

ATTACHMENT 11 RESOLUTIONS FOR TRANSACTION APPROVAL

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Barrie Hydro Holdings Inc. Resolution

AND IT IS FURTHER RESOLVED THAT the Chairman and President and CEO of BHHI are hereby authorized and directed to sign the Merger Participation Agreement, Unanimous Shareholders Agreement and Share Purchase Agreement in accordance with the following resolutions, and in doing so approve and execute any amendments to the Merger Participation Agreement, Unanimous Shareholders Agreement or Share Purchase Agreement subsequent to the date of these resolutions;

AND IT IS FURTHER RESOLVED THAT the Chairman and President and CEO of BHHI are hereby authorized and directed to sign and/or dispatch and deliver all other documents, notices, articles, certificates to be signed and/or dispatched or delivered under or in connection with the Merger Participation Agreement, the Unanimous Shareholders Agreement or Share Purchase Agreement or to take any action deemed necessary in respect of any of the foregoing.

AND IT IS FURTHER RESOLVED THAT the Resolution of any material matters remaining to be negotiated, including final, Liquidity Rights, Dividend Policy and Solar Term Sheet, be delegated to PowerStream's members of the Board Advisory Committee, based upon the recommendation(s) of the President & CEO of PowerStream.

CARRIED



Dawn McAlpine, Corporate Secretary



October 5, 2015

I, Dawn McAlpine, City Clerk for The Corporation of the City of Barrie certify that the following motion was adopted by The Corporation of the City of Barrie as sole shareholder in Barrie Hydro Holdings Inc.

15-G-199

**MERGER OF POWERSTREAM, ENERSOURCE AND
HORIZON AND ACQUISITION OF HYDRO ONE
BRAMPTON**

1. That The Corporation of the City of Barrie approve the Barrie Hydro Holdings Inc. (BHHI) Board's recommendation that PowerStream Holdings Inc. (PowerStream) enter into a three way merger with Enersource Corporation (Enersource) and Horizon Holdings Inc. (Horizon) and then proceed to acquire Hydro One Brampton Networks Inc. (Hydro One Brampton), subject to the identical conditions set out by BHHI as identified in Appendix "A" to Staff Report CCS002-15.
2. That an equity injection of up to \$28.6 million, to be provided to MergeCo to finance BHHI's share of the purchase of Hydro One Brampton, be approved.
3. That the equity injection of up to \$28.6 million be financed in the following manner:
 - a) Through the proceeds of a 10% sale of BHHI to a third party and the balance through available cash in BHHI, and by a partial redemption of the City's Promissory Note with BHHI for \$20 million (and BHHI's promissory note with PowerStream); or
 - b) In the event that a sale of 10% of BHHI does not transpire, financing be provided by the redemption of the City's Promissory Note with BHHI for \$20million (and BHHI's promissory note with PowerStream); available cash in the BHHI, and finally, by cash investment of up to \$8.6 million from the City's current cash and investment portfolio.



4. That the Mayor and City Clerk be authorized to execute all agreements, documents, notices, articles, certificates under or in connection with the proposed merger and acquisition in a form satisfactory to the City Solicitor and City staff be authorized to take any action necessary in respect of the foregoing. (CS002-15) (File: L00)

A handwritten signature in black ink, appearing to read "Dawn McAlpine", is written over a horizontal line.

Dawn McAlpine, City Clerk/Director of
Legislative and Court Services

CERTIFIED COPY OF
RESOLUTION OF THE DIRECTORS
OF
BPC ENERGY CORPORATION
(the "Corporation")

"PROJECT AURA"

WHEREAS on April 16, 2015, Enersource Corporation ("**Enersource**"), PowerStream Inc. ("**PowerStream**"), Horizon Utilities Corporation ("**Horizon**") and Hydro One Brampton Networks Inc. ("**HOB**") signed a non-binding letter of intent describing the high level principles for a merger to create the second largest distribution company in Ontario by customers ("**MergeCo**");

AND WHEREAS the merger between Enersource, PowerStream and Horizon will result in MergeCo with the shareholders in MergeCo being the City of Vaughan (20.8%), City of Barrie (9.4%), City of Markham (15.7%), City of Hamilton (18.1%), City of St. Catharine's (4.9%) and Enersource (31.0%);

AND WHEREAS OMERS Administration Corporation ("**OMERS**"), through the Corporation, will continue to hold a 10% interest in Enersource with The Corporation of the City of Mississauga holding the remaining 90%;

AND WHEREAS OMERS will effectively have a 3.1% interest in MergeCo post-transaction;

AND WHEREAS MergeCo will subsequently acquire HOB (all of the foregoing steps being collectively referred to as the "**Transaction**");

NOW THEREFORE BE IT RESOLVED THAT:

1. The Corporation be and is hereby authorized and directed to enter into the Transaction and to execute and deliver any and all agreements, delivery orders, instruments, amendments, confirmations, acknowledgements, certificates and other documents (collectively, the "**Transaction Documents**") and to perform its obligations thereunder as more particularly described, and upon and subject to the terms and conditions set forth, in the Transaction Documents, with such additions, deletions and amendments thereto and in such form and on such terms as any two (2) officers or directors of the Corporation may approve, such approval to be evidenced conclusively by the execution of the Transaction Documents in accordance with this resolution.
2. Any and all actions taken prior to this date by any of the officers or directors of the Corporation in connection with the Transaction Documents be and the same are hereby approved, ratified and confirmed.

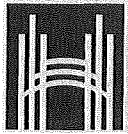
3. Any two (2) officers or directors of the Corporation are hereby authorized and directed, for and in the name of and on behalf of the Corporation, to execute (whether under the corporate seal of the Corporation or otherwise) and deliver all such further agreements, delivery orders, instruments, amendments, confirmations, acknowledgements, certificates and other documents and to do all such other acts or things as such officers or directors may determine to be necessary or advisable in connection with the transactions contemplated by the Transaction Documents and this resolution, the execution of any such document or the doing of any such other act or thing being conclusive evidence of such determination."

I, John Knowlton, Secretary of BPC Energy Corporation (the "Corporation"), certify for and on behalf of the Corporation and not in my personal capacity and without personal liability that the foregoing is a true and correct copy of a resolution passed by the directors of the Corporation on March 22, 2016, which resolution is still in full force and effect, unamended as of the date hereof.

DATED: March 23, 2016.



John Knowlton



City Hall, 71 Main Street West
Hamilton, Ontario,
Canada L8P 4Y5
www.hamilton.ca

Hamilton

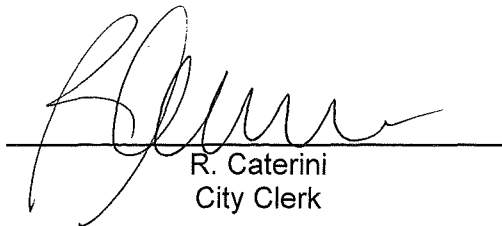
4.1 Proposed Merger of Horizon Utilities (LS15033/FCS15082) (Item 5.1)

- (a) That the City of Hamilton approve the merger of Horizon Holdings Inc. ("Horizon"), PowerStream Holdings Inc. ("PowerStream") and a new Enersource holding corporation ("Enersource"), and any of their subsidiaries, and the acquisition of Hydro One Brampton Networks Inc. (the "Proposed Transaction"); including among other things, directing MergeCo to execute with the City, a right of way agreement and a service level agreement;
- (b) That the Mayor and City Clerk be authorized and directed to execute the Merger Participation Agreement and Unanimous Shareholder Agreement and any other ancillary documents, with content approved by the General Manager, Finance and Corporate Services, in a form satisfactory to the City Solicitor;
- (c) That the General Manager, Finance and Corporate Services, be authorized and directed to review any and all shareholder declarations with Hamilton Utilities Corporation ("HUC") in consultation with the Board of HUC, and restate, amend and replace all such shareholder declarations with a new shareholder declaration in light of the Proposed Transaction;
- (d) That the Mayor and City Clerk be authorized and directed to execute a new Hamilton Utility Corporation shareholder declaration, and any other ancillary documents that may be restated or amended, in light of the Proposed Transaction;
- (e) That, in light the Proposed Transaction, Hamilton Utilities Corporation and its subsidiaries be reorganized to a beneficial tax and governance structure with all documents, agreements, by-laws, and certificates required for such reorganization being approved for content by the General Manager, Finance and Corporate Services, in a form satisfactory to the City Solicitor;
- (f) That the Mayor and City Clerk be authorized and directed to execute all documents, agreements, by-laws, and certificates to give effect to the reorganization of the Hamilton Utilities Corporation and its subsidiaries to a beneficial tax and governance structure;
- (g) That all plant facilities, buildings, structures, substations, transformers, etc., situate on any of the lands, premises, easements, leaseholds, rights-of-way, whether registered or unregistered, that are located on property owned by the City of Hamilton, the Commissions or the predecessor municipalities, be transferred to Horizon Holdings Inc., its subsidiaries, or, as applicable, its successors, pursuant to By-law 1-2000 of the Transition Board;

- (h) That the Mayor and City Clerk be authorized and directed to execute all documents, agreements, leases, instruments and certificates to give effect to the transfer of all plant facilities, buildings, structures, substations, transformers, etc., situate on any of the lands, premises, easements, leaseholds, rights-of-way, whether registered or unregistered, that are located on property owned by the City of Hamilton, the Commissions or the predecessor municipalities to Horizon Holdings Inc., its subsidiaries, or, as applicable, its successors, pursuant to By-law 1-2000 of the Transition Board to Horizon Holdings Inc.;
- (i) That the City Solicitor take any action reasonably necessary including the registration of any legal instrument, to give effect to the transfer of plant facilities, buildings, structures, substations, transformers, etc., situate on any of the lands, premises, easements, leaseholds, rights-of-way, whether registered or unregistered, that are located on property owned by the City of Hamilton, the Commissions or the predecessor municipalities, to Horizon Holdings Inc., its subsidiaries, or, as applicable, its successors, pursuant to By-law 1-2000 of the Transition Board to Horizon Holdings Inc.;
- (j) That the Mayor, on behalf of the Hamilton Utilities Corporation Shareholder request that the Transition Board of MergeCo include the acquisition of Hydro One customers within the municipal boundaries of the City of Hamilton as a priority in the initial Strategic Plan;
- (k) That the MergeCo Transition Board be requested to limit severance packages for any staff severances required as a result of the merger; and,
- (l) That the MergeCo Transition Board be requested to ensure that the Mayor or his designate be appointed as a Shareholder representative for the City of Hamilton.

I hereby certify the foregoing to be a true copy of
Item 4.1, as approved by City of Hamilton Council at
its Special Meeting on October 30, 2015.

Dated at the City of Hamilton on this 31st day of March, 2016.



R. Caterini
City Clerk



RESOLUTION OF COUNCIL MEETING DATED NOVEMBER 19 AND 20, 2015

- (1) PROPOSED POWERSTREAM INC. MERGER
WITH HORIZON UTILITIES CORPORATION
AND ENERSOURCE HYDRO MISSISSAUGA INC.
AND PURCHASE OF HYDRO ONE BRAMPTON NETWORKS INC. (13.7)

Moved by Councillor Amanda Collucci

Seconded by Regional Councillor Nirmala Armstrong

- 1) That the presentation by Mr. Brian Bentz entitled “PowerStream Update – M&A Transaction” at the November 11, 2015 Special General Committee meeting, be received; and,
- 2) That the presentation by Mr. Benjamin Grunfeld of Navigant Consulting Ltd. entitled “PowerStream Merger and Acquisition: Decision Support” at the November 11, 2015 Special General Committee meeting, be received; and,
- 3) That the presentation by Mr. Andy Taylor, Chief Administration Officer entitled “Proposed Merger of PowerStream, Enersource and Horizon, and Acquisition of Brampton Hydro” at the November 11, 2015 Special General Committee meeting, be received; and,
- 4) That the deputations provided by Michael Gannon, Marilyn Ginsburg, Robert Mok, Wayne Chen and Mayrose Gregorios at the November 11, 2015 Special General Committee meeting, be received; and,
- 5) That the written confirmation of additional information provided verbally at the November 11, 2015 Special General Committee Meeting be received; and,
- 6) That the report titled "PowerStream Merger", with recommendations updated on November 19, 2015, be received; and further,
- 7) That Council adopt the following updated recommendation:

"Whereas Markham Enterprises Corporation (“MEC”) and The Corporation of the City of Markham (the “City”), Vaughan Holdings Inc. (“VHI”), The Corporation of The City of Vaughan, Barrie Hydro Holdings Inc. (“BHHI”), and The Corporation of the City of Barrie, PowerStream Holdings Inc. and PowerStream Inc. are parties to the Unanimous Shareholders’ Agreement for PowerStream Holdings Inc., dated November 1, 2013 (the “PowerStream Shareholder Agreement”); and,

Whereas MEC owns 34.185% of the shares of PowerStream Holdings Inc.; and,

Whereas MEC is a wholly owned holding company of the City, incorporated under the provisions of the *Electricity Act, 1998 (Ontario)*; and,

Whereas the Board of Directors of PowerStream has approved and has recommended to its shareholders the approval of a merger of the local hydro distribution companies of PowerStream Holdings Inc. (“PowerStream”), Horizon Holdings Inc. (“Horizon”), and Enersource Holdings Inc., a holding company to be established by Enersource Corporation (“Enersource”); and,

Whereas the Board of Directors of PowerStream has approved and has recommended to its shareholders the purchase of Hydro One Brampton Networks Inc. (“Brampton”), conditional upon the completion of both the Merger Participation Agreement and the Share Purchase Agreement, in accordance with the terms set out in both agreements; and,

Whereas the PowerStream Shareholders’ Agreement requires unanimous approval by its Shareholders for transactions including the merger and the acquisition of Brampton; and,

Whereas the merger of PowerStream, Horizon, Enersource and acquisition of Brampton will form a new organization currently referred to as “MergeCo”; and,

Whereas MEC, together with VHI and BHHI, retained independent consulting and legal services as follows:

- Navigant Consulting Ltd., on the proposed Transaction ;
- BDR NorthAmerica Inc., on the proposed Transaction;
- Gowlings LLP, on the proposed governance structure and the draft agreements:
 - Merger Participation Agreement;
 - Unanimous Shareholders’ Agreement; and
 - Share Purchase Agreement; and,

Whereas the City, at its General Committee meeting on October 7, 2015, received presentations and reports from:

- Navigant Consulting Ltd.
- PowerStream
- City Staff; and,

Whereas the merger and the acquisition (the “Transaction”) require a significant equity contribution of \$43-47.3M, depending on the amount of closing costs and adjustments; and,

Whereas the City holds a promissory note in the amount of \$67.9M and the interest rate approved by the OEB for shareholder promissory notes will be reduced from 5.58% to approximately 4.54%; and,

Whereas the dividends forecasted for the core business, are expected to increase; and,

Whereas the MergeCo dividend policy carries incremental uncertainty as compared to the PowerStream dividend policy; and,

Whereas under the proposed terms of the merger, dividend income and equity return from PowerStream's solar assets are segregated for the benefit of the shareholders of PowerStream, as set out in the draft PowerStream Solar Business Services and Indemnity Agreement Indicative Term Sheet; and,

Whereas the Net Present Value of the solar dividends in MergeCo will be decreased by approximately \$1M; and,

Whereas the financial modeling and the analysis indicate a return on the incremental investment greater than 5%; and,

Whereas, although staff have negotiated significant amendments to the Transaction to reduce associated risks, the investment is not financially compelling given the remaining risk and the investment criteria of both MEC and the City of Markham; and,

Whereas the Transaction can not be recommended by City staff solely on an investment basis; and,

Whereas the Transaction will deliver meaningful benefits to PowerStream customers beginning in year six after the merger, estimated at an average of \$40/year for all customers and \$25-\$30 on the average residential utility bill (representing approximately 5% to 9% of the distribution portion of the utility bill), in the form of reductions in the cost increases on the distribution portion of such bills;

Now therefore be it resolved:

- 1) That subject to conditions set out in clauses 1 and 2 hereof, The Corporation of the City of Markham, in its capacity as a shareholder of MEC, approves:
 - a. the merger of PowerStream, Horizon and Enersource, substantially in accordance with the draft Merger Participation Agreement dated October 9, 2015 and the Unanimous Shareholders' Agreement dated October 9, 2015;
 - b. The purchase of Hydro One Brampton Networks Inc., substantially in accordance with the terms of the Share Purchase Agreement dated October 8, 2015, between Her Majesty the Queen in Right of Ontario as represented by the Minister of Energy (the "Province") and Brampton Distribution Holdco Inc. as the vendor, and Horizon, Enersource and PowerStream as purchaser; and,

- 2) That the completion of the merger and the purchase of Brampton be conditional on the following:
 - a) The terms of the Transaction being substantially as set out in the Merger Participation Agreement dated October 9, 2015, the Share Purchase Agreement dated October 8, 2015, the Unanimous Shareholders' Agreement dated October 9, 2015 and the draft PowerStream Solar Business Services and Indemnity Agreement dated October 5, 2015.
 - b) Amendments to the agreements in a form satisfactory to the Chief Administrative Officer as follows:
 - i. Unanimous shareholder approval required for mergers and acquisitions until 75% of the targeted synergy savings have been achieved;
 - ii. Extension of the term of the Shareholder promissory notes for 20 years from 2016 with right to extend for a further 20 years, at the interest rate approved by the Ontario Energy Board;
 - iii Improvements to section 8.3 of the Unanimous Shareholders' Agreement to achieve clarity on the tax mitigation strategies for first and subsequent sales of shares in MergeCo that trigger departure and transfer taxes;
 - c) That a financial back stop be negotiated with one or more of the municipal partners participating in this Transaction, on terms satisfactory to the Chief Administrative Officer;
 - d) That the equity investment required to complete the merger and acquisition be no greater than \$47.3M;
 - e) Confirmation from the Province of Ontario, satisfactory to the Chief Administrative Officer and the City Solicitor, with respect to the terms and rates of shareholder loans to LDC's;
 - f) Approval of the Strategic Plan by the Board of Directors of MEC; and,
- 3) That the City work with MEC staff and other shareholders, to reduce the equity contribution required for the Transaction to occur, including but not limited to a formal, municipally led sale of 10% of MEC's shareholding in PowerStream with consideration for MergeCo's value; and,
- 4) That in the event that the sale is not successful, staff shall report back with alternate funding options, including funding options that will not require funding from the City of Markham; and,
- 5) That the Mayor and Clerk be authorized and directed to execute the Merger Participation Agreement, the Unanimous Shareholders' Agreement and the PowerStream Solar Business Services and Indemnity Agreement based on the draft Indicative Term Sheet, subject to any modifications or amendments approved by the Chief Administrative Officer; and,

- 6) That the Mayor and Clerk be authorized and directed to execute and deliver all other documents, notices, articles, certificates to be signed and or delivered under or in connection with the Merger Participation Agreement, the Unanimous Shareholders' Agreement or Share Purchase Agreement or to take any action(s) required to give effect to the foregoing resolutions; and further,
- 7) That staff be authorized to do and to take any action necessary to give effect to these resolutions, including the execution of any documents."

Carried by a recorded vote (7:6)



Kimberley Kitteringham
City Clerk

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CERTIFIED A TRUE COPY
[Signature]
DIANA RUSNOV DEPUTY CLERK
CITY OF MISSISSAUGA

THE CORPORATION OF THE CITY OF MISSISSAUGA
BY-LAW NUMBER 0250-2015

A by-law to authorize the execution of the agreements necessary to complete the merger of Enersource Corporation with Horizon Holdings Inc. and PowerStream Holdings Inc., and provide for the acquisition of Hydro One Brampton Networks Inc.

WHEREAS management of Enersource Corporation ("Enersource") has undertaken to negotiate agreements relating to the amalgamation of Horizon Holdings Inc. ("Horizon"), PowerStream Holdings Inc. ("PowerStream") and a new subsidiary of Enersource to be incorporated ("Enersource Holdings") into a new entity ("Mergeco") as well as the creation of a new subsidiary of MergeCo through an amalgamation of Horizon Utilities Corporation, PowerStream Inc. and Enersource Hydro Mississauga Inc. ("Enersource Hydro") (the amalgamated entity, "MergeCo LDC"), substantially in accordance with the Merger Participation Agreement ("MPA") as presently drafted.

AND WHEREAS MergeCo and its subsidiaries are to be governed by a Unanimous Shareholders Agreement substantially in the form as presently drafted among Enersource, Markham Enterprises Corporation, Barrie Hydro Holdings Inc., Vaughan Holdings Inc., Hamilton Utilities Corporation and St. Catharines Hydro Inc. as shareholders and The Corporation of the City of Mississauga (the "City"), BPC Energy Corporation ("BPC"), The City of Hamilton, the Corporation of the City of Vaughan, the Corporation of the City of St. Catharines and The Corporation of the City of Markham as principals (the "USA").

AND WHEREAS Enersource management have, together with Horizon and PowerStream, negotiated the purchase of Hydro One Brampton Networks Inc. ("HOBNI"), substantially in accordance with the Share Purchase Agreement ("SPA") as presently drafted, as between Her Majesty the Queen in Right of Ontario as Represented by the Minister of Energy (the "Province") and Brampton Distribution Holdco Inc. as Vendor and Horizon Utilities Corporation, PowerStream Inc. and Enersource Hydro, together as MergeCo LDC, as Purchaser.

AND WHEREAS pursuant to the SPA, the City of Mississauga will be required to execute and submit to the Province a letter concerning its shareholdings (direct or indirect) in MergeCo (the "Anti-Flip Letter").

AND WHEREAS Section 2.15 of the amended and restated Shareholders' Agreement between the City and BPC dated June 1, 2012 (the "Existing Enersource USA") requires approval from the City approving, by way of a resolution or by-law, the formation of Enersource Holdings and the transfer of Enersource's assets (including shares in Enersource Hydro) to Enersource Holdings (the "Reorganization"), the MPA, the USA and the SPA (the "Approval").

AND WHEREAS the completion of the MPA, the USA and the SPA, as presented to City Council may be subject to further non-material revisions and amendments as a result of further discussions for the purposes of finalizing these agreements.

NOW THEREFORE the Council of The Corporation of the City of Mississauga hereby ENACTS as follows:

1. THAT the Mayor and City Clerk be and they are hereby authorized and directed to execute and deliver:
 - a. the Merger Participation Agreement ("MPA");

- b. the Unanimous Shareholders Agreement ("USA");
- c. a written instrument confirming the Approval;
- d. the Anti-Flip Letter; and
- e. a written resolution of the shareholders of Enersource approving the Reorganization, the MPA and the SPA;

All with such non-material modifications and amendments as are approved by the City Manager and Chief Administrative Officer and the City Solicitor.

2. THAT the City Manager be given the authority to approve the waiver by Enersource Hydro of conditions to closing under the SPA.

ENACTED AND PASSED this 30 day of September, 2015.



Bonnie Crombie
MAYOR

Crystal Green
CLERK

CORPORATION OF THE CITY OF ST. CATHARINES COUNCIL RESOLUTION

RESOLVED THAT the City Council of The Corporation of the City of St. Catharines ("St. Catharines") approves, in accordance with Sections 3 and 5 of the Amended and Restated Shareholder Declaration of The Corporation of the City of St. Catharines effective November 1, 2006, the merger of Horizon Holdings Inc., PowerStream Holdings Inc. and a new Enersource holding corporation, as well as the merger of Horizon Utilities Corporation ("Horizon"), PowerStream Inc. ("PowerStream") and Enersource Hydro Mississauga Inc. ("Enersource Hydro"), substantially in accordance with the Merger Participation Agreement and Unanimous Shareholders Agreement and as presented to the St. Catharines City Council, subject to any non-material modifications or amendments as approved by the Chief Administrative Officer and the City Solicitor of St. Catharines, and authorizes St. Catharines to enter into and deliver the Merger Participation Agreement and Unanimous Shareholder Agreement, in a form satisfactory to the Chief Administrative Officer and the City Solicitor of St. Catharines, and to perform, observe and comply with its obligations under such Agreement;

AND IT IS FURTHER RESOLVED THAT St. Catharines approves the purchase of Hydro One Brampton Networks Inc., substantially in accordance with the Share Purchase Agreement as presented to the St. Catharines City Council, as between Her Majesty the Queen in Right of Ontario as Represented by the Minister of Energy (the "Province") and Brampton Distribution Holdco Inc. as Vendor and Horizon, PowerStream and Enersource Hydro as Purchaser, subject to any non-material modifications or amendments as approved by the Chief Administrative Officer and the City Solicitor of St. Catharines and in accordance with the Financing Plan endorsed by the Board of Horizon, as agreed between Horizon Management and the Shareholder Representatives;

AND IT IS FURTHER RESOLVED THAT the above approvals are conditional upon the completion of both the Merger Participation Agreement and the Share Purchase Agreement in accordance with the conditions to closing set out in such agreements;


AND IT IS FURTHER RESOLVED THAT the Mayor and City Clerk of St. Catharines are hereby authorized and directed to sign the Merger Participation Agreement and Unanimous Shareholder Agreement in accordance with these resolutions, and in doing so approve and execute any non-material modifications or amendments to the Merger Participation Agreement and Unanimous Shareholder Agreement subsequent to the date of these resolutions;

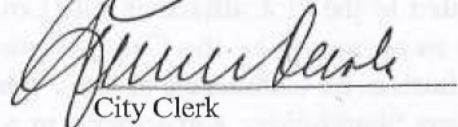
AND IT IS FURTHER RESOLVED THAT the Mayor and City Clerk of St. Catharines are hereby authorized and directed to sign and/or dispatch and deliver all other documents, notices, articles, certificates to be signed and/or dispatched or delivered under or in connection with the Merger Participation Agreement, the Unanimous Shareholders Agreement or Share Purchase Agreement or to take any action deemed necessary in respect of any of the foregoing.

THE FOREGOING RESOLUTION is hereby consented to by the sole shareholder of SCHI pursuant to the Business Corporation Act (Ontario).

DATED the 20th day of October 2015.

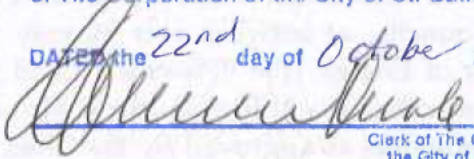
THE CORPORATION OF THE CITY OF ST. CATHARINES


Mayor Walter Sendzik


City Clerk

CERTIFIED under the Hand of the Clerk and the
Seal of THE
CORPORATION OF THE CITY OF ST. CATHARINES
to be a TRUE COPY of *By-law Motion*
of The Corporation of the City of St. Catharines

DATED the *22nd* day of *October* 20*15*


Clerk of The Corporation of
the City of St. Catharines

CERTIFIED COPY

CITY OF ST. CATHARINES

BY-LAW NO. 2015-248

A By-law to authorize the execution of resolutions passed at the special shareholder meetings of St. Catharines Hydro Inc. and the execution of the agreements necessary to complete the merger of the Transactions.

WHEREAS Horizon Holdings Inc. and Horizon Utilities Corporation ("Horizon") has undertaken to negotiate agreements relating to the amalgamation of Horizon, Enersource Holdings Inc. (following its formation) and PowerStream Holdings Inc. ("PowerStream"), to be followed by the merger of Horizon Utilities Corporation, Enersource Hydro Mississauga Inc. and PowerStream Inc., and subsequent reorganization transactions (the merged business is referred to as "Mergeco"); and the acquisition of Hydro One Brampton Networks Inc. ("HOBNI") (collectively, the "Transactions").

AND WHEREAS Mergeco and its subsidiaries are to be governed by a Unanimous Shareholders' Agreement substantially in the form as presently drafted among Enersource Corporation ("Enersource"), Markham Enterprises Corporation, Barrie Hydro Holdings Inc., Vaughan Holdings Inc., Hamilton Utilities Corporation and St. Catharines Hydro Inc. ("SCHI"), as shareholders, and The Corporation of the City of Mississauga, BPC Energy Corporation ("BPC"), The City of Hamilton, The Corporation of the City of Vaughan, The Corporation of the City of St. Catharines (the "City"), The Corporation of the City of Barrie and The Corporation of the City of Markham, as principals (the "USA").

AND WHEREAS Horizon, Enersource and PowerStream have negotiated the purchase of the shares of Hydro One Brampton Networks Inc. ("HOBNI"), substantially in accordance with the Share Purchase Agreement ("SPA") as presently drafted, as between Her Majesty the Queen in Right of Ontario as Represented by the Minister of

Energy (the "Province"), Brampton Distribution Holdco Inc., as Vendor, and Horizon Utilities Corporation, PowerStream Inc. and Enersource Hydro Mississauga Inc., together as MergeCo LDC, as Purchaser.

AND WHEREAS pursuant to the SPA, The Corporation of the City of St. Catharines will be required to execute and submit to the Province a letter concerning the shareholdings (direct or indirect) in Mergeco.

AND WHEREAS Sections 3 and 5 of the amended and restated Shareholder Declaration dated November 1, 2006 (the "Existing Horizon USA") requires approval from the City approving, by way of a resolution or by-law, to enter into the MPA, the USA and the SPA.

AND WHEREAS the completion of the MPA, the USA and the SPA, as presented to City Council, may be subject to further non-material revisions and amendments as a result of further discussions for the purposes of finalizing these agreements.

NOW THEREFORE THE COUNCIL OF THE CORPORATION OF THE CITY OF ST. CATHARINES enacts as follows:

1. That the resolutions of the shareholder passed at the special shareholder meetings of St. Catharines Hydro Inc. held on the 5th day of October, 2015, and on the 20th day of October 2015, be and the same are hereby approved and authorized.
2. That the Mayor and Clerk be and each of them is hereby authorized to execute and deliver the following:
 - (i) the Merger Participation Agreement pursuant to which the merger of Horizon, PowerStream and Enersource will be completed;
 - (ii) the Unanimous Shareholders' Agreement that will govern the relationship between the shareholders of Mergeco and its subsidiaries;

- (iii) a written instrument confirming the City's approval of the foregoing agreements as well as Horizon's entry into a Share Purchase Agreement for the acquisition of the shares of HOBNI;
- (iv) the resolution of the sole shareholder of SCHI on behalf of the City; and
- (v) such further and other documents as may be necessary or appropriate to fulfill the intent of the Transactions and perform the City's obligations under the agreements referred to above,

all with such non-material modifications and amendments as are approved by the Chief Administrative Officer and the City Solicitor.

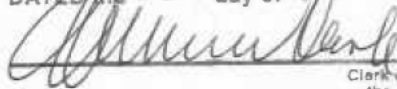
Read and passed this *20th* day of *October* 2015.

CLERK

CERTIFIED under the Hand of the ~~MAYOR~~ and the
Seal of THE
CORPORATION OF THE CITY OF ST. CATHARINES
to be a TRUE COPY of By-law *2015-248*
of The Corporation of the City of St. Catharines

DATED the *22nd* day of *October* 2015



Clerk of The Corporation of
the City of St. Catharines

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CITY OF VAUGHAN

EXTRACT FROM SPECIAL COUNCIL MEETING MINUTES OF OCTOBER 7, 2015

Item 1, Report No. 33, of the Committee of the Whole (Working Session), which was adopted, as amended, by the Council of the City of Vaughan on October 7, 2015, as follows:

By approving the confidential recommendation contained in Confidential Communication C2, from the City Solicitor, the Director of Financial Planning, Analytics, Development Finance and Investments & Deputy City Treasurer, dated October 2, 2015; and

By receiving the following Communications:

- C1** Director of Financial Planning, Analytics, Development Finance and Investments & Deputy City Treasurer, dated October 1, 2015; and
- C3** Confidential Communication from the City Solicitor, the Chief Financial Officer & City Treasurer and the Director of Financial Planning and Development Finance & Deputy City treasurer, dated October 6, 2015.

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POWERSTREAM MERGER AND ACQUISITION

The Committee of the Whole (Working Session) recommends:

- 1) That the recommendation contained in the following report of the Commissioner of Finance and City Treasurer and Interim Commissioner of Legal and Administrative Services and City Solicitor, dated September 22, 2015, be approved;
- 2) That the following be approved in accordance with Communication C1 from the Commissioner of Finance and City Treasurer and the Interim Commissioner of Legal and Administrative Services/City Solicitor, dated September 18, 2015:
 - 1. That the City of Vaughan approve the Vaughan Holdings Inc. Board's recommendation that PowerStream Holdings Inc. ("PowerStream") enter into a three way merger with Enersource Corporation ("Enersources") and Horizon Holdings Inc. ("Horizon") and then proceed to acquire Hydro One Brampton Networks Inc. ("Hydro One Brampton"), subject to the identical conditions set out by Vaughan Holdings Inc. as further described in this communication;
 - 2. That the City of Vaughan agree to subscribe for equity common shares in Vaughan Holdings Inc. in the maximum amount of \$45,600,000 to partially fund Vaughan Holdings Inc.'s portion of the acquisition of Hydro One Brampton;
 - 3. That the City of Vaughan's investment in such common shares be made consistent with the timing and amounts deemed necessary by Vaughan Holdings Inc. in order to complete the merger and acquisition transaction;
 - 4. That the City of Vaughan authorize Vaughan Holdings Inc. to pursue a sale from treasury of up to 10% of its shares related to its PowerStream interests to substantially recover the City's portion of the required equity investment and that a report on the process and recommendations be provided prior to completing the merger;
 - 5. That the Mayor, together with the City Clerk, are hereby authorized to execute all documents and agreements on behalf of the City with respect to the proposed merger and acquisition, in a form satisfactory to the City Solicitor, and that City staff be authorized to take such steps as may be

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necessary (and substantially in accordance with the terms set out in this communication and its related report) to give effect to the proposed merger and acquisition;

6. That staff report to Council if it appears that transaction negotiations could result in agreements which deviate substantially from the principles set out in this communication and its related report; and

7. That, within 60 days of executing the agreements and documents required to finalize the merger and acquisition, staff provide Council with an update; and

- 3) That the following deputations and Communications be received:

1. Mr. Brian Bentz, President and Chief Executive Officer, Powerstream, Cityview Boulevard, Vaughan, and Communication C2, dated September 22, 2015;
2. Mr. Todd Williams, Managing Director, Navigant Consulting Inc., Bay Street, Toronto, and Communication C3, entitled "*PowerStream Merger and Acquisition: Decision Support*", dated September 22, 2015; and
3. Mr. Paul H. Harricks, Legal Counsel, Gowlings LLP, King Street West, Toronto.

Recommendation

The Commissioner of Finance and City Treasurer, and Interim Commissioner of Legal and Administrative Services and City Solicitor, in consultation with the Director of Development Finance and Investments recommend:

1. That the presentation by PowerStream Inc. on the merger and acquisition proposal be received;
2. That the presentation by Navigant Consulting Ltd. on the proposal's financials be received;
3. That the presentation by Gowlings LLP on the proposal's governance topics be received;
4. That such resolutions or recommendations as may be submitted by Vaughan Holdings Inc. be considered; and
5. That the City Clerk be requested to schedule a Special Meeting of Council between September 23, 2015 and October 9, 2015 to consider the recommendations of Committee of the Whole (Working Session) in this matter.

Contribution to Sustainability

Additional revenue opportunities provide support and financial sustainability to the City of Vaughan. Therefore investment opportunities must be considered and evaluated to determine if they present investment value and are aligned with the City's investment principles.

Economic Impact

Vaughan Holdings Inc. (VHI), which is wholly owned by the City of Vaughan, has been presented with a new investment opportunity for a three way merger between PowerStream Holdings Inc., Enersource Corporation and Horizon Holdings Inc. and subsequent acquisition of Hydro One Brampton. The proposed transaction would require an equity cash injection of approximately

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\$56M from VHI, subject to closing costs. There is a potential for increased dividend income for the City and synergy savings are expected to result in reduced upward pressure on future hydro rates to the average rate payer. As discussed in detail further in this report several funding options were considered for the estimated \$56M cash injection, including a combination of using funds accumulated within VHI and available funds within the City's investment portfolio, or a conversion of the City's promissory note with PowerStream, or 10% sale of equity in PowerStream. A combination of using funds accumulated within VHI and the 10% equity sale is deemed the preferred funding option as it allows the City to benefit from the proposed transaction with minimal cash injection. However, available funds within the City's investment portfolio will be leveraged until a sale is finalized.

Several key economic impacts are discussed in further detail throughout the body of this report.

Communications Plan

On April 16, 2015, the Premier of Ontario made several announcements with respect to recommendations received from her Advisory Council of Government Assets including the initiation of negotiations with PowerStream, Enersource, and Horizon on a transaction that would see the three local distribution companies merge and also acquire 100 per cent of Hydro One Brampton Networks Inc. to create the second largest local distribution company in Ontario.

Negotiations have been ongoing over the last several months. Given the imminent shareholder decisions expected on the proposal, communications has been an important consideration, which is why the Communications teams from Vaughan, Markham, Barrie and PowerStream have had meetings and ongoing discussions to develop a collaborative approach to informing stakeholders about the proposal.

The first phase of the communication approach was the issuance of a news release by the City of Vaughan on August 24, 2015. It cited the status of the ongoing negotiations of the merger and acquisition, background on the proposal, benefits to the community, a quote from the Mayor and expected decision timelines. This release was posted on the City of Vaughan's website. PowerStream has also created a webpage with information on the proposal at www.PowerStream.ca/Merger.

The next phase in the approach was promoting this at the September 22, 2015 Committee of the Whole Working Session and informing members of the public that they are welcome to attend and make a deputation. This was done with advertisements in four local newspapers – Vaughan Citizen, Thornhill Liberal, Lo Specchio, and Corriere Canadese, posts on the City's corporate social media sites, and through promotions on Vaughan TV, the City's blog and an eBlast to subscribers of the City's eNewsletter. The City contacted local reporters directly to ensure they were aware of this meeting.

MergeCo is considering issuing a joint news release prior to the first Committee or Council meeting Working Group of any shareholder among the shareholder cities. If this release is issued, the City will promote it via Vaughan's website, social media accounts and eNewsletter.

If all the PowerStream shareholders approve the merger proposal, MergeCo will issue a joint news release after final shareholder approval has been completed. Subsequently, MergeCo may also place advertisements in several dailies. The City will support these activities and promote them via Vaughan's website, social media accounts and eNewsletter.

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Purpose

The purpose of this report is to inform Council and the public on the proposed three way merger and subsequent acquisition of Hydro One Brampton.

PowerStream, Enersource and Horizon utilities are working to finalize details of their proposed merger and joint proposal to purchase Hydro One Brampton from the Government of Ontario. This proposal is the result of many months of effort and negotiation between the parties, and is currently at the critical phase of PowerStream's Board approval. Once endorsed by PowerStream's Board recommendations will flow to the shareholder's holding companies and subsequently to their respective municipal Councils for consideration.

Subject to PowerStream's Board meeting on September 11, 2015 and Vaughan Holdings Inc. (VHI) Board meeting on September 16, 2015, a written communication will follow this report outlining VHI Board's recommendation.

The attached Business Case and Navigant Consultant report provides full details of the proposed Merger and Acquisition.

The contents of this report are based substantially on the investment proposal negotiated to date and business case provided and highlights key areas for consideration. Given the size of the documents, for the reader's reference, the MergeCo Business Plan from PowerStream (Attachment 1), the MergeCo Business Case from PowerStream (Attachment 2) and the written consultant report from Navigant Consulting (Attachment 3) are available for viewing in hard copy at the Office of the City Clerk located on the 1st floor of Vaughan City Hall at 2141 Major Mackenzie Drive, Vaughan, ON L6A 1T1.

Given the complexity of the report, the contents are reported in the following format:

Executive Summary

- A. Background on PowerStream
- B. Local Distribution Company's (LDCs) mergers in the Provincial context
- C. History of current merger and acquisition proposal
- D. Shareholder due diligence
- E. Context for evaluation of proposal
- F. Benefits and Risks of proposal
- G. Governance issues associated with proposal
- H. Funding options for acquisition
- I. Financial impacts to the City
- J. Benefits to the rate payer from merger and acquisition

Background - Analysis and Options

Executive Summary

On April 16, 2015, four of Ontario's largest electricity distribution companies (LDCs) announced they would work together to form a new utility that would serve almost a million customers in York Region, Simcoe County, Peel Region, Hamilton and St. Catharines.

The proposed merger transaction comprises the following:

- A merger of the regulated and non-regulated business activities of: PowerStream, Enersource, and Horizon (individually, a 'Party' and collectively, the 'Parties').
- An acquisition by the Parties of the regulated electricity distribution business of Hydro One Brampton Networks Inc. (HOBNI) for gross proceeds of \$607M, net of any purchase price adjustments

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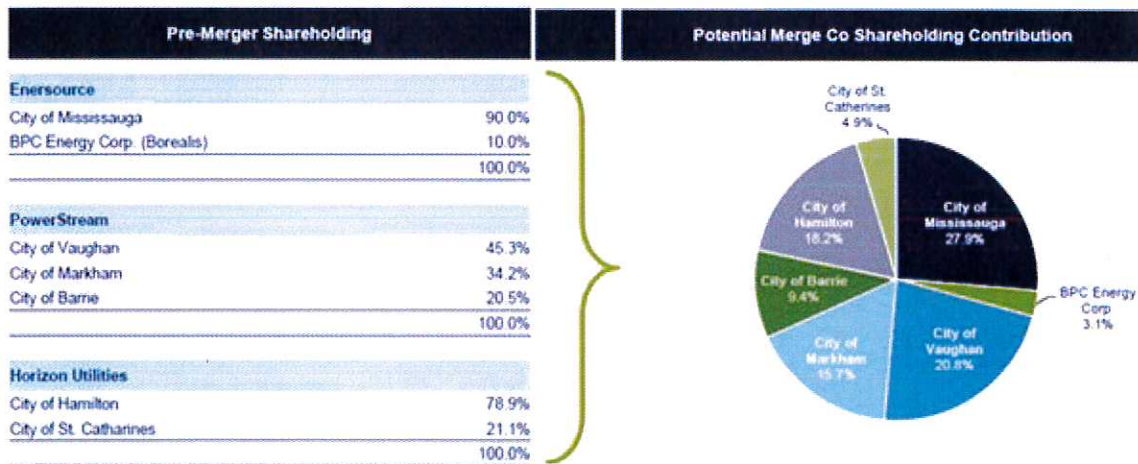
The combined entities described above are referred to as “MergeCo” and the corresponding transactions are referred to as the “Transaction”. The creation of MergeCo must be approved by all shareholders and is subject to regulatory approvals.

The Transaction will create the second largest electricity distribution company in Ontario with almost 1 million customers, 2.7 billion in assets, and 2.5 billion rate base. In total, MergeCo is expected to deliver approximately **\$427M of net cash savings (pre-tax) through synergies** in the first 10 years following the merger thereafter sustained at approximately \$51M per year (\$310M in operating synergies + \$111M of capital synergies, net of transition costs).

The City of Vaughan holds 45.31% of PowerStream via its holding company VHI. Under the merger, the City's ownership of MergeCo will be approximately 20.80% (second largest shareholder in the proposed MergeCo). Figure 1 below illustrates the pre and post ownership shares involved in the Transaction.

The City of Vaughan receives regular dividend and interest revenues from PowerStream, estimated to be approximately \$16M in 2015. The equity investment required from the three PowerStream shareholders is expected to be \$125M, while Vaughan's portion of this is approximately \$56M.

Figure 1: Individual Shareholder Ownerships



Key Aspects of the Merger

Following months of negotiation with merger partners, PowerStream, on behalf of its shareholders, has reached substantial agreement on a number of key aspects.

1. **Relative Value:** PowerStream Shareholders will own 46% of the new company, (Vaughan's portion will be 20.8%)
2. **Solar “Carve Out”:** PowerStream's Solar business is expected to be kept as a separate operating subsidiary under MergeCo; the dividend stream from existing PowerStream solar investments will be maintained through special shares
3. **Local Presence & Facilities:** all of PowerStream's existing facilities will be maintained following the merger

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4. Governance: Six of 13 board members are to be appointed by PowerStream Shareholders, (Vaughan will have 3 representatives)
5. Executive: significant Executive presence of current PowerStream staff
6. Liquidity Rights: improved rights to raise capital for growth, or to monetize existing investments

Managing the Risks of the Transaction

The key risks to the Transaction may be seen as follow:

- Synergies (cost savings) may not be achieved
- Integration challenges
- Unidentified expenses / liabilities
- Regulatory uncertainty affects business plan going forward
- Shared ownership and a greater investor focus

Many of the risks identified above are seen to be mitigated through PowerStream's history of achieving synergy and integration post-merger/acquisition. PowerStream has entered four transactions of a similar nature in the last ten years. Additionally, the consolidation of these smaller LDCs will produce a larger and presumably more prominent corporation that will have the ability to exert more influence on the industry and related policy. The new MergeCo will also see greater independence on the Board of Directors with more powers delegated to that Board to steer the corporation in its pursuit to create value for the shareholders and bring savings to the electricity consumer. PowerStream was more closely held by its shareholders whereas MergeCo will see many more shareholders providing a greater deal of autonomy to its Board to steer the organization to a larger corporation mentality. This risk is mitigated by the fact that current PowerStream shareholders are still represented by 6 of the 13 Board members, of which Vaughan has 3 representatives. Effectively, Vaughan will need to focus its attention towards being an investor rather than the operations of the corporation.

Key benefits of the Transaction

Improved Financial Returns to Shareholders

- Steady and growing dividend stream at a higher level than the current arrangement; Vaughan can expect dividends to increase in the first 10 year post transaction by \$62M
- Payback of equity investment for Hydro One Brampton of approximately ten years; Vaughan's \$56M equity investment expected to increase to a value of approximately \$90M – \$135M over 10 years

Reduced upward pressure on future hydro rates for customers compared to the current arrangement

- Overall, approximately 8% decrease in future distribution rates (e.g. mitigates future increases). Customers will benefit through the savings of \$450M over 25 years or an average of \$40 annually. This will help reduce upward pressure on future rates.

Stronger Platform for Growth in the Future

- Much larger utility with a bigger geographic footprint, more diversification, and greater capital resources and opportunities to finance expansion

Greater Influence on Government Policy

- Merged utility will be in a key position of leadership to influence government and regulatory energy policy for the benefit of customers and shareholders

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Part A - Background on PowerStream

PowerStream is the second largest municipally owned LDC in Ontario, serving over 370,000 residential and commercial customers. PowerStream is regulated by the Ontario Energy Board (OEB).

The principal activity of PowerStream is the distribution of electricity within Alliston, Aurora, Barrie, Beeton, Bradford West Gwillimbury, Markham, Penetanguishene, Richmond Hill, Thornton, Tottenham and Vaughan, as well as Collingwood, Stayner, Creemore and Thornbury through its strategic partnership with Collus PowerStream.

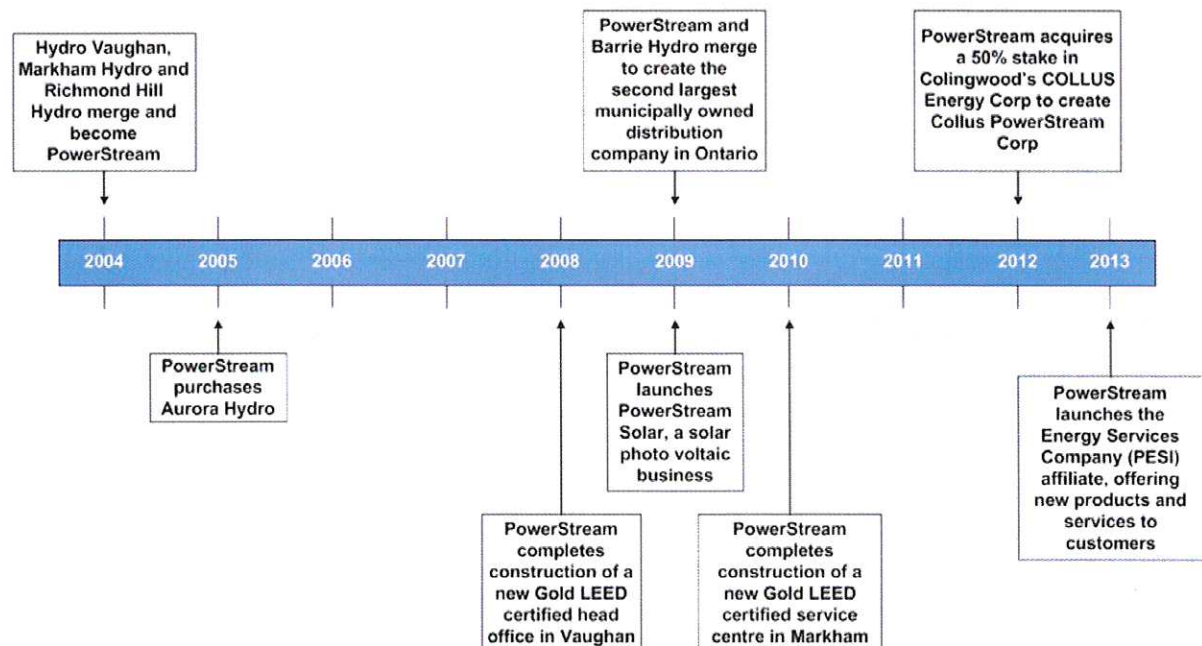
PowerStream encompasses an 854 sq. km service territory and delivers over 8,384 GWh of electricity to customers annually.

Growth is a key performance driver for PowerStream

PowerStream's strategy is to build on its core distribution business to become Ontario's premier integrated energy service provider. PowerStream's aim is to be a leading utility with respect to size, scale and scope, enabling the Corporation to realize the potential synergies and efficiencies that come with growth.

PowerStream has led the industry with successful mergers, improving service reliability, reducing upward pressure on rates, and has been an active member that supports its local communities. A few of PowerStream's recent business activities are illustrated below.

Figure 2: PowerStream 10 Year History



Part B - LDC mergers in the Provincial Context

LDCs in Ontario operate in a complex regulated environment highly responsive to shifts in Ontario government policy. The current distribution sector makeup is a product of a number of pieces of legislation and is summarized below.

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Up until 1996 most municipalities in Ontario had their own Municipal Electricity Utility or MEU. These MEU's were governed similar to any other municipal department such as water or sewage and were not revenue generating. This changed in 1996 when the Macdonald Commission suggested significant changes to the structure of MEUs. Legislation enacted by the Ontario government in 1998 confirmed that municipal governments should continue to own electric utilities, but required that they be transformed into business corporations under the Ontario Business Corporations Act (OBCA).

The City's existing PowerStream assets (Principal Investment) were inherited

The incentive to structure sustainable corporations, or LDCs, in a deregulated market contributed to the initial wave of consolidation in the sector. This brought the number of MEUs in the province from 307 to around 89 by 2001. Since then, government policy surrounding a transfer tax holiday have led to a handful of LDC consolidations, (with PowerStream in a notable leadership position) and acquisitions by Hydro One which have brought the number of utilities currently operating in the province down to 66. There has also been some private equity participation in LDCs, although these have been by and large limited to 10% due to prohibitive tax treatment.

The Province of Ontario has endorsed LDC consolidation

The policy rationale for LDC consolidation (for the benefit of ratepayers and shareholders) has been well established and consistently advanced from multiple sources over the past few years. In 2012, the Ontario government created the multi-partisan Distribution Sector Review Panel to provide expert advice to the government on how to improve efficiencies in the electricity sector with the aim of reducing costs for customers and increasing efficiencies. The Panel strongly endorsed industry consolidation and noted the following:

Regarding Consolidation:

"...LDCs in Ontario should be consolidated into eight to twelve larger regional distributors...six to ten regional distributors would be located in southern Ontario and typically have a minimum of 400,000 customers..."

"...regional distributors must be contiguous and stand shoulder to shoulder."

Regarding New Investment:

"New investment in the distributor sector, notably from pension funds, should be encouraged. The report recommends that the Ontario Government enter into negotiations with the Federal Government on a tax agreement which would facilitate the removal of the transfer tax on the sale of LDC assets."

Regarding Governance:

"The membership of the boards of directors of regional distributors should have at least two thirds independent directors..."

Part C - History of Current Merger and Acquisition Proposal

LDC consolidations reduce upward pressure on hydro rates

In the spring of 2014, the Ontario government, seized with the issue of seeking efficiencies out of publicly-owned assets, began the review of government-owned assets. The review was specifically geared towards the optimization of government-owned assets including Hydro One

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and Ontario Power Generation (OPG). PowerStream was actively engaged in the review headed by former TD Bank Chair, Ed Clark. Although not originally tasked with the issue of LDC consolidation, the Clark panel quickly determined that the potential savings to ratepayers were too significant to not address. The panel released their final report in the spring of 2015.

The report stated the following with respect to Hydro One Brampton and utility consolidation:

1. The Province should proceed immediately with a sale or merger of its interest in Hydro One Brampton Networks Inc. to or with Enersource Corporation, PowerStream Holdings Inc. and Horizon Holdings Inc., intended to catalyze consolidation in the Greater Toronto and Hamilton Area and to strengthen competition in the electricity distribution sector by increasing the number of LDCs with the capacity to drive further consolidation.
2. The Province should amend the transfer tax rules and departure tax rules that apply when municipal electricity utilities leave the payment-in-lieu of taxes regime both on a time-limited basis and implement these changes as quickly as possible.
3. The mandate and powers of the Ontario Energy Board should be strengthened to ensure that changes in industry structure do not put upward pressure on rates.

Through the passing of the 2015 budget and ongoing efforts with the OEB, the government has effectively endorsed all of the Clark panel's recommendations with respect to electricity distribution. Refer to Attachment 4, Province of Ontario press release on April 16, 2015, for a description of the relationship of these recommendations to this Transaction.

At the May 1, 2015 PowerStream Board Strategic Planning Session options were discussed and it was resolved that the preferred option to be executed was a 3-Way Merger acquiring Hydro One Brampton.

The proposed merger transaction comprises the following:

- A merger of the regulated and non-regulated business activities of: PowerStream Inc., Enersource Corporation, and Horizon Holdings Inc. (individually, a 'Party' and collectively, the 'Parties').
- An acquisition by the Parties of the regulated electricity distribution business of Hydro One Brampton Networks Inc. (HOBNI) for gross proceeds of \$607M net of any purchase price adjustments

Merger Synergy Savings benefits customers in the form of reduced upwards pressure on rates

As a result of the merger, MergeCo expects to generate the following material savings (values are pre-tax):

- Aggregate gross operations, maintenance and administration expenditure (OM&A) savings of \$355M over the first 10 years, or 14% of total OM&A expenditures, thereafter continuing at a savings rate of approximately 15% annually, (i.e., not cumulative).
- Aggregate gross capital expenditure savings of \$168M over the first 10 years, thereafter continuing at a sustained level of \$8M annually.

MergeCo will incur transition costs of approximately \$95M in the first three years with respect to systems and process integration and human resource costs.

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In total, MergeCo will deliver approximately \$427M of net cash savings (pre-tax) in the first 10 years following the merger thereafter sustained at approximately \$51M per year.

Part D - Shareholders Due Diligence

To determine if the Transaction is in VHI's and in turn the City's best interest, due diligence has been undertaken on the valuation, level of investment and financing options. To ensure independent advice and recommendations are provided; the shareholders of PowerStream have jointly retained industry experts Navigant Consulting, Ltd. and BDR North America Inc. In addition, Gowlings LLP has been jointly retained for legal advice. PowerStream Inc. agreed to pay for the Consulting fees incurred. Furthermore, each utility company in the Transaction have secured their own independent advisor to perform due diligence work.

Navigant (NYSE: NCI)

Navigant is a specialized, global professional services firm dedicated to assisting clients in creating and protecting value in the face of critical business risks and opportunities. Navigant Consulting services include a wide range of financial management services, investigation services, litigation support services, and business management consulting services, as well as software programs for use in database management, analysis and benchmarking.

Through senior level engagement with clients, Navigant professionals deliver expert and advisory work through implementation and business process management services. The firm combines deep technical expertise in Disputes and Investigations, Economics, Financial Advisory and Management Consulting, with business pragmatism to address clients' needs in highly regulated industries, including Construction, Energy, Financial Services and Healthcare.

BDR North America Inc.

BDR is a Toronto-based consulting firm of seasoned professionals specializing in the energy sector in terms of mergers and acquisitions, business and strategic planning and regulatory.

BDR has for many years managed and advised regarding the process of merger, acquisition and divestment of both generation and "wires" facilities in the electricity industry and related affiliates. Key to these assignments is the development of appropriate valuations for the businesses in the context of the relative risks.

Gowlings LLP

Gowlings is a leading Canadian and international law firm, with over 700 legal professionals serving clients in 10 offices across Canada and around the world.

Process Approach and Roles for Merger and Acquisition Proceedings

The Transaction is the result of many months of effort and negotiation between the Parties.

Working Groups - working groups were established and comprised of representatives from each LDC's departments to determine synergies and transition costs

Deloitte - Deloitte was engaged to provide a third party valuation of PowerStream, Enersource, and Horizon. Deloitte produced a business case model to assess the merger and purchase transaction, considering net synergies, capital structure, financing, and regulatory impacts

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The Valuation model and Business Case model were reviewed, stress tested, and negotiated over six months by each of the following parties:

Navigant Consulting, Ltd. - representing PowerStream Shareholders

Morrison Park Advisors Inc. – providing advisory services to PowerStream

PricewaterhouseCoopers LLP – representing Enersource Shareholders

Ernst & Young Global Limited – representing Horizon Shareholders

CFO & Supporting Management Teams – of each LDC

The Business Plan (Attachment 1) which described comprehensive details of the proposed transaction and the Business Case (Attachment 2) are both available for viewing at the Office of the City Clerk.

Part E - Evaluation of the proposed transaction

The City's Investment Policy is a good context for evaluating the opportunity

The City's Investment Policy lists three investment objectives in priority order:

1. Preservation of principal investment
2. Maintenance of adequate level of liquidity
3. Earning a competitive rate of return

Based on the order priority from the above list it can be seen that certain risk "trade-offs" may occur between the items. While preservation of principal is the number one priority, investment in a utility corporation does not come with the same guarantees that might accompany a bond transaction for instance. Furthermore, due to prohibitive tax consequence as discussed further below in this report, the ability to withdraw the investment based on cash needs is minimal at best pointing to a very low level of liquidity. In turn, these two items must be weighed against the opportunity for a rate of return that is not available under virtually any other investment opportunity that a municipality is able to enter within the City's existing portfolio and legislation. The City does, however, have legal authority to enter this proposed transaction as set out in the Ontario's Electricity Act, 1998 and Ontario's Municipal Act. Some of these elements are discussed further throughout this report.

Since the City's investment in PowerStream is different than a traditional municipal investment (i.e. T-bill, bonds, etc.), there are other factors that also need to be taken into consideration. These other factors may include governance/control, impact on customer hydro rates, and utility market trend and risks.

The written report by Navigant, the shareholders financial consultant, provides professional and independent analysis on the proposed transaction.

Staff and consultants have been in frequent discussions with PowerStream to assess the proposed transaction. The written Navigant report is based on these discussions and the business case provided to the shareholders by PowerStream. Information discussed in the report is based on a variety of topics, but most importantly the following key areas of consideration:

- Is the PowerStream's relative valuation in MergeCo reasonable?
- How much equity investment is required by the City of Vaughan?

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- What are areas to maximize value in the transaction?
- What is the treatment for Solar shares?
- What are the benefits and risks to City of Vaughan?
- How does the City fund its share of the acquisition of Hydro One Brampton?
- What are the governance issues to consider?

Further details on these key areas are discussed below and in subsequent parts of the report, but a more fulsome discussion from the consultants may be found in their written analysis.

Is the PowerStream's relative valuation in MergeCo reasonable?

The proposed relative valuation of PowerStream Inc. under the merger is approximately 46% (excluding the Solar Class A shares) based on enterprise values using discounted cash flows of the three utilities. Reasons to exclude Solar Class A shares are discussed in more detail below.

The City owns 45.315% of PowerStream and based on the relative valuation, the City's ownership of MergeCo will be approximately 20.80%. The 20.80% represents the proportional market value of PowerStream in the combined market value of MergeCo.

Navigant Consulting Ltd., the shareholder's financial consultant, had review the valuation model and did an independent standalone valuation of the PowerStream relative valuation. Navigant's assessment is that the relative valuation of PowerStream is reasonable and fair.

How much equity investment is required by Vaughan?

The proposed acquisition of Hydro One Brampton is priced at \$607M. The rate base valuation is approximately \$404M. The equity injection required from the three PowerStream shareholders is expected to be \$125M, while Vaughan's portion of this is approximately \$56M, subject to closing costs. The closing costs are uncertain at this time, however it is expected that a contingency of up to 10% of the equity injection (\$5.6M) will be requested in order to cover these expenses. Additionally, the transaction costs may also have an effect on the 2015/2016 dividend payouts by PowerStream. The acquisition price of Hydro One Brampton has been set at 1.5 times the rate base valuation of approximately \$404M. The market valuation (premium) for utilities companies has increased due to the current low interest rate environment.

What are areas to maximize value in the transaction?

There are two areas that were substantially agreed to in the negotiation that maximize value in the transaction for Vaughan, which include: 1) Separation of PowerStream's Solar business Class A shares under MergeCo, and 2) Favourable Transfer tax treatment for the Brampton purchase.

1) Separation of PowerStream's Solar Business Class A Shares

Based on Navigant's analysis, keeping the Class A shares of Solar business separate in the merger transaction is preferred. Solar would be kept as an operating subsidiary of MergeCo and existing PowerStream shareholders would retain ownership of economic interests of those assets. There are three advantages to this:

- Undervalued - the Solar business is undervalued in the relative valuation. Separating it out through Special Class shares maximize value.
- Certainty of cash flow the Solar business is based on fixed contracts and provides a predictable income stream. Table 1 below provides the Solar cash flow forecast provided by PowerStream under the MergeCo Transaction.
- Liquidity – The Solar program provides a repayment of the initial investment providing greater financial flexibility and access to cash.

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Table 1 – Solar Dividends 10 year forecast

Solar Dividends (10 Years Forecast)											
- All values in \$'Mil											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Status Quo											
Dividend - Total	10.10	10.60	10.20	9.20	8.10	7.00	6.00	5.70	4.40	3.40	74.70
Dividend - Vaughan 45.31%	4.58	4.80	4.62	4.17	3.67	3.17	2.72	2.58	1.99	1.54	33.85
MergeCo											
Dividend - Total	10.10	10.30	9.90	8.70	7.20	6.40	5.40	5.20	4.10	3.20	70.50
Dividend - Vaughan 45.31%	4.58	4.67	4.49	3.94	3.26	2.90	2.45	2.36	1.86	1.45	31.94
Variance: Status Quo vs. MergeCo*	-	(0.14)	(0.14)	(0.23)	(0.41)	(0.27)	(0.27)	(0.23)	(0.14)	(0.09)	(1.90)

Source: PowerStream's forecast

* Variance of the Solar Dividend under MergeCo due to service management fees, financing costs, and dividend policy

While the dividends are tracking slightly less under the merger scenario it should be noted that this is mainly attributable to interest rate adjustments resulting from a planned debenture renewal and the management services cost recovery to MergeCo for the management of these assets. These are costs that were previously covered through PowerStream overhead and are therefore now affecting the dividends in a more direct manner. Combined with the increased dividends for MergeCo as a whole, this dividend schedule forecast is still deemed reasonable in the context of the overall transaction.

The terms and conditions of keeping the Solar business separate from MergeCo will be based on the draft Solar term sheet. The draft Solar term sheet outlines the nature of the agreement including management services, cost recovery, ownership principles, dividend policy and intercompany financing.

Although the final form will not be ready until transaction closing, addressing the terms above provide a good basis for assurance to the current PowerStream shareholders that the segregation of the Solar business continues returning an expected high level of value while being fully incorporated in to the merger and acquisition transaction. Additionally, it is important to note that PowerStream shareholders are still able to participate and benefit from any **new** solar asset projects under MergeCo.

2) Reducing future Tax obligation for the Brampton Purchase

The Transfer Tax on Hydro One Brampton is 33% of the sale price, which translates to approximately \$200M. PowerStream negotiated with the Province for the removal of this tax. Through discussion with the Province has not removed this tax, they have agreed to provide a PILs tax credit of approximately \$60M, which can be used to partially offset the future transfer taxes.

This will help with liquidity concerns, but the full departure and transfer tax would be applied to PowerStream or MergeCo sale transactions above 10%. To assist with future growth, limited partnerships are being proposed, which effectively permits growth capital investment without triggering tax liabilities. This will be determined through future tax rulings before closing the Brampton purchase.

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To further illustrate the severity of the tax consequence, if PowerStream shareholders were to receive an equity value of \$900M for their current holdings in PowerStream then approximately \$350M in tax would be owing, which equates to approximately 40% of the value.

Part F - Risks and Benefits

What Are the Benefits and Risks to the City of Vaughan?

Figure 3 below illustrates the benefits and risks to the City of Vaughan of a potential merger.

Figure 3: Benefits and Risks of Merger

	Benefits	Risks
	<ul style="list-style-type: none">• Potential net synergies of \$427M• Potential average rate of return of 6.3%• Consistent with Provincial mandate for consolidation• Future utility rate reductions of \$40 per customer per year• Potential for increased cash flow and equity growth over forecast• Provide economies of scale for growth and innovation• Platform to expand in to new lines of business• Greater opportunity for alternative equity funding• Retain the value of Solar business	<ul style="list-style-type: none">• Payback period is long term if funded by cash• Forecasted synergy, returns, and equity growth lower than expected• Purchase price of Hydro One Brampton on the high end• Burdensome tax treatment on ownership changes• Disruptive technologies could impact value• Regulatory changes could affect future value• Less direct control in terms of governance• Growth strategy will require undetermined additional future equity investment

Part G – Governance issues associated with proposal

Gowlings LLP will provide a memo to speak to many of the governance issues cited and this memo will be attached to a communication to Committee of the Whole (Working Session) subsequent to the VHI Board meeting, however below is a list of the issues for consideration.

- Board Composition
- Independent vs. Non-Independent Members
- Proposed Management Structure
- Special Approvals
- Dividend Policy
- Agreement Structure

Part H - Funding options

How does the City fund its share of the acquisition of Hydro One Brampton?

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The proposed transaction would require an equity investment of approximately \$56M, subject to closing costs, from Vaughan.

The three funding options identified in order of preference are:

- Sell 10% of existing PowerStream shares
- Use City cash reserves
- Convert promissory note in PowerStream

Selling 10% of PowerStream to fund transaction is the recommended funding option

The sale of 10% of PowerStream Inc. is expected to bring in approximately \$40M to Vaughan specifically. This cash can be used to fund most of the equity investment required at approximately \$56M, with the remainder coming from funds retained in VHI for investment opportunity.

Based on Navigant's analysis, the sale of 10% is preferred for the following reasons:

- Provide higher dividend cash flow with minimal equity investment
- Lock in the current market value
- Minimize risk on liquidity and preservation of capital with no tax consequence
- Hold City's cash reserve for future investment opportunities
- May attract a strategic private partner that could influence tax rule change and increase internal competition on future divesture
- Selling 10% effectively transfers a portion of the risk
- 10% sale aligns with Provincial mandate
- Allows the merger to move forward which will ultimately benefit utility users

On August 12, 2015, VHI Board approved the potential sale of 10% of existing PowerStream shares as a source of funding for the approximately \$56M equity investment required from Vaughan. The acquisition will be initially funded by funds retained within VHI of \$16M and the remaining \$40M funded through the City's investment portfolio. It is anticipated that the City's portion will be recovered by the sale of the 10% shares of PowerStream.

Other funding options are available, but less financially advantageous

The use of available City cash in the City's investment portfolio without a subsequent sale of 10% of PowerStream for recovery is the second preferred funding option. There is approximately \$16M funds retained in VHI. The additional cash required would need to come from the City's investment portfolio with no immediate recovery. Although, the City can financially manage the funding, these are earmarked for other purposes, albeit in the distant future. The use of cash investment is subject to risks, particularly liquidity constraint of the transaction. The City's cash on hand is the most liquid financial asset whether it's collecting interest in the bank or investment in low risk and high liquidity short term investments. This investment would not allow easy access to fund the City's future long-term capital program when required, hence the sale of 10% is preferred to reduce these risks. This merger transaction should be viewed as a long term income generator, with a long payback period and restricted liquidity.

Converting the promissory note to fund the transaction is the least preferred option. The City currently has an \$86M promissory note with PowerStream. The promissory note has a rate of return of 5.58% on \$78M and 4.03% on \$8M and can be called at any time. Therefore the promissory note is a liquid asset that earns a very competitive rate in today's environment. The promissory note is not subject to other risks, namely liquidity and preservation of principal, which would exist if converted.

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Part I - Financial impacts to the City

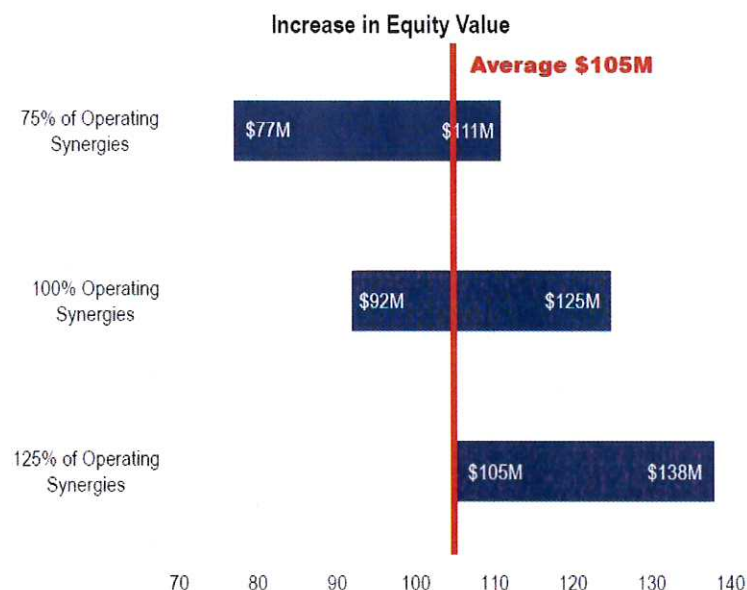
The proposed transaction is expected to increase equity value and provide a steady and growing dividend stream to shareholders

Subject to assumptions and risks described in this report and attachments, MergeCo is expected to deliver meaningful shareholder benefits both in terms of equity growth and dividend cash flow. The following assumes financing through a cash contribution and are summarized as follows:

To the benefit of City of Vaughan

- Vaughan's contribution to the acquisition of Hydro One Brampton is estimated at \$56M. Vaughan's share of the \$230M – \$300M increase in shareholder value is approximately \$90M-\$135M.

Figure 4 – Growth of equity value



Source: Navigant Project Aura Valuation and Business Case Model (August 28, 2015)

Notes:

1) Range of for each synergy scenario based on alternative terminal value calculations, e.g., perpetuity growth rate, final year cash flow, and exit multiple

2) Assumes 5% discount rate

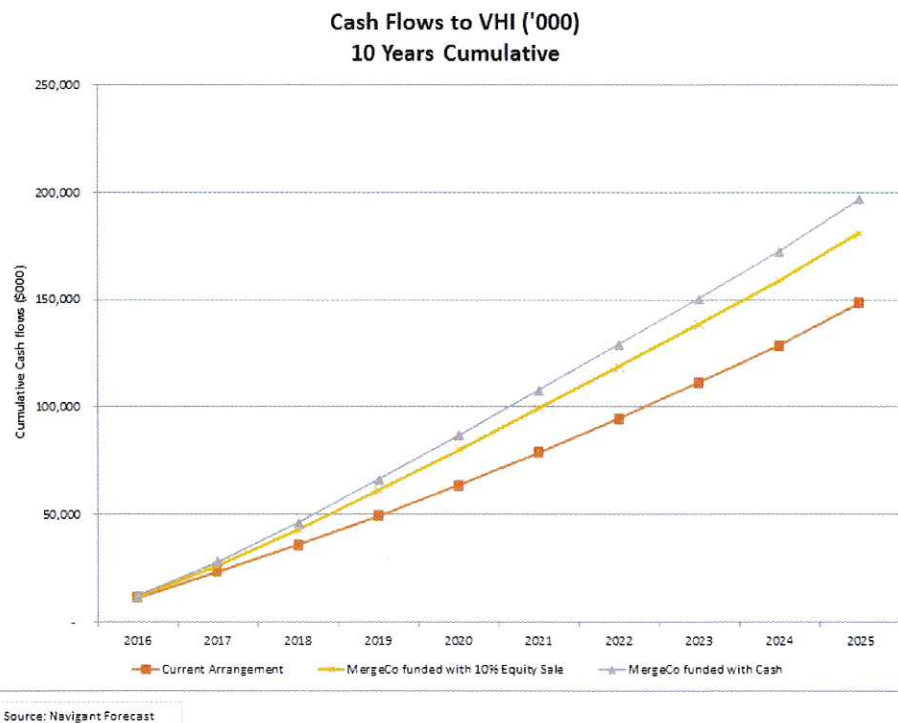
- Vaughan can expect their dividend to increase in the first ten years post transaction by \$62M.

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Figure 5 – Cash flows to Vaughan



MergeCo

- Increase in the Net Present Value (NPV) of earnings of approximately \$276M from \$1,154M to \$1,430M from 2016 to 2036 relative to the current arrangement, a 24% increase.
- Rates of return begin to normalize post 10 years, however projections beyond 10 years become less predictable given several uncertainties. Therefore, the focus is predominantly on the initial 10 year period.

Part J - Benefits to the rate payer

The proposed merger between PowerStream, Enersource and Horizon Utilities and the acquisition of Hydro One Brampton would bring significant value to customers. Analysis has found that customers will be able to save approximately \$450 million over 25 years (an average of \$40 per customer annually). Efficiencies realized as a result of the merger would reduce the upward pressure on distribution rates, allowing customers to benefit directly through lower bills than would be seen if the merger does not take place.

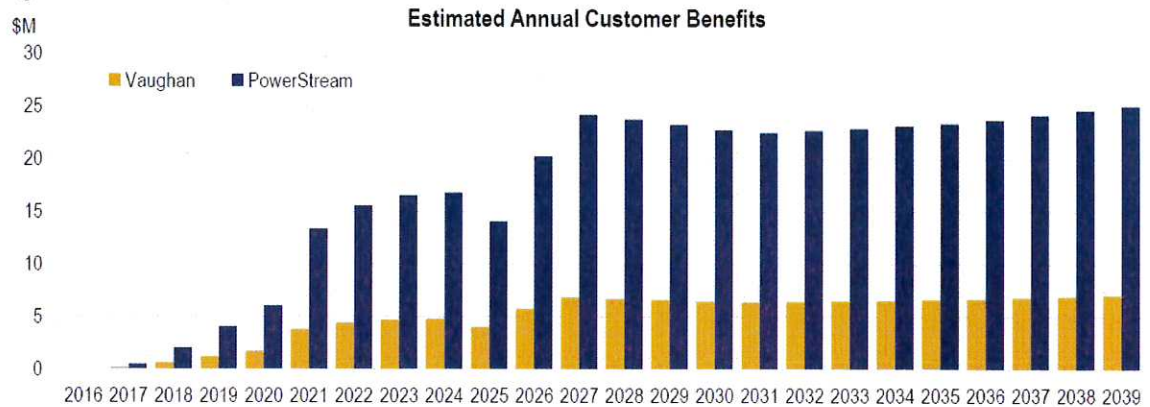
Figure 6 below illustrates the estimated annual customer benefits from the merger. It shows the overall savings to PowerStream customers and the Vaughan specific customer benefits. Included in these savings are also direct savings on City of Vaughan facilities, which equates to approximately \$222K per annum. This results in an added benefit to City of Vaughan property tax payers in the form of reduced pressure on annual tax levy increases.

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Figure 6 – Customer benefits



Notes:

1) All values nominal

1) Customer benefits over the first 10 years are driven primarily by avoided capital expenditures

2) Customer benefits after the first 10 years are driven primarily by lower operating costs

In addition, there are numerous benefits of the merger that go beyond cost savings on customer bills. These include:

- Better ability to serve customers through enhanced and shared systems and range of products or services available.
- Increased resources to respond to reliability issues.
- Investment in new business opportunities improves economic development in the City.

Regional Implications

Residents of York and greater Toronto and Hamilton areas being served by MergeCo can expect reduced upward pressure on future hydro rates with the proposed transaction.

Conclusion

PowerStream, Enersource and Horizon utilities are working to finalize details of their proposed merger and joint proposal to purchase Hydro One Brampton from the Government of Ontario. This proposal is the result of many months of effort and negotiation between the parties, and is currently at the critical phase of PowerStream's Board approval. Once endorsed by PowerStream's Board, recommendations will flow to VHI and subsequently to City Council for consideration.

Subject to a PowerStream Board meeting on September 11, 2015 and a VHI Board meeting on September 16, 2015, a written communication will follow this report outlining VHI Board's recommendation.

The proposed transaction would require an equity cash injection of approximately \$56M, subject to closing costs. There is a potential for increased dividend income for the City and synergy savings are also expected to reduce upward pressure on future hydro rates. The investment should be viewed as long term in nature. Additionally, the proposed transaction will result in more risk, slightly less liquidity, and a transformation in the governance structure compared to current arrangement, but is still seen as favourable given the potential economic benefits.

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Attachments

1. MergeCo Business Plan from PowerStream Inc. (available at the Office of the City Clerk for viewing upon receipt)
2. MergeCo Business Case from PowerStream Inc. (available at the Office of the City Clerk for viewing upon receipt)
3. Navigant Consulting Ltd. written analysis of Business Case (available at the Office of the City Clerk for viewing upon receipt)
4. Province of Ontario April 16, 2015 Press release on proposed transaction

Report prepared by:

John Henry, Commissioner of Finance and City Treasurer
Heather Wilson, Interim Commissioner of Legal and Administrative Services/City Solicitor
Lloyd Noronha, Director of Development Finance and Investments
Alex Ly, Senior Analyst, Development Finance and Investments

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

These Nineteen (19) pages certified to be a true copy of Item 1 of Committee of the Whole (Working Session), Report No. 33, adopted by Council on October 7, 2015.

Dated: March 30, 2016



Jeffrey A. Abrams
City Clerk