



Town of Newmarket

Agenda

Council Workshop

Date: Tuesday, December 11, 2018
Time: 9:00 AM
Location: Council Chambers
Municipal Offices
395 Mulock Drive
Newmarket, ON L3Y 4X7

Pages

1. Notice

In accordance with the Town's Procedure By-law, no decisions are to be made but rather this meeting is an opportunity for Council to have informal discussion regarding various matters.

2. Declarations of Pecuniary Interest

3. Items

3.1 9:00 AM - Newmarket-Tay Hydro Council Orientation Session

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Note: Paul Ferguson, President, Newmarket-Tay Power Distribution Ltd. will be in attendance to present on the following matters:

- Newmarket-Tay Hydro in Context
- Financial Statements and Governance (attached)
- Annual General Meeting Agenda
- Envi Network Status

3.2 +/- 11:30 AM Community Energy Plan

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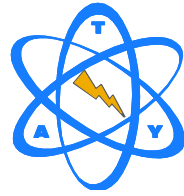
Note: Meghan White, Planner will be in attendance to present on this matter.

3.3 1:30 PM - Bill 36 Cannabis Legislation

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Note: Paul Voorn, Associate Solicitor and Ted Horton, Planner will be in attendance to present on this matter.

4. Adjournment



Newmarket-Tay Power Distribution Ltd.



Newmarket Council Orientation Session

**December 11, 2018
Paul Ferguson, President**

Agenda

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NTPDL in Context

- **Our Vision and Strategy**
- **Our Customers**
- **Our Regulatory Environment**
- **Our Role in the Ontario Electricity Sector**
- **Evolution of Our Corporate Structure**

Break

Finance and Governance

- **Market Finance**
- **Cost of Capital**
- **Shareholder Value**

Current Industry Initiatives

AGM

Other Business

NDPDL in Context



Our Vision

**An independent, industry-leading
Local Distribution Company
("LDC") committed to
our customers' changing needs**



NTPDL – Strategic Framework 2017-2022



Newmarket-Tay Power Distribution Ltd.

Our Vision

An independent, industry-leading LDC committed to our customers' changing needs.

Our Mission

Earning the trust of our customers by safely and reliably meeting their electricity needs.

Core Values

Our Team is the strength of our company. We demonstrate the following values in everything we do:

- Safety First – our top priority on the job and in the communities we serve.
- Respect – is how we treat each other and our customers.
- Reliable – our customers depend on us to provide electricity and the services they need.
- Customer-focus – serving our customers is why we exist.

Strategic Imperatives

1. Enhance the company and its governance to meet the changing demand profile
2. Continuously develop our strong and capable team
3. Engage customers and stakeholders as partners in creating the future
4. Deliver strategic growth within the distribution business

Key Objectives

Ensure Leadership Alignment	Empower Our Team	Deliver on Customer Needs	Continuously Improve Operations	Achieve Smart Control Across the Distribution System	Run an Effective, Efficient and Financially Sustainable LDC	Assess Emerging Needs in Context
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Our Customers

We serve:

- The Town of Newmarket
 - Part of the Town of East Gwillimbury
 - South side of Greenlane from Bathurst to Leslie Streets
 - Northern portion of Tay Township
 - Port McNicoll, Victoria Harbor and Waubaushene
 - Town of Midland (as of September, 2018)
- ❖ ~50,000 customers

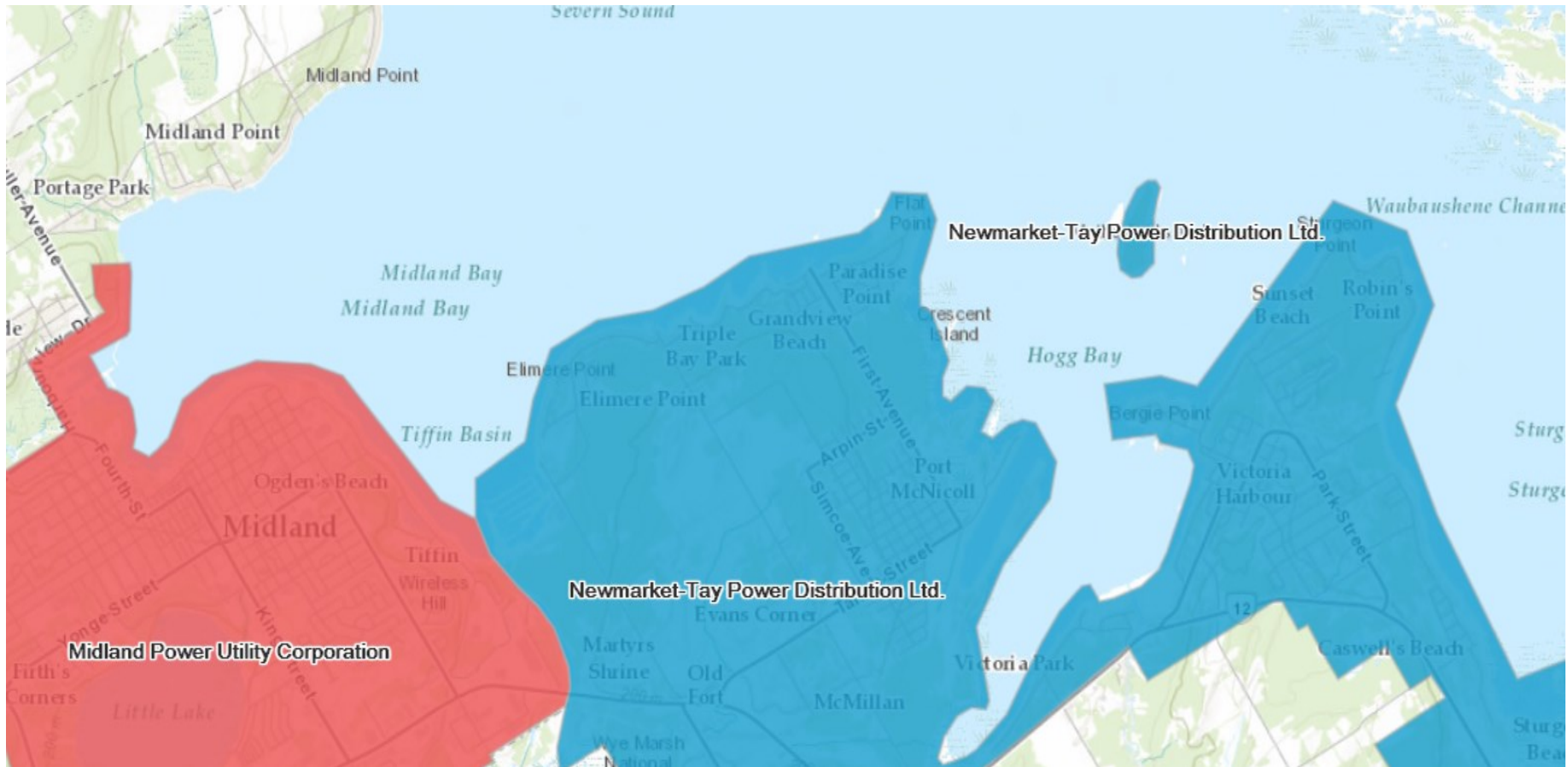
The Service Areas - Newmarket



The Service Areas - Tay



The “Midland – Tay” Area



Our Regulatory Environment



Ontario Government

- **Regulations**

- » Smart Meters
- » Special Purpose Charges
- » Smart Grid
- » Price Protection
- » Market Operation

Independent Electricity System Operator¹²

• Wholesale Market

» Market Rules

- Prudential Requirements
- Metering Requirements
- Emergency Planning

» Settlement Administration

» Conservation and Contract Generation



Ontario Energy Board

- **Licencing**
- **Rates**
- **Distribution System Code**
- **Standard Supply Service Code**
- **Retail Settlement Code**
- **Affiliate Relationship Code**
- **CDM Code**



Electrical Safety Authority

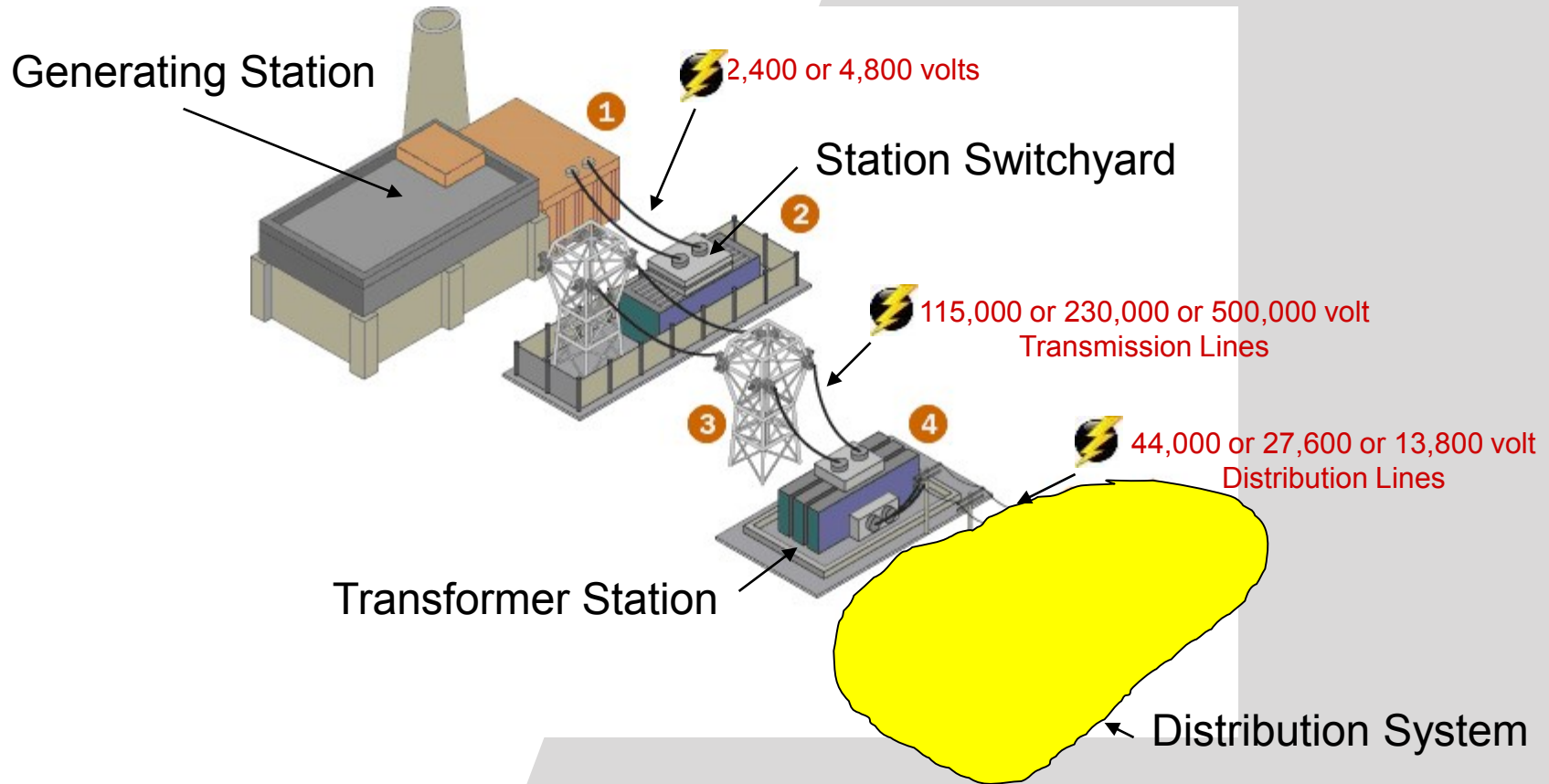
- **Equipment Standards**
- **Construction Standards**
- **Approval processes**
- **Annual Audits**
- **Bi-Annual Due Diligence Inspections**



Our Role in Ontario's Electricity Sector



Power System Overview



Newmarket – Tay Distribution

- **We take delivery of power from Hydro One at 44,000 volts**
 - » Armitage TS – Mulock Drive
 - » Holland TS – Dufferin and Miller Side Road
 - » Waubaushene TS – West of Hwy 400 south of Hwy 12

NTPDL Distribution System

- **44,000 volt distribution system**

- » Used to supply large General Service customers directly

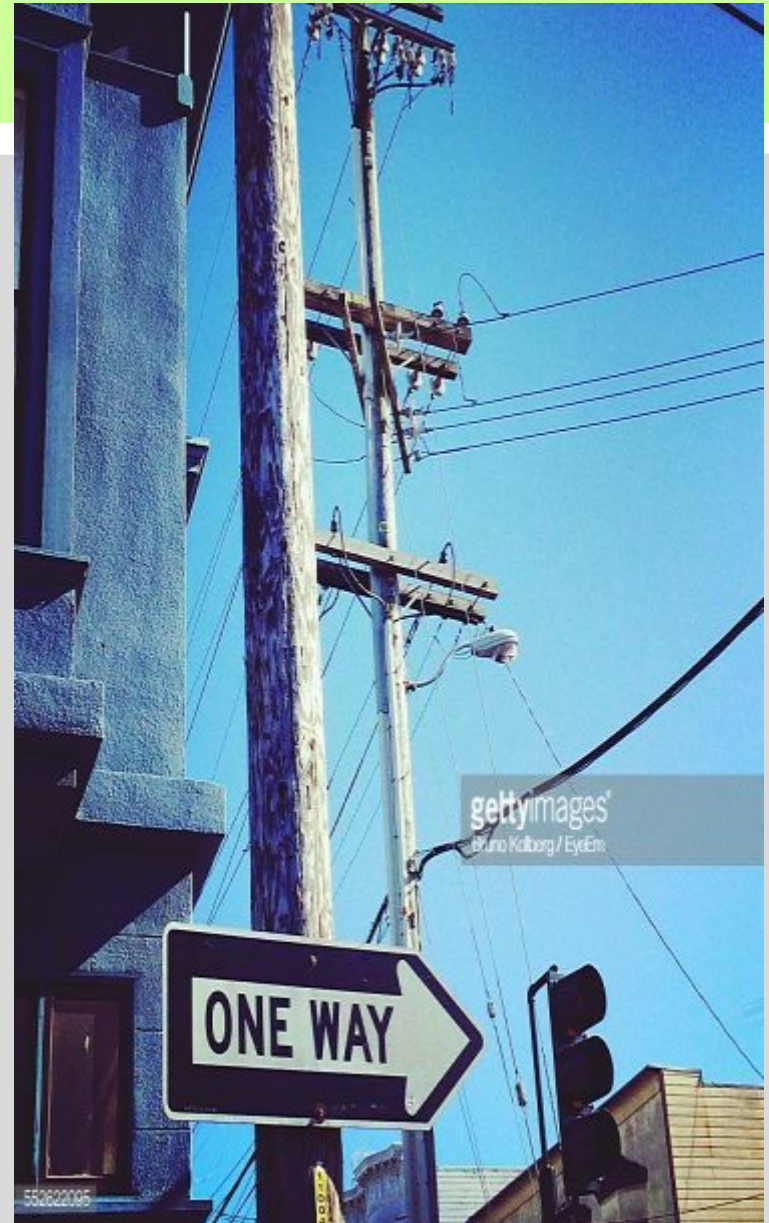
- Hospital
- Secondary schools
- Industrial plants and large commercial buildings

- » Transformed to supply 13,800 volt distribution system

- 8,000 volts in Tay, 4,000 volts in Midland
- Various substations within the Town
- Used to supply
 - Residential
 - Small General Service customers

Our LDC Today

- **Our distribution system is a one way street...**
 - » We receive electricity from the IESO
 - » We deliver it to customers
 - » The price is what it is
 - » All electrical protection and metering systems are one-way
 - » We only get paid to deliver

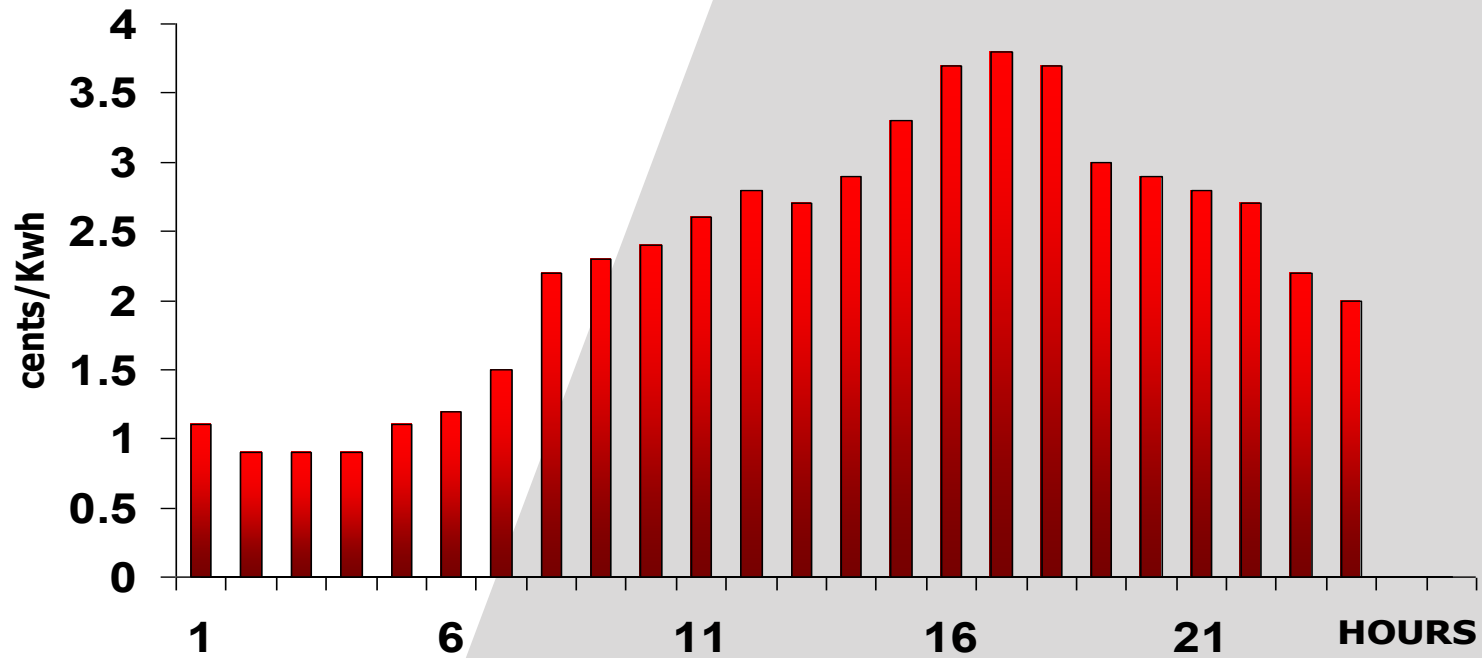


Billing and Settlement

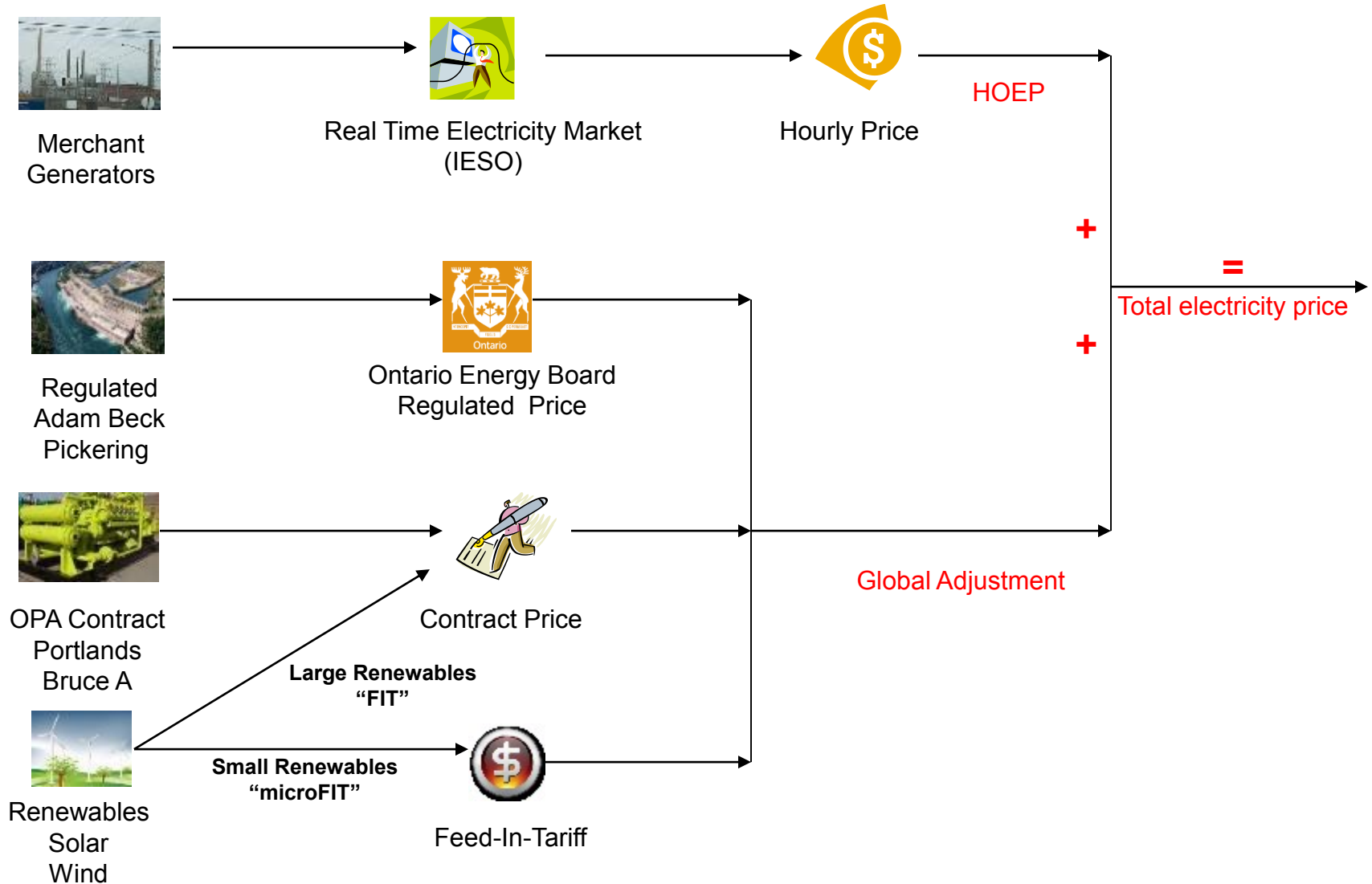
- **Electricity received from IESO market has two component prices:**
 - » Hourly Ontario Electricity Price (HOEP)
 - » Global Adjustment
 - » “Hybrid Market”
- **Also contains “Uplift”**
 - » Ancillary services to support the interconnected transmission system
 - Reserve
 - Frequency control
 - Capacity



Typical Hourly Electricity Price



Hybrid Market



Billing Our Customers

- Residential and small business
 - Regulated Price Plan (RPP)
 - Price set by the OEB every 6 months
 - Includes hourly electricity price and Global Adjustment
 - Time of Use buckets
- Large industrial, commercial and institutional
 - Hourly electricity price
 - Global Adjustment
- Customers who have signed with a Retailer
 - Contract price
 - Global Adjustment



Evolution of LDC Corporate Structure

- **Pre 1999**

- » Hydro Electric Commissions

- Non-profit
- Non-taxed
- Asset ownership vested with customers

- **1999**

- » Electricity Act

- Assets vested with municipalities
- Created Ontario Business Corporation Act Company through Transfer By-Laws

Transfer By-Laws

- **Transferred:**

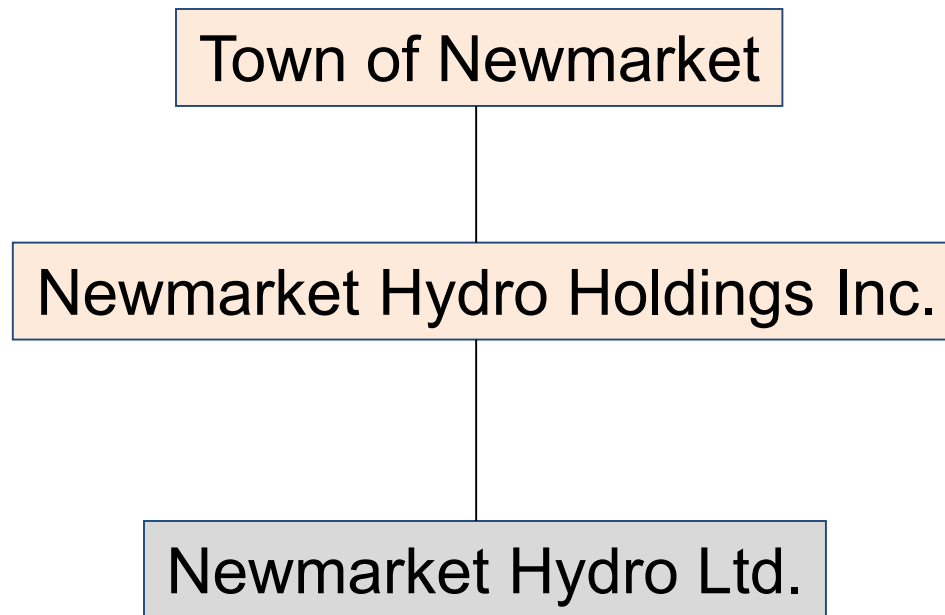
- » Distribution Assets
- » Employees
- » Liabilities

- **Consideration for Transfer**

- » Issuance of Shares (Equity)
- » Promissory Note (Debt)
- » Excluded Assets
 - Newmarket
 - 590 Steven Court, 500 Water St., 260 Eagle St.

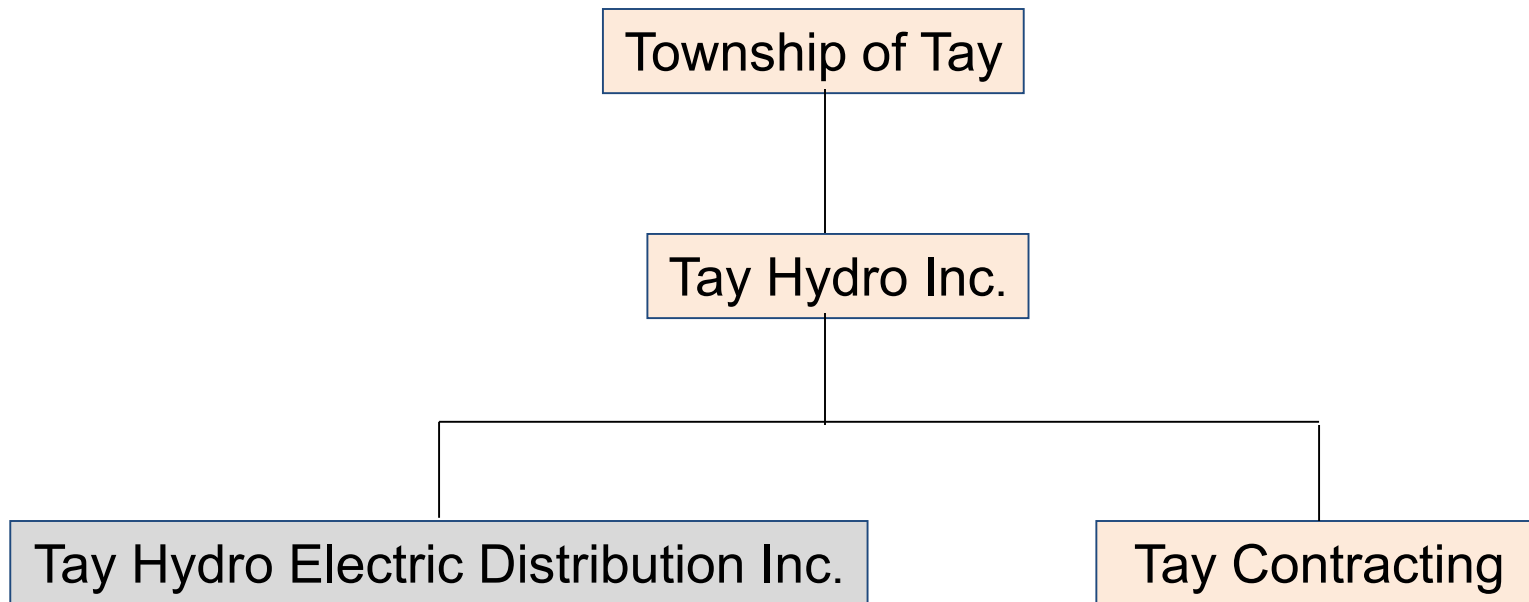
Corporate Structure

Pre-Merger Newmarket



Corporate Structure

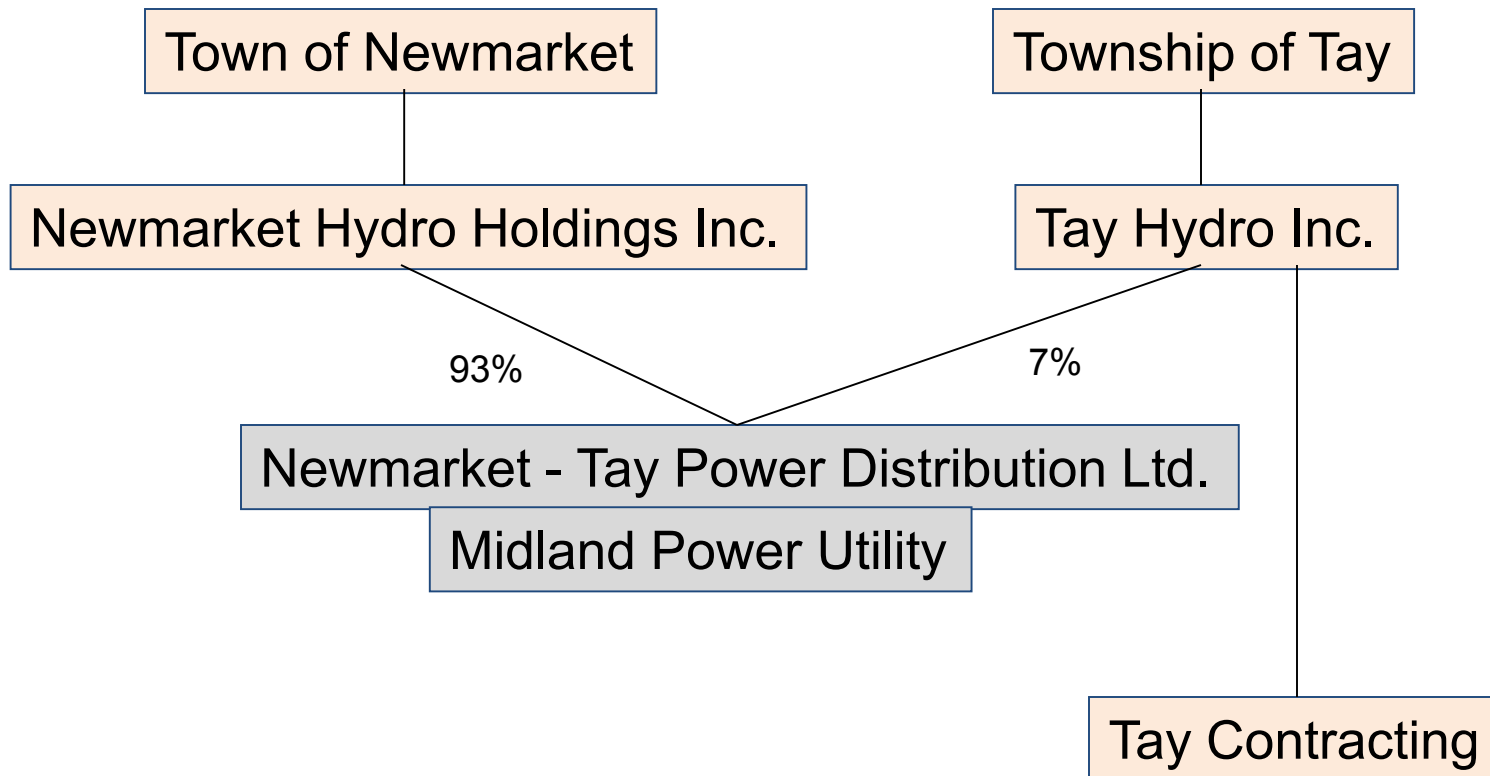
Pre-Merger Tay



Corporate Structure

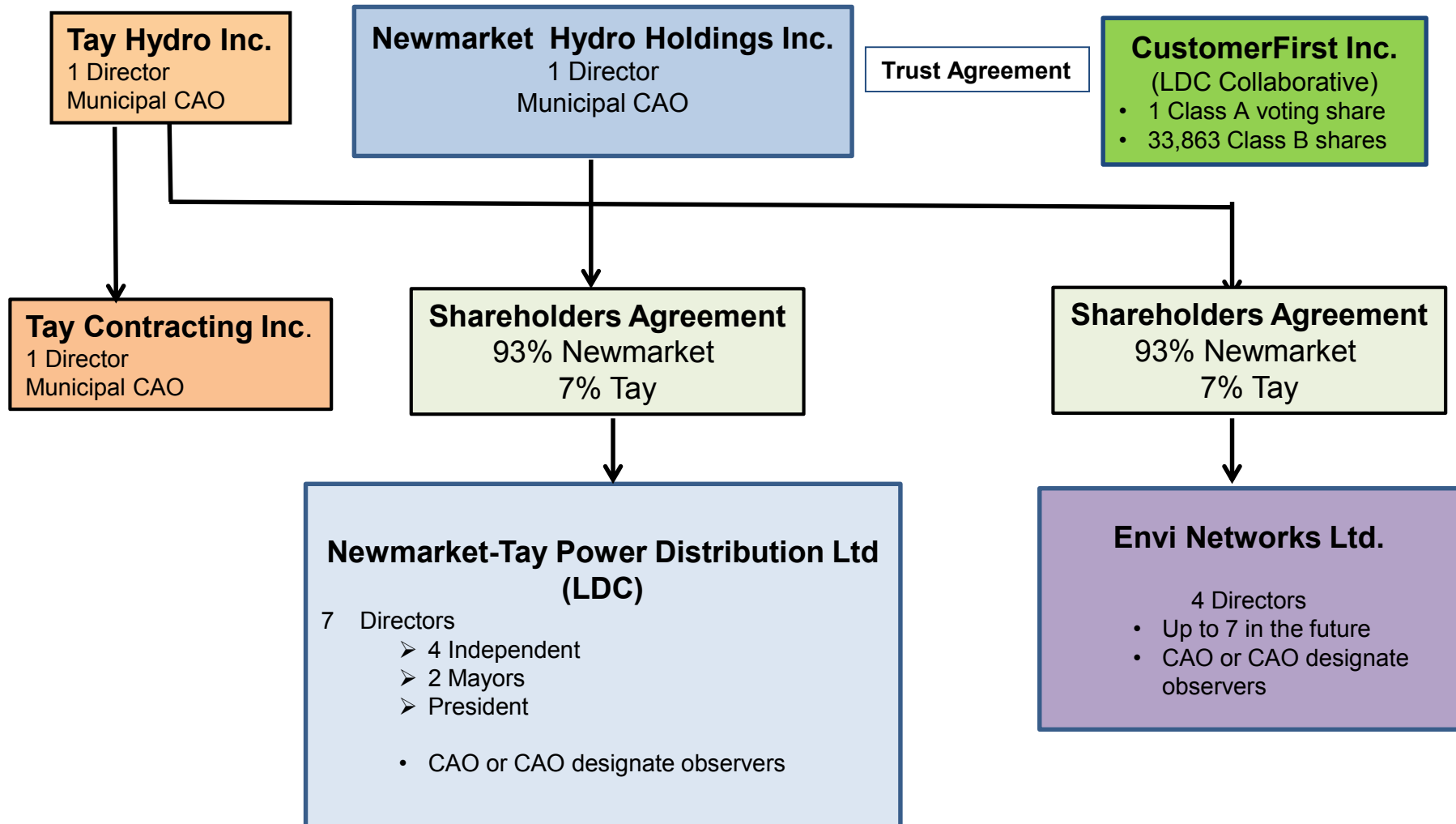
Newmarket – Tay Power

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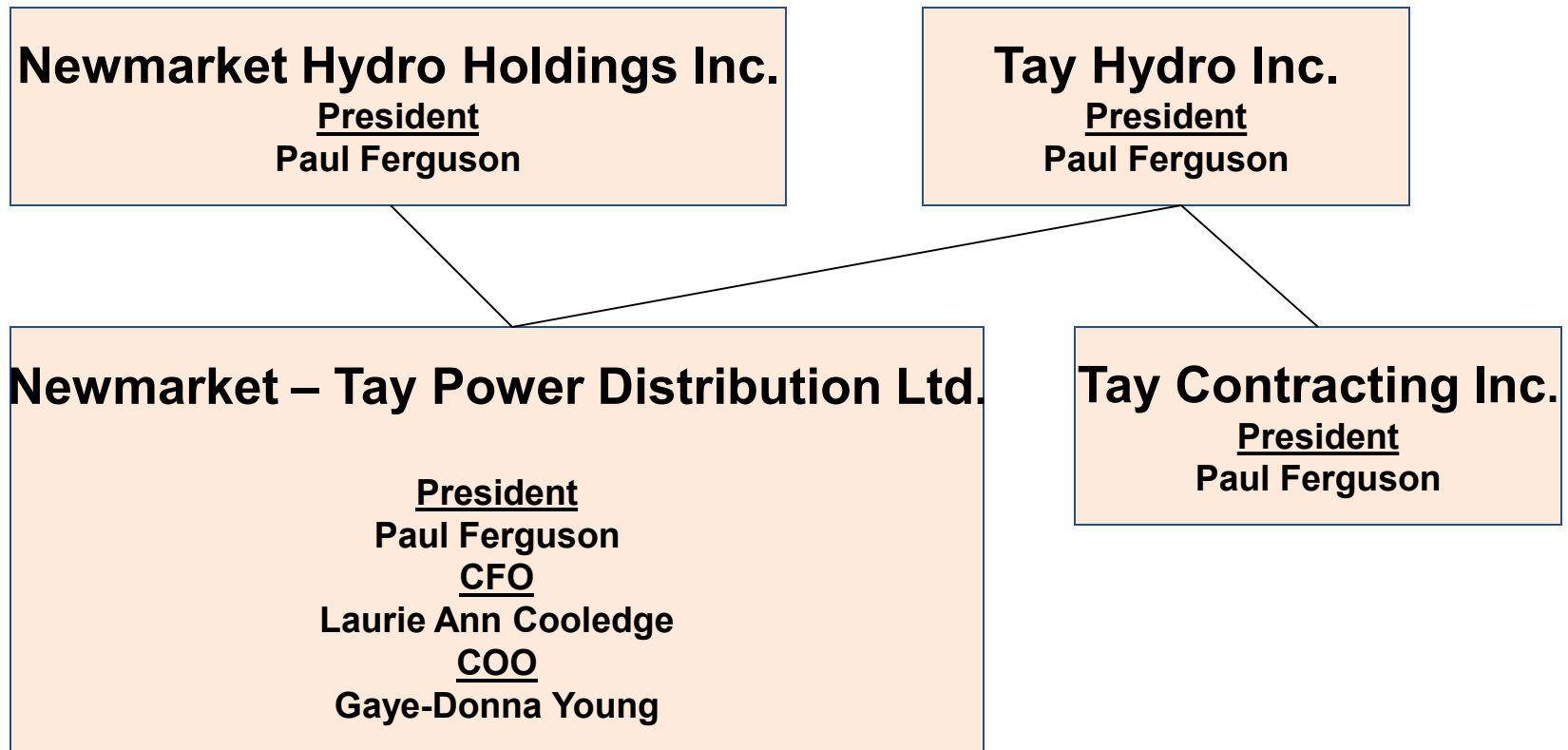
Corporate Structure Newmarket – Tay Group

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Newmarket – Tay Power Executive

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Newmarket – Tay Power Shareholders Agreement

- **Unanimous Agreement**

- » NHHI, THI are the shareholders of Newmarket – Tay Power
- » Unanimous article pierces through NHHI and THI, allowing for a direct relationship between Newmarket – Tay Power and the shareholding municipalities

Shareholders Agreement

- i. Corporate structure**
- ii. Governance**
- iii. Objectives and Guiding principles**
- iv. Shareholder Approvals**
- v. Term of Agreement**
- vi. Dealing with Shares**
- vii. Participating Municipality Covenants**

Governance

- **Seven Directors:**
 - **Three Stakeholder**
 - **Mayor of Tay**
 - **Mayor of Newmarket**
 - **President/CEO of LDC**
 - **Four Independent**
 - **No geographic restrictions**
 - **Chair is elected from the Independent Directors by the other Directors**

Director Appointments

- » **For each director vacancy, the Board will retain a professional search firm to solicit candidates using best practices in corporate governance**
- » **Two candidates will be provided for each vacancy**
- » **Newmarket and Tay will strike an ad-hoc Joint Committee of Council to recommend final candidate(s) for appointment at the Annual General Meeting**

Director Term

- **3 year term**
- **Eligible for 3 consecutive terms**
 - Maximum eligibility = 9 years

Objectives and Guiding Principles

- **Business**

- Core business is distribution
- Business expansion only if related to Core and valid business case

- **For-Profit Corporation**

- Strive to earn regulatory return targets

- **Dividends and Capital Structure**

- Recognize the municipal nature of the Shareholders and use of funds received.
- Maximize dividends and interest payments

- **Shareholders**

- Fair treatment of both. Deliver high quality services to their constituencies

Objectives and Guiding Principles

- **Customers**

- Focus of the Corporation

- **Employees**

- Fair and equitable treatment of all. Provide meaningful employment and develop a shared commitment to safety and productivity

- **Community**

- Good corporate citizen that is a part of the communities in which it operates

Shareholder Approvals

- **Election of Directors**
- **Action leading to a material change in the business**
- **Wind up the business or a subsidiary**
- **Sale of Shares**
- **Amalgamation or merger**
- **Disposition of assets greater than 20%**
- **Change in issued capital**
- **Director remuneration**

Shareholder Approvals

- **Appointment of Auditors**
- **Change in Articles or By-Laws of Incorporation**
- **Borrowing or issuing security**
- **Purchase of assets or business greater than 20%**
- **New businesses**

Dealing With Shares

- **Right of First Refusal**
- **Mandatory Offer to Purchase**

Dealing With Shares

Right of First Refusal

• Two Shareholders – ‘A’ and ‘B’

- Shareholder ‘A’ receives a *bona fide* offer to purchase their shares from a third party
- Shareholder “A” must first offer their shares to Shareholder “B” under the exact same terms and conditions as the third party offer
- Shareholder “B” may:
 - Purchase all shares; OR
 - Refuse to purchase, and allow the third party to become the other shareholder. The Shareholders Agreement remains unchanged

Dealing With Shares

Mandatory Offer to Purchase

• Two Shareholders – ‘A’ and “B”

- Shareholder ‘A’ receives a bona fide offer to purchase their shares from a third party
- Shareholder “A” must first offer their shares to Shareholder “B” under the exact same terms and conditions as the third party offer
- Shareholder “B” may:
- Require the third party to buy their shares as well under the exact same terms and conditions offered to Shareholder “A” (Piggyback on Shareholder “A’s” third party offer)

Municipality Covenants

- **Guarantee Holding Companies will observe requirements of Merged LDC Shareholders Agreement**
- **Cannot dispose of Holding Company without prior consent**
- **Equal knowledge and opportunity when redeeming debt**
- **Equal knowledge and opportunity for new business activities**

Break!



Finance and Governance



Market Finance

- **LDC:**

- » Value based on “Rate Base”
- » Typically, utilities have two rate base values – “Approved” and “Actual”
- » Purchase offers are typically made on multiples of Actual rate base.
- » Multiples have ranged from 1.4X to 1.7X

Regulatory Finance

- **LDC:**
 - » Earns return on equity
 - » Incurs debt
 - Tax efficiency
 - » Pays taxes

Regulatory Finance

- **Ontario Energy Board Ratemaking**

- » Approved Rate Base

- Average Assets + Working Capital Allowance

- » OEB Deemed debt/equity split

- 40% equity
- 56% long-term debt
- 4% short-term debt

- » OEB Deemed Cost of Capital

- Return on equity
- Short and Long Term Debt Rates
- Formulaic based on economic conditions

Rate Setting Options

- Three options

1. Cost of Service (COS)

- Updates rate base and cost of capital values

- “Rebasing”
- Based on filing template

2. Custom COS – “Design it yourself”

3. Annual Incremental Rate Mechanism (IRM)

- Annual inflationary adjustment

- a. Price Cap IRM – If deferring a scheduled COS
- b. Annual Index IRM – no intent to file a COS in the near future

Why Defer a COS? (Rebasing)

- **OEB Cost of Capital**

- » 2011

- ROE – 9.88%
- Long Term Debt Rate – 5.48%

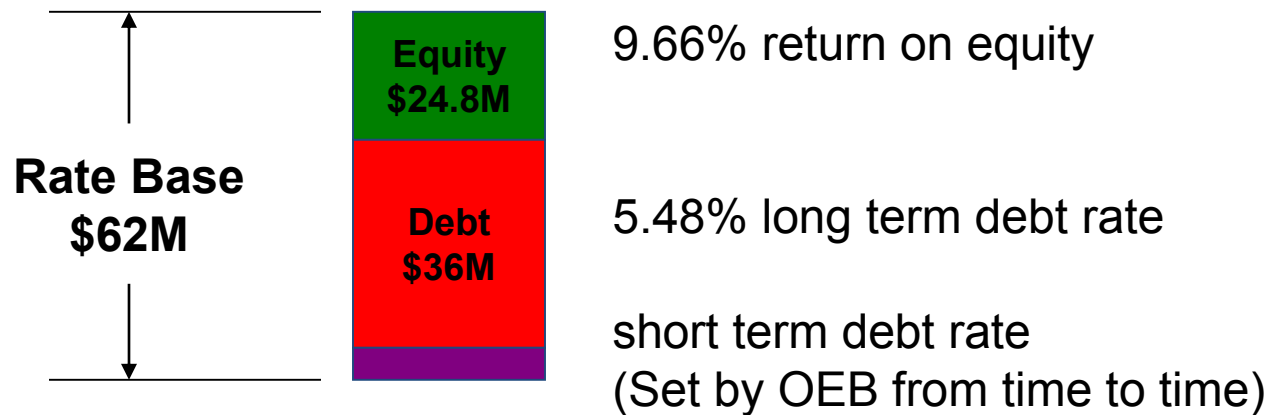
- » 2017

- ROE – 8.78%
- Long Term Debt Rate – 3.72%

- **If the increase in Rate Base does not more than compensate for the reduction in Cost of Capital, most utilities will defer.**

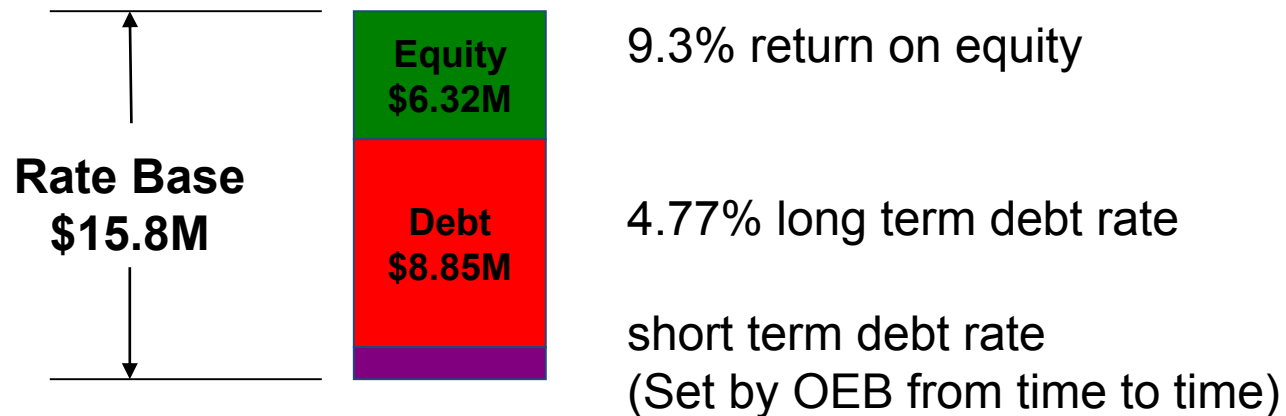
Cost of Capital

Newmarket – Tay Power 2011 COS Approved Rates



Cost of Capital

Midland Power Utility 2015 COS Approved Rates



Distribution Rates

- **Recover:**

- » OM&A Expense
- » Depreciation
- » Property Taxes
- » Capital taxes
- » Income Taxes
- » Deemed Interest Expense
- » Deemed Return on Equity

Shareholder Debt

- 1999 Restructuring
 - » OEB Deemed debt/equity ratio
 - 50/50
 - » Newmarket and Tay issued Promissory Notes to Shareholders
 - \$22 M Newmarket
 - \$1.7 M Tay
 - » Ontario Regulation 438/97 prohibits any increase in these amounts

Shareholder Payments

- Interest on Promissory Notes at OEB deemed long-term interest rate
- Rent as applicable
- Dividend Policy
 - » 60% of return on equity
 - » 40% retained for investment in rate base

Dividend Projection

Newmarket Shareholder

NT Power Payment Projection Newmarket Shareholder 93% Shareholding, \$22M P Note Debt/Equity = 60/40					
	OEB Income (%)	2015	2016	2017	2018
Dividend	9.66	\$1,336,000	\$1,336,000	\$1,336,000	1,336,000
Other Dividend		0	0	0	\$1,506,600 ^[2]
P Note Interest	5.48	\$1,205,600	\$1,205,600	1,205,600	1,205,600
Other^[1]		\$270,000	\$270,000	270,000	270,000
Total		2,811,600	\$2,811,600	\$2,811,600	\$4,318,200

^[1] Rent on Steven Court facility

^[2] Investment in Envi Networks

Newmarket – Tay Power Generating Shareholder Value

- Rate Base

- » Post Merger (2007)

- Newmarket \$50 M
 - Tay \$2 M
 - Total \$52 M

- » 2011 – Approved Rate Base

- Total \$62 M

- » 2017 – Actual Rate Base

- Newmarket – Tay \$74M
 - Midland \$15.8M
 - Total \$89.8M

Newmarket – Tay Power Creating Customer Value

- Northern York Region Supply
 - » Integrated Holland TS with Hydro One
 - Newmarket supply secure
- Smart Meters
 - » First to respond to Provincial Regulation
- Customer Satisfaction
 - » Highest overall rating

Current Industry Initiatives



“Conservation First” Framework

- Directive from Minister of Energy
- Conservation to be considered first ahead of new supply facilities
- Requirements
 - » Regional Supply Planning
 - » Municipal Energy Plans
 - » LDC Conservation Plans
 - Stand-alone
 - Co-operative
 - “Mid – Term” and “Final” Incentive Payments for achievement of targets

Collaborative Opportunity

- **Joint Conservation Plan**
 - » Greater Sudbury Utilities
 - » North Bay Hydro
 - » PUC Distribution (Sault Ste. Marie)
 - » Northern Ontario Wires (Cochrane)
 - » Newmarket - Tay

Collaborative Status

- Initial business is LDC support for the new Conservation First Framework
- CustomerFirst Inc.
 - » Incorporated in November, 2014
 - » Performance
 - Joint Plan Exceeded Mid – Term target by 14%
 - Projecting to exceed Final target by 20%
 - Cost effectiveness of \$0.21 per kWh compared to target of \$0.24 per kWh

OEB Initiatives

- **Governance guidelines**
- **Cyber Security guidelines**
- **Fully fixed rate for distribution charge**
 - » Removes any disincentive for conservation

IESO Initiatives

- **Market Renewal**
- **Conservation Post 2020**
 - » With Ministry of Energy

Conservation Post 2020



Annual General Meeting



2017 Annual General Meeting Agenda – February 4, 2019

- 2017 AGM deferred due to Municipal elections
- Two Companies
 - » Newmarket Hydro Holdings Inc.
 - » Newmarket –Tay Power Distribution Ltd.
- Newmarket – Tay Power Distribution business conducted through written resolutions for:
 - » Approval of Financial Statements
 - » Appointment of Auditors
 - » Appointment of Directors
 - » Direction to legal representative(s) to sign resolutions

AGM Business - NTPDL⁶⁸

- Acceptance of Financial Statements
- Appointment of Auditors
 - » Collins Barrow
- Appointment of Directors
 - » 2018 Board of Directors
 - Mayor of Tay Township
 - Mayor of Newmarket
 - Independent Director Dave Charleson
 - Independent Director Robert Betts
 - Independent Director Cristine Prattas
 - One New Independent Director
 - Newmarket – Tay President Paul Ferguson

AGM Business – NTPDL

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- Director Changes:
 - » Phil Daniels has completed his eligible terms
 - » Newmarket – Tay President to be replaced with a fifth independent Director at the June AGM
- One vacancy to be filled at the 2017 AGM in February, 2019
 - » Newmarket – Tay Board retained Boydens to solicit candidates
 - » Two candidates have been identified for consideration by the ad-hoc Joint Committee of Council
 - » Newmarket – Tay President will request the Newmarket Council Committee members be identified at the December 17 Council Meeting
 - Three to be identified
 - Two Councillors to serve on the Committee
 - One Councillor to serve as Committee Chair

AGM Business -- NTHHI

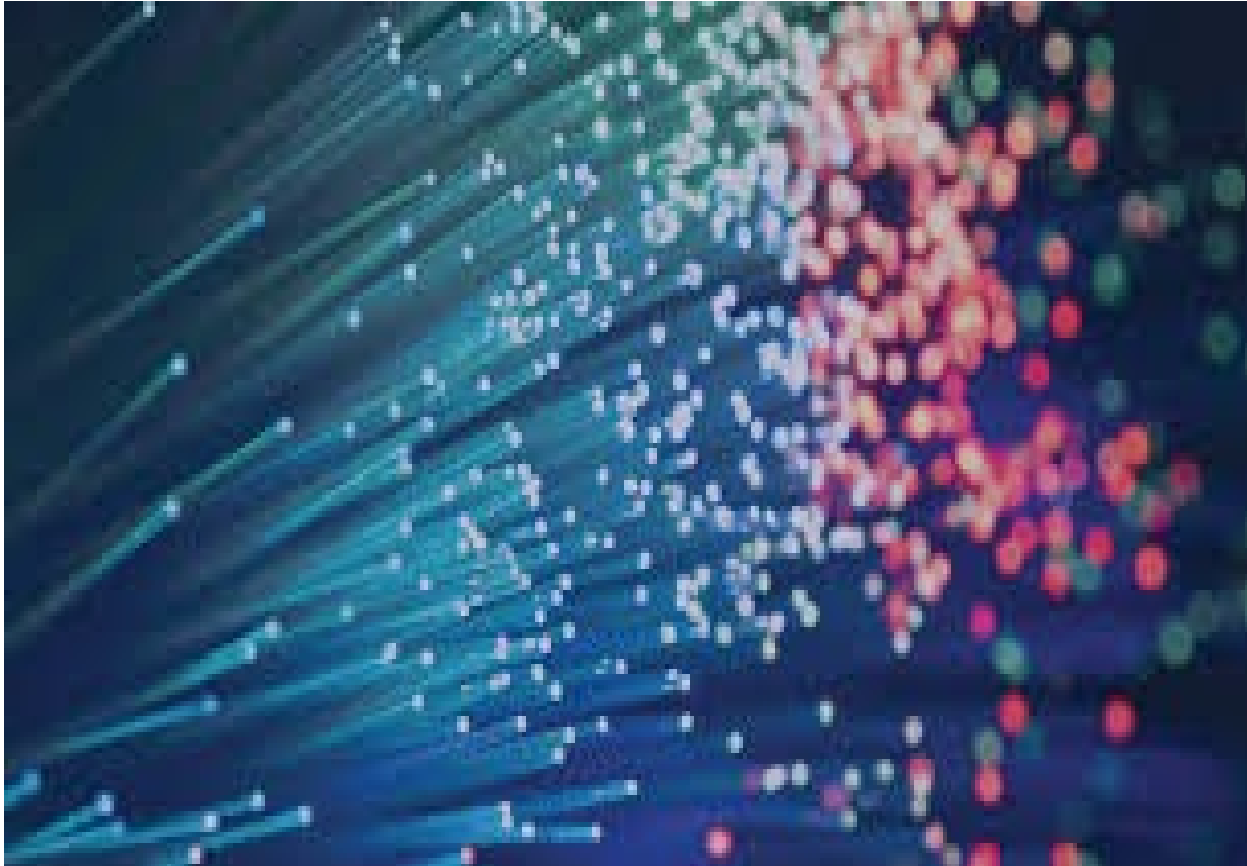
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- Acceptance of Financial Statements
- Appointment of Auditors
 - » Collins Barrow
- Appointment of Director
 - » Municipal CAO
- Directions
 - » Direction to Mayor as legal representative of Newmarket Hydro Holdings Inc. to sign shareholder resolutions
 - » Mayor directs Newmarket Hydro Holdings Inc. director to sign Newmarket – Tay Power Distribution Ltd. shareholder resolutions

Other AGM Business

- Amendment to Newmarket – Tay Shareholders Agreement
 - » Allow for Mayors to appoint a designate
- Special Shareholder Resolution for Envi Networks Ltd.
 - » Appointment of inaugural board
 - Jill Schatz
 - Ian Collins
 - Tony VanBynen
 - One Newmarket Councillor

Envi Networks Ltd



Our Vision

An independent, values-based, Broadband Networks Company enabling our customers' and communities' changing needs.

Our Mission

Lead ultra-highspeed, value-added broadband services in the communities we serve, earning the trust and loyalty of our customers, community stakeholders and partners.

Core Values

We create social and economic value for our communities. We demonstrate the following values in everything we do:

- **Customer-focus** – collaborating with customers to be responsive to their evolving needs.
- **Community-based** – providing the network to support community priorities and economic growth.
- **Relevant Service** -- providing our customers with Smart, reliable, cost-effective services.
- **Sustainable Growth** – innovating with and through partners.

Strategic Imperatives

1. **Build a self-sustaining broadband company**
2. **Partner with customers, communities and stakeholders to create the future**
3. **Advance innovative and evolving technologies**
4. **Deliver strategic growth within the broadband business**

Key Objectives

Build a Strong, Customer-focused Team	Anticipate Customer Needs; Deliver Smart Services	Differentiate through Targeted Marketing & Communications	Design, Build and Manage Operations that Scale	Build and Run a Self-Sustaining Broadband Company
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FINANCIAL STATEMENTS OF

NEWMARKET-TAY POWER DISTRIBUTION LTD.

December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

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Statement of Changes in Equity and Accumulated Other Comprehensive Income	3
Statement of Income	4
Statement of Comprehensive Income	5
Statement of Cash Flows	6
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Newmarket-Tay Power Distribution Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of Newmarket-Tay Power Distribution Ltd., which comprise the statement of financial position as at December 31, 2017, and the statements of changes in equity and accumulated other comprehensive income, income, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Newmarket-Tay Power Distribution Ltd. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Collins Barrow Kawarthas LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
March 28, 2018

NEWMARKET-TAY POWER DISTRIBUTION LTD.**STATEMENT OF FINANCIAL POSITION****As at December 31, 2017**

	2017	2016
	\$	\$
ASSETS		
Current assets		
Cash	10,381,961	9,691,630
Accounts receivable	11,914,842	14,098,270
Inventories (note 4)	858,956	875,151
Prepaid expenses	281,898	483,259
Income taxes receivable	676,424	1,188,748
Unbilled revenue	8,767,090	11,366,577
	32,881,171	37,703,635
Non current		
Property, plant and equipment (note 5)	96,737,276	94,961,237
Intangible assets (note 6)	997,723	435,759
Deferred income taxes (note 7)	2,466,971	2,902,055
Refundable deposit (note 26)	1,000,000	-
	101,201,970	98,299,051
	134,083,141	136,002,686
Regulatory deferral account debit balances and related deferred tax (note 8)	4,616,388	3,165,881
	138,699,529	139,168,567

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.**STATEMENT OF FINANCIAL POSITION****As at December 31, 2017**

	2017	2016
	\$	\$
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	12,823,488	14,464,692
Current portion of long-term debt (note 10)	657,006	641,184
Current portion of deposits held (note 11)	498,000	690,000
	<u>13,978,494</u>	<u>15,795,876</u>
Non current		
Long-term debt (note 10)	28,818,886	29,475,892
Contributed capital (note 12)	31,358,906	30,660,427
Advances from parent company (note 14)	2,636,879	2,553,645
Deposits held (note 11)	3,343,159	2,317,478
Employee future benefits (note 13)	1,047,729	876,508
	<u>67,205,559</u>	<u>65,883,950</u>
	<u>81,184,053</u>	<u>81,679,826</u>
Shareholders' equity		
Share capital (note 15)	27,140,206	27,140,206
Retained earnings	21,551,925	20,663,101
Accumulated other comprehensive income	32,941	140,871
	<u>48,725,072</u>	<u>47,944,178</u>
	129,909,125	129,624,004
Regulatory deferral account credit balances and related deferred tax (note 8)	<u>8,790,404</u>	<u>9,544,563</u>
	<u>138,699,529</u>	<u>139,168,567</u>

Approved on behalf of the Board

Director_____
Director*The accompanying notes are an integral part of these financial statements*

NEWMARKET-TAY POWER DISTRIBUTION LTD.**STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME**
For the year ended December 31, 2017

	Share capital \$	Retained earnings \$	Accumulated other comprehensive income \$	Total \$
Balance, December 31, 2015	27,140,206	18,995,343	177,006	46,312,555
Net income for the year	-	3,104,758	-	3,104,758
Other comprehensive loss	-	-	(36,135)	(36,135)
Dividends paid	-	(1,437,000)	-	(1,437,000)
Balance, December 31, 2016	27,140,206	20,663,101	140,871	47,944,178
Net income for the year	-	2,325,824	-	2,325,824
Other comprehensive loss	-	-	(107,898)	(107,898)
Dividends paid	-	(1,437,000)	-	(1,437,000)
Balance, December 31, 2017	27,140,206	21,551,925	32,941	48,725,072

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.**STATEMENT OF INCOME**

For the year ended December 31, 2017

	2017 \$	2016 \$
Revenue		
Distribution revenue	15,108,008	15,590,556
Cost of power revenue	74,225,796	85,691,103
	89,333,804	101,281,659
Cost of power purchased	77,747,796	83,265,219
Gross profit	11,586,008	18,016,440
Other income (note 16)	1,219,972	1,290,139
Gross income from operations	12,805,980	19,306,579
Expenses		
Amortization	3,598,756	3,668,457
Operating expenses (note 17)	9,398,125	7,746,454
Loss (gain) on disposal of property, plant and equipment	(23,480)	24,234
	12,973,401	11,439,145
Income (loss) before undernoted items and income taxes	(167,421)	7,867,434
Finance income (note 18)	(322,760)	(405,554)
Finance costs (note 18)	1,602,606	1,561,723
Income (loss) before income taxes and net movement in regulatory deferral accounts, net of deferred tax	(1,447,267)	6,711,265
Provision for income taxes (note 7)		
Current	823,576	611,252
Deferred	473,987	569,371
	1,297,563	1,180,623
Income (loss) before net movement in regulatory deferral accounts, net of deferred tax	(2,744,830)	5,530,642
Net movement in regulatory deferral accounts, net of deferred tax	5,070,654	(2,425,884)
Net income for the year	2,325,824	3,104,758

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.**STATEMENT OF COMPREHENSIVE INCOME****For the year ended December 31, 2017**

	2017	2016
	\$	\$
Net income for the year	2,325,824	3,104,758
Comprehensive loss		
Actuarial loss, not reclassified to net income	(146,800)	(49,163)
Actuarial loss related deferred income tax not reclassified to net income	38,902	13,028
Comprehensive loss	(107,898)	(36,135)
Net income and comprehensive income (loss) for the year	2,217,926	3,068,623

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.**STATEMENT OF CASH FLOWS**

For the year ended December 31, 2017

	2017	2016
	\$	\$
CASH PROVIDED FROM (USED FOR)		
Operating activities		
Net income for the year	2,325,824	3,104,758
Items not affecting cash		
Amortization of property, plant and equipment	3,678,454	3,496,627
Amortization of intangible asset	175,389	171,830
Deferred income taxes	473,987	569,371
Loss (gain) on disposal of property, plant and equipment	(23,480)	24,234
Change in employee future benefits	24,388	14,228
Current income tax	823,576	611,252
Net finance costs	1,279,846	1,156,169
Recognition of contributed capital	(707,028)	(599,543)
	8,050,956	8,548,926
Change in non-cash working capital items (note 19)	4,204,456	(429,563)
	12,255,412	8,119,363
Investing activities		
Purchase of property, plant and equipment	(5,454,493)	(9,887,842)
Proceeds on disposal of property, plant and equipment	23,480	481,508
change in regulatory deferral accounts	(2,204,666)	2,425,884
Purchase of intangible assets	(737,353)	(62,151)
Refundable deposit	(1,000,000)	-
Proceeds of contributed capital	1,405,507	6,438,453
	(7,967,525)	(604,148)
Financing activities		
Repayment of long-term debt	(641,184)	(1,625,745)
Advances from parent company	83,234	80,635
Interest paid	(1,602,606)	(1,561,723)
Dividends paid	(1,437,000)	(1,437,000)
	(3,597,556)	(4,543,833)
Increase in cash	690,331	2,971,382
Cash - beginning of year	9,691,630	6,720,248
Cash - end of year	10,381,961	9,691,630

The accompanying notes are an integral part of these financial statements

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****1. NATURE OF OPERATIONS**

Newmarket-Tay Power Distribution Ltd. (the "Company") is a subsidiary of Newmarket Hydro Holdings Inc. and was formed as a result of the amalgamation of Newmarket Hydro Ltd. and Tay Hydro Electric Distribution Company Inc. on May 1, 2007. Tay Hydro Inc. has a 7% non-controlling interest in the Company. The address of its registered office and its principal place of business is 590 Steven Ct, Newmarket, ON L3Y 6Z2.

The principal activity of the Company is to distribute electricity to the residents and businesses in the Town of Newmarket and the Township of Tay under licence issued by the Ontario Energy Board (OEB). The Company is regulated by the OEB and adjustments to its distribution rates require OEB approval.

2. STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements for the year ended December 31, 2017 were approved and authorized for issue by the board of directors on March 28, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with International Financial Reporting Standards. The significant policies are detailed as follows:

(a) Basis of measurement

The financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at their fair values, as explained in the relevant accounting policies.

The consolidated financial statements are presented in Canadian dollars which is also the Company's functional currency.

(b) Electricity regulation

The Company is licensed and regulated by the Ontario Energy Board (OEB). The OEB is charged with the responsibility of approving rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

The following regulatory policy is practiced in a rate regulated environment:

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****3. SIGNIFICANT ACCOUNTING POLICIES, continued***(b) Electricity regulation, continued**Regulatory accounts*

Regulatory accounts represent future revenue or expenses incurred in the current or prior periods that are expected to be recovered (repaid) through the rate setting process.

These assets and liabilities include various rate and retail variance accounts which arise from differences in amounts billed to customers (based on regulated rates) and the actual cost of electricity services to the Company. These amounts are accumulated for accounting purposes because it is probable that they will be recovered (repaid) in future rates. The Company continually assesses the likelihood of the recovery of regulatory assets and likelihood of repayment of regulatory liabilities. If recovery or repayment is no longer considered probable, the amounts are charged to operations in the year the assessment is made.

Regulatory accounts recognized at December 31, 2017 and December 31, 2016 are disclosed in note 8.

(c) Revenue recognition

Service revenue is measured based on the OEB approved rate and the meter readings for customer usage, net of sales tax and debt retirement charge. Service revenue also includes unbilled revenue accrued in respect of electricity delivered but not yet billed. Revenue is recognized as electricity is delivered and consumed by customers and measured.

Cost of power revenue is recorded on the basis of the power billed by the Independent Electricity System Operator.

Contributed capital represent certain items of property, plant and equipment which are acquired or constructed with financial assistance in the form of contributions from developers. Such contributions, whether in cash or in-kind, are recognized as contributions in aid of construction and amortized into income over the life of the related assets. Contributions in aid of construction in-kind are valued at their fair value at the date of their contribution.

Revenues related to Conservation and Demand Management ("CDM") agreements with the Independent Electricity System Operator ("IESO") are recognized on a net basis. Performance fees are recognized as CDM programs are delivered.

Other operating revenue is recorded when services are provided.

(d) Cash

Cash consists of balances with financial institutions.

(e) Inventories

Inventories, which consist of parts and supplies acquired for internal construction or consumption, are valued at the lower of cost and net realizable value. Cost is determined on a weighted-moving average basis and includes expenditures incurred in acquiring the inventories and other costs to bring the inventories to their existing location and condition.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****3. SIGNIFICANT ACCOUNTING POLICIES, continued***(f) Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset or its development when those costs are necessarily incurred for the asset to function in the manner intended by management. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

All assets having limited useful lives are depreciated using the straight-line or declining balance method over their estimated useful lives. Assets are depreciated from the date of acquisition. Internally constructed assets are depreciated from the time an asset is capable of operating in the manner intended by management.

In the year of acquisition, depreciation is taken at one-half of the below rates.

The residual value, useful life and depreciation method applied to each class of assets are reassessed at each reporting date.

The depreciation rates applicable for each class of asset are calculated on a straight line basis as follows:

Buildings	25-30 years
Distribution equipment	10-50 years
Transportation equipment	5-10 years
Office and other	5-10 years

(g) Intangible assets

Intangible assets include computer software and land rights. They are accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful lives of the intangibles are as follows:

Computer software	3-5 years straight-line
Land rights	30 years straight-line

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software, (expenditure relating to patches and other minor updates as well as their installation), are expensed as incurred.

Land rights are capitalized based on the payments made for easements, right of access and right of use over land for which the Company does not hold title. Land rights are measured at cost less accumulated amortization and accumulated impairment losses.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****3. SIGNIFICANT ACCOUNTING POLICIES, continued***(h) Contributed capital*

Contributions for capital construction consist of third party and related party contributions toward the cost of constructing distribution assets. The contributions are calculated through an economic evaluation as per the OEB Distribution Service Code. Contributed capital amounts are recorded as received and amortized over the same period as the asset to which they relate being 30 to 50 years.

(i) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****3. SIGNIFICANT ACCOUNTING POLICIES, continued***(j) Related parties*

Related party transactions are in the normal course of operations and have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Details of related party transactions and balances are disclosed in note 14.

(k) Employee future benefits

The Company accounts for its participation in the Ontario Municipal Employee Retirement System ("OMERS"), a multi employer public sector pension fund, as a defined contribution plan. Both participating employers and employees are required to make plan contributions based on the participating employees' contributory earnings. The Company recognizes the expense related to this plan as contributions are made. No liability has been established for this plan.

The Company pays certain medical and life insurance benefits on behalf of its retired employees. These plans are not funded and accordingly have no plan assets. The Company's net obligation is calculated by estimating the amount of future benefits that are expected to be paid out discounted to determine its present value. This calculation is actuarially performed using the projected unit credit method. The last full valuation performed was as at December 31, 2017. Service costs are recognized in the Statement of Income in operating expenses, and include current and past service costs as well as gains and losses on curtailment. Net interest expense is included in finance costs.

Details related to the post-employment benefits are detailed in note 13.

(l) Income taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of income taxes (PILS) to the Ontario Electricity Financial Corporation (OEFC). Deferred income taxes are calculated using the liability method of tax accounting. In providing for income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as deferred income taxes. The tax rates anticipated to be in effect when these temporary differences reverse are used to calculate deferred income taxes. Additional details related to the calculation and method of accounting for PILS is included in note 7.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****3. SIGNIFICANT ACCOUNTING POLICIES, continued***(m) Significant accounting estimates and judgements*

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant accounting estimates, judgements and assumptions include the following:

Useful lives of depreciable assets - Depreciation and amortization expense is based on estimates of the useful lives of property, plant and equipment and intangible assets. The Company estimates the useful lives of its property, plant and equipment and intangible assets based on management's judgment, historical experience and an asset study conducted by an independent consulting firm.

Payment in lieu of taxes payable - The company is required to make payments in lieu of taxes calculated on the same basis as income taxes on taxable income earned. Significant judgement is required in determining the provision and liability or asset for income taxes. Changes in deferred taxes may be required due to changes in future tax rates.

Employee future benefits - The cost of providing certain health, dental and life insurance benefits on behalf of its retired employees are determined using actuarial valuations. The actuarial valuation uses managements assumptions which have been outlined in note 13.

Accounts receivable impairment - In determining the allowance for doubtful accounts, the Company considers historical loss experience of account balances based on the aging and arrears status of accounts receivable balances.

(n) Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Some of the Company's assets may have provision obligations. As the Company expects to use the majority of its fixed assets for an indefinite period, no removal costs can be determined and, consequently, a reasonable estimate of the fair value of any asset retirement obligations has not been made at this time.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****3. SIGNIFICANT ACCOUNTING POLICIES, continued***(o) Financial instruments*

Financial assets and financial liabilities are initially measured at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. Transactions to purchase or sell these items are recorded on the trade date. During the year, there has been no reclassification of financial instruments.

Financial assets at fair value through profit or loss

The Company has classified cash as a financial asset at fair value through profit or loss. Any gain/loss arising as a result of the difference between the carrying amount and fair value is recognized in total comprehensive income.

Financial instruments at fair value through profit or loss are subsequently measured at their fair value.

Loans and receivables

The Company has classified accounts receivable and due from related parties as loans and receivables.

Loans and receivables are subsequently measured at their amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, plus or minus any reduction for impairment or uncollectability. Net gains and losses arising from changes in fair value are recognized in total comprehensive income upon de-recognition or impairment.

Financial liabilities measured at amortized cost

The Company has classified accounts payable and accruals, and due to related parties as financial liabilities measured at amortized cost.

Financial liabilities measured at amortized cost are measured at their amortized cost subsequent to initial recognition. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount. Net gains and losses arising from changes in fair value are recognized in total comprehensive income upon de-recognition or impairment.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****3. SIGNIFICANT ACCOUNTING POLICIES, continued***(p) New Standards and interpretations not yet effective or adopted*

Effective for annual periods beginning on or after January 1, 2018

IFRS 9 Financial Instruments: Recognition and Measurement (new) – modifies IAS 39 eliminating categories and redefines gain and loss re-measurement.

IFRS 15 Revenue from Contracts with Customers: The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard contains enhanced disclosures about revenue and provides guidance for transactions that were not previously addressed comprehensively.

Effective for annual periods beginning on or after January 1, 2019

IFRS 9 Financial Instruments was amended by the IASB in October 2017. Amendments allow companies to measure particular pre-payable financial assets with so-called negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. Earlier application is permitted.

IFRS 16 replaces IAS 17 Leases and brings leases onto companies' balance sheets, increasing the visibility of their assets and liabilities. IFRS 16 removes the classification of leases as either operating or finance leases for the lessee treating all leases as finance leases. Short term and low value assets are exempt from these requirements.

The Company is currently assessing the impact that the standards will have on the statements.

4. INVENTORIES

Inventory recognized in cost of sales during the year amounted to \$12,893 (2016 - \$29,920).

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2017

5. PROPERTY, PLANT AND EQUIPMENT

	Land and building \$	Distribution equipment \$	Transportation equipment \$	Office and other \$	Total \$
Cost					
At December 31, 2016	5,753,667	96,257,378	1,446,777	1,261,232	104,719,054
Additions	12,337	4,519,649	138,083	784,424	5,454,493
At December 31, 2017	5,766,004	100,777,027	1,584,860	2,045,656	110,173,547
Amortization					
At December 31, 2016	27,069	8,348,700	591,468	790,580	9,757,817
Additions	9,112	3,228,390	275,321	165,631	3,678,454
At December 31, 2017	36,181	11,577,090	866,789	956,211	13,436,271
Net book value at December 31, 2017	5,729,823	89,199,937	718,071	1,089,445	96,737,276
	Land and building \$	Distribution equipment \$	Transportation equipment \$	Office and other \$	Total \$
Cost					
At January 1, 2016	6,113,525	86,926,308	1,173,889	1,173,654	95,387,376
Additions	105,732	9,421,644	272,888	87,578	9,887,842
Disposals	(465,590)	(90,574)	-	-	(556,164)
At December 31, 2016	5,753,667	96,257,378	1,446,777	1,261,232	104,719,054
Amortization					
At January 1, 2016	17,986	5,326,961	379,120	587,545	6,311,612
Additions	9,083	3,072,161	212,348	203,035	3,496,627
Disposals	-	(50,422)	-	-	(50,422)
At December 31, 2016	27,069	8,348,700	591,468	790,580	9,757,817
Net book value at December 31, 2016	5,726,598	87,908,678	855,309	470,652	94,961,237

Included in distribution equipment additions is amortization expense of \$255,087.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2017

6. INTANGIBLE ASSETS

	Cost \$	Accumulated amortization \$	2017 Net book value \$
Computer software	1,413,910	753,635	660,275
Land rights	400,375	62,927	337,448
	1,814,285	816,562	997,723

	Cost \$	Accumulated amortization \$	2016 Net book value \$
Computer software	676,574	593,985	82,589
Land rights	400,358	47,188	353,170
	1,076,932	641,173	435,759

During the year, the Company had additions of \$737,353 (2016 - \$62,151) and amortization of \$175,389 (2016 - \$171,830).

7. INCOME TAXES

(a) The components of deferred income tax balances are as follows:

	2017 \$	2016 \$
Deferred income tax asset		
Tax basis of property, plant and equipment in excess of carrying amount	2,189,320	2,452,184
Reserves deductible when paid	277,651	232,275
Cumulative eligible capital available for tax purposes	-	217,596
	2,466,971	2,902,055

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2017

7. INCOME TAXES, continued

	Opening balance at January 1, 2017 \$	Recognize in net income \$	Recognize in OCI \$	Closing balance at December 31, 2017 \$
Deferred tax assets				
Property, plant and equipment and cumulative eligible capital	2,669,781	(480,461)	-	2,189,320
Reserves deductible when paid	232,275	6,474	38,902	277,651
	2,902,055	(473,987)	38,902	2,466,971
			2017 \$	2016 \$
Deferred tax assets to be recovered after more than 12 months			2,466,971	2,902,055

(b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 39.5% (2016 - 39.5%) to the income (loss) for the years as follows:

	2017 \$	2016 \$
Income (loss) for the year before income taxes	(1,447,267)	6,711,265
Net movement in regulatory deferral accounts	3,522,000	(2,425,884)
	2,074,733	4,285,381
Anticipated income tax	819,520	1,692,725
Tax effect of the following:		
Permanent expense differences	230,026	5,925
Other comprehensive income	(57,986)	(19,420)
General rate reduction	131,523	(552,658)
Impact of tax rate change and other	174,480	54,051
Provision for income taxes	1,297,563	1,180,623

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2017

8. REGULATORY DEFERRAL ACCOUNTS

All amounts deferred as regulatory deferral account debit balances are subject to approval by the OEB. As such, amounts subject to deferral could be altered by the regulators. Remaining recovery periods are those expected and the actual recovery or settlement periods could differ based on OEB approval. Due to previous, existing or expected future regulatory articles or decisions, the Company has the following amounts expected to be recovered in future periods which are comprised of the following:

	Note	Remaining recovery/ reversal period (years)	December 31, 2016 \$	Net balances arising in the period \$	Recovered in the period \$	December 31, 2017 \$
Regulatory deferral account debit						
RSVA debit						
balance	i	A	2,951,323	3,522,000	(4,048,237)	2,425,086
Other	ii	A	93,250	(93,250)	-	-
Deferred tax						
debit						
balance	iii	A	121,308	2,069,994	-	2,191,302
			3,165,881	5,498,744	(4,048,237)	4,616,388
Regulatory deferral account credit						
RSVA credit						
balance	i	A	1,586,368	(1,586,368)	-	-
Recovery						
Account	iv	A	506,050	2,678	-	508,728
Other	ii	A	-	111,506	-	111,506
IFRS						
Conversion	v	1	7,452,145	(1,471,903)	1,668,588	7,648,830
Deferred tax						
credit						
balance	iii	A	-	521,340	-	521,340
			9,544,563	(2,422,747)	1,668,588	8,790,404

(A) These amounts are expected to reverse when the company submits their next cost of service filing which is anticipated to be within the next four years.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2017

8. REGULATORY DEFERRAL ACCOUNTS, continued

(i) RSVA variances represent the variances between the amounts charged by the company to its customers, and the amounts paid by the company to the Independent Electricity System Operator ("IESO") and Hydro One for the cost of energy. The settlement variances include network and connection service charges, energy sales and the global adjustment. The balance for settlement variances continue to be calculated and carrying charges are recorded on a monthly basis.

(ii) Other Deferral Accounts include debit and credit balances in other regulatory assets, including Lost Revenue Adjustment Mechanism variances, Smart Metering Entity Charge variances, Retail Cost variances, IFRS transition expenditures, payments in lieu of taxes and Smart Meter expenditures. The costs incurred in these deferral accounts have been captured for future recovery or settlement. Carrying charges are recorded monthly on the opening balances.

(iii) Deferred tax on the regulatory balances that will ultimately be recovered from/paid back to its customers.

(iv) Recovery Accounts are used to record the disposition of deferral and variance account balances that have been approved by the OEB. The variances are to be recovered or settled when the company submits their next Cost of Service filing.

(v) In 2012, the Company adjusted the estimated useful life related to the amortization period for certain capital assets, based upon the Ontario Energy Board's regulatory accounting direction as contained in the revised 2012 Accounting Procedures Handbook for Electricity Distributors. As a result of OEB direction related to the settlement of these amounts, the company has recorded a payable in the deferral account of \$7,648,830 (2016 - \$7,452,145).

In 2017, the Company was approved through its annual Incentive Regulation Mechanism (IRM) application to the OEB for the settlement of the 2015 balance. The Company is expected to have the remainder of the balance approved for settlement through their 2018 IRM and the amount will be refunding its respective customers by class over a one year period. This balance also includes \$611,972 of carrying charges based on the Company's weighted average cost of capital.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
	\$	\$
Accounts payable - purchased power	5,201,533	7,568,563
Other trade accounts payable and accrued liabilities	3,239,529	3,816,859
Water and sewer billings payable (note 14)	2,606,698	2,002,034
Credits on customer accounts	1,482,348	762,862
Conservation demand management programs	293,380	314,374
	12,823,488	14,464,692

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2017

10. LONG-TERM DEBT

	2017 \$	2016 \$
Note payable, 5.48% - Town of Newmarket	22,000,000	22,000,000
Note payable, 5.48% - Township of Tay	1,742,821	1,742,821
Bank loan payable, 2.44% fixed rate, payable in blended monthly payments of \$65,742	5,733,071	6,374,255
	29,475,892	30,117,076
Less principal payments due within one year	657,006	641,184
Due beyond one year	28,818,886	29,475,892
Estimated principal repayments are as follows:		
		\$
2018		657,006
2019		673,217
2020		4,402,848
Unspecified (A)		23,742,821
		29,475,892

(A) The notes payable are unsecured and have no specific terms of repayment. Since the holders of the notes have confirmed they will not request repayment of this amount during the next fiscal year, these amounts have been classified as a non-current liability in the accompanying financial statements.

The bank loan payable is a 5 year term loan due December 10, 2020 with a payment due at maturity of \$3,771,150. To reduce exposure to interest rate fluctuations, the Company has entered into an interest rate swap where they pay a fixed interest rate over of the term of the loan.

11. DEPOSITS HELD

Deposits held represent cash deposits from electricity distribution customers and retailers, as well as construction deposits.

Deposits from electricity distribution customers are refundable to customers demonstrating an acceptable level of credit risk as determined by the Company in accordance with policies set out by the OEB or upon termination of their electricity distribution service.

Construction Deposits represent cash payments from developers in order to secure the performance of the developer's obligations under the Construction Agreement for Expansion Facilities and Connection Assets Supplied by Developer - Residential Subdivision (The Construction Agreement).

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****11. DEPOSITS HELD, continued**

Upon commissioning of the Expansion Facilities and upon payment by the developer of all fees associated with the installation, inspection, testing and commissioning of work done by the Company, the Company may reduce the deposit to 10% of financial guarantee. The remaining letter of credit will be held for a two year period to cover any defects arising from the work done by the developer and its contractor.

	December 31, 2017 \$	December 31, 2016 \$
<u>Current portion of customer deposits</u>	<u>498,000</u>	<u>690,000</u>
Customer deposits	2,322,251	2,022,758
Construction deposits	1,020,908	294,720
	<u>3,343,159</u>	<u>2,317,478</u>

12. CONTRIBUTED CAPITAL

	December 31, 2017 \$	December 31, 2016 \$
Deferred contributions, net, beginning of year	30,660,427	24,821,517
Contributed capital received	1,405,507	6,438,453
Contributed capital recognized as revenue (note 16)	(707,028)	(599,543)
	<u>31,358,906</u>	<u>30,660,427</u>

13. EMPLOYEE FUTURE BENEFITS

The Company provides certain health, dental and life insurance benefits for retired employees pursuant to the Company's policy. The accrued benefit obligation and net periodic expense for the year were determined by an actuarial valuation. The most recent valuation was performed for December 31, 2017.

Information about the Company's defined benefit plan is as follows:

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2017

13. EMPLOYEE FUTURE BENEFITS, continued

	2017 \$	2016 \$
Accrued benefit obligation, beginning of year	876,508	813,117
Current service cost	38,200	30,900
Interest expense	33,300	33,877
Benefits paid	(47,079)	(50,549)
Actuarial loss	146,800	49,163
	1,047,729	876,508

Current service costs and interest on accrued benefit obligation are recognized in the statement of income. Actuarial losses arising from changes in financial assumptions are accounted for in other comprehensive income. The total benefit costs for the year is \$218,300 (2016 - \$113,940).

The actuarial assumptions used in the valuation are the discount rate of 3.4% (2016 - 3.9%), salary increase rate of 2.8% (2016 - 2.5%), cost trend including health benefits of 6.20% (2016 - 5.75%) and dental benefits 4.5% (2016 - 4.5%) and retirement age of 65 (2016 - 61). The health benefits are expected to decrease at 0.25% per year until 2023 when it reaches 4.50% and dental benefits will remain at 4.50% to 2023.

The impact of a change in the actuarial assumptions would have the following impact on the obligation:

	Reasonable possible change	Defined benefit obligation change \$	Difference \$	Difference %
Discount rate	+1%	918,400	(129,300)	(12)
Discount rate	-1%	1,214,000	166,300	16
Cost trends	+1%	1,082,700	35,000	3
Cost trends	-1%	1,015,600	(32,100)	(3)

14. RELATED PARTY TRANSACTIONS AND ADVANCES FROM PARENT COMPANY

- (a) The Company entered into transactions with its majority parent, Newmarket Hydro Holdings Inc. (NHHI) and with The Town of Newmarket which is the sole shareholder of Newmarket Hydro Holdings Inc. Revenue charged during the year included energy, street light capital and street light maintenance charged at commercial rates to the Town of Newmarket.

Included in accounts payable (note 9) are water and sewer amounts collected which are due to the Town. These amounts are collected and remitted in accordance with a contract with URB Olameter and remitted on their behalf.

Included in long-term debt (note 10) are notes payable to related parties.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2017

14. RELATED PARTY TRANSACTIONS, continued**(b) Transactions**

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	2017	2016
	\$	\$
Revenue		
Energy sales	2,035,574	3,146,105
Services - Street light capital	25,770	25,491
Services - Street light maintenance	59,268	52,452
	<u>2,120,612</u>	<u>3,224,048</u>
Expenses		
Interest	1,205,600	1,205,600
Rent and property tax	424,988	409,040
	<u>1,630,588</u>	<u>1,614,640</u>

(c) The following amount is due from the Town of Newmarket and included in the financial statements:

	2017	2016
	\$	\$
Accounts receivable	<u>310,627</u>	<u>343,581</u>

(d) The following amount is due to the parent company:

	2017	2016
	\$	\$
Newmarket Hydro Holdings Inc.	<u>2,636,879</u>	<u>2,553,645</u>

Advances from the parent company, Newmarket Hydro Holdings Inc. includes promissory notes in the amount of \$2,153,000 (2016 - \$2,153,000) which are due March 16, 2019. The remainder of the balance has no specific terms of repayment. As the parent company has confirmed they will not request repayment of this amount during the next fiscal year, the amount has been classified as a non-current liability in the financial statements.

The balances are unsecured and bear interest at the OEB deemed debt rate of 5.48% for 2017 (2016 - 5.48%).

The key management personnel of the Company has been defined as members of its board of directors and supervisory personnel. The compensation is comprised of director's fees, management salaries and wages, short-term employee benefits and post employment benefits totaling \$2,136,294 (2016 - \$1,824,148).

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2017

15. SHARE CAPITAL

Authorized

Unlimited number of common shares

Issued

	2017	2016
	\$	\$
Common shares	27,140,206	27,140,206

16. OTHER INCOME

Other income consists of the following:

	2017	2016
	\$	\$
Account set up fees	121,290	134,914
Pole rentals	137,535	141,015
Collection charges	133,932	247,871
Recognition of contributed capital (note 12)	707,028	599,543
Other	120,187	166,796
	1,219,972	1,290,139

17. OPERATING EXPENSES

Operating expenses consist of the following:

	2017	2016
	\$	\$
Wages and benefits	5,240,562	4,740,253
Materials, equipment and other operating expenses	3,133,288	2,010,880
Administration and overhead	1,024,275	995,321
	9,398,125	7,746,454

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2017

18. FINANCE INCOME AND FINANCE COSTS

Finance income recognized in net income consists of the following:

	2017	2016
	\$	\$
Interest income on accounts receivable	213,640	306,201
Income on cash balance	109,120	99,353
	322,760	405,554

Finance costs recognized in net income consists of the following:

	2017	2016
	\$	\$
Interest on long-term debt	1,569,558	1,589,377
Customer deposit interest	33,048	25,087
Gain on short-term investments	-	(52,741)
	1,602,606	1,561,723

19. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2017	2016
	\$	\$
Decrease in short-term investments	-	3,410,393
Decrease (increase) in accounts receivable	2,183,428	(4,891,568)
Decrease in inventories	16,195	238,208
Decrease in prepaid expenses	201,361	9,092
Decrease (increase) in unbilled revenue	2,599,487	(1,528,351)
Increase (decrease) in accounts payable and accrued liabilities	(1,641,204)	3,217,535
Increase (decrease) in deposits held	833,681	(181,786)
Interest received	322,760	405,554
Taxes paid	(1,500,000)	(1,800,000)
Taxes received	1,188,748	691,360
	4,204,456	(429,563)

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****20. SHORT TERM CREDIT FACILITIES**

The Company has \$4,000,000 available in operating facilities from a major chartered bank. The facilities include a 364 day revolving operating loan, bearing interest at prime plus 0.5%, to be repaid within one year from date of acquisition unless extended by the bank. A commitment fee of 0.125% per annum, payable quarterly applies to any unused portion of the facility. As at December 31, the Company has no balance outstanding (2016 - Nil) on this facility. The operating loan includes restrictive clauses with respect to repayment.

The Company has provided prudential support in the amount of \$2,765,940 to the Independent Electricity System Operator. The prudential support is secured by a letter of credit with a major chartered bank for \$2,765,940, contains restrictive clauses with respect to debt repayments and bears interest at 0.5% per annum.

A general security agreement covering all assets of the Company and assignment of business/liability insurance has been pledged as security for the operating facilities. At December 31, 2017, the Company was in compliance with all covenants.

21. PENSION AGREEMENT

The Company makes contributions to the Ontario Municipal Employees' Retirement Fund (O.M.E.R.S.), which is a multi-employer plan, on behalf of its employees. The plan is a defined benefit plan which specifies the amount of retirement benefits to be received by the employees based on the length of service and rates of pay.

The amount contributed to O.M.E.R.S. for the year ended was \$423,036 (2016 - \$410,721).

22. CAPITAL DISCLOSURES

The Company's primary objective when managing capital is to address the expectations as provided in the Shareholder Agreement between the Company's parent company, Newmarket Hydro Holdings Inc. and its shareholder, the Town of Newmarket. The expectation is that the Company will maintain a prudent financial structure in order to safeguard the Company's assets and to provide adequate returns for its shareholders and benefits to the stakeholders.

Changes to the Company's capital structure are constrained by existing covenants contained in the banking agreement. The Company must maintain a maximum debt to capitalization ratio of 0.60 to 1 and maintain a debt service coverage ratio of 1.2. As at year end the Company is compliant with these covenants.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****23. FINANCIAL INSTRUMENTS**

Financial instruments consist of recorded amounts of cash, accounts receivable and unbilled revenue which will result in future cash receipts, as well as accounts payable and accrued liabilities, deposits held, advances from parent company and long-term debt which will result in future cash outflows.

The Company does not believe that it is exposed to significant foreign exchange risk.

The Company is exposed to the following risks in respect of certain financial instruments held:

(a) *Interest rate risk*

The Company manages exposure to interest rate risk through a combination of fixed and floating rate borrowings. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent that the floating rate credit facility bears interest at a floating rate. The Company is also exposed to interest rate price risk to the extent that loans bear interest at fixed rates and has entered into an interest rate swap arrangement to manage the impact of fluctuating interest rates on bank loan payable. The swaps require the periodic exchange of interest payments without the exchange of the notional principal amount on which the payments are based (notes 10 and 14).

(b) *Credit risk*

Financial assets carry credit risk that a counter-party will fail to discharge an obligation which would result in a financial loss. Financial assets held by the Company, such as accounts receivable, expose it to credit risk. The Company earns its revenue from a broad base of customers located in the service area. No single customer accounts for revenue in excess of 10% of total revenue.

The carrying amount of accounts receivable is reduced through the use of an allowance for impairment and the amount of related impairment loss is recognized in the statement of income. Subsequent recoveries of receivables previously provisioned are credited to the income statement. The balance of the allowance for impairment at December 31, 2017 is \$80,360 (2016 - \$92,132). The Company's credit risk associated with accounts receivable is primarily related to payments from distribution customers. The Company has approximately 28,000 customers, the majority of which are residential. Credit risk is managed through collection of security deposits from customers in accordance with directions provided by the OEB. As at December 31, 2017, the Company holds security deposits in the amount of \$3,841,159 (2016 - \$3,007,478). The Company's activities provide for a variety of financial risks, particularly credit risk, market risk and liquidity risk. The accounts receivable balance is expected to be fully repaid within 90 days excluding the allowance for doubtful accounts portion of the balance.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017****23. FINANCIAL INSTRUMENTS, continued***(c) Liquidity risk*

The Company does have a liquidity risk in accounts payable and accrued liabilities of \$12,823,488 (2016 - \$14,464,695). Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate line of credit to repay trade creditors and repays long-term debt interest and principal as they become due. In the opinion of management the liquidity risk exposure to the Company is low and is not material.

	Between 0 -3 Months \$	Between 4 - 12 months \$	Over 1 year \$
Accounts payable and accrued liabilities	12,823,488	-	-
Deposits held	125,000	373,000	3,343,159
Long-term debt	162,753	494,253	28,818,886
Employee future benefits	-	-	1,047,729
Advances from parent company	-	-	2,636,879
	13,111,241	867,253	35,846,653

24. COMMITMENT

The Company is in negotiations with the Town of Newmarket on a new lease agreement for the building which was not finalized as of the report date.

25. CONTINGENT LIABILITIES

(a) In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The guarantees include indemnities under lease agreements, purchase and sale agreements, confidentiality agreements, outsourcing, service and information agreements. The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability related to the likelihood and predictability of future events. Historically, the Company has not made any significant payments under similar indemnification agreements and therefore no amount has been accrued in the statement of financial position with respect to these agreements.

(b) Indemnity has been provided to all directors and/or officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential suits or actions. The amount of any potential future liability which exceeds the amount of insurance coverage cannot reasonably be determined.

(c) The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

NEWMARKET-TAY POWER DISTRIBUTION LTD.**NOTES TO THE FINANCIAL STATEMENTS****For the year ended December 31, 2017**

26. REFUNDABLE DEPOSIT

As at December 31, 2017, the Company has paid a \$1,000,000 fully refundable deposit relating to the potential purchase of shares of another Local Distribution Company. Negotiations are still on going and are expected to conclude in 2018.

27. COMPARATIVE FIGURES

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

SHAREHOLDERS AGREEMENT

THIS AGREEMENT made as of June 20, 2018;

B E T W E E N:

TAY HYDRO INC. (hereinafter referred to as “**Tay Holdco**”)

- and -

NEWMARKET HYDRO HOLDINGS INC. (hereinafter referred to as “**Newmarket Holdco**”)

- and -

ENVI NETWORKS LTD., a corporation incorporated under the laws of the Province of Ontario (hereinafter referred to as the “**Corporation**”)

- and -

THE CORPORATION OF THE TOWNSHIP OF TAY,
(hereinafter referred to as “**Tay**”),

- and -

THE CORPORATION OF THE TOWN OF NEWMARKET,
(hereinafter referred to as “**Newmarket**”)

WHEREAS the authorized capital of the Corporation consists of an unlimited number of common shares, of which 100 Shares are issued and outstanding;

AND WHEREAS at the date hereof all of the issued Shares of the Corporation are beneficially owned as follows:

<u>SHAREHOLDERS</u>	<u>SHARES</u>
Tay Holdco	7
Newmarket Holdco	93

AND WHEREAS at the date hereof all of the issued shares of Tay Holdco are owned by Tay;

AND WHEREAS at the date hereof all of the issued shares of Newmarket Holdco are owned by Newmarket;

AND WHEREAS the Participating Municipalities, the Shareholders and the Corporation have agreed to enter into this Agreement as being in their respective best interests and for the purpose of providing for the operation of the Corporation and its Subsidiaries, as applicable;

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the premises and the mutual covenants and agreements herein contained the parties hereto agree as follows:

ARTICLE 1 -INTERPRETATION

1.01 Definitions

In this Agreement, unless something in the subject matter or context is inconsistent therewith:

“**Affiliate**” has the meaning ascribed thereto in the Business Corporations Act.

“**Agreement**” means this agreement and all schedules attached hereto and all amendments made thereto by written agreement among the Participating Municipalities, the Shareholders and the Corporation.

“**Applicable Law**” means any and all applicable laws, including common law, statutes, codes, licensing requirements, directives, rules, regulations, protocols, policies, by laws, guidelines, orders, injunctions, rulings, awards, judgments or decrees or any requirement or decision or agreement with or by any Government Authority, including the OEB.

“**Auditor**” means the auditor of the Corporation and its Subsidiaries appointed from time to time.

“**Business Corporations Act**” means the *Business Corporations Act* (Ontario), as now enacted or as the same may from time to time be amended, re-enacted or replaced.

“**Business**” means the development and deployment of ultra-high speed networks in the Participating Municipalities and surrounding areas.

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

“**Communication**” has the meaning set out in Section 6.09.

“**Governmental Authority**” means any domestic government, whether federal, provincial, territorial, local, regional, municipal, or other political jurisdiction, and any agency, authority, instrumentality, court, tribunal, board, commission, bureau, arbitrator, arbitration tribunal or other tribunal, or any quasi-governmental or other entity, insofar as it exercises a legislative, judicial, regulatory, administrative, expropriation or taxing power or function of or pertaining to government including the OEB.

“**Holdco Corporations**” means, collectively, Tay Holdco and Newmarket Holdco and “**Holdco Corporation**” means either one of them.

“including” means “including without limitation” and **“include”** or **“includes”** will be provided corresponding meanings.

“Majority Shareholder” means any Shareholder holding 75% or more of the Shares.

“Non-Municipal Appointee” means an individual who is neither a member of the Council of either of the Participating Municipalities, nor an employee of any of the Participating Municipalities, the Shareholders, the Corporation, or any Subsidiary.

“Notice” has the meaning set out in Section 3.03(2).

“OEB” means the Ontario Energy Board.

“Offer to Purchase” has the respective meanings set out in Sections 3.03(1) and 3.05(1).

“Offeror” has the meaning set out in Section 3.05(1).

“Participating Municipalities” means, collectively, The Corporation of the Township of Tay, The Corporation of the Town of Newmarket and any other municipality or municipalities that the board of directors of the Corporation may approve from time to time, collectively, and

“Participating Municipality” means any one of them.

“Purchase Price” has the meaning set out in Section 3.03(2).

“Selling Shareholder” has the meaning set out in Section 3.03(1).

“Shares” means the common shares of the Corporation that the Shareholders at the date hereof or hereafter may beneficially own.

“Shareholders” means Tay Holdco and Newmarket Holdco, together with such other persons as may acquire Shares and become parties to this Agreement, collectively, and **“Shareholder”** means any one of such persons individually.

“Subsidiary” means any corporation which may hereafter become a direct or indirect subsidiary of the Corporation, as “subsidiary” is determined in accordance with the Business Corporations Act.

“Third Party” has the meaning set out in Section 3.03(1).

“Third Party Offeree” has the meaning set out in Section 3.03(1).

1.02 Sections and Headings

The division of this Agreement into Articles and Sections and the insertions of headings are for the convenience of reference only and shall not affect the construction or interpretations of this Agreement. The terms “this Agreement”, “hereof”, “hereunder” and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the

subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

1.03 Number

Words importing the singular number only shall include the plural and vice versa, words importing the masculine gender shall include the feminine and neuter genders and vice versa and words importing persons shall include individuals, partnerships, associations, trusts, unincorporated organizations and corporations.

1.04 Accounting Principles

Wherever in this Agreement reference is made to generally accepted accounting principles, such reference shall be deemed to be the generally accepted accounting principles from time to time approved by the Canadian Institute of Chartered Accountants, or any successor institute, applicable as at the date on which such calculation is made or required to be made in accordance with generally accepted accounting principles.

1.05 Unanimous Shareholder Agreement

(1) To the extent that this Agreement specifies that any matters relating to the Corporation may only be, or shall be dealt with or approved by, or shall require action by the Shareholders, the discretion and powers of the directors of the Corporation to manage and to supervise the management of the business and affairs of the Corporation with respect to such matters are correspondingly restricted. For greater certainty, the parties agree that this Agreement is intended to operate as a unanimous shareholders agreement with respect to the Corporation, within the meaning of the Business Corporations Act.

(2) To the extent that this Agreement specifies that any matters relating to any Subsidiary may only be, or shall be dealt with or approved by, or shall require action by the Shareholders or the directors of the Corporation, the discretion and powers of the directors of such Subsidiary to manage and to supervise the management of the business and affairs of such Subsidiary with respect to such matters are correspondingly restricted. For greater certainty, the parties agree that this Agreement is a unanimous shareholder declaration by the Corporation in respect of each Subsidiary, within the meaning of the Business Corporations Act.

ARTICLE 2 -MANAGEMENT

2.01 Carrying out of the Agreement

The Shareholders shall at all times carry out and cause the Corporation and the Subsidiaries, as applicable, to carry out the provisions of this Agreement.

2.02 Carrying out of the Business

The Shareholders shall at all times carry out and cause the Corporation and the Subsidiaries, as applicable, to carry out the Business in accordance with Applicable Law.

2.03 Idem

The Corporation confirms its knowledge of this Agreement and will carry out and be bound by the provisions of this Agreement to the full extent that it has the capacity and power at law to do so. The Corporation shall at all times cause each of its Subsidiaries, as applicable, to comply with the provisions of this Agreement.

2.04 Directors

- (1) The board of directors of the Corporation shall consist of up to five (5) directors.
- (2) As of the date of this Agreement, the initial director of the Corporation is Paul Ferguson.
- (3) No later than the date one year from the date of this Agreement, Newmarket, in its sole discretion, shall nominate up to five (5) directors for the board of directors to replace the initial director and shall use reasonable efforts to ensure that three (3) of the five (5) of its nominees for the board of directors are independent of Newmarket, as determined by Newmarket in its sole discretion.
- (4) Other than the initial director, if a director of the Corporation resigns or is otherwise removed from the board of directors, including at the request of Newmarket, the resulting vacancy on the board will be filled by a nominee of Newmarket. Newmarket will promptly nominate a replacement for any such director who has resigned or has been removed. Newmarket, in its sole discretion, may replace directors or add directors from time to time.
- (5) Directors shall be elected for a three (3) year term and all directors shall be eligible for election for a total of three (3) consecutive terms. Directors shall be elected by a majority of the votes cast at the relevant Shareholders' meeting.
- (6) Until otherwise agreed to by Newmarket, each Subsidiary shall have a board of directors consisting of one (1) director chosen by the board of directors of the Corporation from the then officers of the Corporation.
- (7) All directors of the Corporation and of each Subsidiary shall act honestly and in good faith with a view to the best interests of the Corporation and of such Subsidiary respectively and shall exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Any Shareholder that nominates individuals (in conformity with the provisions of this Agreement) to the board of directors shall nominate individuals who appear to be capable of meeting this standard of care and who appear to have appropriate skills and experience.

2.05 Auditor and Financial Reporting

- (1) The Shareholders shall appoint the Auditor of the Corporation and its Subsidiaries, as applicable.

(2) The financial year end of the Corporation and its Subsidiaries shall be December 31. Audited annual financial statements for the Corporation and its Subsidiaries, prepared on a consolidated basis, shall be presented to the Shareholders and the directors of the Corporation no later than 120 days after the financial year end of the Corporation. Unaudited quarterly financial statements for the Corporation and each Subsidiary shall be presented to the Shareholders and the directors of the Corporation no later than 60 days after the end of each applicable quarter.

2.06 Officers

The board of directors may appoint officers of the Corporation from time to time to manage the business and affairs of the Corporation.

ARTICLE 3 -DEALING WITH SHARES

3.01 No Transfer of Shares

(1) Except as expressly provided for in this Article 3, no Shareholder shall sell, transfer, assign, pledge, charge, mortgage or in any other way dispose of or encumber its Shares or its rights under this Agreement, unless prior to doing so the Majority Shareholder consents in writing.

(2) At all times, Tay Holdco will continue to be a wholly-owned subsidiary of The Corporation of the Township of Tay.

(3) No sale or transfer of Shares by a Shareholder may be completed unless the person to whom the Shares are to be sold or transferred enters into an agreement with the remaining Shareholders to become a party to this Agreement. If the Shareholder sells or transfers less than all of its Shares, the sale or transfer may not be completed unless the Shareholder, the third party purchaser and the other Shareholders enter into an agreement that will specify the rights and obligations of all the Shareholders.

3.02 Endorsement on Certificates

Share certificates of the Corporation and each Subsidiary shall bear the following language either as an endorsement or on the face thereof:

“The shares represented by this certificate are subject to all the terms and conditions of an agreement made as of June 20, 2018, as it may be amended from time to time, a copy of which is on file at the registered office of the Corporation.”

3.03 Mandatory Offer to Purchase – Piggyback Rights

(1) If any third party (for the purposes of this Section 3.03(1) the “**Third Party**”) agrees to acquire Shares from the Majority Shareholder, if any (the “**Selling Shareholder**”), the Third Party will only be permitted to acquire such Shares, and the Selling Shareholder will only be permitted to sell them, if the Third Party first makes an offer (an “**Offer to Purchase**”) to the other Shareholder (the “**Third Party Offeree**”) to purchase all, but not less than all, of the

Shares then outstanding that the Third Party does not then own or have a right to acquire for cash at the price to be determined in accordance with the provisions of Section 3.03(2).

(2) The Offer to Purchase described in Section 3.03(1) must be given to the Third Party Offeree in a notice (the “**Notice**”) which Notice must provide that the price to be paid for each Share and the other terms and conditions of the offer contained in the Offer to Purchase (the “**Purchase Price**”) is the same as that upon which the Third Party has agreed to purchase from the Selling Shareholder.

(3) Within thirty (30) days of the Notice being given, the Third Party Offeree will be entitled to accept the Offer to Purchase by giving notice of the acceptance thereof to the Third Party and to the Corporation.

(4) The Third Party will purchase all the Shares beneficially owned by the Third Party Offeree who accepts the Offer to Purchase at the Purchase Price and the transaction of purchase and sale will be completed within twenty (20) Business Days (or such longer period as may reasonably be required to comply with all applicable statutory and regulatory requirements or to ensure the concurrent closing with the sale of Shares by the Selling Shareholder) of the expiry of the thirty (30) day period specified in Section 3.03(3). The transaction will be completed at the Corporation’s registered office where delivery of the Shares must be made by the Third Party Offeree accepting the Offer to Purchase with good title, free and clear of all liens, charges, encumbrances and any other rights of others, against payment by certified cheque or bank draft by the Third Party. If, at the time of completion, any of the Shares that the Shareholder beneficially owns are subject to any lien, charge, encumbrance or other right of others, the Third Party will be entitled to deduct from the purchase money to be paid to the Third Party Offeree the amount required to discharge all such liens, charges, encumbrances or other rights of others and will apply such amount to the repayment, on behalf of the Third Party Offeree, of the obligations secured thereby.

(5) If the Third Party Offeree has accepted the Offer to Purchase and defaults in transferring any of the Shares, the Third Party Offeree is obligated to transfer to the Third Party as provided for in this Section 3.03, the Corporation is authorized and directed to receive the purchase money and thereupon to record the transfer of Shares, to enter the name of the Third Party in the registers of the Corporation as the holder of the Shares purchased by the Third Party, and cause to be issued to the Third Party share certificates for such Shares in the name of the Third Party. The Corporation will hold the purchase money received by it in trust on behalf of the Third Party Offeree and will not commingle the purchase money with the Corporation’s assets, except that any interest accruing thereon will be for the account of the Corporation. The receipt by the Corporation of the purchase money will be a good discharge to the Third Party and, after the name of the Third Party has been entered in the registers of the Corporation, the purchase and sale will be deemed completed at the price and on the terms and conditions contemplated herein and the Third Party will for all purposes own the Shares purchased by it. Upon such registration, the Third Party Offeree will cease to have any right to or in respect of the Shares except the right to receive, without interest, the purchase price received by the Corporation upon surrender of any certificates that previously represented such Shares.

3.04 Preemptive Rights

If any additional shares of the Corporation are to be issued from treasury, the Corporation will first offer such shares to the Shareholders by notice given to them of the Corporation's intention to issue additional shares and the number and class thereof to be so issued. The Shareholders will have the right to purchase the shares so offered *pro rata* based upon the number of Shares beneficially owned by the Shareholders at the date notice is given. Each Shareholder will have 20 Business Days from the date such notice is given to take up and pay for any of the shares so offered to the Shareholder. The shares that have not been taken up and paid for within the 20 Business Days will be offered again by the Corporation by notice given to those Shareholders who took up and paid for all the shares initially offered to them, and each of such Shareholders will have the right to purchase the shares so offered *pro rata* based upon the number of Shares beneficially owned by such Shareholders at the date notice is given of such subsequent offer. Such Shareholders will have 20 Business Days from the date such subsequent notice is given to take up and pay for any of the shares so offered, and so on from time to time until all the shares have been taken up or until all the Shareholders have refused to take up any more, in which latter event the shares not so taken up may be issued to such persons as the directors in their discretion determine, provided that such persons agree to be bound by this Agreement and to become parties hereto.

3.05 Obligation to Sell – Drag-Along Rights

(1) If the Majority Shareholder desires to sell all or any of its Shares, the Majority Shareholder may secure from a third party (the “**Offeror**”) a *bona fide* offer (an “**Offer to Purchase**”) to Tay Holdco to purchase all or an equal proportion of the Shares having regard to the relevant proportionate shareholdings owned by Tay Holdco on substantially similar terms and conditions for cash. Upon receipt of the Offer to Purchase, together with notification from Newmarket Holdco of its intention to accept the Offer to Purchase, Tay Holdco will be deemed to have accepted the Offer to Purchase in accordance with its terms and conditions.

(2) If Tay Holdco defaults in transferring any of its Shares that it is obligated to transfer to the Offeror as provided for in this Section 3.04, the Corporation is authorized and directed to receive the purchase money and thereupon to record the transfer of Shares, to enter the name of the Offeror in the registers of the Corporation as the holder of the Shares purchased by the Offeror, and cause to be issued to the Offeror share certificates for such Shares in the name of the Offeror. The Corporation will hold the purchase money received by it in trust on behalf of Tay Holdco and will not commingle the purchase money with the Corporation's assets, except that any interest accruing thereon will be for the account of the Corporation. The receipt by the Corporation of the purchase money will be a good discharge to the Offeror and, after the name of the Offeror has been entered in the registers of the Corporation as the holder of the Shares purchased by it, the purchase and sale will be deemed completed at the price and on the terms and conditions contemplated herein and the Offeror will for all purposes own the Shares purchased by it. Upon such registration, Tay Holdco will cease to have any right to or in respect of the Shares except the right to receive, without interest, the purchase money received by the Corporation upon surrender of any certificates that previously represented such Shares.

(3) The Offeror will purchase all or an equal proportion of the Shares beneficially owned by Tay Holdco having regard to the relevant proportionate shareholdings owned by Tay Holdco and the transaction of purchase and sale will be completed within twenty (20) Business Days (or such longer period as may reasonably be required to comply with all applicable statutory and regulatory requirements or to ensure the concurrent closing with the sale of Shares by Newmarket Holdco). The transaction will be completed at the Corporation's registered office where delivery of the Shares must be made by Tay Holdco accepting the Offer to Purchase with good title, free and clear of all liens, charges, encumbrances and any other rights of others, against payment by certified cheque or bank draft by the Offeror. If, at the time of completion, any of the Shares that Tay Holdco beneficially owns are subject to any lien, charge, encumbrance or other right of others, the Offeror will be entitled to deduct from the purchase money to be paid to Tay Holdco the amount required to discharge all such liens, charges, encumbrances or other rights of others and will apply such amount to the repayment, on behalf of Tay Holdco, of the obligations secured thereby.

3.06 Exclusivity of Sections

Each of Sections 3.03 and 3.05 are exclusive and the provisions thereof may only be relied upon by any party if the provisions of one of the other of such Sections are not at the same time being relied upon by the same or another party.

ARTICLE 4 -COVENANTS OF EACH PARTICIPATING MUNICIPALITY

4.01 Undertaking of Each Participating Municipality

Each of the Participating Municipalities agrees with the other Participating Municipality that it shall cause its respective Holdco Corporation to duly and punctually observe and perform each and every covenant of its Holdco Corporation contained in this Agreement.

4.02 Transfer of Holdco Corporation Shares

Tay shall not sell, transfer, assign, pledge, charge, mortgage or in any other way dispose of or encumber any of its shares in Tay Holdco or any other entity through which Tay hold its interest in the Corporation without the prior written consent of Newmarket.

ARTICLE 5 -BOOKS AND RECORDS

5.01 Access to Books and Records

Proper books and records will be kept by the Corporation. Each Shareholder or its nominee or other authorized representative will have free access at all times to examine and copy such books and records.

ARTICLE 6 -GENERAL

6.01 Non-Competition

Tay Holdco may not, without the prior written consent of Newmarket Holdco, at any time while Tay Holdco is a shareholder of the Corporation and for a period of two (2) years after Tay Holdco ceases to be a shareholder of the Corporation, either individually or in partnership or jointly or in conjunction with any person as principal, agent, trustee, employee or shareholder or in any other manner whatsoever:

- (a) carry on, engage in or be concerned with or interested in, or
- (b) lend money to, guarantee the debts or obligations of or permit the name of Tay Holdco or any part thereof to be used or employed by any person engaged in or concerned with or interested in,

any business that is the same as, substantially similar to or competitive with the business carried on by the Corporation or its Subsidiaries or, if Tay Holdco has ceased to be a shareholder of the Corporation, any business that is the same as, substantially similar to or competitive with the business carried on by the Corporation or its Subsidiaries at the time Tay Holdco ceased to be a shareholder of the Corporation within, in either case, the Province of Ontario.

6.02 Non-Solicitation

Tay Holdco may not, without the prior written consent of Newmarket Hydro, at any time while Tay Holdco is a shareholder of the Corporation and for a period of two (2) years after Tay Holdco ceases to be a shareholder of the Corporation, either individually or in partnership or jointly or in conjunction with any person as principal, agent, trustee, employee or shareholder or in any other manner whatsoever:

- (a) induce or endeavour to induce any employee of the Corporation to leave his or her employment with the Corporation;
- (b) employ or attempt to employ or assist any person to employ any employee of the Corporation; or
- (c) solicit, endeavour to solicit or gain the business of, canvass or interfere with the relationship of the Corporation with any person that:
 - (i) is a customer of the Corporation while Tay Holdco is a shareholder of the Corporation or at the date Tay Holdco ceases to be a shareholder of the Corporation;
 - (ii) was a customer of the Corporation at any time within two (2) years prior to the date Tay Holdco ceases to be a shareholder of the Corporation; or
 - (iii) had been pursued as a prospective customer by or on behalf of the Corporation at any time within two (2) years prior to the date Tay Holdco

ceases to be a shareholder of the Corporation and in respect of whom the Corporation has not determined to cease all such pursuit.

6.03 Benefit of the Agreement

This Agreement shall enure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto.

6.04 Entire Agreement

This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto. There are no representations, warranties, terms, conditions, undertakings or collateral agreements, express, implied or statutory, between the parties other than as expressly set forth in this Agreement.

6.05 Amendments and Waivers

No amendment to this Agreement shall be valid or binding unless set forth in writing and (i) either duly executed by all of the parties thereto, or (ii) at a meeting of Shareholders duly called for the purpose of considering the proposed amendment, all of the votes are cast in favor of the action, in which event the amendment shall be deemed to be duly executed by all of the parties hereto. No waiver of any breach of any provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided in the written waiver, shall be limited to the specific breach waived.

6.06 Assignment

This Agreement may not be assigned by a party without the prior written consent of the other party; provided, however, that Newmarket Holdco will have the right to assign this Agreement concurrent with the transfer of the Shares held by it to any Affiliate without the consent of Tay Holdco.

6.07 Termination

This Agreement shall terminate upon:

- (a) the written agreement of all of the Participating Municipalities and the Shareholders;
- (b) the dissolution or bankruptcy of the Corporation or the making by the Corporation of an assignment under the provisions of the *Bankruptcy and Insolvency Act*; or
- (c) one person becoming the beneficial owner of all of the Shares.

6.08 Severability

If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect.

6.09 Notices

Any demand, notice or other communication (hereinafter in this Section 6.09 referred to as a “**Communication**”) to be given in connection with this Agreement shall be given in writing and may be given by personal delivery, by registered mail or by transmittal by facsimile transmission addressed to the recipient as follows:

To: Tay and Tay Holdco

450 Park St.
Victoria Harbour, ON
L0K 2A0

Attention: Chief Administrative Officer

Fax No: (705) 534-4470

To: Newmarket and Newmarket Holdco

395 Mulock Drive
P. O. Box 328 STN MAIN
Newmarket, Ontario
L3Y 4X7

Attention: Chief Administrative Officer

Fax No: (905) 953-5100

To: The Corporation

Newmarket Hydro Holdings Inc.
590 Steven Court
Newmarket, Ontario
L3Y 6Z2

Attention: President

Fax No: (905) 895-8931

or such other address, fax number or individual as may be designated by notice by any party to the other. Any Communication given by personal delivery shall be conclusively deemed to have been given on the day of actual delivery thereof and, if given by registered mail, on the third Business Day following the deposit thereof in the mail and, if given by facsimile transmission, on the day of transmittal thereof. If the party giving any Communication knows or ought reasonably to know of any difficulties with the postal system which might affect the delivery of mail, any such Communication shall not be mailed but shall be given by personal delivery or by facsimile transmission.

6.10 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

6.11 Dispute Resolution

(1) The parties will make good faith efforts to resolve any controversy, question, claim or other dispute arising out of or relating to this Agreement (a “**Dispute**”) by negotiation between the Chief Administrative Officer and the Treasurer of each of Newmarket and Tay. Any party may give the another party or parties with which it has a Dispute written notice of a Dispute (which notice shall identify all the recipients of such notice). Within thirty (30) days after delivery of the notice, the receiving party or parties will submit a written response to the other recipient(s) of the notice of the Dispute. The notice(s) and the response(s) will include (a) a statement of the sending party’s position and the arguments supporting that position, and (b) the name and title of the representative who will represent that party and of any other representative who will accompany the representative. Within thirty (30) days after delivery of the notice, the representatives of each relevant party or, with the consent of all relevant parties, any other representative not identified in a notice will meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary during the period of thirty (30) days (the “**Meeting Period**”) after the initial meeting, to attempt to resolve the Dispute.

(2) In the event that the Dispute is not settled between the relevant parties by the completion of the Meeting Period, then the Dispute may be conclusively settled by submission to arbitration in accordance with the rules of arbitration of the *Arbitration Act, 1991* (Ontario).

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF the parties have executed this Agreement.

TAY HYDRO INC.

By: _____

Name: Robert Lamb
Title: Director

NEWMARKET HYDRO HOLDINGS INC.

By: _____

Name: Robert Shelton
Title: Director

ENVI NETWORKS LTD.

By: _____

Name: Paul Ferguson
Title: Director

**THE CORPORATION OF THE
TOWNSHIP OF TAY**

By: _____

Name: Robert Lamb
Title: Chief Administrative Officer

**THE CORPORATION OF THE TOWN OF
NEWMARKET**

By: _____

Name: Robert Shelton
Title: Chief Administrative Officer

SHAREHOLDERS AGREEMENT

THIS AGREEMENT made as of April 30, 2007;

B E T W E E N:

TAY HYDRO INC. (hereinafter referred to as "Tay Holdco")

- and -

NEWMARKET HYDRO HOLDINGS INC. (hereinafter referred to as "Newmarket Holdco")

- and -

[NEWMARKET - TAY POWER DISTRIBUTION LTD.], a corporation incorporated under the laws of the Province of Ontario (hereinafter referred to as the "Corporation"),

- and -

THE CORPORATION OF THE TOWNSHIP OF TAY, (hereinafter referred to as "Tay"),

- and -

THE CORPORATION OF THE TOWN OF NEWMARKET, (hereinafter referred to as "Newmarket")

WHEREAS the authorized capital of the Corporation consists of an unlimited number of Shares, of which 10,000 Shares are issued and outstanding;

AND WHEREAS at the date hereof all of the issued Shares of the Corporation are beneficially owned as follows:

<u>SHAREHOLDERS</u>	<u>SHARES</u>
Tay Holdco	730
Newmarket Holdco	9,270

AND WHEREAS at the date hereof all of the issued shares of Tay Holdco are owned by Tay;

AND WHEREAS at the date hereof all of the issued shares of Newmarket Holdco are owned by Newmarket;

AND WHEREAS the Shareholders acknowledge that the number or allocation of the issued and outstanding Shares may change to accommodate any post-amalgamation adjustment contemplated by the Amalgamation Participation Agreement dated as of June 21, 2006 between Tay and Newmarket;

AND WHEREAS the Participating Municipalities, the Shareholders and the Corporation have agreed to enter into this Agreement as being in their respective best interests and for the purpose of providing for the operation of the Corporation and its Subsidiaries;

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the premises and the mutual covenants and agreements herein contained the parties hereto agree as follows:

ARTICLE 1 -INTERPRETATION

1.01 Definitions

In this Agreement, unless something in the subject matter or context is inconsistent therewith:

“Agreement” means this agreement and all schedules attached hereto and all amendments made thereto and thereto by written agreement among the Participating Municipalities, the Shareholders and the Corporation.

“Asset Value” means the value of all of the assets of the Corporation together with its Subsidiaries as determined by the annual audited consolidated financial statements of the Corporation for its immediately previous financial year and pending the preparation of the first such financial statements, it means the aggregate fair market value on the date hereof of the assets of the Corporation together with its Subsidiaries.

“Auditor” means the auditor of the Corporation and its Subsidiaries appointed from time to time.

“Business Corporations Act” means the *Business Corporations Act* (Ontario), as now enacted or as the same may from time to time be amended, re-enacted or replaced.

“Business” means:

- (a) the distribution of electricity and other activities permitted by its distribution licence issued by the OEB; and
- (b) in respect of the Corporation and any Subsidiary, such business activities (other than distribution) carried on in Ontario as are permitted by the Ontario Energy Board Act and approved by the board of directors of the Corporation.

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

“Communication” has the meaning set out in Section 6.07.

“Distribute” has the meaning ascribed thereto in the Electricity Act and **“distribution”** has a corresponding meaning.

“Electricity Act” means the *Electricity Act, 1998* (Ontario) as now enacted or as the same may from time to time be amended, re-enacted or replaced, and any regulations thereunder.

“Holdco Corporations” means, collectively, Tay Holdco and Newmarket Holdco and **“Holdco Corporation”** means either one of them.

“Material Change” means any change in the nature of the Business of the Corporation or any Subsidiary which could result in a positive or negative financial impact on the assets of the Corporation together with its Subsidiaries of more than 20 per cent of the Asset Value.

“Non-Municipal Appointee” means an individual who is neither a member of the Council of either of the Participating Municipalities, nor an employee of any of the Participating Municipalities, the Shareholders, the Corporation, or any Subsidiary.

“Notice” has the respective meanings set out in Sections 4.03(1) and 4.04(2).

“OEB” means the Ontario Energy Board.

“Offer to Purchase” has the meaning set out in Section 4.04(1).

“Offered Shares” has the meaning set out in Section 4.03(1).

“Offeree” has the meaning set out in Section 4.03(1).

“Offeror” has the meaning set out in Section 4.03(1).

“Ontario Energy Board Act” means the *Ontario Energy Board Act, 1998* (Ontario) as now enacted or as the same may from time to time be amended, re-enacted or replaced, and any regulations thereunder.

“Participating Municipalities” means, collectively, Tay and Newmarket, collectively, and **“Participating Municipality”** means either one of them;

“Purchase Price” has the meaning set out in Section 4.04(2).

“Selling Shareholder” has the meaning set out in Section 4.04(5).

“Shares” means the common shares of the Corporation that the Shareholders at the date hereof or hereafter may beneficially own.

“Shareholder” means Tay Holdco and Newmarket Holdco, together with such other persons as may acquire Shares and become parties to this Agreement, collectively, and **“Shareholder”** means any one of such persons individually.

“Subsidiary” means any corporation which may hereafter become a direct or indirect subsidiary of the Corporation as determined in accordance with the Business Corporations Act.

“Third Party” has the meaning set out in Section 4.04(1).

“Third Party Offer” has the meaning set out in Section 4.03(1).

“Third Party Offeree” has the meaning set out in Section 4.04(1).

1.02 Sections and Headings

The division of this Agreement into Articles and Sections and the insertions of headings are for the convenience of reference only and shall not affect the construction or interpretations of this Agreement. The terms “this Agreement”, “hereof”, “hereunder” and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplemental or ancillary hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

1.03 Number

Words importing the singular number only shall include the plural and vice versa, words importing the masculine gender shall include the feminine and neuter genders and vice versa and words importing persons shall include individuals, partnerships, associations, trusts, unincorporated organizations and corporations.

1.04 Accounting Principles

Wherever in this Agreement reference is made to generally accepted accounting principles, such reference shall be deemed to be the generally accepted accounting principles from time to time approved by the Canadian Institute of Chartered Accountants, or any successor institute, applicable as at the date on which such calculation is made or required to be made in accordance with generally accepted accounting principles.

1.05 Unanimous Shareholder Agreement

(1) To the extent that this Agreement specifies that any matters relating to the Corporation may only be, or shall be dealt with or approved by, or shall require action by the Shareholders, the discretion and powers of the directors of the Corporation to manage and to supervise the management of the business and affairs of the Corporation with respect to such matters are correspondingly restricted. For greater certainty, the parties agree that this Agreement is intended to operate as a unanimous shareholders agreement with respect to the Corporation, within the meaning of the Business Corporations Act.

(2) To the extent that this Agreement specifies that any matters relating to any Subsidiary may only be, or shall be dealt with or approved by, or shall require action by the Shareholders or the directors of the Corporation, the discretion and powers of the directors of such Subsidiary to manage and to supervise the management of the business and affairs of such Subsidiary with respect to such matters are correspondingly restricted. For greater certainty, the parties agree that this Agreement is a unanimous shareholder declaration by the Corporation in respect of each Subsidiary, within the meaning of the Business Corporations Act.

ARTICLE 2 -OBJECTIVES AND GUIDING PRINCIPLES

2.01 Objectives and Guiding Principles

The parties recognize the following as the objectives and guiding principles of the Corporation and its Subsidiaries:

Business: *The Corporation and its Subsidiaries will engage in those areas of business, permitted by the Ontario Energy Board Act, in which they have expertise and which are related to the Corporation's core business of electricity distribution.*

The Corporation and its Subsidiaries, will, within six (6) months after the date of this Agreement, seek to develop a business plan based upon a review of opportunities which are available, which are consistent with the Ontario Energy Board Act, and which build upon the Corporation's excellence in electricity distribution.

In all cases, business expansion will only occur where there is a valid business case which demonstrates that the expansion will add value to the Corporation.

For-Profit Corporation: *The Corporation and its Subsidiaries will be for-profit corporations. Subject to OEB regulation, the Corporation will have the objective of providing a reasonable rate of return to the Shareholders.*

Dividends and Capital Structure: *The Corporation's board of directors will establish policies to develop and to maintain a financial and capitalization structure for the Corporation and its Subsidiaries consistent with industry standards and sound financial principles in order to provide the Shareholders with regular dividends or interest payments on any debt (or both) to the Participating Municipalities or to the Shareholders consistent with the preceding paragraph. The Corporation will present, on an annual basis in June of each year, updated dividend and promissory note interest payment projections for the next four (4) financial years of the Corporation.*

Shareholders: *The Shareholders are municipalities which have agreed that each of them will ensure equitable treatment of each other in connection with the operations of the Corporation and its Subsidiaries and with the provisions of this Agreement. It is recognized that the Corporation is integral to the prosperity and infrastructure of the communities in which it operates. The Shareholders understand that the Corporation will best serve the communities through the delivery of efficient and high quality services. The Corporation will, at all times, provide equitable treatment to both Participating Municipalities and their respective constituencies.*

Customers: *The customers of the Corporation and its Subsidiaries are the focus of the Corporation. The Corporation and its Subsidiaries, will provide a reliable, effective and efficient electricity distribution system and will endeavour to respond to customer demands by providing other quality products and services.*

Employees: *The Corporation and its Subsidiaries will treat all employees in a fair and equitable manner. The Corporation will endeavour to provide meaningful employment to*

all employees of the amalgamated utilities. The Corporation and its Subsidiaries will develop with their employees a shared commitment towards effective and efficient customer service, improved productivity, and work place safety.

The Corporation and its Subsidiaries will endeavour to ensure that all staff understand the Corporation's business plan and direction, and that they have the skills required to fulfill their part in achieving those goals.

Community: *The Corporation and its Subsidiaries will be part of the local communities in which they operate. The Corporation and its Subsidiaries will strive to be good corporate citizens.*

The Shareholders and the directors and management of the Corporation and of the Subsidiaries, in exercising their respective rights and duties, shall give due consideration to the above objectives and guiding principles.

ARTICLE 3 -MANAGEMENT

3.01 Carrying out of the Agreement

The Shareholders shall at all times carry out and cause the Corporation and the Subsidiaries to carry out the provisions of this Agreement.

3.02 Idem

The Corporation confirms its knowledge of this Agreement and will carry out and be bound by the provisions of this Agreement to the full extent that it has the capacity and power at law to do so. The Corporation shall at all times cause each of its Subsidiaries to comply with the provisions of this Agreement.

3.03 Directors

(1) The board of directors of the Corporation shall consist of seven (7) directors, four (4) of whom shall be Non-Municipal Appointees, one (1) of whom shall be the Mayor of Tay, one (1) of whom shall be the Mayor of Newmarket, and one (1) of whom shall be the chief executive officer of the Corporation. The chair of the board of directors shall be a Non-Municipal Appointee designated by the other six (6) directors.

(2) Prior to each annual general meeting, the then board of directors shall, with input from a professional recruiting firm and utilizing corporate governance best practices, provide the Shareholders with a recommended list of candidates from which to select nominees to be elected directors with respect to all then vacant director positions or all director positions which will be vacant as at the next annual general meeting of the Corporation. For each Non-Municipal Appointee director position which may be filled by a then non-incumbent director, there shall be no less than two (2) candidates recommended by the board of directors to the Shareholders to fill each such position. Upon receipt of the recommended list of candidates from the board of directors, the Participating Municipalities shall strike a five (5) person ad-hoc joint committee consisting of two (2) Councillors from each of Tay and Newmarket and a joint committee chair

for the express purposes of considering the candidates and of making a selection from the recommended list of candidates for consideration for election by the Shareholders to the board of directors at the next annual general meeting of the Corporation.

(3) Elected directors shall be elected for a three (3) year term. All elected directors shall be eligible for election for a total of three (3) consecutive terms. Directors shall be elected by a majority of the votes cast at the relevant Shareholders' meeting.

(4) In the event that the Mayor of Tay or the Mayor of Newmarket is unable to attend a meeting of the board of directors, the Shareholder, which is represented by such director, shall be entitled to have a representative present at such meeting. Such representative may request to be heard at any such meeting, but shall not be entitled to vote on any matter.

(5) The Chief Administrative Officer of each of Tay and Newmarket shall be invited to attend all meetings of the board of directors. Each may request to be heard at any such meeting, but shall not be entitled to vote on any matter.

(6) Until otherwise agreed to by the Shareholders, each Subsidiary shall have a board of directors consisting of one (1) director chosen by the board of directors of the Corporation from the then officers of the Corporation.

(7) All directors of the Corporation and of each Subsidiary shall act honestly and in good faith with a view to the best interests of the Corporation and of such Subsidiary respectively and shall exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Each Shareholder entitled herein to nominate a director of the Corporation agrees to nominate individuals (in conformity with the provisions of this Agreement) who appear to be capable of meeting this standard of care and who appear to have appropriate skills and experience.

(8) Each Shareholder agrees in good faith, and shall use commercially reasonable efforts, to ensure that it is represented at all meetings of the Shareholders and of directors of the Corporation in order to ensure that the quorum requirements for such meetings are met.

3.04 Auditor and Financial Reporting

(1) The Shareholders shall appoint the Auditor of the Corporation and its Subsidiaries.

(2) The financial year end of the Corporation and its Subsidiaries shall be December 31. Audited annual financial statements for the Corporation and its Subsidiaries, prepared on a consolidated basis, shall be presented to the Shareholders and the directors of the Corporation no later than 120 days after the financial year end of the Corporation. Unaudited quarterly financial statements for the Corporation and each Subsidiary shall be presented to the Shareholders and the Directors of the Corporation no later than 60 days after the end of each applicable quarter.

3.05 Approval of Matters by the Shareholders

In addition to the requirements of the *Business Corporations Act*, none of the following actions shall be taken by the Corporation or any Subsidiary, as applicable, unless all of the

Shareholders enact an approving resolution at a duly called Shareholders' meeting or consent to such action by an instrument or instruments in writing (which consent shall not be unreasonably withheld or delayed):

- (a) any action which could lead to or result in a Material Change in the nature of the Business of the Corporation or any Subsidiary;
- (b) taking of any steps to wind-up, dissolve or terminate the corporate existence of the Corporation or any Subsidiary;
- (c) the sale, lease, exchange or disposition of any shares of any Subsidiary;
- (d) the entering into of an amalgamation, merger or consolidation with any other body corporate by the Corporation or any Subsidiary;
- (e) any change in the issued capital of the Corporation or any Subsidiary;
- (f) the determination of the remuneration of the directors of the Corporation or any Subsidiary and any change thereto;
- (g) any change in the articles or by-laws of the Corporation or any Subsidiary;
- (h) the Corporation or any Subsidiary entering into any agreement other than in the ordinary course of the Business;
- (i) the borrowing of any money, the giving of any security or the making or incurring of any single capital expenditure by the Corporation and its Subsidiaries on a consolidated basis, in each case in excess of 15 per cent of the Asset Value, or any such capital expenditures which, in the aggregate, are in excess of 20 per cent of the Asset Value in any financial year of the Corporation;
- (j) the sale, lease, exchange or disposition (other than in the ordinary course of the Business) of assets of the Corporation and its Subsidiaries on a consolidated basis, having a value in excess of 20 per cent of the Asset Value;
- (k) the Corporation entering into a partnership, strategic alliance, joint venture, union of interests or reciprocal concession with any party or any other arrangement with any party for the sharing of profits exceeding in value an amount equal to 20 per cent of the Asset Value;
- (l) the purchase of any assets or business by the Corporation or any Subsidiary, other than the ordinary course of Business, having a value in excess of 20 percent of the Asset Value;
- (m) the establishment of any new Subsidiary; or
- (n) the approval of any dividend policy and any proposal relating to the capital structure of the Corporation and its subsidiaries.

Each Shareholder agrees to use its best efforts, in good faith, to ensure that it is duly represented at all Shareholders' meetings. Each Shareholder's representative at any meeting of the Shareholders shall present a proxy of the applicable Shareholder duly evidencing the authority of such representative to be present on behalf of such Shareholder.

ARTICLE 4 -DEALING WITH SHARES

4.01 No Transfer of Shares

(1) Except as expressly provided for in this Article 4, no Shareholder shall sell, transfer, assign, pledge, charge, mortgage or in any other way dispose of or encumber their Shares or their rights under this Agreement unless prior to doing so the other Shareholder consents in writing provided, however, in no event shall either Shareholder exercise its rights under Sections 4.03 or 4.04 at any time prior to the fourth anniversary of the date of this Agreement.

(2) Notwithstanding any other provision of this Article 4, no sale or transfer of Shares may be made if:

- (a) as a result, the remaining Shareholder, its Participating Municipality, the Corporation or any Subsidiary would become subject to any taxation or additional taxation to which they were not subject prior to the proposed sale unless the Shareholder and its Participating Municipality selling or transferring such Shares provides an indemnity for such transaction to the other Shareholder, its Participating Municipality, the Corporation and any relevant Subsidiary on such terms as the parties may reasonably agree;
- (b) the sale or transfer is not permitted by applicable law or any term of any agreement or other instrument affecting the Corporation or any Subsidiary, unless any required consent or approval is obtained; and
- (c) the proposed purchaser or transferee does not have the power and capacity, including financial, to carry out its obligations under this Agreement to the satisfaction of the remaining Shareholders, acting reasonably.

(3) No sale or transfer of Shares by a Shareholder may be completed unless the person to whom the Shares are to be sold or transferred enters into an agreement with the remaining Shareholders to become a party to this Agreement. If the Shareholder sells or transfers less than all of its Shares, the sale or transfer may not be completed unless the Shareholder, the third party purchaser and the other Shareholders enter into an agreement that will specify the rights and obligations of all the Shareholders.

4.02 Endorsement on Certificates

Share certificates of the Corporation and each Subsidiary shall bear the following language either as an endorsement or on the face thereof:

“The shares represented by this certificate are subject to all the terms and conditions of an agreement made as of •, 200•, as it may

be amended from time to time, a copy of which is on file at the registered office of the Corporation.”

4.03 Right of First Refusal

(1) If a Shareholder (the “Offeror”) receives a *bona fide* written offer (a “Third Party Offer”) from any person dealing at arm’s length (as defined in the Income Tax Act) with the Shareholder to purchase all but not less than all the Shares that the Shareholder beneficially owns (the “Offered Shares”), which Third Party Offer is acceptable to the Offeror, the Offeror must give notice of the Third Party Offer (the “Notice”) to the Corporation and to the other Shareholder (the “Offeree”). The Third Party Offer must be an offer to purchase only Shares and no other assets. The Notice must contain a copy of the Third Party Offer, disclose the identity of the person making the Third Party Offer and provide evidence sufficient to establish that such person has the power and capacity, including financial, to complete the purchase of the Offered Shares and that the conditions set out in Section 4.01(2) will be satisfied. Upon the Notice being given, the Offeree will have the right to purchase all, but not less than all, of the Offered Shares at the same price and upon the same terms and conditions as are contained in the Third Party Offer.

(2) The Offeree will be entitled to purchase the Offered Shares in accordance with the provisions of this Section 4.03 upon giving notice of such desire to the Offeror and to the Corporation within 60 Business Days of having been given the Notice.

(3) If the Offeree is willing to purchase all, but not less than all, of the Offered Shares, the transaction of purchase and sale will be completed in accordance with the terms set out in the Third Party Offer by delivery of the Offered Shares by the Offeror with good title, free and clear of all liens, charges, encumbrances and any other rights of others, against payment by certified cheque or bank draft by the Offeree. If, at the time of completion, any Offered Shares are subject to any lien, charge, encumbrance or other right of others, the Offeree will be entitled to deduct from the purchase money to be paid to the Offeror the amount required to discharge all such liens, charges, encumbrances or other rights of others and will apply such amount to the repayment, on behalf of the Offeror, of the obligations secured thereby.

(4) If the Offeror defaults in transferring the Offered Shares to the Offeree as provided in this Section 4.03, the Corporation is authorized and directed to receive the purchase money and thereupon to record the transfer of the Offered Shares, to enter the name of the Offeree in the registers of the Corporation as the holder of the Shares purchased by it, and to cause to be issued to the Offeree share certificates for the Offered Shares in the name of such Offeree. The Corporation will hold the purchase money received by it in trust on behalf of the Offeror and will not commingle the purchase money with the Corporation’s assets, except that any interest thereon will be for the account of the Corporation. The receipt by the Corporation of the purchase money will be a good discharge to the Offeree and, after its name has been entered in the registers of the Corporation, the transaction of purchase and sale will be deemed completed at the price and on the other terms and conditions contemplated herein and the Offeree will for all purposes own the Offered Shares purchased by it. Upon such registration, the Offeror will cease to have any right to or in respect of the Offered Shares except the right to

receive, without interest, the purchase price received by the Corporation upon surrender of any certificates that previously represented the Offered Shares.

(5) If the Offeree does not give notice in accordance with the provisions of Section 4.03(2) that it is willing to purchase all the Offered Shares, the rights of the Offeree, except as hereinafter provided, to purchase the Offered Shares will terminate and the Offeror may, subject to the provisions of Section 4.04, sell all, but not less than all, of the Offered Shares to any person within four (4) months after the expiry of the 60 Business Day period specified in Section 4.03(2). Any such sale must be at a price not less than the purchase price contained in the Third Party Offer and on other terms no more favourable to such person than those contained in the Third Party Offer. If the Offered Shares are not sold within such four (4) month period on such terms, the rights of the Offeree pursuant to this Section 4.03 will again take effect.

4.04 Mandatory Offer to Purchase – Piggyback Rights

(1) In the event that the Offeree, as that term is defined in Section 4.03(1), does not purchase the Offered Shares from the Offeror in the manner provided for in Section 4.03, then if any third party (for the purposes of this Section 4.04(1) the "Third Party") agrees to acquire Shares from any Shareholder, the Third Party will only be permitted to acquire such Shares, and the Shareholder who is to sell such Shares to the Third Party will only be permitted to sell them, if the Third Party first makes an offer (an "Offer to Purchase") to the other Shareholder (the "Third Party Offeree") to purchase all, but not less than all, of the Shares then outstanding that the Third Party does not then own or have a right to acquire for cash at the price to be determined in accordance with the provisions of Section 4.04(2).

(2) The Offer to Purchase described in Section 4.04(1) must be given to the Third Party Offeree in a notice (the "Notice") which Notice must provide that the price to be paid for each Share and the other terms and conditions of the offer contained in the Offer to Purchase (the "Purchase Price") is the same as that upon which the Third Party has agreed to purchase from the Shareholder who has agreed to sell Shares.

(3) Within 60 Business Days of the Notice being given, the Third Party Offeree will be entitled to accept the Offer to Purchase by giving notice of the acceptance thereof to the Third Party and to the Corporation.

(4) The Third Party will purchase all the Shares beneficially owned by the Third Party Offeree who accepts the Offer to Purchase at the Purchase Price and the transaction of purchase and sale will be completed within 20 Business Days (or such longer period as may reasonably be required to comply with all applicable statutory and regulatory requirements) of the expiry of the 60 Business Day period specified in Section 4.04(3). The transaction will be completed at the Corporation's registered office where delivery of the Shares must be made by the Third Party Offeree accepting the Offer to Purchase with good title, free and clear of all liens, charges, encumbrances and any other rights of others, against payment by certified cheque or bank draft by the Third Party. If, at the time of completion, any Offered Shares are subject to any lien, charge, encumbrance or other right of others, the Third Party will be entitled to deduct from the purchase money to be paid to the Third Party Offeree the amount required to discharge

all such liens, charges, encumbrances or other rights of others and will apply such amount to the repayment, on behalf of the Third Party Offeree, of the obligations secured thereby.

(5) If the Shareholder obligated to sell in accordance with the foregoing provisions of this Section 4.04 (the "Selling Shareholder") defaults in transferring any of the Shares the Selling Shareholder is obligated to transfer to the Third Party as provided for in this Section 4.04, the Corporation is authorized and directed to receive the purchase money and thereupon to record the transfer of Shares, to enter the name of the Third Party in the registers of the Corporation as the holder of the Shares purchased by the Third Party, and cause to be issued to the Third Party share certificates for such Shares in the name of the Third Party. The Corporation will hold the purchase money received by it in trust on behalf of the Selling Shareholder and will not commingle the purchase money with the Corporation's assets, except that any interest accruing thereon will be for the account of the Corporation. The receipt by the Corporation of the purchase money will be a good discharge to the Third Party and, after the name of the Third Party has been entered in the registers of the Corporation, the purchase and sale will be deemed completed at the price and on the terms and conditions contemplated herein and the Third Party will for all purposes own the Shares purchased by it. Upon such registration, the Selling Shareholder will cease to have any right to or in respect of the Shares except the right to receive, without interest, the purchase price received by the Corporation upon surrender of any certificates that previously represented such Shares.

(6) For the purposes of this Section 4.04, the Corporation and the Shareholders acknowledge that no sale or transfer of Shares to any Third Party will be authorized or permitted and no such person (unless already a Shareholder) will be entitled to become a party to this Agreement unless and until the Offer to Purchase is made and, if accepted by one or more Shareholders, the purchase and sale of such Shares is completed.

4.05 Exclusivity of Sections

Each of Sections 4.03 and 4.04 are exclusive and the provisions thereof may only be relied upon by any party if the provisions of one of the other of such Sections are not at the same time being relied upon by the same or another party.

ARTICLE 5 - COVENANTS OF EACH PARTICIPATING MUNICIPALITY

5.01 Undertaking of Each Participating Municipality

Each of the Participating Municipalities agrees with the other Participating Municipality that it shall cause its respective Holdco Corporation to duly and punctually observe and perform each and every covenant of its Holdco Corporation contained in this Agreement.

5.02 Transfer of Holdco Corporation Shares

Each of the Participating Municipalities agrees with the other Participating Municipality that it shall not sell, transfer, assign, pledge, charge, mortgage or in any other way dispose of or encumber any of its shares in its respective Holdco Corporation without the prior written consent of the other Participating Municipality, such consent not to be unreasonably withheld or delayed.

5.03 Transfer and Repayment of Corporation Debt Owed to a Participating Municipality

Neither Participating Municipality shall:

- (a) sell, assign, pledge, charge, mortgage or in any other way dispose (a "Debt Transfer") of its interest in any indebtedness owed by the Corporation to the Participating Municipality as at the date hereof ("PM Debt") without giving the other Participating Municipality at least two (2) months' prior notice to the other Participating Municipality and the Corporation of its intention to make the Debt Transfer; or
- (b) receive any repayment of principal on any PM Debt owed to it without the Corporation having given the other Participating Municipality at least two (2) months' prior notice thereof and the opportunity to have the principal amount of its PM Debt repaid on a proportionate basis unless the other Participating Municipality agrees in writing with the Corporation that it does not wish to have its PM Debt repaid on such basis.

5.04 Related Business Opportunity

Each of the Participating Municipalities agrees with the other Participating Municipality that it, in its own capacity or otherwise through its respective Holdco Corporation or any other corporation or other business entity, will not enter into any agreement or arrangement with respect to any actual or potential opportunity to acquire any interest in any business in any way related to the Business without first giving the other Participating Municipality or its respective Holdco Corporation written notice of the opportunity and an opportunity to participate in such opportunity on a proportionate basis (provided that such opportunity to participate shall, unless exercised in writing, expire sixty (60) days after notice of such opportunity has been delivered).

ARTICLE 6 -GENERAL

6.01 Benefit of the Agreement

This Agreement shall enure to the benefit of and be binding upon the respective successors and permitted assigns of the parties hereto.

6.02 Entire Agreement

This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto. There are no representations, warranties, terms, conditions, undertakings or collateral agreements, express, implied or statutory, between the parties other than as expressly set forth in this Agreement.

6.03 Amendments and Waivers

No amendment to this Agreement shall be valid or binding unless set forth in writing and (i) either duly executed by all of the parties thereto, or (ii) at a meeting of Shareholders duly

called for the purpose of considering the proposed amendment, all of the votes are cast in favor of the action, in which event the amendment shall be deemed to be duly executed by all of the parties hereto. No waiver of any breach of any provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided in the written waiver, shall be limited to the specific breach waived.

6.04 Assignment

Except as may be expressly provided in this Agreement, none of the parties hereto may assign its rights or obligations under this Agreement without the prior written consent of all of the other parties hereto.

6.05 Termination

This Agreement shall terminate upon:

- (a) the written agreement of all of the Participating Municipalities and the Shareholders;
- (b) the dissolution or bankruptcy of the Corporation or the making by the Corporation of an assignment under the provisions of the *Bankruptcy and Insolvency Act*; or
- (c) one person becoming the beneficial owner of all of the Shares.

6.06 Severability

If any provision of this Agreement is determined to be invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision and all other provisions hereof shall continue in full force and effect.

6.07 Notices

Any demand, notice or other communication (hereinafter in this Section 6.07 referred to as a "Communication") to be given in connection with this Agreement shall be given in writing and may be given by personal delivery, by registered mail or by transmittal by facsimile transmission addressed to the recipient as follows:

To: Tay and Tay Holdco

450 Park St.
Victoria Harbour, ON
L0K 2A0

Attention: Chief Administrative Officer

Fax No: (705) 534-4470

To: Newmarket and Newmarket Holdco

395 Mulock Drive
P. O. Box 328 STN MAIN
Newmarket, Ontario
L3Y 4X7

Attention: Chief Administrative Officer

Fax No: (905) 953-5100

To: The Corporation

590 Steven Court
Newmarket, ON
L3Y 6Z2

Attention: Chief Executive Officer

Fax No: (905) 895-8931

or such other address, fax number or individual as may be designated by notice by any party to the other. Any Communication given by personal delivery shall be conclusively deemed to have been given on the day of actual delivery thereof and, if given by registered mail, on the third Business Day following the deposit thereof in the mail and, if given by facsimile transmission, on the day of transmittal thereof. If the party giving any Communication knows or ought reasonably to know of any difficulties with the postal system which might affect the delivery of mail, any such Communication shall not be mailed but shall be given by personal delivery or by facsimile transmission.

6.08 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

6.09 Dispute Resolution

(1) The parties will make good faith efforts to resolve any controversy, question, claim or other dispute arising out of or relating to this Agreement (a "Dispute") by negotiation between the Chief Administrative Officer and the Treasurer of each of Newmarket and Tay. Any party may give the another party or parties with which it has a Dispute written notice of a Dispute (which notice shall identify all the recipients of such notice). Within thirty (30) days after delivery of the notice, the receiving party or parties will submit a written response to the other recipient(s) of the notice of the Dispute. The notice(s) and the response(s) will include (a) a statement of the sending party's position and the arguments supporting that position, and (b) the name and title of the representative who will represent that party and of any other representative who will accompany the representative. Within thirty (30) days after delivery of the notice, the representatives of each relevant party or, with the consent of all relevant parties, any other representative not identified in a notice will meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary during the period of thirty (30) days (the "Meeting Period") after the initial meeting, to attempt to resolve the Dispute.

(2) In the event that the Dispute is not settled between the relevant parties by the completion of the Meeting Period, then the Dispute may be conclusively settled by submission to arbitration in accordance with the *Arbitration Act, 1991* (Ontario).

6.10 Force Majeure

No party hereto shall be held responsible or liable or be deemed to be in default or in breach of this Agreement for its delay, failure or inability to meet any of its obligations under this Agreement (other than any obligation to pay money) caused by or arising from any cause which is unavoidable or beyond the reasonable control of such party, including war, warlike operations, riot, insurrection, orders of government, strikes, lockouts, disturbances or any act of God or other cause which frustrates the performance of this Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF the parties have executed this Agreement.

TAY HYDRO INC.

By: _____

St. Crawford
Debra C. King

NEWMARKET HYDRO HOLDINGS INC.

By: _____

Paul King

**NEWMARKET - TAY POWER
DISTRIBUTION LTD.**

By: _____

Paul King
Lain Clith

**THE CORPORATION OF THE
TOWNSHIP OF TAY**

By: _____

Scott Warnock
 Scott Warnock, Mayor

Andrea Fay
 Andrea Fay, Clerk

**THE CORPORATION OF THE TOWN
OF NEWMARKET**

By: _____

Tony Van Bynen
 Tony Van Bynen, Mayor

Anita Moore
 Anita Moore, Clerk



Community Energy Plan: Sparking Innovation

Meghan White

Planning & Building Services

December 11, 2018

\$245 Million

A Scenario

- Single family house
- Over 20 years old



Another Scenario

- Newmarket contractor
- Specializing in home renovations



Did you know?

- Newmarket uses 16.5M Gigajoules of energy per year
- Residents use 4.1M Gigajoules of energy per year
- There are 29,000 homes in Newmarket
- Single family homes are approximately 80% of all houses in Newmarket
- 70% of the homes in Newmarket are 20 years old, or older

Did you know?

- Houses spend \$60M on utility bills
- Single family dwellings spend \$46.8M on utility bills per year (80%)
- Homes 20 years and older spend \$42M on utility bills (70%)
- Individual homes spend approximately \$2,069 on utilities a year
- Residences could be spending between \$132M to \$260M per year on energy by 2042

Lessons Learned & Next Steps

- Homes 20 years and older make up most of our housing stock
- They are spending a lot of money on energy

We have a plan to help

And there are side benefits too

The Plan: Community Energy Plan



Town of Newmarket Community Energy Plan

May 19, 2016

Approved 2016



Garforth International Inc
Energy Productivity Solutions

The Vision

To create a sustainable community whose energy future is efficient, secure, reliable, and environmentally progressive. Our approach to managing energy will demonstrate leadership and be *well beyond the ordinary*.

The Targets

To Work Towards Current Global Best Practices by achieving:



40% per capita energy
reduction

40% per capita greenhouse
gas emissions reduction

Positive economic
development

The Outcomes

Well Beyond the Ordinary

Competitiveness

1. Energy cost
2. Employment
3. Investment

Security

4. Supply security
5. Supply quality
6. Flexibility

Environment

7. Greenhouse Gas Reduction

The Strategies

- Strategy 1a: Residential Efficiency
- Strategy 1b: Commercial/Institutional Efficiency
- Strategy 1c: Industrial Efficiency
- Strategy 1d: Transportation Efficiency
- Strategy 2: District Energy
- Strategy 3: Solar PV

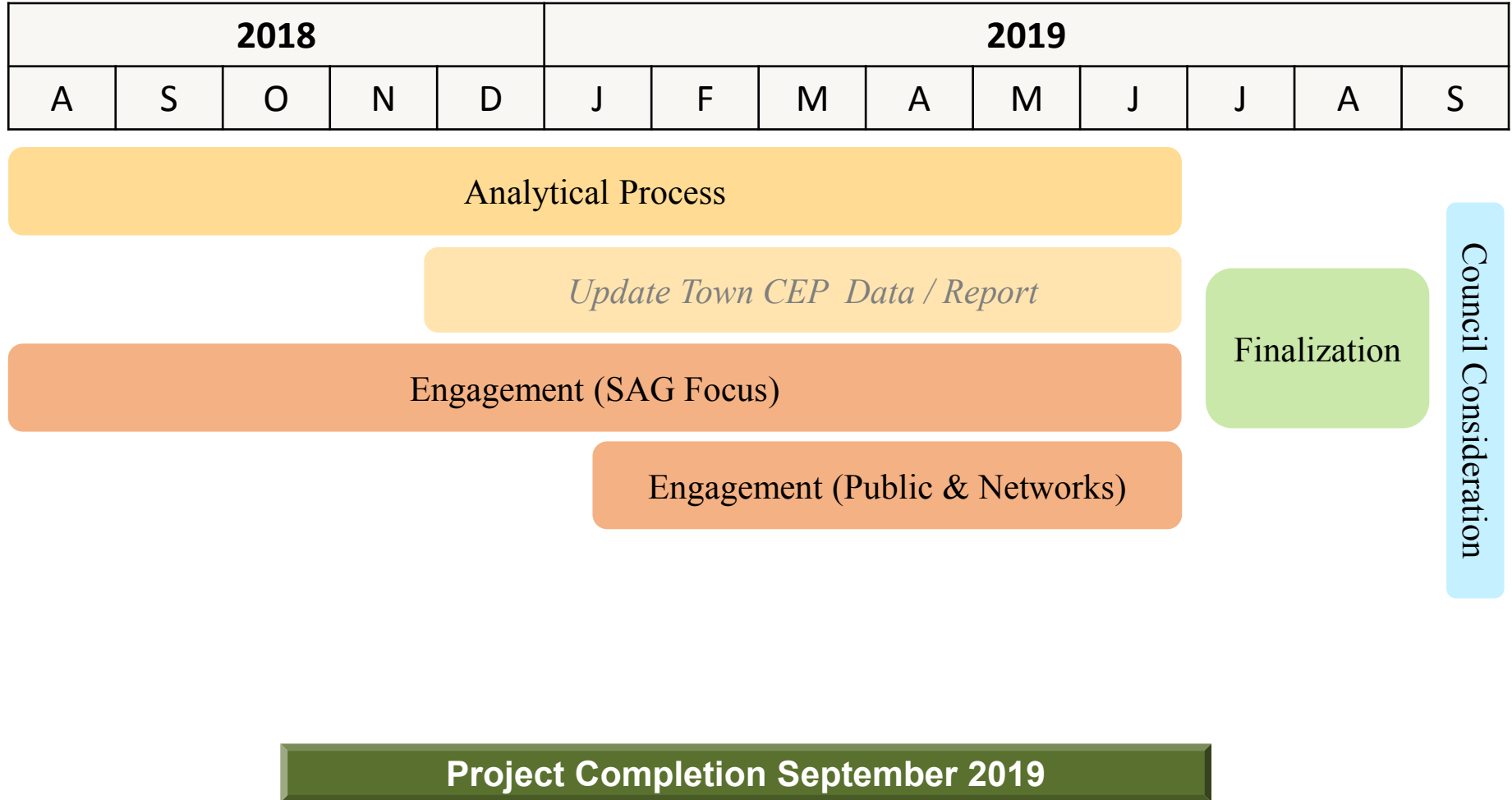
Meet CEP Goals

The Project

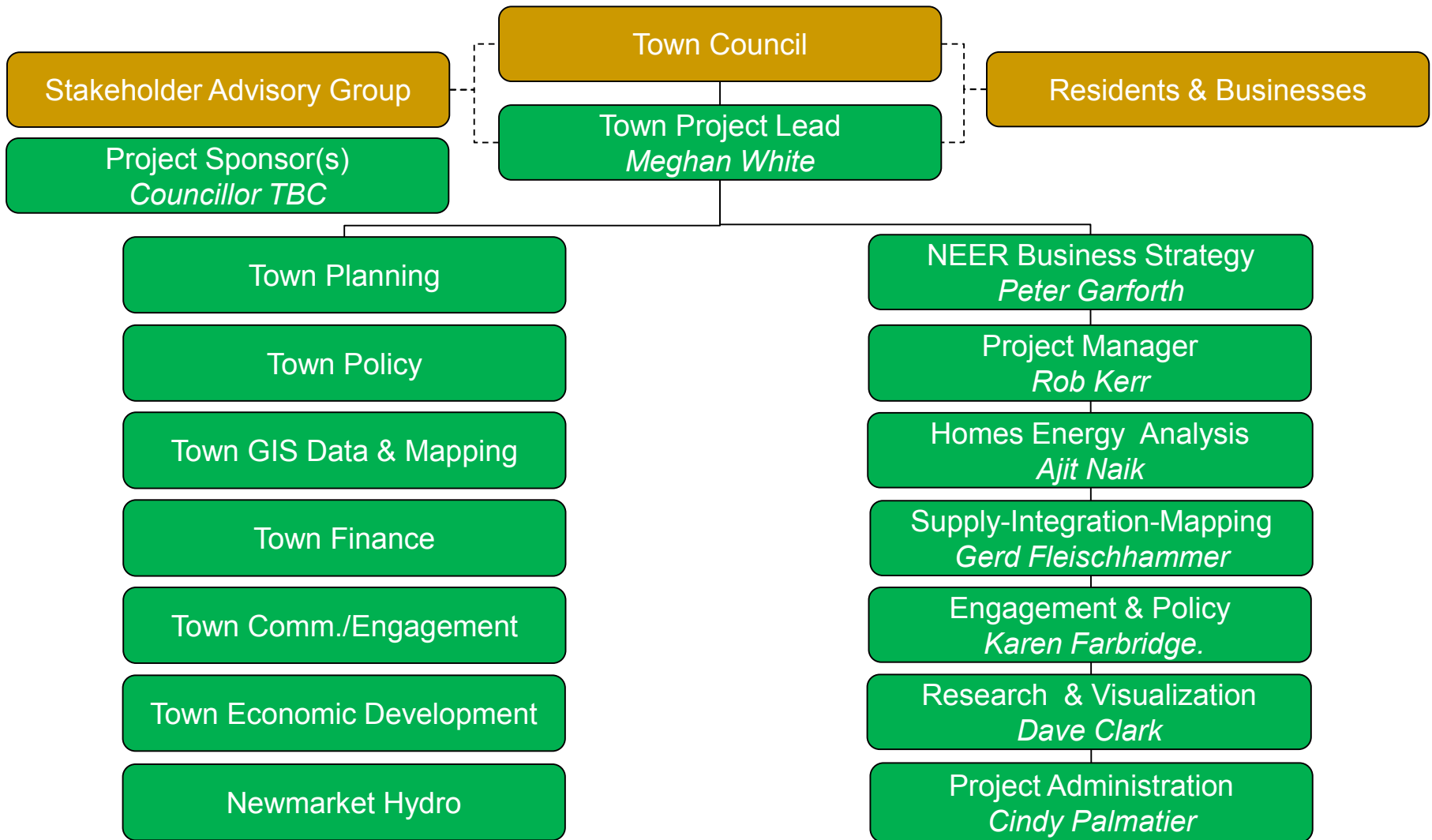
- Investment-grade business plan
- Renovate 80% of the homes in Newmarket (~1500/yr) by 2031
- Increase their efficiency by 30% to 50%



The Project: Timeline



The Project: Team





Community Engagement

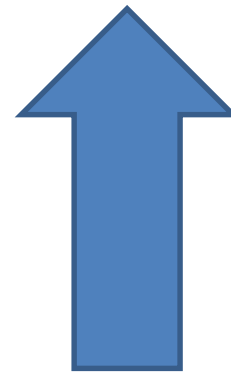
The Project: Summary

NEER

Newmarket Energy
Efficiency Retrofit Strategy



=

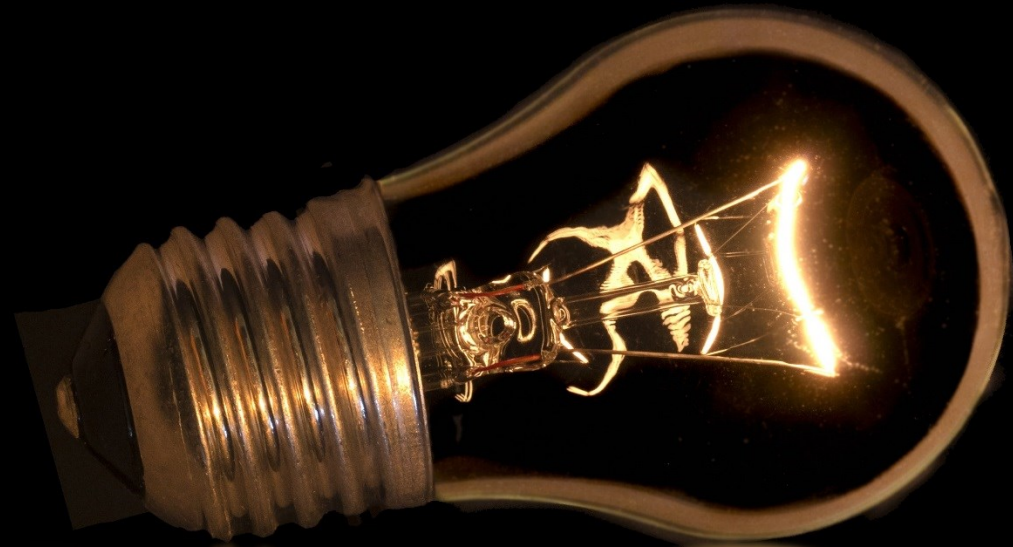


Jobs

And less GHG emissions
And more money for Newmarket families
And reduced energy usage
And more comfortable homes
And CEP targets achieved

The Project: Questions to be Answered

- “How and why will 80% of homeowners say “yes” to a home retrofit?”
- “How and why will contractors embrace a completely new way of doing efficiency retrofits?”
- “How and why will investors bring millions of long-term financing to home retrofits?”
- “If the R-NEER business case is solid for comprehensive home energy retrofits, why haven’t they happened already?”



Questions?

THANK YOU



Retail Cannabis Workshop

December 11, 2018

Paul Voorn, Associate Solicitor
Ted Horton, Planner



Overview



Introduction



Legal context

- Federal & Provincial law
- Places of consumption
- Responsibilities



Planning context

- Retail process
- Retail locations
- Retail considerations



Economic development & Finance



Next Steps



Introduction

What this presentation **will**
address

- ✓ General overview of new legislation
- ✓ How private retail works
- ✓ Anticipated effects of private retail

What this presentation will
not address

- Industrial or individual cultivation
- Health and social effects of legalization
- Matters outside of Town jurisdiction (e.g. medical cannabis, criminal law)



Legal:

Federal law

- The federal *Cannabis Act* came into force on October 17, 2018.
- The Act creates the legislative framework for Cannabis in Canada, including:

Supply Chain Oversight and Regulation
<ul style="list-style-type: none"> • Federal licensing for the production, cultivation and processing of cannabis • Provinces and territories authorized to distribute and sell cannabis, subject to federal conditions • Federal regulation of cannabis for medical purposes would continue

Youth Access Restrictions
<ul style="list-style-type: none"> • Minimum age of 18 • Not an offence for youth to possess five grams or less of cannabis

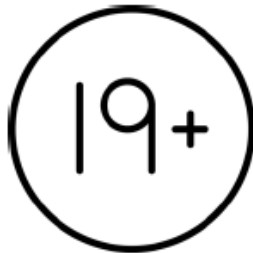
Adult Access
<ul style="list-style-type: none"> • 30 gram adult public possession limit of legal dried cannabis • Adults could grow up to 4 cannabis plants per residence for personal use

- Provinces and territories then enact their own legislation to address the fine details of implementation in each province and territory.



Legal: Provincial law

- The provincial *Ontario Cannabis Retail Corporation Act*, *Cannabis Control Act* and the *Cannabis Licensing Act* are also in force.
- This sets the rules for recreational cannabis in Ontario and further restricts access. These rules include:



Prohibiting the sale of recreational cannabis to anyone under the **age of 19**



Prohibiting **youth (under 19)** from **possessing, cultivating, consuming and sharing** cannabis



Addressing **illegal selling**, including storefront dispensaries*

- Recent legislation following the provincial election caused changes in the retail model and limits on public consumption.



Legal: Responsibilities

Areas of Activity:	Who is responsible?
Medical cannabis use and distribution	→ Health Canada
Recreational cannabis production licence	→ Health Canada
Recreational cannabis cultivation & processing	→ Health Canada & Licenced Producers
Recreational cannabis wholesale	→ Ontario Cannabis Store
Recreational cannabis online retail sales	→ Ontario Cannabis Store
Recreational cannabis consumption	→ Municipal by-law powers under the Smoke Free Ontario Act
Investigations of criminal activity related to cannabis and illegal dispensaries	→ Police

Legal: Places of consumption

Where you can use controlled substances

*Recreational cannabis

**Current as of October 25, 2018

***Some parks are smoke free. Check your municipality's website for more information.

****Smoking is not permitted in vehicles that carry minors 16 years of age or under

Where	tobacco	cannabis*	alcohol
Your home	✓	✓	✓
Parks***	✓	✓	✗
Sidewalks	✓	✓	✗
Playgrounds and sports fields	✗	✗	✗
Licensed restaurant patios	✗	✗	✓
Vehicle****	✓	✗	✗
Boat	✓	✗	✗

Overview



Introduction



Legal context

- Federal & Provincial law
- Places of consumption
- Responsibilities



Planning context

- Retail process
- Retail locations
- Retail considerations



Economic development & Finance



Next Steps



Planning Context: Retail process



- Municipalities in Ontario cannot use zoning or licencing to limit, prohibit, or regulated retail cannabis locations.
- One opportunity to “opt out” by January 22, 2019

AGCO



Planning Context: Retail process



- The AGCO will licence private retailers after a required investigation/due diligence process, including:
 - Local public notice process (administered by AGCO)
 - Review of regulated requirements
 - Background checks on key individuals
 - Conducting compliance inspections
- The AGCO will license store owners, retail store locations and store managers
- Will accept applications beginning December 17
- First private retail stores to open April 1, 2019



Planning Context: Retail locations



- Provincial limits on cannabis stores include:
 - No closer than 150 metres from any school
 - Is a 'stand-alone' store
 - Can only sell cannabis and federally-defined cannabis accessories
 - Cannot be open for business between 11:00 PM and 9:00 AM
 - Can only sell cannabis and federally-defined cannabis accessories



The Town of Newmarket



Planning Context: Retail considerations



- Cannabis retail outlets and public concern
- Planning review of impacts and effects



Planning Context: Retail considerations



- Key question: Should Newmarket allow retail cannabis stores or opt out of hosting them?
- Considerations related to legalization
 - Private consumption
 - Growing cannabis at home
 - Driving while impaired
 - Education of first-time users
 - Excessive use
 - Restricting access to cannabis by youth



Planning Context: Retail considerations



- Key question: Should Newmarket allow retail cannabis stores or opt out of hosting them?
- Perceived impact of stores
 - Property Values
 - Traffic
 - Crime & disruptive behaviour

High on Crime? Exploring the Effects of Marijuana Dispensary Laws on Crime in California Counties*

Regulated marijuana markets are more common today than outright prohibitions across the U.S. states. Advocates for policies that would legalize marijuana recreational markets frequently argue that such laws will eliminate crime associated with the black markets, which many argue is the only link between marijuana use and crime. Law enforcement, however, has consistently argued that marijuana medical dispensaries (regulated retail sale and a common method of medical marijuana distribution), create crime in neighborhoods with these store-fronts. This study offers new insight into the question by exploiting newly collected longitudinal data on local marijuana ordinances within California and thoroughly examining the extent to which counties that permit dispensaries experience changes in violent, property and marijuana use crimes using difference-in-difference methods. The results suggest no relationship between county laws that legally permit dispensaries and reported violent crime. We find a negative and significant relationship between dispensary allowances and property crime rates, although event studies indicate these effects may be a result of pre-existing trends. These results are consistent with some recent studies suggesting that dispensaries help reduce crime by reducing vacant buildings and putting more security in these areas. We also find a positive association between dispensary allowances and DUI arrests, suggesting marijuana use increases in conjunction with impaired driving in counties that adopt these ordinances, but these results are also not corroborated by an event study analysis.

*Institute of Labour Economics, research institute study,
California State University & University of Georgia Study
funded by the RAND Corporation*



Planning Context: Retail considerations



- Town response to licence notifications from AGCO
- Determination of “the public interest”
 1. Protecting public health and safety.
 2. Protecting youth and restricting their access to cannabis.
 3. Preventing illicit activities in relation to cannabis.
- Town role in commenting on licence applications
 - Concerns for ‘sensitive land uses’
 - Approaches to determining comment responses



Economic Development & Finance:

Financial considerations



- Town costs related to the legalization of cannabis include:
 - Enforcement of any by-laws related to consuming cannabis in public places subject to the Town's by-laws (e.g. parks)
- Costs borne by other levels of government include:
 - York Region Police
 - Unlicensed growing operations
 - Unlicensed retail operations
 - Unlicensed production
 - Intoxication while driving
 - AGCO
 - Licensed retail operations
 - Regional Tobacco Enforcement Officers
 - Smoking where prohibited by the Smoke-Free Ontario Act



Economic Development & Finance: Financial considerations



- The Town will be eligible for certain revenues related to cannabis
- The Province will convey to the Town funds restricted to the reimbursement of costs related to cannabis:
 - \$37,608
 - An additional \$37,608 if the Town does not opt out of private retail sales
 - 50% of all revenues from federal excise tax in excess of \$100 million in the first two years
 - Opting out of retail sales will mean the Town is not entitled to any excise revenues
- Potential property tax revenues and economic development



Economic Development & Finance:

Financial considerations



Household consumption expenditure 2017

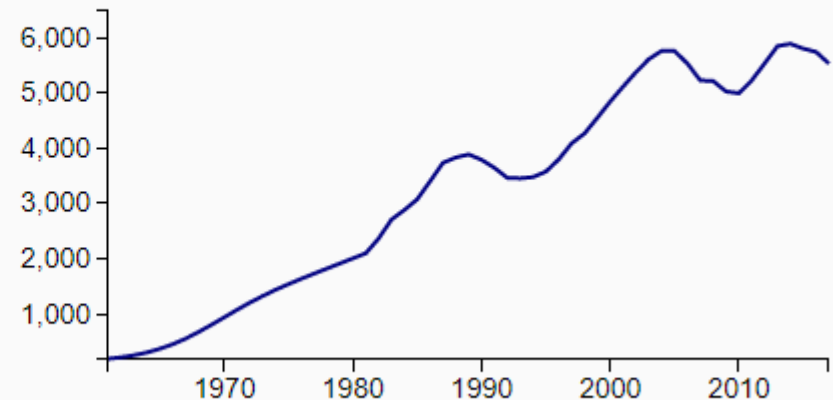
Total, 15 years and over ▼

Expenditure	\$5,526.6 million
Quantity	773.4 t
Price per gram	\$7.15

(click on indicators to update the chart on this page)

Expenditure — Total, 15 years and over 2017

\$ millions



Cannabis Stats Hub, Statistics Canada



Next Steps: By-laws

Current Parks By-law:

- Prohibits smoking
 - Sunnyhill Park.
 - Within a 20 metre of municipal sports surfaces, play areas, or municipal facilities
- Town can add cannabis to these existing restrictions with a by-law amendment.
- Q1-Q2 2019 – Staff to begin work to amend the Parks By-law to address cannabis smoking in the same manner as tobacco



Next Steps: Engagement

- Survey online: surveymonkey.com/r/cannabisinfo and by phone.
- Communicated through the following channels:
 - Media Release
 - Town Page
 - Newmarket Now
 - Website – newmarket.ca/cannabis
 - Social Media (Twitter and Facebook)



Next Steps

- December 12th, 2018 – Public Information Centre
- January 14th, 2019 – Report to Committee of the Whole
- January 21st, 2019 – Council to receive report
- January 22nd, 2019 – Deadline to provide notice to AGCO
- Q1-Q2 2019 – Staff to begin work to amend Parks By-law to address cannabis smoking
- April 1st, 2019 – Retail cannabis is permitted in Ontario
- Ongoing – Continue collaboration with Region, Province, York Region Police, AGCO and others on evolving matters



Summary



Introduction



Legal context

- Federal & Provincial law
- Places of consumption
- Responsibilities



Planning context

- Retail process
- Retail locations
- Retail considerations



Economic development & Finance



Next Steps





Questions?

modern
green
forward-thinking
inclusive
community
progressive
creative
smart
urban
innovative

