

LETTER OF INTENT

BETWEEN:

EPCOR WHITE ROCK WATER INC., c/o 2000 – 10423 101 St. NW,
Edmonton, AB T5H 0E8

(“EPCOR”)

AND:

CITY OF WHITE ROCK, of 15322 Buena Vista Ave., White Rock, BC
V4B 1Y6

(the “City”)

This Letter of Intent confirms the mutual intent of EPCOR and the City to enter into and to complete a binding legal agreement (the “**Definitive Agreement**”) for the purchase and sale of the assets (the “**Assets**”) comprising the White Rock water utility (the “**Utility**”) currently owned by EPCOR.

EPCOR and the City acknowledge that except for Sections 1 and 8, this Letter of Intent is not intended to be legally binding, and that legally binding obligations for the purchase and sale of the Assets will only be created by the Definitive Agreement. The purpose of this Letter of Intent is to record the terms upon which the parties have achieved agreement in principle in their preliminary negotiations, and which are expected to form the principal terms of the Definitive Agreement.

1. Confidentiality

The parties confirm that they are party to, and bound by: (i) a Two-Way Confidentiality Agreement dated October 15, 2013 (the “**Confidentiality Agreement**”) and, (ii) 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. The Confidentiality Agreement and Valuation Letter Agreement will remain binding on the parties, and will continue to apply during the process of negotiating the Definitive Agreement.

For greater certainty, the parties acknowledge and agree that all information exchanged during the negotiation process, and all information previously exchanged under the Confidentiality Agreement, can be used by the parties for the purpose of determining the Purchase Price and in any arbitration proceedings under this Agreement. Notwithstanding the foregoing sentence, in any litigation, arbitration or other legal proceeding:

- (a) neither party can use, introduce or refer to (i) any valuation or other expert report, or (ii) offer or other indication of value, provided by the other party during negotiations; and
- (b) each party remains free to introduce reports or other evidence and/or take positions different from any valuation or other expert report, offer or indication of value or other position provided or taken by it during negotiations.

2. Assets and Transaction Structure

The Assets to be acquired by the City include all assets of EPCOR and used as part of the Utility. The Assets will be described more fully and completely in the Definitive Agreement. As soon as practicable following the execution of this Letter of Intent, EPCOR will provide a comprehensive listing of the Assets to the City, to assist in negotiating the terms of the Definitive Agreement.

For greater certainty, the Assets will not include any non-utility assets. The non-utility assets include, without limitation, the real property with civic address 1454 Oxford Street legally known and described as PID 029-076-234, Lot 1 Section 10 Township 1 NWD Plan EPP25563, which land is owned by EPCOR, but is not used as part of the Utility.

The parties will in good faith discuss and consider restructuring the transaction from an asset purchase to a share transaction if there are potential legal, financing, tax or other potential economic benefits to each party from doing so.

3. Transfer of Assets

The target date for transferring title to the Assets from EPCOR to the City (the “**Transfer Date**”) is September 30, 2015. The actual Transfer Date will be subject to the satisfaction of certain conditions to be finalized in the Definitive Agreement, including, but not limited to:

- (a) the parties entering into an O&M Agreement (as hereinafter defined);
- (b) the parties making appropriate arrangements regarding the transfer of ongoing capital and maintenance projects; and
- (c) the parties obtaining all necessary approvals, consents and authorizations from governmental authorities and third parties;

provided that actual Transfer Date will be no later than October 31, 2015, even if the parties cannot satisfy paragraphs (a) and/or (b) above before such date. Notwithstanding the foregoing, the Transfer Date cannot occur prior to the parties receiving any required authorizations from governmental authorities.

The parties will cooperate and use their reasonable commercial efforts to obtain all necessary approvals, consents and authorizations from governmental authorities and third parties. Forthwith following execution of this Letter of Intent, each of the parties will identify any governmental authorities and third parties, other than the British Columbia Controller of Water Rights, the Fraser Health Authority, and the City of Surrey whose approval, consent, or authorization may be required.

4. Purchase Price Determination

The purchase price for the Assets (the “**Purchase Price**”) will be the fair market value of the Assets as at the actual Transfer Date. Fair market value is agreed to have the meaning given to such term by the Canadian Institute of Chartered Business Valuators, namely “the highest price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms-

length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts". If the parties are unable to agree on the Purchase Price, the Purchase Price will be settled by arbitration under the *Arbitration Act* (British Columbia). The arbitration will be conducted in Vancouver pursuant to a process and other terms to be agreed upon in the Definitive Agreement.

In the event that the parties cannot agree on the Purchase Price by the actual Transfer Date, the Purchase Price will be paid as follows:

- (a) On the actual Transfer Date, the City will make an interim payment to EPCOR in the amount of Cdn. \$14 million on account of the Purchase Price.
- (b) The balance of any required payment to EPCOR, or any required refund to the City, will be made as soon as practicable following final determination of the Purchase Price, whether by agreement of the parties or by arbitration. Interest at a rate equal to the Canadian Dollar Offered Rate published by Thomson Reuters (Reuters Canada) for one year loans, as in effect at the time of the interim payment referred to above, will be calculated upon and added to any payment under this paragraph, calculated from the Transfer Date to the date of payment of any balance or refund.

The parties intend that if arbitration is required to determine the Purchase Price, it will proceed expeditiously, with a target date not later than January 18, 2016, and a firm date not later than February 1, 2016, for commencement of any required arbitration hearing. To that end:

- (c) The parties will begin the process of identifying and appointing a mutually acceptable arbitrator forthwith following execution of the Definitive Agreement.
- (d) Subject to privilege and the terms hereof, the parties will make prompt and full disclosure of all relevant financial and other information reasonably required to complete valuations of the Assets and to conduct the arbitration.
- (e) The arbitrator will have authority and jurisdiction to make procedural decisions for the purpose of meeting the objectives set out in this section.

Without derogation to Section 1 and paragraph 4(d) above, the parties further agree that the amount of the advance payment referred to above will be without prejudice to the position of both parties in any arbitration proceedings, and will not be disclosed to the arbitrator until after the arbitrator has made a final decision on the Purchase Price.

5. O&M Agreement

The parties confirm their intention to negotiate and seek to enter into an operations, maintenance and capital works agreement (the “**O&M Agreement**”) pursuant to which EPCOR will provide services for the Utility for a transitional period of up to 18 months following the Transfer Date. The parties will negotiate in good faith to agree on the scope of the services and the consideration payable under the O&M Agreement, with a view to settling the terms of such agreement concurrently with, or as soon as practicable following, execution of the Definitive Agreement.

If considered to be to their mutual benefit, the parties will also negotiate with a view to entering into a longer term O&M Agreement, pursuant to which EPCOR will provide ongoing services to the Utility.

It is acknowledged, however, that nothing herein, or in the Definitive Agreement (unless expressly and specifically agreed to in such agreement), shall obligate the parties to enter into the O&M Agreement if terms for such an agreement, acceptable to each party in their respective discretion, cannot be agreed upon.

6. Construction Activities

The parties acknowledge that EPCOR is in the course of making additions and enhancements to the Utility, and has entered into contracts for those additions and enhancements. If the parties enter into the O&M Agreement, it is intended that such contracts will remain with EPCOR as operator of the Utility. If the parties do not enter into the O&M Agreement, the parties will cooperate and use their reasonable commercial efforts to cause any outstanding contracts to be assigned to, and assumed by, the City in connection with the transfer of the Assets to the City, provided that any fees or payments to third parties in respect of any assignment shall be borne by the City; to the extent that it is not possible to have such contracts assigned and assumed, or to the extent that the parties mutually agree that termination of such contracts is in the parties’ best interests, the City will be responsible for resulting termination or other demobilization costs.

Following the execution of this Letter of Intent, EPCOR will continue to operate the Utility in the ordinary course and consistent with good industry and past practice. EPCOR will reasonably consult with the City regarding any material contracts for additions and enhancements to the Utility, and the Definitive Agreement will contain customary provisions which provide that EPCOR will not enter into any such new contracts without the consent of the City, such consent not to be unreasonably withheld.

7. Employees

The City acknowledges that EPCOR currently employs 8-9 employees in connection with the operation of the Utility and that if the parties do not enter into the O&M Agreement, it may be necessary that EPCOR terminate the employment of all or some of these employees. The City agrees that if the parties do not enter into the O&M Agreement, if requested by EPCOR, the City will offer employment to employees designated by EPCOR in the same capacity and with compensation and benefits reasonably comparable to those paid or given by EPCOR and will not revoke, withdraw or alter such employment offers up to and including the actual closing date; the

City may elect not to make such offer(s), in which case, the City will be responsible and liable to EPCOR for severance or other termination compensation payable by EPCOR to such employee(s).

8. Preparation of the Definitive Agreement

The City will prepare a first draft of the Definitive Agreement as soon as practicable following execution of this Letter of Intent, and EPCOR will prepare the first draft of the O&M Agreement as soon as practicable following execution of this Letter of Intent. The parties will use commercially reasonable efforts to finalize and then execute the Definitive Agreement as soon as possible. The target timetable for finalizing and executing the Definitive Agreement is as follows:

- (a) approval by senior management of EPCOR and City staff by July 22, 2015;
- (b) approval by the municipal council of the City by July 27, 2015;
- (c) approval by the board of directors of EPCOR by August 7, 2015; and
- (d) final execution forthwith following August 7, 2015.

9. Other Terms

- (a) Either party may terminate this Letter of Intent at any time upon written notice to the other, provided that Section 1 will survive such termination.
- (b) Except as specifically described in this Letter of Intent 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 transactions and activities contemplated herein.
- (c) The Definitive Agreement will contain an "entire agreement" clause, providing that the Definitive Agreement supersedes all previous negotiations and discussions.
- (d) This Letter of Intent can be assigned to, and assumed by, a different corporate entity with common beneficial ownership with EPCOR in the event of any corporate reorganization that results in the transfer of the subject assets to such different corporate entity. Otherwise, this Letter of Intent may not be assigned by either party without the written consent of the other, not to be unreasonably withheld.
- (e) This Letter of Intent will be governed by and construed in accordance with the laws of the Province of British Columbia without regard to conflicts of laws principles.
- (f) This Letter of Intent 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.

The parties confirm their respective and mutual intentions as described above.

Dated as of July 3, 2015.

EPCOR WHITE ROCK WATER INC.

Per:

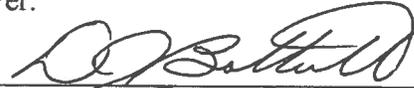


Print name: JOHN ELFORD

Position: SUP WATER CANADA

CITY OF WHITE ROCK

Per:



Print name: DAN BOTTRILL

Position: CHIEF ADMINISTRATIVE OFFICER
CITY OF WHITE ROCK