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**Laura Formosa**  
 President & CEO

November 16, 2011



**Confidential**

Mr. Dean Muncaster  
 Chair  
 COLLUS Power Corp.  
 PO Box 189, 43 Stewart Rd.  
 Collingwood, ON  
 L9Y 3Z5

Dear Mr. Muncaster:

**RE: Hydro One Strategic Partnership Proposal: Part 1**

We are pleased to provide you with this non-binding proposal to enter into a Strategic Partnership arrangement with COLLUS Power Corp. ("COLLUS Power") in accordance with your Request for Proposal – Strategic Partnership, issued on October 4, 2011 ("RFP"). Given our geographic proximity and our knowledge of the areas we each serve in this region, we believe the value package being offered will be well-received by the municipality, COLLUS Power customers, and the employees of COLLUS Power.

As per your instructions, the payment for up to 50% of the shares as well as other considerations from section 3.1 of your RFP are included in this letter, part 1 of our response, and the balance of the proposal is included in a separate letter, part 2 of our response.

***Purchase of Shares***

We are interested in making an offer to purchase up to 50% interest in COLLUS Power, either directly, or indirectly through the purchase of shares in Collingwood Utilities Services ("CUS").

We are offering \$13.6 million and, through a recapitalization, the municipality could receive a total cash value of \$18.5 million. This price is dependent on Hydro One being given exclusive rights, beginning as soon as practically possible, to negotiate definitive agreements to complete the share purchase. Hydro One is also willing to consider an alternate ownership position and/or alternative terms and conditions, subject to appropriate price adjustments.

**Recapitalization**

Concurrent with the purchase of shares, Hydro One proposes that COLLUS Power be recapitalized to a 60/40 debt to equity structure as deemed to be appropriate by the Ontario Energy Board ("OEB"). Moreover, we suggest this to be a more efficient capital structure.



Recapitalization is estimated to require approximately \$8.1 million of new debt, while retiring the \$1.7 million promissory note from the Town of Collingwood. The new debt would be provided by the most favourable option, including potentially by Hydro One. The resultant \$6.4 million of cash from new debt would be paid to shareholders in the form of a pro rata dividend, or otherwise; \$3.2 million to CUS (or to the Town of Collingwood, if an indirect purchase), and \$3.2 million to Hydro One.

#### Payment of Dividends

A philosophy of keeping rates as low as possible for our customers, and delivering growth and dividends to shareholders, guides our approach to declaring dividends. In all years in which COLLUS Power generates a positive net income, COLLUS Power shall consider payment of dividends to its shareholders. Common dividends will be declared at the sole discretion of the Board of Directors, and recommended by management based on results of operations and maintaining the deemed regulatory capital structure. Financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations will also be taken into consideration.

#### Key Terms

The following provides some of the additional terms that we would expect to negotiate with you towards a mutually-acceptable purchase and sale agreement:

1. Cash payment for shares upon closing.
2. Approval by the OEB, (Merger, Acquisition, Amalgamations and Divestitures regulation) of the transfer of up to 50% of the shares of COLLUS Power (or CUS if an indirect purchase) to Hydro One Inc., or its designate.
3. A shareholder agreement including a provision for a right of first refusal on the sale/issue of any COLLUS Power shares or assets (shares or assets of CUS if an indirect purchase), as well as shot gun clauses.
4. Each party obtaining necessary corporate and municipal approvals.
5. Customary representations, warranties, covenants and indemnities by the vendor as to various matters, including, without limitation, payment or arrangements for satisfaction of outstanding obligations of COLLUS Power, unencumbered title to, and condition and sufficiency of, the Distribution Assets; litigation or claims (threatened or actual); pension liabilities or claims; environmental matters; compliance with applicable laws; taxation; contracts and permits; and no broker's or finder's fees owing.
6. Hydro One will be allowed to conduct and be satisfied with the results of customary due diligence for transactions of this type, for a period of at least 60 days.
7. Provisions for price adjustments related to closing balances, undisclosed liabilities that affect valuation (including, for example, rate base, regulatory assets, cash and equivalents, contracts and provisions, MEARIE obligations).
8. Provisions for exclusion of liabilities for occurrences prior to the date of Closing in connection with any contracts or policies of insurance, including, without limitation MEARIE, and indemnification thereof.
9. Provisions for exclusion of present and future water liabilities under MEARIE and indemnification in respect thereof.
10. Each party retaining and paying its own legal and financial advisors.

11. The interest in COLLUS Power is to be purchased either,
  - a. Indirectly, through the purchase of shares in CUS, with or without COLLUS Solutions Corp included; or
  - b. Directly, through the purchase of shares in COLLUS Power, provided a legislative amendment to section 149 of the *Income Tax Act*, Canada ("ITA") is obtained that would result in COLLUS Power remaining a tax-exempt entity under the ITA.
12. COLLUS Power continuing to operate in a regular and prudent business manner, in the ordinary course of business, as it has done in the past two years.
13. The 2013 cost-of-service rate filing achieves the OEB allowed rate-of-return on equity.
14. Board composition: 20% Hydro One, 20% Collingwood Utility Services, (or the Town of Collingwood if an indirect purchase), and 60% independents.

We believe that with an efficient capital structure, together with operating synergies achieved over time, the effects of future rate increases can be mitigated. If it is the Town's desire to hold rates near current levels, we would be willing to consider such an objective; however, this will necessitate a price adjustment to reflect any lost value to shareholders.

***Summary offer of payment and underlying assumptions***

A cash value to the municipality of Collingwood of **\$18.5 million** delivered as follows:

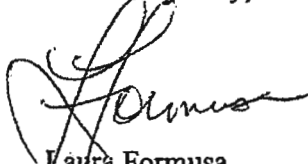
- Cash of \$13.6 million for up to 50% equity stake
- Equity dividend or other payment of \$3.2 million
- Promissory Note Payable repayment of \$1.7 million

The above payments are predicated on the following assumptions:

- A 2011 rate base of \$17.9 million based on the COLLUS Power 2011 budget
- Adoption of IFRS on January 1, 2012 will not materially affect either the financial statements or the forecasts of COLLUS Power
- Net balance of regulatory assets and liabilities will not have material value
- COLLUS Solutions Corp is not included in the purchase
- An ongoing capital structure of 60/40 debt/equity
- Recapitalization with financing at commercial rates
- Key Terms as included in the above section

We appreciate your careful consideration of this proposal. Hydro One is ready and willing to advance discussions as soon as possible, on an exclusive basis, to build upon our long-standing relationship in the communities. Should you have any questions regarding this proposal, please contact Mr. Rick Stevens (416-345-5893).

Yours very truly,



Laura Formusa,  
President and CEO  
Hydro One Inc.