

MUSKOKA LAKES ASSOCIATION
Minutes of Meeting With Swift River Energy Ltd.
Toronto Office of the Executive Group
January 12th 2009

Subject: Minutes – Q & A format about Bala Falls Hydro project
Attendees: SREL Energy Limited:
John Wildman – one of the owners
Ian Baines – Consulting Engineer, a director of Swift & project manager
Karen McGhee – consulting engineer

MLA: Jack Fenn
Brain McElwain
Tim Spence
Sandy Baptist

The purpose of the meeting was to ask the principals of SREL Energy Limited (“SREL”) about the project and discuss the concerns the MLA have concerning the operation of the power plant and the potential negative affect on water levels within lakes Muskoka, Rosseau and Joseph.. This meeting was a follow-on meeting to the meeting we had with the MNR on Friday January 9, 2009. We provided the following list of questions to SREL.

Muskoka River Water Management Plan (“MRWMP” -
[http://govdocs.ourontario.ca/results?fsu=Muskoka+River+Watershed+\(Ont.\)](http://govdocs.ourontario.ca/results?fsu=Muskoka+River+Watershed+(Ont.)))

Question 1:

How would you like us to describe SREL?

Answer:

SREL began as a partnership between Paul Fisher and John Wildman. Ian Baines was then brought on as a consulting engineer and as a co-owner. Ian introduced John and Paul to Tony Zwig a prominent and successful Toronto land developer, with investments in hydro power through other special purpose companies.

Bala is Swift's first project – but these projects are typically owned by special purpose companies. The owners and consultants are well qualified with ample experience in this business. This is Ian's 8th hydro project.

SREL Energy Limited's Board of Directors includes:

Anthony Zwig, Chief Executive Officer, Chairman

Paul Fisher, Secretary & Vice Chairman

John Wildman, Vice Chairman

Ian Baines, Chief Operating Officer

Question 2:

Environmental Assessment and operating plan

Describe the operating plan for us. What incentives are in place to ensure SREL operates within the parameters of the negotiated operating plan (i.e. what penalties are in place and how are they enforced). We understand that MNR will ask SREL to manage the other facilities at the Bala Falls location, will the same plan and penalties be in place?

Answer:

The operating plan will be described in the Environmental Screening report. Essentially SREL must operate within the parameters set by the MNR. The MNR has the capability of constantly monitoring SREL operations (water flow statistics) and if MNR find that SREL is operating

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outside of the parameters set the MNR has authority demand compliance with the operating plan and is also authorized to levy financial penalties.

SREL presence at Bala actually enhances the control over water flow and the important flood control mechanisms. The watershed encompasses an area of approximately 5,100 km and includes about 78,000 ha of lakes, 60% of new water into the watershed runs through the watershed and the balance or 40% is absorbed into the local aquifers. All of this flow is recognized in the MRWMP and is accounted for in the MNR's flow projections and target operating levels (or Flow Management Zone).

SREL's goal is to keep the water at a certain predetermined and negotiated height to maintain a constant "head" or level. This allows the plant to operate at maximum efficiency. The result is that SREL will not deliberately increase or decrease the lake level to benefit their operation and so there will not be any material fluctuations in the lake level resulting from the operation of the hydro plant.

Finally, SREL must operate in accordance with the "Do regard Line" (or "Best Management Zone" or "target lake level", essentially three terms for the same target water level) which is set out in the MRWMP.

SREL indicated to us that the MNR is currently undertaking a comprehensive safety review of all of the dams and powerhouses within the Muskoka River Watershed. It is likely that this review will result in changes to the existing Bala Falls situation and that SREL will be required to ensure that safety at the Bala Falls is an integral part of the development and operations of the Bala Falls.

Question 3:

Scenic Flow over the North and South Bala Dams

During heat of the summer in low flow instances what are SREL's plan to maintain a "Scenic Flow" of water through the dam.

What flow should that be – say somewhere between 4 and 8 CMS?

Answer:

SREL has not yet determined this level. The Department of Fisheries and Oceans ("DFO") will dictate a minimum flow level to ensure all fish stock is properly protected. This will negotiated as part of the final settlement of the Environmental Screening report, this flow may or may not be sufficient to ensure an appropriate "Scenic Flow".

SREL plans to ask for public consultation on this issue. They have, in the past and with other similar projects, taken pictures of water flow at key times during the year and then explored with the local residents the most appropriate level. It is our understanding that SREL will follow the same procedures in Bala.

However, it important to note that this issue must be properly addressed in the 30 day review period and SREL must be required to maintain a predetermined 'Scenic Flow'.

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Question 4:

Island of Power

Describe how the power generated by the proposed powerhouse benefit the local residents of Bala. Is it possible to create an Island of Power?

Answer:

It is very possible to create an Island of Power in Bala, so that if there are power outages Bala could remain powered. However, this is a Hydro One issue and SREL has no say in this. The quality of power will be enhanced as a result of the new powerhouse and this will substantially reduce the "flicker" effect and brown outs.

It would definitely be a bonus to be able to create an island of power and this is something the local residents should lobby Hydro One on.

Question 5:

Performance Bond

Will SREL have to post a performance bond that can be called upon to complete construction should SREL not be able to do so?

Answer:

SREL is not aware of any need to post a performance bond. SREL has proven to the MNR that their financial situation is strong. In addition, SREL indicates that preliminary negotiations with lenders is positive and potential lenders are comfortable with the collateral security of a 20 year fixed fee hydro contract with the Provincial Government.

Question 6:

Environmental Assessment for the project - what is it?

Answer:

There is a misnomer here – the report being prepared by SREL consultants should be referred to as an "Environmental Screening" report ("ESR"). An ESR is typically a lower level Environmental Assessment report ("EA"). The ESR that SREL has prepared is close to the higher standard required for an EA in anticipation of a request by MNR to "bump up" their ESR to EA status. The Minister decides if a "Bump-up" to EA status is required and her decision is based upon feedback received from all of the reviewing agencies and from the public.

It is felt by SREL that the only controversial item to be negotiated will be the requirement of DFO for a minimum flow level through the dams for fish habitat reasons. This also partly answers the "Scenic Flow" question, we must wait to see what DFO requires and determine if that will satisfy the Scenic Flow issue.

SREL expects to report to be available sometime near the end of January. The ESR must be reviewed by many Provincial Government agencies in draft form before it is released to the public. Once available for public dissemination the ESR will be posted to the SREL web site and in compliance with Government regulations, it will be advertised in certain publications as available for review. SREL will notify us when it has been posted.

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The public will then have 30 days to review it and make any comments (in certain circumstances and if the proponent agrees this time frame can be extended to days). This is essentially the only opportunity for the public to have meaningful input.

Question 7:

What are the economic incentives provided to SREL by Provincial and Federal Governments, including Royalty holiday?

Answer:

The province has made a standard financial offer to all potential "Green Power" proponents. That offer is \$0.11/KWH plus annual escalations of 15% of CPI for a period of 20 years. In addition, there is a 10 year moratorium on the "Structured Revenue Charge" the Province is able to charge utilities, this normally amounts to 12% of gross revenue.

Finally, the Federal Government is offering \$0.01/KWH as part of their "Eco Energy" initiative (RPPI), but SREL is not certain that this will be available.

Question 8:

Effect of the project on local employment?

Answer:

The capital expenditure is estimated to be about \$22 million. Of this, approximately 40% or \$9 million will be spent locally. Contractors, supply of material and skilled trades are always sourced from as close as possible to increase the efficiency and reduce the cost of the labour force.

Given that this project has a heavy civil component (roads, excavation, rock removal or fill, concrete, coffer dams, bridges) it makes sense to obtain all of this from within the area. With a construction schedule of some 12 to 18 months, the purchase of local goods and services (trucking, concrete, lumber, fuel, food, room and board) and equipment rental, could provide an important boost to the local economy.

Question 9:

Time horizon of the project?

We understand that the project will take some 17 months to complete and if permitted to proceed construction will commence this spring 2009. What risks to the time line exist and how will they be mitigated?

Answer:

Given the late date of the ESR it is likely that the earliest the project can start in 2009 is after Cranberry Festival, SREL expect the project to take approximately 17 months to complete. SREL is doing its utmost to cause as little disruption as possible, it is building a "Murphy bridge" that will allow two lanes of traffic to pass unhindered for virtually the whole time the project is underway and SREL will do its utmost to mitigate the affect of the blasting and trucking activities.

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Question 10:

There is an informative Q & A section in the SREL web site: <http://www.balafalls.ca/faqs.html#5>
Describe the Triggers at the Bala Dam site and how they will be managed by SREL.

Answer:

• Case 1 (High Inflows >85 m³/s)

When Lake Muskoka inflows exceed the Bala Reach flood trigger of 85 m³/s, the North Bala facility will pass all inflows minus the 6 m³/s delegated to Burgess and the Bala dams, up to its maximum turbine unit capacity (100 M³/S). Under this case, generation would be continuous; there will be no difference in peak and off-peak period plant flows, and any excess in flows (> 106 M³/S) will be spilled through the Bala dam(s).

• Case 2 (Equal to or <85 m³/s)

When Lake Muskoka inflows are equal to or less than the Bala Reach flood trigger of 85 m³/s, the facility will pass a maximum peak period flow of 79 m³/s (i.e., 85 m³/s — 6 m³/s), utilizing the storage available in Lake Muskoka when necessary. During the off-peak period inflows in excess of the 6 m³/s allocated to the Burgess or Bala Dams will either be stored to re-establish Lake Muskoka water levels or pass through the units, or both. Under this case, in consideration of the flows passing through Burgess Generating Station and North and South Bala Dams, the maximum total flow passing into Bala Reach at any time of the day will approximate 85 m³/s.

In general, the peak and off-peak generation flows will be contingent upon the inflows to Lake Muskoka, and the requirement to maintain Lake Muskoka and Bala Reach water levels within their respective compliance bands.

Question 11:

Describe the Best Management Zone and the margin around it.

Answer:

See above question #10

Question 12:

What are the penalties for non-compliance with the operating plan and who enforces compliance?

Answer:

We did not get around to asking this question. Assume that the MNR's response is sufficient and that is MNR has the authority to charge SREL the amount of incremental profit achieved by operating outside the Best Management Zone

Question 13:

Who does the public talk to if it appears that the water is too high or too low?

Answer:

The Standing Committee of the Muskoka River WMP then MNR.