



File Number: EB-2014-0073

Date Filed: May 29, 2014

Exhibit 5

**COST OF CAPITAL AND CAPITAL
STRUCTURE**



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Tab 1 of 2

Capital Structure

1 Capital Structure

2

3 OVERVIEW

4 This section provides evidence to support the method and cost of financing requirements for the
5 2015 test year.

6

7 Festival has followed the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities*
8 dated December 11, 2009 to determine its capital structure and relied on the Board's November
9 25, 2013 *Cost of Capital Parameter Updates Letter* for the most recent cost of capital
10 parameters. Festival will update the cost of capital parameters when new parameters are made
11 available prior to the Board's decision regarding Festival's 2015 distribution rates.

12

13 The derivation of the 2015 test year regulated return on capital is illustrated in the following
14 attachment Capitalization and Cost of Capital (E5/T1/S1/Att1).

15

16 There are no adjustments required related to the MIFRS transition as the impact of MIFRS is
17 fully reflected in the 2015 balances.

18 CAPITAL STRUCTURE

19 Festival's current deemed capital structure, as approved in Festival's 2010 COS Decision and
20 Order (EB-2009-0263), is 4% as the short- term debt portion, 56% as the long term debt portion
21 and 40% as Equity. For the purpose of setting distribution rates for the 2015 test year, Festival
22 is requesting that Festival's capital structure remains the same.

23

24 The table below provides Festival proposed capital structure and cost of capital. Based on
25 Festival's rate base for the 2015 test year, the aggregate deemed debt totals \$37,860,599 and
26 total equity of \$25,240,400. The Board's Appendix 2-OA provides the details of the 2015 test
27 year capital structure compared to the Board approved 2010 Capital structure.

1 Also in the table below is a calculation of the annual rate base from 2010 Board approved
2 through to test year 2015. Note that Festival was directed by the Board in its 2013 IRM
3 approval (EB-2012-0124) to place the CWIP transformer assets into Acct 1508 ICM Variance
4 account upon the asset being placed into service. The transformer station was put into
5 production December 2, 2013 and at that time the balances were transferred from CWIP to the
6 ICM Rate Rider Variance account. For rate base purposes, the value of the transformer asset,
7 less depreciation, has been added to the December 31, 2013 and December 31, 2014 rate base
8 to properly reflect the value of the asset in the rate base in each of those years. The 2015 rate
9 base reflects the disposition of the ICM rate Rider and the net asset portion fully incorporated
10 into the rate base.
11

12 **RETURN ON EQUITY**

13 ***Common Equity and Preferred Shares***

14 As noted previously, Festival adheres to the Board's Cost of Capital policy. Festival is
15 requesting a Return on Equity for the 2015 Test year of 9.36% in accordance with the 2014
16 Cost of Capital Parameters issued November 25, 2013. Festival has used the rate of 9.36% as
17 a place holder, subject to an update if new parameters are available prior to the issuance of the
18 Board's decision for Festival's 2015 distribution rates.

19 There have been no changes to the actual equity share structure since the 2010 COS Rate
20 application. Equity consists of 6,100 Class A Preferred Shares with a book value of \$6,100,000
21 and 6,995 common shares with a book value of \$9,468,388. The City of Stratford owns 100%
22 of the shares in each class. Festival's actual capital structure departs slightly for the OEB's
23 deemed structure for rate making purposes, however, Festival is not proposing any departure
24 from the deemed structure for rate making purposes in this Application.



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OEB Appendix 2-OA

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 Date: 25-Apr-14

Appendix 2-OA Capital Structure and Cost of Capital

This table must be completed for the last Board approved year and the test year.

Year: 2015

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
Debt					
1	Long-term Debt	56.00%	\$35,336,559	4.32%	\$1,525,868
2	Short-term Debt	4.00% (1)	\$2,524,040	2.11%	\$53,257
3	Total Debt	60.0%	\$37,860,599	4.17%	\$1,579,125
Equity					
4	Common Equity	40.00%	\$25,240,400	9.36%	\$2,362,501
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$25,240,400	9.36%	\$2,362,501
7	Total	100.0%	\$63,100,999	6.25%	\$3,941,627

Notes
(1)

4.0% unless an applicant has proposed or been approved for a different amount.

Year: 2010 Board Approved

Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
Debt					
1	Long-term Debt	56.00%	\$22,471,444	5.68%	\$1,276,862
2	Short-term Debt	4.00% (1)	\$1,605,103	2.07%	\$33,226
3	Total Debt	60.0%	\$24,076,547	5.44%	\$1,310,088
Equity					
4	Common Equity	40.00%	\$16,051,031	9.85%	\$1,581,027
5	Preferred Shares	0.00%	\$ -		\$ -
6	Total Equity	40.0%	\$16,051,031	9.85%	\$1,581,027
7	Total	100.0%	\$40,127,578	7.20%	\$2,891,114



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OEB Appendix 2-OB

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 Attachment: 2
 Date: 25-Apr-14

**Appendix 2-OB
 Debt Instruments**

This table must be completed for all required historical years, the bridge year and the test year.

Year 2009 (this is 2010)

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	City of Stratford	Affiliated	Fixed Rate	1-Nov-2000	Demand	13,900,000	7.25%	\$ 1,007,750.00	
2	Promissory Note	City of Stratford	Affiliated	Fixed Rate	7-Nov-2002	Demand	1,700,000	7.25%	\$ 123,250.00	
3	Debenture	Infrastructure Ont	Third-Party	Fixed Rate	15-Jun-2010	15 yrs	1,548,306	4.40%	\$ 52,147.00	
4	Debenture	Infrastructure Ont	Third-Party	Fixed Rate	1-Oct-2010	15 yrs	224,775	3.98%	\$ 3,065.00	
5	(this is 2010)								\$ -	
Total							\$ 17,373,081	0.068279	\$ 1,186,212.00	

Year 2009 (this is 2011)

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	City of Stratford	Affiliated	Fixed Rate	1-Nov-2000	Demand	13,900,000	7.25%	\$ 1,007,750.00	
2	Promissory Note	City of Stratford	Affiliated	Fixed Rate	7-Nov-2002	Demand	1,700,000	7.25%	\$ 123,250.00	
3	Debenture	Infrastructure Ont	Third-Party	Fixed Rate	15-Jun-2010	15 yrs	1,548,306	4.40%	\$ 92,673.00	
4	Debenture	Infrastructure Ont	Third-Party	Fixed Rate	1-Oct-2010	15 yrs	224,775	3.98%	\$ 11,954.00	
5	(this is 2011)								\$ -	
Total							\$ 17,373,081	0.071123	\$ 1,235,627.00	

Year 2012

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Promissory Note	City of Stratford	Affiliated	Fixed Rate	1-Nov-2000	Demand	13,900,000	7.25%	\$ 1,007,750.00	
2	Promissory Note	City of Stratford	Affiliated	Fixed Rate	7-Nov-2002	Demand	1,700,000	7.25%	\$ 123,250.00	
3	Debenture	Infrastructure Ont	Third-Party	Fixed Rate	15-Jun-2010	15 yrs	1,548,306	4.40%	\$ 87,946.00	
4	Debenture	Infrastructure Ont	Third-Party	Fixed Rate	1-Oct-2010	15 yrs	224,775	3.98%	\$ 11,331.00	
5	(this is 2012)								\$ -	
Total							\$ 17,373,081	0.070815	\$ 1,230,277.00	

Year 2013

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Promissory Note	City of Stratford	Affiliated	Fixed Rate	1-Nov-2000	Demand	13,900,000	7.25%	\$ 1,007,750.00	
2	Promissory Note	City of Stratford	Affiliated	Fixed Rate	7-Nov-2002	Demand	1,700,000	7.25%	\$ 123,250.00	
3	Debenture	Infrastructure Ont	Third-Party	Fixed Rate	15-Jun-2010	15 yrs	1,548,306	4.40%	\$ 82,910.00	
4	Debenture	Infrastructure Ont	Third-Party	Fixed Rate	1-Oct-2010	15 yrs	224,775	3.98%	\$ 10,682.00	
5	Fixed (Swap Based) Long Term Loan	Royal Bank	Third-Party	Fixed Rate	31-May-2013	25 yrs	13,783,000	3.35%	\$ 273,193.00	
6	(this is 2013)								\$ -	
Total							\$ 31,156,081	0.048074	\$ 1,497,785.00	

Year 2014

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	City of Stratford	Affiliated	Fixed Rate	1-Nov-2000	Demand	13,900,000	7.25%	\$ 1,007,750.00	
2	Promissory Note	City of Stratford	Affiliated	Fixed Rate	7-Nov-2002	Demand	1,700,000	7.25%	\$ 123,250.00	
3	Debenture	Infrastructure Ont	Third-Party	Fixed Rate	15-Jun-2010	15 yrs	1,548,306	4.40%	\$ 77,649.00	
4	Debenture	Infrastructure Ont	Third-Party	Fixed Rate	1-Oct-2010	15 yrs	224,775	3.98%	\$ 10,008.00	
5	Fixed (Swap Based) Long Term Loan	Royal Bank	Third-Party	Fixed Rate	31-May-2013	25 yrs	13,433,000	3.35%	\$ 455,851.00	
6	New Long Term fixed rate loan	Bank or IO	Third-Party	Fixed Rate	31-Dec-2014	15 yrs	1,200,000	4.48%	\$ 4,480.00	
Total							\$ 32,006,081	0.052458	\$ 1,678,988	

Year 2015

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	City of Stratford	Affiliated	Fixed Rate	1-Nov-2000	Demand	13,900,000	7.25%	\$ 1,007,750.00	
2	Promissory Note	City of Stratford	Affiliated	Fixed Rate	7-Nov-2002	Demand	1,700,000	7.25%	\$ 123,250.00	
3	Debenture - for Smart Metering	Infrastructure Ont	Third-Party	Fixed Rate	15-Jun-2010	15 yrs	1,548,306	4.40%	\$ 72,155.00	
4	Debenture - for Smart Metering	Infrastructure Ont	Third-Party	Fixed Rate	1-Oct-2010	15 yrs	224,775	3.98%	\$ 9,306.00	
5	Fixed (Swap Based) Long Term Loan	Royal Bank	Third-Party	Fixed Rate	31-May-2013	25 yrs	13,007,000	3.35%	\$ 442,879.00	
6	(this is 2015)								\$ -	
Total							\$ 30,380,081	0.054488	\$ 1,655,340.00	

CALCULATION OF DEEMED INTEREST:

Year 2015 DEEMED INTEREST CALCULATION

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	City of Stratford	Affiliated	Fixed Rate	1-Nov-2000	Demand	13,900,000	4.88%	\$ 679,320.00	
2	Promissory Note	City of Stratford	Affiliated	Fixed Rate	7-Nov-2002	Demand	1,700,000	4.88%	\$ 82,960.00	
3	Debenture - for Smart Metering	Infrastructure Ont	Third-Party	Fixed Rate	15-Jun-2010	15 yrs	1,548,306	4.40%	\$ 72,155.00	
4	Debenture - for Smart Metering	Infrastructure Ont	Third-Party	Fixed Rate	1-Oct-2010	15 yrs	224,775	3.98%	\$ 9,306.00	
5	Fixed (Swap Based) Long Term Loan	Royal Bank	Third-Party	Fixed Rate	31-May-2013	25 yrs	13,007,000	3.35%	\$ 442,879.00	
6	(this is 2015)								\$ -	
Total							\$ 30,380,081	0.042318	\$ 1,285,620.00	
							\$ 4,956,479	4.88%	\$ 240,248.18	
							\$ 35,336,560	4.32%	\$ 1,525,868.18	



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Cost of Capital (Return on Equity and Cost
of Debt)

1 Cost of Capital (Return on Equity and **Cost of Debt**)

2

3 **COST OF DEBT**

4 ***Short-Term Debt***

5 For rate making purposes, Festival proposes to recover \$53,257 through distribution rates in the
6 2015 test year for the Deemed Short-Term Debt. The Short-Term Debt Amount is derived by
7 applying the Board's November 25, 2013 published 2014 cost of capital parameters for short-
8 term debt to the deemed 4% of the capital structure at a rate of 2.11%. The applicable default
9 rate for the Short-Term Debt will be updated when 2015 Cost of Capital Parameters are made
10 available by the Board prior to the 2015 COS decision.

11 ***Long-Term Debt***

12 For the 2015 test year, Festival is requesting a return on Long Term debt of 4.32%. The 4.32%
13 rate is computed based on the weighted average of the following long term debt components:

- 14 1. Festival's affiliate debt consists of two demand Promissory Notes held by its shareholder
15 the City of Stratford, to which has been assigned the January 1, 2014 Board approved
16 deemed interest rate of 4.88%. The actual interest rate on both promissory notes is
17 7.25%. This request regarding affiliate debt is consistent with Festival's 2010 approved
18 COS Decision and Order. Copies of the promissory notes are attached.
- 19 2. Two debentures (original value of \$2.5 million) from Infrastructure Ontario used to fund
20 our smart meter deployment. The debentures are fixed over 15 years. The first
21 debenture was issued on December 15, 2010 with a face value of \$2,192,000 at a 15
22 year fixed rate of 4.40% per annum. The second debenture was issued on April 1, 2011
23 for a face value of \$308,000 at a 15 year fixed rate of 3.98%. Copies of the debenture
24 agreements are attached.

25

1 3. Festival entered into a lending agreement with the Royal Bank in June 2012 to facilitate
2 the construction of the Transformer station in the south end of the City of Stratford. The
3 \$14 million CWIP borrowing facility was converted into a fixed rate term loan effective
4 May 1, 2013. The fixed loan is supported by a swap agreement with notional principal of
5 \$14,000,000 commencing effective May 1, 2013 and maturing May 31, 2038. The swap
6 is a receive variable, pay fixed swap with the Royal Bank. This agreement has
7 effectively converted variable interest rates on banker's acceptance to an effective fixed
8 interest rate of 2.93% plus a stamping fee of 0.42% for an all in rate of 3.35%. The
9 2.93% rate portion is fixed for 25 years. The stamping fee portion, currently at 0.42%, is
10 subject to change every 10 years. A copy of the Royal Bank lending agreement is
11 attached.

12 Festival has determined that this swap does not meet the standards to apply hedge
13 accounting. Since the standard is not met, the interest rate swap is marked to market at
14 the end of each fiscal year. The amount of the unrealized gain as at December 31, 2013
15 was \$711,811. Being Festival plans to secure this loan for the full term of the lending
16 agreement, at the end of the term there will be no actual gain or loss arise related to the
17 swap. As such, Festival is not recognizing the impact of the unrealized gain or loss in
18 determining 2015 distribution rates.

19 4. The rate of 4.88% has been applied to the remaining amount of deemed debt in excess
20 of the actual long-term debt obligations noted in 1 to 4 above. The rate of 4.88% is the
21 deemed long term debt rate in accordance with the January 1, 2014 Cost of Capital
22 Parameters issued November 25, 2013. This deemed amount includes \$1,200 which
23 will be used to fund the payment obligation to Hydro One in respect of the Permanent
24 Bypass at the Stratford Devon Street station, with payment due December 2014.

25 Appendix 2-OB provides details of Festival's actual long term debt instruments since 2010
26 Board approved through to test year 2015. The principal balances on these schedules
27 represent the December 31 year-end balance. The interest expense represents the actual
28 interest expense to be incurred in that fiscal year.

1 To determine the weighted average long term debt rate, the table below provides the various
 2 long term debt components, the 2015 interest expense amount and the calculation of the return
 3 associated with the remaining deemed debt.

CALCULATION OF DEEMED INTERST:

Year 2015 DEEMED INTERST CALCULATION

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	City of Stratford	Affiliated	Fixed Rate	1-Nov-2000	Demand	13,900,000	4.88%	\$ 678,320.00	
2	Promissory Note	City of Stratford	Affiliated	Fixed Rate	7-Nov-2002	Demand	1,700,000	4.88%	\$ 82,960.00	
3	Debenture - for Smart Metering	Infrastructure Ont	Third-Party	Fixed Rate	15-Jun-2010	15 yrs	1,548,306	4.40%	\$ 72,155.00	
4	Debenture - for Smart Metering	Infrastructure Ont	Third-Party	Fixed Rate	1-Oct-2010	15 yrs	224,775	3.98%	\$ 9,306.00	
5	Fixed (Swap Based) Long Term Loan	Royal Bank	Third-Party	Fixed Rate	31-May-2013	25 yrs	13,007,000	3.35%	\$ 442,879.00	
6										
Total							\$ 30,380,081	0.0423179	\$ 1,285,620.00	
Remaining subject to deemed debt							\$ 4,956,479	4.88%	\$ 240,248.18	
Total deemed long term debt							\$ 35,336,560	4.32%	\$ 1,525,868.18	

4
5

6 For the construction of the transformer station, Festival determined that \$14 million was required
 7 in terms of long term funding. In order to obtain this funding, Festival issued an RFP to seven
 8 large well recognized Canadian lending institutions. All seven provided written proposals and
 9 did presentations to Festival regarding their lending offer. As a result of this highly competitive
 10 process, Festival was able to garner long term funding at very reasonable rates. In addition, at
 11 the time of borrowing, Canadian long term interest rates were at their very lowest in many years.
 12 As described in point three above, this resulted securing a long term loan rate of 3.35%, with the
 13 underlying 2.93% BA base rate portion fixed for 25 years and a stamping fee of 0.42%, subject
 14 to change every 10 years.

15 Going through the detailed RFP process to secure this amount of debt at such a low rate has
 16 greatly reduced the cost of capital and represents a direct savings to Festival's customers. The
 17 difference on the interest amount calculated at the fixed rate secured at 3.35% compared to
 18 other 25 year fixed long term rates at that time of around 4.00% represents approximately
 19 \$86,000 less in interest added to Festival's revenue requirement. Through competitive
 20 financing actions on behalf of Festival, these savings on debt financing are directly passed on to
 21 our customers.

22 Festival understands that the Board will provide a future update to the Cost of Capital
 23 Parameters for January 1, 2015 Cost of Service Applications. Festival's use of the weighted
 24 average rate of 4.88% is without prejudice to any revised rate which may be adopted by the
 25 Board for January 1, 2015 COS applications.

1 ***Other Credit Facilities***

2 In addition to the debt instruments above, Festival has two other credit facilities which include:

3 1. \$10,000,000 revolving term facility by way of RBP based loans, overdrafts and
4 bankers acceptance, which is used for short term financing.

5 2. \$3,600,000, revolving term facility by way of a letter of guarantee, of which the
6 amount of \$3,095,139 is used to secure its prudential obligations with the
7 Independent Electricity System Operator.

8

9 All credit facilities are secured by a general security agreement over Festival's distribution
10 assets and subject to restrictive covenants.



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Exhibit: 5

Tab: 2

Schedule: 1

Date Filed: May 29, 2014

Attachment 1 of 1

Festival Financing Documents

SCHEDULE A

PROMISSORY NOTE

November 7, 2002
Stratford, Ontario

In consideration for the surrender for redemption by the Corporation of the City of Stratford of 1,700 Class A Special shares of Festival Hydro Inc., having a redemption amount of \$1,000.00 per share, Festival Hydro Inc. promises to pay to the Corporation of the City of Stratford, or order, on demand, the sum of \$1,700,000.00, together with interest on the said sum at the rate of 7.25% per annum from November 7, 2002 until the date of payment, such payments of interest to be made commencing December 31, 2002, and quarterly at the end of each calendar quarter thereafter until paid.

FESTIVAL HYDRO INC.

Per:



William Zehr - President

I have authority to bind the Corporation



Corporate Services
City Hall, P.O. Box 818
Stratford ON N5A 6W1
519-271-0250
Fax: 519-273-5041
TTY: 519-271-5241
www.city.stratford.on.ca



CERTIFICATION

I, Joan Thomson, City Clerk, of The Corporation of the City of Stratford do hereby certify that the following resolution was adopted by Stratford City Council at a properly constituted meeting of Council held on October 15, 2002:

Resolution: R2002-625

That the interest rate for the existing demand note with Festival Hydro Inc. in the amount of \$13,900,000 be amended to 7.25% per annum effective January 1, 2002;

That the City and Festival Hydro redeem \$1,700,000 in preferred shares with the redemption amount to be satisfied by Festival Hydro Inc. giving to the City a demand note in the amount of \$1,700,000 payable with an interest rate of 7.25% effective January 1, 2002.

In testimony whereof I have hereunto set my hand and affixed the corporate seal this 18th day of August, 2009.



Joan Thomson – City Clerk

PROMISSORY NOTE

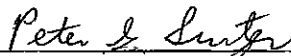
November 1, 2000
, Ontario


Whereas pursuant to By-Law 189-2000 of The Corporation of the City of Stratford, and pursuant to section 145 of the Electricity Act, 1998, certain assets have been transferred to Festival Hydro Inc.;

And whereas pursuant to the provisions of section 4.1(b)(ii)(a) Festival Hydro Inc. is to issue to The Corporation of the City of Stratford a promissory note in the amount of \$13,900,000.00 on the terms therein set forth;

Now therefore, pursuant to the provisions of the Transfer By-Law referred to above, Festival Hydro Inc. promises to pay to The Corporation of the City of Stratford, or order, on demand, the sum of \$13,900,000.00, together with interest on the said sum at the rate of 7.5% per annum from November 1, 2000 until the date of payment.

FESTIVAL HYDRO INC.

Per: 
Peter Switzer - President

Per: 
William Zehr - Secretary Treasurer

DEBENTURE

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS DEBENTURE MUST NOT TRADE THE DEBENTURE BEFORE THE DATE THAT IS 4 MONTHS AND A DAY AFTER THE LATER OF (I) JUNE 15, 2010, AND (II) THE DATE THE ISSUER BECAME A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY.

FESTIVAL HYDRO INC.

SECURED DEBENTURE DUE JUNE 15, 2025

No. 06-15-2010

Cdn.\$2,192,000.00

FESTIVAL HYDRO INC. (hereinafter referred to in such capacity as the "Borrower"), for value received, hereby acknowledges itself liable and indebted and promises to pay to ONTARIO INFRASTRUCTURE PROJECTS CORPORATION or its registered assigns by June 15, 2025 the principal sum of Two Million One Hundred Ninety Two Thousand Dollars (\$2,192,000.00) in lawful money of Canada by semi-annual payments on the 15th day of December and the 15th day of June in each of the years 2010 to 2025, both inclusive, in the amounts set forth in the attached Schedule A which forms part of this Debenture (the "Payment Schedule") and to pay interest on the said principal sum from time to time outstanding from the date hereof, or from the last interest payment date to which interest shall have been paid or made available for payment on this Debenture, whichever is later, at a rate of interest set forth in the Payment Schedule in arrears on the 15th day of December and the 15th day of June in each of the years 2010 to 2025 (each a "Payment Date") with the first payment due on December 15, 2010. Upon default interest shall be paid at the rate specified in the attached Schedule B which forms part of this Debenture. The applicable rate of interest, the payment of principal and interest and the principal balance outstanding under this Debenture in each year are shown in the Payment Schedule.

This Debenture is one of the Borrower's Secured Debentures originally authorized in the aggregate principal amount of Cdn.\$2,192,000.00 pursuant to the financing agreement (the "Financing Agreement") dated as of October 16, 2007 and made between the Borrower and Ontario Infrastructure Projects Corporation (herein called "OIPC"). Capitalized terms not defined herein shall have the meanings assigned to them in the Financing Agreement.

For the purposes of disclosure pursuant to the *Interest Act* (Canada), the yearly rate of interest which is equivalent to a rate of interest payable in respect of the principal for any period of less than a year may be determined by multiplying the rate of interest for such period by a fraction, the numerator of which is the actual number of days in a year commencing on and including the first day in such period and ending on but excluding the corresponding day in the next calendar year and the denominator of which is the actual number of days in such period.

Reference is hereby expressly made to the Financing Agreement and all instruments supplemental thereto for a statement and description of, among other things, the liability of the Borrower for payment of the Debenture, the terms, conditions, covenants and warranties upon which the Debenture is issued and held, and the rights and remedies of the holder of the Debenture issued thereunder and of the Borrower in respect thereof, all to the same effect as if the provisions of the Financing Agreement were herein set out, to all of which provisions the holder hereof by acceptance hereof assents.

The undersigned authorizes the registered holder of this Debenture to record on the reverse of this Debenture or on any attachment to this Debenture all repayments of principal and interest and the unpaid balance of principal from time to time. The undersigned agrees that in the absence of manifest error the record kept by the registered holder on this Debenture or any attachment shall be conclusive evidence of the matters recorded, provided that the failure of the registered holder to record or correctly record any amount or date shall not affect the obligation of the undersigned to pay the outstanding principal amount and interest.

In case an Event of Default (as defined in the Financing Agreement) shall occur and be continuing, the full unpaid principal amount of this Debenture, together with interest accrued thereon, may become or be declared due before stated maturity by the registered holder of this Debenture in its sole discretion.

This Debenture is also subject to the conditions set forth in the attached Schedule B.

This Debenture shall be construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

The parties hereto have declared that they have required that these presents and all other documents related hereto be in the English language.

Les parties aux présentes ont déclaré qu'elles ont exigé que le présent certificat, de même que tous les documents s'y rapportant, soient rédigés en anglais.

IN WITNESS HEREOF the Borrower has caused this Debenture to be executed and delivered as of the 15th day of June, 2010.

FESTIVAL HYDRO INC.
FESTIVAL HYDRO INC.

By: 

W.G. Zehr, President

Name: Wm. G. Zehr

Title: President

By: 

Name: Debbie Reece

Title: Secretary-Treasurer

SCHEDULE A

1. [Illegible text]

2. [Illegible text]

3. [Illegible text]

Amortizing Debenture Schedule

Organization Name Festival Hydro
 Principal Amount \$2,192,000.00
 Annual Interest Rate 4.40%
 Loan Term (Year) 15
 Debenture Date (m/d/yyyy) 6/15/2010
 Maturity Date (m/d/yyyy) 6/16/2025
 Payment Frequency Semi Annual
 Loan Type Amortizing

Payment Date	Total Payment	Principal Amount	Interest Amount	Principal Balance
12/15/2010	\$100,584.60	\$52,360.60	\$48,224.00	\$2,139,639.40
6/15/2011	\$100,584.60	\$53,512.53	\$47,072.07	\$2,086,126.87
12/15/2011	\$100,584.60	\$54,689.81	\$45,894.79	\$2,031,437.06
6/15/2012	\$100,584.60	\$55,892.98	\$44,691.62	\$1,975,544.08
12/17/2012	\$100,584.60	\$57,122.63	\$43,461.97	\$1,918,421.45
6/17/2013	\$100,584.60	\$58,379.33	\$42,205.27	\$1,860,042.12
12/16/2013	\$100,584.60	\$59,663.67	\$40,920.93	\$1,800,378.45
6/16/2014	\$100,584.60	\$60,976.27	\$39,608.33	\$1,739,402.18
12/15/2014	\$100,584.60	\$62,317.75	\$38,266.85	\$1,677,084.43
6/15/2015	\$100,584.60	\$63,688.74	\$36,895.86	\$1,613,395.69
12/15/2015	\$100,584.60	\$65,089.89	\$35,494.71	\$1,548,305.80
6/15/2016	\$100,584.60	\$66,521.87	\$34,062.73	\$1,481,783.93
12/15/2016	\$100,584.60	\$67,985.35	\$32,599.25	\$1,413,798.58
6/15/2017	\$100,584.60	\$69,481.03	\$31,103.57	\$1,344,317.55
12/15/2017	\$100,584.60	\$71,009.61	\$29,574.99	\$1,273,307.94
6/15/2018	\$100,584.60	\$72,571.83	\$28,012.77	\$1,200,736.11
12/17/2018	\$100,584.60	\$74,168.41	\$26,416.19	\$1,126,567.70
6/17/2019	\$100,584.60	\$75,800.11	\$24,784.49	\$1,050,767.59
12/16/2019	\$100,584.60	\$77,467.71	\$23,116.89	\$973,299.88
6/15/2020	\$100,584.60	\$79,172.00	\$21,412.60	\$894,127.88
12/15/2020	\$100,584.60	\$80,913.79	\$19,670.81	\$813,214.09

Payment Date	Total Payment	Principal Amount	Interest Amount	Principal Balance
6/15/2021	\$100,584.60	\$82,693.89	\$17,890.71	\$730,520.20
12/15/2021	\$100,584.60	\$84,513.16	\$16,071.44	\$646,007.04
6/15/2022	\$100,584.60	\$86,372.46	\$14,212.15	\$559,634.59
12/15/2022	\$100,584.60	\$88,272.64	\$12,311.96	\$471,361.95
6/15/2023	\$100,584.60	\$90,214.64	\$10,369.96	\$381,147.31
12/15/2023	\$100,584.60	\$92,199.36	\$8,385.24	\$288,947.95
6/17/2024	\$100,584.60	\$94,227.75	\$6,356.85	\$194,720.20
12/16/2024	\$100,584.60	\$96,300.76	\$4,283.84	\$98,419.44
6/16/2025	\$100,584.67	\$98,419.44	\$2,165.23	\$0.00
Total	\$3,017,538.07	\$2,192,000.00	\$825,538.07	

CONDITIONS AND DEFINITIONS

Schedule B to the Secured Debenture dated as of June 15, 2010 issued by the Borrower in favour of Ontario Infrastructure Projects Corporation

1. **Definitions**

“Net Present Value” will be calculated based on the following formulae: For Amortizing Debenture – $[\text{loan payment} / (r/2)] * (1 - 1 / (1 + (r/2))^n]$, where “r” is the prevailing lending rate less an appropriate basis point deduction for costs incurred and “n” is the number of semi-annual periods to maturity.

“Prime Rate” means, on any day, the annual rate of interest which is the arithmetic mean of the prime rates announced from time to time by the five major Canadian Schedule I banks, as of the issue date of this Debenture, Royal Bank of Canada, Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, Bank of Montreal and The Toronto-Dominion Bank (the “Reference Banks”) as their reference rates in effect on such day for Canadian dollar commercial loans made in Canada. If fewer than five of the Reference Banks quote a prime rate on such days, the “Prime Rate” shall be the arithmetic mean of the rates quoted by the remaining Reference Banks.

2. **Form and Registration of the Debenture**

(a) The Debenture is a direct and secured obligation of the Borrower and shall have priority over all unsecured senior debt obligations of the Borrower.

(b) The Borrower shall maintain at its designated office a register in respect of the Debenture in which shall be recorded the names and addresses of the registered holders and in which particulars of the cancellation, exchanges, substitutions and transfers of the Debenture, may be recorded and the Borrower is authorized to use electronic, magnetic or other media for records of or related to the Debenture or for copies of them.

3. **Title**

The Borrower shall not be bound to see to the execution of any trust affecting the ownership of this Debenture or be affected by notice of any equity that may be subsisting in respect thereof. The Borrower shall deem and treat the registered holder of this Debenture as the absolute owner thereof for all purposes whatsoever notwithstanding any notice to the contrary and all payments to or to the order of the registered holder shall be valid and effectual to discharge the liability of the Borrower on the Debenture to the extent of the sum or sums so paid. Where a Debenture is registered in more than one name, the principal of and interest from time to time payable on such Debenture shall be paid to or to the order of all the joint registered holders thereof, failing written instructions to the contrary from all such joint registered holders, and such payment shall constitute a valid discharge to the Borrower. In the case of the death of one or more joint registered holders, despite the foregoing provisions of this section, the principal of and interest on the Debenture registered in their names may be paid to the survivor or survivors of such holders and such payment shall constitute a valid discharge to the Borrower.

4. **Payments of Principal and Interest**

(a) The record date for purposes of payment of principal of and interest on the Debenture is as of 5:00 p.m. on the sixteenth calendar day preceding any Payment Date including a maturity date. Principal of and interest on the Debenture are payable by the Borrower to the persons registered as holders in the register on the relevant record date. The Borrower shall not be required to register any transfer, exchange or substitution of the Debenture during the period from any record date to the corresponding Payment Date.

(b) The Borrower shall make all payments in respect of semi-annual combined principal and interest on the Debenture on each Payment Date commencing on December 15, 2010 (other than in respect of the final payment of principal and outstanding interest which the Borrower shall pay on the final maturity date upon presentation and surrender of this Debenture) in lawful money of Canada by pre-authorized debit in respect of such interest and principal to the credit of the registered holder on such terms as to which the registered holder and the Borrower may agree.

(c) The Borrower shall pay to the registered holder interest on any overdue amount of principal or interest in respect of any Debenture, both before and after default and judgment, at a rate per annum equal to the greater of the rate specified on the Payment Schedule for such amount plus 200 basis points or Prime Rate plus 200 basis points, calculated on a daily basis from the date such amount becomes overdue for so long as such amount remains overdue and the Borrower shall pay to the registered holder any and all costs incurred by the registered holder as a result of the overdue payment.

(d) Whenever it is necessary to compute any amount of interest in respect of the Debenture for a period of less than one full year, other than with respect to regular semi-annual interest payments, such interest shall be calculated on the basis of the actual number of days in the period and a year of 365 days.

(e) Delivery of payments in respect of principal of and interest on the Debenture as provided on the Payment Schedule shall be made only on a day on which banking institutions in Toronto, Ontario, are not authorized or obligated by law or executive order to be closed (a "Toronto Business Day"), and if any date for delivery of payment is not a Toronto Business Day, payment as specified on the Payment Schedule shall be made on the next following Toronto Business Day.

(f) The Debenture is transferable or exchangeable at the office of the Treasurer of the Borrower upon presentation for such purpose accompanied by an instrument of transfer or exchange in a form approved by the Borrower and which form is in accordance with the prevailing Canadian transfer legislation and practices, executed by the registered holder thereof or such holder's duly authorized attorney or legal personal representative, whereupon and upon registration of such transfer or exchange and cancellation of the Debenture, a new Debenture will be delivered as directed by the transferee, in the case of a transfer or as directed by the registered holder in the case of an exchange.

(g) The Borrower shall issue and deliver a new Debenture in exchange or substitution for the Debenture outstanding on the register with the same maturity and of like form which has become lost, stolen, mutilated, defaced or destroyed, provided that the applicant therefor shall

have: (i) paid such costs as may have been incurred in connection therewith; (ii) (in the case of a lost, stolen or destroyed Debenture) furnished the Borrower with such evidence (including evidence as to the certificate number of the Debenture in question) and indemnity in respect thereof satisfactory to the Borrower in its discretion; and (iii) surrendered to the Borrower any mutilated or defaced Debenture in respect of which the new Debenture is to be issued in substitution.

(h) The Debenture(s) issued upon any registration of transfer or exchange or in substitution for the Debenture(s) or part thereof shall carry all the rights to interest if any, accrued and unpaid which were carried by such Debenture(s) or part thereof and shall be so dated and shall bear the same maturity date and shall be subject to the same terms and conditions as the Debenture(s) in respect of which the transfer, exchange or substitution is effected.

(i) The cost of all transfers and exchanges, including the printing of authorized denominations of the new Debenture(s), shall be borne by the Borrower. When the Debenture is surrendered for transfer or exchange the Treasurer of the Borrower shall: (i) in the case of an exchange, cancel and destroy the Debenture surrendered for exchange; (ii) in the case of an exchange, certify the cancellation and destruction in the register; and (iii) enter in the register particulars of the new Debenture issued in exchange.

(j) Reasonable fees for the substitution of a new Debenture for the Debenture that is lost, stolen, mutilated, defaced or destroyed may be imposed by the Borrower. Where new Debentures are issued in substitution in these circumstances the Borrower shall: (i) treat as cancelled and destroyed the Debentures in respect of which new Debentures will be issued in substitution; (ii) certify the deemed cancellation and destruction in the register; (iii) enter in the register particulars of the new Debentures issued in substitution; and (iv) make a notation of any indemnities provided.

5. Notices

Except as otherwise expressly provided herein, any notice required to be given to a registered holder of the Debenture will be sufficiently given if a copy of such notice is mailed or otherwise delivered to the registered address of such registered holder. If the Borrower or any registered holder is required to give any notice in connection with the Debenture on or before any day and that day is not a Toronto Business Day then such notice may be given on the next following Toronto Business Day.

6. Time

Unless otherwise expressly provided herein, any reference herein to a time shall be considered to be a reference to Toronto time.

7. Assignment and Benefit of Debenture

The Borrower may not assign its rights or transfer its obligations under this Debenture without the prior written consent of the registered holder of the Debenture. The registered holder of this Debenture may assign or transfer its rights under this Debenture without the prior written consent of the Borrower by giving thirty (30) days notice of such assignment or transfer to the Borrower.

This Debenture enures to the benefit of and binds the Borrower and the registered holder of the Debenture and their respective successors and permitted assigns.

8. Amendment

Any amendment to this Debenture shall be in writing signed by each of the Borrower and the registered holder of the Debenture except that any waiver of any provision of this Debenture or consent to any departure by the Borrower herefrom, shall be effective if the same is in writing and signed by the registered holder of the Debenture.

9. No Waiver

No failure on the part of the registered holder to exercise, and no delay in exercising, any right under the Debenture shall operate as a waiver thereof; nor shall any single or partial exercise of any right under the Debenture preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

10. Waiver of Protest

The Borrower waives diligence, demand, presentment, protest and notice of any kind and agrees that it will not be necessary for the registered holder to first initiate suit in order to enforce payment of this Debenture pursuant to the terms and conditions of this Debenture.

11. Termination of Financing Agreement

If OIPC elects to terminate its obligations under the financing agreement entered into between the parties, OIPC, at its discretion, shall assess any losses that it may incur as a result of the termination as follows: if on the date of termination the outstanding principal balance on the Debenture is less than the Net Present Value of the Debenture, the Borrower shall pay the difference between these two amounts to OIPC.

Amortizing Debenture Schedule

Organization Name Festival Hydro
Principal Amount \$2,192,000.00
Annual Interest Rate 4.40%
Loan Term (Year) 15
Debenture Date (m/d/yyyy) 6/15/2010
Maturity Date (m/d/yyyy) 6/16/2025
Payment Frequency Semi Annual
Loan Type Amortizing

Payment Date	Total Payment	Principal Amount	Interest Amount	Principal Balance
12/15/2010	\$100,584.60	\$52,360.60	\$48,224.00	\$2,139,639.40
6/15/2011	\$100,584.60	\$53,512.53	\$47,072.07	\$2,086,126.87
12/15/2011	\$100,584.60	\$54,689.81	\$45,894.79	\$2,031,437.06
6/15/2012	\$100,584.60	\$55,892.98	\$44,691.62	\$1,975,544.08
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6/16/2014	\$100,584.60	\$60,976.27	\$39,608.33	\$1,739,402.18
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6/15/2015	\$100,584.60	\$63,688.74	\$36,895.86	\$1,613,395.69
12/15/2015	\$100,584.60	\$65,089.89	\$35,494.71	\$1,548,305.80
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12/16/2019	\$100,584.60	\$77,467.71	\$23,116.89	\$973,299.88
6/15/2020	\$100,584.60	\$79,172.00	\$21,412.60	\$894,127.88
12/15/2020	\$100,584.60	\$80,913.79	\$19,670.81	\$813,214.09

Payment Date	Total Payment	Principal Amount	Interest Amount	Principal Balance
6/15/2021	\$100,584.60	\$82,693.89	\$17,890.71	\$730,520.20
12/15/2021	\$100,584.60	\$84,513.16	\$16,071.44	\$646,007.04
6/15/2022	\$100,584.60	\$86,372.45	\$14,212.15	\$559,634.59
12/15/2022	\$100,584.60	\$88,272.64	\$12,311.96	\$471,361.95
6/15/2023	\$100,584.60	\$90,214.64	\$10,369.96	\$381,147.31
12/15/2023	\$100,584.60	\$92,199.36	\$8,385.24	\$288,947.95
6/17/2024	\$100,584.60	\$94,227.75	\$6,356.85	\$194,720.20
12/16/2024	\$100,584.60	\$96,300.76	\$4,283.84	\$98,419.44
6/16/2025	\$100,584.67	\$98,419.44	\$2,165.23	\$0.00
Total	\$3,017,538.07	\$2,192,000.00	\$825,538.07	

DEBENTURE

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS DEBENTURE MUST NOT TRADE THE DEBENTURE BEFORE THE DATE THAT IS 4 MONTHS AND A DAY AFTER THE LATER OF (I) OCTOBER 1, 2010, AND (II) THE DATE THE ISSUER BECAME A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY.

FESTIVAL HYDRO INC.

SECURED DEBENTURE DUE OCTOBER 1, 2025

No. 001

Cdn.\$308,000.00

Festival Hydro Inc. (hereinafter referred to in such capacity as the “**Borrower**”), for value received, hereby acknowledges itself liable and indebted and promises to pay to ONTARIO INFRASTRUCTURE PROJECTS CORPORATION or its registered assigns by October 1, 2025 the principal sum of Three Hundred and Eight Thousand Dollars (\$308,000.00) in lawful money of Canada by semi-annual payments on the 1st day of April and the 1st day of October in each of the years 2011 to 2025, both inclusive, in the amounts set forth in the attached Schedule A which forms part of this Debenture (the “**Payment Schedule**”) and to pay interest on the said principal sum from time to time outstanding from the date hereof, or from the last interest payment date to which interest shall have been paid or made available for payment on this Debenture, whichever is later, at a rate of interest set forth in the Payment Schedule in arrears on the 1st day of April and the 1st day of October in each of the years 2011 to 2025 (each a “**Payment Date**”) with the first payment due on April 1, 2011. Upon default interest shall be paid at the rate specified in the attached Schedule B which forms part of this Debenture. The applicable rate of interest, the payment of principal and interest and the principal balance outstanding under this Debenture in each year are shown in the Payment Schedule.

This Debenture is one of the Borrower’s Secured Debentures originally authorized in the aggregate principal amount of Cdn.\$308,000.00 pursuant to the financing agreement (the “**Financing Agreement**”) dated as of October 16, 2007 and made between the Borrower and Ontario Infrastructure Projects Corporation (herein called “OIPC”). Capitalized terms not defined herein shall have the meanings assigned to them in the Financing Agreement.

For the purposes of disclosure pursuant to the *Interest Act* (Canada), the yearly rate of interest which is equivalent to a rate of interest payable in respect of the principal for any period of less than a year may be determined by multiplying the rate of interest for such period by a fraction, the numerator of which is the actual number of days in a year commencing on and including the first day in such period and ending on but excluding the corresponding day in the next calendar year and the denominator of which is the actual number of days in such period

Reference is hereby expressly made to the Financing Agreement and all instruments supplemental thereto for a statement and description of, among other things, the liability of the Borrower for payment of the Debenture, the terms, conditions, covenants and warranties upon which the Debenture is issued and held, and the rights and remedies of the holder of the Debenture issued thereunder and of the Borrower in respect thereof, all to the same effect as if the provisions of the Financing Agreement were herein set out, to all of which provisions the holder hereof by acceptance hereof assents.

The undersigned authorizes the registered holder of this Debenture to record on the reverse of this Debenture or on any attachment to this Debenture all repayments of principal and interest and the unpaid balance of principal from time to time. The undersigned agrees that in the absence of manifest error the record kept by the registered holder on this Debenture or any attachment shall be conclusive evidence of the matters recorded, provided that the failure of the registered holder to record or correctly record any amount or date shall not affect the obligation of the undersigned to pay the outstanding principal amount and interest.

In case an Event of Default (as defined in the Financing Agreement) shall occur and be continuing, the full unpaid principal amount of this Debenture, together with interest accrued thereon, may become or be declared due before stated maturity by the registered holder of this Debenture in its sole discretion.

This Debenture is also subject to the conditions set forth in the attached Schedule B.

This Debenture shall be construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

The parties hereto have declared that they have required that these presents and all other documents related hereto be in the English language.

Les parties aux présentes ont déclaré qu'elles ont exigé que le présent certificat, de même que tous les documents s'y rapportant, soient rédigés en anglais.

IN WITNESS HEREOF the Borrower has caused this Debenture to be executed and delivered as of the 1st day of October, 2010.

FESTIVAL HYDRO INC. **FESTIVAL HYDRO INC.**

By: 

Name: ~~William Zehr~~ **W.G. Zehr, President**
Title: President

By: 

Name: Debbie Reece
Title: Secretary/Treasurer

We have authority to bind the corporation.

[Affix Corporate Seal]

SCHEDULE A

Amortizing Debenture Schedule

Organization Name Festival Hydro
Principal Amount \$308,000.00
Annual Interest Rate 3.98%
Loan Term (Year) 16
Debenture Date (m/d/yyyy) 10/1/2010
Maturity Date (m/d/yyyy) 10/1/2025
Payment Frequency Semi Annual
Loan Type Amortizing

Payment Date	Total Payment	Principal Amount	Interest Amount	Principal Balance
4/1/2011	\$13,733.27	\$7,604.07	\$6,129.20	\$300,395.93
10/3/2011	\$13,733.27	\$7,755.39	\$5,977.88	\$292,640.54
4/2/2012	\$13,733.27	\$7,909.72	\$5,823.55	\$284,730.82
10/1/2012	\$13,733.27	\$8,067.13	\$5,666.14	\$276,663.69
4/1/2013	\$13,733.27	\$8,227.66	\$5,505.61	\$268,436.03
10/1/2013	\$13,733.27	\$8,391.39	\$5,341.88	\$260,044.64
4/1/2014	\$13,733.27	\$8,558.38	\$5,174.89	\$251,486.26
10/1/2014	\$13,733.27	\$8,728.69	\$5,004.58	\$242,757.57
4/1/2015	\$13,733.27	\$8,902.39	\$4,830.88	\$233,855.18
10/1/2015	\$13,733.27	\$9,079.55	\$4,653.72	\$224,775.63
4/1/2016	\$13,733.27	\$9,260.23	\$4,473.04	\$215,515.40
10/3/2016	\$13,733.27	\$9,444.51	\$4,288.76	\$206,070.89
4/3/2017	\$13,733.27	\$9,632.46	\$4,100.81	\$196,438.43
10/2/2017	\$13,733.27	\$9,824.15	\$3,909.12	\$186,614.28
4/2/2018	\$13,733.27	\$10,019.85	\$3,713.62	\$176,594.63
10/1/2018	\$13,733.27	\$10,219.04	\$3,514.23	\$166,375.59
4/1/2019	\$13,733.27	\$10,422.40	\$3,310.87	\$155,953.19
10/1/2019	\$13,733.27	\$10,629.80	\$3,103.47	\$145,323.39
4/1/2020	\$13,733.27	\$10,841.33	\$2,891.94	\$134,482.06
10/1/2020	\$13,733.27	\$11,057.08	\$2,676.19	\$123,424.98
4/1/2021	\$13,733.27	\$11,277.11	\$2,456.16	\$112,147.87

Payment Date	Total Payment	Principal Amount	Interest Amount	Principal Balance
10/1/2021	\$13,733.27	\$11,501.53	\$2,231.74	\$100,646.34
4/1/2022	\$13,733.27	\$11,730.41	\$2,002.86	\$88,915.93
10/3/2022	\$13,733.27	\$11,963.84	\$1,769.43	\$76,952.09
4/3/2023	\$13,733.27	\$12,201.92	\$1,531.35	\$64,750.17
10/2/2023	\$13,733.27	\$12,444.74	\$1,288.53	\$52,305.43
4/1/2024	\$13,733.27	\$12,692.39	\$1,040.88	\$39,613.04
10/1/2024	\$13,733.27	\$12,944.97	\$788.30	\$26,668.07
4/1/2025	\$13,733.27	\$13,202.58	\$530.69	\$13,465.49
10/1/2025	\$13,733.45	\$13,465.49	\$267.96	\$0.00
Total	\$411,998.28	\$308,000.00	\$103,998.28	

CONDITIONS AND DEFINITIONS

Schedule B to the Secured Debenture dated October 1, 2010 issued by the Borrower in favour of Ontario Infrastructure Projects Corporation

1. Definitions

“**Net Present Value**” will be calculated based on the following formulae: For Amortizing Debenture – $[(\text{loan payment} / (r/2)) * (1 - 1 / (1 + (r/2))^n)]$, where “r” is the prevailing lending rate less an appropriate basis point deduction for costs incurred and “n” is the number of semi-annual periods to maturity.

“**Prime Rate**” means, on any day, the annual rate of interest which is the arithmetic mean of the prime rates announced from time to time by the five major Canadian Schedule I banks, as of the issue date of this Debenture, Royal Bank of Canada, Canadian Imperial Bank of Commerce, The Bank of Nova Scotia, Bank of Montreal and The Toronto-Dominion Bank (the “Reference Banks”) as their reference rates in effect on such day for Canadian dollar commercial loans made in Canada. If fewer than five of the Reference Banks quote a prime rate on such days, the “Prime Rate” shall be the arithmetic mean of the rates quoted by the remaining Reference Banks.

2. Form and Registration of the Debenture

(a) The Debenture is a direct and secured obligation of the Borrower and shall have priority over all unsecured senior debt obligations of the Borrower.

(b) The Borrower shall maintain at its designated office a register in respect of the Debenture in which shall be recorded the names and addresses of the registered holders and in which particulars of the cancellation, exchanges, substitutions and transfers of the Debenture, may be recorded and the Borrower is authorized to use electronic, magnetic or other media for records of or related to the Debenture or for copies of them.

3. Title

The Borrower shall not be bound to see to the execution of any trust affecting the ownership of this Debenture or be affected by notice of any equity that may be subsisting in respect thereof. The Borrower shall deem and treat the registered holder of this Debenture as the absolute owner thereof for all purposes whatsoever notwithstanding any notice to the contrary and all payments to or to the order of the registered holder shall be valid and effectual to discharge the liability of the Borrower on the Debenture to the extent of the sum or sums so paid. Where a Debenture is registered in more than one name, the principal of and interest from time to time payable on such Debenture shall be paid to or to the order of all the joint registered holders thereof, failing written instructions to the contrary from all such joint registered holders, and such payment shall constitute a valid discharge to the Borrower. In the case of the death of one or more joint registered holders, despite the foregoing provisions of this section, the principal of and interest on the Debenture registered in their names may be paid to the survivor or survivors of such holders and such payment shall constitute a valid discharge to the Borrower.

4. Payments of Principal and Interest

(a) The record date for purposes of payment of principal of and interest on the Debenture is as of 5:00 p.m. on the sixteenth calendar day preceding any Payment Date including a maturity date. Principal of and interest on the Debenture are payable by the Borrower to the persons registered as holders in the register on the relevant record date. The Borrower shall not be required to register any transfer, exchange or substitution of the Debenture during the period from any record date to the corresponding Payment Date.

(b) The Borrower shall make all payments in respect of semi-annual combined principal and interest on the Debenture on each Payment Date commencing on April 1, 2011 (other than in respect of the final payment of principal and outstanding interest which the Borrower shall pay on the final maturity date upon presentation and surrender of this Debenture) in lawful money of Canada by pre-authorized debit in respect of such interest and principal to the credit of the registered holder on such terms as to which the registered holder and the Borrower may agree.

(c) The Borrower shall pay to the registered holder interest on any overdue amount of principal or interest in respect of any Debenture, both before and after default and judgment, at a rate per annum equal to the greater of the rate specified on the Payment Schedule for such amount plus 200 basis points or Prime Rate plus 200 basis points, calculated on a daily basis from the date such amount becomes overdue for so long as such amount remains overdue and the Borrower shall pay to the registered holder any and all costs incurred by the registered holder as a result of the overdue payment.

(d) Whenever it is necessary to compute any amount of interest in respect of the Debenture for a period of less than one full year, other than with respect to regular semi-annual interest payments, such interest shall be calculated on the basis of the actual number of days in the period and a year of 365 days.

(e) Delivery of payments in respect of principal of and interest on the Debenture as provided on the Payment Schedule shall be made only on a day on which banking institutions in Toronto, Ontario, are not authorized or obligated by law or executive order to be closed (a "Toronto Business Day"), and if any date for delivery of payment is not a Toronto Business Day, payment as specified on the Payment Schedule shall be made on the next following Toronto Business Day.

(f) The Debenture is transferable or exchangeable at the office of the Secretary/Treasurer of the Borrower upon presentation for such purpose accompanied by an instrument of transfer or exchange in a form approved by the Borrower and which form is in accordance with the prevailing Canadian transfer legislation and practices, executed by the registered holder thereof or such holder's duly authorized attorney or legal personal representative, whereupon and upon registration of such transfer or exchange and cancellation of the Debenture, a new Debenture will be delivered as directed by the transferee, in the case of a transfer or as directed by the registered holder in the case of an exchange.

(g) The Borrower shall issue and deliver a new Debenture in exchange or substitution for the Debenture outstanding on the register with the same maturity and of like form which has become lost, stolen, mutilated, defaced or destroyed, provided that the applicant therefor shall have: (i) paid such costs as may have been incurred in connection therewith; (ii) (in the case of a lost, stolen or destroyed Debenture) furnished the Borrower with such evidence (including evidence as to the certificate number of the Debenture in question) and indemnity in respect thereof satisfactory to the Borrower in its discretion; and (iii) surrendered to the Borrower any mutilated or defaced Debenture in respect of which the new Debenture is to be issued in substitution.

(h) The Debenture(s) issued upon any registration of transfer or exchange or in substitution for the Debenture(s) or part thereof shall carry all the rights to interest if any, accrued and unpaid which were carried by such Debenture(s) or part thereof and shall be so dated and shall bear the same maturity date and shall be subject to the same terms and conditions as the Debenture(s) in respect of which the transfer, exchange or substitution is effected.

(i) The cost of all transfers and exchanges, including the printing of authorized denominations of the new Debenture(s), shall be borne by the Borrower. When the Debenture is surrendered for transfer or exchange the Secretary/Treasurer of the Borrower shall: (i) in the case of an exchange, cancel and destroy the Debenture surrendered for exchange; (ii) in the case of an exchange, certify the cancellation and destruction in the register; and (iii) enter in the register particulars of the new Debenture issued in exchange.

(j) Reasonable fees for the substitution of a new Debenture for the Debenture that is lost, stolen, mutilated, defaced or destroyed may be imposed by the Borrower. Where new Debentures are issued in substitution in these circumstances the Borrower shall: (i) treat as cancelled and destroyed the Debentures in respect of which new Debentures will be issued in substitution; (ii) certify the deemed cancellation and destruction in the register; (iii) enter in the register particulars of the new Debentures issued in substitution; and (iv) make a notation of any indemnities provided.

5. Notices

Except as otherwise expressly provided herein, any notice required to be given to a registered holder of the Debenture will be sufficiently given if a copy of such notice is mailed or otherwise delivered to the registered address of such registered holder. If the Borrower or any registered holder is required to give any notice in connection with the Debenture on or before any day and that day is not a Toronto Business Day then such notice may be given on the next following Toronto Business Day.

6. Time

Unless otherwise expressly provided herein, any reference herein to a time shall be considered to be a reference to Toronto time.

7. Assignment and Benefit of Debenture

The Borrower may not assign its rights or transfer its obligations under this Debenture without the prior written consent of the registered holder of the Debenture. The registered holder of this Debenture may assign or transfer its rights under this Debenture without the prior written consent of the Borrower by giving thirty (30) days notice of such assignment or transfer to the Borrower. This Debenture enures to the benefit of and binds the Borrower and the registered holder of the Debenture and their respective successors and permitted assigns.

8. Amendment

Any amendment to this Debenture shall be in writing signed by each of the Borrower and the registered holder of the Debenture except that any waiver of any provision of this Debenture or consent to any departure by the Borrower herefrom, shall be effective if the same is in writing and signed by the registered holder of the Debenture.

9. No Waiver

No failure on the part of the registered holder to exercise, and no delay in exercising, any right under the Debenture shall operate as a waiver thereof; nor shall any single or partial exercise of any right under the Debenture preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

10. Waiver of Protest

The Borrower waives diligence, demand, presentment, protest and notice of any kind and agrees that it will not be necessary for the registered holder to first initiate suit in order to enforce payment of this Debenture pursuant to the terms and conditions of this Debenture.

11. Termination of Financing Agreement

If OIPC elects to terminate its obligations under the financing agreement entered into between the parties, OIPC, at its discretion, shall assess any losses that it may incur as a result of the termination as follows: if on the date of termination the outstanding principal balance on the Debenture is less than the Net Present Value of the Debenture, the Borrower shall pay the difference between these two amounts to OIPC.



Royal Bank of Canada
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June 29, 2012

Private and Confidential

FESTIVAL HYDRO INC.

187 Erie Street
 Stratford, Ontario
 N5A 2M6

ROYAL BANK OF CANADA (the "**Bank**") hereby confirms the credit facilities described below (the "**Credit Facilities**") subject to the terms and conditions set forth below and in the attached Terms & Conditions and Schedules (collectively the "**Agreement**"). This Agreement amends and restates without novation the existing agreement dated January 30, 2009 and any amendments thereto. Any amount owing by the Borrower to the Bank under such previous agreement is deemed to be a Borrowing under this Agreement. Any and all security that has been delivered to the Bank and is set forth as Security below, shall remain in full force and effect, is expressly reserved by the Bank and, unless expressly indicated otherwise, shall apply in respect of all obligations of the Borrower under the Credit Facilities. Unless otherwise provided, all dollar amounts are in Canadian currency.

The Bank reserves all of its rights and remedies at any time and from time to time in connection with any or all breaches, defaults or Events of Default now existing or hereafter arising under this Agreement or any other agreement delivered to the Bank, and whether known or unknown, and this Agreement shall not be construed as a waiver of any such breach, default or Event of Default.

BORROWER: Festival Hydro Inc. (the "**Borrower**")

CREDIT FACILITIES

The aggregate of Facility #3 and Facility #4 shall not exceed \$14,000,000 at any time.

Facility #1: \$10,000,000 revolving demand facility by way of:

a) RBP based loans ("**RBP Loans**")

Revolve in increments of:	\$10,000	Minimum retained balance:	\$0
Revolved by:	Bank	Interest rate (per annum):	RBP

b) Bankers' Acceptances ("**BAs**")

Acceptance fee (per annum):	1.25%
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AVAILABILITY

The Borrower may borrow, convert, repay and reborrow up to the amount of this facility provided this facility is made available at the sole discretion of the Bank and the Bank may cancel or restrict the availability of any unutilized portion at any time and from time to time without notice.

REPAYMENT

Notwithstanding compliance with the covenants and all other terms and conditions of this Agreement, and regardless of the maturities of any outstanding instruments or contracts, Borrowings under this facility are repayable on demand.

GENERAL ACCOUNT

The Borrower shall establish a current account with the Bank (the "**General Account**") for the conduct of the Borrower's day-to-day banking business. The Borrower authorizes the Bank daily or otherwise as and when determined by the Bank, to ascertain the balance of the General Account and:

- a) if such position is a debit balance the Bank may, subject to the revolving increment amount and minimum retained balance specified in this Agreement, make available a Borrowing by way of RBP Loans under this facility; and
- b) if such position is a credit balance, where the facility is indicated to be Bank revolved, the Bank may, subject to the revolving increment amount and minimum retained balance specified in this Agreement, apply the amount of such credit balance or any part as a repayment of any Borrowings outstanding by way of RBP Loans under this facility.

Facility #2: \$3,600,000 revolving term facility by way of:

- a) Letters of Guarantee in ("**LGs**")

0.50% per annum. Fees and drawings to be charged to Borrower's accounts. Minimum fee of \$100 in the currency of issue.

AVAILABILITY

The Borrower may borrow up to the amount of this term facility provided an Event of Default shall not have occurred and be continuing at the time of any Borrowing.

REPAYMENT

Borrowings under this facility shall be repayable in full and this facility shall be cancelled on August 31, 2013.

Facility #3: \$14,000,000 non-revolving term facility by way of:

- | | | |
|--|-----------------------------|-------|
| a) RBP Loans | Interest rate (per annum): | RBP |
| b) Bankers' Acceptances (" BAs ") | Acceptance fee (per annum): | 1.00% |

AVAILABILITY

Borrowings under this facility shall be used to finance the construction costs of a transformer station (the "**Project**") located in a new industrial subdivision in the south-west section of the City of Stratford, Ontario (the "**Project Lands**").

The Borrower may borrow up to the amount of this term facility provided an Event of Default shall not have occurred and be continuing at the time of any Borrowing.

REPAYMENT

Repayable in full on the earlier of:	(i) The date of advance of Borrowings under Facility #4, and (ii) May 31, 2013
--------------------------------------	---

Facility #4: \$14,000,000 non-revolving term loan, by way of:

- | | |
|--------------|--|
| a) RBP Loans | Interest rate (per annum): RBP |
| b) BAs | 5 year term: acceptance fee 0.36% per annum |
| | 10 year term: acceptance fee 0.42% per annum |

AVAILABILITY

The Borrower may borrow up to the amount of this term facility provided an Event of Default shall not have occurred and be continuing at the time of any Borrowing. At any time after May 31, 2013, or such later date as may be agreed upon between the Bank and the Borrower, any unutilized portion of this facility shall be cancelled by the Bank.

The proceeds of Borrowings under this facility shall be utilized to repay in full all Borrowings under Facility #3 and Facility #3 is immediately then cancelled.

REPAYMENT

Payment Amount:	To be determined at drawdown	Payment Frequency:	Monthly
Payment Type:	Principal Plus Interest	First payment date:	30 days from drawdown
Repayable in full on:	The last day of a 5 or 10 year term from drawdown as selected by the Borrower	Original Amortization (months)	300

OTHER FACILITIES

The Credit Facilities are in addition to the following facilities (the "Other Facilities"). The Other Facilities will be governed by this Agreement and separate agreements between the Borrower and the Bank. In the event of a conflict between this Agreement and any such separate agreement, the terms of the separate agreement will govern.

- a) VISA Business to a maximum amount of \$30,000.

FEES

Monthly Fee:

Payable in arrears on the same day of each month.

Management Fee: \$100

SECURITY

Security for the Borrowings and all other obligations of the Borrower to the Bank (collectively, the "Security"), shall include:

- a) General security agreement on the Bank's form 924 signed by the Borrower constituting a first ranking security interest in all personal property of the Borrower, which will be shared on a *pari passu* basis with Ontario Infrastructure Projects Corporation ("OIPC"), pursuant to the OIPC Intercreditor Agreement as defined below; and
- b) Intercreditor agreement between the Bank, the Borrower and OIPC whereby the parties agree as to the priority of their respective security interests in the personal property of the Borrower ("OIPC Intercreditor Agreement").

FINANCIAL COVENANTS

In the event that the Borrower changes accounting standards, accounting principles and/or the application of accounting principles during the term of this Agreement, all financial covenants shall be calculated using the accounting standards and principles applicable at the time this Agreement was entered into.

Without affecting or limiting the right of the Bank to terminate or demand payment of, or cancel or restrict availability of any unutilized portion of any demand or other discretionary facility the Borrower covenants and agrees with the Bank that the Borrower will:

- a) maintain, to be measured as at the end of each fiscal quarter:
 - i. a ratio of Funded Debt to Total Capital of not greater than 0.65:1; and
- b) will not make principal or interest payments on shareholder loans owing by the Borrower to its shareholders, unless the Borrower is in compliance with all terms and conditions of this Agreement and of the Security at the time of any such payment and unless the making of any such payment will not cause the Borrower to breach of any of the terms and conditions of this Agreement and of the Security.

REPORTING REQUIREMENTS

The Borrower will provide the following to the Bank:

- a) quarterly company prepared financial statements for the Borrower, including balance sheet, income statement and cash flow statement with comparisons to business plan, within 45 days of each fiscal quarter end, with the exception of the fiscal quarter ending June 30th where the quarterly financial statements will be provided within 75 days of such fiscal quarter end;
- b) quarterly Compliance Certificate, substantially in the form of Schedule "H" signed by an authorized signing officer of the Borrower certifying compliance with this Agreement including the financial covenants set forth in the Agreement, within 45 days of each fiscal quarter end, with the exception of the fiscal quarter ending June 30th where the Compliance Certificate will be provided within 75 days of such fiscal quarter end;
- c) annual audited financial statements for the Borrower, within 120 days of each fiscal year end;
- d) annual company prepared business plan for the Borrower, including balance sheet, income and cash flow statements and capital budget for the next following fiscal year, within 120 days of each fiscal year end; and
- e) such other financial and operating statements and reports as and when the Bank may reasonably require.

CONDITIONS PRECEDENT

In no event will the Credit Facilities or any part thereof be available unless the Bank has received:

- a) a duly executed copy of this Agreement;
- b) the Security provided for herein, registered, as required, to the satisfaction of the Bank;
- c) such financial and other information or documents relating to the Borrower as the Bank may reasonably require; and
- d) such other authorizations, approvals, opinions and documentation as the Bank may reasonably require.

Additionally;

- e) all documentation to be received by the Bank shall be in form and substance satisfactory to the Bank.

CONDITIONS PRECEDENT – FACILITY #3

In addition to the conditions set forth above in the Conditions Precedent section, the availability of any Borrowing under Facility #3 is conditional upon the receipt of:

- a) a certificate of insurance in respect of the Project and the Project Lands, evidencing coverage in form, scope and content acceptable to the Bank;

- b) a copy of the Project budget and Project schedule and evidence satisfactory to the Bank that the Project budget includes all necessary costs to ensure the Project is completed in compliance with environmental laws;
- c) confirmation the Borrower has engaged a project consultant for the Project, satisfactory to the Bank, to review the Project budget and Project schedules and to provide monthly reports to support draw requests;
- d) copies of all performance bonds and all labour and material bonds evidencing coverage in such amount(s) as may be specified by the Bank;
- e) a report on the Project by a Professional Engineer acceptable to the Bank certifying:
 - adequacy of the Project budget for the purposes of completing construction of the Project;
 - completeness of plans and specifications;
 - compliance with building codes and zoning regulations;
 - compliance with environmental standards and regulations;
 - adequacy of structural, electrical and mechanical systems;
 - adequacy of the survey lot plan and soil conditions;
 - adequacy of the construction schedule.

CONDITIONS PRECEDENT – FACILITY #4

In addition to the conditions set forth above in the Conditions Precedent section, the availability of any Borrowing under Facility #4 is conditional upon the receipt of:

- a) a certificate of substantial completion in respect of the Project, satisfactory to the Bank; and
- b) title search(es) from the Bank's solicitor providing evidence satisfactory to the Bank that no liens or other encumbrances are registered against the Project Lands, except for Permitted Encumbrances

ONGOING CONDITIONS - FACILITY #3

In addition to the conditions set forth above in the Conditions Precedent section and in the Conditions Precedent – Facility #3 section, the availability of any Borrowing under Facility #3 is conditional upon the satisfaction of the following conditions prior to each and every Borrowing:

- a) receipt by the Bank of a Request for Advance, substantially in the form of Schedule "E", together with:
 - (i) a report showing the cost of work completed to date, the cumulative positive or negative value of any change orders, the amount of any holdbacks under any real property lien legislation and the current cost to complete the Project,
 - (ii) an update to the Project Budget and Project Schedule, together with comments on any material variances from the original Project Budget and Project Schedule provided to the Bank,
 - (iii) comments on any material changes to the Project or any potential or actual problem areas which have been identified and may affect completion of the Project in accordance with the Project Budget and Project Schedule provided to the Bank,
 - (iv) Project Consultants' Certificate(s), substantially in the form of Schedule "F",
 - (v) contractor statutory declarations on properly sealed CCDC Form 9A-2001 or, alternatively, such other forms or Statutory Declarations that contain at a minimum, the information contained in Form 9A-2001, and
 - (vi) where the Request for Advance includes a request to release lien holdbacks, a properly sealed CCDC Form 9B-2001 from each subcontractor to which a holdback is being released or, alternatively, such other form or Statutory Declaration which contains, at a minimum, the information contained in Form 9B-2001;

- c) title search(es) from the Bank's solicitor providing evidence satisfactory to the Bank that no liens or other encumbrances are registered against the Project Lands, except for Permitted Encumbrances.

GOVERNING LAW JURISDICTION

Province of Ontario.

ACCEPTANCE

This Agreement is open for acceptance until July 29, 2012 after which date it will be null and void, unless extended in writing by the Bank.

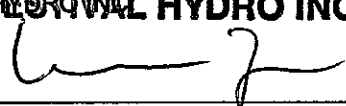
ROYAL BANK OF CANADA

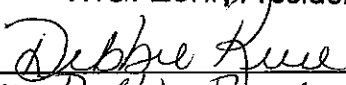
Per: 
 Name: C. W. (Chris) Hiebert
 Title: Regional Director – Public Sector

/sfr

We acknowledge and accept the terms and conditions of this Agreement on this 22 day of August, 2012.

FESTIVAL HYDRO INC.

Per: 
 Name: _____
 Title: W.G. Zehr, President

Per: 
 Name: Debbie Reel
 Title: Chief Financial Officer Secretary
 I/We have the authority to bind the Borrower

Attachments:

Terms and Conditions

Schedules:

- Definitions
- Calculation and Payment of Interest and Fees
- Notice Requirements
- Additional Borrowing Conditions
- Request for Advance
- Project Consultant's Certificate
- Compliance Certificate
- RBC Covarity Dashboard Terms and Conditions