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Attachment 5-1 – Waterloo North Hydro Inc. – Promissory Notes

2.8 EXHIBIT 5: COST OF CAPITAL AND CAPITAL STRUCTURE

Overview

Waterloo North Hydro Inc. (WNH) was incorporated March 1, 2000 in accordance with the requirements of the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A.

WNH is a wholly owned subsidiary of Waterloo North Hydro Holding Corporation, which is owned by the Corporation of the City of Waterloo, the Corporation of the Township of Wellesley and the Corporation of the Township of Woolwich.

The purpose of this evidence is to summarize the method and cost of financing capital requirements for the 2016 Test Year.

2.8.1 Capital Structure

WNH has a current deemed capital structure of 4% short-term debt with a return of 2.46%, 56% long-term debt with a return of 5.22% and 40% equity with a return of 9.58% as approved in the 2011 COS (Cost of Service) rate decision EB-2010-0144.

WNH has prepared this 2016 COS Application in accordance with the Board's guidelines provided in the *Report of the Board on Cost of Capital for Ontario's Regulated Utilities* (the "2009 Report") issued on December 11, 2009. For the purposes of preparing this Application, WNH has used the cost of capital parameters issued by the Board on November 20, 2014 for 2015 cost of service rate applications for rates with effective dates in 2015. WNH will update its cost of capital parameter to reflect future Board issued cost of capital parameters for rates with effective dates in 2016 prior to the issuance of the Board's decision for its Application. WNH proposes no deviation from the Board's cost of capital methodology.

1 **2.8.2 Cost of Capital (Return on Equity and Cost of Debt) Return on**
2 **Equity**
3

4 As outlined above, for the purposes of preparing this Application WNH has used the
5 cost of capital parameters issued by the Board on November 20, 2014 for 2015 COS
6 rate applications which reflects a return on equity of 9.30%. WNH will update the return
7 on equity to reflect future Board issued cost of capital parameters for rates with effective
8 dates in 2016 prior to the issuance of the Board's decision for its Application.
9

10 ***Cost of Debt: Long Term***
11

12 WNH is requesting a return on long term debt for the 2016 Test Year of 4.23%. This
13 rate of return represents the weighted average cost of long term debt for two promissory
14 notes and four current and two proposed Bankers Acceptance Term Loans.
15

16 WNH has two promissory notes with Waterloo North Hydro Holding Corporation, its
17 parent company, for \$17,266,271 and \$16,246,940. The Senior Promissory Note of
18 \$17,266,271 was issued July 1, 2009 with no set term. Currently, the actual interest rate
19 on the promissory note is 6%. The Junior Promissory Note of \$16,246,940 was issued
20 May 1, 2000 with no set term. Currently, the actual interest rate is 6.445% [one and
21 one-eighth percent (1 1/8%) above the Board's Deemed Long-Term Debt Rate currently
22 in WNH's rates], this rate was effective May 1, 2011. The promissory notes are
23 classified as affiliate debt and are callable since it contains a condition that the principal
24 shall be payable upon 270 days' notice at any given time. Copies of the promissory
25 notes are included as Attachment 5-1.
26

27 In accordance with the 2010 Report, WNH is requesting a return on the portion of long
28 term debt that the promissory notes represents for the 2016 Test Year reflecting the
29 Board's deemed long term debt rate. For the purposes of preparing this Application,
30 WNH has used the cost of capital parameters issued by the Board on November 20,
31 2014 for 2015 COS rate applications which reflect a deemed long term debt rate of

1 4.77%. WNH will update the deemed long term debt rate to reflect future Board issued
 2 cost of capital parameters for rates with effective dates in 2016 prior to the issuance of
 3 the Board's decision for its Application.

4
 5 For both the short-term and long-term bank debt WNH has a general security
 6 agreement creating in favour of CIBC a first priority security interest covering all
 7 company assets. The details of the Long-Term Bank Debt with CIBC are reflected in
 8 Table 5-1 below.

9
 10

Table 5–1 Long-Term Bank Debt with CIBC

Details	Covering	Original Loan		2016	
		Date	Amount	Year End Balance	Average Principal Balance
Bank Debt with CIBC, hedged by interest rate SWAP at 2.95% + 100 basis points per annum payable in monthly payments of \$88,667, due April 1, 2037	Mortgage 2012	April 16, 2012	26,600,000	21,634,666	22,116,127
Bank Debt with CIBC, hedged by interest rate SWAP at 1.98% + 100 basis points per annum payable in monthly payments of \$129,167, due January 29, 2021	Smart Meter 2013	April 1, 2013	11,883,333	6,458,333	7,159,732
Bank Debt with CIBC, hedged by interest rate SWAP at 3.34% + 100 basis points per annum payable in monthly payments of \$62,500, due July 4, 2033	Term Loan 2013	July 4, 2013	15,000,000	12,437,500	12,776,883
Bank Debt with CIBC, hedged by interest rate SWAP at 3.035% + 100 basis points per annum payable in monthly payments of \$62,500, due June 4, 2034	Term Loan 2014	June 4, 2014	15,000,000	13,125,000	13,542,454
Bank Debt with CIBC, hedged by bank estimated interest rate SWAP at 3.00% + 100 basis points per annum, acquired June 1, 2015	Term Loan 2015	June 1, 2015	9,900,000	9,157,500	9,384,375
Bank Debt with CIBC, hedged by bank estimated interest rate SWAP at 3.00% + 100 basis points per annum, acquired June 1, 2016 (please note the average balance reflects a part year loan)	Term Loan 2016	June 1, 2016	7,200,000	6,962,502	4,130,730

1 **Cost of Debt: Short Term**

2
3 For the purposes of preparing this Application, WNH has used the cost of capital
4 parameters issued by the Board on November 20, 2014 for 2015 COS rate applications
5 which reflect a deemed short term debt rate of 2.16%. WNH will update the deemed
6 short term debt rate to reflect future Board issued cost of capital parameters for rates
7 with effective dates in 2016 prior to the issuance of the Board's decision for its
8 Application.

9

10 **Capital Structure and Cost of Capital**

11
12 Table 5-2 is a reproduction of Appendix 2-OA that demonstrates the elements of the
13 Capital Structure and Cost of Capital for the 2011 Board-Approved and 2016 Test Year.
14 For 2016, the Weighted Average Cost of Capital of 6.17% will be applied to the Rate
15 Base of \$217,478,741, which is explained in detail in Exhibit 2, to determine a Return on
16 Rate Base of \$13,427,518 that is included in the proposed Revenue Requirement.

1
 2

Table 5-2 Capital Structure and Cost of Capital

Appendix 2-OA					
Capital Structure and Cost of Capital					
Year: <u>2011 Board Approved</u>					
Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$84,557,875	5.22%	\$4,410,312
2	Short-term Debt	4.00% (1)	\$6,039,848	2.46%	\$148,580
3	Total Debt	60.0%	\$90,597,723	5.03%	\$4,558,892
	Equity				
4	Common Equity	40.00%	\$60,398,482	9.58%	\$5,786,175
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$60,398,482	9.58%	\$5,786,175
7	Total	100.0%	\$150,996,206	6.85%	\$10,345,067
Notes					
(1) 4.0% unless an applicant has proposed or been approved for a different amount.					

Appendix 2-OA					
Capital Structure and Cost of Capital					
Year: <u>2016 Test Year</u>					
Line No.	Particulars	Capitalization Ratio		Cost Rate	Return
		(%)	(\$)	(%)	(\$)
	Debt				
1	Long-term Debt	56.00%	\$121,788,095	4.23%	\$5,149,408
2	Short-term Debt	4.00% (1)	\$8,699,150	2.16%	\$187,902
3	Total Debt	60.0%	\$130,487,245	4.09%	\$5,337,309
	Equity				
4	Common Equity	40.00%	\$86,991,496	9.30%	\$8,090,209
5	Preferred Shares		\$ -		\$ -
6	Total Equity	40.0%	\$86,991,496	9.30%	\$8,090,209
7	Total	100.0%	\$217,478,741	6.17%	\$13,427,518
Notes					
(1) 4.0% unless an applicant has proposed or been approved for a different amount.					

1 **Weighted Average Cost of Long-Term Debt**

2

3 Table 5-3 is a reproduction of Appendix 2-OB listing WNH's long term debt instruments
 4 and weighted average cost of long term debt from 2011 to the 2016 Test Year.

5

Table 5-3 Debt Instruments

**Appendix 2-OB
 Debt Instruments**

6

Year **2011**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Average Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Shareholder - Sr Debt	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-Jul-09	On Demand	\$ 17,266,271	6.00%	1,035,976	
2	Shareholder - Jr Debt ⁴	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-May-00	On Demand	\$ 16,246,940	6.445%	1,150,205	
3	Loans (3) - CIBC - replaced in 2012	CIBC	Third-Party	Fixed	2010-2011	10	\$ 21,010,267	2.700%	567,277	
Total							\$ 54,523,478	6.05%	2,753,458	

¹ Rate changed on May 1, 2011 to 6.445% from 8.38%

Year **2012**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Average Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Shareholder - Sr Debt	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-Jul-09	On Demand	\$ 17,266,271	6.00%	1,035,976	
2	Shareholder - Jr Debt	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-May-00	On Demand	\$ 16,246,940	6.445%	1,047,115	
3	Loans (3) - CIBC - replaced in 2012	CIBC	Third-Party	Fixed	2010-2011	10	\$ 19,479,396	2.70%	525,944	
4	Banker's Acceptance - Mortgage	CIBC Part Year ³	Third-Party	Fixed	12-Apr-12	25	\$ 18,527,947	3.95%	731,854	
Total							\$ 71,520,554	4.67%	3,340,889	

Year **2013**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Average Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Shareholder - Sr Debt	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-Jul-09	On Demand	\$ 17,266,271	6.00%	1,035,976	
2	Shareholder - Jr Debt	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-May-00	On Demand	\$ 16,246,940	6.445%	1,047,115	
4	Banker's Acceptance - Mortgage	CIBC	Third-Party	Fixed	12-Apr-12	25	\$ 25,535,817	3.95%	1,008,665	
5	Banker's Acceptance - Smart Meters	CIBC Part Year ³	Third-Party	Fixed	1-Apr-13	8	\$ 11,590,900	2.98%	345,409	
6	Banker's Acceptance - Term Loan 2013	CIBC Part Year ³	Third-Party	Fixed	4-Jul-13	20	\$ 7,400,514	4.434%	328,139	
Total							\$ 78,040,442	4.82%	3,765,304	

Year **2014**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Average Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Shareholder - Sr Debt	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-Jul-09	On Demand	\$ 17,266,271	6.00%	1,035,976	
2	Shareholder - Jr Debt	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-May-00	On Demand	\$ 16,246,940	6.445%	1,047,115	
4	Banker's Acceptance - Mortgage	CIBC	Third-Party	Fixed	12-Apr-12	25	\$ 24,247,539	3.95%	957,778	
5	Banker's Acceptance - Smart Meters	CIBC	Third-Party	Fixed	1-Apr-13	8	\$ 10,264,681	2.98%	305,888	
6	Banker's Acceptance - Term Loan 2013	CIBC	Third-Party	Fixed	4-Jul-13	20	\$ 14,279,281	4.434%	633,143	
7	Banker's Acceptance - Term Loan 2014	CIBC Part Year ³	Third-Party	Fixed	4-Jun-14	20	\$ 8,725,000	4.035%	352,054	
Total							\$ 91,029,713	4.76%	4,331,954	

Year **2015**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Average Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Shareholder - Sr Debt	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-Jul-09	On Demand	\$ 17,266,271	6.00%	1,035,976	
2	Shareholder - Jr Debt	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-May-00	On Demand	\$ 16,246,940	6.445%	1,047,115	
4	Banker's Acceptance - Mortgage	CIBC	Third-Party	Fixed	12-Apr-12	25	\$ 23,244,987	3.95%	918,177	
5	Banker's Acceptance - Smart Meters	CIBC	Third-Party	Fixed	1-Apr-13	8	\$ 8,735,570	2.98%	260,320	
6	Banker's Acceptance - Term Loan 2013	CIBC	Third-Party	Fixed	4-Jul-13	20	\$ 13,564,885	4.434%	601,467	
7	Banker's Acceptance - Term Loan 2014	CIBC	Third-Party	Fixed	4-Jun-14	20	\$ 14,219,480	4.035%	573,756	
8	Banker's Acceptance - Term Loan 2015	CIBC Part Year ³	Third-Party	Fixed	1-Jun-15	20	\$ 5,702,813	4.00%	228,113	
Total							\$ 98,980,946	4.71%	4,664,924	

Year **2016**

Row	Description	Lender	Affiliated or Third-Party Debt?	Fixed or Variable-Rate?	Start Date	Term (years)	Average Principal (\$)	Rate (%) (Note 2)	Interest (\$) (Note 1)	Additional Comments, if any
1	Shareholder - Sr Debt	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-Jul-09	On Demand	\$ 17,266,271	4.77%	823,601	
2	Shareholder - Jr Debt	Waterloo North Hydro Holding Company	Affiliated	Fixed	1-May-00	On Demand	\$ 16,246,940	4.77%	774,979	
4	Banker's Acceptance - Mortgage	CIBC	Third-Party	Fixed	12-Apr-12	25	\$ 22,116,127	3.95%	873,587	
5	Banker's Acceptance - Smart Meters	CIBC	Third-Party	Fixed	1-Apr-13	8	\$ 7,159,732	2.98%	213,360	
6	Banker's Acceptance - Term Loan 2013	CIBC	Third-Party	Fixed	4-Jul-13	20	\$ 12,776,883	4.434%	566,527	
7	Banker's Acceptance - Term Loan 2014	CIBC	Third-Party	Fixed	4-Jun-14	20	\$ 13,542,454	4.035%	546,438	
8	Banker's Acceptance - Term Loan 2015	CIBC	Third-Party	Fixed	1-Jun-15	20	\$ 9,384,375	4.00%	375,375	
9	Banker's Acceptance - Term Loan 2016	CIBC Part Year ³	Third-Party	Fixed	1-Jun-16	20	\$ 4,130,730	4.00%	165,229	
Total							\$ 102,623,511	4.23%	4,339,096	

1 ***Profit or Loss on Redemption of Debt***

2

3 There is no profit or loss on redemption of debt.

4

5 **2.8.3 Not-For-Profit Corporations**

6

7 A Reserve Requirement is not applicable because Waterloo North Hydro is a for-profit
8 corporation.

ATTACHMENT 5-1

WATERLOO NORTH
HYDRO INC.
PROMISSORY NOTES

WATERLOO NORTH HYDRO INC. – SENIOR PROMISSORY NOTE

This Promissory Note replaces the Promissory Note between Waterloo North Hydro Inc. and Waterloo North Hydro Holding Corporation, dated May 1, 2000.

FOR VALUE RECEIVED, Waterloo North Hydro Inc. (the “Corporation”) hereby promises to pay to or to the order of Waterloo North Hydro Holding Corporation (“HoldCo”) the principal sum of \$17,266,271.00 with interest at the rate specified herein, 270 days following demand by HoldCo.

The outstanding Principal shall bear interest at the Established Rate, such interest to be calculated and paid quarterly not in advance on the last day of March, June, September and December in each year.

Interest on the Established Rate shall accrue from July 1, 2009 until the Principal is paid in full, with interest on overdue interest at the Established Rate. The Established Rate is 6.0% per annum.

This Promissory Note may, at the option of HoldCo, be converted, as to some or all of the principal sum outstanding, into common shares of the Corporation at a conversion price per common share, subject to adjustment, equal to the stated capital per common share of the common shares of the Corporation issued as at May 1, 2000 (the “Conversion Price”). The foregoing conversion right may be exercised by HoldCo on 90 days’ prior written notice to the Corporation at any time before or after demand, but before payment.

If and whenever at any time prior to demand by HoldCo the Corporation shall:

- (a) subdivide, redivide or change its then outstanding common shares into a greater number of shares;
- (b) reduce, combine or consolidate its then outstanding common shares into a lesser number of shares; or
- (c) issue common shares to the holders of all or substantially all of its then outstanding common shares by way of a stock dividend or other form of distribution (other than a stock dividend which the holder of the common shares has elected to receive in lieu of a cash dividend paid in the ordinary course),

(any of such events being called a "Share Reorganization"), the Conversion Price then in effect shall be adjusted effective immediately on the effective date or record date for the happening of the Share Reorganization, as the case may be, at which the holders of common shares are determined for the purpose of the Share Reorganization by multiplying the Conversion Price in effect immediately prior to such effective date or record date by a fraction, the numerator of which is the number of Common Shares outstanding on such effective date or record date before giving effect to such Share Reorganization and the denominator of which is the number of Common Shares outstanding immediately after giving effect to such Share Reorganization.

If and whenever at any time prior to demand by HoldCo there is a capital reorganization (other than a Share Reorganization) or a consolidation, merger or amalgamation of the Corporation with or into any other body corporate including by way of a sale whereby all or substantially all of the Corporation's undertaking and assets would become the property of any other body corporate, HoldCo, to the extent that it has not exercised its right of conversion prior to the

effective date of such capital reorganization, consolidation, merger, amalgamation, or sale shall be entitled to receive and shall accept, upon the exercise of such right at any time on such date or thereafter, in lieu of the number of common shares to which it was theretofore entitled upon conversion, the aggregate number of shares or other securities or property of the Corporation or of the body corporate resulting from the capital reorganization consolidation, merger, or amalgamation or to which such sale may be made that HoldCo would have been entitled to receive as a result of such capital reorganization, consolidation, merger, amalgamation or sale on the effective date thereof, if it had been the registered holder of the number of common shares to which it was theretofore entitled upon conversion.

If the Corporation, after the date of this Agreement, shall take any action affecting the common shares, other than an action to which the foregoing provisions are specifically applicable, which in the opinion of the directors of the Corporation would materially affect the conversion rights attached to this Promissory Note, the number of common shares which may be acquired upon exercise of the right of conversion under this Promissory Note shall be adjusted in such manner and at such time, by action of the directors, in their discretion, acting reasonably, as they may determine to be equitable in the circumstances.

In any case where a fraction of a common share would otherwise be issuable on conversion of this Promissory Note in whole or in part, the Corporation shall adjust such fractional interest by the payment by cheque of an amount equal to the amount of such fractional interest.

The Corporation covenants and agrees that, so long as this Promissory Note is outstanding and entitled to the right of conversion herein provided, it shall at all times reserve and hold out of its authorized and unissued Common Shares a sufficient number of unissued Common Shares to enable the outstanding principal amount of this Promissory Note to be converted upon the basis and upon the terms and conditions herein provided.


At the option of HoldCo on 270 days' prior written notice to the Corporation, the terms of this Promissory Note may be revised, changed or restated by HoldCo in consultation with the Corporation.

This Promissory Note and all rights of HoldCo hereunder to demand payment, amend, revise, change, restate, convert, exchange, transfer or enforce this Promissory Note are subject to the Shareholders' Agreement dated as of May 1, 2000 among The Corporation of the City of Waterloo, The Corporation of the Township of Wellesley, The Corporation of the Township of Woolwich (collectively, the "Municipalities") and HoldCo.

This Promissory Note is not assignable by HoldCo without the consent of the Corporation.

DATED as of the 1st day of July, 2009

WATERLOO NORTH HYDRO INC.

per: 

Rene W. Gaten
President & CEO

per: 

Albert P. Singh
VP Finance & CFO

COPY

WATERLOO NORTH HYDRO INC. - AGGREGATE JUNIOR PROMISSORY NOTE

FOR VALUE RECEIVED, Waterloo North Hydro Inc. (the "Corporation") hereby promises to pay to or to the order of Waterloo North Hydro Holding Corporation ("HoldCo") the principal sum of \$16,246,940 with interest at the rate specified herein, 270 days following demand by HoldCo.

Interest on the principal sum shall accrue from first day of the month which immediately follows the month in which the Ontario Energy Board approves the distribution rates for the Corporation in response to the initial rate application filed by the Corporation and shall be payable at a rate per annum equal to a rate which is one and one-eighth percent (1 1/8%) per annum above the interest rate on debt (the "Debt Rate") which the Ontario Energy Board or its successor may permit the Corporation to pay for rate making purposes in the establishment of distribution rates, and the interest rate as aforesaid shall change from time to time with changes in the Debt Rate approved by the Ontario Energy Board.

Interest at the aforesaid rate shall be calculated and be payable semi-annually, with the first of such payments commencing on the 30th day after the end of the first fiscal year of the Corporation and the second payment on the 180th day of the second fiscal year of the Corporation and thereafter on the last day of March, June, September and December in each year.

The Corporation may, in its sole discretion, choose to pay any amount of interest accrued and unpaid in respect of this Promissory Note by issuing to HoldCo as fully paid and non-assessable Class A Special Shares with an issue price of \$10 of accrued and unpaid interest for each Class A Special Share.

This Promissory Note may, at the option of HoldCo, be converted, as to some or all of the principal sum outstanding, common shares of the Corporation at a conversion price per common share, subject to adjustment, equal to the stated capital per common share of the common shares of the Corporation issued as at May 1, 2000 (the "Conversion Price"). The foregoing conversion right may be exercised by HoldCo at any time on 90 days' prior written notice to the Corporation at any time before or after demand, but before payment.

If and whenever at any time prior to demand by HoldCo the Corporation shall:

- (a) subdivide, redivide or change its then outstanding common shares into a greater number of shares;
- (b) reduce, combine or consolidate its then outstanding common shares into a lesser number of shares; or
- (c) issue common shares to the holders of all or substantially all of its then outstanding common shares by way of a stock dividend or other form of distribution (other than a stock dividend which the holder of the common shares has elected to receive in lieu of a cash dividend paid in the ordinary course),

(any of such events being called a "Share Reorganization"), the Conversion Price then in effect shall be adjusted effective immediately on the effective date or record date for the happening of the Share Reorganization, as the case may be, at which the holders of common shares are determined for the purpose of the Share Reorganization by multiplying the Conversion Price in effect immediately prior to such effective date or record date by a fraction, the numerator of which is the number of Common Shares outstanding on such effective date or record date before giving effect to such Share Reorganization and the denominator of which is the number of Common Shares outstanding immediately after giving effect to such Share Reorganization.

If and whenever at any time prior to demand by HoldCo there is a capital reorganization (other than a Share Reorganization) or a consolidation, merger or amalgamation of the Corporation with or into any other body corporate including by way of a sale whereby all or substantially all of the Corporation's undertaking and assets would become the property of any other body corporate, HoldCo, to the extent that it has not exercised its right of conversion prior to the effective date of such capital reorganization, consolidation, merger, amalgamation or sale shall be entitled to receive and shall accept, upon the exercise of such right at any time on such date or thereafter, in lieu of the number of common shares to which it was theretofore entitled upon conversion, the aggregate number of shares or other securities or property of the Corporation or of the body corporate resulting from the capital reorganization consolidation, merger, or amalgamation or to which such sale may be made that HoldCo would have been entitled to receive as a result of such capital reorganization, consolidation, merger, amalgamation or sale on the effective date thereof, if it had been the registered holder of the number of common shares to which it was theretofore entitled upon conversion.


If the Corporation, after the date of this Agreement, shall take any action affecting the common shares, other than an action to which the foregoing provisions are specifically applicable, which in the opinion of the directors of the Corporation would materially affect the conversion rights attached to this Promissory Note, the number of common shares which may be acquired upon exercise of the right of conversion under this Promissory Note shall be adjusted in such manner and at such time, by action of the directors, in their discretion, acting reasonably, as they may determine to be equitable in the circumstances.

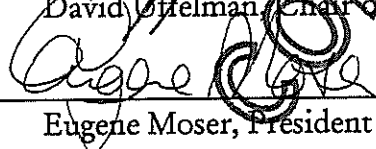
In any case where a fraction of a common share would otherwise be issuable on conversion of this Promissory Note in whole or in part, the Corporation shall adjust such fractional interest by the payment by cheque of an amount equal to the amount of such fractional interest.

This Promissory Note replaces a series of junior promissory notes in the aggregate amount of \$16,598.499.00 dated May 1, 2000 issued by the Corporation in favour of the Municipalities and assigned by the Municipalities to HoldCo.

DATED as of the 1st day of May, 2000.

WATERLOO NORTH HYDRO INC.

per:  _____
David Liffelman, Chair of the Board

per:  _____
Eugene Moser, President

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