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September 25, 2015

Mr. Mark Visser
Treasurer
Markham Enterprises Corporation
101 Town Centre Boulevard
Markham, ON L3R 9W3

Dear Mr. Visser:

Please find enclosed Navigant's final report on the proposed three-way merger between PowerStream Holdings Inc., Enersource Corporation, and Horizon Holdings Inc., and the joint acquisition of Hydro One Brampton Networks Inc.

Sincerely,

Todd Williams
Managing Director, Energy

NAVIGANT

Final Report

Decision support for the proposed three-way merger between PowerStream Holdings Inc., Enersource Corporation, and Horizon Holdings Inc., and the joint acquisition of Hydro One Brampton Networks Inc.

Prepared for

Markham Enterprises Corporation

September 25, 2015

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Executive summary

Proposed transaction

The three municipal shareholders of PowerStream Holdings Inc. (PowerStream) retained Navigant Consulting Ltd. (Navigant) to support their evaluation of the proposed three-way merger between PowerStream, Enersource Corporation (Enersource), and Horizon Holdings Inc. (Horizon), and the joint acquisition of Hydro One Brampton Networks Inc. (Hydro One Brampton) for $607M (the "transaction"). The transaction would create a new company ("MergeCo") which would be the second largest regulated electricity distribution utility in the province of Ontario by the number customers, nearly one million, and the third largest by regulated asset value. In addition to the regulated electricity distribution businesses, the new company would continue to operate and expand the unregulated businesses of the successor companies.

Figure ES 1: Proposed transaction

Scope and objectives

The three municipal shareholders of PowerStream (collectively the "PowerStream Shareholders"), the City of Vaughan (through Vaughan Holdings Inc.), the City of Markham (through Markham Enterprises Corporation), and the City of Barrie (through Barrie Hydro Holdings Inc.), retained Navigant's to address five critical questions.

1. Value and risks: What is the value of the transaction to the PowerStream Shareholders and what are the associated risks?

2. Cash flow: What are the expected cash flows to PowerStream Shareholders if they choose to proceed with the transaction or if they choose to maintain their current ownership of PowerStream?
3. Acquisition price: Is the price for Hydro One Brampton consistent with market value?
4. Merger relative value: Are the PowerStream Shareholders receiving an appropriate share of the equity in the new company?
5. Liquidity: What flexibility is there for PowerStream Shareholders (jointly and individually) to divest their holdings and what is the associated impact of such divestment under the status quo and the proposed transaction?

High level findings

Navigant reviewed PowerStream's business case and business plan for the proposed transaction. Based on its review, Navigant expects that the proposed transaction will create value for the residents, taxpayers, and electricity customers in the City of Markham.

To effect the proposed transaction, the City of Markham will need to invest $43M (plus or minus adjustments due at closing).[1] Navigant estimates that the transaction will create between $52 and $75M of shareholder value, approximately 20% to 75% more than the $43M initial investment.[2] The shareholder value is derived primarily from operating cost synergies realised through the merger and acquisition, which in turn result in an increase in annual dividends and retained earnings.

The expected return on investment for the PowerStream Shareholders is 7.7%, with Navigant's estimates ranging from 6.1% to 8.7%, under the base case synergy scenario. Under the base case synergy scenario, Navigant estimates that the simple payback period for the initial investment, assuming no contingency, is 10 years. Given the nature of the transaction the payback period for the additional contingency could up to another 10 years. Under low and high synergy scenarios, Navigant estimates that the return on investment could be as low as 4.1% or as high as 10.6%.

In addition to the shareholder benefit, over 25 years, Navigant expects that the transaction will create $43M of benefit for electricity customers in the City of Markham, equivalent to an average of approximately $40 per year per customer and $30 per year for residential customers. If electricity customer benefits are considered in conjunction with shareholder benefits, the simple payback period for the initial investment is reduced to seven years.

Navigant also analysed two alternatives to the $43M cash investment: funding the transaction through a conversion of shareholder debt for equity, and selling 10% of PowerStream in advance of the transaction and using the proceeds to effect the transaction. Under both of these scenarios the City of

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1 This is approximately $38M more than Markham will have to invest if the transaction does not proceed, as the municipality is already committed to invest $5M of equity into PowerStream in 2016.

2 Unless otherwise noted, all future cash flows have been discounted at 5%.

Markham mitigates some of the risk associated with the transaction. Both scenarios also improve the net cash flow to the City of Markham relative to funding the transaction with a cash injection.

The proposed transaction is unlike other transactions that PowerStream has brought to the City of Markham for consideration. Based on its independent assessment, Navigant believes that the proposed transaction has more risk and on an expected basis is likely to provide a lower return than investments the City of Markham has made to date in PowerStream. That said, Navigant does not have reason to believe that future transactions will revert to the risk-reward profile of the previous transactions. Furthermore, Navigant's analysis suggests that under certain reasonable conditions the return associated with this transaction could be higher than previous investments.

It is Navigant's view that important aspects of the proposed transaction are reasonable, such as the purchase price for Hydro One Brampton, the proposed equity ownership for the PowerStream Shareholders in the new company, and the proposed synergies and transition costs. The price for Hydro One Brampton was found to be within, but at the high end of the valuation range. The relative valuation of PowerStream was found to be within an acceptable range. Synergies were reviewed and determined to be reasonable and achievable. Through its past acquisitions, PowerStream has developed a track record of delivering on synergy targets. Navigant's assessment is that roughly half of the functional area synergies are likely conservative, such that actual synergies may be greater than represented in the business case.

The PowerStream Shareholders also asked Navigant to assess the impact of the proposed transaction on the liquidity of their investment in PowerStream. It is Navigant's assessment that the proposed transaction will have a limited impact on the liquidity of the City of Markham's existing investment in PowerStream, and could result in a small improvement over the status quo. Note, there may be certain conditions where selling shares of the new company could result in a higher tax burden than selling shares of PowerStream to a non-municipal third party.

Revisions to business case

Navigant reviewed and analysed the business case and business plan materials provided by PowerStream and its advisors, and determined the assumptions and methodology used therein to be reasonable. Major parts of the business case were independently analysed to conclude if and where management estimates fall within the range of realistic assessments. Navigant reviewed, analysed, and tested the business case assumptions, and revised them as appropriate for its independent cash flow and valuation analysis. The base case that Navigant used to analyse the proposed transaction contains slightly more conservative assumptions in a few key areas, summarized in the figure below.

Figure ES 2: Base case assumption comparison

Category	PowerStream Business Plan	Navigant Analysis
Total customer benefit over 25 years	$450M	$440M
Annual benefit per customer	$40 - $50	$40
Change in earnings - 10 year NPV @ 9.3%	+ $112M	+ $90M
Change in dividends - 10 year NPV @ 9.3%	+ $122M	+ $79M
Merger transition costs expensed	$43M	$69M
Merger transition costs capitalized	$53M	$28M

Transaction risks

While Navigant's analysis affirmed the business case for the transaction, Navigant identified a number of potential risks. The potential for value creation is perceived to be the greatest support for proceeding with the transaction, but is subject to the realisation of synergies and the potential for transition cost overruns. Risks from loss of control and transaction execution are the principal arguments for remaining with the status quo. The figure below summarises the top three risks, and discusses mitigating factors that currently exist with the proposed transaction.

Figure ES 3: Summary of transaction risks

Risk	Description
Synergy realisation and transition costs	The value in the proposed transaction is dependent on the successful integration of the four companies, the realisation of the projected synergies over the first 10 years, and managing the transition and transactions costs to the budgeted level. <u>Mitigating factors</u>: Navigant's assessment is that the synergy target in the majority of the functional areas are reasonable. Furthermore, through its past acquisitions, PowerStream has developed a track record of delivering on synergy targets.
Less direct control	The transaction will result in less direct control for the municipality as more decision making powers in the new company will be delegated to a majority independent (seven of 13) Board of Directors. There will be fewer items in the shareholder agreement requiring unanimous and supermajority consent, and the municipality will hold a smaller relative equity position in the new company. <u>Mitigating factor</u>: With respect to rates, the Ontario Energy Board is responsible for approving electricity distribution rates, not the Board of Directors, or the shareholders of the company. With respect to strategic and operational decisions, collectively, the PowerStream Shareholders, will appoint six of thirteen Board Members and thus will have negative control over all items that require supermajority approval of the Board of Directors. The PowerStream Shareholders will also hold 46% of the voting shares in the company and will have negative control over all items that require supermajority consent from the shareholders. It is also worth noting that the independent board members will bring skills and expertise that are likely to complement the elected officials on the Board.
Cash flow to the municipality	Assuming the transaction is funded through a cash injection, over the first ten years, the present value of the net cash to the City of Markham is expected to be lower than under the status quo. It is expected to be higher over the long term. <u>Mitigating factor</u>: This impact can be mitigated through alternate funding options (i.e. conversion of shareholder loans or the sale of 10% of PowerStream). While there is some uncertainty associated with the level of cash flow to the municipality from the new company, there is also uncertainty associated with the level of cash flow to the municipality under the status quo, in particular given the level of capital expenditure contemplated by the company over the next 10 years.

Table of contents

List of figures

1. Business case

1.1 Decision criteria

As a municipality, investments are subject to the City's investment goals and Ontario Municipal Act, 2011 requirements:

1. Legality;
2. Preservation of principal;
3. Liquidity; and
4. Return on investment.

Navigant and the staff from the PowerStream Shareholders established four decision criteria to help guide the assessment of the proposed transaction. The four decision criteria, identified below, closely align with the municipal investment requirements.[3]

Figure 1: Decision criteria

Criteria	Observation
Preservation of principal Diversification of investments Risk of loss of principal	The proposed transaction has more risk, and is expected to provide a lower return relative to investments made to-date in PowerStream, but Navigant's sensitivity analysis suggests that the likelihood of losing the principal is low.
Liquidity Security of planned cash flow Future liquidity/ability to sell or extract value	Markham's existing investment in PowerStream is relatively illiquid. The proposed transaction is expected to have a limited impact on the liquidity of the existing investment. There are certain conditions where exiting from MergeCo could result in a higher tax burden than exiting from PowerStream.
Shareholder return on investment Quantum of dividends and interest payments Risk of future unplanned equity injections Long term value/investment growth	The expected return on investment for the PowerStream Shareholders is 7.7%, with Navigant's estimates ranging from 4.1% to 10.6%. The transaction is expected to have a simple payback period of 10 years. The value of Markham's investment is expected to increase from $43M to between $52M and $75M as a result of the transaction.
Impact on electricity customers PowerStream customer bill impact	On average, electricity customers in Markham are expected to save approximately $40 per year; $30 per year for typical residential customers..

[3] Impact on electricity customers is not a Municipal Act requirement. The fourth criteria is legality, the proposed investment is legal. The impact on electricity customers, when considered together with shareholder return on investment constitutes the total value of the proposed transaction for the municipality and its residents and businesses.

Navigant's review focused largely on the financial and commercial aspects of the proposed transaction. The review relied on the legal, technical, and environmental due diligence completed by PowerStream, Horizon, and Enersource, and their advisers and legal counsel.

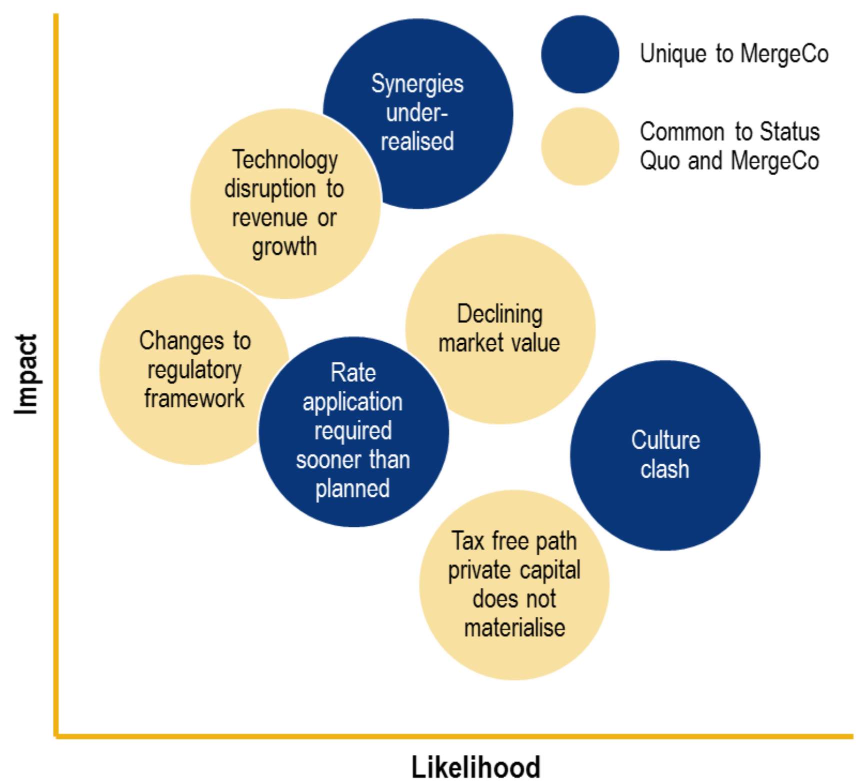
The starting point for Navigant's analysis were the inputs and assumptions developed by the independent advisor to PowerStream, Horizon and Enersource that was engaged to value the three companies and prepare the business case. Where appropriate, Navigant revised the initial assumptions and inputs to take a more conservative view of the benefits of the proposed transaction.

The following subsections of this chapter discuss Navigant's findings across each of the four decision criteria.

1.2 Preservation of principal

Navigant assessed the risks associated with the transaction based on (i) likelihood of occurrence and (ii) impact on value. A risk map, showing the relative likelihood and impact of seven risks that Navigant identified is provided in the figure below. Four of the risks that Navigant identified are common to both the new company that will be formed as part of the transaction and PowerStream. Three risks are unique to the transaction.

Figure 2: Transaction risk likelihood and impact



The risk associated with synergy realisation has an impact on the magnitude of the overall benefit. Fewer synergies will result in less value for shareholders and customers. More synergies will result in more value for shareholders and customers. Under the current regulatory regime, a shareholder is able to retain the benefit of operating synergies following a merger or acquisition for a period of up to 10 years. In the event that a rate application is required before 10 years, the allocation of the benefit between shareholders and customers will be affected. Finally, a culture clash between the four merged companies could impact the new company's ability to continue to innovate and grow.

Figure 3: Risks unique to the transaction

Risk	Description
Synergies under-realised	There is a risk that the projected merger synergies are not realised.
Rate application required sooner than planned	Unforeseen events could force MergeCo to seek new rates sooner than anticipated in the business case (10 years), thus transferring the benefit of operating synergies from the shareholders to customers earlier than planned
Culture clash	Each of the four companies has a unique corporate culture. To the extent the new company is not effectively able to integrate the four cultures and retain PowerStream's strong innovative culture, the ability of the company to grow could be hindered.

There are a number of risks not unique to the proposed transaction that exist for the municipality's current investment in PowerStream. Among these are technology disruption, declining market value, and revisions to regulatory regime. The risk related to disruptive technology appears to have garnered significant attention among industry analysts. Although, Navigant does not expect this risk to have a significant impact on the revenue and profitability of poles and wires utilities in Ontario over next five to ten years. The risk associated with declining market value also affects all existing investments in the regulated distribution utility space, and may be partially mitigated through the regulatory framework. Provided Markham does not have a pressing need for the proceeds from a sale, if market values decline Markham can continue to hold its investment and earn the regulated return. Furthermore, factors that cause market values to decline are also likely to cause regulated returns to increase.

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Figure 4: Risks common to PowerStream and the transaction

Risk	Description
Disruptive technology	Disruptive technologies could impact existing revenue and potential for core growth; conversely, these technologies could create new market opportunities for MergeCo
Declining market value	Low interest rates and low yields are driving up transmission and distribution utility values, absent growth, utility valuations will likely remain stable or decline as interest rates normalise; Ontario's regulatory environment acts as a partial hedge, as the approved return on equity for electricity distribution utilities tracks changes in interest rates
Regulatory framework	The Ontario Energy Board has the ability to change the regulatory framework, in part or full, including the formula used to establish the approved return on equity
Path to private equity does not materialize	Currently, there is a significant tax associated with accessing private capital to fund future growth; an alternative corporate structure that would reduce the impact of this this tax was proposed, but a definitive decision from government will not be available prior to the transaction approval date

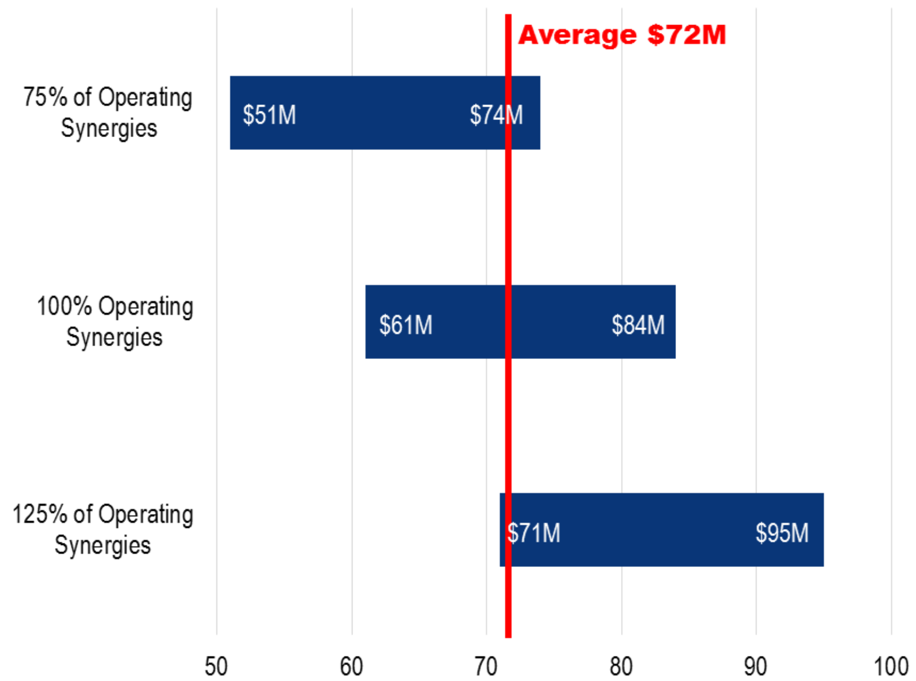
1.3 Shareholder return on investment

Navigant developed an independent cash flow and valuation model to assess the PowerStream Shareholders' expected return on investment for the proposed transaction. Navigant used the Free Cash Flow to Equity valuation approach to determine the value the City of Markham's ownership in the new company and compared it to the value of the City of Markham's ownership in PowerStream. Adjustments were then made to reflect the impact of the proposed transaction on the interest payments the city receives for the shareholder loans to PowerStream and the dividends it receives from previous investments in PowerStream's solar business.

1.3.1 Equity value

To effect the proposed transaction, the City of Markham will need to invest $43M (plus or minus adjustments due at closing). Navigant estimates that the transaction will increase the equity value of the City's investment in PowerStream by between $61 and $84M under the base case synergy scenario. Under a low synergies scenario, the equity value is estimated to increase by between $51M and $74M. Under a high synergies scenario, the equity is estimated to increase by between $71M and $95M. The range of values for each synergy scenario are based on different approaches and assumptions for the terminal value of the investment in year 25.

Figure 5: Increase in equity value



Notes:
1) Range for each synergy scenario based on alternative terminal value calculations, e.g., perpetuity growth rate, final year cash flow, and exit multiple
2) Assumes 5% discount rate

The shareholder value is derived primarily from operating cost synergies realised through the merger and acquisition, which in turn result in an increase in annual dividends and retained earnings.

As indicated, the transaction is also expected to impact:

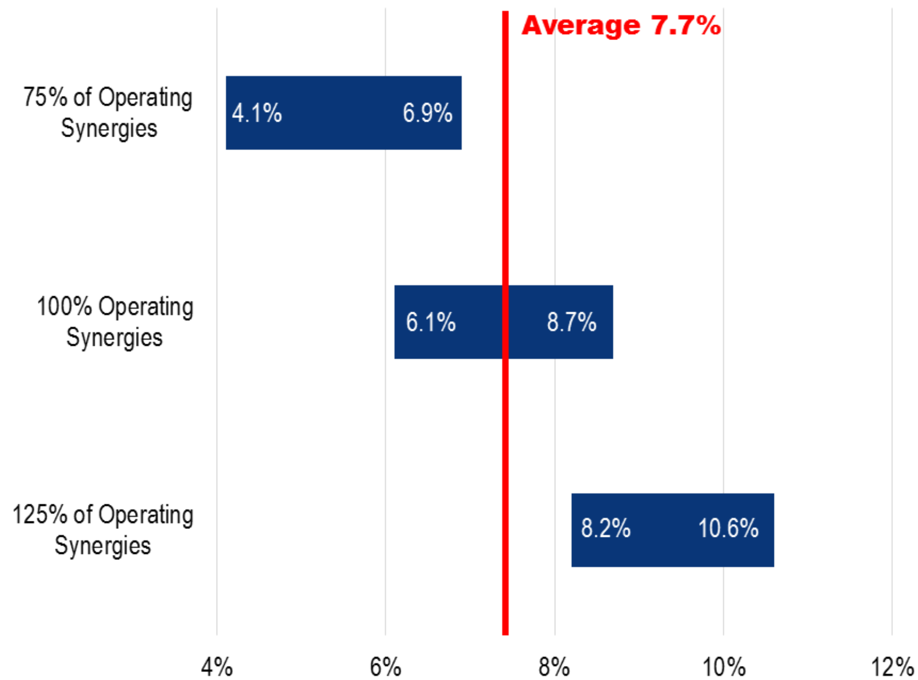
- the magnitude of the interest payments the City of Markham receives from its shareholder loans to PowerStream; and
- the dividends received from the PowerStream solar business.

On a present value basis, Navigant expects that the reduction in cash flow could be as high as $9M. Hence, on an adjusted basis, Navigant's analysis suggests that the shareholder value created as a result of the transaction under the based case synergy scenario will be between $52M and $75M, with an average or expected value of $63M ($72M less $9M).

1.3.2 Internal rate of return

The expected return on investment for the PowerStream Shareholders on the Hydro One Brampton acquisition is 7.7%, with estimates ranging from 4.1% to 10.6%.

Figure 6: Expected return on investment



Notes:
1) Range of for each synergy scenario based on alternative terminal value calculations, e.g., perpetuity growth rate, final year cash flow, and exit multiple
2) Assumes 5% discount rate

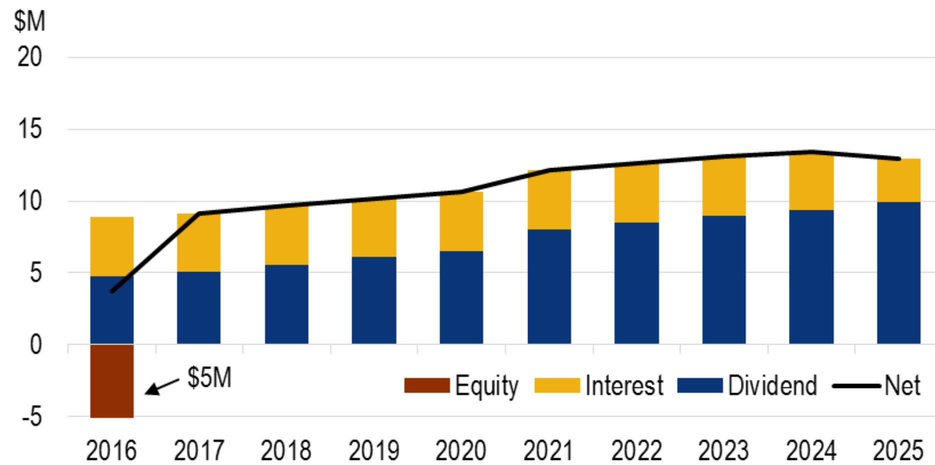
Navigant calculated the internal rate of return by comparing the net cash flows to the City of Markham from PowerStream (i.e. the equity injections required and the dividends and interest paid) relative to the net cash flows expected from the new company. The analysis focuses exclusively on shareholder value and does not include the customer benefits from the transaction.

1.3.3 Cash flow and funding options

Navigant analysed the cash flow implications arising from three possible ways that the City of Markham could fund the transaction and compared them to cash flow projections under the status quo with PowerStream. The three funding options considered were:

- An injection of cash from the municipality;
- The conversion of shareholder debt in PowerStream to equity in the new company; and
- A sale of 10% of PowerStream, the proceeds of which are reinvested in the new company.

Figure 7: Projected cash flow from PowerStream to the municipality



Several factors distinguish the three funding options, including:

- » the level of investment exposure to the company and sector;
- » the level of risk and uncertainty associated with the cash flows; and
- » the liquidity of the investment.

Each of these are discussed in the figure below.

Figure 8: Funding option distinctions

Funding Option	Investment Exposure	Cash Flow Risk	Liquidity
Cash	Increases exposure to PowerStream and the utility sector	Maintains the risk profile associated with the cash flows to the municipality	Incremental investment is difficult to sell or liquidate
Conversion of Shareholder Loans	Maintains current level of exposure to PowerStream and utility sector	Increases risk in cash flows to the municipality	Swap liquid debt for a relatively less liquid asset
Sale of 10% of PowerStream	Maintains current level of exposure to PowerStream and the utility sector	Maintains the risk profile associated with the cash flows to the municipality	

On a short-term basis, funding the acquisition of Hydro One Brampton through cash should be preferable to converting the shareholder loans. Markham's investments outside of PowerStream currently earn between 2 to 4%, whereas in in the new company, the shareholder loans will likely earn between 4.0% and 4.77%, depending on the outcome of PowerStream's current rate application before the Ontario Energy Board. When the external investment market improves, a portion of the shareholder loans could be called to replace the cash taken from reserves.

As importantly, the alternative funding options impact the cash flow to the municipality. Under all three funding options the net annual cash flow[4] to the municipality over the first 10 years is expected to increase. This increase is estimated to be between $1.8M and $3.5M annually depending on the funding option. Conversion of shareholder loans or a sale of 10% of PowerStream would result in a higher net present value of total 10-year cash flow[5] to the municipality than funding the transaction with 100% cash, when the initial investment is taken into consideration.

Figure 9: Alternate funding option cash flow impacts

$M	Status Quo	100% Cash	Convertible Note	10% Sale
Equity (Cash) Investment Required in 2016	$5	$43	$0	$8
Average Increase in Annual Cash Flow (10-Years)	--	$3.5	$1.8	$2.4
Net Present Value of Total 10-Year Cash Flow, Including Equity Investment	$80	$71	$98	$96
Increase / (Decrease)	--	($9)	$18	$16
Average Increase in Annual Cash Flow (25-Years)	--	$2.0	$0.3	$0.4

1.3.3.1 Cash injection

If the transaction is funded with cash, Navigant estimates that the net present value of the total 10-year cash flow, including the outlay for the investment, to the City of Markham will be $9M lower than Status Quo. Over the first 10 years, combined dividend and interest payments are expected to increase by an average of $3.5M per year, where dividend payments increase by $4.5M and interest payments decrease by $1M. Over 25 years, the combined dividend and interest payments are projected to increase by an average of $2.0M per year.

4 "Net annual cash flow" refers to the combined annual dividend payment and interest on the shareholder loan

5 "Total 10-year cash flow" refers to the initial investment and the combined dividend payment and interest on the shareholder loan

Figure 10: Projected cash flow after transaction (cash injection)

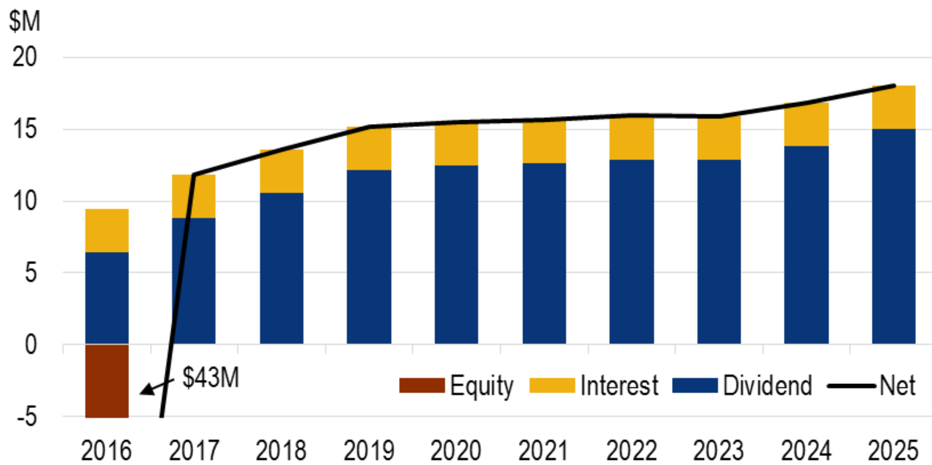
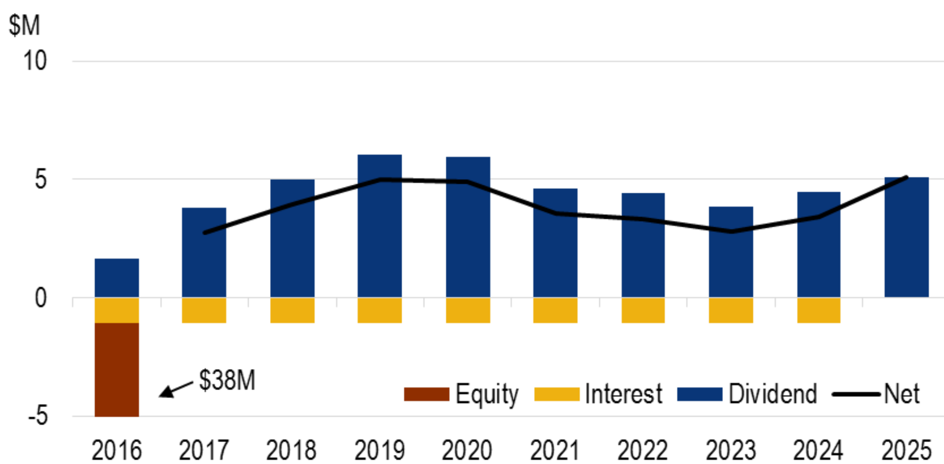


Figure 11: Projected change in cash flow (cash injection)



1.3.3.2 Conversion of shareholder loans

If the City of Markham converts its interest paying shareholder notes into dividend paying equity, the net present value of total 10-year cash flow is estimated to be $18M higher than under the status quo with PowerStream. No additional cash is required to fund the transaction, except for closing adjustments, as $43M of shareholder debt is repaid and reinvested as equity. Over the first 10 years, the combined dividend and interest payments are expected to increase by average of $1.8M per year, where dividends increase by $4.5M and interest payments decrease by $2.7M. Over 25 years, the combined annual dividends and interest payments are projected to increase by an average of $300k.

Figure 12: Projected cash flow after transaction (conversion of notes)

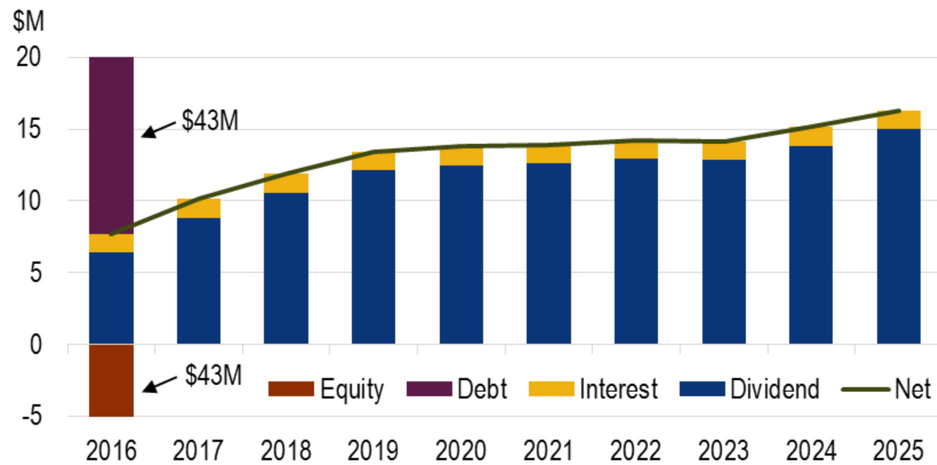
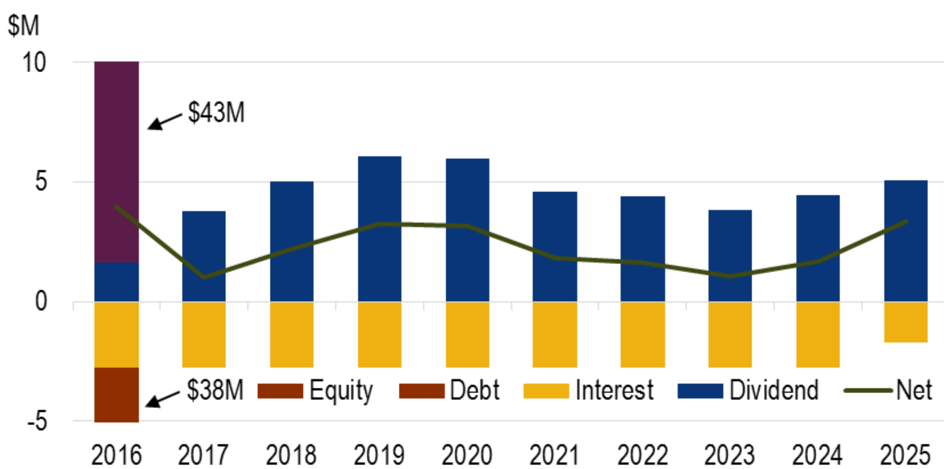


Figure 13: Projected change in cash flow (conversion of notes)



1.3.3.3 *Sale of 10% of PowerStream*

If equity in PowerStream is sold and the proceeds are reinvested, the net present value of total 10-year cash flow is estimated to be $16M higher. Limited additional cash is required to fund the transaction, as proceeds from the sale are likely to offset a majority of funding requirement. Over the first 10 years, the combined dividend and interest payments are expected to increase by average of $2.4M per year, where dividends increase by $3.4M and interest payments decrease by $1M. Over 25 years, combined annual dividend and interest payments increase by an average of $400k.

Figure 14: Projected cash flow after transaction (sale of 10%)

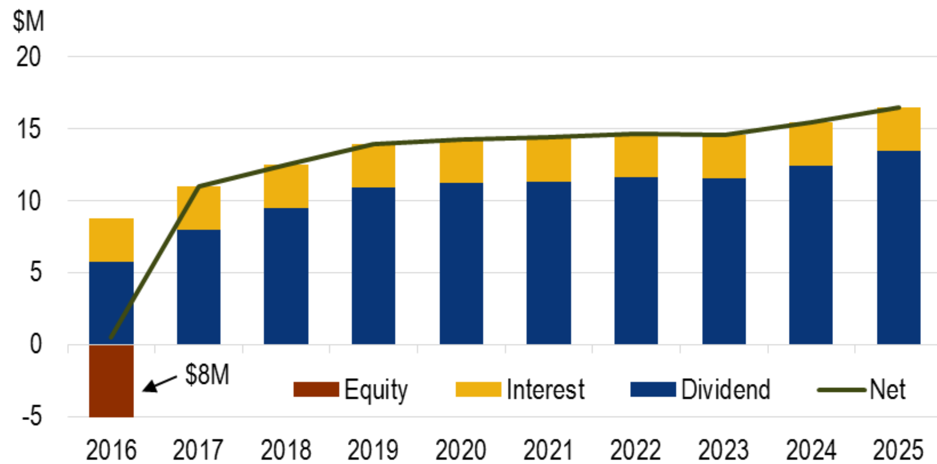
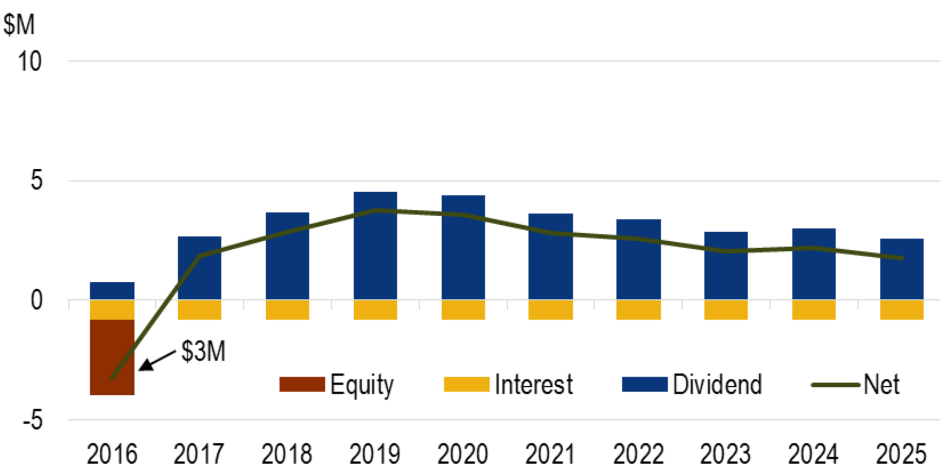


Figure 15: Projected change in cash flow (sale of 10%)



1.3.4 Summary

The proposed transaction is expected to create value for the PowerStream Shareholders. For the City of Markham, Navigant's analysis indicates that the business case projections are reasonable. Navigant's own analysis indicates a potential increase in value of $52 and $75M from an initial $43M investment.

The return on investment is estimated to be 7.7%, and is likely a better return than PowerStream would realise if it were to acquire Hydro One Brampton or another electricity distribution utility in Ontario on a stand-alone basis in today's market environment. However, it is not as strong a return as the PowerStream Shareholders' existing or planned investments in PowerStream's core regulated business.

Annual net cash flows are expected to increase, wherein the increased dividends from the new company are expected to offset any decline in interest payments on the shareholder loans.

1.4 Liquidity

The municipality's investment in PowerStream is relatively illiquid at present. There are substantial tax obligations that become due if a shareholder were to dispose of more than 10% of the equity in the company to a non-municipally owned third party. Navigant's view is that the proposed transaction will have a limited impact on the liquidity of the municipality's investment, and may actually result in a small improvement. This is primarily due to the negotiation of three potential mechanisms for addressing the tax implications associated with a sale of more than 10% of the new company's equity. While there are certain situations where exiting from the new company could result in a higher tax burden for the departing shareholder, Navigant's assessment is that the likelihood of these situations occurring is low and the alternative mechanisms provide a clear path forward that does not exist under the status quo.

The table below compares liquidity considerations between the status quo and the proposed transaction

Figure 16: Impact of the transaction on liquidity

Category	Status Quo	MergeCo
Issuance of new treasury shares	Unanimous consent is required to issue new treasury shares	Supermajority consent of the shareholders is required to issue (Markham plus two or more, depending on whom)
Sale of existing common shares	Unanimous consent required for partial sale or full sale of existing shares Selling shareholders responsible for all taxes	Supermajority consent required for partial sale in excess of 10% or full sale of existing shares; sale up to 10% permitted provided shareholders unanimously approve of buyer Selling shareholders responsible for all taxes and indemnifying remaining shareholders, but remaining shareholders agree to "*take all fair and reasonable steps to reduce this indemnity obligation*", which could include reorganisation to maximise the usage of payments in lieu of taxes credits, applying the benefit of tax attributes created by the transaction, and deferred liabilities.[6]
Taxes	Significant cost (i.e. departure tax and transfer tax) associated with a sale of more than 10%	The acquisition of Hydro One Brampton will not increase departure tax obligation for the new company, relative to the collective departure tax obligation for the three successor companies, as at the time of purchase the undepreciated capital cost for Hydro One Brampton will be equivalent to the market value. However, in the event of a sale, transfer tax obligations will increase as a result of acquisition of Hydro One Brampton. For an individual shareholder, under certain conditions, selling shares of the new company to a non-tax exempt entity could result in a higher tax burden than selling shares of PowerStream. The mechanisms discussed above are intended to mitigate this issue.
Prohibitions on sale	None	Anti-flip provisions in share purchase agreement Five year ban on selling substantially all of Hydro One Brampton Three-year ban on transferring more than 49% of MergeCo to anyone except an existing direct or indirect shareholder without the consent of the Province.
Market	Reasonable market of potential buyers	May attract slightly larger strategic and financial investors

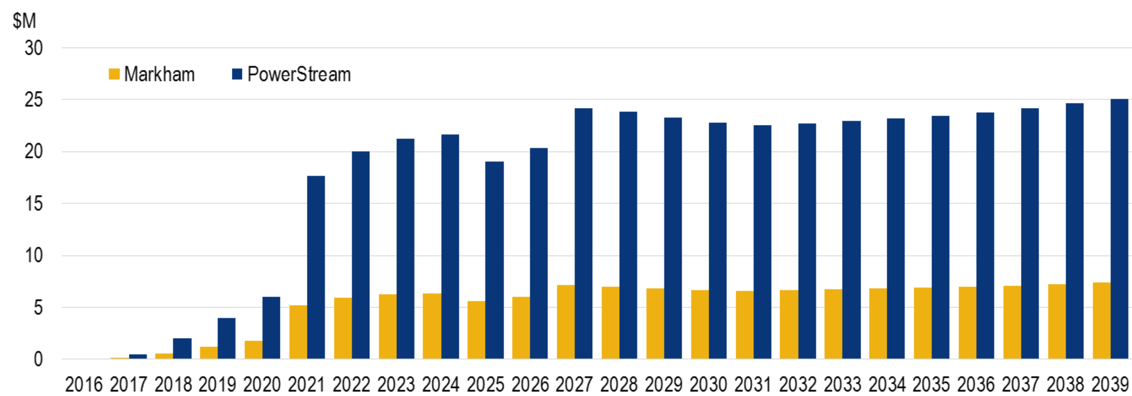
1.5 Impact on the electricity customer

Navigant analysed the potential for customer benefits as result of the transaction by comparing the projected revenue for PowerStream under the status quo and the projected revenue for the PowerStream service territory under the proposed transaction. Customer benefits were then allocated to the City of Markham based on population across the multiple communities served by PowerStream.

6 The latter was agreed by the parties, but is not clearly documented in the shareholders agreement.

Over 25 years, electricity customers in the City of Markham are expected to save a total of $130M as a result of the transaction. The transaction will not result in lower overall electricity bills for customers relative to what they pay today, rather it will reduce future increases that would occur if the transaction does not take place. Savings for Markham residents and businesses average approximately $3.3M per year in the first 10 years, and $7M per year thereafter. Savings, through a reduction of the upward pressure on rates, are expected to be approximately $40 per customer per year and $30 per residential customer per year.

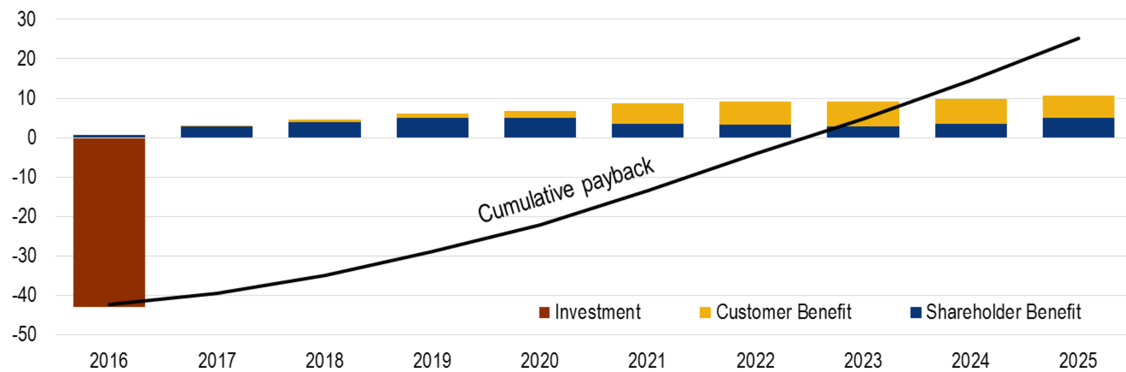
Figure 17: Estimated annual customer benefit



Notes:
1) All values nominal
1) Customer benefits over the first 10 years are driven primarily by avoided capital expenditures
2) Customer benefits after the first 10 years are driven primarily by lower operating costs

The total benefit to the residents and businesses in Markham is the combination of the shareholder and electricity customer benefits. The shareholder benefit flows back to residents and businesses in Markham indirectly through the municipality, whereas the customer benefits are a direct benefit. Considering these two sources of benefits together Navigant projects that the initial investment of $43M will have a simple payback period of seven years.

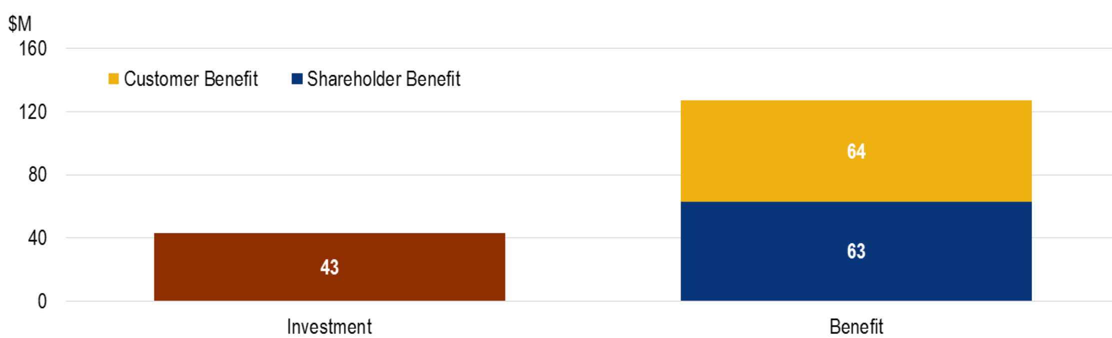
Figure 18: Combined annual shareholder and customer benefit



Notes:
1) All values are nominal

The combined shareholder and customer benefit over the longer term over is substantial, with $127M of present value total benefit for $43M of investment. Of the $127M benefit, $63M is increased shareholder value, while the remaining $64M of benefit is realised through lower electricity rates to customers relative to the status quo.

Figure 19: Present value of estimated total benefits



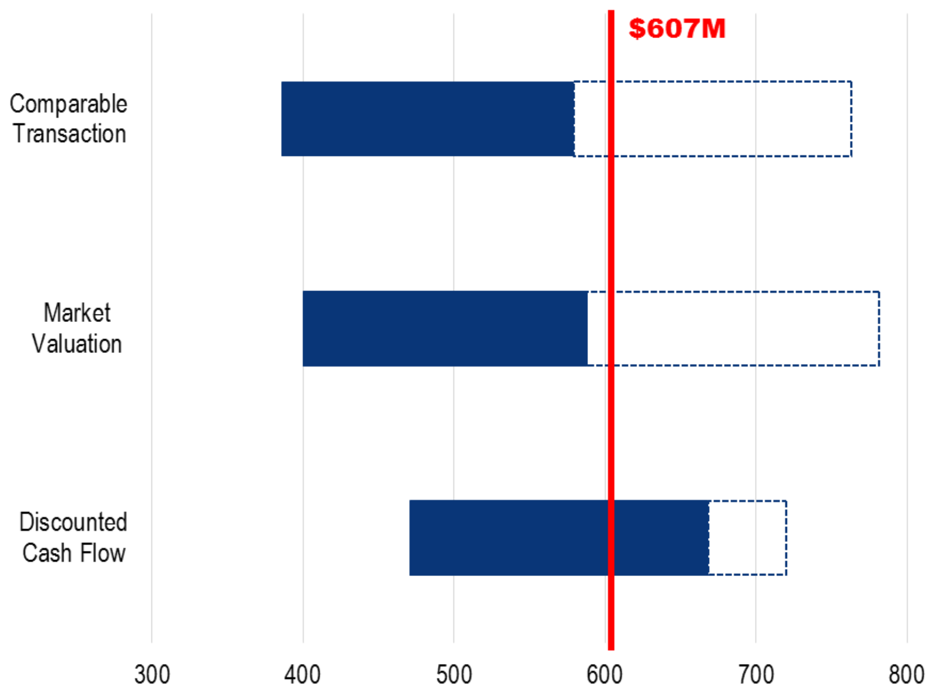
Notes:
1) All values discounted at 5%

Regulatory factors impact the allocation of benefits between customer and shareholders. Navigant has been conservative in estimating the allocation to shareholders by assuming that the benefit of capital synergies are passed directly to customers. Management's assumption is that the benefit of operating synergies will be retained by the shareholder for 10 years. In the event this duration is shorter, the benefit will pass through to customers sooner than expected, shifting relatively more of the benefit to consumers, but not impacting the overall level of benefits expected.

2. Hydro One Brampton acquisition

Navigant estimates that the $607M purchase price for Hydro One Brampton is within the range of reasonable market values relative to the rate base of $405M.[7] The Hydro One Brampton valuation is in the range of comparable company and transaction valuation multiples, and slightly outside the interquartile range based on the 25th and 75th percentile of values. The purchase price also falls within the range of Navigant's enterprise valuation based on discounted cash flows.

Figure 20: Enterprise value for Hydro One Brampton



Notes:
1) Comparable transaction and market valuations based on interquartile range (25th and 75th percentiles); extended range based on 90th percentile
2) Discounted cash flow valuations based on alternative terminal value calculations, e.g., perpetuity growth rate, final year cash flow, and exit multiple assuming a 7% equity discount rate; extended range based on 5% discount rate

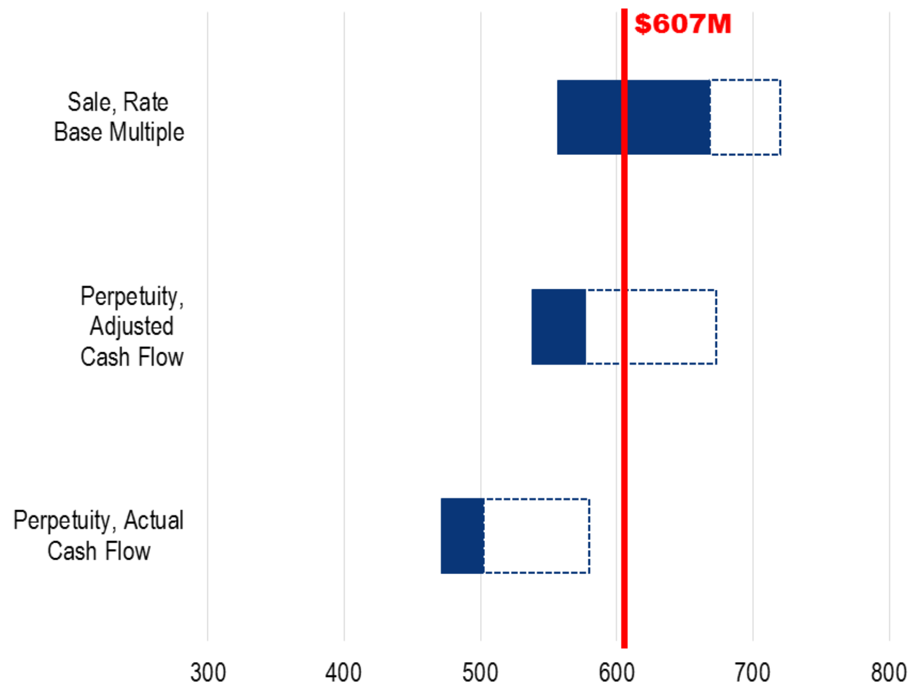
2.1 Discounted cash flow

The range of enterprise values resulting from Navigant's discounted cash flow analysis is driven largely by terminal value approach and assumptions. Assumptions required to achieve a valuation of $607M are not conservative, but they are in the range of what a buyer might reasonably use to value the company. The high end of the range for each terminal value approach is based on a high growth

7 Rate base is the sum of the regulated asset value and an allowance for working capital.

rate (i.e. 1.2%) or high rate base exit multiple (i.e. 1.5x) assumptions. The low end of the range is based on a low growth rate or low rate base exit multiple assumption.

Figure 21: Enterprise value for Hydro One Brampton based on discounted cash flow

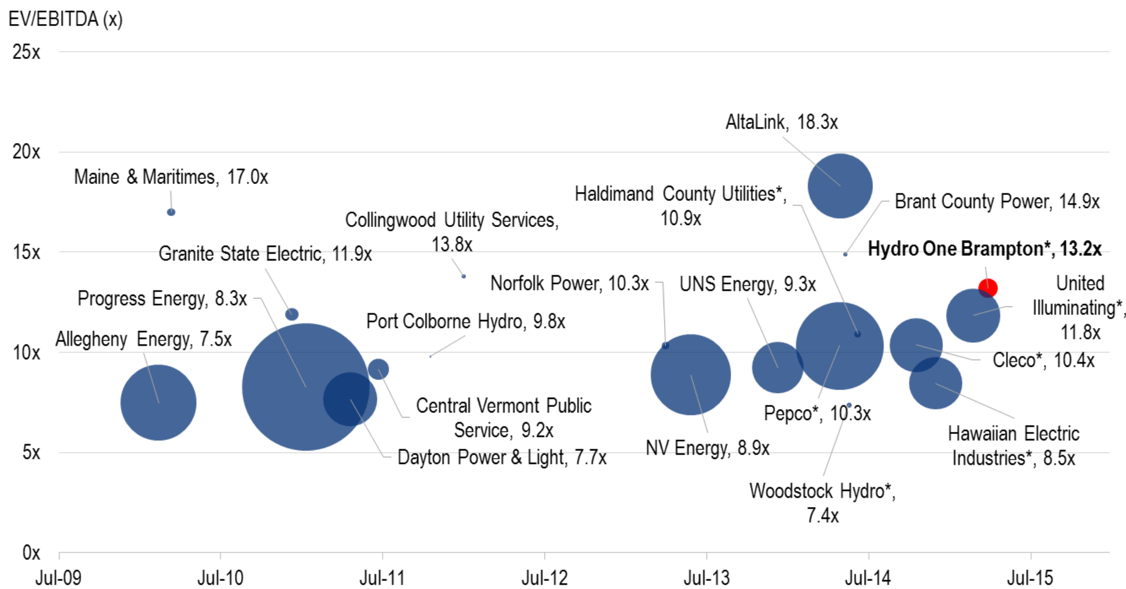


Notes:
1) Range of values based on alternative terminal value assumptions, e.g., perpetuity growth rate and exit multiple, assuming a 7% equity discount rate; extended range based on 5% equity discount rate.

2.2 Precedent transactions

Precedent transactions over the past five years reveal a wide range of valuations based on the enterprise value to earnings before interest, taxes, depreciation, and amortisation (EV/EBITDA) multiple. At the high end of the range are transactions like the purchase of AltaLink, an Alberta-based transmission company, by a subsidiary of Berkshire Hathaway. The interquartile range, i.e. the range established by the 25th percentile and 75th percentile value, is 8.4x to 12.6x. The implied multiple for Hydro One Brampton is 13.2x.

Figure 22: Precedent transaction Enterprise Value to EBITDA multiples

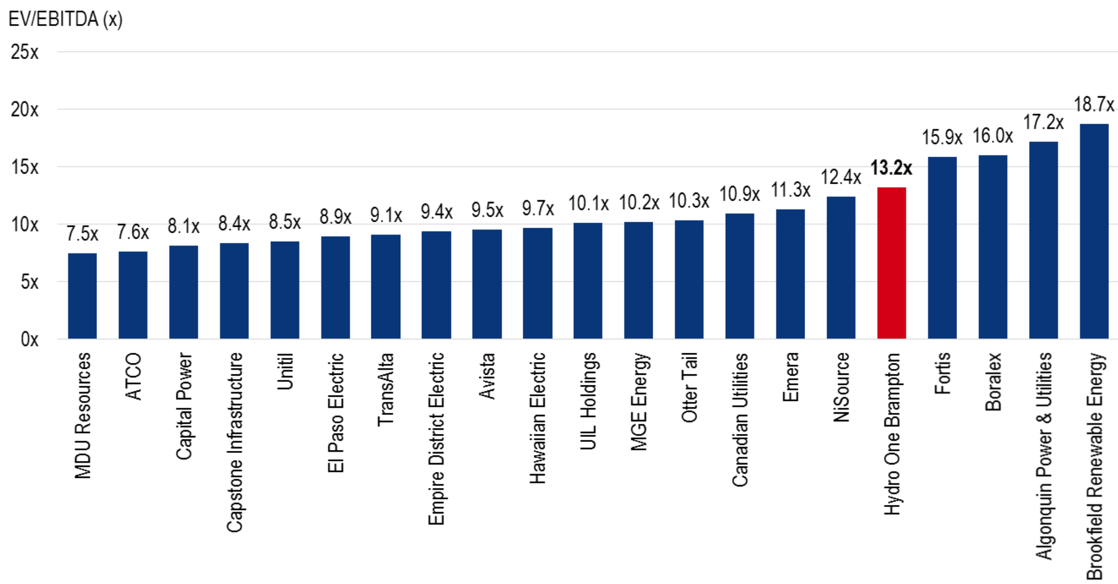


*Proposed
Source: CapIQ, Navigant

2.3 *Market valuations*

Publically listed comparable utility companies reveal a similarly wide range of valuations. The interquartile range is 8.7x to 12.8x, similar to the interquartile range of precedent transaction valuations. This wide range of EV/EBITDA multiples highlights the importance of using a discounted cash flow approach to determine an appropriate range of valuation specific to Hydro One Brampton's unique conditions.

Figure 23: Comparable company Enterprise Value to EBITDA multiples



* U.S. companies filtered to include only those with regulated transmission and distribution assets, without merchant generation (competitive wholesale), and less than 500,000 electric customers

Source: CapIQ, SNL Energy, Navigant

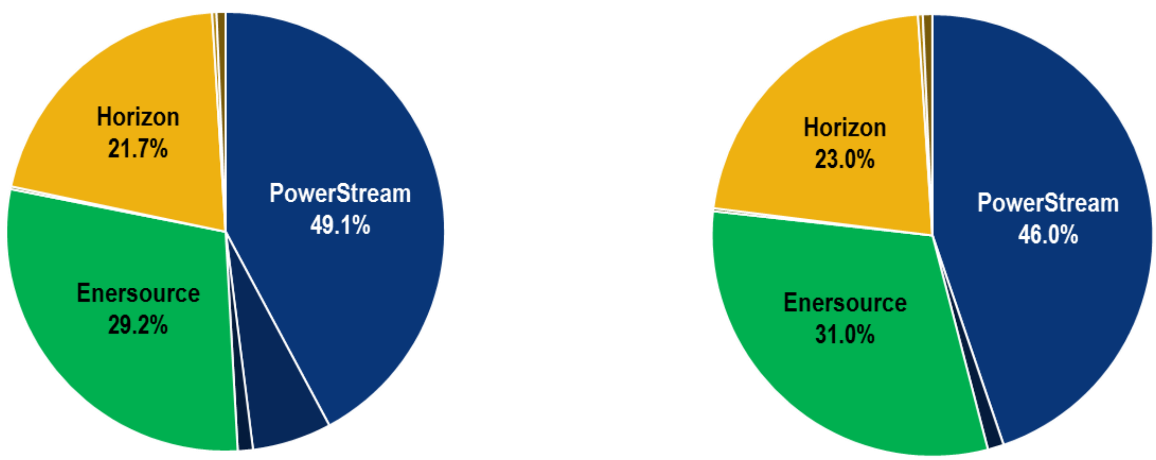
3. Relative valuation

As part of the transaction, PowerStream, Enersource, and Horizon engaged an independent advisor to provide a valuation for each company to recommend the ownership level that each of the shareholders of the predecessor companies should have in the new company. Navigant's independent analysis has confirmed that proposed ownership level for the PowerStream Shareholders is reasonable.

The independent advisor to PowerStream, Enersource, and Horizon developed a relative valuation model to calculate ownership levels for each of the companies' respective shareholders. The model calculated valuations using several different approaches. The final values used in the business case are based on enterprise value calculated using a discounted cash flow approach.

The relative valuation of PowerStream including all regulated and un-regulated businesses, including PowerStream Solar, was 49.1%. Excluding the PowerStream solar assets reduces PowerStream's relative share by roughly 3.1% to 46.0%.

Figure 24: PowerStream relative valuations

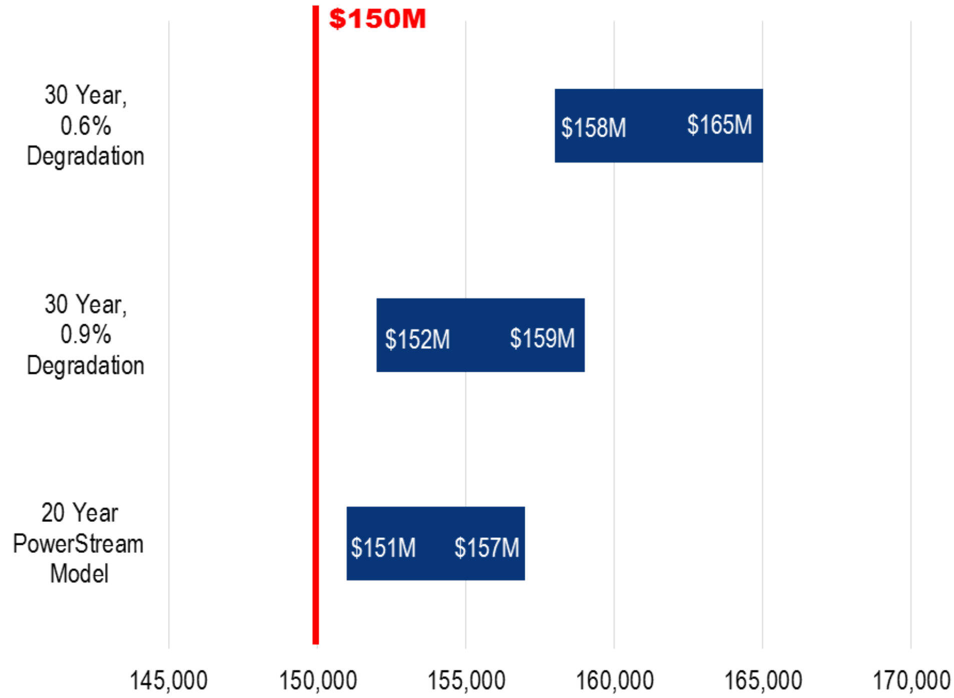


Source: Business Plan

3.1 PowerStream Solar

Navigant also independently reviewed the proposed valuation for PowerStream's existing solar business. Navigant's analysis of the PowerStream Solar valuation suggests that it is likely undervalued. The $150M proposed valuation of solar business is outside of the range of reasonable results produced by Navigant's independent valuation model, even under the most conservative assumptions and scenarios. In scenarios assuming longer asset lives, lower degradation rates, and longer cash flows, solar asset valuation looks significantly better.

Figure 25: Enterprise Value for PowerStream Solar



Notes:
1) Range of values based on debt ratio (70% to 90%) and weighted average cost of capital (4.0% to 6.0%)

As a result, it was Navigant's recommendation that the PowerStream Shareholders consider holding back the solar assets from the transaction or find a way to ring-fence the existing solar assets within the new company for their benefit.

As shown in the figure below, the timing of the cash flow from the solar assets is materially different and heavily weighted to the first eight years. The choice to keep the solar asset cash flows separate from the transaction results in more cash up front. This improves the present value of the future cash flows and the simple payback period associated with the transaction for the PowerStream Shareholders. This benefit is reflected in the cash flow discussion above. It is Navigant's view that the expected cash flows from the existing PowerStream solar assets are also more secure than common share dividends from the new company.

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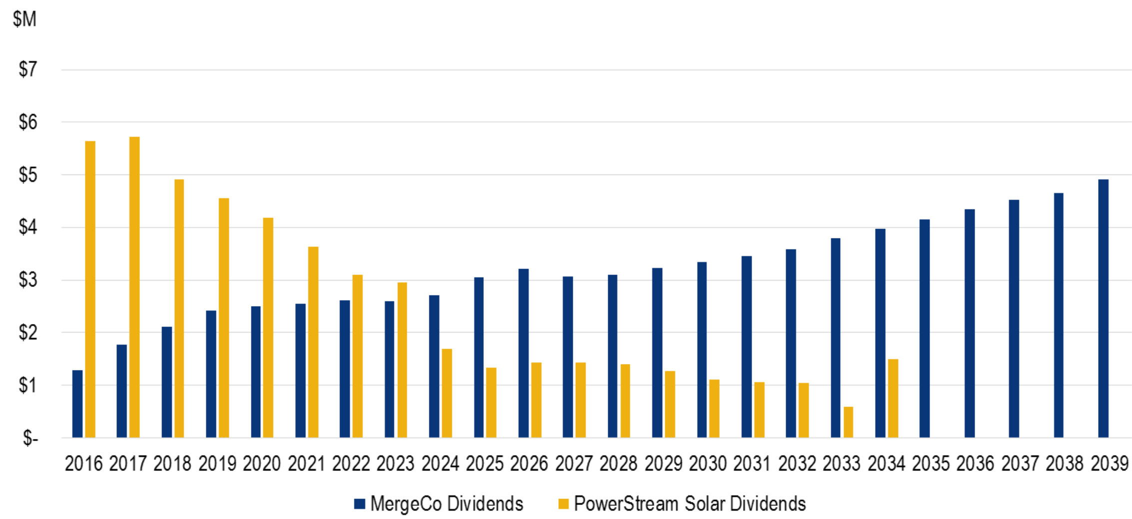
Figure 26: Comparison of incremental annual dividends (solar in or out)



In addition, holding back the solar assets or ring fencing them within the new company provides the PowerStream Shareholders with additional liquidity and flexibility, and diversity of cash flows.

A summary of Navigant's rationale for holding back or ring fencing the solar assets is provided in the figure below.

Figure 27: Rationale for excluding PowerStream Solar

Reason	Description
Low Valuation	PowerStream's solar assets are at best fairly valued and likely undervalued A number of critical assumptions in independent valuation model used to establish relative value appear to be conservative Near term revenue may not be fully considered and post-contract sales not included
Certainty of Cash Flows	Solar assets have low risk cash flow schedules that can be levered more easily than PowerStream or MergeCo cash flows Net cash flows will be higher if PowerStream Solar assets are earmarked for existing PowerStream Shareholders
Liquidity, Flexibility, and Diversification	Extracts more cash from the business in the first ten years Cash out gives Shareholders the option to reinvest in MergeCo (regulated or unregulated), and PowerStream Shareholders maintain the option to sell the assets at a later date Provides two separate and distinct sources of cash

The option to ring fence the solar assets within the new company, as opposed to holding them and creating a new company to own and operate, has several advantages for the PowerStream Shareholders as well as the other shareholders in the new company. The ring-fence approach:

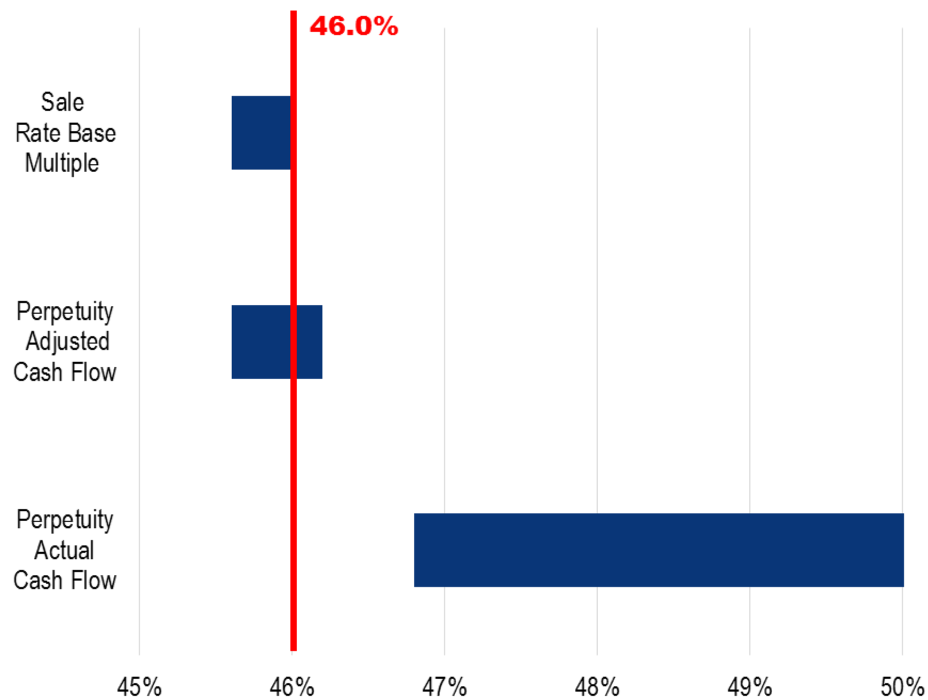
1. Avoids tax consequences from a sale or extraction of the assets from PowerStream;

2. Retains the solar development platform within the new company; and
3. Allows for economy of scale in operations and maintenance across existing and new assets that are added after the transaction.

3.2 Relative valuation excluding PowerStream Solar

Navigant's analysis indicates that the proposed 46.0% relative valuation, excluding PowerStream solar assets, is reasonable. The proposed ownership share is calculated using an acceptable valuation approach and reasonable input assumptions. Testing sensitivities and scenarios with varied assumptions creates a thin band around the 46.0% value. Two other possible approaches yield results slightly lower and higher than the chosen approach.

Figure 28: Relative valuation excluding PowerStream Solar



Notes:
1) Range of each terminal value approach based on alternative terminal value assumptions (growth rate in perpetuity and exit multiple) and equity discount rate (5%, 7%, and 9.3%)

4. Conclusion

Navigant reviewed PowerStream's business case and business plan for the proposed transaction. Based on its review, Navigant expects that the proposed transaction will create value for the residents, taxpayers, and electricity customers in the City of Markham.

To effect the proposed transaction, the City of Markham will need to invest \$43M (plus or minus adjustments due at closing). Navigant estimates that the transaction will create between \$52M and \$75M of shareholder value, approximately 20% to 75% more than the \$43M initial investment. The shareholder value is derived primarily from operating cost synergies realised through the merger and acquisition, which in turn result in an increase in annual dividends and retained earnings.

The expected return on investment for the PowerStream Shareholders is 7.7%, with Navigant's estimates ranging from 4.1% to 10.6%. Under the base case synergy scenario, Navigant estimates that the simple payback period for the initial investment is 10 years.

In addition to the shareholder benefit, over 25 years, Navigant expects that the transaction will create \$64M of benefit for electricity customers in the City of Markham, equivalent to an average of approximately \$40 per year per customer and \$30 per year for residential customers. If electricity customer benefits are considered in conjunction with shareholder benefits, the simple payback period for the initial investment is reduced to seven years.

Navigant also analysed two alternatives to the \$43M cash investment: funding the transaction through a conversion of shareholder debt for equity, and selling 10% of PowerStream in advance of the transaction and using the proceeds to effect the transaction. Under both of these scenarios the City of Markham mitigates some of the risk associated with the transaction. Both scenarios also improve the net cash flow to the City of Markham relative to funding the transaction with a cash injection.

The proposed transaction is unlike other transactions that PowerStream has brought to the City of Markham for consideration. Based on its independent assessment, Navigant believes that the proposed transaction has more risk and on an expected basis is likely to provide a lower return than investments the City of Markham has made to date in PowerStream. That said, Navigant does not have reason to believe that future transactions will achieve the risk-reward profile of the previous transactions. Furthermore, Navigant's analysis suggests that under certain reasonable conditions the return associated with this transaction could be higher than previous investments.

It is Navigant's view that important aspects of the proposed transaction are reasonable, such as the purchase price for Hydro One Brampton, the proposed equity ownership for the PowerStream Shareholders in the new company, and the proposed synergies and transition costs. The price for Hydro One Brampton was found to be within, but at the high end of the valuation range. The relative valuation of PowerStream was found to be within an acceptable range. Synergies were reviewed and determined to be reasonable and achievable. Through its past acquisitions, PowerStream has developed a track record of delivering on synergy targets. Navigant's assessment is that roughly half of the functional area synergies are likely conservative, such that actual synergies may be greater than represented in the business case.

The PowerStream shareholders also asked Navigant to assess the impact of the proposed transaction on the liquidity of their investment in PowerStream. It is Navigant's assessment that the proposed transaction will have a limited impact on the liquidity of the City of Markham's existing investment in PowerStream, and could result in a small improvement over the status quo. Note, there may be certain conditions where exiting from the new company could result in a higher tax burden than exiting from PowerStream.