	\$ 10,985,405	\$ 23,595,055
Net income	-	-	3,401,708	3,401,708
Dividends	-	-	(500,000)	(500,000)
Other comprehensive loss				
Change in FMV of interest rate swap	<u>-</u>	<u>(578,495)</u>	<u>-</u>	<u>(578,495)</u>
Balance, end of the year	<u>\$ 12,609,650</u>	<u>\$ (578,495)</u>	<u>\$ 13,887,113</u>	<u>\$ 25,918,268</u>

See accompanying notes to the consolidated financial statements

Lakeland Holding Ltd.

Consolidated Balance Sheet

December 31	2012	2011
Assets		
Current		
Cash and cash equivalents	\$ -	\$ 492,980
Receivables	5,378,152	3,335,548
Unbilled revenue	2,384,301	2,262,157
Inventory	291,344	205,739
Prepays	261,701	234,667
	<u>8,315,498</u>	<u>6,531,091</u>
Property and equipment (Note 4)	46,035,006	40,856,401
Intangible assets (Note 5)	1,060,027	994,000
Regulatory assets (Note 6)	1,258,457	2,576,365
Future income tax assets (Note 7)	<u>180,274</u>	<u>931,074</u>
	<u>\$ 56,849,262</u>	<u>\$ 51,888,931</u>
Liabilities		
Current		
Bank Indebtedness	\$ 1,649,372	\$ -
Construction loan (Note 8)	-	16,107,899
Payables and accruals	4,724,793	7,894,262
Payments in lieu of income taxes payable	25,339	13,449
Deferred revenue	231,857	218,760
Current portion of long-term debt (Note 10)	<u>1,000,967</u>	<u>221,416</u>
	<u>7,632,328</u>	<u>24,455,786</u>
Long-term debt (Note 10)	22,505,874	3,487,500
Customer deposits	191,197	205,809
Regulatory liabilities (Note 6)	-	121,681
Other non-current liabilities	23,100	23,100
Interest Rate Swap (Note 9)	<u>578,495</u>	<u>-</u>
	<u>30,930,994</u>	<u>28,293,876</u>
Shareholders' equity		
Share capital (Note 12)	12,609,650	12,609,650
Accumulated other comprehensive loss	(578,495)	-
Retained earnings	<u>13,887,113</u>	<u>10,985,405</u>
	<u>25,918,268</u>	<u>23,595,055</u>
	<u>\$ 56,849,262</u>	<u>\$ 51,888,931</u>

Contingent liability (Note 11)

On behalf of the Board

Director

Director

See accompanying notes to the consolidated financial statements

Lakeland Holding Ltd.

Consolidated Statement of Cash Flows

Year Ended December 31	2012	2011
(Decrease) increase in cash and cash equivalents		
Operating activities		
Net earnings	\$ 3,401,708	\$ 1,399,684
Amortization (Note 13)	2,149,098	1,868,923
Gain on disposal of property and equipment	(12,700)	-
Future payments in lieu of income taxes (Note 7)	750,800	113,000
	<u>6,288,906</u>	<u>3,381,607</u>
Change in non-cash working capital		
Receivables	(2,042,608)	(672,131)
Unbilled revenue	(122,144)	92,889
Inventory	(85,605)	49,987
Prepays	(27,034)	(17,134)
Payables and accruals	(3,169,471)	2,144,652
Deferred revenue	13,097	50,923
Payment in lieu of income taxes	11,890	60,779
	<u>867,031</u>	<u>5,091,572</u>
Customer deposits	(14,612)	(34,415)
Regulatory assets and liabilities	1,196,227	(864,472)
	<u>2,048,646</u>	<u>4,192,685</u>
Financing activities		
Construction loan advances	-	11,206,275
Long-term loan advances	3,911,442	-
Repayment of long-term debt	(221,416)	(144,289)
Dividends paid	(500,000)	(500,000)
	<u>3,190,026</u>	<u>10,561,986</u>
Investing activities		
Proceeds from sale of property and equipment	24,136	-
Purchase of property and equipment	(8,277,613)	(15,561,181)
Contributions received in aid of construction	1,120,478	324,442
Acquisition of intangible assets	(248,025)	(106,903)
	<u>(7,381,024)</u>	<u>(15,343,642)</u>
Decrease in cash and cash equivalents	(2,142,352)	(588,971)
Cash and cash equivalents, beginning of year	492,980	1,081,951
Cash and cash equivalents, end of year	\$ (1,649,372)	\$ 492,980

See accompanying notes to the consolidated financial statements.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

1. Nature of operations

The Company is incorporated under the laws of Ontario. Two of the subsidiaries are also incorporated under the laws of Ontario and operate as local utility companies producing and distributing hydro electric power to users in Bracebridge, Huntsville, Sundridge, Burk's Falls and Magnetawan, Ontario. These businesses are granted license to operate and are regulated by the Ontario Energy Board (OEB). A third subsidiary is incorporated under the laws of Ontario and sells utility related products and services.

2. Summary of significant accounting policies

a) Reporting entity

The consolidated financial statements include all transactions of the companies in which the Company has a controlling interest. All significant intercompany transactions and balances have been eliminated on consolidation.

The assets, liabilities and operations of the following subsidiaries are included in these consolidated financial statements:

Bracebridge Generation Ltd.
Lakeland Energy Ltd.
Lakeland Power Distribution Ltd.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, and bank indebtedness.

c) Inventory

Inventory consists of repair parts, supplies and materials valued at the lower of average cost and net realizable value. Cost includes all direct costs plus any related shipping and freight costs. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable selling expenses. The company classifies rebates received from vendors as a reduction to the cost of inventory. Amount of inventory expensed during the year was \$43,845 (2011 - \$295,823).

d) Property and equipment

Property and equipment are recorded at cost less accumulated amortization which includes internal labour and allocated overhead. Stranded meters have been taken out of service and are no longer being amortized. Amortization is provided on the straight line basis over the estimated useful life of the assets as follows:

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

2. Summary of significant accounting policies (continued)

d) Property and equipment (continued)

<u>Distribution plant</u>	Revised	Previous
Buildings and fixtures	50 years	30 & 50 years
Conductors and devices	60 years	25 years
Distribution station equipment	40 years	25 years
Line transformers	40 years	25 years
Meters	15 years	25 years
New services distribution	45 years	25 years
Poles, towers and fixtures	45 years	25 years
Underground conduits	40 to 45 years	25 years
<u>General plant</u>		
Building and fixtures	50 years	30 & 50 years
Communication equipment	5 to 10 years	10 years
Computer hardware and software	5 years	5 years
Office furniture and equipment	10 years	10 years
Stores equipment	10 years	10 years
Tools and garage equipment	10 years	10 years
Transportation equipment	5 & 8 years	5 & 8 years
Leasehold improvements	5 years	5 years
<u>Generation plants</u>		
Buildings and fixtures	5 to 50 years	5 to 25 years
Generation plants	25 to 45 years	25 years
Transportation equipment	5 to 8 years	5 to 8 years
Fibre optics	20 years	10 years
Water heaters and sentinel lights	10 to 12 years	10 years

These useful lives are a change in accounting estimate based on the experience of assets currently in service and a third party evaluation of the condition of assets. The amortization was calculated using the net book value over the remaining useful life. The change has resulted in a decrease in amortization of \$692,477 for the year compared to what it would have been at the old rates. The effect on future periods is not practical to estimate.

e) Contributions in aid of construction

Certain property and equipment may be acquired or constructed with financial assistance in the form of non-refundable contributions from customers. These contributions are netted against property and equipment and amortized on the same basis as the capital assets to which they relate.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

2. Summary of significant accounting policies (continued)

f) Impairment of long-lived assets

The Company tests for impairment loss of long-lived assets whenever events or changes in circumstances occur, which may cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value.

g) Property and equipment retirement obligations

Canadian generally accepted accounting principles require the Company to determine the fair value of the future expenditures required to settle legal obligations to remove property and equipment on retirement. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated property and equipment.

Some of the Company's assets may have asset retirement obligations. As the Company expects to use the majority of its property and equipment for an indefinite period, no removal date can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

h) Intangible assets

Intangible assets consists of land rights, waterpower lease and computer software, which are recorded at cost less accumulated amortization and are amortized over the useful life of the asset. Computer software is amortized on a straight line basis over 5 years. Land rights and waterpower lease both have an indefinite life and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount and no impairment has been recorded to date.

i) Regulatory assets and liabilities

The rates of the Company's electricity transmission and distribution businesses are subject to regulation by the Ontario Energy Board (OEB). The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities that management believes will be settled in future rates to customers.

Specific regulatory assets and liabilities are described below and disclosed in (Note 6).

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

2. Summary of significant accounting policies (continued)

i) Regulatory assets and liabilities (continued)

Smart meters/Stranded meters

This amount consists of the net balance of capital and operating expenditures for smart meters, less recoveries received from the rate adder charged to customers. In 2012 this amount was transferred to property and equipment with the approval of recovery as per OEB guidelines.

The net book value of stranded meters related to the deployment of smart meters was transferred to regulatory assets from property and equipment.

Retail settlement variance accounts

These accounts reflect the difference between the cost of electricity and the amounts billed to consumers that have not yet been approved for recovery.

Renewable generation

These assets relate to the Green Energy Act with the distributor being responsible for the cost of expansion up to the value of the generators renewable energy expansion cost of \$90,000 per MW generation capacity. These amounts have not yet been submitted for recovery.

Regulatory assets and liabilities approved for recovery

These assets and liabilities have been approved for recovery by the OEB and are currently included in rates being charged to the customers.

j) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes to Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with rules contained in the Income Tax Act, as modified by the electricity Act, 1998, and related regulations.

The Company follows the asset and liability method of accounting for payments in lieu of income taxes (PILs). Under this method, current PILs are recognized for the estimated PILs payable (receivable) for the current year. Future PILs assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes, that are likely to be realized. Future PILs are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

2. Summary of significant accounting policies (continued)

k) Revenue recognition

Power revenue is recognized as power is transmitted and delivered to customers. Revenue is recognized on the accrual basis, which includes an estimate of electricity consumed by customers in the year, but billed subsequent to year end. This revenue is recorded as unbilled service revenue.

Generation revenues are recognized in the period power is generated based on fixed rate contracts which have a CPI index included.

Energy revenues are recognized over the term of the lease as they are earned. Initial setup revenues on monthly contracts are recognized over a twelve month period.

Utility service revenue on customer owned property is recognized under the completed contract method, whereby contract revenue billed and the related contract expenses are deferred until substantial completion of the contract. If losses are anticipated on contracts prior to substantial completion, full provision is made for such losses.

Gain on disposal of property and equipment is recognized when property and equipment is sold in excess of the carrying cost of the asset's corresponding net book value.

Investment, late payment/collection charges and other income are recognized as revenue when they are earned. Carrying charges on Regulatory Assets, at prescribed interest rates by the Ontario Energy Board, are also included in investment income.

l) Interest rate swap and hedge accounting

The Company has entered into an interest rate swap agreement to manage the volatility of interest rates. The Company formally documents the relationship between the hedging instrument and the hedged item, as well as its risk management objective and strategy for undertaking the hedging transaction. This process includes linking the interest rate swap to the long term debt on the balance sheet. The Company also formally assesses, both at the hedge's inception and on an on-going-basis, whether the interest rate swap used in the hedging transaction is highly effective in offsetting changes in cash flows of the hedged item.

The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. It is management's intention to hold the swap to maturity.

This interest rate swap qualifies and has been designated by the Company as a cash flow hedge against the floating rate long term debt. The Company has assessed the hedging relationship as effective. The fair value of the interest rate swap is recognized on the balance sheet as an "interest rate swap" liability. The effective portion of changes in fair value is recognized in other comprehensive loss while any gains or losses on fair value relating to the ineffective portion is recognized immediately in the statement of earnings and comprehensive loss.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

2. Summary of significant accounting policies (continued)

m) Pension plan

The Company is an employer member of the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer, defined benefit pension plan. The OMERS Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. The Company has adopted defined contribution plan accounting principles for this plan because insufficient information is available to apply defined benefit plan accounting principles. The Company recognizes the expense related to this plan as contributions are made. The required contributions made by the Company to OMERS were \$262,213 (2011 - \$201,838).

n) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's historical experience, best knowledge of current events and actions that the Company may undertake in the future. Significant accounting estimates include allowance for doubtful accounts, unbilled revenue, inventory obsolescence, estimated useful lives of property and equipment and remaining recovery (settlement) period for regulated assets (liabilities). Actual results could differ from those estimates.

o) Financial instruments

i) Financial instrument categories

The Company classifies its financial instruments into one of the following categories, based on the purpose for which the asset was acquired. The fair value of these financial instruments approximates their carrying values, unless otherwise noted. The Company's accounting policy for each category is as follows:

Assets or liabilities held-for-trading

Cash and cash equivalents and the interest rate swap (a derivative financial instrument) have been classified as "held-for-trading". They are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income in the period during which the change occurs. Transaction costs are expensed when incurred.

Loans and receivables

Receivables are classified under "loans and receivables". They are recorded at cost, which, upon their initial measurement, is equal to their fair value. Subsequent measurements of accounts receivable are recorded at amortized cost which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

2. Summary of significant accounting policies (continued)

o) Financial instruments (continued)

Other financial liabilities

Bank indebtedness, the construction loan, payables and accruals and long term debt are classified as "other financial liabilities". They are initially measured at fair value and the gains and losses resulting from their subsequent measurement at amortized cost, at the end of each period, are recognized in net income.

3. New accounting pronouncements

International financial reporting standards (IFRS)

In 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the adoption of IFRS would be effective for interim and annual periods beginning on or after January 1, 2012 for Canadian publicly accountable profit-oriented enterprises. In February 2013, the AcSB decided to permit rate regulated entities to defer their IFRS implementation date to January 1, 2015. IFRS will replace Canada's current GAAP for these enterprises upon adoption. Comparative IFRS information for the previous fiscal year will also have to be reported. As such, the Company will apply IFRS to its consolidated financial statements ending December 31, 2014.

The Company is currently in the process of evaluating the potential impact of IFRS on the future consolidated financial statements. This will be an ongoing process. The consolidated financial statements as disclosed under current GAAP may be different when presented in accordance with IFRS.

4. Property and equipment

	<u>2012</u>		<u>2011</u>	
	<u>Asset</u>	<u>Accumulated</u>	<u>Asset</u>	<u>Accumulated</u>
	<u>Cost</u>	<u>Amortization</u>	<u>Cost</u>	<u>Amortization</u>
Distribution Plant				
Buildings and fixtures	\$ 1,838,810	\$ 242,965	\$ 1,840,984	\$ 176,034
Conductors and devices	5,939,399	1,691,219	5,246,219	1,559,747
Distribution station equipment	3,268,437	958,600	3,222,714	890,246
Line transformers	6,717,845	2,402,830	5,913,575	2,266,034
Meters	1,905,681	340,334	266,941	59,653
Stranded meters	-	-	1,006,849	419,887
New services distribution	702,569	134,757	561,603	122,088
Poles, towers and fixtures	6,184,783	2,986,297	5,892,793	2,865,206
Underground conduits	3,345,311	1,554,217	3,110,633	1,490,104
	<u>29,902,835</u>	<u>10,311,219</u>	<u>27,062,311</u>	<u>9,848,999</u>

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

4. Property and equipment (continued)

	<u>2012</u>		<u>2011</u>	
	<u>Asset</u> <u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Asset</u> <u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>
General Plant				
Land	278,455	-	278,455	-
Buildings and fixtures	179,606	60,817	174,386	51,204
Communication equipment	599,304	346,283	188,721	128,762
Computer hardware	690,637	541,499	622,994	447,140
Office furniture and equipment	232,043	140,358	232,043	126,099
Store equipment	10,960	9,396	10,960	8,576
Tools and garage equipment	261,628	188,134	251,749	173,429
Transportation equipment	1,405,662	903,983	1,345,326	863,229
Leasehold improvements	<u>194,080</u>	<u>170,699</u>	<u>193,371</u>	<u>131,954</u>
	<u>3,852,375</u>	<u>2,361,169</u>	<u>3,298,005</u>	<u>1,930,393</u>
Construction in progress	<u>278,543</u>	<u>-</u>	<u>18,228,261</u>	<u>-</u>
Generation Plants and Other				
Land	109,646	-	54,646	-
Buildings and fixtures	4,496,984	194,594	254,857	131,508
Generation plants	26,590,175	2,988,850	8,896,117	2,602,953
Fibre optics	1,916,438	566,907	1,739,372	488,026
Water heaters/sentinel lights	<u>674,056</u>	<u>438,715</u>	<u>649,645</u>	<u>401,817</u>
	<u>33,787,299</u>	<u>4,189,066</u>	<u>11,594,637</u>	<u>3,624,304</u>
	67,821,052	16,861,454	60,183,214	15,403,696
Less contributions in				
Aid of construction	<u>6,117,716</u>	<u>1,193,124</u>	<u>4,997,238</u>	<u>1,074,121</u>
	<u>\$ 61,703,336</u>	<u>\$ 15,668,330</u>	<u>\$ 55,185,976</u>	<u>\$ 14,329,575</u>
		<u>\$ 46,035,006</u>		<u>\$ 40,856,401</u>

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

5. Intangible assets

	<u>2012</u>		<u>2011</u>	
	<u>Asset</u> <u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Asset</u> <u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>
Computer software	\$ 784,697	\$ 481,964	\$ 536,671	\$ 299,965
Land rights	516,004	15,147	516,004	15,147
Waterpower lease	<u>256,437</u>	<u>-</u>	<u>256,437</u>	<u>-</u>
	<u>\$ 1,557,138</u>	<u>\$ 497,111</u>	<u>\$ 1,309,112</u>	<u>\$ 315,112</u>
		<u>\$ 1,060,027</u>		<u>\$ 994,000</u>

In 2005, the Company acquired a Water Power Lease Agreement with the Ministry of natural Resources through the acquisition of Burk's Falls Waterpower Corporation. The lease provides access to crown lands and water beds and is considered to have an indefinite life. The lease has been in existence since 1985.

6. Regulatory assets and liabilities

	<u>2012</u>	<u>2011</u>
Regulatory assets		
Smart meters	\$ 446,409	\$ 1,893,095
Other	34,282	32,582
Renewable generation	243,380	249,798
Retail settlement variances	419,136	400,890
Regulatory assets approved for recovery	<u>115,250</u>	<u>-</u>
	<u>\$ 1,258,457</u>	<u>\$ 2,576,365</u>
Regulatory liabilities		
Regulatory liabilities approved for recovery	-	121,681
Retail settlement variances	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 121,681</u>

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

7. Future income tax assets

Future income tax assets at December 31, 2012, which arise from differences between the carrying amounts and tax bases of the Company's assets, are as follows:

	<u>2012</u>	<u>2011,</u>
Future income taxes assets		
Difference of tax basis of property and equipment and intangibles from the carrying value	\$ (350,359)	\$ 795,561
Corporate minimum tax credit carry forward	104,200	104,200
Tax losses for carryforward	402,644	7,524
Transitional credit	23,789	23,789
	<u>\$ 180,274</u>	<u>\$ 931,074</u>

Reconciliation of total payments in lieu of income taxes

Earnings before payments in lieu of income taxes	\$ 4,455,552	\$ 1,804,688
Current effective tax rate	<u>26.50%</u>	<u>28.25%</u>
Expected payments	1,180,721	509,824
Tax rate change	(45,170)	24,813
Regulatory asset and liabilities (tax effective)	-	(87,000)
Small business deduction	(35,000)	(36,240)
Manufacturing and processing deduction	-	(24,063)
Other	<u>(46,707)</u>	<u>17,670</u>
	<u>1,053,844</u>	<u>405,004</u>
Payments in lieu of income taxes		
Current payments in lieu of income taxes	303,044	292,004
Future payments in lieu of income taxes	750,800	113,000
	<u>\$ 1,053,844</u>	<u>\$ 405,004</u>

The "transitional credit" is available to reduce taxes in 2013. Any credit amounts not required to reduce taxes in 2013 will expire.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

8. Construction loan

The demand loan was with TD Bank to assist with the construction of new generation stations. Interest was at the bank's prime lending rate.

On March 8, 2012 an agreement was made to convert the construction loan into long term debt with an interest rate swap effective March 30, 2012.

9. Interest rate swap

The Company has entered into an interest rate swap agreement to manage the volatility of interest rates and has applied hedge accounting on the cash flows from the reducing term facility loan as described in Note 2 of the financial statements. The floating interest rate on the bankers acceptance loan has been converted to a fixed rate of 3.74% by entering into an amortizing interest rate swap with an notional amount of \$16,559,538. The maturity date of the interest rate swap is March 31, 2022.

The fair value of the interest rate swap agreement is based on amounts determined by third party valuation of the interest rate swap. As at December 31, 2012 the interest rate swap agreement was in a net unfavorable position representing a liability and a decrease in other comprehensive loss of \$578,495.

10. Long-term debt	2012	2011
TD bank committed installment loan, interest payable monthly at 2.48% annual, due April 2012	\$ -	\$ 221,416
TD bank term loan	3,459,803	-
Reducing term facility loan	16,559,538	-
TD bank term loan, payments of interest only, payable monthly at 2.94%, due March 2018	1,162,500	1,162,500
TD bank term loan, payments of interest only, payable monthly at 2.9268%, due October 2017	2,325,000	2,325,000
	23,506,841	3,708,916
Less current portion	1,000,967	221,416
	\$ 22,505,874	\$ 3,487,500

The TD term loans are secured by a general security agreement with the TD Bank, conveying a first floating and fixed charge over all assets and evidence of adequate liability insurance. The loan rate on the \$3,459,803 term loan is held until March 2013 at 1.25% plus the BA rate. The loan has a 10 year term, 20 year amortization period, due March 2022, with yearly principal payments of \$172,990.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

10. Long-term debt (continued)

The reducing term facility is with the TD Bank. The facility bears interest at a fixed annual rate of 3.74%, which includes 1.25% stamping fee, that is obtained as a result of an interest rate swap agreement (as described in Note 9) combined with the issuance of a monthly bankers' acceptance. The term facility is reduced by annual principal payments in June of \$827,977 of each year. Security is provided by a General Security Agreement with the TD Bank, conveying a first floating and fixed charge over all assets and evidence of adequate liability insurance. The loan has a 10 year term, is due March 2022, with 20 year amortization period.

The agreement covering the above facility contains certain restrictions regarding service coverage ratio and debt capitalization tests, which have been met.

Principal payments due annually for the next five years are \$1,000,967.

11. Contingent liability

Legal contingency

The Company is involved in potential litigation regarding a July 2008 drowning at a generation station. In respect to any potential claim, the Company believes that insurance coverage is adequate and that no material exposure exists. No further action has been taken at this time.

12. Share capital

		<u>2012</u>	<u>2011</u>
Authorized			
Unlimited	Common shares		
Issued			
10,000	Common shares	\$ <u>12,609,650</u>	\$ <u>12,609,650</u>

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

13. Amortization of property and equipment

The amortization of property and equipment amounted to \$2,149,098 for the year (2011 - \$1,868,923). The line item *Amortization* on the statement of earnings reflects \$2,039,092 (2011 - \$1,722,864) because the transportation and communication equipment amortization of \$110,006 (2011 - \$146,059) has been expensed and capitalized to operating lines where the equipment was used.

14. Statement of cash flow supplementary information

During the year, the Company paid (received) the following amounts in cash:

	<u>2012</u>	<u>2011</u>
Interest received	\$ <u>27,484</u>	\$ <u>\$31,012</u>
Interest paid	\$ <u>758,269</u>	\$ <u>294,204</u>
Payments (refunds) in lieu of income taxes	\$ <u>291,154</u>	\$ <u>251,540</u>

15. Related party transactions

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties) which approximates the arm's length equivalent value.

The following table summarizes the Company's related party shareholder transactions for the year:

	<u>2012</u>	<u>2011</u>
Purchases		
Town of Bracebridge		
Dividends	\$ 325,548	\$ 325,548
Operating expenses	7,370	51,910
Town of Huntsville		
Dividends	125,648	125,648
Operating expenses	4,590	4,635
Village of Burk's Falls		
Dividends	19,800	19,800
Operating expenses	1,065	1,181
Village of Sundridge		
Dividends	21,652	21,652
Operating expenses	-	45
Municipality of Magnetawan		
Dividends	7,352	7,352

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

15. Related party transactions (continued)

Sales

Town of Bracebridge	\$	995,899	\$	1,051,156
Town of Huntsville		451,681		458,953
Village of Burk's Falls		144,702		117,231
Village of Sundridge		112,100		125,011
Municipality of Magnetawan		45,110		32,403

16. Capital disclosures

The Company defines its capital to be its long-term debt, share capital and retained earnings.
The Company's objectives when managing its capital are:

- To safeguard its ability to continue as a going concern which will allow it to continue to service its customers
- To provide adequate returns to its shareholders
- To ensure ongoing access to funding to maintain and improve the electricity distribution system
- To ensure compliance with covenants related to its credit facilities.

Annual budgets are developed along with three year business plans and actual results are reviewed on a regular basis to monitor the Company's capital and ensure it is maintained at an appropriate level. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company will adjust the amount of dividends paid to its shareholders. The Company's externally imposed capital requirements consist of banking covenants related to its long-term debt (Note 10). One of the covenants limits the debt to 60% of the Company's total capitalization.

There have been no changes in the Company's capital management strategy in relation to the prior year.

17. Comparative figures

Certain comparative figures presented in the financial statements have been reclassified to conform to the presentation adopted for the current year.

Lakeland Holding Ltd.

Notes to the Consolidated Financial Statements

December 31, 2012

18. Risks arising from financial instruments

Credit risk

The Company's cash is all held at The Toronto-Dominion Bank (TD Bank). The Company's credit risk associated with receivables is related to payments from LDC customers. The Company collects security deposits from customers in accordance with directions provided by the Ontario Energy Board. Current customer deposits total \$191,197 (2011 - \$205,809). In addition, the Company holds credit risk insurance on all its commercial and industrial customers thereby minimizing its overall credit risk. The carrying amount of receivables is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the consolidated statement of operations. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations.

Interest rate risk

The TD bank term loan of \$3,459,803 is partly fixed with 180 day BA loan that bears interest at a floating rate after this period, which gives rise to a risk that the Company's income (loss) and cash flows may be adversely impacted by fluctuations in interest rates. The remaining long-term debt bears fixed interest rates. Consequently, the long-term interest rate risk exposure is minimal. The bank indebtedness and construction loan bear interest at floating rates which gives rise to a risk that the Company's future income (loss) and cash flows may be adversely impacted by fluctuations in interest rates.

The reducing term facility may be exposed to interest rate risk if the Company is not in compliance with its year end financial and capital expenditure covenants. The amount is currently being hedged and therefore has an effective fixed rate of 3.74%. The Company closely monitors its financial performance to ensure it remains in compliance with its banking covenants.

The interest rate swap is exposed to interest rate risk as it is recorded at fair market value, which is dependent on projections of current and future interest rates.

Liquidity risk

The Company manages its liquidity risk to ensure access to sufficient funds to meet operational needs. Liquidity risks are comprised of liabilities totaling \$7,632,328 which are due within one year and long-term debt of \$22,505,874 to be repaid over the next 20 years.

LakelandPower

Financial Statements

Lakeland Power Distribution Ltd.

December 31, 2011

Lakeland Power Distribution Ltd.

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Independent Auditor's Report

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To the Directors of Lakeland Power Distribution Ltd.:

We have audited the accompanying financial statements of Lakeland Power Distribution Ltd., which comprise the balance sheet as at December 31, 2011, and the statement of earnings and retained earnings and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lakeland Power Distribution Ltd. as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Orillia, Canada
April 26, 2012

Chartered Accountants
Licensed Public Accountants

Lakeland Power Distribution Ltd. Statements of Earnings and Retained Earnings

Year Ended December 31	2011	2010
Revenue	\$ 23,155,056	\$ 21,711,431
Power Purchased	<u>18,600,838</u>	<u>17,170,452</u>
	4,554,218	4,540,979
Other revenues		
Investment income	48,188	22,433
Gain on disposal of property and equipment	-	13,275
Late payment/Collection charges	148,522	168,252
Utility service revenue	168,041	187,031
Non-utility service revenue	<u>48,796</u>	<u>68,134</u>
	<u>4,967,765</u>	<u>5,000,104</u>
Expenses		
Administration and general	1,243,836	1,334,598
Amortization (Note 12)	1,033,587	965,503
Billing and collecting	606,599	680,266
Operations and maintenance	980,306	959,009
Interest	266,615	209,252
Payments in lieu of capital tax	32	5,816
Taxes other than income taxes	<u>9,773</u>	<u>10,549</u>
	<u>4,140,748</u>	<u>4,164,993</u>
Earnings before payments in lieu of income taxes	827,017	835,111
Payments in lieu of income taxes (Note 7)		
Current-Payments In Lieu of income taxes (PILs)	190,548	207,000
Future-Payments In Lieu of income taxes (PILs)	<u>(50,000)</u>	<u>(159,969)</u>
	<u>140,548</u>	<u>47,031</u>
Net earnings	\$ <u>686,469</u>	\$ <u>788,080</u>
Retained earnings, beginning of year	\$ 2,640,927	\$ 1,852,847
Net earnings	<u>686,469</u>	<u>788,080</u>
Retained earnings, end of year	\$ <u>3,327,396</u>	\$ <u>2,640,927</u>

See accompanying notes to the financial statements.

Lakeland Power Distribution Ltd. Balance Sheet

December 31 2011 2010

Assets

Current

Receivables	\$ 2,681,536	\$ 2,183,621
Intercompany receivables (Note 13)	86,442	53,572
Unbilled revenue	2,262,157	2,355,046
Inventory	184,200	238,322
Prepays	173,632	160,818
Payments in lieu of income taxes (PILs) recoverable	<u>32,615</u>	<u>15,651</u>
	5,420,582	5,007,030

Property and equipment (Note 4)	14,376,167	13,385,930
Intangible assets (Note 5)	602,840	540,139
Regulatory assets (Note 6)	2,576,365	2,178,990
Future income tax assets (Note 7)	<u>967,600</u>	<u>917,600</u>
	\$ 23,943,554	\$ 22,029,689

Liabilities

Current

Bank indebtedness (Note 8)	\$ 1,338,359	\$ 767,371
Payables and accruals	5,218,222	4,742,485
Intercompany payables (Note 13)	<u>994,700</u>	<u>312,517</u>
	7,551,281	5,822,373

Long-term debt (Note 9)	3,487,500	3,487,500
Regulatory liabilities (Note 6)	121,681	588,778
Customer deposits	205,809	240,224
Other non-current liabilities	<u>23,100</u>	<u>23,100</u>
	11,389,371	10,161,975

Shareholder's equity

Share capital (Note 11)	9,226,787	9,226,787
Retained earnings	<u>3,327,396</u>	<u>2,640,927</u>
	12,554,183	11,867,714
	\$ 23,943,554	\$ 22,029,689

Contingent liability (Note 10)

On behalf of the Board

 Director  Director

See accompanying notes to the financial statements

Lakeland Power Distribution Ltd. Consolidated Statement of Cash Flows

Year Ended December 31	2011	2010
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net earnings	\$ 686,469	\$ 788,080
Amortization (Note 12)	1,157,908	1,085,796
Future recovery of payments in lieu of income taxes (Note 7)	(50,000)	(159,969)
Gain on disposal of property and equipment	-	(13,274)
	<u>1,794,377</u>	<u>1,700,633</u>
Change in non-cash working capital		
Receivables	(530,785)	(400,267)
Unbilled revenue	92,889	307,459
Inventory	54,122	23,859
Prepays	(12,814)	(10,812)
Payables and accruals	1,157,920	935,187
Payments in lieu of income taxes recoverable	(16,964)	(53,955)
	<u>2,538,745</u>	<u>2,502,104</u>
Customer deposits	(34,415)	37,058
Regulatory assets and liabilities	(864,472)	(209,034)
	<u>1,639,858</u>	<u>2,330,128</u>
Investing activities		
Proceeds from sale of property and equipment		25,299
Purchase of property and equipment	(2,446,533)	(2,487,568)
Contributions received in aid of construction	324,442	560,961
Acquisition of intangible assets	(88,755)	(42,005)
	<u>(2,210,846)</u>	<u>(1,943,313)</u>
(Decrease) increase in cash and cash equivalents	(570,988)	386,815
Cash and cash equivalents, beginning of year	(767,371)	(1,154,186)
Cash and cash equivalents, end of year	\$ (1,338,359)	\$ (767,371)

See accompanying notes to the financial statements.

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2011

1. Nature of operations

The Company is incorporated under the laws of Ontario and operates as a local distribution company distributing hydro electric power to users in Bracebridge, Huntsville, Sundridge, Burk's Falls and Magnetawan, Ontario. The Company distributes electricity under license from the Ontario Energy Board (OEB).

2. Summary of significant accounting policies

a) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and bank indebtedness.

b) Inventory

Inventory consists of repair parts, supplies and materials and is stated at the lower of average cost and net realizable value. Costs include all direct costs plus any related shipping and freight costs. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. The Company classifies rebates received from vendors as a reduction to the cost of inventory. Amount of inventory expensed during the year was \$ 295,823 (2010-\$287,288)

c) Property and equipment

Property and equipment are recorded at cost less accumulated amortization, which includes internal labour and allocated overhead. Stranded meters have been taken out of service and are no longer being amortized. Amortization is provided on the straight line basis over the estimated useful life of the assets as follows:

<u>Distribution plant</u>	
Buildings and fixtures	30 & 50 years
Conductors and devices	25 years
Distribution station equipment	25 years
Line transformers	25 years
Meters	25 years
New services distribution	25 years
Poles, towers and fixtures	25 years
Underground conduits	25 years

General plant

Building and fixtures	30 & 50 years
Communication equipment	10 years
Computer hardware	5 years
Office furniture and equipment	10 years
Stores equipment	10 years

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2011

2. Summary of significant accounting policies (continued)

c) Property and equipment (continued)

General plant (continued)

Tools and garage equipment	10 years
Transportation equipment	5 & 8 years

d) Contributions in aid of construction

Certain property and equipment may be acquired or constructed with financial assistance in the form of non-refundable contributions from customers. These contributions are netted against property and equipment and amortized on the same basis as the property and equipment to which they relate.

e) Impairment of long-lived assets

The Company tests for impairment loss of long-lived assets whenever events or changes in circumstances occur, which may cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value.

f) Property and equipment retirement obligations

Canadian generally accepted accounting principles require the Company to determine the fair value of the future expenditures required to settle legal obligations to remove property and equipment on retirement. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated property and equipment.

Some of the Company's assets may have asset retirement obligations. As the Company expects to use the majority of its property and equipment for an indefinite period, no removal date can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

g) Intangible assets

Intangible assets consists of land rights and computer software, which are recorded at cost less accumulated amortization and are amortized over the useful life of the asset. Computer software is amortized on a straight line basis over 5 years and land rights have an indefinite life. Land rights are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount and no impairment has been recorded to date.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

December 31, 2011

2. Summary of significant accounting policies (continued)

h) Regulatory assets and liabilities

The rates of the Company's electricity transmission and distribution businesses are subject to regulation by the Ontario Energy Board (OEB). The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities that management believes will be settled in future rates to customers.

Specific regulatory assets and liabilities are described below and disclosed in Note 6.

Smart meters

This amount consists of the net balance of capital and operating expenditures for smart meters, less recoveries received from the rate adder charged to customers.

Retail settlement variance accounts

These accounts reflect the difference between the cost of electricity and the amounts billed to consumers that have not yet been approved for recovery.

Renewable generation

These assets relate to the Green Energy Act with the distributor being responsible for the cost of expansion up to the value of the generators renewable energy expansion cost of \$90,000 per MW generation capacity. These amounts have not yet been submitted for recovery.

Regulatory assets and liabilities approved for recovery

These assets and liabilities have been approved for recovery by the OEB and are currently included in rates being charged to the customers.

i) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes to Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with rules contained in the Income Tax Act, as modified by the electricity Act, 1998, and related regulations.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

December 31, 2011

2. Summary of significant accounting policies (continued)

i) Income taxes (continued)

The Company follows the asset and liability method of accounting for payments in lieu of income taxes (PILs). Under this method, current PILs are recognized for the estimated PILs payable (receivable) for the current year. Future PILs assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes, that are likely to be realized. Future PILs are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled.

j) Revenue recognition

Revenue is recognized, as power is transmitted and delivered to customers. Revenue is recognized on the accrual basis, which includes an estimate of electricity consumed by customers in the year, but billed subsequent to year end. This revenue is recorded as unbilled revenue.

Utility service revenue on customer owned property is recognized under the completed contract method, whereby contract revenue billed and the related contract expenses are deferred until substantial completion of the contract. If losses are anticipated on contracts prior to substantial completion, full provision is made for such losses

Gain on disposal of property and equipment is recognized when property and equipment is sold in excess of carrying cost of the asset's corresponding net book value.

Investment, late payment and other income are recognized as revenue when they are earned. Carrying charges on Regulatory Assets, at prescribed interest rates by the Ontario Energy Board, are also included in investment income.

k) Pension plan

The Company is an employer member of the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer, defined benefit pension plan. The OMERS Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. The Company has adopted defined contribution plan accounting principles for this plan because insufficient information is available to apply defined benefit plan accounting principles. The Company recognizes the expense related to this plan as contributions are made. The required contributions made by the Company to OMERS was \$83,900 (2010 - \$75,150).

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

December 31, 2011

2. Summary of significant accounting policies (continued)

l) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's historical experience, best knowledge of current events and actions that the Company may undertake in the future. Significant accounting estimates include allowance for doubtful accounts, unbilled revenue, inventory obsolescence, estimated useful lives of property and equipment and remaining recovery (settlement) period for regulated assets (liabilities). Actual results could differ from those estimates.

m) Financial instruments

i) Financial instrument categories

The Company classifies its financial instruments into one of the following categories, based on the purpose for which the asset was acquired. The fair value of these financial instruments approximates their carrying values, unless otherwise noted. The Company's accounting policy for each category is as follows:

Assets or liabilities held-for-trading

Cash and cash equivalents have been classified as "held-for-trading". They are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income in the period during which the change occurs. Transaction costs are expensed when incurred.

Loans and receivables

Receivables and unbilled revenue are classified under "loans and receivables". They are recorded at cost, which, upon their initial measurement, is equal to their fair value. Subsequent measurements of receivables are recorded at amortized cost which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Other financial liabilities

Bank indebtedness, payables and accruals and long term debt are classified as "other financial liabilities". They are initially measured at fair value and the gains and losses resulting from their subsequent measurement at amortized cost, at the end of each period, are recognized in net income.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

December 31, 2011

2. Summary of significant accounting policies (continued)

m) Financial instruments (continued)

ii) Risks arising from financial instruments

Credit risk

The Company's cash is all held at The Toronto-Dominion Bank (TD Bank). The Company's credit risk associated with accounts receivable is related to payments from LDC customers. The Company collects security deposits from customers in accordance with directions provided by the Ontario Energy Board. Current customer deposits total \$205,809 (2010 - \$240,224). In addition, the Company holds credit risk insurance on all its commercial and industrial customers thereby minimizing its overall credit risk. The carrying amount of receivables is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the statement of operations. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations.

Interest rate risk

The long-term debt bears fixed interest rates. Consequently, the long-term interest rate risk exposure is minimal. The bank indebtedness bear interest at floating rates which gives rise to a risk that the Company's future income (loss) and cash flows may be adversely impacted by fluctuations in interest rates.

Liquidity risk

The Company manages its liquidity risk to ensure access to sufficient funds to meet operational needs. Liquidity risks are comprised of liabilities totaling \$7,551,281 which are due within one year and long-term debt of \$3,487,500 due by March 2013.

3. New accounting pronouncements

International financial reporting standards (IFRS)

In 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the adoption of IFRS would be effective for interim and annual periods beginning on or after January 1, 2012 for Canadian publicly accountable profit-oriented enterprises. In September 2010, the AcSB decided to permit rate regulated entities to defer their IFRS implementation date to January 1, 2013. IFRS will replace Canada's current GAAP for these enterprises upon adoption. Comparative IFRS information for the previous fiscal year will also have to be reported. As such, the Company will apply IFRS to its financial statements ending December 31, 2013.

The Company is currently in the process of evaluating the potential impact of IFRS on the future financial statements. This will be an ongoing process. The financial statements as disclosed under current GAAP may be significantly different when presented in accordance with IFRS.

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2011

3. New accounting pronouncements (continued)

One area that is expected to change will be regulatory assets and liabilities will not be permitted for separate balance sheet treatment under IFRS. If these items don't qualify as assets or liabilities under IFRS they will be recorded on the statement of earnings. This would have resulted in increased of earnings of \$156,992 (2010 - \$53,641), and an increase of property and equipment of \$320,053 (2010 - \$244,995).

4. Property and equipment

	<u>2011</u>		<u>2010</u>	
	<u>Asset</u>	<u>Accumulated</u>	<u>Asset</u>	<u>Accumulated</u>
	<u>Cost</u>	<u>Amortization</u>	<u>Cost</u>	<u>Amortization</u>
Distribution Plant				
Buildings and fixtures	\$ 1,840,984	\$ 176,034	\$ 652,936	\$ 135,437
Conductors and devices	5,246,219	1,559,747	4,820,122	1,354,596
Distribution station equipment	3,222,714	890,246	3,174,761	745,212
Line transformers	5,913,575	2,266,034	5,520,518	1,979,831
Meters	266,941	59,653	193,262	49,747
Stranded meters	1,006,849	419,887	1,006,849	419,887
New services distribution	561,603	122,088	484,652	101,164
Poles, towers and fixtures	5,892,793	2,865,206	5,556,074	2,579,897
Underground conduits	<u>3,110,633</u>	<u>1,490,104</u>	<u>3,036,781</u>	<u>1,350,576</u>
	<u>27,062,311</u>	<u>9,848,999</u>	<u>24,445,955</u>	<u>8,716,347</u>
General Plant				
Land	278,455	-	278,455	-
Buildings and fixtures	174,386	51,204	174,386	45,062
Communication equipment	188,721	128,762	188,721	114,459
Computer hardware	366,140	339,051	360,301	319,252
Office furniture and equipment	232,043	126,099	166,164	115,135
Store equipment	10,960	8,576	10,960	7,756
Tools and garage equipment	251,749	173,429	238,014	157,183
Transportation equipment	<u>1,175,512</u>	<u>764,873</u>	<u>1,175,512</u>	<u>640,551</u>
	<u>2,677,966</u>	<u>1,591,994</u>	<u>2,592,513</u>	<u>1,399,398</u>
Construction in progress	-	-	255,271	-
	<u>29,740,277</u>	<u>11,440,993</u>	<u>27,293,739</u>	<u>10,115,745</u>
Less contributions in aid of construction	<u>4,997,238</u>	<u>1,074,121</u>	<u>4,672,796</u>	<u>880,732</u>
	<u>\$ 24,743,039</u>	<u>\$ 10,366,872</u>	<u>\$ 22,620,943</u>	<u>\$ 9,235,013</u>
		<u>\$ 14,376,167</u>		<u>\$ 13,385,930</u>

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2011

5. Intangible assets

	<u>2011</u>		<u>2010</u>	
	<u>Asset Cost</u>	<u>Accumulated Amortization</u>	<u>Asset Cost</u>	<u>Accumulated Amortization</u>
Land rights	\$ 516,004	\$ 15,147	\$ 493,354	\$ 15,147
Computer software	<u>268,708</u>	<u>166,725</u>	<u>202,603</u>	<u>140,671</u>
	\$ <u>784,712</u>	\$ <u>181,872</u>	\$ <u>695,957</u>	\$ <u>155,818</u>
		\$ <u>602,840</u>		\$ <u>540,139</u>

6. Regulatory assets and liabilities

	<u>2011</u>	<u>2010</u>
Regulatory assets		
Smart meters	\$ 1,893,095	\$ 1,965,730
Other	32,582	2,807
Renewable generation	249,798	(2,801)
Retail settlement variances	400,890	-
Regulatory assets approved for recovery	<u>-</u>	<u>213,260</u>
	\$ <u>2,576,365</u>	\$ <u>2,178,990</u>
Regulatory liabilities		
Regulatory liabilities approved for recovery	121,681	-
Retail settlement variances	<u>-</u>	<u>588,778</u>
	\$ <u>121,681</u>	\$ <u>588,778</u>

7. Future income tax assets

Future income tax assets, which arise from differences between the carrying amounts and tax bases of the Company's assets, are as follows:

	<u>2011</u>	<u>2010</u>
Future income tax assets		
Regulatory assets and liabilities (tax effective)	\$ -	\$ (87,000)
Difference of tax basis of property and equipment and intangibles from the carrying value	<u>967,600</u>	<u>1,004,600</u>
	\$ <u>967,600</u>	\$ <u>917,600</u>
Payments in lieu of income taxes:		
Current payments in lieu of income taxes	\$ 190,548	\$ 207,000
Future recovery of payments in lieu of income taxes	<u>(50,000)</u>	<u>(159,969)</u>
	\$ <u>140,548</u>	\$ <u>47,031</u>

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

December 31, 2011

8. Bank indebtedness

The revolving facility available to the Company is with TD Bank to assist with working capital requirements. Funds available on the facility are up to \$4,000,000 and interest is at the bank's prime lending rate.

Security for the revolving facility is provided by a General Security Agreement with the TD bank, a floating and fixed charge over all assets and evidence of adequate liability insurance.

The agreement covering the above facility contains certain restrictions regarding interest coverage and debt capitalization tests, which have been met.

9. Long-term debt

	<u>2011</u>	<u>2010</u>
TD Bank term loan, payments of interest only		
only, payable monthly at 5.41% due March 2013	\$ 1,162,500	\$ 1,162,500
TD bank term loan, payments of interest		
only, payable monthly at 5.03%, due March 2013	<u>2,325,000</u>	<u>2,325,000</u>
	<u>\$ 3,487,500</u>	<u>\$ 3,487,500</u>

Security for chartered bank term loans is provided by a General Security Agreement with the TD Bank, conveying a first floating and fixed charge over all assets and evidence of adequate liability insurance.

The agreement covering the above facility contains certain restrictions regarding interest coverage and debt capitalization tests, which have been met.

10. Contingent liability

Environmental contingency

On September 17, 2008, Environment Canada published its final regulations governing the management, storage and disposal of PCBs by 2020. The regulations impose timelines for disposal of PCBs based on certain criteria. It is management's plan to have all affected assets tested and removed by the end of 2012 to be in advance of government requirements. No accrual has been reflected in these financial statements as these costs have not yet been determined.

11. Share capital

	<u>2011</u>	<u>2010</u>
Authorized		
Unlimited Common shares		
Issued		
7,428 Common shares	<u>\$ 9,226,787</u>	<u>\$ 9,226,787</u>

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2011

12. Amortization of property and equipment

The amortization of property and equipment amounted to \$1,157,908 for the year (2010 - \$1,085,796). The line item *Amortization* on the statement of earnings reflects \$1,033,587 (2010 - \$965,503) because the transportation and communication equipment amortization of \$124,321 (2010 - \$120,293) has been allocated to operating lines where the equipment was used. In 2011, \$52,124 was capitalized in property and equipment, \$933 was allocated to smart meters in regulatory assets, and \$71,264 was expensed in other accounts.

13. Related party transactions

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties) which approximates the arm's length equivalent value. Bracebridge Generation Ltd. (BGL), Lakeland Energy Ltd. (LEL) and Lakeland Power Distribution Ltd. (LPDL) are all wholly-owned subsidiaries of Lakeland Holding Ltd. (LHL) and are therefore, related by common control. During the year, Lakeland Power Distribution Ltd. purchased all of the electricity generated by Bracebridge Generation Ltd. on the same terms that it purchases electricity from third party suppliers.

The following table summarizes the Company's related party transactions for the year:

		<u>2011</u>	<u>2010</u>
Lakeland Energy Ltd.			
Other operating revenue received	\$	8,117	\$ 13,707
Information technology expenses, in administration and general		167,508	166,027
Communication expenses, in administration and general		13,860	13,860
Other operating and maintenance		74,753	94,304
Bracebridge Generation Ltd			
Other operating revenue	\$	21,952	\$ 22,404
Cash proceeds on disposal of property and equipment		-	12,025
Power purchased		1,926,830	2,128,851
Other operating and maintenance expenses		-	330
Lakeland Holding Limited			
Management fees paid, in administration and general	\$	668,974	\$ 698,341
Shareholders of Lakeland Holding Ltd, the parent company			
Purchases			
Town of Bracebridge	\$	51,856	\$ 29,111
Town of Huntsville		4,635	4,398
Village of Burk's Falls		145	-
Town of Sundridge		45	-

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2011

13. Related party transactions (continued)

Sales			
Town of Bracebridge	\$	952,915	\$ 1,116,256
Town of Huntsville		391,831	595,439
Village of Burk's Falls		108,046	107,652
Village of Sundridge		105,235	104,660
Municipality of Magnetawan		29,247	27,812

At the end of the year, amounts due from/to related parties are as follows and are included in receivables and payables and accruals:

		<u>2011</u>	<u>2010</u>
Accounts receivable from BGL	\$	20,277	\$ 19,167
Accounts receivable from LEL		15,358	12,210
Accounts receivable from LHL		50,807	22,195
	\$	<u>86,442</u>	\$ <u>53,572</u>
Account payable to BGL	\$	952,792	\$ 246,502
Accounts payable to LEL		12,334	16,310
Accounts payable to LHL		29,575	49,705
	\$	<u>994,701</u>	\$ <u>312,517</u>

14. Statement of cash flows supplementary information

During the year, the Company paid (received) the following amounts in cash:

		<u>2011</u>	<u>2010</u>
Interest received	\$	<u>48,188</u>	\$ <u>22,433</u>
Interest paid	\$	<u>266,586</u>	\$ <u>209,252</u>
Payments in lieu of income taxes	\$	<u>219,064</u>	\$ <u>268,960</u>
Refunds received in lieu of income taxes	\$	<u>(11,491)</u>	\$ <u>(2,209)</u>

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

December 31, 2011

15. Capital disclosures

The Company defines its capital to be its long-term debt, share capital and retained earnings. The Company's objectives when managing its capital are:

- To safeguard its ability to continue as a going concern which will allow it to continue to service its customers
- To provide adequate returns to its shareholder
- To ensure ongoing access to funding to maintain and improve the electricity distribution system
- To ensure compliance with covenants related to its credit facilities.

Annual budgets are developed along with three year business plans and actual results are reviewed on a regular basis to monitor the Company's capital and ensure it is maintained at an appropriate level. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company will adjust the amount of dividends paid to its shareholders. The Company's externally imposed capital requirements consist of banking covenants related to its long-term debt and bank indebtedness (Notes 8 and 9). One of the covenants limits the debt to 60% of the Company's total capitalization.

There have been no changes in the Company's capital management strategy in relation to the prior year.

16. Comparative figures

Certain comparative figures presented in the financial statements have been reclassified to conform to the presentation adopted for the current year.



Financial Statements

Lakeland Power Distribution Ltd.

December 31, 2012

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Independent Auditor's Report

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To the Directors of Lakeland Power Distribution Ltd.:

We have audited the accompanying financial statements of Lakeland Power Distribution Ltd., which comprise the balance sheet as at December 31, 2012, and the statement of earnings and retained earnings and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lakeland Power Distribution Ltd. as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Orillia, Canada
April 22, 2013

Chartered Accountants
Licensed Public Accountants

Lakeland Power Distribution Ltd. Statements of Earnings and Retained Earnings

Year Ended December 31	2012	2011
Power Revenue	\$ 25,888,572	\$ 23,155,056
Power Purchased	<u>20,179,772</u>	<u>18,600,838</u>
	5,708,800	4,554,218
Other revenues		
Investment income	36,573	48,188
Gain on disposal of property and equipment	13,600	-
Other revenues	<u>315,991</u>	<u>365,359</u>
	<u>6,074,964</u>	<u>4,967,765</u>
Expenses		
Administration and general	1,422,977	1,178,580
Amortization (Note 11)	1,331,242	1,033,587
Billing and collecting	719,848	671,855
Operations and maintenance	1,039,609	980,306
Interest	315,196	266,615
Payments in lieu of capital tax	-	32
Taxes other than income taxes	<u>11,587</u>	<u>9,773</u>
	<u>4,840,459</u>	<u>4,140,748</u>
Earnings before payments in lieu of income taxes	1,234,505	827,017
Payments in lieu of income taxes (Note 7)		
Current-Payments In Lieu of income taxes (PILs)	269,476	190,548
Future-Payments In Lieu of income taxes (PILs)	<u>(31,000)</u>	<u>(50,000)</u>
	<u>238,476</u>	<u>140,548</u>
Net earnings	\$ <u>996,029</u>	\$ <u>686,469</u>
Retained earnings, beginning of year	\$ 3,327,396	\$ 2,640,927
Net earnings	<u>996,029</u>	<u>686,469</u>
Retained earnings, end of year	\$ <u>4,323,425</u>	\$ <u>3,327,396</u>

See accompanying notes to the financial statements.

Lakeland Power Distribution Ltd. Balance Sheet

December 31	2012	2011
Assets		
Current		
Receivables	\$ 2,817,846	\$ 2,681,531
Intercompany receivables (Note 12)	183,216	86,442
Unbilled revenue	2,384,301	2,262,157
Inventory	213,401	184,200
Prepays	163,700	173,637
Payments in lieu of income taxes (PILs) recoverable	-	32,615
	<u>5,762,464</u>	<u>5,420,582</u>
Property and equipment (Note 4)	15,953,440	14,376,167
Intangible assets (Note 5)	704,736	602,840
Regulatory assets (Note 6)	1,258,457	2,576,365
Future income tax assets (Note 7)	<u>998,600</u>	<u>967,600</u>
	<u>\$ 24,677,697</u>	<u>\$ 23,943,554</u>
Liabilities		
Current		
Bank indebtedness (Note 8)	\$ 2,956,791	\$ 1,338,359
Payables and accruals	3,882,600	5,218,222
Intercompany payables (Note 12)	503,270	994,700
Payments in lieu of income taxes (PILs) payable	<u>83,027</u>	<u>-</u>
	<u>7,425,688</u>	<u>7,551,281</u>
Long-term debt (Note 9)	3,487,500	3,487,500
Regulatory liabilities (Note 6)	-	121,681
Customer deposits	191,197	205,809
Other non-current liabilities	<u>23,100</u>	<u>23,100</u>
	<u>11,127,485</u>	<u>11,389,371</u>
Shareholder's equity		
Share capital (Note 10)	9,226,787	9,226,787
Retained earnings	<u>4,323,425</u>	<u>3,327,396</u>
	<u>13,550,212</u>	<u>12,554,183</u>
	<u>\$ 24,677,697</u>	<u>\$ 23,943,554</u>

On behalf of the Board

Director

Director

See accompanying notes to the financial statements

Lakeland Power Distribution Ltd. Consolidated Statement of Cash Flows

Year Ended December 31	2012	2011
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net earnings	\$ 996,029	\$ 686,469
Amortization (Note 11)	1,415,487	1,157,908
Future recovery of payments in lieu of income taxes (Note 7)	(31,000)	(50,000)
Gain on disposal of property and equipment	(13,600)	-
	<u>2,366,916</u>	<u>1,794,377</u>
Change in non-cash working capital		
Receivables	(233,089)	(530,785)
Unbilled revenue	(122,144)	92,889
Inventory	(29,201)	54,122
Prepays	9,937	(12,814)
Payables and accruals	(1,827,055)	1,157,920
Payments in lieu of income taxes (PILs) recoverable	115,642	(16,964)
	<u>281,006</u>	<u>2,538,745</u>
Customer deposits	(14,612)	(34,415)
Regulatory assets and liabilities	<u>1,196,227</u>	<u>(864,472)</u>
	<u>1,462,621</u>	<u>1,639,858</u>
Investing activities		
Proceeds from sale of property and equipment	24,136	-
Purchase of property and equipment	(3,990,446)	(2,446,533)
Contributions received in aid of construction	1,120,478	324,442
Acquisition of intangible assets	(235,221)	(88,755)
	<u>(3,081,053)</u>	<u>(2,210,846)</u>
Decrease in cash and cash equivalents	(1,618,432)	(570,988)
Cash and cash equivalents, beginning of year	<u>(1,338,359)</u>	<u>(767,371)</u>
Cash and cash equivalents, end of year	\$ <u>(2,956,791)</u>	\$ <u>(1,338,359)</u>

See accompanying notes to the financial statements.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

December 31, 2012

1. Nature of operations

The Company is incorporated under the laws of Ontario and operates as a local distribution company distributing hydro electric power to users in Bracebridge, Huntsville, Sundridge, Burk's Falls and Magnetawan, Ontario. The Company distributes electricity under license from the Ontario Energy Board (OEB).

2. Summary of significant accounting policies

a) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and bank indebtedness.

b) Inventory

Inventory consists of repair parts, supplies and materials and is stated at the lower of average cost and net realizable value. Costs include all direct costs plus any related shipping and freight costs. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. The Company classifies rebates received from vendors as a reduction to the cost of inventory. Amount of inventory expensed during the year was \$ 43,845 (2011-\$49,439)

c) Property and equipment

Property and equipment are recorded at cost less accumulated amortization, which includes internal labour and allocated overhead. Stranded meters have been taken out of service and are no longer being amortized. Amortization is provided on the straight line basis over the estimated useful life of the assets as follows:

	Revised	Previous
<u>Distribution plant</u>		
Buildings and fixtures	50 years	30 & 50 years
Conductors and devices	60 years	25 years
Distribution station equipment	40 years	25 years
Line transformers	40 years	25 years
Meters	15 years	25 years
New services distribution	45 years	25 years
Poles, towers and fixtures	45 years	25 years
Underground conduits	40 to 45 years	25 years
<u>General plant</u>		
Building and fixtures	50 years	30 & 50 years
Communication equipment	5-10 years	10 years
Computer hardware	5 years	5 years
Office furniture and equipment	10 years	10 years
Stores equipment	10 years	10 years

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2012

2. Summary of significant accounting policies (continued)

c) Property and equipment (continued)

	Revised	Previous
<u>General plant</u> (continued)		
Tools and garage equipment	10 years	10 years
Transportation equipment	5 & 8 years	5 & 8 years

These useful lives are a change in accounting estimate based on the experience of assets currently in service and a third party evaluation of the condition of assets. The amortization was calculated using the net book value over the remaining revised useful life. The change has resulted in a decrease in amortization of \$225,615, for the year compared to what it would have been at the old rates. The effect on future periods is not practical to estimate.

d) Contributions in aid of construction

Certain property and equipment may be acquired or constructed with financial assistance in the form of non-refundable contributions from customers. These contributions are netted against property and equipment and amortized on the same basis as the property and equipment to which they relate.

e) Impairment of long-lived assets

The Company tests for impairment loss of long-lived assets whenever events or changes in circumstances occur, which may cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value.

f) Property and equipment retirement obligations

Canadian generally accepted accounting principles require the Company to determine the fair value of the future expenditures required to settle legal obligations to remove property and equipment on retirement. If reasonably estimable, a liability is recognized equal to the present value of the estimated future removal expenditures. An equivalent amount is capitalized as an inherent cost of the associated property and equipment.

Some of the Company's assets may have asset retirement obligations. As the Company expects to use the majority of its property and equipment for an indefinite period, no removal date can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

December 31, 2012

2. Summary of significant accounting policies (continued)

g) Intangible assets

Intangible assets consists of land rights and computer software, which are recorded at cost less accumulated amortization and are amortized over the useful life of the asset. Computer software is amortized on a straight line basis over 5 years and land rights have an indefinite life. Land rights are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount and no impairment has been recorded to date.

h) Regulatory assets and liabilities

The rates of the Company's electricity transmission and distribution businesses are subject to regulation by the Ontario Energy Board (OEB). The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing gives rise to the recognition of regulatory assets and liabilities that management believes will be settled in future rates to customers.

Specific regulatory assets and liabilities are described below and disclosed in Note 6.

Smart meters/Stranded meters

This amount consists of the net balance of capital and operating expenditures for smart meters, less recoveries received from the rate adder charged to customers. In 2012 this amount was transferred to property and equipment with the approval of recovery as per OEB guidelines.

The net book value of stranded meters related to the deployment of smart meters was transferred to regulatory assets from property and equipment.

Retail settlement variance accounts

These accounts reflect the difference between the cost of electricity and the amounts billed to consumers that have not yet been approved for recovery.

Renewable generation

These assets relate to the Green Energy Act with the distributor being responsible for the cost of expansion up to the value of the generators renewable energy expansion cost of \$90,000 per MW generation capacity. These amounts have not yet been submitted for recovery.

Regulatory assets and liabilities approved for recovery

These assets and liabilities have been approved for recovery by the OEB and are currently included in rates being charged to the customers.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

December 31, 2012

2. Summary of significant accounting policies (continued)

i) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILs) to Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with rules contained in the Income Tax Act, as modified by the electricity Act, 1998, and related regulations.

The Company follows the asset and liability method of accounting for payments in lieu of income taxes (PILs). Under this method, current PILs are recognized for the estimated PILs payable (receivable) for the current year. Future PILs assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. Future PILs are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled.

j) Revenue recognition

Power revenue is recognized, as power is transmitted and delivered to customers. Revenue is recognized on the accrual basis, which includes an estimate of electricity consumed by customers in the year, but billed subsequent to year end. This revenue is recorded as unbilled revenue.

Utility service revenue on customer owned property is recognized under the completed contract method, whereby contract revenue billed and the related contract expenses are deferred until substantial completion of the contract. If losses are anticipated on contracts prior to substantial completion, full provision is made for such losses

Gain/Loss on disposal of property and equipment is recognized when property and equipment is sold in excess of carrying cost of the asset's corresponding net book value.

Investment, late payment and other income are recognized as revenue when they are earned. Carrying charges on Regulatory Assets, at prescribed interest rates by the Ontario Energy Board, are also included in investment income.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

December 31, 2012

2. Summary of significant accounting policies (continued)

k) Pension plan

The Company is an employer member of the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer, defined benefit pension plan. The OMERS Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. The Company has adopted defined contribution plan accounting principles for this plan because insufficient information is available to apply defined benefit plan accounting principles. The Company recognizes the expense related to this plan as contributions are made. The required contributions made by the Company to OMERS was \$99,689 (2011 - \$83,900).

l) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management's historical experience, best knowledge of current events and actions that the Company may undertake in the future. Significant accounting estimates include allowance for doubtful accounts, unbilled revenue, inventory obsolescence, estimated useful lives of property and equipment and remaining recovery (settlement) period for regulated assets (liabilities). Actual results could differ from those estimates.

m) Financial instruments

i) Financial instrument categories

The Company classifies its financial instruments into one of the following categories, based on the purpose for which the asset was acquired. The fair value of these financial instruments approximates their carrying values, unless otherwise noted. The Company's accounting policy for each category is as follows:

Assets or liabilities held-for-trading

Cash and cash equivalents have been classified as "held-for-trading". They are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income in the period during which the change occurs. Transaction costs are expensed when incurred.

Loans and receivables

Receivables and unbilled revenue are classified under "loans and receivables". They are recorded at cost, which, upon their initial measurement, is equal to their fair value. Subsequent measurements of receivables are recorded at amortized cost which usually corresponds to the amount initially recorded less any allowance for doubtful accounts.

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2012

2. Summary of significant accounting policies (continued)

m) Financial instruments (continued)

Other financial liabilities

Bank indebtedness, payables and accruals and long term debt are classified as "other financial liabilities". They are initially measured at fair value and the gains and losses resulting from their subsequent measurement at amortized cost, at the end of each period, are recognized in net income.

3. New accounting pronouncements

International financial reporting standards (IFRS)

In 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the adoption of IFRS would be effective for interim and annual periods beginning on or after January 1, 2012 for Canadian publicly accountable profit-oriented enterprises. In February 2013, the AcSB decided to permit rate regulated entities to defer their IFRS implementation date to January 1, 2015. IFRS will replace Canada's current Generally Accepted Accounting Principles for these enterprises upon adoption. Comparative IFRS information for the previous fiscal year will also have to be reported. As such, the Company will apply IFRS to its financial statements ending December 31, 2014. The Company is currently in the process of evaluating the potential impact of IFRS on the future financial statements. This will be an ongoing process. The financial statements as disclosed under current GAAP are expected to be slightly different when presented in accordance with IFRS.

4. Property and equipment

	<u>2012</u>		<u>2011</u>	
	<u>Asset</u>	<u>Accumulated</u>	<u>Asset</u>	<u>Accumulated</u>
	<u>Cost</u>	<u>Amortization</u>	<u>Cost</u>	<u>Amortization</u>
Distribution Plant				
Buildings and fixtures	\$ 1,838,810	\$ 242,965	\$ 1,840,984	\$ 176,034
Conductors and devices	5,939,399	1,691,219	5,246,219	1,559,747
Distribution station equipment	3,268,437	958,600	3,222,714	890,246
Line transformers	6,717,845	2,402,830	5,913,575	2,266,034
Meters	1,905,681	340,334	266,941	59,653
Stranded meters	-	-	1,006,849	419,887
New services distribution	702,569	134,757	561,603	122,088
Poles, towers and fixtures	6,184,783	2,986,297	5,892,793	2,865,206
Underground conduits	3,345,311	1,554,217	3,110,633	1,490,104
	<u>29,902,835</u>	<u>10,311,219</u>	<u>27,062,311</u>	<u>9,848,999</u>

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2012

4. Property and equipment (Continued)

General Plant

Land	278,455	-	278,455	-
Buildings and fixtures	179,606	60,817	174,386	51,204
Communication equipment	599,304	346,283	188,721	128,762
Computer hardware	418,859	376,386	366,140	339,051
Office furniture and equipment	232,043	140,358	232,043	126,099
Store equipment	10,960	9,396	10,960	8,576
Tools and garage equipment	261,628	188,134	251,749	173,429
Transportation equipment	<u>1,210,262</u>	<u>783,322</u>	<u>1,175,512</u>	<u>764,873</u>
	<u>3,191,117</u>	<u>1,904,696</u>	<u>2,677,966</u>	<u>1,591,994</u>
	33,093,952	12,215,915	29,740,277	11,440,993
Less contributions in aid of construction	<u>6,117,716</u>	<u>1,193,119</u>	<u>4,997,238</u>	<u>1,074,121</u>
	<u>\$ 26,976,236</u>	<u>\$ 11,022,796</u>	<u>\$ 24,743,039</u>	<u>\$ 10,366,872</u>
		<u>\$ 15,953,440</u>		<u>\$ 14,376,167</u>

5. Intangible assets

		<u>2012</u>		<u>2011</u>
	<u>Asset Cost</u>	<u>Accumulated Amortization</u>	<u>Asset Cost</u>	<u>Accumulated Amortization</u>
Land rights	\$ 516,004	\$ 15,147	\$ 516,004	\$ 15,147
Computer software	<u>503,929</u>	<u>300,050</u>	<u>268,708</u>	<u>166,725</u>
	<u>\$ 1,019,933</u>	<u>\$ 315,197</u>	<u>\$ 784,712</u>	<u>\$ 181,872</u>
		<u>\$ 704,736</u>		<u>\$ 602,840</u>

6. Regulatory assets and liabilities

	<u>2012</u>	<u>2011</u>
Regulatory assets		
Smart meters/stranded meters	\$ 446,409	\$ 1,893,095
Other	34,281	32,582
Renewable generation	243,380	249,798
Retail settlement variances	419,137	400,890
Regulatory assets approved for recovery	<u>115,250</u>	-
	<u>\$ 1,258,457</u>	<u>\$ 2,576,365</u>
Regulatory liabilities		
Regulatory liabilities approved for recovery	-	121,681
	<u>\$ -</u>	<u>\$ 121,681</u>

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2012

7. Future income tax assets

Future income tax assets, which arise from differences between the carrying amounts and tax bases of the Company's assets, are as follows:

	<u>2012</u>	<u>2011</u>
Future income tax assets		
Difference of tax basis of property and equipment and intangibles from the carrying value	\$ <u>998,600</u>	\$ <u>967,600</u>
Payments in lieu of income taxes:		
Current payments in lieu of income taxes	\$ <u>269,476</u>	\$ 190,548
Future recovery of payments in lieu of income taxes	<u>(31,000)</u>	<u>(50,000)</u>
	\$ <u>238,476</u>	\$ <u>140,548</u>

8. Bank indebtedness

The revolving facility available to the Company is with TD Bank to assist with working capital requirements. Funds available on the facility are up to \$4,000,000 and interest is at the bank's prime lending rate.

Security for the revolving facility is provided by a General Security Agreement with the TD bank, a floating and fixed charge over all assets and evidence of adequate liability insurance.

The agreement covering the above facility contains certain restrictions regarding service coverage ratio and debt capitalization tests, which have been met.

9. Long-term debt

	<u>2012</u>	<u>2011</u>
TD Bank term loan, payments of interest only only, payable monthly at 2.94% due March 2018	\$ <u>1,162,500</u>	\$ 1,162,500
TD bank term loan, payments of interest only, payable monthly at 2.9268%, due October 2017	<u>2,325,000</u>	<u>2,325,000</u>
	\$ <u>3,487,500</u>	\$ <u>3,487,500</u>

Security for chartered bank term loans is provided by a General Security Agreement with the TD Bank, conveying a first floating and fixed charge over all assets and evidence of adequate liability insurance.

The agreement covering the above facility contains certain restrictions regarding service coverage ratio and debt capitalization tests, which have been met.

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2012

10. Share capital

		<u>2012</u>	<u>2011</u>
Authorized			
Unlimited	Common shares		
Issued			
7,428	Common shares	\$ <u>9,226,787</u>	\$ <u>9,226,787</u>

11. Amortization of property and equipment

The amortization of property and equipment for the year was \$1,415,487 (2011 - \$1,157,908). The line item *Amortization* on the statement of earnings reflects \$1,331,242 (2011 - \$1,033,587) because the transportation and communication equipment amortization of \$84,245 (2011 - \$124,321) has been allocated to operating lines where the equipment was used. \$29,401 (2011 - \$71,264) was capitalized in property in equipment and \$54,844 (2011 - \$71,264) was expensed.

12. Related party transactions

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties) which approximates the arm's length equivalent value. Bracebridge Generation Ltd. (BGL), Lakeland Energy Ltd. (LEL) and Lakeland Power Distribution Ltd. (LPDL) are all wholly-owned subsidiaries of Lakeland Holding Ltd. (LHL) and are therefore, related by common control. During the year, Lakeland Power Distribution Ltd. purchased all of the electricity generated by Bracebridge Generation Ltd. on the same terms that it purchases electricity from third party suppliers.

The following table summarizes the Company's related party transactions for the year:

	<u>2012</u>	<u>2011</u>
Lakeland Energy Ltd.		
Other operating revenue received	\$ 13,102	\$ 8,117
Information technology expenses, in administration and general	226,007	167,508
Pole rental revenue	12,024	11,488
Communication expenses, in administration and general	13,860	13,860
Other operating and maintenance	36,819	74,753
Building rent revenue	31,500	-
Cash proceeds on disposal of property and equipment	20,536	-

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2012

12. Related party transactions (continued)

	<u>2012</u>	<u>2011</u>
Bracebridge Generation Ltd		
Other operating revenue	\$ 28,901	\$ 21,952
Hydro Sales	34,685	29,504
Power purchased	2,537,426	1,926,830
Other operating and maintenance expenses	1,200	-
Building rent revenue	16,500	-
Lakeland Holding Limited		
Management fees paid, in administration and general	\$ 678,135	\$ 668,974
Shareholders of Lakeland Holding Ltd, the parent company		
Purchases		
Town of Bracebridge	\$ 7,240	\$ 51,856
Town of Huntsville	4,517	4,635
Village of Burk's Falls	-	145
Town of Sundridge	-	45
Sales		
Town of Bracebridge	\$ 890,318	\$ 952,915
Town of Huntsville	393,191	391,831
Village of Burk's Falls	138,669	108,046
Village of Sundridge	105,150	105,235
Municipality of Magnetawan	33,819	29,247

At the end of the year, amounts due from/to related parties are as follows and are included in receivables and payables and accruals:

	<u>2012</u>	<u>2011</u>
Accounts receivable from BGL	\$ 9,005	\$ 20,277
Accounts receivable from LEL	11,605	15,358
Accounts receivable from LHL	162,606	50,807
	<u>\$ 183,216</u>	<u>\$ 86,442</u>
Account payable to BGL	\$ 414,569	\$ 952,791
Accounts payable to LEL	9,222	12,334
Accounts payable to LHL	79,479	29,575
	<u>\$ 503,270</u>	<u>\$ 994,700</u>

Lakeland Power Distribution Ltd. Notes to the Financial Statements

December 31, 2012

13. Statement of cash flows supplementary information

During the year, the Company paid (received) the following amounts in cash:

	<u>2012</u>	<u>2011</u>
Interest received	\$ <u>173</u>	\$ <u>551</u>
Interest paid	\$ <u>232,237</u>	\$ <u>236,826</u>
Payments in lieu of income taxes	\$ <u>186,449</u>	\$ <u>219,064</u>
Refunds received in lieu of income taxes	\$ <u>(32,615)</u>	\$ <u>(11,491)</u>

14. Risk arising from financial instruments

Credit risk

The Company's cash is all held at The Toronto-Dominion Bank (TD Bank). The Company's credit risk associated with accounts receivable is related to payments from LDC customers. The Company collects security deposits from customers in accordance with directions provided by the Ontario Energy Board. Current customer deposits total \$191,197 (2011 - \$205,809). In addition, the Company holds credit risk insurance on all its commercial and industrial customers thereby minimizing its overall credit risk. The carrying amount of receivables is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the statement of operations. Subsequent recoveries of receivables previously provisioned are credited to the statement of operations.

Interest rate risk

The long-term debt bears fixed interest rates. Consequently, the long-term interest rate risk exposure is minimal. The bank indebtedness bear interest at floating rates which gives rise to a risk that the Company's future income (loss) and cash flows may be adversely impacted by fluctuations in interest rates.

Liquidity risk

The Company manages its liquidity risk to ensure access to sufficient funds to meet operational needs. Liquidity risks are comprised of liabilities totaling \$7,425,688 which are due within one year and long-term debt of \$1,162,500 due by March 2018 and \$2,325,000 due by October 2017.

Lakeland Power Distribution Ltd.

Notes to the Financial Statements

December 31, 2012

15. Capital disclosures

The Company defines its capital to be its long-term debt, share capital and retained earnings. The Company's objectives when managing its capital are:

- To safeguard its ability to continue as a going concern which will allow it to continue to service its customers
- To provide adequate returns to its shareholder
- To ensure ongoing access to funding to maintain and improve the electricity distribution system
- To ensure compliance with covenants related to its credit facilities.

Annual budgets are developed along with three year business plans and actual results are reviewed on a regular basis to monitor the Company's capital and ensure it is maintained at an appropriate level. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company will adjust the amount of dividends paid to its shareholders. The Company's externally imposed capital requirements consist of banking covenants related to its long-term debt and bank indebtedness (Notes 8 and 9). One of the covenants limits the debt to 60% of the Company's total capitalization.

There have been no changes in the Company's capital management strategy in relation to the prior year.

16. Comparative figures

Certain comparative figures presented in the financial statements have been reclassified to conform to the presentation adopted for the current year.

Parry Sound Hydro Corporation
Consolidated
Financial Statements
For the year ended December 31, 2011

Parry Sound Hydro Corporation
Consolidated Financial Statements
For the year ended December 31, 2011

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Independent Auditor's Report

To the Shareholder of Parry Sound Hydro Corporation

We have audited the accompanying consolidated financial statements of Parry Sound Hydro Corporation, which comprise the consolidated balance sheet as at December 31, 2011, the consolidated statements of operations and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Parry Sound Hydro Corporation as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP


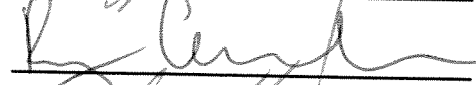

Chartered Accountants, Licensed Public Accountants

Collingwood, Ontario
July 20, 2012

Parry Sound Hydro Corporation Consolidated Balance Sheet

December 31	2011	2010
Assets		
Current		
Cash and bank (Note 1)	\$ 894,498	\$ 1,250,827
Short-term investments (Note 2)	600,000	800,000
Accounts receivable (Note 3)	2,631,471	1,998,911
Inventory	94,930	85,490
Prepaid expenses	24,541	56,249
Payments in lieu of corporate taxes receivable (Note 4)	1,912	37,233
	<u>4,247,352</u>	<u>4,228,710</u>
Future income taxes (Note 5)	321,655	290,108
Long-term investments (Note 6)	100	100
Property, plant and equipment (Note 7)	4,779,660	5,138,074
Regulatory assets net of regulatory liabilities (Note 8)	337,581	427,577
Intangible assets (Note 9)	96,818	121,022
Development costs	478,701	145,930
Other assets (Note 10)	145,432	134,459
	<u>\$ 10,407,299</u>	<u>\$ 10,485,980</u>
Liabilities and Shareholder's Equity		
Current		
Bank indebtedness (Note 11)	\$ 250,000	\$ -
Accounts payable and accrued liabilities (Note 12)	2,075,115	2,484,159
Current portion of customer deposits	156,383	93,694
	<u>2,481,498</u>	<u>2,577,853</u>
Customer deposits	128,229	165,416
Due to shareholder - Town of Parry Sound (Note 13)	3,967,906	3,967,906
Employee future benefits (Note 14)	323,591	316,491
	<u>6,901,224</u>	<u>7,027,666</u>
Contingencies (Note 16)		
Shareholder's equity		
Share capital (Note 17)	2,436,727	2,436,727
Retained earnings	1,069,348	1,021,587
	<u>3,506,075</u>	<u>3,458,314</u>
	<u>\$ 10,407,299</u>	<u>\$ 10,485,980</u>

Approved on behalf of the Board:

 Director
 Director
 Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Parry Sound Hydro Corporation Consolidated Statement of Retained Earnings

<u>For the year ended December 31</u>	<u>2011</u>	<u>2010</u>
Retained earnings, beginning of year	\$ 1,021,587	\$ 976,705
Net income for the year	<u>47,761</u>	<u>44,882</u>
Retained earnings, end of year	\$ 1,069,348	\$ 1,021,587

Parry Sound Hydro Corporation Consolidated Statement of Operations

For the year ended December 31	2011	2010
Energy revenue	\$ 9,939,250	\$ 9,309,210
Cost of power	7,539,928	7,236,231
Net distribution revenue	2,399,322	2,072,979
Other operating revenue		
Regulatory asset interest income	6,678	4,459
Pole rental	63,494	22,935
Service charges	57,810	46,707
Interest earned	16,817	19,884
Non-utility operations	61	400
Street lighting and tree trimming	32,936	21,762
Water heater rental	226,096	168,912
Billing services	170,523	55,322
Rental income	7,656	7,656
Miscellaneous revenues	405	228
	582,476	348,265
	2,981,798	2,421,244
Expenses		
Amortization of property, plant and equipment	600,561	555,366
Amortization of intangible assets	24,204	
Billing and collecting	536,393	313,111
Community relations	29,609	9,244
Distribution and generation maintenance and operations	715,068	541,623
General and administrative	712,836	707,845
Interest on long-term debt	279,440	287,676
	2,898,111	2,414,865
Income before (recovery) provision for payments in lieu of corporate income taxes	83,687	6,379
(Recovery) provision for payments in lieu of corporate income taxes (Note 4)	35,926	(38,503)
Net income for the year	\$ 47,761	\$ 44,882

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Parry Sound Hydro Corporation Consolidated Statement of Cash Flows

For the year ended December 31	2011	2010
Cash flows from operating activities		
Net income for the year	\$ 47,761	\$ 44,882
Items not affecting cash:		
Amortization of property, plant and equipment	600,561	555,366
Write down of organization costs	-	(665)
Amortization of other assets	48,488	-
Amortization of intangible assets	24,204	-
	<u>721,014</u>	<u>599,583</u>
Changes in non-cash working capital:		
Accounts receivable	(632,560)	(154,983)
Inventory	(9,440)	3,855
Prepaid expenses	31,708	20,663
Accounts payable and accrued liabilities	(409,044)	236,428
Payments in lieu of corporate taxes receivable/payable	35,321	(18,449)
Future income taxes	(31,547)	18,753
Employee future benefits	7,100	(20,128)
	<u>(1,008,462)</u>	<u>86,139</u>
	<u>(287,448)</u>	<u>685,722</u>
Cash flows from investing activities		
Expenditures on property, plant and equipment	(379,507)	(637,693)
Expenditures on other assets	(59,461)	(131,692)
Expenditures on development costs	(332,771)	(142,781)
Expenditures on intangible assets	-	(3,655)
Net increase in regulatory assets	227,356	20,695
	<u>(544,383)</u>	<u>(895,126)</u>
Cash flows from financing activities		
Customer and retailer deposits	25,502	(26,109)
Advances from line of credit	250,000	-
	<u>275,502</u>	<u>(26,109)</u>
Decrease in cash and bank during the year	(556,329)	(235,513)
Cash and bank, beginning of year	2,050,827	2,286,340
Cash and bank, end of year	\$ 1,494,498	\$ 2,050,827
Represented by		
Cash and bank	894,498	1,250,827
Short-term investments	600,000	800,000
	<u>\$ 1,494,498</u>	<u>\$ 2,050,827</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2011

Nature of Business

The corporation was incorporated under the laws of the Province of Ontario on October 31, 2000 in accordance with the provincial government's Electricity Act, 1998. All of the assets, liabilities, employees, rights and obligations of the Parry Sound Public Electric Utility Commission were transferred to Parry Sound Hydro Corporation and its wholly owned subsidiaries, Parry Sound PowerGen Corporation, Parry Sound Energy Services Corporation and Parry Sound Power Corporation. Parry Sound Hydro Corporation is wholly owned by the Corporation of the Town of Parry Sound. These corporations continue the transmission, distribution, generation and retailing of electricity and the associated business activities of the former Parry Sound Public Electric Utility Commission.

The corporation is licensed by the Ontario Energy Board ("OEB") as an electricity distributor. The principal activity of the corporation is to distribute electricity to the Town of Parry Sound. The rates of the corporation's electricity distribution business are subject to regulation by the OEB.

Basis of Consolidation

These financial statements have been prepared using the purchase method of consolidation. The assets and liabilities of the acquired companies are initially recorded at their cost. The results of operations of the acquired companies are included from the dates of acquisition. All significant intercompany transactions and balances have been eliminated on consolidation.

The following subsidiaries' assets, liabilities, and operations are included in these financial statements:

Parry Sound Power Corporation	- 100% owned
Parry Sound Energy Services Corporation	- 100% owned
Parry Sound Powergen Corporation	- 100% owned

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2011

Basis of Accounting

The consolidated financial statements of Parry Sound Hydro Corporation are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and accounting policies provided by its regulator, the Ontario Energy Board (OEB), as contained in the Accounting Procedures Handbook for Electric Distribution Utilities ("AP Handbook"), issued under the authority of the Ontario Energy Board Act, 1998.

Due to the regulatory framework, the timing of recognition of revenues and expenses and the measurement of certain assets and liabilities may differ from that otherwise expected under Canadian generally accepted accounting principles (GAAP) for non-rate regulated enterprises. Please refer to accounting policies for Regulation and Rate Setting, Regulatory Assets and Liabilities, Post 1999 Contributed Capital, Spare Transformers and Meters, and Payments in lieu of corporate income taxes and capital taxes.

The financial statements reflect the significant accounting policies summarized below.

Regulation and Rate Setting

The corporation is required to follow regulations as set by the OEB. The OEB approves and sets rates for the transmission and distribution of electricity, ensures distribution companies fulfill their obligations to connect and service customers, and has the authority to provide rate protection for certain electricity customers.

The OEB sets rates on an annual basis with rates becoming effective on May 1st through April 30th of the following year. Beginning January 1, 2012, the annual rates will be effective from January 1 to December 31 of each year. The regulation and monitoring of Ontario's Energy Sector is completed by the OEB through application of codes, rules and guidelines, the licensing of market participants, assisting firms with the management of regulatory requirements, monitoring and enforcing compliance and adjudication.

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2011

Regulatory Assets and Liabilities

The corporation has adopted the CICA's Accounting Guideline 19 "Disclosures by Entities Subject to Rate Regulation". Based on OEB regulations, certain costs and variance account balances are recorded as regulatory assets or regulatory liabilities and are reflected in the balance sheet until the OEB determines the manner and timing of their disposition.

Regulatory assets represent future revenues associated with certain costs, incurred in current or prior period(s), that are expected to be recovered through the rate setting process.

Regulatory liabilities represent future reductions or limitations of revenue increases associated with amounts that are expected to be refunded to customers.

Regulatory assets and liabilities can arise from differences in amounts billed to customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by the corporation in the wholesale market administered by the Independent Electricity System Operator "IESO" after May 1, 2002. These amounts have been accumulated pursuant to regulation underlying the Electricity Act and deferred in anticipation of their future recovery in electricity distribution service charges.

In the absence of regulation the regulatory assets and liabilities would be recognized in income in the period to which they relate.

Short-term Investments

Short-term investments are stated at the lower of cost and market value.

Long-term Investments

The corporation records its long-term investments using the cost method.

Inventory

Inventories consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. The Corporation classifies all major construction related components of its electricity distribution system infrastructure to property, plant and equipment. Once capitalized, these items are not amortized until they are put into service. Inventories are carried at the lower of cost and net realizable value, with cost determined on the weighted average cost basis.

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2011

Spare Transformers and Meters Spare transformers and meters are held to back up plant in service and are expected to substitute for original distribution plant transformers and meters when these original plant assets are being repaired.

According to the criteria prescribed by the OEB in the AP Handbook the spare transformers and meters are treated as capital assets and included in the distribution systems category. Under Canadian GAAP for unregulated businesses the spare transformers and meters would be treated as inventory.

Customer Deposits Customer deposits represent amounts collected from customers to guarantee the payment of energy bills and water and sewer bills as collected on behalf of the shareholder. The customer deposits liability includes interest credited to customers' deposit accounts, with interest expense recorded to offset this amount. Deposits expected to be refunded to customers within one year are classified as a current liability.

Pension Plan The corporation offers a pension plan for its full-time employees through the Ontario Municipal Employee Retirement System ("OMERS"). OMERS is a multi-employer, contributory, public sector pension fund established for employees of municipalities, local boards and school boards in Ontario. Participating employers and employees are required to make plan contributions based on participating employees' contributory earnings. The corporation accounts for its participation in OMERS as a defined contribution plan and recognizes the expense related to this plan as contributions are made. The company is only one of a number of employers that participates in the plan and the financial information provided to the company on the basis of the contractual agreements is usually insufficient to measure the company's proportionate share in the plan assets and liabilities under defined benefit accounting requirements.

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2011

Post-employment Benefits

Employee future benefits other than pension provided by the corporation include life insurance premiums paid by the corporation and 50% of the cost of health and dental benefits until age 65.

Standards issued by The Canadian Institute of Chartered Accountants with respect to accounting for employee future benefits require the corporation to accrue for its obligations under other employee benefit plans and related costs, net of plan assets.

The cost of post-employment benefits offered to retirees are actuarially determined using the projected method and based on assumptions that reflect management's best estimate.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost less accumulated amortization. Costs may include material, labour, contracted services, engineering costs, and interest on funds used during construction when applicable. Also included in property, plant and equipment are the costs of capital assets constructed by developers or customers and contributed to the corporation.

Upon disposal the cost and accumulated amortization related to the asset are removed and any gains or losses on disposal are credited or charged to other income on the statement of operations.

Amortization is provided using the following method and annual rates:

Land rights	25 years	straight-line basis
Buildings and fixtures	20-50 years	straight-line basis
Hurdville Dam	\$34,719	straight-line basis
Distribution system	15 - 30 years	straight-line basis
Transportation equipment	5-8 years	straight-line basis
Office equipment and tools	10 years	straight-line basis
Communication equipment	10 years	straight-line basis
Shop and garage equipment	10 years	straight-line basis
Load management controls	10 years	straight-line basis
Water heater rental units	8 years	straight-line basis
Computer equip/software	3 - 5 years	straight-line basis
Leasehold improvements	5 years	straight-line basis

Spare and replacement parts included in property, plant and equipment are not amortized until they are put into service.

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2011

Post 1999 Contributed Capital	<p>Post 1999 contributed capital consists of third party contributions toward the cost of constructing distribution assets collected after January 1, 2000, and are recorded with property, plant and equipment as a contra account. Contributions are amortized at rates corresponding with the useful lives of the related property, plant and equipment. Canadian GAAP provides no specific guideline on the accounting treatment for this type of contribution.</p> <p>Post 1999 contributed capital is included in distribution system in the schedule of capital assets.</p>
Intangible Assets	<p>Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.</p> <p>Intangible assets consist of the water management plan. This plan has a finite useful life of 5 years. Amortization is recognized in profit or loss and is provided on a straight line basis over the estimated useful life of the asset. The amortization period and the amortization method is reviewed at each financial year-end and adjusted if appropriate. Any revision of the estimated useful lives of intangible assets will impact amortization prospectively.</p>
Development Costs	<p>Assets under development are capitalized as development costs. On completion, the costs of development are transferred to the appropriate category of property, plant and equipment. Capitalization commences when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress.</p>
Other Assets	<p>Parry Sound Power Corporation must file a cost of service rate application with the OEB every four years. The costs incurred in this filing are written off over the four years of the OEB rate order.</p>

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2011

Use of Estimates and Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes as well as the disclosure of contingent assets and liabilities at the financial statement date.

Accounts receivable, unbilled revenue and regulatory assets are reported based on amounts expected to be recovered which reflect an appropriate allowance for unrecoverable amounts. The useful lives of property, plant and equipment have been estimated using rates established by the OEB in order to reflect the appropriate net book values of the assets.

Due to inherent uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or the Minister of Finance.

The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies.

Payment in Lieu (PIL) of Corporate Income Taxes and Capital Taxes

The corporation is a municipal electricity utility ("MEU") for purposes of the PIL's regime contained in the Electricity Act, 1998. As a MEU the corporation is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Each taxation year, the corporation is required to make payments in lieu of corporate income taxes and capital taxes to Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated based on the rules for computing taxable income and taxable capital outlined in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) taking into account any modifications made by the Electricity Act, 1998, and related regulations.

The corporation provides for payments in lieu of corporate income taxes and capital taxes related to its regulated business using the liability method of accounting. Until December 31, 2008 the taxes payable method was applied as permitted by the CICA and OEB. Effective January 1, 2009 the corporation began using the liability method of accounting following the new recommendations from the CICA and OEB.

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2011

Future Income Taxes

Future income taxes are provided for using the liability method and are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit.

Future income tax liabilities are generally recognized on all taxable temporary differences and future tax assets are recognized to the extent that it is more likely than not that they will be realized from taxable profits available against which deductible temporary differences can be utilized.

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to regulatory assets and liabilities. The net balance represents future income taxes that flow through the rate-making process.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the "more likely than not" criterion. Previously unrecognized future income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more likely than not of being recovered from future taxable profits.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the company and that the revenue can be reliably measured.

Revenue from the sale and distribution of electricity is recognized on the accrual basis. The revenue includes cycles billed during the year plus an estimate for unbilled revenue. The unbilled revenue is calculated using real time consumption from the last billing date to December 31, 2011. Actual results could differ from estimates made of electricity usage.

Other revenues, which include revenues from pole attachment, customer demand work, water heater rentals and other miscellaneous revenues are recognized at the time the service is provided.

Interest income is recognized when it is earned.

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2011

Recent Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company, are as follows:

On February 13, 2008, the Canadian Accounting Standards Board ["AcSB"] confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP, with the remaining standards to be adopted at the change over date.

On September 10, 2010, the AcSB granted an optional one year deferral of IFRS adoption to fiscal years beginning on or after January 1, 2012 for entities subject to rate regulation. This decision came in light of the uncertainty created by the International Accounting Standards Board ["IASB"] in regard to the rate-regulated project which is assessing the potential derecognition of regulatory assets and regulatory liabilities under IFRS. Subsequently, the Canadian Securities Administrators announced that entities subject to rate regulation may defer the adoption of IFRS for up to one year, consistent with the one year deferral granted by the AcSB.

On March 21, 2012, the AcSB decided that the mandatory adoption of IFRS for entities subject to rate regulation can be deferred an additional year to fiscal years beginning on or after January 1, 2013.

Given these recent developments and due to the continued uncertainty around the timing, scope and eventual adoption of a rate-regulated accounting ["RRA"] standard under IFRS and the potential material impact of RRA on the corporation's financial statements, the corporation is still considering its options and has not yet decided whether it will adopt IFRS in 2012 or 2013. Accordingly, the corporation continued to prepare its financial statements in accordance with Canadian GAAP for 2011.

Continued...

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2011

Recent Accounting Pronouncements continued

As a result of these developments related to RRA under IFRS and the uncertainty regarding the impact of IFRS on the OEB electricity distribution rates application process, the corporation cannot reasonably quantify the full impact that adopting IFRS would have on its future financial position and results of operations. During the deferral period, the corporation has continued to actively monitor IASB developments with respect to RRA and non-RRA IFRS developments and their potential impacts. Prior to the developments noted above, the corporation's IFRS conversion project was proceeding as planned to meet the January 1, 2012 conversion date.

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2011

1. Cash and Bank

The corporation's bank accounts are held at one chartered bank. The bank account earns interest at a variable rate.

2. Short-term Investments

	<u>2011</u>	<u>2010</u>
TD Canada Trust, guaranteed investment certificate, at cost, interest 1.15%, payable at maturity, matured January 2012	\$ 150,000	\$ -
TD Canada Trust, guaranteed investment certificate, at cost, interest 1.15%, payable at maturity, matured February 2012	150,000	-
TD Canada Trust, guaranteed investment certificate, at cost, interest 0.8%, payable at maturity, matures January 2011	-	200,000
TD Canada Trust, guaranteed investment certificate, at cost, interest 1.15%, payable at maturity, matured January 2012	150,000	-
TD Canada Trust, guaranteed investment certificate, at cost, interest 1.15%, payable at maturity, matured February 2012	150,000	-
TD Canada Trust, guaranteed investment certificate, at cost, interest 0.8%, payable at maturity, matures January 2011	-	600,000
	<u>\$ 600,000</u>	<u>\$ 800,000</u>

3. Accounts Receivable

	<u>2011</u>	<u>2010</u>
Customer accounts receivable	\$ 1,470,637	\$ 1,090,774
Unbilled revenue	1,015,079	851,135
Other	170,844	67,232
HST receivable	9,911	24,770
Allowance for doubtful accounts	(35,000)	(35,000)
	<u>\$ 2,631,471</u>	<u>\$ 1,998,911</u>

Accounts receivable include balances due from related parties as described in Note 13.

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

4. Payments in Lieu of Corporate Income Taxes

The corporation's provision for PILs is calculated as follows:

	2011	2010
Income before provision for PILs	\$ 83,687	\$ 6,379
Statutory Canadian federal and provincial tax rate	28.00%	30.00%
Provision for PILs at statutory rate	23,432	1,914
Amortization in excess of CEC deduction	(708)	(8,693)
Expenses not eligible for (accounting) tax deduction	1,024	(1,097)
Amortization in excess of capital cost allowance	27,667	28,618
Employee future benefit deduction	(1,431)	(6,038)
Small business deduction	(27,943)	11,263
Loss carry forward	11,886	-
Utilization of loss carry forward	(5,259)	(11,881)
Impact of consolidation entries	4,563	5,729
Prior Period adjustments	-	(41,856)
Impact of rate changes	577	(9,562)
Loss carry back not recorded for accounting purposes	2,118	-
Gain on disposal	-	(6,900)
Total provision	\$ 35,926	\$ (38,503)
Effective tax rate	42.93%	(603.59)%

The company has consolidated losses for income tax purposes of \$1,008,609 which are available to be applied against future year's taxable income. The benefit of these non-capital losses has not been recognized in the financial statements. These losses will expire as follows:

2015	\$ 266,996
2026	284,360
2027	339,201
2029	75,603
2031	42,449
	<u>\$ 1,008,609</u>

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

5. Future Income Taxes

The corporation accounts for the differences between the financial statement carrying value and tax basis of its assets and liabilities following the liability method in accordance with CICA Handbook Section 3465.

The offsetting entry to this net future income tax asset is a credit to regulatory liabilities (See Note 8).

Significant components of the corporation's future tax assets are as follows:

	2011	2010
Employee future benefits	\$ 8,925	\$ -
Property, plant and equipment	262,536	236,136
Organizational costs and land rights	50,194	53,972
Long-term future income tax asset	<u>\$ 321,655</u>	<u>\$ 290,108</u>

6. Long-term Investments

	2011	2010
Cornerstone Hydro Electric Concepts Association Inc. (CHEC), incorporated without share capital, Nil Cost	\$ -	\$ -
Utility Collaborative Services Inc. (UCS), recorded using the cost method, 1 common share, 10% interest (2010 - 12.50% interest)	100	100
	<u>\$ 100</u>	<u>\$ 100</u>

Cornerstone Hydro Electric Concepts Association Inc. (CHEC) is an association of twelve electricity distribution utilities modelled after a cooperative to share resources and proficiencies. (See Note 13)

Utility Collaborative Services Inc. (UCS) offers standards-based back office services. The collaboration allows leverage in the reduction of costs for items such as information technology hosting and software licensing. (See Note 13)

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

7. Property, Plant and Equipment

	2011		2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 213,757	\$ -	\$ 213,757	\$ -
Land rights	35,048	34,708	35,048	34,688
Buildings and fixtures	1,880,863	1,558,418	1,880,863	1,488,952
Hurdville Dam	8,342	3,337	8,342	2,920
Distribution system	10,875,085	7,410,812	10,767,860	7,047,647
Transportation equipment	747,168	544,709	718,996	499,156
Office equipment and tools	76,691	63,579	71,743	58,296
Communication equipment	25,142	25,142	25,142	25,142
Shop and garage equipment	99,292	99,292	99,292	97,718
Load management controls	222,863	222,863	222,863	222,863
Water heater rental units	868,341	568,493	850,265	528,265
Computer equip/software	388,062	185,705	327,484	116,911
Construction in progress	15,508	-	2,121	-
Spare and replacement parts	32,751	-	32,751	-
Leasehold improvements	13,552	5,747	8,210	4,105
	<u>\$ 15,502,465</u>	<u>\$ 10,722,805</u>	<u>\$ 15,264,737</u>	<u>\$ 10,126,663</u>
Net book value		<u>\$ 4,779,660</u>		<u>\$ 5,138,074</u>

The net book value of stranded meters related to the deployment of smart meters was included in property, plant and equipment in the distribution system category at December 31, 2010. The net book value of \$137,360 was reclassified to regulatory assets/liabilities January 1, 2011.

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

8. Regulatory Assets and Liabilities

	2011	2010
Net regulatory assets (liabilities) consist of:		
Smart meter initiatives	\$ 928,851	\$ 681,617
Other regulatory assets - OEB assessment	8,173	8,173
Other regulatory assets - Hydro One incremental costs	3,063	3,063
Other regulatory assets - IFRS transition costs	61,268	4,305
Other regulatory assets - Late payment penalty settlement	9,508	12,415
Special purpose charge variance	331	18,511
RSVA - Retail settlement variance accounts	(369,964)	126,370
RCVA - Retail cost variance accounts	(10,505)	(6,959)
Net future income tax liability	(321,655)	(290,108)
Carrying charges	(82,479)	(92,405)
RARA - Regulatory Asset Recovery Accounts	110,990	(37,405)
	<u>\$ 337,581</u>	<u>\$ 427,577</u>

Smart Meter Initiatives

The smart meter regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario by 2010. During 2006 the OEB developed recommendations on smart meters with regard to cost recovery during the phase-in period of this equipment. The OEB stated that given the increased need for electricity and the importance of conservation, specific funding for smart meters could be included in the 2006 rates for all Local Distribution Companies (LDCs). Variance accounts were established to track revenues collected with respect to smart meters and associated costs of the initiatives. The majority of the installation of all smart meters within its service territory was completed in 2009. The OEB approved the request to add a rate rider of \$2.50 (\$1.00 prior to July 1, 2011) per customer per month to fund Smart Meter activities. For rate mitigation purposes, the OEB suspended the rate rider of \$2.50 until future proceedings.

The net book value of stranded meters related to the deployment of smart meters was included in property, plant and equipment in the distribution system category until December 31, 2010. In the rate application for the year beginning January 1, 2011, the depreciation expense on the stranded meters was discontinued and not included in the revenue requirement used to set the 2011 rates. The net book value of \$137,360 of the stranded meters was reallocated to a sub-account of the smart meter initiatives and will not be depreciated any further. The OEB has specified that these amounts are recoverable in future rates.

In connection with its smart meter initiatives, the corporation has incurred costs in 2011 amounting to \$133,260 (2010 - \$214,631). These expenditures would otherwise have been recorded as property, plant and equipment under Canadian GAAP for unregulated businesses. In absence of rate regulation, revenues would have been higher in 2011 by \$23,386 (2010 - \$40,353) and amortization higher in 2011 by \$53,677 (2010 - \$43,767).

Continued...

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

8. Regulatory Assets and Liabilities continued

Other regulatory assets - OEB assessment

The OEB has allowed recording the variance between the OEB annual cost assessment fees previously captured in the 2001 rates and the amounts charged for fiscal years beginning after January 1, 2004 up to April 30, 2006. Accordingly, the corporation deferred these expenditures in accordance with the criteria set out in the AP Handbook. Under such regulation, expenditures are allowed to be deferred which would be expensed under Canadian GAAP for unregulated businesses. The deferred balance continues to be calculated and attract carrying charges in accordance with the OEB's direction. In the absence of rate regulation, operating expenses in 2011 would have been \$NIL higher (2010 - \$NIL higher). The manner and timing of disposition has not yet been determined by the OEB.

Other Regulatory Assets - Hydro One Incremental Costs

The OEB has approved Other Regulatory Assets, "Sub-account Incremental Capital Charges", for distributors to record the charges arising from the capital rate relief rider. Interest carrying charges, calculated on the monthly opening principal balance of this sub-account at the Board's prescribed interest rates, are applicable for amounts recorded. The new incremental capital charge arises from an incremental capital module approved for Hydro One, which was effective on May 1, 2009 but was implemented on June 1, 2009. In the absence of rate regulation, expenses in 2011 would have been \$NIL higher (2010 - \$1,245).

Other Regulatory Assets - IFRS transition costs

The company is required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP effective January 1, 2013. The transition costs related to the implementation of IFRS have been recorded as a regulatory asset as the company expects to obtain recovery in the future. Under Canadian GAAP for unregulated businesses, these costs would have been recorded to operating expenses. In the absence of rate regulation, expenses would have been \$56,963 higher (2010 - \$4,305).

Other Regulatory Assets - Late Payment Penalty Settlement

The late payment penalties settlement account relates to the settlement costs accrual associated with the late payment charges class action lawsuit settled in 2011. The company had accrued a liability and a corresponding regulatory asset in the amount of \$12,415 as at December 31, 2010. In 2011, the company paid the liability and is recovering from the rate payers over the period from August 1, 2011 to December 31, 2012. As at December 31, 2011, \$2,907 has been recovered and a portion of the penalty, prorated monthly, is included in administration expense. In the absence of rate regulation, operating expenses for the year would have been higher by \$NIL (2010 - \$12,415) revenues would have been lower by \$2,907 (2010 - \$NIL).

Continued...

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

8. Regulatory Assets and Liabilities continued

Special Purpose Charge Variance

On April 9, 2010, the OEB informed LDC's of a Special Purpose Charge ["SPC"] assessment under Section 26.1 of the Ontario Energy Board Act, 1998, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB has assessed the corporation \$34,719 for its apportioned share of the total provincial amount of \$53,695,000 in accordance with the rules set out in Ontario Regulation 66/10 [the "SPC Regulation"]. In accordance with Section 9 of the SPC Regulation, the corporation will be allowed to recover this balance. The recovery is to be achieved over a one-year period, starting May 1, 2010.

This variance account relates to the difference between the amount remitted to the Ministry of Finance for LDC's SPC assessment, and the amounts recovered from customers, which commenced on May 1, 2010. Carrying charges apply to the monthly opening balance in the variance account. The SPC Regulation states that the corporation shall apply to the OEB no later than April 15, 2012 for an order authorizing the disposition of any remaining debit or credit balance in the SPC variance account. As at December 31, 2011, the account consists of the corporation's assessment offset by eight months of recoveries. In the absence of rate regulation, revenue for the year would have been \$NIL higher (2010 - \$16,208) and operating expenditures would have been \$NIL higher (2010 - \$34,719).

RSVA - Retail Settlement Variance Accounts

Retail settlement variance accounts represent the differences between amounts charged by the corporation to its customers based on regulated rates and the corresponding cost incurred by the corporation in the wholesale market administered by the IESO since May 1, 2002. Accordingly, the corporation has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB in the AP Handbook.

Under such regulation, the variances are allowed to be deferred which would be recorded as revenue under Canadian GAAP for unregulated businesses. In the absence of rate regulation, revenues in 2011 would have been \$496,334 higher (2010 - \$162,622 lower). The deferred balance for unapproved settlement variances continues to be calculated and attract carrying charges in accordance with the OEB's direction. The manner and timing of disposition of the remaining variance has not been determined by the OEB.

RCVA - Retail Cost Variance Accounts

Providing retail services to customers arising from the deregulated electricity market gives rise to certain retail service costs which have to be recovered by the distributor. The rates and charges used in determining these costs are set by the OEB, which recognizes that the actual costs may be different in practice. In accordance with Chapter 11 of the Distribution Rate Handbook, distributors are required to establish variance accounts to record the differences in costs and revenues for future disposition. In the absence of rate regulation, revenues in 2011 would have been \$3,546 higher (2010 - \$3,230).

Continued...

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

8. Regulatory Assets and Liabilities continued

Future Income Tax Regulatory Liability

This regulatory liability account relates to the expected future electricity distribution rate adjustments for customers arising from timing differences in the recognition of future taxes.

The corporation accounts for the differences between its financial statement carrying value and tax basis of assets and liabilities following the liability method in accordance with CICA Handbook Section 3465 (See Note 5).

Carrying Charges

Carrying charges are calculated monthly on the opening balance of the applicable variance account using the quarterly prescribed interest rate as outlined by the OEB. In the absence of rate regulation, other revenues would have been lower by \$9,926 (2010 - \$4,459).

Regulatory Asset Recovery Accounts (RARA)

The RARA consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and related rates.

The rate application for 2010, approved by the OEB, included the disposition of regulatory liabilities accumulated from January 1, 2005 - December 31, 2008 plus projected interest up to April 30, 2010. The OEB ordered that the approved balances be aggregated into a single regulatory account to be recovered over a one year period with rates effective May 1, 2010.

Fair Value of Regulatory Assets and Regulatory Liabilities

For certain regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties related to the ultimate authority of the regulator in determining the asset's treatment for rate setting purposes. Management continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

Deferred PILS Regulatory Asset

Parry Sound Power Corporation will be filing an evidence package to support the disposition of the 1562 Deferred PILS Regulatory Asset account as part of their current Incentive Regulation Mechanism (IRM) rate application. This disposition is in response to the SIMPILS True-Up Models for the years 2001 to 2005. The PILS included in rates were determined well in advance of the actual tax years using proxies for what the actual tax rates would be. The true-up process for the above noted years captures the difference between the rates used to determine PILS included in rates and what the PILS would have been if they had been set in the actual tax year with knowledge of any changes in tax rates. PSPC is applying to clear a credit balance (owed to customers) of \$120,735 over a two-year period. This amount will be offset against distribution revenue in the period of recovery.

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

9. Intangible Assets

Intangible assets include the water management plan

	<u>2011</u>	<u>2010</u>
- cost	\$ 121,022	\$ 121,022
- accumulated amortization	<u>(24,204)</u>	<u>-</u>
Net book value	<u>\$ 96,818</u>	<u>\$ 121,022</u>

10. Other Assets

Other assets include the 2011 cost of service application

	<u>2011</u>	<u>2010</u>
- cost	\$ 193,920	\$ 134,459
- accumulated amortization	<u>(48,488)</u>	<u>-</u>
Net book value	<u>\$ 145,432</u>	<u>\$ 134,459</u>

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

11. Bank Indebtedness

Both Parry Sound Energy Services Corporation and Parry Sound Powergen Corporation have a line of credit with an authorized limit of \$50,000 available under a credit facility agreement with a Canadian chartered bank. Interest on advances is calculated using the bank's prime rate, calculated and payable monthly. They are secured by a general security agreement representing a first charge on all the corporation's assets and an assignment of fire insurance.

Parry Sound Power Corporation has a line of credit with an authorized limit of \$1,500,000 available under a credit facility agreement with a Canadian chartered bank. Interest on advances is calculated using the bank's prime rate and is payable monthly. The security provided is a general security agreement representing a first charge on all the corporation's assets, adequate liability insurance and an indemnity agreement for any drawn Letters of Credit or Letters of Guarantee.

Parry Sound Power Corporation's line of credit has been pledged as security for the letter of credit provided to the Independent Electricity Systems Operation (IESO) (See Note 16). As a result, the corporation's access to the line of credit mentioned above is limited to \$1,070,365. Interest on the letter of guarantee is 0.5% per annum. At the end of the year, the corporation had approximately \$820,365 available on its line of credit.

The agreement governing the line of credit facilities contains certain covenants as described in Note 21.

12. Accounts Payable and Accrued Liabilities

	2011	2010
IESO payable	\$ 529,778	\$ 1,130,117
Trade payables	1,064,450	903,529
Accrued liabilities	110,547	55,438
Late payment penalty settlement	-	12,415
Customer credit balances	141,668	104,427
Hydro One payable	353	57,840
Debt Retirement Charge	104,752	97,095
Ontario Power Authority Programs Payable (Receivable)	129,627	70,281
Retailers payable	(21,124)	28,309
HST/GST payable	15,064	24,708
	<u>\$ 2,075,115</u>	<u>\$ 2,484,159</u>

Accounts payable and accrued liabilities include balances due to related parties as described in Note 13.

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

13. Related Party Transactions

Parry Sound Hydro Corporation is a wholly owned subsidiary of the Town of Parry Sound. The following summarizes the corporation's related party transactions for the year:

	2011	2010
Revenue		
- Town of Parry Sound		
Electricity charges	\$ 615,872	\$ 586,595
Operations labour and overhead	28,707	1,527
Revenue billing services	170,523	55,322
Street light and tree trimming	8,788	15,575
Expenses		
- Town of Parry Sound		
Municipal taxes	17,306	17,877
Interest on long-term debt	286,903	231,728

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product or provision of service.

At the end of the year, the amounts due to/from related parties are as follows:

Trade accounts receivable: (See Note 3)		
Town of Parry Sound	\$ 92,443	\$ 27,647
Trade accounts payable: (See Note 12)		
Town of Parry Sound	\$ 680,621	\$ 694,566
Due to shareholder - Town of Parry Sound		
Promissory note payable - 7.25% per annum on outstanding principal, interest payable quarterly with option of repaying principal amount at any time, unsecured with no specific terms of repayment	\$ 3,967,906	\$ 3,967,906

The board of directors received compensation and were reimbursed for certain administrative costs for the year in the amount of \$14,626 (2010 - \$26,635).

The corporation paid \$15,000 (2010 - \$15,000) in fees to Cornerstone Hydro Electric Concepts Association Inc. (CHEC) (See Note 6).

The corporation paid \$67,383 (201 - \$55,293) in fees to Utility Collaborative Services Inc.(UCS) for items such as information technology hosting and software licensing (See Note 6).

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

14. Employee Future Benefits

The corporation pays certain benefits on behalf of its retired employees. The corporation recognizes these post-retirement costs in the period in which the employees rendered the services.

Information about the post-retirement non-pension benefit plan is as follows:

	2011	2010
Accrued benefit liability, beginning of year	\$ 316,491	\$ 336,619
Actuarial gain for the year	-	(26,697)
Expense for the year	21,995	23,367
Benefits paid for the period	(14,895)	(16,798)
Projected accrued benefit obligation at December 31	\$ 323,591	\$ 316,491

An actuarial report was performed and dated September 15, 2010. The actuarial valuation was performed on the post-retirement non-pension benefit plan sponsored by Parry Sound Energy Services Corporation as at January 1, 2010. The next actuarial valuation should be performed by January 1, 2013.

The main actuarial assumptions employed for the valuation are as follows:

(a) General inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% per annum (2010 - 2.3%).

(b) Interest (discount) rate

The rate used to discount future benefits is assumed to be 5.5% per annum (2010 - 5.0%). This rate reflects the assumed mid-term yield on high quality bonds.

(c) Salary levels

The rate used to increase salaries is assumed to be 3.3% per annum (2010 - 3.8%). This rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion.

(d) Claims cost trend rates

The rate used to project benefit costs into the future is 7.63% (2010 - 8%) for health and 5% (2010 - 5%) for dental. The rate for health is projected at 7.25% for 2012.

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

15. Pension Agreements

The corporation makes contributions to the Ontario Municipal Employee Retirement System (OMERS), which is a multi-employer plan, on behalf of members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The Administration Corporation Board of Directors, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits.

OMERS provides pension services to more than 419,007 active and retired members and approximately 947 employers. The plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund.

Each year, an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. On December 31, 2011, the estimated accrued pension obligation for all members (including survivors) of the Plan was \$64,548 (2010 - \$60,035) million. The Plan's defined benefit component had an actuarial value of net assets of \$57,258 (2010 - \$55,568) million. The resulting funding deficit was \$7,290 (2010 - \$4,467) million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the corporation does not recognize any share of the OMERS pension surplus or deficit.

The contribution rates for the plan were 7.4% (2010 - 6.4%) for employees earning up to \$48,300 (2010 - 47,200) and 10.7% (2010 - 9.7%) thereafter. The amount contributed to OMERS for 2011 was \$75,917 (2010 - \$52,529).

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

16. Contingencies

Letter of Credit

The corporation is contingently liable as a guarantor for a letter of credit for \$429,635 with its bank provided to the Independent Electricity Systems Operator (IESO) to secure the corporation's hydro purchase obligations. (See Note 11)

17. Share Capital

The authorized share capital of the corporation is an unlimited number of common shares. The issued share capital is as follows:

	2011	2010
2,436,727 Common shares	<u>\$ 2,436,727</u>	<u>\$ 2,436,727</u>

18. Statement of Cash Flows

	2011	2010
Interest paid	<u>\$ 279,440</u>	<u>\$ 287,676</u>
Interest received	<u>\$ 16,817</u>	<u>\$ 19,884</u>
PILs paid	<u>\$ 605</u>	<u>\$ 519</u>
PILs received	<u>\$ -</u>	<u>\$ 21,133</u>

19. Operating Leases

The company leases water heaters to customers in the Town of Parry Sound. Rental income of \$226,096 (2010 - \$168,912) was recognized during the year. Repairs and maintenance expenses in the amount of \$26,508 (2010 - \$42,708) are included in direct cost of sales.

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

20. Financial Instruments

All financial instruments are included on the balance sheet and are measured either at fair market value or, in limited circumstances, at cost or amortized cost. The corporation classifies its financial instruments into one of the following categories:

Held-for-trading

Held-for-trading is comprised of short-term investments. This instrument is carried in the balance sheet at fair value with changes in fair value recognized in the income statement. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

Available for Sale

Available for sale financial instruments are initially recognized at fair value including direct and incremental transaction costs. The corporation's long-term investments have been classified as available for sale. Because no active market exists for the share in Utility Collaborative Services Inc. and there are no quoted market prices, the share is measured at cost less any provision for impairment.

Loans and receivables

Loans and receivables are comprised of cash and bank and accounts receivable. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

Other financial liabilities

Other financial liabilities are comprised of bank indebtedness, accounts payable and accrued liabilities, customer deposits, current amounts due to shareholder, and the promissory note due to the Town of Parry Sound. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are netted against the amount initially recognized.

Continued...

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

20. Financial Instruments continued

The Corporation's carrying value and fair value of financial instruments consist of the following:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$	\$	\$	\$
Assets				
Cash and bank	894,498	894,498	1,250,827	1,250,827
Temporary investments	600,000	600,000	800,000	800,000
Accounts receivable	2,631,471	2,631,471	1,998,911	1,998,911
Long-term investments	100	undeterminable	100	undeterminable
Liabilities				
Bank indebtedness	250,000	250,000	-	-
Accounts payable	2,075,115	2,075,115	2,484,159	2,484,159
Customer deposits	284,612	284,612	259,110	259,110
Due to related party - Town of Parry Sound	3,967,906	undeterminable	3,967,906	undeterminable

The estimated fair values of financial instruments as at December 31, 2011 and December 31, 2010 are based on relevant market prices and information available at the time. The fair value estimates are not necessarily indicative of the amounts that the corporation may receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Determination of fair values

- (a) The fair values of cash and bank, accounts receivable, current customer deposits, bank indebtedness, accounts payable and accrued liabilities and current amounts due to related parties approximate their carrying values because of the short maturity of these instruments.
- (b) Long-term investments include common shares of private companies accounted for by the cost method. These investments are not publicly traded and, therefore, fair values are not practicable to determine.
- (c) The fair value of the current and long-term amounts due to related parties have been measured at cost because fair value cannot be measured reliably, as a result of the transactions originating through related party agreements.

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

21. Capital Disclosures

The corporation considers its capital to be its promissory note due to The Town of Parry Sound and shareholder's equity. The corporation's main objectives when managing capital are to: i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans, ii) minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, iii) maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants, and iv) provide an adequate return to its shareholder.

The corporation relies predominately on its cash flow from operations to fund its dividend and interest distributions to its shareholder. This cash flow can be supplemented, when necessary, through the borrowing of additional debt.

As part of existing debt agreements, financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements.

The bank indebtedness covenants require the corporation to maintain a minimum Interest Coverage Ratio of 2:1 and to maintain a maximum Total Debt to Capitalization of 0.60:1. The corporation was in compliance with these covenants as at December 31, 2011.

Management monitors the following key ratios to effectively manage capital:

	2011	2010
a) Interest Coverage Ratio:	3.34:1	1.96:1
b) Debt to Capitalization Ratio:	0.53:1	0.53:1
c) Current Ratio:	1.71:1	1.64:1

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

22. Financial Risk Management

As part of its operations, the corporation carries out transactions that expose it to financial risks such as credit, liquidity and market risks.

The following is a discussion of risks and related mitigation strategies that have been identified by the company for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks identified.

Credit risk

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The maximum credit exposure is limited to the carrying amount of cash and receivables presented on the balance sheet.

Financial instruments that potentially subject the corporation to a significant concentration of credit risk consist primarily of cash. The corporation limits its exposure to credit loss by placing its cash with a high credit quality financial institution. The corporation maintains cash with one major financial institution. Eligible deposits are insured to a maximum basic insurance level of \$100,000, including principal and interest by the Canada Deposit Insurance Corporation.

The corporation is exposed to credit risk related to accounts receivable arising from its day-to-day electricity and service revenue. Exposure to credit risk from accounts receivable is limited due to the corporation's large and diverse customer base. Moreover, the corporation holds as collateral customer, retailer and construction deposits, which are recognized as liabilities on the balance sheet. The Ontario Energy Board has prescribed certain rules for the payment of deposits by customers. Although these rules limit the risk of the company, no deposits are required by customers who have shown good payment history for the previous 24 month period. The company does not have any material accounts receivable balances greater than 90 days outstanding. As a result, the company believes that its accounts receivable represent a low credit risk.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the income statement. The provision is based on account age and customer standing. Subsequent recoveries of receivables previously provisioned are credited to the income statement.

The company's accounts receivable are not subject to a significant concentration of credit risk because they are distributed over a large customer base.

The value of accounts receivable, by age, and the related bad debt provision are presented in the following table. The accounts receivable balance consists of energy, other and unbilled revenue receivables.

Unbilled revenue represents amounts to which the corporation has a contractual right to receive cash through future billings but are unbilled at period-end. Unbilled revenue outstanding is considered current.

Continued...

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

22. Financial Risk Management continued

Accounts Receivable

	2011	2010
Under 30 days	\$ 2,400,024	\$ 1,889,783
30 to 60 days	39,697	10,177
61 to 90 days	18,427	4,969
Over 90 days	208,323	128,982
	<u>2,666,471</u>	<u>2,033,911</u>
Provision	35,000	35,000
	<u>35,000</u>	<u>35,000</u>
Total accounts receivable	<u>\$ 2,631,471</u>	<u>\$ 1,998,911</u>

The balance over 90 days includes water and sewer charges collected on behalf of the Town of Parry Sound in the amount of \$50,258 (2010 - \$84,098). The financial risk that these receivables will never be collected is the responsibility of the Town of Parry Sound. The corporation has the ability to apply the uncollectable accounts against the related party liability.

The remaining balance over 90 days is covered by the provision for bad debts.

Liquidity risk

Liquidity risk is the risk that the corporation will encounter difficulty in meeting obligations associated with financial liabilities. The corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the corporation's reputation. The corporation's exposure is reduced by cash generated from operations and their undrawn credit facility. The corporation engages in borrowing to meet financing needs that exceed cash from operations. Exposure to such risks is significantly reduced through close monitoring of cash flows and budgeting.

Liquidity risks associated with financial commitments are as follows:

	0 - 3 mo	3 mo - 1 yr	1 - 5 yr	Termless
Bank indebtedness	\$ 250,000	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	2,075,115	-	-	-
Payments in lieu of corporate taxes payable	-	-	-	-
Due to related parties	-	-	-	-
Due to shareholder	-	-	-	3,967,906
Customer deposits	-	156,383	128,229	-
Employee future benefits	-	-	-	323,591
	<u>2,325,115</u>	<u>156,383</u>	<u>128,229</u>	<u>4,291,497</u>
Total	<u>\$ 2,325,115</u>	<u>\$ 156,383</u>	<u>\$ 128,229</u>	<u>\$ 4,291,497</u>

Continued...

Parry Sound Hydro Corporation Notes to Consolidated Financial Statements

December 31, 2011

22. Financial Risk Management continued

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits.

The corporation does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The corporation had no forward exchange rate contracts or commodity price contracts in place as at or during the year ended December 31, 2011.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The corporation is exposed to interest rate fluctuations on its cash and bank and undrawn credit facilities which bear a floating rate of interest. The promissory note due to the Town of Parry Sound is at a fixed 7.25% rate and therefore the company is not exposed to unexpected cash flow fluctuations on this debt, however in a low interest rate economy the benefits of a variable loan are foregone.

The corporation's exposure to interest rate risk is limited by cash from operations making it possible to maintain a high interest coverage ratio. As at December 31, 2011, if interest rates had been 1% lower or higher with all other variables held constant, net income for the year would not have been impacted materially.

23. Comparative Figures

In the prior period, energy revenue and cost of power were recorded at the higher of the revenue billed and expenses charged. The OEB requires that these amounts be recorded at the lesser amount. An entry has been recorded to correct this in the prior period, decreasing energy revenue and decreasing cost of power by \$171,016 each. The net effect on net income and retained earnings is \$NIL.

Parry Sound Hydro Corporation
Consolidated
Financial Statements
For the year ended December 31, 2012

Parry Sound Hydro Corporation
Consolidated Financial Statements
For the year ended December 31, 2012

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Independent Auditor's Report

To the Shareholder of Parry Sound Hydro Corporation

We have audited the accompanying consolidated financial statements of Parry Sound Hydro Corporation, which comprise the consolidated balance sheet as at December 31, 2012, the consolidated statements of operations, retained earnings and comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Parry Sound Hydro Corporation as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Huntsville, Ontario
April 25, 2013

Parry Sound Hydro Corporation Consolidated Balance Sheet

December 31	2012	(Note 23) 2011
Assets		
Current		
Cash	\$ 1,362,947	\$ 894,498
Short-term investments (Note 1)	303,854	600,000
Accounts receivable (Note 2)	2,326,946	2,631,471
Inventory	88,273	94,930
Prepaid expenses	38,764	24,541
Payments in lieu of corporate taxes receivable	-	1,912
	<u>4,120,784</u>	<u>4,247,352</u>
Future income tax asset (Note 3)	318,553	321,655
Long-term investments (Note 4)	100	100
Property, plant and equipment (Note 5)	4,677,912	4,779,660
Regulatory assets net of regulatory liabilities (Note 6)	493,027	337,581
Intangible assets (Note 7)	72,614	96,818
Development costs (Note 8)	705,040	478,701
Other assets (Note 9)	96,975	145,432
	<u>\$ 10,485,005</u>	<u>\$ 10,407,299</u>
Liabilities and Shareholder's Equity		
Current		
Line of credit (Note 10)	\$ -	\$ 250,000
Accounts payable and accrued liabilities (Note 11)	2,308,503	2,075,115
Payments in lieu of corporate taxes payable	69,194	-
Customer deposits	257,717	284,612
	<u>2,635,414</u>	<u>2,609,727</u>
Due to shareholder - Town of Parry Sound (Note 12)	3,967,906	3,967,906
Employee future benefits (Note 13)	368,257	323,591
	<u>6,971,577</u>	<u>6,901,224</u>
Commitments and Contingencies (Note 14)		
Shareholder's equity		
Share capital (Note 15)	2,436,727	2,436,727
Retained earnings	1,076,701	1,069,348
	<u>3,513,428</u>	<u>3,506,075</u>
	<u>\$ 10,485,005</u>	<u>\$ 10,407,299</u>

Approved on behalf of the Board:

_____ Director

_____ Director

Parry Sound Hydro Corporation
Consolidated Statement of Retained Earnings and Comprehensive Income

For the year ended December 31	2012	(Note 23) 2011
Retained earnings, beginning of year	\$ 1,069,348	\$ 1,021,587
Net income and comprehensive income for the year	7,353	47,761
Retained earnings, end of year	\$ 1,076,701	\$ 1,069,348

Parry Sound Hydro Corporation

Consolidated Statement of Operations

For the year ended December 31	2012	(Note 23) 2011
Energy revenue	\$ 10,245,092	\$ 9,921,070
Cost of power	7,476,204	7,539,928
Net distribution revenue	2,768,888	2,381,142
Other operating revenue		
Regulatory asset interest income	6,845	6,678
Pole rental	49,994	63,494
Service charges	60,224	57,810
Interest earned	18,763	16,817
Non-utility operations	-	61
Street lighting and tree trimming	63,350	58,839
Water heater rental	208,014	226,096
Billing services	174,583	170,523
Rental income	7,656	7,656
Miscellaneous revenues	251	405
	589,680	608,379
	3,358,568	2,989,521
Expenses		
Amortization of property, plant and equipment	588,759	600,561
Amortization of intangible assets	24,204	24,204
Billing and collecting	569,858	536,393
Community relations	24,670	29,609
Distribution and generation maintenance and operations	1,042,469	739,938
General and administrative	746,329	695,689
Interest on long-term debt	287,676	279,440
	3,283,965	2,905,834
Income before provision for payments in lieu of corporate income taxes	74,603	83,687
Provision for payments in lieu of corporate income taxes (Note 16)	67,250	35,926
Net income and comprehensive income for the year	\$ 7,353	\$ 47,761

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Parry Sound Hydro Corporation Consolidated Statement of Cash Flows

For the year ended December 31	2012	(Note 23) 2011
Cash provided by (used in)		
Operating activities		
Net income for the year	\$ 7,353	\$ 47,761
Items not affecting cash:		
Amortization of property, plant and equipment	588,759	600,561
Amortization of other assets	48,457	48,488
Amortization of intangible assets	24,204	24,204
	<u>668,773</u>	<u>721,014</u>
Changes in non-cash working capital:		
Accounts receivable	304,525	(632,560)
Inventory	6,657	(9,440)
Prepaid expenses	(14,223)	31,708
Future income taxes	3,102	(31,547)
Accounts payable and accrued liabilities	233,388	285,522
Payments in lieu of corporate taxes receivable/payable	71,106	35,321
Customer deposits	(26,895)	25,502
Employee future benefits	44,666	7,100
	<u>622,326</u>	<u>(288,394)</u>
	<u>1,291,099</u>	<u>432,620</u>
Investing activities		
Acquisition of property, plant and equipment	(519,424)	(453,574)
Contributions received in aid of construction	32,413	74,067
Acquisition of other assets	-	(59,461)
Acquisition of development costs	(226,339)	(332,771)
Net increase (decrease) in regulatory assets	(155,446)	227,356
	<u>(868,796)</u>	<u>(544,383)</u>
Financing activities		
Repayment of amount due to related party	-	(694,566)
Advances (repayment) of line of credit	(250,000)	250,000
	<u>(250,000)</u>	<u>(444,566)</u>
Increase (decrease) in cash and cash equivalents during the year	172,303	(556,329)
Cash and cash equivalents, beginning of year	1,494,498	2,050,827
Cash and cash equivalents, end of year	\$ 1,666,801	\$ 1,494,498
Represented by		
Cash	\$ 1,362,947	\$ 894,498
Short-term investments	303,854	600,000
	<u>\$ 1,666,801</u>	<u>\$ 1,494,498</u>

Supplementary information (Note 17)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Parry Sound Hydro Corporation

Summary of Significant Accounting Policies

December 31, 2012

Nature of Business

The company was incorporated under the laws of the Province of Ontario on October 31, 2000 in accordance with the provincial government's Electricity Act, 1998. All of the assets, liabilities, employees, rights and obligations of the Parry Sound Public Electric Utility Commission were transferred to Parry Sound Hydro Corporation and its wholly owned subsidiaries, Parry Sound PowerGen Corporation, Parry Sound Energy Services Corporation and Parry Sound Power Corporation. Parry Sound Hydro Corporation is wholly owned by the Corporation of the Town of Parry Sound. These companies continue the transmission, distribution, generation and retailing of electricity and the associated business activities of the former Parry Sound Public Electric Utility Commission.

Two of the subsidiaries are incorporated under the laws of Ontario and operate as local utility companies producing and distributing hydro electric power to users in Parry Sound, Ontario. The third subsidiary is incorporated under the laws of Ontario and provides water heater rental and maintenance services, sewage and water billing on behalf of the Town of Parry Sound up to November 30, 2012, and street lighting and tree trimming services.

Basis of Consolidation

These consolidated financial statements have been prepared using the purchase method of consolidation. The assets and liabilities of the acquired companies are initially recorded at their cost. The results of operations of the acquired companies are included from the dates of acquisition. All significant intercompany transactions and balances have been eliminated on consolidation.

The following subsidiaries' assets, liabilities, and operations are included in these consolidated financial statements:

Parry Sound Power Corporation (PSPC)	- 100% owned
Parry Sound Energy Services Corporation (PSES)	- 100% owned
Parry Sound Powergen Corporation (PSPG)	- 100% owned

Parry Sound Hydro Corporation

Summary of Significant Accounting Policies

December 31, 2012

Basis of Accounting

The consolidated financial statements of Parry Sound Hydro Corporation are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and accounting policies provided by its regulator, the Ontario Energy Board (OEB), as contained in the Accounting Procedures Handbook for Electric Distribution Utilities ("AP Handbook"), issued under the authority of the Ontario Energy Board Act, 1998.

Due to the regulatory framework, the timing of recognition of revenues and expenses and the measurement of certain assets and liabilities may differ from that otherwise expected under Canadian generally accepted accounting principles (GAAP) for non-rate regulated enterprises. Please refer to accounting policies for regulation and rate setting, regulatory assets and liabilities, post 1999 contributed capital, spare transformers and meters, and payments in lieu of corporate income taxes.

The consolidated financial statements reflect the significant accounting policies summarized below.

Regulation and Rate Setting

The company is required to follow regulations as set by the OEB. The OEB approves and sets rates for the transmission and distribution of electricity, ensures distribution companies fulfill their obligations to connect and service customers, and has the authority to provide rate protection for certain electricity customers.

The OEB sets rates on an annual basis with rates becoming effective on May 1st through April 30th of the following year. Beginning January 1, 2012, the annual rates will be effective from January 1 to December 31 of each year. The regulation and monitoring of Ontario's Energy Sector is completed by the OEB through application of codes, rules and guidelines, the licensing of market participants, assisting firms with the management of regulatory requirements, monitoring and enforcing compliance and adjudication.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances and investments in money market instruments with maturities of three months or less.

Parry Sound Hydro Corporation

Summary of Significant Accounting Policies

December 31, 2012

Inventory

Inventories consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. The company classifies all major construction related components of its electricity distribution system infrastructure to property, plant and equipment. Once capitalized, these items are not amortized until they are put into service. Inventories are carried at the lower of cost and net realizable value, with cost determined on the weighted average cost basis.

Future Income Taxes

Future income taxes are accounted for using the liability method and are recognized on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit.

Future income tax liabilities are generally recognized on all taxable temporary differences and future tax assets are recognized to the extent that it is more likely than not that they will be realized from taxable profits available against which deductible temporary differences can be utilized.

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to regulatory assets and liabilities. The net balance represents future income taxes that flow through the rate-making process.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the "more likely than not" criterion. Previously unrecognized future income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more likely than not of being recovered from future taxable profits.

Long-term Investments

The company records its long-term investments using the cost method.

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2012

Property, Plant and Equipment Property, plant and equipment is recorded at cost less accumulated amortization. Costs may include material, labour, contracted services, engineering costs, and interest on funds used during construction when applicable. Also included in property, plant and equipment are the costs of capital assets constructed by developers or customers and contributed to the company.

Upon disposal the cost and accumulated amortization related to the asset are removed and any gains or losses on disposal are credited or charged to other income on the statement of operations.

Amortization is provided using the following method and annual rates:

Land rights	25 years	straight-line basis
Buildings and fixtures	20 - 50 years	straight-line basis
Dam	20 years	straight-line basis
Distribution system	15 - 30 years	straight-line basis
Transportation equipment	5 - 8 years	straight-line basis
Office equipment and tools	10 years	straight-line basis
Load management controls	10 years	straight-line basis
Water heater rental units	8 years	straight-line basis
Computer equip/software	3 - 5 years	straight-line basis
Leasehold improvements	5 years	straight-line basis

Spare and replacement parts included in property, plant and equipment are not amortized until they are put into service.

Construction in progress is included in property, plant and equipment and not amortized until the project is complete.

Post 1999 Contributed Capital Post 1999 contributed capital consists of third party contributions toward the cost of constructing distribution assets collected after January 1, 2000, and are recorded with property, plant and equipment as a contra account. Contributions are amortized at rates corresponding with the useful lives of the related property, plant and equipment. Canadian GAAP provides no specific guideline on the accounting treatment for this type of contribution.

Post 1999 contributed capital is presented as a reduction in property, plant and equipment through contributions in aid of construction.

Parry Sound Hydro Corporation

Summary of Significant Accounting Policies

December 31, 2012

Spare Transformers and Meters Spare transformers and meters are held to back up plant in service and are expected to substitute for original distribution plant transformers and meters when these original plant assets are being repaired.

According to the criteria prescribed by the OEB in the AP Handbook the spare transformers and meters are treated as property, plant and equipment and included in the distribution systems category. Under Canadian GAAP for unregulated businesses the spare transformers and meters would be treated as inventory.

Regulatory Assets and Liabilities

The company has adopted the CICA's Accounting Guideline 19 "Disclosures by Entities Subject to Rate Regulation". Based on OEB regulations, certain costs and variance account balances are recorded as regulatory assets or regulatory liabilities and are reflected in the balance sheet until the OEB determines the manner and timing of their disposition.

Regulatory assets represent future revenues associated with certain costs, incurred in current or prior period(s), that are expected to be recovered through the rate setting process.

Regulatory liabilities represent future reductions or limitations of revenue increases associated with amounts that are expected to be refunded to customers.

Regulatory assets and liabilities can arise from differences in amounts billed to customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by the company in the wholesale market administered by the Independent Electricity System Operator "IESO" after May 1, 2002. These amounts have been accumulated pursuant to regulation underlying the Electricity Act and deferred in anticipation of their future recovery in electricity distribution service charges.

In the absence of regulation the regulatory assets and liabilities would be recognized in income in the period to which they relate.

Parry Sound Hydro Corporation

Summary of Significant Accounting Policies

December 31, 2012

Intangible Assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets consist of the water management plan. This plan has a finite useful life of 5 years. Amortization is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the asset. The amortization period and the amortization method is reviewed at each financial year-end and adjusted if appropriate. Any revision of the estimated useful lives of intangible assets will impact amortization prospectively.

Development Costs

Assets under development are capitalized as development costs. On completion, the costs of development are transferred to the appropriate category of property, plant and equipment. Interest expenses and other finance charges directly relating to the acquisition, construction or production of assets that take a substantial period of time to get ready for its intended use are capitalized. Capitalization commences when expenses are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization will be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use are complete.

Other Assets

Parry Sound Power Corporation must file a cost of service rate application with the OEB every four years. The costs incurred in this filing are written off over the four years of the OEB rate order.

Parry Sound Hydro Corporation

Summary of Significant Accounting Policies

December 31, 2012

Payment in Lieu (PIL) of Corporate Income Taxes

The company is a municipal electricity utility ("MEU") for purposes of the PIL's regime contained in the Electricity Act, 1998. As a MEU the company is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Each taxation year, the company is required to make payments in lieu of corporate income taxes and capital taxes to Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated based on the rules for computing taxable income and taxable capital outlined in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) taking into account any modifications made by the Electricity Act, 1998, and related regulations.

The company provides for payments in lieu of corporate income taxes related to its regulated business using the liability method of accounting.

Customer Deposits

Customer deposits represent amounts collected from customers to guarantee the payment of energy bills and water and sewer bills as collected on behalf of the shareholder. The customer deposits liability includes interest credited to customers' deposit accounts, with interest expense recorded to offset this amount.

Post-employment Benefits

Employee future benefits other than pension provided by the company include life insurance premiums paid by the company and 50% of the cost of health and dental benefits until age 65.

Standards issued by The Canadian Institute of Chartered Accountants with respect to accounting for employee future benefits require the company to accrue for its obligations under other employee benefit plans and related costs, net of plan assets.

The cost of post-employment benefits offered to retirees are actuarially determined using the projected method and based on assumptions that reflect management's best estimate.

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2012

Pension Plan

The company is an employer member of the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer, defined benefit pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. The municipality has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. The municipality records as pension expense the current service cost, amortization of past service costs and interest costs related to the future employer contributions to the Plan for past employee service.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the company and that the revenue can be reliably measured.

Revenue from the sale and distribution of electricity is recognized on the accrual basis. The revenue includes cycles billed during the year plus an estimate for unbilled revenue. The unbilled revenue is calculated using real time consumption from the last billing date to December 31, 2012. Actual results could differ from estimates made of electricity usage.

Other revenues, which include revenues from pole attachment, customer demand work, water heater rentals and other miscellaneous revenues are recognized at the time the service is provided.

Rental revenue is recognized on a month to month basis when the payment is received.

Interest income is recognized on the accrual basis as earned.

Parry Sound Hydro Corporation Summary of Significant Accounting Policies

December 31, 2012

Use of Estimates and Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes as well as the disclosure of contingent assets and liabilities at the financial statement date.

Accounts receivable, unbilled revenue and regulatory assets are reported based on amounts expected to be recovered which reflect an appropriate allowance for unrecoverable amounts. The useful lives of property, plant and equipment have been estimated using rates established by the OEB in order to reflect the appropriate net book values of the assets. Actuarial assumptions were used in determining the cost of post-employment benefits.

Due to inherent uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or the Minister of Finance.

The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies.

Parry Sound Hydro Corporation

Summary of Significant Accounting Policies

December 31, 2012

Financial Instruments

The company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The company's accounting policy for each category is as follows:

Assets held-for-trading

Financial instruments classified as assets held-for-trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income in the period during which the change occurs. Transaction costs are expensed when incurred.

Cash, short-term investments and long-term investments have been classified as held-for-trading.

Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method. Interest income or expense is included in net income over the expected life of the instrument. Transaction costs are expensed when incurred.

Accounts receivable have been classified as loans and receivables.

Line of credit, accounts payable and accrued liabilities, amounts due to shareholder - Town of Parry Sound and employee future benefits have been classified as other financial liabilities.

Parry Sound Hydro Corporation

Summary of Significant Accounting Policies

December 31, 2012

Recent Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company, are as follows:

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ["AcSB"] confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP, with the remaining standards to be adopted at the change over date.

On September 10, 2010, the AcSB granted an optional one year deferral of IFRS adoption to fiscal years beginning on or after January 1, 2012 for entities subject to rate regulation. This decision came in light of the uncertainty created by the International Accounting Standards Board ["IASB"] in regard to the rate-regulated project which is assessing the potential derecognition of regulatory assets and regulatory liabilities under IFRS. Subsequently, the Canadian Securities Administrators announced that entities subject to rate regulation may defer the adoption of IFRS for up to one year, consistent with the one year deferral granted by the AcSB.

On March 21, 2012, the AcSB decided that the mandatory adoption of IFRS for entities subject to rate regulation can be deferred an additional year to fiscal years beginning on or after January 1, 2013.

In February 2013, the AcSB decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities to fiscal years beginning on or after January 1, 2015.

Given these recent developments and due to the continued uncertainty around the timing, scope and eventual adoption of a rate-regulated accounting ["RRA"] standard under IFRS and the potential material impact of RRA on the company's consolidated financial statements, the company is still considering its options and has not yet decided when it will adopt IFRS. Accordingly, the company continued to prepare its consolidated financial statements in accordance with Canadian GAAP for 2012.

Parry Sound Hydro Corporation

Summary of Significant Accounting Policies

December 31, 2012

**Recent Accounting
Pronouncements (continued)**

As a result of these developments related to RRA under IFRS and the uncertainty regarding the impact of IFRS on the OEB electricity distribution rates application process, the company cannot reasonably quantify the full impact that adopting IFRS would have on its future financial position and results of operations. During the deferral period, the company has continued to actively monitor IASB developments with respect to RRA and non-RRA IFRS developments and their potential impacts. Prior to the developments noted above, the company's IFRS conversion project was proceeding as planned to meet the January 1, 2012 conversion date.

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

1. Short-term Investments

	<u>2012</u>	<u>2011</u>
TD Canada Trust, guaranteed investment certificate, interest at 1.25%, matures February 2013	\$ 151,816	\$ -
TD Canada Trust, guaranteed investment certificate, interest at 1.25%, matures March 2013	152,038	-
TD Canada Trust, guaranteed investment certificate, interest at 1.15%, matured January 2012	-	300,000
TD Canada Trust, guaranteed investment certificate, interest at 1.15%, matured February 2012	-	300,000
	<u>\$ 303,854</u>	<u>\$ 600,000</u>

2. Accounts Receivable

	<u>2012</u>	<u>2011</u>
Customer accounts receivable	\$ 1,169,407	\$ 1,470,637
Unbilled revenue	1,014,601	1,015,079
Other	141,586	170,844
HST/GST receivable	38,352	9,911
Allowance for doubtful accounts	<u>(37,000)</u>	<u>(35,000)</u>
	<u>\$ 2,326,946</u>	<u>\$ 2,631,471</u>

Accounts receivable include balances due from related parties as described in Note 12.

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

3. Future Income Tax Asset

The company accounts for the differences between the financial statement carrying value and tax basis of its assets and liabilities following the liability method in accordance with CICA Handbook Section 3465.

The offsetting entry to this net future income tax asset is a credit to regulatory liabilities (Note 6).

Significant components of the company's future tax assets are as follows:

	<u>2012</u>	<u>2011</u>
Employee future benefits	\$ 14,531	\$ 8,925
Property, plant and equipment	258,814	262,536
Organizational costs and land rights	<u>45,208</u>	<u>50,194</u>
Long-term future income tax asset	<u>\$ 318,553</u>	<u>\$ 321,655</u>

4. Long-term Investments

	<u>2012</u>	<u>2011</u>
Cornerstone Hydro Electric Concepts Association Inc., incorporated without share capital, Nil Cost	\$ -	\$ -
Utility Collaborative Services Inc., recorded using the cost method, 1 common share, 10% interest (2011 - 10% interest)	<u>100</u>	<u>100</u>
	<u>\$ 100</u>	<u>\$ 100</u>

Cornerstone Hydro Electric Concepts Association Inc. is an association of twelve electricity distribution utilities modelled after a cooperative to share resources and proficiencies (Note 12).

Utility Collaborative Services Inc. offers standards-based back office services. The collaboration allows leverage in the reduction of costs for items such as information technology hosting and software licensing (Note 12).

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

5. Property, Plant and Equipment

	2012		2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 213,757	\$ -	\$ 213,757	\$ -
Land rights	35,048	34,728	35,048	34,708
Buildings and fixtures	1,880,863	1,627,882	1,880,863	1,558,418
Dam	8,342	3,754	8,342	3,337
Distribution system	8,542,920	4,401,468	11,581,696	7,410,812
Transportation equipment	747,168	585,841	747,168	544,709
Office equipment and tools	201,596	190,963	201,125	188,013
Load management controls	222,863	222,863	222,863	222,863
Water heater rental units	892,821	605,552	868,341	568,493
Computer equip/software	395,516	254,059	388,062	185,705
Leasehold improvements	55,462	7,389	13,552	5,747
Spare and replacement parts	32,751	-	32,751	-
Construction in progress	84,719	-	15,508	-
	13,313,826	7,934,499	16,209,076	10,722,805
Less contributions in aid of construction	941,516	240,101	909,103	202,492
	\$ 12,372,310	\$ 7,694,398	\$ 15,299,973	\$ 10,520,313
Net book value		\$ 4,677,912		\$ 4,779,660

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

6. Regulatory Assets and Liabilities

	2012	2011
Net regulatory assets (liabilities) consist of:		
Smart meter initiatives	\$ 974,015	\$ 928,851
Other regulatory assets - OEB assessment	8,173	8,173
Other regulatory assets - Hydro One incremental costs	3,063	3,063
Other regulatory assets - IFRS transition costs	71,058	61,268
Other regulatory assets - Late payment penalty settlement	725	9,508
Special purpose charge variance	-	331
RSVA - Retail settlement variance accounts	(471,273)	(369,964)
RCVA - Retail cost variance accounts	(13,412)	(10,505)
Net future income tax liability	(318,553)	(321,655)
Carrying charges	(11,076)	(82,479)
RARA - Regulatory Asset Recovery Accounts	250,307	110,990
	\$ 493,027	\$ 337,581

Smart Meter Initiatives

The smart meter regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario by 2010. During 2006 the OEB developed recommendations on smart meters with regard to cost recovery during the phase-in period of this equipment. The OEB stated that given the increased need for electricity and the importance of conservation, specific funding for smart meters could be included in the 2006 rates for all Local Distribution Companies (LDCs). Variance accounts were established to track revenues collected with respect to smart meters and associated costs of the initiatives. The majority of the installation of all smart meters within its service territory was completed in 2009. The OEB approved the request to add a rate rider of \$2.50 (\$1.00 prior to July 1, 2011) per customer per month to fund Smart Meter activities. For rate mitigation purposes, the OEB suspended the rate rider of \$2.50 until future proceedings.

The net book value of stranded meters related to the deployment of smart meters was included in property, plant and equipment in the distribution system category until December 31, 2010. In the rate application for the year beginning January 1, 2011, the depreciation expense on the stranded meters was discontinued and not included in the revenue requirement used to set the 2011 rates. The net book value of \$137,360 of the stranded meters was reallocated to a sub-account of the smart meter initiatives and will not be depreciated any further. The OEB has specified that these amounts are recoverable in future rates.

In connection with its smart meter initiatives, the company has incurred costs in 2012 amounting to \$45,164 (2011 - \$133,260). These expenses would otherwise have been recorded as property, plant and equipment under Canadian GAAP for unregulated businesses. In the absence of rate regulation, revenues would have been higher in 2012 by \$Nil (2011 - \$23,386) and amortization higher in 2012 by \$59,131 (2011 - \$53,677).

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

6. Regulatory Assets and Liabilities (continued)

Other regulatory assets - OEB assessment

The OEB has allowed recording the variance between the OEB annual cost assessment fees previously captured in the 2001 rates and the amounts charged for fiscal years beginning after January 1, 2004 up to April 30, 2006. Accordingly, the company deferred these expenses in accordance with the criteria set out in the AP Handbook. Under such regulation, expenses are allowed to be deferred which would be expensed under Canadian GAAP for unregulated businesses. The deferred balance continues to be calculated and attract carrying charges in accordance with the OEB's direction. In the absence of rate regulation, operating expenses in 2012 would have been higher by \$Nil (2011 - \$Nil). The manner and timing of disposition has not yet been determined by the OEB.

Other Regulatory Assets - Hydro One Incremental Costs

The OEB has approved Other Regulatory Assets, "Sub-account Incremental Capital Charges", for distributors to record the charges arising from the capital rate relief rider. Interest carrying charges, calculated on the monthly opening principal balance of this sub-account at the Board's prescribed interest rates, are applicable for amounts recorded. The new incremental capital charge arises from an incremental capital module approved for Hydro One, which was effective on May 1, 2009 but was implemented on June 1, 2009. In the absence of rate regulation, expenses in 2012 would have been higher by \$Nil (2011 - \$Nil).

Other Regulatory Assets - IFRS transition costs

The company is required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP effective January 1, 2015. The transition costs related to the implementation of IFRS have been recorded as a regulatory asset as the company expects to obtain recovery in the future. Under Canadian GAAP for unregulated businesses, these costs would have been recorded to operating expenses. In the absence of rate regulation, expenses would have been higher by \$9,790 (2011 - \$56,963).

Other Regulatory Assets - Late Payment Penalty Settlement

The late payment penalties settlement account relates to the settlement costs accrual associated with the late payment charges class action lawsuit settled in 2011. The company had accrued a liability and a corresponding regulatory asset in the amount of \$12,415 as at December 31, 2010. In 2011, the company paid the liability and is recovering from the rate payers over the period from August 1, 2011 to December 31, 2012. As at December 31, 2012, \$11,690 has been recovered and a portion of the penalty, prorated monthly, is included in administration expense. The residual balance was collected after year end. In the absence of rate regulation, revenues would have been higher by \$8,783 (2011 - \$2,907).

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

6. Regulatory Assets and Liabilities (continued)

RSVA - Retail Settlement Variance Accounts

Retail settlement variance accounts represent the differences between amounts charged by the company to its customers based on regulated rates and the corresponding cost incurred by the company in the wholesale market administered by the IESO since May 1, 2002. Accordingly, the company has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB in the AP Handbook.

Under such regulation, the variances are allowed to be deferred which would be recorded as revenue under Canadian GAAP for unregulated businesses. In the absence of rate regulation, revenues in 2012 would have been higher by \$101,309 (2011 - \$496,334). The deferred balance for unapproved settlement variances continues to be calculated and attract carrying charges in accordance with the OEB's direction. The manner and timing of disposition of the remaining variance has not been determined by the OEB.

RCVA - Retail Cost Variance Accounts

Providing retail services to customers arising from the deregulated electricity market gives rise to certain retail service costs which have to be recovered by the distributor. The rates and charges used in determining these costs are set by the OEB, which recognizes that the actual costs may be different in practice. In accordance with Chapter 11 of the Distribution Rate Handbook, distributors are required to establish variance accounts to record the differences in costs and revenues for future disposition. In the absence of rate regulation, revenues in 2012 would have been higher by \$2,907 (2011 - \$3,546).

Net Future Income Tax Regulatory Liability

This regulatory liability account relates to the expected future electricity distribution rate adjustments for customers arising from timing differences in the recognition of future taxes.

The company accounts for the differences between its financial statement carrying value and tax basis of assets and liabilities following the liability method in accordance with CICA Handbook Section 3465 (Note 3). In the absence of rate regulation, revenues in 2012 would have been lower by \$3,102 (2011 - \$31,547).

Carrying Charges

Carrying charges are calculated monthly on the opening balance of the applicable variance account using the quarterly prescribed interest rate as outlined by the OEB. In the absence of rate regulation, other revenues would have been lower by \$71,403 (2011 - \$9,926).

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

6. Regulatory Assets and Liabilities (continued)

Regulatory Asset Recovery Accounts (RARA)

The RARA consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and related rates.

The rate application for 2010, approved by the OEB, included the disposition of regulatory liabilities accumulated from January 1, 2005 - December 31, 2008 plus projected interest up to April 30, 2010. The OEB ordered that the approved balances be aggregated into a single regulatory account to be recovered over a one year period with rates effective May 1, 2010.

Fair Value of Regulatory Assets and Regulatory Liabilities

For certain regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties related to the ultimate authority of the regulator in determining the asset's treatment for rate setting purposes. Management continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

7. Intangible Assets

	<u>2012</u>	<u>2011</u>
Water management plan		
- cost	\$ 121,022	\$ 121,022
- accumulated amortization	<u>(48,408)</u>	<u>(24,204)</u>
	<u>\$ 72,614</u>	<u>\$ 96,818</u>

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

8. Development Costs

Development costs include the costs relating to the construction of the new generating station.

	<u>2012</u>	<u>2011</u>
Cost		
Opening balance	\$ 478,701	\$ 145,930
Additions	<u>226,339</u>	<u>332,771</u>
Closing balance	<u>\$ 705,040</u>	<u>\$ 478,701</u>

9. Other Assets

	<u>2012</u>	<u>2011</u>
2011 cost of service application		
- cost	\$ 193,920	\$ 193,920
- accumulated amortization	<u>(96,945)</u>	<u>(48,488)</u>
	<u>\$ 96,975</u>	<u>\$ 145,432</u>

Amortization of \$48,457 (2011 - \$48,488) for the 2011 cost of service application is included in general and administrative expenses.

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

10. Line of Credit

Parry Sound Energy Services Corporation, Parry Sound Powergen Corporation and Parry Sound Power Corporation have a combined credit facility agreement with a Canadian chartered bank. The credit facility agreement is secured by a general security agreement by each company representing a first charge on all the assets, an assignment of fire insurance and evidence of business liability insurance. Covenants under the credit facility agreement require the three companies to maintain a combined minimum Interest Coverage Ratio of 1.5:1 and to maintain a combined maximum Total Debt to Capitalization of 0.60:1.

PSES and PSPG each have a line of credit with an authorized limit of \$50,000 available under this agreement. Interest on advances is calculated using the bank's prime rate, calculated and payable monthly. At the end of the year, these credit facilities were not in use.

Parry Sound Power Corporation has a line of credit with an authorized limit of \$1,500,000 available this agreement. Interest on advances is calculated using the bank's prime rate and is payable monthly.

Parry Sound Power Corporation's line of credit has been pledged as security for the letter of credit provided to the Independent Electricity Systems Operation (IESO) (Note 14). As a result, PSPC's access to the line of credit mentioned above is limited to \$1,047,695. Interest on the letter of guarantee is 0.5% per annum. At the end of the year, PSPC had approximately \$1,047,695 available on its line of credit.

11. Accounts Payable and Accrued Liabilities

	2012	2011
IESO payable	\$ 1,076,506	\$ 529,778
Trade payables	836,698	1,025,772
Accrued liabilities	100,309	149,225
Customer credit balances	78,572	141,668
Hydro One payable	1,160	353
Debt Retirement Charge	40,574	104,752
Ontario Power Authority Programs Payable	161,122	129,627
Retailers payable	13,562	(21,124)
HST/GST payable	-	15,064
	\$ 2,308,503	\$ 2,075,115

Accounts payable and accrued liabilities include balances due to related parties as described in Note 12.

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

12. Related Party Transactions

Parry Sound Hydro Corporation is a wholly owned subsidiary of the Town of Parry Sound. The following summarizes the company's related party transactions for the year:

	<u>2012</u>	<u>2011</u>
Revenue		
- Town of Parry Sound		
Electricity charges	\$ 717,458	\$ 615,872
Operations labour and overhead	5,745	28,707
Revenue billing services	174,583	170,523
Street lighting and tree trimming	27,728	8,788
Expenses		
- Town of Parry Sound		
Municipal taxes	17,470	17,306
Interest on long-term debt	287,676	279,440

The Board of Directors received compensation and were reimbursed for certain administrative costs for the year in the amount of \$17,920 (2011 - \$14,626).

The company paid \$31,738 (2011 - \$15,000) in fees and training to Cornerstone Hydro Electric Concepts Association Inc. (Note 4).

The company paid \$68,032 (2011 - \$67,383) in fees to Utility Collaborative Services Inc. for items such as information technology hosting and software licensing (Note 4).

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product or provision of service.

At the end of the year, the amounts due to/from the Town of Parry Sound are as follows:

	<u>2012</u>	<u>2011</u>
Trade accounts receivable	\$ 110,657	\$ 92,443
Trade accounts payable	\$ 349,029	\$ 680,621
Due to shareholder - Town of Parry Sound		
Promissory note payable - 7.25% per annum on outstanding principal, interest payable quarterly with option of repaying principal amount at any time, unsecured with no specific terms of repayment	\$ 3,967,906	\$ 3,967,906

The Town of Parry Sound has waived the right to demand repayment in the next fiscal year.

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

13. Employee Future Benefits

The company pays certain benefits on behalf of its retired employees. The company recognizes these post-retirement costs in the period in which the employees rendered the services.

Information about the post-retirement life insurance, health and dental benefit plan is as follows:

	<u>2012</u>	<u>2011</u>
Accrued benefit liability, beginning of year	\$ 323,591	\$ 316,491
Actuarial loss for the year	46,129	-
Expense for the year	17,114	21,995
Benefits paid for the year	<u>(18,577)</u>	<u>(14,895)</u>
Projected accrued benefit obligation at December 31	<u>\$ 368,257</u>	<u>\$ 323,591</u>

An actuarial report was performed and dated March 14, 2013. The actuarial valuation was performed on the post-retirement obligations sponsored by Parry Sound Power Corporation as at December 31, 2012. The next actuarial valuation should be performed by December 31, 2015.

The main actuarial assumptions employed for the valuations are as follows:

- (a) General inflation
Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% per annum.
- (b) Interest (discount) rate
The rate used to discount future benefits is assumed to be 3.85% per annum. This rate reflects the assumed mid-term yield on high quality bonds.
- (c) Salary levels
The rate used to increase salaries is assumed to be 3.3% per annum. This rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion.
- (d) Claims cost trend rates
The rate used to project benefit costs into the future are 7.25% (2011 - 7.63%) for health and 5% (2011 - 5%) for dental.

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

14. Commitments and Contingencies

One of the company's subsidiaries, PSPG, has entered into a twenty year standard Hydroelectric Contract Initiative (HCI) with the Ontario Power Authority (OPA) for the supply of hydroelectricity commencing March 1, 2010. The subsidiary is bound by the fixed price contract with an escalation adjustment clause and terms and conditions set out in the agreement for the 1.2 MW Cascade Street Generation Station which has an annual generation of 4.87 GWH. The subsidiary has the right, at its option, to terminate the agreement at any time during the 8th contract year or the 15th contract year by providing no less than 90 days written notice to the OPA of its intention to terminate the agreement. If the corporation exercises the option to terminate, they are precluded from entering into any contract with the OPA relating to the facility for the period remaining on the original term.

Letter of Credit

One of the company's subsidiaries, PSPC, is contingently liable as a guarantor for a letter of credit for \$452,305 with its bank provided to the Independent Electricity Systems Operator (IESO) to secure the company's hydro purchase obligations (Note 10).

General Liability Insurance

The company and its subsidiaries belong to the Municipal Electrical Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of property, casualty, and vehicle risks of many of the electrical utilities in Ontario. All members of the pool could potentially be subjected to an assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues.

15. Share Capital

The authorized share capital of the company is an unlimited number of common shares. The issued share capital is as follows:

		2012	2011
2,436,727	Common shares	\$ 2,436,727	\$ 2,436,727

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

16. Payments in Lieu of Corporate Income Taxes

The company's provision for PILs is calculated as follows:

	<u>2012</u>	<u>2011</u>
Income before provision for PILs	\$ 74,603	\$ 83,687
Statutory Canadian federal and provincial tax rate	<u>26.50%</u>	<u>28.00%</u>
Provision for PILs at statutory rate	19,770	23,432
Permanent differences	72	1,024
Amortization in excess of capital cost allowance/cumulative eligible capital	47,313	26,959
Employee future benefit deduction	2,917	(1,431)
Small business deduction	-	(27,943)
Loss carry forward	-	11,886
Utilization of loss carry forward	(70,072)	(5,259)
Impact of consolidation entries	81,251	4,563
Impact of rate changes	-	577
Loss carry back not recorded for accounting purposes	-	2,118
Recovery from prior year loss carry back	<u>(14,001)</u>	<u>-</u>
Total provision	<u>\$ 67,250</u>	<u>\$ 35,926</u>
Effective tax rate	<u>90.14%</u>	<u>42.93%</u>

The company has consolidated losses for income tax purposes of \$1,232,552 which are available to be applied against future year's taxable income. The benefit of these non-capital losses has not been recognized in the consolidated financial statements. These losses will expire as follows:

2015	\$ 192,074
2026	284,360
2027	339,201
2029	75,603
2031	42,449
2032	<u>298,865</u>
	<u>\$ 1,232,552</u>

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

17. Statement of Cash Flows

	2012	2011
Interest paid	\$ 287,676	\$ 279,440
Interest received	\$ 18,763	\$ 16,817
PILs paid	\$ 35,926	\$ 605
PILs received	\$ 39,782	\$ -

18. Pension Agreements

OMERS provides pension services to more than 428,947 active and retired members and approximately 968 employers. Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2012. The results of this valuation disclosed total actuarial liabilities of \$69,122 million in respect of benefits accrued for service with actuarial assets at that date of \$59,198 million indicating an actuarial deficit of \$9,924 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the company does not recognize any share of the OMERS pension surplus or deficit. Contributions made by the contribution to OMERS for 2012 were \$93,731 (2011 - \$75,917).

19. Operating Leases

The company leases water heaters to customers in the Town of Parry Sound. Rental income of \$208,014 (2011 - \$226,096) was recognized during the year. Repairs and maintenance expenses in the amount of \$29,035 (2011 - \$26,508) are included in distribution and generation maintenance and operations expenses.

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

20. Financial Instruments

The Corporation's carrying value and fair value of financial instruments consist of the following:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$	\$	\$	\$
Assets				
Cash	1,362,947	1,362,947	894,498	894,498
Temporary investments	303,854	303,854	600,000	600,000
Accounts receivable	2,326,946	2,326,946	2,631,471	2,631,471
Long-term investments	100	undeterminable	100	undeterminable
Liabilities				
Line of credit	-	-	250,000	250,000
Accounts payable	2,308,503	2,308,503	2,075,115	2,075,115
Due to shareholder - Town of Parry Sound	3,967,906	undeterminable	3,967,906	undeterminable

The estimated fair values of financial instruments as at December 31, 2012 and December 31, 2011 are based on relevant market prices and information available at the time. The fair value estimates are not necessarily indicative of the amounts that the company may receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Determination of fair values

- (a) The fair values of cash, accounts receivable, line of credit and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.
- (b) Long-term investments include common shares of private companies accounted for by the cost method. These investments are not publicly traded and, therefore, fair values are not practicable to determine.
- (c) The fair value of the amounts due to shareholder have been measured at amortized cost because fair value cannot be measured reliably, as a result of the transactions originating through related party agreements.

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

21. Capital Disclosures

The company considers its capital to be its promissory note due to The Town of Parry Sound and shareholder's equity. The company's main objectives when managing capital are to: i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans, ii) minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, iii) maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants, and iv) provide an adequate return to its shareholder.

The company relies predominately on its cash flow from operations to fund its dividend and interest distributions to its shareholder. This cash flow can be supplemented, when necessary, through the borrowing of additional debt.

As part of existing debt agreements (Note 10), financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements.

Management monitors the following key ratios on a consolidated basis to effectively manage capital:

	2012	2011
a) Interest Coverage Ratio:	2.85:1	3.06:1
b) Debt to Capitalization Ratio:	0.25:1	0.27:1
c) Current Ratio:	1.56:1	1.63:1

There have been no changes in the company's capital management strategy in relation to the prior year.

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

22. Financial Risk Management

As part of its operations, the company carries out transactions that expose it to financial risks such as credit, liquidity and market risks.

The following is a discussion of risks and related mitigation strategies that have been identified by the company for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks identified.

Credit risk

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The maximum credit exposure is limited to the carrying amount of cash and receivables presented on the balance sheet.

Financial instruments that potentially subject the company to a significant concentration of credit risk consist primarily of cash. The company limits its exposure to credit loss by placing its cash with a high credit quality financial institution. The company maintains cash with one major financial institution. Eligible deposits are insured to a maximum basic insurance level of \$100,000, including principal and interest by the Canada Deposit Insurance Corporation.

The company is exposed to credit risk related to accounts receivable arising from its day-to-day electricity and service revenue. Exposure to credit risk from accounts receivable is limited due to the company's large and diverse customer base. Moreover, the company holds as collateral customer, retailer and construction deposits, which are recognized as liabilities on the balance sheet. The Ontario Energy Board has prescribed certain rules for the payment of deposits by customers. Although these rules limit the risk of the company, no deposits are required by customers who have shown good payment history for the previous 24 month period. The company does not have any material accounts receivable balances greater than 90 days outstanding. As a result, the company believes that its accounts receivable represent a low credit risk.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the income statement. The provision is based on account age and customer standing. Subsequent recoveries of receivables previously provisioned are credited to the income statement.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the income statement. The provision is based on account age and customer standing. Subsequent recoveries of receivables previously provisioned are credited to the income statement.

The accounts receivable balance consists of energy, other and unbilled revenue receivables. Unbilled revenue represents amounts to which the company has a contractual right to receive cash through future billings but are unbilled at period-end. Unbilled revenue outstanding is considered current.

The value of accounts receivable, by age, and the related bad debt provision are presented in the following table:

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

22. Financial Risk Management (continued)

Accounts Receivable

	<u>2012</u>	<u>2011</u>
Under 30 days	\$ 2,163,420	\$ 2,400,024
30 to 60 days	41,249	39,697
61 to 90 days	13,810	18,427
Over 90 days	<u>145,467</u>	<u>208,323</u>
	2,363,946	2,666,471
Less: allowance for doubtful accounts	<u>37,000</u>	<u>35,000</u>
Total accounts receivable	<u>\$ 2,326,946</u>	<u>\$ 2,631,471</u>

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the company's reputation. The company's exposure is reduced by cash generated from operations and the undrawn credit facilities of its subsidiaries. The company engages in borrowing to meet financing needs that exceed cash from operations. Exposure to such risks is significantly reduced through close monitoring of cash flows and budgeting.

Liquidity risks associated with financial commitments are as follows:

	0 - 3 mo	3 mo - 1 yr	1 - 5 yr	Termless
Accounts payable and accrued liabilities	2,308,503	-	-	-
Payments in lieu of corporate taxes payable	69,194	-	-	-
Due to shareholder	-	-	-	3,967,906
Customer deposits	-	257,717	-	-
Employee future benefits	<u>-</u>	<u>-</u>	<u>-</u>	<u>368,257</u>
Total	<u>\$ 2,377,697</u>	<u>\$ 257,717</u>	<u>\$ -</u>	<u>\$ 4,336,163</u>

Parry Sound Hydro Corporation

Notes to Consolidated Financial Statements

December 31, 2012

22. Financial Risk Management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits.

The company does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The company had no forward exchange rate contracts or commodity price contracts in place as at or during the year ended December 31, 2012. One of the company's subsidiaries has a twenty year standard Hydroelectric Contract Initiative with the Ontario Power Authority for the supply of hydroelectricity.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The company is exposed to interest rate fluctuations on its cash and undrawn credit facilities of its subsidiaries which bear a floating rate of interest. The promissory note due to the Town of Parry Sound is at a fixed 7.25% rate and therefore the company is not exposed to unexpected cash flow fluctuations on this debt, however in a low interest rate economy the benefits of a variable loan are foregone.

The company's exposure to interest rate risk is limited by cash from operations making it possible to maintain a high interest coverage ratio. As at December 31, 2012, if interest rates had been 1% lower or higher with all other variables held constant, net income for the year would not have been impacted materially.

23. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's consolidated financial statement presentation.

Parry Sound Power Corporation

Financial Statements **For the year ended December 31, 2011**

Parry Sound Power Corporation
Financial Statements
For the year ended December 31, 2011

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Independent Auditor's Report

To the Shareholder of Parry Sound Power Corporation

We have audited the accompanying financial statements of Parry Sound Power Corporation, which comprise the balance sheet as at December 31, 2011, the statements of operations and retained earnings (deficit) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Parry Sound Power Corporation as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Collingwood, Ontario
April 30, 2012

Parry Sound Power Corporation Balance Sheet

December 31 2011 2010

Assets

Current

Cash and bank (Note 1)	\$ -	\$ 469,102
Accounts receivable (Note 2)	2,168,928	1,944,377
Inventory	89,239	80,879
Prepaid expenses	24,050	41,585
Payments in lieu of corporate taxes receivable (Note 3)	-	25,781
	<u>2,282,217</u>	<u>2,561,724</u>

Other assets (Note 4)	145,432	134,459
Future income tax asset (Note 5)	321,655	290,108
Long-term investments (Note 6)	100	100
Property, plant and equipment (Note 7)	3,999,739	4,291,528
Regulatory assets net of regulatory liabilities (Note 8)	337,581	427,577
	<u>\$ 7,086,724</u>	<u>\$ 7,705,496</u>

Liabilities and Shareholder's Equity

Current

Bank indebtedness (Note 9)	\$ 7,835	\$ -
Line of credit (Note 9)	250,000	-
Accounts payable and accrued liabilities (Note 10)	1,495,893	1,901,093
Payments in lieu of corporate taxes payable (Note 3)	9,619	-
Due to related parties (Note 11)	-	694,566
Current portion of customer deposits	106,013	93,694
	<u>1,869,360</u>	<u>2,689,353</u>

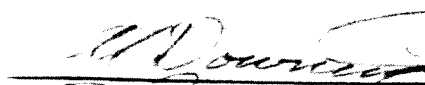
Customer deposits	128,229	165,416
Due to shareholder - Town of Parry Sound (Note 11)	2,433,728	2,433,728
Employee future benefits (Note 13)	55,781	-
	<u>4,487,098</u>	<u>5,288,497</u>

Contingencies (Note 12)

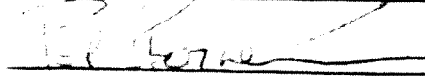
Shareholder's equity

Share capital (Note 14)	2,433,727	2,433,727
Retained earnings (deficit)	165,899	(16,728)
	<u>2,599,626</u>	<u>2,416,999</u>
	<u>\$ 7,086,724</u>	<u>\$ 7,705,496</u>

Approved on behalf of the Board:



Director



Director

Parry Sound Power Corporation
Statement of Retained Earnings (Deficit)

<u>For the year ended December 31</u>	<u>2011</u>	<u>2010</u>
Deficit, beginning of year	\$ (16,728)	\$ (115,566)
Net income for the year	<u>182,627</u>	<u>98,838</u>
<u>Retained earnings (deficit), end of year</u>	<u>\$ 165,899</u>	<u>\$ (16,728)</u>

Parry Sound Power Corporation Statement of Operations

For the year ended December 31	2011	2010
		(Note 22)
Energy revenue	\$ 9,711,569	\$ 8,883,097
Cost of power	<u>7,681,727</u>	<u>7,118,855</u>
Net distribution revenue	<u>2,029,842</u>	<u>1,764,242</u>
Other operating revenue (expense)		
Regulatory asset interest income	6,678	4,459
Pole rental	63,494	22,935
Service charges	47,400	46,707
Interest earned	2,340	10,432
Non-utility operations	<u>(539)</u>	<u>400</u>
	<u>119,373</u>	<u>84,933</u>
	<u>2,149,215</u>	<u>1,849,175</u>
Expenses		
Amortization	434,488	386,125
Billing and collecting	351,851	337,204
Community relations	29,544	17,315
Distribution maintenance and operations	399,449	276,616
General and administrative	539,412	583,684
Interest on long-term debt	<u>176,444</u>	<u>176,444</u>
	<u>1,931,188</u>	<u>1,777,388</u>
Income before provision for payments in lieu of corporate income taxes	218,027	71,787
Provision (recovery) for payments in lieu of corporate income taxes (Note 3)	<u>35,400</u>	<u>(27,051)</u>
Net income for the year	<u>\$ 182,627</u>	<u>\$ 98,838</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Parry Sound Power Corporation Statement of Cash Flows

For the year ended December 31	2011	2010
Cash flows from operating activities		
Net income for the year	\$ 182,627	\$ 98,838
Items not affecting cash:		
Amortization of property, plant and equipment	434,488	386,125
Amortization of other assets	48,488	-
	<u>665,603</u>	<u>484,963</u>
Changes in non-cash working capital:		
Accounts receivable	(224,551)	(149,498)
Inventory	(8,360)	2,302
Prepaid expenses	17,535	(971)
Accounts payable and accrued liabilities	(405,200)	202,693
Payments in lieu of corporate taxes receivable/payable	35,400	(8,823)
Future income taxes	(31,547)	18,753
Due to related parties	(694,566)	71,438
Employee future benefits	55,781	-
	<u>(1,255,508)</u>	<u>135,894</u>
	<u>(589,905)</u>	<u>620,857</u>
Cash flows from investing activities		
Expenditures on property, plant and equipment	(280,059)	(610,952)
Expenditures on other assets	(59,461)	(128,020)
Net increase (decrease) in regulatory assets	227,356	20,693
	<u>(112,164)</u>	<u>(718,279)</u>
Cash flows from financing activities		
Customer and retailer deposits	(24,868)	(26,109)
Advances from line of credit	250,000	-
	<u>225,132</u>	<u>(26,109)</u>
Decrease in cash during the year	(476,937)	(123,531)
Cash and bank, beginning of year	469,102	592,633
(Bank indebtedness) cash and bank, end of year	\$ (7,835)	\$ 469,102

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2011

Nature of Business

The corporation was incorporated under the laws of the Province of Ontario on October 31, 2000 in accordance with the provincial government's Electricity Act, 1998. The corporation is licensed by the Ontario Energy Board ("OEB") as an electricity distributor. The principal activity of the corporation is to distribute electricity to the Town of Parry Sound. The rates of the corporation's electricity distribution business are subject to regulation by the OEB.

Basis of Accounting

The financial statements are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and accounting policies provided by its regulator, the Ontario Energy Board, as contained in the Accounting Procedures Handbook for Electric Distribution Utilities (AP Handbook), issued under the authority of the Ontario Energy Board Act, 1998.

Due to the regulatory framework, the timing of recognition of revenues and expenses and the measurement of certain assets and liabilities may differ from that otherwise expected under Canadian generally accepted accounting principles (GAAP) for non-rate regulated enterprises. Please refer to accounting policies for Regulation and Rate Setting, Regulatory Assets and Liabilities, Post 1999 Contributed Capital, Spare Transformers and Meters, and Payments in lieu of corporate income taxes.

The financial statements reflect the significant accounting policies summarized below.

Regulation and Rate Setting

The corporation is required to follow regulations as set by the OEB. The OEB approves and sets rates for the transmission and distribution of electricity, ensures distribution companies fulfill their obligations to connect and service customers, and has the authority to provide rate protection for certain electricity customers.

The OEB sets rates on an annual basis with rates becoming effective on May 1st through April 30th of the following year. Beginning January 1, 2012, the annual rates will be effective from January 1 to December 31 of each year. The regulation and monitoring of Ontario's Energy Sector is completed by the OEB through application of codes, rules and guidelines, the licensing of market participants, assisting firms with the management of regulatory requirements, monitoring and enforcing compliance and adjudication.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2011

Regulatory Assets and Liabilities

The corporation has adopted the CICA's Accounting Guideline 19 "Disclosures by Entities Subject to Rate Regulation". Based on OEB regulations, certain costs and variance account balances are recorded as regulatory assets or regulatory liabilities and are reflected in the balance sheet until the OEB determines the manner and timing of their disposition.

Regulatory assets represent future revenues associated with certain costs, incurred in current or prior period(s), that are expected to be recovered through the rate setting process.

Regulatory liabilities represent future reductions or limitations of revenue increases associated with amounts that are expected to be refunded to customers.

Regulatory assets and liabilities can arise from differences in amounts billed to customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by the corporation in the wholesale market administered by the Independent Electricity System Operator "IESO" after May 1, 2002. These amounts have been accumulated pursuant to regulation underlying the Electricity Act and deferred in anticipation of their future recovery in electricity distribution service charges.

In the absence of regulation the regulatory assets and liabilities would be recognized in income in the period to which they relate.

Other Assets

Parry Sound Power Corporation must file a cost of service rate application with the OEB every four years. The costs incurred in this filing are written off over the four years of the OEB rate order.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2011

Inventory	Inventories consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. The corporation classifies all major construction related components of its electricity distribution system infrastructure to property, plant and equipment. Once capitalized, these items are not amortized until they are put into service. Inventories are carried at the lower of cost and net realizable value, with cost determined on an average cost basis.
Spare Transformers and Meters	<p>Spare transformers and meters are held to back up plant in service and are expected to substitute for original distribution plant transformers and meters when these original plant assets are being repaired.</p> <p>According to the criteria prescribed by the OEB in the AP Handbook the spare transformers and meters are treated as capital assets and included in the distribution systems category. Under Canadian GAAP for unregulated businesses the spare transformers and meters would be treated as inventory.</p>
Customer Deposits	Customer deposits represent amounts collected from customers to guarantee the payment of energy bills. The customer deposits liability includes interest credited to customers' deposit accounts, with interest expense recorded to offset this amount. Deposits expected to be refunded to customers within one year are classified as a current liability.
Revenue Recognition	<p>Revenue from the sale and distribution of electricity is recognized on the accrual basis. The revenue includes cycles billed during the year plus an estimate for unbilled revenue. The unbilled revenue is calculated using real time consumption from the last billing date to December 31, 2011. Actual results could differ from estimates made of electricity usage.</p> <p>Other revenues, which include revenues from pole attachment, customer demand work, and other miscellaneous revenues are recognized at the time the service is provided.</p>
Long-term Investments	The corporation records its long-term investments using the cost method.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2011

Property, Plant and Equipment Property, plant and equipment is recorded at cost less accumulated amortization. Costs may include material, labour, contracted services, engineering costs, and interest on funds used during construction when applicable. Also included in property, plant and equipment are the costs of capital assets constructed by developers or customers and contributed to the corporation.

Upon disposal the cost and accumulated amortization related to the asset are removed and any gains or losses on disposal are credited or charged to other income on the statement of operations.

Amortization is provided using the following method and annual rates as established by the OEB:

Land rights	25 years	straight-line basis
Distribution system	15 - 30 years	straight-line basis
Transportation equipment	8 years	straight-line basis
Office equipment and tools	10 years	straight-line basis
Computer equip/software	3 - 5 years	straight-line basis
Leasehold improvements	5 years	straight-line basis

Spare and replacement parts included in property, plant and equipment are not amortized until they are put into service.

Construction in progress is included in property, plant and equipment and not amortized until the project is complete.

Post 1999 Contributed Capital Post 1999 contributed capital consists of third party contributions toward the cost of constructing distribution assets collected after January 1, 2000, and are recorded with property, plant and equipment as a contra account. Contributions are amortized at rates corresponding with the useful lives of the related property, plant and equipment. Canadian GAAP provides no specific guideline on the accounting treatment for this type of contribution.

Post 1999 contributed capital is included in distribution system in the schedule of capital assets.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2011

Pension Plan

The corporation offers a pension plan for its full-time employees through the Ontario Municipal Employee Retirement System ("OMERS"). OMERS is a multi-employer, contributory, public sector pension fund established for employees of municipalities, local boards and school boards in Ontario. Participating employers and employees are required to make plan contributions based on participating employees' contributory earnings. The corporation accounts for its participation in OMERS as a defined contribution plan and recognizes the expense related to this plan as contributions are made.

Post-employment Benefits

Employee future benefits other than pension provided by the corporation include life insurance premiums paid by the corporation and 50% of the cost of health and dental benefits until age 65.

Standards issued by The Canadian Institute of Chartered Accountants with respect to accounting for employee future benefits require the corporation to accrue for its obligations under other employee benefit plans and related costs, net of plan assets.

The cost of post-employment benefits offered to retirees are actuarially determined using the projected method and based on assumptions that reflect management's best estimate.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2011

Use of Estimates and Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes as well as the disclosure of contingent assets and liabilities at the financial statement date.

Accounts receivable, unbilled revenue and regulatory assets are reported based on amounts expected to be recovered which reflect an appropriate allowance for unrecoverable amounts. The useful lives of property, plant and equipment have been estimated using rates established by the OEB in order to reflect the appropriate net book values of the assets.

Due to inherent uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or the Minister of Finance.

The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies.

Payment in Lieu (PIL) of Corporate Income Taxes and Capital Taxes

The corporation is a municipal electricity utility ("MEU") for purposes of the PIL's regime contained in the Electricity Act, 1998. As a MEU the corporation is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Each taxation year, the corporation is required to make payments in lieu of corporate income taxes and capital taxes to Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated based on the rules for computing taxable income and taxable capital outlined in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) taking into account any modifications made by the Electricity Act, 1998, and related regulations.

The corporation provides for payments in lieu of corporate income taxes and capital taxes related to its regulated business using the liability method of accounting. Until December 31, 2008 the taxes payable method was applied as permitted by the CICA and OEB. Effective January 1, 2009 the corporation began using the liability method of accounting following the new recommendations from the CICA and OEB.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2011

Future Income Taxes

Future income taxes are provided for using the liability method and are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit.

Future income tax liabilities are generally recognized on all taxable temporary differences and future tax assets are recognized to the extent that it is more likely than not that they will be realized from taxable profits available against which deductible temporary differences can be utilized.

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to regulatory assets and liabilities. The net balance represents future income taxes that flow through the rate-making process.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the "more likely than not" criterion. Previously unrecognized future income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more likely than not of being recovered from future taxable profits.

New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company, are as follows:

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ["AcSB"] confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP, with the remaining standards to be adopted at the change over date.

Continued...

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2011

New Accounting Pronouncements continued

On September 10, 2010, the AcSB granted an optional one year deferral of IFRS adoption to fiscal years beginning on or after January 1, 2012 for entities subject to rate regulation. This decision came in light of the uncertainty created by the International Accounting Standards Board ["IASB"] in regard to the rate-regulated project which is assessing the potential derecognition of regulatory assets and regulatory liabilities under IFRS. Subsequently, the Canadian Securities Administrators announced that entities subject to rate regulation may defer the adoption of IFRS for up to one year, consistent with the one year deferral granted by the AcSB.

On March 21, 2012, the AcSB decided that the mandatory adoption of IFRS for entities subject to rate regulation can be deferred an additional year to fiscal years beginning on or after January 1, 2013.

Given these recent developments and due to the continued uncertainty around the timing, scope and eventual adoption of a rate-regulated accounting ["RRA"] standard under IFRS and the potential material impact of RRA on the corporation's financial statements, the corporation is still considering its options and has not yet decided whether it will adopt IFRS in 2012 or 2013. Accordingly, the corporation continued to prepare its financial statements in accordance with Canadian GAAP for 2011.

As a result of these developments related to RRA under IFRS and the uncertainty regarding the impact of IFRS on the OEB electricity distribution rates application process, the corporation cannot reasonably quantify the full impact that adopting IFRS would have on its future financial position and results of operations. During the deferral period, the corporation has continued to actively monitor IASB developments with respect to RRA and non-RRA IFRS developments and their potential impacts. Prior to the developments noted above, the corporation's IFRS conversion project was proceeding as planned to meet the January 1, 2012 conversion date.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

1. Cash and Bank

The corporation's bank accounts are held at one chartered bank. The bank account earns interest at a variable rate.

2. Accounts Receivable

	2011	2010
Customer accounts receivable	\$ 1,021,806	\$ 1,088,629
Unbilled revenue	1,013,190	845,701
Other	168,932	45,047
Allowance for doubtful accounts	(35,000)	(35,000)
	<u>\$ 2,168,928</u>	<u>\$ 1,944,377</u>

Accounts receivable include balances due from related parties as described in Note 11.

3. (Recovery) Payments in Lieu of Corporate Income Taxes

The corporation's provision for PILs is calculated as follows:

	2011	2010
Income before provision for PILs	\$ 218,027	\$ 71,787
Statutory Canadian federal and provincial tax rate	28.00%	30.00%
Provision for PILs at statutory rate	61,048	21,536
Variance between amortization and CEC deduction	(6,617)	(7,623)
Amortization in excess of capital cost allowance	9,240	6,530
Small business deduction	(29,119)	-
Impact of rate change	571	(4,368)
Employee future benefits	277	-
Prior period adjustments	-	(41,856)
Adjustment to tax provision	-	(1,270)
	<u>\$ 35,400</u>	<u>\$ (27,051)</u>
Effective tax rate	16.24%	(37.68)%

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

4. Other Assets

	2011	2010
2011 Cost of Service Application		
- cost	\$ 193,920	\$ 134,459
- accumulated amortization	(48,488)	-
	<u>\$ 145,432</u>	<u>\$ 134,459</u>

5. Future Income Taxes

The corporation accounts for the differences between the financial statement carrying value and tax basis of its assets and liabilities following the liability method in accordance with CICA Handbook Section 3465.

The offsetting entry to this net future income tax asset is a credit to regulatory liabilities (See Note 8).

Significant components of the corporation's future tax assets are as follows:

	2011	2010
Employee future benefits	\$ 8,925	\$ -
Property, plant and equipment	262,536	236,136
Organizational costs and land rights	50,194	53,972
Long-term future income tax asset	<u>\$ 321,655</u>	<u>\$ 290,108</u>

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

6. Long-term Investments

	2011	2010
Cornerstone Hydro Electric Concepts Association Inc. (CHEC), incorporated without share capital, Nil Cost	\$ -	\$ -
Utility Collaborative Services Inc. (UCS), recorded using the cost method, 100 common shares, 10% interest (2010 - 12.50% interest)	100	100
	<u>\$ 100</u>	<u>\$ 100</u>

Cornerstone Hydro Electric Concepts Association Inc. (CHEC) is an association of twelve electricity distribution utilities modelled after a cooperative to share resources and proficiencies (See Note 11).

Utility Collaborative Services Inc. (UCS) offers standards-based back office services. The collaboration allows leverage in the reduction of costs for items such as information technology hosting and software licensing (See Note 11).

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

7. Property, Plant and Equipment

	2011		2010	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 74,305	\$ -	\$ 74,305	\$ -
Land rights	35,048	34,708	35,048	34,688
Distribution system	10,875,085	7,410,812	10,767,860	7,047,647
Transportation equipment	292,909	67,450	264,737	21,896
Office equipment and tools	16,964	3,852	12,016	1,202
Computer equip/software	254,381	85,732	236,767	28,644
Construction in progress	15,508	-	2,121	-
Leasehold improvements	5,342	-	-	-
Spare and replacement parts	32,751	-	32,751	-
	<u>\$ 11,602,293</u>	<u>\$ 7,602,554</u>	<u>\$ 11,425,605</u>	<u>\$ 7,134,077</u>
Net book value		<u>\$ 3,999,739</u>		<u>\$ 4,291,528</u>

The net book value of stranded meters related to the deployment of smart meters was included in property, plant and equipment in the distribution system category at December 31, 2010. The net book value of \$137,360 was reclassified to regulatory assets/liabilities January 1, 2011.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

8. Regulatory Assets and Liabilities

	2011	2010
Net regulatory assets (liabilities) consist of:		
Smart meter initiatives	\$ 928,851	\$ 681,617
Other regulatory assets - OEB assessment	8,173	8,173
Other regulatory assets - Hydro One incremental costs	3,063	3,063
Other regulatory assets - IFRS transition costs	61,268	4,305
Other regulatory assets - Late payment penalty settlement	9,508	12,415
Special purpose charge variance	331	18,511
RSVA - Retail settlement variance accounts	(369,964)	126,370
RCVA - Retail cost variance accounts	(10,505)	(6,959)
Net future income tax liability	(321,655)	(290,108)
Carrying charges calculated using OEB specified rate	(82,479)	(92,405)
RARA - Regulatory Asset Recovery Accounts	110,990	(37,405)
	<u>\$ 337,581</u>	<u>\$ 427,577</u>

Smart Meter Initiatives

The smart meter regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario by 2010. During 2006 the OEB developed recommendations on smart meters with regard to cost recovery during the phase-in period of this equipment. The OEB stated that given the increased need for electricity and the importance of conservation, specific funding for smart meters could be included in the 2006 rates for all Local Distribution Companies (LDCs). Variance accounts were established to track revenues collected with respect to smart meters and associated costs of the initiatives. The majority of the installation of all smart meters within its service territory was completed in 2009. The OEB approved the request to add a rate rider of \$2.50 (\$1.00 prior to July 1, 2011) per customer per month to fund Smart Meter activities. For rate mitigation purposes, the OEB suspended the rate rider of \$2.50 until future proceedings.

The net book value of stranded meters related to the deployment of smart meters was included in property, plant and equipment in the distribution system category until December 31, 2010. In the rate application for the year beginning January 1, 2011, the depreciation expense on the stranded meters was discontinued and not included in the revenue requirement used to set the 2011 rates. The net book value of \$137,360 of the stranded meters was reallocated to a sub-account of the smart meter initiatives and will not be depreciated any further. The OEB has specified that these amounts are recoverable in future rates.

In connection with its smart meter initiatives, the corporation has incurred costs in 2011 amounting to \$133,260 (2010 - \$214,631). These expenditures would otherwise have been recorded as property, plant and equipment under Canadian GAAP for unregulated businesses. In absence of rate regulation, revenues would have been higher in 2011 by \$23,386 (2010 - \$40,353) and amortization higher in 2011 by \$53,677 (2010 - \$43,767).

Continued...

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

8. Regulatory Assets and Liabilities continued

Other regulatory assets - OEB assessment

The OEB has allowed recording the variance between the OEB annual cost assessment fees previously captured in the 2001 rates and the amounts charged for fiscal years beginning after January 1, 2004 up to April 30, 2006. Accordingly, the corporation deferred these expenditures in accordance with the criteria set out in the AP Handbook. Under such regulation, expenditures are allowed to be deferred which would be expensed under Canadian GAAP for unregulated businesses. The deferred balance continues to be calculated and attract carrying charges in accordance with the OEB's direction. In the absence of rate regulation, operating expenses in 2011 would have been \$NIL higher (2010 - \$NIL higher). The manner and timing of disposition has not yet been determined by the OEB.

Other Regulatory Assets - Hydro One Incremental Costs

The OEB has approved Other Regulatory Assets, "Sub-account Incremental Capital Charges", for distributors to record the charges arising from the capital rate relief rider. Interest carrying charges, calculated on the monthly opening principal balance of this sub-account at the Board's prescribed interest rates, are applicable for amounts recorded. The new incremental capital charge arises from an incremental capital module approved for Hydro One, which was effective on May 1, 2009 but was implemented on June 1, 2009. In the absence of rate regulation, expenses in 2011 would have been \$NIL higher (2010 - \$1,245).

Other Regulatory Assets - IFRS transition costs

The company is required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP effective January 1, 2013. The transition costs related to the implementation of IFRS have been recorded as a regulatory asset as the company expects to obtain recovery in the future. Under Canadian GAAP for unregulated businesses, these costs would have been recorded to operating expenses. In the absence of rate regulation, expenses would have been \$56,963 higher (2010 - \$4,305).

Other Regulatory Assets - Late Payment Penalty Settlement

The late payment penalties settlement account relates to the settlement costs accrual associated with the late payment charges class action lawsuit settled in 2011. The company had accrued a liability and a corresponding regulatory asset in the amount of \$12,415 as at December 31, 2010. In 2011, the company paid the liability and is recovering from the rate payers over the period from August 1, 2011 to December 31, 2012. As at December 31, 2011, \$2,907 has been recovered and a portion of the penalty, prorated monthly, is included in administration expense. In the absence of rate regulation, operating expenses for the year would have been higher by \$NIL (2010 - \$12,415) revenues would have been lower by \$2,907 (2010 - \$NIL).

Continued...

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

8. Regulatory Assets and Liabilities continued

Special Purpose Charge Variance

On April 9, 2010, the OEB informed LDC's of a Special Purpose Charge ["SPC"] assessment under Section 26.1 of the Ontario Energy Board Act, 1998, for the Ministry of Energy and Infrastructure conservation and renewable energy program costs. The OEB has assessed the corporation \$34,719 for its apportioned share of the total provincial amount of \$53,695,000 in accordance with the rules set out in Ontario Regulation 66/10 [the "SPC Regulation"]. In accordance with Section 9 of the SPC Regulation, the corporation will be allowed to recover this balance. The recovery is to be achieved over a one-year period, starting May 1, 2010.

This variance account relates to the difference between the amount remitted to the Ministry of Finance for LDC's SPC assessment, and the amounts recovered from customers, which commenced on May 1, 2010. Carrying charges apply to the monthly opening balance in the variance account. The SPC Regulation states that the corporation shall apply to the OEB no later than April 15, 2012 for an order authorizing the disposition of any remaining debit or credit balance in the SPC variance account. As at December 31, 2011, the account consists of the corporation's assessment offset by eight months of recoveries. In the absence of rate regulation, revenue for the year would have been \$NIL higher (2010 - \$16,208) and operating expenditures would have been \$NIL higher (2010 - \$34,719).

RSVA - Retail Settlement Variance Accounts

Retail settlement variance accounts represent the differences between amounts charged by the corporation to its customers based on regulated rates and the corresponding cost incurred by the corporation in the wholesale market administered by the IESO since May 1, 2002. Accordingly, the corporation has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB in the AP Handbook.

Under such regulation, the variances are allowed to be deferred which would be recorded as revenue under Canadian GAAP for unregulated businesses. In the absence of rate regulation, revenues in 2011 would have been \$496,334 higher (2010 - \$162,622 lower). The deferred balance for unapproved settlement variances continues to be calculated and attract carrying charges in accordance with the OEB's direction. The manner and timing of disposition of the remaining variance has not been determined by the OEB.

RCVA - Retail Cost Variance Accounts

Providing retail services to customers arising from the deregulated electricity market gives rise to certain retail service costs which have to be recovered by the distributor. The rates and charges used in determining these costs are set by the OEB, which recognizes that the actual costs may be different in practice. In accordance with Chapter 11 of the Distribution Rate Handbook, distributors are required to establish variance accounts to record the differences in costs and revenues for future disposition. In the absence of rate regulation, revenues in 2011 would have been \$3,546 higher (2010 - \$3,230).

Continued...

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

8. Regulatory Assets and Liabilities continued

Future Income Tax Regulatory Liability

This regulatory liability account relates to the expected future electricity distribution rate adjustments for customers arising from timing differences in the recognition of future taxes.

The corporation accounts for the differences between its financial statement carrying value and tax basis of assets and liabilities following the liability method in accordance with CICA Handbook Section 3465 (See Note 5).

Carrying Charges

Carrying charges are calculated monthly on the opening balance of the applicable variance account using the quarterly prescribed interest rate as outlined by the OEB. In the absence of rate regulation, other revenues would have been lower by \$9,926 (2010 - \$4,459).

Regulatory Asset Recovery Accounts (RARA)

The RARA consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and related rates.

The rate application for 2010, approved by the OEB, included the disposition of regulatory liabilities accumulated from January 1, 2005 - December 31, 2008 plus projected interest up to April 30, 2010. The OEB ordered that the approved balances be aggregated into a single regulatory account to be recovered over a one year period with rates effective May 1, 2010.

Fair Value of Regulatory Assets and Regulatory Liabilities

For certain regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties related to the ultimate authority of the regulator in determining the asset's treatment for rate setting purposes. Management continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

Deferred PILS Regulatory Asset

Parry Sound Power Corporation will be filing an evidence package to support the disposition of the 1562 Deferred PILS Regulatory Asset account as part of their current Incentive Regulation Mechanism (IRM) rate application. This disposition is in response to the SIMPILS True-Up Models for the years 2001 to 2005. The PILS included in rates were determined well in advance of the actual tax years using proxies for what the actual tax rates would be. The true-up process for the above noted years captures the difference between the rates used to determine PILS included in rates and what the PILS would have been if they had been set in the actual tax year with knowledge of any changes in tax rates. PSPC is applying to clear a credit balance (owed to customers) of \$120,735 over a two-year period. This amount will be offset against distribution revenue in the period of recovery.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

9. Bank Indebtedness

The corporation has a line of credit with an authorized limit of \$1,500,000 available under a credit facility agreement with a Canadian chartered bank. Interest on advances is calculated using the bank's prime rate and is payable monthly. The security provided is a general security agreement representing a first charge on all the corporation's assets, adequate liability insurance and an indemnity agreement for any drawn letters of credit or letters of guarantee.

The corporation's line of credit has been pledged as security for the letter of credit provided to the Independent Electricity Systems Operation (IESO) (See Note 12). As a result, the corporation's access to the line of credit mentioned above is limited to \$1,070,365. Interest on the letter of guarantee is 0.5% per annum. At the end of the year, the corporation had approximately \$820,365 available on its line of credit.

The agreement governing the line of credit facilities contains certain covenants as described in Note 18.

10. Accounts Payable and Accrued Liabilities

	2011	2010
IESO payable	\$ 529,778	\$ 1,130,117
Trade payables	522,185	344,136
Accrued liabilities	73,590	31,765
Late payment penalty settlement	-	12,415
Customer credit balances	141,668	104,427
Hydro One payable	353	57,840
Debt Retirement Charge	104,752	97,095
Ontario Power Authority Programs Payable	129,627	70,281
Retailers (receivable) payable	(21,124)	28,309
HST/GST payable	15,064	24,708
	<u>\$ 1,495,893</u>	<u>\$ 1,901,093</u>

Accounts payable and accrued liabilities include balances due to related parties as described in Note 11.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

11. Related Party Transactions

Parry Sound Hydro Corporation is a wholly owned subsidiary of the Town of Parry Sound.

Parry Sound Power Corporation, Parry Sound Energy Services Corporation, and Parry Sound Powergen Corporation are wholly owned subsidiaries of Parry Sound Hydro Corporation.

The following summarizes the corporation's related party transactions for the year:

	2011	2010
	\$	\$
Revenue		
- Town of Parry Sound		
Electricity charges	615,872	586,595
- Parry Sound Energy Services Corporation		
General and administrative - Admin charge	32,421	-
Various categories - Payroll and burden	2,575	-
- Parry Sound Powergen Corporation		
Various categories - Payroll and burden	27,539	-
Expenses		
- Town of Parry Sound		
Municipal taxes	4,584	4,420
Interest on long-term debt	176,444	176,444
- Parry Sound Powergen Corporation		
Cost of power	351,300	308,736
- Parry Sound Hydro Corporation		
General and administrative - Rent	53,914	-
General and administrative - Admin charge	9,650	-
Interest	8,236	-
- Parry Sound Energy Services Corporation		
General and administrative - Rent	-	50,932
General and administrative - Admin charge	-	114,897
Various categories - Payroll administration fee	-	38,151
Distribution maintenance and operations - Engineering	5,754	41,450
Billing and collecting - Bill printing and stuffing	-	6,335

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product or provision of service.

Prior to January 1, 2011, all administration costs related to Parry Sound Hydro Corporation (PSHC), the parent company, were charged to Parry Sound Energy Services Corporation (PSES), a sister company of Parry Sound Power Corporation (PSPC), which in turn billed the other two sister companies for their share of all expenses.

Continued...

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

11. Related Party Transactions continued

Prior to January 1, 2011, PSES employed all staff and provided services to its parent and sister corporations. PSES allocated operations labour to these corporations at cost (including overhead) plus mark-up. PSES recorded certain administrative salaries and expenses for all four companies and allocated these costs to each company based on their estimated share. Trucks are charged out at market rates.

Due to the Affiliate Relationships Code (ARC) order from the OEB, the group of companies underwent a reorganization as at January 1, 2011. The purpose of the ARC is to set out the standards and conditions for the interaction between gas distributors, transmitters and storage companies and their respective affiliated companies.

The reorganization included the reorganization of staff, administration and allocation of certain costs. PSPC and PSES became responsible for the employment of their own full compliment of staff beginning January 1, 2011. PSPC charges certain administrative expenses to PSES and Parry Sound Powergen Corporation (PSPG) at competitive rates.

PSPG, a sister company of PSPC is responsible for those activities relating to the generation of power. PSPG charges PSPC for energy delivered.

At the end of the year, the amounts due to/from related parties are as follows:

	2011	2010
Trade accounts receivable: (See Note 2)		
Town of Parry Sound	\$ 1,306	\$ 4,086
Parry Sound Hydro Corporation	-	45
Parry Sound Energy Services Corporation	92,937	798
Parry Sound Powergen Corporation	-	45
	<u>\$ 94,243</u>	<u>\$ 4,974</u>
Trade accounts payable: (See Note 10)		
Parry Sound Hydro Corporation	\$ 130,237	\$ 1,606
Parry Sound Energy Services Corporation	77,191	189,747
Parry Sound Powergen Corporation	60,818	16,290
	<u>\$ 268,246</u>	<u>\$ 207,643</u>
Due to related parties:		
Town of Parry Sound	\$ -	\$ 694,566

Continued...

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

11. Related Party Transactions continued

Due to shareholder - Town of Parry Sound

	2011	2010
Promissory note payable - 7.25% per annum on outstanding principal, interest payable quarterly with option of repaying principal amount at any time, unsecured with no specific terms of repayment	<u>\$ 2,433,728</u>	<u>\$ 2,433,728</u>

The board of directors received compensation and were reimbursed for certain administrative costs for the year in the amount of \$5,019 (2010 - \$5,105).

The corporation paid \$15,000 (2010 - \$15,000) in fees to Cornerstone Hydro Electric Concepts Association Inc. (CHEC) (See Note 6).

The corporation paid \$67,383 (2010 - \$55,293) in fees to Utility Collaborative Services Inc. (UCS) for items such as information technology hosting and software licensing (See Note 6).

12. Contingencies

(i) Letter of Credit

The corporation is contingently liable as a guarantor for a letter of credit for \$429,635 with its bank provided to the Independent Electricity Systems Operator (IESO) to secure the corporation's hydro purchase obligations. (See Note 9)

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

13. Employee Future Benefits

The corporation pays certain benefits on behalf of its retired employees. The corporation recognizes these post-retirement costs in the period in which the employees rendered the services.

Information about the post-retirement life insurance benefit plan is as follows:

	2011	2010
Employee future benefits transferred	\$ 51,066	\$ -
Actuarial loss for the year	991	-
Benefits paid for the period	3,724	-
Projected accrued benefit obligation at December 31	\$ 55,781	\$ -

At January 1, 2011, as a result of the re-organization of Parry Sound Power Corporation due to the ARC order from the OEB, the employee future benefits related to Power Sound Power Corporation employees were transferred from Parry Sound Energy Services Corporation to Parry Sound Power Corporation.

An actuarial report was performed and dated September 15, 2010. The actuarial valuation was performed on the post-retirement obligations sponsored by Parry Sound Energy Services Corporation as at January 1, 2010. The next actuarial valuation should be performed by December 31, 2012.

The main actuarial assumptions employed for the valuations are as follows:

(a) General inflation

Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% per annum.

(b) Interest (discount) rate

The rate used to discount future benefits is assumed to be 5.5% per annum. This rate reflects the assumed mid-term yield on high quality bonds.

(c) Salary levels

The rate used to increase salaries is assumed to be 3.3% per annum. This rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion.

(d) Claims cost trend rates

The rate used to project benefit costs into the future are 7.63% (2010 8%) for health and 5%(2010 5%) for dental. The rate for health is projected at 7.25% for 2012

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

14. Share Capital

The authorized share capital of the corporation is an unlimited number of common and preference shares. The issued share capital is as follows:

	2011	2010
1,000 Common shares	<u>\$ 2,433,727</u>	<u>\$ 2,433,727</u>

15. Pension Agreements

The corporation makes contributions to the Ontario Municipal Employee Retirement System (OMERS), which is a multi-employer plan, on behalf of members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. The Administration Corporation Board of Directors, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of benefits.

OMERS provides pension services to 419,007 active and retired members and 947 employers. The plan is financed by equal contributions from participating employers and employees, and by the investment earnings of the fund.

Each year an independent actuary determines the Plan's funded status by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. On December 31, 2011, the estimated accrued pension obligation for all members (including survivors) of the Plan was \$64,548 (2010 - \$60,035) million. The Plan's defined benefit component had an actuarial value of net assets of \$57,258 (2010 - \$55,568) million. The resulting funding deficit was \$7,290 (2010 - \$4,467) million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the corporation does not recognize any share of the OMERS pension surplus or deficit.

The contribution rates for the plan were 7.4% (2010 - 6.4%) for employees earning up to \$48,300 (2010 - \$47,200) and 10.7% (2010 - 9.7%) thereafter. The amount contributed to OMERS for 2011 was \$51,086 (2010 - \$NIL). Previous year contributions were made by Parry Sound Energy Services Corporation.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

16. Statement of Cash Flows

	2011	2010
Interest paid	\$ 184,680	\$ 176,444
Interest received	\$ 2,340	\$ 10,432
PILs received	\$ -	\$ 18,133

17. Financial Instruments

All financial instruments are included on the balance sheet and are measured either at fair market value or, in limited circumstances, at cost or amortized cost. The corporation classifies its financial instruments into one of the following categories:

Available for Sale

Available for sale financial instruments are initially recognized at fair value including direct and incremental transaction costs. The corporation's long-term investments have been classified as available for sale. Because no active market exists for the share in Utility Collaborative Services Inc. and there are no quoted market prices, the share is measured at cost less any provision for impairment.

Loans and receivables

Loans and receivables are comprised of cash and bank, and accounts receivable. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

Other financial liabilities

Other financial liabilities are comprised of bank indebtedness, accounts payable and accrued liabilities, customer deposits, current amounts due to related parties, and the promissory note due to the Town of Parry Sound. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are netted against the amount initially recognized.

Continued...

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

17. Financial Instruments continued

The Corporation's carrying value and fair value of financial instruments consist of the following:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$	\$	\$	\$
Assets				
Cash and bank	-	-	469,102	469,102
Accounts receivable	2,168,928	2,168,928	1,944,377	1,944,377
Long-term investments	100	undeterminable	100	undeterminable
Liabilities				
Bank indebtedness	7,835	7,835	-	-
Line of credit	250,000	250,000	-	-
Accounts payable	1,495,893	1,495,893	1,901,093	1,901,093
Due to related parties	-	-	694,566	undeterminable
Customer deposits	234,242	234,242	259,110	259,110
Due to related party - Town of Parry Sound	2,433,728	undeterminable	2,433,728	undeterminable

The estimated fair values of financial instruments as at December 31, 2011 and December 31, 2010 are based on relevant market prices and information available at the time. The fair value estimates are not necessarily indicative of the amounts that the corporation may receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Determination of fair values

- The fair values of cash and bank, accounts receivable, current customer deposits, bank indebtedness, accounts payable and accrued liabilities and current amounts due to related parties approximate their carrying values because of the short maturity of these instruments.
- Long-term investments include common shares of private companies accounted for by the cost method. These investments are not publicly traded and, therefore, fair values are not practicable to determine.
- The fair value of the current and long-term amounts due to related parties have been measured at cost because fair value cannot be measured reliably, as a result of the financial assets or financial liabilities being transferred or originating in related party transaction.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

18. Capital Disclosures

The corporation considers its capital to be its promissory note due to The Town of Parry Sound and shareholder's equity. The corporation's main objectives when managing capital are to: i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans, ii) minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, iii) maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants, and iv) provide an adequate return to its shareholder.

The corporation relies predominately on its cash flow from operations to fund its dividend and interest distributions to its shareholder. This cash flow can be supplemented, when necessary, through the borrowing of additional debt.

As part of existing debt agreements, financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements.

The bank indebtedness covenants require the corporation to maintain a minimum Interest Coverage Ratio of 2:1 and to maintain a maximum Total Debt to Capitalization of 0.60:1. The corporation was in compliance with these covenants as at December 31, 2011.

Management monitors the following key ratios to effectively manage capital:

	2011	2010
a) Interest Coverage Ratio:	3.66:1	2.38:1
b) Debt to Capitalization Ratio:	0.51:1	0.50:1
c) Current Ratio:	1.22:1	0.95:1

19. Liability Insurance

The corporation belongs to the Municipal Electrical Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a self-insurance plan that pools the risks of all of its members. Any losses experienced by MEARIE are shared amongst its members.

20. Commitment

The corporation has entered into a lease agreement with its parent company, Parry Sound Hydro Corporation for the rental of its building. This agreement commenced January 1, 2011 and will continue indefinitely until termination by either Parry Sound Hydro Corporation or Parry Sound Power Corporation. The annual rental payments are \$62,000 adjusted yearly by an inflationary rate set by the most recent Stats Canada - Consumer Price Index for Ontario.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

21. Financial Risk Management

As part of its operations, the corporation carries out transactions that expose it to financial risks such as credit, liquidity and market risks.

The following is a discussion of risks and related mitigation strategies that have been identified by the company for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks identified.

Credit risk

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The maximum credit exposure is limited to the carrying amount of cash and receivables presented on the balance sheet.

Financial instruments that potentially subject the corporation to a significant concentration of credit risk consist primarily of cash. The corporation limits its exposure to credit loss by placing its cash with a high credit quality financial institution. The corporation maintains cash with one major financial institution. Eligible deposits are insured to a maximum basic insurance level of \$100,000, including principal and interest by the Canada Deposit Insurance Corporation.

The corporation is exposed to credit risk related to accounts receivable arising from its day-to-day electricity and service revenue. Exposure to credit risk from accounts receivable is limited due to the corporation's large and diverse customer base. Moreover, the corporation holds as collateral customer retailer and construction deposits, which are recognized as liabilities on the balance sheet. The Ontario Energy Board has prescribed certain rules for the payment of deposits by customers. Although these rules limit the risk of the company, no deposits are required by customers who have shown good payment history for the previous 24 month period. The company does not have any material accounts receivable balances greater than 90 days outstanding. As a result, the company believes that its accounts receivable represent a low credit risk.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the income statement. The provision is based on account age and customer standing. Subsequent recoveries of receivables previously provisioned are credited to the income statement.

The company's accounts receivable are not subject to a significant concentration of credit risk because they are distributed over a large customer base.

The value of accounts receivable, by age, and the related bad debt provision are presented in the following table. The accounts receivable balance consists of energy, other and unbilled revenue receivables.

Unbilled revenue represents amounts to which the corporation has a contractual right to receive cash through future billings but are unbilled at period-end. Unbilled revenue outstanding is considered current.

Continued...

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

21. Financial Risk Management continued

Accounts Receivable

	2011	2010
Under 30 days	\$ 2,015,925	\$ 1,835,249
30 to 60 days	15,602	10,177
61 to 90 days	6,674	4,969
Over 90 days	165,727	128,982
	<u>2,203,928</u>	<u>1,979,377</u>
Provision	35,000	35,000
	<u>\$ 2,168,928</u>	<u>\$ 1,944,377</u>

The balance over 90 days includes water and sewer charges collected on behalf of the Town of Parry Sound in the amount of \$50,258 (2010 - \$84,098). The financial risk that these receivables will never be collected is the responsibility of the Town of Parry Sound. The corporation has the ability to apply the uncollectable accounts against the related party liability.

The remaining balance over 90 days is covered by the provision for bad debts.

Liquidity risk

Liquidity risk is the risk that the corporation will encounter difficulty in meeting obligations associated with financial liabilities. The corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the corporation's reputation. The corporation's exposure is reduced by cash generated from operations and their undrawn credit facility. The corporation engages in borrowing to meet financing needs that exceed cash from operations. Exposure to such risks is significantly reduced through close monitoring of cash flows and budgeting.

Liquidity risks associated with financial commitments are as follows:

	0 - 3 mo	3 mo - 1 yr	1 - 5 yr	Termless
Bank indebtedness	\$ 7,835	\$ -	\$ -	\$ -
Line of credit	250,000	-	-	-
Accounts payable and accrued liabilities	1,495,893	-	-	-
Due to shareholder	-	-	-	2,433,728
Customer deposits	-	106,013	128,229	-
Employee future benefits	-	-	-	55,781
Total	<u>\$ 1,753,728</u>	<u>\$ 106,013</u>	<u>\$ 128,229</u>	<u>\$ 2,489,509</u>

Continued...

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2011

21. Financial Risk Management continued

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits.

The corporation does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The corporation had no forward exchange rate contracts or commodity price contracts in place as at or during the year ended December 31, 2011.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The corporation is exposed to interest rate fluctuations on its cash and bank and undrawn credit facilities which bear a floating rate of interest. The promissory note due to the Town of Parry Sound is at a fixed 7.25% rate and therefore the company is not exposed to unexpected cash flow fluctuations on this debt, however in a low interest rate economy the benefits of a variable loan are foregone.

The corporation's exposure to interest rate risk is limited by cash from operations making it possible to maintain a high interest coverage ratio. As at December 31, 2011, if interest rates had been 1% lower or higher with all other variables held constant, net income for the year would not have been impacted materially.

22. Prior Period Adjustment

In the prior period, energy revenue and cost of power were recorded at the higher of the revenue billed and expenses charged. The OEB requires that these amounts be recorded at the lesser amount. An entry has been recorded to correct this in the prior period, decreasing energy revenue and decreasing cost of power by \$288,392 each. The net effect on net income and retained earnings is \$NIL.

Parry Sound Power Corporation

Financial Statements For the year ended December 31, 2012

Parry Sound Power Corporation
Financial Statements
For the year ended December 31, 2012

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Independent Auditor's Report

To the Shareholder of Parry Sound Power Corporation

We have audited the accompanying financial statements of Parry Sound Power Corporation, which comprise the balance sheet as at December 31, 2012, the statements of operations, retained earnings and comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Parry Sound Power Corporation as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Huntsville, Ontario
April 25, 2013

Parry Sound Power Corporation Balance Sheet

December 31	2012	(Note 20) 2011
Assets		
Current		
Cash (Note 1)	\$ 276,559	\$ -
Accounts receivable (Note 2)	2,327,120	2,168,928
Inventory	85,068	89,239
Prepaid expenses	38,764	24,050
	<u>2,727,511</u>	<u>2,282,217</u>
Future income tax asset (Note 3)	318,553	321,655
Long-term investments (Note 4)	100	100
Property, plant and equipment (Note 5)	3,992,115	3,999,739
Regulatory assets net of regulatory liabilities (Note 6)	493,027	337,581
Other assets (Note 7)	96,975	145,432
	<u>\$ 7,628,281</u>	<u>\$ 7,086,724</u>
Liabilities and Shareholder's Equity		
Current		
Bank indebtedness	\$ -	\$ 7,835
Line of credit (Note 8)	-	250,000
Accounts payable and accrued liabilities (Note 9)	1,798,587	1,495,893
Payments in lieu of corporate taxes payable	81,251	9,619
Customer deposits	212,607	234,242
	<u>2,092,445</u>	<u>1,997,589</u>
Due to Town of Parry Sound (Note 10)	2,433,728	2,433,728
Employee future benefits (Note 11)	93,751	55,781
	<u>4,619,924</u>	<u>4,487,098</u>
Commitments and contingencies (Note 12)		
Shareholder's equity		
Share capital (Note 13)	2,433,727	2,433,727
Retained earnings	574,630	165,899
	<u>3,008,357</u>	<u>2,599,626</u>
	<u>\$ 7,628,281</u>	<u>\$ 7,086,724</u>

Approved on behalf of the Board:

_____ Director

_____ Director

Parry Sound Power Corporation

Statement of Retained Earnings and Comprehensive Income

For the year ended December 31	2012	(Note 20) 2011
Retained earnings, beginning of year	\$ 165,899	\$ (16,728)
Net income and comprehensive income for the year	408,731	182,627
Retained earnings, end of year	\$ 574,630	\$ 165,899

Parry Sound Power Corporation Statement of Operations

For the year ended December 31	2012	(Note 20) 2011
Energy revenue	\$ 9,948,214	\$ 9,711,569
Cost of power	7,597,953	7,681,727
Net distribution revenue	2,350,261	2,029,842
Other operating revenue (expense)		
Regulatory asset interest income	6,845	6,678
Pole rental	49,994	63,494
Service charges	50,459	47,400
Interest earned	2,495	2,340
Non-utility operations	-	(539)
	109,793	119,373
	2,460,054	2,149,215
Expenses		
Amortization	427,864	434,488
Billing and collecting	392,666	351,851
Community relations	24,670	29,544
Distribution maintenance and operations	424,815	399,449
General and administrative	537,614	539,412
Interest on long-term debt	176,444	176,444
	1,984,073	1,931,188
Income before provision for payments in lieu of corporate income taxes	475,981	218,027
Provision for payments in lieu of corporate income taxes (Note 15)	67,250	35,400
Net income and comprehensive income for the year	\$ 408,731	\$ 182,627

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Parry Sound Power Corporation

Statement of Cash Flows

For the year ended December 31	2012	(Note 20) 2011
Cash provided by (used in)		
Operating activities		
Net income for the year	\$ 408,731	\$ 182,627
Items not affecting cash:		
Amortization of property, plant and equipment	427,864	434,488
Amortization of other assets	48,457	48,488
	<u>885,052</u>	<u>665,603</u>
Changes in non-cash working capital:		
Accounts receivable	(158,193)	(224,551)
Inventory	4,172	(8,360)
Prepaid expenses	(14,717)	17,535
Accounts payable and accrued liabilities	302,698	(405,200)
Payments in lieu of corporate taxes payable	71,632	35,400
Future income taxes	3,102	(31,547)
Customer deposits	(21,635)	(24,868)
Employee future benefits	37,970	55,781
	<u>225,029</u>	<u>(585,810)</u>
	<u>1,110,081</u>	<u>79,793</u>
Investing activities		
Expenditures on property, plant and equipment	(452,656)	(354,126)
Expenditures on other assets	-	(59,461)
Contributions received in aid of construction	32,413	74,067
Net increase (decrease) in regulatory assets	(155,444)	227,356
	<u>(575,687)</u>	<u>(112,164)</u>
Financing activities		
Repayment of amount due to related party	-	(694,566)
Advances (repayments) of line of credit	(250,000)	250,000
	<u>(250,000)</u>	<u>(444,566)</u>
Increase (decrease) in cash during the year	284,394	(476,937)
Cash (bank indebtedness), beginning of year	(7,835)	469,102
Cash (bank indebtedness), end of year	\$ 276,559	\$ (7,835)

Supplementary information (Note 16)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2012

Nature of Business

The company was incorporated under the laws of the Province of Ontario on October 31, 2000 in accordance with the provincial government's Electricity Act, 1998. The company is licensed by the Ontario Energy Board ("OEB") as an electricity distributor. The principal activity of the company is to distribute electricity to the Town of Parry Sound. The rates of the company's electricity distribution business are subject to regulation by the OEB.

Basis of Accounting

The financial statements are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and accounting policies provided by its regulator, the Ontario Energy Board, as contained in the Accounting Procedures Handbook for Electric Distribution Utilities (AP Handbook), issued under the authority of the Ontario Energy Board Act, 1998.

Due to the regulatory framework, the timing of recognition of revenues and expenses and the measurement of certain assets and liabilities may differ from that otherwise expected under Canadian generally accepted accounting principles (GAAP) for non-rate regulated enterprises. Please refer to accounting policies for regulation and rate setting, regulatory assets and liabilities, post 1999 contributed capital, spare transformers and meters, and payments in lieu of corporate income taxes.

The financial statements reflect the significant accounting policies summarized below.

Regulation and Rate Setting

The company is required to follow regulations as set by the OEB. The OEB approves and sets rates for the transmission and distribution of electricity, ensures distribution companies fulfill their obligations to connect and service customers, and has the authority to provide rate protection for certain electricity customers.

The OEB sets rates on an annual basis with rates becoming effective on May 1st through April 30th of the following year. Beginning January 1, 2012, the annual rates became effective from January 1 to December 31 of each year. The regulation and monitoring of Ontario's Energy Sector is completed by the OEB through application of codes, rules and guidelines, the licensing of market participants, assisting firms with the management of regulatory requirements, monitoring and enforcing compliance and adjudication.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2012

Regulatory Assets and Liabilities

The company has adopted the CICA's Accounting Guideline 19 "Disclosures by Entities Subject to Rate Regulation". Based on OEB regulations, certain costs and variance account balances are recorded as regulatory assets or regulatory liabilities and are reflected in the balance sheet until the OEB determines the manner and timing of their disposition.

Regulatory assets represent future revenues associated with certain costs, incurred in current or prior period(s), that are expected to be recovered through the rate setting process.

Regulatory liabilities represent future reductions or limitations of revenue increases associated with amounts that are expected to be refunded to customers.

Regulatory assets and liabilities can arise from differences in amounts billed to customers (based on regulated rates) and the corresponding cost of non-competitive electricity service incurred by the company in the wholesale market administered by the Independent Electricity System Operator "IESO" after May 1, 2002. These amounts have been accumulated pursuant to regulation underlying the Electricity Act and deferred in anticipation of their future recovery in electricity distribution service charges.

In the absence of regulation the regulatory assets and liabilities would be recognized in income in the period to which they relate.

Other Assets

Parry Sound Power Corporation must file a cost of service rate application with the OEB every four years. The costs incurred in this filing are written off over the four years of the OEB rate order.

Inventory

Inventories consist primarily of small consumable materials mainly related to the maintenance of the electricity distribution infrastructure. The company classifies all major construction related components of its electricity distribution system infrastructure to property, plant and equipment. Once capitalized, these items are not amortized until they are put into service. Inventories are carried at the lower of cost and net realizable value, with cost determined on an average cost basis.

Spare Transformers and Meters

Spare transformers and meters are held to back up plant in service and are expected to substitute for original distribution plant transformers and meters when these original plant assets are being repaired.

According to the criteria prescribed by the OEB in the AP Handbook the spare transformers and meters are treated as capital assets and included in the distribution systems category. Under Canadian GAAP for unregulated businesses the spare transformers and meters would be treated as inventory.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2012

Customer Deposits	Customer deposits represent amounts collected from customers to guarantee the payment of energy bills. The customer deposits liability includes interest credited to customers' deposit accounts, with interest expense recorded to offset this amount.																			
Revenue Recognition	<p>Revenue from the sale and distribution of electricity is recognized on the accrual basis. The revenue includes cycles billed during the year plus an estimate for unbilled revenue. The unbilled revenue is calculated using real time consumption from the last billing date to December 31, 2012. Actual results could differ from estimates made of electricity usage.</p> <p>Other revenues, which include revenues from pole attachment, customer demand work, and other miscellaneous revenues are recognized at the time the service is provided.</p> <p>Interest income is recorded on the accrual basis as earned.</p>																			
Long-term Investments	The company records its long-term investments using the cost method.																			
Property, Plant and Equipment	<p>Property, plant and equipment is recorded at cost less accumulated amortization. Costs may include material, labour, contracted services, engineering costs, and interest on funds used during construction when applicable. Also included in property, plant and equipment are the costs of capital assets constructed by developers or customers and contributed to the company.</p> <p>Upon disposal the cost and accumulated amortization related to the asset are removed and any gains or losses on disposal are credited or charged to other operating revenue on the statement of operations.</p> <p>Amortization is provided using the following method and annual rates as established by the OEB:</p> <table> <tr> <td>Land rights</td><td>25 years</td><td>straight-line basis</td></tr> <tr> <td>Distribution system</td><td>15 - 30 years</td><td>straight-line basis</td></tr> <tr> <td>Transportation equipment</td><td>8 years</td><td>straight-line basis</td></tr> <tr> <td>Office equipment and tools</td><td>10 years</td><td>straight-line basis</td></tr> <tr> <td>Computer equip/software</td><td>3 - 5 years</td><td>straight-line basis</td></tr> <tr> <td>Leasehold improvements</td><td>5 years</td><td>straight-line basis</td></tr> </table> <p>Spare and replacement parts included in property, plant and equipment are not amortized until they are put into service.</p> <p>Construction in progress is included in property, plant and equipment and not amortized until the project is complete.</p>		Land rights	25 years	straight-line basis	Distribution system	15 - 30 years	straight-line basis	Transportation equipment	8 years	straight-line basis	Office equipment and tools	10 years	straight-line basis	Computer equip/software	3 - 5 years	straight-line basis	Leasehold improvements	5 years	straight-line basis
Land rights	25 years	straight-line basis																		
Distribution system	15 - 30 years	straight-line basis																		
Transportation equipment	8 years	straight-line basis																		
Office equipment and tools	10 years	straight-line basis																		
Computer equip/software	3 - 5 years	straight-line basis																		
Leasehold improvements	5 years	straight-line basis																		

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2012

Post 1999 Contributed Capital	<p>Post 1999 contributed capital consists of third party contributions toward the cost of constructing distribution assets collected after January 1, 2000, and are recorded with property, plant and equipment as a contra account. Contributions are amortized at rates corresponding with the useful lives of the related property, plant and equipment. Canadian GAAP provides no specific guideline on the accounting treatment for this type of contribution.</p> <p>Post 1999 contributed capital is presented as a reduction in property, plant and equipment through contributions in aid of construction.</p>
Pension Plan	<p>The company is an employer member of the Ontario Municipal Employees Retirement System (OMERS), which is a multi-employer, defined benefit pension plan. The Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the assets and administration of the benefits. The municipality has adopted defined contribution plan accounting principles for this Plan because insufficient information is available to apply defined benefit plan accounting principles. The municipality records as pension expense the current service cost, amortization of past service costs and interest costs related to the future employer contributions to the Plan for past employee service.</p>
Post-employment Benefits	<p>Employee future benefits other than pension provided by the company include life insurance premiums paid by the company and 50% of the cost of health and dental benefits until age 65.</p> <p>Standards issued by The Canadian Institute of Chartered Accountants with respect to accounting for employee future benefits require the company to accrue for its obligations under other employee benefit plans and related costs, net of plan assets.</p> <p>The cost of post-employment benefits offered to retirees are actuarially determined using the projected method and based on assumptions that reflect management's best estimate.</p>

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2012

Use of Estimates and Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, as well as the disclosure of contingent assets and liabilities at the financial statement date.

Accounts receivable, unbilled revenue and regulatory assets are reported based on amounts expected to be recovered which reflect an appropriate allowance for unrecoverable amounts. The useful lives of property, plant and equipment have been estimated using rates established by the OEB in order to reflect the appropriate net book values of the assets. Actuarial assumptions were used in determining the cost of post-employment benefits.

Due to inherent uncertainty involved in making such estimates, actual results could differ from those estimates, including changes as a result of future decisions made by the OEB, the Minister of Energy or the Minister of Finance.

The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies.

Payment in Lieu (PIL) of Corporate Income Taxes

The company is a municipal electricity utility ("MEU") for purposes of the PIL's regime contained in the Electricity Act, 1998. As a MEU the company is exempt from tax under the Income Tax Act (Canada) and the Corporations Tax Act (Ontario).

Each taxation year, the company is required to make payments in lieu of corporate income taxes and capital taxes to Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated based on the rules for computing taxable income and taxable capital outlined in the Income Tax Act (Canada) and the Corporations Tax Act (Ontario) taking into account any modifications made by the Electricity Act, 1998, and related regulations.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2012

Future Income Taxes

Future income taxes are provided for using the liability method and are recognized on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit.

Future income tax liabilities are generally recognized on all taxable temporary differences and future tax assets are recognized to the extent that it is more likely than not that they will be realized from taxable profits available against which deductible temporary differences can be utilized.

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to regulatory assets and liabilities. The net balance represents future income taxes that flow through the rate-making process.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the "more likely than not" criterion. Previously unrecognized future income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more likely than not of being recovered from future taxable profits.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2012

Financial Instruments

The company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The company's accounting policy for each category is as follows:

Assets held-for-trading

Financial instruments classified as assets held-for-trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income in the period during which the change occurs. Transaction costs are expensed when incurred.

Cash, bank indebtedness and long-term investments have been classified as held-for-trading.

Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method. Interest income or expense is included in net income over the expected life of the instrument. Transaction costs are expensed when incurred.

Accounts receivable have been classified as loans and receivables.

Line of credit, accounts payable and accrued liabilities, amounts due to Town of Parry Sound and employee future benefits have been classified as other financial liabilities.

New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company, are as follows:

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ["AcSB"] confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. A limited number of converged or IFRS-based standards will be incorporated into Canadian GAAP, with the remaining standards to be adopted at the change over date.

Parry Sound Power Corporation Summary of Significant Accounting Policies

December 31, 2012

New Accounting Pronouncements (continued)

On September 10, 2010, the AcSB granted an optional one year deferral of IFRS adoption to fiscal years beginning on or after January 1, 2012 for entities subject to rate regulation. This decision came in light of the uncertainty created by the International Accounting Standards Board ["IASB"] in regard to the rate-regulated project which is assessing the potential derecognition of regulatory assets and regulatory liabilities under IFRS. Subsequently, the Canadian Securities Administrators announced that entities subject to rate regulation may defer the adoption of IFRS for up to one year, consistent with the one year deferral granted by the AcSB.

On March 21, 2012, the AcSB decided that the mandatory adoption of IFRS for entities subject to rate regulation can be deferred an additional year to fiscal years beginning on or after January 1, 2013.

In February 2013, the AcSB decided to extend the existing deferral of the mandatory IFRS changeover date for entities with qualifying rate-regulated activities to fiscal years beginning on or after January 1, 2015.

Given these recent developments and due to the continued uncertainty around the timing, scope and eventual adoption of a rate-regulated accounting ["RRA"] standard under IFRS and the potential material impact of RRA on the company's financial statements, the company is still considering its options and has not yet decided when it will adopt IFRS. Accordingly, the company continued to prepare its financial statements in accordance with Canadian GAAP for 2012.

As a result of these developments related to RRA under IFRS and the uncertainty regarding the impact of IFRS on the OEB electricity distribution rates application process, the company cannot reasonably quantify the full impact that adopting IFRS would have on its future financial position and results of operations. During the deferral period, the company has continued to actively monitor IASB developments with respect to RRA and non-RRA IFRS developments and their potential impacts. Prior to the developments noted above, the company's IFRS conversion project was proceeding as planned to meet the January 1, 2012 conversion date.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

1. Cash

The company's bank accounts are held at one chartered bank. The bank account earns interest at a variable rate.

2. Accounts Receivable

	2012	2011
Customer accounts receivable	\$ 1,165,587	\$ 1,021,806
Unbilled revenue	1,014,574	1,013,190
Other	181,959	168,932
Allowance for doubtful accounts	<u>(35,000)</u>	<u>(35,000)</u>
	<u>\$ 2,327,120</u>	<u>\$ 2,168,928</u>

Accounts receivable include balances due from related parties as described in Note 10.

3. Future Income Taxes

The company accounts for the differences between the financial statement carrying value and tax basis of its assets and liabilities following the liability method in accordance with CICA Handbook Section 3465.

The offsetting entry to this net future income tax asset is a credit to regulatory liabilities (Note 6).

Significant components of the company's future tax assets are as follows:

	2012	2011
Employee future benefits	\$ 14,531	\$ 8,925
Property, plant and equipment	258,814	262,536
Organizational costs and land rights	<u>45,208</u>	<u>50,194</u>
Long-term future income tax asset	<u>\$ 318,553</u>	<u>\$ 321,655</u>

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

4. Long-term Investments

	<u>2012</u>	<u>2011</u>
Cornerstone Hydro Electric Concepts Association Inc., incorporated without share capital, Nil Cost	\$ -	\$ -
Utility Collaborative Services Inc., recorded using the cost method, 100 common shares, 10% interest (2011 - 10% interest)	<u>100</u>	<u>100</u>
	<u>\$ 100</u>	<u>\$ 100</u>

Cornerstone Hydro Electric Concepts Association Inc. is an association of twelve electricity distribution utilities modelled after a cooperative to share resources and proficiencies (Note 10).

Utility Collaborative Services Inc. offers standards-based back office services. The collaboration allows leverage in the reduction of costs for items such as information technology hosting and software licensing (Note 10).

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

5. Property, Plant and Equipment

	2012		(Note 20) 2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 74,305	\$ -	\$ 74,305	\$ -
Land rights	35,048	34,728	35,048	34,708
Distribution system	8,542,920	4,401,468	8,234,824	4,063,940
Transportation equipment	292,909	108,582	292,909	67,450
Office equipment and tools	17,434	6,801	16,964	3,852
Computer equip/software	261,833	144,062	254,381	85,732
Leasehold improvements	47,252	-	5,342	-
Spare and replacement parts	32,751	-	32,751	-
Construction in progress	84,719	-	15,508	-
	9,389,171	4,695,641	8,962,032	4,255,682
Less contributions in aid of construction	941,516	240,101	909,103	202,492
	\$ 8,447,655	\$ 4,455,540	\$ 8,052,929	\$ 4,053,190
Net book value		\$ 3,992,115		\$ 3,999,739

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

6. Regulatory Assets Net of Regulatory Liabilities

	2012	(Note 20) 2011
Net regulatory assets (liabilities) consist of:		
Smart meter initiatives	\$ 974,015	\$ 928,851
Other regulatory assets - OEB assessment	8,173	8,173
Other regulatory assets - Hydro One incremental costs	3,063	3,063
Other regulatory assets - IFRS transition costs	71,058	61,268
Other regulatory assets - Late payment penalty settlement	725	9,508
Special purpose charge variance	-	331
RSVA - Retail settlement variance accounts	(471,273)	(369,964)
RCVA - Retail cost variance accounts	(13,412)	(10,505)
Net future income tax regulatory liability	(318,553)	(321,655)
Carrying charges calculated using OEB specified rate	(11,076)	(82,479)
RARA - Regulatory Asset Recovery Accounts	250,307	110,990
	\$ 493,027	\$ 337,581

Smart Meter Initiatives

The smart meter regulatory asset account relates to the Province of Ontario's decision to install smart meters throughout Ontario by 2010. During 2006 the OEB developed recommendations on smart meters with regard to cost recovery during the phase-in period of this equipment. The OEB stated that given the increased need for electricity and the importance of conservation, specific funding for smart meters could be included in the 2006 rates for all Local Distribution Companies (LDCs). Variance accounts were established to track revenues collected with respect to smart meters and associated costs of the initiatives. The majority of the installation of all smart meters within its service territory was completed in 2009. The OEB approved the request to add a rate rider of \$2.50 (\$1.00 prior to July 1, 2011) per customer per month to fund Smart Meter activities. For rate mitigation purposes, the OEB suspended the rate rider of \$2.50 until future proceedings.

The net book value of stranded meters related to the deployment of smart meters was included in property, plant and equipment in the distribution system category until December 31, 2010. In the rate application for the year beginning January 1, 2011, the depreciation expense on the stranded meters was discontinued and not included in the revenue requirement used to set the 2011 rates. The net book value of \$137,360 of the stranded meters was reallocated to a sub-account of the smart meter initiatives and will not be depreciated any further. The OEB has specified that these amounts are recoverable in future rates.

In connection with its smart meter initiatives, the company has incurred costs in 2012 amounting to \$45,164 (2011 - \$133,260). These expenditures would otherwise have been recorded as property, plant and equipment under Canadian GAAP for unregulated businesses. In the absence of rate regulation, revenues would have been higher in 2012 by \$Nil (2011 - \$23,386) and amortization higher in 2012 by \$59,131 (2011 - \$53,677).

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

6. Regulatory Assets and Liabilities (continued)

Other regulatory assets - OEB assessment

The OEB has allowed recording the variance between the OEB annual cost assessment fees previously captured in the 2001 rates and the amounts charged for fiscal years beginning after January 1, 2004 up to April 30, 2006. Accordingly, the company deferred these expenditures in accordance with the criteria set out in the AP Handbook. Under such regulation, expenditures are allowed to be deferred which would be expensed under Canadian GAAP for unregulated businesses. The deferred balance continues to be calculated and attract carrying charges in accordance with the OEB's direction. In the absence of rate regulation, operating expenses in 2012 would have been higher by \$Nil (2011 - \$Nil). The manner and timing of disposition has not yet been determined by the OEB.

Other Regulatory Assets - Hydro One Incremental Costs

The OEB has approved Other Regulatory Assets, "Sub-account Incremental Capital Charges", for distributors to record the charges arising from the capital rate relief rider. Interest carrying charges, calculated on the monthly opening principal balance of this sub-account at the Board's prescribed interest rates, are applicable for amounts recorded. The new incremental capital charge arises from an incremental capital module approved for Hydro One, which was effective on May 1, 2009 but was implemented on June 1, 2009. In the absence of rate regulation, expenses in 2012 would have been higher by \$Nil (2011 - \$Nil).

Other Regulatory Assets - IFRS transition costs

The company is required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP effective January 1, 2015. The transition costs related to the implementation of IFRS have been recorded as a regulatory asset as the company expects to obtain recovery in the future. Under Canadian GAAP for unregulated businesses, these costs would have been recorded to operating expenses. In the absence of rate regulation, expenses would have been higher by \$9,790 (2011 - \$56,963).

Other Regulatory Assets - Late Payment Penalty Settlement

The late payment penalties settlement account relates to the settlement costs accrual associated with the late payment charges class action lawsuit settled in 2011. The company had accrued a liability and a corresponding regulatory asset in the amount of \$12,415 as at December 31, 2010. In 2011, the company paid the liability and is recovering from the rate payers over the period from August 1, 2011 to December 31, 2012. As at December 31, 2012, \$11,690 has been recovered and a portion of the penalty, prorated monthly, is included in administration expense. The residual balance was collected after year end. In the absence of rate regulation, revenues would have been higher by \$8,783 (2011 - \$2,907).

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

6. Regulatory Assets and Liabilities (continued)

RSVA - Retail Settlement Variance Accounts

Retail settlement variance accounts represent the differences between amounts charged by the company to its customers based on regulated rates and the corresponding cost incurred by the company in the wholesale market administered by the IESO since May 1, 2002. Accordingly, the company has deferred the variances between the costs incurred and the related recoveries in accordance with the criteria set out in the accounting principles prescribed by the OEB in the AP Handbook.

Under such regulation, the variances are allowed to be deferred which would be recorded as revenue under Canadian GAAP for unregulated businesses. In the absence of rate regulation, revenues in 2012 would have been higher by \$101,309 (2011 - \$496,334). The deferred balance for unapproved settlement variances continues to be calculated and attract carrying charges in accordance with the OEB's direction. The manner and timing of disposition of the remaining variance has not been determined by the OEB.

RCVA - Retail Cost Variance Accounts

Providing retail services to customers arising from the deregulated electricity market gives rise to certain retail service costs which have to be recovered by the distributor. The rates and charges used in determining these costs are set by the OEB, which recognizes that the actual costs may be different in practice. In accordance with Chapter 11 of the Distribution Rate Handbook, distributors are required to establish variance accounts to record the differences in costs and revenues for future disposition. In the absence of rate regulation, revenues in 2012 would have been higher by \$2,907 (2011 - \$3,546).

Net Future Income Tax Regulatory Liability

This regulatory liability account relates to the expected future electricity distribution rate adjustments for customers arising from timing differences in the recognition of future taxes.

The company accounts for the differences between its financial statement carrying value and tax basis of assets and liabilities following the liability method in accordance with CICA Handbook Section 3465 (Note 3). In the absence of rate regulation, revenues in 2012 would have been lower by \$3,102 (2011 - \$31,547).

Carrying Charges

Carrying charges are calculated monthly on the opening balance of the applicable variance account using the quarterly prescribed interest rate as outlined by the OEB. In the absence of rate regulation, other revenues would have been lower by \$71,403 (2011 - \$9,926).

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

6. Regulatory Assets and Liabilities (continued)

Regulatory Asset Recovery Accounts (RARA)

The RARA consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders. The RARA is subject to carrying charges following the OEB prescribed methodology and related rates.

The rate application for 2010, approved by the OEB, included the disposition of regulatory liabilities accumulated from January 1, 2005 - December 31, 2008 plus projected interest up to April 30, 2010. The OEB ordered that the approved balances be aggregated into a single regulatory account to be recovered over a one year period with rates effective May 1, 2010.

Fair Value of Regulatory Assets and Regulatory Liabilities

For certain regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties related to the ultimate authority of the regulator in determining the asset's treatment for rate setting purposes. Management continually assesses the likelihood of recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

7. Other Assets

	2012	2011
2011 Cost of Service Application		
- cost	\$ 193,920	\$ 193,920
- accumulated amortization	(96,945)	(48,488)
	<u>\$ 96,975</u>	<u>\$ 145,432</u>

Amortization of \$48,457 (2011 - \$48,488) for the 2011 cost of service application is included in general and administrative expenses.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

8. Line of Credit

The company has a line of credit with an authorized limit of \$1,500,000 available under a credit facility agreement with a Canadian chartered bank. Interest on advances is calculated using the bank's prime rate and is payable monthly. The security provided is a general security agreement representing a first charge on all the company's assets, adequate liability insurance and assignment of fire insurance.

The company's line of credit has been pledged as security for the letter of credit provided to the Independent Electricity Systems Operation (IESO) (Note 12). As a result, the company's access to the line of credit mentioned above is limited to \$1,047,695. Interest on the letter of guarantee is 0.5% per annum. At the end of the year, the company had approximately \$1,047,695 available on its line of credit.

The agreement governing the line of credit facilities contains certain covenants as described in Note 18.

9. Accounts Payable and Accrued Liabilities

	2012	(Note 20) 2011
IESO payable	\$ 1,076,506	\$ 529,778
Trade payables	336,274	483,508
Accrued liabilities	99,896	112,267
Customer credit balances	78,572	141,668
Hydro One payable	1,160	353
Debt Retirement Charge	40,574	104,752
Ontario Power Authority Programs Payable	161,122	129,627
Retailers (receivable) payable	13,562	(21,124)
GST/HST payable (receivable)	(9,079)	15,064
	\$ 1,798,587	\$ 1,495,893

Accounts payable and accrued liabilities include balances due to related parties as described in Note 10.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

10. Related Party Transactions

Parry Sound Hydro Corporation is a wholly owned subsidiary of the Town of Parry Sound.

Parry Sound Power Corporation, Parry Sound Energy Services Corporation, and Parry Sound Powergen Corporation are wholly owned subsidiaries of Parry Sound Hydro Corporation.

The following summarizes the company's related party transactions for the year:

	2012	2011
Revenue		
- Town of Parry Sound		
Electricity charges	\$ 717,458	\$ 615,872
- Parry Sound Energy Services Corporation		
General and administrative - Admin charge	5,024	32,421
Various categories - Payroll and burden	37,931	2,575
General and administrative - Rent	9,695	-
- Parry Sound Powergen Corporation		
Various categories - Payroll and burden	-	27,539
General and administrative - Rent	6,463	9,450
Expenses		
- Town of Parry Sound		
Various categories - Municipal taxes	\$ 10,119	\$ 9,790
Interest on long-term debt	176,444	176,444
- Parry Sound Powergen Corporation		
Cost of power	418,626	351,300
- Parry Sound Hydro Corporation		
General and administrative - Rent	64,631	63,364
General and administrative - Admin charge	6,041	9,650
General and administrative - Interest	-	8,236
- Parry Sound Energy Services Corporation		
Distribution maintenance and operations - Engineering	-	5,754

The Board of Directors received compensation and were reimbursed for certain administrative costs for the year in the amount of \$4,231 (2011 - \$5,019).

The company paid \$31,738 (2011 - \$15,000) in fees and training, included in general and administrative expense, to Cornerstone Hydro Electric Concepts Association Inc. (Note 4).

The company paid \$68,032 (2011 - \$67,383) in fees, included in billing and collecting and general and administrative expense, to Utility Collaborative Services Inc. for items such as information technology hosting and software licensing (Note 4).

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product or provision of service.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

10. Related Party Transactions (continued)

Due to the Affiliate Relationships Code (ARC) order from the OEB, the group of companies underwent a reorganization as at January 1, 2011. The purpose of the ARC is to set out the standards and conditions for the interaction between gas distributors, transmitters and storage companies and their respective affiliated companies.

The reorganization included the reorganization of staff, administration and allocation of certain costs. PSPC and PSES became responsible for the employment of their own full complement of staff beginning January 1, 2011. PSPC charges certain administrative expenses to PSES and Parry Sound Powergen Corporation (PSPG) at competitive rates.

PSPG, a sister company of PSPC is responsible for those activities relating to the generation of power. PSPG charges PSPC for energy delivered.

At the end of the year, the amounts due from/to related parties are as follows:

	2012	(Note 20) 2011
Trade accounts receivable: (Note 2)		
Town of Parry Sound	\$ 71,140	\$ 1,306
Parry Sound Hydro Corporation	283	-
Parry Sound Energy Services Corporation	32,674	92,937
Parry Sound Powergen Corporation	49,325	-
	<u>\$ 153,422</u>	<u>\$ 94,243</u>
Trade accounts payable: (Note 9)		
Town of Parry Sound	\$ 131	\$ -
Parry Sound Hydro Corporation	6,420	130,237
Parry Sound Energy Services Corporation	630	77,191
Parry Sound Powergen Corporation	61,588	60,818
Utility Collaborative Services	7,226	8,325
Cornerstone Hydro Electric Concepts Inc.	1,993	-
	<u>\$ 77,988</u>	<u>\$ 276,571</u>
Due to Town of Parry Sound:		
Promissory note payable - 7.25% per annum on outstanding principal, interest payable quarterly with option of repaying principal amount at any time, unsecured with no specific terms of repayment	<u>\$ 2,433,728</u>	<u>\$ 2,433,728</u>

The Town of Parry Sound has waived the right to demand repayment in the next fiscal year.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

11. Employee Future Benefits

The company pays certain benefits on behalf of its retired employees. The company recognizes these post-retirement costs in the period in which the employees rendered the services.

Information about the post-retirement life insurance, health and dental benefit plan is as follows:

	<u>2012</u>	<u>2011</u>
Accrued benefit liability, beginning of year	\$ 55,781	\$ -
Employee future benefits transferred	-	51,066
Actuarial loss for the year	30,431	991
Benefits paid for the year	<u>7,539</u>	<u>3,724</u>
Projected accrued benefit obligation at December 31	<u>\$ 93,751</u>	<u>\$ 55,781</u>

At January 1, 2011, as a result of the re-organization of Parry Sound Power Corporation due to the ARC order from the OEB, the employee future benefits related to Parry Sound Power Corporation employees were transferred from Parry Sound Energy Services Corporation to Parry Sound Power Corporation.

An actuarial report was performed and dated March 14, 2013. The actuarial valuation was performed on the post-retirement obligations sponsored by Parry Sound Power Corporation as at December 31, 2012. The next actuarial valuation should be performed by December 31, 2015.

The main actuarial assumptions employed for the valuations are as follows:

- (a) General inflation
Future general inflation levels, as measured by changes in the Consumer Price Index ("CPI"), were assumed at 2.0% per annum.
- (b) Interest (discount) rate
The rate used to discount future benefits is assumed to be 3.85% per annum. This rate reflects the assumed mid-term yield on high quality bonds.
- (c) Salary levels
The rate used to increase salaries is assumed to be 3.3% per annum. This rate reflects the expected Consumer Price Index adjusted for productivity, merit and promotion.
- (d) Claims cost trend rates
The rate used to project benefit costs into the future are 7.25% (2011 - 7.63%) for health and 5% (2011 - 5%) for dental.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

12. Commitments and Contingencies

The company has entered into a lease agreement with its parent company, Parry Sound Hydro Corporation for the rental of its building. This agreement commenced January 1, 2011 and will continue indefinitely until termination by either Parry Sound Hydro Corporation or Parry Sound Power Corporation. The annual rental payments are \$62,000 adjusted yearly by an inflationary rate set by the most recent Stats Canada - Consumer Price Index for Ontario.

The company is contingently liable as a guarantor for a letter of credit for \$452,305 with its bank provided to the Independent Electricity Systems Operator (IESO) to secure the company's hydro purchase obligations (Note 8).

General Liability Insurance

The company belongs to the Municipal Electrical Reciprocal Insurance Exchange ("MEARIE"). MEARIE is a pooling of property, casualty, and vehicle risks of many of the electrical utilities in Ontario. All members of the pool could potentially be subjected to an assessment for losses experienced by the pool for the years in which they were members on a pro-rata basis based on the total of their respective service revenues.

13. Share Capital

Authorized

Unlimited	Common shares
Unlimited	Preference shares

2012	2011
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Issued

1,000	Common shares
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\$ 2,433,727	\$ 2,433,727
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Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

14. Pension Agreements

OMERS provides pension services to more than 428,947 active and retired members and approximately 968 employers. Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2012. The results of this valuation disclosed total actuarial liabilities of \$69,122 million in respect of benefits accrued for service with actuarial assets at that date of \$59,198 million indicating an actuarial deficit of \$9,924 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the company does not recognize any share of the OMERS pension surplus or deficit. Contributions made by the contribution to OMERS for 2012 were \$63,389 (2011 - \$51,086).

15. Payments in Lieu (PILs) of Corporate Income Taxes

The company's provision for PILs is calculated as follows:

	2012	2011
Income before provision for PILs	\$ 475,981	\$ 218,027
Statutory Canadian federal and provincial tax rate	26.50%	28.00%
Provision for PILs at statutory rate	126,135	61,048
Permanent differences	69	-
Amortization in excess of capital cost allowance/cumulative eligible capital	1,983	2,623
Small business deduction	(55,000)	(29,119)
Impact of rate change	-	571
Employee future benefits	8,064	277
Recovery from prior year loss carry back	(14,001)	-
	<u>\$ 67,250</u>	<u>\$ 35,400</u>
Effective tax rate	<u>14.13%</u>	<u>16.24%</u>

Parry Sound Power Corporation
Notes to Financial Statements

December 31, 2012

16. Statement of Cash Flows Supplementary Information

	2012	2011
Interest paid	\$ 176,444	\$ 184,680
Interest received	\$ 2,495	\$ 2,340
PILs paid	\$ 35,400	\$ -
PILs received	\$ 39,782	\$ -

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

17. Financial Instruments

The company's carrying value and fair value of financial instruments consist of the following:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$	\$	\$	\$
Assets				
Cash and bank	276,559	276,559	-	-
Accounts receivable	2,327,120	2,327,120	2,168,928	2,168,928
Long-term investments	100	undeterminable	100	undeterminable
Liabilities				
Bank indebtedness	-	-	7,835	7,835
Line of credit	-	-	250,000	250,000
Accounts payable	1,798,587	1,798,587	1,495,893	1,495,893
Due to Town of Parry Sound	2,433,728	undeterminable	2,433,728	undeterminable

The estimated fair values of financial instruments as at December 31, 2012 and December 31, 2011 are based on relevant market prices and information available at the time. The fair value estimates are not necessarily indicative of the amounts that the company may receive or incur in actual market transactions. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Determination of fair values

- The fair values of cash, accounts receivable, bank indebtedness, line of credit, accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.
- Long-term investments include common shares of private companies accounted for by the cost method. These investments are not publicly traded and, therefore, fair values are not practicable to determine.
- The fair value of the amounts due to related parties have been measured at cost because fair value cannot be measured reliably, as a result of the financial assets or financial liabilities being transferred or originating in related party transaction.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

18. Capital Disclosures

The company considers its capital to be its promissory note due to The Town of Parry Sound and shareholder's equity. The company's main objectives when managing capital are to: i) ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; ii) minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions; iii) maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with any financial covenants; and iv) provide an adequate return to its shareholder.

The company relies predominately on its cash flow from operations to fund its dividend and interest distributions to its shareholder. This cash flow can be supplemented, when necessary, through the borrowing of additional debt.

As part of existing debt agreements, financial covenants are monitored and communicated, as required by the terms of credit agreements, on a quarterly basis by management to ensure compliance with the agreements.

The bank indebtedness and line of credit covenants require the company to maintain a minimum Interest Coverage Ratio of 1.5:1 and to maintain a maximum Total Debt to Capitalization of 0.60:1. The company was in compliance with these covenants as at December 31, 2012.

Management monitors the following key ratios to effectively manage capital:

	2012	2011
a) Interest Coverage Ratio:	3.24:1	3.66:1
b) Debt to Capitalization Ratio:	0.78:1	0.51:1
c) Current Ratio:	1.30:1	1.14:1

There have been no changes in the company's capital management strategy in relation to the prior year.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

19. Financial Risk Management

As part of its operations, the company carries out transactions that expose it to financial risks such as credit, liquidity and market risks.

The following is a discussion of risks and related mitigation strategies that have been identified by the company for financial instruments. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks identified.

Credit risk

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The maximum credit exposure is limited to the carrying amount of cash and receivables presented on the balance sheet.

Financial instruments that potentially subject the company to a significant concentration of credit risk consist primarily of cash. The company limits its exposure to credit loss by placing its cash with a high credit quality financial institution. The company maintains cash with one major financial institution. Eligible deposits are insured to a maximum basic insurance level of \$100,000, including principal and interest by the Canada Deposit Insurance Corporation.

The company is exposed to credit risk related to accounts receivable arising from its day-to-day electricity and service revenue. Exposure to credit risk from accounts receivable is limited due to the company's large and diverse customer base. Moreover, the company holds as collateral customer retailer and construction deposits, which are recognized as liabilities on the balance sheet. The Ontario Energy Board has prescribed certain rules for the payment of deposits by customers. Although these rules limit the risk of the company, no deposits are required by customers who have shown good payment history for the previous 24 month period. The company does not have any material accounts receivable balances greater than 90 days outstanding. As a result, the company believes that its accounts receivable represent a low credit risk.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the related impairment loss is recognized in the income statement. The provision is based on account age and customer standing. Subsequent recoveries of receivables previously provisioned are credited to the income statement.

The value of accounts receivable, by age, and the related bad debt provision are presented in the following table. The accounts receivable balance consists of energy, other and unbilled revenue receivables.

Unbilled revenue represents amounts to which the company has a contractual right to receive cash through future billings but are unbilled at period-end. Unbilled revenue outstanding is considered current.

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

19. Financial Risk Management (continued)

Accounts Receivable

	2012	2011
Under 30 days	\$ 2,186,206	\$ 2,015,925
30 to 60 days	21,305	15,602
61 to 90 days	11,760	6,674
Over 90 days	142,849	165,727
	2,362,120	2,203,928
Provision	35,000	35,000
	\$ 2,327,120	\$ 2,168,928

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the company's reputation. The company's exposure is reduced by cash generated from operations and their undrawn credit facility. The company engages in borrowing to meet financing needs that exceed cash from operations. Exposure to such risks is significantly reduced through close monitoring of cash flows and budgeting.

Liquidity risks associated with financial commitments are as follows:

	0 - 3 mo	3 mo - 1 yr	1 - 5 yr	Termless
Accounts payable and accrued liabilities	\$ 1,798,587	\$ -	\$ -	\$ -
Payments in lieu of corporate taxes payable	81,251	-	-	-
Due to shareholder	-	-	-	2,433,728
Customer deposits	-	212,607	-	-
Employee future benefits	-	-	-	93,751
Total	\$ 1,879,838	\$ 212,607	\$ -	\$ 2,527,479

Parry Sound Power Corporation Notes to Financial Statements

December 31, 2012

19. Financial Risk Management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits.

The company does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The company had no forward exchange rate contracts or commodity price contracts in place as at or during the year ended December 31, 2012.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The company is exposed to interest rate fluctuations on its cash and bank and undrawn credit facilities which bear a floating rate of interest. The promissory note due to the Town of Parry Sound is at a fixed 7.25% rate and therefore, the company is not exposed to unexpected cash flow fluctuations on this debt, however in a low interest rate economy the benefits of a variable loan are foregone.

The company's exposure to interest rate risk is limited by cash from operations making it possible to maintain a high interest coverage ratio. As at December 31, 2012, if interest rates had been 1% lower or higher with all other variables held constant, net income for the year would not have been impacted materially.

20. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

Exhibit 8

MergeCo Proforma Financial Statements

Lakeland-Parry Sound Consolidated Pro Forma Financial Statements

	Dec-14	Dec-15
STATEMENT OF EARNINGS & RETAINED EARNINGS		
REVENUES		
Sale of power	29,356,000	30,000,000
Distribution	8,009,454	8,152,329
Other	419,000	406,000
	<u>37,784,454</u>	<u>38,558,329</u>
COSTS		
Power purchased	29,356,000	30,000,000
Operations and maintenance - distribution	1,436,000	1,444,200
Billing	1,356,500	1,170,000
Administration & general	2,275,000	2,126,000
Amortization	1,798,000	1,921,000
	<u>36,221,500</u>	<u>36,661,200</u>
EARNINGS FROM OPERATIONS	1,562,954	1,897,129
Interest income	35,000	41,000
Interest on long term debt due to third parties	-385,000	-385,000
EARNINGS BEFORE TAXES	<u>1,212,954</u>	<u>1,553,129</u>
Payments in lieu of income taxes	321,433	411,579
NET EARNINGS	\$891,521	\$1,141,550

Lakeland-Parry Sound Consolidated Pro Forma Financial Statements

	Dec-14	Dec-15
BALANCE SHEET		
ASSETS		
Current		
Cash	100,068	467,468
Receivables	4,456,000	4,550,000
Unbilled revenue	3,472,000	3,462,000
Inventory	292,000	290,000
Prepays	201,000	201,000
Due from related parties	215,000	215,000
	<u>8,736,068</u>	<u>9,185,468</u>
Property and equipment	21,682,572	22,631,384
Intangible asset	704,736	704,736
Regulatory Assets	1,751,484	1,751,484
Future Income Tax Asset	1,317,153	1,317,153
Other assets	96,975	96,975
	<u>25,552,920</u>	<u>26,501,732</u>
TOTAL ASSETS	\$34,288,988	\$35,687,200
LIABILITIES		
Current		
Bank indebtedness	2,822,000	2,873,000
Accounts payable and accrued liabilities	6,092,251	6,167,251
Due to related parties	570,995	570,995
Current portion of long-term debt	0	0
	<u>9,485,246</u>	<u>9,611,246</u>
Customer and retailer deposits	425,000	425,000
Employee future benefits	117,100	117,100
Long term debt - Third Party	5,920,728	5,920,728
	<u>6,462,828</u>	<u>6,462,828</u>
SHAREHOLDER'S EQUITY		
Capital Stock	11,660,728	11,660,728
Retained Earnings	6,680,186	7,952,398
	<u>18,340,914</u>	<u>19,613,126</u>
TOTAL LIABILITIES & EQUITY	\$34,288,988	\$35,687,200

Lakeland-Parry Sound Consolidated Pro Forma Financial Statements

	Dec-14	Dec-15
STATEMENT OF CASH FLOWS		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
OPERATING		
Net earnings	891,521	1,141,550
Amortization	1,798,000	1,921,000
Change in non-cash operating working capital	-174,000	-7,830
	2,515,521	3,054,720
FINANCING		
Dividends - paid to parent co	0	0
Increase/(Decrease) in line of credit debt	-227,750	50,745
Advances to related companies	0	0
	-227,750	50,745
INVESTING		
Additions to property, plant and equipment	-2,951,000	-2,870,000
	-2,951,000	-2,870,000
CASH POSITION		
Net increase (decrease) in cash	-663,229	235,465
Cash position, beginning of year	763,299	232,003
CASH POSITION, end of year	\$100,070	\$467,468

Exhibit 9
Merger Agreement and Shareholder
Agreement – Draft
Hoey & Associates Summary Findings

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MERGER PARTICIPATION AGREEMENT

●, 2014

LAKELAND HOLDING LTD.

- and -

PARRY SOUND HYDRO CORPORATION

BORDEN LADNER GERVAIS LLP

Barristers & Solicitors
Scotia Plaza
40 King Street West
Toronto, Ontario
M5H 3Y4

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Schedule 5.2(27)	Lakeland – Litigation
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Schedule 5.4(25)	Parry Sound – Unusual Transactions
Schedule 5.4(27)	Parry Sound – Litigation
Schedule 5.4(28)	Parry Sound – Non-Arm's Length Transactions
Schedule 5.4(37)	Parry Sound – Third Party Consents

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MERGER PARTICIPATION AGREEMENT

THIS AGREEMENT made as of the • day of [January], 2014,

BETWEEN:

LAKELAND HOLDING LTD., a corporation existing
under the laws of Ontario

(“**Lakeland HoldCo**”)

- and -

PARRY SOUND HYDRO CORPORATION, a
corporation existing under the laws of Ontario

(“**Parry Sound HoldCo**”)

RECITALS:

- (a) Each Lakeland Subsidiary was incorporated by Bracebridge, Burk’s Falls, Huntsville, Magnetawan and Sundridge pursuant to Section 142 of the *Electricity Act* for the purpose of distributing electricity and delivering electricity generation and other energy services to the residents of Bracebridge, Burk’s Falls, Huntsville, Magnetawan and Sundridge.
- (b) Each Parry Sound Subsidiary was incorporated by Parry Sound pursuant to Section 142 of the *Electricity Act* for the purpose of distributing electricity and delivering electricity generation and other energy services to the residents of Parry Sound.
- (c) All of the issued and outstanding shares of each Lakeland Subsidiary are owned by Lakeland HoldCo and all of the issued and outstanding shares of Lakeland HoldCo are owned by Bracebridge, Burk’s Falls, Huntsville, Magnetawan and Sundridge.
- (d) All of the issued and outstanding shares of each Parry Sound Subsidiary are owned by Parry Sound HoldCo and all of the issued and outstanding shares of Parry Sound HoldCo are owned by Parry Sound.
- (e) Lakeland HoldCo and Parry Sound HoldCo wish to amalgamate their respective subsidiaries as follows:
 - (i) Lakeland WiresCo and Parry Sound WiresCo upon the terms and conditions set out in this Agreement in order to form a new merged electricity distribution company to serve the residents of Bracebridge, Burk’s Falls, Huntsville, Magnetawan, Sundridge and Parry Sound (the “**WiresCo Amalgamation**”);

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- (ii) Lakeland GenCo and Parry Sound GenCo upon the terms and conditions set out in this Agreement in order to form a new merged electricity generation company (the “**GenCo Amalgamation**”); and
- (iii) Lakeland HoldCo and Parry Sound HoldCo upon the terms and conditions set out in this Agreement in order to form a new merged holding company to hold the new merged subsidiaries referred to in paragraphs (e)(i); and (e)(ii) (the “**HoldCo Amalgamation**”).

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the respective covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

**ARTICLE 1
INTERPRETATION**

1.1 Defined Terms

All capitalized terms used in the recitals hereto and this Agreement (including the Schedules hereto) and not defined therein shall have the following meanings:

"Accounts Receivable" means accounts receivable, trade accounts receivable, notes receivable, book debts and other debts due or accruing due to Lakeland WiresCo or Parry Sound WiresCo, as applicable, and the full benefit of any related security;

"Affiliate" has the meaning set forth in the OBCA.

"Affiliate Relationships Code" means the Affiliate Relationships Code for Electricity Distributors and Transmitters issued by the OEB as revised from time to time;

"Agreement" means this Agreement and all Schedules hereto, as amended, supplemented, restated or replaced from time to time in accordance with this Agreement;

"Amalgamations" means the HoldCo Amalgamation, WiresCo Amalgamation and GenCo Amalgamation and “**Amalgamation**” means any one of them as the context may require;

"Amalgamation Agreement" means any one of the HoldCo Amalgamation Agreement, WiresCo Amalgamation Agreement or GenCo Amalgamation Agreement as the context may require;

"Amalgamation Effective Date" means the date upon which the HoldCo Amalgamation shall become effective which shall be the date that is five (5) Business Days following the Closing Date or such earlier or later date as may be agreed in writing by the Parties provided that such date will be after the Closing Date;

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"Amalgamation Effective Time" means 12:01 a.m. on the Amalgamation Effective Date;

"Applicable Law" means, collectively, all applicable federal, provincial and municipal laws, statutes, ordinances, decrees, rules, regulations, by-laws, legally enforceable policies, codes, or guidelines, judicial, arbitral, administrative, ministerial, departmental or regulatory judgments, orders, decisions, directives, rulings or awards, and conditions of any grant of approval, permission, certification, consent, registration, authority or licence by any statutory body, self-regulatory authority, stock exchange or other Governmental Authority, including all Employment Law and Environmental Law;

"Arm's Length" has the same meaning as for the purposes of the Tax Act;

"Associate" has the meaning set forth under the OBCA;

"Books and Records" means all books, records, files and papers of Lakeland HoldCo and Lakeland Subsidiaries and Parry Sound HoldCo and Parry Sound Subsidiaries, as applicable, including computer programs (including source codes and software programs), computer manuals, computer data, financial and Tax working papers, financial and Tax books and records, business reports, business plans and projections, sales and advertising materials, sales and purchases records and correspondence, trade association files, research and development records, lists of present and former customers and suppliers, personnel and employment records, minute and share certificate books, and all copies and recordings of the foregoing;

"Bracebridge" means The Corporation of the Town of Bracebridge, a municipal corporation existing under the laws of Ontario;

"Burk's Falls" means The Corporation of the Village of Burk's Falls, a municipal corporation existing under the laws of Ontario;

"Business Day" means any day other than a day which is a Saturday, a Sunday or a statutory holiday in the Province of Ontario;

"Claim" means:

- (a) any suit, action, dispute, investigation, claim, arbitration, order, summons, citation, directive, charge, demand or prosecution, whether legal or administrative;
- (b) any other proceeding; or
- (c) any appeal or application for review;

at law or in equity or before or by any Governmental Authority;

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"Closing" means the delivery of all documents and instruments required to effect the completion of the Amalgamations and of the other transactions and entering into of the documents and agreements referred to herein;

"Closing Date" means a date (which shall be a Business Day) not later than thirty (30) days following the date that the approval of the OEB pursuant to Section 4.3(1)(c) has been obtained as may be agreed upon in writing by the Parties;

"Closing Time" means the time of the Closing which shall be 10:00 am on the Closing Date or such other time on the Closing Date as may be agreed to by the Parties;

"Commissioner" means the Commissioner of Competition appointed under the Competition Act;

"Competition Act" means the *Competition Act* (Canada);

"Confidentiality Agreement" means the non-disclosure agreement dated November 1, 2012 between Parry Sound HoldCo and Lakeland HoldCo;

"Constating Documents" means, with respect to any Person, its articles or certificate of incorporation, amendment, amalgamation or continuance, by-laws and all unanimous shareholder agreements, other shareholder agreements, voting trusts, pooling agreements and similar Contracts, arrangements and understandings, all as amended, supplemented, restated and replaced from time to time;

"Contract" means, in respect of a particular Person, any contract, note, bond, mortgage, agreement, indenture, lease, agreement to lease, licence, personal property lease, commitment, understanding, instrument, option or any other instrument, document or obligation, oral or written, to which such Person is a party or whereby such Person's assets may be bound;

"Control" with respect to the relationship with a Person, means:

- (1) if that Person is a corporation, the holding (other than by way of security) of securities of that Person to which are attached more than 50% of the votes that may be cast for the election of directors and those votes are sufficient, if exercised, to elect a majority of the board of directors; or
- (a) the right, directly or indirectly, to direct or cause the direction of the management of the affairs of that Person, whether by ownership of Equity Interests, by Contract or otherwise; and

the term **"Controlled by"** has a corresponding meaning; provided that a Person (the **"first-mentioned Person"**) who Controls a corporation, partnership, limited partnership or joint venture (the **"second-mentioned Person"**) shall be deemed to Control a corporation, partnership, limited partnership or joint venture which is Controlled by the second-mentioned Person and so on;

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"**CRA**" means the Canada Revenue Agency;

"**CUPE**" means the Canadian Union of Public Employees;

"**Direct Claim**" has the meaning set forth in Section 7.2(9);

"**Disputes**" has the meaning set forth in Section 8.2(f);

"**Electricity Act**" means the *Electricity Act, 1998* (Ontario) and the regulations thereto, as amended;

"**Employment Law**" means the Employment Standards Act, 2000 (Ontario), the Labour Relations Act, 1995 (Ontario), the Pay Equity Act (Ontario), the Occupational Health and Safety Act (Ontario), the Human Rights Code (Ontario) and the Workplace Safety and Insurance Act, 1997 (Ontario) and any other applicable statute as it relates to employment matters;

"**Encumbrance**" means any encumbrance, lien, charge, hypothec, pledge, mortgage, title retention agreement, security interest of any nature, adverse claim, exception, reservation, easement, right of occupation, option, right of pre-emption, privilege or any matter capable of registration against title or any Contract to create any of the foregoing;

"**Environment**" means the ambient air, all layers of the atmosphere, surface water, underground water, all land, all living organisms and the interacting natural systems that include components of air, land, water, organic and inorganic matter and living organisms;

"**Environmental Law**" means all applicable statutes, regulations, ordinances, by-laws, Environmental Permits, orders, decisions and rules and any legally enforceable policies, codes or guidelines of a Governmental Authority (whether federal, provincial or municipal) relating to the Environment or the Release, use, transport, disposal or handling of Hazardous Substances, including without limitation the *Environmental Protection Act*, (Ontario), *Canadian Environmental Assessment Act*, *Canadian Environmental Protection Act*, *Dangerous Goods Transportation Act* (Ontario), *Energy Competition Act* (Ontario), *Environmental Bill of Rights* (Ontario), *Fisheries Act* (Canada), *Technical Standards and Safety Act* (Ontario), *Ontario Water Resources Act*, *Pest Control Products Act* (Canada), *Pesticides Act* (Ontario), *Transportation of Dangerous Goods Act* (Canada) and any applicable municipal noise or sewer use by-law;

"**Environmental Permit**" means any Permit required pursuant to Environmental Law;

"**Fixtures**" means fixtures, plants, buildings, structures, erections, improvements, fixtures, machinery, equipment, substations, transformers, vaults, distribution lines, transmission lines, conduits, ducts, pipes, wires, rods, cables, fibre optic strands, devices, appliances, equipment, material, poles, pipelines, fittings and any other similar or related item;

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“GenCo Amalgamation” has the meaning set forth in Recital (e)(ii);

"GenCo Amalgamation Agreement" has the meaning set forth in Section 2.2;

"Good Utility Practices" means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry in North America during the relevant time period, as applied to electricity distribution facilities of similar design, size and capacity to the facilities of Lakeland WiresCo or Parry Sound WiresCo, or any of the practices, methods and acts which, in the exercise of reasonable judgement in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good practices, reliability, safety and expedition. Good utility practices is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to be acceptable practices, methods, or acts generally accepted in North America;

"Governmental Authority" means any government or political subdivision (including without limitation, any municipality or federal or provincial ministry) or quasi-governmental or regulatory agency, authority, board, commission, department or instrumentality of any government or political subdivision, or any court or tribunal, and specifically includes the OEB, the OPA, the Electrical Safety Authority and the Independent Electricity Market Operator of Ontario;

"Government Filings" has the meaning set forth in Section 5.2(17);

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

"Hazardous Substance" means:

- (1) any petrochemical or petroleum product, oil or coal ash, mercury, radioactive material, radon gas, asbestos in any form that is friable, urea formaldehyde foam insulation or substance that contains or may contain PCBs;
- (b) any chemical, material or substance defined as or included in the definition of "hazardous substance", "hazardous waste", "hazardous material", "hazardous constituent", "restricted hazardous material", "extremely hazardous substance", "toxic substance", "deleterious substance", "contaminant", "pollutant", "toxic pollutant" or words of similar meaning and regulatory effect under any applicable Environmental Law; and
- (c) any other material or substance, exposure to which is prohibited, limited or regulated by any applicable Environmental Law.

“HoldCo Amalgamation” has the meaning set forth in Recital (e)(iii);

"HoldCo Amalgamation Agreement" has the meaning set forth in Section 2.2;

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"HoldCo Board" has the meaning set forth in Section 2.3;

"Huntsville" means The Corporation of the Town of Huntsville, a municipal corporation existing under the laws of Ontario;

"Includes" means "includes, without limitation" and **"including"** means "including without limitation";

"Income Tax" means any federal, provincial, territorial or municipal tax (i) imposed or based upon, measured by or calculated with respect to net income, income as specially defined, earnings, gross or net profits or selected items of income, earnings or profits (including capital gains taxes and minimum taxes); or (ii) based upon, measured by or calculated with respect to multiple bases (including corporate franchise taxes) if one or more of the bases on which such tax may be based, measured by or calculated with respect to, is described in (i), in each case together with any interest, penalties or additions to such tax;

"Indemnitee" means any Lakeland Indemnitee or Parry Sound Indemnitee;

"Indemnifiable Losses" has the meaning set forth in Section 7.1;

"Indemnifying Party" has the meaning set forth in Section 7.1(5);

"Insolvency Official" means an administrator, trustee in bankruptcy, liquidator, receiver, administrative receiver, receiver-manager or other official or Person with similar or equivalent powers;

"Intellectual Property" means all intellectual property of whatever nature and kind, including patents and patent applications, trademarks and trademark applications, trade names, trading styles, domain names, certification marks, industrial designs and copyrights (whether registered or unregistered and all applications for registration thereof), computer software, information technology, inventions, works, designs, formulae, processes, procedures, know-how, trade secrets, industrial designs and plans, engineering designs and plans, blueprints and as-built plans and specifications, training, operating, safety, maintenance and any other manuals, documentation of procedures and processes, design, user and maintenance information and service records and warranty records;

"Interim Period" means the period from and including the date of this Agreement to and including the Closing Date or the earlier termination date of this Agreement;

"Knowledge of Lakeland HoldCo" or "Knowledge" when referring to Lakeland HoldCo means the actual knowledge of the Chief Executive Officer and Chief Financial Officer of Lakeland HoldCo; after due enquiry of the officers and employees of Lakeland HoldCo and as applicable Lakeland WiresCo having knowledge of or responsibility for the matter, which is the subject of the enquiry;

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"Knowledge of Parry Sound HoldCo" or "Knowledge" when referring to Parry Sound HoldCo means the actual knowledge of the Chief Executive Officer and Chief Financial Officer of Parry Sound HoldCo; after due enquiry of the officers and employees of Parry Sound HoldCo and as applicable Parry Sound WiresCo having knowledge of or responsibility for the matter, which is the subject of the enquiry;

"Lakeland Business" means the electricity distribution, generation and services businesses and the provision of other ancillary services carried on by the Lakeland Subsidiaries;

"Lakeland Easements" means all of the following real property interests enjoyed or used by or for the benefit of the Lakeland Business: (i) all easements and rights of way, registered and unregistered; (ii) the right to use, transverse, enjoy or have access to, over, in or under any real property, whether public or private; and (iii) all permits, licences and permissions received, used or enjoyed in respect of any of the foregoing and any right or benefit in the nature or character of any of the foregoing;

"Lakeland Employee Plans" has the meaning set forth in Section 5.2(30)(a);

"Lakeland Employees" means all full time and part time, union and non-union employees and contract employees of the Lakeland Subsidiaries;

"Lakeland Encumbrances" has the meaning set forth in Section 5.2(9)(f);

"Lakeland Environmental Permits" has the meaning set forth in Section 5.2(29)(b);

"Lakeland Equipment Leases" means the leases and agreements to lease under which a Lakeland Subsidiary leases any personal property;

"Lakeland GenCo" means Bracebridge Generation Ltd.;

"Lakeland HoldCo" has the meaning set forth in the preamble;

"Lakeland Indemnatee" has the meaning set forth in Section 7.1(3);

"Lakeland Insurance Policies" has the meaning set forth in Section 5.2(14);

"Lakeland Leased Property" means all leasehold interests in real property held by the Lakeland Subsidiaries;

"Lakeland Permits" has the meaning set forth in Section 5.2(18);

"Lakeland Real Property" means all real property (excluding Lakeland Leased Property and Lakeland Easements) that is owned by the Lakeland Subsidiaries;

"Lakeland ServicesCo" means Lakeland Energy Ltd.;

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“Lakeland Shareholders” means Bracebridge, Burk’s Falls, Huntsville, Magnetawan and Sundridge, and **“Lakeland Shareholder”** means any one of them.

“Lakeland Shareholders Agreement” means the shareholders agreement between Bracebridge, Burk’s Falls, Huntsville, Magnetawan, Sundridge, and the Lakeland Subsidiaries dated September 1, 2000;

“Lakeland Subsidiaries” means Lakeland GenCo, Lakeland ServicesCo and Lakeland WiresCo, and **“Lakeland Subsidiary”** means any one of them;

"Lakeland Third Party Consents" means the Third Party Consents listed in Schedule 5.2(27);

"Lakeland WiresCo Financial Statements" means the 2012 audited financial statements of Lakeland WiresCo;

“Lakeland WiresCo” means Lakeland Power Distribution Ltd.;

"Loss" includes any and all damages, costs, charges, liabilities, awards, fines, fees, penalties, assessments, reassessments, claims, judgments, deficiencies, losses and expenses (including all remediation costs, fees of lawyers, accountants and other professionals and experts, or other expenses of litigation or proceedings or of any claim, default or assessment and interest thereon);

"MAAD Application" has the meaning set forth in Section 6.3(4);

“Magnetawan” means The Corporation of the Municipality of Magnetawan, a municipal corporation existing under the laws of Ontario;

"Material" means of such a nature or amount as would reasonably be expected to influence or change a decision relating to the business or operations of that Person, and **"Materially"** has a corresponding meaning;

"Material Adverse Change" or "Material Adverse Effect" with respect to any Person means any change or effect that:

- (a) individually or when taken together with all other changes or effects that have occurred during any relevant period of time before the determination of the occurrence of that change or effect is or is reasonably likely to be Materially adverse to the business, operations, assets, liabilities, capital, prospects, condition (financial or otherwise) or results of operation of that Person; or
- (b) Materially adversely affects the ability of that Person to conduct its business after the Closing Date substantially as its business has been conducted to the date of this Agreement;

"Material Contract" means any Contract in respect of the Lakeland Business or the Parry Sound WiresCo Business, as applicable, which expires or may expire, if the same is

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not renewed or extended at the unilateral option of any other Person, more than two (2) years after the date of this Agreement, and which requires payment (including contingent payments) of more than \$250,000 in aggregate during the term thereof; or any other Contract, the termination of which would result in a Material Adverse Effect on Lakeland WiresCo or Parry Sound WiresCo, as applicable;

"Merged GenCo" has the meaning set forth in Section 2.1(2);

"Merged HoldCo" has the meaning set forth in Section 2.1(2);

"Merged HoldCo Shareholders Agreement" means the shareholders agreement to be entered into by Bracebridge, Burk's Falls, Huntsville, Magnetawan, Sundridge, Parry Sound and Merged HoldCo on Closing to take effect as of the Amalgamation Effective Time substantially in the form attached as Schedule 1.1 (a);

"Merged WiresCo" has the meaning set forth in Section 2.1(2);

"MOF" means the Ontario Ministry of Finance;

"MOU" means the Memorandum of Understanding dated January 31, 2013 between Lakeland HoldCo and Parry Sound Holdco relating to the proposed Amalgamations;

"OBCA" means the *Business Corporations Act* (Ontario) and the regulations thereto, as amended;

"OEB" means the Ontario Energy Board or any successor thereto;

"OEB Act" means the *Ontario Energy Board Act, 1998* (Ontario) and the regulations thereto, as amended;

"OMERS" means the Ontario Municipal Employees Retirement System;

"OMERS Board" means the Ontario Municipal Employees Retirement System Board;

"OPA" means the Ontario Power Authority and any successor thereto;

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

"Parry Sound" means The Corporation of the Town of Parry Sound, a municipal corporation existing under the laws of Ontario;

"Parry Sound Business" means the electricity distribution businesses carried on by Parry Sound WiresCo and the provision of ancillary services;

"Parry Sound Easements" means all of the following real property interests enjoyed or used by or for the benefit of the Parry Sound Business: (i) all easements and rights of way, registered and unregistered; (ii) the right to use, transverse, enjoy or have access to,

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over, in or under any real property, whether public or private; and (iii) all permits, licences and permissions received, used or enjoyed in respect of any of the foregoing and any right or benefit in the nature or character of any of the foregoing;

"Parry Sound Employee Plans" has the meaning set forth in Section 5.4(30)(a);

"Parry Sound Employees" means all full time and part time, union and non-union employees and contract employees of Parry Sound WiresCo and includes the Designated Parry Sound HoldCo Employees;

"Parry Sound Encumbrances" has the meaning set forth in Section 5.4(9)(f);

"Parry Sound Environmental Permits" has the meaning set forth in Section 5.4(29)(b);

"Parry Sound Equipment Leases" means the leases and the agreements to lease under which Parry Sound WiresCo leases any personal property and described in 5.4(13);

"Parry Sound GenCo" means Parry Sound Powergen Corporation;

"Parry Sound GenCo Amalgamation" has the meaning set forth in Recital e(iii);

"Parry Sound HoldCo" has the meaning set forth in the preamble;

"Parry Sound Indemnatee" has the meaning set forth in Section 7.1(1);

"Parry Sound Insurance Policies" has the meaning set forth in Section 5.4(16);

"Parry Sound Leased Property" means all leasehold interests in real property held by Parry Sound WiresCo;

"Parry Sound Permits" has the meaning set forth in Section 5.4(18);

"Parry Sound Promissory Note" means the promissory note in the outstanding principal amount of \$3,968 million issued by Parry Sound WiresCo to Parry Sound HoldCo;

"Parry Sound Subsidiaries" means any one of Parry Sound WiresCo and Parry Sound GenCo, and **"Parry Sound Subsidiary"** means any one of them.

"Parry Sound Real Property" means all real property (excluding Parry Sound Leased Property and Parry Sound Easements) that is owned by Parry Sound WiresCo;

"Parry Sound Third Party Consents" means the Third Party Consents listed in Schedule 5.4(37);

"Parry Sound WiresCo" means Parry Sound Power Corporation;

"Parties" means the parties to this Agreement, and **"Party"** means any one of them;

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"PCBs" means poly-chlorinated biphenyls;

"Permitted Encumbrances" means:

- (a) the Lakeland Encumbrances;
- (b) the Parry Sound WiresCo Encumbrances;
- (c) statutory liens for any Taxes not yet due or delinquent or the validity of which is being contested in good faith by appropriate proceedings;
- (d) construction, materialmens', carriers', workers', repairers' and other similar liens arising or incurred in the Ordinary Course, as to which there is no default on the part of Lakeland WiresCo or Parry Sound WiresCo, as applicable, or the validity of which is being contested in good faith by appropriate proceedings; and
- (e) such other security interests, liens, imperfections in or failures of title, charges, restrictions, encroachments and defects in title which do not materially, individually or in the aggregate, detract from the value of Lakeland WiresCo or Parry Sound WiresCo, as the case may be, nor, individually or in the aggregate, result in a Material Adverse Effect;

"Permits" mean all permits, licences, certificates, franchises, registrations, rights, privileges and other consents and approvals of any Governmental Authority;

"Person" means any individual, corporation, partnership, firm, joint venture, syndicate, association, trust, Governmental Authority and any other form of entity or organization;

"Personal Information" means any information in the possession, custody or control of Lakeland WiresCo or Parry Sound WiresCo about an identifiable individual, and for greater certainty includes all such information which falls within the definition of "personal information" in any applicable personal information protection law of Canada, or any province or territory thereof to which Lakeland WiresCo or Parry Sound WiresCo is subject;

"PILS" means payments in lieu of Taxes payable by Lakeland WiresCo and Parry Sound WiresCo pursuant to Section 93 of the Electricity Act;

"Post-Closing Capital Structure" has the meaning set forth in Section 2.1(4);

"Regulatory Assets" has the meaning set forth in Section 79.13 of the OEB Act;

"Release" means any release, spill, leak, emission, discharge, leaching, dumping, escape or other disposal;

"Representatives" of a Party means its Affiliates and directors, officers, employees, agents, partners and advisors of the party and/or its Affiliates (including external

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accountants, lawyers, environmental consultants, financial advisors and other authorized representatives);

"Schedule" means a schedule to this Agreement as identified in Section 1.2;

"Share Allocation" has the meaning set forth in Section 2.1(5);

"Sundridge" means The Corporation of the Village of Sundridge, a municipal corporation existing under the laws of Ontario;

"Tax Act" means the *Income Tax Act* (Canada) and the regulations thereto, as amended;

"Tax Return" means any return, report, information return, declaration, statement, election, notice, filing, form, or other document (including any schedule or related or supporting information) required to be supplied to or filed with any Governmental Authority with respect to Taxes, including any attached schedules or amendments thereto;

"Taxes" means all Income Taxes and all capital taxes, gross receipts taxes, surtaxes, environmental taxes, sales taxes, use taxes, ad valorem taxes, value added taxes, excise taxes, transfer taxes (including land transfer taxes and Transfer Tax), franchise taxes, license taxes, withholding taxes, payroll taxes, health taxes and premiums, employment taxes, Canada Pension Plan premiums, severance, social security premiums, workers' compensation premiums, employment or unemployment insurance or compensation premiums, stamp taxes, occupation taxes, premium taxes, property taxes, windfall profits taxes, alternative or add-on minimum taxes, goods and services taxes (including the Goods and Services Tax), customs duties, rates, levies, all special payments and PILS pursuant to Part V.1 and Part VI of the Electricity Act and the regulations thereto and all other taxes, fees, imposts, duties, assessments or charges of any kind whatsoever imposed by any Governmental Authority, and any interest, penalties, additions to tax and other additional amounts imposed with respect to the foregoing;

"Third Party Claim" has the meaning set forth in section 7.2(1);

"Third Party Consents" means declarations, notices to, or authorizations, consents, waivers, approvals or permissions of, any Person;

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

"WiresCo Amalgamation" means the amalgamation set forth in Recital (e)(i);

"WiresCo Amalgamation Agreement" has the meaning set forth in Section 2.2; and

"WiresCo Board" has the meaning set forth in Section 2.3.

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1.2 Schedules

The following schedules which are attached to this Agreement are incorporated into this Agreement by reference and form hereof:

<u>Schedule Number</u>	<u>Schedule Title</u>
Schedule 1.1	Merged HoldCo Shareholders Agreement
Schedule 5.1(7)	Lakeland Litigation
Schedule 5.2(3)	Lakeland Authorized and Issued Capital
Schedule 5.2(4)	Lakeland – Options
Schedule 5.2(9)(f)	Lakeland – Encumbrances
Schedule 5.2(16)	Lakeland – Material Contracts
Schedule 5.2(25)	Lakeland – Unusual Transactions
Schedule 5.2(27)	Lakeland – Litigation
Schedule 5.2(28)	Lakeland – Non-Arm's Length Transactions
Schedule 5.2(37)	Lakeland – Third Party Consents
Schedule 5.4(3)	Parry Sound Authorized and Issued Capital
Schedule 5.4(4)	Parry Sound – Options
Schedule 5.4(9)(f)	Parry Sound – Encumbrances
Schedule 5.4(16)	Parry Sound – Material Contracts
Schedule 5.4(25)	Parry Sound – Unusual Transactions
Schedule 5.4(27)	Parry Sound – Litigation
Schedule 5.4(28)	Parry Sound – Non-Arm's Length Transactions
Schedule 5.4(37)	Parry Sound – Third Party Consents

1.3 Interpretation Not Affected by Headings

The division of this Agreement into articles, sections, subsections, paragraphs, subparagraphs and clauses and the insertion of headings are for the convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", "herein", "hereunder" and similar expressions refer to this Agreement and the schedules hereto and not to any particular article, section, paragraph, subparagraph, clause or other hereof and include any agreement or instrument supplementary or ancillary hereto. Each Party acknowledges that it and its legal counsel have reviewed and participated in settling the terms of this Agreement.

1.4 Number and Gender

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

1.5 Generally Accepted Accounting Principles

Except as otherwise specifically provided in this Agreement, all accounting terms shall be applied and construed in accordance with generally accepted accounting principles

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consistently applied. References in this Agreement to "**generally accepted accounting principles**" or "**GAAP**" mean, for all principles stated from time to time in the Handbook of the Canadian Institute of Chartered Accountants, the principles as so stated.

1.6 Statutes and Agreement

Any reference in this Agreement to an agreement, or to a statute, regulation or rule promulgated under a statute or to any provision of an agreement, a statute, regulation or rule shall be a reference to the agreement, statute, regulation, rule or provision, as amended, restated, re-enacted or replaced from time to time.

1.7 Currency

All amounts in this Agreement are stated and shall be paid in Canadian currency.

**ARTICLE 2
AMALGAMATION**

2.1 Amalgamation

- (1) Subject to Section 2.1(2), all actions to be completed by each Party to give effect to an Amalgamation, including delivery of all documents required by either Party pursuant to the terms of this Agreement, shall be completed on or before the Closing Date.
- (2) Notwithstanding the Closing Date provided in Section 2.1(1) and subject to and conditional upon the terms and conditions of this Agreement, the Parties agree that they will cause the following:
 - (a) Lakeland HoldCo and Parry Sound HoldCo shall amalgamate with each other effective on the Amalgamation Effective Date as at the Amalgamation Effective Time and continue as a corporation amalgamated under the laws of Ontario and known as ("**Merged HoldCo**");
 - (b) Lakeland WiresCo and Parry Sound WiresCo shall amalgamate with each other effective on the Amalgamation Effective Date and continue as a corporation amalgamated under the laws of Ontario and known as ("**Merged WiresCo**"); and
 - (c) Lakeland GenCo and Parry Sound GenCo shall amalgamate with each other effective on the Amalgamation Effective Date and continue as a corporation amalgamated under the laws of Ontario and known as ("**Merged GenCo**").
- (3) The Parties agree that the corporate names for the amalgamated entities will be as follows:
 - (a) in respect of Merged HoldCo, LAKELAND HOLDING LTD.
 - (b) in respect of Merged WiresCo, LAKELAND POWER DISTRIBUTION LTD.;

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- (c) in respect of Merged GenCo, BRACEBRIDGE GENERATION LTD.; and
- (d) the Parties agree that Lakeland ServicesCo will continue to be named LAKELAND ENERGY LTD.
- (4) Prior to Closing the Parties shall mutually agree on the capital structure of Merged HoldCo to be in place as of the Amalgamation Effective Date ("**Post-Closing Capital Structure**").
- (5) Merged HoldCo shall issue as fully paid and non-assessable the following number of common shares (the "**Share Allocation**") in exchange for (a) all of the issued and outstanding shares held by Bracebridge, Burk's Falls, Huntsville, Magnetawan and Sundridge in Lakeland HoldCo, and (b) all of the issued and outstanding shares held by Parry Sound in Parry Sound HoldCo:

<u>PARTY</u>	<u>NUMBER OF SHARES</u>	<u>PERCENTAGE TOTAL</u>
Bracebridge	5631	56.31%
Huntsville	2174	21.74%
Sundridge	375	3.75%
Burk's Falls	343	3.43%
Magnetawan	127	1.27%
Parry Sound	1350	13.50%

- (6) If Merged GenCo obtains a certificate of project commercial operation in respect of the planned upgrade of the Cascade Generation Station in Parry Sound, the parties agree that the proportionate ownership held by each of the Lakeland Shareholders and Parry Sound in Merged HoldCo as set out in Section 2.1(5) will be changed to the following:

<u>NAME OF SHAREHOLDER</u>	<u>NUMBER OF SHARES</u>	<u>PERCENTAGE TOTAL</u>
Bracebridge	5497	54.97%
Huntsville	2122	21.22%
Sundridge	366	3.66%

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Burk's Falls	334	3.34%
Magnetawan	124	1.24%
Parry Sound	1557	15.57%

The share allocation adjustment set out above will be effected by issuing or purchasing shares.

2.2 Amalgamation Agreements

On or prior to Closing, the relevant Lakeland Subsidiary and Parry Sound Subsidiary shall execute and deliver an amalgamation agreement together with all other documents, instruments and certificates required under the OBCA to give effect to the relevant Amalgamation and in the case of the HoldCo Amalgamation, to reflect the share allocation set forth in Section 2.1(5). Each Amalgamation Agreement shall be filed in accordance with Section 178 of the OBCA on or as of the Amalgamation Effective Date as follows:

- (a) Lakeland HoldCo and Parry Sound HoldCo ("**HoldCo Amalgamation Agreement**");
- (b) Lakeland WiresCo and Parry Sound WiresCo ("**WiresCo Amalgamation Agreement**"); and
- (c) Lakeland GenCo and Parry Sound GenCo ("**GenCo Amalgamation Agreement**").

2.3 Initial Boards of Directors

- (a) Merged HoldCo. The initial board of directors of Merged HoldCo (the "**HoldCo Board**") at Closing shall be comprised of six (6) directors as set out in the HoldCo Amalgamation Agreement so that the following individuals will serve as members of the initial HoldCo Board immediately following the completion of the HoldCo Amalgamation: Roger Alexander, Phil Matthews, William Ingram, Tom Peppiatt, Don Waddington and Chris Litschko.
- (b) Merged GenCo and Lakeland ServicesCo. The initial boards of directors of Merged GenCo ("**GenCo Board**") and Lakeland ServicesCo at Closing shall be comprised of six (6) directors as set out in the GenCo Amalgamation Agreement (in relation to Merged GenCo) so that the following individuals will serve as members of the initial GenCo Board and succeeding board of Lakeland ServicesCo: Roger Alexander, Phil Matthews, William Ingram, Tom Peppiatt, Don Waddington and Chris Litschko immediately following the completion of the GenCo Amalgamation.
- (c) Merged WiresCo. The initial board of directors of Merged WiresCo ("**WiresCo Board**") at Closing shall be comprised of 3 (three) directors as set out in the

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WiresCo Amalgamation Agreement so that the following individuals will serve as members of the initial WiresCo Board: Bruce Flowers, Tom Peppiatt, and Don Waddington immediately following the completion of the WiresCo Amalgamation.

2.4 Interim Period

Immediately following the execution of this Agreement, each of the Parties shall designate representatives who shall be responsible for facilitating any matters relating to the Amalgamation during the Interim Period.

2.5 Transition Arrangements

During the Interim Period, the Parties shall co-operate in good faith and use reasonable commercial efforts to address the following mutual transition arrangements:

- (i) consolidation and co-ordination of insurance policies to ensure proper insurance coverage for Merged HoldCo;
- (ii) determination of appropriate method for sharing of any tax benefits from Merged HoldCo among affiliates of Merged HoldCo;
- (iii) operational and human resource support arrangements between Merged HoldCo and affiliates of Merged HoldCo to be in effect after the Amalgamation Effective Date;
- (iv) employee retention plans;
- (v) co-ordination of timing and content of public information process and public statements regarding this Agreement and the Amalgamations;
- (vi) review of treatment of Regulatory Assets and OEB related issues;
- (vii) review of financial statements and accounting policies and reconciliation issues;
- (viii) preparation of Merged HoldCo pro forma financial statements;
- (ix) selection of the auditor for Merged HoldCo;
- (x) development of initial 3-year business plan for Merged HoldCo;
- (xi) consolidation and co-ordination of employee benefit plans and development of benefit plan transition arrangements;
- (xii) development of the capital structure of Merged HoldCo; and

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- (xiii) development and co-ordination of dividend and financing policies and financing, credit and banking arrangements.

2.6 Consulting Costs

The Parties agree that they may jointly engage consultants to provide advice with respect to the Amalgamation, which may include continuing to engage consultants jointly engaged pursuant to the terms of the MOU. Upon Closing of the Amalgamations, the costs of all such jointly engaged consultants shall be transferred to Merged HoldCo and shall become the responsibility of Merged HoldCo. In the event that this Agreement is terminated and Closing of the Amalgamations does not occur, then the Parties agree to share equally the total cost of such jointly engaged consultants. For greater certainty, as at the date of this Agreement, jointly retained consultants include Borden Ladner Gervais LLP.

2.7 Initial Senior Executive Arrangements

- (a) The Parties acknowledge and agree that the following initial senior executive arrangements as of the Closing Date shall be in effect and thereafter the relevant Board, in its discretion, shall determine the offices and responsibilities of the senior management of Merged HoldCo and shall appoint such individuals as it may determine to hold such offices as it may determine:
- (b) Chris Litschko, Chief Executive Officer;
- (c) Vince Kulchycki, Chief Operating Officer; and
- (d) Margaret Maw, Chief Financial Officer.

2.8 Parry Sound Promissory Note

The Parties agree that it is their intention to utilize the proceeds of third party bank financing obtained by Merged WiresCo to repay the Parry Sound Promissory Note and all interest thereon as soon as reasonably practicable following the Closing Date, but in any event, no later than sixty (60) days after the Amalgamation Effective Date.

ARTICLE 3 THE CLOSING

3.1 Closing

Subject to the terms and conditions of this Agreement, the Closing of the Amalgamation shall take place at the Closing Time on the Closing Date at the Toronto offices of Borden Ladner Gervais LLP.

3.2 Closing Deliveries of Lakeland HoldCo and Lakeland Subsidiaries

At Closing, Lakeland HoldCo shall deliver, or cause to be delivered, to Parry Sound HoldCo the following:

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- (a) the share certificates representing all of the issued and outstanding shares of the Lakeland Subsidiaries;
- (b) original share registers, share transfer ledgers, minute books and corporate seals (if any) of the Lakeland Subsidiaries;
- (c) copies of any and the Lakeland Third Party Consents required to be obtained by Lakeland HoldCo or any of the Lakeland Subsidiaries with respect to the Amalgamations;
- (d) a certificate of a senior officer of Lakeland HoldCo dated as of the Closing Date certifying that:
 - (i) the representations and warranties of Lakeland HoldCo herein are true and correct in all respects as at the Closing, or where any representation and warranty is qualified by Materiality, such representation and warranty is true and correct in all Material respects as at the Closing;
 - (ii) the Lakeland Subsidiaries have complied in all Material respects with the covenants and agreements contained in this Agreement which are required to be performed and complied with by each of them on or prior to the Closing;
- (e) a copy of the by-law, resolution or other authorizing instrument duly passed by each municipal council of the Lakeland Shareholders, certified by a municipal officer of each Lakeland Shareholder, authorizing the execution, delivery and performance of the City Agreement and approving the Amalgamations;
- (f) copies of the corporate resolutions of the Lakeland Subsidiaries, certified by a director or senior officer of each of the Lakeland Subsidiaries, as applicable, authorizing the execution, delivery and performance of this Agreement and all other agreements and instruments to be executed and delivered by each of the Lakeland Subsidiaries in connection with this Agreement and completion of the Amalgamation;
- (g) a certificate of status for each of the Lakeland Subsidiaries or its equivalent under the laws of Ontario;
- (h) a certificate of incumbency for each of the Lakeland Subsidiaries;
- (i) a copy of the Merged HoldCo Shareholders Agreement executed by Bracebridge, Burk's Falls, Huntsville, Magnetawan and Sundridge; and
- (j) such other documentation as Parry Sound HoldCo may reasonably request in order to effect the completion of the Amalgamation and the taking of all corporate proceedings in connection with the Amalgamation, in each case in form and substance satisfactory to Parry Sound HoldCo acting reasonably.

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3.3 Closing Deliveries of Parry Sound HoldCo and Parry Sound Subsidiaries

At Closing, Parry Sound HoldCo shall deliver, or cause to be delivered, to Lakeland HoldCo the following:

- (a) the share certificates evidencing all of the issued and outstanding shares of the Parry Sound Subsidiaries;
- (b) original share registers, share transfer ledgers, minute books and corporate seals (if any) of the Parry Sound Subsidiaries;
- (c) copies of any and all of the Parry Sound Third Party Consents required to be obtained by the Parry Sound Subsidiaries with respect to the Amalgamations;
- (d) a certificate of a senior officer of Parry Sound HoldCo dated as of the Closing Date certifying that:
 - (i) the representations and warranties of Parry Sound HoldCo herein are true and correct in all respects as at the Closing, or where any representation and warranty is qualified by Materiality, such representation and warranty is true and correct in all Material respects at the Closing;
 - (ii) the Parry Sound Subsidiaries have complied in all Material respects with the covenants and agreements contained in this Agreement which are required to be performed and complied with by each of them on or prior to the Closing;
- (e) a copy of the by-law, resolution or other authorizing instrument duly passed by the Parry Sound municipal council, certified by a municipal officer of Parry Sound, authorizing the execution, delivery and performance of the City Agreement and approving the Amalgamations;
- (f) copies of the corporate resolutions of the Parry Sound Subsidiaries, certified by a director or senior officer of each of the Parry Sound Subsidiaries, as applicable, authorizing the execution, delivery and performance of this Agreement and all other agreements and instruments to be executed and delivered by each of the Parry Sound Subsidiaries in connection with this Agreement and completion of the Amalgamation;
- (g) a certificate of status for each of the Parry Sound Subsidiaries or its equivalent under the laws of Ontario;
- (h) a certificate of incumbency for each of the Parry Sound Subsidiaries;
- (i) a copy of the Merged HoldCo Shareholders Agreement executed by Parry Sound HoldCo; and

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- (j) such other documentation as Lakeland HoldCo may reasonably request in order to effect the completion of the Amalgamation and the taking of all corporate proceedings in connection with the Amalgamation, in each case in form and substance satisfactory to Lakeland HoldCo, acting reasonably.

**ARTICLE 4
CONDITIONS OF CLOSING**

4.1 Conditions in Favour of Lakeland HoldCo

- (1) Lakeland HoldCo shall be obliged to complete the Amalgamations only if each of the following conditions precedent has been satisfied in full at or before the Closing Time (each of which conditions precedent is acknowledged to be for the exclusive benefit of Lakeland HoldCo):
 - (a) all of the representations and warranties of Parry Sound HoldCo made in or pursuant to this Agreement shall be true and correct as at the Closing Time with the same effect as if made at and as of the Closing Time (except as those representations and warranties may be affected by events or transactions (i) expressly permitted by this Agreement, or (ii) approved in writing by Lakeland HoldCo);
 - (b) each of Parry Sound and the Parry Sound Subsidiaries shall have complied with or performed all of the obligations, covenants and agreements under this Agreement or the City Agreement to be complied with or performed by Parry Sound and the Parry Sound Subsidiaries, or any of them at or before the Closing Time, including the Closing deliveries specified in Section 3.3;
 - (c) the Lakeland Shareholders shall have approved the Amalgamation and such approval shall be in full force and effect;
 - (d) all Lakeland Third Party Consents described in Schedule 5.2(37) shall have been obtained, in each case in form and substance satisfactory to Lakeland HoldCo, acting reasonably;
 - (e) all documentation relating to the Amalgamations is satisfactory to Lakeland HoldCo, acting reasonably; and
 - (f) except as contemplated by this Agreement, there shall have been no Material Adverse Change in respect of the Lakeland Subsidiaries or the Parry Sound Subsidiaries since the date of this Agreement.
- (2) If any of the conditions in Section 4.1(1) shall not be satisfied or fulfilled in full at or before the Closing Time to the satisfaction of Lakeland HoldCo, acting reasonably, Lakeland HoldCo in its sole discretion may, without limiting any rights or remedies available to Lakeland HoldCo at law or in equity, either:

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- (a) terminate this Agreement by notice in writing to Parry Sound HoldCo, except with respect to the obligations contained in Sections 6.3(5) and 6.3(6) which shall survive that termination; or
- (b) waive compliance with any such condition in whole or in part by notice in writing to Parry Sound HoldCo, except that no such waiver shall operate as a waiver of any other condition.

4.2 Conditions in Favour of Parry Sound HoldCo

- (1) Parry Sound HoldCo shall be obliged to complete the Amalgamation only if each of the following conditions precedent has been satisfied in full at or before the Closing Time (each of which conditions precedent is acknowledged to be for the exclusive benefit of Parry Sound HoldCo):
 - (a) all of the representations and warranties of Lakeland HoldCo made in or pursuant to this Agreement shall be true and correct as at the Closing Time with the same effect as if made at and as of the Closing Time (except as those representations and warranties may be affected by events or transactions (i) expressly permitted by this Agreement, or (ii) approved in writing by Parry Sound HoldCo);
 - (b) each of the Lakeland Shareholders and the Lakeland Subsidiaries shall have complied with or performed all of the obligations, covenants and agreements under this Agreement or the City Agreement to be complied with or performed by the Lakeland Shareholders and the Lakeland Subsidiaries or any of them at or before the Closing Time, including the Closing deliveries specified in Section 3.2;
 - (c) Parry Sound shall have approved the Amalgamation and such approval shall be in full force and effect;
 - (d) all Parry Sound Third Party Consents described in Schedule 5.4(37) shall have been obtained, in each case in form and substance satisfactory to Parry Sound HoldCo, acting reasonably;
 - (e) all documentation relating to the Amalgamation is satisfactory to Parry Sound HoldCo, acting reasonably;
 - (f) except as contemplated by this Agreement, there shall have been no Material Adverse Change in respect of Lakeland Subsidiaries or Parry Sound Subsidiaries since the date of this Agreement.
- (2) If any of the conditions in Section 4.2(1) shall not be satisfied or fulfilled in full at or before the Closing Time to the satisfaction of Parry Sound HoldCo, acting reasonably, Parry Sound HoldCo in its sole discretion may, without limiting any rights or remedies available to Parry Sound HoldCo at law or in equity, either:

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- (a) terminate this Agreement by notice in writing to Lakeland HoldCo, except with respect to the obligations contained in Sections 6.3(5) and 6.3(6) which shall survive that termination; or
- (b) waive compliance with any such condition in whole or in part by notice in writing to Lakeland HoldCo, except that no such waiver shall operate as a waiver of any other condition.

4.3 Mutual Conditions

- (1) The obligations of each of the Parties to complete the Amalgamations shall be subject to the fulfilment of all of the following conditions on or before the Closing Date:
 - (a) there shall be no injunction or restraining order issued preventing, and no pending or threatened Claim, against any Party, for the purpose of enjoining or preventing the completion of the Amalgamations or otherwise claiming that this Agreement or the completion of the Amalgamations is improper or would give rise to a Claim under any Applicable Law;
 - (b) no Applicable Law shall have been enacted, introduced or announced which prohibits the Amalgamations or has a Material Adverse Effect in respect of Lakeland WiresCo or Parry Sound WiresCo or will have a Material Adverse Effect in respect of Merged HoldCo after the Amalgamations;
 - (c) the OEB shall have approved the Amalgamations in accordance with the MAAD Application and as may be required pursuant to Section 80 of the OEB Act provided that no terms or conditions required by the OEB in connection therewith shall have a Material Adverse Effect on either Lakeland HoldCo or Parry Sound HoldCo or Merged HoldCo;
 - (d) no Transfer Tax or special payment under Part VI of the Electricity Act as a result of the Amalgamation is payable by a Party; and
 - (e) Merged HoldCo will, immediately following the Amalgamations, be exempt under Section 149(1) of the Tax Act and Section 57(1) of the *Corporations Tax Act* (Ontario) from the payment of Tax under these statutes.

4.4 Termination

- (1) This Agreement may be terminated at any time prior to Closing by mutual written consent of the Parties.
- (2) This Agreement may be terminated by Lakeland HoldCo or Parry Sound HoldCo by written notice to the other Party if the Closing contemplated by this Agreement shall have not occurred on or before December 31, 2014 or such later date as may be mutually agreed by the Parties in writing and thereupon the Parties shall be released from all obligations then remaining under this Agreement, other than the obligations contained in

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Sections 2.6, 6.3(5) and 6.3(6), provided that the right to terminate this Agreement under this Section 4.4(2) shall not be available to a Party if the acts or omissions of that Party or any of its Affiliates have been the cause of, or result in, the failure of the Closing to occur on or before such date.

- (3) If any condition in Section 4.1 or 4.3 is not satisfied on or before the Closing Date, Lakeland HoldCo may, by notice to Parry Sound HoldCo, terminate this Agreement and thereupon the Parties shall be released from all obligations then remaining under this Agreement, other than the obligations contained in Sections 2.6, 6.3(5) and 6.3(6); provided that Lakeland HoldCo may also bring a Direct Claim against Parry Sound in accordance with Article 7 for Indemnifiable Losses asserted against or suffered by Lakeland HoldCo, as a result of the failure to Close the Amalgamation, where the non-performance or non-conformance of the relevant condition is as a result of a breach of covenant, representation or warranty by Parry Sound HoldCo.
- (4) If any condition in Section 4.2 or 4.3 is not satisfied on or before the Closing Date, Parry Sound HoldCo may, by notice to Lakeland HoldCo, terminate this Agreement and thereupon the Parties shall be released from all obligations then remaining under this Agreement, other than the obligations contained in Sections 2.6, 6.3(5) and 6.3(6); provided that Parry Sound HoldCo may also bring a Direct Claim against Lakeland HoldCo in accordance with Article 7 for Indemnifiable Losses asserted against or suffered by Parry Sound HoldCo, as a result of the failure to close the Amalgamation, where the non-performance or non-conformance of the relevant condition is as a result of a breach of covenant, representation or warranty by Lakeland HoldCo.

**ARTICLE 5
REPRESENTATIONS AND WARRANTIES**

5.1 Representations and Warranties Relating to Lakeland HoldCo

Lakeland HoldCo hereby represents and warrants to Parry Sound HoldCo as to itself as follows and acknowledges that Parry Sound HoldCo is relying on these representations and warranties in connection with this Agreement and the Amalgamation:

- (1) Organization and Status. Lakeland HoldCo is a corporation duly incorporated and organized, and is validly subsisting, under the laws of Ontario.
- (2) Corporate Power. It has all necessary corporate power and authority to own or lease or dispose of its undertakings, property and assets, to enter into this Agreement, the Amalgamation Agreement and the Merged HoldCo Shareholders Agreement and the Contracts, agreements and instruments required by this Agreement to be delivered by it, and to perform its obligations hereunder and thereunder.
- (3) Authorization. All necessary corporate action has been taken by it or on its part to authorize its execution and delivery of this Agreement and the Contracts required by this

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Agreement to be delivered by it and the performance of its obligations hereunder and thereunder.

- (4) Enforceability. This Agreement has been duly executed and delivered by it and (assuming due execution and delivery by the other Party) is a legal, valid and binding obligation of it enforceable against it in accordance with its terms, except as that enforcement may be limited by bankruptcy, insolvency and other similar laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction. The Amalgamation Agreement, Merged HoldCo Shareholders Agreement and each of the Contracts required by this Agreement to be delivered by it will at the Closing Time have been duly executed and delivered by it and (assuming due execution and delivery by the other parties thereto) will be enforceable against it in accordance with its terms, except as that enforcement may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.
- (5) Bankruptcy. It is not an insolvent Person within the meaning of the *Bankruptcy and Insolvency Act* (Canada) and has not made an assignment in favour of its creditors or a proposal in bankruptcy to its creditors or any class thereof, and no petition for a receiving order has been presented in respect of it. It has not initiated proceedings with respect to a compromise or arrangement with its creditors or for its winding up, liquidation or dissolution. No receiver or interim receiver has been appointed in respect of it or any of its undertakings, property or assets and no execution or distress has been levied on any of its undertakings, property or assets, nor have any proceedings been commenced in connection with any of the foregoing.
- (6) Absence of Conflict. The execution, delivery and performance by it of this Agreement, the Amalgamation Agreement and the Merged HoldCo Shareholders Agreement and the completion of the Amalgamation will not (whether after the passage of time or notice or both), result in the Material breach or violation of any of the provisions of, or constitute a default under, or conflict with or cause the acceleration of any of its obligations, under:
- (i) any Contract to which it is a party or by which any of its undertakings, property or assets is bound or affected;
 - (ii) any provision of its Constating Documents or resolutions of its board of directors (or any committee thereof) or shareholder;
 - (iii) to the Knowledge of Lakeland HoldCo, any resolution of each municipal council of each of the Lakeland Shareholders; or
 - (iv) any Applicable Law.
- (7) Litigation. Except as disclosed in Schedule 5.1(7). There are no Claims (whether or not purportedly on its behalf) pending or outstanding or, to its Knowledge, threatened against

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it which could affect its ability to perform its obligations under this Agreement. To the Knowledge of Lakeland HoldCo there is not any factual or legal basis on which any such Claim might be commenced with any reasonable likelihood of success.

- (8) Residence. It is not a non-resident of Canada for purposes of the Tax Act.

5.2 Representations and Warranties of Lakeland HoldCo Relating to Lakeland Subsidiaries

Lakeland HoldCo represents and warrants to Parry Sound HoldCo as follows and acknowledges that Parry Sound HoldCo is relying on these representations and warranties in connection with this Agreement and the Amalgamation:

- (1) Organization and Status. Each Lakeland Subsidiary is duly incorporated and organized, and is validly subsisting, under the laws of Ontario.
- (2) Corporate Power. Each Lakeland Subsidiary has all necessary corporate power and authority to own or lease its assets and to carry on the Lakeland Business as now being conducted by it.
- (3) Authorized and Issued Capital. The authorized capital of each Lakeland Subsidiary is set out in Schedule 5.2(3) and all shares described therein are duly issued and outstanding as fully paid and non-assessable. Lakeland HoldCo is the registered and beneficial owner of all of the issued and outstanding shares of each of Lakeland Subsidiaries with good and marketable title thereto, free and clear of all Encumbrances. Without limiting the generality of the foregoing, none of the common shares of any Lakeland Subsidiary is subject to any voting trust, shareholder agreement or voting agreement other than the Lakeland Shareholders Agreement.
- (4) No Options. Except as set out in Schedule 5.2(4), no Person has any agreement, option, understanding or commitment, or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement, option or commitment, including convertible securities, warranties or convertible obligations of any nature, for:
 - (a) the purchase, subscription, allotment or issuance of, or conversion into, any of the unissued shares in the capital of any Lakeland Subsidiary;
 - (b) the purchase, transfer or assignment of the shares of each Lakeland Subsidiary owned by Lakeland HoldCo;
 - (c) the purchase or other acquisition from any Lakeland Subsidiary of any of its undertaking, property or assets or related to or used in connection with the Lakeland Business, other than in the Ordinary Course of the Lakeland Business.
- (5) Subsidiaries. No Lakeland Subsidiary owns or has any agreements of any nature to acquire, directly or indirectly, any shares in the capital of or other equity or proprietary

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interests in any Person, and no Lakeland Subsidiary has any agreements to acquire or lease any other business operations.

- (6) Absence of Conflict. The execution, delivery and performance of this Agreement, the Merged HoldCo Shareholders Agreement and the Amalgamation Agreement by each Lakeland Subsidiary and the completion of the Amalgamations will not (whether after the passage of time or notice or both), result in:
- (a) the Material breach or violation of any of the provisions of, or constitute a default under, or conflict with or cause the acceleration of any of its obligations, under:
 - (i) any Contract to which any Lakeland Subsidiary is a party or by which the Lakeland Business or any assets of any Lakeland Subsidiary is bound or affected;
 - (ii) any provision of the Constatng Documents or resolutions of the board of directors (or any committee thereof) or shareholder of any Lakeland Subsidiary;
 - (iii) any judgement, decree, order or award of any Governmental Authority having jurisdiction over any Lakeland Subsidiary;
 - (iv) any Third Party Consents issued to or held by, any Lakeland Subsidiary or held for the benefit of or necessary to the operation of, any Lakeland Subsidiary or the Lakeland Business; or
 - (v) any Applicable Law.
 - (b) the creation or imposition of any Encumbrance over any of the assets of any Lakeland Subsidiary; or
 - (c) the requirement of any Third Party Consents.
- (7) Conduct of Business. To the Knowledge of Lakeland HoldCo, each Lakeland Subsidiary has in all Material respects complied with, and has conducted and is conducting the Lakeland Business in compliance with, all Applicable Laws. The Lakeland Business is the only business operation carried on by the Lakeland Subsidiaries and the assets of the Lakeland Subsidiary are sufficient to permit the continued operation of the Lakeland Business in substantially the same manner as conducted in the one year preceding the date of this Agreement. During the two year period preceding the date of this Agreement, there has not been any Material interruption of operations (being an interruption of more than one day) of the Lakeland Business due to inadequate maintenance of any of the assets of the Lakeland Subsidiaries.
- (8) Bankruptcy. No Lakeland Subsidiary is an insolvent Person within the meaning of the *Bankruptcy and Insolvency Act* (Canada) and has not made an assignment in favour of its creditors or a proposal in bankruptcy to its creditors or any class thereof, and no petition

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for a receiving order has been presented in respect of it. No Lakeland Subsidiary has initiated proceedings with respect to a compromise or arrangement with its creditors or for its winding up, liquidation or dissolution. No receiver or interim receiver has been appointed in respect of any Lakeland Subsidiary or any of the assets of any Lakeland Subsidiary and no execution or distress has been levied on any of the assets of any Lakeland Subsidiary, nor have proceedings been commenced in connection with any of the foregoing.

- (9) Title to Lakeland Real Property and Leased Property Matters. The applicable Lakeland Subsidiary has the exclusive right to possess, use and occupy, and has good and marketable title in fee simple to all the Lakeland Real Property, free and clear of all Encumbrances or other restrictions of any kind other than the Permitted Encumbrances. The applicable Lakeland Subsidiary occupies the Lakeland Leased Property and has the exclusive right to use and occupy the Lakeland Leased Property. To the Knowledge of Lakeland HoldCo, all Fixtures situated on the Lakeland Real Property or the Lakeland Leased Property are, in all Material respects in good operating condition and in a state of good maintenance and repair, are adequate and suitable for the purposes for which they are currently being used and Lakeland WiresCo has adequate rights of ingress and egress for the operation of the Lakeland Business in the Ordinary Course in all Material respects. To the Knowledge of Lakeland HoldCo, none of those Fixtures (or any equipment therein), nor the operation or maintenance thereof, violates any restrictive covenant or any provision of any Applicable Law, or encroaches on any property owned by others in such a manner as would reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing:
- (a) to the Knowledge of Lakeland HoldCo, the Lakeland Real Property, the Lakeland Leased Property, the current uses of and the conduct of the Lakeland Business on those properties comply in all Material respects with all Applicable Laws including those dealing with zoning, parking, access, loading facilities, landscaped areas, building construction, fire and public health and safety and Environmental Law;
 - (b) to the Knowledge of Lakeland HoldCo, other than in the Ordinary Course no alteration, repair, improvement or other work has been ordered, directed or requested in writing to be done or performed to or in respect of the Lakeland Real Property, the Lakeland Leased Property or to any of the plumbing, heating, elevating, water, drainage or electrical systems, fixtures or works by any Governmental Authority, which alteration, repair, improvement or other work has not been completed in all Material respects, and to the Knowledge of Lakeland HoldCo, no written notification has been given to any Lakeland Subsidiary of any such outstanding work being ordered, directed or requested, other than those that have been complied with in all Material respects;
 - (c) to the Knowledge of Lakeland HoldCo, all accounts for work and services performed and materials placed or furnished on or in respect of the Lakeland Real Property or the Lakeland Leased Property at the request of any Lakeland

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Subsidiary have been fully paid and satisfied in all Material respects, and no Person is entitled to claim a lien against the Lakeland Real Property, the Lakeland Leased Property or any part thereof, other than current accounts in respect of which the payment due date has not yet passed;

- (d) to the Knowledge of Lakeland HoldCo, there are no amounts owing in respect of the Lakeland Real Property or the Lakeland Leased Property by any Lakeland Subsidiary to any municipal corporation or to any other corporation or commission owning or operating a utility for water, gas, electrical power or energy, steam or hot water, or for the use thereof, other than current accounts in respect of which the payment due date has not yet passed;
 - (e) to the Knowledge of Lakeland HoldCo, no part of the Lakeland Real Property or the Lakeland Leased Property has been taken or expropriated by any competent Governmental Authority nor has any notice or proceeding in respect thereof been given or commenced;
 - (f) to the Knowledge of Lakeland HoldCo, except for the Encumbrances listed in Part 1 of Schedule 5.2(9)(f) (the "**Lakeland Encumbrances**") there are no Encumbrances with a principal amount of [**\$250,000**] or more affecting the Lakeland Real Property or the Lakeland Leased Property;
 - (g) to the Knowledge of Lakeland HoldCo, each of the Lakeland Real Property and the Lakeland Leased Property (including all Fixtures) is free of Material defects (patent or latent) and is fit for its present use, and there are no material or structural repairs or replacements that are necessary or advisable and, without limiting the foregoing, there are no repairs to, or replacements of, the roof or the mechanical, electrical, heating, ventilating, air-conditioning, plumbing or drainage equipment or systems that are necessary or advisable, and none of the Lakeland Real Property or the Lakeland Leased Property is currently undergoing any Material alteration or renovation nor is any such alteration or renovation contemplated; and
 - (h) to the Knowledge of Lakeland HoldCo, each of the Lakeland Real Property and Lakeland Leased Property is fully serviced and has suitable access to public roads, and there are no outstanding levies, charges or fees assessed against the Lakeland Real Property or the Lakeland Leased Property by any public authority (including development or improvement levies, charges or fees).
- (10) Personal Property. To the Knowledge of Lakeland HoldCo, each Lakeland Subsidiary either owns or has rights to use, all of the personal property currently used in the Lakeland Business, free and clear of all Encumbrances, other than Permitted Encumbrances and the Encumbrances listed in Part 2 of Schedule 5.2(9)(f) which are all of the Encumbrances that effect the personal property of any Lakeland Subsidiary.

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- (11) Personal Property Leases. The applicable Lakeland Subsidiary is entitled to all rights and benefits as lessee under the Lakeland Equipment Leases, and has not sublet, assigned, licensed or otherwise conveyed any rights in those Lakeland Equipment Leases or in the property leased thereunder to any other Person. All payments and other obligations required to be paid and performed by the applicable Lakeland Subsidiary under Lakeland Equipment Leases have been duly paid and performed. The applicable Lakeland Subsidiary is not in Material default of any of its obligations under the Lakeland Equipment Leases; and, none of the lessors of the Lakeland Equipment Leases is in Material default of any of its obligations thereunder.
- (12) Accounts Receivable. All Accounts Receivable of each Lakeland Subsidiary are *bona fide* and good and have been incurred in the Ordinary Course and subject to an allowance for doubtful accounts that has been reflected on its books in accordance with GAAP, all Accounts Receivable are collectible in the Ordinary Course.
- (13) Intellectual Property.
- (a) To the Knowledge of Lakeland HoldCo, the applicable Lakeland Subsidiary either owns the right, title and interest in, to and under, or has acquired a licence to use in respect of the Lakeland Business, any and all Intellectual Property that is used in the conduct of the Lakeland Business in the manner that the Lakeland Business has heretofore been conducted.
 - (b) To the Knowledge of Lakeland HoldCo, there is no infringement or breach of any industrial or intellectual property rights of any other Person by any Lakeland Subsidiary, and the applicable Lakeland Subsidiary has not received any notice that the conduct of the Lakeland Business, including the use of the Intellectual Property, infringes on or breaches any industrial or intellectual property rights of any other Person and Lakeland HoldCo does not have any Knowledge of any infringement or violation of any of their rights or the rights of any Lakeland Subsidiary in the Intellectual Property. To the Knowledge of Lakeland HoldCo, the conduct of the Lakeland Business does not, in any Material respect, infringe on the patents, trademarks, licences, trade names, business names, copyright or other industrial or intellectual property rights, domestic or foreign, of any other Person.
 - (c) To the Knowledge of Lakeland HoldCo, no Lakeland Subsidiary has received any notice of any adverse claim, litigation or assertion of infringement, invalidity or unenforceability in respect of the Intellectual Property that is used in the conduct of the Lakeland Business and is not a party to any litigation alleging that the conduct of the Lakeland Business, as now carried on by Lakeland WiresCo, infringes upon or breaches the rights of any other Person in Intellectual Property which would reasonably be expected to have a Materially Adverse Effect.
- (14) Insurance. The assets of all of Lakeland Subsidiaries are covered by fire and other insurance with responsible insurers against such risks and in such amounts as are

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reasonable for prudent owners of comparable assets. All material insurance policies maintained by the Lakeland Subsidiary (the "**Lakeland Insurance Policies**"), specifying in each case, the name of the insurer, the risks insured against, the amount of the coverage, the policy number and any pending Claims thereunder, have been disclosed to Parry Sound HoldCo. No other insurance is necessary to the conduct of the Lakeland Business or would be considered to be desirable by a prudent Person operating a business similar to the Lakeland Business. No Lakeland Subsidiary is in default, whether as to the payment of premiums or with respect to any other provision contained in any Lakeland Insurance Policy and has not failed to give any notice or present any Claim under any Lakeland Insurance Policy in a due and timely fashion.

- (15) Expropriation and Public Improvements. To the Knowledge of Lakeland HoldCo, none of the real property owned, or other realty rights leased, used or occupied, by any Lakeland Subsidiary in connection with the Lakeland Business is subject to any pending suit for expropriation, condemnation or other taking by any Governmental Authority, and no such expropriation, condemnation or other taking has been threatened. To the Knowledge of Lakeland HoldCo, no public improvements with respect to any real property owned, or other realty rights leased, used or occupied, by any Lakeland Subsidiary in connection with the Lakeland Business have been ordered to be made by any Governmental Authority which have not been completed, assessed and paid for in all Material respects.

- (16) Material Contracts and Other Contracts.

Except as set out in Schedule 5.2(16):

- (a) Each Material Contract:
- (i) constitutes a legal, valid, binding and enforceable obligation of the applicable Lakeland Subsidiary and, to the Knowledge of Lakeland HoldCo, of the other parties thereto, in accordance with its terms; and
 - (ii) is in full force and effect, unamended.
- (b) To the Knowledge of Lakeland HoldCo, there is not, under any of the Material Contracts, any default or event which, with notice or lapse of time or both, would constitute a default on the part of any Lakeland Subsidiary, or, to the Knowledge of Lakeland HoldCo, any of the other parties thereto, or permit the other parties thereto to terminate, cancel or accelerate such Material Contract, whether on notice or otherwise except such events of default and other events:
- (i) as to which requisite waivers or consents have been obtained; or
 - (ii) which would not individually or in the aggregate, be reasonably expected to have a Material Adverse Effect.

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- (c) True and complete copies of all of the Material Contracts have been made available to Parry Sound HoldCo.
- (17) Government Filings. To the Knowledge of Lakeland HoldCo, each Lakeland Subsidiary has filed or caused to be filed with all Governmental Authorities all forms, statements, reports and documents (including all exhibits, amendments and supplements thereto) required to be filed by it with respect to the Lakeland Business under Applicable Law (collectively, the "**Government Filings**") except where the failure to do so would not be reasonably expected to have a Material Adverse Effect. All of the Government Filings of Lakeland WiresCo complied in all Material respects with all Applicable Laws in effect on the date each Government Filings was filed, and there are no material misstatements or omissions relating to the Lakeland Business in the Government Filings of Lakeland WiresCo.
- (18) Permits.
- To the Knowledge of Lakeland HoldCo, each Lakeland Subsidiary has all Permits (collectively, the "**Lakeland Permits**"), that are required by Applicable Law in connection with the Lakeland Business, except for those Lakeland Permits, the failure of which to obtain would not, individually or in the aggregate, have a Material Adverse Effect. To the Knowledge of Lakeland HoldCo, each Lakeland Subsidiary has not received any written notification that it is in violation of any such Lakeland Permits, or any Applicable Law, except for notifications of violations which would not, individually or in the aggregate, have a Material Adverse Effect. To the Knowledge of Lakeland HoldCo, each Lakeland Subsidiary is in compliance with all Lakeland Permits and Applicable Law in respect of the Lakeland Business, except for violations which would not, individually or in the aggregate, result in a Material Adverse Effect.
- (19) Financial Statements. The financial statements for each Lakeland Subsidiary have been prepared in accordance with GAAP consistently applied throughout the periods indicated and fairly, completely and in all Material respects present the assets, liabilities (whether accrued, absolute, contingent or otherwise) and financial condition of each Lakeland Subsidiary as at the respective dates indicated and the sales, earnings and results of operations of each Lakeland Subsidiary throughout the periods indicated.
- (20) Books and Records. The Books and Records of each Lakeland Subsidiary fairly present and disclose its financial position as at the date of this Agreement and all of its financial transactions have in all Material respects been accurately recorded in the Books and Records. The system of internal accounting controls is sufficient to provide reasonable assurances that transactions are executed in accordance with management's general or specific authorization and that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets.
- (21) Corporate Records. The minute books of each Lakeland Subsidiary contain, in all Material respects, true, accurate and complete records of all of its Constating Documents

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and of every meeting, resolution and corporate action taken by the shareholders, the board of directors and every committee of either of them. No meeting of shareholders, the board of directors or any committee of either of them has been held for which minutes have not been prepared and are not contained in those minute books. The share certificate book, register of shareholders, register of directors and officers, securities register and register of transfers of each Lakeland Subsidiary are true, accurate and complete in all Material respects.

- (22) Undisclosed Liabilities. Each Lakeland Subsidiary has no liabilities, obligations, indebtedness or commitments, whether accrued, absolute, contingent or otherwise, and is not a party to or bound by any agreement of guarantee, support, indemnification, assumption or endorsement of, or any other similar commitment with respect to the liabilities, obligations, indebtedness or commitments (whether accrued, absolute, contingent or otherwise) of any Person, that are not disclosed in its financial statements or disclosed in the Schedules to this Agreement, other than liabilities, obligations, indebtedness and commitments in respect of trade or business obligations incurred after the date of the financial statements in the Ordinary Course, that in the aggregate and would not reasonably be expected to have a Materially Adverse Effect on the Lakeland Subsidiaries.
- (23) No Debentures.
- (a) None of the Lakeland Subsidiaries have any obligation relating to a regional or municipal debenture issued by or for the benefit of the Lakeland Business.
- (b) None of the Lakeland Subsidiaries have any debentures, issued and outstanding.
- (24) Absence of Changes. Except as disclosed in the 2012 audited financial statements of each Lakeland Subsidiary, since December 31, 2012, to the Knowledge of Lakeland HoldCo there has not been any:
- (a) change in the financial affairs, business, assets, liabilities, financial condition, operations or prospects of any Lakeland Subsidiary or in the condition of the Lakeland Business which would constitute a Material Adverse Effect; or
- (b) damage, destruction or casualty loss, investigation by a Governmental Authority, or any other event, development or condition of any character, whether or not covered by insurance, in respect of any Lakeland Subsidiary or the Lakeland Business, which individually or in the aggregate, has or would reasonably be expected to have a Material Adverse Effect.
- (25) Absence of Unusual Transactions. Except as described in Schedule 5.2(25), since December 6, 2013, each Lakeland Subsidiary has not:
- (a) transferred, assigned, sold or otherwise disposed of any of its assets or cancelled any debts or entitlements except, in each case, in the Ordinary Course of the Lakeland Business;

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- (b) incurred or assumed any obligation or liability (fixed or contingent), except unsecured current obligations and liabilities incurred in the Ordinary Course of Lakeland Business;
- (c) suffered an operating loss or any extraordinary loss, waived or omitted to take any action in respect of any rights, or entered into any commitment or transaction, except in the Ordinary Course of the Lakeland Business;
- (d) granted any bonuses, whether monetary or otherwise, or made any general wage or salary or perquisites increases in respect of its officers, directors or Lakeland Employees, or changed the terms of employment for any officer or Lakeland WiresCo Employee, except in the Ordinary Course of the Lakeland Business and consistent with past practice; or
- (e) Encumbered any of its assets or property whether tangible or intangible except in the Ordinary Course of the Lakeland Business or pursuant to Permitted Encumbrances.

(26) Taxes.

- (a) Each of Lakeland HoldCo and each Lakeland Subsidiary is exempt from tax under the Tax Act and the *Corporations Tax Act* (Ontario). At least 90% of the income of each of Lakeland HoldCo and each Lakeland Subsidiary for each fiscal year is from activities carried on within the geographic boundaries of the Lakeland Shareholders.
- (b) Each Lakeland Subsidiary has filed in the prescribed manner and within the prescribed times all Tax Returns required to be filed by it in all applicable jurisdictions before the Closing Date. All such Tax Returns are complete and correct and disclose all Taxes required to be paid for the periods covered thereby. Each Lakeland Subsidiary has never been required to file any Tax Returns with, and has never been liable to pay or remit Taxes to, any Governmental Authority outside Canada. Each Lakeland Subsidiary has paid all Taxes and all instalments of Taxes due on or before the Closing Date.
- (c) There are no audits, assessments, reassessments or other Claims in progress or, to the Knowledge of Lakeland HoldCo, threatened against any Lakeland Subsidiary, in respect of any Taxes and, in particular, there are no currently outstanding reassessments or written enquiries which have been issued or raised by any Governmental Authority relating to any such Taxes. Lakeland HoldCo is not aware of any contingent liability of any Lakeland Subsidiary for Taxes or any grounds that could prompt an assessment or reassessment for Taxes other than an assessment in respect of current Tax Returns for which no assessment has been received as at the date of this Agreement, and no Lakeland Subsidiary has received any indication from any Governmental Authority that any assessment or reassessment is proposed.

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- (d) Each Lakeland Subsidiary has not entered into any transactions with any non-resident of Canada (for the purposes of the Tax Act) with whom it was not dealing with at arm's length (within the meaning of the Tax Act). Each Lakeland Subsidiary has not acquired property from any Person in circumstances where it did or could have become liable for any Taxes payable by that Person.
 - (e) There are no agreements, waivers or other arrangements with any Governmental Authority providing for an extension of time with respect to the issuance of any assessment or reassessment, the filing of any Tax Return, or the payment of any Taxes by or in respect of any Lakeland Subsidiary. No Lakeland Subsidiary is party to any agreements or undertakings with respect to Taxes.
 - (f) Each Lakeland Subsidiary has withheld from each payment made or amount credited to any Person (including any of its present or former employees, officers and directors, and to all Persons who are non-residents of Canada for the purposes of the Tax Act) all amounts required by Applicable Law to be withheld, and furthermore, has remitted such withheld amounts within the prescribed periods to the appropriate Governmental Authority. Each Lakeland Subsidiary has remitted all Canada Pension Plan contributions, employment insurance premiums, employer health Taxes and other Taxes payable by it in respect of Lakeland Employees and has remitted such amounts to the proper Governmental Authority within the time required under Applicable Law.
 - (g) Each Lakeland Subsidiary has charged, collected and remitted on a timely basis all Taxes as required under Applicable Law on any sale, supply, transfer or delivery whatsoever, made by it. For greater certainty, each Lakeland Subsidiary has, in the manner and within the time prescribed by the Electricity Act, notified the MOF of any transfer of "municipal electricity property" within the meaning of the Electricity Act and has ensured the payment of any Transfer Tax exigible in respect of such transfer.
 - (h) None of sections 80 to 80.04, both inclusive, of the Tax Act have applied or will apply to Lakeland Subsidiary at any time up to and including the Closing Date. Each Lakeland Subsidiary does not have any unpaid amounts that may be required to be included in income under Section 78 of the Tax Act.
 - (i) To the Knowledge of Lakeland HoldCo, each Lakeland Subsidiary has computed its liability for PILs, Transfer Tax or other special payments under Part VI of the Electricity Act in accordance with the Electricity Act and the regulations thereunder and has made on a timely basis all payments required to be made thereunder.
- (27) Litigation. Except as described in Schedule 5.2(27), there are no Claims pending or, to the Knowledge of Lakeland HoldCo, threatened against or affecting, each Lakeland Subsidiary or its assets. To the Knowledge of Lakeland HoldCo there is not any factual

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or legal basis on which any such Claim might be commenced with any reasonable likelihood of success.

- (28) Non-Arm's Length Transactions. Except as described in Schedule 5.2(28), no Lakeland Subsidiary has made any payment or loan to, or borrowed any moneys from or is otherwise indebted to, any officer, director, employee, shareholder or any other Person not dealing at arm's length with it (within the meaning of the Tax Act), except as disclosed in its financial statements and except for usual employee reimbursements and compensation paid in the Ordinary Course. Except for Contracts of employment or as customers of Lakeland WiresCo, no Lakeland Subsidiary is a party to any Contract with any officer, director, employee, shareholder or any other Person not dealing at arm's length with it (within the meaning of the Tax Act). No officer, director or shareholder of Lakeland WiresCo and no entity that is an Affiliate or Associate of one or more of those Persons:
- (a) owns, directly or indirectly, any interest in Lakeland WiresCo, or is an officer, director, employee or consultant of, any Person which is, or is engaged in business as, a competitor of the Lakeland Business or Lakeland WiresCo or a lessor, lessee, supplier, distributor, sales agent or customer of the Lakeland Business or Lakeland WiresCo;
 - (b) owns, directly or indirectly, in whole or in part, any property that any Lakeland Subsidiary uses in the operation of the Lakeland Business; or
 - (c) has any cause of action or other Claim whatsoever against, or owes any amount to, any Lakeland Subsidiary in connection with the Lakeland Business, except for any liabilities reflected in the its financial statements and Claims in the Ordinary Course, such as for accrued vacation pay and accrued benefits under the Lakeland Employee Plans.
- (29) Environmental.
- (a) Each Lakeland Subsidiary has, in all Material respects, been and is in compliance with all Environmental Law.
 - (b) To the Knowledge of Lakeland HoldCo, each Lakeland Subsidiary has obtained all Material Environmental Permits required for the operation of the Business (the "**Lakeland Environmental Permits**"). To the Knowledge of Lakeland HoldCo, each Lakeland Subsidiary Environmental Permit is valid, subsisting and in good standing and no Lakeland Subsidiary is in default or breach of any Lakeland WiresCo Environmental Permit which default or breach would reasonably be expected to have a Material Adverse Effect and no proceeding is pending or threatened, to revoke or limit any Lakeland Subsidiary Environmental Permit.
 - (c) Each Lakeland Subsidiary has not caused or permitted, and Lakeland HoldCo does not have any Knowledge of, the Release, in any manner whatsoever, of any

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Hazardous Substance on or from any of its assets or any property or facility that it previously owned or leased, except in accordance with Environmental Law, or any such Release on or from a facility owned or operated by third parties but with respect to which a Lakeland Subsidiary is or may reasonably be alleged to have liability except in accordance with Environmental Law. All Hazardous Substances and all other wastes and other materials and substances used in whole or in part by a Lakeland Subsidiary or resulting from the Lakeland Business have, in all Material respects, been disposed of, treated and stored in compliance with all Environmental Law.

- (d) No Lakeland Subsidiary has received any notice that it is potentially responsible for any clean-up or corrective action under any Environmental Law at any site. No Lakeland Subsidiary has received any request for information in connection with any federal, provincial, municipal or local inquiries as to disposal sites.
- (e) True, accurate and complete copies of all documents, including Environmental Permits, copies of all environmental audits, evaluations, assessments, studies or tests relating to any facility or property which any Lakeland Subsidiary has at any time owned, occupied, leased, managed or controlled or in which it has at any time had a legal or beneficial interest, that were commissioned by or for it in the previous five (5) years and any certificates or reports, issued, filed or registered, pursuant to Environmental Law with respect to the Lakeland Business or the assets of any Lakeland Subsidiary in the previous five (5) years has been made available to Parry Sound HoldCo.

(30) Employee Plans.

- (a) True, accurate and complete copies of each non-salary plan, program or arrangement including deferred compensation, bonus compensation, incentive or other compensation, share option or purchase, severance, termination pay, hospitalization or other medical benefit, life or other insurance, vision, dental, drug, sick leave, disability, salary continuation, vacation, supplemental unemployment benefits, profit sharing, mortgage assistance, pension or supplemental pension, retirement compensation, group registered retirement savings, deferred profit sharing, employee profit sharing, savings, retirement or supplemental retirement, and any other similar plan, program or arrangement, whether funded or unfunded, formal or informal, including OMERS, that is maintained, contributed to, or required to be maintained or contributed to, by any Lakeland Subsidiary, or to which it is a party, or bound by, or under which any Lakeland Subsidiary has any liability or contingent liability for the benefit of directors, officers, shareholders, consultants, independent contractors and employees or former employees it and their dependents (the "**Lakeland Employee Plans**") have been made available to Parry Sound HoldCo together with true, accurate and complete copies of all Material documents relating to each Lakeland Employee Plan.

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- (b) OMERS is the only registered pension plan under which the Lakeland Employees, or any of them, accrue pension benefits, or under which former Lakeland Employees (or any spouse, dependent or beneficiary of any such Lakeland Employees or former Lakeland Employees) are entitled to payment of any pension benefits, and has been accepted for registration under the Tax Act and has been registered with the Superintendent of Financial Institutions under the *Pension Benefits Standards Act* (Canada).
- (c) To the Knowledge of Lakeland HoldCo, all Material obligations due under the Lakeland Employee Plans (whether pursuant to the terms thereof or any Applicable Law) have been satisfied, and there are no outstanding defaults or violations thereunder by Lakeland WiresCo nor does Lakeland HoldCo have any Knowledge of any default or violation by any other Person in respect of the Lakeland Employee Plans.
- (d) There are no improvements, increases or changes to the benefits provided under the Lakeland Employee Plans nor is there any pattern of *ad hoc* benefit increases and the Lakeland Employee Plans do not provide for benefit increases or the acceleration of funding obligations that are contingent or will be triggered by the entering into of this Agreement or the completion of the Amalgamation.
- (e) All employer and employee payments, contributions and premiums required to be remitted or paid to or in respect of the Lakeland Employee Plans, including OMERS, have been remitted or paid, in a timely fashion to or in respect of the Lakeland Employee Plans in accordance with the terms thereof and all Applicable Laws, and no Taxes, non-Tax related interest, penalties or fees are owing or exigible under any of the Lakeland Employee Plans.
- (f) OMERS is the only registered pension plan under which the Lakeland Employees, or any of them, accrue pension benefits, or under which former Lakeland Employees (or any spouse, dependent or beneficiary of any such Lakeland Employees or former Lakeland Employees) are entitled to payment of any pension benefits, and has been accepted for registration under the Tax Act and has been registered with the Superintendent of Financial Institutions under the *Pension Benefits Standards Act* (Canada).
- (g) To the Knowledge of Lakeland HoldCo, any Lakeland Subsidiary has provided to the OMERS Board, on a timely basis, all information known to it and requested from time to time by the OMERS Board in respect of the Lakeland Employees, former Lakeland Employees and their spouses and former spouses and which is necessary in order to enable the OMERS Board to properly administer OMERS in respect of them.

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(31) Employment Matters.

- (a) Except for the collective agreements between Lakeland WiresCo and Lakeland GenCO and CUPE Local 1813, and as otherwise disclosed in writing to Parry Sound HoldCo, there are no Contracts in respect of the Lakeland Subsidiaries for the employment or retainer of any Lakeland Employee, including, for greater certainty, Contracts with directors, officers, employees, independent contractors or agents providing personal services, other than oral Contracts of indefinite hire terminable by Lakeland WiresCo without cause on reasonable notice.
- (b) Except as disclosed in writing to Parry Sound HoldCo, Lakeland WiresCo is not a party to nor is it bound by any Contract in respect of any Lakeland WiresCo Employee providing for severance, termination or any other payments in connection with the Amalgamation.
- (c) Except as disclosed in writing to Parry Sound HoldCo, no Lakeland Employees are claiming or receiving long-term disability benefits; no Lakeland Employees actively employed have filed claims under the *Workplace Safety and Insurance Act* (Ontario); no Lakeland Employees are on maternity leave; and, no Lakeland Employees are on, or are claiming, extended sick leave.
- (d) Lakeland WiresCo has provided Parry Sound HoldCo with the total number of full and part-time employees of Lakeland WiresCo and the number of employees represented by CUPE as well as the years of service and salary information of all Lakeland Employees.

(32) Labour Matters. In connection with labour matters relating to the Lakeland Subsidiaries:

- (a) The Lakeland Subsidiaries are in Material compliance with all Employment Law applicable to Lakeland WiresCo;
- (b) No Lakeland Subsidiary has received notice of any unfair labour practice complaint or any other Employment Law complaint which is current or pending before any labour relations or similar board or any other body or tribunal in connection with the Lakeland Business;
- (c) There is no labour strike, slowdown or stoppage actually pending or, to the Knowledge of Lakeland HoldCo, threatened by any authorized representative of any union or other representative of employees affecting the Lakeland Business;
- (d) Lakeland HoldCo has not received notice that any application for certification or de-certification respecting the Lakeland Employees has been filed with any labour relations or similar board.

(33) Personal Information Laws. To the Knowledge of Lakeland HoldCo, Lakeland WiresCo is in Material compliance with the requirements of all Applicable Laws relating to its collection, use and disclosure of Personal Information, including the establishment and

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observance of written policies and practices. No complaint relating to Lakeland WiresCo's alleged non-compliance with any such Applicable Law has been found by any Governmental Authority to be well-founded, no order or judgment has been made against Lakeland WiresCo by any Governmental Authority based on any finding of non-compliance with any such Applicable Law, and no unresolved complaint or other proceeding relating to any such alleged non-compliance is now pending by or before any Governmental Authority.

- (34) Competition Act. For the purposes of and in accordance with the requirements of section 110 of the Competition Act, as at the Closing Date:
- (a) the aggregate value of the assets in Canada, determined as of such time and in such manner as are prescribed by section 110 of the Competition Act and the *Notifiable Transactions Regulations* under the Competition Act, in respect of Lakeland WiresCo has been disclosed in writing to Parry Sound HoldCo; and
 - (b) the gross revenues from sales in or from Canada, determined for such annual period and in such manner as are prescribed by section 110 of the Competition Act and the *Notifiable Transactions Regulations* under the Competition Act, generated from the assets referred to in item (a) above, have been disclosed in writing to Parry Sound HoldCo.
- (35) No Joint Venture Interests, etc. Except as set out in Schedule 5.2(37), each Lakeland Subsidiary is not a partner, beneficiary, trustee, co-tenant, joint-venturer or otherwise a participant in any partnership, trust, joint venture, co-tenancy or similar jointly owned business undertaking.
- (36) Condition of Assets. To the Knowledge of Lakeland HoldCo, except as would not result in a Material Adverse Effect, the Fixtures situated on the Lakeland Real Property or used in connection with the Lakeland Business are in good condition, repair and proper working order, having regard to their use and age and such assets have been properly and regularly maintained in accordance with Good Utility Practices.
- (37) Third Party Consents. Except as described in Schedule 5.2(37) (the "**Lakeland Third Party Consents**"), there are no Third Party Consents required to be obtained by the Lakeland Shareholders, Lakeland HoldCo or any Lakeland Subsidiary in order to complete the Amalgamation as contemplated by this Agreement.
- (38) Residence. Each Lakeland Subsidiary is not a non-resident of Canada for purposes of the Tax Act.
- (39) Full Disclosure. Neither this Agreement or any other contract, agreement, instrument, certificate or other document required to be delivered by or otherwise to be delivered pursuant to this Agreement by Lakeland HoldCo nor any certificate, report, statement or other document furnished by Lakeland HoldCo in connection with the negotiation of this Agreement contains or will contain any untrue statement of a Material fact or omits or

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will omit to state a Material fact necessary to make the statements contained herein or therein not misleading. To the Knowledge of Lakeland HoldCo, there has been no event, transaction or information that has come to the attention of Lakeland HoldCo that has not been disclosed to Parry Sound HoldCo in writing that could reasonably be expected to have a Material Adverse Effect.

5.3 Representations and Warranties Relating to Parry Sound HoldCo

Parry Sound HoldCo represents and warrants to Lakeland HoldCo as to itself as follows and acknowledges that Lakeland HoldCo is relying on these representations and warranties in connection with this Agreement and the Amalgamation:

- (1) Organization and Status. Parry Sound HoldCo is a corporation duly incorporated and organized, and is validly subsisting under, the laws of Ontario.
- (2) Corporate Power. It has all necessary corporate power and authority to own or lease or dispose of its undertakings, property and assets, to enter into this Agreement, the Amalgamation Agreement and the Merged HoldCo Shareholders Agreement and the contracts, agreements and instruments required by this Agreement to be delivered by it, and to perform its obligations hereunder and thereunder.
- (3) Authorization. All necessary corporate action has been taken by it or on its part to authorize its execution and delivery of this Agreement and the contracts, agreements and instruments required by this Agreement to be delivered by it and the performance of its obligations hereunder and thereunder.
- (4) Enforceability. This Agreement has been duly executed and delivered by it and (assuming due execution and delivery by the other Parties) is a legal, valid and binding obligation of it enforceable against it in accordance with its terms, except as that enforcement may be limited by bankruptcy, insolvency and other similar laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction. The Amalgamation Agreement, Merged HoldCo Shareholders Agreement and each of the contracts, agreements and instruments required by this Agreement to be delivered by it will at the Closing Time have been duly executed and delivered by it and (assuming due execution and delivery by the other parties thereto) will be enforceable against it in accordance with its terms, except as that enforcement may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.
- (5) Bankruptcy. It is not an insolvent Person within the meaning of the *Bankruptcy and Insolvency Act* (Canada) and has made an assignment in favour of its creditors or a proposal in bankruptcy to its creditors or any class thereof, and no petition for a receiving order has been presented in respect of it. It has not initiated proceedings with respect to a compromise or arrangement with its creditors or for its winding up, liquidation or dissolution. No receiver or interim receiver has been appointed in respect of it or any of

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its undertakings, property or assets and no execution or distress has been levied on any of its undertakings, property or assets, nor have any proceedings been commenced in connection with any of the foregoing.

- (6) Absence of Conflict. The execution, delivery and performance by it of this Agreement, the Amalgamation Agreement and the Merged HoldCo Shareholders Agreement and the completion of the Amalgamation will not (whether after the passage of time or notice or both), result in:
- (a) the Material breach or violation of any of the provisions of, or constitute a default under, or conflict with or cause the acceleration of any of its obligations, under:
 - (i) any Contract to which it is a party or by which any of its undertakings, property or assets is bound or affected;
 - (ii) any provision of its Constatting Documents or resolutions of its board of directors (or any committee thereof) or shareholder;
 - (iii) to the Knowledge of Parry Sound HoldCo, any resolution of Parry Sound municipal council; or
 - (iv) any Applicable Law;
 - (b) the requirement of any Third Party Consents from any of its creditors.
- (7) Litigation. There are no Claims (whether or not purportedly on its behalf) pending or outstanding or, to its Knowledge, threatened against it which could affect its ability to perform its obligations under this Agreement. To the Knowledge of Parry Sound HoldCo there is not any factual or legal basis on which any such Claim might be commenced with any reasonable likelihood of success.
- (8) Residence. It is not a non-resident of Canada for purposes of the Tax Act.

5.4 Representations and Warranties of Parry Sound HoldCo Relating to Parry Sound Subsidiaries

Parry Sound HoldCo represents and warrants to Lakeland HoldCo as follows and acknowledges that Lakeland HoldCo is relying on these representations and warranties in connection with this Agreement and the Amalgamation:

- (1) Organization and Status. Each Parry Sound Subsidiary is duly incorporated and organized, and is validly subsisting, under the laws of Ontario.
- (2) Corporate Power. Each Parry Sound Subsidiary has all necessary corporate power and authority to own or lease its assets and to carry on the Parry Sound Business as now being conducted by it.

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- (3) Authorized and Issued Capital. The authorized capital of each Parry Sound Subsidiary is set out in Schedule 5.4(3) and all shares described therein are duly issued and outstanding as fully paid and non-assessable. Parry Sound HoldCo is the registered and beneficial owner of all of the issued and outstanding shares of each of Parry Sound Subsidiaries with good and marketable title thereto, free and clear of all Encumbrances. Without limiting the generality of the foregoing, none of the common shares of any Parry Sound Subsidiary is subject to any voting trust, shareholder agreement or voting agreement other than the Parry Sound Shareholders Agreement.
- (4) No Options. Except as set out in Schedule 5.4(4), no Person has any agreement, option, understanding or commitment, or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement, option or commitment, including convertible securities, warranties or convertible obligations of any nature, for:
- (a) the purchase, subscription, allotment or issuance of, or conversion into, any of the unissued shares in the capital of any Parry Sound Subsidiary;
 - (b) the purchase, transfer or assignment of the shares of each Parry Sound Subsidiary owned by Parry Sound HoldCo;
 - (c) the purchase or other acquisition from any Parry Sound Subsidiary of any of its undertaking, property or assets or related to or used in connection with the Parry Sound Business, other than in the Ordinary Course of the Parry Sound Business.
- (5) Subsidiaries. No Parry Sound Subsidiary owns or has any agreements of any nature to acquire, directly or indirectly, any shares in the capital of or other equity or proprietary interests in any Person, and no Parry Sound Subsidiary has any agreements to acquire or lease any other business operations.
- (6) Absence of Conflict. The execution, delivery and performance of this Agreement, the Merged HoldCo Shareholders Agreement and the Amalgamation Agreement by each Parry Sound Subsidiary and the completion of the Amalgamations will not (whether after the passage of time or notice or both), result in:
- (a) the Material breach or violation of any of the provisions of, or constitute a default under, or conflict with or cause the acceleration of any of its obligations, under:
 - (i) any Contract to which any Parry Sound Subsidiary is a party or by which the Parry Sound Business or any assets of any Parry Sound Subsidiary is bound or affected;
 - (ii) any provision of the Constating Documents or resolutions of the board of directors (or any committee thereof) or shareholder of any Parry Sound Subsidiary;
 - (iii) any judgement, decree, order or award of any Governmental Authority having jurisdiction over any Parry Sound Subsidiary;

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- (iv) any Third Party Consents issued to or held by, any Parry Sound Subsidiary or held for the benefit of or necessary to the operation of, any Parry Sound Subsidiary or the Parry Sound Business; or
 - (v) any Applicable Law.
 - (b) the creation or imposition of any Encumbrance over any of the assets of any Parry Sound Subsidiary; or
 - (c) the requirement of any Third Party Consents.
- (7) Conduct of Business. To the Knowledge of Parry Sound HoldCo, each Parry Sound Subsidiary has in all Material respects complied with, and has conducted and is conducting the Parry Sound Business in compliance with, all Applicable Laws. The Parry Sound Business is the only business operation carried on by the Parry Sound Subsidiaries and the assets of the Parry Sound Subsidiary are sufficient to permit the continued operation of the Parry Sound Business in substantially the same manner as conducted in the one year preceding the date of this Agreement. During the two year period preceding the date of this Agreement, there has not been any Material interruption of operations (being an interruption of more than one day) of the Parry Sound Business due to inadequate maintenance of any of the assets of the Parry Sound Subsidiaries.
- (8) Bankruptcy. No Parry Sound Subsidiary is an insolvent Person within the meaning of the *Bankruptcy and Insolvency Act* (Canada) and has not made an assignment in favour of its creditors or a proposal in bankruptcy to its creditors or any class thereof, and no petition for a receiving order has been presented in respect of it. No Parry Sound Subsidiary has initiated proceedings with respect to a compromise or arrangement with its creditors or for its winding up, liquidation or dissolution. No receiver or interim receiver has been appointed in respect of any Parry Sound Subsidiary or any of the assets of any Parry Sound Subsidiary and no execution or distress has been levied on any of the assets of any Parry Sound Subsidiary, nor have proceedings been commenced in connection with any of the foregoing.
- (9) Title to Parry Sound Real Property and Leased Property Matters. The applicable Parry Sound Subsidiary has the exclusive right to possess, use and occupy, and has good and marketable title in fee simple to all the Parry Sound Real Property, free and clear of all Encumbrances or other restrictions of any kind other than the Permitted Encumbrances. The applicable Parry Sound Subsidiary occupies the Parry Sound Leased Property and has the exclusive right to use and occupy the Parry Sound Leased Property. To the Knowledge of Parry Sound HoldCo, all Fixtures situated on the Parry Sound Real Property or the Parry Sound Leased Property are, in all Material respects in good operating condition and in a state of good maintenance and repair, are adequate and suitable for the purposes for which they are currently being used and Parry Sound WiresCo has adequate rights of ingress and egress for the operation of the Parry Sound Business in the Ordinary Course in all Material respects. To the Knowledge of Parry Sound HoldCo, none of those Fixtures (or any equipment therein), nor the operation or

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maintenance thereof, violates any restrictive covenant or any provision of any Applicable Law, or encroaches on any property owned by others in such a manner as would reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing:

- (a) to the Knowledge of Parry Sound HoldCo, the Parry Sound Real Property, the Parry Sound Leased Property, the current uses of and the conduct of the Parry Sound Business on those properties comply in all Material respects with all Applicable Laws including those dealing with zoning, parking, access, loading facilities, landscaped areas, building construction, fire and public health and safety and Environmental Law;
- (b) to the Knowledge of Parry Sound HoldCo, other than in the Ordinary Course no alteration, repair, improvement or other work has been ordered, directed or requested in writing to be done or performed to or in respect of the Parry Sound Real Property, the Parry Sound Leased Property or to any of the plumbing, heating, elevating, water, drainage or electrical systems, fixtures or works by any Governmental Authority, which alteration, repair, improvement or other work has not been completed in all Material respects, and to the Knowledge of Parry Sound HoldCo, no written notification has been given to any Parry Sound Subsidiary of any such outstanding work being ordered, directed or requested, other than those that have been complied with in all Material respects;
- (c) to the Knowledge of Parry Sound HoldCo, all accounts for work and services performed and materials placed or furnished on or in respect of the Parry Sound Real Property or the Parry Sound Leased Property at the request of any Parry Sound Subsidiary have been fully paid and satisfied in all Material respects, and no Person is entitled to claim a lien against the Parry Sound Real Property, the Parry Sound Leased Property or any part thereof, other than current accounts in respect of which the payment due date has not yet passed;
- (d) to the Knowledge of Parry Sound HoldCo, there are no amounts owing in respect of the Parry Sound Real Property or the Parry Sound Leased Property by any Parry Sound Subsidiary to any municipal corporation or to any other corporation or commission owning or operating a utility for water, gas, electrical power or energy, steam or hot water, or for the use thereof, other than current accounts in respect of which the payment due date has not yet passed;
- (e) to the Knowledge of Parry Sound HoldCo, no part of the Parry Sound Real Property or the Parry Sound Leased Property has been taken or expropriated by any competent Governmental Authority nor has any notice or proceeding in respect thereof been given or commenced;
- (f) to the Knowledge of Parry Sound HoldCo, except for the Encumbrances listed in Part 1 of Schedule 5.2(9)(f) (the "**Parry Sound Encumbrances**") there are no

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Encumbrances with a principal amount of \$250,000 or more affecting the Parry Sound Real Property or the Parry Sound Leased Property;

- (g) to the Knowledge of Parry Sound HoldCo, each of the Parry Sound Real Property and the Parry Sound Leased Property (including all Fixtures) is free of Material defects (patent or latent) and is fit for its present use, and there are no material or structural repairs or replacements that are necessary or advisable and, without limiting the foregoing, there are no repairs to, or replacements of, the roof or the mechanical, electrical, heating, ventilating, air-conditioning, plumbing or drainage equipment or systems that are necessary or advisable, and none of the Parry Sound Real Property or the Parry Sound Leased Property is currently undergoing any Material alteration or renovation nor is any such alteration or renovation contemplated; and
 - (h) to the Knowledge of Parry Sound HoldCo, each of the Parry Sound Real Property and Parry Sound Leased Property is fully serviced and has suitable access to public roads, and there are no outstanding levies, charges or fees assessed against the Parry Sound Real Property or the Parry Sound Leased Property by any public authority (including development or improvement levies, charges or fees).
- (10) Personal Property. To the Knowledge of Parry Sound HoldCo, each Parry Sound Subsidiary either owns or has rights to use, all of the personal property currently used in the Parry Sound Business, free and clear of all Encumbrances, other than Permitted Encumbrances and the Encumbrances listed in Part 2 of Schedule Schedule 5.2(9)(f) which are all of the Encumbrances that effect the personal property of any Parry Sound Subsidiary.
- (11) Personal Property Leases. The applicable Parry Sound Subsidiary is entitled to all rights and benefits as lessee under the Parry Sound Equipment Leases, and has not sublet, assigned, licensed or otherwise conveyed any rights in those Parry Sound Equipment Leases or in the property leased thereunder to any other Person. All payments and other obligations required to be paid and performed by the applicable Parry Sound Subsidiary under Parry Sound Equipment Leases have been duly paid and performed. The applicable Parry Sound Subsidiary is not in Material default of any of its obligations under the Parry Sound Equipment Leases; and, none of the lessors of the Parry Sound Equipment Leases is in Material default of any of its obligations thereunder.
- (12) Accounts Receivable. All Accounts Receivable of each Parry Sound Subsidiary are *bona fide* and good and have been incurred in the Ordinary Course and subject to an allowance for doubtful accounts that has been reflected on its books in accordance with GAAP, all Accounts Receivable are collectible in the Ordinary Course.
- (13) Intellectual Property.
- (a) To the Knowledge of Parry Sound HoldCo, the applicable Parry Sound Subsidiary either owns the right, title and interest in, to and under, or has acquired a licence

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to use in respect of the Parry Sound Business, any and all Intellectual Property that is used in the conduct of the Parry Sound Business in the manner that the Parry Sound Business has heretofore been conducted.

- (b) To the Knowledge of Parry Sound HoldCo, there is no infringement or breach of any industrial or intellectual property rights of any other Person by any Parry Sound Subsidiary, and the applicable Parry Sound Subsidiary has not received any notice that the conduct of the Parry Sound Business, including the use of the Intellectual Property, infringes on or breaches any industrial or intellectual property rights of any other Person and Parry Sound HoldCo does not have any Knowledge of any infringement or violation of any of their rights or the rights of any Parry Sound Subsidiary in the Intellectual Property. To the Knowledge of Parry Sound HoldCo, the conduct of the Parry Sound Business does not, in any Material respect, infringe on the patents, trademarks, licences, trade names, business names, copyright or other industrial or intellectual property rights, domestic or foreign, of any other Person.
 - (c) To the Knowledge of Parry Sound HoldCo, no Parry Sound Subsidiary has received any notice of any adverse claim, litigation or assertion of infringement, invalidity or unenforceability in respect of the Intellectual Property that is used in the conduct of the Parry Sound Business and is not a party to any litigation alleging that the conduct of the Parry Sound Business, as now carried on by Parry Sound WiresCo, infringes upon or breaches the rights of any other Person in Intellectual Property which would reasonably be expected to have a Materially Adverse Effect.
- (14) Insurance. The assets of all of Parry Sound Subsidiaries are covered by fire and other insurance with responsible insurers against such risks and in such amounts as are reasonable for prudent owners of comparable assets. All material insurance policies maintained by the Parry Sound Subsidiary (the "**Parry Sound Insurance Policies**"), specifying in each case, the name of the insurer, the risks insured against, the amount of the coverage, the policy number and any pending Claims thereunder, have been disclosed to Lakeland. No other insurance is necessary to the conduct of the Parry Sound Business or would be considered to be desirable by a prudent Person operating a business similar to the Parry Sound Business. No Parry Sound Subsidiary is in default, whether as to the payment of premiums or with respect to any other provision contained in any Parry Sound Insurance Policy and has not failed to give any notice or present any Claim under any Parry Sound Insurance Policy in a due and timely fashion.
- (15) Expropriation and Public Improvements. To the Knowledge of Parry Sound HoldCo, none of the real property owned, or other realty rights leased, used or occupied, by any Parry Sound Subsidiary in connection with the Parry Sound Business is subject to any pending suit for expropriation, condemnation or other taking by any Governmental Authority, and no such expropriation, condemnation or other taking has been threatened. To the Knowledge of Parry Sound HoldCo, no public improvements with respect to any real property owned, or other realty rights leased, used or occupied, by any Parry Sound

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Subsidiary in connection with the Parry Sound Business have been ordered to be made by any Governmental Authority which have not been completed, assessed and paid for in all Material respects.

(16) Material Contracts and Other Contracts.

Except as set out in Schedule 5.4(16):

(a) Each Material Contract:

(i) constitutes a legal, valid, binding and enforceable obligation of the applicable Parry Sound Subsidiary and, to the Knowledge of Parry Sound HoldCo, of the other parties thereto, in accordance with its terms; and

(ii) is in full force and effect, unamended.

(b) To the Knowledge of Parry Sound HoldCo, there is not, under any of the Material Contracts, any default or event which, with notice or lapse of time or both, would constitute a default on the part of any Parry Sound Subsidiary, or, to the Knowledge of Parry Sound HoldCo, any of the other parties thereto, or permit the other parties thereto to terminate, cancel or accelerate such Material Contract, whether on notice or otherwise except such events of default and other events:

(i) as to which requisite waivers or consents have been obtained; or

(ii) which would not individually or in the aggregate, be reasonably expected to have a Material Adverse Effect.

(c) True and complete copies of all of the Material Contracts have been made available to Lakeland HoldCo.

(17) Government Filings. To the Knowledge of Parry Sound HoldCo, each Parry Sound Subsidiary has filed or caused to be filed with all Governmental Authorities all forms, statements, reports and documents (including all exhibits, amendments and supplements thereto) required to be filed by it with respect to the Parry Sound Business under Applicable Law (collectively, the "**Government Filings**") except where the failure to do so would not be reasonably expected to have a Material Adverse Effect. All of the Government Filings of Parry Sound WiresCo complied in all Material respects with all Applicable Laws in effect on the date each Government Filings was filed, and there are no material misstatements or omissions relating to the Parry Sound Business in the Government Filings of Parry Sound WiresCo.

(18) Permits. To the Knowledge of Parry Sound HoldCo, each Parry Sound Subsidiary has all Permits (collectively, the "**Parry Sound Permits**"), that are required by Applicable Law in connection with the Parry Sound Business, except for those Parry Sound Permits, the failure of which to obtain would not, individually or in the aggregate, have a Material Adverse Effect. To the Knowledge of Parry Sound HoldCo, each Parry Sound

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Subsidiary has not received any written notification that it is in violation of any Parry Sound Permits, or any Applicable Law, except for notifications of violations which would not, individually or in the aggregate, have a Material Adverse Effect. To the Knowledge of Parry Sound HoldCo, each Parry Sound Subsidiary is in compliance with all Parry Sound Permits and Applicable Law in respect of the Parry Sound Business, except for violations which would not, individually or in the aggregate, result in a Material Adverse Effect.

- (19) Financial Statements. The financial statements for each Parry Sound Subsidiary have been prepared in accordance with GAAP consistently applied throughout the periods indicated and fairly, completely and in all Material respects present the assets, liabilities (whether accrued, absolute, contingent or otherwise) and financial condition of each Parry Sound Subsidiary as at the respective dates indicated and the sales, earnings and results of operations of each Parry Sound Subsidiary throughout the periods indicated.
- (20) Books and Records. The Books and Records of each Parry Sound Subsidiary fairly present and disclose its financial position as at the date of this Agreement and all of its financial transactions have in all Material respects been accurately recorded in the Books and Records. The system of internal accounting controls is sufficient to provide reasonable assurances that transactions are executed in accordance with management's general or specific authorization and that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets.
- (21) Corporate Records. The minute books of each Parry Sound Subsidiary contain, in all Material respects, true, accurate and complete records of all of its Constituting Documents and of every meeting, resolution and corporate action taken by the shareholders, the board of directors and every committee of either of them. No meeting of shareholders, the board of directors or any committee of either of them has been held for which minutes have not been prepared and are not contained in those minute books. The share certificate book, register of shareholders, register of directors and officers, securities register and register of transfers of each Parry Sound Subsidiary are true, accurate and complete in all Material respects.
- (22) Undisclosed Liabilities. Each Parry Sound Subsidiary has no liabilities, obligations, indebtedness or commitments, whether accrued, absolute, contingent or otherwise, and is not a party to or bound by any agreement of guarantee, support, indemnification, assumption or endorsement of, or any other similar commitment with respect to the liabilities, obligations, indebtedness or commitments (whether accrued, absolute, contingent or otherwise) of any Person, that are not disclosed in its financial statements or disclosed in the Schedules to this Agreement, other than liabilities, obligations, indebtedness and commitments in respect of trade or business obligations incurred after the date of the financial statements in the Ordinary Course, that in the aggregate and would not reasonably be expected to have a Materially Adverse Effect on the Parry Sound Subsidiaries.

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- (23) No Debentures.
- (a) None of the Parry Sound Subsidiaries have any obligation relating to a regional or municipal debenture issued by or for the benefit of the Parry Sound Business.
 - (b) None of the Parry Sound Subsidiaries have any debentures, issued and outstanding.
- (24) Absence of Changes. Except as disclosed in the 2012 audited financial statements of each Parry Sound Subsidiary, since December 31, 2012, to the Knowledge of Parry Sound HoldCo there has not been any:
- (a) change in the financial affairs, business, assets, liabilities, financial condition, operations or prospects of any Parry Sound Subsidiary or in the condition of the Parry Sound Business which would constitute a Material Adverse Effect; or
 - (b) damage, destruction or casualty loss, investigation by a Governmental Authority, or any other event, development or condition of any character, whether or not covered by insurance, in respect of any Parry Sound Subsidiary or the Parry Sound Business, which individually or in the aggregate, has or would reasonably be expected to have a Material Adverse Effect.
- (25) Absence of Unusual Transactions. Except as described in Schedule 5.4(25), since December 6, 2013, each Parry Sound Subsidiary has not:
- (a) transferred, assigned, sold or otherwise disposed of any of its assets or cancelled any debts or entitlements except, in each case, in the Ordinary Course of the Parry Sound Business;
 - (b) incurred or assumed any obligation or liability (fixed or contingent), except unsecured current obligations and liabilities incurred in the Ordinary Course of Parry Sound Business;
 - (c) suffered an operating loss or any extraordinary loss, waived or omitted to take any action in respect of any rights, or entered into any commitment or transaction, except in the Ordinary Course of the Parry Sound Business;
 - (d) granted any bonuses, whether monetary or otherwise, or made any general wage or salary or perquisites increases in respect of its officers, directors or Parry Sound Employees, or changed the terms of employment for any officer or Parry Sound WiresCo Employee, except in the Ordinary Course of the Parry Sound Business and consistent with past practice; or
 - (e) Encumbered any of its assets or property whether tangible or intangible except in the Ordinary Course of the Parry Sound Business or pursuant to Permitted Encumbrances.

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(26) Taxes.

- (a) Each of Parry Sound HoldCo and each Parry Sound Subsidiary is exempt from tax under the Tax Act and the *Corporations Tax Act* (Ontario). At least 90% of the income of each of Parry Sound HoldCo and each Parry Sound Subsidiary for each fiscal year is from activities carried on within the geographic boundaries of the Parry Sound Shareholders.
- (b) Each Parry Sound Subsidiary has filed in the prescribed manner and within the prescribed times all Tax Returns required to be filed by it in all applicable jurisdictions before the Closing Date. All such Tax Returns are complete and correct and disclose all Taxes required to be paid for the periods covered thereby. Each Parry Sound Subsidiary has never been required to file any Tax Returns with, and has never been liable to pay or remit Taxes to, any Governmental Authority outside Canada. Each Parry Sound Subsidiary has paid all Taxes and all instalments of Taxes due on or before the Closing Date.
- (c) There are no audits, assessments, reassessments or other Claims in progress or, to the Knowledge of Parry Sound HoldCo, threatened against any Parry Sound Subsidiary, in respect of any Taxes and, in particular, there are no currently outstanding reassessments or written enquiries which have been issued or raised by any Governmental Authority relating to any such Taxes. Parry Sound HoldCo is not aware of any contingent liability of any Parry Sound Subsidiary for Taxes or any grounds that could prompt an assessment or reassessment for Taxes other than an assessment in respect of current Tax Returns for which no assessment has been received as at the date of this Agreement, and no Parry Sound Subsidiary has received any indication from any Governmental Authority that any assessment or reassessment is proposed.
- (d) Each Parry Sound Subsidiary has not entered into any transactions with any non-resident of Canada (for the purposes of the Tax Act) with whom it was not dealing with at arm's length (within the meaning of the Tax Act). Each Parry Sound Subsidiary has not acquired property from any Person in circumstances where it did or could have become liable for any Taxes payable by that Person.
- (e) There are no agreements, waivers or other arrangements with any Governmental Authority providing for an extension of time with respect to the issuance of any assessment or reassessment, the filing of any Tax Return, or the payment of any Taxes by or in respect of any Parry Sound Subsidiary. No Parry Sound Subsidiary is party to any agreements or undertakings with respect to Taxes.
- (f) Each Parry Sound Subsidiary has withheld from each payment made or amount credited to any Person (including any of its present or former employees, officers and directors, and to all Persons who are non-residents of Canada for the purposes of the Tax Act) all amounts required by Applicable Law to be withheld, and furthermore, has remitted such withheld amounts within the prescribed periods to

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the appropriate Governmental Authority. Each Parry Sound Subsidiary has remitted all Canada Pension Plan contributions, employment insurance premiums, employer health Taxes and other Taxes payable by it in respect of Parry Sound Employees and has remitted such amounts to the proper Governmental Authority within the time required under Applicable Law.

- (g) Each Parry Sound Subsidiary has charged, collected and remitted on a timely basis all Taxes as required under Applicable Law on any sale, supply, transfer or delivery whatsoever, made by it. For greater certainty, each Parry Sound Subsidiary has, in the manner and within the time prescribed by the Electricity Act, notified the MOF of any transfer of "municipal electricity property" within the meaning of the Electricity Act and has ensured the payment of any Transfer Tax exigible in respect of such transfer.
 - (h) None of sections 80 to 80.04, both inclusive, of the Tax Act have applied or will apply to Parry Sound Subsidiary at any time up to and including the Closing Date. Each Parry Sound Subsidiary does not have any unpaid amounts that may be required to be included in income under Section 78 of the Tax Act.
 - (i) To the Knowledge of Parry Sound HoldCo, each Parry Sound Subsidiary has computed its liability for PILs, Transfer Tax or other special payments under Part VI of the Electricity Act in accordance with the Electricity Act and the regulations thereunder and has made on a timely basis all payments required to be made thereunder.
- (27) Litigation. Except as described in Schedule 5.4(27), there are no Claims pending or, to the Knowledge of Parry Sound HoldCo, threatened against or affecting, each Parry Sound Subsidiary or its assets. To the Knowledge of Parry Sound HoldCo there is not any factual or legal basis on which any such Claim might be commenced with any reasonable likelihood of success.
- (28) Non-Arm's Length Transactions. Except as described in Schedule 5.4(28), no Parry Sound Subsidiary has made any payment or loan to, or borrowed any moneys from or is otherwise indebted to, any officer, director, employee, shareholder or any other Person not dealing at arm's length with it (within the meaning of the Tax Act), except as disclosed in its financial statements and except for usual employee reimbursements and compensation paid in the Ordinary Course. Except for Contracts of employment or as customers of Parry Sound WiresCo, no Parry Sound Subsidiary is a party to any Contract with any officer, director, employee, shareholder or any other Person not dealing at arm's length with it (within the meaning of the Tax Act). No officer, director or shareholder of Parry Sound WiresCo and no entity that is an Affiliate or Associate of one or more of those Persons:
- (a) owns, directly or indirectly, any interest in Parry Sound WiresCo, or is an officer, director, employee or consultant of, any Person which is, or is engaged in business as, a competitor of the Parry Sound Business or Parry Sound WiresCo or

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a lessor, lessee, supplier, distributor, sales agent or customer of the Parry Sound Business or Parry Sound WiresCo;

- (b) owns, directly or indirectly, in whole or in part, any property that any Parry Sound Subsidiary uses in the operation of the Parry Sound Business; or
- (c) has any cause of action or other Claim whatsoever against, or owes any amount to, any Parry Sound Subsidiary in connection with the Parry Sound Business, except for any liabilities reflected in the its financial statements and Claims in the Ordinary Course, such as for accrued vacation pay and accrued benefits under the Parry Sound Employee Plans.

(29) Environmental.

- (a) Each Parry Sound Subsidiary has, in all Material respects, been and is in compliance with all Environmental Law.
- (b) To the Knowledge of Parry Sound HoldCo, each Parry Sound Subsidiary has obtained all material Environmental Permits required for the operation of the Business (the "**Parry Sound Environmental Permits**"). To the Knowledge of Parry Sound HoldCo, each Parry Sound Environmental Permit is valid, subsisting and in good standing and no Parry Sound Subsidiary is in default or breach of any Parry Sound Environmental Permit which default or breach would reasonably be expected to have a Material Adverse Effect and no proceeding is pending or threatened, to revoke or limit any Parry Sound Environmental Permit.
- (c) Each Parry Sound Subsidiary has not caused or permitted, and Parry Sound HoldCo does not have any Knowledge of, the Release, in any manner whatsoever, of any Hazardous Substance on or from any of its assets or any property or facility that it previously owned or leased, except in accordance with Environmental Law, or any such Release on or from a facility owned or operated by third parties but with respect to which a Parry Sound Subsidiary is or may reasonably be alleged to have liability except in accordance with Environmental Law. All Hazardous Substances and all other wastes and other materials and substances used in whole or in part by a Parry Sound Subsidiary or resulting from the Parry Sound Business have, in all Material respects, been disposed of, treated and stored in compliance with all Environmental Law.
- (d) No Parry Sound Subsidiary has received any notice that it is potentially responsible for any clean-up or corrective action under any Environmental Law at any site. No Parry Sound Subsidiary has received any request for information in connection with any federal, provincial, municipal or local inquiries as to disposal sites.
- (e) True, accurate and complete copies of all documents, including Environmental Permits, copies of all environmental audits, evaluations, assessments, studies or

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tests relating to any facility or property which any Parry Sound Subsidiary has at any time owned, occupied, leased, managed or controlled or in which it has at any time had a legal or beneficial interest, that were commissioned by or for it in the previous five (5) years and any certificates or reports, issued, filed or registered, pursuant to Environmental Law with respect to the Parry Sound Business or the assets of any Parry Sound Subsidiary in the previous five (5) years has been made available to Parry Sound HoldCo.

(30) Employee Plans.

- (a) True, accurate and complete copies of each non-salary plan, program or arrangement including deferred compensation, bonus compensation, incentive or other compensation, share option or purchase, severance, termination pay, hospitalization or other medical benefit, life or other insurance, vision, dental, drug, sick leave, disability, salary continuation, vacation, supplemental unemployment benefits, profit sharing, mortgage assistance, pension or supplemental pension, retirement compensation, group registered retirement savings, deferred profit sharing, employee profit sharing, savings, retirement or supplemental retirement, and any other similar plan, program or arrangement, whether funded or unfunded, formal or informal, including OMERS, that is maintained, contributed to, or required to be maintained or contributed to, by any Parry Sound Subsidiary, or to which it is a party, or bound by, or under which Parry Sound WiresCo has any liability or contingent liability for the benefit of directors, officers, shareholders, consultants, independent contractors and employees or former employees it and their dependents (the "**Parry Sound Employee Plans**") have been made available to Lakeland HoldCo together with true, accurate and complete copies of all Material documents relating to each Parry Sound Employee Plan.
- (b) OMERS is the only registered pension plan under which the Parry Sound Employees, or any of them, accrue pension benefits, or under which former Parry Sound Employees (or any spouse, dependent or beneficiary of any such Parry Sound Employees or former Parry Sound Employees) are entitled to payment of any pension benefits, and has been accepted for registration under the Tax Act and has been registered with the Superintendent of Financial Institutions under the *Pension Benefits Standards Act* (Canada).
- (c) To the Knowledge of Parry Sound HoldCo, all Material obligations due under the Parry Sound Employee Plans (whether pursuant to the terms thereof or any Applicable Law) have been satisfied, and there are no outstanding defaults or violations thereunder by Parry Sound WiresCo nor does Parry Sound HoldCo have any Knowledge of any default or violation by any other Person in respect of the Employee Plans.
- (d) There are no improvements, increases or changes to the benefits provided under the Parry Sound Employee Plans nor is there any pattern of *ad hoc* benefit

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increases and the Parry Sound Employee Plans do not provide for benefit increases or the acceleration of funding obligations that are contingent or will be triggered by the entering into of this Agreement or the completion of the Amalgamation.

- (e) All employer and employee payments, contributions and premiums required to be remitted or paid to or in respect of the Parry Sound Employee Plans, including OMERS, have been remitted or paid, in a timely fashion to or in respect of the Parry Sound Employee Plans in accordance with the terms thereof and all Applicable Laws, and no Taxes, non-Tax related interest, penalties or fees are owing or exigible under any of the Parry Sound Employee Plans.
- (f) OMERS is the only registered pension plan under which the Parry Sound Employees, or any of them, accrue pension benefits, or under which former Parry Sound Employees (or any spouse, dependent or beneficiary of any such Parry Sound Employees or former Parry Sound Employees) are entitled to payment of any pension benefits, and has been accepted for registration under the Tax Act and has been registered with the Superintendent of Financial Institutions under the *Pension Benefits Standards Act* (Canada).
- (g) To the Knowledge of Parry Sound HoldCo, any Parry Sound Subsidiary has provided to the OMERS Board, on a timely basis, all information known to it and requested from time to time by the OMERS Board in respect of the Parry Sound Employees, former Parry Sound Employees and their spouses and former spouses and which is necessary in order to enable the OMERS Board to properly administer OMERS in respect of them.

(31) Employment Matters.

- (a) Except for the collective agreement between Parry Sound WiresCo and CUPE Local 1704, and as otherwise disclosed in writing to Parry Sound HoldCo, there are no Contracts in respect of the Parry Sound Subsidiaries for the employment or retainer of any Parry Sound Employee, including, for greater certainty, Contracts with directors, officers, employees, independent contractors or agents providing personal services, other than oral Contracts of indefinite hire terminable by Parry Sound WiresCo without cause on reasonable notice.
- (b) Except as disclosed in writing to Parry Sound HoldCo, Parry Sound WiresCo is not a party to nor is it bound by any Contract in respect of any Parry Sound Employee providing for severance, termination or any other payments in connection with the Amalgamation.
- (c) Except as disclosed in writing to Parry Sound HoldCo, no Parry Sound Employees are claiming or receiving long-term disability benefits; no Parry Sound Employees actively employed have filed claims under the *Workplace Safety and Insurance Act* (Ontario); no Parry Sound Employees are on maternity

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leave; and, no Parry Sound Employees are on, or are claiming, extended sick leave.

- (d) Parry Sound WiresCo has provided Parry Sound HoldCo with the total number of full and part-time employees of Parry Sound WiresCo and the number of employees represented by CUPE as well as the years of service and salary information of all Parry Sound Employees.
- (32) Labour Matters. In connection with labour matters relating to the Parry Sound Subsidiaries:
- (a) The Parry Sound Subsidiaries are in Material compliance with all Employment Law applicable to Parry Sound WiresCo;
 - (b) No Parry Sound Subsidiary has received notice of any unfair labour practice complaint or any other Employment Law complaint which is current or pending before any labour relations or similar board or any other body or tribunal in connection with the Parry Sound Business;
 - (c) there is no labour strike, slowdown or stoppage actually pending or, to the Knowledge of Parry Sound HoldCo, threatened by any authorized representative of any union or other representative of employees affecting the Parry Sound Business;
 - (d) Parry Sound HoldCo has not received notice that any application for certification or de-certification respecting the Parry Sound Employees has been filed with any labour relations or similar board.
- (33) Personal Information Laws. To the Knowledge of Parry Sound HoldCo, Parry Sound WiresCo is in Material compliance with the requirements of all Applicable Laws relating to its collection, use and disclosure of Personal Information, including the establishment and observance of written policies and practices. No complaint relating to Parry Sound WiresCo's alleged non-compliance with any such Applicable Law has been found by any Governmental Authority to be well-founded, no order or judgment has been made against Parry Sound WiresCo by any Governmental Authority based on any finding of non-compliance with any such Applicable Law, and no unresolved complaint or other proceeding relating to any such alleged non-compliance is now pending by or before any Governmental Authority.
- (34) Competition Act. For the purposes of and in accordance with the requirements of section 110 of the Competition Act, as at the Closing Date:
- (a) the aggregate value of the assets in Canada, determined as of such time and in such manner as are prescribed by section 110 of the Competition Act and the *Notifiable Transactions Regulations* under the Competition Act, in respect of Parry Sound WiresCo has been disclosed in writing to Parry Sound HoldCo; and

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- (b) the gross revenues from sales in or from Canada, determined for such annual period and in such manner as are prescribed by section 110 of the Competition Act and the *Notifiable Transactions Regulations* under the Competition Act, generated from the assets referred to in item (a) above, have been disclosed in writing to Parry Sound HoldCo.
- (35) No Joint Venture Interests, etc. Except as set out in Schedule 5.4(37), each Parry Sound Subsidiary is not a partner, beneficiary, trustee, co-tenant, joint-venturer or otherwise a participant in any partnership, trust, joint venture, co-tenancy or similar jointly owned business undertaking.
- (36) Condition of Assets. To the Knowledge of Parry Sound HoldCo, except as would not result in a Material Adverse Effect, the Fixtures situated on the Parry Sound Real Property or used in connection with the Parry Sound Business are in good condition, repair and proper working order, having regard to their use and age and such assets have been properly and regularly maintained in accordance with Good Utility Practices.
- (37) Third Party Consents. Except as described in Schedule 5.4(37) (the "**Parry Sound Third Party Consents**"), there are no Third Party Consents required to be obtained by Parry Sound, Parry Sound HoldCo or any Parry Sound Subsidiary in order to complete the Amalgamation as contemplated by this Agreement.
- (38) Residence. Each Parry Sound Subsidiary is not a non-resident of Canada for purposes of the Tax Act.
- (39) Full Disclosure. Neither this Agreement or any other contract, agreement, instrument, certificate or other document required to be delivered by or otherwise to be delivered pursuant to this Agreement by Parry Sound HoldCo nor any certificate, report, statement or other document furnished by Parry Sound HoldCo in connection with the negotiation of this Agreement contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein or therein not misleading. To the Knowledge of Parry Sound HoldCo, there has been no event, transaction or information that has come to the attention of Parry Sound HoldCo that has not been disclosed to Parry Sound HoldCo in writing that could reasonably be expected to have a Material Adverse Effect.

**ARTICLE 6
COVENANTS**

6.1 Covenants of Lakeland HoldCo

Lakeland HoldCo covenants and agrees with Parry Sound HoldCo that Lakeland HoldCo will do or cause to be done the following:

- (1) Conduct Prior to Closing. Without in any way limiting any other obligations of Lakeland HoldCo, except as specifically provided in this Agreement or with the prior written consent of Parry Sound HoldCo during the Interim Period:

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- (a) Lakeland HoldCo shall cause each Lakeland Subsidiary to conduct the Lakeland Business and its operations and affairs only in the Ordinary Course, and shall not, without the prior written consent of Parry Sound HoldCo, enter into any transaction or refrain from doing any action that, if effected before the date of this Agreement, would constitute a breach of any representation, warranty, covenant or other obligation of Lakeland HoldCo in this Agreement and, without limiting the generality of the foregoing, Lakeland HoldCo shall cause each Lakeland Subsidiary:
 - (i) not to amalgamate, merge or consolidate with or acquire or agree to acquire all or substantially all of the shares and assets of any Person, not to acquire or lease or agree to acquire or lease any business operations in any other Person;
 - (ii) not to enter into any compromise or settlement of any litigation, proceeding or government investigation relating to the Lakeland Business or any of its assets;
 - (iii) not to make any Material modification to its usual sales, human resource, accounting, software, or management practices, processes or systems; or
 - (iv) not to enter into any Material Contract.
- (b) Lakeland HoldCo shall cause each Lakeland Subsidiary:
 - (i) to continue to maintain in full force and effect all the Lakeland Insurance Policies or renewals thereof currently in effect;
 - (ii) to report all Claims with a value greater than \$100,000 or known circumstances or events which may give rise to a Claim with a value greater than \$100,000 to its insurers under the Lakeland Insurance Policies in a due and timely manner to the Closing Date and to provide copies of those reports to Parry Sound HoldCo;
- (c) Lakeland HoldCo shall use its commercially reasonable efforts to give or obtain the Lakeland Third Party Consents described in Schedule 5.4(37);
- (d) Lakeland HoldCo shall use its commercially reasonable efforts to preserve, and to preserve intact, the Lakeland Business, the assets, operations and affairs of each Lakeland Subsidiary and to carry on the Lakeland Business affairs of each Lakeland Subsidiary as currently conducted, and to promote and preserve the goodwill of suppliers, customers and others having business relations with each Lakeland Subsidiary;
- (e) Lakeland HoldCo shall cause each Lakeland Subsidiary to pay and discharge the liabilities of each Lakeland Subsidiary in the Ordinary Course in accordance and

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consistent with its previous practices of Lakeland WiresCo, except those contested in good faith by each Lakeland Subsidiary;

- (f) Lakeland HoldCo shall use its commercially reasonable efforts to take and cause each Lakeland Subsidiary to take, all necessary corporate action, steps and proceedings to approve or authorize, validly and effectively, the execution and delivery of this Agreement and the other agreements and documents contemplated hereby and to complete the applicable Amalgamation and to cause all necessary meetings of directors and shareholders of Lakeland HoldCo and each Lakeland Subsidiary to be held for that purpose;
 - (g) Lakeland HoldCo shall use its commercially reasonable efforts to satisfy the conditions contained in Section 4.2.
- (2) Rights of Access. During the Interim Period, Lakeland HoldCo shall cause each Lakeland Subsidiary to provide:
- (a) during ordinary business hours and upon reasonable notice and subject to compliance with all Applicable Laws and confidentiality agreements, Parry Sound HoldCo and its Representatives, with reasonable access to its management, Books and Records, Contracts, Intellectual Property, insurance policies, premises, properties and other information relating to the Lakeland Business; and
 - (b) as Parry Sound HoldCo may reasonably request, such updated financial and operating data relating to each Lakeland Subsidiary as Lakeland WiresCo provides to Lakeland HoldCo.
- (3) Exclusive Dealings. During the Interim Period, Lakeland HoldCo shall not, and shall cause Lakeland WiresCo not to, take any action, directly or indirectly, to encourage, initiate or engage in discussions or negotiations with, or provide any information to, any Person, other than Parry Sound HoldCo and its designated and authorized Representatives, concerning any sale or merger of any Lakeland Subsidiary or any portion of the Lakeland Business or the assets of any Lakeland Subsidiary. Lakeland HoldCo shall notify Parry Sound HoldCo promptly if any such discussions or negotiations are sought or if any proposal for a sale, of any portion of the Lakeland Business or the assets of any Lakeland Subsidiary is received or being considered.
- (4) No Amendment to Articles. Each Lakeland Subsidiary shall not make any amendment to its articles of incorporation or by-laws, and Lakeland HoldCo shall not require or authorize the same.
- (5) Transition Arrangements. Lakeland HoldCo shall, and shall cause each Lakeland Subsidiary to, complete the transition arrangements provided in Section 2.5 and to co-operate in good faith with Parry Sound HoldCo to complete the transition arrangements in Section 2.5.

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- (6) MOF Notification. Lakeland WiresCo shall, in the manner and within the time prescribed by the Electricity Act, notify the MOF of any transfer of "municipal electricity property" within the meaning of the Electricity Act in connection with the Amalgamation.
- (7) Employees.
 - (a) All of the Lakeland Employees shall become employees of the applicable Merged GenCo, Merged WiresCo and Lakeland ServicesCo effective as at the applicable Amalgamation Effective Time or effective time, as the case may be.
 - (b) All of the Lakeland HoldCo Employees shall cease to be employees of Lakeland HoldCo and shall be hired as employees of Merged HoldCo effective as at the Amalgamation Effective Time.
- (8) Lakeland Subsidiary Dividends. Notwithstanding any provision of this Agreement to the contrary, during the Interim Period each Lakeland Subsidiary may declare its normal dividend.

6.2 Covenants of Parry Sound HoldCo

Parry Sound HoldCo covenants and agrees with Lakeland HoldCo that Parry Sound HoldCo will do or cause to be done the following:

- (1) Conduct Prior to Closing. Without in any way limiting any other obligations of Parry Sound HoldCo and Parry Sound WiresCo hereunder, except as specifically provided in this Agreement or with the prior written consent of Lakeland HoldCo during the Interim Period:
 - (a) Parry Sound HoldCo shall cause each Parry Sound Subsidiary to conduct the Parry Sound Business and the operations and affairs of each Parry Sound Subsidiary only in the Ordinary Course, and Parry Sound HoldCo and each Parry Sound Subsidiary shall not, without the prior written consent of Lakeland HoldCo, enter into any transaction or refrain from doing any action that, if effected before the date of this Agreement, would constitute a breach of any representation, warranty, covenant or other obligation of Parry Sound HoldCo in this Agreement and, without limiting the generality of the foregoing, Parry Sound HoldCo shall cause each Parry Sound Subsidiary:
 - (i) not to amalgamate, merge or consolidate with or acquire or agree to acquire all or substantially all of the shares and assets of any Person, not to acquire or lease or agree to acquire or lease any business operations in any other Person;
 - (ii) not to enter into any compromise or settlement of any litigation, proceeding or government investigation relating to Parry Sound Business or any of the assets of any Parry Sound Subsidiary;

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- (iii) not to make any Material modification to its usual sales, human resource, accounting, software, or management practices, processes or systems; or
 - (iv) not to enter into any Material Contract;
 - (b) Parry Sound HoldCo shall cause each Parry Sound Subsidiary:
 - (i) to continue to maintain in full force and effect all the Parry Sound Insurance Policies or renewals thereof currently in effect;
 - (ii) to report all Claims with a value greater than \$100,000 or known circumstances or events which may give rise to a Claim with a value greater than \$100,000 to its insurers under the Parry Sound Insurance Policies in a due and timely manner to the Closing Date and to provide copies of those reports to Lakeland HoldCo;
 - (c) Parry Sound HoldCo shall use its commercially reasonable efforts to give or obtain, the Parry Sound Third Party Consents described in Schedule 5.4(37);
 - (d) Parry Sound HoldCo shall use its commercially reasonable efforts to preserve, and to preserve intact, the Parry Sound Business, the assets of each Parry Sound Subsidiary, and the operations and affairs of each Parry Sound Subsidiary and to carry on the Parry Sound Business and the affairs of each Parry Sound Subsidiary as currently conducted, and to promote and preserve the goodwill of suppliers, customers and others having business relations with it;
 - (e) Parry Sound HoldCo shall cause each Parry Sound Subsidiary to pay and discharge its liabilities in the Ordinary Course in accordance and consistent with its previous practice of Parry Sound WiresCo, except those contested in good faith by the Parry Sound Subsidiary;
 - (f) Parry Sound HoldCo shall use its commercially reasonable efforts to take and cause each Parry Sound Subsidiary to take, all necessary corporate action, steps and proceedings to approve or authorize, validly and effectively, the execution and delivery of this Agreement and the other agreements and documents contemplated hereby and to complete the Amalgamation and to cause all necessary meetings of directors and shareholders of each Parry Sound HoldCo and each Parry Sound Subsidiary to be held for that purpose;
 - (g) Parry Sound HoldCo shall use its commercially reasonable efforts to satisfy the conditions contained in Section 4.1.
- (2) Rights of Access. During the Interim Period, Parry Sound HoldCo shall cause each Parry Sound Subsidiary to provide:
- (a) during ordinary business hours and upon reasonable notice and subject to compliance with all Applicable Laws and confidentiality agreements, Lakeland

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HoldCo and its Representatives, with reasonable access to each Parry Sound Subsidiary management, Books and Records, Contracts, Intellectual Property, insurance policies, premises, properties and other information relating to each Parry Sound Subsidiary and the Parry Sound Business; and

- (b) as Lakeland HoldCo may reasonably request, such updated financial and operating data relating to each Parry Sound Subsidiary as it provides to Parry Sound HoldCo.
- (3) Exclusive Dealings. During the Interim Period, Parry Sound HoldCo shall not, and shall cause each Parry Sound Subsidiary not to, take any action, directly or indirectly, to encourage, initiate or engage in discussions or negotiations with, or provide any information to, any Person, other than Lakeland HoldCo and its designated and authorized Representatives, concerning any sale or merger of any Parry Sound Subsidiary or any portion of the Parry Sound Business or the assets of any Parry Sound Subsidiary. Parry Sound HoldCo shall notify Lakeland HoldCo promptly if any such discussions or negotiations are sought or if any proposal for a sale, of any portion of the Parry Sound WiresCo Business or the assets of any Parry Sound Subsidiary is received or being considered.
- (4) No Amendment to Articles. Each Parry Sound Subsidiary shall not make any amendment to its articles of incorporation or by-laws, and Parry Sound HoldCo shall not require or authorize the same.
- (5) Transition Arrangements. Parry Sound HoldCo shall, and shall cause each Parry Sound Subsidiary to, complete the transition arrangements provided in Section 2.5 and to co-operate in good faith with Lakeland HoldCo and each Lakeland Subsidiary to complete the transition arrangements in Section 2.5.
- (6) MOF Notification. Parry Sound HoldCo shall, in the manner and within the time prescribed by the Electricity Act, notify the MOF of any transfer of "municipal electricity property" within the meaning of the Electricity Act in connection with the Amalgamation.
- (7) Employees.
 - (a) All of the Parry Sound Employees shall become employees of the applicable Merged GenCo and Merged WiresCo effective as at the applicable Amalgamation Effective Time.
 - (b) All of the Parry Sound HoldCo Employees shall cease to be employees of Parry Sound HoldCo and shall be hired as employees of Merged HoldCo effective as at the Amalgamation Effective Time.
- (8) Parry Sound Subsidiary Dividends. Notwithstanding any provision of this Agreement to the contrary, during the Interim Period each Parry Sound Subsidiary may declare its normal dividend/note payment.

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6.3 Mutual Covenants

- (1) Co-operation and Compliance. Subject to the terms and conditions of this Agreement and Applicable Law, each of the Parties shall use commercially reasonable efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective, as soon as reasonably practicable, the Amalgamation and other transactions contemplated hereby, including using commercially reasonable efforts to ensure satisfaction of the conditions precedent to each Party's obligations under this Agreement.
- (2) Amalgamation Agreement. On Closing, each applicable Lakeland Subsidiary and Parry Sound Subsidiary shall execute and deliver the applicable Amalgamation Agreement and the articles of amalgamation and related documentation required to be filed pursuant to the OBCA to give effect to the Amalgamations.
- (3) Merged HoldCo Shareholders Agreement. On Closing, each of Lakeland HoldCo and Parry Sound HoldCo shall cause Merged HoldCo to execute and deliver, and shall arrange for Bracebridge, Hunstville, Sundridge, Burk's Falls, Magnetawan and Parry Sound to execute and deliver the Merged HoldCo Shareholders Agreement.
- (4) Cooperation with OEB MAAD Application. Each of the Parties shall cooperate with one another to prepare and submit to the OEB as soon as possible following execution of this Agreement an application (the "**MAAD Application**") requesting approval of the Amalgamation and any corresponding amendment of the electricity distribution licences held by Lakeland WiresCo and Parry Sound WiresCo.
- (5) Confidentiality. The Parties shall treat as confidential this Agreement, the terms and conditions set out herein and all information provided to one another in accordance with this Agreement. All such information shall be kept in the strictest confidence and not divulged to any unrelated third party or used by Lakeland HoldCo or Parry Sound HoldCo except for purposes of the Amalgamation. The Parties acknowledge that Lakeland HoldCo and Parry Sound HoldCo executed the Confidentiality Agreement and that such confidentiality agreement continues in full force and effect for all purposes of this section.
- (6) Public Statements. Prior to Closing, no Party shall issue or make any public announcement or press release (a "**Public Announcement**") with respect to this Agreement or the Amalgamation or other transactions contemplated hereby without the prior written consent of both Lakeland HoldCo and Parry Sound HoldCo, which consent shall not be unreasonably withheld or delayed, except as may be required by Applicable Law or a Governmental Authority. If such disclosure is required by Applicable Law or a Governmental Authority, the Party required to make such disclosure shall, if practicable, provide prior notice to the other Parties of such requirement, the nature thereof, and the nature of the proposed disclosure, and shall limit the scope of such disclosure to the

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extent necessary to comply with such requirement. Upon the completion of the Amalgamation, the Parties shall issue a mutually acceptable press release.

- (7) Third Party Consents. Each Party shall have the right to review in advance information which appears in any application, notice, petition or filing made seeking Third Party Consents required in connection with the Amalgamation and other transactions contemplated hereby.
- (8) Post Closing Tax Obligations. Lakeland HoldCo and Parry Sound HoldCo shall, on a timely basis, cause Merged HoldCo to: (i) prepare and file with the appropriate Governmental Authorities all Tax Returns required to be filed by each Lakeland Subsidiary and each Parry Sound Subsidiary for all periods prior to and ending on the day immediately preceding the Closing Date; and (ii) pay or remit all amounts in respect of Taxes required to be paid or remitted by each Lakeland Subsidiary and Parry Sound Subsidiary for all periods prior to and ending on the day immediately preceding the Closing Date.
- (9) Intercompany Services Agreements. The Parties agree that all agreements with respect to the provision of services by Lakeland WiresCo and Parry Sound WiresCo to their respective Affiliates shall be transferred to and assumed by the Merged WiresCo unless specifically excluded pursuant to this Agreement and that the Merged WiresCo shall after Closing ensure that it operates in compliance with the Affiliates Relationship Code.

**ARTICLE 7
INDEMNIFICATION**

7.1 Indemnification

- (1) Subject to Sections 7.1(6), 7.1(8) and 7.1(9), and subject to the *Limitations Act, 2002* (Ontario), Lakeland HoldCo shall indemnify, defend and hold harmless, Parry Sound HoldCo and the Merged HoldCo, and each of their respective officers, directors, employees, shareholders and agents, (each, a "**Parry Sound Indemnitee**") from and against any and all claims, demands, suits, losses, liabilities, damages, obligations, assessments, reassessments, charges, payments, costs and expenses and accrued interest thereon (including the costs and expenses of, and accrued interest in respect of, any and all actions, suits, proceedings, assessments, judgments, settlements and compromises relating thereto and reasonable lawyers' and other professionals' and experts' fees and reasonable disbursements in connection therewith) (each, an "**Indemnifiable Loss**"), asserted against or suffered by any Parry Sound Indemnitee relating to, in connection with or resulting from or arising out of any Direct Claim or Third Party Claim in respect of:
 - (a) any breach by Lakeland HoldCo of any representation and warranty contained in this Agreement, or incorrectness in any certificate furnished by Lakeland HoldCo in accordance with this Agreement; or

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- (b) any breach by Lakeland HoldCo of any covenants or agreements contained in this Agreement provided such breach was not caused by the breach by Parry Sound HoldCo of its covenants or agreements contained in this Agreement; or

provided that in the case of (a) or (b) the Claim is brought within the time limits set out in Section 8.3.

- (2) It is the intention of Lakeland HoldCo to constitute Parry Sound HoldCo as trustee for the Parry Sound Indemnitees that are not party to this Agreement of the covenants of Lakeland HoldCo in this Article 7 and Parry Sound HoldCo agrees to accept such trust and to hold and enforce such covenants on behalf of the Parry Sound Indemnitees.
- (3) Subject to Sections 7.1(7), 7.1(8) and 7.1(9), and subject to the *Limitations Act, 2002* (Ontario), Parry Sound HoldCo shall indemnify, defend and hold harmless Lakeland HoldCo and the Merged HoldCo, and each of their respective officers, directors, employees, shareholders, and agents (each, a "**Lakeland Indemnitee**") from and against any and all Indemnifiable Losses asserted against or suffered by any Lakeland Indemnitee relating to, in connection with, resulting from or arising out of any Direct Claim or Third Party Claim in respect of:
 - (a) any breach by Parry Sound HoldCo of any representations and warranties contained in this Agreement, or incorrectness in any certificate furnished by Parry Sound HoldCo in accordance with this Agreement; or
 - (b) any breach by Parry Sound HoldCo, of any covenants or agreements contained in this Agreement provided such breach was not caused by the breach by Lakeland HoldCo or its covenants or obligations contained in this Agreement;

provided that in the case of (a) or (b) the Claim is brought within the time limits set out in Section 8.3.

- (4) It is the intention of Parry Sound HoldCo to constitute Lakeland HoldCo as trustee for the Lakeland Indemnitees that are not party to this Agreement of the covenants of Parry Sound HoldCo in this Article 7 and Lakeland HoldCo agrees to accept such trust and to hold and enforce such covenants on behalf of the Lakeland Indemnitees.
- (5) The expiration or termination of any period of indemnification set out in Sections 7.1(1) and 7.1(3) shall not affect the Parties' obligations under this Article 7 if the Indemnitee provides to the Person required to provide indemnification under this Agreement (the "**Indemnifying Party**") with proper notice of the claim or event for which indemnification is sought prior to such expiration or termination.
- (6) Lakeland HoldCo's obligations under this Article 7 shall be limited as follows:
 - (a) no Parry Sound Indemnitee shall be entitled to claim in respect of an Indemnifiable Loss until the time that the aggregate amount of all Indemnifiable Losses of Parry Sound Indemnitees exceeds \$250,000 and once such threshold is

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reached the Parry Sound Indemnites shall be entitled to claim for the full amount of Indemnifiable Losses: provided that there shall be no such threshold in respect of Indemnifiable Losses, involving fraud or fraudulent misrepresentation;

- (b) in no case shall Lakeland HoldCo's obligation to indemnify the Parry Sound Indemnites exceed the following:
 - (i) in respect of Claims relating to environmental matters, a maximum aggregate amount equal to the net equity value of Lakeland WiresCo as at the Closing Date; and
 - (ii) in respect of all Claims other than those described in Section 7.1(6)(b)(i), a maximum aggregate amount equal to \$20,000,000.
- (7) Parry Sound HoldCo's obligations under this Article 7 shall be limited as follows:
 - (a) no Lakeland Indemnatee shall be entitled to claim in respect of an Indemnifiable Loss until the time that the aggregate amount of all Indemnifiable Losses of Lakeland Indemnites exceeds \$250,000 and once such threshold is reached, the Lakeland Indemnites shall be entitled to claim for the full amount of Indemnifiable Losses; provided that there shall be no such threshold in respect of Indemnifiable Losses involving fraud or fraudulent misrepresentation;
 - (b) in no case shall Parry Sound HoldCo's obligations to indemnify the Lakeland Indemnites exceed the following:
 - (i) in respect of Claims relating to environmental matters, a maximum aggregate amount equal to the net equity value of Parry Sound WiresCo as at the Closing Date; and
 - (ii) in respect of all Claims other than those described in Section 7.1(6)(b)(i), a maximum aggregate amount equal to \$20,000,000.
- (8) For greater certainty, all Indemnifiable Losses will be calculated without duplication.
- (9) Notwithstanding anything to the contrary in this Agreement:
 - (a) no Party (including a non-Party Indemnatee) shall be entitled to recover hereunder any amount in excess of the actual compensatory damages, court costs and reasonable fees and other expenses of lawyers and other professionals and experts suffered by such Party; and
 - (b) each Party waives any right to recover punitive, special and consequential damages arising in connection with or with respect to this Agreement.

The provisions of this Section 7.1(9) shall not apply to indemnification for a Third Party Claim.

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- (10) The Parties agree that, from and after Closing, this Article 7 sets out the sole and exclusive manner by which the Parties may seek compensation or other monetary relief hereunder for any breach of representation, warranty or covenant, and is in lieu of any and all other rights and remedies which any Party may have, for any matter in respect of which it may make a claim on account of an Indemnifiable Loss.

7.2 Defence of Claim

- (1) If any Indemnitee receives notice of the assertion of any claim or of the commencement of any claim, action or proceeding made or brought by any Person who is not an Indemnitee (a "**Third Party Claim**") with respect to which indemnification is to be sought from an Indemnifying Party, the Indemnitee shall give such Indemnifying Party reasonably prompt written notice thereof, but in any event such notice shall not be given later than twenty (20) calendar days after the Indemnitee's receipt of notice of such Third Party Claim. Such notice shall describe the nature of the Third Party Claim in reasonable detail and shall indicate the amount or, if the amount is not then determinable, an appropriate and reasonable estimate of the potential amount of the Indemnifiable Loss that has been or may be sustained by the Indemnitee. The Indemnifying Party will have the right to participate in or, by giving written notice to the Indemnitee, to elect to assume the defence of any Third Party Claim at such Indemnifying Party's expense and by such Indemnifying Party's own counsel, provided, however, that:
- (a) counsel for the Indemnifying Party shall conduct the defence of such Third Party Claim in a manner reasonably satisfactory to the Indemnitee;
 - (b) if the defendants to the Third Party Claim include both the Indemnifying Party and the Indemnitee and the Indemnitee shall have reasonably concluded that there may be legal defences available to it which are different from, additional to or inconsistent with those available to the Indemnifying Party, the Indemnitee shall have the right to select separate counsel to participate in the defence of the Third Party Claim and the reasonable fees and disbursements of such counsel shall be considered Indemnifiable Losses for the purpose of this Agreement.

Notwithstanding the provisions of this Section 7.2(1), where a Third Party Claim relates to Taxes, the Indemnifying Party will have the right to participate in or, by giving written notice to the Indemnitee, to elect to assume jointly with the Indemnitee the defence of such a Third Party Claim relating to Taxes and both the Indemnifying Party and the Indemnitee shall act reasonably in connection with the conduct and management of such defence. The provisions of this Section 7.2(1) shall otherwise apply *mutatis mutandis*.

- (2) If the Indemnifying Party assumes the defence in accordance with this Section 7.2(2) the Indemnitee shall co-operate in good faith in such defence at such Indemnitee's own expense. If an Indemnifying Party elects not to assume control of the defence of any Third Party Claim, the Indemnitee shall be entitled to assume such control and may compromise or settle such Third Party Claim (in any manner that it determines appropriate, acting reasonably), over the objection of the Indemnifying Party, which

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settlement or compromise shall conclusively establish the Indemnifying Party's liability pursuant to this Agreement and the Indemnifying Party shall be bound by the results obtained by the Indemnatee with respect to such Third Party Claim.

- (3) If, within twenty (20) calendar days after an Indemnatee provides written notice to the Indemnifying Party of any Third Party Claims, the Indemnatee receives written notice from the Indemnifying Party that such Indemnifying Party has elected to assume the defence of such Third Party Claim as provided in Section 7.2(1), the Indemnifying Party will not be liable for any legal expenses subsequently incurred by the Indemnatee in connection with the defence thereof except as expressly provided in Section 7.2(1), provided, however, that if the Indemnifying Party fails to take reasonable steps necessary to defend diligently such Third Party Claim within twenty (20) calendar days after receiving notice from the Indemnatee that the Indemnatee believes the Indemnifying Party has failed to take such steps, the Indemnatee may assume its own defence and the Indemnifying Party shall be liable for all reasonable expenses thereof.
- (4) Without the prior written consent of the Indemnatee, the Indemnifying Party shall not enter into any settlement of any Third Party Claim which would lead to liability or create any financial or other obligation on the part of the Indemnatee for which the Indemnatee is not entitled to indemnification under this Agreement. The Indemnifying Party shall not settle any Third Party Claim or conduct any legal or administrative proceeding in a manner which would, in the opinion of the Indemnatee, acting reasonably, have a material adverse impact on the Indemnatee. If a final offer is made to settle a Third Party Claim and the offer creates no liability or financial or other obligation on the part of the Indemnatee for which the Indemnatee is not entitled to indemnification under this Agreement and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party shall give written notice to the Indemnatee to that effect. If the Indemnatee fails to consent to such final offer within twenty (20) calendar days after its receipt of such notice, the Indemnifying Party shall be relieved of its obligations to defend such Third Party Claim and the Indemnatee may contest or defend such Third Party Claim. In such event, the maximum liability of the Indemnifying Party as to such Third Party Claim will be the amount of such settlement offer plus reasonable costs and expenses paid or incurred by the Indemnatee up to the date of such notice.
- (5) If any Third Party Claim is of a nature such that the Indemnatee is required by Applicable Law to make a payment to any Person (a "**Third Party**") for the purposes of this Section 7.2(5) with respect to such Third Party Claim before the completion of settlement negotiations or related legal proceedings, the Indemnatee may make such payment and the Indemnifying Party shall, forthwith after demand by the Indemnatee, reimburse the Indemnatee for any such payment. If the amount of any liability under the Third Party Claim in respect of which such a payment was made, as finally determined, is less than the amount which was paid by the Indemnifying Party to the Indemnatee, the Indemnatee shall, forthwith after receipt of the difference from the Third Party, pay such difference to the Indemnifying Party.

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- (6) Except in the circumstances contemplated by Section 7.2(2) or as expressly provided in Section 7.2(5), and whether or not the Indemnifying Party assumes control of the negotiation, settlement or defence of any Third Party Claim, the Indemnitee shall not negotiate, settle, compromise or pay any Third Party Claim except with the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld).
- (7) The Indemnitee shall not permit any right of appeal in respect of any Third Party Claim to terminate without giving the Indemnifying Party notice thereof and an opportunity to contest such Third Party Claim.
- (8) The Parties shall co-operate fully with each other with respect to Third Party Claims, shall keep each other fully advised with respect thereto (including supplying copies of all relevant documentation promptly as it becomes available) and shall each designate a senior officer who will keep himself informed about and be prepared to discuss the Third Party Claim with his counterparts and with counsel at all reasonable times.
- (9) Any claim by an Indemnitee on account of an Indemnifiable Loss which does not result from a Third Party Claim (a "**Direct Claim**") shall be asserted by giving the Indemnifying Party reasonably prompt written notice thereof, stating the nature and factual basis of the Claim in reasonable detail and indicating the amount, or if the amount is not then determinable, an approximate and reasonable estimate of the potential amount of the Direct Claim, but in any event such notice shall not be given later than twenty (20) calendar days after the Indemnitee becomes aware of such Direct Claim, and the Indemnifying Party shall have a period of twenty (20) calendar days within which to investigate and respond to such Direct Claim. For the purpose of such investigation, the Indemnitee shall make available to the Indemnifying Party the information relied upon by the Indemnitee to substantiate the Direct Claim. If the Indemnitee and the Indemnifying Party agree, at or prior to the expiration of such twenty (20) calendar day period, to the validity and amount of the Direct Claim, the Indemnifying Party shall immediately pay to the Indemnitee the full agreed upon amount of the Direct Claim. If the Indemnifying Party does not respond within such twenty (20) calendar day period, the Indemnifying Party shall be deemed to have accepted the Direct Claim. If the Indemnifying Party rejects such Direct Claim, the Indemnitee will be free to seek enforcement of its right to indemnification under this Agreement and shall be entitled to submit the Dispute to the Dispute arbitration procedure referred to in Section 8.2.
- (10) If the amount of any Indemnifiable Loss, at any time subsequent to the making of an indemnity payment in respect thereof, is reduced by recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by, from or against any other entity (including, without limitation, relating to any increase in distribution rates specifically to allow such recovery or from a reduction in taxes), the amount of such reduction, together with any interest earned on such amount, if applicable, less any deductibles, costs or expenses incurred in connection therewith, shall promptly be repaid by the Indemnitee to the Indemnifying Party.

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- (11) A failure to give timely notice as provided in this Section 7.2 shall not affect the rights or obligations of any Party under this Agreement except if, and only to the extent that, as a result of such failure, the party which was entitled to receive such notice was actually prejudiced.

**ARTICLE 8
GENERAL PROVISIONS**

8.1 Notices

Any notice or other communication required or permitted to be given under this Agreement shall be in writing and shall be given by facsimile or other means of electronic communication or by hand-delivery as provided below. Any such notice or other communication, if sent by facsimile or other means of electronic communication, shall be deemed to have been received on the Business Day following the sending, or if delivered by hand, shall be deemed to have been received at the time it is delivered to the applicable address noted below either to the individual designated below or to an individual at such address having apparent authority to accept deliveries on behalf of the addressee. Notice of change of address shall also be governed by this Section 8.1. Notices and other communications shall be addressed as follows:

Chris Litschko, CEO
Lakeland Holding Ltd.
cjlitschko@lakelandholding.com
1-888-282-7711 ext. 224

Miles Thompson, Vice-President
Parry Sound Hydro Corporation
mthompson@pspower.ca
1-705-746-5866

Notwithstanding the foregoing, any notice or other communication required or permitted to be given by any party pursuant to or in connection with any arbitration procedures contained in this Agreement or in any Schedule to this Agreement may only be delivered by hand. The failure to send or deliver a copy of a notice to counsel shall not invalidate any notice given under this Section 8.1.

8.2 Arbitration Procedures

- (f) **Disputes:** Each Party shall appoint one or more representatives who shall be responsible for administering this Agreement on its behalf and for representing its respective interests in disputes relating to this Agreement ("**Disputes**"). Any Dispute between the Parties relating to this Agreement that is not resolved between such representatives within ten (10) Business Days of the date that one Party notifies the other Party or Parties of such dispute shall be referred by the Parties' representatives in writing to the senior

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management of each Party for resolution. Such senior management shall use good faith efforts to resolve the Dispute for a period of up to ten (10) Business Days.

- (g) **Arbitration:** Any Dispute that is not resolved by the procedure set forth in Section (f) above may be referred to and resolved by arbitration by a single arbitrator in accordance with the provisions of the *Arbitration Act, 1991* (Ontario), subject to the following modifications and additions:
- (i) The arbitration shall take place in Ontario, and shall be conducted in English;
 - (ii) The arbitration shall be conducted by a single arbitrator having no financial, business or personal interest in the outcome of the arbitration. The arbitrator shall be appointed jointly by agreement of the Parties. In the event the Parties are unable to agree on the appointment of the arbitrator within ten (10) days after notice of a demand for arbitration is given by a Party, then the arbitrator shall be selected pursuant to the provisions of the *Arbitration Act, 1991* (Ontario);
 - (iii) The arbitrator shall have the authority to award any remedy or relief that a court could order or grant in accordance with this Agreement including, without limitation, specific performance of any obligation, the issuance of an interim, interlocutory or permanent injunction, or the imposition of sanctions for abuse or frustration of the arbitration process; and
 - (iv) The arbitral award shall be in writing, stating the reasons for the award and be final and binding on the Parties with no rights of appeal.

8.3 Survival of Representations and Warranties, Covenants and Obligations

Subject to the *Limitations Act, 2002* (Ontario):

- (a) the representations and warranties given or made by any Party in this Agreement or in any certificate or other writing furnished in connection with this Agreement shall survive the Closing for a period of twenty-four (24) months after the Closing Date and shall thereafter terminate and be of no further force or effect, except that (i) any Claim based on fraud or fraudulent misrepresentation, may be brought at any time; and (ii) any representation and warranty as to which a Claim (including a contingent Claim) shall have been asserted during the survival period shall continue in effect with respect to such Claim until such Claim shall have been finally resolved or settled. Each Party shall be entitled to rely upon the representations and warranties of the other Parties set forth in this Agreement, notwithstanding any investigation or audit conducted before or after the Closing Date or the decision of any party to complete the Closing;
- (b) the covenants and obligations of the Parties set forth in this Agreement, including the indemnification obligations of Lakeland HoldCo and Parry Sound HoldCo under Article 7, shall survive the Closing indefinitely, unless such covenants and obligations by their terms expire on or before the Closing, and each Party shall be

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entitled to the full performance thereof by the other Parties without limitation as to time or amount (except as otherwise specifically set forth in this Agreement); and

- (c) subject to Sections 8.3(a) and (b), all of the provisions upon which a claim is made under this Agreement shall survive until such claim has been disposed of in accordance with this Agreement.

8.4 No Personal Liability Re: Certificates

All certificates delivered by a corporate officer or director of Lakeland HoldCo or Parry Sound HoldCo in accordance with this Agreement, shall be delivered in such official capacity without personal liability to any such individual.

8.5 Entire Agreement

This Agreement and the Confidentiality Agreement constitute the entire agreement between the Parties pertaining to the subject matter hereof and supersedes all prior negotiations, understandings and agreements between the Parties, written or oral, in respect thereof, including the MOU.

8.6 Further Assurances

Each Party hereby covenants and agrees that at any time and from time to time after the Closing Date it will, upon the request of the other Parties, or any one of them, do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered all such further acts, deeds, assignments, transfers, conveyances and assurances as may be required for the better carrying out and performance of all the terms of this Agreement.

8.7 Remedies Cumulative

The rights and remedies of the parties under this Agreement are cumulative and in addition to and not in substitution for any rights or remedies provided by law. Any single or partial exercise by any Party hereto of any right or remedy for default or breach of any term, covenant or condition of this Agreement does not waive, alter, affect or prejudice any other right or remedy to which such Party may be lawfully entitled for the same default or breach.

8.8 Waiver, Amendment

- (1) No modification of or amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by each of the Parties. No waiver of any provision of this Agreement shall be effective or binding unless made in writing and signed by the Party purporting to give the same and, unless otherwise provided, no such waiver shall constitute a waiver of any other provision of this Agreement nor constitute a continuing waiver, or operate as a waiver of, or estoppel with respect to, any subsequent failure to comply.

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- (2) Each of the Lakeland Shareholders and Parry Sound shall be promptly notified of each proposed modification of or amendment to this Agreement. Notwithstanding the provisions of Section 8.8(1), any modification of or amendment that would result in a material change to this Agreement, shall not be effective or binding unless approved in writing by each of the Lakeland Shareholders and Parry Sound.

8.9 Counterparts

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

8.10 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of Ontario and the laws of Canada applicable therein. The Parties agree that the courts of Ontario shall have exclusive jurisdiction to determine all disputes and claims arising under or pursuant to this Agreement.

8.11 Commercially Reasonable Efforts

The Parties acknowledge and agree that, for all purposes of this Agreement, an obligation on the part of any party to use commercially reasonable efforts to obtain any waiver, consent, approval, permit, licence or other document shall not require such party to make any payment to any person for the purpose of procuring the same, other than payments for amounts otherwise due and payable to such person, payments for incidental expenses incurred by such person and payments required by any applicable law or regulation.

8.12 Time of Essence

Time shall be of the essence hereof.

8.13 Severability

Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall not invalidate the remaining provisions hereof and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. In respect of any provision so determined to be unenforceable or invalid, the Parties agree to negotiate in good faith to replace the unenforceable or invalid provision with a new provision that is enforceable and valid in order to give effect to the business intent of the original provision to the extent permitted by law and in accordance with the intent of this Agreement.

8.14 No Partnership

Nothing contained in this Agreement nor any acts of the Parties hereunder shall be deemed to constitute any Party as a partner of any other Party.

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8.15 Assignment

The rights of the Parties hereunder shall not be assignable.

8.16 Successors and Assigns

This Agreement shall be binding upon and enure to the benefit of the Parties hereto and their respective successors. Nothing herein, express or implied, is intended to confer upon any person, other than the Parties hereto and their respective successors, any rights remedies, obligations or liabilities under or by reason of this Agreement.

IN WITNESS WHEREOF the parties hereto have duly authorized and executed this Agreement as of the day and year first above written.

LAKELAND HOLDING LTD.

By: _____
Tom Peppiatt, Chair

By: _____
Chris Litschko, CEO

PARRY SOUND HYDRO CORPORATION

By: _____
Roger Alexander, Chair

By: _____
Miles Thompson, Vice-President

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**SCHEDULE 1.1
MERGED HOLDCO SHAREHOLDERS AGREEMENT**

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**SCHEDULE 5.1(7)
LAKELAND LITIGATION**

Statement of Claim between George Perez, Mirna Perez, Fernando Perez and Pablo Perez (Plaintiffs) and The Corporation of the Town of Bracebridge, Lakeland Holding Ltd., Bracebridge Generating Ltd., Her Majesty the Queen in Right of Ontario, represented by the Minister of Natural Resources, Trout Unlimited Canada and Bracebridge Hydro Electric Commission (Defendants), date of issue, August 5, 2010.

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SCHEDULE 5.2(3)
LAKELAND AUTHORIZED AND ISSUED CAPITAL

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**SCHEDULE 5.2(4)
LAKELAND - OPTIONS**

NIL.

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SCHEDULE 5.2(9)(f)
LAKELAND – ENCUMBRANCES

NIL.

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SCHEDULE 5.2(16)
LAKELAND – MATERIAL CONTRACTS

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SCHEDULE 5.2(25)
LAKELAND – UNUSUAL TRANSACTIONS

NIL.

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**SCHEDULE 5.2(27)
LAKELAND - LITIGATION**

Statement of Claim between George Perez, Mirna Perez, Fernando Perez and Pablo Perez (Plaintiffs) and The Corporation of the Town of Bracebridge, Lakeland Holding Ltd., Bracebridge Generating Ltd., Her Majesty the Queen in Right of Ontario, represented by the Minister of Natural Resources, Trout Unlimited Canada and Bracebridge Hydro Electric Commission (Defendants), date of issue, August 5, 2010.

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SCHEDULE 5.2(28)
LAKELAND – NON ARM’S LENGTH TRANSACTIONS

NIL.

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**SCHEDULE 5.2(37)
LAKELAND – THIRD PARTY CONSENTS**

NIL.

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SCHEDULE 5.4(3)
PARRY SOUND AUTHORIZED AND ISSUED CAPITAL

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**SCHEDULE 5.4(4)
PARRY SOUND - OPTIONS**

NIL.

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**SCHEDULE 5.4(9)(f)
PARRY SOUND - ENCUMBRANCES**

NIL.

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**SCHEDULE 5.4(16)
PARRY SOUND – MATERIAL CONTRACTS**

NIL.

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SCHEDULE 5.4(25)
PARRY SOUND – UNUSUAL TRANSACTIONS

NIL.

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**SCHEDULE 5.4(27)
PARRY SOUND - LITIGATION**

NIL.

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**SCHEDULE 5.4(28)
PARRY SOUND – NON ARM’S LENGTH TRANSACTIONS**

NIL.

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**SCHEDULE 5.4(37)
PARRY SOUND – THIRD PARTY CONSENTS**

NIL.

SCHEDULE 1.1
MERGED HOLDCO SHAREHOLDERS AGREEMENT

LAKELAND HOLDING LTD.

AMENDED AND RESTATED SHAREHOLDERS' AGREEMENT

BORDEN LADNER GERVAIS LLP

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SCHEDULE “A” INDEMNITY AGREEMENT	

THIS AMENDED AND RESTATED SHAREHOLDERS AGREEMENT made as of
the ● day of ●, 2014.

BETWEEN:

The Corporation of the Town of Bracebridge, a municipal
corporation existing under the laws of Ontario

(**“Bracebridge”**)

- and -

The Corporation of the Village of Burk’s Falls, a
municipal corporation existing under the laws of Ontario

(**“Burk’s Falls”**)

- and -

The Corporation of the Town of Huntsville, a municipal
corporation existing under the laws of Ontario

(**“Huntsville”**)

- and -

The Corporation of the Municipality of Magnetawan, a
municipal corporation existing under the laws of Ontario

(**“Magnetawan”**)

- and -

The Corporation of the Village of Sundridge, a municipal
corporation existing under the laws of Ontario

(**“Sundridge”**)

- and –

The Corporation of the Town of Parry Sound, a
municipal corporation existing under the laws of Ontario

(**“Parry Sound”**)

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- and -

Lakeland Holding Ltd., a corporation existing under the laws of Ontario

(“**HoldCo**”)

- and -

Lakeland Energy Ltd., a corporation existing under the laws of Ontario

(“**ServicesCo**”)

- and -

Lakeland Power Distribution Ltd., a corporation existing under the laws of Ontario

(“**WiresCo**”)

- and -

Bracebridge Generation Ltd., a corporation existing under the laws of Ontario

(“**GenCo**”)

Recitals:

1. HoldCo is a corporation existing under the laws of Ontario;
2. The authorized capital of HoldCo consists of an unlimited number of Shares of which 10,000 are issued and outstanding as fully paid and non-assessable;
3. Parry Sound was the sole shareholder of Parry Sound Hydro Power Corporation (“**Parry Sound HoldCo**”), and Parry Sound HoldCO was the sole shareholder of Parry Sound Power Corporation (“**Parry Sound WiresCo**”) and Parry Sound PowerGen Corporation (“**Parry Sound GenCo**”);
4. Bracebridge, Burk’s Falls, Huntsville, Magnetawan, Sundridge and Parry Sound approved the amalgamations (the “**Amalgamations**”) of Lakeland HoldCo and Parry

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Sound HoldCo into HoldCo, Lakeland WiresCo and Parry Sound WiresCo into WiresCo, and Lakeland GenCo and Parry Sound GenCo into GenCo;

5. HoldCo is the sole registered and beneficial shareholder of each of WiresCo and GenCo;
6. Bracebridge, Burk's Falls, Huntsville, Magnetawan, Sundridge and Parry Sound are the sole registered and beneficial shareholders of HoldCo holding the following numbers of Shares, respectively:

<u>NAME OF SHAREHOLDER</u>	<u>NUMBER OF SHARES</u>	<u>PERCENTAGE TOTAL</u>
Bracebridge	5631	56.31%
Huntsville	2174	21.74%
Sundridge	375	3.75%
Burk's Falls	343	3.43%
Magnetawan	127	1.27%
Parry Sound	1350	13.50%

7. As set out in Section 2.1(6) of the Merger Participation Agreement, upon GenCo's receipt of a certificate of project commercial operation in respect of the planned upgrade of the Cascade Generation Station in Parry Sound, the proportionate shareholdings set out in Recital 6 above will change to the following:

<u>NAME OF SHAREHOLDER</u>	<u>NUMBER OF SHARES</u>	<u>PERCENTAGE TOTAL</u>
---------------------------------------	------------------------------------	------------------------------------

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Bracebridge	5497	54.97%
Huntsville	2122	21.22%
Sundridge	366	3.66%
Burk's Falls	334	3.34%
Magnetawan	124	1.24%
Parry Sound	1557	15.57%

[NTD: Subject to further tax/corporate review regarding mechanics of future share split.]

8. Bracebridge, Burk's Falls, Huntsville, Magnetawan, Sundridge, Lakeland HoldCo, Lakeland WiresCo, Lakeland ServicesCo and Lakeland GenCo were parties to the original shareholders agreement in respect of Lakeland HoldCo dated September 1, 2000 (the "**Original Shareholders Agreement**");
9. The parties wish to enter into this Agreement to amend and restate the Original Shareholders Agreement and to provide for the conduct of certain affairs of HoldCo, to provide for certain restrictions on the transfer and ownership of Shares and to govern the mutual rights and obligations of the Shareholders with respect to HoldCo and each other Shareholder,

NOW THEREFORE in consideration of the premises, the mutual promises herein contained and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged) each of the parties agrees with each other party as follows:

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ARTICLE I INTERPRETATION

1.1 Definitions

In this Agreement the following terms shall have the following meanings unless the subject matter or context otherwise requires:

“**Act**” means the *Business Corporations Act* (Ontario);

“**Additional Directors**” has the meaning set out in Subsection 3.2(e);

“**Agreement**” means this Agreement, all schedules attached hereto and any agreement or schedule supplementing or amending this Agreement. All uses of the words “hereto”, “herein”, “hereof”, “hereby” and “hereunder” and similar expressions refer to this Agreement and not to any particular section or portion of it. References to an Article, Section, Subsection or Schedule refer to the applicable article, section, subsection or schedule of this Agreement unless otherwise specified;

“**Amalgamated Shareholder**” has the meaning set out in Subsection 10.7(a);

“**Amalgamations**” has the meaning set out in the recitals.

“**Arbitration Act**” means the *Arbitration Act*, S.O., 1991;

“**Arbitrator**” has the meaning set out in Subsection 10.3(a);

“**Arm’s Length**” has the meaning attributed thereto in the *Income Tax Act* (Canada) provided that, for the purposes of Section 5.3, each Shareholder shall be deemed to be acting at Ann’s Length with each other Shareholder and HoldCo;

“**Auditors**” means the firm of chartered accountants appointed as auditor of the Corporations from time to time;

“**Board**” means the Board of Directors of HoldCo;

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“Board Committees” means committees created by the Board from time to time for the purpose of overseeing specific tasks and reporting to the Board and includes the committees referred to in Section 3.3;

“Business” means the business of the Corporations as described in Section 2.1 or as may otherwise be conducted by the Corporations from time to time;

“Business Day” means any day other than a Saturday, Sunday, or statutory holiday in Ontario;

“Chair” means the director elected by the Board to serve as its chairperson from time to time;

“Closing Date” means the date on which the purchase and sale of Shares is to be completed;

“Confidential Information” means any and all information and data relating in any manner to the Business and any activities, plans, ideas, products, services, policies or intentions. (including without limitation, information of an operational, business, marketing, financial or economic nature), whether or not proprietary in nature, that is of value to the Corporations and is held by the Corporations as a trade secret and is not generally known to competitors of the Corporations or to the public;

“Corporations” means collectively HoldCo and any Subsidiary;

“Council” means the municipal council of a municipal Shareholder;

“Current Shareholders” means, at the date of this Agreement, each of Bracebridge, Burk’s Falls, Huntsville, Magnetawan, Sundridge and Parry Sound;

“Disputing Shareholder” has the meaning set out in Subsection 10.3(c);

“Electricity Act” means the *Electricity Act*, 1998 (Ontario);

“Encumbrance” means a mortgage, charge, pledge, hypothecation, lien (statutory or otherwise), security interest, adverse claim, assignment as security or reservation of title of any kind;

“Fiscal Year” means a 12-month period ending on December 31 in each year;

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“**GenCo**” has the meaning set out in the recitals;

“**Governmental Authority**” means any government or political subdivision (including without limitation, any municipality or federal or provincial ministry) or agency, authority, commission, department or instrumentality of any government or political subdivision, or any court or tribunal, and specifically includes the Ontario Energy Board and the IMO;

“**HoldCo**” has the meaning set out in the recitals;

“**Hold Period**” has the meaning set out in Section 5.1;

“**IESO**” means the Independent Electricity System Operator established pursuant to the Electricity Act and its successors;

“**Initial Term**” means the period from the date of this Agreement until a date up to **[one year]** later as determined by the Shareholders;

“**Lakeland GenCo**” means Bracebridge Generation Ltd. as such corporation existed prior to the Amalgamations;

“**Lakeland HoldCo**” means Lakeland Holding Ltd. as such corporation existed prior to the Amalgamations;

“**Lakeland ServicesCo**” means Lakeland Energy Ltd. as such corporation existed prior to the Amalgamations;

“**Lakeland WiresCo**” means Lakeland Power Distribution Ltd. as such corporation existed prior to the Amalgamations;

“**Laws**” means any law, including common law, equitable principle, statute, ordinance, regulation, rule, order, permit, decision, declaration, notice, demand, injunction, writ, policy, decree or award of any Governmental Authority;

“**New Board**” means the new Board which holds office for the Initial Term;

“**Notice Period**” has the meaning set out in Subsection 5.3(b);

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“**OEB**” means the Ontario Energy Board and its successors;

“**Offer**” has the meaning set out in Subsection 5.3(a);

“**Offered Shares**” has the meaning set out in Subsection 5.3(a);

“**Original Shareholders Agreement**” has the meaning set out in the recitals;

“**Other Holders**” has the meaning set out in Section 5.3;

“**Parry Sound GenCo**” has the meaning set out in the recitals;

“**Parry Sound HoldCo**” has the meaning set out in the recitals;

“**Parry Sound WiresCo**” has the meaning set out in the recitals;

“**Person**” means an individual, firm, partnership, unincorporated association, corporation, bank, trust or other legal entity of any kind whatsoever;

“**Prospective Purchaser**” has the meaning set out in Subsection 5.3(a);

“**Purchase Notice**” has the meaning set out in Subsection 5.3(c);

“**Retiring Director**” has the meaning set out in Subsection 3.2(g);

“**Reserve**” has the meaning set out in Subsection 10.7(b);

“**Selling Notice**” has the meaning set out in Subsection 5.3(a);

“**Selling Shareholder**” has the meaning set out in Section 5.3;

“**ServicesCo**” has the meaning set out in the recitals;

“**Shareholder**” means any Person which is a registered holder of Shares;

“**Shareholder Representative**” has the meaning set out in Section 3.7;

“**Shares**” means common shares without par value in the capital of HoldCo;

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“Subsidiary” means any subsidiary (as this term is defined in the Act) of HoldCo including, without limitation, ServicesCo, WiresCo and GenCo;

“Third Party” means any Person with whom a Shareholder deals at Arm’s Length;

“Vice-Chair” means the director elected by the Board to serve as its vice-chairperson from time to time; and

“WiresCo” has the meaning set out in the recitals.

1.2 Control

For the purposes of this Agreement, a body corporate shall be deemed to be “controlled” by another Person or by two or more Persons if such Person or Persons (either individually or collectively and whether or not they act together jointly or in concert) directly or indirectly own, legally and beneficially, and exercise the full voting rights over, shares of such body corporate which:

- (a) have attached to them voting rights, exercisable in all circumstances, which represent more than fifty (50%) percent of the votes attaching to all outstanding securities of such body corporate;
- (b) have sufficient votes to elect a majority of the board of directors of such body corporate; and
- (c) carry a right to receive, on a winding up or dissolution, more than fifty (50%) percent of the remaining property of such body corporate after payment of all debts and liabilities of the body corporate.

1.3 Headings

The division of this Agreement into Articles, Sections and Subsections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The Article and Section headings in this Agreement are not

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intended to be full or precise descriptions of the text to which they refer and shall not be considered part of this Agreement.

1.4 Entire Agreement

This Agreement amends and restates the Original Shareholders Agreement and supersedes and replaces it in its entirety. This Agreement constitutes the entire agreement among the Parties relating to the matters set forth herein. The execution of this Agreement has not been induced by, nor do any of the parties rely upon or regard as material, any representations, warranties, conditions, other agreements or acknowledgements not expressly made in this Agreement, the Merger Agreement and in the agreements and other documents to be delivered pursuant hereto or in the Merger Agreement.

1.5 Number and Gender

In this Agreement, words in the singular include the plural and vice-versa and words in one gender include all genders.

1.6 Accounting Principles

All accounting and financial terms used herein, unless specifically provided to the contrary, shall be interpreted and applied in accordance with generally accepted accounting principles in Canada.

1.7 Calculation of Time

In this Agreement, a period of days shall be deemed to begin on the first (1st) day after the event which began the period and to end at 5:00 p.m. (Eastern Standard time) on the last day of the period. If, however, the last day of the period does not fall on a Business Day, the period shall terminate at 5:00 p.m. (Eastern Standard time) on the next Business Day.

1.8 Statutory References

A reference in this Agreement to a statute refers to that statute, and any regulations or rules issued thereunder, as amended, supplemented or replaced from time to time.

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1.9 Reclassification of Shares

The provisions of this Agreement shall apply, with any necessary changes to (a) any shares or securities of any nature into which the Shares or any of them may be converted, exchanged, reclassified, redivided, redesignated, subdivided or consolidated; (b) any shares or securities of any nature that are received by a Shareholder as a stock dividend or distribution payable in shares, securities, warrants, rights or options of any nature of HoldCo; (c) any shares, securities, warrants, rights or options of any nature of HoldCo or any successor, continuing company or corporation of HoldCo that may be received by a Shareholder on a reorganization, amalgamation, arrangement, consolidation or merger, statutory or otherwise; and (d) any shares, securities, warrants, rights or options hereafter issued or allotted by HoldCo to a Shareholder, all of which shares, securities, warrants, rights or options shall be deemed to be Shares for all purposes of this Agreement.

1.10 Interpretation

If any conflict shall appear between the by-laws and the articles of HoldCo and the provisions of this Agreement, the provisions of this Agreement shall govern.

1.11 Governing Law

This Agreement shall be governed by and construed, interpreted and performed in accordance with the laws of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract.

1.12 Currency

All dollar amounts referred to in this Agreement and all payments to be made hereunder are in Canadian funds.

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ARTICLE II BUSINESS OF THE CORPORATIONS

2.1 Business of the Corporations

The Corporations may engage in the following business activities and such other business activities as may be permitted by Law and authorized by the Board from time to time:

- (a) transmitting or distributing electricity;
- (b) owning and/or operating an electricity generation facility;
- (c) retailing electricity;
- (d) distributing or retailing gas or any other energy product which is carried through pipes or wires to the user;
- (e) business activities that enhance or develop the ability of any of the Corporations to carry on any of the activities described in paragraphs (a), (b), (c), or (d) above including, but not limited to selling, acquiring and releasing interests in land;
- (f) business activities the principal purpose of which is to use more effectively the assets of any of the Corporations including providing meter installation and reading services, providing billing services and business activities in the telecommunications area;
- (g) renting, selling or maintaining equipment and appliances, including without limitation, hot water heaters; and
- (h) providing services related to improving energy efficiency.

2.2 Corporations' Standard of Service

It is the intention of the Current Shareholders that as new standards of service are established by the OEB after the date of this Agreement, each service area will enjoy common standards and derive equal benefits, including but not limited to, the following matters:

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- (a) distribution, energy services and tariffs;
- (b) maintenance standards and schedules;
- (c) emergency response capabilities;
- (d) distribution system capacity;
- (e) customer convenience and accessibility;
- (f) power reliability and quality; and
- (g) marketing programmes and services.

ARTICLE III CORPORATE AFFAIRS OF HOLDCO

3.1 Assurances

The Shareholders shall cause such meetings of Shareholders to be held, votes to be cast, resolutions to be passed, by-laws to be made, confirmed and/or repealed, agreements and other documents and instruments to be executed and all other acts and things to be done, to ensure that at all times the provisions of this Article III are in effect, complied with or implemented.

3.2 The Board

- (a) **New Board.** Notwithstanding any other provision of this Section 3.2, each of the Current Shareholders agrees to elect members of the New Board in accordance with the provisions of the Merger Agreement. The business and affairs of HoldCo shall be managed or supervised for the Initial Term by the New Board. In the event that a director of the New Board ceases to be a director, the provisions of Subsection 3.2(g) and the remainder of this Section 3.2 shall apply.
- (b) **Shareholder Action.** Following the election of the New Board and for each subsequent election of one or more directors to the Board, each of the Shareholders agrees to elect directors to the Board from the nominees put forward by the Nominating Committee.

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- (c) **The Board.** Following the expiry of the Initial Term, the Shareholders shall elect directors to the Board which Board shall be a staggered Board. The Shareholders shall designate a term of one (1), two (2) or three (3) years for each director elected to the Board.
- (d) **Size of the Board.** The business and affairs of HoldCo shall be managed or supervised by the Board which shall consist of four (4) to seven (7) directors or such other number of directors as the Shareholders may determine from time to time by special resolution in accordance with the Act. Until changed by the Shareholders, the Board shall be initially set at six (6) directors including the Chief Executive Officer. The Chief Executive Officer shall be a member of the Board but shall not have any right to vote.
- (e) **Electing the Board.** Following the expiry of the initial designated term for each director of the Board, the expiry of the initial designated term of each Additional Director, if any, and at the expiry of each successive three (3) year term thereafter, the Shareholders shall elect directors to the Board for a term of three (3) years. Each Shareholder shall be entitled to one (1) vote per share held by that Shareholder. Shareholders may vote for a number of nominees to the Board not greater than the number of directors determined by Subsection 3.2(d). Directors may serve successive terms on the Board but no director shall serve more than six (6) consecutive years on the Board. In the event that the Shareholders desire to increase the number of directors serving on the Board following the election of the Board, the Shareholders shall elect such directors (“**Additional Directors**”) for an initial term, determined by the Shareholders at that time, in order to maintain the staggered nature of the Board.

The Board shall annually elect from its members a Chair and Vice-Chair.

- (f) **Qualifications of Board.** In addition to the requirements of the Act, the qualifications of candidates for the Board shall, where possible, include the following:

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- (i) business experience;
 - (ii) time availability;
 - (iii) financial skills;
 - (iv) marketing skills;
 - (v) industry knowledge;
 - (vi) independence of judgment;
 - (vii) integrity;
 - (viii) knowledge of public policy issues relating to the Corporations;
 - (ix) knowledge and experience concerning environmental matters, labour relations and occupational health and safety issues; and
 - (x) not an employee, director or officer of any municipal Shareholder.
- (g) **Vacancy.** If a director of the Board ceases to be a director for any reason (a “**Retiring Director**”), the Shareholders shall fill the vacancy thereby created as soon as reasonably possible in accordance with this Subsection 3.2.
- (h) **Quorum.** A quorum for a meeting of the Board shall be a majority of the members of the Board. A meeting shall be adjourned for lack of a quorum and a notice of the adjourned meeting shall be sent to all directors rescheduling the meeting to a date at least fifteen (15) days following the adjourned meeting.
- (i) **Meetings of the Board.** Meetings of the Board shall be held at least once in every calendar quarter or at the request of the Chair or of a majority of the members of the Board. All meetings of the Board shall be held in Ontario, or by such telephone or electronic communication devices as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously. At least five (5) days’ written notice of the time and place of the

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meeting and of the business to be transacted at the meeting in sufficient detail to enable each director to assess reasonably the importance of such business to the affairs of HoldCo shall be given to each director.

- (j) **Decisions of the Directors.** Decisions or resolutions of the Board shall require the approval of the majority of the directors present at each meeting thereof. The Chair shall not have a second vote. A resolution in writing signed by all of the directors entitled to vote on that resolution at a meeting of the Board is as valid as if it had been passed at a meeting of the Board.
- (k) **Board Duties.** Subject to those matters requiring Shareholder approval as set out in Section 3.9 hereof, the Board shall supervise the management of the business and affairs of HoldCo and, without limiting the generality of the foregoing, the Board shall be responsible for, but not limited to, overseeing the following specific matters:
 - (i) the establishment of appropriate reserves consistent with sound financial principles, all with the intention of providing the Shareholders with a reasonable rate of return on their investment while maintaining reasonable rates for customers; and
 - (ii) declaration of any dividend or distribution of capital in respect of the Shares.
- (l) **Indemnification and Insurance for Directors and Officers.** Each of the Corporations shall indemnify and save its directors and officers harmless from and against any and all liability, damages, costs (including any income tax payable as a result of receiving such indemnity, reasonable counsel fees and disbursements), charges and expenses arising out of or related to any act or omission done or permitted by them to be done in connection with the execution of the duties of their office as directors or officers of any one (1) or more of the Corporations or by reason of their being or having been directors of any one or more of the Corporations, substantially in the form of the indemnification

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agreement annexed hereto as Schedule “A” and shall provide liability insurance for directors and officers in such amounts as the Board may determine from time to time.

3.3 Board Committees

The Board may establish Board Committees from time to time and delegate certain duties to them as follows:

(a) **Executive Committee.**

- (i) The Executive Committee shall be appointed by the Board from time to time and shall be responsible for supervising the management of the day to day operations of the Corporations;
- (ii) The Executive Committee shall be comprised of at least three (3) directors as determined by the Board;
- (iii) The Chair and the Vice-Chair shall be a member of the Executive Committee; and
- (iv) The members of the Executive Committee shall meet at least once a month or as otherwise determined by the Executive Committee. Members of the Executive Committee may serve for a term not to exceed three (3) years. Members of the Executive Committee may serve successive terms on the Executive Committee

(b) **Finance Committee.** The Board shall appoint members to the Finance Committee. The Finance Committee shall be comprised of at least three (3) directors. The chair of the Finance Committee shall be a member of the Board other than the Chair or Vice-Chair. The duties of the Finance Committee will be to assist the Board in its oversight of the reliability and integrity of the accounting principles and practices, financial statements and other financial reporting, and disclosure practices followed by the Corporation and its subsidiaries.

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- (c) **Human Resources Committee.** The Board shall appoint members to the Human Resources Committee. The Human Resources Committee shall be comprised of at least three (3) directors. The chair of the Human Resources Committee is recommended to be a member of the Board other than the Chair or Vice-Chair. The duties of the Human Resources Committee will be to assist the Board in carrying out its responsibilities by reviewing compensation and human resources issues and making recommendations to the Board as appropriate.
- (e) **Nominating Committee.** The Board shall appoint members to the Nominating Committee. The Nominating Committee shall be comprised of at least three (3) directors. The Vice-Chair shall be a member of the Nominating Committee and is recommended, but not required to, be the chair of the Nominating Committee. The purpose of the Nominating Committee shall be to make recommendations to the Shareholders concerning candidates for the Board and the compensation for members of the Board, the Chair, Vice-Chair and Board Committee members, and chairpersons.
- (f) **Governance Committee.** The Board shall appoint members to the Governance Committee. The Governance Committee shall be comprised of at least three (3) directors. The purpose of the Governance Committee shall be to manage the corporate governance system for the Board and to assist the Board in fulfilling its duty to meet the applicable legal, regulatory and self-regulatory borrows principles and codes of best practice of corporate behaviour and conduct.
- (g) **Environmental, Health and Safety Committee.** The Board shall appoint members to the Environmental, Health and Safety Committee. The Environmental, Health and Safety Committee shall be comprised of at least three (3) directors. The purpose of the Environmental, Health and Safety Committee shall be to assist the Board in carrying out its responsibilities by reviewing EH&S policies, practices & guidelines to ensure compliance with all current laws and legislation and to make recommendations to the Board as appropriate.

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- (h) **Mergers and Acquisitions Committee.** The Board shall appoint members to the Mergers and Acquisitions Committee. The Mergers and Acquisitions Committee shall be comprised of at least three (3) directors. The Finance Chair shall be a member of the Mergers and Acquisitions Committee and shall be the chair of the Mergers and Acquisitions Committee. The primary purpose of the Mergers and Acquisitions Committee (the "Committee") of the Board of Directors (the "Board") shall be to (i) analyze, make recommendations to the full Board with respect to, and approve potential opportunities for strategic business combinations, acquisitions, mergers, dispositions, divestitures and similar strategic transactions involving the Company (collectively, "Strategic Transactions"), (ii) facilitate consistency in the presentation of the Company and its positions to potential acquirers, strategic partners or other similar third parties, (iii) ensure fairness of process with respect to any proposed Strategic Transaction involving the Company and (iv) expedite and facilitate the process of reviewing, negotiating and/or consummating a potential Strategic Transaction involving the Company.
- (i) **General Provisions Relating to Board Committees.** The quorum for meetings of Board Committees shall be a majority of the members from time to time of each Board Committee. Decisions of all Board Committees shall be made by a majority of the members of the respective Board Committee. Except as otherwise provided in this Section 3.3 and subject to the supervision of the Board, each Board Committee shall establish its own rules of procedure for operating in an efficient and expeditious manner.

3.4 Shareholders' Meetings

A quorum for a meeting of Shareholders shall be at least two (2) individuals representing, by proxy or as otherwise permitted by the Act, both (i) a majority in number of the Shareholders; and (ii) not less than 66-2/3% of the Shares then issued and outstanding. A meeting shall be adjourned for lack of quorum and notice of the adjourned meeting shall be sent to all Shareholders rescheduling the meeting to a date at least seven (7) days following the original meeting date. A quorum for the adjourned meeting shall be at least two (2) individuals representing by proxy or as otherwise permitted by the Act a Shareholder or Shareholders holding at least 66-2/3% of the Shares then issued and outstanding.

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The chair of any meeting of the Shareholders of HoldCo shall be the Chair or, in the absence of the Chair, the Vice-Chair, or in the absence of the Vice-Chair, the Chief Executive Officer of HoldCo or, in the absence of the Chief Executive Officer, such individual as the Shareholders represented at such meeting shall determine.

Subject to the Act, the Board shall provide the Shareholders with reasonable notice of and detail concerning a Shareholders' meeting in order for the Shareholders to reasonably assess the importance of and prepare for, the Shareholders' meeting.

3.5 Regular Shareholders Meetings

Unless the Shareholders otherwise determine, the Shareholders shall meet at least annually at the registered office of HoldCo or at such other times or places as the Shareholders may determine,

3.6 Decisions of the Shareholders

All decisions of the Shareholders shall require, and shall be deemed to be effective upon:

- (i) the approval of at least two thirds (2/3) of the votes cast at a duly constituted meeting of Shareholders, each Shareholder being entitled to one vote per share held by that Shareholder; or
- (ii) the execution of a resolution in writing signed by all the Shareholders entitled to vote on that resolution at a meeting of Shareholders.

3.7 Shareholder Representative

At least thirty (30) days prior to the commencement of each Fiscal Year, each Shareholder shall designate the head of its Council (or an alternate duly appointed by Council) as the legal representative of that Shareholder (the "**Shareholder Representative**") for purposes of providing any consent or approval required by this Agreement or by the Act. The Shareholder Representative shall be the shareholder representative for purposes of this Agreement and of the Act unless the Shareholder determines otherwise. A Shareholder shall designate its Shareholder Representative (by proxy duly completed in accordance with the Act) as its representative to attend and vote at any meeting of Shareholders.

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3.8 Officers

- (a) The officers of HoldCo shall include a Chief Executive Officer and such other officers as the Board may determine from time to time. The Board shall appoint the officers of HoldCo from time to time.
- (b) For greater certainty the parties recognize that in carrying on the ordinary course of Business, it is not practicable for the Board to be involved in the day to day affairs of HoldCo. The Board will delegate responsibilities to the officers, who will report to the Board and the Board Committees from time to time as required.

3.9 Matters Requiring Shareholder Approval

The Shareholders and the Corporations agree that, without Shareholder approval given in accordance with Section 3.6, each of HoldCo, WiresCo, ServicesCo and GenCo shall not:

- (a) amend its articles (within the meaning of the Act) or enact, revoke, or amend any by-law of HoldCo, WiresCo, ServicesCo and GenCo respectively;
- (b) issue, or enter into any agreement to issue, any shares of HoldCo, WiresCo, ServicesCo and GenCo respectively of any class, or any securities convertible into any shares of any class, or grant any option or other right to purchase any such shares or securities convertible into such shares;
- (c) redeem, purchase for cancellation or otherwise retire any of its outstanding shares;
- (d) sell or otherwise dispose of, by conveyance, transfer, lease, sale and leaseback, merger or other reorganization or transaction, mortgage, pledge, charge or otherwise grant a security interest in, all or substantially all of its assets or undertaking;
- (e) enter into any acquisition, joint venture, partnership, strategic alliance or other venture which would require an investment of greater than ten (10%) percent of the consolidated net book value of the assets of HoldCo as set out in the most recent consolidated audited financial statements of HoldCo;

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- (f) grant security for or guarantee, or otherwise become liable for any debt, liability or obligation of any Person other than a subsidiary corporation;
- (g) take or institute the proceedings for any winding up, reorganization or dissolution;
- (h) enter into any amalgamation, arrangement or consolidation;
- (i) apply to continue as a corporation under the laws of another jurisdiction;
- (j) approve a business plan; and
- (k) change, alter or amend the compensation of the Board or the board of directors of any Subsidiary.

3.10 Unanimous Shareholder Agreement

Each of the Shareholders and HoldCo acknowledge that this Agreement is intended to operate as a unanimous shareholder agreement with respect to HoldCo and each Subsidiary within the meaning of the Act. Pursuant to Section 108(2) of the Act, the discretion and powers of (a) the Board to manage or supervise the management of the business and affairs of HoldCo and (b) the board of directors of each Subsidiary and HoldCo to manage or supervise the management of the business and affairs of respective Subsidiary are hereby restricted to the extent of the provisions of Section 3.9 of this Agreement.

3.11 Agreement Binds HoldCo and Subsidiaries

HoldCo and the Subsidiaries, by their execution of or acknowledgement to be bound by this Agreement, acknowledges that they have actual notice of the terms of this Agreement, consent to this Agreement and by this Agreement covenant with each of the Shareholders that they will at all times during the term of this Agreement:

- (a) give or cause to be given such notices, execute or cause to be executed such deeds, transfers and documents as may from time to time be necessary or conducive to the carrying out of the terms and intent of this Agreement;

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- (b) do or cause to be done all such acts, matters and things as may from time to time be necessary or conducive to the carrying out of the terms and intent of this Agreement; and
- (c) take no action that would constitute a contravention of any of the terms and provisions of this Agreement.

3.12 Auditors

The Auditors shall be appointed by the Shareholders from time to time.

3.13 Banking

HoldCo's bankers shall be such financial institution as the Board shall from time to time determine. All resolutions respecting banking authority, the opening of bank accounts and the drawing on such accounts shall require the consent of the Board before becoming effective.

3.14 Financial Statements

- (a) HoldCo shall cause to be prepared and delivered as soon as reasonably practicable and in no event later than one hundred and twenty (120) days after the end of each fiscal year of HoldCo annual audited financial statements, on a consolidated basis, for such fiscal year prepared in accordance with generally accepted accounting principles and accompanied by a report of the Auditors.
- (b) HoldCo shall cause to be prepared and delivered as soon as reasonably practicable and in no event later than forty-five (45) days after the end of the sixth month of HoldCo's fiscal year an unaudited balance sheet and a statement of profit and loss for such preceding six months prepared in accordance with generally accepted accounting principles without adjusting entries or review by accountants and signed by an authorized officer of HoldCo, and such other information as may be reasonably requested by the Shareholders.

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ARTICLE IV REPRESENTATIONS, WARRANTIES AND COVENANTS

4.1 Representations and Warranties

Each of the Shareholders represents and warrants as follows and acknowledges that each of the other parties hereto are relying on such representations and warranties in connection with the entering into of this Agreement:

- (a) it is the registered and beneficial owner of the Shares stated to be owned by such Shareholder in the recitals hereto, free and clear of all Encumbrances and there are no outstanding agreements, options, warrants or other rights capable of becoming an agreement, option or warrant to purchase such Shares;
- (b) it has the power and capacity to own its assets and to enter into and perform its obligations hereunder and has taken all necessary action to authorize the execution and delivery of this Agreement;
- (c) this Agreement and the transactions contemplated herein have been duly authorized by it and constitutes a valid and binding obligation of it enforceable against it in accordance with its terms subject to the laws of bankruptcy and the availability of equitable remedies; and
- (d) the execution, delivery and performance of this Agreement does not and will not contravene the provisions of its articles, by-laws, constating documents or the provisions of any agreement or other instrument to which it is a party or may be bound.

4.2 Covenants

Each of the Shareholders covenants and agrees with each other party hereto that all of the foregoing representations and warranties pertaining to it set forth in Article 4.1 will continue to be true and correct during the continuance of this Agreement.

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ARTICLE V TRANSFER OF SHARES

5.1 General Restriction on Transfer

No right, title, benefit or interest in any Shares may be sold, transferred, assigned, made subject to any Encumbrance or otherwise disposed of by any Shareholder for the three (3) year period from the date of this Agreement ending on the third anniversary of the incorporation of HoldCo (the “**Hold Period**”) except with the prior written approval of all of the Shareholders.

Following the Hold Period, save and except for transfers made pursuant to and in accordance with Sections 5.3, 5.4 and 5.5 of this Agreement, no Shares, nor the whole or any item or part of any right, title, benefit or interest therein or thereto, may be sold, transferred, assigned, made subject to any Encumbrance or otherwise disposed. No Shareholder shall be entitled to create or grant an Encumbrance on its Shares.

5.2 Legend on Shares

All share certificates representing Shares of HoldCo shall bear on their face the following notation:

“The shares represented by this certificate are subject to the provisions of the Shareholders’ Agreement made as of ● ●, 2014 among all of the shareholders of the Corporation as at that date, which agreement contains restrictions on the right to sell, transfer, pledge, mortgage, assign, vote or otherwise deal with or encumber such shares. Notice of such restrictions and the other provisions of such agreement is hereby given. A copy of such agreement is available for inspection from the Secretary of the Corporation on request.”

5.3 Rights of First Refusal

If any Shareholder (in this Article V called the “**Selling Shareholder**”), after the Hold Period, wishes to sell all, but not less than all, of its Shares to a Person with whom it deals at Arm’s Length, the other Shareholders and HoldCo (in this Article V called the “**Other Holders**”) shall have the prior right to purchase such Shares in accordance with the following provisions:

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- (a) **Notice of Offer.** A Selling Shareholder shall give to the Secretary of HoldCo and to each Other Holder notice in writing of its desired intention to sell all, but not less than all, of its Shares (in this Article V called the “**Offered Shares**”). The notice (in this Article called the “**Selling Notice**”) shall have annexed thereto a true copy of the offer, agreement or similar document (the “**Offer**”) containing the terms and conditions pursuant to which the Selling Shareholder wishes to sell the Offered Shares to the prospective purchaser (in this Article V called the “**Prospective Purchaser**”), who shall be identified, and the price and terms of payment which the Selling Shareholder is willing to accept for the Offered Shares which shall be the same as set forth in the Offer;
- (b) **Offer Open During Notice Period.** The Secretary of HoldCo shall thereupon be deemed to be the agent of the Selling Shareholder for the purposes of offering the Offered Shares to the Other Holders on the terms of payment and for the price contained in the Selling Notice and the offer by the Secretary shall be irrevocable and remain open for acceptance, as hereinafter provided, for a period of sixty (60) days (in this Article V called the “**Notice Period**”) after receipt of the Selling Notice by the Secretary;
- (c) **Acceptance of Offer.** Within fifteen (15) Business Days after receipt of the Selling Notice by the Secretary, the Secretary shall offer the Offered Shares for sale to the Other Holders as nearly may be in proportion to the number of Shares held by each such Other Holder respectively as at the date of such offer. The offer by the Secretary shall state that any Other Holder desiring to purchase a number of Offered Shares less than or in excess of its proportion shall indicate in its notice to the Secretary (in this Article V called the “**Purchase Notice**”) stating the number of Offered Shares it desires to purchase. If, within the Notice Period, a Purchase Notice has not been received by the Secretary of HoldCo from an Other Holder, such Other Holder shall be deemed to have declined to purchase the Offered Shares being offered;

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- (d) **Excess Shares.** If the Other Holders do not claim their respective proportions, any unclaimed Offered Shares shall be used to satisfy the claims of such Other Holders for Offered Shares in excess of their proportions. If the claims in excess are more than sufficient to exhaust such unclaimed Offered Shares, the unclaimed Offered Shares shall be divided pro rata among such Other Holders desiring Offered Shares in excess of their proportion, in proportion to the number of Shares held by them respectively as at the date of such offer, provided that any unclaimed Offered Shares after such pro rata division shall be divided pro rata among Other Holders in proportion to their claims in excess of their respective proportions determined as aforesaid. Notwithstanding anything to the contrary, no Other Holder shall be bound to purchase any Offered Shares in excess of the amount indicated in its Purchase Notice;
- (e) **No Fractions.** If the Offered Shares are not capable, without division into fractions of Shares, of being offered to or being divided among the Other Holders in the proportions above mentioned, the same shall be offered to or divided among the Other Holders as nearly as may be in the proportions hereinbefore mentioned and any balance shall be offered to or divided among the Other Holders or some of them in such equitable manner as may be determined by the Board;
- (f) **Sale.** If all, but not less than all, of the Offered Shares are accepted by the Other Holders pursuant to the provisions of this Section 5.3, the Offered Shares shall be sold to the Other Holders for the price and for the terms contained in the Selling Notice;
- (g) **Deemed Refusal.** If Purchase Notices have not been received by the Secretary in respect of all of the Offered Shares within the Notice Period, the Other Holders, and each of them, shall be deemed to have declined to purchase the Offered Shares and, subject to the provisions of paragraph (h), the Selling Shareholder may within sixty (60) days after the expiration of the Notice Period sell all, but not less than all, of the Offered Shares to the Prospective Purchaser at the price

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and upon terms of payment which are not more favourable than those specified in the Selling Notice; and

- (h) **Prospective Purchaser Bound.** The Selling Shareholder shall sell the Offered Shares to a Person who is not a party hereto only if such other Person simultaneously with any such sale executes and delivers to each of the other parties hereto a counterpart of this Agreement in which case such Person shall be subject to the same obligations as a party to this Agreement as if it were an original signatory in place of the Selling Shareholder or its predecessor in title originally party to this Agreement, as applicable.
- (i) **HoldCo as Purchaser.** The Other Holders, except HoldCo, may cause HoldCo to act as an Other Holder.

5.4 Piggyback Right

In the event one or more Selling Shareholders receives an Offer and, in accordance with the procedures set forth in Section 5.3, the Other Holders decline to purchase the Offered Shares from the Selling Shareholder(s), and the Shares which the Selling Shareholder(s) wish to sell under the Offer(s) would result in a Person other than an existing Shareholder owning more than forty-nine (49%) percent of all of the issued and outstanding Shares, then each Other Holder except HoldCo shall have the right to require that all, but not less than all, of its Shares be sold to the Prospective Purchaser, on the same terms and conditions as those set out in the Offer; provided that, if the Prospective Purchaser will not purchase the aggregate amount of Shares which the Selling Shareholder(s) and the Other Holders except HoldCo requested to be sold pursuant to the immediately preceding sentence, the number of Shares which the Selling Shareholder(s) and the Other Holders except HoldCo shall be permitted to sell to the Prospective Purchaser shall be proportionately reduced so that each may sell the same percentage of its Shares. The Other Holders except HoldCo may only exercise their right under this Section 5.4 by written notice given to the Secretary of HoldCo within the Notice Period.

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5.5 Drag-Along Right

If a Shareholder or Shareholders owning in the aggregate at least eighty (80%) percent of the Shares is or are the Selling Shareholder(s), as the case may be, and

- (a) the Offered Shares are all, but not less than all, of the Selling Shareholders' Shares;
- (b) the Selling Shareholders receive an Offer and, in accordance with the procedures set forth in Section 5.3, the Other Holders decline to purchase all of the Offered Shares; and
- (c) the Prospective Purchaser agrees to purchase all of the outstanding Shares on the terms set forth in the Offer;

then the Selling Shareholder(s) shall have the right, upon written notice given to all Shareholders within ten (10) Business Days after the Notice Period has expired, to require that all Shareholders sell all their Shares to the Prospective Purchaser. Upon such notice being given, all Shareholders shall be required to sell their Shares to the Prospective Purchaser upon the terms and conditions set forth in the Offer provided that the closings of all such sales shall occur contemporaneously.

ARTICLE VI CLOSING OF PURCHASE TRANSACTION

6.1 Time and Place of Closing

The closing of any purchase and sale of Shares contemplated by Sections 5.3, 5.4 or 5.5 of this Agreement shall unless otherwise agreed upon by the parties to such transaction, take place at the registered office of HoldCo on the date specified in the Selling Notice.

6.2 Documents to be Delivered by the Vendor

On or before the closing of a purchase and sale of Shares contemplated hereunder, the vendor shall deliver to the purchaser the following (each in form and substance satisfactory to the purchaser):

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- (a) a share certificate or certificates representing the Shares being sold, duly endorsed in blank for transfer or newly issued in the name of the purchaser;
- (b) a certificate of a senior officer certifying, for and on behalf of HoldCo, that any representations and warranties made by such vendor in this Agreement are true and correct as of the Closing Date;
- (c) the written release of the vendor of all claims against HoldCo and the Subsidiaries, any of the other Shareholders with respect to any matter or thing arising up to and including the Closing Date as a result of being a Shareholder; and
- (d) such other documents as may be reasonably required by any party to such purchase and sale to properly complete the purchase and sale of the Shares.

6.3 Documents to be Delivered by the Purchaser

On or before the closing of a purchase and sale of Shares contemplated hereunder, the purchaser shall deliver to the vendor the following:

- (a) a certified cheque or bank draft in an amount equal to the purchase price for the Shares being purchased;
- (b) in the event Shares are sold to a Person who is not a Shareholder pursuant to Sections 5.3 or 5.4 hereof, a duly executed counterpart of this Agreement or other agreement pursuant to which such Person agrees to be bound by the provisions hereof; and
- (c) such other documents as may be reasonably required by any party to such purchase and sale to properly complete the purchase and sale of the Shares.

6.4 Failure to Complete Sale

In the event the vendor fails to complete the subject purchase and sale transaction, the purchaser shall have the right to deposit the purchase price for the subject Shares for the account

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of the vendor in an interest-bearing account at a branch of HoldCo's bankers. Thereafter, notwithstanding that the documents required pursuant to Section 6.2 have not been delivered by the vendor, the purchase and sale of the subject Shares shall be deemed to be fully completed and all right, title, benefit and interest, both at law and in equity, in and to the subject Shares shall be deemed to have been transferred and assigned to and become vested in the purchaser and all right, title, benefit and interest, both at law and in equity, of the vendor or any other Person having an interest in and to the subject Shares shall cease and the records of HoldCo shall be amended accordingly.

ARTICLE VII

NON-COMPETITION AND CONFIDENTIALITY

7.1 Non-Competition

- (a) Each Shareholder covenants and agrees that it shall not, except through the Corporations or otherwise with the consent of all Shareholders, or as provided in Section 7.1(b), directly or indirectly, from the date hereof until two (2) years after the party ceases to be a Shareholder, compete within (i) Ontario; (ii) Central Ontario; or (iii) Muskoka/Parry Sound/Almaguin Region with the Business, whether by carrying on or engaging in or being concerned with or interested in or advising, lending money to, guaranteeing the debts or obligations of or permitting the party's name or any part thereof to be used or employed by any Person engaged in or concerned with or interested in any business within (i) Ontario; (ii) Central Ontario; or (iii) Muskoka/Parry Sound/Almaguin Region that is competitive with the Business, or otherwise.
- (b) The parties acknowledge that (i) a municipality (other than a Shareholder) which is a shareholder of one or more corporations incorporated under the Act for the purposes of generating, transmitting, distributing or retailing electricity, and (ii) a person which holds a portfolio investment of less than five (5%) percent of the shares of a corporation whose shares are publicly traded which competes with the Business is permitted to become a Shareholder in accordance with the provisions

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of this Agreement without such investment in such other entity or entities being considered a breach of Subsection 7.1(a).

7.2 Confidentiality

Each Shareholder shall not use or disclose to any Person other than in the ordinary course of the Business, directly or indirectly, any Confidential Information at any time other than to employees, officers or directors of such Shareholder provided that all such Persons shall treat such information as confidential and not disclose same to any Third Party nor use the same for any purpose other than for the purposes of the Corporations or in respect of a Shareholder's investment in the Corporations, provided, however, that nothing in this Article VII shall preclude a Shareholder from disclosing or using Confidential Information if:

- (a) the Confidential Information is available to the public or in the public domain at the time of such disclosure or use, without breach of this Agreement;
- (b) disclosure of Confidential Information is required to be made by any law, regulation, governmental body or authority or by court order;
- (c) disclosure of Confidential Information is made in connection with any arbitration pursuant to Section 10.3;
- (d) disclosure of Confidential Information is made to a court which is determining the rights of the parties under this Agreement;
- (e) the Confidential Information is properly within the legitimate possession of a Shareholder prior to its disclosure hereunder and without any obligation of confidentiality;
- (f) after disclosure, the Confidential Information is lawfully received by a Shareholder from another Person who is lawfully in possession of such information and such other Person is not restricted from disclosing the information to the Shareholder;

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- (g) the disclosure of Confidential Information is necessary to complete a transfer of Shares in accordance with this Agreement;
- (h) the Confidential Information is independently developed by a Shareholder through Persons who have not had access to, or knowledge of, the Confidential Information, other than as permitted in (a) through (g) above or (i) below; or
- (i) the Confidential Information is approved by the Corporations for disclosure prior to its actual disclosure.

Each Shareholder acknowledges and agrees that the obligations under this. Section 7.2 shall remain in effect for the period of two (2) years after it ceases to be a Shareholder. Notwithstanding the foregoing restrictions, the Board shall be entitled in its discretion to discuss the affairs of the Corporations with the officers, directors, employees and representatives of such Shareholder.

7.3 Injunctive Relief

Each Shareholder understands and agrees that HoldCo, and consequently the other parties, will suffer irreparable harm in the event that the Shareholder breaches any of the obligations set out in this Article VII and that monetary damages shall be inadequate to compensate for the breach. Accordingly, each Shareholder agrees that, in the event of a breach or threatened breach by it of any of the provisions of this Article VII, HoldCo and the other parties hereto, in addition to and not in limitation of any other rights, remedies or damages available to them at law or in equity, shall be entitled to an interim injunction, interlocutory injunction and permanent injunction in order to prevent or to restrain any such breach by the Shareholder.

7.4 Accounting for Profits

Each Shareholder agrees that in the event of a violation of any of its covenants or agreements under this Article VII, HoldCo shall be entitled to an accounting and repayment of all profits, compensation, royalties, commissions, remunerations or benefits which the Shareholder directly or indirectly shall have realized or may realize relating to, growing out of, or in connection with any such violation(s); this remedy shall be in addition to and not in

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limitation of any injunctive relief or other rights or remedies to which HoldCo and the other parties are or may be entitled at law or in equity or otherwise under this Article VII.

7.5 Reasonableness of Restrictions

Each Shareholder acknowledges that it has given careful consideration to the provisions of Sections 7.1 to 7.4 above and, having done so, agrees that the restrictions set forth in those sections are fair and reasonable and are reasonably required for the protection of the other Shareholders' investments in HoldCo and for the protection of the interests of HoldCo and its Business, and that it is being reasonably compensated for the imposition of such restrictions.

ARTICLE VIII BOOKS, RECORDS AND RIGHT TO INFORMATION

8.1 Books and Records

HoldCo shall at all times maintain at its registered office proper books of account, which shall contain accurate and complete records of all transactions, receipts, expenses, assets and liabilities of HoldCo.

8.2 Right to Information

The parties covenant and agree that each Shareholder of HoldCo shall have rights of inspection as set out in Sections 140, 141, 144 and 145 of the Act.

8.3 Right to Attend Shareholder Meetings

Each Shareholder entitled to vote at a meeting of Shareholders shall have the right to attend at a meeting of Shareholders.

8.4 Reporting on Developments

The Board shall appoint an individual or individuals to report to the Shareholders from time to time on developments in the Corporations as considered appropriate by the Board.

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ARTICLE IX TERM

9.1 Term and Automatic Renewal

This Agreement shall come into force and effect as at and from the date of this Agreement and shall continue in force for five (5) years at which time this Agreement shall be automatically renewed for further successive terms of five (5) years each.

ARTICLE X GENERAL

10.1 Notices

All notices, requests, demands, consents or other communications required to be given or made or provided for in this Agreement shall be in writing and shall be deemed to have been given if delivered, if sent by registered mail or if sent by facsimile or other means of electronic transmission to:

Bracebridge at:

The Corporation of the Town of Bracebridge
1000 Taylor Court
Bracebridge, ON P1L 1R6

Fax Number: 705-645-1262
Attention: Mayor

Burk's Falls to:

The Corporation of the Village of Burk's Falls
P.O. Box 160, 172 Ontario Street
Burk's Falls, ON P0A 1C0

Fax Number: 705-382-2273
Attention: Reeve

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Huntsville to:

Corporation of the Town of Huntsville
37 Main Street East
Huntsville, ON P1H 1A1

Fax Number: 705-789-6689
Attention: Mayor

Magnetawan to:

Corporation of the Municipality of Magnetawan
P.O. Box 70, 4304 Highway 520
Magnetawan, ON P0A 1P0

Fax Number: 705-387-4875
Attention: Mayor

Sundridge to:

Corporation of the Village of Sundridge
P.O. Box 129, 110 Main Street
Sundridge, ON P0A 1A0

Fax Number: 705-384-7874
Attention: Mayor

Parry Sound to:

The Corporation of the Town of Parry Sound
52 Seguin St.
Parry Sound ON
P2A 1B4

Fax Number: 705-746-7461
Attention: Mayor

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HoldCo to:

Lakeland Holding Ltd.
200-395 Centre Street
Huntsville, Ontario
P1H 2M2

Fax: 705-789-3110

Attention: Chief Executive Officer

WiresCo to:

As Above

GenCo to:

As Above

ServicesCo to:

As Above

or at such other addresses as the party to whom such notice is to be given may have designated by notice so given to the other parties. Any notice so mailed shall be deemed to have been given on the fifth (5th) Business Day following the date of the mailing of the same or if delivered, on the date of delivery and any notice given by facsimile or other means of electronic communication shall be deemed to have been received on the Business Day following the date on which such transmission is completed and the appropriate confirmation received.

10.2 Assignment and Binding Effect

This Agreement is not assignable by any party except insofar as its benefit and burden pass with the Shares transferred in accordance with its provisions. This Agreement shall be binding on and enure to the benefit of the parties hereto and their respective successors and permitted assigns. Reference in this Agreement to any party shall be deemed to include reference to such party and its respective successors and assigns as permitted hereunder.

10.3 Arbitration

- (a) **Selection of Single Arbitrator.** The Shareholders agree that any controversy, dispute or claim between them or any of them arising out of or relating to this Agreement or the performance, enforcement, breach, termination or validity of it, including the determination of the scope of the Agreement to arbitrate, shall be determined by arbitration before a single arbitrator (the “**Arbitrator**”) agreed to by all of the Shareholders. If the Shareholders are unable to agree on the Arbitrator, then, an application may be made under the Arbitration Act to a judge for the appointment.
- (b) **Referring Dispute.** Any Shareholder may refer a dispute to the Arbitrator by providing notice in writing to the Arbitrator and to all of the Shareholders hereto expressing its intention to refer the dispute to arbitration and briefly describing the nature of the dispute.
- (c) **Attempted Settlement.** Upon service of the notice referred to above, the Shareholders who are party to the dispute (the “**Disputing Shareholders**”) will attempt to negotiate a settlement of the dispute amongst themselves. In the event that the parties are unable to reach settlement by themselves within ten (10) days of the service of the notice referred to above, the Shareholders will proceed with the arbitration and any Disputing Shareholders shall be free to apply to the Arbitrator for directions as to the scheduling of the arbitration itself and the pre-hearing procedures.
- (d) **Decision Final and Binding.** The Shareholders agree that the award of the Arbitrator shall be final and binding without any right of appeal and shall be the sole and exclusive remedy between them regarding any claims, counterclaims, issues or disputes referred to the Arbitrator.
- (e) **Place of Arbitration.** The arbitration shall take place in Muskoka, and shall be governed by the laws of the Province of Ontario.

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- (f) **Powers of Arbitrator.** The Shareholders agree that the Arbitrator shall have the powers and jurisdiction of an arbitrator pursuant to the Arbitration Act and such power shall include the power to award interim and interlocutory injunctions and other equitable relief.
- (g) **Costs.** The Arbitrator shall have the power to award the costs of the Arbitrator's services and related costs against either party, however, each party will bear the costs of their own counsel and witness fees.
- (h) **Written Notices.** All notices by one Shareholder to the other in connection with the arbitration shall be in writing and shall be deemed to have been duly given or made if delivered or sent by facsimile transmission to the addresses provided in this Agreement.

10.4 Further Assurances

Each party hereto shall do such acts and shall execute such further documents, conveyances, deeds, assignments, transfers and the like, and will cause the doing of such acts and will cause the execution of such further documents as are within its power as any other party may in writing at any time and from time to time reasonably request be done and or executed, in order to give full effect to the provisions of this Agreement.

10.5 Severability

If any provision of this Agreement is determined to be invalid or unenforceable by a court of competent jurisdiction from which no further appeal lies or is taken, that provision shall be deemed to be severed herefrom, and the remaining provisions of this Agreement shall not be affected thereby and shall remain valid and enforceable.

10.6 Amendment, Modification and Waiver

This Agreement may not be modified, amended, terminated or supplemented except as agreed, in writing, by Shareholders both comprising a majority in number of the Shareholders and holding not less than 66-2/3% of the Shares then issued and outstanding. Any waiver of, or

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

10.7 Amalgamation of Shareholder(s)

- (a) **Allocation of Proceeds on Sale of Amalgamated Shareholder.** In the event that: (i) two or more Current Shareholders are amalgamated (“**Amalgamated Shareholder**”) and (ii) the Amalgamated Shareholder’s interest in HoldCo is sold, it is the intention of the Current Shareholders that the proceeds of disposition from the sale of the Amalgamated Shareholder’s interest in HoldCo be allocated in proportion to the pre-amalgamation percentage of the Amalgamated Shareholder’s shareholdings in HoldCo and used for the benefit of the residents within the municipal boundaries of the Current Shareholders on the date hereof.
- (b) **Allocation of Dividends Held in Reserve.** Each of the Current Shareholders shall create a reserve fund (a “**Reserve**”) to receive dividends paid by HoldCo. The Current Shareholders may use any funds in their respective Reserve in the discretion of the applicable Council for the benefit of residents within its municipal boundaries. In the event that two (2) or more Current Shareholders are amalgamated, it is the intention of the Current Shareholders that any amounts held in Reserves be used for the benefit of the residents within the boundaries of the Current Shareholders on the date hereof to which each Reserve initially applied.
- (c) **Allocation of Dividends Received by Amalgamated Shareholder.** In the event that two (2) or more Current Shareholders are amalgamated, it is the intention of the Current Shareholders that following the amalgamation, the Amalgamated Shareholder will allocate for use all dividends received from HoldCo to the residents within the municipal boundaries of the Current Shareholders on the date

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hereof in proportion to the pre-amalgamation percentages of each Shareholder in HoldCo.

- (d) **Best Efforts to Obtain Order**. The Current Shareholders shall use their best efforts to ensure that the foregoing intentions contained in this Section 10.7 are achieved by requesting that provisions with substantially the same content as above be incorporated into any applicable order of the Ontario government relating to an Amalgamated Shareholder.

10.8 Time of Essence

Time is of the essence of this Agreement.

10.9 Counterparts

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute one agreement.

10.10 No Partnership

Nothing in this Agreement shall be deemed in any way or for any purpose to constitute any party a partner of or a joint venture with any other party.

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10.11 Proceedings

The covenants, agreements and obligations herein expressed to be observed and performed by the parties hereto may be enforced by any of the parties hereto pursuant to Section 10.3 without joining the remaining parties as parties in any proceedings.

IN WITNESS WHEREOF the parties hereto have duly executed this Agreement as of the date first above written.

**THE CORPORATION OF THE TOWN OF
BRACEBRIDGE**

By: _____ c/s
Graydon Smith, Mayor

By: _____ c/s
John Sisson, C.A.O. & Clerk

**THE CORPORATION OF THE VILLAGE
OF BURK'S FALLS**

By: _____ c/s
Cathy Still, Reeve

By: _____ c/s
Kim Dunnett, Clerk-Treasurer

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**THE CORPORATION OF THE TOWN OF
HUNTSVILLE**

By: _____ c/s
Claude Doughty, Mayor

By: _____ c/s
Kelly Pender, Clerk

**THE CORPORATION OF THE
MUNICIPALITY OF MAGNETAWAN**

By: _____ c/s
Sam Dunnett, Mayor

By: _____ c/s
Roger Labelle, Clerk/Administrator

**THE CORPORATION OF THE VILLAGE
OF SUNDRIDGE**

By: _____ c/s
Elgin Schneider, Mayor

By: _____ c/s
Lillian S. Fowler, CAO/Clerk

**THE CORPORATION OF THE TOWN OF
PARRY SOUND**

By: _____ c/s
Jamie McGarvey

By: _____ c/s
Rob Mens, CAO

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LAKELAND HOLDING LTD.

By: _____ c/s
Chris Litschko, Chief Executive Officer

By: _____ c/s
Tom Peppiatt, Chair

LAKELAND POWER DISTRIBUTION LTD.

By: _____ c/s
Chris Litschko, Chief Executive Officer

By: _____ c/s
Tom Peppiatt, Chair

LAKELAND ENERGY LTD.

By: _____ c/s
Chris Litschko, Chief Executive Officer

By: _____ c/s
Tom Peppiatt, Chair

BRACEBRIDGE GENERATION LTD.

By: _____ c/s
Chris Litschko, Chief Executive Officer

By: _____ c/s
Tom Peppiatt, Chair

SCHEDULE “A”

INDEMNITY AGREEMENT

This Agreement made as of the • day of •, •,

BETWEEN:

LAKELAND HOLDING LTD., a corporation incorporated under
the laws of Ontario,

(hereinafter referred to as “**HoldCo**”)

OF THE FIRST PART,

- and -

LAKELAND ENERGY LTD., a corporation incorporated under
the laws of Ontario,

(hereinafter referred to as “**ServicesCo**”)

OF THE SECOND PART,

-and-

LAKELAND POWER DISTRIBUTION LTD., a corporation
incorporated under the laws of Ontario,

(hereinafter referred to as “**DistributionCo**”)

OF THE THIRD PART,

-and-

BRACEBRIDGE GENERATION LTD., a corporation
incorporated under the laws of Ontario,

(hereinafter referred to as “**GenCo**”)

OF THE FOURTH PART,

- and –

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■

(hereinafter referred to as the “**Director**”/“**Officer**”)

OF THE FIFTH PART,

WHEREAS HoldCo, ServicesCo, DistributionCo and GenCo are each incorporated under the provisions of the Business Corporations Act (Ontario) (the “**Act**”);

AND WHEREAS HoldCo is the sole shareholder of ServicesCo, DistributionCo and GenCo;

AND WHEREAS the Director/Officer, at the request of HoldCo, has accepted the position of a director/officer of HoldCo, of ServicesCo, of DistributionCo and of GenCo;

AND WHEREAS the Director/Officer has no direct or indirect financial interest in HoldCo or ServicesCo or DistributionCo or GenCo;

AND WHEREAS the by-laws of HoldCo, ServicesCo, DistributionCo and GenCo provide that the corporations shall indemnify a director or officer in certain circumstances.

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT in consideration of the premises and the covenants and agreements herein contained and for other good and valuable consideration (the receipt and adequacy of which is hereby acknowledged by each of the parties hereto), and in consideration of the Director’s/Officer’s consenting to act as a director/officer of HoldCo, ServicesCo, DistributionCo and GenCo and acceding to HoldCo’s request to accept such position[s], the parties hereby agree each with the others as follows:

1. Holdco shall indemnify the Director/Officer and his heirs and legal representatives against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director/officer of HoldCo if:

(a) he acted honestly and in good faith with a view to the best interests of HoldCo;

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- (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he had reasonable grounds for believing that his conduct was lawful; and
- (c) in the case of an action by or on behalf of HoldCo to procure a judgment in its favour, HoldCo obtains any approval required under the Act in respect of such indemnification.

2. ServicesCo shall indemnify the Director/Officer and his heirs and legal representatives against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director/officer of ServicesCo if:

- (a) he acted honestly and in good faith with a view to the best interests of ServicesCo;
- (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he had reasonable grounds for believing that his conduct was lawful; and
- (c) in the case of an action by or on behalf of ServicesCo to procure a judgment in its favour, ServicesCo obtains any approval required under the Act in respect of such indemnification.

3. DistributionCo shall indemnify the Director/Officer and his heirs and legal representatives against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director/officer of DistributionCo if:

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- (a) he acted honestly and in good faith with a view to the best interests of DistributionCo;
- (b) in the case of a criminal or administrative action or proceeding that is enforced by monetary penalty, he had reasonable grounds for believing that his conduct was lawful; and
- (c) in the case of an action by or on behalf of DistributionCo to procure a judgment in its favour, DistributionCo obtains any approval required under the Act in respect of such indemnification.

4. GenCo shall indemnify the Director/Officer and his heirs and legal representatives against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by him in respect of any civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been a director/officer of GenCo if:

- (a) he acted honestly and in good faith with a view to the best interests of GenCo;
- (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he had reasonable grounds for believing that his conduct was lawful; and
- (c) in the case of an action by or on behalf of GenCo to procure a judgment in its favour, GenCo obtains any approval required under the Act in respect of such indemnification.

5. HoldCo, ServicesCo, DistributionCo and GenCo shall use their best efforts to obtain any approval required under the Act or otherwise in respect of any indemnification required to be made by them under this agreement.

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6. HoldCo, ServicesCo, DistributionCo and GenCo shall indemnify the Director/Officer in such other circumstances as the Act, as amended from time to time, permits or requires.

7. Any indemnification to be made to the Director/Officer under this agreement shall not be affected by any remuneration that he shall have received, or to which he may be entitled, at any time for acting in his capacity as a director/officer of HoldCo or ServicesCo or DistributionCo or GenCo.

8. Each of HoldCo, ServicesCo, DistributionCo and GenCo shall purchase and maintain insurance for the benefit of the Director/Officer in an amount of at least Twenty Million Dollars (\$20,000,000) (per occurrence [per policy year] with no deductible payable by any director/officer making a claim under the policy) against any liability incurred by the Director/Officer in his capacity as a director/officer of the respective corporation, except where the liability relates to his failure to act honestly and in good faith with a view to the best interests of the corporation.

9. HoldCo, in its capacity as the sole shareholder of ServicesCo, DistributionCo and GenCo, guarantees performance by each of ServicesCo, DistributionCo and GenCo of their respective obligations under this agreement and payment to the Director/Officer of all debts or other obligations at any time due or owing to the Director/Officer by ServicesCo, DistributionCo and GenCo pursuant to this agreement or to any obligation of ServicesCo, DistributionCo or GenCo to indemnify the Director/Officer whether imposed by statute or otherwise.

10. HoldCo, in its capacity as the sole shareholder of ServicesCo, DistributionCo and GenCo, shall indemnify and save harmless the Director/Officer and his heirs and legal representatives to the fullest extent permitted by law from and against any liability and all costs, charges and expenses of any nature whatsoever, including without limitation any amount paid to settle an action or satisfy a judgment, incurred by him in respect of any matter or thing, including without limitation any civil, criminal or administrative action, suit or other proceeding to which he is made a party, by reason of being or having been a director/officer of ServicesCo, DistributionCo

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or GenCo, regardless of the obligations of ServicesCo, DistributionCo or GenCo under this agreement.

11. This agreement may not be assigned by HoldCo, ServicesCo, DistributionCo or GenCo, and shall enure to the benefit of and be binding upon the parties hereto and their respective heirs, legal representatives, successors and permitted assigns.

12. This agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. The parties hereby attorn and submit to the non-exclusive jurisdiction of the Courts of the Province of Ontario in connection with any action, suit or proceeding brought in relation to this agreement.

13. The parties shall sign such further and other resolutions, documents and papers, cause such meetings to be held, votes cast, special resolutions and resolutions passed, by-laws enacted and documents executed, and do and perform and cause to be done and performed such further and other acts and things as may be necessary or desirable to give full effect to this agreement.

14. This agreement may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original and such counterparts together shall constitute one and the same, instrument.

15. Any transferee or allottee of shares of ServicesCo, DistributionCo or GenCo, as the case may be, shall be required, as a condition of the completion of any transfer or allotment, to enter into an agreement with the respective corporation, for the purpose of becoming bound in like manner as HoldCo, in its capacity as shareholder of ServicesCo, DistributionCo or GenCo, as the case may be, as a party to this agreement.

16. This agreement may not be terminated or amended without the written consent of the Director/Officer. Any attempt to terminate or amend this agreement without such written consent shall constitute the immediate and effective resignation of the Director/Officer. This agreement shall be effective as of the date hereof and shall remain in full force and effect until terminated in accordance with provisions of this paragraph. Any termination shall not affect any

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obligation of HoldCo or ServicesCo or DistributionCo or GenCo arising prior to termination in favour of the Director/Officer, including without limitation any obligation to indemnify by reason of any matter which has arisen or circumstances which have occurred prior to termination.

17. The invalidity or unenforceability of any provision of this agreement or any covenant herein contained shall not affect the validity or enforceability of any other provision or covenant hereof or herein contained, and the agreement shall be construed as if such invalid or unenforceable provision or covenant were omitted.

18. In this agreement where the context so requires words importing number shall include the singular and plural, words importing gender shall include the masculine, feminine and neuter genders and words importing persons shall include firms and corporations and vice versa.

19. Time shall be of the essence of this agreement and of each and every part hereof.

IN WITNESS WHEREOF the parties hereto have executed this agreement as of the day and year first above written.

(Witness)

[Director/Officer]

LAKELAND HOLDING LTD.

Per: _____
Name: _____
Title: _____

Per: _____
Name: _____
Title: _____

LAKELAND ENERGY LTD.

Per: _____
Name: _____
Title: _____

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Per: _____
Name: _____
Title: _____

**LAKELAND POWER DISTRIBUTION
LTD.**

Per: _____
Name: _____
Title: _____

Per: _____
Name: _____
Title: _____

BRACEBRIDGE GENERATION LTD.

Per: _____
Name: _____
Title: _____

Per: _____
Name: _____
Title: _____

TOR01: 5258547: v11

The Merger

Of

Lakeland Holding Ltd.

And

Parry Sound Hydro Corporation

Third Party Review

Prepared by

Hoey Associates Management Consultants Inc.

November 4, 2013

NOTICE

This document is Proprietary. It was prepared solely for the Shareholders of Lakeland Holding Ltd. The document and the information it contains are provided in confidence for the sole purpose to assess the proposed merger of Lakeland Holding Ltd. and Parry Sound Hydro Corporation. This document or its content may not be disclosed to any third party or used for any other purpose without the express written consent of Lakeland Holding Ltd.

Lakeland Holding Ltd.

Executive Summary

This Report was prepared for the Shareholders of Lakeland Holding Ltd. (LLH). It provides a Third Party Independent Review of the proposed LLH and Parry Sound Hydro Corporation (PSH) merger.

We reviewed the merger related Management Report prepared by the LLH CEO and related operations and financial documents. We met with Management to gain an understanding of the current business, the merger opportunity and clarification of the merger documents.

We reviewed the Discounted Cash Flow (DCF) financial model and the rationale for the relative values calculation of the two entities at Phase 1 and 2 of the merger. We also reviewed the DCF models for net free cash generation for the next 10 years for LLH and PSH pre and post-merger. DCF is the appropriate method to value this merger.

We understand LLH's Shareholder mandate is to achieve business expansion. The merger aligns with LLH's core distribution, generation and services business. LLH and PSH are in similar businesses. The PSH and LLH franchise are geographically adjacent. Cascade generation is also an excellent fit with the LLH business.

LLH and PSH are managing their human resources to be close to complement at merger. We expect the merged entity resource utilization will improve over time.

The free cash flows in the DCF model that accrue to the current LLH Shareholders pre and post the Cascade development are greater than the cash flows for LLH pre-merger. The cumulative potential cash availability over ten years for LLH shareholders is \$7.4 M greater than if the merger does not occur. The DCF calculations are reasonable.

The Management Report applies different share values to PSH for Phase 1 and 2. Cascade presents an attractive development opportunity. PSH's share value increases if Phase 2 is completed. Phase 1 and 2 relative share values are reasonable.

Lakeland Holding Ltd.

PSH has completed some significant tasks to advance and de-risk the Cascade upgrade. LLH brings an “expertise premium” to the execution of the upgrade and any benefits accrue 84.4% to existing LLH Shareholders. Other entities would relish this opportunity.

The new operating entity is larger than the original. The increased size of the asset will increase cash-flow for reinvestment and or dividend distribution.

In summary, the proposed merger provides considerable incremental value to current LLH Shareholders with relatively low financial risk. Management has the expertise, skill and talent to successfully complete the merger and to build a thriving business as proposed in the Management Report.

Exhibit 10

Banking Documentation



Central Ontario Commercial Banking Group
38 Main Street E
Huntsville, ON
P1H 2C8
Telephone No.: (705) 789 4434 ext 280
Fax No.: (705) 789 1239

September 25, 2012

LAKELAND POWER DISTRIBUTION LTD.
200-395 CENTRE ST N
HUNTSVILLE, ON
P1H 2M2

Attention: Margaret Maw

Dear Margaret:

The following amending agreement (the "Amending Agreement") amends the terms and conditions of the credit facilities (the "Facilities") provided to the Borrower pursuant to the Agreement dated January 25, 2011 and the subsequent Amending Agreement(s) dated November 10, 2011 and December 29, 2011:

BORROWER

LAKELAND POWER DISTRIBUTION LTD. (the "Borrower")

LENDER

The Toronto-Dominion Bank (the "Bank"), through its Central Ontario branch, in Barrie, ON.

**CONTRACTUAL
TERM**

AMEND

- 1) 364 Days to January 31, 2014
- 2) 60 month(s) from date of drawdown to no later than March 11, 2018
- 3) 60 month(s) from date of drawdown to no later than March 11, 2018

**FINANCIAL
COVENANTS**

The Borrower agrees at all times to:

AMEND

- a) Maintain a minimum **Debt Service Coverage Ratio (DSC)** of 2.00x. To be tested quarterly on a rolling 4 quarter basis.

EBITDA – 40% of CAPEX (net of contributed capital) – cash taxes
P* + I

*** to include Notional principal and interest payments at prevailing rates based on the amounts required to amortize facilities #2 and #3 over a 20-year amortization period.**

**AVAILABILITY OF
OPERATING LOAN**

The Operating Loan is uncommitted, made available at the Bank's discretion, and is not automatically available upon satisfaction of the terms and conditions, conditions precedent, or financial tests set out herein.

The occurrence of an Event of Default is not a precondition to the Bank's right to accelerate repayment and cancel the availability of the Operating Loan.

**SCHEDULE "A" -
STANDARD TERMS
AND CONDITIONS**

Schedule "A" sets out the Standard Terms and Conditions ("Standard Terms and Conditions") which apply to these credit facilities. The Standard Terms and Conditions, including the defined terms set out therein, form part of this Agreement, unless this letter states specifically that one or more of the Standard Terms and Conditions do not apply or are modified.

Unless otherwise stated, the amendments outlined above are in addition to the Terms and Conditions of the existing Agreement. All other terms and conditions remain unchanged.

We ask that the Borrower acknowledges agreement to these amendments by signing and returning the attached duplicate copy of this Amending Agreement to the undersigned on or before **October 25, 2012.**

Yours truly,

THE TORONTO-DOMINION BANK



Eleni Panoulas
Relationship Manager


Jeffrey Allsop
Manager, Commercial Credit



Central Ontario Commercial Banking Group
33 Collier Street, 2nd Floor
Barrie, ON
L4M 1G5
Telephone No.: 1-877-345-7273
Fax No.: (705) 726-3532

December 29, 2011

LAKELAND POWER DISTRIBUTION LTD.
200-395 CENTRE ST N
HUNTSVILLE, ON
P1H 2M2

Attention: Margaret Maw

Dear Margaret:

The following amending agreement (the "Amending Agreement") amends the terms and conditions of the credit facilities (the "Facilities") provided to the Borrower pursuant to the Agreement dated January 25, 2011 and the subsequent Amending Agreement(s) dated November 10, 2011.

BORROWER

LAKELAND POWER DISTRIBUTION LTD. (the "Borrower")

LENDER

The Toronto-Dominion Bank (the "Bank"), through its Central Ontario branch, in Barrie, ON.

CREDIT LIMIT

CHANGE

1) CAD\$4,000,000.00

**AVAILABILITY OF
OPERATING LOAN**

The Operating Loan is uncommitted, made available at the Bank's discretion, and is not automatically available upon satisfaction of the terms and conditions, conditions precedent, or financial tests set out herein.

The occurrence of an Event of Default is not a precondition to the Bank's right to accelerate repayment and cancel the availability of the Operating Loan.



Central Ontario
33 Collier St 2Nd Flr
Barrie, ON
L4M 1G5
Telephone No.: (705) 727-4725 ext. 280
Fax No.: (705) 727-0866

January 25, 2011

LAKELAND POWER DISTRIBUTION LTD.
5-45 Cairns Cres
Huntsville, ON P1H 2M2

Attention: Ms Margaret Maw

We are pleased to offer the Borrower the following credit facilities (the "Facilities"), subject to the following terms and conditions.

BORROWER

LAKELAND POWER DISTRIBUTION LTD.

LENDER

The Toronto-Dominion Bank (the "Bank"), through its Central Ontario branch, in Barrie, ON.

CREDIT LIMIT

- 1) CAD\$2,000,000 increasing to \$4,000,000 for the period January 25, 2011 to December 31, 2011
- 2) CAD\$1,162,500
- 3) CAD\$2,325,000

**TYPE OF CREDIT
AND BORROWING
OPTIONS**

- 1) **364 Day Committed Revolving Facility** available at the Borrower's option by way of:
 - Prime Rate Based Loans in CAD\$ ("Prime Based Loans")
 - Bankers Acceptances in CAD\$ ("B/As")

- 2) **Committed Term Facility** available at the Borrower's option by way of:
- Fixed Rate Term Loan in CAD\$
- 3) **Committed Term Facility** available at the Borrower's option by way of:
- Fixed Rate Term Loan in CAD\$

PURPOSE

- 1) To finance working capital requirements and capital expenditures including smart meters and expansion of current facility.
- 2) To finance past capital expenditures.
- 3) To finance past capital expenditures

TENOR

- 1, 2, 3) Committed

**CONTRACTUAL
TERM**

- 1) 364 days to January 31, 2012
- 2) 59 month(s) from the date of drawdown to 11/03/2013
- 3) 60 month(s) from the date of drawdown to 13/03/2012

**RATE TERM
(FIXED RATE
TERM LOAN)**

- 2) Fixed rate: 59 month(s) from the date of drawdown to 11/03/2013
- 3) Fixed rate: 60 month(s) from the date of drawdown to 13/03/2012

AMORTIZATION

- 1) 364 days to January 31, 2012
- 2) 59 month(s) from the date of drawdown to 11/03/2013
- 3) 60 month(s) from the date of drawdown to 13/03/2012



Commercial Banking

DEC 29 2012

Central Ontario Commercial Banking Group
38 Main Street East
Huntsville, Ontario P1H 2C8

Telephone No.: (705) 789-4434 ext. 280
Fax No.: (705) 789-1239

November 26, 2012

PARRY SOUND POWER CORPORATION
125 WILLIAM ST
PARRY SOUND, ON
P2A 1V9

Attention: Miles Thompson

Dear Sirs:

We are pleased to offer the Borrower the following credit facilities (the "Facilities"), subject to the following terms and conditions.

BORROWER

- (1) PARRY SOUND POWER CORPORATION
- (2) PARRY SOUND POWERGEN CORPORATION
- (3) PARRY SOUND ENERGY SERVICES CORPORATION (collectively, the "Borrower")

LENDER

The Toronto-Dominion Bank (the "Bank"), through its Central Ontario branch, in Barrie, ON.

CREDIT LIMIT

- 1) CAD\$1,500,000.00
- 2) CAD\$50,000.00
- 3) CAD\$50,000.00

**TYPE OF CREDIT
AND BORROWING
OPTIONS**

- 1) **Committed Operating Loan** available at the Borrower's option by way of:
 - Prime Rate Based Loans in CAD\$ ("Prime Based Loans")
 - Stand-by Letters of Guarantee in CAD\$ ("L/Gs")
- 2) **Operating Loan** available at the Borrower's option by way of:
 - Prime Rate Based Loans in CAD\$ ("Prime Based Loans")
- 3) **Operating Loan** available at the Borrower's option by way of:
 - Prime Rate Based Loans in CAD\$ ("Prime Based Loans")

PURPOSE

- 1) To finance working capital requirements for general corporate purposes for Parry Sound Power Corporation.
- 2) To finance working capital requirements for general corporate purposes for Parry Sound Powergen Corporation.
- 3) To finance working capital requirements for general corporate purposes for Parry Sound Energy Services Corporation.

TENOR

- 1) Committed
- 2, 3) Uncommitted

**CONTRACTUAL
TERM**

- 1) November 30, 2013
- 2) No term
- 3) No term

Schedule A

PROMISSORY NOTE

In consideration of the transfer of assets by the municipal Corporation of the Town of Parry Sound (the "Town") to **Parry Sound Power Corporation ("Wiresco")** pursuant to the Town By-law 2000-4303, Wiresco acknowledges itself indebted and hereby promises to pay to the Town, or its assigns, on demand, at its offices at 52 Seguin Street, Parry Sound, Ontario, P2A 1B4 (or such other place as the Town may direct Wiresco in writing) the principal sum of **Two Million, Four Hundred Thirty-Three Thousand, Seven Hundred and Twenty Seven Dollars (\$2,433,727)**, in lawful money of Canada, together with interest thereon as hereafter provided. Commencing January 1, 2002 interest shall be payable on the principal amount outstanding. The interest rate payable in any given year shall be 7.25%, payable quarterly. At the option of Wiresco, the interest and principal amount owing under this Note may be payable in cash or in lieu thereof, in additional common shares in the capital of Wiresco.

Wiresco shall have the option of prepaying the principal amount hereof at any time, in whole or in part, without notice or bonus and further shall have the option to redeem any shares issued under this Note at the value at the date of issue.

This Note shall be binding upon Wiresco and its successors and assigns. This Note may not be assigned by Wiresco without the prior written consent of the Town.

This Note shall be governed by and construed in accordance with the laws of the Province of Ontario.

DATED as of the 1st day of November, 2000.

PARRY SOUND POWER CORPORATION

Per: 

Per: 

Exhibit 11

Resolutions

THE CORPORATION OF THE TOWN OF PARRY SOUND

BY-LAW 2013 - 6287

Being a By-Law to authorize the execution of a Shareholders' Agreement concerning Lakeland Holding Ltd.

Whereas the Corporation of the Town of Parry Sound (Parry Sound) is the sole shareholder of Parry Sound Hydro Corporation (Holdco); and

Whereas the Parry Sound is authorized under section 142 of the *Electricity Act, 1998* to "acquire, hold, dispose or otherwise deal with..." the shares of Holdco; and

Whereas Holdco will merge with Lakeland Holdings Ltd; and

Whereas Parry Sound will become the owner of shares in Lakeland Holdings Ltd. along with others that include other municipal corporations; and

Whereas Parry Sound deems it in the public interest to enter into an agreement with the other shareholders of Lakeland Holdings Ltd.;

Now Therefore The Council Of The Corporation Of The Town Of Parry Sound Enacts As Follows:

1. **THAT** the Mayor and Clerk are hereby authorized and directed to execute on behalf of the Corporation of the Town of Parry Sound, the Shareholders Agreement in the form substantially attached as Schedule "A".
2. **THAT** this By-Law shall come into force and take effect upon the final passing thereof.

READ a ~~FIRST~~ time, this 3rd day of December 2013.



MAYOR



CLERK

READ a **SECOND** and **THIRD** time, **PASSED**, **SIGNED** and **SEALED** this


3rd day of December 2013

MAYOR



CLERK

**THE CORPORATION OF THE TOWN OF PARRY SOUND
BY-LAW 2013 - 6286**

Being a By-Law to authorize the execution of a Merger Participation Agreement between Parry Sound Hydro Corporation (Holdco) and Lakeland Holding Ltd.

Whereas the Corporation of the Town of Parry Sound is the sole shareholder of Parry Sound Hydro Corporation (Holdco); and

Whereas Council of the Corporation of the Town of Parry Sound has determined that it would be in the public interest to effect a merger of the Parry Sound Hydro Corporation (Holdco) with Lakeland Holding Ltd. the parent holding company of Lakeland Subsidiary Companies that generate and distribute electricity; and

Whereas Council of the Corporation of the Town of Parry Sound intends to authorize the execution of all documentation as required by Parry Sound Hydro Corporation, including the Merger Participation Agreement in the form as substantially attached hereto as Schedule "A";

Now Therefore The Council Of The Corporation Of The Town Of Parry Sound Enacts As Follows:

1. **THAT** the Corporation of the Town of Parry Sound approves of and authorizes the proposed amalgamation of the Parry Sound Hydro Corporation and Lakeland Holding Ltd.;
2. **THAT** Mayor and Clerk are authorized to execute such further documentation or instruments as may be required by Parry Sound Hydro Corporation or the Merger Agreement in order to effect the merger.
3. **THAT** this By-Law shall come into force and take effect upon the final passing thereof.

READ a FIRST time, this 3rd day of December 2013.



MAYOR



CLERK

READ a SECOND and THIRD time, PASSED, SIGNED and SEALED this



MAYOR



CLERK

day of December 2013



The Corporation of the Town of Bracebridge

Special General Committee

Reference: Item 10 - Resolution Arising From Closed Session – Lakeland Merger **Date:** November 13, 2013

Moved By: *[Signature]*

Seconded By: *[Signature]*

1. That, in accordance with Section 3.9 of the Lakeland Holding Ltd. Shareholders Agreement, the Mayor and Clerk be authorized to execute a Merger Agreement and Shareholders Agreement in connection with the Merger of Lakeland Holding Ltd. (Lakeland) and Parry Sound Hydro Corporation (Parry Sound) substantially in the form of the draft Merger Agreement and Shareholders Agreement prepared by representatives of Lakeland and Parry Sound.
2. That the final form and content of the Agreements be to the satisfaction of the Mayor, the Chief Administrative Officer and the Town's solicitor.

Carried	Lost	Referred	Deferred	Tabled	Amended
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Chair:

[Signature: Sen. Clement]

COUNCIL MEMBER	YEA	NAY
Mayor G. Smith		
Deputy Mayor, Rick Maloney		
Councillor S. Clement		
Councillor L. Cragg		
Councillor L. Giaschi-Pacini		
Councillor B. McMurray		
Councillor M. Quemby		
Councillor G. Tryon		
Councillor S. Young		

Motion #	13-GC-299
Ratified by Council	November 13, 2013
Confirming By-law / Other By-laws	2013-082

CORPORATION OF THE TOWN OF HUNTSVILLE

Huntsville Town Council

No. 396-13

Date: November 13, 2013

Moved by: [Signature]

Seconded by: [Signature]

BE IT RESOLVED THAT: In accordance with Section of 3.9 of the Lakeland Holding Ltd. Shareholders Agreement, the Mayor and Clerk be authorized to execute a Merger Agreement and Shareholders Agreement in connection with the Merger of Lakeland Holding Ltd. (Lakeland) and Parry Sound Hydro Corporation (Parry Sound) substantially in the form of the draft Merger Agreement and Shareholders Agreement prepared by representatives of Lakeland and Parry Sound;

AND FURTHER THAT: The final form and content of the Agreements be to the satisfaction of the Mayor, the Chief Administrative Officer and the Town's solicitor.

I, Tanya C. Colleja, Commissioner and Deputy-Clerk for the Corporation of The Town of Huntsville, hereby certify this is a true and correct copy of the Council Motion No. 396-13 which conforms to the original document and has not been altered in any way. Dated at Huntsville this 5 day of December, 2013
[Signature]
Tanya C. Colleja, Commissioner

RECORDED VOTE

MEMBERS OF COUNCIL	YEA	NAY
Councillor Aitchison		
Councillor Coleman		
Councillor Davis		
Councillor Schumacher		
Councillor Terziano		
Councillor Thompson		
Councillor Withey		
Councillor Zanetti		
Mayor Doughty		
TOTAL:		

DECLARATION OF CONFLICT OF INTEREST

MEMBERS OF COUNCIL	PERSONAL	BUSINESS	EMPLOYMENT	OTHER
Councillor Aitchison				
Councillor Coleman				
Councillor Davis				
Councillor Schumacher				
Councillor Terziano				
Councillor Thompson				
Councillor Withey				
Councillor Zanetti				
Mayor Doughty				

Carried: [Signature]

CORPORTION OF THE VILLAGE OF SUNDRIDGE

BY-LAW NO. 2013-040

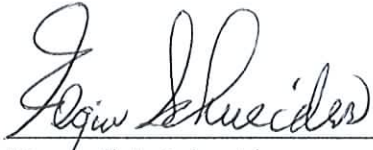
Being a By-Law to authorize the signing of a Merger Participation Agreement between Lakeland Holding Ltd group of companies (referred to herein as "Lakeland ") and Parry Sound Hydro Corporation group of companies" (referred to herein as "Parry Sound").

WHEREAS the Board of Lakeland Holding Ltd., of which the Village of Sundridge is a shareholder, has made a recommendation to its shareholders that the company enter into a Merger Participation Agreement with Parry Sound Hydro Corporation group of companies;

AND WHEREAS the Council of the Corporation of the Village of Sundridge agrees that the merger should proceed and be finalized.

NOW THEREFORE the Council of the Corporation of the Village of Sundridge authorizes the Chair and the CEO of Lakeland Holdings Ltd to sign the merger between Lakeland Holding Ltd. group of companies and Parry Sound Hydro Corporation group of companies.

INTRODUCED AND READ A FIRST, SECOND AND THIRD TIME AND FINALLY PASSED THIS 26th DAY OF NOVEMBER 2013.



Mayor Elgin Schneider



CAO/Clerk Lillian S. Fowler



Municipality of the
VILLAGE OF BURK'S FALLS

District of Parry Sound

Moved By: [Signature] Date: December 5, 2013

Seconded By: [Signature] Resolution #: 2013-259

BE IT RESOLVED THAT:

The Council for the Village of Burk's Falls, being a shareholder of Lakelands Holdings Ltd., approve the merger of Lakeland Holdings Ltd. and Parry Sound Hydro Corporation, as per proposed Merger Agreement.

--

Pecuniary Interest Declared By:

Reeve

[Signature]

Corporation of the
*Municipality
of
Magnetawan*

Incorporated 2000 District of Parry Sound

MAAD Application
Lakeland Power (ED-2002-0540)
Parry Sound Power (ED-2003-0006)
Filed: December 12, 2013
Tel: (705) 387-3947
Fax: (705) 387-4875
www.magnetawan.com
P.O. Box 70, Magnetawan, Ontario P0A 1P0

November 13, 2013

Resolution No. 2013-346

Moved by: Councillor

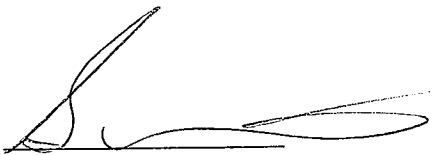


Seconded by: Councillor:



Be it resolved that the Council of the Municipality of Magnetawan has no objection to the merger of Lakeland Holdings Ltd. and the Parry Sound Hydro Corporation.

Carried ✓



Mayor

CERTIFIED TRUE COPY



Roger Labelle, Clerk - Administrator
Commissioner for taking Oaths,
Municipality of Magnetawan,
District of Parry Sound



*Knowing our heritage
we will build our future.*