

EXHIBIT 5:
COST OF CAPITAL AND
RATE OF RETURN

TABLE OF CONTENTS

1		
2	2.5	Exhibit 5: Cost of Capital and Capital Structure 3
3	2.5.1	Capital Structure..... 3
4	2.5.2	Cost of Capital (Return on Equity and Cost of Debt) 3
5	2.5.1.1.	Cost of Debt: Short Term..... 3
6	2.5.2.1.	Cost of Debt: Long Term..... 3
7	2.5.3.1.	Capital Structure and Cost of Capital 5
8	2.5.4.1.	Profit or Loss on Redemption of Debt or Preferred Shares 9
9	2.5.5.1.	Notional Debt..... 9
10	2.5.3	Not-for-Profit Corporations..... 9
11		Appendix 5-A Promissory Note..... 10
12		

2.5 Exhibit 5: Cost of Capital and Capital Structure

The purpose of this evidence is to summarize the method and cost of financing capital requirements for the 2021 Test Year.

2.5.1 Capital Structure

Espanola Regional Hydro Distribution Corporation (ERHDC) has a current deemed capital structure of 56% long term debt with a return of 4.41%, 4% short term debt with a return of 2.08% and 40% equity with a return of 9.12% as approved in the 2012 cost of service (“COS”) rate decision (EB-2011-0319).

ERHDC has prepared this 2021 COS Application in accordance with the Board’s guidelines provided in the *Report of the Board on Cost of Capital for Ontario’s Regulated Utilities* issued on December 11, 2009. For the purposes of preparing this Application, ERHDC has used the cost of capital parameters issued by the Board on November 9, 2020 for 2021 cost of service rate applications.

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

As outlined above, for the purposes of preparing this Application ERHDC has used the cost of capital parameters issued by the Board on November 9, 2020 for 2020 COS rate applications which reflects a return on equity of 8.34%.

2.5.1.1. Cost of Debt: Short Term

For the purposes of preparing this Application, ERHDC has used the cost of capital parameters issued by the Board on November 9, 2020 for 2021 COS rate applications which reflects a deemed short term debt rate of 1.75%

2.5.2.1. Cost of Debt: Long Term

ERHDC is requesting a return on long term debt for the 2021 Test Year of 3.03% (Table 5-1 below). This rate of return represents the weighted average cost of long term debt for the following long term debt instruments.

Table 5 - 1: Long Term Debt

Description	Lender	Affiliated with LDC?	Principal		Interest Cost
Promissory Note	Infrastructure Ontario	N	\$2,100,000	3.78%	\$79,380
Promissory Note	Infrastructure Ontario	N	\$300,000	2.73%	\$8,190
Promissory Note (1)	North Bay Hydro Distribution Limited	Y	\$200,000	2.45%	\$4,900
Promissory Note (2)	North Bay Hydro Distribution Limited	Y	\$265,000	2.45%	\$6,493
Promissory Note (3)	North Bay Hydro Distribution Limited	Y	\$572,000	2.45%	\$14,014
Promissory Note (4)	North Bay Hydro Distribution Limited	Y	\$230,000	2.45%	\$5,635
Promissory Note	TD Loan	N	\$7,789,530	2.928%	\$228,077
			\$11,456,530		\$346,689

Weighted Debt Cost Rate for 2021 3.03%

(1) Actual Rate less than Deemed Rate - used actual Rate

As shown in Table 5-1 above, ERHDC's total long term debt is \$11,456,530. The deemed long term debt rate as issued by the OEB on November 9, 2020 is 2.85%. ERHDC has used 2.45% which is lower than the deemed rate for its affiliate loan and the actual rates (3.78%, 2.73% and 2.928%) for third party loans to determine its weighted long term debt rate.

ERHDC has three notes payable to the parent company, North Bay Hydro Distribution Limited, and projects a fourth note payable to the parent in 2021 for a total of \$1,267,000 as detailed in Table 5-1 above and attached at Appendix 5-A.

1. Promissory Note for \$200,000 – interest payable at the lower of prime rate (currently 2.45%) as defined in the attached promissory note or the OEB's long term debt rate. Prior to September 28, 2021 ERHDC has the option of paying interest only, payable monthly. As of September 28, 2021 the principal and any outstanding interest are payable on demand.
2. Promissory Note for \$265,000 - interest payable at the lower of prime rate (currently 2.45%) as defined in the attached promissory note or the OEB's long term debt rate. Prior to April 1, 2023 ERHDC has the option of paying interest only, payable monthly. As of April 1, 2023 the principal and any outstanding interest are payable on demand.
3. Grid Promissory Note \$1,100,000 – to finance ERHDC's 2021 Cost of Service Rate Application. Advances can be made in tranches and the outstanding balance is projected

1 to be \$572,000 in 2021. Interest payable is at the lower of prime rate (currently 2.45%) as
2 defined in the attached promissory note or the OEB's long term debt rate. ERHDC has the
3 option of paying interest only for three years, payable monthly. After three years the
4 principal and any outstanding interest are payable on demand.

- 5 4. Promissory Note for \$230,000 in 2021 - interest payable at the lower of prime rate
6 (currently 2.45%) or the OEB's long term debt rate. Terms to be finalized in 2021.

7 ERHDC has two loans payable to Ontario Infrastructure Projects Corporation ("OIPC"):

8 Loan payable #1 to OIPC is an amount of \$2,100,000. It is a 25 year debenture with a fixed interest
9 rate of 3.78%. This was used to finance the new distribution station project.

10 Loan payable #2 to OIPC was used for the smart meter project. The total amount of the approved
11 loan principal is \$300,000, payable over 10 years, secured by a second ranking general security
12 agreement. The fixed interest rate on this loan is 2.73%.

13 ERHDC has entered into an interest rate swap derivative agreement with the Toronto Dominion
14 Bank to manage the volatility of the interest rate on the committed reducing term facility. The loan
15 is being repaid over 300 months with interest only repayments of \$19,006 for 36 months until
16 October 2022 then principal and interest repayments of \$40,057 for 264 months until October
17 2044, with interest at a fixed rate of 2.928% per annum. The loan payable is in the amount of
18 \$7,789,530.

19 **2.5.3.1. Capital Structure and Cost of Capital**

20 Below (Table 5-2) is a reproduction of Appendix 2-OA that demonstrates the elements of the
21 capital structure and cost of capital from 2012 Board-approved and 2021 Test Year. For 2021, the
22 weighted average cost of capital of 5.10% will be applied to the rate base of \$7,599,049 which is
23 explained in detail in Exhibit 2, to determine a return on rate base of \$2,272,419 that is included
24 in the proposed revenue requirement.

Table 5 - 2 – Capital Structure and Cost of Capital for 2021 and 2012

Appendix 2-OA Capital Structure and Cost of Capital

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

Test Year: 2021

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$4,255,467	3.03%		\$128,776
2	Short-term Debt	4.00% (1)	\$303,962	1.75%		\$5,319
3	Total Debt	60.0%	\$4,559,429	2.94%		\$134,095
	Equity					
4	Common Equity	40.00%	\$3,039,620	8.34%		\$253,504
5	Preferred Shares		\$ -			\$ -
6	Total Equity	40.0%	\$3,039,620	8.34%		\$253,504
7	Total	100.0%	\$7,599,049	5.10%		\$387,599

Notes

(1)

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

Last OEB-approved year: 2012

Line No.	Particulars	Capitalization Ratio		Cost Rate		Return
		(%)	(\$)	(%)		(\$)
	Debt					
1	Long-term Debt	56.00%	\$4,255,467	4.41%		\$187,666
2	Short-term Debt	4.00% (1)	\$303,962	2.08%		\$6,322
3	Total Debt	60.0%	\$4,559,429	4.25%		\$193,989
	Equity					
4	Common Equity	40.00%	\$3,039,620	9.12%		\$277,213
5	Preferred Shares		\$ -			\$ -
6	Total Equity	40.0%	\$3,039,620	9.12%		\$277,213
7	Total	100.0%	\$4,244,735	6.20%		\$471,202

(a) Weighted Average Cost of Long-Term Debt

Outlined below in Table 5-3 is a reproduction of Appendix 2-OB listing ERHDC's long term debt instruments and weighted average cost of long term debt from 2017 to the 2021 test year. ERHDC has included the anticipated increase in debt for 2021.

Table 5 - 3: Debt Instruments**Appendix 2-OB
Debt Instruments**

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

Year 2017

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	Promissory Note	Town of Espanola	Affiliated	Fixed Rate		No Term	\$ 1,185,416	0.0441	\$ 52,276.83	
2	Promissory Note	Township of Sable Spanish River	Affiliated	Fixed Rate		No Term	\$ 339,095	0.0441	\$ 14,954.10	
3	Promissory Note	Infrastructure Ontario	Third-Party	Fixed Rate		25	\$ 2,100,000	0.0378	\$ 79,380.00	
4	Promissory Note	Infrastructure Ontario	Third-Party	Fixed Rate		10	\$ 300,000	0.0273	\$ 8,190.00	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 3,924,511	3.94%	\$ 154,800.92	

Year 2018

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	Promissory Note	Town of Espanola	Y	Fixed		No Term	\$1,185,415.61	0.0441	\$ 52,276.83	
2	Promissory Note	Township of Sable Spanish River	Y	Fixed		No Term	\$ 339,095.14	0.0441	\$ 14,954.10	
3	Promissory Note	Infrastructure Ontario	N	Fixed		25	\$2,100,000.00	0.0378	\$ 79,380.00	
4	Promissory Note	Infrastructure Ontario	N	Fixed		10	\$ 300,000.00	0.0273	\$ 8,190.00	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 3,924,511	3.94%	\$ 154,800.92	

Year 2019

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	Promissory Note	TD Loan	Third-Party	Fixed		25	\$7,789,530.00	0.02928	\$ 228,077.44	
2	Promissory Note	North Bay Hydro Distribution Limited	Affiliated	Variable Rate		No Term	\$ 200,000.00	0.0395	\$ 7,900.00	
3	Promissory Note	Infrastructure Ontario	Third-Party	Fixed		25	\$2,100,000.00	0.0378	\$ 79,380.00	
4	Promissory Note	Infrastructure Ontario	Third-Party	Fixed		10	\$ 300,000.00	0.0273	\$ 8,190.00	
5									\$ -	
6									\$ -	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 10,389,530	3.11%	\$ 323,547.44	

Espanola Regional Hydro Distribution Corporation (ERHDC)

EB-2020-0020

Exhibit 5

Filed: December 31, 2020

Page 9 of 10

Year 2020

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	Promissory Note	TD Loan	Third-Party	Fixed		25	\$ 7,789,530.00	0.02928	\$ 228,077.44	
2	Promissory Note	North Bay Hydro Distribution Limited	Affiliated	Variable Rate		No Term	\$ 200,000.00	0.0245	\$ 4,900.00	
3	Promissory Note	North Bay Hydro Distribution Limited	Affiliated	Variable Rate		No Term	\$ 265,000.00	0.0245	\$ 6,492.50	
4	Promissory Note	North Bay Hydro Distribution Limited	Affiliated	Variable Rate		No Term	\$ 337,090.00	0.0245	\$ 8,258.71	
5	Promissory Note	Infrastructure Ontario	Third-Party	Fixed		25	\$ 2,100,000.00	0.0378	\$ 79,380.00	
6	Promissory Note	Infrastructure Ontario	Third-Party	Fixed		10	\$ 300,000.00	0.0273	\$ 8,190.00	
7									\$ -	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 10,991,620	3.05%	\$ 335,298.64	

Year 2021

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Principal (\$)	Rate (%) ²	Interest (\$) ¹	Additional Comments, if any
1	Promissory Note	TD Loan	Third-Party	Fixed		25	\$ 7,789,530.00	0.02928	\$ 228,077.44	
2	Promissory Note	North Bay Hydro Distribution Limited	Affiliated	Variable Rate		No Term	\$ 200,000.00	0.0245	\$ 4,900.00	
3	Promissory Note	North Bay Hydro Distribution Limited	Affiliated	Variable Rate		No Term	\$ 265,000.00	0.0245	\$ 6,492.50	
4	Promissory Note	North Bay Hydro Distribution Limited	Affiliated	Variable Rate		No Term	\$ 572,000.00	0.0245	\$ 14,014.00	
5	Promissory Note	North Bay Hydro Distribution Limited	Affiliated	Variable Rate		No Term	\$ 230,000.00	0.0245	\$ 5,635.00	Estimated
6	Promissory Note	Infrastructure Ontario	Third-Party	Fixed		10	\$ 300,000.00	0.0273	\$ 8,190.00	
7	Promissory Note	Infrastructure Ontario	Third-Party	Fixed		25	\$ 2,100,000.00	0.0378	\$ 79,380.00	
8									\$ -	
9									\$ -	
10									\$ -	
11									\$ -	
12									\$ -	
Total							\$ 11,456,530	3.03%	\$ 346,688.94	

2.5.4.1. Profit or Loss on Redemption of Debt or Preferred Shares

There is no profit or loss on redemption of debt or preferred shares.

2.5.5.1. Notional Debt

Notional debt is that portion of the deemed debt capitalization that results from differences between the distributor's actual debt and the deemed debt thickness of 60% (56% long-term debt and 4% short-term debt). There is no notional debt because actual debt is \$11,456,530.

2.5.3 Not-for-Profit Corporations

ERHDC is a for-profit corporation. As a result, the filing requirements associated with not-for-profit corporations are not applicable.

1

2

3

Appendix 5-A

Promissory Note with Affiliates

CAD 265,000

Effective as of APRIL 13, 2020

PROMISSORY NOTE

NOW THEREFORE FOR VALUE RECEIVED the undersigned, Espanola Regional Hydro Distribution Corporation (the "**Borrower**") hereby promises to pay to North Bay Hydro Distribution Limited, its successors and assigns (collectively, the "**Lender**") on demand, the principal sum of two hundred and sixty-five thousand dollars (CAD 265,000) in lawful money of Canada (the "**Principal**"), together with interest then due and owing in accordance with this Promissory Note.

The Borrower is an affiliate, as such term is defined in the Ontario Energy Board's ("**OEB**") *Affiliate Relationship Code*, of the Lender. The Principal was used exclusively by the Borrower to make interest payments on a loan from TD Bank to the Borrower.

1) Interest rate pricing and payment

- a) The interest rate (the "**Interest Rate**") shall be equal to the prime rate. For the purposes of this Promissory Note, prime rate is defined as the Bank of Canada's prime rate of interest expressed as a rate per annum and cross referenced against TD Bank's prime rate, which rate may be adjusted from time to time. Notwithstanding the foregoing, in the event the prime rate is greater than the OEB's deemed long-term debt rate ("**Deemed Rate**", as published in the OEB's Cost of Capital Parameter Updates), the Interest Rate shall be equal to the Deemed Rate then in effect.
- b) Interest shall accrue and be calculated monthly in arrears and shall be payable to the Lender on the first business day of each month (each, an "**Interest Payment Date**").
- c) If interest is not paid on the Interest Payment Date, the Principal shall continue to bear interest at the applicable interest rate and overdue interest shall bear interest at the same interest rate, compounded monthly, and be payable on demand.
- d) In this Promissory Note, each rate of interest which is calculated with reference to a period (the "**deemed interest period**") that is less than the actual number of days in the calendar year of calculation is, for the purposes of the *Interest Act* (Canada), equivalent to a rate based on a calendar year calculated by multiplying such rate of interest by the actual number of days in the calendar year of calculation and dividing by the number of days in the deemed interest period. Interest shall be calculated using the nominal rate of calculation, and will not be calculated using the effective rate method of calculation or any other basis that gives effect to the principle of deemed reinvestment of interest.

2) Repayment of Principal

- a) Prior to April 1, 2023 the Borrower has the option to pay only interest, and as of April 1, 2023 the Principal, and any outstanding interest thereon, shall be due and payable upon demand by the Lender (whether in instalment payments comprising Principal and interest or a lump sum amount).
- b) The Borrower may at any time prepay any or all of the Principal outstanding under this Promissory Note, without penalty or bonus, together with interest that has accrued on the prepaid amount to the prepayment date and that has not been paid prior to such date. Any prepayment

made will be applied first, to the payment of interest on the outstanding Principal to the date of such payment, and second, to the payment of the outstanding Principal then due.

- c) All amounts due under this Promissory Note will be payable by bank draft, cheque or wire transfer, in lawful money of Canada in accordance with the instructions provided by the Lender as at repayment.

3) Apportionment of risk

- a) In the event the Borrower fails to pay interest on the Interest Payment Date or defaults in its performance of any other term hereof, the balance of the outstanding Principal under this Promissory Note, together with any interest, shall immediately become fully due and payable upon demand by the Lender.
- b) The Borrower and the Lender hereby waive presentment, demand and notice of any kind in connection with the delivery, acceptance, performance and enforcement of this Promissory Note.

4) Dispute resolution

- a) Where any dispute arises between the parties as to the interpretation of any provision of this Promissory Note or as to the determination of any matter hereunder and the dispute cannot be resolved by negotiation between the parties, then the matter or dispute shall be submitted to arbitration as herein provided by any party giving notice to the other party. Within fifteen (15) days of receipt of the notice requesting an arbitration, the parties will jointly appoint one arbitrator to conduct the arbitration. If the parties cannot agree on the arbitrator, such arbitrator shall be appointed by a judge of the Superior Court of Ontario upon the application of either party.
- b) The arbitration shall be governed by the Ontario *Arbitration Act (1991)*. The determination of the arbitrator shall be in writing and shall be final and binding on all parties hereto.
- c) The cost of the arbitration shall be borne by the parties on their separate account, or as directed by the arbitrator in its final decision.

5) General

- a) No amendment, supplement or waiver of any provision of this Promissory Note, nor any consent to any departure by the Borrower therefrom, shall in any event be effective unless it is in writing, makes express reference to the provision affected thereby and is signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.
- b) This Promissory Note shall be binding upon the Borrower and its successors and assigns and shall enure to the benefit of the Lender, its successors and assigns, provided however that the Borrower shall not assign any rights or obligations with respect to this Promissory Note without prior written consent of the Lender, acting in its sole and absolute discretion.
- c) All notices and demands provided for herein shall be in writing and shall be personally delivered, delivered by facsimile, electronic mail or mailed by prepaid registered mail to the Lender or to the Borrower in accordance the instructions provided by either party. Any notice or demand so personally delivered or delivered by facsimile or electronic mail shall be deemed to have been

validly made and effectively given and received on the date of such delivery, provided such notice or demand was delivered prior to 5:00 PM on a business day in Ontario, failing which, the notice or demand shall be deemed to have been delivered the following business day. Any notice or demand so mailed shall be deemed to have been validly and effectively given and received on the fifth day following the date of mailing.

- d) This Promissory Note constitutes the entire agreement between the parties with respect to the subject matter and supersede all prior agreements, negotiations, discussions, undertakings, representations, warranties and understandings, whether written or oral.
- e) This Promissory Note shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable in the Province of Ontario.


[Signature page follows.]

IN WITNESS WHEREOF the undersigned have duly executed this Promissory Note.

**ESPANOLA REGIONAL HYDRO
DISTRIBUTION CORPORATION**



Name: Matt Payne
Title: President and CEO



Name: Melissa Casson
Title: Vice President of Finance

MAXIMUM CAD 1,100,000

Effective as of APRIL 7TH, 2020

GRID PROMISSORY NOTE

NOW THEREFORE FOR VALUE RECEIVED the undersigned, Espanola Regional Hydro Distribution Corporation (the "**Borrower**") hereby promises to pay to North Bay Hydro Distribution Limited, its successors and assigns (collectively, the "**Lender**") in the lawful money of Canada, the principal sum (the "**Principal**") advanced under this grid promissory note (the "**Promissory Note**"), together with interest then due and owing in accordance with the terms herein.

The Borrower is an affiliate, as such term is defined in the Ontario Energy Board's ("**OEB**") *Affiliate Relationship Code*, of the Lender. The Principal will be used exclusively for the purposes of covering costs related to the Borrower's 2021 Cost of Service Application at the OEB.

1) Principal

- a) Advances (each, an "**Advance**") of the Principal may be made in tranches of varying amounts to meet the Borrower's financing needs with respect to its 2021 Cost of Service Application (EB-2020-0020).
- b) The total amount of Advances made shall not exceed one million one hundred thousand dollars (CAD 1,100,000).
- c) Advances shall be deemed conclusively to have been made to and for the benefit of the Borrower on the date (an "**Advance Date**") that such Advance is deposited or credited to the account of the Borrower by the Lender or otherwise made in accordance with the instructions of the Borrower.
- d) Advances delivered in accordance with subsection 1(c) above shall be evidenced by the grid (the "**Grid**"), attached hereto as Schedule A, which Grid forms part of this Promissory Note and shall be updated by the Lender without further consent from the Borrower, and the Grid shall be prima facie evidence of the Advances made and the balance of Principal outstanding under this Promissory Note.

2) Interest Rate Pricing

- a) The interest rate (the "**Interest Rate**") shall be equal to the Prime Rate. For the purposes of this Promissory Note, Prime Rate is defined as the Bank of Canada's prime rate of interest expressed as a rate per annum and cross referenced against TD Bank's prime rate, which rate may be adjusted from time to time. Notwithstanding the foregoing, in the event the Prime Rate is greater than the OEB's deemed long-term debt rate ("**Deemed Rate**", as published in the OEB's Cost of Capital Parameter Updates), the Interest Rate shall be equal to the Deemed Rate then in effect.
- b) Interest shall accrue and be calculated and payable monthly in arrears on the first business day of each month (each an "**Interest Payment Date**") both before and after demand, default and judgment.
- c) In the event the Borrower fails to pay the interest due and owing on the Interest Payment Date, the interest owing shall bear interest as of the Interest Payment Date at the applicable Interest Rate, compounded monthly, and be payable on demand.

- d) In this Promissory Note, each rate of interest that is calculated with reference to a period (the "**deemed interest period**") that is less than the actual number of days in the calendar year of calculation is, for the purposes of the *Interest Act* (Canada), equivalent to a rate based on a calendar year calculated by multiplying such rate of interest by the actual number of days in the calendar year of calculation and dividing by the number of days in the deemed interest period. Interest shall be calculated using the nominal rate of calculation, and will not be calculated using the effective rate method of calculation or any other basis that gives effect to the principle of deemed reinvestment of interest.

3) Repayment terms

- a) With respect to each Advance, the Borrower has the option to pay only interest for a period of three years from the respective Advance Date, following which the Advance, and any outstanding interest thereon, shall be due and payable upon demand by the Lender (whether in installments comprising Principal and interest or as a lump sum payment).
- b) The Borrower may at any time prepay any or all of the Principal outstanding under this Promissory Note, without penalty or bonus, together with interest that has accrued on the prepaid amount to the prepayment date and that has not been paid prior to such date. Any prepayment made will be applied first, to the payment of interest on the outstanding Principal to the date of such payment, and second, to the payment of the outstanding Principal then due.
- c) All amounts due under this Promissory Note will be payable by bank draft, cheque or wire transfer, in lawful money of Canada in accordance with the instructions provided by the Lender at the time of repayment.

4) Apportionment of risk

- a) In the event the Borrower fails to pay interest on the Interest Payment Date or defaults in its performance of any other term hereof, the balance of the outstanding Principal under this Promissory Note, together with any interest, shall immediately become fully due and payable upon demand by the Lender.
- b) The Borrower and the Lender hereby waive presentment, demand and notice of any kind in connection with the delivery, acceptance, performance and enforcement of this Promissory Note.

5) Dispute resolution

- a) Where any dispute arises between the parties as to the interpretation of any provision of this Promissory Note or as to the determination of any matter hereunder and the dispute cannot be resolved by negotiation between the parties, then the matter or dispute shall be submitted to arbitration as herein provided by any party giving notice to the other party. Within fifteen (15) days of receipt of the notice requesting an arbitration, the parties will jointly appoint one arbitrator to conduct the arbitration. If the parties cannot agree on the arbitrator, such arbitrator shall be appointed by a judge of the Superior Court of Ontario upon the application of either party.
- b) The arbitration shall be governed by the Ontario *Arbitration Act (1991)*. The determination of the arbitrator shall be in writing and shall be final and binding on all parties hereto.

- c) The cost of the arbitration shall be borne by the parties on their separate account, or as directed by the arbitrator in its final decision.

6) General

- a) No amendment, supplement or waiver of any provision of this Promissory Note, nor any consent to any departure by the Borrower therefrom, shall in any event be effective unless it is in writing, makes express reference to the provision affected thereby and is signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.
- b) This Promissory Note shall be binding upon the Borrower and its successors and assigns and shall enure to the benefit of the Lender and its successors and assigns, provided however that the Borrower shall not assign any rights or obligations with respect to this Promissory Note without the prior written consent of the Lender, acting in its sole and absolute discretion.
- c) All notices and demands provided for herein shall be in writing and shall be personally delivered, delivered by facsimile, electronic mail or mailed by prepaid registered mail to the Lender or to the Borrower in accordance with the instructions provided by either party. Any notice or demand so personally delivered or delivered by facsimile or electronic mail shall be deemed to have been validly made and effectively given and received on the date of such delivery, provided such notice or demand was delivered prior to 5:00 PM on a business day, failing which, the notice or demand shall be deemed to have been delivered the following business day. Any notice or demand so mailed shall be deemed to have been validly and effectively given and received on the fifth day following the date of mailing.
- d) This Promissory Note constitutes the entire agreement between the parties with respect to the subject matter and supersede all prior agreements, negotiations, discussions, undertakings, representations, warranties and understandings, whether written or oral.
- e) This Promissory Note shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable in the Province of Ontario.

[Signature page follows.]

IN WITNESS WHEREOF the undersigned have duly executed this Promissory Note.

**ESPANOLA REGIONAL HYDRO
DISTRIBUTION CORPORATION**



Name: Matt Payne
Title: President and CEO



Name: Melissa Casson
Title: Vice President of Finance

**SCHEDULE A
GRID**

Date (dd-mm-yyyy)	Advance Amount (\$)	Interest Rate applicable to Advance	Amount of Principal payment (\$)	Unpaid balance (\$)
28-Jul-2020	123,851.00	Prime Rate		123,851.00
01-Dec-2020	93,239.00	Prime Rate		217,090.00

The Borrower unconditionally and absolutely authorizes and directs an officer of the Lender to record on the Grid:

- i. the date and amount of each Advance that the Lender makes to the Borrower and the resulting increase in the outstanding Principal; and
- ii. the date and amount of each repayment on account of the Principal paid to the Lender and the resulting decrease of the outstanding Principal.

CAD 200,000

Effective as of SEPTEMBER 28, 2018

PROMISSORY NOTE

NOW THEREFORE FOR VALUE RECEIVED the undersigned, Espanola Regional Hydro Distribution Corporation (the "**Borrower**") hereby promises to pay to North Bay Hydro Distribution Limited, its successors and assigns (collectively, the "**Lender**") on demand, the principal sum of two hundred thousand dollars (CAD 200,000) in lawful money of Canada (the "**Principal**"), together with interest then due and owing in accordance with this Promissory Note.

The Borrower is an affiliate, as such term is defined in the Ontario Energy Board's ("**OEB**") *Affiliate Relationship Code*, of the Lender.

1) Interest rate pricing and payment

- a) The interest rate (the "**Interest Rate**") shall be equal to the prime rate. For the purposes of this Promissory Note, prime rate is defined as the Bank of Canada's prime rate of interest expressed as a rate per annum and cross referenced against TD Bank's prime rate, which rate may be adjusted from time to time. Notwithstanding the foregoing, in the event the prime rate is greater than the OEB's deemed long-term debt rate ("**Deemed Rate**", as published in the OEB's Cost of Capital Parameter Updates), the Interest Rate shall be equal to the Deemed Rate then in effect.
- b) Interest shall accrue and be calculated monthly in arrears and shall be payable to the Lender on the first business day of each month (each, an "**Interest Payment Date**").
- c) If interest is not paid on the Interest Payment Date, the Principal shall continue to bear interest at the applicable interest rate and overdue interest shall bear interest at the same interest rate, compounded monthly, and be payable on demand.
- d) In this Promissory Note, each rate of interest which is calculated with reference to a period (the "**deemed interest period**") that is less than the actual number of days in the calendar year of calculation is, for the purposes of the *Interest Act* (Canada), equivalent to a rate based on a calendar year calculated by multiplying such rate of interest by the actual number of days in the calendar year of calculation and dividing by the number of days in the deemed interest period. Interest shall be calculated using the nominal rate of calculation, and will not be calculated using the effective rate method of calculation or any other basis that gives effect to the principle of deemed reinvestment of interest.

2) Repayment of Principal

- a) Prior to September 28, 2021 the Borrower has the option to pay only interest, and as of September 28, 2021 the Principal, and any outstanding interest thereon, shall be due and payable upon demand by the Lender (whether in instalments covering Principal and interest or as a lump sum payment).
- b) The Borrower may at any time prepay any or all of the Principal outstanding under this Promissory Note, without penalty or bonus, together with interest that has accrued on the prepaid amount to the prepayment date and that has not been paid prior to such date. Any prepayment

made will be applied first, to the payment of interest on the outstanding Principal to the date of such payment, and second, to the payment of the outstanding Principal then due.

- c) All amounts due under this Promissory Note will be payable by bank draft, cheque or wire transfer, in lawful money of Canada in accordance with the instructions provided by the Lender as at repayment.

3) Apportionment of risk

- a) In the event the Borrower fails to pay interest on the Interest Payment Date or defaults in its performance of any other term hereof, the balance of the outstanding Principal under this Promissory Note, together with any interest, shall immediately become fully due and payable upon demand by the Lender.
- b) The Borrower and the Lender hereby waive presentment, demand and notice of any kind in connection with the delivery, acceptance, performance and enforcement of this Promissory Note.

4) Dispute resolution

- a) Where any dispute arises between the parties as to the interpretation of any provision of this Promissory Note or as to the determination of any matter hereunder and the dispute cannot be resolved by negotiation between the parties, then the matter or dispute shall be submitted to arbitration as herein provided by any party giving notice to the other party. Within fifteen (15) days of receipt of the notice requesting an arbitration, the parties will jointly appoint one arbitrator to conduct the arbitration. If the parties cannot agree on the arbitrator, such arbitrator shall be appointed by a judge of the Superior Court of Ontario upon the application of either party.
- b) The arbitration shall be governed by the Ontario *Arbitration Act (1991)*. The determination of the arbitrator shall be in writing and shall be final and binding on all parties hereto.
- c) The cost of the arbitration shall be borne by the parties on their separate account, or as directed by the arbitrator in its final decision.

5) General

- a) No amendment, supplement or waiver of any provision of this Promissory Note, nor any consent to any departure by the Borrower therefrom, shall in any event be effective unless it is in writing, makes express reference to the provision affected thereby and is signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.
- b) This Promissory Note shall be binding upon the Borrower and its successors and assigns and shall enure to the benefit of the Lender, its successors and assigns, provided however that the Borrower shall not assign any rights or obligations with respect to this Promissory Note without prior written consent of the Lender, acting in its sole and absolute discretion.
- c) All notices and demands provided for herein shall be in writing and shall be personally delivered, delivered by facsimile, electronic mail or mailed by prepaid registered mail to the Lender or to the Borrower in accordance with Schedule A, which information may be amended by either party with notice in writing to the other party. Any notice or demand so personally delivered or

delivered by facsimile or electronic mail shall be deemed to have been validly made and effectively given and received on the date of such delivery, provided such notice or demand was delivered prior to 5:00 PM on a business day, failing which, the notice or demand shall be deemed to have been delivered the following business day. Any notice or demand so mailed shall be deemed to have been validly and effectively given and received on the fifth day following the date of mailing.

- d) This Promissory Note constitutes the entire agreement between the parties with respect to the subject matter and supersede all prior agreements, negotiations, discussions, undertakings, representations, warranties and understandings, whether written or oral.
- e) This Promissory Note shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable in the Province of Ontario.


[Signature page follows.]

IN WITNESS WHEREOF the undersigned have duly executed this Promissory Note.

**ESPANOLA REGIONAL HYDRO
DISTRIBUTION CORPORATION**



Name: Matt Payne
Title: President and CEO



Name: Melissa Casson
Title: Vice President of Finance