MERGECO: BUSINESS CASE POWERSTREAM OVERVIEW

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MergeCo: Current Status

PowerStream, Enersource and Horizon Utilities are working to finalize details of their proposed merger and joint proposal to purchase Hydro One Brampton from the Government of Ontario. This proposal, currently at the critical phase of Shareholder approval, is the result of many months of effort and negotiation between the parties.

A number of forces including global market trends, technological innovations, rising residential, commercial and industrial electricity rates, and regulatory and tax changes recently mandated by the Ontario government are affecting the electricity sector in unprecedented ways. Through this proposed merger, the parties, including PowerStream, are poised to increase their leadership in the energy sector, enhance their influence and most importantly, provide increased customer and shareholder value.

Key Aspects of the Merger:

Following months of negotiation with our merger partners, PowerStream is pleased to have reached agreement on a number of key aspects.

1. **Relative Value**: PowerStream`s Shareholders will own 46% of the new company
2. **Solar "Carve Out"**: the dividend stream from existing Powerstream solar investments will be maintained through special shares
3. **Local Presence & Facilities**: all of PowerStream existing facilities will be maintained following the merger
4. **Governance**: 6 of 13 board members are to be appointed by PowerStream Shareholders
5. **Executive**: significant Executive presence of current PowerStream staff
6. **Liquidity Rights**: Improved rights to raise capital for growth, or to monetize existing investments

Key Benefits of the Merger:

Improved Financial Returns to Shareholders and Cost Savings for Customers Compared to the Status Quo:

- 5.9% lower average annual customer distribution rates than with maintaining separate utilities, due to costs savings, averaged over the first 25 years after the merger.
- $355 million (15%) in operating savings over the first 10 years.
- 24% increase in company earnings relative to the status quo, including improved returns for all municipal shareholders which will provide increased revenue for use in their communities.

Stronger Platform for Growth in the Future

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

Greater Influence on Government Policy

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

Context: Electricity Distribution Landscape in Ontario

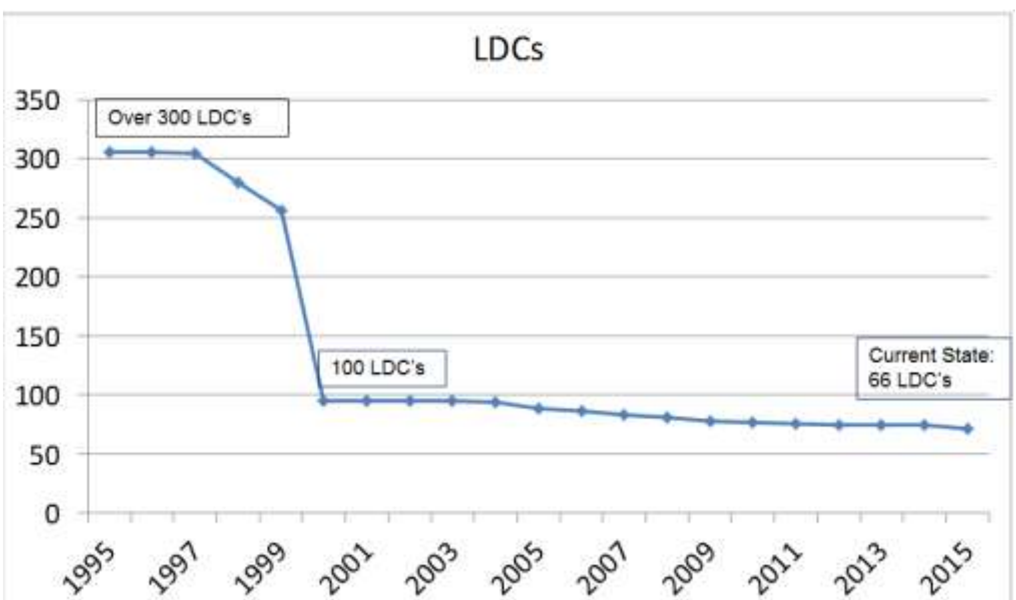
Local Distribution Companies (LDCs) in Ontario operate in a complex regulated environment highly responsive to shifts in Ontario government policy. The current distribution sector makeup is a product of a number of pieces of legislation and can be summarized as follows.

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

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

Given the recent policy and regulatory changes enacted by the province and the Ontario Energy Board (OEB), significantly more consolidation and private sector participation is expected.

Industry Trends Towards Consolidation



MergeCo: Policy Context

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

Consolidation

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

New Investment

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

Governance

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

In the spring of 2014, the Ontario government, seized with the issue of seeking efficiencies out of publicly-owned assets, began the review of government-owned assets. The review was specifically geared towards the optimization of government-owned assets including Hydro One and OPG. PowerStream was actively engaged in the review headed by former TD Bank Chair Ed Clark. Although not originally tasked with the issue of LDC consolidation, the Clark panel quickly determined that the potential savings to ratepayers were too significant to not address. The panel released their final report in the spring of 2015.

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

1. The Province should proceed immediately with a sale or merger of its interest in Hydro One Brampton Networks Inc. to or with Enersource Corporation, PowerStream Holdings Inc. and Horizon Holdings Inc., intended to catalyze consolidation in the Greater Toronto and Hamilton Area and to strengthen competition in the electricity distribution sector by increasing the number of LDCs with the capacity to drive further consolidation.

2. The Province should amend the transfer tax rules and departure tax rules that apply when municipal electricity utilities leave the payment-in-lieu of taxes regime both on a time-limited basis and implement these changes as quickly as possible.

3. The mandate and powers of the Ontario Energy Board should be strengthened to ensure that changes in industry structure do not put upward pressure on rates.

Through the passing of the 2015 budget and ongoing efforts with the Ontario Energy Board (both discussed below), the government has effectively endorsed all of the Clark panel's recommendations with respect to electricity distribution.

Uniform support for LDC Consolidation has also come from other government reports (2012 Drummond Report on Reform of Ontario's Public Services), the Ontario Progressive Conservative Party, academic journals and energy sector associations.

Industry Regulator

The OEB has conducted repeated analysis aimed at driving ratepayer value in the LDC sector. Their first report related to this was in 2004, "*Report on Stakeholder Submissions: Efficiencies in the Electricity Distribution Sector*." More significant policy movement happened following the report of the Ontario Distribution Sector Review in 2012 when the OEB undertook an initiative to assess how the Board's regulatory requirements for electricity distributors may affect the ability of distributors to realize operational or organizational efficiencies. During this time, the government set policy expectations that included LDC consolidation to improve efficiencies within the sector. As a result, the OEB made specific policy amendments in their March 2015 report, Rate-Making Associated with Distributor Consolidation"[1]:

1) The duration of the deferral period for rebasing following the closing of a MAADs transaction has been increased—adjusted from five years to ten (MergeCo`s rate harmonization approach benefits from this change)

2) Utilities will have an opportunity to use a mechanism for adjusting rates to reflect incremental capital investments during the deferred rebasing period.

[1] Ontario Energy Board (2015). *Rate-Making Associated with Distributor Consolidation*. Retrieved from: www.ontarioenergyboard.ca/oeb/_Documents/EB-2014-0138/Board_Report_MAADS_Ratemaking_20150326.pdf

MergeCo: Why Are We Doing This?

In determining the value of the proposed merger PowerStream has evaluated three components:

1- Lower electricity rates for customers

2- Increased cash flow to the shareholder

3- Increased equity value

The proposal also has significant strategic value which will likely be demonstrated in the near to long term as the value of the investment grows and the merged entity is able to act as a major player within the new distribution landscape.

Good fit with PowerStream's Strategic Plan

PowerStream's management and Board of Directors have consistently advanced and endorsed a strategic path that is aligned with national and global sector trends and is positioned to achieve the best possible outcomes for its customers and communities.

Excerpt from 2013 Approved Strategic Plan:

PowerStream believes that there is value to our customers and shareholders in continuing to grow the company given the current operating environment for rate regulated utilities in Ontario. PowerStream's aim is to be a leading utility with respect to size, scale and scope, enabling the Corporation to realize the potential synergies and efficiencies that come with growth.

The Corporation will seek business expansion through acquisitions, amalgamations or strategic partnerships with other utilities. PowerStream`s management has been engaged in Merger and Acquisition (M&A) discussions with other LDCs, including the current merger partners, for several years.

PowerStream's M&A strategy actually pre-dates some of the government policy that has come out recently with regards to consolidation and tax treatment of municipally owned LDCs and PowerStream's previous merger activities have set an industry standard.

Through this merger, PowerStream is well on its way to achieving our long-term strategy:

By 2020, we will build on our core electricity distribution business to become Ontario's premier integrated energy services provider

The proposed merger is directly in line with the company's long-term business goals. It would position MergeCo to be the second largest electricity Distribution Company in Ontario with one million customers, $2.7 billion in assets and a $2.5 billion dollar ratebase.

MergeCo: Lower Electricity Rates for Customers

The proposed merger between PowerStream, Enersource and Horizon Utilities and the acquisition of Hydro One Brampton would bring significant value to customers in York Region and Simcoe County. Analysis has found that customers will be able to save approximately $450 million over 25 years (an average of $40 to $50 annually). Efficiencies realized as a result of the merger would reduce the upward pressure on distribution rates, allowing customers to benefit directly through lower bills than would be seen if the merger does not take place.

In designing a merger rate strategy, the merger partners target to maximize shareholder and ratepayer savings. Under current OEB policy, all of the savings corresponding to LDC consolidations are transferred to customers at the new utility's first rate re-basing following a merger. The maximum length of time post-merger that a utility can stay out before being required to rebase (go back to the OEB for new rates) is 10 years This is based on new OEB policy that previously only allowed LDCs to retain synergy savings (and not re-base) for up to five years.

A principle of the merger agreed to by all merger partners is that each community benefits equally from lower rates post rebasing. To accomplish this aim, separate rate zones will be maintained for the former service area of each utility until the rate zone differences are immaterial. And, those separate rate zones will be maintained even after MergeCo rebases in the 11th year following the merger until the rate zones differences are immaterial. The rates are expected to be 8% lower than they would otherwise be in the 11th year post rebasing.

On an aggregate savings basis, the York Region Municipalities of Vaughan and Markham, as well as the City of Barrie are expected to see significant benefits from the merger on electricity bills for municipal buildings and public facilities.

There are numerous benefits of the merger that go beyond the demonstrated cost savings on customer bills. The new entity will be able to better serve customers through enhanced and shared systems. It will also be able to provide a broader range of products and services than what is available to customers today. Increased resources will allow the utility to better respond to reliability issues and utilize innovative technologies to better serve customers. The increased capital that will be available in a larger, consolidated utility will allow for increased investment in new business opportunities to continuously improve economic development in our communities. Finally, the new entity will be in a key position of leadership to influence government and regulatory energy policy for the benefit of customers and shareholders.

MergeCo: Increased Equity Value and Increased Cash Flows (dividends)

Analysis has demonstrated that the proposed merger will provide a steady and growing dividend stream at a higher level than the Status Quo. The three shareholders of PowerStream can expect an increase in shareholder value of between $230 and $300 million (assuming a 5% equity discount rate).

MergeCo: Finding the Synergies

In order to realize expected synergies, MergeCo will execute its operational plan utilizing the Balanced Scorecard approach to ensure that customer activities, internal processes and people are aligned.

MergeCo will be an entity that is organized around processes, focused on outputs and accountable for performance. Organizational structure will be aligned to major business processes. The centralization versus decentralization of functions will depend on many factors including the need for certain functions to be close to related operating assets (e.g. field crews).

Identifying the benefits of a merger

Working groups consisting of individuals in key departments from the three utilities and led by the Chief Financial Officers have worked to identify best practices, cost savings, benefits for customers, shareholders and communities. Third party valuation was provided by Deloitte and the valuation model and business case were rigorously tested by four leading firms: Ernst & Young Global Inc., Navigant Consulting Inc., MorrisonPark Advisors Inc., and PricewaterhouseCoopers LLP.

The Transaction will create the second largest electricity distribution company in Ontario with almost 1 million customers, 2.7 billion in assets, and 2.5 billion rate base. In total, MergeCo is expected to deliver approximately $42M of net cash savings (pre-tax) through synergies in the first 10 years following the merger thereafter sustained at approximately $51M per year ($310M in operating synergies + $111M of capital synergies, net of transition costs).

MergeCo will implement its business mission and vision by focusing on four operating strategies:

1. Improving service delivery to customers

MergeCo will focus on five attributes within the Customer Perspective. Initiatives will be identified and organized to target improvement in the following five areas:

- Efficiency i.e. distribution rates/price
- Electricity reliability
- Bill accuracy/quality
- Responsiveness/ease of doing business

- Trust/corporate image

2. Increasing shareholder value through growth and productivity improvements

    a. Revenue growth: build the franchise and take advantage of growth opportunities in unregulated business, as well as other areas (distributed generation, renewable energy etc.)
    b. Increase customer value (expand service offerings, where possible)

3. Improving internal operational cost efficiencies and asset utilization
    a. Productivity:
        i. Reduce controllable expenditures by utilizing a systematic approach that builds from a foundation of solid management information.
        ii. Employ better utilization of existing assets
        iii. Consolidate Information Technology and Operations Technology (CIS/ERP/GIS/OMS, SCADA)

4. Developing and maintaining highly skilled and motivated employees.

The Employee Perspective pertains to MergeCo's most important resource: its employees. The Operational Plan cannot be achieved unless employees are matched/selected/hired into the right positions, have been properly trained, communicated to with regard to performance expectations, given the appropriate authority to match their responsibilities and provided the necessary tools to perform their jobs.

MergeCo will focus on four key areas to ensure that employees are fully engaged and contributing at their peak:

- Safe and healthy workplace
- Employee skill development
- Effective internal corporate communications
- Performance based culture

Job duplication

Job duplication would be addressed through retirements, normal attrition and voluntary exit options to the fullest extent possible. The merger participants recognize the success of a new, larger company lies in the participation of strong, motivated employees who would function in a positive workplace.

MergeCo: Managing the Risks

Risk	Response
Synergies may not be achieved	PowerStream has a track record of meeting or exceeding its targets
Integration challenges	This is our fourth transaction in 10 years: experience counts
Unidentified expenses/liabilities	Extensive due diligence already completed, and specific contractual protection
Transaction financing in a rising interest rate environment	Bridge financing for two years is secured; flexibility to arrange capital details after closing
Regulatory uncertainty affects business plan going forward	A larger, more prominent utility will carry more weight in the industry and have a greater role in policy

MergeCo: What it will Look Like

MergeCo is interested in continuing to add value to its customers through continuous improvement and will also be seeking to grow the business through mergers and acquisition with other LDCs.

MergeCo is also focused on growing through new and related energy opportunities. It has a significant energy services business and renewable generation portfolio with a desire to pursue commercially viable, sustainable, and innovative solutions.

MergeCo will be organized around three corporate entities:

- Corporate entity that will act as a holding company.
- Utility or LDC entity that will largely manage the regulated utility business.
- Sustainability and Innovation entity that will be focused on the future growth for MergeCo in addition to the delivery of corporate services.

MergeCo Structure

Each corporate entity's office is to be located in a separate community, taking advantage of existing head office facilities. At each office, a strong local executive presence will exist. This reflects standard industry best practices for the maintains of a shared vision through the holding company, but the reality of maintaining separate corporate entities for the regulated and unregulated businesses.

The determination of location for the head office and each of operating entities was based on practical considerations for both current and future requirements.

Corporate Administration

The Corporate Head Office of MergeCo will be located in Mississauga at Enersource's Derry Road facility. The Mississauga location is central to MergeCo's existing business, is readily accessible by multiple highways, is nearly at equal distance from other offices which maximizes efficiency of interaction and travel, and has immediate space availability.

Utility Operations

The Utility Head Office of MergeCo will be located in Hamilton at Horizon Utilities' John St. facility and will be focused on delivering operational excellence and on future LDC consolidations.

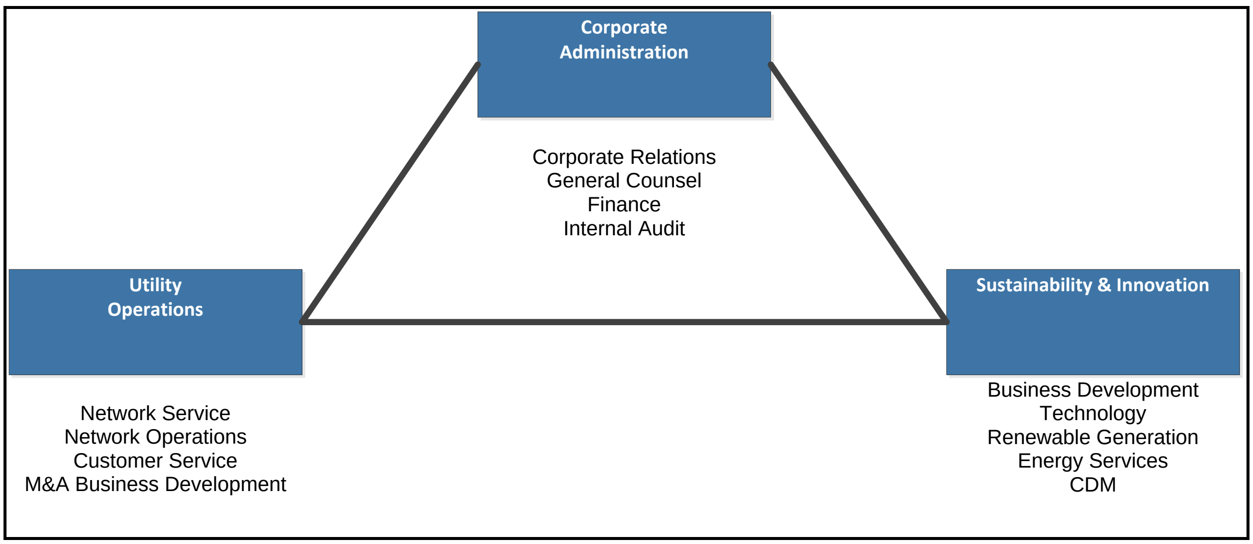
Sustainability and Innovation

The Sustainability and Innovation Head Office will be located in Vaughan at Powerstream's Cityview Blvd. facility and will focus on innovation in such areas as solar, smart grid and new energy services.

MergeCo will initially have three distinct operating regions that contain several non-contiguous service districts. These will be reflected in the organizational design at the operational structure at the operating level.

The following principles will underlie the final determination of which employees will work from each of the head office locations:

- Focus on fair and equitable treatment of merging communities.
- Executive Teams at offices will have substantial presence in that location.
- Management flexibility to fulfill synergy targets.
- Centralized and de-centralized functions in each community.



Head Office Locations

PowerStream

161 Cityview Blvd.
Vaughan ON L4H 0A9

Horizon Utilities

55 John St N, Hamilton,
ON L8R 3M8

Enersource

2185 Derry Road West,
Mississauga, ON L5N 7A6

MergeCo: Due Diligence

For the past several months PowerStream and its merger partners have established working groups, headed by the CFOs, who were tasked with the analysis and review of the merger particulars. Deloitte was engaged to provide a 3rd party valuation of PowerStream, Enersource, and Horizon.

Deloitte produced a business case model to assess the merger and purchase transaction, considering net synergies, capital structure, financing, and regulatory impacts

In addition, the valuation model and Business Case model was reviewed and stress tested over 6 months by each of the following parties:

- Navigant Consulting Inc. - Representing PowerStream Shareholders
- Morrison Park Advisors Inc. – Providing advisory services to PowerStream
- PricewaterhouseCoopers LLP – Representing Enersource Shareholders
- Ernst & Young Global Limited – Representing Horizon Utilities Shareholders

Deloitte's conclusions reached through the various approaches employed produced the following results:

Relative Valuation including PowerStream Solar

(Including Un-regulated)	**Enterprise Value (EV)**	**Market Value (MV)**	**∆ (MV-EV)**
PowerStream	49.1%	47.9%	-1.2%
Enersource	29.2%	30.0%	0.8%
Horizon Utilities	21.7%	22.2%	0.5%

Relative Valuation Excluding PowerStream Solar

LDCs	**Regulated (EV)**	**Reg. & Non-Reg (EV)**
PowerStream	45.9%	46.0%
Enersource	31.6%	31.0%
Horizon Utilities	22.5%	23.0%
	100.0%	100.0%

The Parties used the following base <u>business model base case assumptions</u>:

- PowerStream, Enersource, and Horizon merge on December 31, 2015

- Hydro One Brampton purchase for $607M

- PowerStream Solar excluded

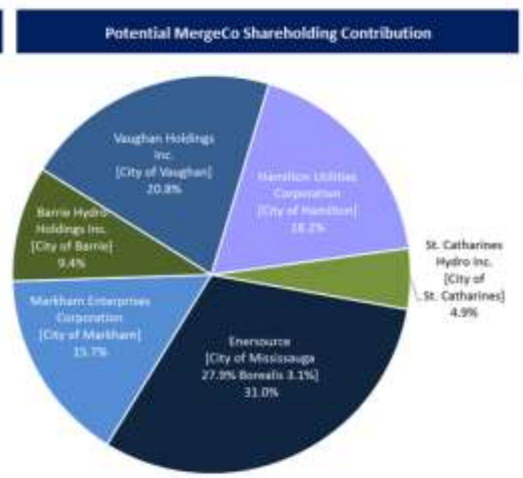
- Synergies kept for 10 years

It is evident from the above that both Enterprise Value and Market Multiple approaches yield very similar results. The Parties anticipate using the EV approach as the primary approach to value.

The allocation of shareholdings in the new entity will be as follows:

Individual Shareholder Ownerships

Pre-Merger Shareholding		
Owner	HoldCo	
Enersource		
City of Mississauga	Enersource Corporation	90.0%
BPC Energy Corp. (Borealis)	Enersource Corporation	10.0%
		100.0%
PowerStream		
City of Barrie	Barrie Hydro Holdings Inc.	20.5%
City of Vaughan	Vaughan Holdings Inc.	45.3%
City of Markham	Markham Enterprises Corporation	34.2%
		100.0%
Horizon Utilities		
City of Hamilton	Hamilton Utilities Corporation	78.9%
City of St. Catharines	St. Catharines Hydro Inc.	21.1%
		100.0%



The valuation results indicate that there is no single controlling interest in MergeCo.

MergeCo: What Happens Next

PowerStream will be seeking shareholder approval by its three shareholders in September-October 2015.

The terms and conditions for the proposed transaction are accomplished primarily through three key agreements:

***1-Share Purchase Agreement* (SPA) for the purchase of Hydro One Brampton**

- Purchase price – the purchase price is $607M.
- Adjustments – the Purchase price is subject to certain limited price adjustments i.e. for working capital and fixed assets.
- Closing conditions – the Agreement will provide for limited closing conditions, including approval by all Parties to the Merger Agreement, competition Board approval, and OEB approval. . All requisite Shareholder and Municipal approvals will have been obtained prior to signing the Agreement(s).
- Closing date – the target closing date is March 31, 2016.
- Indemnification – the Agreement will provide for indemnification by the Province, on certain matters, i.e. environmental, and include thresholds and cap on claims.

2-Merger Participation Agreement (MPA) to give effect to the 3-way merger

Overview

- Parties – the Parties to the Merger Participation Agreement (MPA) and the Shareholder Agreement (SHA) will be all of the municipal holding companies, their respective municipalities, the three merging companies (PowerStream Holdings Inc., a new Enersource Holdings company, and Horizon Holdings Inc.) as well as BPC Energy Corporation (Borealis/OMERS), a 10% owner of Enersource Corp.
- Shareholders – the shares of MergeCo would be held directly by each of the municipal holding companies. There will be at least one indirect shareholdings; in the case of Enersource 10% of their interest owned by Borealis Amalgamation
- The three merging companies – PowerStream Holdings Inc, Enersource Holdings, and Horizon Holdings would amalgamate with each other and continue as a new corporation (“MergeCo”).
- Closing Date – the Merger would close up to 30 days prior to the closing of the purchase of the shares of Brampton.
- Representations & Warranties – the Agreement provides for customary Representations and Warranties between the Parties, with respect to; financial matters, material contracts, corporate status, condition of assets, full disclosure, environmental, and tax matters.

- Indemnification – each of the Parties agree to indemnify one another for claims, with thresholds and caps to be negotiated.
- The SPA and SHA will provide for the share purchase of Brampton. Debt financing for that purchase is being negotiated.

3-Shareholders *Agreement* (SA) to govern the rights of the shareholders in the future

Overview

- The SHA between the Parties will come into effect upon Closing of the Merger.
- The draft SHA is similar to PowerStream's existing SHA in terms of structure, and incorporates the matters agreed to in the 3-way/purchase LOI.
- The Agreement will define the "Business", governance, composition of the Board of Directors.
- The Agreement will set out the Guiding Principles, which will also help inform the initial Strategic Plan.

Regulatory Approvals

Following shareholder approval, PowerStream and its merger partners will focus on completing the Mergers, Acquisitions, Amalgamations and Divestitures, or MAADs process, for regulatory approval of the deal. The MAADs process before the OEB will be a public and highly transparent process where public interest groups will have an opportunity to ask questions about the deal and the OEB will be able to determine that no harm will come (in the way of rates or service quality) to any of the customers involved the merger.

The MAADs process is expected to unfold between October and March of 2016 (with no timing guarantees), in time for the deal to close by the end of March 2016.