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SENT BY E-FILING & COURIER

Toronto, September 17, 2008

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board (“OEB” or “Board”)
2300 Yonge Street, Suite 2700
PO Box 2319
Toronto, ON, M4P 1E4

Dear Ms. Walli:

RE: Acquisition of Shares in E.L.K. Energy Inc. by Town of Essex

We are counsel to the Town of Essex (“Essex”). Essex currently holds 38% of the issued and outstanding common shares in E.L.K. Energy Inc. (“ELK”), a licensed electricity distributor operating in southwestern Ontario (ED-2003-0015). The purpose of this letter is to request the Board to make a determination as to the applicability of subsection 86(2) of the OEB Act to a planned purchase by Essex of the remaining shares of ELK from ELK’s other two municipal shareholders. Our view is that subsection 86(2) of the OEB Act does not apply to the proposed transaction. However, in the event that the Board disagrees, we have attached a completed MAAD application for the proposed transaction, and request that the Board grant leave pursuant to subsection 86(6) of the OEB Act.

Proposed Transaction

As mentioned above, Essex holds 38% of the common shares of ELK. The other two shareholders of ELK are the Town of Kingsville (“Kingsville”, a 38% shareholder) and the Town of Lakeshore (“Lakeshore”, a 24% shareholder). Pursuant to the terms of a Share Purchase Agreement entered into among Essex, Kingsville and Lakeshore (an executed copy of which is attached to the application), Essex is purchasing all of the ELK common shares held by Kingsville and Lakeshore. The share purchase transaction will make Essex the sole shareholder of ELK (i.e., Essex’s shareholdings in ELK would increase from 38% to 100%).

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Requirement for Leave of the Board

Subsection 86(2) of the *Ontario Energy Board Act, 1998* (as amended) (“OEB Act”) states that:

"No person, without first obtaining an order from the Board granting leave, shall,

(a) acquire such number of voting securities of a ... distributor that together with voting securities already held by such person ... will in the aggregate exceed 20 percent of the voting securities of the ... distributor..."

A close reading of subsection 86(2) of the OEB Act leaves it somewhat uncertain as to whether it would apply to the situation at hand (i.e., to Essex increasing its shareholding in ELK from 38% to 100%). There are two possible interpretations of subsection 86(2) of the OEB Act, as follows:

(1) “Threshold” Interpretation: This interpretation would see subsection 86(2) apply to share purchase transactions wherein the proposed purchaser of shares starts with less than 20% of the shares of a distributor (pre-transaction) but ends up with the purchaser owning more than 20% of the shares (post-transaction). In other words, the Threshold Interpretation of subsection 86(2) would apply to share purchase transactions that put the purchaser “over the threshold” of a 20% shareholding.

(2) “Major Shareholder” Interpretation: This interpretation would see subsection 86(2) apply to any share purchase transaction covered by the Threshold Interpretation *as well as* any transaction involving a shareholder that owns more than 20% of the shares of a distributor (either pre- or post-transaction). In other words, not only would the Major Shareholder Interpretation apply in the case of a person crossing the 20% shareholding threshold, but it would also apply to that person (and any other major shareholder) every time they further increased their shareholding (regardless of how small). This interpretation would apply to any share acquisition by a major shareholder because their initial shareholding is greater than 20%, so anything added to that will “in the aggregate” be larger than 20%.

It is our submission that the Threshold Interpretation is the correct interpretation of subsection 86(2) of the OEB Act, for several reasons.

First, we are of the view that the plain wording of subsection 86(2) of the OEB Act emphasizes that it is the *summation* of the person’s existing shares and the shares to be purchased that is key to requiring leave of the Board (note the words “in the aggregate”). The Threshold Interpretation is consistent with this, and the Major Shareholder Interpretation is not. The Major Shareholder Interpretation makes the phrase “in the aggregate” in subsection 86(2) moot, since a major shareholder will always start from a shareholding position of greater than 20%.

Second, subsection 86(2) of the OEB Act provides the OEB with the authority to assess the financial viability of any entity that is proposing to become a significant shareholder of a distributor, before the share acquisition can proceed. This authority is consistent with the Board's responsibility to maintain a financially viable electricity industry (section 1 of OEB Act). The Threshold Interpretation would scrutinize that significant shareholder only once – at the time that the entity proposed to acquire a sufficient quantity of shares to make that entity a significant shareholder. The Major Shareholder Interpretation would also apply to these threshold-crossing transactions, but would go one step further and apply to any share acquisition by a shareholder holding 20% of a distributor's shares. Thus, the Major Shareholder Interpretation would result in subsection 86(2) of the OEB Act applying every time a significant shareholder purchased more shares. For example, if Essex were proposing to increase its shareholdings from 38% to 39%, a MAAD application would be required if subsection 86(2) were interpreted in accordance with the Major Shareholder Interpretation. To take it one step further, if Essex had an arrangement to buy out Kingsville and Lakeshore over a multi-year period on a stepped basis (e.g., acquiring 10% of ELK's shares annually until Essex owned all the shares in ELK), then a MAAD application would be required for each annual 10% acquisition. The Major Shareholder Interpretation, then, can lead to an absurd and inefficient result.

Finally, there is no good rationale for requiring the additional transactions that would be caught under the Major Shareholder Interpretation to be subject to Board approval. The financial viability of owners of utilities are already scrutinized through the Board's existing licensing, rate-making, order-making and other general regulatory provisions applicable to distributors under the OEB Act. These provisions provide constant oversight of the financial viability of utilities (which is to a certain extent influenced by the financial viability of their significant shareholders). By contrast, subsection 86(2) could not have been intended to be the regulatory mechanism to permit the Board continuing oversight of a distributor's major shareholders because the trigger for that oversight (a share acquisition) is sporadic at best (and in many cases non-existent). For example, consider a distributor with a single shareholder, and that shareholder suddenly experiences a significant financial crisis that has the potential to adversely impact the distributor. It is not by way of subsection 86(2) that the Board would seek to deal with the situation (because subsection 86(2) of the OEB Act would not apply). Instead, the Board would utilize their licensing and order-making powers under the OEB Act to intervene in the crisis and fulfill the Board's mandate under the OEB Act. Thus, the Major Shareholder Interpretation is not justifiable on the basis that continuing scrutiny of major shareholders is needed via subsection 86(2). That continued ability to scrutinize shareholders is found in a more robust and consistent form elsewhere in the OEB Act.

Determination/Relief Sought

We have had preliminary discussions with Board Counsel about the alternative interpretations of subsection 86(2) of the OEB Act, and we understand from Board Counsel that the Board has not yet had a chance to make a determination about the applicability of subsection 86(2) in a situation similar to Essex's purchase of Kingsville's and Lakeshore's shares. As a result, we are

submitting this letter with our submissions on the applicability of subsection 86(2), together with a completed MAAD application should the Board determine that subsection 86(2) applies in this circumstance.

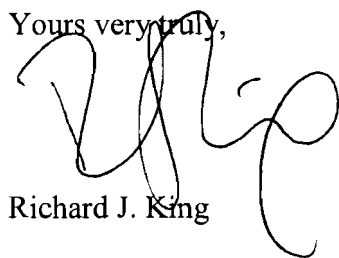
We are therefore requesting, based on our submissions above, that the Board determine as a threshold issue whether subsection 86(2) of the OEB Act applies to the transaction among Essex, Kingsville and Lakeshore. For reasons set out above, we are of the view that subsection 86(2) of the OEB Act does not apply to the transaction. If the Board determines that subsection 86(2) of the OEB Act does apply to the proposed transaction, then we request that the Board grant leave pursuant to subsection 86(6) of the OEB Act.

Timing of Determination

As the Board is aware, share purchase transactions such as the one contemplated by Essex, Kingsville and Lakeshore are currently transfer tax exempt by virtue of Ontario Regulation 124/99, provided certain conditions are met. One of these conditions is that if OEB approval is required in order to transfer the shares, an application for approval of the transfer must be made to the OEB before October 17, 2008. The availability of the transfer tax exemption is of critical importance to the parties to this transaction. As a result, we would appreciate the Board's decision as soon as possible on the question of whether an application is required, but in order to ensure that the parties have complied with the timing conditions of Ontario Regulation 124/99, we also request that the Board acknowledge receipt and completeness of the MAAD application and assign it a Board file number forthwith.

If you require any addition information with respect to the application, please contact the writer directly.

Yours very truly,



Richard J. King

RJK/mej

- c.c. W. Miller (CAO, Town of Essex)
M. Audet (CEO, ELK)
J. Renick (Counsel to Kingsville and Lakeshore)
J. Sidlofsky (BLG, Counsel to Kingsville and Lakeshore)
A. Pritchard (Ogilvy Renault LLP)

Ontario Energy Board

Preliminary Filing Requirements For Applications under Section 86 Of the *Ontario Energy Board Act, 1998*

INSTRUCTIONS:

All applicants must complete and file the information requested in Part I. If the transaction would result in a change in control of any of the parties to the proposed transaction, the applicant must also complete and file the information requested in Part II.

The Ontario Energy Board (the "Board") has established this form under section 13 of the *Ontario Energy Board Act, 1998* (the "Act") and requires that a proceeding under section 86 of the Act be commenced by filing this form. Please note that the Board may require information that is additional or supplementary to the information filed in this form and that the filing of the form does not preclude the applicant from filing additional or supplementary information.

For applications involving asset sales between licensed distributors or transmitters as made under section 86(1)(b) of the Act, the "Preliminary Filing Requirements for Applications Under Section 86(1)(b) of the *Ontario Energy Board Act, 1998*" form is required. For all other transactions made under section 86(1)(b), including leasing arrangements, this form should be used. If the transaction involves a leasing arrangement, the applicant must also complete and file the information requested in Part III. For transactions involving a non-licensed entity, please contact Market Operations at market.operations@oeb.gov.on.ca for further guidance.

Persons giving a Notice of Proposal under sections 80 or 81 of the Act in addition to filing an application under section 86 of the Act must also complete the "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*" form in addition to this form.

Please be advised that depending on the nature of the proposed transaction, the parties to the proposed transaction may be required to apply for the cancellation of an existing licence, an amendment to an existing licence, the issuance of a new licence or any combination thereof. Such applications are to be made under separate cover as those types of applications are subject to a separate process. Parties may apply for the cancellation of an existing licence, an amendment to an existing licence, the issuance of a new licence or any combination thereof at the same time the parties apply for approval of the proposed transaction.

PART I: GENERAL MINIMUM FILING REQUIREMENTS

All applicants must complete and file the information requested in this Part.

1.1 Nature of the application

1.1.1	Please indicate the nature of the application:	Check Box	
	For leave for a transmitter or distributor to sell, lease or otherwise dispose of all or substantially all of its transmission or distribution system (s. 86(1)(a)).		
	For leave for a transmitter or distributor to sell, lease or otherwise dispose of that part of its transmission or distribution system that is necessary in serving the public (s.86(1)(b)).		
	For leave to amalgamate with any other corporation (s. 86(1)(c)).		
	For leave to acquire voting securities that will exceed 20% of a distributor or transmitter (s. 86(2)(a)).	X	
	For leave to acquire control of a company that holds more than 20% of the voting securities of a transmitter or distributor (s. 86(2)(b)).		

1.1.2	In conjunction with this application, will a notice of proposal be given to the Board under Section 80 of the Act, concerning the intention of a transmitter or distributor (or its affiliate) to acquire an interest in or construct a generation facility in Ontario or to purchase shares in a generation facility in Ontario? If so, this application must be filed together with a completed "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the <i>Ontario Energy Board Act, 1998</i> ".	NO	
1.1.3	In conjunction with this application, will a notice of proposal be given to the Board under Section 81 of the Act, concerning the intention of a generator (or its affiliate) to acquire an interest in or construct a transmission or distribution facility in Ontario or to purchase shares in a transmission or distribution facility in Ontario? If so, this application must be filed together with a completed "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the <i>Ontario Energy Board Act, 1998</i> ".	NO	

1.2 Identification of the Parties

1.2.1 Applicant

Name of Applicant Town of Essex	File No: (Board Use Only)	
Address of Head Office 33 Talbot Street Essex, ON, N8M 1A8	Telephone Number 1-519-776-7336 ext. 20	
	Facsimile Number 1-519-776-8811	
	E-mail Address wmiller@essex.ca	
Name of Individual to Contact Mr. Wayne Miller	Telephone Number	
	Facsimile Number	
	E-mail Address	

1.2.2 Other Parties to the Transaction

If more than one attach list

Name of Other Party E.L.K. Energy Inc.		Board Use Only
Address of Head Office 172 Forest Avenue Essex, ON, N8M 3E4	Telephone Number 1-519-776-5291	
	Facsimile Number 1-519-776-5640	
	E-mail Address	
Name of Individual to Contact Michael Audet (Chief Executive Officer)	Telephone Number 1-519-776-5291 ext. 12	
	Facsimile Number	
	E-mail Address	
1.2.3	Please attach a list of the officers, directors and shareholders of each of the parties to the proposed transaction.	
1.2.4	Please attach a corporate chart describing the relationship between each of the parties to the proposed transaction and each of their respective affiliates.	

1.3 Description of the Businesses of the Each of the Parties

1.3.1	Please attach a description of the business of each of the parties to the proposed transaction, including each of their affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity ("Electricity Sector Affiliates").	
1.3.2	Please attach a description of the geographic territory served by each of the parties to the proposed transaction, including each of their Electricity Sector Affiliates, if applicable.	
1.3.3	Please attach a description of the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.	
1.3.4	Please provide a description of the proposed geographic service area of each of the parties after completion of the proposed transaction.	

1.4 Description of the Proposed Transaction

1.4.1	Please attach a detailed description of the proposed transaction.	
1.4.2	Please attach the details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.	
1.4.3	Please attach the financial statements (including balance sheet, income statement, and sources and uses of funds) of the parties to the proposed transaction for 2 complete years prior to the proposed transaction.	
1.4.4	Please attach the pro forma financial statements of each of the parties reflecting completion of the proposed transaction for the first full year following the year of the transaction.	

1.5 Other Information

1.5.1	Please provide copies of all annual reports, proxy circulars, prospectuses or other information filed with securities commissions or similar authorities or sent to shareholders for each of the parties to the proposed transaction and their affiliates within the past 2 years.	
1.5.2	Please list all legal documents (including those currently in draft form if not yet executed) to be used to implement the proposed transaction.	
1.5.3	Please list all Board issued licences held by the parties and confirm that the parties will be in compliance with all licence, code and rule requirements both before and after the proposed transaction. If any of the parties will not be in compliance with all applicable licences, codes and rules after completion of the proposed transaction, please explain the reasons for such non-compliance. (Note: any application for an exemption from a provision of a rule or code is subject to a separate application process.)	
1.5.4	Please explain whether the proposed transaction will cause a change of control, of any of the transmission or distribution system assets, at any time, during or by the end of the transaction. If yes, please complete Part II.	

PART II: ADDITIONAL FILING REQUIREMENTS FOR CHANGE IN CONTROL

If the proposed transaction would result in a change in control of any of the parties to the proposed transaction, this Part must be completed.

2.1 Consumer Protection

2.1.1	Please indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability and quality of electricity service.	
2.1.2	Please describe the steps, including details of any capital expenditure plans that will be taken to ensure that operational safety and system integrity are maintained after completion of the proposed transaction.	
2.1.3	Please provide details, including any capital expenditure plans, of how quality and reliability of service will be maintained after completion of the proposed transaction. Indicate where service centres will be located and expected response times.	

2.1.4	Please indicate whether the parties to the proposed transaction intend to undertake a rate harmonization process after the proposed transaction is completed. If yes, please provide a description of the plan.	
2.1.5	Please identify all incremental costs that the parties to the proposed transaction expect to incur. These may include incremental transaction costs, (i.e., legal), incremental merged costs (i.e., employee severances) and incremental ongoing costs (i.e., purchase and maintenance of new IT systems). Please explain how the new utility plans to finance these costs.	
2.1.6	Please describe the changes, if any, in distribution or transmission rate levels (as applicable) and the impact on the total bill that may result from the proposed transaction.	
2.1.7	Please provide details of the costs and benefits of the proposed transaction to the customers of the parties to the proposed transaction.	

2.2 Economic Efficiency

2.2.1	Please indicate the impact the proposed transaction will have on economic efficiency and cost effectiveness (in the distribution or transmission of electricity). Details on the impacts of the proposed transaction on economic efficiency and cost effectiveness should include, but are not limited to, impacts on administration support functions such as IT, accounting, and customer service.	
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2.3 Financial Viability

2.3.1	Please provide a valuation of any assets or shares that will be transferred in the proposed transaction. Provide details on how this value was determined, including any assumptions made about future rate levels.	
2.3.2	If the price paid as part of the proposed transaction is significantly more than the book value of the assets of the selling utility, please provide details as to why this price will not have an adverse affect on the economic viability of the acquiring utility.	
2.3.3	Please provide details of the financing of the proposed transaction.	
2.3.4	Please outline the capital (debt /equity) structure, on an actual basis, of the parties to the proposed transaction prior to the transaction and on a pro forma basis after completion of the proposed transaction. In order to <u>allow the Board to assess any potential impacts on the utility's financial viability</u> , please include the terms associated with the debt structure of the utility as well as the utility's dividend policy after the completion of the proposed transaction. Please ensure that any debt covenants associated with the debt issue are also disclosed.	
2.3.5	Please provide details of any potential liabilities associated with the proposed transaction in relation to public health and safety matters or environmental matters. These may be matters that have been identified in the audited financial statements or they may be matters that the parties have become aware of since the release of the most recently audited financial statements. If there are any pre-existing potential liabilities regarding public health and safety matters or environmental matters for any party to the proposed transaction, provide details on how the parties propose to deal with those potential liabilities after the transaction is completed. Specify who will have on-going liability for the pre-existing potential liabilities.	

2.4 Other

2.4.1	If the proposed transaction requires the approval of a parent company, municipal council or any other entity please provide a copy of appropriate resolutions indicating that all such parties have approved the proposed transaction.	
2.4.2	Please list all suits, actions, investigations, inquiries or proceedings by any government body, or other legal or administrative proceeding, except proceedings before the Board, that have been instituted or threatened against each of the parties to the proposed transaction or any of their respective affiliates.	
2.4.3	Regarding net metering thresholds, the Board will, absent exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Please indicate the current net metering thresholds of the utilities involved in the proposed transaction. Please also indicate if there are any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the new or remaining utility.	
2.4.4	Please provide the Board with any other information that is relevant to the application. When providing this additional information, please have due regard to the Board's objectives in relation to electricity.	

PART III: ADDITIONAL FILING REQUIREMENTS REGARDING LEASE TRANSACTIONS

If the proposed transaction involves a leasing arrangement, this Part must be completed.

3.1.1	In addition to the information provided in section 1.3.4, please identify separately any assets in the service area that are owned, from those assets that are encumbered by any means, e.g., subject to a lease or debt covenant.	
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How to Contact the Ontario Energy Board

The Ontario Energy Board is located at:

P.O. Box 2319
 2300 Yonge Street, Suite 2701
 Toronto, Ontario
 M4P 1E4

Telephone:	416-481-1967
Toll Free Number:	1-888-632-6273
Fax:	416-440-7656
Website:	http://www.oeb.gov.on.ca
Board Secretary's e-mail address:	boardsec@oeb.gov.on.ca

PART I (continued)
GENERAL MINIMUM FILING REQUIREMENTS

1.2 IDENTIFICATION OF THE PARTIES

1.2.3 List of Officers, Directors and Shareholders of Parties

Town of Essex:

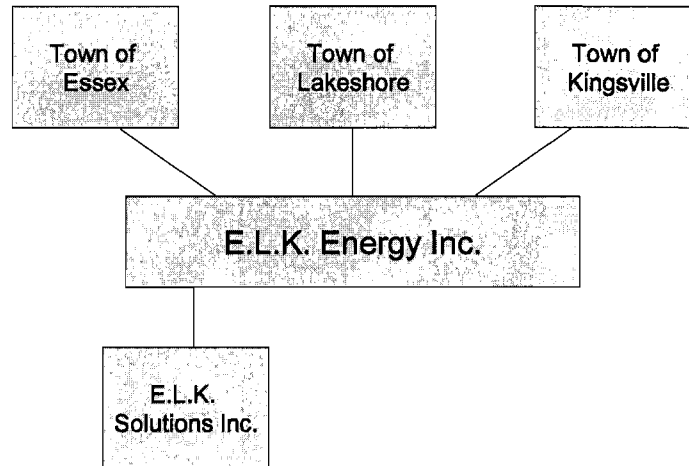
Ron McDermott	Mayor
Richard Meloche	Deputy Mayor
Morley Bowman	Councillor
Randy Voakes	Councillor
Paul Innes	Councillor
Ron Rogers	Councillor
Peter Timmins	Councillor
Wayne Miller	Chief Administrative Officer
Donna Hunter	Director, Finance & Administration/Treasurer
Cheryl Bondy	Clerk/Deputy-Treasurer

E.L.K. Energy Inc.:

Tom Bain	Director
Katherine Gunning	Director
Raymond Lalonde	Director
Ron McDermott	Director
Peter Timmins	Director
Nelson Santos	Director
Peter Timmins	Chair
Katherine Gunning	Vice-Chair
Michael Audet	Chief Executive Officer
Sandra Slater	Director, Finance & Regulatory Affairs
Norman MacAulay	Operations Manager

* As noted in the Preliminary Note to section 1.3 (see later herein), this Application Form is better suited to mergers/amalgamations than share purchase transactions and as a result, we have taken a practical approach to the completion of this Form by providing the Board with information primarily on the utility (E.L.K. Energy Inc.) and the Town of Essex (the sole shareholder post-transaction). Basic information about the Town of Kingsville and the Town of Lakeshore is provided at Tab A to this Application.

1.2.4 Corporate Chart



Shareholdings in E.L.K. Energy Inc.:

Town of Essex	3,800 Common Shares
Town of Lakeshore	2,400 Common Shares
Town of Kingsville	3,800 Common Shares

Shareholdings in E.L.K. Solutions Inc.:

E.L.K. Energy Inc.	10,000 Class A Common Shares
Town of Essex	3,800 Class B Common Shares
Town of Lakeshore	2,400 Class B Common Shares
Town of Kingsville	3,800 Class B Common Shares

1.3 DESCRIPTION OF THE BUSINESS OF EACH OF THE PARTIES

Preliminary Note: The MAAD form for section 86 applications does not work particularly well for share purchase transactions covered by subsection 86(2) of the *Ontario Energy Board Act, 1998*. Many items in the form request information about “parties to the proposed transaction”. For example, section 1.3.2 of the MAAD form requests a description of “the geographic territory served by each of the parties to the proposed transaction”. In the case of a share purchase transaction, the utility will not be a party to the transaction. The proposed transaction that is the subject of this application, for instance, will be a transaction (effected by a share purchase agreement) among three municipal governments. These municipal governments do not have service areas (sections 1.3.2) or electricity customers (1.3.3). Providing information solely about the parties to the transaction would omit any information about the utility. Consequently, we have approached the information requirements in the MAAD form on a practical basis, and focused on providing the Board with information about the utility (E.L.K. Energy Inc.) and the shareholder that is increasing its existing shareholdings (Town of Essex).

1.3.1 Description of Business

E.L.K. Energy Inc. (“ELK”) is an existing electricity distributor in southwestern Ontario, formed in 2000 as the successor utility of the Hydro-Electric Commission for the Town of Essex, Lakeshore Hydro Electric Commission, and Kingsville Hydro-Electric Commission.

ELK is licensed by the Ontario Energy Board (“OEB”)(ED-2003-0015). ELK’s existing shareholders (and the percentage of shares held in ELK) are as follows:

Town of Essex	38%
Town of Kingsville	38%
Town of Lakeshore	24%

E.L.K. Solutions Inc. (“Solutions”) is an affiliate of ELK, and carries on the business of hot water tank rentals, street lighting maintenance, and sentinel light rentals.

1.3.2 Description of Service Area

Schedule 1 of ELK’s Electricity Distribution Licence (ED-2003-0015) specifies the area in which ELK is authorized to distribute and sell electricity, as follows:

1. The Town of Belle River as of December 31, 1997, now part of the Town of Lakeshore.
2. The Police Village of Comber as of December 31, 1998, now part of the Town of Lakeshore.
3. The Village of Cottam as of December 31, 1998, now part of the Town of Kingsville.
4. The Town of Essex as of December 31, 1998.
5. The Town of Harrow as of December 31, 1998, now part of the Town of Essex.

6. The Town of Kingsville as of December 31, 1998.
7. Plan 12R-311, Parts 1 through 6. Specifically in the Town of Essex (formerly Township of Colchester North), in the County of Essex, being part of Lots 17 and 18, Concession 13.
8. Pt Lt 283 Con Ntr Maidstone; Pt Lt 283 Con Ntr including Blocks 36 to 39 Maidstone (Essex) Pt 1, 2R5880 Except Pt 1, 12R6417, Pt1, 12R8554, Pt1, 12R10473 and Pt 1 and 2, 12R16870, Lakeshore.
9. Pt Lt 12 Con Gore or 2nd Range Colchester Pt 1, 12R15021 & Pt2, 12 R16478; Essex.

Solutions provides unregulated services inside and outside ELK's service area.

1.3.3 Customer Description

ELK's customer base is comprised of the following customer rate classes:

Customer Class	Number of Customers
Residential	9539
General Service < 50 Kw	1071
General Service 50 to 4,999 kW	108
General Service 50 to 4,999 kW Time of Use	1
Unmetered Scattered Load	n/a
Sentinel Lighting	n/a
Street Lighting	6

Residential Class: This classification refers to a service which is less than 50 kW supplied to a single family dwelling unit that is for domestic or household purposes, including seasonal occupancy. At ELK's discretion, residential rates may be applied to apartment buildings with 6 or less units by simple application of the residential rate or by blocking the residential rate by the number of units.

General Service Less < 50 kW Class: This classification refers to premises other than those designated as residential and do not exceed 50 kW in any month of the year. This includes multi-unit residential establishments such as apartment buildings supplied through one service (bulk-metered).

General Service 50 to 4,999 kW Class: This classification refers to a non-residential account whose average monthly maximum demand used for billing purposes is equal to or greater than, or is forecast to be equal to or greater than, 50 kW but less than 5,000 kW.

General Service 50 to 4,999 kW Time of Use Class: This classification refers to a non-residential account whose average monthly maximum demand used for billing purposes is equal to or greater than, or is forecast to be equal to or greater than, 50 kW but less than 5,000 kW and that is currently classified as Time of Use.

Unmetered Scattered Load: This classification applies to an account whose average monthly maximum demand is less than, or is forecast to be less than, 50 kW and the

consumption is unmetered. Such connections include cable TV power packs, bus shelters, telephone booths, traffic lights, railway crossings, etc. The level of the consumption will be agreed to by the distributor and the customer, based on detailed manufacturer information/documentation with regard to electrical consumption of the unmetered load or periodic monitoring of actual consumption. ELK is not in the practice of connecting unmetered scattered load services.

Sentinel Lighting: This classification refers to accounts that are an unmetered lighting load supplied to a sentinel light. ELK is not in the practice of connecting new unmetered scattered load services.

Street Lighting: This classification refers to electricity supplied to street lighting equipment owned by and operated for a municipal corporation. The consumption for these customers will be based on the calculated load times the required lighting times established in the approved OEB street lighting load shape template.

1.3.4 Post-Transaction Description of Service Area

There will be no change in ELK's service area as a result of the transaction.

1.4 DESCRIPTION OF THE PROPOSED TRANSACTION

1.4.1 Detailed Description of Proposed Transaction

The proposed transaction will involve the Town of Essex (which currently holds 38% of the issued and outstanding shares of ELK) acquiring all of the remaining shares of ELK (currently held by the Town of Kingsville and Town of Lakeshore). The proposed transaction will be effected by way of a Share Purchase Agreement (an executed copy of which is attached at Tab F).

1.4.2 Details of Consideration

On closing of the transaction, the Town of Essex will pay \$12,773,240 to ELK's other shareholders, as follows:

- To Town of Kingsville, \$7,828,760.70 for:
 - \$1,482,000 to purchase the Town of Kingsville's shareholder loan to ELK
 - \$6,346,560.70 for the Town of Kingsville's shares in ELK
 - \$200 for the Town of Kingsville's shares in Solutions

- To Town of Lakeshore, \$4,944,479.30 for:
 - \$936,000 to purchase the Town of Lakeshore's shareholder loan to ELK
 - \$4,008,279.30 for the Town of Lakeshore's shares in ELK
 - \$200 for the Town of Lakeshore's shares in Solutions

1.4.3 Financial Statements

Please find attached: (a) the financial statements for the Town of Essex for the calendar years 2006 and 2007 (Tab B); and (b) the financial statements for ELK for the calendar years 2006 and 2007 (Tab C).

1.4.4 Pro Forma Financial Statements

Please find attached: (a) the pro forma financial statements for the Town of Essex for 2009 (the first full year following the year of the transaction)(Tab D); and (b) the pro forma financial statements for ELK for 2009 (Tab E).

1.5 OTHER INFORMATION

1.5.1 Annual Reports, etc.

There are no annual reports, proxy circulars, prospectuses or other information filed with securities commissions or similar authorities or sent to shareholders in the past two years.

1.5.2 Legal Documentation

The transaction will be implemented by way of a Share Purchase Agreement (see Tab F).

1.5.3 Licence

ELK is the holder of Electricity Distribution Licence ED-2005-0015 (valid until March 31, 2023). ELK is in compliance with its Licence, and will continue to be in compliance after the transaction. The transaction has no bearing on the Licence.

1.5.4 Change of Control

The distribution system assets will continue to be owned by ELK. However, given the shares being transferred, there will be a change in control of ELK (the corporate entity). The Town of Essex will move from being a 38% shareholder to being ELK's sole shareholder.

PART II
ADDITIONAL FILING REQUIREMENTS FOR CHANGE IN CONTROL

2.1 CONSUMER PROTECTION

2.1.1 Impact on Consumers

The proposed transaction will have no impact on electricity pricing, or the adequacy, reliability and quality of electricity service.

2.1.2 Capital Expenditure Plans

ELK's existing and planned capital expenditures will be unaffected by the transaction. Attached at Tab H are the capital expenditure plans of ELK, drafted prior to contemplation of the proposed transaction. Capital expenditures associated with smart meters will be paid out of funds from an already arranged line of credit from TD Bank. Other capital expenditures will be paid for out of retained earnings.

2.1.2 Operational Safety and System Integrity

2.1.3 Quality and Reliability of Service

The proposed transaction will not change ELK's operational safety and system integrity, or the quality and reliability of electric service provided by ELK.

2.1.4 Rate Harmonization

This is not a merger or amalgamation. Hence, the issue of rate harmonization does not arise. There is currently only one set of customer classes (and corresponding rates) for the ELK service area.

2.1.5 Incremental Costs to Parties

This is not a merger or amalgamation, so there are no incremental merged costs (one-time or ongoing). The utility (i.e., ELK) will bear no legal costs since this is a transaction among the three municipal shareholders.

2.1.6 Changes in Rates

This transaction will have no impact on ELK's distribution rates.

2.1.7 Costs and Benefits to Customers

There are no costs or benefits to the customers associated with a change in the Town of Essex's shareholding.

2.2 ECONOMIC EFFICIENCY

2.2.1 Impact on Economic Efficiency and Cost Effectiveness

This transaction will be neutral in terms of economic efficiency and cost effectiveness, as the share transfer will not in and of itself result in any changes to the day-to-day operations of ELK.

2.3 FINANCIAL VIABILITY

2.3.1 Valuation of Shares

This transaction among ELK's three shareholders is the implementation of a pre-arranged agreement. The existing Shareholders Agreement among the Town of Essex, Town of Kingsville, and Town of Lakeshore provides a right of first refusal ("ROFR") to any of the shareholders to match any third party offer for ELK's shares. In early July 2008, in response to a request for proposal issued by the Towns of Lakeshore and Kingsville, another Ontario distribution company offered to purchase the shares of ELK held by the Town of Kingsville and the Town of Lakeshore for \$12,773,240. This offer triggered the Town of Essex's ROFR under the Shareholders Agreement, which the Town of Essex elected to exercise.

Because this transaction is based on the exercise of a ROFR, the Town of Essex's offer for the remaining shares in ELK was established by an arms-length third party offer to acquire ELK's shares. No assumptions were made in the valuation about future rate levels.

2.3.2 Impact on Economic Viability of Acquiring Utility

This transaction does not involve an "acquiring utility" purchasing the assets of a "selling utility". Thus, this section is not applicable.

2.3.3 Financing of Proposed Transaction

At the closing of the transaction, the Town of Essex will make payments to the Town of Kingsville and Town of Lakeshore totalling \$12,773,240 (in amounts shown in section 1.4.2). It is the Town of Essex's plan, immediately after closing, to request ELK to pay a dividend to the Town of Essex in the amount of \$10.6 million. Should ELK's Board of Directors resolve to declare the dividend, then immediately after closing ELK will secure bank financing to cover both the dividend amount and future smart meter capital expenditures. Arrangements for this financing have been made with the TD Bank.

2.3.4 Debt/Equity Structure

Prior to closing, ELK's capital structure is 40/60 (debt/equity). After the bank financing outlined in section 2.3.3 above is complete, ELK's capital structure will be 78/22 in the first year following the transaction. By the third year following the transaction, the debt/equity ratio will be 75/25.

The alteration in ELK's capital structure will not impact the financial viability of ELK. Capital expenditures will continue as planned. The significant capital expenditure associated with smart meters will be financed on the same terms as the original bank loan taken out at the time of closing (i.e., the cost of borrowing in the future will not have increased as a result of ELK's shift in capital structure). The other capital expenditures will be paid for out of retained earnings.

The Town always has the ability to do two things if it became prudent to reduce the debt level of ELK. First, the Town of Essex shareholder loan (currently at \$3.9 million) will be formally postponed to the TD Bank financing. For all intents and purposes the shareholder loan will be treated as equity, and if at any time it becomes necessary to do so, the Town could simply convert all or a part of the shareholder loan to equity. If the entire shareholder loan were treated as equity, the post-transaction debt/equity ratio would be 54/46.

With respect to debt covenants, attached to this application at Tab I is the proposed form of Credit Agreement that Essex will request ELK to enter into after closing.

In terms of a dividend plan/policy, post-transaction, there is no formal written plan/policy in place. However, as can be seen from the minutes of the Special Meeting of Essex's Council (attached hereto at Tab J) wherein Essex approved the purchase of the remainder of ELK's shares, the Town's intent is to forego the payment of a dividend from ELK to Essex in the short to medium term to allow ELK to reduce its overall borrowings.

2.3.5 Potential Health and Safety/Environmental Liabilities

No health and safety or environmental liabilities are being explicitly transferred under the Share Purchase Agreement. Such liabilities would in the normal course not be borne by any shareholder but rather by the utility (i.e., ELK). As a result, there are no potential liabilities being transferred among shareholders.

2.4 OTHER

2.4.1 Approval

This transaction will require the approval of the three municipal councils (i.e., Town of Essex, Town of Lakeshore, and Town of Kingsville). Attached at Tab J is the municipal resolution of the Town of Essex, and the two by-laws of the towns of Lakeshore and Kingsville, respectively.

2.4.2 Lawsuits, Investigations, Etc.

There are no suits, actions, investigations, inquiries or proceedings by any governmental body, or other legal or administrative proceedings that may have been instituted or threatened against ELK, Solutions or the Town of Essex.

2.4.3 Net Metering Thresholds

This is not a merger or amalgamation. This section is not applicable.

2.4.4 Any Other Relevant Information

There is no other relevant information other than what has been provided.

Tab A

GENERAL INFORMATION ABOUT KINGSVILLE AND LAKESHORE

<p><i>The Corporation of the Town of Kingsville</i></p> <p>Address of the Head Office: 2021 Division Road North Kingsville, ON, N9Y 2Y9</p> <p>Telephone Number: 1-519-733-2305</p> <p>Facsimile Number: 1-519-733-8108</p> <p>Name of Individual to Contact: Dan DiGiovanni (Chief Administrative Officer)</p> <p>Telephone Number: 1-519-733-2305 ext. 222</p> <p>Email Address: ddigiovanni@kingsville.ca</p>	<p>List of Directors and Officers:</p> <table> <tr> <td>Nelson Santos</td> <td>Mayor</td> </tr> <tr> <td>Katherine Gunning</td> <td>Deputy Mayor</td> </tr> <tr> <td>Christopher Lewis</td> <td>Councillor</td> </tr> <tr> <td>Gord Queen</td> <td>Councillor</td> </tr> <tr> <td>Bob Peterson</td> <td>Councillor</td> </tr> <tr> <td>Brad Stevenson</td> <td>Councillor</td> </tr> <tr> <td>Tamara Stomp</td> <td>Councillor</td> </tr> <tr> <td>Dan DiGiovanni</td> <td>C.A.O.</td> </tr> <tr> <td>Sandra Ingratta</td> <td>Director, Financial Services</td> </tr> <tr> <td>Linda Burling</td> <td>Clerk</td> </tr> </table>	Nelson Santos	Mayor	Katherine Gunning	Deputy Mayor	Christopher Lewis	Councillor	Gord Queen	Councillor	Bob Peterson	Councillor	Brad Stevenson	Councillor	Tamara Stomp	Councillor	Dan DiGiovanni	C.A.O.	Sandra Ingratta	Director, Financial Services	Linda Burling	Clerk		
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Dan DiGiovanni	C.A.O.																						
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Linda Burling	Clerk																						
<p><i>The Corporation of the Town of Lakeshore</i></p> <p>Address of the Head Office 419 Notre Dame Street Belle River, ON, N0R 1A0</p> <p>Telephone Number: 1-519-728-2700</p> <p>Facsimile Number: 1-519-728-9530</p> <p>Name of Individual to Contact: A. Ruth Coursey (Chief Administrative Officer)</p> <p>Telephone Number: 1-519-728-2700 ext. 243</p> <p>Email Address: rcoursey@lakeshore.ca</p>	<p>List of Directors and Officers:</p> <table> <tr> <td>Tom Bain</td> <td>Mayor</td> </tr> <tr> <td>Bob Sylvester</td> <td>Deputy Mayor</td> </tr> <tr> <td>Francis Kennette</td> <td>Councillor</td> </tr> <tr> <td>Al Fazio</td> <td>Councillor</td> </tr> <tr> <td>Charles W. McLean</td> <td>Councillor</td> </tr> <tr> <td>Raymond Lalonde</td> <td>Councillor</td> </tr> <tr> <td>Dan Diemer</td> <td>Councillor</td> </tr> <tr> <td>Paddy Byrne</td> <td>Councillor</td> </tr> <tr> <td>A. Ruth Coursey</td> <td>C.A.O.</td> </tr> <tr> <td>Sylvia Rammelaere</td> <td>Director, Financial Services</td> </tr> <tr> <td>Mary Masse</td> <td>Clerk</td> </tr> </table>	Tom Bain	Mayor	Bob Sylvester	Deputy Mayor	Francis Kennette	Councillor	Al Fazio	Councillor	Charles W. McLean	Councillor	Raymond Lalonde	Councillor	Dan Diemer	Councillor	Paddy Byrne	Councillor	A. Ruth Coursey	C.A.O.	Sylvia Rammelaere	Director, Financial Services	Mary Masse	Clerk
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Sylvia Rammelaere	Director, Financial Services																						
Mary Masse	Clerk																						

Tab B

**The Corporation of the Town of
Essex
Financial Statements
For the year ended December 31, 2006**

**The Corporation of the Town of Essex
Financial Statements
For the year ended December 31, 2006**

Contents

The Corporation of the Town of Essex

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The Corporation of the Town of Essex Trust Funds

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BDO Dunwoody LLP
Chartered Accountants
and Advisors

180 Talbot Street S
Essex, Ontario N5M 1B6
Telephone: 519-776-6488
Fax: 519-776-6090
www.bdo.ca

Auditors' Report

To the Members of Council, Inhabitants and Ratepayers of The Corporation of the Town of Essex

We have audited the consolidated statement of financial position of The Corporation of the Town of Essex as at December 31, 2006 and the consolidated statements of financial activities and cash flows for the year then ended. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the Town of Essex as at December 31, 2006 and the results of its financial activities and changes in cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants, Licensed Public Accountants

Essex, Ontario
May 30, 2007

**The Corporation of the Town of Essex
Consolidated Statement of Financial Position**

December 31 **2006** **2005**

Assets

Cash and short term investments	\$ 11,593,670	\$ 8,812,952
Taxes receivable	2,671,648	2,616,605
Accounts receivable	2,649,222	2,525,936
Investment in E.L.K. Energy Inc. (Note 2)	6,592,998	6,534,522
Investment in Union Water Supply System (Note 5)	989,628	250,872
Other assets	438,102	348,536
	24,935,268	21,089,423

\$ 24,935,268 **\$ 21,089,423**

Liabilities and Municipal Position

Liabilities

Bank indebtedness	\$ 2,402,574	\$ 1,968,917
Accounts payable and accrued liabilities	2,626,677	3,562,263
Other current liabilities	51,642	86,021
Accrued interest payable on long-term debt	170,585	117,767
Employee future benefits (Note 8)	2,750,914	2,442,401
Deferred revenue - development charges (Note 12)	800,760	739,981
Net long-term debt (Note 3)	23,454,175	24,140,986
	32,257,327	33,058,336

32,257,327 **33,058,336**

Municipal position

Operating fund (See schedule - page 16)	195,021	253,243
Equity in E.L.K. Energy Inc. (See schedule - page 16)	7,580,998	7,275,522
Capital fund (See schedule - page 17)	(1,294,104)	(2,186,689)
Reserves (See schedule - page 18)	1,000,000	1,000,000
Reserve funds (See schedule - page 18)	11,563,186	8,380,764
Fund balances	19,045,101	14,722,840

Amounts to be recovered in future years (Note 4) **(26,367,160)** **(26,691,753)**

Total municipal position **(7,322,059)** **(11,968,913)**

Contingencies and commitments (Note 10) **\$ 24,935,268** **\$ 21,089,423**

The Corporation of the Town of Essex Consolidated Statement of Financial Activities

For the year ended December 31	2006 Budget	2006 Actual	2005 Actual
Revenue			
Taxation	\$ 11,577,272	\$ 11,592,538	\$ 11,235,860
Sewer and water charges	4,992,292	5,503,611	4,568,649
Grants	2,838,042	3,773,204	2,433,676
User charges	2,380,892	2,276,865	2,312,337
Landfill compensation	1,128,760	1,709,291	1,088,476
Other	368,820	1,675,911	1,615,503
Interest and penalties	497,553	1,034,322	717,193
Share of undistributed income - E.L.K. Energy Inc.	-	305,476	438,888
Development contributions	589,728	274,876	561,859
Commutated payments	83,034	83,827	123,072
	24,454,393	28,229,921	25,095,513
Expenditures			
Operating (Note 6)			
General government	1,962,900	1,960,539	1,711,634
Protection to persons and property	5,297,950	5,434,549	4,901,038
Transportation services	2,271,784	1,889,948	2,174,538
Environmental services	4,546,566	4,543,970	4,115,430
Health services	237,155	218,180	195,710
Recreation and cultural services	2,567,068	2,573,510	2,471,583
Planning and development	283,885	274,617	270,373
	17,167,298	16,895,313	15,840,306
Capital			
General government	130,250	217,682	300,518
Protection to persons and property	268,975	395,855	609,656
Transportation services	2,296,771	3,462,639	1,452,335
Environmental services	3,403,292	2,444,140	7,008,003
Health services	24,400	40,691	50,496
Recreational and cultural services	298,090	418,829	782,904
Planning and development	57,000	110,937	190,310
	6,478,778	7,090,773	10,394,222
Total expenditures	23,646,076	23,986,086	26,234,528
Net revenues (expenditures) for the year	808,317	4,243,835	(1,139,015)
Increase (decrease) in amounts to be recovered in future years:			
New debt issued	1,891,470	2,016,495	5,750,553
Debt principal repayments	(2,614,129)	(2,300,287)	(2,094,250)
Employee benefits and accrued interest	-	362,218	206,524
	(722,659)	78,426	3,862,827
Change in fund balance	85,658	4,322,261	2,723,812
Fund balance, beginning of the year	14,722,840	14,722,840	11,999,028
Fund balance, end of year	\$ 14,808,498	\$ 19,045,101	\$ 14,722,840

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the Town of Essex Consolidated Statement of Cash Flows

For the year ended December 31	2006	2005
Cash provided by (used in)		
Operating activities		
Net revenues (expenditures) for the year	\$ 4,243,835	\$ (1,139,015)
Items not involving cash		
Increase in taxes receivable	(55,043)	(318,642)
Increase in accounts receivable	(123,286)	(484,428)
Increase in other assets	(89,566)	(10,301)
Increase (decrease) in accounts payable and accrued liabilities	(935,586)	410,627
Increase (decrease) in other current liabilities	(34,379)	28,863
Increase (decrease) in accrued interest payable on long-term debt	52,818	(21,476)
Increase in employee future benefits	308,513	224,346
Increase (decrease) in deferred revenue - development charges	60,779	(308,745)
	3,428,085	(1,618,771)
Investing activities		
Increase in investment in E.L.K. Energy Inc.	(58,476)	(191,888)
Increase in equity in Union Water Supply System	(738,756)	(725,898)
	(797,232)	(917,786)
Financing activities		
Long-term debt issued	2,016,495	5,750,553
Long-term debt repaid	(2,300,287)	(2,094,250)
	(283,792)	3,656,303
Net change in cash and cash equivalents	2,347,061	1,119,746
Cash and cash equivalents, beginning of year	6,844,035	5,724,289
Cash and cash equivalents, end of year	\$ 9,191,096	\$ 6,844,035
Cash and cash equivalents is comprised of:		
Cash and short term investments	\$ 11,593,670	\$ 8,812,952
Bank indebtedness	(2,402,574)	(1,968,917)
	\$ 9,191,096	\$ 6,844,035

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the Town of Essex Summary of Significant Accounting Policies

December 31, 2006

Management responsibility

The consolidated financial statements of The Corporation of the Town of Essex are the representations of management. They have been prepared in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as prescribed by the Ministry of Municipal Affairs and Housing.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Basis of consolidation

(i) Consolidated Financial Statements

The consolidated statements reflect the operations, assets, liabilities, revenues and expenditures of the revenue fund, capital fund, reserves and reserve funds of all municipal organizations, committees, and boards which are owned or controlled by Council and The Essex Business Improvement Area. All interfund assets and liabilities and revenues and expenditures have been eliminated on consolidation.

(ii) Other entities:

E.L.K. Energy Inc. is accounted for on the modified equity basis, which represents the Town's proportionate share of E.L.K.'s net assets at acquisition plus its share of undistributed earnings. The basis is consistent with the generally accepted accounting treatment of government business enterprises.

The Town's proportionate share in the Union Water Supply System is accounted for on a proportionate equity basis, consistent with the generally accepted accounting treatment for government units.

(iii) Accounting for County and School Board Transactions

The municipality collects taxation revenue on behalf of the school boards and the County of Essex. The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards and the Corporation of the County of Essex are not reflected in the municipal fund balances of these financial statements.

The Corporation of the Town of Essex

Summary of Significant Accounting Policies

December 31, 2006

(iv) Trust funds

Funds held in trust by the municipality, and their related operations are not consolidated.

Basis of accounting

Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

The consolidated statement of financial position reflects all of the financial assets and liabilities of the municipality. Financial assets are those assets which could provide resources to discharge existing liabilities or finance future operations. Municipal position represents the financial position of the municipality, and is the difference between its assets and liabilities. This provides information about the municipality's overall future revenue requirements and its ability to finance activities and meet its obligations.

Capital assets

The historical cost and accumulated amortization of capital assets are not recorded for municipal purposes. Capital assets are reported as an expenditure on the consolidated statement of financial activities in the period of acquisition.

Deferred revenue

Revenue restricted by legislation, regulation or agreement and not available for general municipal purposes is reported as deferred revenue on the consolidated statement of financial position. The revenue is reported on the consolidated statement of financial activities in the year in which it is used for the specified purpose.

Employee future benefits

The Corporation has adopted the method of accounting for employee future benefits as required by the Canadian Institute of Chartered Accountants. The cost of future benefits earned by employees is actuarially determined using the projected benefit method prorated on service and assumptions with respect to mortality and termination rates, retirement age and expected inflation rates with respect to employee benefit costs.

The estimated cost of these benefit obligations is recognized as employee future benefit obligations and amounts to be recovered in future years.

Amounts to be recovered

Amounts to be recovered are reported in the municipal position on the consolidated statement of financial position. The balance represents the outstanding principal portion of unmatured long-term liabilities, liabilities not yet due, and other future expenditures not yet levied on the ratepayers.

**The Corporation of the Town of Essex
Notes to Financial Statements**

December 31, 2006

1. Operations of school boards and the County of Essex

During the year, the following taxation revenue was raised and remitted to the school boards and the County of Essex:

	2006	2005
School boards	\$ 5,896,953	\$ 6,040,086
County of Essex	5,806,958	5,609,236
	\$ 11,702,911	\$ 11,649,322

2. Investment in E.L.K. Energy Inc.

The Corporation holds a 38% investment in E.L.K. Energy Inc. This investment is recorded using the modified equity method, wherein the investment balance represents the Town's proportionate interest in the net assets of E.L.K. Energy Inc. at acquisition, plus its proportionate share of undistributed earnings.

The investment in E.L.K. Energy Inc. at December 31, 2006 is as follows:

	2006	2005
Corporation of the Town of Essex 38% proportionate interest in the net assets of E.L.K. Energy Inc.	\$ 5,110,998	\$ 4,805,522
7.25% promissory note due to the Corporation from E.L.K. Energy Inc.	1,482,000	1,729,000
	\$ 6,592,998	\$ 6,534,522

**The Corporation of the Town of Essex
Notes to Financial Statements**

December 31, 2006

2. Investment In E.L.K. Energy Inc. (continued)

Supplementary information of E.L.K. Energy Inc. at December 31 is as follows:

	<u>2006</u>	<u>2005</u>
Financial Position		
Current assets	\$ 12,374,542	\$ 14,275,477
Capital and regulatory authority	8,450,022	8,575,044
Future income taxes	1,193,000	1,128,000
Total assets	\$ 22,017,564	\$ 23,978,521
Current liabilities	\$ 7,180,311	\$ 10,442,679
Long-term liabilities	1,387,255	889,729
Total liabilities	8,567,566	11,332,408
Net assets	\$ 13,449,998	\$ 12,646,113
 Financial Activities		
Total revenue	\$ 19,685,417	\$ 21,303,994
Total expenditures	17,901,292	19,977,625
Income taxes	580,240	171,400
Net earnings	\$ 1,203,885	\$ 1,154,969
Corporation of the Town of Essex share of net earnings in E.L.K. Energy Inc.	\$ 305,476	\$ 438,888

E.L.K. Energy Inc, bills and collects the Town's water and sewer surcharge revenue. In 2006 these amounted to \$5,380,671 (2005 - \$4,407,942) and are included in sewer and water charges revenue.

At December 31, 2006, included in accounts receivable is a balance owing from E.L.K. Energy Inc. totaling \$369,160 (2005 - \$288,371).

These transactions are in the normal course of operations and are measured at the exchange amount which is the cost of the consideration established and agreed to by the related parties.

**The Corporation of the Town of Essex
Notes to Financial Statements**

December 31, 2006

3. Net long-term debt

The balance of long-term debt reported on the consolidated statement of financial position is made up of the following:

	2006	2005
Total debentures payable	\$ 21,865,780	\$ 22,498,477
Share of Union Water System obligations	<u>1,714,576</u>	<u>1,790,081</u>
	23,580,356	24,288,558
The municipality is contingently liable for the tile and shoreline loans included above. The responsibility for payment of principal and interest has been assumed by individual landowners	<u>126,181</u>	<u>147,572</u>
	<u>\$ 23,454,175</u>	<u>\$ 24,140,986</u>

Principal payments for the next 5 fiscal years and thereafter are as follows:

2007	\$ 2,405,946
2008	2,393,194
2009	2,349,132
2010	1,559,919
2011	1,650,217
Thereafter	<u>13,095,767</u>
	<u>\$ 23,454,175</u>

Interest payments included in revenue fund expenditures during the year were \$882,815 (2005 - \$909,256).

The long-term liabilities issued in the name of the Town have received approval by the Municipal Board on or before December 31, 2006. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

The Corporation of the Town of Essex Notes to Financial Statements

December 31, 2006

4. Amounts to be recovered

The consolidated statement of financial position reflects a balance of \$26,367,160 (2005 - \$26,691,753) for amounts to be recovered in future years. This amount reflects liabilities which are budgeted and fully funded in future periods as these liabilities are retired. This balance is comprised of the following items:

	<u>2006</u>	<u>2005</u>
Long-term debt	\$ 23,454,175	\$ 24,140,986
Post-employment benefits	2,742,400	2,433,000
Accrued interest payable on long-term debt	<u>170,585</u>	<u>117,767</u>
	<u>\$ 26,367,160</u>	<u>\$ 26,691,753</u>

5. Equity In Union Water Supply System

	<u>2006</u>	<u>2005</u>
Equity in reserve funds	<u>\$ 989,628</u>	<u>\$ 250,872</u>

Effective January 2001, the assets, liabilities, rights and obligations of the Union Water Supply System (the "System") were transferred from the Ontario Clean Water Agency to the joint ownership of the System's participating municipalities pursuant to an order issued by the Minister of Environment under the Municipal Water and Sewage Transfer Act, 1997.

The equity interest of each municipality is determined according to its proportionate water consumption from the System. The Corporation's equity in the System is 6.4% (2005 - 6.5%).

The Corporation of the Town of Essex Notes to Financial Statements

December 31, 2006

6. Expenditures by object

Total operating expenditures for the year reported on the consolidated statement of financial activities are as follows:

	2006	2005
Salaries, wages and employee benefits	\$ 8,410,538	\$ 7,634,104
Materials, goods, services, utilities	4,295,436	4,308,307
Contracted services	2,781,005	2,616,165
Interest on long-term debt	943,716	905,044
Rents and financial expenses	352,991	285,869
External transfers	111,627	90,817
	16,895,313	15,840,306
Capital	7,090,773	10,394,222
	\$ 23,986,086	\$ 26,234,528

7. Public sector salary disclosure

The Public Sector Salary Disclosure Act requires all municipalities to disclose which, if any, employees or officers received a salary totaling more than \$100,000 during the year. During 2006, the following met this requirement:

Position	Name	Salary Paid	Taxable Benefits
Police Sergeant	Dave Dibley	\$ 100,867	\$ 464
Police Sergeant	Richard Maling	100,785	464
C.A.O.	Wayne Miller	103,896	945
Police Chief	Greg Pigeon	127,570	7,885
Police Sergeant	Jim Renaud	100,888	509
Deputy Police Chief	Chris Southward	124,712	528

The Corporation of the Town of Essex Notes to Financial Statements

December 31, 2006

8. Employment benefits

(a) Pension agreement

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of its staff. This plan is a defined benefit plan which specifies the amount of the retirement to be received by the employees based on the length of service and rates of pay. The amount contributed to OMERS for 2006 was \$422,450 (2005 - \$338,587).

(b) Employee future benefit liabilities

Employee future benefit liabilities are future liabilities of the Corporation to its employees and retirees for benefits earned but not taken as at December 31, 2006 and consists of the following:

	<u>2006</u>	<u>2005</u>
Post employment benefits	\$ 2,742,400	\$ 2,433,000
Vacation	8,514	9,401
	<u>\$ 2,750,914</u>	<u>\$ 2,442,401</u>

(i) Post employment benefits

The post employment benefit liability is based on an actuarial valuation performed by the Corporation's actuaries. The actuarial valuation was performed as at January 1, 2006 and extrapolated to December 31, 2006. The significant actuarial assumptions adopted in estimating the Corporation's liability are as follows:

Discount rate	4.50%
Health Care Trend Rate	13% for 2007 grading to 6% in 2014
Other Medical Care Trend Rate	11% for the 2007 grading to 5% in 2013
Dental	4% per annum

The Corporation of the Town of Essex Notes to Financial Statements

December 31, 2006

8. Employment benefits (continued)

Information about the Corporation's future liability with respect to these costs are as follows:

	2006	2005
Accrued benefit liability, beginning of year	\$ 2,433,000	\$ 2,205,000
Annual expense	362,800	292,000
Benefits paid	(53,400)	(64,000)
	\$ 2,742,400	\$ 2,433,000

(ii) Accrued sick leave

Under the sick leave benefit plan, approved for all non-police employees and non-management employees, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Town's employment. The amount of the payment is equal to the number of sick days to which the employee is entitled at one-half their rate of pay at the time of termination. Police employees are paid one-half of unused sick leave days annually, resulting in no carryforward or vesting. Management employees are not entitled to sick leave benefits.

(iii) Vacation

Vacation entitlements for non-management employees can accumulate and employees would be entitled to a cash payment equal to the value of their unused entitlements if they were to terminate employment.

9. Contractual obligation - Ontario Clean Water Agency

In accordance with a service agreement entered into by the Town on February 13, 1958 with the Ontario Clean Water Agency (OCWA), the existing sewage and water systems are operated by OCWA. Under this agreement, the Town is obligated to meet all operating costs and repay the long-term liabilities related to this project.

Included in the consolidated statement of financial activities are the 2006 charges from OCWA of \$564,552 (2005 - \$453,358). The consolidated statement of financial position does not reflect any assets or liabilities pertaining to the sewage or water systems except to the extent of service charges due to (or from) OCWA and the total long-term liabilities outstanding. The accumulated net surplus of OCWA is not reflected in the accompanying consolidated financial statements. The total long-term liabilities as at December 31, 2006 are \$574,245 (2005 - \$795,739).

The Corporation of the Town of Essex Notes to Financial Statements

December 31, 2006

10. Contingencies and commitments

The municipality has been named defendant in certain legal actions for incidents which arose in the ordinary course of business. In the opinion of management and legal counsel, the outcome of the lawsuits, now pending, is not determinable. Should any gain or loss result from the resolution of these claims, such gain or loss will be charged to operations in the year of resolution.

The municipality is currently in the process of developing its pay equity plan. As a result, any salary adjustments resulting from the ultimate implementation of the pay equity plan are not determinable at this time. The Corporation has accrued \$75,000 to date. Any additional retroactive salary adjustments determined will be charged to expenditures in the year they become known.

11. Comparative amounts

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.

12. Deferred revenue - development charges

Development charges are reported as deferred revenue since provincial legislation restricts the use of the funds to specific purposes and under certain circumstances the funds may be refunded.

The Corporation of the Town of Essex Schedule of Current Fund Operations

For the year ended December 31	2006 Budget	2006 Actual	2005 Actual
Revenue			
Taxation	\$ 11,577,272	\$ 11,592,538	\$ 11,235,860
Sewer and water charges	4,992,292	5,503,611	4,568,649
Grants	1,806,750	2,596,125	1,914,888
User charges	2,380,892	2,276,865	2,312,337
Landfill compensation	1,128,760	1,709,291	1,088,476
Interest and penalties	497,553	676,643	548,580
Share of undistributed income - E.L.K. Energy Inc.	-	305,476	438,888
Development contributions	589,728	274,876	253,113
Other	252,570	246,354	303,271
Commutated payments	83,034	83,827	123,072
	<u>23,308,851</u>	<u>25,265,606</u>	<u>22,787,134</u>
Expenditures			
Operating			
General government	1,962,900	1,960,539	1,711,634
Protection to persons and property	5,297,950	5,434,549	4,901,038
Transportation services	2,271,784	1,889,948	2,174,538
Environmental services	4,546,556	4,543,970	4,115,430
Health services	237,155	218,180	195,710
Recreation and cultural services	2,567,068	2,573,510	2,471,583
Planning and development	283,885	274,617	270,373
	<u>17,167,298</u>	<u>16,895,313</u>	<u>15,840,306</u>
Net revenues for the year	<u>6,141,553</u>	<u>8,370,293</u>	<u>6,946,828</u>
Financing and transfers			
Debt principal repayments	(2,614,129)	(2,300,287)	(2,094,250)
Change in accrued interest payable and post-employment benefits	-	362,218	206,524
Transfers to capital fund operations	-	(1,402,199)	(2,185,077)
Net transfers to reserves and reserve funds	(2,532,875)	(4,782,771)	(2,435,137)
	<u>(5,147,004)</u>	<u>(8,123,039)</u>	<u>(6,507,940)</u>
Change in fund balance for the year	994,549	247,254	438,888
Current fund, beginning of year	<u>7,528,765</u>	<u>7,528,765</u>	<u>7,089,877</u>
Current fund, end of year	<u>\$ 8,523,314</u>	<u>\$ 7,776,019</u>	<u>\$ 7,528,765</u>
Analyzed as follows:			
Available to offset future taxation and user charges		\$ 195,021	\$ 253,243
Equity in E.L.K. Energy Inc.		<u>7,580,998</u>	<u>7,275,522</u>
		<u>\$ 7,776,019</u>	<u>\$ 7,528,765</u>

The Corporation of the Town of Essex Schedule of Capital Fund Operations

For the year ended December 31	2006	2006	2005
	Budget	Actual	Actual
Revenue			
Grants	\$ 1,029,292	\$ 1,177,079	\$ 518,788
Other	116,250	570,557	1,081,169
Development contributions	-	-	308,746
	1,145,542	1,747,636	1,908,703
Expenditures			
General government	130,250	217,682	300,518
Protection services	268,975	395,855	609,656
Transportation services	2,296,771	3,462,639	1,452,335
Environmental services	3,403,292	2,444,140	7,008,003
Health services	24,400	40,691	50,496
Recreation and cultural services	298,090	418,829	782,904
Planning and development	57,000	110,937	190,310
	6,478,778	7,090,773	10,394,222
Net revenues (expenditures) for the year	(5,333,236)	(5,343,137)	(8,485,519)
Financing and transfers			
New debt issued	1,891,470	2,016,495	5,750,553
Transfers from current fund operations	-	1,402,199	2,185,077
Transfers from reserves and reserve funds	2,347,156	2,817,028	1,061,064
	4,238,626	6,235,722	8,996,694
Change in fund balance for the year	(1,094,610)	892,585	511,175
Capital fund, beginning of the year	(2,186,689)	(2,186,689)	(2,697,864)
Capital fund, end of the year	\$ (3,281,299)	\$ (1,294,104)	\$ (2,186,689)

**The Corporation of the Town of Essex
Schedule of Reserves and Reserve Funds**

For the year ended December 31	2006 Budget	2006 Actual	2005 Actual
Revenue			
Other	\$ -	\$ 859,000	\$ 231,063
Interest	-	357,679	168,613
	-	<u>1,216,679</u>	<u>399,676</u>
Net transfers from (to) other funds			
Net transfers from current fund operations	2,532,875	4,782,771	2,435,137
Transfer (to) capital fund operations	<u>(2,347,156)</u>	<u>(2,817,028)</u>	<u>(1,061,064)</u>
	185,719	1,965,743	1,374,073
Change in balance for the year	185,719	3,182,422	1,773,749
Reserves and reserve funds, beginning of the year	<u>9,380,764</u>	<u>9,380,764</u>	<u>7,607,015</u>
Reserves and reserve funds, end of the year	<u>\$ 9,566,483</u>	<u>\$ 12,563,186</u>	<u>\$ 9,380,764</u>
Analyzed as follows:			
Reserves set aside for specific purpose by Council:			
Working funds		<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Reserve funds set aside for specific purpose by Council:			
Contingencies		965,052	690,291
Sick leave benefits		166,021	154,691
Landfill		2,668,730	2,115,392
Other		1,616,690	751,065
Capital purposes		5,972,451	4,355,423
Gas tax revenue		<u>174,242</u>	<u>313,902</u>
		<u>11,563,186</u>	<u>8,380,764</u>
Reserves and reserve funds, end of the year		<u>\$ 12,563,186</u>	<u>\$ 9,380,764</u>

**The Corporation of the Town of Essex
Trust Funds
Financial Statements
For the year ended December 31, 2006**



BDO Dunwoody LLP
Chartered Accountants
and Advisors

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Auditors' Report

**To the Members of Council, Inhabitants and Ratepayers
of The Corporation of the Town of Essex**

We have audited the balance sheet of the trust funds of The Corporation of the Town of Essex as at December 31, 2006 and the statement of continuity of the trust funds for the year then ended. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the trust funds of The Corporation of the Town of Essex as at December 31, 2006 and the continuity of the trust funds for the year then ended in accordance with the accounting principles disclosed in the summary of significant accounting policies accompanying the financial statements.

BDO Dunwoody LLP

Chartered Accountants

Essex, Ontario
May 30, 2007

**The Corporation of the Town of Essex
Trust Funds
Balance Sheet**

December 31, 2006

	Ontario Home Renewal Program		Cemetary and Headstone Care and Maintenance	
	2006	2005	2006	2005
Assets and liabilities				
Cash	\$ 292	\$ 271	\$ 228,674	\$ 218,088
Due from (to) general account	(245)	(224)	(739)	2,047
	\$ 47	\$ 47	\$ 227,935	\$ 220,135
Fund balance	\$ 47	\$ 47	\$ 227,935	\$ 220,135

Statement of Continuity

For the year ended December 31, 2006

	Ontario Home Renewal Program		Cemetary and Headstone Care and Maintenance	
	2006	2005	2006	2005
Net receipts				
Interest and other	\$ -	\$ 981	\$ 7,800	\$ 9,455
Net change in trust funds during the year	-	981	7,800	9,455
Balance, beginning of the year	47	(934)	220,135	210,680
Balance, end of the year	\$ 47	\$ 47	\$ 227,935	\$ 220,135

**The Corporation of the Town of Essex
Trust Funds
Note to Financial Statements**

December 31, 2006

1. Summary of significant accounting policies

Basis of accounting

Receipts and expenditures are reported on the cash basis of accounting.

**The Corporation of the Town of
Essex
Financial Statements
For the year ended December 31, 2007**

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The Corporation of the Town of Essex
Financial Statements
For the year ended December 31, 2007

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The Corporation of the Town of Essex Trust Funds

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Auditors' Report

**To the Members of Council, Inhabitants and Ratepayers
of The Corporation of the Town of Essex**

We have audited the consolidated statement of financial position of The Corporation of the Town of Essex as at December 31, 2007 and the consolidated statements of financial activities and cash flows for the year then ended. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of The Corporation of the Town of Essex as at December 31, 2007 and the results of its financial activities and changes in cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Essex, Ontario
July 7, 2008

**The Corporation of the Town of Essex
Consolidated Statement of Financial Position**

December 31 2007 2006

Assets

Financial Assets

Cash and short-term investments	\$ 13,459,716	\$ 11,593,670
Taxes receivable	2,581,622	2,671,648
Accounts receivable	2,082,470	2,649,222
Loan receivable (Note 15)	1,000,000	-
Investment in E.L.K. Energy Inc. (Note 2)	6,702,348	6,592,998
Investment in Union Water Supply System (Note 5)	1,107,619	989,628
Other assets	261,836	438,102

\$ 27,195,611 \$ 24,935,268

Liabilities and Municipal Position

Liabilities

Bank indebtedness (Note 6)	\$ 416,064	\$ 2,402,574
Accounts payable and accrued liabilities	2,183,207	2,626,677
Other current liabilities	144,904	51,642
Accrued interest payable on long-term debt	141,102	170,585
Employee future benefits (Note 9)	3,062,914	2,750,914
Deferred revenue - development charges (Note 13)	467,284	800,760
Net long-term debt (Note 3)	22,002,778	23,454,175

28,418,253 32,257,327

Net financial debt (1,222,642) (7,322,059)

Municipal position

Operating fund (See schedule - page 19)	755,331	195,021
Equity in E.L.K. Energy Inc. (See schedule - page 19)	7,690,348	7,580,998
Capital fund (See schedule - page 20)	(1,193,815)	(1,294,104)
Reserves (See schedule - page 21)	1,000,000	1,000,000
Reserve funds (See schedule - page 21)	15,723,774	11,563,186

Fund balances 23,975,638 19,045,101

Amounts to be recovered in future years (Note 4) (25,198,280) (26,367,160)

Total municipal position (1,222,642) (7,322,059)

Contingencies and commitments (Note 11)

\$ 27,195,611 \$ 24,935,268

**The Corporation of the Town of Essex
Consolidated Statement of Financial Activities**

For the year ended December 31	2007 Budget	2007 Actual	2006 Actual
Revenue			
Taxation	\$ 12,205,134	\$ 12,037,868	\$ 11,592,538
Sewer and water charges	5,596,513	6,011,933	5,503,611
Grants	2,089,490	4,737,778	3,773,204
User charges	2,165,210	2,542,475	2,276,865
Landfill compensation	1,263,774	1,249,680	1,709,291
Other	229,320	851,662	1,675,911
Interest and penalties	495,845	1,340,054	1,034,322
Share of undistributed income - E.L.K. Energy Inc.	-	109,350	305,476
Development contributions	440,643	652,256	274,876
Commutated payments	52,076	51,507	83,827
	<u>24,538,005</u>	<u>29,584,563</u>	<u>28,229,921</u>
Expenditures			
Operating (Note 7)			
General government	1,978,274	2,018,661	1,960,539
Protection to persons and property	5,729,171	5,793,150	5,434,549
Transportation services	2,365,319	2,074,146	1,889,948
Environmental services	4,853,277	4,662,012	4,543,970
Health services	215,728	192,669	218,180
Recreation and cultural services	2,623,742	2,749,857	2,573,510
Planning and development	299,772	266,515	274,617
	<u>18,060,283</u>	<u>17,757,010</u>	<u>16,895,313</u>
Capital			
General government	85,650	47,582	217,682
Protection to persons and property	487,602	451,691	395,855
Transportation services	1,911,209	1,393,397	3,462,639
Environmental services	3,094,290	2,494,821	2,444,140
Health services	400	7,533	40,691
Recreational and cultural services	490,090	984,550	418,829
Planning and development	132,400	362,744	110,937
	<u>6,201,641</u>	<u>5,742,318</u>	<u>7,090,773</u>
Total expenditures	<u>24,261,924</u>	<u>23,499,328</u>	<u>23,986,086</u>
Net revenues for the year	<u>276,081</u>	<u>6,085,235</u>	<u>4,243,835</u>
Increase (decrease) in amounts to be recovered in future years:			
New debt issued	2,741,992	1,425,074	2,016,495
Debt principal repayments	(2,972,798)	(2,862,289)	(2,300,287)
Employee benefits and accrued interest	-	282,517	362,218
	<u>(230,806)</u>	<u>(1,154,698)</u>	<u>78,426</u>
Change in fund balance	45,275	4,930,537	4,322,261
Fund balance, beginning of the year	<u>19,045,101</u>	<u>19,045,101</u>	<u>14,722,840</u>
Fund balance, end of year	<u>\$ 19,090,376</u>	<u>\$ 23,975,638</u>	<u>\$ 19,045,101</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the Town of Essex Consolidated Statement of Cash Flows

For the year ended December 31	2007	2006
Cash provided by (used in)		
Operating activities		
Net revenues for the year	\$ 6,085,235	\$ 4,243,835
Items not involving cash		
Decrease (increase) in taxes receivable	90,026	(55,043)
Decrease (increase) in accounts receivable	566,752	(123,286)
Decrease (increase) in other assets	176,266	(89,566)
Decrease in accounts payable and accrued liabilities	(443,470)	(935,586)
Increase (decrease) in other current liabilities	93,262	(34,379)
Increase (decrease) in accrued interest payable on long-term debt	(29,483)	52,818
Increase in employee future benefits	312,000	308,513
Increase (decrease) in deferred revenue - development charges	(333,476)	60,779
	<u>6,517,112</u>	<u>3,428,085</u>
Investing activities		
Increase in investment in E.L.K. Energy Inc.	(109,350)	(58,476)
Increase in equity in Union Water Supply System	(117,991)	(738,756)
	<u>(227,341)</u>	<u>(797,232)</u>
Financing activities		
Long-term debt issued	1,425,074	2,016,495
Long-term debt repaid	(2,862,289)	(2,300,287)
Bank indebtedness issued (repaid)	(1,986,510)	433,657
Loan proceeds issued	(1,000,000)	-
	<u>(4,423,725)</u>	<u>149,865</u>
Net change in cash and cash equivalents	1,866,046	2,780,718
Cash and cash equivalents, beginning of year	11,593,670	8,812,952
Cash and cash equivalents, end of year	\$ 13,459,716	\$ 11,593,670

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Corporation of the Town of Essex Summary of Significant Accounting Policies

December 31, 2007

Management responsibility The consolidated financial statements of The Corporation of the Town of Essex are the representations of management. They have been prepared in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as prescribed by the Ministry of Municipal Affairs and Housing.

Use of estimates The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Basis of consolidation

(i) Consolidated Financial Statements

The consolidated statements reflect the operations, assets, liabilities, revenues and expenditures of the revenue fund, capital fund, reserves and reserve funds of all municipal organizations, committees, and boards which are owned or controlled by Council and The Essex Business Improvement Area. All interfund assets and liabilities and revenues and expenditures have been eliminated on consolidation.

(ii) Other entities

E.L.K. Energy Inc. is accounted for on the modified equity basis, which represents the Town's proportionate share of E.L.K.'s net assets at acquisition plus its share of undistributed earnings. The basis is consistent with the generally accepted accounting treatment of government business enterprises.

The Town's proportionate share in the Union Water Supply System is accounted for on a proportionate equity basis, consistent with the generally accepted accounting treatment for government units.

(iii) Accounting for County and School Board Transactions

The municipality collects taxation revenue on behalf of the school boards and the County of Essex. The taxation, other revenues, expenditures, assets and liabilities with respect to the operations of the school boards and the Corporation of the County of Essex are not reflected in the municipal fund balances of these financial statements.

The Corporation of the Town of Essex Summary of Significant Accounting Policies

December 31, 2007

(iv) Trust funds

Funds held in trust by the municipality, and their related operations are not consolidated.

Basis of accounting

Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

The consolidated statement of financial position reflects all of the financial assets and liabilities of the municipality. Financial assets are those assets which could provide resources to discharge existing liabilities or finance future operations. Municipal position represents the financial position of the municipality, and is the difference between its assets and liabilities. This provides information about the municipality's overall future revenue requirements and its ability to finance activities and meet its obligations.

Taxation and Related Revenue

Property tax billings are prepared by the municipality based on assessment rolls issued by the Municipal Property Assessment Corporation ("MPAC"). Tax rates are established annually by Town Council, incorporating amounts to be raised for local services, the requisition made by the County of Essex in respect of County services and amounts the Town is required to collect on behalf of the Province of Ontario in respect of education taxes. A normal part of the assessment process is the issue of supplementary assessment rolls, which provide updated information with respect to changes in property assessment. Once a supplementary assessment roll is received, the municipality determines the taxes applicable and renders supplementary tax billings. Taxation revenue is recorded at the time tax billings are issued. Assessments and the related property taxes are subject to appeal and write off for physical changes to the property. Tax adjustments as a result of appeals are recorded when the results of the appeal process are known.

The municipality is entitled to collect interest and penalties on overdue taxes. This revenue is recorded in the period the interest and penalties are levied.

Sewer and water charges, grants, user charges, landfill compensation, and other revenues are recorded on the accrual basis of accounting noted above.

Capital assets

The historical cost and accumulated amortization of capital assets are not recorded for municipal purposes. Capital assets are reported as an expenditure on the consolidated statement of financial activities in the period of acquisition.

The Corporation of the Town of Essex Summary of Significant Accounting Policies

December 31, 2007

Deferred revenue

Revenue restricted by legislation, regulation or agreement and not available for general municipal purposes is reported as deferred revenue on the consolidated statement of financial position. The revenue is reported on the consolidated statement of financial activities in the year in which it is used for the specified purpose.

Employee future benefits

The Corporation has adopted the method of accounting for employee future benefits as required by the Canadian Institute of Chartered Accountants. The cost of future benefits earned by employees is actuarially determined using the projected benefit method prorated on service and assumptions with respect to mortality and termination rates, retirement age and expected inflation rates with respect to employee benefit costs.

The estimated cost of these benefit obligations is recognized as employee future benefit obligations and amounts to be recovered in future years.

Amounts to be recovered

Amounts to be recovered are reported in the municipal position on the consolidated statement of financial position. The balance represents the outstanding principal portion of unmatured long-term liabilities, liabilities not yet due, and other future expenditures not yet levied on the ratepayers.

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The Corporation of the Town of Essex Notes to Financial Statements

December 31, 2007

1. Operations of school boards and the County of Essex

During the year, the following taxation revenue was raised and remitted to the school boards and the County of Essex:

	2007	2006
School boards	\$ 5,977,252	\$ 5,896,953
County of Essex	6,005,502	5,805,958
	\$ 11,982,754	\$ 11,702,911

2. Investment in E.L.K. Energy Inc.

The Corporation holds a 38% investment in E.L.K. Energy Inc. This investment is recorded using the modified equity method, wherein the investment balance represents the Town's proportionate interest in the net assets of E.L.K. Energy Inc. at acquisition, plus its proportionate share of undistributed earnings.

The investment in E.L.K. Energy Inc. at December 31, 2007 is as follows:

	2007	2006
Corporation of the Town of Essex 38% proportionate interest in the net assets of E.L.K. Energy Inc.	\$ 5,220,348	\$ 5,110,998
7.25% promissory note due to the Corporation from E.L.K. Energy Inc.	1,482,000	1,482,000
	\$ 6,702,348	\$ 6,592,998

**The Corporation of the Town of Essex
Notes to Financial Statements**

December 31, 2007

2. Investment in E.L.K. Energy Inc. (continued)

Supplementary information of E.L.K. Energy Inc. at December 31 is as follows:

	2007	2006
Financial Position		
Current assets	\$ 12,297,248	\$ 12,374,542
Capital and regulatory authority	8,784,022	8,450,022
Future income taxes	1,096,000	1,193,000
Investments	84,641	-
	\$ 22,261,911	\$ 22,017,564
Current liabilities	\$ 7,494,192	\$ 7,180,311
Long-term liabilities	1,029,956	1,387,255
	8,524,148	8,567,566
Total liabilities		
Net assets	\$ 13,737,763	\$ 13,449,998
Financial Activities		
Total revenue	\$ 23,044,406	\$ 19,685,417
Total expenditures	21,706,773	17,901,292
Income taxes	594,555	580,240
	\$ 743,078	\$ 1,203,885
Net earnings		
Corporation of the Town of Essex share of net earnings in E.L.K. Energy Inc.	\$ 282,370	\$ 457,476

E.L.K. Energy Inc. bills and collects the Town's water and sewer surcharge revenue. In 2007 these amounted total \$5,885,202 (2006 - \$5,380,151) and are included in sewer and water charges revenue.

At December 31, 2007, included in accounts receivable is a balance owing from E.L.K. Energy Inc. totaling \$400,114 (2006 - \$369,160).

These transactions are in the normal course of operations and are measured at the exchange amount which is the cost of the consideration established and agreed to by the related parties.

The Corporation of the Town of Essex Notes to Financial Statements

December 31, 2007

3. Net long-term debt

The balance of long-term debt reported on the consolidated statement of financial position is made up of the following:

	2007	2006
<i>User Fee Supported</i>		
i) Essex Sewage Treatment Plant Update and Expansion Debenture, Ontario Infrastructure Projects Corporation (OIPC) - repayable in semi-annual instalments of \$138,915 including interest at 2.66%, due September 1, 2026	\$ 4,122,776	\$ 4,287,644
ii) Essex Sewage Update and Expansion Debenture, OIPC - repayable in semi-annual instalments of \$243,990 including interest at 2.53%, due September 1, 2016	3,905,741	4,287,644
iii) Harrow Sewage Lagoon Debenture, OIPC - repayable in semi-annual instalments of \$131,564 including interest at 2.67%, due February 3, 2025	3,659,512	3,821,677
iv) Essex Sanitary Sewer Construction Advance, OIPC - bearing interest ranging from 2.5% to 2.75%, repaid in full in February 2008.	1,957,452	537,578
v) Harrow Sewage Lagoon Debenture - repayable in semi-annual instalments of \$91,272 including interest at 2.02%, due February 1, 2010	442,851	613,854
vi) Harrow/Colchester South Water Plant, OCWA - repayable in annual instalments including interest at 7.06%, due in various amounts by November 1, 2014	353,364	391,657
vii) Harrow Wastewater Lagoons Debenture, OCWA - repayable in monthly instalments of \$5,778 including interest at 6.95%, due December 1, 2009	124,096	182,588
	14,565,792	14,122,642

Property Tax Supported

i) Harrow/Colchester South Arena Debentures - repayable in annual instalments including interest ranging from 5.125% to 5.625%, due in various amounts by November 23, 2011	808,000	986,235
ii) Aquatics Centre Debentures - principal is repayable in annual instalments, interest is repayable in semi-annual instalments ranging from 5.65% to 6.5%, due in various amounts by December 10, 2009	513,000	747,000

**The Corporation of the Town of Essex
Notes to Financial Statements**

December 31, 2007

3. Net long-term debt (continued)

iii) Aquatics Centre Debentures - principal is repayable in annual instalments, interest is repayable in semi-annual instalments ranging from 5.125% to 5.625%, due in various amounts by November 23, 2011	\$ 493,000	\$ 601,750
iv) Transition Expense Debentures - principal is repayable in annual instalments, interest is repayable in semi-annual instalments ranging from 5.125% to 5.625%, due in various amounts by November 23, 2011	459,289	560,602
v) Joint Pool Venture Debenture - repayable in annual instalments of \$21,756 including interest at 5.25%, due August 1, 2013	109,549	124,755
vi) Other various debentures payable with various terms	61,555	63,000
	<u>2,444,393</u>	<u>3,083,342</u>

Benefiting Property Owners

Watermain Debentures - repayable in annual instalments including interest ranging from 4.6% to 7.06%, due in various amounts from August 2008 to December 2014	2,510,109	3,393,603
Sanitary Sewer Connection Debentures - repayable in annual instalments including interest ranging from 5.65% to 11.8%, due in various amounts by July 2017	720,356	889,000
Drain loans - repayable in annual instalments including interest ranging from 4.25% to 5.25%, due in various amounts from July 2008 to August 2013	69,154	115,493
Tile Drain loans - repayable in annual instalments including interest ranging from 6.0% to 8.0%, due in various amounts from 2008 to 2017	49,566	53,255
Shoreline loans - repayable in annual instalments including interest ranging from 6.0% to 8.0%, due in various amounts from 2008 to 2014	44,057	72,931
Other various debentures payable with various terms	39,338	135,514
	<u>3,432,580</u>	<u>4,659,796</u>
Share of Union Water System obligations	<u>1,653,636</u>	<u>1,714,576</u>

**The Corporation of the Town of Essex
Notes to Financial Statements**

December 31, 2007

3. Net long-term debt (continued)

Subtotal \$ 22,096,401 \$ 23,580,356

The municipality is contingently liable for the tile and shoreline loans included above. The responsibility for payment of principal and interest has been assumed by individual landowners

	93,623	126,181
	\$ 22,002,778	\$ 23,454,175

Principal payments for the next 5 fiscal years and thereafter are as follows:

2008	\$ 4,788,059
2009	2,850,037
2010	2,098,446
2011	3,207,222
2012	936,476
Thereafter	8,122,538
	\$ 22,002,778

Interest payments included in revenue fund expenditures during the year were \$879,555 (2006 - \$882,815).

The long-term liabilities issued in the name of the Town have received approval by the Municipal Board on or before December 31, 2007. The annual principal and interest payments required to service these liabilities are within the annual debt repayment limit prescribed by the Ministry of Municipal Affairs and Housing.

The Corporation of the Town of Essex Notes to Financial Statements

December 31, 2007

4. Amounts to be recovered

The consolidated statement of financial position reflects a balance of \$25,198,280 (2006 - \$26,367,160) for amounts to be recovered in future years. This amount reflects liabilities which are budgeted and fully funded in future periods as these liabilities are retired. This balance is comprised of the following items:

	<u>2007</u>	<u>2006</u>
Long-term debt	\$ 22,002,778	\$ 23,454,175
Post-employment benefits	3,054,400	2,742,400
Accrued interest payable on long-term debt	141,102	170,585
	<u>\$ 25,198,280</u>	<u>\$ 26,367,160</u>

5. Equity in Union Water Supply System

	<u>2007</u>	<u>2006</u>
Equity in reserve funds	\$ 1,107,619	\$ 989,628

Effective January 2001, the assets, liabilities, rights and obligations of the Union Water Supply System (the "System") were transferred from the Ontario Clean Water Agency to the joint ownership of the System's participating municipalities pursuant to an order issued by the Minister of Environment under the Municipal Water and Sewage Transfer Act, 1997.

The equity interest of each municipality is determined according to its proportionate water consumption from the System. The Corporation's equity in the System is 6.4% (2006 - 6.4%).

6. Bank indebtedness

The municipality has an authorized line of credit up to \$5,000,000 bearing interest at prime less 0.80%. At December 31, 2007, \$4,583,936 in unused credit is available.

**The Corporation of the Town of Essex
Notes to Financial Statements**

December 31, 2007

7. Expenditures by object

Total operating expenditures for the year reported on the consolidated statement of financial activities are as follows:

	<u>2007</u>	<u>2006</u>
Salaries, wages and employee benefits	\$ 8,919,340	\$ 8,410,538
Materials, goods, services, utilities	4,657,379	4,295,436
Contracted services	2,867,571	2,781,005
Interest on long-term debt	857,863	943,716
Rents and financial expenses	351,229	352,991
External transfers	103,630	111,627
	<u>17,757,012</u>	<u>16,895,313</u>
Capital	5,742,316	7,090,773
	<u>\$ 23,499,328</u>	<u>\$ 23,986,086</u>

8. Public sector salary disclosure

The Public Sector Salary Disclosure Act requires all municipalities to disclose which, if any, employees or officers received a salary totaling more than \$100,000 during the year. During 2007, the following met this requirement:

Position	Name	Salary Paid	Taxable Benefits
Police Chief	Greg Pigeon	132,249	9,321
Deputy Police Chief	Chris Southward	118,443	528
C.A.O.	Wayne Miller	112,922	945
Treasurer	Donna Hunter	101,733	837

The Corporation of the Town of Essex Notes to Financial Statements

December 31, 2007

9. Employment benefits

(a) Pension agreement

The municipality makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of its staff. This plan is a defined benefit plan which specifies the amount of the retirement to be received by the employees based on the length of service and rates of pay. The amount contributed to OMERS for 2007 was \$443,307 (2006 - \$422,450).

(b) Employee future benefit liabilities

Employee future benefit liabilities are future liabilities of the Corporation to its employees and retirees for benefits earned but not taken as at December 31, 2007 and consists of the following:

	2007	2006
Post employment benefits	\$ 3,054,400	\$ 2,742,400
Vacation	8,514	8,514
	\$ 3,062,914	\$ 2,750,914

Sick pay is paid annually for non-police and non-management employees.

(i) Post employment benefits

The post employment benefit liability is based on an actuarial valuation performed by the Corporation's actuaries. The actuarial valuation was performed as at January 1, 2006 and extrapolated to December 31, 2007. The significant actuarial assumptions adopted in estimating the Corporation's liability are as follows:

Discount rate	5.0%
Health Care Trend Rate	11% for 2008 grading to 6% in 2013
Other Medical Care Trend Rate	9% for the 2008 grading to 5% in 2012
Dental	4% per annum

Information about the Corporation's future liability with respect to these costs are as follows:

	2007	2006
Accrued benefit liability, beginning of year	\$ 2,742,400	\$ 2,433,000
Annual expense	379,500	362,800
Benefits paid	(67,500)	(53,400)
	\$ 3,054,400	\$ 2,742,400

The Corporation of the Town of Essex

Notes to Financial Statements

December 31, 2007

8. Employment benefits (continued)

(ii) Accrued sick leave

Under the sick leave benefit plan, approved for all non-police employees and non-management employees, unused sick leave can accumulate and employees may become entitled to a cash payment when they leave the Town's employment. The amount of the payment is equal to the number of sick days to which the employee is entitled at one-half their rate of pay at the time of termination. Sick leave unused is normally paid out to non-police employees and non-management employees before the end of each fiscal year, resulting in no accrual at the year end. Police employees are paid one-half of unused sick leave days annually, resulting in no carryforward or vesting. Management employees are not entitled to sick leave benefits.

(iii) Vacation

Vacation entitlements for non-management employees can accumulate and employees would be entitled to a cash payment equal to the value of their unused entitlements if they were to terminate employment.

10. Contractual obligation - Ontario Clean Water Agency

In accordance with a service agreement entered into by the Town on February 13, 1958 with the Ontario Clean Water Agency (OCWA), the existing sewage and water systems are operated by OCWA. Under this agreement, the Town is obligated to meet all operating costs and repay the long-term liabilities related to this project.

Included in the consolidated statement of financial activities are the 2007 charges from OCWA of \$674,564 (2006 - \$564,552). The consolidated statement of financial position does not reflect any assets or liabilities pertaining to the sewage or water systems except to the extent of service charges due to (or from) OCWA and the total long-term liabilities outstanding. The accumulated net surplus of OCWA is not reflected in the accompanying consolidated financial statements. The total long-term liabilities as at December 31, 2007 are \$477,460 (2006 - \$574,245).

The Corporation of the Town of Essex

Notes to Financial Statements

December 31, 2007

11. Contingencies and commitments

The municipality is currently in the process of developing its pay equity plan. As a result, any salary adjustments resulting from the ultimate implementation of the pay equity plan are not determinable at this time. The Corporation has accrued \$97,900 to date. Any additional retroactive salary adjustments determined will be charged to expenditures in the year they become known.

12. Comparative amounts

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.

13. Deferred revenue - development charges

Development charges are reported as deferred revenue since provincial legislation restricts the use of the funds to specific purposes and under certain circumstances the funds may be refunded.

14. Tangible capital assets

For the year ended December 31, 2009 the municipality will be required to comply with Section 3150, Tangible Capital Assets of the Public Sector Accounting Board Handbook. Section 3150 requires the capitalization and amortization of tangible capital assets in the financial statements. As a transitional provision, Public Sector Guideline-7, Tangible Capital Assets of Local Governments, requires disclosure of information for each major class of tangible capital asset for which all the relevant information can be provided for the complete stock of tangible capital assets of that category.

There is currently no information available for any major class of tangible capital asset.

15. Loan receivable

The loan receivable is monies loaned to Harrow Health Centre Inc. in the amount of \$1,000,000 bearing interest at 4.45% per annum, amortized over ten years. Principal and interest are due semi-annually and the loan can be repaid at any time without notice or bonus. The current repayment schedule is set with quarterly instalments of \$31,110 including principal and interest maturing on January 9, 2015.

The Corporation of the Town of Essex Schedule of Current Fund Operations

For the year ended December 31	2007 Budget	2007 Actual	2006 Actual
Revenue			
Taxation	\$ 12,205,134	\$ 12,037,868	\$ 11,592,538
Sewer and water charges	5,596,513	6,011,933	5,503,611
Grants	1,960,032	1,975,469	2,596,125
User charges	2,165,210	2,542,475	2,276,865
Landfill compensation	1,263,774	1,249,680	1,709,291
Interest and penalties	495,845	799,511	676,643
Share of undistributed income - E.L.K. Energy Inc.	-	109,350	305,476
Development contributions	440,643	652,256	274,876
Other	204,820	307,958	246,354
Commutated payments	52,076	51,507	83,827
	<u>24,384,047</u>	<u>25,738,007</u>	<u>25,265,606</u>
Expenditures			
Operating			
General government	1,973,274	2,018,661	1,960,539
Protection to persons and property	5,729,171	5,793,150	5,434,549
Transportation services	2,365,319	2,074,146	1,889,948
Environmental services	4,853,277	4,662,012	4,543,970
Health services	215,728	192,669	218,180
Recreation and cultural services	2,623,742	2,749,857	2,573,510
Planning and development	299,772	266,515	274,617
	<u>18,060,283</u>	<u>17,757,010</u>	<u>16,895,313</u>
Net revenues for the year	<u>6,323,764</u>	<u>7,980,997</u>	<u>8,370,293</u>
Financing and transfers			
Debt principal repayments	(2,972,798)	(2,862,289)	(2,300,287)
Change in accrued interest payable and post-employment benefits	-	282,517	362,218
Transfers to capital fund operations	(81,169)	(1,038,347)	(1,402,199)
Net transfers to reserves and reserve funds	(2,271,688)	(3,693,218)	(4,782,771)
	<u>(5,325,655)</u>	<u>(7,311,337)</u>	<u>(8,123,039)</u>
Change in fund balance for the year	998,109	669,660	247,254
Current fund, beginning of year	<u>7,776,019</u>	<u>7,776,019</u>	<u>7,528,765</u>
Current fund, end of year	<u>\$ 8,774,128</u>	<u>\$ 8,445,679</u>	<u>\$ 7,776,019</u>
Analyzed as follows:			
Available to offset future taxation and user charges	\$ 755,331	\$ 195,021	
Equity in E.L.K. Energy Inc.	<u>7,690,348</u>	<u>7,580,998</u>	
	<u>\$ 8,445,679</u>	<u>\$ 7,776,019</u>	

**The Corporation of the Town of Essex
Schedule of Capital Fund Operations**

For the year ended December 31	2007 Budget	2007 Actual	2006 Actual
Revenue			
Grants	\$ 129,458	\$ 2,762,309	\$ 1,177,079
Other	24,500	254,225	570,557
	<u>153,958</u>	<u>3,016,534</u>	<u>1,747,636</u>
Expenditures			
General government	85,650	47,582	217,682
Protection services	487,602	451,691	395,855
Transportation services	1,911,209	1,393,397	3,462,639
Environmental services	3,094,290	2,494,821	2,444,140
Health services	400	7,533	40,691
Recreation and cultural services	490,090	984,550	418,829
Planning and development	132,400	362,744	110,937
	<u>6,201,641</u>	<u>5,742,318</u>	<u>7,090,773</u>
Net expenditures for the year	<u>(6,047,683)</u>	<u>(2,725,784)</u>	<u>(5,343,137)</u>
Financing and transfers			
New debt issued	2,741,992	1,425,074	2,016,495
Transfers from current fund operations	81,169	1,038,347	1,402,199
Net transfers from reserves and reserve funds	2,735,077	362,652	2,817,028
	<u>5,558,238</u>	<u>2,826,073</u>	<u>6,235,722</u>
Change in fund balance for the year	(489,445)	100,289	892,585
Capital fund, beginning of the year	<u>(1,294,104)</u>	<u>(1,294,104)</u>	<u>(2,186,689)</u>
Capital fund, end of the year	<u>\$ (1,783,549)</u>	<u>\$ (1,193,815)</u>	<u>\$ (1,294,104)</u>

**The Corporation of the Town of Essex
Schedule of Reserves and Reserve Funds**

For the year ended December 31	2007 Budget	2007 Actual	2006 Actual
Revenue			
Other	\$ -	\$ 289,479	\$ 859,000
Interest	-	540,543	357,679
	-	830,022	1,216,679
Net transfers from (to) other funds			
Net transfers from current fund operations	2,271,688	3,693,218	4,782,771
Net transfers to capital fund operations	(2,735,077)	(362,652)	(2,817,028)
	(463,389)	3,330,566	1,965,743
Change in balance for the year	(463,389)	4,160,588	3,182,422
Reserves and reserve funds, beginning of the year	12,563,186	12,563,186	9,380,764
Reserves and reserve funds, end of the year	\$ 12,099,797	\$ 16,723,774	\$ 12,563,186
Analyzed as follows:			
Reserves set aside for specific purpose by Council:			
Working funds		\$ 1,000,000	\$ 1,000,000
Reserve funds set aside for specific purpose by Council:			
Contingencies		1,491,289	965,052
Sick leave benefits		173,112	166,021
Landfill		3,052,992	2,668,730
Other		3,744,220	1,616,690
Capital purposes		7,062,671	5,972,451
Gas tax revenue		199,490	174,242
		15,723,774	11,563,186
Reserves and reserve funds, end of the year		\$ 16,723,774	\$ 12,563,186

**The Corporation of the Town of Essex
Trust Funds
Financial Statements
For the year ended December 31, 2007**

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Auditors' Report

**To the Members of Council, Inhabitants and Ratepayers
of The Corporation of the Town of Essex**

We have audited the balance sheet of the trust funds of The Corporation of the Town of Essex as at December 31, 2007 and the statement of continuity of the trust funds for the year then ended. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the trust funds of The Corporation of the Town of Essex as at December 31, 2007 and the continuity of the trust funds for the year then ended in accordance with the accounting principles disclosed in the summary of significant accounting policies accompanying the financial statements.

Chartered Accountants, Licensed Public Accountants

Essex, Ontario
July 7, 2008

**The Corporation of the Town of Essex
Trust Funds
Balance Sheet**

December 31, 2007

	Ontario Home Renewal Program		Cemetary and Headstone Care and Maintenance	
	2007	2006	2007	2006
Assets and liabilities				
Cash	\$ 277	\$ 292	\$ 237,465	\$ 228,674
Due to general account	(225)	(245)	(94)	(739)
	\$ 52	\$ 47	\$ 237,371	\$ 227,935
Fund balance	\$ 52	\$ 47	\$ 237,371	\$ 227,935

Statement of Continuity

For the year ended December 31, 2007

	Ontario Home Renewal Program		Cemetary and Headstone Care and Maintenance	
	2007	2006	2007	2006
Net receipts				
Interest and other	\$ 5	\$ -	\$ 9,436	\$ 7,800
Net change in trust funds during the year	5	-	9,436	7,800
Balance, beginning of the year	47	47	227,935	220,135
Balance, end of the year	\$ 52	\$ 47	\$ 237,371	\$ 227,935

The Corporation of the Town of Essex
Trust Funds
Note to Financial Statements

December 31, 2007

1. Summary of significant accounting policies

Basis of accounting

Receipts and expenditures are reported on the cash basis of accounting.

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Tab C



Consolidated Financial Statements of

E.L.K. ENERGY INC.

Year ended December 31, 2006



KPMG LLP
Chartered Accountants
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3200 Deziel Drive
Windsor ON N8W 5K8

Telephone (519) 251-3500
Fax (519) 251-3530
(519) 251-3540
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of E.L.K. Energy Inc. as at December 31, 2006 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of E.L.K. Energy Inc. as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Windsor, Canada
March 9, 2007

E.L.K. ENERGY INC.

Consolidated Balance Sheet

December 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Current assets:		
Cash:		
Unrestricted	\$ 4,274,091	\$ 5,886,334
Restricted	3,031,859	2,967,763
Accounts receivable	1,742,037	930,982
Work in process	6,599	38,633
Prepaid expenses	192,506	101,518
Unbilled revenue	2,734,914	3,483,315
Inventories	392,536	342,439
Payments in lieu of income taxes	-	524,493
	<u>12,374,542</u>	<u>14,275,477</u>
Capital assets, at cost (note 2)	19,301,919	18,988,953
Less accumulated amortization	<u>11,697,813</u>	<u>11,048,933</u>
	7,604,106	7,940,020
Regulatory assets (note 3)	845,916	635,024
Future payments in lieu of income taxes (note 10)	1,193,000	1,128,000
	<u>\$ 22,017,564</u>	<u>\$ 23,978,521</u>

	2006	2005
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,396,384	\$ 4,374,946
Payment in lieu of income taxes payable	357,432	-
Current portion of customer deposits	526,495	1,517,733
Shareholders' promissory notes (note 4)	3,900,000	4,550,000
	<u>7,180,311</u>	<u>10,442,679</u>
Long-term liabilities:		
Customer deposits	732,380	239,692
Employee future benefits (note 5)	654,875	650,037
	<u>1,387,255</u>	<u>889,729</u>
Shareholders' equity:		
Share capital (note 6)	100	100
Retained earnings	9,047,525	8,243,640
Contributed surplus	4,402,373	4,402,373
	<u>13,449,998</u>	<u>12,646,113</u>
Contingency and commitments (notes 12 and 13)		
	<u>\$ 22,017,564</u>	<u>\$ 23,978,521</u>

See accompanying notes to consolidated financial statements.

E.L.K. ENERGY INC.

Consolidated Statement of Earnings

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Service revenue	\$ 19,651,933	\$ 19,959,828
Service revenue adjustment	(741,815)	729,421
	18,910,118	20,689,249
Cost of electricity	15,115,595	17,197,175
Gross margin on service revenue	3,794,523	3,492,074
Other operating revenue:		
Interest and other	711,951	552,379
Late payment charges	63,348	62,366
	775,299	614,745
	4,569,822	4,106,819
Expenditures:		
Administration	800,414	659,069
Billing and collecting	527,230	481,419
Amortization	648,882	651,518
Interest - shareholders	333,738	387,319
Operations and maintenance	475,433	601,125
	2,785,697	2,780,450
Earnings before payments in lieu of income taxes	1,784,125	1,326,369
Payments in lieu of income taxes:		
Current	645,240	309,400
Future	(65,000)	(138,000)
	580,240	171,400
Net earnings for the year	\$ 1,203,885	\$ 1,154,969

See accompanying notes to consolidated financial statements.

E.L.K. ENERGY INC.

Consolidated Statement of Retained Earnings

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Balance, beginning of year	\$ 8,243,640	\$ 7,088,671
Net earnings for the year	1,203,885	1,154,969
Less dividends paid	(400,000)	-
Balance, end of year	\$ 9,047,525	\$ 8,243,640

See accompanying notes to consolidated financial statements.

E.L.K. ENERGY INC.

Consolidated Statement of Cash Flows

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Net earnings for the year	\$ 1,203,885	\$ 1,154,969
Items not involving cash:		
Amortization of capital assets	648,882	651,518
Future payments in lieu of income taxes	(65,000)	(138,000)
Increase (decrease) in employee future benefits	4,838	(3,192)
Changes in non-cash operating working capital	(2,259,580)	1,662,801
	(466,975)	3,328,096
Financing:		
Decrease in shareholders' promissory notes	(650,000)	(650,000)
Increase (decrease) in long-term customer deposits	492,688	(9,304)
Dividends paid	(400,000)	-
	(557,312)	(659,304)
Investing:		
Capital assets additions, net	(312,968)	(846,242)
Increase in regulatory assets	(210,892)	(588,522)
	(523,860)	(1,434,764)
Increase (decrease) in cash	(1,548,147)	1,234,028
Cash, beginning of year	8,854,097	7,620,069
Cash, end of year	\$ 7,305,950	\$ 8,854,097
Cash consists of:		
Unrestricted	\$ 4,274,091	\$ 5,886,334
Restricted	3,031,859	2,967,763
	\$ 7,305,950	\$ 8,854,097

See accompanying notes to consolidated financial statements.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2006

E.L.K. Energy Inc. supplies and distributes electric power and maintains electrical distribution systems in the following communities: Essex, Harrow, Belle River, Comber, Kingsville, and Cottam.

E.L.K. Energy Inc. also performs the billing function for the Municipality of the Town of Essex Water Department.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared by management in accordance with the Ontario Energy Board ("OEB") Accounting Procedures Handbook which is generally consistent with Canadian generally accepted accounting principles.

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, E.L.K. Solutions Inc. All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Restricted cash:

Restricted cash of \$926,286 consists of an irrevocable standby letter of credit issued in favour of the Independent Electricity System Operator ("IESO") as collateral in support of the Company's purchase of electricity. Restricted cash of \$2,105,573 relates to contractor security deposits.

(c) Inventories:

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(d) Capital assets:

Capital assets are stated at cost. Buildings, plant and equipment and the transmission and distribution system are amortized on the straight-line basis at rates suggested by the Ontario Energy Board. These rates of amortization range from 2% to 25%.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

1. Significant accounting policies (continued):

(e) Revenue recognition:

Revenue from the sale of electrical energy is recognized when power is delivered to customers. Billings from the last meter reading date prior to December 31 are adjusted based on a number of factors to reflect estimated usage to the year end date. These estimates are reflected on the balance sheet as unbilled revenue. Unbilled revenue is the amount of electricity that has been shipped to customers but not billed by the end of the year.

(f) Employee future benefits:

The Company provides post retirement benefits for employees who retire from active employment. The Company measures the costs of its obligation based on its best estimate.

The Company accrues its obligations under employee benefit plans as the employees render the services necessary to earn employee future benefits.

The cost of retirement benefits earned by employees is actuarially determined using the projected cost method pro rated on service and the actuary's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

(g) Payments in lieu of taxes ("PILs"):

The Company is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the Electricity Act, the Company is required to compute taxes under the ITA and OCTA and remit such amounts thereunder computed to the Ministry of Finance (Ontario). These amounts, referred to as PILs under the Electricity Act, are applied to reduce certain debt obligations of the former Ontario Hydro continuing as Ontario Electricity Financial Corporation.

The Company provides for amounts in lieu of corporate income taxes using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

1. Significant accounting policies (continued):

(g) Payments in lieu of taxes ("PILs") (continued):

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(h) Pension plan:

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan.

(i) Customer deposits:

Customer deposits comprise cash collections from electricity customers which are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individuals upon termination of their electricity service.

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, regulatory assets, future payments in lieu of income taxes and employee future benefits, and the carrying value of capital assets. Actual results could differ from those estimates.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

2. Capital assets:

			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 173,877	\$ -	\$ 173,877	\$ 156,387
Buildings, plant and equipment	3,160,558	2,383,972	776,586	833,987
Transmission and distribution system	15,967,484	9,313,841	6,653,643	6,949,646
	<u>\$ 19,301,919</u>	<u>\$ 11,697,813</u>	<u>\$ 7,604,106</u>	<u>\$ 7,940,020</u>

3. Regulatory assets:

Regulatory assets and liabilities arise as a result of the rate regulating process. The Company has recorded the following regulatory assets and liabilities:

	2006	2005
Regulatory assets:		
Future payments in lieu of tax	\$ 527,889	\$ 527,889
Retail settlement variances	337,060	286,537
Transition costs	170,680	191,356
Other regulatory assets	140,727	143,594
Miscellaneous deferred debits	22,864	25,132
Regulatory liabilities:		
Retail settlement variances	(353,304)	(539,484)
	<u>\$ 845,916</u>	<u>\$ 635,024</u>

(a) Future payments in lieu of income taxes

Future payments in lieu of income taxes represent the OEB approved PILs methodology for determining the deferral account allowance.

(b) Retail settlement variances

E.L.K. has deferred certain retail settlement variances amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

3. Regulatory assets (continued):

(b) Retail settlement variances (continued)

These variances represent amounts that have accumulated since Market Opening and comprise:

- (i) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges, amounts charged to allow for the purchase of imported electricity and transmission charges, and the amounts billed to customers by the Company based on the OEB approved market service rate; and
- (ii) amounts allocated to the Company and approved by the OEB for the recovery of regulatory assets incurred by Hydro One including low voltage tariffs. The Hydro One recovery of these charges commenced on April 1, 2005 and these costs will be passed through to customers during the rate making process.

(c) Transition costs

Transition costs represent specific and incremental costs to the Company for systems and process changes to support the opening of the competitive electricity market in Ontario on May 1, 2002 ("Market Opening"). These costs have been deferred pursuant to regulation underlying the Electricity Act and are subject to review and approval for recovery by the OEB. Expenditures determined to be ineligible for recovery will be expensed in the period of such determination.

During the year, the Company elected to file a minimum review application for regulatory assets. As a result of this election, the Company was required to write down 10% of the costs incurred.

(d) Other regulatory assets

On December 20, 2004, the OEB issued a letter on the accounting treatment of OEB assessments. The OEB clearly identifies that it is their intent to allow electricity LDC's to record their OEB cost assessments for the Board's fiscal year 2005 and subsequent year(s) in order that these costs may be given consideration for rate recovery in the future.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

3. Regulatory assets (continued):

(d) Other regulatory assets (continued)

On February 15, 2005, the OEB issued a letter instructing the deferral of cash pension contributions made to the Ontario Municipal Employees Retirement System ("OMERS") for 2005 and subsequent years. As of May 1, 2006, the deferral of OMERS contributions has been discontinued and OMERS has been included in the rates.

(e) Miscellaneous deferred debits

On December 13, 2005, the OEB issued a letter on the accounting treatment of costs related to Ontario Price Credit ("OPC"). Costs related to the payment of OPC should be deferred. The disposition of these accounts will be considered by the OEB when setting rates for 2007.

(f) Electricity industry in Ontario

The Ontario Energy Board Act, 1988 (Ontario) ("OEBA"), conferred on the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity consumers, and the responsibility for ensuring the distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and records, regulatory accounting principles, separation of accounts for distinct business and filing and processing requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory treatments that may result in accounting treatments that differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

4. Shareholders' promissory notes:

The shareholders' promissory notes are payable on demand, accrue interest at 7.25% payable annually, and are secured by a general security agreement.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

5. Employee future benefits:

E.L.K. Energy Inc. pays certain benefits on behalf of its retired employees.

The Corporation measures its accrued benefit obligation for accounting purposes as at December 31 each year. A valuation date of December 31, 2006 has been used.

Information about E.L.K. Energy Inc.'s defined benefit plans, which are unfunded, is as follows:

	2006	2005
Accrued benefit obligation, beginning of year	\$ 650,037	\$ 653,229
Service cost	5,891	5,571
Interest cost	33,304	33,032
Amortization of actuarial loss	(3,903)	(4,182)
Benefits paid	(30,454)	(37,613)
Projected accrued benefit obligation, end of year, as determined by actuarial valuation	\$ 654,875	\$ 650,037

	2006	2005
Funded status:		
Funded status, deficit	\$ (709,162)	\$ (591,487)
Unamortized net actuarial (gain) loss	54,287	(58,550)
	\$ (654,875)	\$ (650,037)

The main actuarial assumptions employed for the valuations are as follows:

	2006	2005
Discount rate	5.25%	5.75%
Rate of compensation increase	3%	3%
Medical trend rate:		
Initial	10%	9.4%
Ultimate	4%	4%

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

5. Employee future benefits (continued):

The approximate impact of a 1% change in health insurance trend rates is as follows:

Change in obligation for 1% increase in trend rates	\$	45,000
Change in obligation for 1% decrease in trend rates		(39,000)

6. Share capital:

The authorized and issued share capital is as follows:

	2006	2005
Authorized:		
Unlimited common shares		
Issued:		
10,000 common shares	\$ 100	\$ 100

The common shares were issued as follows:

	# of Common shares	Amount paid
Town of Essex	3,800	\$ 38
Town of Lakeshore	2,400	24
Town of Kingsville	3,800	38
	10,000	\$ 100

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

7. Pension costs:

The Company makes contributions to the Ontario Municipal Employees Retirement Fund ("OMERS") which is a multi-employer plan, on behalf of 19 members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2006 was \$96,288 (2005 – \$81,732) for current service and is included as an expenditure on the statement of earnings in 2006 and as a regulatory asset in 2005.

In 2006 the contribution rates were 6.5% for employees earnings below the year's maximum pensionable earnings and 9.6% thereafter. The contribution rates will remain the same for 2007.

8. Supplemental cash flow information:

	2006	2005
Cash paid during the year for:		
Interest	\$ 333,738	\$ 387,319
Payments in lieu of income taxes	323,296	1,236,152
Cash received during the year for:		
Interest	344,538	219,088

9. Related party transactions:

The amounts due to/from shareholders and subsidiary are as follows:

	2006	2005
Due to shareholders, included in accounts payable	\$ 456,729	\$ 354,414

These amounts are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

10. Future payments in lieu of income taxes:

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax liabilities and assets are as follows:

	2006	2005
Future tax liabilities:		
Regulatory assets	\$ 16,000	\$ 7,000
Investment	13,000	12,000
Total future tax liabilities	\$ 29,000	\$ 19,000
Future tax assets:		
Capital assets	\$ 783,000	\$ 694,000
Employee future benefits	237,000	235,000
Intangible assets	202,000	218,000
Total future tax assets	1,222,000	1,147,000
Net future tax assets	\$ 1,193,000	\$ 1,128,000

11. Fair value of financial assets and liabilities:

The fair value of the Company's cash, accounts receivable, accounts payable and accrued liabilities, customer deposits and shareholders' promissory notes approximate their carrying values due to the relative short-term maturity of these financial instruments.

Financial assets held by the Company expose it to credit risk. As at December 31, 2006, there were no significant concentrations of credit risk with respect to any class of financial assets.

The Company earns its revenue from a broad base of customers located principally in the towns of Essex, Lakeshore, and Kingsville. No single customer would account for revenue or an accounts receivable balance in excess of 10% of the respective reported balances.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2006

12. Contingency:

The Company belongs to the Municipal Electrical Association Reciprocal Insurance Exchange ("Exchange"). This is a pooling of the public liability insurance risks of many Ontario electrical distribution utilities. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they were members on a pro rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur, it would be funded over a period of up to five years. Since joining the Exchange, the Company has not been subject to any assessments for loss experiences.

13. Commitments:

The Company has committed to purchasing equipment valued at \$318,314 in 2007. The amount deposited in 2006 for this equipment is \$163,186 with the balance due upon delivery in 2007.



Non-Consolidated Financial Statements of

E.L.K. ENERGY INC.

Year ended December 31, 2006



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AUDITORS' REPORT TO THE DIRECTORS

We have audited the non-consolidated balance sheet of E.L.K. Energy Inc. as at December 31, 2006 and the non-consolidated statements of earnings, retained earnings and cash flows for the year then ended. These non-consolidated financial statements have been prepared for tax return filing purposes. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these non-consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance the basis of accounting described in note 1 to the non-consolidated financial statements.

These non-consolidated financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are intended for the information and use of the Directors of E.L.K. Energy Inc. and the federal and provincial income tax authorities for income tax purposes. The non-consolidated financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

KPMG LLP

Chartered Accountants

Windsor, Canada

March 9, 2007

E.L.K. ENERGY INC.

Non-Consolidated Balance Sheet

December 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Current assets:		
Cash:		
Unrestricted	\$ 4,132,342	\$ 5,750,639
Restricted	3,031,859	2,967,763
Accounts receivable	1,788,117	1,030,932
Work in process	6,599	38,633
Prepaid expenses	192,506	101,518
Unbilled revenue	2,734,914	3,483,315
Inventories	366,079	311,357
Payments in lieu of income taxes	-	510,210
	<u>12,252,416</u>	<u>14,194,367</u>
Capital assets, at cost (note 3)	19,230,886	18,928,303
Less accumulated amortization	<u>11,678,334</u>	<u>11,035,676</u>
	7,552,552	7,892,627
Regulatory assets (note 4)	845,916	635,024
Future payments in lieu of income taxes (note 11)	1,193,000	1,128,000
Investment in subsidiary - E.L.K. Solutions Inc.	100	100
	<u>\$ 21,843,984</u>	<u>\$ 23,850,118</u>

	2006	2005
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,384,840	\$ 4,362,018
Payment in lieu of income taxes payable	342,960	-
Current portion of customer deposits	526,495	1,517,733
Shareholders' promissory notes (note 5)	3,900,000	4,550,000
	<u>7,154,295</u>	<u>10,429,751</u>
Long-term liabilities:		
Customer deposits	732,380	239,692
Employee future benefits (note 6)	654,875	650,037
	<u>1,387,255</u>	<u>889,729</u>
Shareholders' equity:		
Share capital (note 7)	100	100
Retained earnings	8,899,961	8,128,165
Contributed surplus	4,402,373	4,402,373
	<u>13,302,434</u>	<u>12,530,638</u>
Contingency and commitments (notes 13 and 14)		
	<u>\$ 21,843,984</u>	<u>\$ 23,850,118</u>

See accompanying notes to non-consolidated financial statements.

E.L.K. ENERGY INC.

Non-Consolidated Statement of Earnings

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Service revenue	\$ 19,335,923	\$ 19,668,758
Service revenue adjustment	(741,815)	729,421
	18,594,108	20,398,179
Cost of electricity	14,871,800	16,965,467
Gross margin on service revenue	3,722,308	3,432,712
Other operating revenue:		
Interest and other	711,951	552,379
Late payment charges	63,348	62,366
	775,299	614,745
	4,497,607	4,047,457
Expenditures:		
Administration	786,912	626,995
Billing and collecting	527,230	481,419
Amortization	642,658	646,813
Interest - shareholders	333,738	387,319
Operations and maintenance	475,433	601,125
	2,765,971	2,743,671
Earnings before payments in lieu of income taxes	1,731,636	1,303,786
Payments in lieu of income taxes:		
Current	624,840	300,000
Future	(65,000)	(138,000)
	559,840	162,000
Net earnings for the year	\$ 1,171,796	\$ 1,141,786

See accompanying notes to non-consolidated financial statements.

E.L.K. ENERGY INC.

Non-Consolidated Statement of Retained Earnings

Year ended December 31, 2006, with comparative figures for 2005

	2006		2005	
Balance, beginning of year	\$	8,128,165	\$	6,986,379
Net earnings for the year		1,171,796		1,141,786
Dividends paid		(400,000)		-
Balance, end of year	\$	8,899,961	\$	8,128,165

See accompanying notes to non-consolidated financial statements.

E.L.K. ENERGY INC.

Non-Consolidated Statement of Cash Flows

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Net earnings for the year	\$ 1,171,796	\$ 1,141,786
Items not involving cash:		
Amortization of capital assets	642,658	646,813
Increase (decrease) in employee future benefits	4,838	(3,192)
Future payments in lieu of income taxes	(65,000)	(138,000)
Changes in non-cash operating working capital	(2,237,706)	2,015,786
	(483,414)	3,663,193
Financing:		
Decrease in shareholders' promissory notes	(650,000)	(650,000)
Increase (decrease) in long-term customer deposits	492,688	(9,304)
Dividends paid	(400,000)	-
	(557,312)	(659,304)
Investing:		
Capital assets additions, net	(302,583)	(826,248)
Increase in regulatory assets	(210,892)	(588,522)
	(513,475)	(1,414,770)
Increase (decrease) in cash	(1,554,201)	1,589,119
Cash, beginning of year	8,718,402	7,129,283
Cash, end of year	\$ 7,164,201	\$ 8,718,402
Cash consists of:		
Unrestricted	\$ 4,132,342	\$ 5,750,639
Restricted	3,031,859	2,967,763
	\$ 7,164,201	\$ 8,718,402

See accompanying notes to non-consolidated financial statements.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements

Year ended December 31, 2006

E.L.K. Energy Inc. supplies and distributes electric power and maintains electrical distribution systems in the following communities: Essex, Harrow, Belle River, Comber, Kingsville, and Cottam.

E.L.K. Energy Inc. also performs the billing function for the Municipality of the Town of Essex Water Department.

1. Basis of presentation:

The non-consolidated financial statements have been prepared in accordance with the significant accounting policies set out below. These non-consolidated financial statements materially differ from Canadian generally accepted accounting principles because they are non-consolidated. The Company's investment in its wholly-owned subsidiary, E.L.K. Solutions Inc., is accounted for using the cost method. Earnings from the investment are recognized only to the extent dividends are received or receivable. Consolidated financial statements are available for distribution.

2. Significant accounting policies:

(a) Restricted cash:

Restricted cash of \$926,286 consists of an irrevocable standby letter of credit issued in favour of the Independent Electricity System Operator ("IESO") as collateral in support of the Company's purchase of electricity. Restricted cash of \$2,105,573 relates to contractor security deposits.

(b) Inventories:

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(c) Capital assets:

Capital assets are stated at cost. Buildings, plant and equipment and the transmission and distribution system are amortized on the straight-line basis at rates suggested by the Ontario Energy Board. These rates of amortization range from 2% to 25%.

(d) Revenue recognition:

Revenue from the sale of electrical energy is recognized when power is delivered to customers. Billings from the last meter reading date prior to December 31 are adjusted based on a number of factors to reflect estimated usage to the year end date. These estimates are reflected on the balance sheet as unbilled revenue. Unbilled revenue is the amount of electricity that has been shipped to customers but not billed by the end of the year.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2006

2. Significant accounting policies (continued):

(e) Employee future benefits:

The Company provides post retirement benefits for employees who retire from active employment. The Company measures the costs of its obligation based on its best estimate.

The Company accrues its obligations under employee benefit plans as the employees render the services necessary to earn employee future benefits.

The cost of retirement benefits earned by employees is actuarially determined using the projected cost method pro rated on service and the actuary's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

(f) Payments in lieu of taxes ("PILs"):

The Company is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the Electricity Act, the Company is required to compute taxes under the ITA and OCTA and remit such amounts thereunder computed to the Ministry of Finance (Ontario). These amounts, referred to as PILs under the Electricity Act, are applied to reduce certain debt obligations of the former Ontario Hydro continuing as Ontario Electricity Financial Corporation.

The Company provides for amounts in lieu of corporate income taxes using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2006

2. Significant accounting policies (continued):

(f) Payments in lieu of taxes ("PILs") (continued):

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(g) Pension plan:

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan.

(h) Customer deposits:

Customer deposits comprise cash collections from electricity customers which are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individuals upon termination of their electricity service.

(i) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, regulatory assets, future payments in lieu of income taxes and employee future benefits, and the carrying value of capital assets. Actual results could differ from those estimates.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2006

3. Capital assets:

			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 173,877	\$ -	\$ 173,877	\$ 156,387
Buildings, plant and equipment	3,089,525	2,364,493	725,032	786,594
Transmission and distribution system	15,967,484	9,313,841	6,653,643	6,949,646
	<u>\$ 19,230,886</u>	<u>\$ 11,678,334</u>	<u>\$ 7,552,552</u>	<u>\$ 7,892,627</u>

4. Regulatory assets:

Regulatory assets and liabilities arise as a result of the rate regulating process. The Company has recorded the following regulatory assets and liabilities:

	2006	2005
Regulatory assets:		
Future payments in lieu of income taxes	\$ 527,889	\$ 527,889
Retail settlement variances	337,060	286,537
Transition costs	170,680	191,356
Other regulatory assets	140,727	143,594
Miscellaneous deferred debits	22,864	25,132
Regulatory liabilities:		
Retail settlement variances	(353,304)	(539,484)
	<u>\$ 845,916</u>	<u>\$ 635,024</u>

(a) Future payments in lieu of income taxes

Future payments in lieu of income taxes represent the OEB approved PILs methodology for determining the deferral account allowance.

(b) Retail settlement variances

E.L.K. has deferred certain retail settlement variances amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2006

4. Regulatory assets (continued):

(b) Retail settlement variances (continued)

These variances represent amounts that have accumulated since Market Opening and comprise:

- (i) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges, amounts charged to allow for the purchase of imported electricity and transmission charges, and the amounts billed to customers by the Company based on the OEB approved market service rate; and
- (ii) amounts allocated to the Company and approved by the OEB for the recovery of regulatory assets incurred by Hydro One including low voltage tariffs. The Hydro One recovery of these charges commenced on April 1, 2005 and these costs will be passed through to customers during the rate making process.

(c) Transition costs

Transition costs represent specific and incremental costs to the Company for systems and process changes to support the opening of the competitive electricity market in Ontario on May 1, 2002 ("Market Opening"). These costs have been deferred pursuant to regulation underlying the Electricity Act and are subject to review and approval for recovery by the OEB. Expenditures determined to be ineligible for recovery will be expensed in the period of such determination.

During the year, the Company elected to file a minimum review application for regulatory assets. As a result of this election, the Company was required to write down 10% of the costs incurred.

(d) Other regulatory assets

On December 20, 2004, the OEB issued a letter on the accounting treatment of OEB assessments. The OEB clearly identifies that it is their intent to allow electricity LDC's to record their OEB cost assessments for the Board's fiscal year 2005 and subsequent year(s) in order that these costs may be given consideration for rate recovery in the future.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2006

4. Regulatory assets (continued):

(d) Other regulatory assets (continued)

On February 15, 2005, the OEB issued a letter instructing the deferral of cash pension contributions made to the Ontario Municipal Employees Retirement System ("OMERS") for 2005 and subsequent years. As of May 1, 2006, the deferral of OMERS contributions has been discontinued and OMERS has been included in the rates.

(e) Miscellaneous deferred debits

On December 13, 2005, the OEB issued a letter on the accounting treatment of costs related to Ontario Price Credit ("OPC"). Costs related to the payment of OPC should be deferred. The disposition of these accounts will be considered by the OEB when setting rates for 2007.

(f) Electricity industry in Ontario

The Ontario Energy Board Act, 1988 (Ontario) ("OEBA"), conferred on the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity consumers, and the responsibility for ensuring the distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and records, regulatory accounting principles, separation of accounts for distinct business and filing and processing requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory treatments that may result in accounting treatments that differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

5. Shareholders' promissory notes:

The shareholders' promissory notes are payable on demand, accrue interest at 7.25% payable annually, and are secured by a general security agreement.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2006

6. Employee future benefits:

E.L.K. Energy Inc. pays certain benefits on behalf of its retired employees.

The Corporation measures its accrued benefit obligation for accounting purposes as at December 31 each year. A valuation date of December 31, 2006 has been used.

Information about E.L.K. Energy Inc.'s defined benefit plans, which are unfunded, is as follows:

	2006	2005
Accrued benefit obligation, beginning of year	\$ 650,037	\$ 653,229
Service cost	5,891	5,571
Interest cost	33,304	33,032
Amortization of actuarial loss	(3,903)	(4,182)
Benefits paid	(30,454)	(37,613)
Projected accrued benefit obligation, end of year, as determined by actuarial valuation	\$ 654,875	\$ 650,037

	2006	2005
Funded status:		
Funded status, deficit	\$ (709,162)	\$ (591,487)
Unamortized net actuarial (gain) loss	54,287	(58,550)
	\$ (654,875)	\$ (650,037)

The main actuarial assumptions employed for the valuations are as follows:

	2006	2005
Discount rate	5.25%	5.75%
Rate of compensation increase	3%	3%
Medical trend rate:		
Initial	10%	9.4%
Ultimate	4%	4%

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2006

6. Employee future benefits (continued):

The approximate impact of a 1% change in health insurance trend rates is as follows:

Change in obligation for 1% increase in trend rates	\$	45,000
Change in obligation for 1% decrease in trend rates		(39,000)

7. Share capital:

The authorized and issued share capital is as follows:

	2006	2005
Authorized:		
Unlimited common shares		
Issued:		
10,000 common shares	\$ 100	\$ 100

The common shares were issued as follows:

	# of Common shares	Amount paid
Town of Essex	3,800	\$ 38
Town of Lakeshore	2,400	24
Town of Kingsville	3,800	38
	10,000	\$ 100

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2006

8. Pension costs:

The Company makes contributions to the Ontario Municipal Employees Retirement Fund ("OMERS") which is a multi-employer plan, on behalf of 19 members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2006 was \$96,288 (2005 – \$81,732) for current service and is included as an expenditure on the statement of earnings in 2006 and as a regulatory asset in 2005.

In 2006 the contribution rates were 6.5% for employees earnings below the year's maximum pensionable earnings and 9.6% thereafter. The contribution rates will remain the same for 2007.

9. Supplemental cash flow information:

	2006	2005
Cash paid during the year for:		
Interest	\$ 333,738	\$ 387,319
Payments in lieu of income taxes	317,040	1,200,725
Cash received during the year for:		
Interest	340,646	213,712

10. Related party transactions:

The amounts due to/from shareholders and subsidiary are as follows:

	2006	2005
Due to shareholders, included in accounts payable	\$ 456,729	\$ 354,414
Due from subsidiary, included in accounts receivable	251,627	285,813

These amounts are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2006

11. Future payments in lieu of income taxes:

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax liabilities and assets are as follows:

	2006	2005
Future tax liabilities:		
Regulatory assets	\$ 16,000	\$ 7,000
Investment	13,000	12,000
Total future tax liabilities	\$ 29,000	\$ 19,000
Future tax assets:		
Capital assets	\$ 783,000	\$ 694,000
Employee future benefits	237,000	235,000
Intangible assets	202,000	218,000
Total future tax assets	1,222,000	1,147,000
Net future tax assets	\$ 1,193,000	\$ 1,128,000

E.L.K. ENERGY INC.

Notes to Non-Consolidated Financial Statements (continued)

Year ended December 31, 2006

12. Fair value of financial assets and liabilities:

The fair value of the Company's cash, accounts receivable, accounts payable and accrued liabilities, customer deposits and shareholders' promissory notes approximate their carrying values due to the relative short-term maturity of these financial instruments.

It is not practical to determine the fair value of the investment in subsidiary as it is not publicly traded.

Financial assets held by the Company expose it to credit risk. As at December 31, 2006, there were no significant concentrations of credit risk with respect to any class of financial assets.

The Company earns its revenue from a broad base of customers located principally in the towns of Essex, Lakeshore, and Kingsville. No single customer would account for revenue or an accounts receivable balance in excess of 10% of the respective reported balances.

13. Contingency:

The Company belongs to the Municipal Electrical Association Reciprocal Insurance Exchange ("Exchange"). This is a pooling of the public liability insurance risks of many Ontario electrical distribution utilities. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they were members on a pro rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur, it would be funded over a period of up to five years. Since joining the Exchange, the Company has not been subject to any assessments for loss experiences.

14. Commitments:

The Company has committed to purchasing equipment valued at \$318,314 in 2007. The amount deposited in 2006 for this equipment was \$163,186 with the balance due upon delivery in 2007.

Financial Statements of

E.L.K. SOLUTIONS INC.

Year ended December 31, 2006



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheet of E.L.K. Solutions Inc. as at December 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of E.L.K. Solutions Inc. as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Windsor, Canada

March 9, 2007

E.L.K. SOLUTIONS INC.

Balance Sheet

December 31, 2006, with comparative figures for 2005

	2006	2005
Assets		
Current assets:		
Cash	\$ 141,749	\$ 135,695
Accounts receivable	205,547	185,863
Inventories	26,457	31,082
Payments in lieu of income taxes receivable	-	14,283
	<u>373,753</u>	<u>366,923</u>
Capital assets, at cost (note 2)	71,033	60,650
Less accumulated amortization	19,479	13,257
	<u>51,554</u>	<u>47,393</u>
	<u>\$ 425,307</u>	<u>\$ 414,316</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 263,071	\$ 298,641
Payments in lieu of income taxes	14,472	-
	<u>277,543</u>	<u>298,641</u>
Shareholders' equity:		
Share capital (note 3)	200	200
Retained earnings	147,564	115,475
	<u>147,764</u>	<u>115,675</u>
	<u>\$ 425,307</u>	<u>\$ 414,316</u>

See accompanying notes to financial statements.

E.L.K. SOLUTIONS INC.

Statement of Earnings and Retained Earnings

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Service revenue	\$ 316,010	\$ 291,070
Cost of services provided	243,795	231,708
Gross margin on service revenue	72,215	59,362
Expenditures:		
Administration	13,502	32,074
Amortization	6,224	4,705
	19,726	36,779
Income before payments in lieu of income taxes	52,489	22,583
Payments in lieu of income taxes	20,400	9,400
Net earnings for the year	32,089	13,183
Retained earnings, beginning of year	115,475	102,292
Retained earnings, end of year	\$ 147,564	\$ 115,475

See accompanying notes to financial statements.

E.L.K. SOLUTIONS INC.

Statement of Cash Flows

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Net earnings for the year	\$ 32,089	\$ 13,183
Item not involving cash:		
Amortization of capital assets	6,224	4,705
Changes in non-cash operating working capital	(21,874)	(352,985)
	16,439	(335,097)
Investments:		
Capital asset additions	(10,385)	(19,994)
Increase (decrease) in cash	6,054	(355,091)
Cash, beginning of year	135,695	490,786
Cash, end of year	\$ 141,749	\$ 135,695

See accompanying notes to financial statements.

E.L.K. SOLUTIONS INC.

Notes to Financial Statements

Year ended December 31, 2006

E.L.K. Solutions Inc. (the "Corporation") supplies and maintains street lighting, sentinel lighting and water heater systems in the following communities: Essex, Harrow, Belle River, Comber, Kingsville, and Cottam.

1. Significant accounting policies:

(a) Inventories:

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(b) Capital assets:

Capital assets are stated at cost. Water heater and sentinel lighting rental units are amortized on the straight-line basis over 10 years as suggested by the Ontario Energy Board.

(c) Payments in lieu of income taxes:

The Corporation provides for income taxes using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(d) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Significant items subject to such estimates and assumptions are the valuation allowances for accounts receivable and the carrying value of capital assets. Due to these uncertainties, actual results reported in future periods might differ from those estimates.

E.L.K. SOLUTIONS INC.

Notes to Financial Statements (continued)

Year ended December 31, 2006

2. Capital assets:

	2006		2005	
	Cost	Accumulated amortization	Net book value	Net book value
Water heater rental units	\$ 61,485	\$ 13,447	\$ 48,038	\$ 44,085
Sentinel lighting rental units	9,548	6,032	3,516	3,308
	<u>\$ 71,033</u>	<u>\$ 19,479</u>	<u>\$ 51,554</u>	<u>\$ 47,393</u>

3. Share capital:

The authorized and issued share capital is as follows:

	2006		2005	
Authorized:				
Unlimited number of voting Class A common shares				
Unlimited number of non-voting Class B common shares				
Issued:				
10,000 Class A shares		\$ 100	\$ 100	
10,000 Class B shares		100	100	
		<u>\$ 200</u>	<u>\$ 200</u>	

The common shares were issued as follows:

	Number of shares	Amount paid
Class A common shares:		
E.L.K. Energy Inc.	10,000	\$ 100
Class B common shares:		
Town of Essex	3,800	38
Town of Lakeshore	2,400	24
Town of Kingsville	3,800	38
	<u>20,000</u>	<u>\$ 200</u>

E.L.K. SOLUTIONS INC.

Notes to Financial Statements (continued)

Year ended December 31, 2006

4. Related party transactions:

The amounts due to shareholders, which consist primarily of recovered costs are as follows:

	2006	2005
Due to shareholders, included in accounts payable	\$ 251,627	\$ 285,813

These amounts are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.

5. Fair value of financial assets and liabilities:

The fair value of the Company's cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values.

6. Supplemental cash flow information:

	2006	2005
Cash paid during the year for:		
Payments in lieu of income taxes	\$ 6,256	\$ 35,427
Cash received during the year for:		
Interest	3,892	5,376



Consolidated Financial Statements of

E.L.K. ENERGY INC.

Year ended December 31, 2007

	2007	2006
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,867,219	\$ 2,396,384
Payment in lieu of income taxes payable	-	357,432
Current portion of customer deposits	726,973	526,495
Shareholders' promissory notes (note 6)	3,900,000	3,900,000
	<u>7,494,192</u>	<u>7,180,311</u>
Long-term liabilities:		
Customer deposits	359,799	732,380
Employee future benefits (note 7)	670,157	654,875
	<u>1,029,956</u>	<u>1,387,255</u>
Shareholders' equity:		
Share capital (note 8)	100	100
Retained earnings	9,335,288	9,047,525
Contributed surplus	4,402,375	4,402,373
	<u>13,737,763</u>	<u>13,449,998</u>
Contingency (note 14)		
	<u>\$ 22,261,911</u>	<u>\$ 22,017,564</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_____ Director

_____ Director

E.L.K. ENERGY INC.

Consolidated Statement of Retained Earnings

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Balance, beginning of year		
As previously reported	\$ 9,047,525	\$ 8,243,640
Change in account policy (note 2)	72,796	-
As restated	9,120,321	8,243,640
Net earnings for the year	743,078	1,203,885
Less dividends paid	(528,111)	(400,000)
Balance, end of year	\$ 9,335,288	\$ 9,047,525

See accompanying notes to consolidated financial statements.

E.L.K. ENERGY INC.

Consolidated Statement of Cash Flows

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operations:		
Net earnings for the year	\$ 743,078	\$ 1,203,885
Items not involving cash:		
Amortization of capital assets	733,954	648,882
Future payments in lieu of income taxes	97,000	(65,000)
Gain on sale of capital assets	(21,200)	(17,820)
Increase in employee future benefits	15,282	4,838
Unrealized gain on investment	(11,845)	
Changes in non-cash operating working capital	(396,490)	(2,259,580)
	<u>1,159,779</u>	<u>(484,795)</u>
Financing:		
Decrease in shareholders' promissory notes	-	(650,000)
Increase (decrease) in long-term customer deposits	(372,581)	492,688
Dividends paid	(528,111)	(400,000)
	<u>(900,692)</u>	<u>(557,312)</u>
Investing:		
Capital assets additions	(1,613,122)	(312,968)
Proceeds on sale of capital assets	21,200	17,820
Decrease (increase) in regulatory assets	545,168	(210,892)
	<u>(1,046,754)</u>	<u>(506,040)</u>
Decrease in cash	(787,667)	(1,548,147)
Cash, beginning of year	7,305,950	8,854,097
Cash, end of year	<u>\$ 6,518,283</u>	<u>\$ 7,305,950</u>
Cash consists of:		
Unrestricted	\$ 3,585,496	\$ 4,274,091
Restricted	2,932,787	3,031,859
	<u>\$ 6,518,283</u>	<u>\$ 7,305,950</u>

See accompanying notes to consolidated financial statements.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements

Year ended December 31, 2007

E.L.K. Energy Inc. supplies and distributes electric power and maintains electrical distribution systems in the following communities: Essex, Harrow, Belle River, Comber, Kingsville, and Cottam.

E.L.K. Energy Inc. also performs the billing function for the Municipality of the Town of Essex Water Department.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared by management in accordance with the Ontario Energy Board ("OEB") Accounting Procedures Handbook which is generally consistent with Canadian generally accepted accounting principles.

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, E.L.K. Solutions Inc. All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Restricted cash:

Restricted cash of \$732,850 consists of an irrevocable standby letter of credit issued in favour of the Independent Electricity System Operator ("IESO") as collateral in support of the Company's purchase of electricity. Restricted cash of \$2,199,937 relates to contractor security deposits.

(c) Inventories:

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(d) Capital assets:

Capital assets are stated at cost. Buildings, plant and equipment and the transmission and distribution system are amortized on the straight-line basis at rates suggested by the Ontario Energy Board. These rates of amortization range from 2% to 25%.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

1. Significant accounting policies (continued):

(e) Revenue recognition:

Revenue from the sale of electrical energy is recognized when power is delivered to customers. Billings from the last meter reading date prior to December 31 are adjusted based on a number of factors to reflect estimated usage to the year end date. These estimates are reflected on the balance sheet as unbilled revenue. Unbilled revenue is the amount of electricity that has been shipped to customers but not billed by the end of the year.

(f) Investments:

The Company has designated its investment in the common shares of Sun Life Financial and its investment in the preferred shares of Utilismart Corporation as held for trading investments and these instruments are recorded at market value as determined by quoted market prices. Realized and unrealized gains and losses as a result of disposition of shares and changes in fair value are recorded in the statement of earnings.

(g) Employee future benefits:

The Company provides post retirement benefits for employees who retire from active employment. The Company measures the costs of its obligation based on its best estimate.

The Company accrues its obligations under employee benefit plans as the employees render the services necessary to earn employee future benefits.

The cost of retirement benefits earned by employees is actuarially determined using the projected cost method pro rated on service and the actuary's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

1. Significant accounting policies (continued):

(h) Payments in lieu of taxes ("PILs"):

The Company is currently exempt from taxes under the Income Tax Act (Canada) ("ITA") and the Ontario Corporations Tax Act ("OCTA").

Pursuant to the Electricity Act, the Company is required to compute taxes under the ITA and OCTA and remit such amounts thereunder computed to the Ministry of Finance (Ontario). These amounts, referred to as PILs under the Electricity Act, are applied to reduce certain debt obligations of the former Ontario Hydro continuing as Ontario Electricity Financial Corporation.

The Company provides for amounts in lieu of corporate income taxes using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(i) Pension plan:

The Company provides a pension plan for its employees through the Ontario Municipal Employees Retirement System ("OMERS"). OMERS is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund ("the Fund"), and provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a contributory defined benefit pension plan.

(j) Customer deposits:

Customer deposits comprise cash collections from electricity customers which are applied against any unpaid portion of individual customer accounts. Customer deposits in excess of unpaid account balances are refundable to individuals upon termination of their electricity service.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

1. Significant accounting policies (continued):

(k) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, regulatory assets and liabilities, future payments in lieu of income taxes and employee future benefits, and the carrying value of capital assets. Actual results could differ from those estimates.

2. Change in accounting policy – financial instruments:

In 2005, the Canadian Institute of Chartered Accountants released Handbook Section 3855, Financial Instruments – Recognition and Measurement. The standards have changed how certain financial assets and liabilities are accounted for and reported in the financial statements.

The Company has adopted with the above standards as at January 1, 2007 in accordance with the standard for publicly accountable entities.

The Company has designated its investment in the common shares of Sun Life Financial and its investment in the preferred shares of Utilismart Corporation as held for trading investments, as such, these investments are recorded at fair value for the current year. Fair value is determined by quoted market prices and the change in market value is presented as an increase (decrease) to the investment and as an unrealized gain (loss) on investments. In prior years, these investments were recorded at their cost and realized gains and losses were reflected in the year of disposal.

As a result of adopting this standard, the effect of opening retained earnings at January 1, 2007 is an increase of \$72,796.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

3. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 173,877	\$ -	\$ 173,877	\$ 173,877
Buildings, plant and equipment	3,699,041	2,370,330	1,328,711	776,586
Transmission and distribution system	16,875,951	9,895,265	6,980,686	6,653,643
	<u>\$ 20,748,869</u>	<u>\$ 12,265,595</u>	<u>\$ 8,483,274</u>	<u>\$ 7,604,106</u>

4. Regulatory assets:

Regulatory assets and liabilities arise as a result of the rate regulating process. The Company has recorded the following regulatory assets and liabilities:

	2007	2006
Regulatory assets:		
Future payments in lieu of income taxes	\$ 527,889	\$ 527,889
Retail settlement variances	-	94,467
Other regulatory assets	113,018	112,771
Miscellaneous deferred debits	3,240	3,240
Amount approved for recovery of regulatory assets	614,401	460,853
Regulatory liabilities:		
Retail settlement variances	(957,800)	(353,304)
	<u>\$ 300,748</u>	<u>\$ 845,916</u>

(a) Future payments in lieu of income taxes:

Future payments in lieu of income taxes represent the OEB approved PILs methodology for determining the deferral account allowance.

(b) Retail settlement variances:

E.L.K. has deferred certain retail settlement variances amounts under the provisions of Article 490 of the OEB's Accounting Procedures Handbook.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

4. Regulatory assets (continued):

(b) Retail settlement variances (continued):

These variances represent amounts that have accumulated since Market Opening and comprise:

- (i) variances between amounts charged by the Independent Electricity System Operator ("IESO") for the operation of the wholesale electricity market and grid, various wholesale market settlement charges, amounts charged to allow for the purchase of imported electricity and transmission charges, and the amounts billed to customers by the Company based on the OEB approved market service rate; and
- (ii) amounts allocated to the Company and approved by the OEB for the recovery of regulatory assets incurred by Hydro One including low voltage tariffs. The Hydro One recovery of these charges commenced on April 1, 2005 and these costs will be passed through to customers during the rate making process.

(c) Other regulatory assets:

On December 20, 2004, the OEB issued a letter on the accounting treatment of OEB assessments. The OEB clearly identifies that it is their intent to allow electricity LDC's to record their OEB cost assessments for the Board's fiscal year 2005 and subsequent year(s) in order that these costs may be given consideration for rate recovery in the future.

On February 15, 2005, the OEB issued a letter instructing the deferral of cash pension contributions made to the Ontario Municipal Employees Retirement System ("OMERS") for 2005 and subsequent years. As of May 1, 2006, the deferral of OMERS contributions has been discontinued and OMERS has been included in the rates.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

4. Regulatory assets (continued):

(d) Miscellaneous deferred debits:

On December 13, 2005, the OEB issued a letter on the accounting treatment of costs related to Ontario Price Credit ("OPC"). Costs related to the payment of OPC should be deferred. No additional amounts were approved by the OEB when setting rates for 2007 to dispose of these accounts.

(e) Amounts approved for recovery of regulatory assets:

The Ontario Energy Board Act, 1988 (Ontario) ("OEBA"), approved, as part of the 2006 rates application process, a reallocation for each regulatory asset or liability to a separate account, amounts approved for recovery of regulatory assets. The associated recoveries collected through rates over May 1, 2006 to April 30, 2008 are to be recorded as a reduction of amounts approved for recovery of regulatory assets. Any residual balance at the end of the collection period will be reviewed in futures proceedings of the OEB.

(f) Electricity industry in Ontario:

The Ontario Energy Board Act, 1988 (Ontario) ("OEBA"), conferred on the OEB increased powers and responsibilities to regulate the electricity industry. These powers and responsibilities include the power to approve or fix rates for the transmission and distribution of electricity, the power to provide continued rate protection for rural and remote electricity consumers, and the responsibility for ensuring the distribution companies fulfill obligations to connect and service customers. The OEB may also prescribe license requirements and records, regulatory accounting principles, separation of accounts for distinct business and filing and processing requirements for rate setting purposes. In its capacity to approve or set rates, the OEB has the authority to specify regulatory treatments that may result in accounting treatments that differ from Canadian generally accepted accounting principles for enterprises operating in a non-rate regulated environment.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

5. Investments:

	2007	2006
Investment in the preferred shares of Utilismart Corporation	\$ 2,413	\$ -
Investment in the common shares of Sun Life Financial	82,228	-
	\$ 84,641	\$ -

6. Shareholders' promissory notes:

The shareholders' promissory notes are payable on demand, accrue interest at 7.25% payable annually, and are secured by a general security agreement.

7. Employee future benefits:

E.L.K. Energy Inc. pays certain benefits on behalf of its retired employees. The Company measures its accrued benefit for accounting purposes as at December 31 each year. A valuation date of December 31, 2006 has been used and extrapolated to December 31, 2007.

Information about E.L.K. Energy Inc.'s defined benefit plans, which are unfunded, is as follows:

	2007	2006
Accrued benefit obligation, beginning of year	\$ 654,875	\$ 650,037
Service cost	7,816	5,891
Interest cost	36,670	33,304
Amortization of actuarial loss	-	(3,903)
Benefits paid	(29,204)	(30,454)
Projected accrued benefit obligation, end of year, as determined by actuarial valuation	\$ 670,157	\$ 654,875

	2007	2006
Funded status:		
Funded status, deficit	\$ (681,059)	\$ (709,162)
Unamortized net actuarial loss	10,902	54,287
	\$ (670,157)	\$ (654,875)

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

7. Employee future benefits (continued):

The main actuarial assumptions employed for the valuations are as follows:

	2007	2006
Discount rate	5.25%	5.75%
Rate of compensation increase	3%	3%
Medical trend rate:		
Initial	10%	10%
Ultimate	4%	4%

The approximate impact of a 1% change in health insurance trend rates is as follows:

Change in obligation for 1% increase in trend rates	\$	43,000
Change in obligation for 1% decrease in trend rates		(37,000)

8. Share capital:

The authorized and issued share capital is as follows:

	2007	2006
Authorized:		
Unlimited common shares		
Issued:		
10,000 common shares	\$ 100	\$ 100

The common shares were issued as follows:

	# of Common shares	Amount paid
Town of Essex	3,800	\$ 38
Town of Lakeshore	2,400	24
Town of Kingsville	3,800	38
	10,000	\$ 100

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

9. Pension costs:

The Company makes contributions to the Ontario Municipal Employees Retirement Fund ("OMERS") which is a multi-employer plan, on behalf of 19 members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

The amount contributed to OMERS for 2007 was \$99,685 (2006 – \$96,288) for current service and is included as an expenditure on the statement of earnings May 1, 2006 through 2007 and as a regulatory asset in 2006 until April 30, 2006.

In 2007 the contribution rates were 6.5% for employees earnings below the year's maximum pensionable earnings and 9.6% thereafter.

10. Supplemental cash flow information:

	2007	2006
Cash paid during the year for:		
Interest	\$ 302,244	\$ 333,738
Payments in lieu of income taxes	677,268	323,296
Cash received during the year for:		
Interest	339,612	344,538

11. Related party transactions:

The amounts due to/from shareholders as follows:

	2007	2006
Due to shareholders, included in accounts payable	\$ 423,567	\$ 456,729
Due from shareholders, included in accounts receivable	23,453	25,909

These amounts are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

12. Future payments in lieu of income taxes:

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax liabilities and assets are as follows:

	2007	2006
Future tax liabilities:		
Regulatory assets	\$ —	\$ 16,000
Investment	13,000	13,000
Total future tax liabilities	\$ 13,000	\$ 29,000
Future tax assets:		
Capital assets	\$ 728,000	\$ 783,000
Employee future benefits	214,000	237,000
Intangible assets	167,000	202,000
Total future tax assets	1,109,000	1,222,000
Net future tax assets	\$ 1,096,000	\$ 1,193,000

13. Fair value of financial assets and liabilities:

The fair value of the Company's cash, accounts receivable, accounts payable and accrued liabilities, customer deposits and shareholders' promissory notes approximate their carrying values due to the relative short-term maturity of these financial instruments.

Financial assets held by the Company expose it to credit risk. As at December 31, 2007, there were no significant concentrations of credit risk with respect to any class of financial assets.

The Company earns its revenue from a broad base of customers located principally in the towns of Essex, Lakeshore, and Kingsville. No single customer would account for revenue or an accounts receivable balance in excess of 10% of the respective reported balances.

E.L.K. ENERGY INC.

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2007

14. Contingency:

The Company belongs to the Municipal Electrical Association Reciprocal Insurance Exchange ("Exchange"). This is a pooling of the public liability insurance risks of many Ontario electrical distribution utilities. All members of the pool are subject to assessment for losses experienced by the pool for the years in which they were members on a pro rata basis based on the total of their respective service revenues. It is anticipated that should such an assessment occur, it would be funded over a period of up to five years. Since joining the Exchange, the Company has not been subject to any assessments for loss experiences.

15. Directors' remuneration:

The remuneration of directors amounted to \$33,871 (2006 - \$30,609).

Tab D

**The Corporation of the Town of Essex
Pro-Forma Consolidated Statement of Financial Position**

December 31

2009

2008

Pro-forma 2007 Actual results

Assets

Financial Assets

Cash and short-term investments	\$ 12,222,817	\$ 13,459,716
Taxes receivable	2,600,000	2,581,622
Accounts receivable	2,200,000	2,082,470
Loan receivable	680,000	1,000,000
Investment in E.L.K. Energy Inc.	7,402,992	6,702,348
Investment in Union Water Supply System	1,107,619	1,107,619
Other assets	250,000	261,836

\$ 26,463,428 \$ 27,195,611

Liabilities and Municipal Position

Liabilities

Bank indebtedness	\$ -	\$ 416,064
Accounts payable and accrued liabilities	2,300,000	2,183,207
Other current liabilities	100,000	144,904
Accrued interest payable on long-term debt	135,000	141,102
Employee future benefits	3,200,000	3,062,914
Deferred revenue - development charges	465,000	467,284
Net long-term debt	17,743,838	22,002,778

23,943,838 28,418,253

Municipal position

Operating fund	207,641	755,331
Equity in E.L.K. Energy Inc.	8,190,945	7,690,348
Capital fund	(2,818,522)	(1,193,815)
Reserves	1,000,000	1,000,000
Reserve funds	17,018,364	15,723,774
Fund balances	23,598,428	23,975,638

Amounts to be recovered in future years **(21,078,838) (25,198,280)**

Total municipal position **2,519,590 (1,222,642)**

Contingencies and commitments

\$ 26,463,428 \$ 27,195,611

**The Corporation of the Town of Essex
Pro-Forma Consolidated Statement of Financial Activities**

For the year ended December 31

	2009	2008
	Pro-forma	2007 Actual results
Revenue		
Taxation	\$ 12,534,961	\$ 12,037,868
Sewer and water charges	6,069,935	6,011,933
Grants	2,667,121	4,737,778
User charges	2,761,300	2,542,475
Landfill compensation	1,413,200	1,249,680
Other	445,421	851,662
Interest and penalties	537,669	1,340,054
Share of undistributed income - E.L.K. Energy Inc.	500,359	109,350
Development contributions	321,316	652,256
Commutated payments	52,076	51,507
	<u>27,303,358</u>	<u>29,584,563</u>
Expenditures		
Operating		
General government	2,188,445	2,018,661
Protection to persons and property	6,122,937	5,793,150
Transportation services	2,751,825	2,074,146
Environmental services	4,609,838	4,662,012
Health services	191,270	192,669
Recreation and cultural services	2,861,793	2,749,857
Planning and development	319,284	266,515
	<u>19,045,392</u>	<u>17,757,010</u>
Capital		
General government	619,360	47,582
Protection to persons and property	210,526	451,691
Transportation services	1,950,265	1,393,397
Environmental services	1,257,550	2,494,821
Health services	7,533	7,533
Recreational and cultural services	254,502	984,550
Planning and development	76,500	362,744
	<u>4,376,236</u>	<u>5,742,318</u>
Total expenditures	<u>23,421,628</u>	<u>23,499,328</u>
Net revenues for the year	<u>3,881,730</u>	<u>6,085,235</u>
Increase (decrease) in amounts to be recovered in future years:		
New debt issued	529,119	1,425,074
Debt principal repayments	(4,788,059)	(2,862,289)
Employee benefits and accrued interest	-	282,517
	<u>(4,258,940)</u>	<u>(1,154,698)</u>
Change in fund balance	(377,210)	4,930,537
Fund balance, beginning of the year	<u>23,975,638</u>	<u>19,045,101</u>
Fund balance, end of year	<u>\$ 23,598,428</u>	<u>\$ 23,975,638</u>

UNAUDITED

The Corporation of the Town of Essex Schedule of Current Fund Operations

For the year ended December 31

2009

2008

Pro-forma 2007 Actual results

Revenue

Taxation	\$ 12,534,961	\$ 12,037,868
Sewer and water charges	6,069,935	6,011,933
Grants	2,635,481	1,975,469
User charges	2,761,300	2,542,475
Landfill compensation	1,413,200	1,249,680
Interest and penalties	537,669	799,511
Share of undistributed income - E.L.K. Energy Inc.	500,359	109,350
Development contributions	321,316	652,256
Other	419,319	307,958
Commuted payments	52,076	51,507

	27,245,616	25,738,007
--	------------	------------

Expenditures

Operating

General government	2,188,445	2,018,661
Protection to persons and property	6,122,937	5,793,150
Transportation services	2,751,825	2,074,146
Environmental services	4,609,838	4,662,012
Health services	191,270	192,669
Recreation and cultural services	2,861,793	2,749,857
Planning and development	319,284	266,515

	19,045,392	17,757,010
--	------------	------------

Net revenues for the year

	8,200,224	7,980,997
--	-----------	-----------

Financing and transfers

Debt principal repayments	(4,788,059)	(2,862,289)
Change in accrued interest payable and post-employment benefits	-	282,517
Transfers to capital fund operations	-	(1,038,347)
Net transfers to reserves and reserve funds	(3,459,258)	(3,693,218)

	(8,247,317)	(7,311,337)
--	-------------	-------------

Change in fund balance for the year

	(47,093)	669,660
--	----------	---------

Current fund, beginning of year

	8,445,679	7,776,019
--	-----------	-----------

Current fund, end of year

	\$ 8,398,586	\$ 8,445,679
--	--------------	--------------

Analyzed as follows:

Available to offset future taxation and user charges	\$ 207,641	\$ 755,331
Equity in E.L.K. Energy Inc.	8,190,945	7,690,348

	\$ 8,398,586	\$ 8,445,679
--	--------------	--------------

The Corporation of the Town of Essex Schedule of Capital Fund Operations

For the year ended December 31	2009	2008
	Pro-forma	Actual results
Revenue		
Grants	\$ 31,640	\$ 2,762,309
Other	26,102	254,225
	<u>57,742</u>	<u>3,016,534</u>
Expenditures		
General government	619,360	47,582
Protection services	210,526	451,691
Transportation services	1,950,265	1,393,397
Environmental services	1,257,550	2,494,821
Health services	7,533	7,533
Recreation and cultural services	254,502	984,550
Planning and development	76,500	362,744
	<u>4,376,236</u>	<u>5,742,318</u>
Net expenditures for the year	<u>(4,318,494)</u>	<u>(2,725,784)</u>
Financing and transfers		
New debt issued	529,119	1,425,074
Transfers from current fund operations	-	1,038,347
Net transfers from reserves and reserve funds	2,164,668	362,652
	<u>2,693,787</u>	<u>2,826,073</u>
Change in fund balance for the year	<u>(1,624,707)</u>	100,289
Capital fund, beginning of the year	<u>(1,193,815)</u>	<u>(1,294,104)</u>
Capital fund, end of the year	<u>\$ (2,818,522)</u>	<u>\$ (1,193,815)</u>

**The Corporation of the Town of Essex
Schedule of Reserves and Reserve Funds**

For the year ended December 31	2009	2008
	Pro-forma	2007 Actual results
Revenue		
Other	\$ -	\$ 289,479
Interest	-	540,543
	-	830,022
Net transfers from (to) other funds		
Net transfers from current fund operations	3,459,258	3,693,218
Net transfers to capital fund operations	(2,164,668)	(362,652)
	1,294,590	3,330,566
Change in balance for the year	1,294,590	4,160,588
Reserves and reserve funds, beginning of the year	16,723,774	12,563,186
Reserves and reserve funds, end of the year	\$ 18,018,364	\$ 16,723,774
Analyzed as follows:		
Reserves set aside for specific purpose by Council:		
Working funds	\$ 1,000,000	\$ 1,000,000
Reserve funds set aside for specific purpose by Council:		
Contingencies	2,000,000	1,491,289
Sick leave benefits	180,000	173,112
Landfill	3,075,000	3,052,992
Other	4,413,364	3,744,220
Capital purposes	7,150,000	7,062,671
Gas tax revenue	200,000	199,490
	17,018,364	15,723,774
Reserves and reserve funds, end of the year	\$ 18,018,364	\$ 16,723,774

Tab E



E.L.K. Energy ProForma with the Town of Essex as sole shareholder

2009 (Year 2)

Statement of Earnings

Gross margin on service revenue	\$	3,573,500
Interest & other	\$	551,631
Late payment charges	\$	75,000
Gain on sale of capital assets	\$	-
Unrealized gain on investments		
Administration		
Executive salaries & expenses	\$	25,000
Management salaries & expenses	\$	270,000
General administrative salaries & expenses	\$	60,000
Office supplies & expenses	\$	89,000
Outside services employed	\$	110,000
Property insurance	\$	30,000
Injuries & damages	\$	82,000
Employee pensions & benefits	\$	10,000
Regulatory expenses	\$	25,000
General advertising expenses	\$	5,000
Miscellaneous general expenses	\$	5,000
Maintenance of general plant	\$	97,000
Electrical Safety Authority fees	\$	5,000
Taxes other than income taxes	\$	24,000
Billing & collecting		
Supervision	\$	85,000
Meter reading	\$	152,000
Customer billing	\$	220,000
Collecting	\$	85,000
Community relations	\$	10,000
Amortization	\$	777,000
Interest - shareholders	\$	283,000
Interest - debt (re: dividend)	\$	320,000
Interest - debt (re: smart meters)	\$	50,640
Operations & maintenance		
Operation supervision	\$	73,000
Station buildings and fixtures expense	\$	6,000
Overhead distribution lines & feeders	\$	50,000
Underground distribution lines & feeders	\$	87,000
Overhead distribution lines & feeders - rental paid	\$	10,000

Maintenance of poles, towers & fixtures	\$	24,000
Maintenance of overhead conductors & devices	\$	86,000
Maintenance of overhead services	\$	39,000
Overhead distribution lines & feeders	\$	67,000
Maintenance of underground conductors & devices	\$	9,000
Maintenance of underground services	\$	52,000
Maintenance of line transformers	\$	27,000
Maintenance of meters	\$	48,000
Payments in lieu of income taxes	\$	280,872
Net earnings for the year	\$	<u>572,259</u>

Balance Sheet

Current assets	\$	10,335,928
Capital assets	\$	10,062,166
Regulatory assets	\$	300,748
Future payments in lieu of income taxes	\$	1,096,000
Investments	\$	62,380
	\$	<u>21,857,221</u>
Current liabilities	\$	3,586,014
Shareholder promissory note	\$	3,900,000
TD debt re: dividend	\$	8,000,000
TD debt re: smart meters	\$	1,266,000
Customer deposits	\$	359,799
Employee future benefits	\$	670,157
Shareholder equity	\$	4,075,251
	\$	<u>21,857,221</u>

Balanced

Statement of Cash Flows

Cash, beginning of year (unrestricted & restricted)	\$	6,375,590
Add: Net earnings for the year	\$	572,259
Add: amortization of capital assets	\$	777,000
Unrealized loss on investments	\$	-
Dividends paid	\$	-
Capital asset additions	\$	(1,394,000)
Smart meter investment financed by additional debt	\$	685,000
Cash, end of year (unrestricted & restricted)	\$	<u>7,015,849</u>

Ratio Analysis - Debt:Equity Ratio

Total debt	\$	13,166,000
Total equity	\$	4,075,251

Total debt & equity

\$ 17,241,251

Debt %

76%

Equity %

24%

Tab F

SHARE PURCHASE AGREEMENT

THE CORPORATION OF THE TOWN OF KINGSVILLE

and

THE CORPORATION OF THE TOWN OF LAKESHORE

as Sellers

and

THE CORPORATION OF THE TOWN OF ESSEX

as Purchaser

September __, 2008

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SHARE PURCHASE AGREEMENT

Share Purchase Agreement dated September _____, 2008

BETWEEN:

THE CORPORATION OF THE TOWN OF ESSEX, a municipal corporation within the meaning of the Municipal Act (Ontario).

(the "**Purchaser**")

AND

THE CORPORATION OF THE TOWN OF KINGSVILLE ("**Kingsville**"), a municipal corporation within the meaning of the Municipal Act (Ontario) and

THE CORPORATION OF THE TOWN OF LAKESHORE ("**Lakeshore**"), a municipal corporation within the meaning of the Municipal Act (Ontario).

(Lakeshore and Kingsville being each individually referred to as a "**Seller**" and collectively as the "**Sellers**")

RECITALS:

- A. The Purchaser and the Sellers are the registered and beneficial owners of all of the issued and outstanding shares in the capital of Energy.
- B. The Purchaser, the Sellers and Energy are parties to the Shareholders Agreement.
- C. Energy is indebted to Kingsville pursuant to the Kingsville Energy Loan.
- D. Energy is indebted to Lakeshore pursuant to the Lakeshore Energy Loan.
- E. The Purchaser and the Sellers are the registered and beneficial owners of all of the issued and outstanding Class B common shares in the capital of Solutions.
- F. Energy is the registered and beneficial owner of all of the issued and outstanding Class A common shares in the capital of Solutions, and together, the Purchaser, Sellers and Energy are the registered and beneficial owners of all of the issued and outstanding shares in the capital of Solutions.
- G. Pursuant to the Shareholders Agreement, the Purchaser has exercised its right to purchase the Sellers' Shareholder Interests and the Parties are entering into this Agreement to give effect to the transaction of purchase and sale resulting from the exercise of the Purchaser's right to purchase.

NOW THEREFORE in consideration of the mutual covenants and agreements contained in this Agreement and other good and valuable consideration (the receipt and sufficiency of which are acknowledged), the Parties agree as follows:

ARTICLE I – INTERPRETATION

1.1 Definitions

In this Agreement, the following terms have the following meanings:

“Affiliate” means, as applied to any Person, (i) any other Person directly or indirectly controlling, controlled by or under common control with that Person, (ii) any other Person that owns or controls 50% or more of any class of equity securities (including any equity securities issuable upon the exercise of any option or convertible security) of that Person or any of its affiliates, or (iii) any director, partner, officer, agent, employee or relative of such Person. For the purposes of this definition, “control” (including with correlative meanings, the terms “controlling”, “controlled by”, and “under common control with”) as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through ownership of voting securities, by contract or otherwise.

“Agreement” means this share purchase agreement as the same may be amended from time to time; and the words **“Article”** and **“Section”** followed by a number or letter mean and refer to the specified Article or Section of this share purchase agreement.

“Assets” means all property and assets of the Corporations of every nature and kind and wherever located including (i) all properties and the buildings, improvements and fixtures located thereon, (ii) all machinery, equipment, furniture, accessories and supplies of all kinds, (iii) all trucks, cars and other vehicles, (iv) all Inventory, (v) all accounts receivable of the Corporations of every nature and kind, whether current or not, (vi) the leasehold interest of the Corporations in and to all leased properties and the buildings, improvements and fixtures located thereon, (vii) all Proprietary Rights of the Corporations, (viii) all Authorizations issued to the Corporations, (ix) all leases and all other Contracts binding on or affecting the Corporations, (x) the Books and Records, and (xi) the Corporate Records.

“Audited Financial Statements” means the consolidated audited financial statements of the Corporations as at December 31, 2007 including the notes and the report of the Corporation’s auditors.

“Authorization” means, with respect to any Person, any order, permit, approval, consent, waiver, licence or other authorization issued, granted, given or authorized by or made applicable under the authority of any Governmental Authority having jurisdiction over the Person.

“Books and Records” means all books of account, Tax Returns and other tax records, personnel records, historic documents relating to employees and plans relating to employees, sales and purchase records, customer and supplier lists, referral sources, research and development reports and records, production reports and records, equipment logs, operating guides and manuals, business reports, plans and projections and all other documents, files, correspondence and other information of the Corporations (whether in written, electronic or other form) other than the Corporate Records.

“Business” means the business currently carried on by the Corporations, being:

- (i) in the case of Energy, the business of a licensed “distributor” of electricity within the meaning of Part V of the *Ontario Energy Board Act* and the *Electricity Act*;
- (ii) in the case of Solutions, the business of the supply of electrical appliances including hot water heaters and lighting systems.

“**Business Day**” means any day, other than a Saturday, Sunday or statutory or civic holiday in Toronto, Ontario.

“**Closing**” means the completion of the transaction of purchase and sale contemplated in this Agreement.

“**Closing Date**” means the date which is five (5) Business days after the date on which all Required Consents and Authorizations relating to the transactions contemplated hereby have been obtained and are final and binding without the possibility of appeal, or such earlier or later date as the Parties may agree in writing.

“**Closing Period**” means the period between the close of business on the date of this Agreement and the Closing.

“**Commercially Reasonable Efforts**” means the efforts that a prudent person who desires to achieve a result would use in similar circumstances to ensure that such result is achieved as expeditiously as possible.

“**Consent**” means the consent, approval or similar authorization of a contracting party to any of the transactions contemplated in this Agreement, if required by the terms of any Contract, including any consent to a change in control of the Corporations.

“**Contracts**” means all agreements, arrangements, understandings, commitments and undertakings (whether written, electronic or oral), to which a Person is a party or a beneficiary or pursuant to which any of its property or assets are or may be affected.

“**Corporate Records**” means the corporate records of the Corporations, including (i) all constating documents, articles and by-laws, (ii) all minutes of meetings and resolutions of shareholders and directors, and (iii) the share certificate books, securities register, register of transfers and register of directors.

“**Corporations**” means Energy and Solutions, and where the context requires, includes “or either of them”.

“**Damages**” has the meaning specified in Section 11.1.

“**Draft Closing Balance Sheet**” has the meaning specified in Section 2.5(a).

“**Employee**” means any full-time or part-time employee of the Corporations including any employee on disability (long-term or short-term), workers’ compensation or parental or other statutory leave, employed as of the date hereof.

“**Energy**” means E.L.K. Energy Inc., a corporation incorporated pursuant to Section 142 of the *Electricity Act*.

“Environmental Laws” means all Laws relating to environmental matters or occupational health and safety, including without limitation any laws having as a purpose or effect the protection of the environment, the prevention or reduction to acceptable levels of pollution or the provision of remedies in respect of damage arising therefrom.

“Environmentally Hazardous Substance” means any material or substance that could reasonably be expected to impair the quality of the environment or that causes or could reasonably be expected to cause an adverse effect on the environment for any use which can be made of it and as to which liabilities or standards of conduct are imposed pursuant to Environmental Laws, including any material or substance that is deemed pursuant to any Environmental Law to be “hazardous”, “toxic”, “deleterious”, “caustic”, “dangerous”, a “contaminant”, a “hazardous waste”, a “source of contaminant” or a “pollutant”.

“Final Closing Balance Sheet” has the meaning specified in Section 2.5(e).

“GAAP” means, at any time, accounting principles generally accepted in Canada including those recommended or approved by the Canadian Institute of Chartered Accountants at the relevant time.

“Governmental Authority” means any (i) multinational, federal, provincial, state, municipal, local or other governmental or public department, central bank, court, commission, board, bureau or agency, domestic or foreign, (ii) any subdivision or authority of any of the above, or (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above.

“Indemnitee” has the meaning specified in Section 11.3(a).

“Indemnitee Representative” means (i) where the Indemnitee is the Purchaser, the Corporations or any Purchaser Indemnified Person, the Purchaser, or (ii) where the Indemnitee is the Seller or a Seller Indemnified Person, the Seller.

“Inventory” means all inventories of raw materials, work-in-process and finished goods and merchandise of the Corporations and all parts and packaging materials used or consumed by the Corporations.

“Kingsville Energy Loan” means all of the indebtedness of every nature and kind owing by Energy to Kingsville which indebtedness, as of the date hereof, is in the amount of One Million Four Hundred and Eighty-Two Thousand Dollars (\$1,482,000) and is evidenced by the Kingsville Promissory Note.

“Kingsville Energy Shares” means all of the issued and outstanding shares in the capital of Energy owned by Kingsville being comprised of Three Thousand Eight Hundred (3,800) common shares.

“Kingsville Promissory Note” means the promissory note issued by Energy to Kingsville in the original principal amount of Two Million Four Hundred and Seventy Thousand Dollars (\$2,470,000) dated the 23rd day of October, 2002 as evidence of the Kingsville Energy Loan.

“Kingsville Shareholder Interest” means the Kingsville Energy Shares, the Kingsville Solutions Shares and the Kingsville Energy Loan.

“Kingsville Solutions Shares” means all of the issued and outstanding shares in the capital of Solutions owned by Kingsville being comprised of Three Thousand Eight Hundred (3,800) Class B common shares.

“Known by the Purchaser” means, with respect to any matter, fact or state of affairs to which the phrase applies, that the matter, fact or state of affairs is actually known by any of the directors of Energy elected or appointed by the Purchaser.

“Lakeshore Energy Loan” means all of the indebtedness of every nature and kind owing by Energy to Lakeshore which indebtedness, as of the date hereof, is in the amount of Nine Hundred and Thirty-Six Thousand Dollars (\$936,000) and is evidenced by the Lakeshore Promissory Note.

“Lakeshore Energy Shares” means all of the issued and outstanding shares in the capital of Energy owned by Lakeshore being comprised of Two Thousand Four Hundred (2,400) common shares.

“Lakeshore Promissory Note” means the promissory note issued by Energy to Lakeshore in the original principal amount of One Million Five Hundred and Sixty Thousand Dollars (\$1,560,000) dated the 23rd day of October, 2002 as evidence of the Lakeshore Energy Loan.

“Lakeshore Shareholder Interest” means the Lakeshore Energy Shares, the Lakeshore Solutions Shares and the Lakeshore Energy Loan.

“Lakeshore Solutions Shares” means all of the issued and outstanding shares in the capital of Solutions owned by Lakeshore being comprised of Two Thousand Four Hundred (2,400) Class B common shares.

“Laws” means any and all applicable (i) laws, constitutions, treaties, statutes, codes, ordinances, orders, decrees, rules, regulations and municipal by-laws, (ii) judicial, arbitral, administrative, ministerial, departmental or regulatory judgments, orders, decisions, rulings or awards of any Governmental Authority, and (iii) policies, guidelines and protocols.

“Lien” means (i) any mortgage, charge, pledge, hypothec, security interest, assignment, lien (statutory or otherwise), privilege, easement, servitude, pre-emptive right or right of first refusal, ownership or title retention agreement, restrictive covenant or conditional sale agreement, and (ii) any other encumbrance of any nature or any other arrangement or condition which, in substance, secures payment or performance of an obligation.

“OEB Approval” means:

- (i) a determination by the Ontario Energy Board that leave to acquire the Sellers’ Shareholder Interests is not required pursuant to Section 86 of the *Ontario Energy Board Act*; or
- (ii) in the absence of the determination referred to in the foregoing subparagraph (i), leave of the Ontario Energy Board pursuant to Section 86 of the *Ontario Energy Board Act*.

“Ordinary Course” means, with respect to an action taken by a Person, that such action is (i) consistent with the past practices of the Person or its business, as the case may be, and is taken in the ordinary course of the normal day-to-day operations of the Person or its business, as the case may be, and (ii) similar in nature to an action customarily taken in the ordinary course of the day-to-day operations of other Persons that are in the same line of business as such Person.

“Parties” means Lakeshore, Kingsville, the Purchaser and any other Person who may become a party to this Agreement.

“Person” means a natural person, partnership, limited partnership, limited liability partnership, syndicate, sole proprietorship, corporation or company (with or without share capital), limited liability company, stock company, trust, unincorporated association, joint venture or other entity or Governmental Authority.

“Proprietary Rights” means (i) all patents, patent applications, patent disclosures and inventions (whether or not patentable and whether or not reduced to practice), and including all provisional applications, substitutions, continuations, continuations-in-part, patents of addition, improvement patents, divisions, renewals, reissues, confirmations, counterparts, re-examinations and extensions thereof, (ii) all trade-marks, service marks, trade dress, trade names, logos, domain names and corporate names, whether registered or existing at common law, (iii) all registered and unregistered statutory and common law copyrights and industrial designs, (iv) all registrations, applications and renewals for any of the foregoing, (v) all trade secrets, confidential information, ideas, formulae, compositions, know-how, improvements, innovations, discoveries, designs, manufacturing and production processes and techniques, and (vi) all other intellectual property rights owned, licensed, controlled or used by a Person, in any and all relevant jurisdictions in the world.

“Purchase Price” has the meaning specified in Section 2.2.

“Purchaser” has the meaning specified above the Recitals.

“Purchaser Indemnified Persons” has the meaning specified in Section 11.1.

“Reference Date” means December 31, 2007.

“Required Consents and Authorizations” means:

- (i) all Consents and Authorizations which are necessary for the continued operation of the Business on the terms and conditions and with the benefit of all rights held by the Corporations with respect to the Business as of the date hereof; and
- (ii) all Consents and Authorizations which are necessary or required for the completion of the transactions contemplated by this Agreement including OEB Approval.

“Sellers” has the meaning specified above the Recitals, and where the context requires includes “or either of them”.

“Sellers Indemnified Persons” has the meaning specified in Section 11.2.

“Sellers’ Shareholder Interests” means collectively the Kingsville Shareholder Interest and the Lakeshore Shareholder Interest.

“Shareholders Agreement” means that certain amended and restated shareholders agreement made the 21st day of October, 2002 among the Purchaser, the Sellers and Energy.

“Solutions” means E.L.K. Solutions Inc., a corporation incorporated under the *Ontario Business Corporations Act*.

“Tax Returns” means all returns, reports, declarations, elections, notices, filings, forms, statements and other documents (whether in written, electronic or other form) and any amendments, schedules, attachments, supplements, appendices and exhibits thereto, which have been prepared or filed or required to be prepared or filed in respect of Taxes.

“Taxes” includes any taxes, duties, assessments, imposts and levies imposed by any Taxing Authority and includes all interest, penalties, fines, additions to tax or other additional amounts imposed by any Taxing Authority including those levied on, or measured by, or referred to as, income, gross receipts, profits, capital, transfer, land transfer, sales, goods and services, harmonized sales, use, value-added, excise, withholding, business, property, occupancy, employer health, payroll, employment, health, social services, education and social security taxes, all surtaxes, all customs duties and import and export taxes, countervail and anti-dumping and all employment insurance, health insurance and Canada, Québec and other government pension plan and other employer plan premiums, contributions or withholdings.

“Third Party Claim” has the meaning specified in Section 11.3(a).

“Territory” means the geographic area encompassed within the boundaries of the Towns of Essex, Kingsville and Lakeshore, taken as a whole (and disregarding any contiguous boundaries) as such boundaries may be altered from time to time.

“Transaction Documents” means this Agreement and all other agreements, certificates and other instruments or documents delivered or given pursuant to this Agreement.

“Working Capital” means the difference between the current assets and current liabilities of the Corporations.

1.2 Gender and Number.

Any reference in this Agreement to gender includes all genders and words importing the singular include the plural and *vice versa*.

1.3 Certain Phrases and Calculation of Time.

(a) In this Agreement:

- (i) the words “including” and “includes” mean “including (or includes) without limitation”; and

- (ii) in the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”, and if the last day of any such period is not a Business Day, such period will end on the next Business Day.
- (b) When calculating the period of time “within” which or “following” which any act or event is required or permitted to be done, notice given or steps taken, the date which is the reference date in calculating such period is excluded from the calculation. If the last day of any such period is not a Business Day, such period will end on the next Business Day.

1.4 Headings, etc.

The inclusion of a table of contents, the division of this Agreement into Articles and Sections and the insertion of headings are for convenient reference only and are not to affect or be used in the construction or interpretation of this Agreement.

1.5 Currency

All monetary amounts in this Agreement, unless otherwise specifically indicated, are stated in Canadian currency.

1.6 Knowledge

Where any representation or warranty in this Agreement is expressly qualified by reference to the knowledge of the Sellers, it is deemed to refer to the actual knowledge of the directors appointed by each of the Sellers.

1.7 Accounting Terms

All accounting terms and references not defined in this Agreement are to be interpreted in accordance with GAAP.

1.8 Statutory References

Unless otherwise specifically indicated, any reference to a statute in this Agreement refers to that statute and to the regulations made under that statute, as the same may, from time to time, be amended, re-enacted or replaced.

1.9 Governing Law

- (a) This Agreement is governed by and is to be interpreted, construed and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein, without regard to conflict of law principles.
- (b) Each of the Parties irrevocably attorns and submits to the jurisdiction of the courts of Ontario.

1.10 Acknowledgement

The Purchaser and the Sellers acknowledge that the completion of this agreement is conditional upon the Purchaser obtaining the approval of the Ontario Energy Board for this transaction. The Purchaser and Sellers agree that the obligations, representations and warranties contained herein shall be construed in that context.

ARTICLE II – SELLERS’ SHAREHOLDER INTERESTS AND PURCHASE PRICE

2.1 Purchase and Sale

Subject to the terms and conditions of this Agreement, the Sellers covenant and agree to sell, assign and transfer to the Purchaser and the Purchaser covenants and agrees to purchase and acquire from the Sellers on the Closing Date, the Sellers’ Shareholders Interests.

2.2 Purchase Price

The purchase price payable by the Purchaser to the Sellers for the Sellers’ Shareholder Interests is Twelve Million, Seven Hundred and Seventy Three Thousand, Two-Hundred and Forty Dollars (\$12,773,240.00), subject to adjustment in accordance with Section 2.5 and allocated as follows:

(a)	Kingsville Energy Loan –	\$ 1,482,000.00	
(b)	Kingsville Energy Shares –	\$ 6,346,560.70	
(c)	Kingsville Solutions Shares –	<u>\$ 200.00</u>	
(d)	Kingsville Shareholder Interest –		\$ 7,828,760.70
(e)	Lakeshore Energy Loan –	\$ 936,000.00	
(f)	Lakeshore Energy Shares –	\$ 4,008,279.30	
(g)	Lakeshore Solutions Shares –	<u>\$ 200.00</u>	
(h)	Lakeshore Shareholder Interest –		<u>\$ 4,944,479.30</u>
(i)	Total Sellers’ Shareholder Interest:		<u>\$12,773,240.00</u>

2.3 Payment of the Purchase Price

At the Closing, the Purchaser shall pay the Purchase Price by bank draft or other form of immediately available funds as follows:

- (a) to the order of Kingsville, the amount of Seven Million Eight Hundred and Twenty-Eight Thousand Seven Hundred and Sixty Dollars and Seventy Cents (\$7,828,760.70) for the Kingsville Shareholder Interest; and
- (b) to the order of Lakeshore, the amount of Four Million Nine Hundred and Forty-Four Thousand Four Hundred and Seventy-Nine Dollars and Thirty Cents (\$4,944,479.30) for the Lakeshore Shareholder Interest.

2.4 Deposit

- (a) The Sellers acknowledge receipt from the Purchaser of a deposit (the **"Deposit"**) in the amount of fifty thousand dollars (\$50,000.00) which, in accordance with the direction of the Sellers has been paid to Lakeshore.
- (b) Upon satisfaction or waiver of the conditions precedent to the Closing in Article VII, the Deposit will be applied in satisfaction of an equivalent amount of the component of the Purchase Price allocable to Lakeshore Shareholder Interest. If the Closing does not occur by reason of a default by the Sellers in the performance of their obligations under this Agreement, the full amount of the Deposit shall be immediately returned to the Purchaser.
- (c) If the Closing does not occur for any reason other than a default by the Sellers in the performance of their obligations under this Agreement, and provided the Sellers have not intervened in any manner in the Purchaser's application for OEB Approval, the full amount of the Deposit shall become the property of, and may be retained by the Sellers (and allocated between them as they may determine) to compensate the Sellers for the expenses incurred and opportunities foregone as a result of the failure of the transaction to close, in addition to and not in substitution for such other rights and remedies, if any, as the Sellers may have with respect to Closing not having occurred.

2.5 Adjustment of Purchase Price

- (a) Within 90 days following the Closing Date, the Purchaser shall cause the Corporations' auditor to prepare and deliver to the Sellers a draft audited consolidated closing balance sheet (the **"Draft Closing Balance Sheet"**) of the Corporations prepared as of the close of business on the Closing Date, together with a draft auditor's report thereon, and, if requested by the Sellers, the Purchaser shall request the Corporations' auditors to also produce copies of the working papers supporting the Draft Closing Balance Sheet. The Draft Closing Balance Sheet must be prepared in accordance with GAAP applied on a basis consistent with the preparation of the Audited Financial Statements.
- (b) Within 20 days following delivery of the Draft Closing Balance Sheet, the Parties may notify each other in writing if they have any objections to the Draft Closing Balance Sheet. The notice of objection must contain a statement describing the basis of the objections and each amount in dispute. The Parties shall be deemed to have accepted the Draft Closing Balance Sheet if no notice of objections has been delivered within the specified period of 20 days.
- (c) If any Party disputes the Draft Closing Balance Sheet by delivering a notice of objection pursuant to Section 2.5(b), the Parties shall work expeditiously and in good faith in an attempt to resolve such dispute within a further period of 20 days after the date of delivery of the notice of objection, failing which the dispute will be submitted for determination to an independent national firm of chartered accountants mutually agreed to by the Sellers and the Purchaser. The determination of the accountants will be final and binding upon the Parties and

will not be subject to appeal, absent manifest error. The appointed accountants are deemed to be acting as experts and not as arbitrators.

- (d) The Sellers and the Purchaser shall each bear the fees and expenses of their respective auditors in preparing or reviewing, as the case may be, the Draft Closing Balance Sheet. In the case of a dispute and the retention of a national firm of chartered accountants to resolve such dispute, the costs and expenses of such firm will be borne equally by the Sellers and the Purchaser. However, the Sellers and the Purchaser will each bear their own costs in presenting their respective cases to such firm.
- (e) Immediately following the 20 day period referred to in Section 2.5(b) or the resolution of any dispute in accordance with Section 2.5(c), the Purchaser shall deliver to the Sellers the final Draft Closing Balance Sheet (the “**Final Closing Balance Sheet**”) together with the auditor’s report. Such Final Closing Balance Sheet will be final and binding upon the Parties and will not be subject to appeal, absent manifest error.
- (f) The Purchase Price will be increased or decreased, as the case may be, by sixty two percent (62%) of each dollar by which the Working Capital as determined from the Final Closing Balance Sheet is more or less than the Working Capital calculated by reference to the balance sheet comprising part of the Audited Financial Statements. Any adjustment to the Purchase Price arising from the preparation of the Final Closing Balance Sheet will be made to that component of the Purchase Price allocable to the Kingsville Shares and the Lakeshore Shares on a pro rata basis and shall be paid forthwith by the Purchaser or Sellers, as the case may be, after delivery of the Final Closing Balance Sheet.
- (g) The determination and adjustment of the Purchase Price in accordance with the provisions of this Section 2.5 will not limit or affect any other rights or causes of action which either the Purchaser or the Sellers may have with respect to the representations, warranties, covenants and indemnities in its favour contained in this Agreement.

ARTICLE III – REPRESENTATIONS AND WARRANTIES OF THE SELLERS

Subject to the limitations contained herein, the Sellers represent and warrant as follows to the Purchaser and acknowledge and confirm that the Purchaser is relying upon the representations and warranties in entering into this Agreement and purchasing the Sellers’ Shareholder Interests.

3.1 Municipal Authorizations

The execution, delivery and performance by the Sellers of this Agreement:

- (a) has been duly authorized by all necessary municipal action on the part of the Sellers; and

- (b) does not (or would not with the giving of notice, the passage of time or the happening of any other event or circumstance) result in a breach or a violation of, or conflict with, or allow any other Person to exercise any rights under, any of its by-laws or resolutions.

3.2 No Conflict with Authorizations, Laws, etc.

The execution, delivery and performance by the Sellers of this Agreement does not (or would not with the giving of notice, the passage of time or the happening of any other event or circumstance):

- (a) result in a breach or a violation of, conflict with, or cause the termination or revocation of, any Authorization held by the Sellers, or either of them, necessary to the transfer or ownership of the Sellers' Shareholder Interests;
- (b) result in or require the creation of any Lien upon any of the Sellers' Shareholder Interests;
- (c) result in a breach or a violation of, or conflict with, any judgement, judicial order or decree of any Governmental Authority; or
- (d) result in a breach or a violation of, or conflict with, any Law applicable to the Sellers or, except as Known by the Purchaser, the Corporations.

3.3 No Conflict with Contracts

Except as Known by the Purchaser, the execution, delivery and performance by the Sellers of this Agreement does not (or would not with the giving of notice, the passage of time or the happening of any other event or circumstance):

- (a) result in a breach or a violation of, or conflict with, any Contract binding on or affecting the Corporations, the Sellers' Shareholder Interests, or the Assets; or
- (b) result in or give any Person the right to seek, or to cause:
 - (i) the termination, cancellation, amendment or renegotiation of any Contract binding on or affecting the Corporations, the Sellers' Shareholder Interests or the Assets;
 - (ii) the acceleration of any payment amount or other obligation of the Corporation; or
 - (iii) the forfeiture or other loss, in whole or in part, of any benefit which would otherwise accrue to the Corporations.

3.4 Required Authorizations

Other than OEB Approval, there is no requirement for the Sellers to make any filing with, give any notice to, or obtain any Authorization of, any Governmental Authority as a result of, or in

connection with, or as a condition to the lawful completion of, the transactions contemplated by this Agreement.

3.5 Required Consents

There is no requirement for the Sellers to make any filing with, give any notice to, or obtain any consent, approval, waiver or other similar authorization of, any Person who is a party to a Contract binding on or affecting the Sellers or, except as Known by the Purchaser, the Corporations as a result of, or in connection with, or as a condition to the lawful completion of, the transactions contemplated by this Agreement.

3.6 Execution and Binding Obligation

This Agreement has been duly executed and delivered by the Sellers and constitutes legal, valid and binding obligations of the Sellers enforceable against the Sellers in accordance with its terms.

3.7 Kingsville Shareholder Interest and Lakeshore Shareholder Interest

- (a) The Kingsville Energy Shares, the Kingsville Solutions Shares, the Lakeshore Energy Shares and the Lakeshore Solutions Shares have been duly issued and are outstanding as fully paid and non-assessable.
- (b) All of the Sellers' Shareholder Interests have been issued in compliance with all applicable Laws (including securities Laws).
- (c) The Kingsville Energy Loan and the Lakeshore Energy Loan have been duly advanced by Kingsville and Lakeshore respectively to Energy and Energy is indebtedness to Kingsville and Lakeshore in the amounts of the Kingsville Energy Loan and the Lakeshore Energy Loan respectively without any claim for deduction or setoff.
- (d) The Kingsville Promissory Note and the Lakeshore Promissory Note constitute legal and valid obligations of the Corporation enforceable against the Corporation in accordance with their respective terms.

3.8 Title to Sellers' Shareholder Interests

The Kingsville Shareholder Interest and the Lakeshore Shareholder Interest are owned by Kingsville and Lakeshore respectively as the registered and beneficial owners thereof with good and valid title thereto, free and clear of all Liens. Upon completion of the transactions contemplated by this Agreement, the Purchaser will have legal and beneficial and good and valid title to all of the Sellers' Shareholder Interests, free and clear of all Liens.

3.9 No Other Agreements to Purchase

Except for the Purchaser's right under this Agreement and the rights, if any, of the Sellers to sell the Sellers' Shareholder Interests to Chatham-Kent Energy Inc., should the Purchaser ultimately be unsuccessful in completing the transaction embodied by this Agreement, no Person has any

written or oral agreement, option, understanding or commitment or any right or privilege (whether by law, contractual or otherwise) capable of becoming such for:

- (a) the purchase or acquisition from the Sellers of any of the Sellers' Shareholder Interests; or
- (b) except as Known by the Purchaser, the purchase, subscription, allotment or issuance of any of the unissued shares or other securities of the Corporations.

3.10 Full Disclosure

Except as Known by the Purchaser, to the knowledge of the Sellers, neither this Agreement nor any Transaction Document to which the Sellers (or any of their respective directors or officers) is a party:

- (i) contains any untrue statement of a fact; or
- (ii) omits any fact necessary in order to make the statements contained herein or therein not misleading.

3.11 Adverse Change

To the knowledge of the Sellers since the Reference Date there has occurred no material adverse change to the Business and the Sellers have no knowledge of the existence of any circumstance which could result in a material adverse change to the Business.

ARTICLE IV – REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser represents and warrants as follows to the Sellers and acknowledges and confirms that the Sellers are relying on the representations and warranties in entering into this Agreement and selling the Sellers' Shareholder Interests to the Purchaser:

4.1 Municipal Authorization

The execution, delivery and performance by the Purchaser of this Agreement has been duly authorized by all necessary municipal action on the part of the Purchaser.

4.2 No Conflict with Authorizations, Laws, etc.

The execution, delivery and performance by the Purchaser of this Agreement does not (or would not with the giving of notice, the passage of time or the happening of any other event or circumstance):

- (a) result in a breach or a violation of, conflict with, or cause the termination or revocation of, any Authorization held by the Purchaser or necessary to the ownership of the Sellers' Shareholder Interests;
- (b) result in a breach or a violation of, or conflict with, any judgement, judicial order or decree of any Governmental Authority applicable to the Purchaser; or

- (c) result in a breach or a violation of, or conflict with, any Law applicable to the Purchaser.

4.3 Execution and Binding Obligation

This Agreement has been duly executed and delivered by the Purchaser and constitutes (or will constitute) legal, valid and binding obligations of the Purchaser, enforceable against it in accordance with their respective terms.

ARTICLE V – COVENANTS OF THE PARTIES

5.1 Access for Due Diligence

Subject to compliance with applicable Laws, during the Closing Period, the Sellers shall:

- (a) If required by the Corporations, consent to the Corporations giving the Purchaser and its accountants, legal advisers and other representatives, full access to its personnel, premises, Books and Records, Corporate Records, accounts, Tax Returns, Contracts and its other Assets; and
- (b) Provide the Purchaser with such information as it has in its possession or control relating to the Corporations and the Business as the Purchaser may reasonably request.

At the request of the Purchaser, the Sellers shall execute or cause to be executed, such consents, authorizations and directions as may be necessary to enable the Purchaser and its representatives to obtain access to all files and records maintained by Governmental Authorities in respect of the Sellers' Shareholder Interests, the Corporations, the Assets and the Business. No investigation made by the Purchaser or its representatives will affect the Purchaser's right to rely on any representation or warranty made by the Sellers in this Agreement or in any Transaction Document.

5.2 Conduct of Business Prior to Closing

During the Closing Period, the Sellers shall not cause the Corporations to conduct the Business other than in the Ordinary Course to the extent that they are capable of so doing.

5.3 Actions to Satisfy Closing Conditions

- (a) The Sellers shall take all such actions as are within its power to control and shall use Commercially Reasonable Efforts to cause other actions to be taken which are not within its power to control, so as to ensure compliance with all of the conditions set forth in Section 7.1 including ensuring that during the Closing Period and at Closing, there is no breach of any of its representations and warranties.
- (b) The Purchaser shall take all such actions as are within its power to control and shall use Commercially Reasonable Efforts to cause other actions to be taken which are not within its power to control, so as to ensure compliance with all of

the conditions set forth in Section 7.2 including ensuring that during the Closing Period and at Closing, there is no breach of any of its representations and warranties.

5.4 Transfer of the Sellers' Shareholder Interests

The Sellers shall take all necessary steps and corporate proceedings to permit good title to the Sellers' Shareholder Interests to be duly and validly transferred and assigned to the Purchaser at the Closing, free of all Liens.

5.5 Request for Consents

The Sellers shall use Commercially Reasonable Efforts to obtain, prior to Closing, all Consents. The Consents shall be on such terms as are acceptable to the Purchaser, acting reasonably.

5.6 Filings and Authorizations

Each of the Sellers and the Purchaser, as soon as practicable after the execution of this Agreement, shall:

- (a) make, or cause to be made, all such filings and submissions under all Laws applicable to it as may be required for it to complete the purchase and sale of the Sellers' Shareholder Interests in accordance with the terms of this Agreement and the other transactions contemplated by this Agreement; and
- (b) use Commercially Reasonable Efforts to obtain, or cause to be obtained, all Authorizations necessary or advisable in order to complete the transfer of the Sellers' Shareholder Interests and the other transactions contemplated by this Agreement and each of the Acquisition Agreements.

The Sellers and the Purchaser shall coordinate and cooperate with each other in exchanging information and supplying such assistance as is reasonably requested in connection with the foregoing including providing each Party with all notices and information supplied to or filed with any Governmental Authority and all notices and correspondence received from any Governmental Authority (except for notices and information which the Sellers or the Purchaser, in each case acting reasonably, considers highly confidential and sensitive and which may be filed on a confidential basis).

5.7 Notice of Untrue Representation or Warranty

During the Closing Period, the Sellers shall promptly notify the Purchaser, and the Purchaser shall promptly notify the Sellers, upon any representation or warranty made by it contained in this Agreement or any Transaction Document becoming untrue or incorrect. Any such notification must set out particulars of the untrue or incorrect representation or warranty and details of any actions being taken by the Sellers or the Purchaser, as the case may be, to rectify that state of affairs. The recipient of any such notice shall consider the proposed amendment or supplement and the provisions of Section 8.1 will apply. In the event that the recipient of any such notice agrees in writing to the proposed amendment or supplement, then, and only in that

situation, the representations and warranties will be amended or supplemented as proposed in the notice and as agreed to in writing by the Parties.

5.8 Access to Books and Records

The Sellers shall, if requested by the Corporations, consent to the delivery to the Purchaser, at Closing, of all the Books and Records. For a period of 6 years from the Closing Date or for such longer period as may be required by applicable Law, the Purchaser shall retain all original accounting Books and Records relating to the Corporations for the period prior to and including the Closing Date, but the Purchaser shall not be responsible or liable to the Sellers for or as a result of any accidental loss or destruction of, or damage to, any such Books and Records. So long as any such Books and Records are retained by the Purchaser pursuant to this Agreement, the Sellers have the right to inspect and to make copies (at their own expense) of them at any time during normal business hours and upon reasonable notice for any proper purpose and without undue interference to the business operations of the Corporations. The Purchaser has the right to have its representatives present during any such inspection.

ARTICLE VI – CLOSING

6.1 Date, Time and Place of Closing

Except as the Parties may otherwise agree in writing, the completion of the transaction of purchase and sale contemplated by this Agreement will take place at the offices of Energy, at 10:00 A.M. (Toronto time) on the Closing Date or at such other place, on such other date and at such other time as may be agreed upon in writing by the Parties.

6.2 Closing Procedures

Unless otherwise expressly provided for in this Agreement, the terms and conditions set out in Article 5 of the Shareholders Agreement shall apply to the Closing.

Except as the Parties may otherwise agree in writing, subject to satisfaction or waiver by the relevant Party of the conditions of closing, at the Closing, the Sellers shall deliver actual possession of the Sellers' Shareholder Interests to the Purchaser and upon such delivery the Purchaser shall pay or satisfy the balance Purchase Price in accordance with Section 2.3.

6.3 Non-Merger

Except as otherwise expressly provided in this Agreement, the covenants, representations and warranties will not merge on but will survive the Closing and, notwithstanding such Closing or any investigation made by or on behalf of any Party, will continue in full force and effect. Closing will not prejudice any right of one Party against any other Party in respect of anything done or omitted under this Agreement or in respect of any right to damages or other remedies.

ARTICLE VII – CONDITIONS OF CLOSING

7.1 Conditions in Favour of the Purchaser

The obligation of the Purchaser to complete the transactions contemplated by this Agreement is subject to the following conditions to be fulfilled or performed at or prior to Closing, which conditions are for the exclusive benefit of the Purchaser and may be waived, in whole or in part, by the Purchaser in its sole discretion:

- (a) **Truth of Representations and Warranties.** The representations and warranties of the Sellers contained in this Agreement shall be true and correct as of the Closing Date with the same force and effect as if such representations and warranties had been made on and as of such date and the Sellers shall have executed and delivered a certificate of a senior officer to that effect;
- (b) **Performance of Covenants.** The Sellers shall have fulfilled or complied with all covenants contained in this Agreement to be fulfilled or complied with by them at or prior to Closing, and the Sellers shall have executed and delivered certificates of senior officers to that effect;
- (c) **Consents.** All Required Consents and Authorizations shall have been obtained on terms acceptable to the Purchaser, acting reasonably;
- (d) **Due Diligence.** The Purchaser shall have completed its investigation into the Corporations, the Business, the Sellers' title to the Sellers' Shareholder Interests, the Assets and all other matters it has deemed relevant and such investigation shall be satisfactory to the Purchaser, acting reasonably;
- (e) **No Legal Action.** No action or proceeding shall be pending or threatened by any Person in any jurisdiction, to enjoin, restrict or prohibit:
 - (i) any of the transactions contemplated by this Agreement;
 - (ii) the right of the Purchaser to own the Sellers' Shareholder Interests; or
 - (iii) the right of the Corporations to operate the Business after Closing on substantially the same basis as currently operated.
- (f) **Deliveries.** The Sellers shall have delivered or caused to be delivered to the Purchaser the following:
 - (i) share certificates representing the Kingsville Energy Shares, the Kingsville Solutions Shares, the Lakeshore Energy Shares and the Lakeshore Solutions Shares respectively, duly endorsed in blank for transfer or accompanied by irrevocable stock transfer powers of attorney duly executed in blank, in either case, by the holders of record, together with evidence satisfactory to the Purchaser that the Purchaser has been entered in the Corporate Records as the holder of record of the Kingsville Energy Shares,

the Kingsville Solutions Shares, the Lakeshore Energy Shares and the Lakeshore Solutions Shares respectively;

(ii) the Kingville Promissory Note and the Lakeshore Promissory Note duly endorsed to the order of the Purchaser, together with evidence satisfactory to the Purchaser that the Purchaser has been recorded in the Corporate Records as the holder of record of the Kingsville Promissory Note and Lakeshore Promissory Note respectively;

(iii) a general absolute assignment of the Sellers' Shareholder Interests;

(iv) an assignment of all security issued by the Corporations to the Sellers in connection with the Kingsville Energy Loan and the Lakeshore Energy Loan;

(v) certified copies of:

(A) by-laws of each of the Sellers approving the entering into and completion of the transactions contemplated by this Agreement; and

(B) resolutions of the board of directors of the Corporations authorizing the transfer of the Sellers' Shareholder Interests as contemplated by this Agreement; and

(C) a list of the officers and directors authorized to sign agreements together with their specimen signatures,

all in form and substance satisfactory to the Purchaser, acting reasonably;

(vi) the certificates referred to in Section 7.1(a) and Section 7.1(b);

(vii) evidence, satisfactory to the Purchaser, of the release and discharge of any Liens affecting the Sellers' Shareholders Interests;

(viii) a duly executed resignation effective as at the Closing of each of the directors of the Corporations nominated or appointed to the board of directors by the Sellers;

(ix) duly executed releases in favour of the Corporations and the Purchaser for matters up to Closing as contemplated by Section 5.1 of the Shareholders Agreement in form and substance satisfactory to the Purchaser acting reasonably from:

(A) the Sellers; and

- (B) each of the Persons referred to in Section 7.1(f)(viii); and
 - (x) the Corporate Records.
- (g) **Proceedings.** All proceedings to be taken by the Sellers in connection with the transactions contemplated in this Agreement shall be satisfactory in form and substance to the Purchaser, acting reasonably, and the Purchaser shall have received copies of all instruments and other evidence as it may reasonably request in order to establish the consummation of such transactions and the taking of all necessary proceedings in connection therewith; and

7.2 Conditions in Favour of the Sellers

The obligation of the Sellers to complete the transactions contemplated in this Agreement is subject to the following conditions to be fulfilled or performed at or prior to Closing, which conditions are for the exclusive benefit of the Sellers and may be waived, in whole or in part, by the Sellers in their sole discretion:

- (a) **Truth of Representations and Warranties.** The representations and warranties of the Purchaser contained in this Agreement shall be true and correct as of the Closing Date with the same force and effect as if such representations and warranties had been made on and as of such date and the Purchaser shall have executed and delivered a certificate of a senior officer to that effect.
- (b) **Performance of Covenants.** The Purchaser shall have fulfilled or complied with all covenants contained in this Agreement to be fulfilled or complied with by it at or prior to Closing and the Purchaser shall have executed and delivered a certificate of a senior officer to that effect.
- (c) **Deliveries.** The Purchaser shall have delivered or caused to be delivered to the Sellers the following:
 - (i) certified copies of:
 - (A) by-laws of the Purchaser approving the entering into and completion of the transactions contemplated by this Agreement; and
 - (B) a list of the officers and directors authorized to sign agreements together with their specimen signatures,all in form and substance satisfactory to the Sellers, acting reasonably; and
 - (ii) the certificates referred to in Section 7.2(a) and Section 7.2(b);
 - (iii) the balance of the Purchase Price by bank draft, certified cheque or other form of immediately available funds.

7.3 Condition Precedent re: OEB Approval

- (a) The Parties acknowledge and agree that OEB Approval is a true condition precedent to the completion of the transactions contemplated by this Agreement.
- (b) The Purchaser acknowledges and agrees that it bears the responsibility of applying for OEB Approval and agrees that it shall submit an application for OEB Approval to the Ontario Energy Board forthwith after the execution of this Agreement by all Parties and to prosecute such application diligently and in good faith.
- (c) If OEB Approval has not been obtained within six (6) months of the date of execution of this Agreement by all Parties, then unless such time period has been extended with the written consent of all Parties, this Agreement shall terminate without further liability of any Party to the other, and the Parties agree that, provided neither the Sellers nor Chatham-Kent Energy Inc. have intervened in any manner in the Purchaser's application to the Ontario Energy Board, the Sellers shall be free to complete a sale of their respective Sellers' Shareholder Interests to Chatham-Kent Energy Inc. without again complying with Section 4.4 of the Shareholders Agreement provided that:
 - (i) such sale is completed within ninety (90) days of Ontario Energy Board approval of such sale; and
 - (ii) such sale is completed in accordance with the terms and conditions of that certain binding letter of intent submitted by Chatham-Kent Energy Inc. to the Sellers dated June 30, 2008; and
 - (iii) Chatham-Kent Energy Inc. has executed an "Assumption Agreement" (as that term is defined in the Shareholders Agreement) in accordance with the requirements of Section 4.5 of the Shareholders Agreement.

ARTICLE VIII – TERMINATION AND ARBITRATION

8.1 Termination

This Agreement may be terminated at any time prior to the Closing:

- (a) by the Purchaser if, at the time of Closing, any of the conditions specified in Section 7.1 has not been satisfied in full;
- (b) by the Purchaser, if there has been a material violation or material breach by the Sellers of any covenant, representation or warranty or other agreement contained in the Agreement such that any condition specified in Section 7.1 would be incapable of being satisfied at Closing, and such violation or breach is not waived by the Purchaser or, in the case of a covenant breach, cured by the Sellers by the earlier of:

- (i) ten days after written notice thereof by the Purchaser; or
 - (ii) the Closing Date;
- (c) by the Sellers if, at the time of Closing, any of the conditions specified in Section 7.2 has not been satisfied in full;
- (d) by the Sellers, if there has been a material violation or material breach by the Purchaser of any covenant, representation or warranty or other agreement contained in the Agreement such that any condition specified in Section 7.2 would be incapable of being satisfied at Closing, and such violation or breach is not waived by the Sellers or, in the case of a covenant breach, cured by the Purchaser by the earlier of:
- (i) ten days after written notice thereof by the Sellers; or
 - (ii) the Closing Date;
- (e) by written agreement of the Parties;

and shall terminate automatically by the operation of Section 7.3.

8.2 Effect of Termination

If this Agreement is terminated pursuant to Section 8.1(e) or terminates automatically by the operation of Section 7.3, all obligations of the Parties under or pursuant to this Agreement will terminate without further liability of any Party to the other except for the provision of:

- (a) Section 12.9 relating to expenses;
- (b) Section 12.11 relating to public announcements; and
- (c) this Section 8.2,

provided nothing herein will relieve any Party from liability for any breach of this Agreement occurring before its termination.

8.3 Waiver of Conditions of Closing

If any of the conditions set forth in Section 7.1 have not been satisfied, the Purchaser may elect in writing to waive the condition and proceed with the completion of the transactions contemplated by this Agreement and, if any of the conditions set forth in Section 7.2 have not been satisfied, the Sellers may elect in writing to waive the condition and proceed with the completion of the transactions contemplated by this Agreement. Any such waiver and election by the Purchaser or the Sellers, as the case may be, will only serve as a waiver of the specific closing condition and the breaching party will have no liability with respect to that specific waived condition.

ARTICLE IX – NON-COMPETITION BY SELLERS

9.1 Non-Competition

- (a) Each Seller covenants that, for so long as the Purchaser is a shareholder (directly or indirectly) of a corporation which holds a license under the *Ontario Energy Board Act* to distribute electricity in the Territory, or which is otherwise engaged in the lawful distribution of electricity in the Territory, it will not anywhere within the Territory, either singly in or partnership or jointly or in conjunction with any other Person or Persons, whether as principal, agent, consultant, shareholder or in any other manner whatsoever, directly or indirectly, carry on, be engaged in or concerned with or interested in, or advise, acquire an interest in, or permit its name or any part thereof to be used or employed by any Person engaged in or concerned with, or interested in an activity which requires a license under Section 57(a) of the *Ontario Energy Board Act* or by any Person otherwise engaged in the lawful distribution of electricity in the Territory. Notwithstanding anything that might be construed to the contrary in this Section 9.1(a), the Parties acknowledge and agree that the the nomination by the Sellers of directors to the board of directors of Energy pursuant to Section 10.4 of this Agreement following shall not constitute a contravention of this Section 9.1(a).
- (b) Each Shareholder agrees that if a court of competent jurisdiction shall limit, restrict or otherwise change the geographical area or time or businesses referred to in Section 9.1(a), that the limited or changed geographical area or time period or types of business determined by the said court shall, for the purposes of the section, be deemed to be the geographical area and/or time period and/or types of business referred to in the section, as if they were the original geographical area and time period and types of business set out therein. Each Shareholder hereby agrees that all covenants, provisions and restrictions in this section are reasonable and valid and all defences to the strict enforcement thereof are hereby waived by it.

ARTICLE X – POST CLOSING PROVISIONS RE: PURCHASER

10.1 Post Closing Provisions re: Employees

The Purchaser agrees that from and after the Closing Date, it will exercise such rights as it may have in its capacity as a shareholder of Energy to ensure that:

- (a) The employment of any Employee of Energy shall not be terminated; and
- (b) For a period of seven (7) years from the Closing Date no Employee shall be required, as a term of continuing employment, to permanently relocate their place of residence to a permanent residence outside of the Territory;

solely and exclusively as a result of the acquisition of the Sellers' Shareholder Interests by the Purchaser.

10.2 Operations of Energy

For so long as Energy holds a license under the *Ontario Energy Board Act* to distribute electricity in the Territory, the Purchaser shall exercise such rights as it may have in its capacity as a shareholder of Energy to ensure that Energy:

- (a) maintains a service centre in the Town of Essex;
- (b) meets all mandated performance targets with respect to the Ontario Energy Board's Service Quality Indicator;
- (c) pursues only such expansion opportunities as are reasonable and prudent to pursue in the circumstances;
- (d) will continue to be an active part of the local communities in which it operates and will continue to be a good corporate citizen and a facilitator of economic development;
- (e) does not divest itself of a material asset that is permanently located within the boundaries of either Seller without first affording such Seller a reasonable opportunity to acquire such asset for cash consideration at fair market value.

For the purposes of this Section 10.2(e):

- (i) "divest" means the disposition of a material asset:
 - (I) to a Person who will not be using the asset as part of, or in connection with a "distribution system" (as defined under the *Ontario Energy Board Act*) through which electricity is distributed in the Territory; and
 - (II) the proceeds of such disposition will not be used by Energy to acquire an asset or assets to form part of or to be used in connection with Energy's distribution system.
- (ii) "material asset" means a capital asset which has a fair market value at the time of a proposed divestiture in excess of Three Hundred Thousand Dollars (\$300,000);
- (f) does not materially fail to carry out the improvements outlined in the most recent existing capital forecast adopted by Energy prior to Closing during the period of time to which such forecast is applicable;
- (g) the property legally described as: "Lot 3, North side of Pearl Street, East, registered plan 185, saving and excepting the easterly twelve feet of said Lot 3" is transferred or made available to Kingsville for continued use as a municipal parking lot, provided the contemplated transaction is in compliance with existing regulations including the affiliate relationship code of the Ontario Energy Board.

- (h) senior members of the executive of Energy are made available on an annual basis to the councils of the Sellers for a presentation to council or the public, if requested, and that senior members of the executive are made available informally and on an as needed and reasonable basis at all other reasonable times and intervals.

10.3 Acknowledgement

Provided the Purchaser has taken no commercially unreasonable actions that have resulted in Energy's inability to meet its obligations contained in Sections 10.1 or 10.2, it is acknowledged and agreed that nothing contained in Sections 10.1 or 10.2 herein shall require the Purchaser to restrict in whole or in part the powers of the directors to manage or supervise the management of the business and affairs of Energy and that nothing contained herein shall constrain or restrict the directors officers, or other employees of Energy from acting in the Ordinary Course or otherwise restrict Energy from carrying on the Business in the Ordinary Course.

10.4 Nomination and Appointment of Directors

For so long as:

- (a) Energy is distributing electricity within the municipal boundaries of Kingsville and Lakeshore; and
- (b) the municipal boundaries of Kingsville and Lakeshore remain unchanged from the Closing Date; and
- (c) Energy is controlled by the Purchaser,

The Sellers shall be permitted to jointly nominate four (4) residents of the Territory for consideration by the Purchaser for appointment to the board of directors of Energy with effect as and from the Closing Date. Provided such nominees are otherwise qualified to serve on the board of directors, the Purchaser will appoint two of such nominees to the board of directors of Energy. The Parties acknowledge and agree that it is their intent that the first appointment of nominees of the Sellers to the board of directors of Energy shall be effective as and from the Closing Date. Provided the Sellers have nominated four (4) residents of the Territory for consideration by the Purchaser by such date, prior to Closing, as the Purchaser may require in order to consider and effect the appointments, then the Purchaser shall effect the appointments with effect as and from the Closing Date.

Nominees shall be qualified to serve as directors of Energy if:

- (i) The nominees meet the statutory criteria for directors pursuant to the *Ontario Business Corporations Act*; and
- (ii) The nominees meet such other criteria as may be established from time to time by Energy in accordance with such corporate governance policies or principles that Energy may adopt from time to time in establishing nomination criteria of general

application for all directors including those contained in the by laws of Energy.

ARTICLE XI – INDEMNIFICATION AND REMEDIES

11.1 Indemnification By The Sellers: General Matters

The Sellers shall indemnify and hold harmless on a several basis, the Purchaser and the Corporations and, to the extent named or involved in any third party action or claim, their respective employees, shareholders, directors, officers, representatives and related persons (collectively, the “**Purchaser Indemnified Persons**”) against, and shall pay to the Purchaser, the Corporations and the Purchaser Indemnified Persons, on demand, the amount of, any loss, liability, obligation, claim, damages (including incidental and consequential damages), loss of profits, diminution in value, fines and other penalties, costs, charges or expenses (including costs of investigation and defense and the full amount of all legal fees and other professional fees) (collectively, “**Damages**”), suffered by, imposed upon or asserted against, the Purchaser, the Corporations or any of the Purchaser Indemnified Persons as a result of, in respect of, connected with, or arising out of:

- (a) any breach of any representation or warranty made by the Sellers in this Agreement or in any Transaction Document, whether or not the Purchaser relied on or had knowledge of it;
- (b) any breach or non-fulfillment by the Sellers of any covenant or obligation of the Sellers contained in this Agreement or in any Transaction Document;
- (c) any claim by any Person for brokerage or finder’s fees, commissions or similar payments based upon any agreement or understanding made or alleged to have been made by any such Person with the Sellers or the Corporations (or any Person acting on their behalf) in connection with any of the transactions contemplated by this Agreement.

11.2 Indemnification by the Purchaser

The Purchaser shall indemnify and hold harmless the Sellers and, to the extent named or involved in any third party action or claim, its employees, shareholders, directors, officers, representatives and related persons (collectively the “**Sellers Indemnified Persons**”) against, and shall pay to the Sellers and the Sellers Indemnified Persons, on demand, the amount of any Damages suffered by, imposed upon or asserted against the Sellers or any of the Sellers Indemnified Persons as a result of, in respect of, connected with, or arising out of:

- (a) any breach of any representation or warranty made by the Purchaser in this Agreement or any Transaction Document;
- (b) any breach by the Purchaser of any covenant or obligation of the Purchaser contained in this Agreement or any Transaction Document; or
- (c) any claim by any Person for brokerage or finder’s fees, commissions or similar payments based upon any agreement or understanding made or alleged to have

been made by such Person with the Purchaser (or any Person acting on its behalf) in connection with any of the transactions contemplated in this Agreement.

11.3 Indemnification Procedure: Third Party Claims

- (a) Upon receipt by the Purchaser, the Sellers, the Corporations, a Purchaser Indemnified Person or a Sellers Indemnified Person, as the case may be, (an **"Indemnitee"**) of notice of any proceeding commenced in connection with a Third Party Claim and in respect of which the Indemnitee proposes to demand indemnification from a Party (the **"Indemnitor"**), the Indemnitee must give notice to that effect to its Indemnified Representative and the Indemnitor with reasonable promptness. The failure to give, or delay in giving, such notice will not relieve the Indemnitor of its obligations except and only to the extent of any prejudice caused to the Indemnitor by such failure or delay.
- (b) The Indemnitor has the right, by notice to the Indemnitee Representative given not later than thirty (30) days after receipt of the notice described in Section 11.3(a), to assume control of the defence, compromise or settlement of the Third Party Claim provided that:
 - (i) the Third Party Claim involves only money damages and does not seek any injunctive or other equitable relief;
 - (ii) if the named parties in any Third Party Claim include both the Indemnitor and the Indemnitee and representation by the same counsel would, in the judgment of the Indemnitee Representative, still be appropriate notwithstanding any actual or potential differing interests between them (including the availability of different defences);
 - (iii) settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the judgment of the Indemnitee Representative, likely to establish a precedent, custom or practice adverse to the continuing business interest of the Indemnitee; and
 - (iv) the Indemnitor, from time to time, at the Indemnitee Representative's request, gives security satisfactory to the Indemnitee Representative against any costs and other liabilities to which the Indemnitee may be or become exposed as a result of such Third Party Claim.
- (c) Upon the assumption of control by the Indemnitor:
 - (i) the Indemnitor shall actively and diligently proceed with the defence, compromise or settlement of the Third Party Claim at the Indemnitor's sole cost and expense, including the retaining of counsel reasonably satisfactory to the Indemnitee;

- (ii) the Indemnitor shall keep the Indemnitee Representative fully advised with respect to the defence, compromise or settlement of the Third Party Claim (including supplying copies of all relevant documents promptly as they become available) and shall arrange for its counsel to inform the Indemnitee Representative on a regular basis of the status of the Third Party Claim;
- (iii) the Indemnitee may retain separate co-counsel at its sole cost and expense, and may participate in the defence of the Third Party Claim; and
- (iv) the Indemnitor will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim unless consented to by the Indemnitee Representative (which consent may not be unreasonably or arbitrarily withheld or delayed).

Provided all the conditions set forth in Section 11.3(a) are satisfied and the Indemnitor is not in breach of any of its obligations under this Section 11.3(c), the Indemnitee and the Indemnitee Representative shall, at the expense of the Indemnitor, cooperate with the Indemnitor and use their Commercially Reasonable Efforts to make available to the Indemnitor all relevant information in their possession or under their control (provided that it does not cause the Indemnitee to breach any confidentiality obligations) and shall take such other steps as are, in the reasonable opinion of counsel for the Indemnitor, necessary to enable the Indemnitor to conduct such defence; provided always that:

- (v) no admission of fault may be made by or on behalf of the Purchaser, the Corporations or any Purchaser Indemnified Person without the prior written consent of the Purchaser;
- (vi) no admission of fault may be made by or on behalf of the Sellers or any Sellers Indemnified Person without the prior written consent of the Sellers; and
- (vii) the Indemnitee shall not be obligated to take any measures which, in the reasonable opinion of the Indemnitee's legal counsel, could be prejudicial or unfavourable to the Indemnitee.

(d) If

- (i) the Indemnitor fails to give the Indemnitee the notice provided in Section 11.3(a),
- (ii) any of the conditions in Section 11.3(a) are unsatisfied, or
- (iii) the Indemnitor breaches any of its obligations under Section 11.3(c),

the Indemnitee may assume control of the defence, compromise or settlement of the Third Party Claim in its sole discretion and is entitled to retain counsel as in its sole discretion may appear advisable, the whole at the Indemnitor's sole cost and expense.

Any settlement or other final determination of the Third Party Claim will be binding upon the Indemnitor. The Indemnitor shall, at its sole cost and expense, cooperate fully with the Indemnitee and use its Reasonable Commercial Efforts to make available to the Indemnitee all relevant information in its possession or under its control and take such other steps as are, in the reasonable opinion of counsel for the Indemnitee, necessary to enable the Indemnitee to conduct its defence. The Indemnitor shall reimburse the Indemnitee promptly and periodically for the costs of defending against the Third Party Claim (including legal fees and expenses), and shall remain responsible for any Damages the Indemnitee may suffer resulting from, arising out of, or relating to, the Third Party Claim to the fullest extent provided in this Article IX.

11.4 Expiry of Liability

- (a) Except as set out in Section 11.4(b), liability for breaches of the representations, warranties and covenants of the Sellers and the Purchaser contained in this Agreement will terminate upon the expiry of the period of two (2) years following the Closing Date, except:
 - (i) in the case of fraud, intentional misrepresentation or deliberate or wilful breach, in which case liability will continue indefinitely; and
 - (ii) to the extent that, during such period, the Indemnitee has given notice to the Indemnitor of a claim in respect of any such representation, warranty or covenant, in which case liability for such representation, warranty or covenant will continue in full force and effect until the final determination of such claim.
- (b) The representations and warranties contained in Section 3.8 and the Sellers' liability in connection therewith will survive indefinitely.
- (c) The Parties are aware of the provisions of the *Limitations Act, 2002* (Ontario) and agree that (i) this agreement is a "business agreement" for purposes of the Act, and (ii) to the extent that the provisions hereof are found to be an agreement to vary or exclude a limitation period under the Act, such limitation period shall be deemed to be varied or excluded to the extent necessary to give full force and effect to the provisions of this Agreement.

ARTICLE XII – MISCELLANEOUS

12.1 Notices

Any notice, consent, waiver or other communication given under this Agreement or any Acquisition Agreement must be in writing and may be given by delivering it or sending it by facsimile or other similar form of recorded communication addressed:

(a) to the Purchaser at:

The Corporation of the Town of Essex
33 Talbot St. S.
Essex ON N8M 1A8

Attention: Wayne Miller, CAO
Telephone: (519) 776-7336
Facsimile: (519) 776-8811

with a copy (which shall not constitute notice to the Purchaser) to:

Ogilvy Renault LLP
Suite 3800
Royal Bank Plaza, South Tower
200 Bay Street
P.O. Box 84
Toronto, Ontario M5J 2Z4

Attention: Valerie Helbronner
Telephone: 416.216.4000
Facsimile: 416.216.3930

(b) to the Sellers at:

Town of Kingsville
2021 Division Road North
Kingsville, ON N9Y 2Y9

Attention: Dan DiGiovanni
Telephone: 519-733-2305
Fax: 519-733-8108

Town of Lakeshore
419 Notre Dame Street
Belle River, ON N0R 1A0

Attention: Ruth Coursey
Telephone: 519-728-2700
Fax: 519-728-9530

with a copy (which shall not constitute notice to the Sellers) to:

Jim Renick, Barrister & Solicitor
23 Talbot Street North
Essex, Ontario N8M 1A5

Attention: Jim Renick
Telephone: (519) 776-9020
Facsimile: (519) 776-9027

Any such communication is deemed to have been delivered and received on the date of personal delivery or transmission by facsimile or other similar form of recorded communication, as the case may be, if such day is a Business Day and such delivery or transmission was received by the recipient Party prior to 5:00 p.m. (Essex time) and otherwise on the next Business Day. Any Person may change its address for service by notice given in accordance with the foregoing and any subsequent communication must be sent to such Person at its changed address.

12.2 Entire Agreement

This Agreement and all other Transaction Documents delivered at Closing constitutes the entire agreement between the Parties and supersedes all prior agreements, understandings, negotiations and discussions relating to the subject matter thereof, whether oral or written. There are no representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, between the Parties relating to the subject matter hereof except as specifically set forth in this Agreement and the other Transaction Documents delivered at Closing. Neither Party has relied or is relying on any other information, discussions or understandings in entering into and completing the transactions contemplated in this Agreement and the other Transaction Documents delivered at Closing. If there is any conflict or inconsistency between the provisions of this Agreement and the provisions of any Transaction Document, the provisions of this Agreement will govern.

12.3 Amendments

This Agreement may only be amended, supplemented or otherwise modified by written agreement of the Sellers and the Purchaser.

12.4 Waiver

The failure or delay by a Party in enforcing, or insisting upon strict performance of, any provision of this Agreement will not be considered to be a waiver of such provision or in any way affect the validity or enforceability of this Agreement or deprive a Party of the right, at any time or from time to time, to enforce or insist upon strict performance of that provision or any other provision of this Agreement. Any waiver by a Party of any provision of this Agreement is effective only if in writing and signed by a duly authorized representative of such Party.

12.5 Severability

If any provision of this Agreement is determined by a court of competent jurisdiction to be illegal, invalid or unenforceable, that provision will be severed from this Agreement and the remaining provisions will continue in full force and effect, without amendment.

12.6 Assignments

- (a) This Agreement will become effective when executed by the Parties and thereafter will be binding upon and enure to the benefit of the Parties and their respective successors and permitted assigns.
- (b) Except as otherwise provided in this Section 12.6, neither this Agreement nor any of the rights, duties or obligations under this Agreement are assignable or transferable by a Party without the prior written consent of the other Party. Any attempt to assign any of the rights, duties or obligations in this Agreement without such written consent is void.

12.7 Third Party Beneficiaries

Except as otherwise expressly provided in this Agreement, the Parties do not intend that this Agreement will benefit or create any right or cause of action in, or on behalf of, any Person other than a Party and no Person, other than a Party, is entitled to rely on the provisions of this Agreement in any proceeding. Without limiting the generality of the foregoing, the consent of the Corporations, a Sellers Indemnified Person or a Purchaser Indemnified Person is not required for any amendment or waiver of, or other modification to, this Agreement or any Transaction Document including any rights of indemnification to which such Person may be entitled.

12.8 Time of the Essence

Time is of the essence in this Agreement.

12.9 Expenses

Except as otherwise expressly provided in this Agreement, all costs and expenses (including the fees and disbursements of legal counsel, brokers, investment advisers, consultants and accountants) incurred in connection with this Agreement and the transactions contemplated herein are to be paid by the Party incurring such expenses.

12.10 Further Assurances

From time to time after the Closing, each Party will, at the request of the other Party, execute and deliver such additional conveyances, transfers and other assurances and perform or cause to be performed such further and other acts or things as may be reasonably required to give full effect to, and carry out the intent of, this Agreement and each of the Acquisition Agreements, including for purposes of effectively transferring the Sellers' Shareholder Interests to the Purchaser.

12.11 Announcements

No press release or other public announcement with respect to this Agreement or any transaction contemplated therein may be made by a Party unless and until the text of the announcement and the time and manner of its release have been approved by the other Party. However, if a Party is bound by Law to make a press release or other public announcement, such Party may do so, notwithstanding the failure of the other Party to approve same, provided:

- (a) the other Party is given at least 3 Business Days prior written notice of the intention to make such announcement and has a reasonable opportunity to comment on the announcement; and
- (b) the announcement merely relates the facts and then only to the extent necessary to satisfy the specific legal requirement.

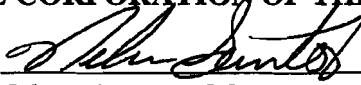
12.12 Counterparts

This Agreement may be executed in any number of separate counterparts (including by facsimile or other electronic means) and all such signed counterparts will together constitute one and the same agreement.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF the Parties have executed this Share Purchase Agreement this _____ day of September, 2008.

THE CORPORATION OF THE TOWN OF KINGSVILLE

By: 
Nelson Santos – Mayor

By: 
Linda Burling - Clerk

THE CORPORATION OF THE TOWN OF LAKESHORE

By: _____
Tom Bain –Mayor

By: _____
Mary Masse – Clerk

THE CORPORATION OF THE TOWN OF ESSEX

By: _____
Ron McDermott - Mayor

By: _____
Cheryl Bondy - Clerk

IN WITNESS WHEREOF the Parties have executed this Share Purchase Agreement this _____ day of September, 2008.

THE CORPORATION OF THE TOWN OF KINGSVILLE

By: _____
Nelson Santos - Mayor

By: _____
Linda Burling - Clerk

THE CORPORATION OF THE TOWN OF LAKESHORE

By: _____
Tom Bain - Mayor

By: _____
Mary Masse - Clerk

THE CORPORATION OF THE TOWN OF ESSEX

By: Ron McDermott
Ron McDermott - Mayor

By: Cheryl Bondy
Cheryl Bondy - Clerk

IN WITNESS WHEREOF the Parties have executed this Share Purchase Agreement this _____ day of September, 2008.

THE CORPORATION OF THE TOWN OF KINGSVILLE

By: _____
Nelson Santos – Mayor

By: _____
Linda Burling - Clerk

THE CORPORATION OF THE TOWN OF LAKESHORE

By: Tom Bain Sept 12/08
Tom Bain – Mayor

By: Mary Masse Sept 12/08
Mary Masse – Clerk

THE CORPORATION OF THE TOWN OF ESSEX

By: _____
Ron McDermott - Mayor

By: _____
Cheryl Bondy - Clerk

Tab G

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Tab H



Capital - Summary
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

		<u>2006 Budget</u>	<u>2006 Actual</u>	<u>2007 Budget</u>	<u>2007 Actual</u>	<u>2008 Budget</u>	<u>2009 Budget</u>	<u>2010 Budget</u>
Poles, towers & fixtures	1830	\$ 94,000	\$ 28,000	\$ 140,000	\$ 97,000	\$ 111,000	\$ 121,000	\$ 99,000
Overhead conductors & devices	1835	\$ 78,000	\$ 72,000	\$ 156,000	\$ 109,000	\$ 131,000	\$ 54,000	\$ 72,000
Underground conductors & devices	1840/1845	\$ 164,000	\$ 340,000	\$ 115,000	\$ 304,000	\$ 285,000	\$ 96,000	\$ 35,000
Line transformers	1850	\$ 174,000	\$ 56,000	\$ 230,000	\$ 487,000	\$ 268,000	\$ 213,000	\$ 318,000
Services	1855	\$ 45,000	\$ 88,000	\$ 45,000	\$ 88,000	\$ 24,000	\$ 25,000	\$ 26,000
Meters	1860	\$ 357,000	\$ 52,000	\$ 423,000	\$ 276,000	\$ 581,000	\$ 685,000	\$ 686,000
Land & land rights	1905/1906	\$ 18,000	\$ 18,000	\$ -	\$ -	\$ -	\$ -	\$ -
Building & fixtures	1908	\$ 86,000	\$ -	\$ 76,000	\$ 58,000	\$ 155,000	\$ -	\$ -
Office equipment	1915	\$ 23,000	\$ 10,000	\$ 15,000	\$ 6,000	\$ 72,000	\$ 105,000	\$ 5,000
Computer equipment	1920	\$ 6,000	\$ 4,000	\$ 26,000	\$ 47,000	\$ 35,000	\$ -	\$ -
Computer software	1925	\$ 21,000	\$ -	\$ 191,000	\$ 86,000	\$ 117,000	\$ 35,000	\$ 25,000
Transportation equipment	1930	\$ 474,000	\$ 16,000	\$ 100,000	\$ 484,000	\$ 2,000	\$ 60,000	\$ 375,000
Tools, shop & garage	1940	\$ 10,000	\$ 8,000	\$ 42,000	\$ 12,000	\$ 15,000	\$ -	\$ 0
Total capital expenditures		\$ 1,550,000	\$ 692,000	\$ 1,559,000	\$ 2,054,000	\$ 1,796,000	\$ 1,394,000	\$ 1,641,000



Capital - Distribution Plant (2008)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

	Poles, towers & fixtures 1830	Overhead conductors & devices 1835	Underground conductors & devices 1840/1845	Line transformers 1850	Services 1855	Meters 1860	Total
Conversion - Belle River Road North (Cottam)	\$ 22,140	\$ 19,579	\$ 65,359	\$ 26,638	\$ -	\$ -	\$ 133,716
Conversion - County Road 34 West (Cottam)	\$ 88,889	\$ 49,797	\$ -	\$ 13,802	\$ -	\$ -	\$ 152,488
Conversion - Prince Albert from Main to Mill (Kingsville)	\$ -	\$ 17,464	\$ -	\$ 24,266	\$ -	\$ -	\$ 41,730
Conversion - Mill between McDonald & Prince Albert (Kingsville)	\$ -	\$ -	\$ 36,883	\$ 4,454	\$ -	\$ -	\$ 41,337
Conversion - Mill between Prince Albert & Division (Kingsville)	\$ -	\$ 13,131	\$ 71,457	\$ 60,273	\$ -	\$ -	\$ 144,860
Conversion - Prince Albert from main to Mill and Mill between McDonald & Division (Kingsville)	\$ -	\$ 30,834	\$ 111,215	\$ 89,023	\$ -	\$ -	\$ 231,071
New 750 kva transformer for Civic Center (Essex)	\$ -	\$ -	\$ -	\$ 34,479	\$ -	\$ -	\$ 34,479
Additional transformers for inventory	\$ -	\$ -	\$ -	\$ 15,000	\$ -	\$ -	\$ 15,000
Primary metering points - Harrow North, Comber North, Belle River & Cottam	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,936	\$ 52,936
Smart Metering	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 527,686	\$ 527,686
Customer requested electric servicing	\$ -	\$ -	\$ -	\$ -	\$ 23,955	\$ -	\$ 23,955
	\$ 111,000	\$ 131,000	\$ 285,000	\$ 268,000	\$ 24,000	\$ 581,000	\$ 1,399,000



Capital - General Plant (2008)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

Building & fixtures

Banks for compound	\$ 8,000
Fence for rear compound	\$ 10,000
Rear compound drainage	\$ 12,000
Parking lot completion	\$ 20,000
Operations staff area improvements & map display area	\$ 25,000
Rear compound excavation & compaction	\$ 80,000
	<u>\$ 155,000</u>

Office equipment

Customer service telephone headsets for ergonomic improvements	\$ 2,000
Workstation replacement for Operations Manager for ergonomic improvements	\$ 5,000
Equipment replacement/improvements in need of repair/as required.	\$ 5,000
Office furniture replacement for C.E.O. including ergonomic improvements	\$ 10,000
General office workspace configurations improvements	\$ 50,000
	<u>\$ 72,000</u>

Computer equipment

Replacement of file & print share server due to age & insufficient space requirements	\$ 35,000
	<u>\$ 35,000</u>

Computer software

Software required to meet OEB standards for maintenance reporting	\$ 10,000
Balance of CIS conversion from CIS Infinity to NorthStar including: travel estimate & TD lockbox programming changes required	\$ 107,000
	<u>\$ 117,000</u>

Transportation equipment

Chipper box for dump truck

\$ 2,000
\$ 2,000

Note: The 2007 budget provided for the replacement of a 1991 dump truck, the unit was ordered during the year, however delivery will occur in 2008. As a result, it is not appropriate to reflect the orders in the 2007 actual, an amount of approximately \$61,000 has been spent. As the purchases have already been approved, they are not reflected in the 2008 budget.

Tools, shop & garage

Equipotential groundsets

3000' stringing ropes

Various hand tools

Pallet truck to move inventory

\$ 15,000

Note: The 2007 budget provided for several tool purchases which were ordered during the year, however delivery occurred in 2008. As a result, it is not appropriate to reflect the orders in the 2007 actual, an amount of approximately \$30,000 from the 2007 budget has been expended. As the purchases have already been approved, they are not reflected in the 2008 budget.



Capital - Distribution Plant (2009)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

	Poles, towers & fixtures 1830	Overhead conductors & devices 1835	Underground conductors & devices 1840/1845	Line transformers 1850	Services 1855	Meters 1860	Total
Conversion - Elm & Laurel (Kingsville)	\$ -	\$ -	\$ 95,642	\$ 47,141	\$ -	\$ -	\$ 142,783
Conversion - Queen St pumping station (Kingsville)	\$ -	\$ -	\$ -	\$ 16,024	\$ -	\$ -	\$ 16,024
Conversion - Comber feed from Haycroft DS	\$ 121,473	\$ 53,522	\$ -	\$ 149,681	\$ -	\$ -	\$ 324,677
Smart metering	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 685,000	\$ 685,000
Customer requested electric servicing	\$ -	\$ -	\$ -	\$ -	\$ 24,735	\$ -	\$ 24,735
	<u>\$ 121,000</u>	<u>\$ 54,000</u>	<u>\$ 96,000</u>	<u>\$ 213,000</u>	<u>\$ 25,000</u>	<u>\$ 685,000</u>	<u>\$ 1,193,000</u>



Capital - General Plant (2009)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

Office equipment

Equipment replacement/improvements in need of repair/as required	\$ 5,000
Replacement of inserting equipment	\$ 25,000
Replacement of phone system	\$ 25,000
Replacement of office flooring	\$ 50,000
	<u>\$ 105,000</u>

Computer software

Additional software for scanning documents to eDOC, a module of NorthStar. eDoc is the ability to electronically store and retrieve files within the CIS/billing system and link them to individual accounts, premises and/or customers.	\$ 5,000
mCare - A workforce automation application that leverages mobile and wireless technologies to optimize service order processes. Through an easy to use web-based dispatch application, service orders generated by customer service representatives, form a task list to be assigned to available field personnel. The mCare process reduces time consuming paperwork and ensures data integrity through the elimination of re-keying.	\$ 30,000
	<u>\$ 35,000</u>

Transportation equipment

Replacement of 1996 truck with a light duty vehicle, net of \$1,000 trade-in	\$ 30,000
Replacement of 1995 truck with a light duty vehicle, net of \$500 trade-in	\$ 30,000
	<u>\$ 60,000</u>



Capital - Distribution Plant (2010)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

	Poles, towers & fixtures 1830	Overhead conductors & devices 1835	Underground conductors & devices 1840/1845	Line transformers 1850	Services 1855	Meters 1860	Total
Conversion - Comber feed from Haycroft DS	\$ 99,183	\$ 71,762	\$ 34,770	\$ 318,055	\$ -	\$ -	\$ 523,770
Smart metering	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 686,000	\$ 686,000
Customer requested electric servicing	\$ -	\$ -	\$ -	\$ -	\$ 25,550	\$ -	\$ 25,550
	<u>\$ 99,000</u>	<u>\$ 72,000</u>	<u>\$ 35,000</u>	<u>\$ 318,000</u>	<u>\$ 26,000</u>	<u>\$ 686,000</u>	<u>\$ 1,235,000</u>



Capital - General Plant (2010)
Investing in our distribution system to ensure safe, reliable and efficient delivery of electricity.

Office equipment

Equipment replacement/improvements in need of repair/as required	\$ 5,000
	<u>\$ 5,000</u>

Computer software

DSM module for NorthStar - offers utilities & their customers the ability to present time of use and conservation information	\$ 25,000
	<u>\$ 25,000</u>

Transportation equipment

Replacement of 1992 and 1995 truck with one unit	\$ 262,000
Replacement of 1999 truck with a light duty vehicle, net of \$2,000 trade-in.	\$ 83,000
Replacement of 1997 truck with a light duty vehicle, net of \$1,000 trade-in.	\$ 30,000
	<u>\$ 375,000</u>

Tab I



Commercial Banking

Windsor Commercial Banking Centre
4520 Rhodes Drive, Unit 400
Windsor, Ontario
N8W 5C2
Telephone No.: (519) 945-1092
Fax No.: (519) 945-2442

August 21, 2008

E.L.K. Energy Inc.
172 Forest Avenue
Essex, Ontario, N8M 3E4

Attention: Michael Audet
Sandra Slater

We are pleased to offer the Borrower the following credit facilities (the "Facilities"), subject to the following terms and conditions.

BORROWER

E.L.K. Energy Inc. (herein called "the Borrower")

LENDER

The Toronto-Dominion Bank (the "Bank"), through its Windsor Commercial Banking Centre branch, in Windsor, Ontario.

CREDIT LIMIT

- 1) CDN \$8,000,000
- 2) CDN \$3,000,000
- 3) CDN \$732,855

**TYPE OF CREDIT
AND BORROWING
OPTIONS**

- 1,2) **Committed Revolving Facility** available at the Borrower's option by way of:
 - Fixed Rate Term Loan(s) in CDN\$
 - Floating Rate Term Loan(s) available by way of:
 - Prime Rate Based Loans in CDN\$ ("Prime Based Loans")
 - Bankers Acceptances in CDN\$ ("B/As")
- 3) The Bank will make the Facility available by way of:
 - Stand-by Letters of Guarantee in CDN\$ ("L/Gs")

PURPOSE

- 1) Assist the Town of Essex in financing the acquisition of the remaining 62% of ELK Energy.
- 2) To finance capex (i.e. smart meters)
- 3) Prudential requirements for IESO.

TENOR 1,2) Committed
3) Uncommitted

CONTRACTUAL TERM 1,2) Up to 10 years from date of drawdown.

RATE TERM (FIXED RATE TERM LOAN) 1,2) Up to 10 years from date of drawdown.

AMORTIZATION 1,2) Up to 20 years from date of drawdown.

INTEREST RATES AND FEES

Advances shall bear interest and fees as follows:

- 1, 2) **Committed Revolving Facility:**
- Fixed Rate Term Loans: As determined by the Bank, in its sole discretion, for the Rate Term selected by the Borrower, and as set out in the Rate and Payment Terms Notice applicable to that Fixed Rate Term Loan.
 - Floating Rate Term Loans available by way of:
 - Prime Based Loans: Prime Rate + 0.00% per annum
 - B/As: Stamping Fee at 0.50% per annum
- 3) **Letters of Credit:**
- L/C's: 0.25% per annum

For all Facilities, interest payments will be made in accordance with Schedule "A" attached hereto unless otherwise stated in this Letter or in the Rate and Payment Terms Notice applicable for a particular drawdown. Information on interest rate and fee definitions, interest rate calculations and payment is set out in the Schedule "A" attached hereto.

ARRANGEMENT FEE

\$10,600, to be paid upon acceptance of this Letter Agreement. Note: \$5,000 has already been received.

COMMITMENT FEE

On the third Business Day following the last Business Day of March, June, September, and December, in each year, the Borrower shall pay to the Bank a Commitment Fee for the Committed Revolving Facility in an amount equal to ~~\$0~~ 15% per annum calculated on the daily average amount of the undrawn portion of the Committed Revolving Facility during the quarter just ended.

ADMINISTRATION FEE

NIL

RENEWAL FEE

NIL

DRAWDOWN

- 1,2) Multiple draws upon satisfaction of the Disbursement Conditions.
- 3) Upon demand by beneficiary.

REPAYMENT AND REDUCTION OF AMOUNT OF CREDIT FACILITY

- 1,2) **3 Year Committed Facility:** Monthly interest only. All amounts outstanding to be repaid in full on or before the Contractual Term Maturity Date.

4 -10 Year Committed Facility: Repayment to be set based on a maximum 20 year amortization. All amounts outstanding will be repaid on or before the Contractual Term Maturity Date. The details of repayment and interest rate applicable to such drawdown will be set out in the "Rate and Payment Terms Notice" applicable to that drawdown. Amount repaid can be redrawn.
- 3) In full at maturity (maximum 12 month term) or upon draw down under Letters of Guarantee/Letters of Credit.

PREPAYMENT

- 1,2) Permitted in whole or in part at any time, subject to payment of a prepayment penalty. B/A's may not be prepaid.

SECURITY

The following security shall be provided, shall, unless otherwise indicated, support all present and future indebtedness and liability of the Borrower and the grantor of the security to the Bank including without limitation indebtedness and liability under guarantees, foreign exchange contracts, cash management products, and derivative contracts, shall be registered in first position, and shall be on the Bank's standard form, supported by resolutions and solicitor's opinion, all acceptable to the Bank:

SECURITY ALREADY ON HAND

- 1) Assignment of Term Deposits and Credit Balances for \$926,286 (CAD) issued by E.L.K. Energy Inc. – **To be released upon receipt of Security items #2, #3, and #4.**

SECURITY TO BE OBTAINED

- 2) First position General Security Agreement issued by E.L.K. Energy Inc. with Resolution and Solicitor's Letter of Opinion.
- 3) Postponement and Assignment of Creditor's Claim for \$3,900,000 issued by The Corporation of the Town of Essex.
- 4) Evidence of Business Insurance issued by E.L.K. Energy Inc.

If a B/A is to be hedged by the Borrower with a Swap Transaction with the Bank:

- 5) An Executed ISDA Agreement, supported by a solicitor's letter of opinion.
- 6) A resolution authorizing the Borrower to enter into a Swap Transaction and the ISDA Agreement to incur the indebtedness hereunder.

All of the above security and guarantees shall be referred to collectively in this Agreement as "Bank Security".

**DISBURSEMENT
CONDITIONS**

The obligation of the Bank to permit any drawdown hereunder is subject to the Standard Disbursement Conditions contained in Schedule "A" Plus:

Delivery to the Bank of the following, all of which must be satisfactory to the Bank:

- 1) All Security and Documentation to be on hand and in good order prior to funding.
- 2) Satisfactory review of the final Purchase and Sale Agreement.
- ~~3) Confirmation of all necessary OEB approvals. "1"~~
- 4) There is no material adverse change in the financial position condition and/or operations of the Borrower.
- 5) Opening Balance Sheet of ELK Energy Inc. post acquisition of shares by Town of Essex.

**REPRESENTATIONS
AND WARRANTIES**

All representations and warranties shall be deemed to be continually repeated so long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect. The Borrower makes the Standard Representations and Warranties set out in Schedule "A".

**POSITIVE
COVENANTS**

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will and will ensure that its subsidiaries will observe the Standard Positive Covenants set out in Schedule "A" Plus:

- 1) Compliance with all applicable environmental regulations at all times.
- 2) Compliance with all contractual obligations and laws, including payment of taxes, at all times.
- 3) Borrower remains in the regulated business of electricity distribution and maintaining all requisite licenses to do so.
- 4) Compliance with all terms of all licenses and immediately advise the Bank if OEB shall notify the Borrower of a default under a license or if the license is amended, cancelled, suspended, or revoked (any of such circumstances will be an event of default.)
- 5) Maintain adequate insurance including Liability coverage.
- 6) All existing indebtedness (beyond that permitted under financial covenants below) is held directly or indirectly on an unsecured basis with no acceleration restrictions outlined under Negative Covenants below.
- 7) Compliance with Affiliate Relationship Code.
- 8) File all OEB rate submissions as outlined in three year business plan.

Reporting Covenants:

- 1) The Borrower is to provide Audited annual financial statements within 120 days of each fiscal year end.
- 2) The Borrower is to provide unaudited quarterly financial statements within 45 days of each quarter end accompanied by a Certificate of No Default setting out compliance calculations.
- 3) Borrower is to provide annual 3 year business plan within 120 days of each fiscal year end, including income statement, balance sheet, statement of changes in financial position, and capital expenditure schedule.
- 4) Borrower to provide most recent OEB rate submission and SQI (Service Quality Index), if applicable.

NEGATIVE
COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will and will ensure that its subsidiaries will observe the Standard Negative Covenants set out in Schedule "A". In addition the Borrower will not and will ensure that its subsidiaries will not:

- 1) No change in the indirect or direct municipal ownership of the Borrower.
- 2) No change in the status of the Borrower as a Limited Distribution Company.
- 3) Distributions/Dividends are limited to {EBITDA-Interest-Cash Taxes-Unfunded Capital Expenditures (net of contributed capital)-Principal Payments on Long Term Debt (if any)}. Providing Interest Coverage Ratio is met, and no other default has occurred.
- 4) No repayment of shareholder debt, beyond the permitted distributions outlined above, without the Bank's prior written consent.
- 5) No investments, mergers, amalgamations or consolidating without the Bank's prior consent.
- 6) Negative Pledge on assets.
- 7) No additional debt, including guarantees without the Bank's written consent.

PERMITTED LIENS

Permitted Liens as referred to in Schedule "A" are:

Purchase Money Security Interests in equipment which Purchase Money Security Interests exist on the date of this Agreement ("Existing PMSIs") which are known to the Bank and all future Purchase Money Security Interests on equipment acquired to replace the equipment under Existing PMSIs, provided that the cost of such replacement equipment may not exceed the cost of the equipment subject to the Existing Lien by more than 10%.

FINANCIAL
COVENANTS

The Borrower agrees at all times to:

- a) Borrower is to maintain a Minimum Interest Coverage Ratio (ICR) of 1.50x. (Tested on a Rolling 4 Quarter Basis)

ICR is defined as: $(EBITDA - 40\% \text{ of CAPEX (net of contributed capital)} - \text{cash taxes}) / \text{Total Cash Interest Expenses (i.e. net of accrual of any shareholder debt interest)}$.

Note: If borrower elects to begin repayment of facility #1, the above covenant would be amended as follows:

Borrower is to maintain a Minimum Debt Service Coverage of 1.20x, defined as: $(EBITDA - 40\% \text{ of CAPEX (net of contributed capital)} - \text{cash taxes}) / \text{Mandatory Principal Repayment} + \text{Total Cash Interest Expenses (i.e. net of accrual of any shareholder debt interest)}$. (Tested on a Rolling 4 Quarter Basis)

- b) Maintain a maximum Total Interest Bearing Debt to Capitalization ratio of 0.60x.
(Tested Quarterly)

Total Interest bearing debt to include all interest bearing third party debt and unpostponed promissory notes.

Capitalization is defined as Total Interest Bearing Debt + Shareholder's Equity + Contributed Capital + Preference Share Capital – Goodwill – Intangibles.

**EVENTS OF
DEFAULT**

The Bank may accelerate the payment of principal and interest under any committed credit facility hereunder and cancel any undrawn portion of any committed credit facility hereunder, at any time after the occurrence of any one of the Standard Events of Default contained in Schedule "A" Plus:

- 1) Customary for a transaction of this nature including without limitation any material adverse change in legislation or regulation of the electrical distribution business in Ontario.
- 2) Loss of OEB license.
- 3) Default on any of these items and conditions.
- 4) Judgements.

**ANCILLARY
FACILITIES**

As at the date of this Agreement, the following uncommitted ancillary products are made available. These products may be subject to other agreements.

- 1) TD Visa Business card (or cards) for an aggregate amount of \$15,000.
- 2) Certain treasury products, such as interest rate swaps.

The Borrower agrees that treasury products will be used to hedge its risk and will not be used for speculative purposes.

**SCHEDULE "A" -
STANDARD
TERMS AND
CONDITIONS**

Schedule "A" sets out the Standard Terms and Conditions ("Standard Terms and Conditions") which apply to these credit facilities. The Standard Terms and Conditions, including the defined terms set out therein, form part of this Agreement, unless this letter states specifically that one or more of the Standard Terms and Conditions do not apply or are modified.

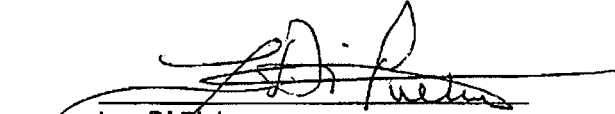
We trust you will find these facilities helpful in meeting your ongoing financing requirements. We ask that if you wish to accept this offer of financing (which includes the Standard Terms and Conditions), please do so by signing and returning the attached duplicate copy of this letter to the undersigned. This offer will expire if not accepted in writing and received by the Bank on or before September 30, 2008.

Yours truly,

THE TORONTO-DOMINION BANK



Marc Mundy
Relationship Manager



Lou Di Pietro
Manager, Commercial Credit

TO THE TORONTO-DOMINION BANK:

E.L.K. Energy Inc. hereby accepts the foregoing offer this _____ day of _____, 2008. The Borrower confirms that, except as may be set out above, the credit facility(ies) detailed herein shall not be used by or on behalf of any third party.

Signature

Signature

Print Name & Position

Print Name & Position

SCHEDULE A
STANDARD TERMS AND CONDITIONS

1. INTEREST RATE DEFINITIONS

Prime Rate means the rate of interest per annum (based on a 365/366 day year) established and reported by the Bank to the Bank of Canada from time to time as the reference rate of interest for determination of interest rates that the Bank charges to customers of varying degrees of creditworthiness in Canada for Canadian dollar loans made by it in Canada.

The Stamping Fee rate per annum for CDN\$ B/As is based on a 365/366 day year and the Stamping Fee is calculated on the Face Amount of each B/A presented to the Bank for acceptance. The Stamping Fee rate per annum for US\$ B/As is based on a 360 day year and the Stamping Fee is calculated on the Face Amount of each B/A presented to the Bank for acceptance.

LIBOR means the rate of interest per annum (based on a 360 day year) as determined by the Bank (rounded upwards, if necessary to the nearest whole multiple of 1/16th of 1%) at which the Bank may make available United States dollars which are obtained by the Bank in the Interbank Euro Currency Market, London, England at approximately 11:00 a.m. (Toronto time) on the second Business Day before the first day of, and in an amount similar to, and for the period similar to the interest period of, such advance.

USBR means the rate of interest per annum (based on a 365/366 day year) established by the Bank from time to time as the reference rate of interest for the determination of interest rates that the Bank charges to customers of varying degrees of creditworthiness for US dollar loans made by it in Canada.

Any interest rate based on a period less than a year expressed as an annual rate for the purposes of the Interest Act (Canada) is equivalent to such determined rate multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by the number of days in the period upon which it was based.

2. INTEREST CALCULATION AND PAYMENT

Interest on Prime Based Loans and USBR Loans is calculated daily and payable monthly in arrears based on the number of days the subject loan is outstanding unless otherwise provided in the Rate and Payment Terms Notice.

The Stamping Fee is calculated based on the amount and the term of the B/A and payable upon acceptance by the Bank of the B/A. The net proceeds received by the Borrower on a B/A advance will be equal to the Face Amount of the B/A discounted at the Bank's then prevailing B/A discount rate for CDN\$ B/As or US\$ B/As as the case may be, for the specified term of the B/A less the B/A Stamping Fee.

Interest on LIBOR Loans is calculated and payable on the earlier of contract maturity or quarterly in arrears, for the number of days in the LIBOR interest period.

L/C and L/G fees are payable at the time set out in the Letter of Credit Indemnity Agreement applicable to the issued L/C or L/G.

Interest on Fixed Rate Term Loans is compounded monthly and payable monthly in arrears unless otherwise provided in the Rate and Payment Terms Notice.

Interest is payable both before and after maturity or demand, default and judgment.

Each payment under this Agreement shall be applied first in payment of costs and expenses, then interest and fees and the balance, if any, shall be applied in reduction of principal.

For loans not secured by real property, all overdue amounts of principal and interest and all amounts outstanding in excess of the Credit Limit shall bear interest from the date on which the same became due or from when the excess was incurred, as the case may be, until the date of payment or until the date the excess is repaid at 21% per annum, or such lower interest rate if the Bank agrees to a lower interest rate in writing. Nothing in this clause shall be deemed to authorize the Borrower to incur loans in excess of the Credit Limit.

3. DRAWDOWN PROVISIONS

Prime Based and USBR Loans

There is no minimum amount of drawdown by way of Prime Based Loans and USBR Loans, except as stated in the section of the Agreement titled "Business Credit Services Agreement", if that section of the Agreement has not been deleted. The Borrower shall provide the Bank with 3 Business Days' notice of a requested Prime Based Loan or USBR Loan over \$1,000,000.

B/As

The Borrower shall advise the Bank of the requested term or maturity date for B/As issued hereunder. The Bank shall have the discretion to restrict the term or maturity dates of B/As. In no event shall the term of the B/A exceed the Contractual Term Maturity Date. The minimum amount of a drawdown by way of B/As is \$1,000,000 and in multiples of \$100,000 thereafter. The Borrower shall provide the Bank with 3 Business Days' notice of a requested B/A drawdown.

The Borrower shall pay to the Bank the full amount of the B/A at the maturity date of the B/A.

The Borrower appoints the Bank as its attorney to and authorizes the Bank to (i) complete, sign, endorse, negotiate and deliver B/As on behalf of the Borrower in handwritten form, or by facsimile or mechanical signature or otherwise, (ii) accept such B/As, and (iii) purchase, discount, and/or negotiate B/As.

LIBOR

The Borrower shall advise the Bank of the requested LIBOR contract maturity period. The Bank shall have the discretion to restrict the LIBOR contract maturity. In no event shall the term of the LIBOR contract exceed the Contractual Term Maturity Date. The minimum amount of a drawdown by way of a LIBOR Loan is \$1,000,000, and shall be in multiples of \$100,000 thereafter. The Borrower will provide the Bank with 3 Business Days' notice of a requested LIBOR Loan.

L/C and/or L/G

The Bank shall have the discretion to restrict the maturity date of L/Gs or L/Cs.

B/A - Prime Conversion

The Borrower will provide the Bank with at least 3 Business Days' notice of its intention either to convert a B/A to a Prime Based Loan or vice versa, failing which, the Bank may decline to accept such additional B/As or may charge interest on the amount of Prime Based Loans resulting from maturity of B/As at the rate of 115% of the rate applicable to Prime Based Loans for the 3 Business Day period immediately following such maturity. Thereafter, the rate shall revert to the rate applicable to Prime Based Loans.

Notice

Prior to each drawdown and at least 10 days prior to each Rate Term Maturity, the Borrower will advise the Bank of its selection of drawdown options from those made available by the Bank. The Bank will, after each drawdown, other than drawdowns by way of BA, LIBOR Loan or under the operating loan, send a Rate and Payment Terms Notice to the Borrower.

4. PREPAYMENT

- (a) 10% Prepayment Option Chosen. If the Borrower has elected a 10% Prepayment Option for a Facility the following shall apply to all Fixed Rate Loans made under that Facility. Each calendar year, ("Year"), the Borrower may prepay in one lump sum, once each Year, an amount outstanding under a Fixed Rate

Term Loan not exceeding 10% of the original amount of the Fixed Rate Term Loan being prepaid, upon payment of all interest accrued to the date of prepayment ("Prepayment Date") without paying any prepayment charge, provided that an Event of Default has not occurred. This privilege is not cumulative from Year to Year.

- (b) 10% Prepayment Option Not Chosen or Borrower Prepaying More than 10%. During each Year, the Borrower may, provided that an Event of Default has not occurred:

if it has not chosen the 10% Prepayment Option, prepay all or any part of the principal then outstanding under Fixed Rate Term Loans, or,
if it has chosen the 10% Prepayment Option, prepay more than 10% of the original amount of the Fixed Rate Term Loan being prepaid, in any Year,

in either case, upon payment of all interest accrued to the Prepayment Date and prepayment charges equal to the greater of:

- (a) three months' interest on the amount of the prepayment (and in the case where the Borrower has chosen the 10% Prepayment Option, the amount of prepayment is the amount of prepayment exceeding the 10% limit) using the interest rate applicable to the Fixed Rate Term Loan being prepaid; and
- (b) the Interest Rate Differential, being the amount by which:

the total amount of interest on the amount of the prepayment using the interest rate applicable to the Fixed Rate Term Loan being prepaid calculated for the period of time equal to the Remaining Term, exceeds

the total amount of interest on the amount being prepaid using the interest rate applicable to a fixed rate term loan that the Bank would make to a borrower for a comparable facility on the Prepayment Date, calculated for the period of time from the Prepayment Date until the Rate Term Maturity Date for the Fixed Rate Term Loan being prepaid ("Remaining Term").

5. STANDARD DISBURSEMENT CONDITIONS

The obligation of the Bank to permit any drawdowns hereunder at any time is subject to the following conditions precedent:

- a) The Bank shall have received the following documents which shall be in form and substance satisfactory to the Bank:
- i) A copy of a duly executed resolution of the Board of Directors of the Borrower empowering the Borrower to enter into this Agreement;
 - ii) A copy of any necessary government approvals authorizing the Borrower to enter into this Agreement;
 - iii) All of the Bank Security and supporting resolutions and solicitors' letter of opinion required hereunder;
 - iv) The Borrower's compliance certificate certifying compliance with all terms and conditions hereunder;
 - v) all operation of account documentation; and
 - vi) For drawdowns under the Facility by way of L/C or L/G, the Bank's standard form Letter of Credit Indemnity Agreement
- b) The representations and warranties contained in this Agreement are correct.
- c) No event has occurred and is continuing which constitutes an Event of Default or would constitute an Event of Default, but for the requirement that notice be given or time elapse or both.
- d) The Bank has received the arrangement fee payable hereunder (if any) and the Borrower has paid all legal and other expenses incurred by the Bank in connection with the Agreement or the Bank Security.

6. STANDARD REPRESENTATIONS AND WARRANTIES

The Borrower hereby represents and warrants, which representations and warranties shall be deemed to be continually repeated so long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, that:

- a) The Borrower is a duly incorporated corporation, a limited partnership, partnership, or sole proprietorship, duly organized, validly existing and in good standing under the laws of the jurisdiction where the Branch/Centre is located and each other jurisdiction where the Borrower has property or assets or carries on business and the Borrower has adequate corporate power and authority to carry on its business, own property, borrow monies and enter into agreements therefore, execute and deliver the Agreement, the Bank Security, and documents required hereunder, and observe and perform the terms and provisions of this Agreement.
- b) There are no laws, statutes or regulations applicable to or binding upon the Borrower and no provisions in its charter documents or in any by-laws, resolutions, contracts, agreements, or arrangements which would be contravened, breached, violated as a result of the execution, delivery, performance, observance, of any terms of this Agreement.
- c) No Event of Default has occurred nor has any event occurred which, with the passage of time or the giving of notice, would constitute an Event of Default under this Agreement or which would constitute a default under any other agreement.
- d) There are no actions, suits or proceedings, including appeals or applications for review, or any knowledge of pending actions, suits, or proceedings against the Borrower and its subsidiaries, before any court or administrative agency which would result in any material adverse change in the property, assets, financial condition, business or operations of the Borrower.
- e) All material authorizations, approvals, consents, licenses, exemptions, filings, registrations and other requirements of governmental, judicial and public bodies and authorities required to carry on its business have been or will be obtained or effected and are or will be in full force and effect.
- f) The financial statements and forecasts delivered to the Bank fairly present the present financial position of the Borrower, and have been prepared by the Borrower and its auditors in accordance with Canadian Generally Accepted Accounting Principles consistently applied.
- g) All of the remittances required to be made by the Borrower to the federal government and all provincial and municipal governments have been made, are currently up to date and there are no outstanding arrears. Without limiting the foregoing, all employee source deductions (including income taxes, Employment Insurance and Canada Pension Plan), sales taxes (both provincial and federal), corporate income taxes, corporate capital taxes, payroll taxes and Workers' Compensation dues are currently paid and up to date.

7. STANDARD POSITIVE COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will, and will ensure that its subsidiaries and each of the Guarantors will:

- a) Pay all amounts of principal, interest and fees on the dates, times and place specified herein, under the Rate and Payment Terms Notice, and under any other agreement between the Bank and the Borrower.
- b) Advise the Bank of any change in the amount and the terms of any credit arrangement made with other lenders or any action taken by another lender to recover amounts outstanding with such other lender.
- c) Advise promptly after the happening of any event which will result in a material adverse change in the financial condition, business, operations, or prospects of the Borrower or the occurrence of any Event of Default or default under this Agreement or under any other agreement for borrowed money.
- d) Do all things necessary to maintain in good standing its corporate existence and preserve and keep all material agreements, rights, franchises, licenses, operations, contracts or other arrangements in full force and effect.

- e) Take all necessary actions to ensure that the Bank Security and its obligations hereunder will rank ahead of all other indebtedness of and all other security granted by the Borrower.
- f) Pay all taxes, assessments and government charges unless such taxes, assessments, or charges are being contested in good faith and appropriate reserves shall be made with funds set aside in a separate trust fund.
- g) Provide the Bank with information and financial data as it may request from time to time.
- h) Maintain property, plant and equipment in good repair and working condition.
- i) Inform the Bank of any actual or probable litigation and furnish the Bank with copies of details of any litigation or other proceedings, which might affect the financial condition, business, operations, or prospects of the Borrower.
- j) Provide such additional security and documentation as may be required from time to time by the Bank or its solicitors.
- k) Continue to carry on the business currently being carried on by the Borrower its subsidiaries and each of the Guarantors at the date hereof.
- l) Maintain adequate insurance on all of its assets, undertakings, and business risks.
- m) Permit the Bank or its authorized representatives full and reasonable access to its premises, business, financial and computer records and allow the duplication or extraction of pertinent information therefrom and
- n) Comply with all applicable laws.

8. STANDARD NEGATIVE COVENANTS

So long as any amounts remain outstanding and unpaid under this Agreement or so long as any commitment under this Agreement remains in effect, the Borrower will not and will ensure that its subsidiaries and each of the Guarantors will not:

- a) Create, incur, assume, or suffer to exist, any mortgage, deed of trust, pledge, lien, security interest, assignment, charge, or encumbrance (including without limitation, any conditional sale, or other title retention agreement, or finance lease) of any nature, upon or with respect to any of its assets or undertakings, now owned or hereafter acquired, except for those Permitted Liens, if any, set out in the Letter.
- b) Create, incur, assume or suffer to exist any other indebtedness for borrowed money (except for indebtedness resulting from Permitted Liens, if any) or guarantee or act as surety or agree to indemnify the debts of any other Person.
- c) Merge or consolidate with any other Person, or acquire all or substantially all of the shares, assets or business of any other Person.
- d) Sell, lease, assign, transfer, convey or otherwise dispose of any of its now owned or hereafter acquired assets (including, without limitation, shares of stock and indebtedness of subsidiaries, receivables and leasehold interests), except for inventory disposed of in the ordinary course of business.
- e) Terminate or enter into a surrender of any lease of any property mortgaged under the Bank Security.
- f) Cease to carry on the business currently being carried on by each of the Borrower, its subsidiaries, and the Guarantors at the date hereof.
- g) Permit any change of ownership or change in the capital structure of the Borrower.

9. ENVIRONMENTAL

The Borrower represents and warrants (which representation and warranty shall continue throughout the term of this Agreement) that the business of the Borrower, its subsidiaries and each of the Guarantors is being operated in compliance with applicable laws and regulations respecting the discharge, omission, spill or disposal of any hazardous materials and that any and all enforcement actions in respect thereto have been clearly conveyed to the Bank.

The Borrower shall, at the request of the Bank from time to time, and at the Borrower's expense, obtain and provide to the Bank an environmental audit or inspection report of the property from auditors or inspectors acceptable to the Bank.

The Borrower hereby indemnifies the Bank, its officers, directors, employees, agents and shareholders, and agrees to hold each of them harmless from all loss, claims, damages and expenses (including legal and audit expenses) which may be suffered or incurred in connection with the indebtedness under this Agreement or in connection with the Bank Security.

10. STANDARD EVENTS OF DEFAULT

The Bank may accelerate the payment of principal and interest under any committed credit facility hereunder and cancel any undrawn portion of any committed credit facility hereunder, at any time after the occurrence of any one of the following Events of Default:

- a) Non-payment of principal outstanding under this Agreement when due or non-payment of interest or fees outstanding under this Agreement within 3 Business Days of when due.
- b) If any representation, warranty or statement made hereunder or made in connection with the execution and delivery of this Agreement or the Bank Security is false or misleading at any time.
- c) If there is a breach or non-performance or non-observance of any term or condition of this Agreement or the Bank Security and, if such default is capable to being remedied, the default continues unremedied for 5 Business Days after the occurrence.
- d) If the Borrower, any one of its subsidiaries, or, if any of the Guarantors makes a general assignment for the benefit of creditors, files or presents a petition, makes a proposal or commits any act of bankruptcy, or if any action is taken for the winding up, liquidation or the appointment of a liquidator, trustee in bankruptcy, custodian, curator, sequestrator, receiver or any other officer with similar powers or if a judgment or order shall be entered by any court approving a petition for reorganization, arrangement or composition of or in respect of the Borrower, any of its subsidiaries, or any of the Guarantors or if the Borrower, any of its subsidiaries, or any of the Guarantors is insolvent or declared bankrupt.
- e) If there exists a voluntary or involuntary suspension of business of the Borrower, any of its subsidiaries, or any of the Guarantors.
- f) If action is taken by an encumbrancer against the Borrower, any of its subsidiaries, or any of the Guarantors to take possession of property or enforce proceedings against any assets.
- g) If any final judgment for the payment of monies is made against the Borrower, any of its subsidiaries, or any of the Guarantors and it is not discharged within 30 days from the imposition of such judgment.
- h) If there exists an event, the effect of which with lapse of time or the giving of notice, will constitute an event of default or a default under any other agreement for borrowed money in excess the Cross Default Threshold entered into by the Borrower, any of its subsidiaries, or any of the Guarantors.
- i) If the Bank Security is not enforceable or if any party to the Bank Security shall dispute or deny any liability or any of its obligations under the Bank Security.
- j) If, in the Bank's determination, a material adverse change occurs in the financial condition, business operations or prospects of the Borrower, any of the Borrower's subsidiaries, or any of the Guarantors.

11. ACCELERATION

If the Bank accelerates the payment of principal and interest hereunder, the Borrower shall immediately pay to the Bank all amounts outstanding hereunder, including without limitation, the amount of unmatured B/As and LIBOR Loans and the amount of all drawn and undrawn L/Gs and L/Cs. All cost to the Bank of unwinding LIBOR Loans and all loss suffered by the Bank in re-employing amounts repaid will be paid by the Borrower.

The Bank may demand the payment of principal and interest under the Operating Loan (and any other uncommitted facility) hereunder and cancel any undrawn portion of the Operating Loan (and any other uncommitted facility) hereunder, at any time whether or not an Event of Default has occurred.

12. CURRENCY INDEMNITY

US\$ loans must be repaid with US\$ and CDN\$ loans must be repaid with CDN\$ and the Borrower shall indemnify the Bank for any loss suffered by the Bank if US\$ loans are repaid with CDN\$ or vice versa, whether such payment is made pursuant to an order of a court or otherwise.

13. TAXATION ON PAYMENTS

All payments made by the Borrower to the Bank will be made free and clear of all present and future taxes (excluding the Bank's income taxes), withholdings or deductions of whatever nature. If these taxes, withholdings or deductions are required by applicable law and are made, the Borrower, shall, as a separate and independent obligation, pay to the Bank all additional amounts as shall fully indemnify the Bank from any such taxes, withholdings or deductions.

14. REPRESENTATION

No representation or warranty or other statement made by the Bank concerning any of the credit facilities shall be binding on the Bank unless made by it in writing as a specific amendment to this Agreement.

15. ADDED COST

If the introduction of or any change in any present or future law, regulation, treaty, official or unofficial directive, or regulatory requirement, (whether or not having the force of law) or in the interpretation or application thereof, relates to:

- i) the imposition or exemption of taxation of payments due to the Bank or on reserves or deemed reserves in respect of the undrawn portion of any Facility or loan made available hereunder; or,
- ii) any reserve, special deposit, regulatory or similar requirement against assets, deposits, or loans or other acquisition of funds for loans by the Bank; or,
- iii) the amount of capital required or expected to be maintained by the Bank as a result of the existence of the advances or the commitment made hereunder;

and the result of such occurrence is, in the sole determination of the Bank, to increase the cost of the Bank or to reduce the income received or receivable by the Bank hereunder, the Borrower shall, on demand by the Bank, pay to the Bank that amount which the Bank estimates will compensate it for such additional cost or reduction in income and the Bank's estimate shall be conclusive, absent manifest error.

16. EXPENSES

The Borrower shall pay, within 5 Business Days following notification, all fees and expenses (including but not limited to all legal fees) incurred by the Bank in connection with the preparation, registration and ongoing administration of this Agreement and the Bank Security and with the enforcement of the Bank's rights and remedies under this Agreement and the Bank Security whether or not any amounts are advanced under the Agreement. These fees and expenses shall include, but not be limited, to all outside counsel fees and expenses and all in-house legal fees and expenses, if in-house counsel are used, and all outside professional advisory fees and expenses. The Borrower shall pay interest on unpaid amounts due pursuant to this paragraph at the All-In Rate plus 2% per annum.

17. NON WAIVER

Any failure by the Bank to object to or take action with respect to a breach of this Agreement or any Bank Security or upon the occurrence of an Event of Default shall not constitute a waiver of the Bank's right to take action at a later date on that breach. No course of conduct by the Bank will give rise to any reasonable expectation which is in any way inconsistent with the terms and conditions of this Agreement and the Bank Security or the Bank's rights thereunder.

18. EVIDENCE OF INDEBTEDNESS

The Bank shall record on its records the amount of all loans made hereunder, payments made in respect thereto, and all other amounts becoming due to the Bank under this Agreement. The Bank's records constitute, in the absence of manifest error, conclusive evidence of the indebtedness of the Borrower to the Bank pursuant to this Agreement.

The Borrower will sign the Bank's standard form Letter of Credit Indemnity Agreement for all L/Cs and L/Gs issued by the Bank.

With respect to chattel mortgages taken as Bank Security, this Agreement is the Promissory Note referred to in same chattel mortgage, and the indebtedness incurred hereunder is the true indebtedness secured by the chattel mortgage.

19. ENTIRE AGREEMENTS

This Agreement replaces any previous letter agreements dealing specifically with terms and conditions of the credit facilities described in the Letter. Agreements relating to other credit facilities made available by the Bank continue to apply for those other credit facilities. This Agreement, and if applicable, the Letter of Credit Indemnity Agreement, are the entire agreements relating to the Facilities described in this Agreement.

20. ASSIGNMENT

The Bank may assign or grant participation in all or part of this Agreement or in any loan made hereunder without notice to and without the Borrower's consent.

The Borrower may not assign or transfer all or any part of its rights or obligations under this Agreement.

21. RELEASE OF INFORMATION

The Borrower hereby irrevocably authorizes and directs the Borrower's accountant, (the "Accountant") to deliver all financial statements and other financial information concerning the Borrower to the Bank and agrees that the Bank and the Accountant may communicate directly with each other.

22. FX CLOSE OUT

The Borrower hereby acknowledges and agrees that in the event any of the following occur: (i) Default by the Borrower under any forward foreign exchange contract ("FX Contract"); (ii) Default by the Borrower in payment of monies owing by it to anyone, including the Bank; (iii) Default in the performance of any other obligation of the Borrower under any agreement to which it is subject; or (iv) the Borrower is adjudged to be or voluntarily becomes bankrupt or insolvent or admits in writing to its inability to pay its debts as they come due or has a receiver appointed over its assets, the Bank shall be entitled without advance notice to the Borrower to close out and terminate all of the outstanding FX Contracts entered into hereunder, using normal commercial practices employed by the Bank, to determine the gain or loss for each terminated FX contract. The Bank shall then be entitled to calculate a net termination value for all of the terminated FX Contracts which shall be the net sum of all the losses and gains arising from the termination of the FX Contracts which net sum shall be the "Close Out Value" of the terminated FX Contracts. The Borrower acknowledges that it shall be required to forthwith pay any positive Close Out Value owing to the Bank and the Bank shall be required to pay any negative Close Out Value owing to the Borrower, subject to any rights of set-off to which the Bank is entitled or subject.

23. SET-OFF

In addition to and not in limitation of any rights now or hereafter granted under applicable law, the Bank may at any time and from time to time without notice to the Borrower or any other Person, any notice being expressly waived by the Borrower, set-off and compensate and apply any and all deposits, general or special, time or demand, provisional or final, matured or unmatured, in any currency, and any other indebtedness or amount payable by the Bank (irrespective of the place of payment or booking office of the obligation), to or for the credit of or for the Borrower's account, including without limitation, any amount owed by the Bank to the Borrower under any FX Contract or other treasury or derivative product, against and on account of the indebtedness and liability under this Agreement notwithstanding that any of them are contingent or unmatured or in a different currency than the indebtedness and liability under this Agreement.

When applying a deposit or other obligation in a different currency than the indebtedness and liability under this Agreement to the indebtedness and liability under this Agreement, the Bank will convert the deposit or other obligation to the currency of the indebtedness and liability under this Agreement using the Bank's noon spot rate of exchange for the conversion of such currency.

24. USE OF INFORMATION

The word "Information" means the Borrower's business and credit information and the Guarantor's personal, business and credit information. It includes information provided to the Bank by the Borrower and Guarantors, including through the products and services the Borrower and Guarantor(s) uses, and information obtained from others.

The Borrower and the Guarantor agree to the use of its Information as follows:

Use of Information - The Bank may use Information to establish and serve the Borrower as its customer, determine whether any products or services of the TD Bank Financial Group are suitable for the Borrower and offer them to the Borrower, or when required or permitted by law. The Bank may share Information within the TD Bank Financial Group where permitted by law;

Collection and Use of Credit Information - THE BANK MAY OBTAIN INFORMATION FROM PARTIES OUTSIDE THE TD BANK FINANCIAL GROUP, INCLUDING THROUGH A CREDIT CHECK, AND VERIFY INFORMATION WITH THEM. THE BORROWER AND THE GUARANTOR AUTHORIZE THOSE PARTIES TO GIVE THE BANK INFORMATION. The Bank may disclose Information to other lenders and credit bureaus.

The Borrower and the Guarantor may obtain the Bank's Privacy Code - "Protecting Your Privacy" or review its options for refusing or withdrawing this consent, including its option not to be contacted about offers of products or services, by contacting the Branch or calling the Bank at 1-800-9TD BANK.

25. MISCELLANEOUS

- i) The Borrower has received a signed copy of this Agreement;
- ii) If more than one Person, firm or corporation signs this Agreement as the Borrower, each party is jointly and severally liable hereunder, and the Bank may require payment of all amounts payable under this Agreement from any one of them, or a portion from each, but the Bank is released from any of its obligations by performing that obligation to any one of them;
- iii) Accounting terms will (to the extent not defined in this Agreement) be interpreted in accordance with accounting principles established from time to time by the Canadian Institute of Chartered Accountants (or any successor) consistently applied, and all financial statements and information provided to the Bank will be prepared in accordance with those principles;
- iv) This Agreement is governed by the law of the Province or Territory where the Branch/Centre is located.
- v) Unless stated otherwise, all amounts referred to herein are in Canadian dollars

26. DEFINITIONS

Capitalized Terms used in this Agreement shall have the following meanings:

"*All-In Rate*" means the greater of the Interest Rate that the Borrower pays for Prime Based Loans (which for greater certainty includes the percent per annum added to the Prime Rate) or the highest fixed rate paid for Fixed Rate Term Loans.

"*Agreement*" means the agreement between the Bank and the Borrower set out in the Letter and this Schedule "A" - Standard Terms and Conditions.

"*Business Day*" means any day (other than a Saturday or Sunday) that the Branch/Centre is open for business.

"*Branch/Centre*" means The Toronto-Dominion Bank branch or banking centre noted on the first page of the Letter, or such other branch or centre as may from time to time be designated by the Bank.

"*Contractual Term Maturity Date*" means the date set out in the Letter under the heading "Contractual Term".

"*Face Amount*" means, in respect of:

- (i) a B/A, the amount payable to the holder thereof on its maturity;
- (ii) A L/C or L/G, the maximum amount payable to the beneficiary specified therein or any other Person to whom payments may be required to be made pursuant to such L/C or L/G.

"Fixed Rate Term Loan" means any drawdown in Canadian dollars under a Credit Facility at an interest rate which is fixed for a Rate Term at such rate as is determined by the Bank as its sole discretion.

"Inventory Value" means, at any time of determination, the total value (based on the lower of cost or market) of the Borrower's inventories that are subject to the Bank Security (other than (i) those inventories supplied by trade creditors who at that time have not been fully paid therefore and would have a right to repossess all or part of such inventories if the Borrower were then either bankrupt or in receivership, (ii) those inventories comprising work in process and (iii) those inventories that the Bank may from time to time designate in its sole discretion) minus the total amount of any claims, liens or encumbrances on those inventories having or purporting to have priority over the Bank.

"Letter" means the letter from the Bank to the Borrower to which this Schedule "A" - Standard Terms and Conditions is attached.

"Letter of Credit" or *"L/C"* means a documentary letter of credit or similar instrument in form and substance satisfactory to the Bank.

"Letter of Guarantee" or *"L/G"* means a stand-by letter of guarantee or similar instrument in form and substance satisfactory to the Bank.

"Person" includes any individual, sole proprietorship, corporation, partnership, joint venture, trust, unincorporated association, association, institution, entity, party, or government (whether national, federal, provincial, state, municipal, city, county, or otherwise and including any instrumentality, division, agency, body, or department thereof).

"Purchase Money Security Interest" means a security interest on equipment which is granted to a lender or to the seller of such equipment in order to secure the purchase price of such equipment or a loan to acquire such equipment, provided that the amount secured by the security interest does not exceed the cost of the equipment, the Borrower provides written notice to the Bank prior to the creation of the security interest, and the creditor under the security interest has, if requested by the Bank, entered into an inter-creditor agreement with the Bank, in a format acceptable to the Bank.

"Rate Term" means that period of time as selected by the Borrower from the options offered to it by the Bank, during which a Fixed Rate Term Loan will bear a particular interest rate. If no Rate Term is selected, the Borrower will be deemed to have selected a Rate Term of 1 year.

"Rate Term Maturity" means the last day of a Rate Term which day may never exceed the Contractual Term Maturity Date.

"Rate and Payment Terms Notice" means the notice sent by the Bank setting out the interest rate and payment terms for a particular drawdown.

"Receivable Value" means, at any time of determination, the total value of those of the Borrower's trade accounts receivable that are subject to the Bank Security other than (i) those accounts then outstanding for 90 days, (ii) those accounts owing by Persons, firms or corporations affiliated with the Borrower, (iii) those accounts that the Bank may from time to time designate in its sole discretion, (iv) those accounts subject to any claim, liens, or encumbrance having or purporting to have priority over the Bank, (v) those accounts which are subject to a claim of set-off by the obligor under such account, MINUS the total amount of all claims, liens, or encumbrances on those receivables having or purporting to have priority over the Bank.

"Receivables/Inventory Summary" means a summary of the Customer's trade account receivables and inventories, in form as the Bank may require and certified by a senior officer/representative of the Borrower.

"US\$ Equivalent" means, on any date, the equivalent amount in United States Dollars after giving effect to a conversion of a specified amount of Canadian Dollars to United States Dollars at the Bank's noon spot rate of exchange for Canadian Dollars to United States Dollars established by the Bank for the day in question.

Tab J

**THE CORPORATION OF THE TOWN OF ESSEX
PUBLIC MEETING
PURCHASE OF E.L.K. ENERGY INC. SHARES**

August 6, 2008

A Special Meeting of the Council of the Town of Essex was held on Wednesday August 6, 2008 at the hour of 6:00 PM at the Municipal Building, 33 Talbot Street South, Essex, Ontario.

Roll Call: Mayor Ron McDermott
Deputy-Mayor Richard Meloche
Ward 1 Councillor Morley Bowman
Ward 1 Councillor Randy Voakes
Ward 3 Councillor Paul Innes
Ward 3 Councillor Ron Rogers
Ward 4 Councillor Peter Timmins

Also Present: Donna Hunter, Director of Finance & Administration/Treasurer
Jerry Marion, Deputy-Clerk
Doug Sweet, Director of Parks and Recreation

Public: See Sign-in Sheet

Mayor McDermott confirmed that a quorum was present and called the meeting to order at 6:00 PM. He welcomed those in attendance. He advised that the purpose of the meeting was to consider the purchase of E.L.K. Energy Inc. shares as the Town of Kingsville and the Town of Lakeshore have provided the Town of Essex with a notice of intent to sell their combined 62% interest in E.L.K. Energy Inc. As a 38% shareholder in E.L.K. the Town has the right, under the existing Shareholders' Agreement, to exercise its Right of First Refusal to buy Kingsville and Lakeshore's combined 62% interest.

Donna Hunter provided a power point presentation regarding the purchasing the E.L.K. Energy Inc. shares from the Town of Lakeshore and the Town of Kingsville. The presentation focused on the history, the Lakeshore and Kingsville R.F.P., the Town of Essex process, the impact of 100% ownership of E.L.K. and a 50 % ownership of E.L.K. The presentation noted that there would be no property tax impact for the Town of Essex residents. The presentation recommended that Council:

- Exercise "Right of First Refusal: to purchase Kingsville's and Lakeshores combined 62% ownership of E.L.K.
- Retain 100% ownership as a long-term investment
- Forego dividend in the short to medium term to allow E.L.K. to reduce overall borrowings

Moved by Councillor Rogers seconded by Councillor Timmins
(SP08-08-055) that correspondence from Joe Byrne, Solicitor for Essex Power Corporation, dated July 31, 2008, regarding the Town of Essex acquisition of the E.L.K. Energy Inc. shares held by the Town of Kingsville and the Town of Lakeshore be received. "Carried"

Moved by Councillor Innes seconded by Councillor Bowman
(SP08-08-056) that the Corporation of the Town of Essex purchase the E.L.K. Energy Inc. shares held by the Corporation of the Town of Lakeshore and the Corporation of the Town of Kingsville.

A recorded vote was requested with results as follows:

Councillor Voakes	No
Councillor Timmins	Yes
Councillor Innes	Yes
Councillor Bowman	Yes
Deputy-Mayor Meloche	Yes
Mayor McDermott	Yes
Councillor Rogers	Yes

On a recorded vote, 6 in favour, 1 opposed, the motion was "Carried"

Moved by Councillor Innes seconded by Councillor Bowman
(SP08-08-057) that By-Law #911, being a By-Law to authorize the exercise of a right of first refusal and the execution of a purchase agreement and ancillary documentation with respect to the shares of E.L.K. Energy Inc. held by the Corporation of the Town of Lakeshore and the Corporation of the Town of Kingsville be read a first, second, third time and finally passed this 6th day of August, 2008.

A recorded vote was requested with results as follows:

Councillor Voakes	No
Councillor Timmins	Yes
Councillor Innes	Yes
Councillor Bowman	Yes
Deputy-Mayor Meloche	Yes
Mayor McDermott	Yes
Councillor Rogers	Yes

On a recorded vote, 6 in favour, 1 opposed, the motion was "Carried"

Moved by Councillor Rogers seconded by Deputy-Mayor Meloche
(SP08-08-058) that Administration be authorized to take the steps necessary to finalize the purchase of the E.L.K. Energy Inc. shares held by the Corporation of the Town of Lakeshore and the Corporation of the Town of Kingsville, inclusive of legal, audit, banking and borrowing arrangements. "Carried"

Adjournment

Moved by Councillor Timmins seconded by Deputy-Mayor Meloche
(SP08-08-059) that the meeting be adjourned.

"Carried"

The meeting adjourned at the call at 6:25 PM.

Mayor

Deputy-Clerk

THE CORPORATION OF THE TOWN OF LAKESHORE

BY-LAW NUMBER 88-2008

Being a By-law to Authorize the Execution of an Agreement between the Corporation of the Town of Essex ("purchaser") and the Corporation of the Town of Kingsville ("seller") and the Corporation of the Town of Lakeshore ("seller") for the sale of shares in E.L.K. Energy Inc. and E.L.K. Solutions Inc.

WHEREAS; the sale to The Corporation of the Town of Essex of the ELK Energy Inc and ELK Solution Inc shares owned by the Corporation of the Town Lakeshore substantially on the terms and subject to the conditions set forth in the share purchase agreement attached to this by-law as Schedule "A" and submitted to the Council meeting of September 12, 2008 is hereby approved and authorized, subject to the approval of the Ontario Energy Board;

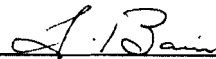
AND WHEREAS; the Mayor is authorized to finalize the terms and conditions of the Share Purchase Agreement;

AND WHEREAS; the execution by The Corporation of the Town of Lakeshore of the Shareholders Agreement is approved and authorized;

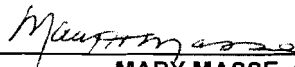
AND WHEREAS; the Mayor and Clerk are authorized to execute and deliver the Share Purchase Agreement substantially in the form submitted to the meeting of September 12, 2008 with such alterations, amendments, deletions or additions thereto as the Mayor and Clerk shall determine to be necessary or appropriate, such determination to be conclusively evidenced by the execution thereof by the Mayor and Clerk;

NOW THEREFORE; the Mayor and Clerk are authorized to do all things necessary or desirable in connection with the purchase and sale transaction and all matters ancillary thereto including the execution and delivery of all such instruments, certificates, agreements and other documents and to do and perform all such other acts and things as the Mayor and Clerk shall determine to be necessary or advisable in connection with the purchase and sale transaction and all matters ancillary thereto and to otherwise give effect to this by-law, and any such instruments, certificates, agreements and other documents as aforesaid shall be in such form as the Mayor and Clerk shall determine to be necessary or appropriate, and any such determination to be conclusively evidenced by the execution and delivery thereof by the Mayor and Clerk.

READ A FIRST, SECOND, AND THIRD TIME AND FINALLY PASSED THIS 12 DAY OF SEPTEMBER, 2008.



TOM BAIN, MAYOR



MARY MASSE, CLERK

/sr

THE CORPORATION OF THE TOWN OF KINGSVILLE

BY-LAW 135 - 2008

*Being a by-law authorizing the
Mayor and Clerk
to enter into a Share Purchase Agreement
made between The Corporation of the Town of
Kingsville and The Corporation of the Town of
Lakeshore, as Sellers, and The Corporation of
the Town of Essex, as Purchaser re: the
Sellers' Shareholder Interests in E.L.K.
Energy Inc. and E.L.K. Solutions Inc.*

WHEREAS The Corporation of the Town of Kingsville deems it expedient for the Mayor and Clerk to enter into a Share Purchase Agreement made between The Corporation of the Town of Kingsville and The Corporation of the Town of Lakeshore, as Sellers, and The Corporation of the Town of Essex, as Purchaser for the Sellers' Shareholder Interests in E.L.K. Energy Inc. and E.L.K. Solutions Inc.

NOW THEREFORE THE COUNCIL OF THE CORPORATION OF THE TOWN OF KINGSVILLE ENACTS AS FOLLOWS:

1. **THAT** the Municipality enters into and executes with The Corporation of the Town of Lakeshore and the The Corporation of the Town of Essex the Share Purchase Agreement shown as Schedule "A" attached to this By-law;
2. **THAT** the Mayor and Clerk are hereby authorized and directed to execute the Share Purchase Agreement hereto attached as Schedule "A" on behalf of The Corporation of the Town of Kingsville.

READ a FIRST, SECOND and THIRD time and FINALLY PASSED this 15th day of September, 2008.



MAYOR, Nelson Santos

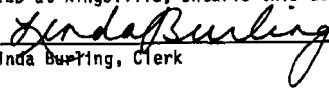


CLERK, Linda Burling

CERTIFICATE

I hereby certify the foregoing to be a true and correct copy of By-law 135-2008 of The Corporation of the Town of Kingsville, the same having been compared by me with the original.

DATED at Kingsville, Ontario this 16th day of September, 2008.



Linda Burling, Clerk