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February 11, 2015

City of White Rock  
15322 Buena Vista Avenue  
White Rock, BC V4B 1Y6

Attention: Dan Bottrill, Chief Administrative Officer

**Re: EPCOR White Rock Water Utility (the "Utility")**

Dear Dan,

The purpose of this letter (this "**Process Letter**") is to set out the principal terms on which the City of White Rock (the "**City**") and EPCOR White Rock Water Inc. ("**EPCOR**") will continue to discuss the potential acquisition by the City of the Utility (which for greater certainty does not include any non-utility lands or other assets owned by EPCOR) from EPCOR (the "**Transaction**").

As you know:

- the parties each possess a copy of an agreement dated September 29, 1922 between The Corporation of the District of Surrey and White Rock Water Works Company Limited (the "**1922 Agreement**");
- the parties currently disagree regarding the applicability and enforceability of the 1922 Agreement upon the parties as well as the applicability of expropriation legislation in relation to the Utility, however, the parties have agreed to explore a negotiated solution which would preempt litigation or expropriation and have agreed that "value" under the 1922 Agreement, if in fact applicable and enforceable, means fair market value;
- the parties entered into a Two-Way Confidentiality Agreement effective October 15, 2013 (the "**CA**") and began discussions regarding the potential Transaction;
- the parties subsequently entered into a letter agreement (the "**Valuation Letter Agreement**") dated April 15, 2014 and accepted by the City on May 2, 2014, pursuant to which the parties agreed to exchange valuation reports under certain terms; and
- the parties did in fact exchange valuation reports in July 7, 2014, which were both based on a valuation date of December 31, 2013; while both reports applied the fair market value approach to determining value of the Utility, such reports did present materially different values.

We understand, however, that the City remains very interested in pursuing the potential Transaction. Subject to the terms and conditions of this Process Letter, EPCOR is prepared to continue to engage in discussions and negotiations regarding the potential Transaction.

## Part One

1. **Purchase Price.** The parties agree that their mutual intention is that the price to be paid for the Utility is to be (i) the fair market value of the Utility determined as of a particular reference date, plus (ii) an appropriate adjustment to reflect the change in fair market value of the Utility between the reference date and the closing date of the Transaction.
2. **Transaction Structure.** It is intended that the proposed Transaction would be structured as an asset or share acquisition, however, the definitive structure will be negotiated by the parties, acting reasonably, considering, without limitation, tax consequences.

## Part Two

3. **Go Forward Process.** Following execution of this Process Letter:
  - (a) Each party will have its original valuation report updated to a valuation date as of December 31, 2014 (the "**Reference Date**"), such updated reports to be on a fair market value basis, (the "**Updated Reports**"). It is strongly recommended that, in order to be comparable to EPCOR's Updated Report, the City's Updated Report also be prepared as a "Comprehensive Valuation Report" as defined by Standard No. 110 of The Canadian Institute of Chartered Business Valuators.
  - (b) In conjunction with the preparation of the Updated Reports, the parties will also cause their respective valuers to provide advice regarding an appropriate approach (each, a "**Proposed Adjustment Approach**") to be used to adjust the fair market value of the Utility for activities and developments occurring between the Reference Date and the closing date of the Transaction. A Proposed Adjustment Approach should address adjustments to fair market value due to the impact of capital spending for both ongoing maintenance and repair of the Utility's assets as well as the construction of EPCOR's Total Water Quality Management program and changes in debt balances during the relevant period, as well as such other appropriate adjustments agreed to by the parties.
  - (c) Upon completion of the Updated Reports and the Proposed Adjustment Approaches, each party will provide same to the other party (the date on which the last Updated Report or Adjustment Approach are exchanged referred to as the "**Exchange Date**").
  - (d) If within 10 days following the Exchange Date, the parties have not yet reached an agreement in principle on the fair market value/purchase price and adjustment mechanism for the Utility, the parties will cause their valuers to meet on a date that is, unless otherwise agreed to by the parties in writing, within 30 days of the Exchange Date to discuss the Updated Reports and the Proposed Adjustment Approaches and each report back to the respective parties regarding the discussions at such meeting.
  - (e) Prior to the valuers meeting, the parties will cause their respective valuers to each complete a detailed review and analysis of the other party's Updated Report and Proposed Adjustment Approach in order to identify specific areas of divergence and commonality.
  - (f) If at any time, the parties are able to reach agreement in principle regarding the fair market value/purchase price and a price adjustment mechanism for the Utility, the parties will use reasonable commercial efforts to negotiate in good faith and execute a definitive agreement or agreements, containing customary terms, conditions, representations, warranties, covenants, indemnifications and other provisions appropriate for a transaction of the size and nature of the Transaction, satisfactory to each of the parties and their legal counsel.

#### **4. Termination**

If:

- (a) the City notifies EPCOR that it is no longer interested in pursuing the Transaction;
- (b) EPCOR notifies the City that it is no longer interested in pursuing the Transaction; or
- (c) the parties do not enter into a definitive agreement or agreements regarding the Transaction by December 31, 2015,

then the parties' obligations under Section 3 will terminate, provided that in the case of termination pursuant to either of paragraph (a) or (c) above, the City will pay to EPCOR, EPCOR's actual reasonable travel expenses, disbursements and third party costs incurred after the date of this Process Letter in connection with discussions and negotiations regarding the Transaction, including without limitation reasonable legal, consulting, accounting, valuation and regulatory fees.

#### **5. Terms Related to Privilege, Confidentiality, etc.**

- (a) The terms of the Valuation Letter Agreement will apply to the exchange of the Updated Reports and Proposed Adjustment Approaches and will also apply *mutatis mutandis* to any discussions between the parties' valuers and any discussions or negotiations between the parties related to the Transaction, which for greater certainty, but without derogation to the foregoing, includes that the parties will remain free to introduce different reports or other evidence and take different positions in any litigation, arbitration or other legal proceeding
- (b) In addition to the Valuation Letter Agreement and the binding portions of this Process Letter, the parties confirm that they continue to be bound by the terms of the CA, including without limitation, that neither party will (1) make any disclosure or public announcement regarding this Process Letter or the Transaction, or (2) release any information regarding the matters contemplated in this Process Letter, except as permitted by the CA, the Valuation Letter Agreement or the binding portions of this Process Letter.

#### **6. Other Terms**

- (a) The provisions of Part One of this Process Letter are an expression of intent only and are not intended to be legally binding and are expressly subject to the execution of a definitive agreement or agreements. The remainder of this Process Letter, including Part Two, is intended to be legally binding and enforceable against the parties. This paragraph supersedes all other conflicting or ambiguous language in this Process Letter or any contemporaneous document or other instrument that precedes this Process Letter.
- (b) Except as specifically described in this Process Letter, no past or future action, course of conduct or failure to act relating to the proposed Transaction herein or relating to the negotiation of the terms of a definitive agreement or agreements, will give rise to or serve as a basis for any obligation or liability on the part of either party.
- (c) Except as specifically described in this Process Letter or as specified in a definitive agreement or agreements, each party is responsible for and will bear all costs and expenses (including any broker's or finder's fees and the fees and expenses of its other advisors) in connection with the Transaction and activities contemplated herein.

- (d) The binding portions of this Process Letter, along with the Valuation Letter Agreement and the CA, constitute the entire agreement between the parties with respect to the proposed Transaction and cancel and supersede any prior undertakings, agreements, negotiations and discussions, written or oral, between the parties. Except as otherwise provided herein, none of the binding portions of this Process Letter, the Valuation Letter Agreement or the CA may be amended, supplemented or otherwise modified except by written instrument executed by each party.
- (e) This Process Letter may not be assigned by either party without the written consent of the other, not to be unreasonably withheld, provided that EPCOR may assign this Process Letter to an affiliate without the consent of the City in connection with a transfer of the Utility to such affiliate.
- (f) This Process Letter may be executed in counterparts and delivered via fax or electronically with the same effect as execution and delivery of a single, originally signed document

*[Remainder of page intentionally left blank. Signature page to follow.]*

[Signature page to Process Letter dated February 11, 2015.]

If you are in agreement with the foregoing, please confirm same by executing where indicated below and return to me one fully signed copy of this Process Letter.

Yours truly,

**EPCOR White Rock Water Inc.**

Per: \_\_\_\_\_

Darrell Manning  
Director, Regulatory and Shared Services, EPCOR Water Canada

**ACCEPTANCE**

Agreed to this \_\_\_\_ day of \_\_\_\_\_, 2015 by the City of White Rock.

**THE CORPORATION OF THE CITY OF WHITE ROCK**

Per: \_\_\_\_\_  
Mayor

Per: \_\_\_\_\_  
Corporate Officer