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**Strictly Private and confidential**

Ehren Cory,  
Executive Vice-President & Group Head, Transaction Finance  
Infrastructure Ontario  
777 Bay Street, 9<sup>th</sup> Floor  
Toronto ON M5G 2C8  
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Dear Mr. Cory,

**Subject: Fair Value Assessment Letter – ONTERA**

Deloitte & Touche LLP (“Deloitte”) was engaged by Infrastructure Ontario (“IO”) on September 17, 2013, following an RFP process, to prepare a fair value assessment for the divestiture of ONTERA (“the Transaction”). In addition Deloitte has been asked to provide advice to IO during certain stages of the preparation and execution of the ONTERA divestiture. The advice related to certain elements of: the transaction and procurement process; the accounting and tax treatment; subject matter expert services; evaluation advice; asset valuation; business case preparation; and other ad-hoc requests.

**Status Quo Assessment**

As part of the assessment, Deloitte was provided with Due Diligence reports prepared by Collins Barrow dated November 10, 2012 with additional updates July 21, 2013 and January 7, 2014 (the “Reports”). In these Reports, Collins Barrow performed an analysis of certain historical and prospective financial information and various financial, operational and other data relevant to ONTC and the ONTERA divestiture.

Based on the information provided in the Collins Barrow Reports, we can assess that over the past five fiscal years, the average annual cash operating loss, defined to be EBDITA less Capex/Ongoing Subsidy, for ONTERA is approximately \$2.8 million. Assuming this quantum going forward in perpetuity and using a discount rate of 2.85% (as provided by IO per the 2012 Budget Government cost of Debt of 4.35% less inflation of 1.50%) this represents an estimated \$100 million present value cost to the Province. In addition there are other financial commitments, as advised by IO, such as for a one-time deferred capital allocation of \$25 million which was budgeted to be spent equally over three years (2014 -2016) or \$23.7 million in present value terms and the prepayment of a bank loan of \$18.3 million. On this basis, the present value of future cash outflows (in perpetuity) for continued operations is estimated to be \$148 million.

**Net Value of Transaction**

Bell Aliant signed a Share Purchase Agreement on January 28, 2014, with subsequent negotiated amendments, with ONTC for \$14.7 million in total present value proceeds. The consideration of \$14.7 million is comprised of the following components: an initial share purchase price of \$6 million and a ten year fibre license with two 5-year renewal options valued at \$8.7 million in present value terms. Total commitments of the Province outlined in the Share Purchase Agreement amount to \$66.7 million in present value terms. In aggregate, the agreed to proceeds and commitments reported in the Share Purchase Agreement are estimated to represent a net present cost to the Province of \$52 million.

Under the Share Purchase Agreement, the Province is expected to maintain responsibility for pre-existing environmental contamination for a term of 25 years with no financial limitation on its liability. To this end

a thorough due diligence on lands is expected to be completed through Phase II testing on approximately 22 sites with known contamination or high/moderate risk and Phase 1 testing on 5 additional sites. However, as this is a responsibility that the Province would have retained under the Status Quo Scenario it does not impact the Fair Value Assessment and Business Case analysis regarding the divestment of ONTERA.

### **Limitations**

Deloitte did not audit or attempt to independently verify the accuracy or completeness of the financial information assumptions provided by IO and ONTERA management, and specifically the Collins Barrow ONTERA Due Diligence Review Reports dated November 10, 2012, July 21, 2013 and January 7, 2014, in order to comment on the appropriateness of the Share Purchase Agreement signed by Bell Aliant relative to the ONTERA status quo position of ongoing Government ownership.

Subsequent to the completion of the analysis conducted to reach the findings noted, the underlying assumptions may change which will have an impact on our findings. We take no responsibility for updating our findings after the date of this letter. Additionally, since these assumptions reflect anticipated future events, actual results may vary from the findings presented and these variations may be material. As such, we do not provide any assurance on our findings.

This Fair Value Assessment Letter has been produced solely for IO as our client in this engagement.

### **Fair Value Assessment**

The financial impact of continuing to own ONTERA, the Status Quo Assessment, of \$148 million in perpetuity, less net estimated cost of divesting ONTERA to the preferred negotiated bidder, Bell Aliant, is estimated at \$52 million, resulting in an approximate positive financial impact of \$96 million on a present value basis. The estimated positive financial impact is representative of the fair value to the Province of divesting ONTERA to Bell Aliant.

Yours very truly,



Deloitte LLP