

THE CORPORATION OF THE
TOWN OF INNISFIL

SHAREHOLDER DIRECTION
RELATING TO
INNISFIL HYDRO DISTRIBUTION SYSTEMS LIMITED
AND
INNISFIL ENERGY SERVICES LIMITED

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SHAREHOLDER DIRECTION

WHEREAS Innisfil Hydro Distribution Systems Limited ("Distribution Systems") and Innisfil Energy Services Limited ("Energy Services") are incorporations incorporated under the *Business Corporations Act* (Ontario) (Distribution Systems and Energy Services are hereinafter collectively referred to as the "Corporations");

AND WHEREAS the Town of Innisfil (the "Shareholder") is the beneficial owner of all of the issued shares of the Corporations;

AND WHEREAS the Corporations are the successors to the business of The Hydro-Electric Commission of The Corporation of the Town of Innisfil (the "Commission");

AND WHEREAS the business of the Corporations (the "Business") is subject to the provisions of the *Electricity Act, 1998* and the *Ontario Energy Board Act, 1998* being Schedules A and B, respectively, to the *Energy Competition Act, 1998*, S.O. c.15, as such statutes may be amended or re-enacted from time to time;

AND WHEREAS the Shareholder wishes to establish certain principles of governance of the Corporations;

NOW THEREFORE THIS DIRECTION WITNESSES:

ARTICLE I INTERPRETATION

1.01 Definitions

In this Direction, in addition to the terms defined in the recitals, the following terms will have the meanings set out below:

"Business Plan" means a five year business plan and budget for the Corporation prepared and approved in accordance with Section 6.01;

"Board" mean the boards of directors of the Corporations and the term "Board" used in the singular context may be used with specific reference to either of them.

"Cash Flow" means the increase (decrease) in cash of Distribution Systems or Energy Services, as the case may be, including cash provided by (used in) operating activities, investing activities and financing activities but before deducting the Dividend, as calculated and presented in the Corporation's unconsolidated audited annual Financial Statements;

"Dividend" has the meaning given to it in Section 7.02;

"Financial Statements" means, for any particular period, audited or unaudited (as stipulated- in this Direction), consolidated or unconsolidated (as stipulated in this Direction), comparative financial statements of the Corporation consisting of not less than a balance sheet, a statement of income and retained earnings, a

statement of changes in financial position, a report or opinion of the Auditor (in the case of audited Financial Statements) and such other statements, reports, notes and information prepared in accordance with generally accepted accounting principles (consistently applied) and as are required in accordance with any applicable law;

"Lien" means any mortgage, hypothec, encumbrance, lien or security interest, regardless of form, that secures the payment of any indebtedness or liability or the observance or performance of any obligation;

"OBCA" means the *Business Corporations Act* (Ontario), as such statute may be amended or reenacted from time to time;

"Person" means an individual, a natural person or a body corporate;

"Regulator" means the Ontario Energy Board, the Independent Electricity Market Operator and each other governmental or regulatory authority having jurisdiction over either of the Corporations;

"Third party" means a person who deals at arm's length (as interpreted by subsection 251(1) of the *Income Tax Act* (Canada)) with the Corporations.

1.02 Regulatory Matters

In the event of any conflict between any approval or direction or other requirement of the Shareholder under this Direction and any decision, order or policy of any Regulator, the decision, order or policy of the Regulator shall govern and the Corporations will at all times comply with any decision, order or policy of the Regulator whether or not an approval or direction has first been given in respect thereof by the Shareholder under this Direction. For greater certainty, the Corporations will not seek any order from any Regulator for any matter that would require the approval of the Shareholder under this Direction without first giving notice of its intention to seek such an order to the Shareholder.

ARTICLE 2 OBJECTIVES AND PRINCIPLES

2.01 Purposes

The purposes of this Direction are as follows:

- (a) subject to the authority of the Boards to manage or supervise the management of the business and affairs of the Corporations, to provide the Boards with the Shareholder's fundamental principles regarding their businesses;
- (b) to inform the residents of the Town of Innisfil of the Shareholder's fundamental principles regarding the business; and
- (c) to set out the accountability, responsibility and relationship between the Boards and the Shareholder; and

- (d) to give direction to the Board as to the Shareholder's view of the "best interests" of the Corporations.

2.02 Shareholder Objectives

The Shareholder's objectives in connection with its relationship with the Corporations are as follows:

- (a) the value of the Corporations be maintained or increased;
- (b) the Shareholder's income stream from the Corporations be comparable to the Shareholder's estimated financial benefit if the Commission had been sold as a going concern; and
- (c) the Corporation's consumers not be unduly impacted by the succession of the Commission by the Corporations.

2.03 Principles

The following principles should govern the operation of the Corporations:

- (a) The Business is integral to the well-being and the infrastructure of the Town of Innisfil. It is in the best interests of the Corporations that they conduct their affairs:
 - (i) on a commercially prudent basis;
 - (ii) in a manner consistent with public policy as it may be reflected by relevant legislative authority from time to time.
- (b) Distribution Systems will provide reliable, effective and efficient electricity distribution.
- (c) Distribution rates applicable to customers of Distribution Systems will be set by its Board in accordance with the rates approved by the Ontario Energy Board from time to time.
- (d) The Business is at all times subject to such licences, codes, policies, rules, orders, interim orders, approvals, consents and other actions of any Regulator.
- (e) The Corporations will operate with a high priority on customer service.
- (f) The Corporations will operate in a safe and environmentally responsible manner.
- (g) The Corporations will promote the wise use of energy and environmental responsibility.

ARTICLE 3
BUSINESS OF THE CORPORATIONS

3.01 Business of Energy Services

Energy Services may engage in any of the following business activities permitted by the *Ontario Energy Board Act, 1998*:

- (a) selling electricity;
- (b) owning, operating or having an ownership interest in an electricity generation facility;
- (c) retailing electricity;
- (d) distributing or retailing gas or any other energy product which is carried through pipes or wires to the user,
- (e) business activities that develop or enhance the ability of Distribution Systems to carry on any of the activities contemplated by subsections 3.1 (c) or (d) or subsection 3.2 (b);
- (f) business activities, the principal purpose of which is to use more effectively the assets of the distribution system of the Distribution Systems, including, without limiting the generality of the foregoing, meter installation and reading services, and billing services;
- (g) managing or operating a public utility or sewage service;
- (h) renting or selling hot water heaters;
- (i) providing services relating to improving energy efficiency; and
- (j) using the real property that Energy Services has the right to use for the purpose of providing telecommunications services or entering into agreements with any third party authorizing such third party to use such real property for the purpose of providing telecommunications services.

3.02 Business of the Distribution Systems

The Distribution Systems may engage only in the following business activities:

- (a) selling electricity to every person connected to the distribution system of Distribution Systems;
- (b) transmitting or distributing electricity;

- (c) business activities, the principal purpose of which is to use more effectively the assets of the distribution system of Distribution Systems including, without limiting the generality of the foregoing, meter installation and reading services, and billing, services;
- (d) using the real property that Distribution Systems has the right to use for the purpose of providing telecommunications services, or entering into agreements with any third party, to use such real property for the purpose of providing telecommunications services.

ARTICLE 4 OPERATION AND CONTROL

4.01 Board of Directors and Responsibilities

Subject to any matters requiring approval of the Shareholder pursuant to this Direction, the Boards will supervise the management of the business and affairs of the Corporations, including the following specific matters:

- (a) establishment of the Business Plan;
- (b) establishing appropriate reserves consistent with sound financial principles and the financial performance objectives set out herein;
- (c) approving any dividend payment or distribution of capital in excess of the payments provided for in Section 7.02;
- (d) selecting bankers and other financial institutions and establishing all banking authorities; and
- (e) appointing the officers of the Corporations.

4.02 Qualifications of Directors

A majority of the Boards will be residents of Canada. In electing directors to the Board the Shareholder will give due regard to the qualifications of candidates, including:

- (a.) experience or knowledge with respect to:
 - (i) public utility commissions or boards of major corporations or other commercial enterprises;
 - (ii) corporate finance;
 - (iii) corporate governance;
 - (iv) market development;

- (v) energy industries;
- (vi) public policy issues and laws relating to the electricity industry; and
- (vii) environmental matters, labour relations and occupational health and safety issues.

- (b) commercial sensitivity and acumen;
- (c) independence of judgment; and
- (d) personal integrity.

4.03 Vacancies

If a member of a Board ceases to be a director for any reason, the Shareholder will fill the vacancy created thereby as soon as reasonably possible.

4.04 Composition and Term

The composition of each Board and term of office for a director of a Board shall be determined by the by-laws of each respective Corporation.

4.05 Conflict of Interest Policy

The directors and officers of the Corporation will strictly abide by the requirements of the OBCA and the Corporation in respect of conflicts of interest, including any requirements in respect of disclosure and abstention from voting.

4.06 Remuneration

The remuneration of the members of the Board for their respective services as directors will be as determined by the by-laws of each respective Corporation.

ARTICLE 5 SHAREHOLDER MATTERS

5.01 Decisions of the Shareholder

Any approvals or decisions that the Shareholder must provide will be made by way of Resolution of the Council of The Corporation of the Town of Innisfil.

5.02 Matters Requiring Shareholder Approval

The Corporations will not carry out any action which requires the approval of the Shareholders pursuant to the OBCA. In addition, without the approval of the Shareholder, the Corporations will not:

- (a) provide any financial assistance, whether by loan, guarantee or otherwise, to any director or officer of the Corporations; or
- (b) make any capital expenditures in an amount exceeding \$500,000.00, save for those specifically provided for on the Business Plan.

ARTICLE 6 REPORTING

6.01 Business Plan

Not later than 60 days prior to the end of each fiscal year, the Boards will approve and submit to the Treasurer of the Town of Innisfil a business plan for the next five fiscal years (the "Business Plan"). The Business Plan will be prepared on a consistent basis with the Business Plan then in effect. The Corporations will carry on the business and operations in accordance with the Business Plan which will include, in respect of the period covered by such plan:

- (a) the strategic direction which the Corporations will undertake;
- (b) an operating and capital expenditure budget for the next fiscal year and an operating and capital expenditure projection for each fiscal year thereafter, including the resources necessary to implement the draft business plan;
- (c) the projected annual revenues and profits for each fiscal year for the Corporation;
- (d) pro forma consolidated and unconsolidated financial statements, including projected dividend payments to the Shareholder;
- (e) an acquisition budget setting forth the nature and type of capital expenditures proposed to be made in the following fiscal year supported by explanations, notes and information upon which the budget was based;

6.02 Review of Business Plan

The Treasurer of the Town of Innisfil shall review the Business Plan not later than 30 days prior to the end of each fiscal year and shall make a report to Council of the Town of Innisfil. Any comments of the Treasurer or the Council concerning the Business Plan shall be conveyed to the Boards prior to the end of the current fiscal year.

6.03 Quarterly Reports

Within 45 days after the end of each fiscal quarter, the Boards will prepare (on a consistent basis with the previous fiscal quarter) and submit to the Treasurer of the Town of Innisfil a quarterly report. The quarterly report will include, in respect of the immediately preceding fiscal quarter:

- (a) quarterly unaudited consolidated and unconsolidated Financial Statements;
- (b) such explanations, notes and information as is required to explain and account for any material change to the operations or prospects of the business;

6.04 Access to Records

The duly appointed representatives of the Shareholder shall have unrestricted access to the books and records of the Corporations during normal business hours. Such representatives shall treat all information of the Corporations with the same level of care and confidentiality as any confidential information of the Shareholder.

6.05 Audit

The Corporations' Financial Statements will be audited annually. The first auditor of the Corporations is BDO Dunwoody, LL.P., Chartered Accountants, (the "Auditor")

6.06 Accounting

The Corporation will, in consultation with the Auditor, adopt and use the accounting policies and procedures which may be approved by the Boards from time to time and all such policies and procedures will be in accordance with generally accepted accounting principles and applicable regulatory requirements.

6.07 Annual Financial Statements

The Board will cause the Auditor to deliver, as soon as practicable and in any event within 90 days after the end of each fiscal year, the audited Financial Statements of the Corporations for consideration by the Shareholder.

ARTICLE 7 FINANCIAL PERFORMANCE

7.01 Financial Performance

The Board will be responsible for ensuring that the Corporations meet the financial performance standards set out in this Article 7.

7.02 Dividend Policy

Subject to any law, the Corporations will pay to the Shareholder a quarterly cash dividend (the "Distribution Systems Dividend") which will be the greater of \$0 and the Corporations' Cash Flow adjusted for changes in cash balance to meet the Corporations' on going operational requirements.

7.03 Operation Policy

The Corporations will, taking account of the principals and objectives set forth herein:

- (a) employ the most efficient cost structure available for like businesses;
- (b) mandate the creation and implementation of cost reduction programs to ensure that distribution costs are minimized; and
- (c) maximize return on the Shareholder's equity.

7.04 Amendments

This Direction may be amended solely at the discretion of the Shareholder. The Shareholder will provide prior written notice to the Boards of any proposed amendments to this Direction.

DATED at Innisfil this day of 2000.

THE TOWN OF INNISFIL

Per:

PAUL G. LANDRY, CLERK

