

Exhibit	Tab	Schedule	Appendix	Contents
5 – Cost of Capital and Rate of Return				
	1			Cost of Capital
		1		Overview
		2		Capital Structure
		3		Component Debt Costs
		4		Return on Equity
		5		Rate Base and Rate of Return
			5-1	Horizon Utilities' Promissory Note - 2012
			5-2	Horizon Utilities' Promissory Note – 2010

COST OF CAPITAL

OVERVIEW

In this Exhibit, Horizon Utilities is providing evidence regarding capital structure, component costs, and the calculation of return on equity and debt for the 2015 through 2019 Test Years.

Horizon Utilities has prepared this Application in accordance with the Board's most current guidelines provided in the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities* (the "Cost of Capital Review") issued on December 11, 2009. The Cost of Capital Review identifies the intention of the Board to conduct its first regular review in 2014 and any changes to the policy made as a result of that review would apply to the setting of rates for the 2015 rate year. Horizon Utilities understands that any such changes to policy may result in adjustments to its evidence provided in this Exhibit 5.

Horizon Utilities has used the most recent cost of capital parameters issued by the Board on November 25, 2013 in its Cost of Capital Parameter Update for 2014 Cost of Service Applications for Rates Effective May 1, 2014 (the "2014 Cost of Capital Parameters"). There are no deviations from the Board's cost of capital methodology. As documented in the *Report of the Board on Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors* (EB-2010-0379) issued November 21, 2013, the Board intends to update the Cost of Capital parameters for setting rates in cost of service applications only once per year. Horizon Utilities will update its cost of capital parameters for 2015 based on the new parameters expected to be issued in 2014 for 2015 Cost of Service applications.

For the 2016-2019 Test Years, Horizon Utilities also used the 2014 cost of capital parameters in this Application. Horizon Utilities requests that:

- i.) the cost of capital parameters for ROE and Short-Term Debt for the 2016-2019 Test Years be subject to annual adjustments based on any Board revisions to such parameters applicable for each year for Cost of Service applications;

1 ii.) the Long-Term Debt rate used for all long-term deemed debt, funded and unfunded, be the
2 weighted average of rates applicable to funded debt for Horizon Utilities ; and

3 iii.) such annual adjustments incorporate the actual market-based cost of any new debt
4 issuances since this original filing.

5 The rationale for these requests is to ensure that Horizon Utilities has a mechanism to adjust its
6 rate-embedded recovery of cost of capital through each rebasing year of the Custom IR cycle
7 that provides it with the means to prospectively attract and support its financial capital
8 requirements on reasonable terms and conditions on an ongoing basis consistent with the Fair
9 Return Standard. The cost of such capital is subject to market forces outside the control of a
10 distributor and represents a real cost that must be recovered through revenues. On this basis,
11 Horizon Utilities submits that its requests are fair and reasonable. Horizon Utilities observes
12 that the Board has permitted such annual adjustments in the 2010/2011 Cost of Service
13 application (EB-2009-0096) of Hydro One Networks Inc. ("Hydro One") and is consistent with
14 the approach proposed by Hydro One in its current (2015-2019) Custom IR application (EB-
15 2013-0416).

16 Horizon Utilities' approved rates of return for each cost of capital component within its last Cost
17 of Service Application (EB-2010-0131) were as follows: i) a return on equity of 9.58%; ii) a
18 deemed short term debt cost of 2.46%; and iii) a deemed long term debt cost of 5.79%. Return
19 on equity and short term debt rates were consistent with the cost of capital parameters set out in
20 the Letter of the Board dated March 3, 2011, which provided the cost of capital parameters for
21 Cost of Service applications for rates effective May 1, 2011. The Board accepted Horizon
22 Utilities' weighted long-term debt cost of 5.79%, based on two long-term debt instruments owed
23 to its parent company: i) a \$116 million, 6.10% term note that was due in July 2012; and ii) a
24 \$40 million, 4.89% term note that is due in 2020.

CAPITAL STRUCTURE

In the Cost of Capital Review, the OEB deemed a capital structure consisting of 60% debt (56% long-term, 4% short-term) and 40% equity for all Ontario distributors for rate making purposes. Horizon Utilities requests this deemed capital structure for purposes of its recovery of cost of capital. Such structure is unchanged from Horizon Utilities' current Board-approved structure in its 2011 Cost of Service Application Decision (EB-2010-0131).

Table 5-1 below identifies the deemed components of rate base in each of the 2015 to 2019 Test Years.

Table 5–1 – Deemed Components of Rate Base

	2015 Test Year	2016 Test Year	2017 Test Year	2018 Test Year	2019 Test Year
Debt					
Long-term Debt	\$ 270,821,384	\$ 281,090,710	\$ 292,893,985	\$ 306,551,434	\$ 321,074,106
Short-term Debt	\$ 19,344,385	\$ 20,077,908	\$ 20,920,999	\$ 21,896,531	\$ 22,933,865
Total Debt	\$ 290,165,769	\$ 301,168,618	\$ 313,814,984	\$ 328,447,965	\$ 344,007,971
Equity					
Common Equity	\$ 193,443,846	\$ 200,779,079	\$ 209,209,989	\$ 218,965,310	\$ 229,338,647
Preferred Shares	\$ -	\$ -	\$ -	\$ -	\$ -
Total Equity	\$ 193,443,846	\$ 200,779,079	\$ 209,209,989	\$ 218,965,310	\$ 229,338,647
Total	\$ 483,609,614	\$ 501,947,697	\$ 523,024,973	\$ 547,413,274	\$ 573,346,618

COMPONENT DEBT COSTS

Short-Term Debt

For the 2015 through 2019 rate years, this Application utilizes the Short-Term Debt rate of 2.11% found in the *Cost of Capital Parameter Updates for 2014 Cost of Service Applications*, issued by the Board on November 25, 2013. Horizon Utilities requests that the Short-Term Debt Rate for 2015 and for each Test Year to 2019 be updated annually in accordance with annual updates to such parameter issued by the OEB applicable to Cost of Service applications.

Existing Long-Term Debt

Horizon Utilities' previous Board-approved cost of long-term debt was included in its 2011 Cost of Service Application (EB-2010-0131). The Board approved a weighted average long-term debt cost of 5.79%, based on two long-term debt instruments owed to its parent company: (i) a \$116 million, 6.10% term note that was due in July 2012; and (ii) a \$40 million, 4.89% term note that is due in 2020.

In this Application, the Long-Term Debt rate requested and used for all Long-Term deemed debt, funded and unfunded, is the weighted average of rates applicable to funded debt for Horizon Utilities, as elaborated below and as shown in Tables 5-18 to 5-22.

Funded Debt represents the amount of long-term debt obligations that Horizon Utilities has issued and that are outstanding as at the date of this Application. These amounts represent Notes Payable to the parent company, Horizon Holdings Inc. ("HHI") and the terms of each of the Notes are identical, *mutatis mutandis*, with corresponding debenture obligations ("Debenture(s)") of HHI to arm's length lenders. The Debentures were issued by HHI through a private placement to private investors. The rates and terms of the Debentures are market-based having been negotiated through the investment banking agent of the Applicant with private investors. The Notes Payable are as follows:

- a) \$150 Million Promissory Note: The effective interest rate on the Note is 3.093% comprised of: i) the annual interest rate on the Note and the corresponding Debenture of 3.033%; and ii) third-party issuance costs incurred by HHI and reimbursed by Horizon Utilities of 0.060%. The Note and corresponding Debenture

1 mature on July 25, 2022. The Note is provided in Tab 2, Schedule 2, Appendix 5-1
2 of this Exhibit. The Note was issued as both a refinancing of the 7%, \$116 Million
3 term note that matured in July 2012 and to finance growth in the rate base.

4 b) \$40 Million Promissory Note: The Note bears annual interest at 4.89% and matures
5 on July 21, 2020. The Note is provided in Tab 2, Schedule 2, Appendix 5-2 of this
6 Exhibit. The corresponding Debenture bears annual interest at 4.77% and matures
7 on July 21, 2020. The difference of 0.120% between the annual interest rates on the
8 Note and Debenture comprises issuance costs incurred by HHI to finance the Note.
9 Such issuance costs are recovered over the life of the Note and Debenture through
10 the annual interest rate on the Note. The associated costs of this Note were
11 accepted by the Board in Horizon Utilities' 2011 rates proceeding.

12 Horizon Utilities requests a debt rate of 3.093% with respect to the \$150MM HHI Note and
13 4.89% with respect to the \$40MM HHI Note, representing the effective yields with respect to
14 such debentures comprising the coupon rates and related costs of issuance.

15 The aggregate amount of Funded Debt is \$190 Million. The dollar weighted average Funded
16 Debt Rate is computed as 3.471% for the 2015 Test Year as per Table 5-18.

17 Table 5-2 below identifies the cost of long-term debt by its components: i) the annual interest
18 rate on the promissory note and ii) the annual amortization of the issuance costs for the
19 debentures.

1 **Table 5-2 – Cost of Long-Term Debt**

Promissory Note	Note 1	Note 2	Combined
Issue Date	25-Jul-12	21-Jul-10	
Maturity Date	25-Jul-22	21-Jul-20	
Principal Amount	\$ 150,000,000	\$ 40,000,000	\$ 190,000,000
Interest Rate	3.033%	4.770%	
Issuance Costs			
Agent fees	\$ 600,000	\$ 200,000	
Legal fees	\$ 238,151	\$ 229,015	
Other professional service fees	\$ 17,500	\$ 50,286	
Issuance Costs	\$ 855,651	\$ 479,301	
Amortization Period	10 years	10 years	
Annual Amortization	\$ 85,565	\$ 47,930	
Interest Rate Impact	0.060%	0.120%	
Effective Interest Rate	3.093%	4.890%	3.471%

3 *Anticipated New Long-Term Debt*

4 Horizon Utilities anticipates a requirement to issue new long-term debt within the 2015 to 2019
5 Rate period. Horizon Utilities estimates an issuance of approximately \$50MM in mid-2018. The
6 actual timing, amount, and term of a new debt issuance will be influenced by several factors
7 such as actual versus anticipated cash flow and financial market conditions. The Long-Term
8 debt rate included in the *Cost of Capital Parameter Updates for 2014 Cost of Service*
9 *Applications*, issued by the Board on November 25, 2013 has been used to calculate interest
10 expense for 2018 and 2019 under the assumption that \$50MM of new long-term debt is issued
11 in mid-2018 with a term of 10 years. Horizon Utilities requests that the Long-Term debt rate
12 used to determine distribution rates be updated as necessary in the applicable Test Year, in a
13 manner consistent with Board policy applicable at that time, in the event that Horizon Utilities
14 issues any new long-term debt during this period.

15 The Excess Deemed Long-Term Debt is computed as the amount of Deemed Long-Term Debt
16 less the amount of Funded Debt in each of the Test Years 2015 through 2019. The rate
17 applicable to such Excess Deemed Long-Term Debt is Horizon Utilities' dollar weighted average

1 Funded Debt Rate of 3.471% in the Test Years 2015, 2016 and 2017; 3.635% in 2018; and
2 3.765% in 2019.

3 As identified earlier in this evidence, Horizon Utilities requests that the applicable cost of capital
4 parameters be updated annually in accordance with the annual update by the OEB of such
5 parameters.

6 The Long-term debt cost information for the 2011 Board Approved, 2011, 2012, and 2013
7 Actual and budgeted for the years 2014 through 2019 is also provided in Tables 5-13 to 5-22.

1 **RETURN ON EQUITY**

2 Horizon Utilities is requesting a return on equity ("ROE") for the 2015 Test Year of 9.36%, in
3 accordance with the *Cost of Capital Parameter Updates for 2014 Cost of Service Applications*
4 issued by the Board on November 25, 2013. Horizon Utilities requests that the ROE parameter
5 for 2015 be based on any revision to such parameter expected to be issued in 2014 for 2015
6 Cost of Service applications. Horizon Utilities further requests that the ROE parameter for each
7 subsequent Test Year, 2016 through 2019, be updated annually based on corresponding
8 annual updates to such parameter issued by the Board to be applicable to Cost of Service
9 applications for each of the 2016 to 2019 Test Years.

RATE BASE AND RATE OF RETURN

The tables below identify Horizon Utilities' rate base, deemed debt/equity ratios, deemed rate of return, actual debt/equity ratios and actual rates of return for 2011 Board Approved, 2011 Actual, 2012 Actual, 2013 Actual, 2014 Bridge Year Forecast, and 2015 through 2019 Test Years.

Table 5-3 – Chapter 2 Appendix 2OA – Capital Structure and Cost of Capital for 2011 Board Approved

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$206,669,477	5.79%		\$11,965,633
2	Short-term Debt	4.00% (1)	\$14,762,105	2.46%		\$363,148
3	Total Debt	60.0%	\$221,431,582	5.57%		\$12,328,781
	Equity					
4	Common Equity	40.00%	\$147,621,055	9.58%		\$14,142,097
5	Preferred Shares	0.00%	\$ -			\$ -
6	Total Equity	40.0%	\$147,621,055	9.58%		\$14,142,097
7	Total	100.0%	\$369,052,637	7.17%		\$26,470,878

Table 5-4 – Chapter 2 Appendix 2OA – Capital Structure and Cost of Capital for 2011 Actual

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$209,164,779	6.46%		\$13,509,899
2	Short-term Debt	4.00% (1)	\$14,940,341	2.46%		\$367,532
3	Total Debt	60.0%	\$224,105,120	6.19%		\$13,877,432
	Equity					
4	Common Equity	40.00%	\$149,403,413	9.58%		\$14,312,847
5	Preferred Shares	0.00%	\$ -			\$ -
6	Total Equity	40.0%	\$149,403,413	9.58%		\$14,312,847
7	Total	100.0%	\$373,508,534	7.55%		\$28,190,279

Table 5-5 – Chapter 2 Appendix 2OA – Capital Structure and Cost of Capital for 2012

Actual

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$229,552,249	4.98%		\$11,440,063
2	Short-term Debt	4.00% (1)	\$16,396,589	2.08%		\$341,049
3	Total Debt	60.0%	\$245,948,839	4.79%		\$11,781,112
	Equity					
4	Common Equity	40.00%	\$163,965,892	9.12%		\$14,953,689
5	Preferred Shares	0.00%	\$ -			\$ -
6	Total Equity	40.0%	\$163,965,892	9.12%		\$14,953,689
7	Total	100.0%	\$409,914,731	6.52%		\$26,734,801

Table 5-6 – Chapter 2 Appendix 2OA – Capital Structure and Cost of Capital for 2013

Actual

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$250,708,766	3.47%		\$8,702,893
2	Short-term Debt	4.00% (1)	\$17,907,769	2.07%		\$370,691
3	Total Debt	60.0%	\$268,616,535	3.38%		\$9,073,584
	Equity					
4	Common Equity	40.00%	\$179,077,690	8.98%		\$16,081,177
5	Preferred Shares	0.00%	\$ -			\$ -
6	Total Equity	40.0%	\$179,077,690	8.98%		\$16,081,177
7	Total	100.0%	\$447,694,225	5.62%		\$25,154,760

Table 5-7 – Chapter 2 Appendix 2OA – Capital Structure and Cost of Capital for 2014

Bridge Year

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$262,771,665	3.47%		\$9,121,634
2	Short-term Debt	4.00% (1)	\$18,769,405	2.11%		\$396,034
3	Total Debt	60.0%	\$281,541,069	3.38%		\$9,517,669
	Equity					
4	Common Equity	40.00%	\$187,694,046	9.36%		\$17,568,163
5	Preferred Shares	0.00%	\$ -			\$ -
6	Total Equity	40.0%	\$187,694,046	9.36%		\$17,568,163
7	Total	100.0%	\$469,235,115	5.77%		\$27,085,831

Table 5-8 – Chapter 2 Appendix 2OA – Capital Structure and Cost of Capital for 2015 Test Year

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$270,821,384	3.47%		\$9,401,065
2	Short-term Debt	4.00% (1)	\$19,344,385	2.11%		\$408,167
3	Total Debt	60.0%	\$290,165,769	3.38%		\$9,809,232
	Equity					
4	Common Equity	40.00%	\$193,443,846	9.36%		\$18,106,344
5	Preferred Shares		\$ -			\$ -
6	Total Equity	40.0%	\$193,443,846	9.36%		\$18,106,344
7	Total	100.0%	\$483,609,614	5.77%		\$27,915,576

Table 5-9 – Chapter 2 Appendix 20A – Capital Structure and Cost of Capital for 2016 Test Year

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$281,090,710	3.47%		\$9,757,546
2	Short-term Debt	4.00% (1)	\$20,077,908	2.11%		\$423,644
3	Total Debt	60.0%	\$301,168,618	3.38%		\$10,181,190
	Equity					
4	Common Equity	40.00%	\$200,779,079	9.36%		\$18,792,922
5	Preferred Shares		\$ -			\$ -
6	Total Equity	40.0%	\$200,779,079	9.36%		\$18,792,922
7	Total	100.0%	\$501,947,697	5.77%		\$28,974,112

Table 5-10 – Chapter 2 Appendix 20A – Capital Structure and Cost of Capital for 2017 Test Year

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$292,893,985	3.47%		\$10,167,275
2	Short-term Debt	4.00% (1)	\$20,920,999	2.11%		\$441,433
3	Total Debt	60.0%	\$313,814,984	3.38%		\$10,608,708
	Equity					
4	Common Equity	40.00%	\$209,209,989	9.36%		\$19,582,055
5	Preferred Shares		\$ -			\$ -
6	Total Equity	40.0%	\$209,209,989	9.36%		\$19,582,055
7	Total	100.0%	\$523,024,973	5.77%		\$30,190,763

Table 5-11 – Chapter 2 Appendix 2OA – Capital Structure and Cost of Capital for 2018

Test Year

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$306,551,434	3.64%		\$11,143,501
2	Short-term Debt	4.00% (1)	\$21,896,531	2.11%		\$462,017
3	Total Debt	60.0%	\$328,447,965	3.53%		\$11,605,518
	Equity					
4	Common Equity	40.00%	\$218,965,310	9.36%		\$20,495,153
5	Preferred Shares		\$ -			\$ -
6	Total Equity	40.0%	\$218,965,310	9.36%		\$20,495,153
7	Total	100.0%	\$547,413,274	5.86%		\$32,100,671

Table 5-12 – Chapter 2 Appendix 2OA – Capital Structure and Cost of Capital for 2019

Test Year

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$321,074,106	3.76%		\$12,087,771
2	Short-term Debt	4.00% (1)	\$22,933,865	2.11%		\$483,905
3	Total Debt	60.0%	\$344,007,971	3.65%		\$12,571,676
	Equity					
4	Common Equity	40.00%	\$229,338,647	9.36%		\$21,466,097
5	Preferred Shares		\$ -			\$ -
6	Total Equity	40.0%	\$229,338,647	9.36%		\$21,466,097
7	Total	100.0%	\$573,346,618	5.94%		\$34,037,773

Table 5-13 – Chapter 2 Appendix 2OB – Debt Instruments for 2011 Board Approved

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	(Note)	Additional Comments, if any
1	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	18-Jul-02	10	\$ 116,000,000	6.100%	\$ 7,076,000		
2	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	21-Jul-10	10	\$ 40,000,000	4.890%	\$ 1,956,000		
Total							\$ 156,000,000	5.790%	\$ 9,032,000		

Table 5-14 – Chapter 2 Appendix 2OB – Debt Instruments for 2011 Actual

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	(Note)	Additional Comments, if any
1	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	18-Jul-02	10	\$ 116,000,000	7.000%	\$ 8,120,000		
2	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	21-Jul-10	10	\$ 40,000,000	4.890%	\$ 1,956,000		
Total							\$ 156,000,000	6.459%	\$ 10,076,000		

Table 5-15 – Chapter 2 Appendix 2OB – Debt Instruments for 2012 Actual

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	(Note)	Additional Comments, if any
1	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	18-Jul-02	10	\$ 116,000,000	7.000%	\$ 4,437,158		
2	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	21-Jul-10	10	\$ 40,000,000	4.890%	\$ 1,956,000		
3	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	25-Jul-12	10	\$ 150,000,000	3.093%	\$ 2,015,520		
Total							\$ 168,725,578	4.984%	\$ 8,408,679		

Table 5-16 – Chapter 2 Appendix 2OB – Debt Instruments for 2013 Actual

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	(Note)	Additional Comments, if any
1	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	21-Jul-10	10	\$ 40,000,000	4.890%	\$ 1,956,000		
2	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	25-Jul-12	10	\$ 150,000,000	3.093%	\$ 4,639,500		
Total							\$ 190,000,000	3.471%	\$ 6,595,500		

Table 5-17 – Chapter 2 Appendix 2OB – Debt Instruments for 2014 Bridge Year

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	(Note)	Additional Comments, if any
1	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	21-Jul-10	10	\$ 40,000,000	4.890%	\$ 1,956,000		
2	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	25-Jul-12	10	\$ 150,000,000	3.093%	\$ 4,639,500		
Total							\$ 190,000,000	3.471%	\$ 6,595,500		

Table 5-18 – Chapter 2 Appendix 2OB – Debt Instruments for 2015 Test Year

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	(Note)	Additional Comments, if any
1	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	21-Jul-10	10	\$ 40,000,000	4.890%	\$ 1,956,000		
2	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	25-Jul-12	10	\$ 150,000,000	3.093%	\$ 4,639,500		
Total							\$ 190,000,000	3.471%	\$ 6,595,500		

1 **Table 5-19 – Chapter 2 Appendix 2OB – Debt Instruments for 2016 Test Year**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	21-Jul-10	10	\$ 40,000,000	4.890%	\$ 1,956,000	
2	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	25-Jul-12	10	\$ 150,000,000	3.093%	\$ 4,639,500	
Total							\$ 190,000,000	3.471%	\$ 6,595,500	

3 **Table 5-20 – Chapter 2 Appendix 2OB – Debt Instruments for 2017 Test Year**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	21-Jul-10	10	\$ 40,000,000	4.890%	\$ 1,956,000	
2	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	25-Jul-12	10	\$ 150,000,000	3.093%	\$ 4,639,500	
Total							\$ 190,000,000	3.471%	\$ 6,595,500	

5 **Table 5-21 – Chapter 2 Appendix 2OB – Debt Instruments for 2018 Test Year**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	21-Jul-10	10	\$ 40,000,000	4.890%	\$ 1,956,000	
2	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	25-Jul-12	10	\$ 150,000,000	3.093%	\$ 4,639,500	
3	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	1-Jul-18	10	\$ 25,000,000	4.880%	\$ 1,220,000	
Total							\$ 215,000,000	3.635%	\$ 7,815,500	

7 **Table 5-22 – Chapter 2 Appendix 2OB – Debt Instruments for 2019 Test Year**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	21-Jul-10	10	\$ 40,000,000	4.890%	\$ 1,956,000	
2	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	25-Jul-12	10	\$ 150,000,000	3.093%	\$ 4,639,500	
3	Promissory Note Payable	Horizon Holdings	Affiliated	Fixed Rate	1-Jul-18	10	\$ 50,000,000	4.880%	\$ 2,440,000	
Total							\$ 240,000,000	3.765%	\$ 9,035,500	

1 **Table 5-23 – Capital Structure Deemed & 2011 Board Approved**

2011		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	5.79%
Short-Term Debt	4.00%	2.46%
Return On Equity	40.00%	9.58%
Weighted Debt Rate		5.57%
Regulated Rate of Return		7.17%

WORKING CAPITAL ALLOWANCE FOR 2011	
Distribution Expenses	
Distribution Expenses - Operation	15,269,888
Distribution Expenses - Maintenance	4,683,621
Billing and Collecting	7,623,704
Community Relations	261,076
Administrative and General Expenses	14,580,378
Taxes Other than Income Taxes	337,800
Less: Capital Taxes within 6105	
Total Eligible Distribution Expenses	42,756,467
Power Supply Expenses	393,275,654
Total Working Capital Expenses	436,032,121
Working Capital Allowance rate of 13.5%	58,864,336

RATE BASE CALCULATION FOR 2011	
Fixed Assets Opening Balance 2011	304,891,418
Fixed Assets Closing Balance 2011	315,485,183
Average Fixed Asset Balance for 2011	310,188,301
Working Capital Allowance	58,864,336
Rate Base	369,052,637
Regulated Rate of Return	7.17%
Regulated Return on Capital	26,470,878
Deemed Interest Expense	12,328,781
Deemed Return on Equity	14,142,097

1 **Table 5-24 – Capital Structure Deemed & Actual for 2011**

2011		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	6.46%
Short-Term Debt	4.00%	2.46%
Return On Equity	40.00%	9.58%
Weighted Debt Rate		6.19%
Regulated Rate of Return		7.55%

WORKING CAPITAL ALLOWANCE FOR 2011		
Distribution Expenses		\$
Distribution Expenses - Operation		15,431,149
Distribution Expenses - Maintenance		4,222,626
Billing and Collecting		8,307,921
LEAP		138,308
Administrative and General Expenses		13,148,552
Taxes Other than Income Taxes		396,097
Total Eligible Distribution Expenses		41,644,654
Power Supply Expenses		421,839,916
Total Working Capital Expenses		463,484,570
Working Capital Allowance @	13.50%	62,570,417

RATE BASE CALCULATION FOR 2011	
Fixed Assets Opening Balance 2011	304,878,268
Fixed Assets Closing Balance 2011	316,997,965
Average Fixed Asset Balance for 2011	310,938,117
Working Capital Allowance	62,570,417
Rate Base	373,508,534
Regulated Rate of Return	7.55%
Regulated Return on Capital	28,190,279
Deemed Interest Expense	13,877,432
Deemed Return on Equity	14,312,847

1 Table 5-25 – Capital Structure Deemed & Actual for 2012

2012		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	4.98%
Short-Term Debt	4.00%	2.08%
Return On Equity	40.00%	9.12%
Weighted Debt Rate		4.79%
Regulated Rate of Return		6.52%

WORKING CAPITAL ALLOWANCE FOR 2012		
Distribution Expenses		
Distribution Expenses - Operation		24,353,827
Distribution Expenses - Maintenance		3,400,949
Billing and Collecting		9,022,692
LEAP		183,752
Administrative and General Expenses		14,466,571
Taxes Other than Income Taxes		50,574
Total Eligible Distribution Expenses		51,478,365
Power Supply Expenses		452,194,942
Total Working Capital Expenses		503,673,307
Working Capital Allowance @	13.50%	67,995,896

RATE BASE CALCULATION FOR 2012	
Fixed Assets Opening Balance 2012	317,737,285
Fixed Assets Closing Balance 2012	366,100,384
Average Fixed Asset Balance for 2012	341,918,835
Working Capital Allowance	67,995,896
Rate Base	409,914,731
Regulated Rate of Return	6.52%
Regulated Return on Capital	26,734,801
Deemed Interest Expense	11,781,112
Deemed Return on Equity	14,953,689

1 **Table 5-26 – Capital Structure Deemed & Actual for 2013**

2013		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	3.47%
Short-Term Debt	4.00%	2.07%
Return On Equity	40.00%	8.98%
Weighted Debt Rate		3.38%
Regulated Rate of Return		5.62%

WORKING CAPITAL ALLOWANCE FOR 2013		
Distribution Expenses		
Distribution Expenses - Operation		25,708,382
Distribution Expenses - Maintenance		4,219,425
Billing and Collecting		8,400,090
LEAP		124,863
Administrative and General Expenses		15,768,966
Taxes Other than Income Taxes		294,779
Total Eligible Distribution Expenses		54,516,505
Power Supply Expenses		487,025,361
Total Working Capital Expenses		541,541,866
Working Capital Allowance @	13.50%	73,108,152

RATE BASE CALCULATION FOR 2013	
Fixed Assets Opening Balance 2013	366,100,384
Fixed Assets Closing Balance 2013	383,071,763
Average Fixed Asset Balance for 2013	374,586,074
Working Capital Allowance	73,108,152
Rate Base	447,694,225
Regulated Rate of Return	5.62%
Regulated Return on Capital	25,154,760
Deemed Interest Expense	9,073,584
Deemed Return on Equity	16,081,177

1 **Table 5-27 – Capital Structure Deemed & Actual for 2014 Bridge Year**

2014		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	3.47%
Short-Term Debt	4.00%	2.11%
Return On Equity	40.00%	9.36%
Weighted Debt Rate		3.38%
Regulated Rate of Return		5.77%

WORKING CAPITAL ALLOWANCE FOR 2014		
Distribution Expenses		
Distribution Expenses - Operation		30,423,707
Distribution Expenses - Maintenance		3,352,076
Billing and Collecting		9,679,875
LEAP		129,000
Administrative and General Expenses		16,506,957
Taxes Other than Income Taxes		295,754
Total Eligible Distribution Expenses		60,387,369
Power Supply Expenses		514,423,080
Total Working Capital Expenses		574,810,449
Working Capital Allowance @	13.50%	77,599,411

RATE BASE CALCULATION FOR 2014		
Fixed Assets Opening Balance 2014		383,071,763
Fixed Assets Closing Balance 2014		400,199,647
Average Fixed Asset Balance for 2014		391,635,705
Working Capital Allowance		77,599,411
Rate Base		469,235,115
Regulated Rate of Return		5.77%
Regulated Return on Capital		27,085,831
Deemed Interest Expense		9,517,669
Deemed Return on Equity		17,568,163

1 **Table 5-28 – Capital Structure Deemed & Actual for 2015 Test Year**

2015		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	3.47%
Short-Term Debt	4.00%	2.11%
Return On Equity	40.00%	9.36%
Weighted Debt Rate		3.38%
Regulated Rate of Return		5.77%

WORKING CAPITAL ALLOWANCE FOR 2015		
Distribution Expenses		
Distribution Expenses - Operation		31,084,364
Distribution Expenses - Maintenance		3,486,620
Billing and Collecting		9,970,322
LEAP		130,935
Administrative and General Expenses		17,660,247
Taxes Other than Income Taxes		300,190
Total Eligible Distribution Expenses		62,632,679
Power Supply Expenses		520,162,944
Total Working Capital Expenses		582,795,623
Working Capital Allowance @	12.70%	74,015,044

RATE BASE CALCULATION FOR 2015		
Fixed Assets Opening Balance 2015		402,180,117
Fixed Assets Closing Balance 2015		417,009,023
Average Fixed Asset Balance for 2015		409,594,570
Working Capital Allowance		74,015,044
Rate Base		483,609,614
Regulated Rate of Return		5.77%
Regulated Return on Capital		27,915,576
Deemed Interest Expense		9,809,232
Deemed Return on Equity		18,106,344

1 **Table 5-29 – Capital Structure Deemed & Actual for 2016 Test Year**

2016		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	3.47%
Short-Term Debt	4.00%	2.11%
Return On Equity	40.00%	9.36%
Weighted Debt Rate		3.38%
Regulated Rate of Return		5.77%

WORKING CAPITAL ALLOWANCE FOR 2016		
Distribution Expenses		
Distribution Expenses - Operation		31,890,317
Distribution Expenses - Maintenance		3,613,989
Billing and Collecting		10,206,963
LEAP		132,899
Administrative and General Expenses		18,245,269
Taxes Other than Income Taxes		304,693
Total Eligible Distribution Expenses		64,394,131
Power Supply Expenses		541,395,015
Total Working Capital Expenses		605,789,145
Working Capital Allowance @	12.70%	76,935,221

RATE BASE CALCULATION FOR 2016	
Fixed Assets Opening Balance 2016	417,009,023
Fixed Assets Closing Balance 2016	433,015,927
Average Fixed Asset Balance for 2015	425,012,475
Working Capital Allowance	76,935,221
Rate Base	501,947,697
Regulated Rate of Return	5.77%
Regulated Return on Capital	28,974,112
Deemed Interest Expense	10,181,190
Deemed Return on Equity	18,792,922

1 **Table 5-30 – Capital Structure Deemed & Actual for 2017 Test Year**

2017		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	3.47%
Short-Term Debt	4.00%	2.11%
Return On Equity	40.00%	9.36%
Weighted Debt Rate		3.38%
Regulated Rate of Return		5.77%

WORKING CAPITAL ALLOWANCE FOR 2017		
Distribution Expenses		
Distribution Expenses - Operation		32,645,901
Distribution Expenses - Maintenance		3,708,903
Billing and Collecting		10,764,578
LEAP		134,893
Administrative and General Expenses		18,692,289
Taxes Other than Income Taxes		309,263
Total Eligible Distribution Expenses		66,255,827
Power Supply Expenses		561,407,753
Total Working Capital Expenses		627,663,580
Working Capital Allowance @	12.70%	79,713,275

RATE BASE CALCULATION FOR 2017	
Fixed Assets Opening Balance 2017	433,015,927
Fixed Assets Closing Balance 2017	453,607,469
Average Fixed Asset Balance for 2017	443,311,698
Working Capital Allowance	79,713,275
Rate Base	523,024,973
Regulated Rate of Return	5.77%
Regulated Return on Capital	30,190,763
Deemed Interest Expense	10,608,708
Deemed Return on Equity	19,582,055

1 **Table 5-31 – Capital Structure Deemed & Actual for 2018 Test Year**

2018		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	3.64%
Short-Term Debt	4.00%	2.11%
Return On Equity	40.00%	9.36%
Weighted Debt Rate		3.53%
Regulated Rate of Return		5.86%

WORKING CAPITAL ALLOWANCE FOR 2018		
Distribution Expenses		
Distribution Expenses - Operation		33,529,011
Distribution Expenses - Maintenance		3,808,133
Billing and Collecting		10,721,021
LEAP		136,915
Administrative and General Expenses		19,199,676
Taxes Other than Income Taxes		313,902
Total Eligible Distribution Expenses		67,708,658
Power Supply Expenses		581,873,212
Total Working Capital Expenses		649,581,870
Working Capital Allowance @	12.70%	82,496,897

RATE BASE CALCULATION FOR 2018	
Fixed Assets Opening Balance 2018	453,607,469
Fixed Assets Closing Balance 2018	476,225,285
Average Fixed Asset Balance for 2018	464,916,377
Working Capital Allowance	82,496,897
Rate Base	547,413,274
Regulated Rate of Return	5.86%
Regulated Return on Capital	32,100,671
Deemed Interest Expense	11,605,518
Deemed Return on Equity	20,495,153

1 **Table 5-32 – Capital Structure Deemed & Actual for 2019 Test Year**

2019		
Description	Deemed Portion	Effective Rate
Long-Term Debt	56.00%	3.76%
Short-Term Debt	4.00%	2.11%
Return On Equity	40.00%	9.36%
Weighted Debt Rate		3.65%
Regulated Rate of Return		5.94%

WORKING CAPITAL ALLOWANCE FOR 2019		
Distribution Expenses		
Distribution Expenses - Operation		34,181,330
Distribution Expenses - Maintenance		3,903,135
Billing and Collecting		10,878,609
LEAP		138,969
Administrative and General Expenses		19,719,835
Taxes Other than Income Taxes		318,611
Total Eligible Distribution Expenses		69,140,489
Power Supply Expenses		600,222,979
Total Working Capital Expenses		669,363,467
Working Capital Allowance @	12.70%	85,009,160

RATE BASE CALCULATION FOR 2019	
Fixed Assets Opening Balance 2019	476,225,285
Fixed Assets Closing Balance 2019	500,449,631
Average Fixed Asset Balance for 2019	488,337,458
Working Capital Allowance	85,009,160
Rate Base	573,346,618
Regulated Rate of Return	5.94%
Regulated Return on Capital	34,037,773
Deemed Interest Expense	12,571,676
Deemed Return on Equity	21,466,097

APPENDIX 5-1: HORIZON UTILITIES' PROMISSORY NOTE (2012)

EXECUTION VERSION

PROMISSORY NOTE

Maturity Date:	July 25, 2022
Interest Rate Per Annum:	3.033 %
Interest Payment Dates:	January 25 and July 25 in each year
Initial Interest Payment Date:	January 25, 2013
Principal Amount:	\$150,000,000
Date of Issue	July 25, 2012

HORIZON UTILITIES CORPORATION, together with its permitted successors and permitted assigns (the "**Corporation**"), for value received and intending to be legally bound hereby, promises to pay to or to the order of **HORIZON HOLDINGS INC.** (together with its successors and assigns, "**HHI**") on the Maturity Date, or on such earlier date as the Principal Amount may become due in accordance with the provisions of this Promissory Note, the Principal Amount in lawful money of Canada and to pay interest on the Principal Amount at the Interest Rate Per Annum from the date hereof on each Interest Payment Date including the Maturity Date, with interest on overdue interest and principal accruing at the same rate per annum.

Covenants of the Corporation and Other Provisions


Schedule A to this Promissory Note contains additional terms and conditions which form part of and are incorporated into this Promissory Note. All capitalized terms used in this Promissory Note shall, unless otherwise defined herein, have the meanings given to them in Section 1.1 of Schedule A attached hereto.

[EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF Horizon Utilities Corporation has caused this Promissory Note to be executed by its duly authorized officers as of the date first set forth above.

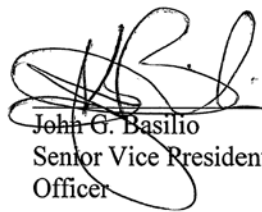
HORIZON UTILITIES CORPORATION

By:



Max A. Cananzi
President and Chief Executive Officer

By:



John G. Basilio
Senior Vice President and Chief Financial
Officer

[signature page for Promissory Note made by Horizon Utilities Corporation]

SCHEDULE A
TO PROMISSORY NOTE
MADE BY HORIZON UTILITIES CORPORATION
IN FAVOUR OF HORIZON HOLDINGS INC.

ARTICLE 1
INTERPRETATION

1.1 Definitions

In this Promissory Note and this Schedule A, which forms a part of this Promissory Note, unless otherwise specified herein or there is something in the subject matter or context inconsistent therewith, the following terms have the respective meanings indicated below:

"Affiliate" means, with respect to any Person, any other Person which, directly or indirectly through one or more Persons, Controls, is Controlled by, or is under common Control with, such Person.

"Business Day" means any day, other than a Saturday or Sunday, on which Canadian Imperial Bank of Commerce in Toronto, Ontario is open for commercial banking business during normal banking hours in Toronto, Ontario.

"Canadian GAAP" means, as at any date of determination, generally accepted accounting principles in Canada, as such principles may be amended, varied or replaced by International Financial Reporting Standards (IFRS) then in effect and generally accepted in Canada, applied on a consistent basis.

"Capital Lease Obligation" means any monetary obligation of the Corporation or a Designated Subsidiary under any leasing or similar arrangement which, in accordance with Canadian GAAP, would be classified as a capital lease and for the purposes hereof, the amount of Capital Lease Obligations shall be the capitalized amount thereof, determined in accordance with Canadian GAAP.

"Contingent Liability" means any agreement, undertaking or arrangement by which any Person guarantees, indemnifies, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the Obligation of any other Person (other than by endorsements of instruments for deposit or in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other Person. The amount of any Person's Obligation under any Contingent Liability shall (subject to any limitation set forth therein) be deemed to be the outstanding principal amount (or maximum principal amount, if larger) of the Obligation guaranteed thereby.

"Control", "Controls", "Controlled" and similar expressions mean a relationship between two Persons wherein one of such Persons has the power, through the ownership of Securities, by contract or otherwise, to direct the management and policies of the other of such Persons, and includes, in the case of a corporation, the ownership, either directly or indirectly through one or more Persons, of Securities of such corporation carrying more than 50% of the votes that may be cast to elect the directors of such corporation either under all circumstances or under some

circumstances that have occurred and are continuing (other than Securities held as collateral for a *bona fide* debt where the holder thereof is not entitled to exercise the voting rights attached to the Trust Indenture), provided that such votes, if exercised, are sufficient to elect a majority of the directors of such corporation.

"Corporation" means Horizon Utilities Corporation, an Ontario corporation, and its permitted successors and permitted assigns.

"Debentures" means the 3.033% Senior Unsecured Debentures, Series B due July 25, 2022 issued by HHI pursuant to the Trust Indenture.

"Designated Subsidiary" means each Subsidiary of the Corporation which is designated as a "Designated Subsidiary" (as defined in the Trust Indenture) in accordance with the Trust Indenture.

"Event of Default" has the meaning defined in Section 3.1.

"Financial Instrument Obligations" means (without duplication), with respect to any Person at any time, the obligations of such Person under any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, commodity future, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing to the extent of the net amount due to or accruing due by the Person thereunder (determined by marking the same to market at such time in accordance with its terms).

"Funded Obligations" means (without duplication), with respect to any Person, all Indebtedness of such Person created, assumed or guaranteed which matures by its terms on, or is renewable at the option of such Person to, a date more than 18 months after the date of the original creation, assumption or guarantee thereof.

"HHI" means Horizon Holdings Inc., an Ontario corporation and its successors and assigns.

"Indebtedness" means (without duplication), with respect to any Person:

- (a) all Obligations of such Person for borrowed money, including Obligations of such Person with respect to bankers' acceptances and contingent reimbursement obligations, including those related to letters of credit and other financial instruments,
- (b) all Obligations issued or assumed by such Person in connection with its acquisition of property in respect of the deferred purchase price of that property,
- (c) all Capital Lease Obligations and Purchase Money Obligations of such Person, and
- (d) all Contingent Liabilities of such Person in respect of any of the foregoing.

"Interest Payment Date" has the meaning set forth on the first page of this Promissory Note.

"Interest Rate Per Annum" has the meaning set forth on the first page of this Promissory Note.

"Maturity Date" means July 25, 2022

"Non-Recourse Debt" means, with respect to a Person, any Indebtedness of such Person incurred to finance the creation, development, construction or acquisition of an asset of the Person (and any extensions, renewals or refunding of any such Indebtedness) provided that the recourse of the obligee thereof against the Person is limited in all circumstances (other than in respect of false or misleading representations or warranties) to the asset (including all rights and benefits relating to or arising out of such asset) and, for greater certainty, shall at no time extend to or include Principal Property.

"Obligations" means (without duplication), with respect to any Person, all items which, in accordance with Canadian GAAP, would be included as liabilities on the liability side of the balance sheet of such Person as of the date at which Obligations are to be determined and all Contingent Liabilities of such Person in respect of any of the foregoing.

"Permitted Encumbrances" means, with respect to any property or asset of the Corporation or a Designated Subsidiary, any or all of the following:

- (a) any Security Interest that secures the Obligations of a Designated Subsidiary that existed prior to the date on which it became a Designated Subsidiary and that (i) was not incurred in contemplation of such Person becoming a Designated Subsidiary, and (ii) is not applicable to the Corporation or any other Designated Subsidiary or the properties or assets of the Corporation or any other Designated Subsidiary;
- (b) any Security Interest granted by the Corporation or a Designated Subsidiary to secure the Debentures;
- (c) any Purchase Money Mortgage or Capital Lease Obligation of the Corporation or a Designated Subsidiary;
- (d) any Security Interest on a property or asset acquired by the Corporation or a Designated Subsidiary that secures the Obligations of a Person (whether or not such Obligations were assumed by the acquiring Person) which Security Interest existed at the time such property or asset was acquired and that (i) was not incurred in contemplation of such property or asset being acquired, and (ii) is not applicable to the Corporation or any other Designated Subsidiary or the properties or assets of the Corporation or any other Designated Subsidiary;
- (e) any Security Interest given in the ordinary course of business by the Corporation or a Designated Subsidiary to any bank or banks or other lenders to secure any Indebtedness payable on demand or maturing within 18 months of the date such Indebtedness is incurred or of the date of any renewal or extension thereof;

- (f) any Security Interest granted by a Designated Subsidiary in favour of the Corporation or a Wholly-Owned Designated Subsidiary;
- (g) any Security Interest on or against cash or marketable debt securities pledged to secure any non-speculative Financial Instrument Obligation incurred in the ordinary course of business for risk management purposes that hedges Indebtedness of the Corporation or a Designated Subsidiary;
- (h) any Security Interest granted, assigned, mortgaged, charged or hypothecated by the Corporation or a Designated Subsidiary on any assets other than Principal Property to secure any corresponding Non-Recourse Debt;
- (i) any Security Interest for taxes, payments in lieu of taxes, assessments, government charges or claims that are being contested in good faith and in respect of which appropriate provision is made in the financial statements of the Corporation or a Designated Subsidiary in accordance with Canadian GAAP;
- (j) any Security Interests securing appeal bonds or other similar Security Interests arising in connection with contracts, bids, tenders or court proceedings (including surety bonds, security for costs of litigation where required by law and letters of credit) or any other instruments serving a similar purpose;
- (k) a lien or deposit under workers' compensation, social security or similar legislation or good faith deposits in connection with bids, tenders, leases, contracts or expropriation proceedings, or deposits to secure public or statutory obligations or deposits of cash or obligations to secure surety and appeal bonds;
- (l) a lien or privilege imposed by law, such as builders', carriers', warehousemen's, landlords', mechanics' and material men's liens and privileges, and any lien or privilege arising out of judgments or awards with respect to which the Corporation or a Designated Subsidiary at the time is prosecuting an appeal or proceedings for review and with respect to which it has secured a stay of execution pending such appeal or proceedings for review; or liens for taxes, payments in lieu of taxes, assessments or governmental charges or levies not at the time due and delinquent or the validity of which is being contested at the time by the Corporation or a Designated Subsidiary in good faith; or undetermined or inchoate liens, privileges and charges incidental to current operations which have not at such time been filed pursuant to law against the Corporation or a Designated Subsidiary or which relate to obligations not due or delinquent; or the deposit of cash or Securities in connection with any lien or privilege referred to in this clause (l);
- (m) any minor encumbrance, including, easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other Persons, rights-of-way for sewers, electric lines, telegraph and telephone lines and oil and natural gas pipe lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, easements, servitudes, rights of way or other similar rights and restrictions do not in the aggregate materially detract from the

value of such properties or materially impair their use in the operation of the business of the Corporation or a Designated Subsidiary;

- (n) any right reserved to or vested in any municipality or governmental or other public authority by the terms of any lease, license, franchise, grant or permit acquired by the Corporation or a Designated Subsidiary, or by any statutory provision, to terminate any such lease, license, franchise, grant or permit or to purchase assets used in connection therewith or to require annual or other periodic payments as a condition to the continuance thereof;
- (o) a lien or right of distress reserved in or exercisable under any lease for rent and for compliance with the terms of such lease;
- (p) any Security Interest granted by the Corporation or a Designated Subsidiary to a public utility or any municipality or governmental or other public authority when required by such utility, municipality or other authority in connection with the operations of the Corporation or such Designated Subsidiary;
- (q) any reservation, limitation, proviso or condition, if any, expressed in any original grants to the Corporation or a Designated Subsidiary from the Crown;
- (r) all other Security Interests permitted under the Trust Indenture; and
- (s) any extension, renewal, alteration, substitution or replacement, in whole or in part, of any Security Interest referred to in the foregoing clauses (a) through (q), provided the extension, renewal, alteration, substitution or replacement of such Security Interest is limited to all or any part of the same property that secured the Security Interest extended, renewed, altered, substituted or replaced the principal amount of the Obligations secured thereby is not thereby increased, the terms of the Indebtedness secured thereby is not shortened and the terms and conditions thereof are no more restrictive in any material respect than the Security Interest so extended.

"Person" means any individual, corporation, body corporate, limited partnership, general partnership, joint stock company, association, joint venture, association, company, trust, bank, fund, governmental authority, municipal corporation or other entity or organization, whether or not recognized as a legal entity.

"Prime Rate" means the rate of interest expressed as a rate per annum which HHI's principal Canadian bank designates as its prime rate and which establishes from time to time the reference rate of interest such bank will use to determine the rate of interest, expressed as its prime rate of interest, that it will charge for demand loans in Canadian dollars made in Canada, as such rate may be adjusted from time to time.

"Principal Amount" has the meaning set forth on the first page of this Promissory Note.

"Principal Property" means any fixed assets of the Corporation or any Subsidiary of the Corporation used for the transformation or distribution of electricity in Ontario and any revenues and rights associated with such fixed assets.

"Purchase Money Mortgage" means any Security Interest created, issued or assumed by the Corporation or a Designated Subsidiary to secure a Purchase Money Obligation; provided that such Security Interest is limited to the property (including the rights associated therewith) acquired, constructed, installed or improved using the funds advanced to the Corporation or such Designated Subsidiary in connection with such Purchase Money Obligation.

"Purchase Money Obligation" means Indebtedness of the Corporation or a Designated Subsidiary incurred or assumed to finance the purchase price, in whole or in part, of any property (except any Indebtedness which constitutes a Funded Obligation and which was incurred or assumed to finance the purchase price, in whole or in part, of any shares, bonds or other Securities) or incurred to finance the cost, in whole or in part, of construction or installation of or improvements to any real property or fixtures provided that such Indebtedness is incurred or assumed within 24 months after the purchase of such real property or fixtures or the completion of such construction, installation or improvements, as the case may be, and includes any extension, renewal or refunding of any such Indebtedness, so long as the principal amount thereof outstanding on the date of such extension, renewal or refunding is not increased.

"Securities" means any stock, shares, units, partnership interests, equity interests, instalment receipts, voting trust certificates, bonds, debentures, notes, other evidences of indebtedness, or other documents or instruments commonly known as securities or any certificates of interest, shares or participations in temporary or interim certificates for, receipts for, guarantees of, or warrants, options or rights to subscribe for, purchase or acquire any of the foregoing.

"Security Interest" means any assignment, mortgage, charge (whether fixed or floating), hypothec, pledge, lien, security interest or other encumbrance on or interest in property or assets that secures payment of any Indebtedness or Obligation.

"Subsidiary" means (a) any corporation of which there is owned, directly or indirectly, by or for the Corporation and/or by or for any corporation in like relation to the Corporation, voting shares which, in the aggregate, entitle the holders thereof to cast more than 50% of the votes which may be cast by the holders of the outstanding voting shares of such first mentioned corporation for the election of its directors and includes any corporation in like relation to a Subsidiary, or (b) any other Person of which at least a majority of voting ownership interest is at the time, directly or indirectly, owned by or for the Corporation and/or by or for any corporation in like relation to the Corporation.

"Trust Indenture" means the trust indenture dated as of July 21, 2010 between HHI, as issuer, and Computershare Trust Company of Canada, as trustee, as amended by the first supplemental indenture dated as of July 21, 2010, as further amended, supplemented and restated from time to time, including pursuant to the second supplemental indenture dated as of July 25, 2012 between HHI and Computershare Trust Company of Canada providing for the issuance of the Debentures.

"Wholly-Owned Designated Subsidiary" means a Designated Subsidiary all of the outstanding shares in the capital of which are owned, directly or indirectly, by or for the Corporation and/or by or for one or more other Wholly-Owned Designated Subsidiaries.

1.2 Interpretation Not Affected by Headings

The division of this Promissory Note (including this Schedule A) into Articles, Sections and clauses, and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof.

1.3 Extended Meanings

In this Promissory Note, unless otherwise expressly provided herein or unless the context otherwise requires, words importing the singular number include the plural and *vice versa*; words importing gender include the masculine, feminine and neuter genders; the word "including" when used herein means "including, without limitation" and the word "includes" when used herein means "includes, without limitation"; references to **"Promissory Note"**, **"hereto"**, **"herein"**, **"hereof"**, **"hereby"**, **"hereunder"** and similar expressions refer to this Promissory Note, and not to any particular Article, Section, clause or other portion hereof, and include all Schedules and amendments hereto, modifications or restatements hereof; and the expressions **"Article"**, **"Section"**, **"clause"** and **"Schedule"** followed by a number, letter, or combination of numbers and letters refer to the specified Article, Section or clause of or Schedule to this Promissory Note.

1.4 Day Not a Business Day

If any day on which an amount is to be determined or an action is to be taken hereunder is not a Business Day, then such amount shall be determined or such action shall be taken at or before the requisite time on the next succeeding day that is a Business Day at such location.

1.5 Currency

Except as otherwise provided herein, all references in this Promissory Note to **"Canadian dollars"**, **"dollars"** and **"\$"** are to lawful money of Canada.

1.6 Statutes

Each reference in this Promissory Note to a statute is deemed to be a reference to such statute as amended, re-enacted or replaced from time to time.

1.7 Applicable Law

This Promissory Note shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable in the Province of Ontario without giving effect to the principles of the conflicts of law thereof and shall be treated in all respects as an Ontario instrument. Any legal action or proceedings with respect to this Promissory Note shall be brought in the courts of the Province of Ontario, and such courts shall have non-exclusive jurisdiction to deal with all matters relating to the interpretation of, or enforcement of rights under, this Promissory Note.

1.8 Enurement

This Promissory Note will enure to the benefit of and be binding upon HHI and the Corporation and their respective permitted successors and permitted assigns.

1.9 Invalidity

Each of the provisions contained in this Promissory Note is distinct and severable and a declaration of invalidity, illegality or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision of this Promissory Note.

1.10 Entire Agreement

This Promissory Note constitutes the entire agreement between the Corporation and HHI pertaining to the subject matter hereof and supersedes all prior correspondence, agreements, negotiations, discussions and understandings, whether written or oral.

1.11 Time of the Essence

Time is of the essence of this Promissory Note.

1.12 Limitation Periods

To the extent that any limitation period applies to any claim for payment of obligations or remedy for enforcement of obligations under this Promissory Note, it is agreed that:

- (a) any limitation period is expressly excluded and waived entirely if permitted by applicable law;
- (b) if a complete exclusion and waiver of any limitation period is not permitted by applicable law, any limitation period is extended to the maximum length permitted by applicable law;
- (c) to the extent that any of the obligations arising under this Promissory Note are expressed to be payable on demand, the limitation period shall not begin before an express demand for payment of the relevant obligations is made in writing by HHI to the Corporation;
- (d) any applicable limitation period shall begin afresh upon any payment or other acknowledgment by the Corporation of its relevant obligations; and
- (e) this Promissory Note is a "business agreement" as defined in the *Limitations Act, 2002* (Ontario) if that Act applies to it.

ARTICLE 2 COVENANTS OF THE CORPORATION

2.1 General Covenants

The Corporation hereby covenants and agrees with HHI as follows:

- (a) the Corporation will duly and punctually pay or cause to be paid to HHI, without any deduction or set-off whatsoever, the Principal Amount on the Maturity Date (or such earlier date as the Principal Amount may become due and payable under the terms of this Promissory Note) and interest accrued on the Principal Amount at the Interest Rate Per Annum on each Interest Payment Date, including the Maturity Date, and otherwise in the manner specified in this Promissory Note;
- (b) the Corporation will and will cause each Designated Subsidiary to maintain its corporate existence (provided however a Designated Subsidiary may cease to maintain its corporate existence if all of its assets are or have been conveyed to the Corporation or another Designated Subsidiary) and will carry on and conduct or will cause to be carried on and conducted its business and the business of its Designated Subsidiaries in a proper and efficient manner and will keep or cause to be kept proper books of account and make or cause to be made therein true and faithful entries of all its dealings and transactions in relation to its business and the business of its Designated Subsidiaries, as the case may be, all in accordance with Canadian GAAP, provided that nothing herein contained will prevent the Corporation from ceasing to operate or from causing any Designated Subsidiary to cease to operate any premises or property if in the opinion of the Directors it is advisable and in the best interests of the Corporation or the Designated Subsidiary concerned to do so;
- (c) the Corporation will maintain, and will take all necessary corporate actions to ensure that each Designated Subsidiary maintains, in force such policies of insurance in such amounts issued by insurers of recognized standing covering the properties and operations of the Corporation and its Designated Subsidiaries as are customarily held by similar entities engaged in the same or similar businesses in similar locations; and
- (d) the Corporation will, and will cause each Designated Subsidiary to, from time to time, pay or cause to be paid all taxes (including transfer taxes), rates, levies, payments in lieu of taxes, assessments (ordinary or extraordinary), government fees or dues lawfully levied, assessed or imposed upon or in respect of its respective property or any part thereof or upon its income and profits as and when the same become due and payable and to withhold and remit any amounts required to be withheld by it from payments due to others and remit the same to any government or agency thereof, provided however, that the Corporation and its Designated Subsidiaries shall have the right to contest in good faith and diligently by legal proceedings any such taxes, rates, levies, payments in lieu of taxes, assessments, government fees or dues and, during such contest, may deliver or defer payment or discharge thereof.

2.2 Negative Pledge

The Corporation will not, and will not permit any Designated Subsidiary to, create, assume or suffer to exist any Security Interest on any of its assets to secure any Obligation without the prior written consent of HHI, provided that this Section 2.2 shall not apply to or operate to prevent the creation, assumption of existence by the Corporation or any Designated Subsidiary of Permitted Encumbrances.

2.3 Amalgamation, Merger and Sale of Assets

The Corporation may not, in a single transaction or a series of related transactions, amalgamate or consolidate with or merge into any other Person, or permit any other Person to amalgamate or consolidate with or merge into the Corporation, or directly or indirectly transfer, sell, lease or otherwise dispose of all or substantially all of its property or assets on a consolidated basis to any Person, except for an amalgamation, consolidation, merger, transfer, sale, lease or other disposition of property and assets that is not prohibited by the Trust Indenture.

2.4 Limitation on Funded Obligations

The Corporation will not and will ensure that no Designated Subsidiary, directly or indirectly, guarantees, incurs, issues or otherwise becomes liable for or in respect of any Funded Obligations unless no default or Event of Default shall have occurred and be continuing at the time of, or as a consequence of, such Funded Obligation having been incurred and such Funded Obligation is otherwise incurred in compliance with the Trust Indenture.

ARTICLE 3 DEFAULTS AND REMEDIES

3.1 Events of Default

Each of the following events shall constitute an "Event of Default" under, or in respect of, this Promissory Note:

- (a) the Corporation fails to make payment of the Principal Amount when the same becomes due, whether at the Maturity Date or otherwise, and any such failure continues for a period of five days; or
- (b) the Corporation fails to make payment of any interest on any Interest Payment Date and any such failure continues for a period of 30 days; or
- (c) the Corporation fails to perform or observe any of its covenants under Sections 2.2, 2.3 and 2.4 of this Promissory Note; or
- (d) the Corporation fails to observe and perform any other obligation under this Promissory Note and such failure continues for more than 60 days after written notice thereof is provided to the Corporation by HHI; or

- (e) there occurs an "Event of Default" (as defined in the Trust Indenture) under the Trust Indenture.

3.2 Acceleration

If any Event of Default occurs, HHI may in its discretion give notice to the Corporation declaring all Obligations owing under this Promissory Note or any of them to be due and payable, in which case all such Obligations shall be immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Corporation.

Notwithstanding the immediately preceding paragraph, upon the occurrence of an "Event of Default" (as defined in the Trust Indenture) under any of Sections 8.1(f), 8.1(g), 8.1(h) or 8.1(i) of the Trust Indenture then, without prejudice to the other rights of HHI, without any notice or action of any kind by HHI, and without presentment, demand or protest, the Obligations owed by the Corporation under this Promissory Note shall immediately become due and payable.

3.3 Enforcement by HHI

Upon the occurrence of an Event of Default and during its continuance, HHI may take such action or proceedings in compliance with applicable requirements of law that HHI, in its sole discretion, deems expedient to enforce payment of the Principal Amount, of interest accrued on the Principal Amount and of any other amounts owing under this Promissory Note, all without any additional notice, presentment, demand, protest or other formality, all of which are expressly waived by the Corporation.

HHI shall be entitled and empowered to file such proofs of claim or debt, amendments of proofs of claim or debt, petition or other document as may be necessary or advisable in order to have the claims of HHI allowed in any insolvency, bankruptcy, liquidation or other judicial proceedings relative to the Corporation or its creditors or relative to or affecting its property.

HHI shall also have power at any time and from time to time to institute and to maintain such suits and proceedings as it may be advised shall be necessary or advisable to preserve and protect its interests.

No delay or omission by HHI in exercising any right or power accruing to it upon the occurrence of an Event of Default shall impair any such right or power or shall be construed to be a waiver of such Event of Default or acquiescence therein, and no act or omission of HHI shall extend to or be taken in any manner whatsoever to affect any subsequent Event of Default or the rights resulting therefrom.

3.4 Application of Money

Any money received by HHI following exercise of its rights pursuant to this Article 3 or as a result of legal or other proceedings against the Corporation or any Designated Subsidiary pursuant hereto, or from any trustee in bankruptcy or liquidator of the Corporation, shall be applied, as follows:

- (a) first, in payment or in reimbursement to HHI of its costs, charges, expenses, advances or other amounts incurred by HHI in connection with the enforcement of this Promissory Note, together with interest thereon as herein provided;
- (b) second, in payment of accrued and unpaid interest on the Principal Amount and other amounts of interest accrued and unpaid under this Promissory Note;
- (c) third, in payment of the Principal Amount; and
- (d) fourth, in payment of the surplus, if any, of such money to the Corporation.

3.5 Remedies Cumulative

The rights and remedies of HHI under this Promissory Note are cumulative and are in addition to and not in substitution for any rights or remedies provided by applicable law. Any single or partial exercise by HHI of any right or remedy for a default or breach of any term, covenant, or condition in this Promissory Note shall not be deemed to be a waiver of or to alter, affect, or prejudice any other right or remedy or other rights or remedies to which HHI may be lawfully entitled for the same default or breach. Any waiver by HHI of the strict observance, performance or compliance with any term, covenant, or condition in this Promissory Note and any indulgence granted by HHI shall be deemed not to be a waiver of any subsequent default.

3.6 Concerning Interest

- (a) All interest on the Principal Amount shall accrue from day to day and shall be payable in arrears, calculated on the actual number of days elapsed from and including, as applicable, the date of this Promissory Note or the previous Interest Payment Date to but excluding the next following Interest Payment Date. If interest is not paid on the date it is due, the Principal Amount shall continue to bear interest at the Interest Rate Per Annum from time to time, both before and after maturity, default and judgment, and overdue interest shall bear interest at the same rate, compounded monthly, and be payable on demand.
- (b) Any rate that is calculated with reference to a period (the "deemed interest period") that is less than the actual number of days in the calendar year of calculation is, for the purposes of the *Interest Act* (Canada), equivalent to a rate based on a calendar year calculated by multiplying that rate of interest by the actual number of days in the calendar year of calculation and dividing by the number of days in the deemed interest period. All calculations of interest and fees under this Promissory Note shall be made on the basis of the nominal rates described herein and not on the basis of effective yearly rates or on any other basis that gives effect to the principle of deemed reinvestment. It is acknowledged that there is a material difference between the stated nominal rates and effective yearly rates taking into account reinvestment, and that they are capable of making the calculations required to determine effective yearly rates.

APPENDIX 5-2: HORIZON UTILITIES' PROMISSORY NOTE (2010)

EXECUTION VERSION

PROMISSORY NOTE

Maturity Date:	July 21, 2020
Interest Rate Per Annum:	4.89%
Interest Payment Dates:	January 21 and July 21 in each year
Initial Interest Payment Date:	January 21, 2011
Principal Amount:	\$40,000,000

HORIZON UTILITIES CORPORATION (the "**Corporation**") for value received and intending to be legally bound hereby, promises to pay to or to the order of **HORIZON HOLDINGS INC. ("HHI")** on the Maturity Date, or on such earlier date as the Principal Amount may become due in accordance with the provisions of this Promissory Note, the Principal Amount in lawful money of Canada and to pay interest on the Principal Amount at the Interest Rate Per Annum from the date hereof on each Interest Payment Date including the Maturity Date, with interest on overdue interest and principal accruing at the same rate per annum.

Covenants of the Corporation and Other Provisions

Schedule A to this Promissory Note contains additional terms and conditions which form part of and are incorporated into this Promissory Note. All defined terms used in this Promissory Note shall, unless otherwise defined herein, have the meanings defined in Section 1.1 of Schedule A hereto.

[EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF Horizon Utilities Corporation has caused this Promissory Note to be signed by its President and Chief Executive Officer and its Senior Vice President and Chief Financial Officer as of July 21, 2010.

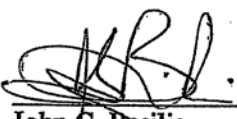
HORIZON UTILITIES CORPORATION

By:



Max A. Cananzi
President and Chief Executive Officer

By:



John G. Basilio
Senior Vice President and
Chief Financial Officer

[signature page for Promissory Note made by Horizon Utilities Corporation]

**SCHEDULE A
TO PROMISSORY NOTE
MADE BY HORIZON UTILITIES CORPORATION
IN FAVOUR OF HORIZON HOLDINGS INC.**

**ARTICLE 1
INTERPRETATION**

1.1 Definitions

In this Schedule A, which forms a part of this Promissory Note, unless otherwise specified herein or there is something in the subject matter or context inconsistent therewith, the following terms have the respective meanings indicated below:

"Affiliate" means, with respect to any Person, any other Person which, directly or indirectly through one or more Persons, Controls, is Controlled by, or is under common Control with, such Person.

"Business Day" means any day, other than a Saturday or Sunday, on which Canadian Imperial Bank of Commerce in Toronto, Ontario is open for commercial banking business during normal banking hours in Toronto, Ontario.

"Canadian GAAP" means, as at any date of determination, accounting principles generally accepted in Canada, as such principles may be amended, varied or replaced by International Financial Reporting Standards (IFRS) then in effect and generally accepted in Canada.

"Capital Lease Obligation" means any monetary obligation of the Corporation or a Designated Subsidiary under any leasing or similar arrangement which, in accordance with Canadian GAAP, would be classified as a capital lease and for the purposes hereof, the amount of Capital Lease Obligations shall be the capitalized amount thereof, determined in accordance with Canadian GAAP.

"Contingent Liability" means any agreement, undertaking or arrangement by which any Person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the Obligation of any other Person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other Person. The amount of any Person's Obligation under any Contingent Liability shall (subject to any limitation set forth therein) be deemed to be the outstanding principal amount (or maximum principal amount, if larger) of the Obligation guaranteed thereby.

"Control", "Controls", "Controlled" and similar expressions mean a relationship between two Persons wherein one of such Persons has the power, through the ownership of Securities, by contract or otherwise, to direct the management and policies of the other of such Persons, and includes, in the case of a corporation, the ownership, either directly or indirectly through one or more Persons, of Securities of such corporation carrying more than 50% of the votes that may be cast to elect the directors of such corporation either under all circumstances or under some circumstances that have occurred and are continuing (other than Securities held as collateral for a

bona fide debt where the holder thereof is not entitled to exercise the voting rights attached to the Trust Indenture), provided that such votes, if exercised, are sufficient to elect a majority of the directors of such corporation.

"Corporation" means Horizon Utilities Corporation, an Ontario corporation.

"Debentures" means the 4.77% Senior Unsecured Debentures, Series A due July 21, 2020 issued by HHI pursuant to the Trust Indenture.

"Designated Subsidiary" means each Subsidiary of the Corporation which is designated as a "Designated Subsidiary" (as defined in the Trust Indenture) in accordance with the Trust Indenture.

"Event of Default" has the meaning defined in Section 3.1.

"Financial Instrument Obligations" means, with respect to any Person at any time, the obligations of such Person under any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, commodity future, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing to the extent of the net amount due to or accruing due by the Person thereunder (determined by marking the same to market at such time in accordance with its terms).

"Funded Obligations" means, with respect to any Person, all Indebtedness created, assumed or guaranteed which matures by its terms on, or is renewable at the option of such Person to, a date more than 18 months after the date of the original creation, assumption or guarantee thereof.

"HHI" means Horizon Holdings Inc., an Ontario corporation.

"Indebtedness" means (without duplication), with respect to any Person:

- (a) all Obligations of such Person for borrowed money, including Obligations with respect to bankers' acceptances and contingent reimbursement obligations, including those related to letters of credit and other financial instruments,
- (b) all Obligations issued or assumed by such Person in connection with its acquisition of property in respect of the deferred purchase price of that property,
- (c) all Capital Lease Obligations and Purchase Money Obligations of such Person, and
- (d) all Contingent Liabilities of such Person in respect of any of the foregoing.

"Interest Payment Date" has the meaning set forth on the first page of this Promissory Note.

"Interest Rate Per Annum" has the meaning set forth on the first page of this Promissory Note.

"Maturity Date" means July 21, 2020.

"Non-Recourse Debt" means, with respect to a Person, any Indebtedness incurred to finance the creation, development, construction or acquisition of an asset of the Person (and any extensions, renewals or refunding of any such Indebtedness) provided that the recourse of the obligee thereof against the Person is limited in all circumstances (other than in respect of false or misleading representations or warranties) to the asset (including all rights and benefits relating to or arising out of such asset) in each case other than Principal Property.

"Obligations" means (without duplication), with respect to any Person, all items which, in accordance with Canadian GAAP, would be included as liabilities on the liability side of the balance sheet of such Person as of the date at which Obligations are to be determined and all Contingent Liabilities of such Person in respect of any of the foregoing.

"Permitted Encumbrances" means any or all of the following:

- (a) any Security Interest that secures the Obligations of a Designated Subsidiary that existed prior to the date on which it became a Designated Subsidiary and that (i) was not incurred in contemplation of such Person becoming a Designated Subsidiary, and (ii) is not applicable to the Corporation or any other Designated Subsidiary or the properties or assets of the Corporation or any other Designated Subsidiary;
- (b) any Security Interest granted by the Corporation or a Designated Subsidiary to secure the Debentures;
- (c) any Purchase Money Mortgage or Capital Lease Obligation of the Corporation or a Designated Subsidiary;
- (d) any Security Interest on a property or asset acquired by the Corporation or a Designated Subsidiary that secures the Obligations of a Person (whether or not such Obligations were assumed by the acquiring Person) which Security Interest existed at the time such property or asset was acquired and that (i) was not incurred in contemplation of such property or asset being acquired, and (ii) is not applicable to the Corporation or any other Designated Subsidiary or the properties or assets of the Corporation or any other Designated Subsidiary;
- (e) any Security Interest given in the ordinary course of business by the Corporation or a Designated Subsidiary to any bank or banks or other lenders to secure any Indebtedness payable on demand or maturing within 18 months of the date such Indebtedness is incurred or of the date of any renewal or extension thereof;
- (f) any Security Interest granted by a Designated Subsidiary in favour of the Corporation or a Wholly-Owned Designated Subsidiary;
- (g) any Security Interest on or against cash or marketable debt securities pledged to secure any non-speculative Financial Instrument Obligation incurred in the ordinary course of business for risk management purposes that hedges Indebtedness of the Corporation or a Designated Subsidiary;

- (h) any Security Interest granted, assigned, mortgaged, charged or hypothecated by the Corporation or a Designated Subsidiary on any assets other than Principal Property to secure any corresponding Non-Recourse Debt;
- (i) any Security Interest for taxes, payments in lieu of taxes, assessments, government charges or claims that are being contested in good faith and in respect of which appropriate provision is made in the financial statements of the Corporation in accordance with Canadian GAAP;
- (j) any Security Interests securing appeal bonds or other similar Security Interests arising in connection with contracts, bids, tenders or court proceedings (including surety bonds, security for costs of litigation where required by law and letters of credit) or any other instruments serving a similar purpose;
- (k) a lien or deposit under workers' compensation, social security or similar legislation or good faith deposits in connection with bids, tenders, leases, contracts or expropriation proceedings, or deposits to secure public or statutory obligations or deposits of cash or obligations to secure surety and appeal bonds;
- (l) a lien or privilege imposed by law, such as builders', carriers', warehousemen's, landlords', mechanics' and material men's liens and privileges, and any lien or privilege arising out of judgments or awards with respect to which the Corporation or a Designated Subsidiary at the time is prosecuting an appeal or proceedings for review and with respect to which it has secured a stay of execution pending such appeal or proceedings for review; or liens for taxes, payments in lieu of taxes, assessments or governmental charges or levies not at the time due and delinquent or the validity of which is being contested at the time by the Corporation or a Designated Subsidiary in good faith; or undetermined or inchoate liens, privileges and charges incidental to current operations which have not at such time been filed pursuant to law against the Corporation or a Designated Subsidiary or which relate to obligations not due or delinquent; or the deposit of cash or Securities in connection with any lien or privilege referred to in this clause (l);
- (m) any minor encumbrance, including, easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other Persons, rights-of-way for sewers, electric lines, telegraph and telephone lines and oil and natural gas pipe lines and other similar purposes, or zoning or other restrictions as to the use of real properties, which encumbrances, easements, servitudes, rights of way or other similar rights and restrictions do not in the aggregate materially detract from the value of such properties or materially impair their use in the operation of the business of the Corporation or a Designated Subsidiary;
- (n) any right reserved to or vested in any municipality or governmental or other public authority by the terms of any lease, license, franchise, grant or permit acquired by the Corporation or a Designated Subsidiary, or by any statutory provision, to terminate any such lease, license, franchise, grant or permit or to

purchase assets used in connection therewith or to require annual or other periodic payments as a condition to the continuance thereof;

- (o) a lien or right of distress reserved in or exercisable under any lease for rent and for compliance with the terms of such lease;
- (p) any Security Interest granted by the Corporation or a Designated Subsidiary to a public utility or any municipality or governmental or other public authority when required by such utility, municipality or other authority in connection with the operations of the Corporation or such Designated Subsidiary;
- (q) any reservation, limitation, proviso or condition, if any, expressed in any original grants to the Corporation or a Designated Subsidiary from the Crown;
- (r) other Security Interests permitted under the Trust Indenture; and
- (s) any extension, renewal, alteration, substitution or replacement, in whole or in part, of any Security Interest referred to in the foregoing clauses (a) through (q), provided the extension, renewal, alteration, substitution or replacement of such Security Interest is limited to all or any part of the same property that secured the Security Interest extended, renewed, altered, substituted or replaced the principal amount of the Obligations secured thereby is not thereby increased, the terms of the Indebtedness secured thereby is not shortened and the terms and conditions thereof are no more restrictive in any material respect than the Security Interest so extended.

"Person" means any individual, corporation, body corporate, limited partnership, general partnership, joint stock company, association, joint venture, association, company, trust, bank, fund, governmental authority, municipal corporation or other entity or organization, whether or not recognized as a legal entity.

"Prime Rate" means the rate of interest expressed as a rate per annum which HHI's principal Canadian bank designates as its prime rate and which establishes from time to time the reference rate of interest such bank will use to determine the rate of interest, expressed as its prime rate of interest, that it will charge for demand loans in Canadian dollars made in Canada, as such rate may be adjusted from time to time.

"Principal Amount" has the meaning set forth on the first page of this Promissory Note.

"Principal Property" means any fixed assets of the Corporation or any Subsidiary of the Corporation used for the transformation or distribution of electricity in Ontario and any revenues and rights associated with such fixed assets.

"Purchase Money Mortgage" means any Security Interest created, issued or assumed by the Corporation or a Designated Subsidiary to secure a Purchase Money Obligation; provided that such Security Interest is limited to the property (including the rights associated therewith) acquired, constructed, installed or improved using the funds advanced to the Corporation or such Designated Subsidiary in connection with such Purchase Money Obligation.

"Purchase Money Obligation" means Indebtedness of the Corporation or a Designated Subsidiary incurred or assumed to finance the purchase price, in whole or in part, of any property (except any Indebtedness which constitutes a Funded Obligation and which was incurred or assumed to finance the purchase price, in whole or in part, of any shares, bonds or other Securities) or incurred to finance the cost, in whole or in part, of construction or installation of or improvements to any real property or fixtures provided that such Indebtedness is incurred or assumed within 24 months after the purchase of such real property or fixtures or the completion of such construction, installation or improvements, as the case may be, and includes any extension, renewal or refunding of any such Indebtedness, so long as the principal amount thereof outstanding on the date of such extension, renewal or refunding is not increased.

"Securities" means any stock, shares, units, partnership interests, equity interests, instalment receipts, voting trust certificates, bonds, debentures, notes, other evidences of indebtedness, or other documents or instruments commonly known as securities or any certificates of interest, shares or participations in temporary or interim certificates for, receipts for, guarantees of, or warrants, options or rights to subscribe for, purchase or acquire any of the foregoing.

"Security Interest" means any assignment, mortgage, charge (whether fixed or floating), hypothec, pledge, lien, security interest or other encumbrance on or interest in property or assets that secures payment of any Indebtedness or Obligation.

"Subsidiary" means (a) any corporation of which there is owned, directly or indirectly, by or for the Corporation and/or by or for any corporation in like relation to the Corporation, voting shares which, in the aggregate, entitle the holders thereof to cast more than 50% of the votes which may be cast by the holders of the outstanding voting shares of such first mentioned corporation for the election of its directors and includes any corporation in like relation to a Subsidiary, or (b) any other Person of which at least a majority of voting ownership interest is at the time, directly or indirectly, owned by or for the Corporation and/or by or for any corporation in like relation to the Corporation.

"Trust Indenture" means the trust indenture dated as of July 21, 2010 between HHI, as issuer, and Computershare Trust Company of Canada, as trustee, as amended, supplemented and restated from time to time, including pursuant to the first supplemental indenture dated as of July 21, 2010 between HHI and Computershare Trust Company of Canada providing for the issuance of the Debentures.

"Wholly-Owned Designated Subsidiary" means a Designated Subsidiary all of the outstanding shares in the capital of which are owned, directly or indirectly, by or for the Corporation and/or by or for one or more other Wholly-Owned Designated Subsidiaries.

1.2 Interpretation Not Affected by Headings

The division of this Promissory Note (including this Schedule A) into Articles, Sections and clauses, and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation hereof.

1.3 Extended Meanings

In this Promissory Note, unless otherwise expressly provided herein or unless the context otherwise requires, words importing the singular number include the plural and *vice versa*; words importing gender include the masculine, feminine and neuter genders; the word "including" when used herein means "including, without limitation" and the word "includes" when used herein means "includes, without limitation"; references to "**Promissory Note**", "**hereto**", "**herein**", "**hereof**", "**hereby**", "**hereunder**" and similar expressions refer to this Promissory Note, and not to any particular Article, Section, clause or other portion hereof, and include all Schedules and amendments hereto, modifications or restatements hereof; and the expressions "**Article**", "**Section**", "**clause**" and "**Schedule**" followed by a number, letter, or combination of numbers and letters refer to the specified Article, Section or clause of or Schedule to this Promissory Note.

1.4 Day Not a Business Day

If any day on which an amount is to be determined or an action is to be taken hereunder is not a Business Day, then such amount shall be determined or such action shall be taken at or before the requisite time on the next succeeding day that is a Business Day at such location.

1.5 Currency

Except as otherwise provided herein, all references in this Promissory Note to "**Canadian dollars**", "**dollars**" and "\$" are to lawful money of Canada.

1.6 Statutes

Each reference in this Promissory Note to a statute is deemed to be a reference to such statute as amended, re-enacted or replaced from time to time.

1.7 Applicable Law

This Promissory Note shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable in the Province of Ontario without giving effect to the principles of the conflicts of law thereof and shall be treated in all respects as an Ontario instrument. Any legal action or proceedings with respect to this Promissory Note shall be brought in the courts of the Province of Ontario, and such courts shall have non-exclusive jurisdiction to deal with all matters relating to the interpretation of, or enforcement of rights under, this Promissory Note.

1.8 Enurement

This Promissory Note will enure to the benefit of and be binding upon HHI and the Corporation and their respective successors and assigns.

1.9 Invalidity

Each of the provisions contained in this Promissory Note is distinct and severable and a declaration of invalidity, illegality or unenforceability of any such provision or part thereof by a

court of competent jurisdiction shall not affect the validity or enforceability of any other provision of this Promissory Note.

1.10 Entire Agreement

This Promissory Note constitutes the entire agreement between the Corporation and HHI pertaining to the subject matter hereof and supersedes all prior correspondence, agreements, negotiations, discussions and understandings, whether written or oral.

1.11 Time of the Essence

Time is of the essence of this Promissory Note.

1.12 Limitation Periods

To the extent that any limitation period applies to any claim for payment of obligations or remedy for enforcement of obligations under this Promissory Note, it is agreed that:

- (a) any limitation period is expressly excluded and waived entirely if permitted by applicable law;
- (b) if a complete exclusion and waiver of any limitation period is not permitted by applicable law, any limitation period is extended to the maximum length permitted by applicable law;
- (c) to the extent that any of the obligations arising under this Promissory Note are expressed to be payable on demand, the limitation period shall not begin before an express demand for payment of the relevant obligations is made in writing by HHI to the Corporation;
- (d) any applicable limitation period shall begin afresh upon any payment or other acknowledgment by the Corporation of its relevant obligations; and
- (e) this Promissory Note is a "business agreement" as defined in the *Limitations Act, 2002* (Ontario) if that Act applies to it.

ARTICLE 2 COVENANTS OF THE CORPORATION

2.1 General Covenants

The Corporation hereby covenants and agrees with HHI as follows:

- (a) the Corporation will duly and punctually pay or cause to be paid to HHI, without any deduction or set-off whatsoever, the Principal Amount on the Maturity Date (or such earlier date as the Principal Amount may become due and payable under the terms of this Promissory Note) and interest accrued on the Principal Amount at the Interest Rate Per Annum on each Interest Payment Date, including the Maturity Date, and otherwise in the manner specified in this Promissory Note;

- (b) the Corporation will and will cause each Designated Subsidiary to maintain its corporate existence (provided however a Designated Subsidiary may cease to maintain its corporate existence if all of its assets are or have been conveyed to the Corporation or another Designated Subsidiary) and will carry on and conduct or will cause to be carried on and conducted its business and the business of its Designated Subsidiaries in a proper and efficient manner and will keep or cause to be kept proper books of account and make or cause to be made therein true and faithful entries of all its dealings and transactions in relation to its business and the business of its Designated Subsidiaries, as the case may be, all in accordance with Canadian GAAP, provided that nothing herein contained will prevent the Corporation from ceasing to operate or from causing any Designated Subsidiary to cease to operate any premises or property if in the opinion of the Directors it is advisable and in the best interests of the Corporation or the Designated Subsidiary concerned to do so;
- (c) the Corporation will maintain, and will take all necessary corporate actions to ensure that each Designated Subsidiary maintains, in force such policies of insurance in such amounts issued by insurers of recognized standing covering the properties and operations of the Corporation and its Designated Subsidiaries as are customarily held by similar entities engaged in the same or similar businesses in similar locations; and
- (d) the Corporation will, and will cause each Designated Subsidiary to, from time to time, pay or cause to be paid all taxes (including transfer taxes), rates, levies, payments in lieu of taxes, assessments (ordinary or extraordinary), government fees or dues lawfully levied, assessed or imposed upon or in respect of its respective property or any part thereof or upon its income and profits as and when the same become due and payable and to withhold and remit any amounts required to be withheld by it from payments due to others and remit the same to any government or agency thereof, provided however, that the Corporation and its Designated Subsidiaries shall have the right to contest in good faith and diligently by legal proceedings any such taxes, rates, levies, payments in lieu of taxes, assessments, government fees or dues and, during such contest, may deliver or defer payment or discharge thereof.

2.2 Negative Pledge

The Corporation will not, and will not permit any Designated Subsidiary to, create, assume or suffer to exist any Security Interest on any of its assets to secure any Obligation without the prior written consent of HHI, provided that this Section 2.2 shall not apply to or operate to prevent the creation, assumption of existence by the Corporation or any Designated Subsidiary of Permitted Encumbrances.

2.3 Amalgamation, Merger and Sale of Assets

The Corporation may not, in a single transaction or a series of related transactions, amalgamate or consolidate with or merge into any other Person, or permit any other Person to amalgamate or consolidate with or merge into the Corporation, or directly or indirectly transfer,

sell, lease or otherwise dispose of all or substantially all of its property or assets on a consolidated basis to any Person, except for an amalgamation, consolidation, merger, transfer, sale, lease or other disposition of property and assets that is not prohibited by the Trust Indenture.

2.4 Limitation on Funded Obligations

The Corporation will not and will ensure that no Designated Subsidiary, directly or indirectly, guarantees, incurs, issues or otherwise becomes liable for or in respect of any Funded Obligations unless no default or Event of Default shall have occurred and be continuing at the time of, or as a consequence of, such Funded Obligation having been incurred and such Funded Obligation is otherwise incurred in compliance with the Trust Indenture.

ARTICLE 3 DEFAULTS AND REMEDIES

3.1 Events of Default

Each of the following events shall be an "Event of Default" in respect of this Promissory Note:

- (a) the Corporation fails to make payment of the Principal Amount when the same becomes due, whether at the Maturity Date or otherwise, and any such failure continues for a period of five days; or
- (b) the Corporation fails to make payment of any interest on any Interest Payment Date and any such failure continues for a period of 30 days; or
- (c) the Corporation fails to perform or observe any of its covenants under Sections 2.2, 2.3 and 2.4 of this Promissory Note; or
- (d) the Corporation fails to observe and perform any other obligation under this Promissory Note and such failure continues for more than 60 days after written notice thereof is provided to the Corporation by HHI; or
- (e) there occurs an "Event of Default" (as defined in the Trust Indenture) under the Trust Indenture.

3.2 Acceleration

If any Event of Default occurs, HHI may in its discretion give notice to the Corporation Borrower declaring all Obligations owing under this Promissory Note or any of them to be due and payable, in which case all such Obligations shall be immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Corporation.

Notwithstanding the immediately preceding paragraph, upon the occurrence of an "Event of Default" (as defined in the Trust Indenture) under any of Sections 8.1(f), 8.1(g), 8.1(h) or 8.1(i) of the Trust Indenture then, without prejudice to the other rights of HHI, without any

notice or action of any kind by HHI, and without presentment, demand or protest, the Obligations owed by the Corporation under this Promissory Note shall immediately become due and payable.

3.3 Enforcement by HHI

Upon the occurrence of an Event of Default and during its continuance, HHI may take such action or proceedings in compliance with applicable requirements of law that HHI, in its sole discretion, deems expedient to enforce payment of the Principal Amount, of interest accrued on the Principal Amount and of any other amounts owing under this Promissory Note, all without any additional notice, presentment, demand, protest or other formality, all of which are expressly waived by the Corporation.

HHI shall be entitled and empowered to file such proofs of claim or debt, amendments of proofs of claim or debt, petition or other document as may be necessary or advisable in order to have the claims of HHI allowed in any insolvency, bankruptcy, liquidation or other judicial proceedings relative to the Corporation or its creditors or relative to or affecting its property.

HHI shall also have power at any time and from time to time to institute and to maintain such suits and proceedings as it may be advised shall be necessary or advisable to preserve and protect its interests.

No delay or omission by HHI in exercising any right or power accruing to it upon the occurrence of an Event of Default shall impair any such right or power or shall be construed to be a waiver of such Event of Default or acquiescence therein, and no act or omission of HHI shall extend to or be taken in any manner whatsoever to affect any subsequent Event of Default or the rights resulting therefrom.

3.4 Application of Money

Any money received by HHI following exercise of its rights pursuant to this Article 3 or as a result of legal or other proceedings against the Corporation or any Designated Subsidiary pursuant hereto, or from any trustee in bankruptcy or liquidator of the Corporation, shall be applied, as follows:

- (a) first, in payment or in reimbursement to HHI of its costs, charges, expenses, advances or other amounts incurred by HHI in connection with the enforcement of this Promissory Note, together with interest thereon as herein provided;
- (b) second, in payment of accrued and unpaid interest on the Principal Amount and other amounts of interest accrued and unpaid under this Promissory Note;
- (c) third, in payment of the Principal Amount; and
- (d) fourth, in payment of the surplus, if any, of such money to the Corporation.

3.5 Remedies Cumulative

The rights and remedies of HHI under this Promissory Note are cumulative and are in addition to and not in substitution for any rights or remedies provided by applicable law. Any single or partial exercise by HHI of any right or remedy for a default or breach of any term, covenant, or condition in this Promissory Note shall not be deemed to be a waiver of or to alter, affect, or prejudice any other right or remedy or other rights or remedies to which HHI may be lawfully entitled for the same default or breach. Any waiver by HHI of the strict observance, performance or compliance with any term, covenant, or condition in this Promissory Note and any indulgence granted by HHI shall be deemed not to be a waiver of any subsequent default.

3.6 Concerning Interest

- (a) All interest on the Principal Amount shall accrue from day to day and shall be payable in arrears, calculated on the actual number of days elapsed from and including, as applicable, the date of this Promissory Note or the previous Interest Payment Date to but excluding the next following Interest Payment Date. If interest is not paid on the date it is due, the Principal Amount shall continue to bear interest at the Interest Rate Per Annum from time to time, both before and after maturity, default and judgment, and overdue interest shall bear interest at the same rate, compounded monthly, and be payable on demand.
- (b) Any rate that is calculated with reference to a period (the "deemed interest period") that is less than the actual number of days in the calendar year of calculation is, for the purposes of the *Interest Act* (Canada), equivalent to a rate based on a calendar year calculated by multiplying that rate of interest by the actual number of days in the calendar year of calculation and dividing by the number of days in the deemed interest period. All calculations of interest and fees under this Promissory Note shall be made on the basis of the nominal rates described herein and not on the basis of effective yearly rates or on any other basis that gives effect to the principle of deemed reinvestment. It is acknowledged that there is a material difference between the stated nominal rates and effective yearly rates taking into account reinvestment, and that they are capable of making the calculations required to determine effective yearly rates.
- (c) If the date for payment of any amount of principal or interest in respect of this Promissory Note is not a Business Day, then payment shall be made on the next following Business Day.