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March 7, 2018

His Excellency Governor Christopher T. Sununu
and
The Honorable Council

Dear Governor and Councilors:

REQUESTED ACTION

Holding of a public hearing and passage of a Resolution entitled: A RESOLUTION UNDER RSA 162-I:9 WITH RESPECT TO THE FINANCING OF WATER FACILITIES BY THE BUSINESS FINANCE AUTHORITY FOR PENNICHUCK WATER WORKS, INC. IN AMHERST, BEDFORD, DERRY, EPPING, HOLLIS, MERRIMACK, MILFORD, NASHUA, NEWMARKET, PITTSFIELD, PLAISTOW AND SALEM. (For the text of the requested Resolution see Tab #1 below this letter of transmittal.)

The Authority respectfully requests that you hold a hearing, and, if you consider such action appropriate, make the statutory findings under RSA 162-I:9 with respect to the proposed issuance of up to \$32,500,000 Water Facility Revenue Bonds by the Authority and the loan of the proceeds of the Bonds to Pennichuck Water Works, Inc. (the "Borrower") to finance the construction, rehabilitation and renovation to water facilities in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem, New Hampshire (collectively, the "Locations"). The Authority recommends your favorable action and submits in support thereof the following materials with item numbers the same as the tab numbers for the attached documents.

1. A suggested form of resolution for adoption by the Governor and Council.
2. A letter from Hinckley, Allen & Snyder LLP, bond counsel, explaining this transaction.
3. Materials with respect to the Borrower and the facilities consisting of the Application for Official Intent (Form BFA-1), dated April 20, 2017, submitted by the Borrower, and which includes the Borrower's financial statements for the period ending December 31, 2016 audited by Melanson Heath & Company, P.C.

His Excellency Governor Christopher T. Sununu
and
The Honorable Council
March 7, 2018
Page 2

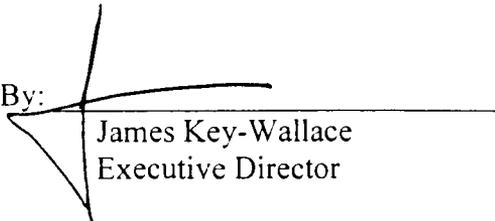
4. The proposed LOAN AND TRUST AGREEMENT.
5. The proposed BOND PURCHASE AGREEMENT.
6. Information from the New Hampshire Employment Security, Economic and Labor Market Information Bureau as to unemployment in the Locations.
7. The resolution adopted by the Authority.
8. A summary of required statutory findings of the Governor and Council with reference to materials supporting each finding.

The Authority will be glad to furnish any additional documentation and information which you may request.

Respectfully submitted,

BUSINESS FINANCE AUTHORITY OF
THE STATE OF NEW HAMPSHIRE

By:



James Key-Wallace
Executive Director

**EXTRACT FROM THE MINUTES OF THE MEETING OF THE
GOVERNOR AND COUNCIL HELD MARCH 7, 2018
IN THE STATE HOUSE, CONCORD, NEW HAMPSHIRE**

At 10:00 a.m. the Governor announced that the next matter to be considered would be the financing of water facilities by the Business Finance Authority for Pennichuck Water Works, Inc. at various locations within the State of New Hampshire and declared that the public hearing on the subject had commenced. He said that he and the members of the Council had received documentation and information with respect to the project. The Governor said that the meeting would then hear anyone wishing to speak on the subject. James Key-Wallace, Executive Director of the Authority, stated that the Authority had approved the financing and recommended that the Governor and Council make the required findings under RSA 162-I:9 and approve the issuance of the Bonds under Section 147(f) of the Internal Revenue Code. He also briefly explained the project and emphasized that the credit of the State was not involved. The Governor then repeated that the proceedings were a public hearing and asked whether any other person wished to speak; there being none, Councilor _____ introduced a resolution entitled "A RESOLUTION UNDER RSA 162-I:9 WITH RESPECT TO THE FINANCING OF WATER FACILITIES BY THE BUSINESS FINANCE AUTHORITY FOR PENNICHUCK WATER WORKS, INC. AT VARIOUS LOCATIONS WITHIN THE STATE OF NEW HAMPSHIRE" and moved its adoption, which was seconded by Councilor _____. After discussion of the resolution, the Governor called for a vote on the motion. Those voting in favor were: the Governor and Councilors _____; those abstaining were Councilor(s) _____; and those voting against were Councilor(s) _____. The Governor declared that the resolution was passed.

* * * * *

A RESOLUTION UNDER RSA 162-I:9 WITH RESPECT TO THE FINANCING
OF WATER FACILITIES BY THE BUSINESS FINANCE AUTHORITY FOR
PENNICHUCK WATER WORKS, INC.
AT VARIOUS LOCATIONS WITHIN THE STATE OF NEW HAMPSHIRE

WHEREAS, the Governor and Council have received from the Business Finance Authority (the "Authority") its written recommendation that the Governor and Council make certain findings and a determination pursuant to RSA 162-I:9 with respect to the financing of water facilities for Pennichuck Water Works, Inc. (the "Borrower") in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem (collectively, "Locations") by the Authority's issue of up to \$32,500,000 Bonds under RSA 162-I (the "Act");

WHEREAS, the Governor and Council have received all the documentation and information with respect to the transaction that they have requested; and

WHEREAS, further action by the Authority with respect to the transaction is subject to the passage of this resolution and cannot be taken until after its passage;

IT IS HEREBY RESOLVED THAT:

Section 1. Findings. On the basis of the Authority's recommendation and the documentation and information received by the Governor and Council, and after a public hearing, the Governor and Council find:

(a) Special findings:

(1) The Project (which constitutes the "Facilities") consists of those projects listed on Schedule A attached hereto.

The Project is within the definition of "Water facility" in the Act and may be financed under the Act.

(2) The establishment and operation of the Facilities expands or maintains and improves the collection, purification, storage or distribution of water for domestic, industrial, agricultural or other uses, and the water for such uses is to be available on reasonable demand to members of the general public within the State of New Hampshire.

(b) General findings:

(1) The Project and the proposed financing of the Project are feasible;

(2) The Borrower has the skills and financial resources necessary to operate the Facilities successfully;

(3) The LOAN AND TRUST AGREEMENT (which is a combined financing document and security document, hereinafter called an “Agreement”) contain provisions so that under no circumstances will the Authority be obligated directly or indirectly to pay project costs, debt service or expenses of operation, maintenance and upkeep of the Facilities except from Bond proceeds or from funds received under the Agreement, exclusive of funds received thereunder by the Authority for its own use;

(4) The Agreement does not purport to create any debt of the State with respect to the Facilities, other than a special obligation of the Authority acting on behalf of the State under the Act; and

(5) The proposed financing of the Project by the Authority and the proposed operation and use of the Facilities will serve one or more needs and implement one or more purposes set forth in RSA 162-I:1, will preserve or increase the social or economic prosperity of the State and one or more of its political subdivisions, and will promote the general welfare of the State’s citizens.

Section 2. Ultimate Finding and Determination. The Governor and Council find that the proposed financing, operation and use of the Facilities will serve a public use and provide a public benefit; and the Governor and Council determine that the Authority’s financing of the Project will be within the policy of, and the authority conferred by, the Act.

Section 3. Approval. The Governor and Council approve the Authority’s taking such further action under the Act with respect to the transaction as may be required.

Section 4. Effective Date. This resolution shall take effect upon its passage.

Passed and Agreed to March 7, 2018.

Governor Christopher T. Sununu

Councilor Joseph D. Kenney

Councilor Andru Volinsky

Councilor Russell E. Prescott

Councilor Christopher C. Pappas

Councilor David K. Wheeler

Schedule A

The Project consists of the financing of capital improvements to the Borrower's water supply and water distribution installations, upgrades, replacements, rehabilitations and related support systems at project sites located in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem, New Hampshire, all of which are within the Borrower's service areas, as such service areas are respectively shown at <http://www.pennichuck.com/tefra.php> (the "Service Area Website"), including (i) water treatment media and miscellaneous water supply upgrades; (ii) water main replacement and rehabilitation throughout the Borrower's service areas in Amherst, Bedford, Derry, Hollis, Merrimack and Nashua, including, but not limited to, (a) in Nashua on Park Street, Mulberry Street, Rochette Street, Ash Street, Marquis Street, Lake Street, Chestnut Street, Scripture Street, Water Street, Bridle Path, Tolles Street, Warren Street, Lowell Street, Green Street, Beard Street, Lemon Street, Proctor Street, Temple Street, Mulvanity Street, Buchanan Avenue, Fowell Street, Zellwood Avenue, Pratt Street, Lincoln Street, Nutt Street, and (b) in Bedford on Route 101; (iii) development of a new well in Plaistow; and (iv) booster station replacement and rehabilitation throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge Subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (v) storage tank installation/maintenance/replacement throughout the Borrower's service areas in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, including, but not limited to, the Kessler Farm Tank in Nashua; (vi) the development and installation of a new raw water intake in the Merrimack River in Merrimack; (vii) improvements to the Bowers Dam spillway in Merrimack; (viii) pump and system operational improvements throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge Subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (ix) service, hydrant and meter replacement or rehabilitation throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (x) replacement or rehabilitation of rolling stock and equipment at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; (xi) customer service support applications, financial accounting and other applications and water system monitoring upgrades and enhancements at 25 Manchester Street in Merrimack; (xii) data presentation and collection system development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; (xiii) geographical information systems development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; and (xiv) asset management system development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200

Concord Street in Nashua and 371 Catamount Road in Pittsfield, all of which are or will be owned, operated or used by the Borrower for the purpose of improving its collection, purification, storage and distribution of water in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem, New Hampshire.



28 State Street
Boston, MA 02109-1775
p: 617-345-9000 f: 617-345-9020
hinckleyallen.com Tab #2

March 7, 2018

His Excellency Governor Christopher T. Sununu
and
The Honorable Council

Dear Governor and Councilors:

(BFA – Pennichuck Water Works, Inc.)

In this transaction the Authority will lend up to \$32,500,000 of exempt facility revenue bond proceeds to Pennichuck Water Works, Inc. (together with any affiliates, the "Borrower"), for the purpose of financing projects as listed on Schedule A attached hereto.

The Bonds will be issued and the loan will be made pursuant to a LOAN AND TRUST AGREEMENT (the "Agreement"). TD Securities (USA) LLC (the "Underwriter") is prepared to underwrite the Bonds on the terms set forth in the Bond Purchase Agreement. The terms of the Bonds will be up to 30 years, depending on market conditions at the time of sale. Interest on the Bonds will be at rates not to exceed 10.00%. The Bonds may be fixed or variable rate bonds. The Borrower may prepay principal of the Bonds at its option without penalty after a zero to ten-year no-call period, depending on market conditions at the time and, if issued as taxable bonds, may be subject to a make-whole premium.

The Authority's obligation to pay the Bonds is actually to be performed by the Borrower, which is unconditionally responsible for that performance. As in all transactions under RSA 162-I, neither the Authority's money nor other public funds will or can be used to pay the Bonds. Provisions appropriate for achieving this result, as required by RSA 162-I, are contained in the Agreement.

In summary, the details of this transaction are essentially the same as in many prior bond issues, and there is nothing new or unusual involved.

Hinckley, Allen & Snyder LLP

HINCKLEY, ALLEN & SNYDER LLP

▶ ALBANY ▶ BOSTON ▶ CONCORD ▶ HARTFORD ▶ NEW YORK ▶ PROVIDENCE

HINCKLEY, ALLEN & SNYDER LLP, ATTORNEYS AT LAW

Schedule A

The Project consists of the financing of capital improvements to the Borrower's water supply and water distribution installations, upgrades, replacements, rehabilitations and related support systems at project sites located in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem, New Hampshire, all of which are within the Borrower's service areas, as such service areas are respectively shown at <http://www.pennichuck.com/tefra.php> (the "Service Area Website"), including (i) water treatment media and miscellaneous water supply upgrades; (ii) water main replacement and rehabilitation throughout the Borrower's service areas in Amherst, Bedford, Derry, Hollis, Merrimack and Nashua, including, but not limited to, (a) in Nashua on Park Street, Mulberry Street, Rochette Street, Ash Street, Marquis Street, Lake Street, Chestnut Street, Scripture Street, Water Street, Bridle Path, Tolles Street, Warren Street, Lowell Street, Green Street, Beard Street, Lemon Street, Proctor Street, Temple Street, Mulvanity Street, Buchanan Avenue, Fowell Street, Zellwood Avenue, Pratt Street, Lincoln Street, Nutt Street, and (b) in Bedford on Route 101; (iii) development of a new well in Plaistow; and (iv) booster station replacement and rehabilitation throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge Subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (v) storage tank installation/maintenance/replacement throughout the Borrower's service areas in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, including, but not limited to, the Kessler Farm Tank in Nashua; (vi) the development and installation of a new raw water intake in the Merrimack River in Merrimack; (vii) improvements to the Bowers Dam spillway in Merrimack; (viii) pump and system operational improvements throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge Subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (ix) service, hydrant and meter replacement or rehabilitation throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (x) replacement or rehabilitation of rolling stock and equipment at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; (xi) customer service support applications, financial accounting and other applications and water system monitoring upgrades and enhancements at 25 Manchester Street in Merrimack; (xii) data presentation and collection system development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; (xiii) geographical information systems development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; and (xiv) asset management system development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield, all of which are or will be owned, operated or used by the Borrower for the purpose of improving its collection, purification, storage and distribution of water in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem, New Hampshire.

APPLICATION FOR OFFICIAL INTENT

*If you have any questions about this application or the BFA's bond program, please call the BFA's offices at (603) 415-0190. If you need more space for any question, please attach additional sheets.

Name of Applicant: PENNICHTUCK WATER WORKS, INC.
Address: 25 MANCHESTER ST.
City, State, Zip: MERRIMACK, NH 03054
Contact: LARRY D. GOODMUE Title: CEO, CFO + TREASURER Phone: 603-913-2312
Name and address of owner of project (if different): SAME AS ABOVE

Name and address of lessees of project (if any): NOT APPLICABLE

Amount of bond issue \$ 32,500,000 (SEE EXHIBIT 1 ATTACHED)
Address of project site: VARIOUS THROUGHOUT THE COMPANY'S FRANCHISE AREA IN SOUTHERN N.H.

Briefly describe the project: SEE ATTACHED LIST OF PROJECT DESCRIPTIONS ON EXHIBIT 2, ATTACHED.

Table with columns ESTIMATED COST and SIZE. Rows include Land Acquisition, Building Acquisition, Building Construction, Building Renovation, Equipment Acquisition, Cost of Bond Issuance, Refinance Existing Debt, and Other (describe): SEE BREAKOUT OF AMOUNTS BY CATEGORY ON EXHIBIT 2, ATTACHED.

Describe the effect of the project on the environment: NO ENVIRONMENTAL IMPACT STUDY IS KNOWN TO BE REQUIRED AT THIS TIME FOR THESE PROJECTS, AND THERE IS NO EXPECTED WETLANDS IMPACT.

When do you expect the project to begin? Q2 2018 completed? LATE 2019 OR EARLY 2020

How many jobs will be created or preserved by the facility? Created N/A Preserved N/A

Describe the types of jobs created or preserved, their wage and salary levels and, if applicable, when the jobs will be created: THE SUCCESSFUL BIDDERS ARE EXPECTED TO USE REGIONAL WORKFORCES FOR PROJECTS DURING THE CITED CONSTRUCTION PERIOD, PRESERVING OR CREATING NEW POSITIONS AS NEEDED BY THE WINNING BIDDERS

Names and Addresses of contractors and subcontractors for the project: THE PROJECTS WILL BE BID BY A SELECT GROUP OF PRE-QUALIFIED CONTRACTORS, YET TO BE DETERMINED.

Describe the Applicant (and if applicable the owner and the lessees). Include a brief history of the Applicant, its principal products, and its consumers: SEE EXHIBIT 3, ATTACHED

Briefly describe the background of the Applicant's (and if applicable the owner's and lessees') key management personnel: SEE EXHIBIT 3 ATTACHED

Is the Applicant an equal opportunity employer? [checked], the owner? [checked], the lessee? []

Please provide any other information of which you believe the BFA should be aware in considering this application:

The applicant will promptly advise the BFA of any change in the foregoing information, or of any additional information that may become available as plans for the project progress.

Date: 4/20/2017
Authorized Officer of Applicant [Signature]

Amount of Bond Issue per Application:

\$ 32,500,000

Breakdown of Bond Issue:

Tax Exempt Bonds (for 2017-2019 Water Facilities Capital Expenditures - see Exhibit 2)
Allowance for Manner of Issuance (original issue discount, capitalized interest, et al)
Total New Money

30,000,000
2,500,000
32,500,000

Tax Exempt Bonds - Refunding of Existing Bonds (Max)

-

Total Amount of Bonds

\$ 32,500,000

Comments:

- 1 Analysis of potential refunding of existing bonds is ongoing. A maximum allowance for this is cited above.
- 2 It is our understanding that the BFA's one time issuance fee is 3/4% of the new money, which is indicated at \$27M above.

Pennichuck Water Works, Inc.
Cost of Bond Issue - Breakdown and Commentary

Cost of Bond Issue per Application:

\$ 800,000

Comments:

- 1 Cost of bond issuance is a conservative estimate of the fees associated with this issuance, excluding the Underwriter's Discount.
- 2 The Underwriter's Discount is subject to the total value of bonds actually issued, which is subject to change at this time.
- 3 The estimated value is considered to be an upper limit for this entire issuance transaction.

Pennichuck Water Works, Inc.
Summary of 2017-2019 Water Facilities Capital Expenditures
(In thousands of dollars)

Exhibit 2

Amounts Relating to Tax-exempt Bonding
Total Planned in Total Planned in

Total Net Budget for 2017 2018 for New 2019 for New Projects Projects

| Item | for 2017 | 2018 for New | 2019 for New | Projects | Projects | Grand Totals |
|---|------------------|------------------|-----------------|----------|----------|------------------|
| Water Supply | | | | | | |
| Water Treatment Media and Miscellaneous Water Supply Upgrades | \$ 230 | \$ 560 | \$ 350 | | | \$ 1,140 |
| Bowers Pond Dam - replace flash boards | - | - | 600 | | | \$ 600 |
| Water Supply - Total | 230 | 560 | 950 | | | 1,740 |
| Water Distribution | | | | | | |
| Main Replacement and Rehabilitation | 4,195 | 2,250 | 3,175 | | | \$ 9,620 |
| Booster Station Replacement and Rehabilitation, Storage Tank Maintenance/Replacement, Back-up Generator Installation and Pump and System Operational Improvements | 810 | 60 | 60 | | | \$ 930 |
| Service, Hydrant and Meter Replacements or Rehabilitation | 790 | 840 | 1,060 | | | \$ 2,690 |
| Rolling Stock and Equipment Replacements or Rehabilitation | 1,680 | 790 | 960 | | | \$ 3,430 |
| Kessler Farm Tank Replacement | - | - | 2,800 | | | \$ 2,800 |
| Merrimack River Intake/Interconnection | 820 | 5,000 | - | | | \$ 5,820 |
| Water Distribution - Total | 8,295 | 8,940 | 8,055 | | | 25,290 |
| Support Services | | | | | | |
| Customer Service Support Applications, Financial Accounting and other Applications and Water System Monitoring upgrades and enhancements | 400 | 445 | 425 | | | \$ 1,270 |
| Dpac (Data Presentation and Collection) System | 160 | - | - | | | \$ 160 |
| Asset Management System | 940 | 300 | 300 | | | \$ 1,540 |
| Support Services - Total | 1,500 | 745 | 725 | | | 2,970 |
| Total Bondable Amounts | \$ 10,025 | \$ 10,245 | \$ 9,730 | | | \$ 30,000 |

Pennichuck Water Works, Inc.
Description of Applicant

Exhibit 3

See the attached 12/31/2016 Audited Financial Statements for Pennichuck Corporation, for which Pennichuck Water Works, Inc. is the largest wholly-owned subsidiary. The Company has been in existence for over 160 years, as a supplier and distributor of potable water to residential, commercial, industrial and fire protection customers within its specified franchise area in southern New Hampshire.

Key Management Personnel

Larry Goodhue, Chief Executive Officer, Chief Financial Officer, Treasurer
Donald Ware, Chief Operating Officer
Carol Ann Howe, Assistant Treasurer and Director of Regulatory and Business Affairs
George Torres, Corporate Controller
John Boisvert, Chief Engineer
Christopher Countie, Water Supply Manager
James Lavacchia, Distribution Manager
Stephen Greenwood, Director of Information Technology
Mary DeRoche, Director of Human Resources

Pennichuck Corporation and Subsidiaries
Audited Consolidated Financial Statements
December 31, 2016 and 2015

Contents

| | |
|--|----|
| Independent Auditors' Report | 1 |
| Consolidated Balance Sheets | 3 |
| Consolidated Statements of Income | 5 |
| Consolidated Statements of Comprehensive Income | 6 |
| Consolidated Statement of Changes in Stockholder's Equity Current Year | 7 |
| Consolidated Statement of Changes in Stockholder's Equity Prior Year | 8 |
| Consolidated Statements of Cash Flows | 9 |
| Notes to the Consolidated Financial Statements | 11 |



INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholder
Pennichuck Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Pennichuck Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income (loss), comprehensive income (loss), changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pennichuck Corporation and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Melanson Heath

March 22, 2017

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2016 and 2015
(in thousands, except share data)

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|--------------------------|--------------------------|
| ASSETS | | |
| Property, Plant and Equipment, net | \$ <u>201,698</u> | \$ <u>183,241</u> |
| Current Assets: | | |
| Cash and cash equivalents | 2,446 | 1,246 |
| Restricted cash - RSF | 6,530 | 5,729 |
| Restricted cash - Bond Project Funds | 7,568 | 2,542 |
| Investments - Bond Project Funds | - | 17,237 |
| Accounts receivable - billed, net | 4,137 | 2,184 |
| Accounts receivable - unbilled, net | 1,921 | 2,283 |
| Accounts receivable - other | 28 | 35 |
| Inventory | 666 | 712 |
| Prepaid expenses | 532 | 667 |
| Prepaid property taxes | 1,163 | 1,334 |
| Deferred and refundable income taxes | <u>352</u> | <u>231</u> |
| Total Current Assets | <u>25,343</u> | <u>34,200</u> |
| Other Assets: | | |
| Deferred land costs | 2,248 | 2,255 |
| Deferred charges and other assets | 10,058 | 9,066 |
| Investment in real estate partnership | 104 | 104 |
| Acquisition premium, net | <u>75,144</u> | <u>77,028</u> |
| Total Other Assets | <u>87,554</u> | <u>88,453</u> |
| TOTAL ASSETS | \$ <u>314,595</u> | \$ <u>305,894</u> |

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED

As of December 31, 2016 and 2015
(in thousands, except share data)

| | 2016 | 2015 |
|---|-------------------|-------------------|
| STOCKHOLDER'S EQUITY AND LIABILITIES | | |
| Stockholder's Equity: | | |
| Common stock; \$0.01 par value; 1,000 shares authorized, issued and outstanding | \$ - | \$ - |
| Additional paid in capital | 30,561 | 30,561 |
| Accumulated deficit | (10,241) | (8,721) |
| Accumulated other comprehensive income | 258 | 201 |
| Total Stockholder's Equity | 20,578 | 22,041 |
| Long-Term Debt, Less Current Portion and Unamortized Debt Issuance Costs | 200,758 | 201,283 |
| Current Liabilities: | | |
| Current portion of long-term debt | 5,162 | 4,120 |
| Accounts payable | 5,975 | 1,492 |
| Deferred revenue | 63 | 66 |
| Accrued interest payable | 1,704 | 1,318 |
| Other accrued expenses | 980 | 243 |
| Accrued wages and payroll withholding | 271 | 220 |
| Customer deposits and other | 805 | 151 |
| Total Current Liabilities | 14,960 | 7,610 |
| Other Liabilities and Deferred Credits: | | |
| Deferred income taxes | 20,869 | 20,642 |
| Accrued pension liability | 9,010 | 8,286 |
| Unamortized debt premium | 3,082 | 3,243 |
| Deferred investment tax credits | 537 | 570 |
| Regulatory liability | 760 | 781 |
| Accrued post-retirement benefits | 2,578 | 2,242 |
| Customer advances | 84 | 84 |
| Contributions in aid of construction, net | 40,364 | 37,929 |
| Derivative instrument | 453 | 548 |
| Other long-term liabilities | 562 | 635 |
| Total Other Liabilities and Deferred Credits | 78,299 | 74,960 |
| TOTAL STOCKHOLDER'S EQUITY AND LIABILITIES | \$ 314,595 | \$ 305,894 |

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the Years Ended December 31, 2016 and 2015
(in thousands)

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Operating Revenues | \$ <u>42,697</u> | \$ <u>40,840</u> |
| Operating Expenses: | | |
| Operations and maintenance | 20,820 | 19,511 |
| Depreciation and amortization | 6,942 | 6,610 |
| Taxes other than income taxes | <u>6,159</u> | <u>5,928</u> |
| Total Operating Expenses | <u>33,921</u> | <u>32,049</u> |
| Operating Income | 8,776 | 8,791 |
| Interest Expense | (10,784) | (10,775) |
| Allowance for Funds Used During Construction | 358 | 70 |
| Other, Net | <u>545</u> | <u>(70)</u> |
| Loss Before (Provision for) Benefit from Income Taxes | (1,105) | (1,984) |
| (Provision for) Benefit from Income Taxes | <u>(135)</u> | <u>(308)</u> |
| Net Loss | <u>\$ (1,240)</u> | <u>\$ (2,292)</u> |

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2016 and 2015
(in thousands)

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Net Loss | \$ (1,240) | \$ (2,292) |
| Other Comprehensive Income (Loss): | | |
| Unrealized loss on derivatives | (28) | (109) |
| Reclassification of net income realized in net income | 123 | 144 |
| Income tax expense (benefit) relating to other comprehensive income | <u>(38)</u> | <u>(14)</u> |
| Other Comprehensive Income | <u>57</u> | <u>21</u> |
| Comprehensive Loss | <u>\$ (1,183)</u> | <u>\$ (2,271)</u> |

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

For the Year Ended December 31, 2016

(in thousands, except per share data)

| | Common Stock | | Additional | | Retained Earnings/(Deficit) | Accumulated Other Comprehensive Income (Loss) | Total |
|---|--------------|-------------|------------------|--|-----------------------------|---|------------------|
| | Shares | Amount | Paid in Capital | | | | |
| Balance as of January 1, 2016 | 1,000 | \$ - | \$ 30,561 | | \$ (8,721) | \$ 201 | \$ 22,041 |
| Common dividends declared-\$279.91 per share | - | - | - | | (280) | - | (280) |
| Net loss | - | - | - | | (1,240) | - | (1,240) |
| Other comprehensive income (loss): | | | | | | | |
| Unrealized loss on derivatives, net of taxes of \$(11) | - | - | - | | - | (17) | (17) |
| Reclassification of net income realized in net income, net of taxes of \$49 | - | - | - | | - | 74 | 74 |
| Balance as of December 31, 2016 | <u>1,000</u> | <u>\$ -</u> | <u>\$ 30,561</u> | | <u>\$ (10,241)</u> | <u>\$ 258</u> | <u>\$ 20,578</u> |

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

For the Year Ended December 31, 2015
(in thousands, except per share data)

| | Common Stock | | Additional | | Retained | Accumulated | Total |
|---|--------------|--------|------------|------------|----------|-------------|-------|
| | Shares | Amount | Paid in | Capital | | | |
| Balance as of January 1, 2015 | 1,000 | \$ - | \$ 30,561 | \$ (6,151) | \$ 180 | \$ 24,590 | |
| Common dividends declared-\$277.85 per share | - | - | - | (278) | - | (278) | |
| Net loss | - | - | - | (2,292) | - | (2,292) | |
| Other comprehensive income (loss): | | | | | | | |
| Unrealized gain on derivatives, net of taxes of \$(44) | - | - | - | - | (65) | (65) | |
| Reclassification of net income realized in net income, net of taxes of \$58 | - | - | - | - | 86 | 86 | |
| Balance as of December 31, 2015 | 1,000 | \$ - | \$ 30,561 | \$ (8,721) | \$ 201 | \$ 22,041 | |

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(in thousands)

| | <u>2016</u> | <u>2015</u> |
|--|----------------|--------------|
| Operating Activities: | | |
| Net Loss | \$ (1,240) | \$ (2,292) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,019 | 6,586 |
| Amortization of original issue discount | - | 252 |
| Equity component of AFUDC | (137) | (25) |
| Amortization of deferred investment tax credits | (33) | (33) |
| Provision for deferred income tax | 189 | 294 |
| Undistributed loss in real estate partnership | - | 1 |
| Gain on disposition of property | (529) | - |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable billed and unbilled | (1,584) | 129 |
| Decrease in inventory | 46 | 90 |
| (Increase) decrease in prepaid expenses | 185 | (550) |
| (Increase) decrease in deferred charges and other assets | (456) | 1,123 |
| (Increase) in refundable income taxes | (2) | (23) |
| Increase (decrease) in accounts payable and deferred revenue | 4,480 | (152) |
| Increase in accrued interest payable | 386 | 636 |
| Increase in other | 2,409 | 530 |
| Net cash provided by operating activities | <u>10,733</u> | <u>6,566</u> |
| Investing Activities: | | |
| Purchase of property, plant and equipment including debt component of allowance for funds used during construction | (21,886) | (13,866) |
| (Increase) decrease in restricted cash | (5,826) | 37,565 |
| Purchase of marketable securities | - | (17,237) |
| Proceeds from sale of marketable securities | 17,236 | - |
| Proceeds from sale of property | 946 | - |
| Change in investment in real estate partnership and deferred land costs | 7 | (5) |
| Net cash provided (used) by investing activities | <u>(9,523)</u> | <u>6,457</u> |

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(in thousands)

| | <u>2016</u> | <u>2015</u> |
|--|-----------------|-----------------|
| Financing Activities: | | |
| Borrowings (payments) on line of credit, net | \$ - | \$ - |
| Payments on long-term debt | (4,227) | (42,484) |
| Contributions in aid of construction | 58 | 132 |
| Proceeds from long-term borrowings | 4,498 | 28,098 |
| Debt issuance costs | (59) | (232) |
| Dividends paid | <u>(280)</u> | <u>(278)</u> |
| Net cash used by financing activities | <u>(10)</u> | <u>(14,764)</u> |
| Increase (Decrease) in cash and cash equivalents | 1,200 | (1,741) |
| Cash and cash equivalents, beginning of period | <u>1,246</u> | <u>2,987</u> |
| Cash and cash equivalents, end of period | <u>\$ 2,446</u> | <u>\$ 1,246</u> |

Supplemental Disclosure on Cash Flow and Non-cash Items
For the Years Ended December 31, 2016 and 2015 (in thousands)

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|-------------|-------------|
| Cash paid during the period for: | | |
| Interest | \$ 10,263 | \$ 9,991 |
| Income taxes | 123 | 233 |
| Non-cash items: | | |
| Contributions in aid of construction | 3,309 | 2,128 |
| Forgiveness of debt | 77 | 77 |

The accompanying notes are an integral part of these consolidated financial statements.

PENNICHUCK CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Description of Business and Summary of Significant Accounting Policies

Description of Business:

Pennichuck Corporation (“the Company,” “we,” or “our”) is a holding company headquartered in Merrimack, New Hampshire with five wholly owned operating subsidiaries: Pennichuck Water Works, Inc., (“Pennichuck Water”) Pennichuck East Utility, Inc., (“Pennichuck East”) and Pittsfield Aqueduct Company, Inc. (“PAC”) (collectively referred to as our Company’s “utility subsidiaries”), which are involved in regulated water supply and distribution to customers in New Hampshire; Pennichuck Water Service Corporation (“Service Corporation”) which conducts non-regulated water-related services; and The Southwood Corporation (“Southwood”) which owns several parcels of undeveloped land.

The Company’s utility subsidiaries are engaged principally in the collection, storage, treatment and distribution of potable water to approximately 36,047 customers throughout the State of New Hampshire. The utility subsidiaries, which are regulated by the New Hampshire Public Utilities Commission (the “NHPUC”), are subject to the provisions of Accounting Standards Codification (“ASC”) Topic 980 “*Regulated Operations*.”

Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property, Plant and Equipment

Property, plant and equipment, which includes principally the water utility assets of the Company’s utility subsidiaries, is recorded at cost plus an allowance for funds used during construction on major, long-term projects and includes property funded with contributions in aid of construction.

Maintenance, repairs and minor improvements are charged to expense as incurred. Improvements which significantly increase the value of property, plant and equipment are capitalized.

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash, money market funds and other short-term liquid investments with original maturities of three months or less.

Restricted Cash - RSF

This restricted cash balance consists of funds maintained for the Rate Stabilization Fund (“RSF”), which was established in conformity with the requirements of NHPUC Order 25,292, as explained more fully in Note 12 of these financial statements. The RSF is an imprest fund of \$5 million, which is subject to funding above or below the imprest fund balance, reflecting actual revenue performance as it relates to prescribed revenue levels supported by the RSF. Of the approximately \$6.5 million in restricted cash as of December 31, 2016 and in compliance with the rules governing the use of the RSF, approximately \$1.5 million is reserved as a potential return to rate payers as a component of the new water rates set as a result of the next promulgated rate case before the NHPUC, which is in process at this time and a final order is anticipated for late 2017.

Restricted Cash – Bond Project Funds

This restricted cash balance consists of funds remaining from the issuance of the Series 2014 and 2015 tax-exempt bonds (the “Bonds”) in December of 2014 and October of 2015, respectively. The proceeds from those bond issuance transactions are maintained in separate restricted cash accounts, with Trustee oversight, and are subject to withdrawal as a reimbursement of eligible capital project expenditures for the years 2014 through 2019, as defined by the indenture and issuance documents associated with each offering. The restricted cash accounts are also used as a “conduit” for the transfer of money from operating cash to restricted cash, allowing the Trustee to make the required payments to bondholders for principal and interest due semi-annually.

As of December 31, 2015, the funds in these restricted cash accounts totaled approximately \$2.5 million. An additional amount of approximately \$17.2 million of these bond funds were held in investment accounts as of December 31, 2015; all of which were sold and transferred to the restricted cash accounts during 2016. During 2016, approximately \$1.5 million was transferred into the restricted cash accounts from working capital and approximately \$3.8 million was withdrawn from the restricted cash accounts to make the principal and interest payments for the Bonds, on January 1 and July 1. Also during 2016, approximately \$13.1 million was withdrawn from the restricted cash accounts, and transferred to the Company’s operating cash accounts, for reimbursements of qualifying capital projects completed and “used and useful” during 2016, which were initially funded from working capital. In December 2016, approximately \$3.3 million was transferred into these restricted cash accounts from the Company’s operating cash accounts, to provide the funds needed to make the net principal and interest payments due on January 1, 2017 for the Bonds. As of December 31, 2016, the funds in these restricted cash accounts totaled approximately \$7.6 million.

Investments – Bond Project Funds

As discussed above, the approximately \$17.2 million of these bond funds, which were held in investment accounts as of December 31, 2015, were sold and transferred to the restricted cash accounts during 2016. These funds were then used to reimburse the Company for eligible capital project expenditures for the years 2014 through 2016, which were initially funded from working capital. The funds, now held in the restricted cash accounts, were also used to make the principal and interest payments for the bonds, on January and July 1st.

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance-sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded as either short-term or long-term on the consolidated balance sheet, based on contractual maturity date and are stated at amortized cost.

The fair value of all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market.

Concentration of Credit Risks

Financial instruments that subject the Company to credit risk consist primarily of cash (including cash equivalents and restricted cash) and accounts receivable. Cash balances are invested in financial institutions insured by the Federal Deposit Insurance Corporation (“FDIC”). At December 31, 2016 and 2015, the Company had approximately \$16,950,000 and \$9,200,000 in excess of FDIC insured limits, respectively. Our accounts receivable balances primarily represent amounts due from the residential, commercial and industrial customers of our regulated water utility operations, as well as receivables from our Service Corporation customers.

Accounts Receivable – Billed, Net

Accounts receivable are recorded at the invoiced amounts. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable, and is determined based on historical write-off experience and the aging of account balances. We review the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered.

Accounts Receivable – Unbilled, Net

We read our customer meters on a monthly basis and record revenues based on meter reading results. Information from the last meter reading date is used to estimate the value of unbilled revenues through the end of the accounting period. Estimates of water utility revenues for water delivered to customers but not yet billed are accrued at the end of each accounting period. Actual results could differ from those estimates.

Inventory

Inventory is stated at the lower of cost, using the average cost method, or market.

Deferred Land Costs

Included in deferred land costs is the Company's original basis in its undeveloped land-holdings and any land improvement costs, which are stated at the lower of cost or market. All costs associated with real estate and land projects are capitalized and allocated to the project to which the costs relate. Administrative labor and the related fringe benefit costs attributable to the acquisition, active development, and construction of land parcels are capitalized as deferred land costs. No labor and benefits were capitalized for the years ended December 31, 2016 and 2015.

Deferred Charges and Other Assets

Deferred charges include certain regulatory assets and other assets. Regulatory assets are amortized over the periods they are recovered through NHPUC-authorized water rates. The Company's utility subsidiaries have recorded certain regulatory assets in cases where the NHPUC has permitted, or is expected to permit, recovery of these costs over future periods. Currently, the regulatory assets are being amortized over periods ranging from 2 to 25 years.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs are amortized over the term of the related bonds and notes. The Company's utility subsidiaries have recorded unamortized debt issuance costs in cases where the NHPUC has permitted or is expected to permit recovery of these costs over future periods. The debt issuance costs are being amortized over the lives of the associated debt.

Contributions in Aid of Construction

Under construction contracts with real estate developers and others, the Company's utility subsidiaries may receive non-refundable advances for the cost of installing new water mains. These advances are recorded as Contributions in Aid of Construction ("CIAC"). The utility subsidiaries also record to plant and CIAC the fair market value of developer installed mains and any excess of fair market value over the cost of community water systems purchased from developers. CIAC are amortized over the life of the related properties.

Revenues

Standard charges for water utility services to customers are recorded as revenue, based upon meter readings and contract service, as services are provided. The majority of the Company's water revenues are based on rates approved by the NHPUC. Estimates of unbilled service revenues are recorded in the period the services are provided. Provision is made in the consolidated financial statements for estimated uncollectible accounts.

Non-regulated water management services include contract operations and maintenance, and water testing and billing services to municipalities and small, privately owned community water systems. Contract revenues are billed and recognized on a monthly recurring basis in accordance with agreed-upon contract rates. Revenues from unplanned additional work are based upon time and materials incurred in connection with activities not specifically identified in the contract, or for which work levels exceed contracted amounts.

Revenues from real estate operations, other than undistributed earnings or losses from equity method joint ventures, are recorded upon completion of a sale of real property. The Company's real estate holdings outside of our regulated utilities are comprised primarily of undeveloped land.

Investment in Joint Venture

Southwood uses the equity method of accounting for its investment in a joint venture in which it does not have a controlling interest. Under this method, Southwood records its proportionate share of losses under "Other, net" in the accompanying Consolidated Statements of Income (Loss) with a corresponding decrease in the carrying value of the investment.

Income Taxes

Income taxes are recorded using the accrual method and the provision for federal and state income taxes is based on income reported in the consolidated financial statements, adjusted for items not recognized for income tax purposes. Provisions for deferred income taxes are recognized for accelerated depreciation and other temporary differences. A valuation allowance is provided to offset any net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Investment tax credits previously realized for income tax purposes are amortized for financial statement purposes over the life of the property, giving rise to the credit.

Change in Accounting Principle

In 2016, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*. The effect of this change in 2016 was to reclassify debt issuance expenses in the amount of \$4.5 million from other assets to a reduction in long-term debt. The consolidated financial statements for 2015 have been retroactively restated for the change, which resulted in a decrease to deferred charges and other assets and a corresponding decrease to long-term debt of \$4.8 million. There is no effect on net income for either year.

Note 2 – Property, Plant and Equipment

The components of property, plant and equipment as of December 31, 2016 and 2015 were as follows:

| (in thousands) | <u>2016</u> | <u>2015</u> | <u>Useful Lives (in years)</u> |
|---|-------------------|-------------------|------------------------------------|
| Utility Property: | | | |
| Land and land rights | \$ 3,079 | \$ 3,078 | - |
| Source of supply | 61,450 | 52,347 | 3 - 70 |
| Pumping and purification | 30,851 | 30,508 | 7 - 64 |
| Transmission and distribution, including services, meters and hydrants | 145,202 | 138,756 | 15 - 91 |
| General and other equipment | 15,000 | 13,189 | 7 - 75 |
| Intangible plant | 790 | 790 | 20 |
| Construction work in progress | <u>10,022</u> | <u>4,494</u> | |
| Total utility property | 266,394 | 243,162 | |
| Total non-utility property | <u>5</u> | <u>5</u> | 5 - 10 |
| Total property, plant and equipment | 266,399 | 243,167 | |
| Less accumulated depreciation | <u>(64,701)</u> | <u>(59,926)</u> | |
| Property, plant and equipment, net | <u>\$ 201,698</u> | <u>\$ 183,241</u> | |

The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 91 years. The weighted average composite depreciation rate was 2.54% and 2.53% in 2016 and 2015, respectively.

Note 3 – Investments – Bond Project Funds

All investments were sold during 2016 and transferred to the Restricted Cash - Bond Project Funds account.

At December 31, 2015, the Company held investments in marketable securities that were classified as held-to-maturity and consisted of the following:

| December 31, 2015 (in thousands) | <u>Amortized Cost</u> | <u>Unrecognized Holding Losses</u> | <u>Estimated Fair Value</u> |
|-------------------------------------|---------------------------|--|-------------------------------------|
| U.S. government bonds | \$ <u>17,237</u> | \$ <u>(27)</u> | \$ <u>17,210</u> |
| Investments - Bond Project Funds | <u>\$ 17,237</u> | <u>\$ (27)</u> | <u>\$ 17,210</u> |

Note 4 – Accounts Receivable

Accounts receivable consisted of the following at December 31, 2016 and 2015:

| (in thousands) | <u>2016</u> | <u>2015</u> |
|--------------------------------------|-----------------|-----------------|
| Accounts receivable - billed | \$ 4,188 | \$ 2,235 |
| Less allowance for doubtful accounts | <u>(51)</u> | <u>(51)</u> |
| Accounts Receivable - billed, net | <u>\$ 4,137</u> | <u>\$ 2,184</u> |
| Accounts receivable - unbilled | \$ 1,921 | \$ 2,283 |
| Less allowance for doubtful accounts | <u>-</u> | <u>-</u> |
| Accounts Receivable - unbilled, net | <u>\$ 1,921</u> | <u>\$ 2,283</u> |

Note 5 – Deferred Charges and Other Assets

Deferred charges and other assets as of December 31, 2016 and 2015 consisted of the following:

| (in thousands) | <u>2016</u> | <u>2015</u> | <u>Recovery Period (in years)</u> |
|---|------------------|-----------------|---|
| Regulatory assets: | | | |
| Source development charges | \$ 1,041 | \$ 652 | 5 - 25 |
| Miscellaneous studies | 854 | 862 | 2 - 25 |
| Unrecovered pension and post-retirement benefits expense | <u>7,457</u> | <u>6,895</u> | (1) |
| Total regulatory assets | 9,352 | 8,409 | |
| Supplemental executive retirement plan asset | <u>706</u> | <u>645</u> | |
| Subtotal | 10,058 | 9,054 | |
| Line of credit debt issuance expenses, net | <u>-</u> | <u>12</u> | (1) |
| Total deferred charges and other assets | <u>\$ 10,058</u> | <u>\$ 9,066</u> | |

(1) We expect to recover these amounts consistent with the anticipated expense recognition of these assets.

Note 6 – Post-retirement Benefit Plans

Pension Plan and Other Post-retirement Benefits

The Company has a non-contributory, defined benefit pension plan (the “DB Plan”) that covers substantially all employees. The benefits are based on years of service and participant compensation levels. The Company’s funding policy is to contribute annual amounts that meet the requirements for funding under the U.S. Department of Labor’s Pension Protection Act. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

Post-retirement medical benefits are provided for eligible retired employees through one of two plans (collectively referred to as our “OPEB Plans”). For employees who retire on or after the normal retirement age of 65, benefits are provided through a post-retirement plan (the “Post-65 Plan”). For eligible non-union employees who retire prior to their normal retirement age and who have met certain age and service requirements, benefits are provided through a post-employment medical plan (the “Post-employment Plan”). Future benefits under the Post-65 Plan increase annually based on the actual percentage of wage and salary increases earned from the plan inception date to the normal retirement date. The benefits under the Post-employment Plan allow for the continuity of medical benefits coverage at group rates from the employee’s retirement date until the employee becomes eligible for Medicare, which are fully funded by the retiree. The liability related to the Post-65 Plan will be funded from the general assets of our Company.

Upon retirement, if a qualifying employee elects to receive medical benefits under our Post-65 Plan, we pay up to a maximum monthly benefit of \$330 based on years of service.

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2016 and for the year then ended:

| (in thousands) | <u>DB Plan</u> | <u>OPEB Plans</u> |
|--|-------------------|-------------------|
| Projected benefit obligations | \$ 23,899 | \$ 3,165 |
| Employer contribution | 970 | 10 |
| Benefits paid, excluding expenses | (1,056) | (47) |
| Fair value of plan assets | 14,889 | 586 |
| Accumulated benefit obligation | 21,547 | N/A |
| Funded status | (9,010) | (2,578) |
| Net periodic benefit cost | 1,284 | 194 |
| Amount of the funded status recognized in the Consolidated Balance Sheet consisted of: | | |
| Current liability | - | - |
| Non-current liability | <u>(9,010)</u> | <u>(2,578)</u> |
| Total | <u>\$ (9,010)</u> | <u>\$ (2,578)</u> |

The following table sets forth information regarding our DB Plan and our OPEB Plans as of December 31, 2015 and for the year then ended:

| (in thousands) | <u>DB Plan</u> | <u>OPEB Plans</u> |
|--|-------------------|-------------------|
| Projected benefit obligations | \$ 22,158 | \$ 2,861 |
| Employer contribution | 936 | 298 |
| Benefits paid, excluding expenses | (497) | (37) |
| Fair value of plan assets | 13,872 | 619 |
| Accumulated benefit obligation | 19,911 | N/A |
| Funded status | (8,286) | (2,242) |
| Net periodic benefit cost | 1,215 | 158 |
| Amount of the funded status recognized in the Consolidated Balance Sheet consisted of: | | |
| Current liability | - | - |
| Non-current liability | <u>(8,286)</u> | <u>(2,242)</u> |
| Total | <u>\$ (8,286)</u> | <u>\$ (2,242)</u> |

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2016, were as follows:

| (in thousands) | <u>DB Plan</u> | <u>OPEB Plans</u> |
|---|-----------------|-------------------|
| Regulatory asset balance, beginning of period | \$ 6,658 | \$ 237 |
| Net actuarial loss incurred during the period | 737 | 145 |
| Prior service cost incurred during the period | - | 17 |
| Recognized net actuarial (gain)/loss | <u>(328)</u> | <u>(9)</u> |
| Regulatory asset balance, end of period | <u>\$ 7,067</u> | <u>\$ 390</u> |

Changes in plan assets and benefit obligations recognized in regulatory assets, for the year ended December 31, 2015, were as follows:

| (in thousands) | <u>DB Plan</u> | <u>OPEB Plans</u> |
|---|-----------------|-------------------|
| Regulatory asset balance, beginning of period | \$ 6,668 | \$ (185) |
| Net actuarial gain incurred during the period | 347 | 332 |
| Prior service cost incurred during the period | - | 16 |
| Recognized net actuarial (gain)/loss | <u>(357)</u> | <u>74</u> |
| Regulatory asset balance, end of period | <u>\$ 6,658</u> | <u>\$ 237</u> |

Amounts recognized in regulatory assets for the DB and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following as of December 31, 2016:

| (in thousands) | <u>DB Plan</u> | <u>OPEB Plans</u> |
|--------------------|-----------------|-------------------|
| Net actuarial loss | \$ 7,067 | \$ 570 |
| Prior service cost | <u>-</u> | <u>(180)</u> |
| Regulatory asset | <u>\$ 7,067</u> | <u>\$ 390</u> |

Amounts recognized in regulatory assets for the DB and OPEB Plans that have not yet been recognized as components of net periodic benefit cost of the following as of December 31, 2015:

| (in thousands) | <u>DB Plan</u> | <u>OPEB Plans</u> |
|--------------------|-----------------|-------------------|
| Net actuarial loss | \$ 6,658 | \$ 433 |
| Prior service cost | <u>-</u> | <u>(196)</u> |
| Regulatory asset | <u>\$ 6,658</u> | <u>\$ 237</u> |

The key assumptions used to value benefit obligations and calculate net periodic benefit cost for our DB and OPEB Plans include the following:

| | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Discount rate for net periodic benefit cost, beginning of year | 4.21% | 3.85% |
| Discount rate for benefit obligations, end of year ^(a) | 4.02% | 4.21% |
| Expected return on plan assets for the period (net of investment expenses) | 7.00% | 7.50% |
| Rate of compensation increase, beginning of year | 3.00% | 2.75% |
| Healthcare cost trend rate (applicable only to OPEB Plans) | 8.00% | 8.50% |

^(a) An increase or decrease in the discount rate of 0.5% would result in a change in the funded status as of December 31, 2016, for the DB Plan and the OPEB Plans of approximately \$2 million and \$288,000, respectively.

The estimated net actuarial loss for our DB Plan that will be amortized in 2017 from the regulatory assets into net periodic benefit costs is \$346,000. The estimated net actuarial gain and prior service cost for our OPEB Plans that will be amortized in 2017 from the regulatory assets into net periodic benefit costs is \$0.

In establishing its investment policy, the Company has considered the fact that the DB Plan is a major retirement vehicle for its employees and the basic goal underlying the establishment of the policy is to provide that the assets of the DB Plan are invested in accordance with the asset allocation range targets to achieve our expected return on DB Plan assets. The Company's investment strategy applies to its OPEB Plans as well as the DB Plan. The expected long-term rate of return on DB Plan and OPEB Plan assets is based on the Plans' expected asset allocation, expected returns on various classes of Plan assets, as well as historical returns.

The assets of our Post-65 Plan are held in two separate Voluntary Employee Beneficiary Association (“VEBA”) trusts. The VEBA plan assets are maintained in directed trust accounts at a commercial bank.

The investment strategy for the Company’s DB Plan and OPEB Plans utilizes several different asset classes with varying risk/return characteristics. The following table indicates the asset allocation percentages of the fair value of the DB Plan and OPEB Plans’ assets for each major type of plan asset as of December 31, 2016, as well as the targeted allocation range:

| | <u>DB Plan</u> | | <u>OPEB Plans</u> | |
|---------------------------|----------------|---------------------------------------|-------------------|---------------------------------------|
| | | <u>Asset Allocation Range</u> | | <u>Asset Allocation Range</u> |
| Equities | 64% | 30% - 100% | 68% | 30% - 100% |
| Fixed income | 36% | 20% - 70% | 30% | 0% - 50% |
| Cash and cash equivalents | <u>0%</u> | 0% - 15% | <u>2%</u> | 0% - 15% |
| Total | <u>100%</u> | | <u>100%</u> | |

The following table indicates the asset allocation percentages of the fair value of the DB Plan and OPEB Plans’ assets for each major type of plan asset as of December 31, 2015, as well as the targeted allocation range:

| | <u>DB Plan</u> | | <u>OPEB Plans</u> | |
|---------------------------|----------------|---------------------------------------|-------------------|---------------------------------------|
| | | <u>Asset Allocation Range</u> | | <u>Asset Allocation Range</u> |
| Equities | 62% | 30% - 100% | 66% | 30% - 100% |
| Fixed income | 38% | 20% - 70% | 31% | 0% - 50% |
| Cash and cash equivalents | <u>0%</u> | 0% - 15% | <u>3%</u> | 0% - 15% |
| Total | <u>100%</u> | | <u>100%</u> | |

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts that we could realize in a sales transaction for these instruments. The estimated fair value amounts have been measured as of year-end and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates.

Investments in common stock and mutual funds are stated at fair value by reference to quoted market prices. Money market funds are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the directed trustee.

The DB Plan also holds assets under an immediate participation guarantee group annuity contract with a life insurance company. The assets under the contract are invested in pooled separate accounts and in a general investment account. The pooled separate accounts are valued based on net asset value per unit of participation in the fund and have no unfunded commitments or significant redemption restrictions at year-end. The value of these units is determined by the trustee based on the current market values of the underlying assets of the pooled separate accounts. Therefore, the value of the pooled separate accounts is deemed to be at estimated fair value.

The general investment account is not actively traded and significant other observable inputs are not available. The fair value of the general investment account is calculated by discounting the related cash flows based on current yields of similar instruments with comparable durations.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan's management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain investments could result in a different fair value measurement at the reporting date.

A fair value hierarchy which prioritizes the inputs to valuation methods is used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2016 was as follows:

| (in thousands) | <u>Totals</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|----------------------------|---------------|----------------|----------------|----------------|
| DB Plan: | | | | |
| Equities: | | | | |
| Pooled separate accounts | \$ 9,561 | \$ - | \$ 9,561 | \$ - |
| Fixed income: | | | | |
| General investment account | 2,264 | - | - | 2,264 |
| Pooled separate accounts | <u>3,064</u> | <u>-</u> | <u>3,064</u> | <u>-</u> |
| Total DB Plan | <u>14,889</u> | <u>-</u> | <u>12,625</u> | <u>2,264</u> |

(continued)

(continued)

| (in thousands) | <u>Totals</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|----------------------------|------------------|----------------|------------------|-----------------|
| OPEB Plans: | | | | |
| Common stocks | 268 | 268 | - | - |
| Mutual funds | 131 | 131 | - | - |
| Fixed income funds | 173 | 173 | - | - |
| Cash and cash equivalents: | | | | |
| Money market funds | <u>13</u> | <u>-</u> | <u>13</u> | <u>-</u> |
| Total OPEB Plans | <u>585</u> | <u>572</u> | <u>13</u> | <u>-</u> |
| Totals | <u>\$ 15,474</u> | <u>\$ 572</u> | <u>\$ 12,638</u> | <u>\$ 2,264</u> |

The fair value of DB Plan and OPEB Plan assets by levels within the fair value hierarchy used as of December 31, 2015 was as follows:

| (in thousands) | <u>Totals</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|----------------------------|------------------|----------------|------------------|-----------------|
| DB Plan: | | | | |
| Equities: | | | | |
| Pooled separate accounts | \$ 8,569 | \$ - | \$ 8,569 | \$ - |
| Fixed income: | | | | |
| General investment account | 2,581 | - | - | 2,581 |
| Pooled separate accounts | <u>2,722</u> | <u>-</u> | <u>2,722</u> | <u>-</u> |
| Total DB Plan | <u>13,872</u> | <u>-</u> | <u>11,291</u> | <u>2,581</u> |
| OPEB Plans: | | | | |
| Common stocks | 287 | 287 | - | - |
| Mutual funds | 104 | 104 | - | - |
| Fixed income funds | 185 | 185 | - | - |
| Cash and cash equivalents: | | | | |
| Money market funds | <u>43</u> | <u>-</u> | <u>43</u> | <u>-</u> |
| Total OPEB Plans | <u>619</u> | <u>576</u> | <u>43</u> | <u>-</u> |
| Totals | <u>\$ 14,491</u> | <u>\$ 576</u> | <u>\$ 11,334</u> | <u>\$ 2,581</u> |

Level 1: Based on quoted prices in active markets for identical assets.

Level 2: Based on significant observable inputs.

Level 3: Based on significant unobservable inputs.

The following table presents a period-end reconciliation of DB Plan assets measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3):

| (in thousands) | <u>2016</u> | <u>2015</u> |
|--|-----------------|-----------------|
| Balance, beginning of year | \$ 2,581 | \$ 2,625 |
| Plan transfers | 493 | 182 |
| Contributions | 196 | 187 |
| Benefits paid | (1,068) | (497) |
| Return on plan assets (net of investment expenses) | <u>62</u> | <u>84</u> |
| Balance, end of year | <u>\$ 2,264</u> | <u>\$ 2,581</u> |

In order to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974, applicable to defined benefit pension plans, the Company anticipates it will contribute approximately \$1 million to the DB Plan in 2017.

The following maximum benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

| (in thousands) | <u>DB Plan</u> | <u>OPEB Plans</u> |
|----------------|------------------|-------------------|
| 2017 | \$ 752 | \$ 63 |
| 2018 | 823 | 71 |
| 2019 | 956 | 89 |
| 2020 | 961 | 92 |
| 2021 | 1,096 | 109 |
| 2022 - 2026 | <u>7,113</u> | <u>698</u> |
| Total | <u>\$ 11,701</u> | <u>\$ 1,122</u> |

Because the Company is subject to regulation in the state in which it operates, we are required to maintain our accounts in accordance with the regulatory authority's rules and regulations. In those instances, we follow the guidance of ASC 980 ("Regulated Operations"). Based on prior regulatory practice, we recorded underfunded DB Plan and OPEB Plan obligations as a regulatory asset, and we expect to recover those costs in rates charged to customers.

Defined Contribution Plan

In addition to the defined benefit plan, the Company provides and maintains a defined contribution plan covering substantially all employees. Under this plan, the Company matches 100% of the first 3% of each participating employee's salary contributed to the plan. The matching employer's contributions, recorded as operating expenses, were approximately \$215,000 and \$217,000 for the years ended December 31, 2016 and 2015, respectively.

Note 7 - Commitments and Contingencies

Operating Leases

The Company's corporate office space, as well as certain office equipment, is leased under operating lease agreements. Total rent expense was approximately \$344,800 and \$307,000 for the years ended December 31, 2016 and 2015, respectively.

The remaining non-cancelable lease commitments for the corporate office space and leased equipment as of December 31, 2016 were as follows:

| (in thousands) | <u>Amount</u> |
|----------------|-----------------|
| 2017 | \$ 326 |
| 2018 | 352 |
| 2019 | 348 |
| 2020 | 333 |
| 2021 | 338 |
| Thereafter | <u>199</u> |
| Total | <u>\$ 1,896</u> |

Note 8 – Financial Measurement and Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of its financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts that we could realize in a sales transaction for these instruments. The estimated fair value amounts have been measured as of the period end and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates.

A fair value hierarchy is used, which prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1: Based on quoted prices in active markets for identical assets.

Level 2: Based on significant observable inputs.

Level 3: Based on significant unobservable inputs.

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For assets and liabilities measured at fair value on a recurring basis, the fair value measurement by levels within the fair value hierarchy used as of December 31, 2016 and 2015 were as follows:

| (in thousands) | December 31, 2016 | | | |
|---------------------|--------------------------|----------------|-----------------|----------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Liabilities: | | | | |
| Interest rate swap | \$ <u>(453)</u> | \$ <u>-</u> | \$ <u>(453)</u> | \$ <u>-</u> |

| (in thousands) | December 31, 2015 | | | |
|-----------------------|--------------------------|------------------|-----------------|----------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Assets: | | | | |
| U.S. government bonds | \$ <u>17,210</u> | \$ <u>17,210</u> | \$ <u>-</u> | \$ <u>-</u> |
| Liabilities: | | | | |
| Interest rate swap | \$ <u>(548)</u> | \$ <u>-</u> | \$ <u>(548)</u> | \$ <u>-</u> |

The carrying value of certain financial instruments included in the accompanying Consolidated Balance Sheets, along with the related fair value, as of December 31, 2016 and 2015 was as follows:

| (in thousands) | 2016 | | 2015 | |
|------------------------------|-----------------------|-------------------|-----------------------|-------------------|
| | <u>Carrying Value</u> | <u>Fair Value</u> | <u>Carrying Value</u> | <u>Fair Value</u> |
| Assets: | | | | |
| U.S. government bonds | \$ - | \$ - | \$ 17,237 | \$ 17,210 |
| Liabilities: | | | | |
| Long-term debt | (210,443) | (264,700) | (210,172) | (211,962) |
| Interest rate swap liability | (453) | (453) | (548) | (548) |

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The fair value for long-term debt shown above does not purport to represent the amounts at which those debt obligations would be settled. The fair market value of the interest rate swap represents the estimated cost to terminate this agreement as of December 31, 2016 and 2015 based upon the then-current interest rates and the related credit risk.

The carrying values of our Cash and Cash Equivalents, Accounts Receivable and Accounts Payable approximate their fair values because of their short maturity dates. The carrying value of our CIAC approximates its fair value because it is expected that this is the amount that will be recovered in future rates.

Note 9 – Income Taxes

The components of the federal and state income tax provision (benefit) as of December 31, 2016 and 2015 were as follows:

| (in thousands) | <u>2016</u> | <u>2015</u> |
|--|---------------|---------------|
| Federal | \$ 284 | \$ (79) |
| State | (116) | 420 |
| Amortization of investment tax credits | <u>(33)</u> | <u>(33)</u> |
| Total | <u>\$ 135</u> | <u>\$ 308</u> |
| Current | \$ - | \$ (1) |
| Deferred | <u>135</u> | <u>309</u> |
| Total | <u>\$ 135</u> | <u>\$ 308</u> |

The following is a reconciliation between the statutory federal income tax rate and the effective income tax rate for 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|---|---------------|---------------|
| Statutory federal rate | 34.0% | 34.0% |
| State tax rate, net of federal benefits | 5.4% | 5.6% |
| Permanent differences | -54.8% | -56.8% |
| Amortization of investment tax credits | <u>3.0%</u> | <u>1.7%</u> |
| Effective tax rate | <u>-12.4%</u> | <u>-15.5%</u> |

The temporary items that give rise to the net deferred tax liability as of December 31, 2016 and 2015 were as follows:

| (in thousands) | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| Liabilities: | | |
| Property-related, net | \$ 27,599 | \$ 26,890 |
| Other | <u>563</u> | <u>443</u> |
| Total liabilities | <u>28,162</u> | <u>27,333</u> |
| Assets: | | |
| Pension accrued liability | 1,555 | 1,426 |
| Net operating loss carryforward | 4,480 | 3,884 |
| Alternative minimum tax credit | 476 | 476 |
| NH Business Enterprise Tax credits | 727 | 369 |
| Other | <u>782</u> | <u>905</u> |
| | 8,020 | 7,060 |
| Less valuation allowance | <u>(727)</u> | <u>(369)</u> |
| Total assets | <u>7,293</u> | <u>6,691</u> |
| Net non-current deferred income tax liability | <u>\$ 20,869</u> | <u>\$ 20,642</u> |

The Company had a federal net operating loss in 2016 and 2015 in the amounts of approximately \$1.6 million and \$3.5 million, respectively. The federal tax benefit of the cumulative net operating loss is approximately \$3.8 million which begins to expire in 2032, and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2016.

The Company also had a New Hampshire net operating loss in 2016 and 2015 in the amounts of approximately \$2.5 million and \$4.4 million, respectively. The New Hampshire tax benefit of the cumulative net operating loss is approximately \$637,000 which begins to expire in 2022, and is included in deferred income taxes in the Consolidated Balance Sheet as of December 31, 2016.

As of December 31, 2016 and 2015, it is estimated that approximately \$476,000 and \$476,000, respectively, of cumulative federal alternative minimum tax credits may be carried forward indefinitely as a credit against our regular tax liability.

As of December 31, 2016 and 2015, the Company had New Hampshire Business Enterprise Tax ("NHBET") credits of approximately \$727,000 and \$369,000, respectively. NHBET credits begin to expire in 2017. It is anticipated that these NHBET credits will not be fully utilized before they expire; therefore, a valuation allowance has been recorded related to these credits. The valuation allowance increased by \$358,000 and \$369,000 in the years ended December 31, 2016 and 2015, respectively.

Investment tax credits resulting from utility plant additions are deferred and amortized. The unamortized investment tax credits are being amortized through the year 2033.

The Company had a regulatory liability related to income taxes of approximately \$760,000 and \$781,000 as of December 31, 2016 and 2015, respectively. This represents the estimated future reduction in revenues associated with deferred taxes which were collected at rates higher than the currently enacted rates and the amortization of deferred investment tax credits.

A review of the portfolio of uncertain tax positions was performed. In this regard, an uncertain tax position represents the expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. As a result of this review, it was determined that the Company had no material uncertain tax positions, and tax planning strategies will be used, if required and when possible, to avoid the expiration of any future net operating loss and/or tax credits.

The Company's practice is to recognize interest and/or penalties related to income tax matters in "Other, Net" in the Consolidated Statements of Income. We incurred no interest in 2016 and 2015. We incurred \$0 and \$3,000 of penalties during the years ended December 31, 2016 and 2015, respectively.

Note 10 – Debt

Long-term debt as of December 31, 2016 and 2015 consisted of the following:

| (in thousands) | 2016 | |
|---|-------------------|--|
| | <u>Principal</u> | <u>Unamortized Debt Issuance Costs</u> |
| Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041 | \$ 110,970 | \$ - |
| Unsecured senior note payable due to an insurance company 7.40%, due March 1, 2021 | 4,000 | 36 |
| Unsecured Business Finance Authority: | | |
| Revenue Bonds (Series 2015A), interest rates from 4.00% to 5.00%, due January 1, 2046 | 20,555 | 1,614 |
| Revenue Bonds (Series 2015B), 5.00%, due January 1, 2046 | 2,035 | 272 |
| Revenue Bonds (Series 2014A), interest rates from 3.00% to 4.125%, due January 1, 2045 | 40,930 | 2,114 |
| Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045 | 5,215 | 123 |
| Unsecured notes payable to bank, floating-rate, due March 1, 2030 | 3,332 | 17 |
| Unsecured notes payable to bank, 3.62%, due June 20, 2023 | 1,505 | 11 |
| Unsecured notes payable to bank, 4.20%, due December 20, 2041 | 1,250 | 7 |
| Unsecured notes payable to bank, 4.83%, due December 20, 2041 | 950 | 5 |
| Unsecured notes payable to bank, 4.25%, due June 20, 2033 | 815 | 7 |
| Unsecured notes payable to bank, 4.90%, due March 6, 2040 | 602 | 38 |
| Unsecured New Hampshire State Revolving Fund (“SRF”) notes (1) | 18,284 | 168 |
| Unamortized debt issuance costs for defeased obligations, allowed by regulation | - | 111 |
| Total | 210,443 | \$ <u>4,523</u> |
| Less current portion | (5,162) | |
| Less unamortized debt issuance costs | (4,523) | |
| Total long-term debt, net of current portion and unamortized debt issuance costs | <u>\$ 200,758</u> | |

(1) SRF notes are due through 2035 at interest rates ranging from 1% to 4.488%. These notes are payable in 120 to 240 consecutive monthly installments of principal and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements, or (ii) various dates specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate changes to the lower of (i) the rate as stated in the note or (ii) 80% of the established 11 General Obligations Bond Index published during the specified time period before the interest rate change date.

| (in thousands) | 2015 | |
|---|------------|---------------------------------------|
| | Principal | Unamortized Debt Issuance Costs |
| Unsecured note payable to City of Nashua, 5.75%, due 12/25/2041 | \$ 112,864 | \$ - |
| Unsecured senior note payable due to an insurance company 7.40%, due March 1, 2021 | 4,400 | 44 |
| Unsecured Business Finance Authority: | | |
| Revenue Bonds (Series 2015A), interest rates from 4.00% to 5.00%, due January 1, 2046 | 20,555 | 1,682 |
| Revenue Bonds (Series 2015B), 5.00%, due January 1, 2046 | 2,035 | 292 |
| Revenue Bonds (Series 2014A), interest rates from 3.00% to 4.125%, due January 1, 2045 | 41,885 | 2,277 |
| Revenue Bonds (Series 2014B), 4.50%, due January 1, 2045 | 5,300 | 127 |
| Unsecured notes payable to bank, floating-rate, due March 1, 2030 | 3,523 | 19 |
| Unsecured notes payable to bank, 3.62%, due June 20, 2023 | 1,570 | 12 |
| Unsecured notes payable to bank, 4.25%, due June 20, 2033 | 848 | 8 |
| Unsecured notes payable to bank, 4.90%, due March 6, 2040 | 616 | 40 |
| Unsecured New Hampshire State Revolving Fund ("SRF") notes (1) | 16,576 | 138 |
| Unamortized debt issuance costs for defeased obligations, allowed by regulation | - | 130 |
| Total | 210,172 | \$ 4,769 |
| Less current portion | (4,120) | |
| Less unamortized debt issuance costs | (4,769) | |
| Total long-term debt, net of current portion and unamortized debt issuance costs | \$ 201,283 | |

(1) SRF notes are due through 2035 at interest rates ranging from 1% to 4.488%. These notes are payable in 120 to 240 consecutive monthly installments of principal and interest. The 1% rate applies to construction projects still in process until the earlier of (i) the date of substantial completion of the improvements, or (ii) various dates specified in the note (such earlier date being the interest rate change date). Commencing on the interest rate change date, the interest rate changes to the lower of (i) the rate as stated in the note or (ii) 80% of the established 11 General Obligations Bond Index published during the specified time period before the interest rate change date.

The aggregate principal payment requirements subsequent to December 31, 2016 are as follows:

| (in thousands) | <u>Amount</u> |
|---------------------|-------------------|
| 2017 | \$ 5,162 |
| 2018 | 5,422 |
| 2019 | 5,663 |
| 2020 | 5,932 |
| 2021 | 8,208 |
| 2022 and thereafter | <u>180,056</u> |
| Total | <u>\$ 210,443</u> |

Several of Pennichuck Water's loan agreements contain a covenant that prevents Pennichuck Water from declaring dividends if Pennichuck Water does not maintain a minimum net worth of \$4.5 million. As of December 31, 2016 and 2015, Pennichuck Water's net worth was \$122.1 and \$124.6 million, respectively.

The 2014A, 2014B, 2015A and 2015B bonds were issued under a new bond indenture and loan and trust agreement, established with the issuance of the 2014 Series Bonds, which contains certain covenant obligations upon Pennichuck Water, which are as follows:

Debt to Capital Covenant - Pennichuck Water cannot create, issue, incur, assume or guarantee any short-term debt if (1) the sum of the short-term debt plus its funded debt ("Debt") shall exceed 85% of the sum of its short-term debt, funded debt and capital stock plus surplus accounts ("Capital"), unless the short-term debt issued in excess of the 85% is subordinated to the Series 2014 bonds. Thereby, the ratio of Debt to Capital must be equal to or less than 1.0. As of December 31, 2016 and 2015, Pennichuck Water Works has a Debt to Capital Coverage ratio of 0.5 and 0.4, respectively.

All Bonds Test - Additionally, Pennichuck Water cannot create, issue, incur, assume or guarantee any new funded debt, if the total outstanding funded debt ("Total Funded Debt") will exceed the sum of MARA (as defined in Note 12 of these consolidated financial statements) and 85% of its Net Capital Properties ("MARA and Capital Properties"), and unless net revenues or EBITDA (earnings before interest, taxes, depreciation and amortization) shall equal or exceed for at least 12 consecutive months out of the 15 months preceding the issuance of the new funded debt by 1.1 times the maximum amount for which Pennichuck Water will be obligated to pay in any future year ("Max Amount Due"), as a result of the new funded debt being incurred. Thereby, the ratio of Total Funded Debt to MARA and Capital Properties must be equal to or less than 1.0; as of December 31, 2016 and 2015, this coverage ratio was 0.4 and 0.4, respectively. Also, the ratio of EBITDA to the Max Amount Due must be equal to or greater than 1.1; as of December 31, 2016 and 2015, this ratio was 1.8 and 1.6, respectively.

Rate Covenant Test - If during any fiscal year, the EBITDA of Pennichuck Water shall not equal at least 1.1 times all amounts paid or required to be paid during that year (“Amounts Paid”), then the Company shall undertake reasonable efforts to initiate a rate-making proceeding with the NH Public Utilities Commission, to rectify this coverage requirement in the succeeding fiscal years. Thereby, the ratio of EBITDA to Amounts Paid must be equal to or greater than 1.1; as of December 31, 2016 and 2015, the Rate Covenant coverage ratio was 1.93 and 2.10, respectively.

Pennichuck East’s loan agreement for its unsecured notes payable to a bank of \$8.5 million and \$6.5 million at December 31, 2016 and 2015, respectively, contains a minimum debt service coverage ratio requirement of 1.25. At December 31, 2016 and 2015, this ratio was 1.29 and 1.64, respectively. Also, Pennichuck East is required to maintain a maximum ratio of total debt to total capitalization of 65%; at December 31, 2016 and 2015, this ratio was 56% and 50%, respectively.

The Company’s revolving credit loan facility with TD Bank contains a covenant that requires the Company to maintain a minimum fixed charge coverage ratio of at least 1.0; at December 31, 2016 and 2015, the fixed charge coverage ratio was 1.05 and 1.07, respectively. The Company is also required to maintain an equity capitalization ratio of not less than 35%; at December 31, 2016 and 2015, the equity capitalization ratio was 36% and 37%, respectively.

Under this agreement, the Company is also precluded from declaring or paying dividends, or making any other payment or distribution of its equity without the bank’s prior written consent, except for: (1) its obligations under Rate Order No. 25,292 as it pertains to the Company’s specific obligations under the City Bond Fixed Revenue Requirement (“CBFRR”) which provides for payments of approximately \$707,000 per month of the note payable to the City of Nashua (the “City”), and quarterly dividends to the City for the remainder of this annual obligation, as defined by the order; and (2) a specific allowance, under Rate Order No. 25,292, whereby the Company is allowed to make distributions to the City from current earnings and profits in excess of the CBFRR, to provide funds to allow the City to reimburse itself for the costs incurred by the City relating to its efforts in pursuing the eminent domain proceedings from January 2002 through August 2009; provided, however, that such amount shall not exceed \$500,000 in any fiscal year, or \$5,000,000 in the aggregate, of all such distributions. No special dividend was declared or paid in 2016 or 2015.

Short-term borrowing activity under this revolving credit loan facility for the years ended December 31, 2016 and 2015 was:

| (in thousands) | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Established line as of December 31, | \$ 10,000 | \$ 10,000 |
| Maximum amount outstanding during period | 1,118 | 229 |
| Average amount outstanding during period | 73 | 1 |
| Amount outstanding as of December 31, | - | - |
| Weighted average interest rate during period | 2.22% | 2.01% |
| Interest rate as of December 31, | 2.251% | 1.981% |

As of December 31, 2016 and 2015, the Company had a \$3.3 million and \$3.5 million, respectively, interest rate swap which qualifies as a derivative. This financial derivative is designated as a cash flow hedge. This financial instrument is used to mitigate interest rate risk associated with our outstanding \$3.3 million loan which has a floating interest rate based on the three-month London Interbank Offered Rate (“LIBOR”) plus 1.75% as of December 31, 2016. The combined effect of the LIBOR-based borrowing formula and the swap produces an “all-in fixed borrowing cost” equal to 5.95%. The fair value of the financial derivative, as of December 31, 2016 and 2015, included in our Consolidated Balance Sheets under “Other Liabilities and Deferred Credits” as “Derivative instrument” was \$453,000 and \$548,000, respectively. Changes in the fair value of this derivative were deferred in accumulated other comprehensive income (loss).

Swap settlements are recorded in the statement of income (loss) with the hedged item as interest expense. During the years ended December 31, 2016 and 2015, \$123,000 and \$144,000, respectively, was reclassified pre-tax from accumulated other comprehensive income (loss) to interest expense as a result of swap settlements. The Company expects to reclassify approximately \$109,000, pre-tax, from accumulated other comprehensive income (loss) to interest expense as a result of swap settlements, over the next twelve months.

Note 11 – Accumulated Other Comprehensive Income

The following table presents changes in accumulated other comprehensive income by component for the years ended December 31, 2016 and 2015:

| (in thousands) | <u>Interest Rate Contract</u> | |
|--|-------------------------------|---------------|
| | <u>2016</u> | <u>2015</u> |
| Beginning balance | \$ 201 | \$ 180 |
| Other comprehensive income before reclassifications | (17) | (65) |
| Amounts reclassified from accumulated other comprehensive income | <u>74</u> | <u>86</u> |
| Net current period other comprehensive income | <u>57</u> | <u>21</u> |
| Ending balance | <u>\$ 258</u> | <u>\$ 201</u> |

The following table presents reclassifications out of accumulated other comprehensive income for the years ended December 31, 2016 and 2015:

| <u>Details about Accumulated Other Comprehensive Income Components</u> | <u>Amounts Reclassified from Accumulated Other Comprehensive Income</u> | | <u>Affected Line Item in the Statement Where Net Income is Presented</u> |
|--|---|--------------|--|
| | <u>2016</u> | <u>2015</u> | |
| (in thousands) | | | |
| Gain (loss) on cash flow hedges | | | |
| Interest rate contracts | \$ 123 | \$ 144 | Interest expense |
| | <u>(49)</u> | <u>(58)</u> | Tax expense |
| Amounts reclassified from accumulated other comprehensive income | \$ <u>74</u> | \$ <u>86</u> | Net of tax |

Note 12 – Transaction with the City of Nashua

On January 25, 2012, in full settlement of an ongoing Eminent Domain lawsuit filed by the City of Nashua (“City”) and with the approval of the New Hampshire Public Utilities Commission (“NHPUC”), the City acquired all of the outstanding shares of Pennichuck Corporation (“Pennichuck”) and, thereby, indirect acquisition of its regulated subsidiaries. The total amount of the acquisition was \$150.6 million (“Acquisition Price”) of which \$138.4 million was for the purchase of the outstanding shares, \$5.0 million for the establishment of a Rate Stabilization Fund, \$2.6 million for legal and due diligence costs, \$2.3 million for severance costs, \$1.3 million for underwriting fees, and \$1.0 million for bond discount and issue costs. The entire purchase of \$150.6 million was funded by General Obligation Bonds (“Bonds”) issued by the City of Nashua. Pennichuck is not a party to the Bonds and has not guaranteed nor is obligated in any manner for the repayment of the Bonds. Pennichuck remains an independent corporation with an independent Board of Directors, with the City of Nashua as its sole shareholder.

Pennichuck Water Works, Inc. (“PWW”), Pennichuck East Utility, Inc. (“PEU”), Pittsfield Aqueduct Company, Inc. (“PAC”), Pennichuck Water Service Corporation, and The Southwood Corporation will continue as subsidiaries of Pennichuck Corporation and PWW, PEU and PAC will continue as regulated companies under the jurisdiction of the New Hampshire Public Utilities Commission. The terms of the merger and the requisite accounting and rate-setting mechanisms were agreed to in the NHPUC Order 25,292 (“PUC Order”) dated November 23, 2011.

Transactions with Related Party – City of Nashua

Pennichuck issued a promissory note to the City of Nashua in the amount of approximately \$120 million to be repaid over a thirty (30) year period with monthly payments of approximately \$707,000, including interest at 5.75%. Pennichuck recorded an additional amount of approximately \$30.6 million as contributed capital. The remaining outstanding balance of the note payable to the City at December 31, 2016 and 2015 was approximately \$111.0 million and \$112.9 million, respectively, as disclosed in Note 10 to these consolidated

financial statements. During 2016 and 2015, dividends of approximately \$280,000 and \$278,000, respectively, were declared and paid to the City. The dividends paid to the City during 2016 comprised approximately \$280,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2016. The dividends paid to the City during 2015 comprised approximately \$278,000 of regular quarterly dividends declared and paid; and no special dividend was declared or paid in 2015.

Additional ongoing transactions occur in the normal course of business, between the Company and the City, related to municipal water usage, fire protection and sewer billing support services, and property taxes related to real property owned by the Company within the City of Nashua. For the years ended December 31, 2016 and 2015, respectively, approximately \$3.1 million and \$3.1 million were paid to the Company by the City for municipal water consumption, fire protection charges, and sewer billing support services. Conversely, the Company paid property taxes to the City of Nashua of approximately \$2.8 million for the year ended December 31, 2016, and approximately \$2.7 million for the year ended December 31, 2015.

Rate Stabilization Fund – Restricted Cash

As a part of the acquisition, Pennichuck agreed to contribute \$5,000,000 of the proceeds from the settlement transaction to PWW, which was used to establish a Rate Stabilization Fund (“RSF”), allowing for the maintenance of stable water utility rates and providing a mechanism to ensure the Company’s continued ability to meet its obligations under the promissory note to the City, in the event of adverse revenue developments. Restricted cash consists of amounts set aside in the RSF account, and is adjusted monthly as required in the PUC Order, as discussed in Note 1 of these financial statements.

Municipal Acquisition Regulatory Asset (“MARA”)

Pursuant to the PUC Order, Pennichuck established a new Regulatory asset (MARA) which represents the amount that the Acquisition Price exceeded the net book assets of Pennichuck’s regulated subsidiaries (PWW, PEU, and PAC) at December 31, 2011. The initial amount of the MARA was approximately \$89 million for the regulated companies, offset by a non-regulated amount of approximately \$4.8 million. The MARA is to be amortized over a thirty (30) year period in the same manner as the repayment of debt service for the City’s acquisition bonds. The balance in the MARA at December 31, 2016 was approximately \$79.5 million, reduced by the non-regulated credit of approximately \$4.4 million.

Aggregate amortization expense for the years ended December 31, 2016 and 2015 totaled approximately \$1,884,000 and \$1,857,000, respectively.

The following table represents the total estimated amortization of MARA:

| (in thousands) | Estimated Amortization Expense |
|---------------------|---|
| 2017 | \$ 1,917 |
| 2018 | 1,958 |
| 2019 | 2,006 |
| 2020 | 2,061 |
| 2021 | 2,119 |
| 2022 and thereafter | <u>65,083</u> |
| Total | <u>\$ 75,144</u> |

Note 13 – Segment Reporting

The Company is comprised of Pennichuck Corporation and its five wholly-owned subsidiaries, as described in Note 1 to these consolidated financial statements. For the years ended December 31, 2016 and 2015, and as of those dates, the following financial results were generated by the segments of the Company:

| (in thousands) | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| <u>Operating Revenues:</u> | | |
| Pennichuck Water Works, Inc. | \$ 30,923 | \$ 29,677 |
| Pennichuck East Utility, Inc. | 7,411 | 7,229 |
| Pittsfield Aqueduct Company, Inc. | <u>789</u> | <u>761</u> |
| Subtotal Regulated Segment | <u>39,123</u> | <u>37,667</u> |
| Water Management Services | 3,574 | 3,171 |
| Other | <u>-</u> | <u>2</u> |
| Total Operating Revenues | <u>\$ 42,697</u> | <u>\$ 40,840</u> |
| <u>Depreciation and Amortization Expense:</u> | | |
| Pennichuck Water Works, Inc. | \$ 5,931 | \$ 5,629 |
| Pennichuck East Utility, Inc. | 1,009 | 979 |
| Pittsfield Aqueduct Company, Inc. | <u>112</u> | <u>110</u> |
| Subtotal Regulated Segment | <u>7,052</u> | <u>6,718</u> |
| Water Management Services | - | - |
| Other | <u>(110)</u> | <u>(108)</u> |
| Total Depreciation and Amortization Expense | <u>\$ 6,942</u> | <u>\$ 6,610</u> |

| (in thousands) | 2016 | 2015 |
|--|------------|------------|
| <u>Operating Income:</u> | | |
| Pennichuck Water Works, Inc. | \$ 8,168 | \$ 7,541 |
| Pennichuck East Utility, Inc. | 591 | 882 |
| Pittsfield Aqueduct Company, Inc. | 87 | 166 |
| Subtotal Regulated Segment | 8,846 | 8,589 |
| Water Management Services | (122) | 160 |
| Other | 52 | 42 |
| Total Operating Income | \$ 8,776 | \$ 8,791 |
| <u>Interest Expense:</u> | | |
| Pennichuck Water Works, Inc. | \$ 3,494 | \$ 3,495 |
| Pennichuck East Utility, Inc. | 672 | 558 |
| Pittsfield Aqueduct Company, Inc. | 61 | 57 |
| Subtotal Regulated Segment | 4,227 | 4,110 |
| Water Management Services | 2 | - |
| Other | 6,555 | 6,665 |
| Total Interest Expense | \$ 10,784 | \$ 10,775 |
| <u>Income Taxes Provision (Benefit):</u> | | |
| Pennichuck Water Works, Inc. | \$ 2,876 | \$ 2,254 |
| Pennichuck East Utility, Inc. | 47 | 214 |
| Pittsfield Aqueduct Company, Inc. | 23 | 55 |
| Subtotal Regulated Segment | 2,946 | 2,523 |
| Water Management Services | (49) | 63 |
| Other | (2,762) | (2,278) |
| Total Income Taxes Provision (Benefit) | \$ 135 | \$ 308 |
| <u>Net Income (Loss):</u> | | |
| Pennichuck Water Works, Inc. | \$ 2,705 | \$ 1,783 |
| Pennichuck East Utility, Inc. | (128) | 129 |
| Pittsfield Aqueduct Company, Inc. | 3 | 52 |
| Subtotal Regulated Segment | 2,580 | 1,964 |
| Water Management Services | (75) | 96 |
| Other | (3,745) | (4,352) |
| Total Net Income (Loss) | \$ (1,240) | \$ (2,292) |
| <u>Total Net Assets:</u> | | |
| Pennichuck Water Works, Inc. | \$ 272,447 | \$ 269,376 |
| Pennichuck East Utility, Inc. | 49,164 | 46,114 |
| Pittsfield Aqueduct Company, Inc. | 3,548 | 4,367 |
| Subtotal Regulated Segment | 325,159 | 319,857 |
| Water Management Services | 78 | 257 |
| Other | (10,642) | (14,220) |
| Total Net Assets | \$ 314,595 | \$ 305,894 |

| (in thousands) | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| <u>Total Liabilities:</u> | | |
| Pennichuck Water Works, Inc. | \$ 150,348 | \$ 144,769 |
| Pennichuck East Utility, Inc. | 36,231 | 29,191 |
| Pittsfield Aqueduct Company, Inc. | <u>1,360</u> | <u>1,313</u> |
| Subtotal Regulated Segment | <u>187,939</u> | <u>175,273</u> |
| Water Management Services | 43 | 51 |
| Other | <u>106,035</u> | <u>108,529</u> |
| Total Liabilities | <u>\$ 294,017</u> | <u>\$ 283,853</u> |
| <u>Total Long-Term Debt (including current portion):</u> | | |
| Pennichuck Water Works, Inc. | \$ 78,488 | \$ 79,234 |
| Pennichuck East Utility, Inc. | 16,425 | 13,314 |
| Pittsfield Aqueduct Company, Inc. | <u>38</u> | <u>(9)</u> |
| Subtotal Regulated Segment | <u>94,951</u> | <u>92,539</u> |
| Water Management Services | - | - |
| Other | <u>110,969</u> | <u>112,864</u> |
| Total Long-Term Debt | <u>\$ 205,920</u> | <u>\$ 205,403</u> |

Note 14 – Subsequent Events

The Company has evaluated the events and transactions that have occurred through March 22, 2017, the date that these consolidated financial statements were available for issuance, for which no reportable events were discovered.

LOAN AND TRUST AGREEMENT

Among

BUSINESS FINANCE AUTHORITY OF THE STATE
OF NEW HAMPSHIRE

And

PENNICHUCK WATER WORKS, INC.

And

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

Dated as of March 1, 2018

\$[] Business Finance Authority
of the State of New Hampshire
Water Facility Revenue Bonds
(Pennichuck Water Works, Inc. Project) Series 2018A
dated as of their date of delivery

\$[] Business Finance Authority
of the State of New Hampshire
Water Facility Revenue Bonds
(Pennichuck Water Works, Inc. Project) Series 2018B (Federally Taxable)
dated as of their date of delivery

TABLE OF CONTENTS

| | Page |
|--|------|
| <u>ARTICLE I. INTRODUCTION AND DEFINITIONS</u> | 1 |
| Section <u>101.</u> <u>Description of the Agreement and the Parties</u> | 1 |
| Section <u>102.</u> <u>Definitions</u> | 1 |
| Section <u>103.</u> <u>Number and Gender, Connectives and Disjunctives</u> | 6 |
| <u>ARTICLE II. THE ASSIGNMENT AND PLEDGE</u> | 6 |
| Section <u>201.</u> <u>Assignment and Pledge of the Authority</u> | 6 |
| Section <u>202.</u> <u>Recording; Further Assurance</u> | 7 |
| Section <u>203.</u> <u>Defeasance</u> | 7 |
| Section <u>204.</u> <u>Corporate Existence</u> | 8 |
| Section <u>205.</u> <u>Indemnification by the Borrower</u> | 8 |
| <u>ARTICLE III. THE BORROWING</u> | 8 |
| Section <u>301.</u> <u>The Bonds</u> | 8 |
| Section <u>302.</u> <u>Bond Fund</u> | 18 |
| Section <u>303.</u> <u>Application of Moneys</u> | 18 |
| Section <u>304.</u> <u>Payments by the Borrower</u> | 19 |
| Section <u>305.</u> <u>Unconditional Obligation</u> | 19 |
| Section <u>306.</u> <u>Redemption of the Bonds</u> | 19 |
| Section <u>307.</u> <u>Investment of Moneys in Funds</u> | 23 |
| Section <u>308.</u> <u>Tax-Exempt Status of Series A Bonds</u> | 24 |
| Section <u>309.</u> <u>Rebate</u> | 24 |
| Section <u>310.</u> <u>Continuing Disclosure</u> | 25 |
| <u>ARTICLE IV. THE PROJECT</u> | 25 |
| Section <u>401.</u> <u>Project Fund</u> | 25 |
| Section <u>402.</u> <u>Disbursements from Project Fund</u> | 26 |
| Section <u>403.</u> <u>Certificate of Completion</u> | 26 |
| Section <u>404.</u> <u>Carrying Out the Project</u> | 26 |
| Section <u>405.</u> <u>Compliance with Law</u> | 26 |
| Section <u>406.</u> <u>Disposition</u> | 27 |
| Section <u>407.</u> <u>Current Expenses</u> | 27 |
| Section <u>408.</u> <u>Repair</u> | 27 |
| Section <u>409.</u> <u>Insurance</u> | 27 |
| Section <u>410.</u> <u>Right of Access to the Project</u> | 27 |
| Section <u>411.</u> <u>Condition of the Project</u> | 27 |
| <u>ARTICLE V. COVENANTS OF THE BORROWER</u> | 28 |
| Section <u>501.</u> <u>Amendment</u> | 28 |
| Section <u>502.</u> <u>Rate Covenant</u> | 28 |
| Section <u>503.</u> <u>Merger or Consolidation</u> | 28 |
| Section <u>504.</u> <u>Other Covenants</u> | 29 |
| Section <u>505.</u> <u>Liens</u> | 30 |
| Section <u>506.</u> <u>Borrowings</u> | 30 |
| Section <u>507.</u> <u>First Mortgage Bonds</u> | 31 |
| <u>ARTICLE VI. DEFAULT AND REMEDIES</u> | 32 |
| Section <u>601.</u> <u>Events of Default</u> | 32 |

TABLE OF CONTENTS
(continued)

| | Page |
|--|-------------|
| Section <u>602.</u> <u>Waiver</u> | 33 |
| Section <u>603.</u> <u>Remedies for Events of Default</u> | 33 |
| Section <u>604.</u> <u>Application of Money Collected</u> | 33 |
| Section <u>605.</u> <u>Performance of the Borrower’s Obligations</u> | 33 |
| Section <u>606.</u> <u>Remedies Cumulative</u> | 34 |
| <u>ARTICLE VII. THE TRUSTEE</u> | 34 |
| Section <u>701.</u> <u>Rights and Duties of the Trustee</u> | 34 |
| Section <u>702.</u> <u>Fees and Expenses of the Trustee</u> | 36 |
| Section <u>703.</u> <u>Resignation or Removal of the Trustee</u> | 36 |
| Section <u>704.</u> <u>Successor Trustee</u> | 36 |
| <u>ARTICLE VIII. THE AUTHORITY</u> | 37 |
| Section <u>801.</u> <u>Limited Obligation</u> | 37 |
| Section <u>802.</u> <u>Rights and Duties of the Authority</u> | 37 |
| Section <u>803.</u> <u>Expenses of the Authority</u> | 38 |
| Section <u>804.</u> <u>Matters to be Considered by Authority</u> | 38 |
| Section <u>805.</u> <u>Actions by Authority</u> | 39 |
| <u>ARTICLE IX. THE BONDOWNERS</u> | 39 |
| Section <u>901.</u> <u>Action by Bondowners</u> | 39 |
| Section <u>902.</u> <u>Proceedings by Bondowners</u> | 39 |
| <u>ARTICLE X. MISCELLANEOUS</u> | 40 |
| Section <u>1001.</u> <u>Amendment</u> | 40 |
| Section <u>1002.</u> <u>Successors and Assigns</u> | 40 |
| Section <u>1003.</u> <u>Notices</u> | 40 |
| Section <u>1004.</u> <u>Agreement Not for the Benefit of Other Parties</u> | 41 |
| Section <u>1005.</u> <u>Severability</u> | 42 |
| Section <u>1006.</u> <u>Counterparts</u> | 42 |
| Section <u>1007.</u> <u>Captions</u> | 42 |
| Section <u>1008.</u> <u>Governing Law</u> | 42 |

ARTICLE I: INTRODUCTION AND DEFINITIONS

Section 101. Description of the Agreement and the Parties . This Loan and Trust Agreement dated as of March 1, 2018 is among the Business Finance Authority of the State of New Hampshire (the "Authority"), a body corporate and politic created under New Hampshire RSA 162-A:3; Pennichuck Water Works, Inc. (the "Borrower"), a public utility corporation organized under the laws of the State of New Hampshire, and The Bank of New York Mellon Trust Company, N.A. (with any successor Trustee hereunder, the "Trustee"), a national banking association, as Trustee and Paying Agent. This Agreement is a financing document combined with a security document as one instrument in accordance with the Act and provides for the following transactions:

- (a) the Authority's issue of the Bonds;
- (b) the Authority's loan of the proceeds of the Bonds to the Borrower for the purpose of financing the Project;
- (c) the Borrower's repayment of the loan of Bond proceeds from the Authority through payment to the Trustee of all amounts necessary to pay the Bonds issued by the Authority; and
- (d) the Authority's assignment to the Trustee, in trust for the benefit and security of the Bondowners, of the Authority's rights under this Agreement and the revenues to be received from the Borrower, except as otherwise provided herein.

In consideration of the mutual agreements contained in this Agreement and other good and valuable consideration, the receipt of which is hereby acknowledged, the Borrower, the Authority and the Trustee agree as set forth herein for their own benefit and for the benefit of the Bondowners.

Section 102. Definitions . In addition to terms defined elsewhere herein, the following terms have the following meanings in this Agreement, unless the context otherwise requires:

- (a) "Act" means New Hampshire RSA 162-I, as amended.
- (b) "Authority's Service Charge" means payments to the Authority for its own use consisting of \$[] with respect to the Series A Bonds and \$[] with respect to the Series B Bonds, payable on the date of original issuance of the Bonds.
- (c) "Bond Counsel" means a firm of nationally recognized attorneys-at-law experienced in legal work relating to the financing of facilities for non-exempt persons through the issuance of tax-exempt revenue bonds.
- (d) "Bond Fund" means the fund of that name established under Section 302 hereof.

- (e) “Bonds” means, collectively, the Series A Bonds and the Series B Bonds.
- (f) “Bondowners” means the registered owners of the Bonds from time to time as shown in the bond register kept by the Trustee.
- (g) “Borrower Representative” means the Chief Financial Officer, Treasurer & Controller or an alternate or successor appointed by the Borrower with notice to the Trustee.
- (h) “Business Day” means a day on which the banks in the city in which the principal office of the Trustee is located are not required or authorized to remain closed and on which the New York Stock Exchange is not closed.
- (i) “Capital Properties” means all tangible property of the Borrower used or useful in the Borrower’s business as a water company, including construction work in progress, and which are properly chargeable to the capital account of the Borrower in conformity with any applicable rules and regulations of government authorities having jurisdiction, as shown on the books of the Borrower.
- (j) “Continuing Disclosure Agreement” means the Continuing Disclosure Agreement between the Borrower and the Trustee, as dissemination agent, dated [_____, 2018], as originally executed in connection with the issuance of the Bonds and as it may be amended from time to time in accordance with the terms thereof.
- (k) “Effective Date” means [March 1, 2018].
- (l) “Event of Default” has the meaning stated in Section 601, and “default” means any Event of Default hereunder without regard to any lapse of time or notice.
- (m) “Federal Tax Statement” means the Tax Certificate and Agreement executed in connection with the issuance of the Series A Bonds.
- (n) “Fiscal Year” means the calendar year.
- (o) “Funded Debt” means debt maturing, or which the Borrower has a right to extend or renew so that it will mature, more than twelve months after it first became debt of the Borrower, including the Bonds as well as the present value (discounted future value) of all future rentals and lease payments under lease agreements with final terms of over three years’ duration to the extent that such discounted future value exceeds 25% of the sum of preferred stock capital, common stock capital and all surplus accounts. “Funded Debt” shall not include accounts payable, customers’ deposits and advances, accrued wages and similar obligations incurred in the ordinary course of business.
- (p) “Government or Equivalent Obligations” means (i) obligations issued or guaranteed by the United States, including any agencies thereof; (ii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee or the Authority, as the case may be, in a special account separate from the general assets of such custodian; and (iii) shares of any open-end or closed-end

management type investment company or trust registered under 15 U.S.C. §80(a)-1 et seq., provided that the portfolio of such investment company or trust is limited to obligations described in clause (i) and repurchase agreements fully collateralized by such obligations, and provided further that such investment company or trust shall take custody of such collateral either directly or through a custodian satisfactory to the Trustee or the Authority.

(a) "IRC" means the Internal Revenue Code of 1986, as amended from time to time.

(b) "MARA" means the Municipal Asset Regulatory Asset, as shown on the books of the Borrower.

(c) "Net Amount of Capital Properties" means the amount of Capital Properties minus the amount of depreciation or retirement reserve applicable thereto as shown by the books of the Borrower. It shall be calculated as of the end of the last preceding quarter and shall reflect amounts as recorded or required to be recorded on the books of the Borrower in accordance with applicable rules and regulations of governmental authorities having jurisdiction, or in the absence thereof, generally accepted accounting principles.

(d) "Net Revenues" means the excess of (i) all operating and non-operating revenues of the Borrower over (ii) all operating expenses of the Borrower, including taxes (except any allowance for income, excess profits and other taxes measured by or dependent on net taxable income for the period for which the earnings are being computed) but not including interest expenses or any allowances for depreciation or amortization, all as determined in accordance with applicable rules and regulations of governmental authorities having jurisdiction, or, in the absence thereof, generally accepted accounting principles.

(e) "NHPUC" means the New Hampshire Public Utilities Commission.

(f) "Outstanding", when used to modify Bonds, refers to Bonds issued under this Agreement, excluding: (i) Bonds that have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment; (ii) Bonds that have been paid in full; (iii) Bonds that have become due and for the payment of which moneys have been duly provided; and (iv) that for which there have been irrevocably set aside sufficient funds, or obligations issued or guaranteed by the United States bearing interest at such rates and with such maturities as will provide sufficient funds, to pay the principal of and interest on such Bonds; provided, however, that if any such Bonds are to be redeemed prior to maturity, the Borrower shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with this Agreement or irrevocable instructions so to mail shall have been given to the Trustee.

(g) "Permitted Investments" means (A) Government or Equivalent Obligations; (B) "tax exempt bonds" as defined in IRC §150(a)(6), rated at least "AA" or "Aa2" by Standard & Poor's Ratings Group ("S&P") and Moody's Investors Services, Inc. ("Moody's"), respectively, or the equivalent by any other nationally recognized rating agency, at the time of acquisition thereof, or shares of a so-called money market or mutual fund that do not constitute "investment property" within the meaning of IRC Section 148(b)(2), provided either

that the fund has all of its assets invested in such “tax exempt bonds” of such rating quality or, if such obligations are not so rated, that the fund has comparable creditworthiness through insurance or otherwise and which fund is rated “Aam” or “AAm-G” if rated by S&P, at the time of acquisition thereof; (C) obligations of any state or political subdivision thereof rated at least “AA-” and “Aa3” by S&P and Moody’s, respectively, at the time of acquisition thereof; (D) negotiable certificates of deposit maturing not more than two years after the date of purchase, and interest-bearing deposit accounts of a national association or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank, which (i) has assets of not less than \$1,000,000,000, provided that the senior debt obligations of the issuing Borrower are rated in the highest category by Moody’s or S&P at the time of acquisition thereof, or (ii) funds are guaranteed by the Federal Deposit Insurance Corporation, or (iii) funds are fully collateralized by Government or Equivalent Obligations; (E) bills of exchange or time drafts drawn on and accepted by a commercial bank (otherwise known as bankers acceptances), provided that such bankers acceptances may not exceed 180 days maturity, and provided further that the accepting bank has the highest short-term letter and numerical rating as provided by Moody’s or S&P at the time of acquisition thereof; (F) repurchase agreements; (G) money market funds which have a rating of “AAAm-G,” “AAAm” or “AAm” by S&P at the time of acquisition thereof, provided that the fund is registered under the Federal Investment Company Act of 1940 and whose shares are registered under the Federal Securities Act of 1933; (H) investment agreements with providers rated not lower than the second highest category (without regard to gradations within such category), at the time of acquisition thereof, by at least one nationally recognized rating agency, provided that if the investment agreement is guaranteed by a third party, then such rating requirement shall apply to the guarantor only, and provided further that if the provider is downgraded by one or more nationally recognized rating agency to below the second highest category, the agreement shall (i) be fully collateralized at 104% by Government or Equivalent Obligations or 105% by securities outlined in clause (J) of this definition of permitted investments, or (ii) terminate; (I) collateralized investment agreements with providers rated not lower than the third highest category (without regard to gradations within such category), at the time of acquisition thereof, by at least one nationally recognized rating agency, provided that if the investment agreement is guaranteed by a third party, then such rating requirement shall apply to the guarantor only, and provided further that in all cases such rating requirements shall apply only at the time the investment agreement is executed; (J) forward purchase and sale agreements with providers rated not lower than the third highest category (without regard to gradations within such category), at the time of acquisition thereof, by at least one nationally recognized rating agency, provided that if the investment agreement is guaranteed by a third party, then such rating requirement shall apply to the guarantor only, and provided further that in all cases such rating requirements shall apply only at the time the investment agreement is executed; (K) commercial paper rated at least “A1” by S&P and/or “P-1” by Moody’s at the time of acquisition thereof and maturing within two hundred seventy (270) days after the acquisition thereof. Any investment may be purchased from or through the Trustee or any Bondowner or any affiliate of either of them.

(h) **[TO BE UPDATED** “Project” means with respect to the Series A Bonds (the “Series A Project”) and the Series B Bonds financing capital improvements to the Borrower’s water supply and water distribution installations, upgrades, replacements, rehabilitations and related support systems at project sites located in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Plaistow, Pittsfield and Salem, New

Hampshire, including (i) water treatment media and miscellaneous water supply upgrades; (ii) replacement of the Harris Pond Dam spillway located on the Nashua/Merrimack line between Concord Street in Nashua and Manchester Street in Merrimack; (iii) water main replacement and rehabilitation throughout the Borrower's service areas in Amherst, Bedford, Derry, Hollis, Merrimack and Nashua, as such service areas are respectively shown at <http://www.pennichuck.com/tefra.php> (the "Service Area Website"), including but not limited to (a) in Nashua on Burke Street, Eldridge Street, West Hollis Street, Lovell Street, Miami Street, Chestnut Street, Hamilton Street, Brook Street, Marquis Avenue, Rochete Avenue, Verona Street, Sarasota Avenue, Manatee Street, Burritt Street, Thomas Street, Dudley Street, Proctor Street, Mulvanity Street, Fernwood Street, Field Street, Fossa Avenue, Pratt Street, Evergreen Street, Allds Street, Newbury Street, Gillis Street, Zellwood Street, Revere Street, Morton Avenue, Temple Street, Worcester Street, Scripture Street and Sheds Avenue, and (b) in Amherst on Foundry Street, Main Street, Boston Post Road and Cross Street; (iv) booster station replacement and rehabilitation throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision of Epping, (c) in the Shanda Farms/Great Bay Subdivision of Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge Subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (v) storage tank maintenance/replacement throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua as respectively shown on the Service Area Website, including but not limited to the Shakespeare Tank near Shakespeare Road in Nashua and the Bon Terrain Tank adjacent to Route 101A in Amherst, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge Subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (vi) back-up generators at 31 Will Street in Nashua; (vii) pump and system operational improvements throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge Subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (viii) service, hydrant and meter replacement or rehabilitation throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (ix) replacement or rehabilitation of rolling stock and equipment at 25 Manchester Street in Merrimack, 31 Will Street in Nashua, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; (x) customer service support applications, financial accounting and other applications and water system monitoring upgrades and enhancements at 25 Manchester Street in Merrimack; (xi) data presentation and collection system development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 31 Will Street in Nashua, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; (xii) geographical information systems development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 31 Will Street in Nashua, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; and (xiii) asset management system development, acquisition, installation and implementation at 25 Manchester Street in Merrimack,

31 Will Street in Nashua, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield. Project also means the water facilities that result or have resulted from the foregoing activities.]

(i) "Project Costs" means the cost of issuing the Bonds and the costs of carrying out the Project which may be paid from Bond proceeds under the Act, including interest during construction of the Series A Project but excluding the creation of reserves. Project Costs, including costs of issuing the Bonds paid from the proceeds of the Series A Bonds and the Series B Bonds, if any, shall also be limited to costs that are permitted to be paid or reimbursed from Bond proceeds under the Federal Tax Statement.

(j) "Project Fund" means the fund of that name established under Section 401 hereof and shall include the accounts established with the Project Fund.

(k) "Rebate Year" means the one year period (or shorter period beginning on the date of issue) ending on December 31.

(l) "Series A Bonds" means the \$[] Business Finance Authority of the State of New Hampshire Water Facility Revenue Bonds (Pennichuck Water Works, Inc. Project) Series 2018A, dated their date of delivery, and any bond or bonds duly issued in exchange or replacement therefor.

(m) "Series B Bonds" means the \$[] Business Finance Authority of the State of New Hampshire Water Facility Revenue Bonds (Pennichuck Water Works, Inc. Project) Series 2018B (Federally Taxable), dated their date of delivery, and any bond or bonds duly issued in exchange or replacement therefor.

(n) "Short-Term Debt" means all debt other than Funded Debt maturing, whether by renewal or otherwise, not more than twelve months after it first became the debt of the Borrower, excluding accounts payable, customers' deposits and advances, accrued wages and similar obligations incurred in the ordinary course of business.

(o) "State" means the State of New Hampshire.

(p) "UCC" means the New Hampshire Uniform Commercial Code, as amended.

Section 103. Number and Gender, Connectives and Disjunctives . Wherever appropriate (1) the singular and plural forms of words, (2) words of different gender and (3) the words "and" and "or" shall, within those respective classifications, be deemed interchangeable.

ARTICLE II: THE ASSIGNMENT AND PLEDGE

Section 201. Assignment and Pledge of the Authority . The Authority, for consideration paid as hereinabove acknowledged, assigns and pledges to the Trustee in trust as provided above (i) all of the Authority's rights to receive and enforce repayment of its loan to the Borrower and to enforce payment of the Bonds and all proceeds of such rights and loan and (ii) all funds and investments held from time to time in the Bond Fund established under Section

302, but not including funds received by the Authority for its own use, whether as the Authority's Service Charge, reimbursement or indemnification or the rights thereto. The Borrower joins in the pledge of such funds and investments to the extent of its interest therein.

Section 202. Recording; Further Assurance . The Borrower will cause this Agreement and all amendments hereto and instruments of further assurance, including all required financing statements and continuation statements, to be promptly recorded, registered and filed, and at all times to be kept recorded, registered and filed, and will file such financing statements and cause to be issued and filed such continuation statements, all to the extent and in such manner and in such places as may be required by law fully to preserve and protect the rights of the Trustee and the Bondowners hereunder. The Borrower, the Authority and the Trustee will from time to time execute, deliver and record and file such instruments as the Trustee or the Bondowners may reasonably require to confirm, perfect or maintain the security created hereby and the transfer, assignment and grant of the rights hereunder.

Section 203. Defeasance ____ . When the Bonds have been paid or redeemed in full or after there are in the Bond Fund sufficient funds, or noncallable obligations issued or guaranteed by the United States in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds, to pay the principal of and interest on the Bonds; when all the rights hereunder of the Authority, the Trustee and the Bondowners have been adequately provided for, including the payment in full of the Authority's Service Charge; and when the rebate, if any, due to the United States under IRC §148 has been paid in full, the Bondowners and the Authority shall cease to be entitled to any benefit or security under this Agreement except the right to receive payment of any moneys deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien hereof including rights under Subsection 304(b); the security interests created by this Agreement shall terminate; and the Trustee, upon the request of the Borrower, will execute and deliver such instruments as may be necessary to discharge any lien and security interests created hereunder; provided, however, that if any such Bonds are to be redeemed prior to the maturity thereof, the Borrower shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with this Agreement or irrevocable instructions so to mail shall have been given to the Trustee. Upon such defeasance, the funds and investments required to pay or redeem the Bonds in full shall be irrevocably set aside for that purpose and moneys held for defeasance shall be invested only as provided above in this section. Any moneys or property held by the Trustee and not required for payment or redemption of the Bonds in full shall, after satisfaction of all the rights of the Authority and the Trustee, be distributed to the Borrower upon such indemnification, if any, as the Authority or the Trustee may reasonably require. If Bonds are not presented for final payment when due and moneys are available in the hands of the Trustee therefor, the Trustee will continue to hold the moneys held for that purpose subject to Subsection 302(c), and interest shall cease to accrue on the principal amount represented thereby.

In determining the sufficiency of the moneys and/or government obligations described as aforesaid deposited pursuant to this Section 203, the Trustee, at its request, shall be entitled to receive, at the expense of the Borrower, and may rely on a verification report of a firm of nationally recognized independent certified public accountants.

Section 204. Corporate Existence. The Borrower will maintain its corporate existence and good standing and qualification to do business in the State and will not, without the prior consent of the Authority and subject to any additional limitations contained in Section 503, merge or consolidate with any other person or transfer or dispose of all or any substantial portion of its assets.

Section 205. Indemnification by the Borrower. The Borrower, regardless of any agreement to maintain insurance, will indemnify the Authority, the Bondowners and the Trustee against (a) any and all claims by any person arising out of the participation of the Authority, the Trustee or the Bondowners in the transactions contemplated by this Agreement, including without limitation claims arising out of any condition of the Project or the construction, use, occupancy or management thereof; any accident, injury or damage to any person occurring in or about the Project site; any breach by the Borrower of its obligations under this Agreement; any act or omission of the Borrower or any of its agents, contractors, servants, employees or licensees relative to this Agreement or the Project; or the offering, issuance, sale or any resale of the Bonds to the extent per by law, and (b) all costs, counsel fees, expenses or liabilities reasonably incurred in connection with any such claim or any action or proceeding brought thereon, provided that the person affected by any such claim cooperates with the Borrower. In case any action or proceeding is brought against the Authority, the Trustee or any Bondowner by reason of any such claim, the Borrower will defend the same at its expense upon notice from the affected person, provided that such person cooperates with the Borrower, at the expense of the Borrower in connection therewith. In such event, the Authority, Trustee or any Bondowner shall use its best efforts to cooperate with Borrower, in the prosecution, settlement or other disposition of any such claim, action or proceedings. The provisions of this section shall not apply to any claim, action or proceeding against the Trustee or any Bondowner which is based solely on the negligence, willful misconduct, bad faith, fraud or deceit of the Trustee and/or Bondowner.

ARTICLE III: THE BORROWING

Section 301. The Bonds

(a) Issue, Authentication and Form of Bonds. Upon execution and delivery of this Agreement, the Authority will issue, and upon direction of the Authority, the Trustee will authenticate and deliver, the Bonds of each series in substantially the following form:

\$ _____

No. [A][B]R-1

The State of New Hampshire
BUSINESS FINANCE AUTHORITY
OF THE STATE OF NEW HAMPSHIRE
WATER FACILITY REVENUE BOND
(Pennichuck Water Works, Inc. Project) Series 2018[A][B (Federally Taxable)]

REGISTERED OWNER: CEDE & CO.

CUSIP:

PRINCIPAL AMOUNT: _____ DOLLARS

INTEREST RATE: _____ PERCENT (___%)

MATURITY DATE: January 1 20__

DATE OF REGISTRATION: March __, 2018

DATE OF THIS BOND: March __, 2018 (Date as of which bonds of this issue were initially issued)

INTEREST PAYMENT DATES: [July 1] and [January 1] (but not before [July 1, 2018])

THIS BOND DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE STATE OF NEW HAMPSHIRE OR OF THE AUTHORITY EXCEPT TO THE EXTENT PERMITTED BY NEW HAMPSHIRE RSA 162-I. ALL AMOUNTS OWED HEREUNDER ARE PAYABLE ONLY FROM THE SOURCES PROVIDED IN THE LOAN AND TRUST AGREEMENT DESCRIBED BELOW, AND NO PUBLIC FUNDS MAY BE USED FOR THAT PURPOSE.

The Business Finance Authority of the State of New Hampshire (the "Authority"), for value received, promises to pay to the Registered Owner or registered assigns, but only from the special funds hereinafter described, upon presentation and surrender hereof, in lawful money of the United States of America, the Principal Amount on the Maturity Date, with interest (computed on the basis of a 360-day year consisting of twelve 30-day months) from the most recent Interest Payment Date to which interest has been paid, or duly provided for or, if no interest has been paid from the DATE of this bond, at the Interest Rate, payable semiannually on the Interest Payment Dates, until the date on which this bond becomes due, whether at maturity, upon redemption, by acceleration or otherwise. From and after that date, any unpaid principal will bear interest at the interest rate until paid or duly provided for. The principal or redemption price, if any, of this bond is payable at the corporate trust office of the Trustee (which shall mean The Bank of New York Mellon Trust Company, N.A., or its successors as Trustee under the Agreement referred to below). Interest is payable by check or draft mailed by the Trustee to the Registered Owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books maintained by the Trustee. Notwithstanding the foregoing, any Registered Owner may, by prior written instructions filed with the Trustee (which instructions shall remain in effect until revoked by subsequent written instructions), instruct that all payments prior to final maturity be made by wire transfer or other means acceptable to the Trustee.

The record date for payment of interest is the fifteenth (15th) day of the month preceding the date on which the interest is to be paid, provided that, with respect to overdue interest or interest payable on redemption of this bond other than on an Interest Payment Date or interest on any overdue amount, the Trustee may establish a special record date. The special record date shall be not more than twenty (20) days before the date set for payment. The Trustee will mail notice of a special record date to the Bondowners at least ten (10) days before the special record date. A certificate of the Trustee shall conclusively establish the mailing of such notice for all purposes.

This bond is one of an issue of bonds (the "Bonds") representing a borrowing of \$[[_____]][_____] (Federally Taxable) under New Hampshire RSA 162-I and pursuant to a Loan and Trust Agreement (the "Agreement") dated as of March 1, 2018 among Pennichuck Water Works, Inc. (the "Borrower"), the Authority and the Trustee. Pursuant to the Agreement, the Authority is issuing its \$[_____] Water Facility Revenue Bonds, Series A (the "Series A Bonds") and its \$[_____] Water Facility Revenue Bonds, Series B (Federally Taxable) (the "Series B Bonds"). Pursuant to the Agreement, the Borrower has agreed to repay such borrowing in the amounts and at the times necessary to enable the Authority to pay the principal and interest on this bond and the Authority has pledged such funds to the Trustee for the benefit of the bondowners. Reference is hereby made to the Agreement for the provisions thereof with respect to the rights, limitations of rights, duties, obligations and immunities of the Borrower, the Authority, the Trustee and the Registered Owner hereof, including the order of payments in the event of insufficient funds, the disposition of unclaimed moneys held by the Trustee and restrictions on the rights of the Registered Owner to bring suit. The Agreement may be amended to the extent and in the manner provided therein.

Upon the occurrence of an Event of Default as defined in the Agreement, the then outstanding principal amount of this bond together with accrued interest thereon may be declared due and payable in the manner and with the effect provided in the Agreement.

[Series A: The Series A Bonds (except the Series A Bonds maturing on or before January 1, 20[___], which are not subject to redemption prior to maturity unless redeemed pursuant to the special redemption provisions described below) are redeemable pursuant to the Agreement prior to maturity beginning on July 1, 20[___], at the option of the Borrower by the written direction of the Borrower to the Issuer and the Trustee, as a whole or in part at any time in such order of maturity or sinking fund installments as directed by the Borrower at their principal amount, plus accrued interest to the redemption date.

The Series A Bonds maturing on January 1, 20[___] and January 1, 20[___] are also subject to redemption from sinking fund installments at their principal amounts, without premium, plus accrued interest to the redemption date on January 1 of each of the years and in the principal amounts as follows:

20[___] Series A Bond

| <u>Year</u> | <u>Principal Amount</u> | <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|-------------|-------------------------|
|-------------|-------------------------|-------------|-------------------------|

*

* Final maturity

20[___] Series A Bond

| <u>Year</u> | <u>Principal Amount</u> | <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|-------------|-------------------------|
|-------------|-------------------------|-------------|-------------------------|

*

* Final maturity

[Series B: The Series B Bonds maturing on January 1, 20[] are subject to redemption from sinking fund installments at their principal amounts, without premium, plus accrued interest to the redemption date on January 1 of each of the years and in the principal amounts as follows:

| <u>Year</u> | <u>Principal Amount</u> | <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|-------------|-------------------------|
|-------------|-------------------------|-------------|-------------------------|

*

* Final maturity

[Series B: The Borrower may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Series B Bonds, pro rata and not in inverse order of maturity, as described in the Agreement. The Borrower will give or will cause to be given each holder of Series B Bonds written notice of each optional prepayment not less than thirty (30) days and not more than sixty (60) days prior to the date fixed for such prepayment, as described in the Agreement. Redemption or prepayment of the Series B Bonds shall be at a price of par, plus the Make-Whole Amount, as defined in Appendix A attached hereto.]

This bond is subject to redemption, at the option of the Borrower, in the event that there is damage to or destruction or taking of the Project that produces proceeds of insurance or condemnation awards, as described in the Agreement. Any special redemption of: (i) Series A Bonds shall be at a price of par and (ii) the Series B Bonds shall be at par plus the applicable the Make-Whole Amount (as described in the Agreement).

In the event this bond is selected for redemption, notice will be mailed no more than [Series A: forty-five (45)][Series B: sixty (60)] nor less than twenty (20) days prior to the redemption date to the Registered Owner at its address shown on the registration books maintained by the Trustee. Failure to mail notice to the owner of any other bond or any defect in the notice to such an owner shall not affect the redemption of this bond. Any notice of redemption may be conditional.

The Borrower may purchase bonds of any maturity and credit them against the principal payment for such maturity or, as the case may be, any sinking fund installment for such maturity at the principal amount or applicable redemption price, as the case may be, by delivering them to the Trustee for cancellation at least sixty (60) days before the principal payment date or sinking fund installment date.

If less than all of the bonds of a series and maturity are to be redeemed, the portion of the bonds to be redeemed shall be selected by the Trustee by lot (or pro rata in the case of the Series B Bonds) or in any customary manner of selection as determined by the Trustee; provided,

however, that so long as DTC or its nominee is the Bondowner, the particular bonds or portions of bonds of such series and maturity to be redeemed shall be selected by DTC in such manner as DTC may determine.

If this bond is of a denomination in excess of five thousand dollars (\$5,000), portions of the principal amount in the amount of five thousand dollars (\$5,000) or any multiple thereof may be redeemed. If less than all of the principal amount is to be redeemed, upon surrender of this bond to the Trustee, there will be issued to the Registered Owner at its option, without charge, a new bond or bonds for the unredeemed principal amount.

Notice of redemption having been duly given, this bond, or the portion called for redemption, will become due and payable on the redemption date at the applicable redemption price and, moneys for the redemption having been deposited with the Trustee, from and after the date fixed for redemption interest on this bond (or such portion) will no longer accrue.

This bond is transferable by the Registered Owner, in person or by its attorney duly authorized in writing, at the corporate trust office of the Trustee, upon surrender of this bond to the Trustee for cancellation. Upon the transfer, a new bond or bonds of the same aggregate principal amount will be issued to the transferee at the same office. No transfer will be effective unless represented by such surrender and reissue. This bond may also be exchanged at the corporate trust office of the Trustee for a new bond or bonds of the same aggregate principal amount without transfer to a new Registered Owner. Exchanges and transfers will be without expense to the owner except for applicable taxes or other governmental charges, if any. The Trustee will not be required to make an exchange or transfer of this bond during the forty-five (45) days preceding any date fixed for redemption if this bond (or any part thereof) is eligible to be selected or has been selected for redemption.

The Bonds are issuable only in fully registered form in the denomination of five thousand dollars (\$5,000) or any integral multiple thereof.

The Authority and the Trustee may treat the Registered Owner as the absolute owner of this bond for all purposes, notwithstanding any notice to the contrary.

No director, officer, employee or agent of the Authority nor any person executing this bond shall be personally liable, either jointly or severally, hereon or be subject to any personal liability or accountability by reason of the issuance hereof.

This bond shall not be valid until the certificate of authentication hereon shall have been signed by the Trustee.

IN WITNESS WHEREOF, the Business Finance Authority of the State of New Hampshire has caused its seal to be affixed hereto and this bond to be signed by its authorized officers.

Dated: _____

BUSINESS FINANCE AUTHORITY OF THE
STATE OF NEW HAMPSHIRE

(Seal)

By: _____
Chairman

By: _____
Executive Director

Certificate of Trustee

This bond is one of the Bonds described in the Agreement.

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., Trustee

By: _____
Authorized Officer

Assignment

For value received the undersigned sells, assigns and transfers this bond to

(Name and Address of Assignee)

Social Security or Other Identifying Number of Assignee

and irrevocably appoints _____ attorney-in-fact to transfer it on

the books kept for registration of the bond, with full power of substitution.

NOTE: The signature to this assignment must correspond with the name as written on the face of the bond without alteration or enlargement or other change.

Date:

Signature Guaranteed:

Participant in a Recognized
Signature Guarantee Medallion
Program

By: _____
Authorized Signature

[Series B

Appendix A

["Make-Whole Amount" means, with respect to any Series B Bond, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Series B Bond over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Series B Bond, the principal of such Series B Bond that is to be prepaid pursuant to the above or has become or is declared to be immediately due and payable pursuant to acceleration, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Series B Bond, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Series B Bonds is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Series B Bond, []% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time

or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date.

In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding paragraph, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Series B Bond.

“Remaining Average Life” means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“Remaining Scheduled Payments” means, with respect to the Called Principal of any Bond, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Series B Bond, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to optional prepayment or acceleration.

“Settlement Date” means, with respect to the Called Principal of any Series B Bond, the date on which such Called Principal is to be prepaid pursuant to optional prepayment or has become or is declared to be immediately due and payable pursuant to acceleration, as the context requires.]

[END OF BOND FORM]

(b) Details of the Bonds. Each series of Bonds shall be issued in fully registered form and shall be numbered from AR1 or BR1, as applicable, upwards in the order of their issuance, or in any other manner determined by the Trustee. The Bonds of each series shall be in the denomination of five thousand dollars (\$5,000) each or any integral multiple thereof. The Bonds of each series shall be dated their date of delivery. The interest on the Bonds until they come due shall be payable on July 1 and January 1 of each year, beginning on [July 1,

2018]. Interest on the Series B Bonds shall be included in income for federal tax purposes; provisions herein relating to exemption from taxation shall apply only to the Series A Bonds.

In case any officer of the Authority whose signature or a facsimile of whose signature shall appear on any Bonds shall cease to be such officer before the delivery thereof, such signature or facsimile shall nevertheless be valid and sufficient for all purposes as if he or she had remained in office until after such delivery. Additional details of the Bonds shall be as stated in the Bond form in Subsection 301(a).

(c) Application of Bond Proceeds. The Authority shall loan the proceeds of the Bonds to the Borrower as follows:

(i) Proceeds of the Series A Bonds in the amount of \$[] shall be deposited in the Project Fund and will be used to pay Project Costs, including costs of issuance allocable to the Series A Bonds. Accrued interest, if any, with respect to the Series A Bonds shall be deposited in the Bond Fund.

(ii) Proceeds of the Series B Bonds in the amount of \$[] shall be wired to the Borrower on the date of issuance thereof and will be applied to: (i) the costs of issuing the Series B Bonds and the Series A Bonds, if necessary; and (ii) [reimburse the Borrower for Project Costs incurred prior to the date of issuance thereof or to Project Costs not otherwise eligible to be financed with the Series A Bonds].

(d) Reserved.

(e) Exchange and Replacement Bonds. The Bonds may be exchanged as provided in the Bond form in Subsection 301(a), and exchange Bonds shall be issued in fully-registered form substantially as set forth therein. Replacement Bonds shall be issued pursuant to applicable law as a result of the destruction, loss, wrongful taking or mutilation of the Bonds. The costs of a replacement shall be paid or reimbursed by the registered owner of the replacement Bond, who shall indemnify the Authority, the Trustee and the Borrower in such manner as they may require against all liability and expense in connection therewith.

(f) Registration of Bonds in the Book-Entry Only System. The provisions of this Subsection 301(f) shall apply with respect to any Bond registered to CEDE & CO. or any other nominee of The Depository Trust Company (“DTC”) while the Book-Entry Only System (meaning the system of registration described in paragraph (ii) of this Subsection 301(f)) is in effect.

(i) The Bonds shall be issued in the form of a separate single authenticated fully registered Bond in substantially the form set forth in Subsection 301(a) and in the amount of each separate stated maturity and series of Bonds. On the date of original delivery thereof, the Bonds shall be registered in the registry books of the Paying Agent in the name of CEDE & CO., as nominee of DTC as agent for the Authority in maintaining the Book-Entry Only System. With respect to Bonds registered in the registry books kept by the Paying Agent in the name of CEDE & CO., as nominee of DTC, the Authority, the Paying Agent, the Borrower and the Trustee shall have no responsibility or obligation to any Participant (which means securities brokers and

dealers, banks, trust companies, clearing corporations and various other entities, some of whom or their representatives own DTC) or to any Beneficial Owner (which means, when used with reference to the Book-Entry Only System, the person who is considered the beneficial owner of the Bonds pursuant to the arrangements for book entry determination of ownership applicable to DTC) with respect to the following: (A) the accuracy of the records of DTC, CEDE & CO. or any Participant with respect to any ownership interest in the Bonds, (B) the delivery to any Participant, any Beneficial Owner or any other person, other than DTC, of any notice with respect to the Bonds, including any notice of redemption, or (C) the payment to any Participant, any Beneficial Owner or any other person, other than DTC, of any amount with respect to the principal of or interest on the Bonds. The Paying Agent shall pay all principal of and interest on the Bonds only to or upon the order of DTC, and all such payments shall be valid and effective fully to satisfy and discharge the Authority's obligations with respect to the principal of and interest on such Bonds to the extent of the sum or sums so paid. No person other than DTC shall receive an authenticated Bond evidencing the obligation of the Authority to make payments of principal of and interest pursuant to this Agreement. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of CEDE & CO., the words "CEDE & CO." in this Agreement shall refer to such new nominee of DTC.

(ii) Upon receipt by the Authority and the Trustee of written notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities, the Paying Agent shall issue, transfer and exchange Bonds as requested by DTC in appropriate amounts, and whenever DTC requests the Authority, the Paying Agent and the Trustee to do so, the Trustee, the Paying Agent and the Authority will cooperate with DTC in taking appropriate action after reasonable notice (A) to arrange for a substitute bond depository willing and able upon reasonable and customary terms to maintain custody of the Bonds or (B) to make available Bonds registered in whatever name or names the Bondowners transferring or exchanging such Bonds shall designate.

(iii) In the event the Authority determines that it is in the best interests of the Beneficial Owners that they be able to obtain Bond certificates, the Authority may so notify DTC, the Paying Agent and the Trustee, whereupon DTC will notify the Participants of the availability through DTC of Bond certificates. In such event, the Paying Agent shall issue, transfer and exchange Bond certificates as requested by DTC in appropriate amounts and in authorized denominations. Whenever DTC requests the Authority and the Paying Agent to do so, the Paying Agent and the Authority will cooperate with DTC in taking appropriate action after reasonable notice to make available Bonds registered in whatever name or names the Beneficial Owners transferring or exchanging Bonds shall designate.

(iv) Notwithstanding any other provision of this Agreement to the contrary, so long as any Bond is registered in the name of CEDE & CO., as nominee of DTC, all payments with respect to the principal of and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, to DTC as provided in the Representation Letter from the Authority to the DTC.

(v) Notwithstanding any provision in Section 306 to the contrary, so long as all of the Bonds Outstanding are held in the Book-Entry Only System, if less than all of such Bonds of any one maturity are to be redeemed upon any redemption of Bonds hereunder, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by DTC in such manner as DTC may determine; provided, however, that Series B Bonds shall be selected pro rata).

Section 302. Bond Fund.

(a) Establishment and Purpose. A Bond Fund is hereby established with the Trustee for the account of the Borrower, and moneys shall be deposited therein as provided in this Agreement. The moneys in the Bond Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee solely to the payment of the principal of and interest on the Bonds and to the charges and disbursements of the Trustee and the Authority in accordance with this Agreement. When moneys in the Bond Fund are to be applied to the payment of the Bonds, such moneys shall be transferred by the Trustee to itself for the account of the Authority and shall then be so applied.

(b) Excess in Bond Fund. If at any time the amount in the Bond Fund exceeds the amount necessary to pay or redeem the Bonds in full, and all amounts owing or to be owing to the Trustee, the Authority, and the Bondowners under this Agreement have been paid or provided for to the satisfaction of the Trustee, the Authority and the Bondowners, as the case may be, the excess shall be paid to the Borrower.

(c) Unclaimed Moneys. Except as may otherwise be required by applicable law, in case any moneys deposited with the Trustee for the payment of the principal of, or interest on, any Bond remain unclaimed for three years after such principal or interest has become due and payable, the Trustee may and upon receipt of a request of the Borrower will pay over to the Borrower the amount so deposited and thereupon the Trustee and the Authority shall be released from any further liability with respect to the payment of principal or interest and the owner of such Bond shall be entitled (subject to any applicable statute of limitations) to look only to the Borrower as an unsecured creditor for the payment thereof.

Section 303. Application of Moneys. If available moneys are not sufficient on any day to pay all principal and interest on the Bonds then due or overdue, they shall, after payment of all other amounts owing to the Trustee and the Authority under this Agreement, be applied first to the payment of interest, including interest on overdue principal, in the order in which the same became due and second to the payment of principal without regard to the order in which the same became due, in each case pro rata among Bondowners. Whenever moneys are to be applied by the Trustee pursuant to this section, such moneys shall be applied by the Trustee at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall exercise such discretion it shall fix the date (which shall be the first day of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. When

only interest or a portion of the principal is to be paid on an overdue Bond, the Trustee may require presentation of the Bond for endorsement of the payment.

Section 304. Payments by the Borrower

(a) Debt Service. The Borrower will pay to the Trustee for deposit in the Bond Fund at least two (2) Business Days before each date on which any payment of principal of and interest on, the Bonds shall become due, whether at maturity, upon redemption, upon acceleration or otherwise, an amount in funds available on such Bond payment date equal to the payment then coming due less the amount, if any, then in the Bond Fund and available to pay the same. At any time when any principal of the Bonds is overdue, the Borrower shall also have a continuing obligation to pay to the Trustee for deposit in the Bond Fund an amount equal to interest on the overdue principal, but the payments required under this section shall not otherwise bear interest. The Borrower may make payments to the Bond Fund earlier than required by this section, but such payments shall not affect the accrual of interest except to the extent that Bonds are prepaid. If at any time there are insufficient funds to pay or prepay principal of and interest on the Bonds when due, the Borrower shall supply the deficiency.

(b) Additional Payments. In addition to the payments required under Subsection 304(a), the Borrower will pay to the Trustee, the Authority and the Bondowners when due all amounts owing to them respectively under this Agreement, including without limitation in the case of the Authority, the Authority's Service Charge and all other amounts which the Authority is entitled to receive hereunder as reimbursement or indemnity.

Section 305. Unconditional Obligation. The obligations of the Borrower hereunder, including the obligation of the Borrower to make all payments under Section 304, shall be unconditional and shall be binding and enforceable in all circumstances whatsoever as provided in the Act and shall not be subject to setoff, recoupment or counterclaim. The Borrower shall be obligated to make the payments under Section 304 whether or not the Project has come into existence or become functional and whether or not the Project has ceased to exist or to be functional to any extent and from any cause whatsoever. The Borrower shall be obligated to make such payments regardless of whether the Borrower is in possession or is entitled to be in possession of the Project or any part thereof.

Section 306. Redemption of the Bonds

(a) Sinking Fund Installments and Mandatory Redemptions. The Series A Bonds maturing January 1, 20[] and January 1, 20[] (to be selected by the Trustee by lot or in any customary manner of selection as determined by the Trustee) shall be redeemed at their principal amounts without premium on January 1 of each of the years and in the amounts as follows:

20[] Series A Bond

| <u>Year</u> | <u>Principal Amount</u> | <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|-------------|-------------------------|
|-------------|-------------------------|-------------|-------------------------|

redeem Bonds. If moneys are transferred to the Bond Fund pursuant to this Subsection (b), such moneys (and earnings thereon) shall be used to redeem Bonds within one (1) year, except to the extent previously used to purchase Bonds. The Bonds are subject to redemption pursuant to this Subsection as a whole or in part at any time, in such order of maturity or sinking fund installments, if any as directed by the Borrower (provided that, if less than all of the Bonds outstanding of any maturity shall be called for redemption, the Bonds to be so redeemed shall be selected by the Trustee by lot (or pro rata in the case of the Series B Bonds, as described below) or in any customary manner of selection as determined by the Trustee), at their principal amounts plus accrued interest to the redemption date. If the amount available in the Bond Fund to redeem Bonds at any time is less than \$50,000, the Trustee may, and upon written direction of the Borrower shall, credit such amount against deposits otherwise required to be made therein with respect to principal instead of calling Bonds for redemption. Any special redemption of: (i) Series A Bonds shall be at a price of par; and (ii) Series B Bonds shall be at par plus the applicable Make-Whole Amount.

(c) Optional Redemption of the Series A Bonds. The Series A Bonds (except such Series A Bonds maturing on or before January 1, 20[___], which are not subject to redemption prior to maturity unless redeemed pursuant to the special redemption provisions of Subsection 306(b)), are redeemable prior to maturity on or after January 1, 20[___], at the option of the Borrower by the written direction of the Borrower to the Authority and the Trustee. Such redemption shall be in accordance with the terms of the Bonds, as a whole or in part at any time, in such order of maturity or sinking fund installments, if any, as directed by the Borrower (provided that, if less than all of the Series A Bonds outstanding of any maturity shall be called for redemption, the Bonds to be so redeemed shall be selected, subject to Section 301(f), by the Trustee by lot or in any customary manner of selection as determined by the Trustee), at par plus accrued interest to the redemption date as described in the form of Bonds in Subsection 301(a).

(d) [Optional Prepayments of the Series B Bonds with Make-Whole Amount. The Borrower may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Series B Bonds, pro rata and not in inverse order of maturity, in an amount not less than 10.00% of the aggregate principal amount of the Series B Bonds then Outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Borrower will give, or will cause to be given, each holder of Series B Bonds written notice of each optional prepayment not less than thirty (30) days and not more than sixty (60) days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of the Series B Bonds to be prepaid on such date, the principal amount of each Series B Bond held by such holder to be prepaid, and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Borrower Representative as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two (2) Business Days prior to such prepayment, the Borrower shall deliver to each holder of Series B Bonds to be repaid a certificate of a Borrower Representative specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

“Make-Whole Amount” means, with respect to any Series B Bond, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Series B Bond over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

“Called Principal” means, with respect to any Series B Bond, the principal of such Series B Bond that is to be prepaid pursuant to the above or has become or is declared to be immediately due and payable pursuant to acceleration, as the context requires.

“Discounted Value” means, with respect to the Called Principal of any Series B Bond, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Series B Bonds is payable) equal to the Reinvestment Yield with respect to such Called Principal.

“Reinvestment Yield” means, with respect to the Called Principal of any Series B Bond, % over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date.

In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding paragraph, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Series B Bond.

“Remaining Average Life” means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with

respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“Remaining Scheduled Payments” means, with respect to the Called Principal of any Series B Bond, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Series B Bond, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to optional prepayment or acceleration.

“Settlement Date” means, with respect to the Called Principal of any Series B Bond, the date on which such Called Principal is to be prepaid pursuant to optional prepayment or has become or is declared to be immediately due and payable pursuant to acceleration, as the context requires.]

(e) Payment of Redemption Price and Accrued Interest. Whenever Bonds are called for redemption, the accrued interest thereon shall become due on the redemption date and shall be paid from the Bond Fund to the extent available therein. To the extent not otherwise provided, the Borrower shall deposit with the Trustee on or prior to the redemption date a sufficient sum to pay the redemption price of and accrued interest and Make-Whole Amount, as applicable, on the Bonds.

(f) Notice of Redemption. When Bonds are to be redeemed, the Trustee shall give notice in the name of the Authority, which notice shall identify the Bonds to be redeemed, state the date fixed for redemption state that the proposed redemption is conditioned on there being on deposit in the Redemption Fund on the redemption date sufficient money to pay the full redemption price of the Bonds redeemed and state that such Bonds will be redeemed at the corporate trust office of the Trustee. The notice shall further state that, subject to the conditionality of the notice, on such date there shall become due and payable upon each Bond to be redeemed the redemption price thereof, together with interest accrued to the redemption date, and that moneys therefor having been deposited with the Trustee, from and after such date, interest thereon shall cease to accrue. The Trustee shall mail the redemption notice not more than forty-five (45) (sixty (60) in the case of the Series B Bonds) nor less than twenty (20) days prior to the date fixed for redemption, to the registered owners of any Bonds which are to be redeemed, at their addresses shown on the registration books maintained by the Trustee, and to the principal office of each of the managing underwriters of the Bonds. So long as the Bonds are held in the name of Cede & Co., the redemption notice may be given by electronic means. Failure to mail notice to a particular Bondowner, or any defect in the notice to such Bondowner, shall not affect the redemption of any other Bond. Failure to mail notice to the managing underwriters, or any defect in the notice to them, shall not affect the redemption of any Bond.

Section 307. Investment of Moneys in Funds

(a) Investment. Pending their use under this Agreement, moneys in the Bond Fund and Project Fund shall be invested by the Trustee at the written direction of the Borrower

in the Permitted Investments described in subsection (b), with maturities or subject to redemption or put at the option of the Trustee at or before the time when such moneys are required to be available if no Event of Default known to the Trustee then exists. If an Event of Default known to the Trustee exists, the Trustee's investment of such moneys shall be subject to such actual or imputed yield restrictions as Bond Counsel may determine are necessary to preserve the exemption of interest on the Bonds from federal income taxation. Any interest realized thereon and any profit realized upon the sale or other disposition thereof shall be credited to such Fund and any loss shall be charged thereto. Ratings of Permitted Investments shall be determined at the time of purchase of such Permitted Investments and without regard to ratings subcategories. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries, and may charge its ordinary and customary fees for such trades, including investment maintenance fees. In the absence of investment instructions from the Borrower, the Trustee shall not be responsible or liable for keeping the moneys held by it hereunder fully invested in Permitted Investments. The Trustee shall not be liable or responsible for losses on investments made in compliance with the provisions of this Agreement. Although the Authority and the Borrower each recognizes that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, the Authority and the Borrower hereby agree that confirmations of permitted investments are not required to be issued by the Trustee for each month in which a monthly statement is rendered. No statement need be rendered for any fund or account if no activity occurred in such fund or account during such month. Any investment may be purchased from or through the Trustee or any affiliate thereof.

Section 308. Tax-Exempt Status of Series A Bonds. The Borrower will perform its obligations and agreements contained in the Federal Tax Statement as if they were set forth herein. The Authority will cooperate with the Bondowners to the extent deemed necessary or permitted by law in the opinion of Bond Counsel to the Authority in order to preserve the tax-exempt status of the Bonds. Provisions relating to the tax-exempt status of the Bonds shall only relate to the Series A Bonds. Interest on the Series B Bonds is taxable for federal income tax purposes.

Section 309. Rebate.

(a) Payment of Rebate to the United States.

(i) No later than sixty (60) days after the close of the fifth Rebate Year following the date of issue of the Series A Bonds (or any earlier date that may be required) and the close of each fifth Rebate Year thereafter, the Borrower shall pay to the United States on behalf of the Authority the full amount then required to be paid under IRC Section 148(f) and the regulations thereunder (the "Rebate Provision"). Within sixty (60) days after the Series A Bonds have been paid in full, the Borrower shall pay to the United States on behalf of the Authority the full amount then required to be paid under the Rebate Provision. Each such payment shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 or any successor location specified by the Internal Revenue Service, accompanied by a Form 8038-T (or other similar information reporting form) prepared by the Borrower.

(ii) No later than fifteen (15) days prior to each date on which a payment could become due under Paragraph 306(a)(i) (a “Rebate Payment Date”), the Borrower shall deliver to the Authority and the Trustee a certificate either summarizing the determination that no amount is required to be paid or specifying the amount then required to be paid pursuant to Paragraph 306(a)(i). If the certificate specifies an amount to be paid, (A) such certificate shall be accompanied by a completed Form 8038-T, which is to be signed by an officer of the Authority, and shall include a certification stating that the Form 8038-T is accurate and complete, and (B) no later than ten (10) days after the Rebate Payment Date the Borrower shall furnish to the Authority and the Trustee a certificate stating that such amount has been timely paid.

(b) Records. The Borrower, the Trustee and the Authority shall keep such records as will enable them to fulfill their responsibilities under this section and the Rebate Provision.

(c) Interpretation of this Section. The purpose of this Section 306 is to satisfy the requirements of the Rebate Provision. Accordingly, this section shall be construed so as to meet such requirements. The Borrower covenants that all action taken under this section shall be taken in a manner that complies with the Rebate Provision and that it shall neither take any action nor omit to take any action that would cause the Bonds to be arbitrage bonds by reason of the failure to comply with the Rebate Provision. To the extent any payment of rebatable arbitrage or penalty in lieu of rebate is not timely made to the United States, the Borrower shall pay to the United States on behalf of the Authority any interest, penalty, or other amount necessary to prevent any series of Bonds from becoming arbitrage bonds within the meaning of IRC Section 148. The Borrower covenants that to the extent necessary it shall obtain the advice and assistance of experts to aid it in complying with the Rebate Provision.

Section 310. Continuing Disclosure. The Borrower and the Trustee hereby covenant and agree that each will comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to it. The Authority shall have no liability to the owners of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of this Agreement, failure of the Borrower or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the owners of at least 25% aggregate principal amount of Outstanding Bonds and the provision of indemnity satisfactory to the Trustee, shall), or any owner (including a Beneficial Owner) of Bonds may, seek specific performance of the Borrower’s obligations to comply with its obligations under the Continuing Disclosure Agreement or this Section 310 and not for money damages in any amount.

ARTICLE IV: THE PROJECT

Section 401. Project Fund. A Project Fund is hereby established with the Trustee for the account of the Borrower. The proceeds of the sale of the Series A Bonds (except accrued interest, if any, which shall be deposited in the Bond Fund) shall be promptly deposited in the Project Fund constituting the loan of the proceeds of the Series A Bonds by the Authority to the Borrower. The moneys in the Project Fund and any investments held as part of such Fund shall

be held in trust and, except as otherwise provided in this Agreement, shall be applied by the Trustee solely to the payment or reimbursement of Project Costs, including costs of issuing the Series A Bonds, in accordance with Section 402.

Section 402. Disbursements from Project Fund . The Trustee will pay from the Project Fund established under Section 401 without requisition the costs of issuing the Series A Bonds including the fees and expenses of Bond Counsel and the Authority and any recording or similar fees, and the fees and expenses of the Trustee in connection with the issue of the Series A Bonds and interest on the Series A Bonds not otherwise provided for incurred prior to the completion of the Series A Project in accordance with this Agreement. Other disbursements from the Project Fund shall be made by the Trustee to pay directly or to reimburse the Borrower for Series A Project Costs or indebtedness incurred to pay Series A Project Costs, as directed by requisitions signed on behalf of the Borrower by the Borrower Representative setting forth the amount of the payment or reimbursement due, the nature of the goods or other property or services received in reasonable detail, and the name and address of the person to whom payment or reimbursement is due. Each requisition shall be in the form attached as Exhibit A hereto and shall be signed on behalf of the Borrower by the Borrower Representative certifying that (i) after giving effect to the payment of the requisition, the use of all funds disbursed from the Project Fund complies with the limitations contained in the Federal Tax Statement; (ii) such payment or reimbursement is for Series A Project Costs and the obligations have not been the basis for a prior requisition which has been paid; (iii) no Event of Default hereunder and no event or condition which, after notice or lapse of time or both, would become an Event of Default hereunder exists; and (iv) the payment or reimbursement requested by the requisition is due for work actually performed or materials or property actually supplied prior to the date of the requisition.

Section 403. Certificate of Completion . Completion of the Series A Project shall be evidenced by the filing with the Trustee of a certificate signed by the Borrower Representative stating that the Series A Project has been substantially completed and paid for. The date of filing of such certificate shall be treated as the close of a "Rebate Year" for purposes of Subsection 309(a). The balance, if any, in the Project Fund after any transfer to the Rebate Fund required by Subsection 309(a) shall be transferred to the Bond Fund to be applied in accordance with Subsection 306(a).

Section 404. Carrying Out the Project . The Borrower will diligently carry out the Project. Contracts for carrying out the Project and purchases in connection therewith shall be made by the Borrower in its own name. To the extent that the Project Fund is insufficient to complete the Project, the Borrower shall use its best efforts to complete the Project at its own expense.

Section 405. Compliance with Law . In the maintenance, improvement and operation of the Project, the Borrower will comply in all material respects with all applicable building, zoning, subdivision, environmental protection, sanitary and safety and other land use laws, rules and regulations and will not permit any nuisance thereon. It shall not be a breach of this section if the Borrower fails to comply with such laws, rules and regulations during any period in which the Borrower shall in good faith be diligently contesting the validity thereof.

Section 406. Disposition . Without the prior consent of the Authority, the Borrower will not sell, lease or otherwise dispose of, or place any other person in possession of, the real property included in the Project or any portion thereof or interest therein or make any material change in the purposes for which the Project is used.

Section 407. Current Expenses . The Borrower will pay all costs and expenses of operation, maintenance and upkeep of the Project including without limitation all taxes, excises and other governmental charges lawfully levied thereon or with respect to the Borrower's interest therein or use thereof. It shall not be a breach of this subsection if the Borrower fails to pay any such taxes or charges during any period in which the Borrower shall in good faith be diligently contesting the validity or amount thereof, unless the procedures applicable to such contest require payment thereof and proceedings for their refund or abatement.

Section 408. Repair . The Borrower will keep the Project in good order, repair and condition, damage from casualty expressly not excepted, and not permit or commit waste thereon. The Borrower may at its own expense alter, remodel or improve the Project, provided that such alteration or remodeling shall not damage the basic structure thereof or materially decrease its value or cause the Project to violate zoning or other land use restrictions.

Section 409. Insurance .

(a) Coverage. The Borrower will maintain insurance against liability for injuries to and death of persons in the minimum amount of \$1,000,000 per occurrence and for damages to property in the minimum amount of \$500,000 per occurrence. Any such policy may exclude the first \$25,000 of loss so that the Borrower is its own insurer to that extent. Substitutions for or omissions from the required coverage may be made with the consent of the Trustee.

(b) Policies. A duplicate copy or certificate of each policy of insurance shall be furnished to the Trustee and, at its request, to the Authority. All insurance carried under this section shall be in the appropriate New Hampshire standard form and shall be with responsible and reputable companies authorized to transact business in New Hampshire. All policies of insurance shall contain a provision forbidding cancellation of such insurance by either the carrier or the insured until at least fifteen days after written notice of the proposed cancellation is given to the Trustee; and when any insurance is to expire other than by cancellation, the duplicate or certificate of the new policy shall be furnished to the Trustee at least twenty days before such expiration date.

Section 410. Right of Access to the Project . The Authority and the Trustee and their respective duly authorized agents shall have the right at all reasonable times upon reasonable notice to enter upon the Project for the purpose of inspection or to carry out their powers hereunder.

Section 411. Condition of the Project . The Borrower acknowledges that it is fully familiar with the physical condition of the Project and is not relying on any representation of any kind by any other party hereto or any Bondowner as to the nature or the condition thereof. No

other parties hereto nor any Bondowner shall be liable to the Borrower or to any other person for any latent or patent defect in the Project.

ARTICLE V: COVENANTS OF THE BORROWER

Section 501. Amendment . The provisions of this Article V may be amended by the Borrower and the Trustee (with the consent of the Bondowners if required by Section 1001) without the consent of the Authority. In connection with any such amendment, the Trustee may require and conclusively rely upon an opinion of Bond Counsel that any such amendment does not materially adversely affect the interests of the Bondowners.

Section 502. Rate Covenant . If during any Fiscal Year (the “Test Year”), Borrower’s Net Revenues for such Fiscal Year shall not equal at least one and one-tenth (1 1/10) times all amounts paid or required to be paid by Borrower during the Test Year with respect to Funded Debt, then Borrower shall undertake reasonable efforts to initiate a rate-making proceeding with the NHPUC that will result, if approved by the NHPUC, in Borrower’s having Net Revenues in the next succeeding Fiscal Year equal to at least one and one-tenth (1 1/10) times all amounts required to be paid by Borrower during such next succeeding Fiscal Year with respect to Funded Debt. Borrower shall not be required to initiate a new rate-making procedure with the NHPUC pursuant to this Section 502 as long as an issue of law or fact substantially the same to that which would be raised by any such new rate-making proceeding is then pending or has been decided pursuant to a non-appealable order of the NHPUC that prevents raising such issue in subsequent proceedings on appeal or such an issue of law or fact was previously determined adversely on appeal. In addition, Borrower shall not be required to initiate a new rate-making proceeding with the NHPUC pursuant to this Section 502 if Borrower receives an order from the NHPUC within one-hundred twenty (120) days after the end of the Test Year establishing rates, fees and other charges such that, had such rates, fees and other charges been in effect for the entirety of the Test Year, Borrower would have had Net Revenues in the Test Year equal to at least one and one-tenth (1 1/10) times all amounts paid or required to be paid by Borrower during the Test Year with respect to Funded Debt. Notwithstanding anything in this Section 502 to the contrary, all obligations of Borrower under this Section 502 are subject to compliance by Borrower with any legislation of the United States, the State or other governmental body, or any regulation or other action taken by the federal government, any State agency, including, without limitation, the NHPUC, or any political subdivision of the State pursuant to any such legislation, in the exercise of the police power thereof for the public welfare, which legislation, regulation or action limits or otherwise inhibits the amounts of rates, fees and other charges due to Borrower, and, in all events, the establishment of new rates, fees and other charges by Borrower is subject to the approval of the NHPUC.

Section 503. Merger or Consolidation . The Borrower agrees that it will not become a party to any merger or consolidation unless (i) (A) the prepayment of the principal of and interest of the Bonds shall occur concurrently with said merger or consolidation, or (B) the Bonds are no longer deemed Outstanding under this Agreement, or (ii) such merger or consolidation is with a water utility and (A) for twelve consecutive months out of the fifteen months next preceding the merger or consolidation, the combined Net Revenues of the companies which are parties to the merger or consolidation shall have been at least one and one-

tenth (1 1/10) times the annual amount of interest which the resulting or continuing corporation will be obligated to pay after the merger or consolidation is effected on account of Funded Debt that was incurred on or after the Effective Date and (B) the merger or consolidation shall not result in the resulting or continuing corporation having an amount of Funded Debt which is in excess of the sum of the value of the MARA and 85% of the Net Amount of Capital Properties, or its having outstanding any Funded Debt that the Borrower would not have been permitted to incur immediately prior to the transaction, or (iii) such merger or consolidation is with a water utility and (A) the Trustee on behalf of the Bondowners would in connection therewith receive, as security for the Bonds, bonds of the resulting corporation under a mortgage creating a lien on substantially all of the Capital Properties of said resulting corporation, which bonds and mortgage shall contain provisions comparable to the provisions of the Bonds (allowing for appropriate adjustments in form and substance to reflect the different nature of the securities), (B) for twelve (12) consecutive months out of the fifteen (15) months next preceding the merger or consolidation, the combined Net Revenues of the companies which are parties to the merger or consolidation shall have been at least one and one-tenth (1 1/10) times the annual amount of interest which the resulting or continuing corporation will be obligated to pay after the merger or consolidation is effected on account of Funded Debt that was incurred on or after the Effective Date, and (C) the merger or consolidation shall not result in the resulting corporation having an amount of Funded Debt which is in excess of the sum of the value of the MARA and 85% of its Net Amount of Capital Properties.

Section 504. Other Covenants . The Borrower agrees that it will:

- (a) Not make any investments in securities of any corporation or make any advance, extend credit or issue any guaranty to any corporation, firm or individual, except among affiliates and except in the ordinary course of business.
- (b) Reserved.
- (c) Not change the general nature of its business; nor make any sale or disposition of Capital Properties which will materially adversely affect the operation of its water business.
- (d) Annually, as an operating expense, provide for depreciation of its properties and record the same on its books in an amount computed at a rate acceptable to the New Hampshire Public Utilities Commission, but in any event equal to not less than 1 1/4% of its depreciable properties as of the preceding December 31, provided however, that any such provisions made subsequent to December 31, 1985, in excess of the amount required under the provisions of this subsection in the year in which made, to the extent that it is determined such excess provision was unnecessary in accordance with generally accepted accounting principles, may be applied toward satisfying any requirement of this subsection in respect of any calendar year succeeding the calendar year in which made.
- (e) Not declare or pay any dividends or make any distributions on any shares of its common stock or purchase, acquire or otherwise retire for a consideration any shares of its common stock, if immediately thereafter its net worth would be less than \$4,500,000. "Net worth" means the excess of assets (including, without limitation, the MARA, Deposited Cash

and Capital Properties) over all liabilities (including liabilities with respect to the Bonds) as determined by generally accepted accounting principles consistently applied.

Section 505. Liens. The Borrower agrees that it will not pledge or place or suffer to exist any mortgage or other encumbrance or lien of any kind upon Capital Properties or any part thereof, except (i) encumbrances permitted by subsection (b) below, (ii) a mortgage securing its first mortgage bonds as provided in Section 507, and (iii) purchase money or construction mortgages or security interests, or mortgages or security interests existing on the Capital Properties at the time of acquisition thereof, or created for the purpose of financing such acquisition, and renewals or replacements of such mortgages or security interests, provided that (x) no such mortgage or security interest shall affect any Capital Properties other than those being so acquired or constructed, (y) the indebtedness being secured by such mortgage or security agreement shall not exceed 85% of the cost to the Borrower of such acquisition or construction and (z) the total indebtedness being secured by such mortgages and security agreements at any one time shall not exceed Five Million Dollars (\$5,000,000).

(a) Subsection (a) shall not apply to (i) liens for taxes payable without penalty or interest or being contested in good faith and for which the Borrower has provided an adequate reserve by proper charges to income or earned surplus; (ii) mechanics' liens and similar liens incurred in the ordinary course of business to secure debts of the Borrower not yet due; (iii) attachments against which the Borrower is adequately covered by insurance or which are discharged within sixty (60) days from the making thereof and liens of judgments or awards adequately covered by insurance or which have been in force for less than the applicable appeal period so long as execution is not levied thereunder or in respect of which an appeal or proceedings for review are pending and a stay of execution shall have been secured pending such appeal or review, provided, however, that such attachments, judgments or awards do not exceed in the aggregate the amount of \$1,000,000; and (iv) other encumbrances which in the aggregate do not materially detract from the value of said properties and assets or materially impair their use in the operation of the business.

Section 506. Borrowings.

(a) The Borrower agrees that it will not create, issue, incur, assume or guarantee: (i) any Short-Term Debt if thereby as of the date of such creation, issuance, incurring, assumption or guarantying the sum of Short-Term Debt and Funded Debt of the Borrower will exceed 85% of the sum of its Short-Term Debt, its Funded Debt, the value of its MARA and its capital stock and all surplus accounts (which term here and elsewhere herein includes the retained earnings account), unless any Short-Term Debt in excess of said 85% is subordinated to the Bonds as to claims for the payment of principal and interest thereunder (the limitations imposed by this subsection are not to apply to any renewal or extension of Short-Term Debt of the Borrower which was not in excess of said 85% when originally issued and such limitations to terminate upon the securing of the Bonds with first mortgage bonds pursuant to Section 507); or (ii) any new Funded Debt (A) if thereby the total outstanding Funded Debt of the Borrower will exceed the sum of its MARA and 85% of its Net Amount of Capital Properties and (B) unless Net Revenues shall equal for at least twelve (12) consecutive months of the fifteen (15) months next preceding the creation of any debt, one and one-tenth (1 1/10) times the maximum amount for which the Borrower will thereafter be obligated to pay in any year on

account of Funded Debt incurred on or after the Effective Date, including such new Funded Debt thereafter to be outstanding.

(b) The Bonds shall be ranked equally with other Funded Debt. Subject to Sections 505 and 507, no Funded Debt which is senior to the Bonds shall be issued as long as the Bonds are outstanding.

Section 507. First Mortgage Bonds . The Borrower, at its option, may at any time secure the Bonds with first mortgage bonds of the Borrower of a like principal amount, bearing interest at the same rate and maturing on the same date as the Bonds and registered in the name of and delivered to the Trustee, provided that the Borrower shall, prior to or at the time of such securing enter into an indenture of mortgage with a corporation organized and doing business under the laws of the United States or any State or territory thereof or the District of Columbia and authorized to exercise corporate trust powers, having a combined capital and surplus of at least \$25,000,000, as trustee for the holders of said bonds, which indenture shall convey to such trustee a first mortgage lien in substantially all of the Capital Properties of the Borrower as security for the payment of the bonds and the performance by the Borrower of its obligations under the indenture. The first mortgage bonds and indenture of mortgage shall contain terms and covenants substantially the same as the Bonds and this Agreement, respectively (allowing for differences in form and minor substance and with appropriate adjustments to reflect the different nature of the securities), shall be in such form and contain such provisions as are acceptable to the Trustee and as are customary for first mortgage bonds issued by corporations in the water utility industry and shall not restrict the Borrower in the operations of its business to any substantially greater extent than the Borrower is so restricted by the provisions of this Agreement and of the Bonds. Without limiting the generality of the foregoing, (i) the indenture of mortgage shall permit the issuance of additional first mortgage bonds thereunder, equally and ratably secured by the lien thereof, to the same extent as the Borrower is permitted to issue Funded Debt by the terms of this Agreement and the Bonds, and shall not limit the creation by the Borrower of indebtedness other than first mortgage bonds; and (ii) the indenture of mortgage shall not prohibit liens on Capital Properties of the Borrower junior to the lien of said indenture of mortgage. Notwithstanding anything herein to the contrary, the Borrower may not issue or permit to remain outstanding any first mortgage bonds unless all of the Bonds are fully secured by same.

(a) The Borrower shall give at least thirty (30) days written notice to the Trustee, by registered or certified mail, of the effective date of such securing of the Bonds with first mortgage bonds, specifying the effective date.

(b) Prior to or on the effective date of the issue of first mortgage bonds, and as a condition to the effectiveness of such issue, the indenture of mortgage shall be duly recorded, and financing statements shall be duly filed in respect thereof, to the extent required by law to perfect the lien of the mortgage in the Capital Properties, and the Borrower shall deliver to the trustee for the first mortgage bonds and the Trustee an opinion of counsel (who may be counsel to the Borrower) as to the validity and binding effect of the first mortgage bonds and indenture of mortgage and the title of the Borrower to its Capital Properties free and clear of all encumbrances except those permitted by the indenture of mortgage.

ARTICLE VI: DEFAULT AND REMEDIES

Section 601. Events of Default. “Event of Default” in this Agreement means any one of the following events:

(a) Debt Service. Any principal of or interest on any Bond shall not be paid or the Borrower shall fail to make any payment or prepayment required under Subsection 304(a) or Section 306, in each case within three days after the same becomes due and payable, whether at maturity, by acceleration, pursuant to any prepayment requirement or otherwise.

(b) Certain Obligations. The Borrower shall fail to make any other payment required hereunder to the Trustee or any Bondowner and such failure is not remedied within seven days after written notice thereof is given by the Trustee to the Borrower; or the Borrower shall fail to observe or perform any of its other obligations under this Agreement and such failure is not remedied within thirty days after notice thereof is given by the Trustee to the Borrower; *provided, however*, that no Event of Default shall be deemed to have occurred by reason of any failure by the Borrower to comply with the terms of Section 502 as long as Borrower is making all payments required to be made by Borrower to the Trustee under Section 304(a) or Section 306 as and when any such payments are required to be made.

(c) Representations. Any representation or warranty made by the Borrower herein or in any document or instrument furnished to the Bondowners in connection with the initial purchase of the Bonds or pursuant to this Agreement is false or misleading in any material respect on the date it was intended to be effective.

(d) Other Borrowings. The Borrower shall default in the payment of any material obligations aggregating at least \$1,000,000 for borrowed money or the deferred purchase of property, including without limitation leases which should be capitalized in accordance with generally accepted accounting principles and guarantees and other contingent obligations in respect of obligations for borrowed money of others, beyond any applicable grace period, or fail to observe or perform any provision contained in any instrument evidencing, relating to or securing any such obligation, which failure causes such obligation to become due prior to its stated maturity and such failure is not waived.

(e) Voluntary Bankruptcy. The Borrower shall commence a voluntary case under the federal bankruptcy laws, or shall admit in writing its insolvency or its inability to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its property or shall generally not pay its debts as they become due.

(f) Appointment of Receiver. A trustee, receiver, custodian or similar official or agent shall be appointed for the Borrower or any substantial part of its property.

(g) Involuntary Bankruptcy. The Borrower shall have an order or decree for relief in an involuntary case under the federal bankruptcy laws entered against it, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it

under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for sixty days.

(h) Judgments. One or more final judgments not subject to appeal or extension for payment of money exceeding in the aggregate \$500,000 in excess of the amount of insurance coverage available therefor shall be rendered against the Borrower and shall remain undischarged for a period of sixty days during which execution shall not be effectively stayed.

Section 602. Waiver . Any default and the consequences thereof, including any acceleration, may be waived by the Bondowners with notice to the Trustee and the Authority, provided that no such waiver shall affect the right of the Authority to enforce any of its rights hereunder which have not been assigned to the Trustee.

Section 603. Remedies for Events of Default _____. If an Event of Default exists, the Trustee may exercise any or all of the following remedies:

(a) Acceleration. The Trustee may, by written notice to the Borrower and the Authority declare immediately due and payable the then outstanding principal amount of the Bonds and the payments to be made by the Borrower therefor, and accrued interest or Make-Whole Amount, as applicable, on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice.

(b) Rights as a Secured Party. The Trustee may exercise all of the rights and remedies of a secured party under the UCC with respect to any property as to which a security interest has been granted hereunder which is or may be treated as collateral under the UCC.

(c) Court Proceedings. The Trustee may enforce the provisions of this Agreement by legal proceedings for the specific performance of any obligation contained herein or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach by the Borrower of the provisions hereof, including court costs, reasonable attorney's fees and other costs and expenses incurred in enforcing the obligations of the Borrower hereunder.

Section 604. Application of Money Collected _____. Any money collected by the Trustee pursuant to this Article together with any other funds pledged as security hereunder, less all charges and expenses of the Trustee and the Authority in connection therewith, shall be applied (i) to payment into the Rebate Fund of an amount equal to the difference, if any, between the amount then on deposit and the amount that would be required to be paid to the United States under Subsection 309(a) if the Bonds were paid in full, (ii) then as provided in Section 303 and (iii) then to the Borrower without interest except as may otherwise be required by law.

Section 605. Performance of the Borrower's Obligations _____. If the Borrower shall fail to pay or perform any obligation under this Agreement, the Trustee or the Authority may, but shall not be obligated to, pay or perform such obligation in its own name. The reasonable cost of any such action by the Trustee or the Authority shall be paid or reimbursed by the Borrower with interest at the rate specified in Section 702.

Section 606. Remedies Cumulative. The rights and remedies under this Agreement shall be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. The failure to insist upon a strict performance of any obligation of the Borrower or to exercise any remedy for any violation thereof shall not be taken as a waiver for the future of the right to insist upon strict performance by the Borrower or of the right to exercise any remedy for the same or any other violation.

ARTICLE VII: THE TRUSTEE

Section 701. Rights and Duties of the Trustee

(a) Moneys to be Held in Trust. All moneys deposited with the Trustee under this Agreement shall be held by the Trustee in trust and applied subject to the provisions of this Agreement, but need not be segregated from other funds except as required by law.

(b) Accounts. The Trustee will keep proper accounts of its transactions hereunder (separate from its other accounts), which shall be open to inspection by the Authority, the Borrower, any Bondowner and their representatives duly authorized in writing.

(c) Performance of the Authority's Obligations. If the Authority shall fail to perform any obligation under this Agreement, the Trustee may, but shall not be obligated to, take whatever legal proceedings may be required to compel full performance by the Authority thereof, and in addition, the Trustee may, but shall not be obligated to, to whatever extent it deems appropriate for the protection of the Bondowners, itself or the Borrower, perform any such obligation in the name of the Authority and on its behalf.

(d) Limitations on Actions. The Trustee shall not be required to monitor the financial condition of the Borrower or the physical condition of the Project and, unless otherwise expressly provided, shall not have any responsibility with respect to notices, certificates or other documents filed with it hereunder. Upon a failure of the Borrower to make a payment required of it under Subsection 304(a) within seven days after the same becomes due and payable, the Trustee shall give notice to the Bondowners. The Trustee shall not be required to take notice of any other breach or default except when given written notice thereof by the owners of at least twenty-five per cent in principal amount of the Outstanding Bonds. The Trustee shall give default notice under Subsection 601(b) when instructed to do so by the written direction of the owners of at least twenty-five per cent in principal amount of the Outstanding Bonds. The Trustee shall proceed under Sections 603 and 604 for the benefit of the Bondowners in accordance with the written direction of the owners of a majority in principal amount of the Outstanding Bonds. The Trustee shall not be required, however, to take any remedial action (other than the giving of notice) unless indemnity reasonably satisfactory to it is furnished for any expense or liability to be incurred therein. The Trustee shall be entitled to reimbursement pursuant to Section 702 to the extent that it acts without previously obtaining full indemnity.

Upon receipt of notice, direction, instruction and indemnity as provided above and after making such investigation, if any, as it deems appropriate to verify the occurrence of any event of which it is notified by the Bondowners, the Trustee will promptly pursue the remedy provided by this Agreement or any of such remedies (not contrary to any such direction) as it deems

appropriate for the protection of the Bondowners, and in its actions under this sentence, the Trustee will act for the protection of the Bondowners with the same promptness and prudence as would be expected of a prudent person in the conduct of such person's affairs.

(e) Responsibility. The Trustee shall be entitled to the advice of counsel (who may be counsel for any party or for any Bondowner) and shall be wholly protected as to any action taken or omitted to be taken in good faith in reliance on such advice. The Trustee may rely conclusively on any notice, certificate or other document furnished to it under this Agreement and reasonably believed by it to be genuine. The Trustee shall not be liable for any action taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or in good faith omitted to be taken by it and reasonably believed to be beyond such discretion or power, or taken by it pursuant to any direction or instruction by which it is governed under this Agreement or omitted to be taken by it by reason of the lack of direction or instruction required for such action under this Agreement or be responsible for the consequences of any error of judgment reasonably made by it. When any payment or consent or other action by the Trustee is called for by this Agreement, the Trustee may defer such action pending such investigation or inquiry or receipt of such evidence, if any, as it may require in support thereof. A permissive right or power to act shall not be construed as a requirement to act, and no delay in the exercise of a right or power shall affect the subsequent exercise thereof. The Trustee shall in no event be liable for the application or misapplication of funds, or for other acts or defaults, by any person or entity except by its own directors, officers and employees. The Trustee shall not be accountable for the use or application by the Borrower of any of the Bonds or the proceeds thereof or for the use or application of any money paid over by the Trustee in accordance with the provisions of this Agreement or for the use and application of money received by any paying agent. No recourse shall be had by the Borrower, the Authority or any Bondowner for any claim based on this Agreement or the Bonds against any director, officer, employee or agent of the Trustee unless such claim is based upon the bad faith, fraud or deceit of such person. For purposes of this Agreement, matters shall not be considered to be known to the Trustee unless they are known to an officer in its corporate trust department. None of the provisions of this Agreement shall require the Trustee to expend or risk its own funds or otherwise to incur any liability, financial or otherwise, in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not assured to it. The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents or receivers appointed with due care, and shall not be responsible for any willful misconduct or negligence on the part of any agent, attorney, custodian or nominee so appointed. The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds, except for any information provided by the Trustee, and shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds. Under no circumstances shall the Trustee assume any responsibility or liability for the issuance of the Bonds as obligations the interest on which is excludable from gross income for purposes of Federal income taxation or for the maintenance of such tax-exempt status subsequent to the date of issuance of the Bonds. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Trustee.

(f) Financial Obligations. Nothing contained in this Agreement shall in any way obligate the Trustee to pay any debt or meet any financial obligations to any person in relation to the Project except from moneys received under the provisions of this Agreement or from the exercise of the Trustee's rights hereunder.

(g) Ownership of Bonds. The Trustee or any affiliate of the Trustee may be or become the owner of Bonds with the same rights as if it were not Trustee.

(h) Surety Bond. The Trustee shall not be required to furnish any bond or surety.

Section 702. Fees and Expenses of the Trustee _____. Except to the extent the Trustee has been paid or reimbursed from the Project Fund, the Borrower will pay to the Trustee reasonable compensation for its services and prepay or reimburse the Trustee for its reasonable expenses and disbursements, including attorney's fees, hereunder. Any fees, expenses, reimbursements or other charges which the Trustee may be entitled to receive from the Borrower hereunder, if not paid when due, shall bear interest at the "Base Rate" of The Bank of New York Mellon Trust Company, N.A., and if not otherwise paid, shall be a first lien upon any moneys or other property then or thereafter held hereunder by the Trustee. The Trustee may apply any such moneys to any of the foregoing items, and immediately upon such application, the Borrower shall be obligated to restore the moneys so applied.

Section 703. Resignation or Removal of the Trustee _____. The Trustee may resign on not less than thirty days' written notice to the Authority, the Borrower and the Bondowners, but such resignation shall not take effect until a successor has been appointed. If no successor is appointed within sixty days after the date of notice of resignation, the Trustee may appoint its own successor with notice to the Authority, the Bondowners and the Borrower, provided such successor meets the qualifications under Section 704. The Trustee may be removed by thirty days' written notice from the Bondowners to the Trustee, the Authority and the Borrower.

Section 704. Successor Trustee _____. Any corporation or association which succeeds to the corporate trust business of the Trustee as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, shall thereby become vested with all the property, rights and powers of the Trustee under this Agreement, without any further act or conveyance.

In the event of the resignation or removal of the Trustee or a vacancy from any other cause, a successor may be appointed by written notice from the Bondowners to the Authority and the Borrower. Any successor Trustee appointed under this section shall be a bank or trust company eligible to serve as Trustee under the Act having a capital and surplus of not less than \$75,000,000. Any such successor Trustee shall notify the Authority, the Borrower and the Bondowners of its acceptance of the appointment and, upon giving such notice, shall become Trustee, vested with all the property, rights and powers of the Trustee hereunder, without any further act or conveyance. Such successor Trustee shall execute, deliver, record and file such instruments as are required to confirm or perfect its succession hereunder, and any predecessor Trustee shall from time to time execute, deliver, record and file such instruments as the incumbent Trustee may reasonably require to confirm or perfect any succession hereunder.

ARTICLE VIII: THE AUTHORITY

Section 801. Limited Obligation. Under no circumstances shall the Authority be obligated directly or indirectly to pay principal of and interest on the Bonds, or expenses of operation, maintenance and upkeep of the Project except from Bond proceeds or from funds received under this Agreement, exclusive of funds received hereunder by the Authority for its own use. This Agreement does not create any debt of the State with respect to the Project other than a special obligation of the Authority acting on behalf of the State pursuant to the Act. Nothing contained herein shall in any way obligate the State to raise any money by taxation or use other public funds for any purpose in relation to the Project. Neither the State nor the Authority shall pay or promise to pay any debt or meet any financial obligation to any person at any time in relation to the Project except (i) from moneys received or to be received under the provisions hereof or derived from the exercise of the Authority's rights hereunder, other than moneys received for its own purposes, or (ii) as may be required by law other than the provisions of the Act. Nothing contained in this Agreement shall be construed to require or authorize the Authority to operate the Project itself or to conduct any business enterprise in connection therewith.

Section 802. Rights and Duties of the Authority

(a) Remedies of the Authority. Notwithstanding any contrary provision in this Agreement, the Authority shall have the right to take any action or make any decision with respect to proceedings for indemnity against the liability of the Authority and for collection or reimbursement from sources other than moneys or property held under this Agreement or subject to the lien hereof. The Authority may enforce its rights under this Agreement which have not been assigned to the Trustee by legal proceedings for the specific performance of any obligation contained herein or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach by the Borrower of its obligations to the Authority under this Agreement, including court costs, reasonable attorney's fees and other costs and expenses incurred in enforcing such obligations.

(b) Limitations on Actions. The Authority shall not be required to monitor the financial condition of the Borrower or the physical condition of the Project and, unless otherwise expressly provided, shall not have any responsibility with respect to notices, certificates or other documents filed with it hereunder. The Authority shall not be required to take notice of any breach or default except when given notice thereof by the Trustee or the Bondowners, as the case may be. The Authority shall not be responsible for the payment of any rebate to the United States under IRC §148(f), except that it shall pay any required rebate with respect to moneys and investments held for its own account. Notwithstanding the foregoing sentence, the Authority shall not be liable to any party hereto, any Bondowner, or any other person for damages incurred by them as a consequence of the Authority's failure to pay any such rebate to the United States. The Authority shall not be required to take any action unless indemnity reasonably satisfactory to it is furnished for expenses or liability to be incurred therein (other than the giving of notice). The Authority, upon written request of the Bondowners or the Trustee, and upon receipt of reasonable indemnity for expenses or liability, shall cooperate to the extent reasonably necessary to enable the Trustee to exercise any power granted to the Trustee

by this Agreement. The Authority shall be entitled to reimbursement pursuant to Section 903 to the extent that it acts without previously obtaining full indemnity.

(c) Responsibility. The Authority shall be entitled to the advice of counsel (who may be counsel for any party or for any Bondowner) and shall be wholly protected as to any action taken or omitted to be taken in good faith in reliance on such advice. The Authority may rely conclusively on any notice, certificate or other document furnished to it under this Agreement and reasonably believed by it to be genuine. The Authority shall not be liable for any action taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or in good faith omitted to be taken by it and reasonably believed to be beyond such discretion or power, or taken by it pursuant to any direction or instruction by which it is governed under this Agreement or omitted to be taken by it by reason of the lack of direction or instruction required for such action under this Agreement, or be responsible for the consequences of any error of judgment reasonably made by it. When any payment, consent or other action by the Authority is called for by this Agreement, the Authority may defer such action pending such investigation or inquiry or receipt of such evidence, if any, as it may require in support thereof. A permissive right or power to act shall not be construed as a requirement to act, and no delay in the exercise of a right or power shall affect the subsequent exercise thereof. The Authority shall in no event be liable for the application or misapplication of funds, or for other acts or defaults by any person or entity except by its own directors, officers and employees. No recourse shall be had by the Borrower, the Trustee or any Bondowner for any claim based on this Agreement or the Bonds against any director, officer, employee or agent of the Authority unless such claim is based upon the bad faith, fraud or deceit of such person. No covenant, obligation or agreement of the Authority contained in this Agreement shall be deemed to be a covenant, obligation or agreement of any present or future director, officer, employee or agent of the Authority in his individual capacity, and no person executing a Bond shall be liable personally thereon or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 803. Expenses of the Authority. Except to the extent paid or reimbursed from the Project Fund, the Borrower shall pay when due the Authority's Service Charge and shall prepay or reimburse the Authority within thirty days after notice for all expenses (including reasonable attorney's fees) incurred by the Authority in connection with the issuance and carrying of the Bonds and all expenses reasonably incurred or advances reasonably made in the exercise of the Authority's rights or the performance of its obligations hereunder. Any fees, expenses, reimbursements or other charges which the Authority may be entitled to receive from the Borrower hereunder, if not paid when due, shall bear interest at the rate specified in Section 802.

Section 804. Matters to be Considered by Authority. In approving, concurring in or consenting to action or in exercising any discretion or in making any determination under this Agreement, the Authority may consider the interests of the public, which shall include the anticipated effect of any transaction on tax revenues and employment, as well as the interests of the other parties hereto and the Bondowners; provided, however, nothing herein shall be construed as conferring on any person other than the other parties and the Bondowners any right to notice, hearing or participation in the Authority's consideration, and nothing in this section shall be construed as conferring on any of them any right additional to those conferred elsewhere

herein. Subject to the foregoing, the Authority will not unreasonably withhold any approval or consent to be given by it hereunder.

Section 805. Actions by Authority . Any action which may be taken by the Authority hereunder shall be deemed sufficiently taken if taken on its behalf by its Chairman, its Vice Chairman or its Executive Director or by any other member, officer or agent whom it may designate from time to time.

ARTICLE IX: THE BONDOWNERS

Section 901. Action by Bondowners . Any request, authorization, direction, notice, consent, waiver or other action provided by this Agreement to be given or taken by the Bondowners shall, except as otherwise expressly provided, require the concurrence of the registered owners of Bonds representing more than fifty per cent of the Outstanding principal amount of the Bonds and may be contained in and evidenced by one or more writings of substantially the same tenor signed by such Bondowners or their authorized representatives. In taking or refraining from any such actions, each Bondowner may act in its sole and absolute discretion. Proof of the execution of any such instrument, or of an instrument appointing any such attorney, shall be sufficient for any purpose of this Agreement (except as otherwise herein expressly provided) if made in the following manner, but the Authority or the Trustee may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(i) The fact and date of the execution by any Bondowner or his attorney of such instrument may be proved by the certificate, which need not be acknowledged or verified, of an officer of a bank or trust company satisfactory to the Authority or to the Trustee or of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

(ii) The authority of the person or persons executing any such instrument on behalf of a corporate Bondowner may be established without further proof if such instrument is signed by a person purporting to be the president or a vice president of such corporation with a corporate seal affixed and attested by a person purporting to be its clerk or secretary or an assistant clerk or secretary.

The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registration books.

Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond. Bonds owned or held by or for the account of the Authority or the Borrower shall not be deemed Outstanding Bonds for the purpose of any consent or other action by Bondowners.

Section 902. Proceedings by Bondowners . No Bondowner shall have any right to institute any legal proceedings for the enforcement of this Agreement or any remedy hereunder

unless an Event of Default has occurred and is continuing of which the Trustee is required to take notice under Subsection 701(d), the Bondowners have directed the Trustee to act and furnished the Trustee indemnity as provided therein and have afforded the Trustee reasonable opportunity to proceed, and the Trustee shall thereafter fail or refuse to take such action. Subject to the foregoing, any Bondowner may by any available legal proceedings enforce and protect its rights hereunder and under the laws of the State.

ARTICLE X: MISCELLANEOUS

Section 1001. Amendment . This Agreement may be amended by the parties but without Bondowner consent for any of the following purposes: (a) to subject additional property to the lien of this Agreement; (b) to add to the obligations of the Borrower or to surrender or limit any right or power of the Borrower; or (c) to cure any ambiguity or defect, or to add provisions which are not inconsistent with this Agreement and which in either case do not materially adversely affect the interests of the Bondowners.

Except as provided in the foregoing sentence, this Agreement may be amended by the parties only with the written consent of the Bondowners holding a majority in outstanding principal amount of; provided, however, no amendment of this Agreement may be made without the unanimous written consent of the affected Bondowners for any of the following purposes: (1) to extend the maturity of any Bond, (2) to reduce the principal amount or interest rate of any Bond, (3) to make any Bond prepayable other than in accordance with the terms hereof, (4) to create a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (5) to reduce the percentage of the outstanding principal amount of the Bonds required to be represented by the Bondowners giving their consent to any amendment.

In connection with any amendment entered into pursuant to this Section 1001, the Trustee shall receive a legal opinion from Bond Counsel, upon which the Trustee may conclusively rely, that the amendment entered into is authorized or permitted by the terms of this Agreement in compliance with all conditions precedent.

Section 1002. Successors and Assigns . The rights and obligations of the parties to this Agreement shall inure to and be binding upon their respective successors and permitted assigns.

Section 1003. Notices . Any request, authorization, direction, notice, consent, waiver or other document provided by this Agreement shall be in writing and shall be deemed sufficiently given if sent by registered or certified mail, postage prepaid, or delivered during business hours as follows: (i) to the Authority at Two Pillsbury Street, Suite 201, Concord, New Hampshire 03301-4954 attention of Executive Director, (ii) to the Trustee at The Bank of New York Mellon Trust Company, N.A., Attn: Corporate Trust, 135 Santilli Highway, AIM 026-0018, Everett, Massachusetts 02149, (iii) to the Borrower at 25 Manchester Street, Merrimack, New Hampshire 03054, attention of Treasurer, and (iv) to the Bondowners at their addresses appearing in the bond register, or, as to all of the foregoing, to such other address as the addressee shall have given in writing to the one giving notice. Notice hereunder may be waived

prospectively or retroactively by the person entitled to the notice, but no waiver shall affect any notice requirement as to other persons. All notices shall be effective upon receipt.

The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions (“Instructions”) given pursuant to this Agreement and delivered using Electronic Means; provided, however, that the Authority or the Borrower, as the case may be, shall provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions (“Authorized Officers”) and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the Authority or the Borrower, as the case may be, whenever a person is to be added or deleted from the listing. If the Authority or the Borrower, as the case may be, elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee’s understanding of such Instructions shall be deemed controlling. The Authority and the Borrower each understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The Authority and the Borrower, as the case may be, shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the Authority and the Borrower, as the case may be, and all respective Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Authority and the Borrower, as the case may be. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The Authority and the Borrower each agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Authority or the Borrower, as the case may be; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

“Electronic Means” shall mean the following communications methods: S.W.I.F.T., e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder.

Section 1004. Agreement Not for the Benefit of Other Parties. This Agreement is not intended for the benefit of and shall not be construed to create rights in parties other than the Authority, the Borrower, the Trustee, the Paying Agent and the Bondowners.

Section 1005. Severability . In case any provision of this Agreement or the Bonds shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1006. Counterparts . This Agreement may be executed and delivered in any number of counterparts, each of which shall be deemed to be an original; but such counterparts together shall constitute one and the same instrument.

Section 1007. Captions . The captions and table of contents of this Agreement are for convenience only and shall not affect the construction hereof.

Section 1008. Governing Law . This Agreement shall be governed by the laws of the State.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed under seal as of the date stated above.

BUSINESS FINANCE AUTHORITY (SEAL)
OF THE STATE OF NEW HAMPSHIRE

By: _____
Executive Director

PENNICHUCK WATER WORKS, INC. (SEAL)

By: _____
Title:

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Trustee (SEAL)

By: _____
Title:

EXHIBIT A

Requisition No. __

Business Finance Authority of the State of New Hampshire
Water Facility Revenue Bonds
(Pennichuck Water Works, Inc. Project) Series 2018A

REQUISITION FOR PAYMENT FROM PROJECT FUND

To: The Bank of New York Mellon Trust Company, N.A., as Trustee (the “Trustee”) under the Loan and Trust Agreement dated as of March 1, 2018 (the “Agreement”) among the Business Finance Authority of the State of New Hampshire (the “Authority”), Pennichuck Water Works, Inc. (the “Borrower”) and the Trustee.

This requisition is made pursuant to Section 402 of the Agreement. Terms used in this requisition shall have the meanings specified for them in the Agreement.

The Trustee is hereby authorized and directed to make payment from the Project Fund for Project Costs or indebtedness incurred to pay Project Costs as follows:

| <u>Amount of Payment/Reimbursement</u> | <u>Nature of Goods/Property/Services</u> | <u>Name and Address of Payee</u> |
|--|--|----------------------------------|
|--|--|----------------------------------|

The undersigned Borrower Representative hereby certifies to you in connection with such payment requested by this requisition as follows:

1. After giving effect to the payment of the requisition, the use of all funds disbursed from the Project Fund complies with the limitations contained in the Federal Tax Statement.
2. Such payment or reimbursement is for Series A Project Costs and the obligations have not been the basis for a prior requisition which has been paid.
3. No Event of Default hereunder and no event or condition which, after notice or lapse of time or both, would become an Event of Default hereunder exists.

4. The payment or reimbursement requested by the requisition is due for work actually performed or materials or property actually supplied prior to the date of the requisition.

Dated: _____

PENNICHUCK WATER WORKS, INC.

By: _____
Borrower Representative

§ _____
**BUSINESS FINANCE AUTHORITY OF THE STATE OF NEW HAMPSHIRE
WATER FACILITY REVENUE BONDS
(PENNICHUCK WATER WORKS, INC. PROJECT) SERIES 2018A**

§ _____
**BUSINESS FINANCE AUTHORITY OF THE STATE OF NEW HAMPSHIRE
WATER FACILITY REVENUE BONDS
(PENNICHUCK WATER WORKS, INC. PROJECT)
SERIES 2018B (FEDERALLY TAXABLE)**

BOND PURCHASE AGREEMENT

The Business Finance Authority
of the State of New Hampshire
2 Pillsbury Street, Suite 201
Concord, New Hampshire 03301

Pennichuck Water Works, Inc.
25 Manchester Street
Merrimack, New Hampshire 03054

The undersigned, TD Securities (USA) LLC (the “Underwriter”), offers to enter into the following agreement with The Business Finance Authority of the State of New Hampshire (the “Authority”) and Pennichuck Water Works, Inc. (the “Borrower”), which, upon acceptance of this offer by the Authority and the Borrower, will be binding upon the Authority and the Borrower and upon the Underwriter. This offer is made subject to acceptance of this Bond Purchase Agreement by the Authority and the Borrower on or before 5:00 p.m., Boston, Massachusetts time, on the date set forth in item 1 of **Schedule A** attached hereto (the “date hereof”). Terms used herein and not otherwise defined shall have the same meanings assigned to them in the Official Statement (as hereinafter defined).

1. Purchase Price. Upon the terms and conditions and upon the basis of the respective representations, warranties and covenants set forth herein, the Underwriter hereby agrees to purchase from the Authority for offering to the public and the Authority hereby agrees to sell and deliver to the Underwriter, all (but not less than all) of (i) the Authority’s Water Facility Revenue Bonds (Pennichuck Water Works, Inc. Project), Series 2018A (the “Series 2018A Bonds”) and (ii) the Authority’s Water Facility Revenue Bonds (Pennichuck Water Works, Inc. Project), Series 2018B (the “Series 2018B Bonds” and collectively with the Series 2018A Bonds, the “Series 2018 Bonds”) on the date set forth in item 4 of **Schedule A** for the Series 2018A Bonds and item 4 of **Schedule B** for the Series 2018B Bonds attached hereto or such other date as shall have been mutually agreed upon by the parties hereto (the “Date of the Closing”). The Series 2018 Bonds will be issued pursuant to a Loan and Trust Agreement dated as of March 1, 2018 (the

“Agreement”), by and among the Authority, the Borrower and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The aggregate principal amount of the Series 2018A Bonds, the date of the Series 2018A Bonds, the dates of maturity of the Series 2018A Bonds, the principal amount of the Series 2018A Bonds due on each maturity, the interest rates per annum for the Series 2018A Bonds due on each maturity, the public offering prices and yields of, and the optional redemption terms for the Series 2018A Bonds are set forth in item 2 of **Schedule A** attached hereto. The aggregate principal amount of the Series 2018B Bonds, the date of the Series 2018B Bonds, the dates of maturity of the Series 2018B Bonds, the principal amount of the Series 2018B Bonds due on each maturity, the interest rates per annum for the Series 2018B Bonds due on each maturity, the public offering prices and yields of, and the optional redemption terms for the Series 2018B Bonds are set forth in item 2 of **Schedule B** attached hereto. The Series 2018 Bonds shall be subject to redemption as set forth in the Official Statement dated March __, 2018, (the “Official Statement”) relating to the Series 2018 Bonds and shall in all other respects be the same Bonds described in the Official Statement. The purchase price to be paid by the Underwriter for the Series 2018A Bonds shall be as set forth in item 3 of **Schedule A** attached hereto. The purchase price to be paid by the Underwriter for the Series 2018B Bonds shall be as set forth in item 3 of **Schedule B** attached hereto.

2. The Financing Documents. On the date hereof, the Authority and the Borrower shall deliver to the Underwriter a copy of the form of the Agreement and the Continuing Disclosure Agreement dated March __, 2018 (the “Continuing Disclosure Agreement”), intended to be executed between the Borrower and the Trustee (the Continuing Disclosure Agreement, the Agreement, and this Bond Purchase Agreement are collectively referred to as the “Financing Documents”).

3. Public Offering. The Underwriter agrees to make a bona fide public offering of all the Series 2018 Bonds at a price not in excess of the respective public offering prices nor below the yields, as applicable, set forth in item 2 of **Schedule A** for the Series 2018A Bonds and in item 2 of **Schedule B** for the Series 2018B Bonds attached hereto. On or before the Date of the Closing, the Underwriter shall furnish to the Authority a certificate acceptable to Hinckley, Allen & Snyder LLP (“Bond Counsel”), signed by the Underwriter setting forth the issue prices of and the calculation of the yield on the Series 2018 Bonds for purposes of Section 148 of the Internal Revenue Code of 1986 (the “Code”) and stating that the Authority, the Borrower and Bond Counsel may rely on such certification for purposes of determining compliance with Section 103 of the Code.

4. Official Statement. In order to enable the Underwriter to comply with Rule 15c2-12 under the Securities Exchange Act of 1934 (the “Rule”) and rules of the Municipal Securities Rulemaking Board (the “MSRB”), the Borrower shall provide to the Underwriter sufficient copies of the Official Statement, which the Authority (only with respect to the statements therein with respect to the Authority under the captions “THE AUTHORITY” and “LITIGATION” (solely as it pertains to the Authority)) and the Borrower (with respect to all other statements therein) deem final as of its date, in sufficient time to accompany any confirmation that requires payment from any customer and in any event within seven (7) business days after the date of this Bond Purchase Agreement and in no event later than two (2) business days prior to the Date of the Closing. The Authority and the Borrower hereby authorize the use of the Official Statement by the Underwriter in connection with the public offering and sale of the Series 2018 Bonds. The

Authority and the Borrower hereby ratify and confirm the use by the Underwriter prior to the date hereof of the Preliminary Official Statement dated March __, 2018, (the “Preliminary Official Statement”) in connection with the public offering of the Series 2018 Bonds. The final Official Statement shall be substantially the same (except for insertions, deletions and changes contemplated in the Preliminary Official Statement and this Bond Purchase Agreement) as the Preliminary Official Statement and shall contain only those substantive changes as are approved by the Underwriter, which approval shall not be unreasonably withheld. The Preliminary Official Statement, as of its date, was deemed final (i) by the Authority (but only with respect to the statements therein with respect to the Authority under the captions “THE AUTHORITY” and “LITIGATION” (solely as it pertains to the Authority)) and (ii) by the Borrower (with respect to all other statements therein) for purposes of the Rule, except for permitted omissions set forth in the Rule.

The Underwriter agrees to provide a certificate at Closing (as defined herein) stating that it has filed a copy of the Official Statement with the MSRB in accordance with the Rule and stating whether or not the Underwriter retains any unsold balance of Series 2018 Bonds for sale to the public. In the event that it does so retain for sale to the public any such Bonds as of the Closing, the Underwriter agrees to promptly notify the Authority and the Borrower of the date on which the Underwriter no longer retains any unsold balance of the Series 2018 Bonds for sale to the public.

5. Authority’s Representations and Warranties. The Authority hereby represents and warrants to, and agrees with each of the Borrower and the Underwriter as follows, all of which shall survive the Closing:

(a) The Authority is a body corporate and politic, created and existing under New Hampshire RSA 162-A with the power to issue revenue bonds under RSA 162-I (collectively, the “Act”). The Authority is authorized to issue the Bonds and loan the proceeds to the Borrower for the purpose of financing certain facilities used for the furnishing of water, to execute and deliver this Bond Purchase Agreement and the Agreement, to perform its obligations under each, and to issue and sell the Series 2018 Bonds pursuant hereto and to the Agreement.

(b) The Authority has taken all necessary action and has complied with all provisions of the Constitution and laws of the State of New Hampshire, including the Act, including but not limited to the making of the findings required by the Act, required to make this Bond Purchase Agreement, the Agreement and the Series 2018 Bonds the valid obligations they purport to be; and when executed and delivered by the parties hereto and thereto, this Bond Purchase Agreement and the Agreement will constitute legal, valid and binding agreements of the Authority and will be enforceable against the Authority in accordance with their respective terms, except as enforceability may be subject to the exercise of judicial discretion in accordance with general equitable principles and to applicable bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors heretofore or hereafter enacted to the extent that the same may be constitutionally applied and except as any indemnification or contribution provisions thereof may be limited under applicable securities laws.

(c) When delivered to and paid for by the Underwriter in accordance with the terms of this Bond Purchase Agreement and the Agreement, the Series 2018 Bonds will constitute legal, valid and binding special obligations of the Authority enforceable against the Authority in

accordance with their terms, except as enforceability may be subject to the exercise of judicial discretion in accordance with general equitable principles and to applicable bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors heretofore or hereafter enacted to the extent that the same may be constitutionally applied, and will be entitled to the benefits of the Agreement.

(d) The Authority makes no representation or warranty that interest on the Series 2018 Bonds is or will continue to be exempt from federal or state income taxation.

(e) If, after the date of this Bond Purchase Agreement and until the earlier of (i) ninety (90) days after the Date of the Closing or (ii) the time when the Official Statement is available to any person from the MSRB, but in no case less than twenty-five (25) days after the Date of the Closing, provided, however, that if the Underwriter provides a certificate on the Date of the Closing stating that it still holds Series 2018 Bonds for distribution to the public then such foregoing periods shall be extended until twenty-five (25) days after the “end of the underwriting period” (as such phrase is defined in the Rule), the Authority becomes aware of any event that would cause the information appearing (i) under the caption “THE AUTHORITY” or (ii) under the caption “LITIGATION” (solely as it pertains to the Authority) in the Official Statement to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Authority agrees to notify the Underwriter (and for purposes of this paragraph to provide the Underwriter with such information as it may from time to time request), and if in the opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, at the Borrower’s expense to supplement or amend the Official Statement in a form and manner approved by the Underwriter, the Authority and the Borrower and to furnish at the Borrower’s expense to the Underwriter a reasonable number of copies of such supplement or amendment.

(f) With respect to information therein under the headings “THE AUTHORITY” and “LITIGATION,” insofar as the information under such caption relates solely to the Authority, the Official Statement is as of the date hereof and will be as of the Date of the Closing true, correct and complete in all material respects and did not, does not and will not omit any material statement which should be included therein for the purpose for which the Official Statement is to be used, or which is necessary to make the statements as to such matters contained therein not misleading in light of the circumstances in which they were made. The Authority has assumed no responsibility for providing or reviewing any information contained in the Official Statement other than under the captions “THE AUTHORITY” and “LITIGATION” insofar as they relate to the Authority.

(g) The Authority will, but at the expense of the Underwriter, furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request to qualify the Series 2018 Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; provided, however, that the Authority will not be required to qualify as a foreign corporation or to file any general or special consents to service of process under the laws of any state.

6. Borrower Representations and Warranties. As an inducement to the Authority and the Underwriter to enter into this Bond Purchase Agreement and to make the offering of the Series 2018 Bonds herein contemplated, the Borrower hereby represents, warrants and agrees with each of the Authority and the Underwriter as follows, all of which shall survive the Closing:

(a) The Borrower is a corporation formed, in existence and in good standing under the laws of the State of New Hampshire. The Borrower is a “water facility” and an “eligible facility” within the meaning of the Act and has the corporate power and authority to execute and deliver the Financing Documents and to undertake and perform its obligations thereunder.

(b) The Borrower has duly authorized all necessary action to be taken by it for: (i) the loan to the Borrower of the proceeds from the issuance and delivery of the Series 2018 Bonds by the Authority upon the terms set forth in this Bond Purchase Agreement and in the Official Statement; (ii) the approval of the Preliminary Official Statement and the Official Statement and the use by the Underwriter of the Preliminary Official Statement and the Official Statement in connection with the sale of the Series 2018 Bonds; and (iii) the execution, delivery and performance by the Borrower of and under the Financing Documents and any and all such other agreements and documents as may be required to be executed, delivered and received by the Borrower in order to carry out the transactions contemplated by such instruments and by the Official Statement. On the Date of the Closing, the Financing Documents will have been duly executed and delivered by the Borrower and, assuming the due authorization, execution and delivery of such instruments by the other parties thereto and their authority to perform such instruments, will constitute legal, valid and binding obligations of the Borrower enforceable in accordance with their respective terms, except as the enforceability thereof may be limited by laws relating to bankruptcy, insolvency, reorganization or other similar laws of general application affecting the rights of creditors and general principles of equity and except as any indemnification or contribution provisions thereof may be limited under applicable securities laws.

(c) The execution and delivery of, and compliance with the terms and conditions of, the Financing Documents, and the carrying out and consummation of the transactions contemplated thereby and by the Official Statement, did not at the time of such execution and delivery, do not and will not violate or conflict with any of the terms and provisions of any statute, or any rule, order, regulation, judgment or decree of any court, agency, or other governmental or administrative board or body to which the Borrower is subject, or conflict with or constitute a breach of or a default under any provision of the Borrower’s articles of organization or by-laws, or any material agreement, indenture, mortgage, lease, deed of trust, or other instrument to which the Borrower is a party or by which the Borrower or its properties are bound, except for violations, conflicts, breaches or defaults that would not have a material adverse effect on the Borrower.

(d) The information under the headings “INTRODUCTION” (with respect to the Borrower and the Project), “PLAN OF FINANCING,” “SOURCES AND USES OF FUNDS,” “BONDOWNERS’ RISKS” (as such statements relate to the Borrower or the Project), “LITIGATION” (with respect to the Borrower), “CONTINUING DISCLOSURE” (with respect to the Borrower), “MISCELLANEOUS” (with respect to the Borrower’s financial statements) and in Appendices A and B of the Official Statement is, as of the date hereof, and will be, as of the Date of the Closing, true and correct in all material respects and did not, does not and will not omit to

state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Borrower has approved and consents to the use of the Preliminary Official Statement and the Official Statement by the Underwriter.

(e) The Borrower has previously complied with any undertaking in a written contract or agreement of the type specified in paragraph (b)(5)(i) of the Rule.

(f) Since December 31, 2017, there has been no material adverse change in the financial position of the Borrower not disclosed in writing to the Underwriter, nor has the Borrower incurred any material liabilities other than liabilities that have been incurred in the ordinary course of business or that are set forth in or contemplated by the Official Statement.

7. Covenants of the Borrower. The Borrower covenants and agrees with the Authority and the Underwriter as follows:

(a) If either during (i) the period between the date of this Bond Purchase Agreement and the Date of the Closing or (ii) the period between the Date of the Closing and the date ninety (90) days after the end of the underwriting period (as defined in the Rule) (or, if earlier, the date by which the Official Statement is available to any person from the MSRB, but in no event less than twenty-five (25) days after the end of the underwriting period (as defined in the Rule)), any event shall occur as a result of which it is necessary to amend or supplement the Official Statement in order to make the statements therein, in light of the circumstances when the Official Statement is delivered to a prospective purchaser true and correct in all material respects and with no omission of material facts necessary to make the statements therein, in light of the circumstances in which they were made not misleading, the Borrower will cooperate in the preparation of a revised Official Statement or amendments or supplements to the Official Statement so that the statements in the Official Statement, as revised, or the Official Statement, as so amended or supplemented, will not, in light of the circumstances when such Official Statement is delivered to a prospective purchaser, be misleading. As required by Section 4 hereof, the Underwriter shall promptly notify the Borrower (i) if the date of the end of the underwriting period (as defined in the Rule) is more than ninety (90) days after the Closing Date, and (ii) regardless of the notice in clause (i) of this sentence, the date that is the end of the underwriting period. In the absence of such notice, the Borrower shall deem the end of the underwriting period to be ninety (90) days after the Date of the Closing; The Borrower will cooperate with the Underwriter and its counsel in any endeavor to qualify the Series 2018 Bonds for offering and sale under the securities or "Blue Sky" laws of such jurisdictions of the United States as the Underwriter may request; provided, however, that the Borrower shall not be required to qualify as a foreign corporation or to file a general written consent to suit or service of process in any jurisdiction;

(b) between the date hereof and the Date of the Closing, the Borrower will not take any action that would cause the representations and warranties contained in Section 6 of this Bond Purchase Agreement to be untrue as of the Date of the Closing. On the Date of the Closing, the Borrower shall deliver or cause to be delivered all opinions, certificates and other documents to be delivered by it or on its behalf as provided for in this Bond Purchase Agreement, and to deliver such additional certificates and other documents as the Underwriter or the Authority may reasonably request to evidence performance of or compliance with the provisions of this Bond Purchase Agreement and the transactions contemplated by the Official Statement, and the

Financing Documents, all such certificates and other documents to be reasonably satisfactory in form and substance to the Underwriter and the Authority;

(c) in order to permit the Underwriter to satisfy its obligations under Section 4 of this Bond Purchase Agreement, the Borrower will furnish to the Underwriter copies of the Official Statement and any amendments and supplements thereto, in each case as soon as practicable, but in any event in the case of the Official Statement within seven (7) Business Days of the date of this Bond Purchase Agreement and in no event less than two (2) business days prior to Closing, which copies shall be furnished at a minimum in such quantities as shall be reasonably requested by the Underwriter to fulfill its obligations under paragraph (b)(4) of Rule 15c2-12;

(d) the Borrower shall indemnify and hold harmless (except to the extent, if any, that a court of competent jurisdiction determines that such agreement to indemnify and hold harmless is not enforceable as a result of being contrary to law or public policy) the Authority, each officer, director, employee and agent of the Authority and each person, if any, who controls (as such term is defined in Section 15 of the Securities Act of 1933, as amended (the "Securities Act"), or Section 20 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) any of such parties (hereinafter collectively called the "Authority Indemnified Parties"), against any and all losses, claims, damages, liabilities, costs or expense whatsoever arising out of: (i) any breach by the Borrower of any of its representations and warranties as set forth in Section 6 hereof; and (ii) any allegation that there is as of the date hereof or as of the Date of the Closing any untrue statement of a material fact contained in the Indemnified Information (as defined below) or the omission therefrom of any material fact necessary in order to make the statements made in light of the circumstances under which they were made not misleading. In case any claim shall be made or action brought against one or more of the Authority Indemnified Parties, in respect of which indemnity may be sought against the Borrower, the Authority Indemnified Party or Parties shall promptly notify the Borrower in writing setting forth the particulars of such claim or action and the Borrower shall assume the defense thereof including the retention of counsel and the payment of all reasonable expenses. The Authority Indemnified Party or Parties shall have the right to retain separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Authority Indemnified Party unless (1) the retention of such counsel has been specifically authorized by the Borrower, (2) the Authority Indemnified Party shall have reasonably concluded that there may be a conflict of interest between it and the Borrower in the conduct of the defense of such action, or (3) the Borrower shall not in fact have employed counsel reasonably satisfactory to such Authority Indemnified Party. For the purposes of this paragraph and the next succeeding paragraph, the term "Indemnified Information" shall mean the statements and information contained in the Official Statement under the captions: "INTRODUCTION" (with respect to the Borrower and the Project), "PLAN OF FINANCING," "SOURCES AND USES OF FUNDS," "BONDOWNERS' RISKS" (as such statements relate to the Borrower or the Project), "LITIGATION" (with respect to the Borrower), "CONTINUING DISCLOSURE" (with respect to the Borrower), "MISCELLANEOUS" (with respect to the Borrower's financial statements) and in Appendices A and B, except for any projections and opinions of any entity other than the Borrower. The Borrower shall not be liable for any settlement of such action effected without its consent, but if settled with the consent of the Borrower, or if there is final judgment for the plaintiff in any such action with or without consent, the Borrower agrees to indemnify and hold harmless the Authority Indemnified Party or Parties from and against any loss or liability by reason of settlement or judgment to the extent set forth in this paragraph.

The indemnity provided in this paragraph includes reimbursement for expenses reasonably incurred by the Authority Indemnified Parties in investigating the claim and in defending it if the Borrower declines to assume the defense. The indemnity provided in this paragraph shall survive the Closing (as defined in Section 9 hereof); and

(e) the Borrower shall indemnify and hold harmless (except to the extent, if any, that a court of competent jurisdiction determines that such agreement to indemnify and hold harmless is not enforceable as a result of being contrary to law or public policy) the Underwriter, each officer, director, employee and agent of the Underwriter and each person, if any, who controls (as such term is defined in Section 15 of the Securities Act or Section 20 of the Exchange Act) any of such parties (hereinafter collectively called the “Underwriter Indemnified Parties”), against any and all losses, claims, damages, liabilities, costs or expense whatsoever arising out of: (i) any breach by the Borrower of any of its representations and warranties as set forth in Section 6 hereof; or (ii) any allegation that there is any untrue statement of a material fact contained in the Indemnified Information or the omission therefrom of any material fact necessary in order to make the statements made in light of the circumstances under which they were made not misleading. In case any claim shall be made or action brought against one or more of the Underwriter Indemnified Parties, in respect of which indemnity may be sought against the Borrower, the Underwriter Indemnified Party or Parties shall promptly notify the Borrower in writing setting forth the particulars of such claim or action and the Borrower shall assume the defense thereof including the retention of counsel and the payment of all reasonable expenses; provided, however, that failure to so notify the Borrower (1) will not relieve the Borrower from its liability unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the Borrower of substantial rights and defenses; and (2) will not, in any event, relieve the Borrower from any obligations to the Underwriter Indemnified Party or Parties other than the indemnification obligation. The Underwriter Indemnified Party or Parties shall have the right to retain separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Underwriter Indemnified Party unless (1) the retention of such counsel has been specifically authorized by the Borrower, (2) the Underwriter Indemnified Party shall have reasonably concluded that there may be a conflict of interest between it and the Borrower in the conduct of the defense of such action, or (3) the Borrower shall not in fact have employed counsel reasonably satisfactory to such Underwriter Indemnified Party. The Borrower shall not be liable for any settlement of such action effected without its consent, but if settled with the consent of the Borrower, or if there is final judgment for the plaintiff in any such action with or without consent, the Borrower agrees to indemnify and hold harmless the Underwriter Indemnified Party or Parties from and against any loss or liability by reason of settlement or judgment to the extent set forth in this paragraph. The indemnity provided in this paragraph includes reimbursement for expenses reasonably incurred by the Underwriter Indemnified Parties in investigating the claim and in defending it if the Borrower declines to assume the defense. The indemnity provided in this paragraph shall survive the Closing.

7A. The Underwriter shall indemnify and hold harmless (except to the extent, if any, that a court of competent jurisdiction determines that such agreement to indemnify and hold harmless is not enforceable as a result of being contrary to law or public policy) (a) the Authority Indemnified Parties and (b) the Borrower, each officer, director, employee and agent of the Borrower and each person, if any, who controls (as such term is defined in Section 15 of the Securities Act or Section 20 of the Exchange Act) the Company (the “Borrower Indemnified

Parties”), against any and all losses, claims, damages, liabilities, costs or expense whatsoever arising out of any allegation that there is any untrue statement of a material fact contained in the Official Statement under the Caption “UNDERWRITING” or the omission therefrom of any material fact necessary in order to make the statements made in light of the circumstances under which they were made not misleading. In case any claim shall be made or action brought against one or more of the Authority Indemnified Parties or one or more of the Borrower Indemnified Parties, in respect of which indemnity may be sought against the Underwriter, the Authority Indemnified Party or Parties or Borrower Indemnified Party or Parties, as the case may be, shall promptly notify the Underwriter in writing setting forth the particulars of such claim or action and the Underwriter shall assume the defense thereof including the retention of counsel and the payment of all reasonable expenses. The Authority Indemnified Party or Parties or Borrower Indemnified Party or Parties, as the case may be, shall have the right to retain separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Authority Indemnified Party or Parties or Borrower Indemnified Party or Parties, as the case may be, unless (1) the retention of such counsel has been specifically authorized by the Underwriter, (2) the Authority Indemnified Party or Borrower Indemnified Party, as the case may be, shall have reasonably concluded that there may be a conflict of interest between it and the Underwriter in the conduct of the defense of such action, or (3) the Underwriter shall not in fact have employed counsel reasonably satisfactory to such Authority Indemnified Party or Borrower Indemnified Party, as the case may be. The Underwriter shall not be liable for any settlement of such action effected without its consent, but if settled with the consent of the Underwriter, or if there is final judgment for the plaintiff in any such action with or without consent, the Underwriter agrees to indemnify and hold harmless the Authority Indemnified Party or Parties or Borrower Indemnified Party or Parties, as the case may be, from and against any loss or liability by reason of settlement or judgment to the extent set forth in this paragraph. The indemnity provided in this paragraph includes reimbursement for expenses reasonably incurred by the Authority Indemnified Party or Parties or Borrower Indemnified Party or Parties, as the case may be, in investigating the claim and in defending it if the Underwriter declines to assume the defense. The indemnity provided in this paragraph shall survive the Closing.

7B. (a) In order to provide for just and equitable contribution in circumstances in which the indemnity agreement provided for in Section 7(d) above is for any reason held to be unavailable to the Authority in accordance with its terms, the Borrower and the Authority shall contribute to the aggregate losses, liabilities, claims, damages and expenses of the nature contemplated by said indemnity agreement incurred by the Borrower and the Authority in such proportions such that the Authority is responsible for that portion represented by the percentage that the Authority’s issuance expenses (including legal, administrative, financing, and incidental expenses of the Authority) bears to the initial public offering price appearing on the cover page of the Official Statement and the Borrower is responsible for the balance. In order to provide for just and equitable contribution in circumstances in which the indemnity agreement provided for in Section 7(e) above is for any reason held to be unavailable to the Underwriter in accordance with its terms, the Borrower and the Underwriter shall contribute to the aggregate losses, liabilities, claims, damages and expenses of the nature contemplated by said indemnity agreement incurred by the Borrower and the Underwriter in such proportions such that the Underwriter is responsible for that portion represented by the percentage that the Underwriter’s discount on the sale of the Series 2018 Bonds bears to the initial public offering price appearing on the inside cover page of the Official Statement and the Borrower is responsible for the balance; provided, however, that no

person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. In addition, each person, if any, who controls either of the Authority or the Underwriter within the meaning of Section 15 of the Securities Act shall have the same rights to contribution as the Authority or the Underwriter, as applicable.

(b) In order to provide for just and equitable contribution in circumstances in which the indemnity agreement provided for in paragraph 7A above is for any reason held to be unavailable to the Authority or the Borrower, as the case may be, in accordance with its terms, the Underwriter, on the one hand, and the Authority or the Borrower, as the case may be, on the other hand, shall contribute to the aggregate losses, liabilities, claims, damages and expenses of the nature contemplated by said indemnity agreement incurred by the Authority or the Borrower, as the case may be, and the Underwriter in such proportions such that the Underwriter is responsible for that portion represented by the percentage that the Underwriter's discount on the sale of the Series 2018 Bonds bears to the initial public offering price appearing on the inside cover page of the Official Statement and the Authority or the Borrower, as the case may be, is responsible for the balance.

7C. Notwithstanding any other provision in this Bond Purchase Agreement to the contrary, no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. In addition, each person, if any, who controls the Authority, the Underwriter or the Borrower within the meaning of Section 15 of the Securities Act shall have the same rights to contribution as the Authority, the Underwriter or the Borrower, as applicable

8. The Series 2018 Bonds shall be in fully registered form, and one typewritten Bond in the aggregate principal amount of each maturity of each series of the Series 2018 Bonds shall be registered initially in the name of CEDE & Co. as nominee of the Depository Trust Company ("DTC").

9. On the Date of the Closing which is the date set forth in item 4 of **Schedule A** and **Schedule B** attached hereto, or such other date as shall have been mutually agreed upon, the Authority and the Borrower will deliver to the Underwriter, by delivery of the Series 2018 Bonds to the Trustee as custodial agent for DTC, the Series 2018 Bonds in fully registered definitive form, duly executed and authenticated, together with the other documents hereinafter mentioned, and the Underwriter will accept such delivery and pay the purchase price of (i) the Series 2018A Bonds as set forth in item 3 of **Schedule A** attached hereto and (ii) the Series 2018B Bonds as set forth in item 3 of **Schedule B** attached hereto. The Closing will be via the Fast Automated Securities Transfer program "FAST" of DTC and the Series 2018 Bonds will be held by the Trustee, as custodial agent for DTC. Payment for the Series 2018 Bonds as aforesaid shall be made at such place in Boston, Massachusetts, as shall have been mutually agreed upon. This payment and delivery is herein called the "Closing." The Series 2018 Bonds will be made available for examination in Boston, Massachusetts one (1) business day prior to the Closing.

10. The Underwriter's obligations hereunder to purchase and pay for the Series 2018 Bonds shall be subject to the performance by the Authority and the Borrower of their respective obligations to be performed hereunder at or prior to the Closing and the accuracy in all material respects of the representations and warranties contained herein as of the date hereof and as of the

Closing and shall be subject to the following:

(a) that at the time of the Closing, (i) the Financing Documents shall be in full force and effect, and shall not have been amended, modified, or supplemented except as may have been agreed to by the Underwriter, the Authority and the Borrower, and the Official Statement shall not have been amended, modified or supplemented except as may have been agreed to by the Underwriter, the Authority, with respect to the information under the heading “THE AUTHORITY” and “LITIGATION” insofar as such information relates to the Authority, and the Borrower; and (ii) that there shall have been taken in connection with the issuance of the Series 2018 Bonds such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate in connection with the transactions contemplated hereby; and

(b) that at or prior to the Closing the undersigned shall receive the following documents:

(i) executed copies of the Financing Documents;

(ii) an opinion of Hinckley, Allen & Snyder LLP, dated as of the Date of the Closing, in substantially the form attached as Appendix D to the Official Statement together with a reliance letter addressed to the Underwriter;

(iii) a certificate, dated as of the Date of the Closing, of an authorized officer of the Authority, to the effect that (A) no litigation is pending or, to his or her knowledge, threatened against the Authority (either in state or federal courts) seeking to restrain or enjoin the issuance, execution or delivery of the Series 2018 Bonds or in any manner questioning the proceedings or authority for the issuance of them or affecting directly or indirectly the validity of the Series 2018 Bonds or of any provisions made or authorized for their payment, including the Bond Purchase Agreement, and the Agreement or contesting the existence of the Authority or the title of any of its members or officers to their respective offices (but in lieu of such certificate the Underwriter may accept an opinion of counsel to the Authority in form and substance acceptable to the Underwriter, that in their opinion the issues raised in any such pending or threatened litigation are without substance or that the contentions of any plaintiffs therein are without merit); (B) that the representations and warranties of the Authority contained in the Bond Purchase Agreement and the Agreement are true and correct in all material aspects as of the Closing; (C) that the resolutions with respect to the Series 2018 Bonds adopted by the Authority were adopted in accordance with law and the by-laws of the Authority and remain in full force and effect in the form initially adopted; and (D) that the Agreement, the Bond Purchase Agreement and the Series 2018 Bonds were executed by duly authorized officers of the Authority;

(iv) a supplemental opinion of Bond Counsel, dated as of the Date of the Closing and addressed to the Authority and the Underwriter, in form satisfactory to the Authority, the Underwriter and their respective counsel;

(v) the opinion, dated as of the Date of the Closing, of Rath, Young and

Pignatelli, P.C., counsel to the Borrower, addressed to the Authority, Bond Counsel and the Underwriter, in form satisfactory to the Authority, the Underwriter and their respective counsel;

(vi) a certificate of the Borrower, dated the Date of the Closing and signed by the President or other authorized officer of the Borrower, and in form and substance reasonably satisfactory to the Underwriter, to the effect that (i) each of the representations and warranties set forth in Section 6 hereof and in Article X of the Agreement is true and correct on and as of the Date of the Closing in all material respects; the Borrower is not in default with respect to any of the covenants set forth in Section 7 hereof on and as of the Date of the Closing; and no Event of Default by the Borrower under the Agreement or under any of the documents or agreements contemplated therein or under this Bond Purchase Agreement, and no event which but for the lapse of time or service of notice or both would constitute an Event of Default under the Agreement, has occurred and is continuing; (ii) since the date hereof, there has been no material adverse change in the business or property or financial condition of the Borrower, except as set forth in or contemplated by the Official Statement; (iii) since the date of the Official Statement, there has been no material change in, and no material change is contemplated in, the identity or control of the Borrower and no judicial or administrative action or proceeding is pending or threatened in writing affecting the Borrower's properties or assets which, if adversely determined, would materially adversely affect the security for the Series 2018 Bonds; (iv) there is no litigation, action, suit, proceeding, inquiry or investigation of any kind against the Borrower before or by any New Hampshire or federal court or governmental agency or body pending or, to the best knowledge and belief of the Borrower, threatened in writing (A) which in any case or in the aggregate, if adversely determined, would result in any material liability on the part of the Borrower or inability of the Borrower to conduct its business or perform the obligations contemplated in the Financing Documents, or (B) wherein an adverse decision, ruling or finding would (a) materially adversely affect the transactions contemplated by the Financing Documents or the security for the Series 2018 Bonds, or (b) adversely affect the validity or enforceability of the Series 2018 Bonds or the Financing Documents; (v) the information contained in the Official Statement, as of its date and as of the Date of the Closing, under the captions "INTRODUCTION" (with respect to the Borrower and the Project), "PLAN OF FINANCING," "SOURCES AND USES OF FUNDS," "BONDOWNERS' RISKS" (as such statements relate to the Borrower or the Project), "LITIGATION" (with respect to the Borrower), "CONTINUING DISCLOSURE" (with respect to the Borrower), "MISCELLANEOUS" (with respect to the Borrower's financial statements) and in Appendices A and B was and is true and correct, and did not and does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made;

(vii) the Series 2018 Bonds;

(viii) copies of the resolutions adopted by the Board of Directors of the Borrower authorizing the execution and delivery of the Financing Documents and the approval of the Official Statement, certified by the Secretary of the Borrower as having been duly adopted and being in full force and effect;

(ix) copies of: (i) any required approvals from the New Hampshire Public Utilities Commission or the State; and (ii) any required municipal approvals;

(x) a copy of the resolutions adopted by the Authority authorizing the execution, issuance, sale and delivery of the Series 2018 Bonds, consent to the use of the Official Statement and the execution and delivery of the Agreement and this Bond Purchase Agreement, certified by an authorized officer of the Authority as having been duly adopted and being in full force and effect;

(xi) a certificate, of one or more duly authorized officers of the Trustee, dated the Date of the Closing, as to the due acceptance of the Agreement by the Trustee and the due authentication and delivery of the Series 2018 Bonds by the Trustee thereunder;

(xii) a certificate, dated the Date of the Closing of an officer of the Trustee as to its due authorization and acceptance of duties with respect to the Agreement;

(xiii) the opinion, dated the Date of the Closing, of Harrington & Vitale, Ltd., addressed to the Underwriter, in form satisfactory to the Underwriter;

(xiv) a copy of the Preliminary Blue Sky Memorandum indicating the jurisdictions in which the Series 2018 Bonds may be sold in compliance with the "Blue Sky" or securities laws of such jurisdictions;

(xv) a copy of the Final Blue Sky Letter; and

(xvi) other certificates of the Authority and the Borrower listed on a closing memorandum to be approved by Bond Counsel and counsel to the Underwriter, including any certificates or representations of the Borrower or other parties required in order for Bond Counsel to deliver the opinion referred to in paragraph (iv) above, as well as legal opinions, certificates, proceedings, instruments and other documents as the counsel to the Underwriter or Bond Counsel may reasonably request to evidence compliance by the Authority and the Borrower with legal requirements, the truth and accuracy, in all material respects as of the time of Closing, of the respective representations of the Authority and of the Borrower contained herein and the due performance or satisfaction in all material respects by the Authority and the Borrower at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the Authority and the Borrower.

11. The Underwriter may terminate this Bond Purchase Agreement by notification in writing or by facsimile to the Authority if at any time subsequent to the date hereof and at or prior

to the Closing:

(a) legislation shall be enacted by the State of New Hampshire or the United States or introduced in or favorably reported to either the United States House of Representatives or the United States Senate or a decision by a court of the United States or the United States Tax Court shall be rendered or a ruling or regulation (final, temporary or proposed) shall be made by or on behalf of the Treasury Department of the United States, or a release or official statement shall be issued by the President or the Treasury Department, that makes the revenues or other income of the general character expected to be derived by the Authority under the Agreement, or the interest received on bonds of the general character of the Series 2018 Bonds, subject to federal income taxation or New Hampshire personal income taxation which would have the effect of changing directly or indirectly the federal income taxation or New Hampshire personal income tax of interest on bonds of the general character of the Series 2018 Bonds in the hands of the owners thereof, which in the reasonable opinion of the Underwriter materially adversely affects the market price of the Series 2018 Bonds; or

(b) (i) the United States shall have become engaged in hostilities that have resulted in a declaration of war or a national emergency or (ii) in the reasonable opinion of the Underwriter, there shall have occurred any other outbreak of hostilities, local, national or international, or an escalation thereof, the effect of which on the financial markets of the United States is such as would, in the reasonable opinion of the Underwriter, affect materially and adversely the ability of the Underwriter to market the Series 2018 Bonds; or

(c) there shall have occurred a general suspension of trading on the New York Stock Exchange or a general banking moratorium shall have been declared by federal or New York or New Hampshire state authorities; or

(d) any action is taken by the Securities and Exchange Commission or a court of competent jurisdiction that would require registration of the Series 2018 Bonds under the Securities Act in connection with the public offering thereof, or qualification of the Agreement under the Trust Indenture Act of 1939, as amended; or

(e) any event or condition occurs that, in the reasonable judgment of the Underwriter, renders untrue or incorrect, in any material respect as of the time to which the same purports to relate, the information contained in the Official Statement, or that requires information not reflected in such Official Statement to be reflected therein in order to make the statements and information contained therein, in light of the circumstances under which they were made, not misleading in any material respect as of such time; provided that the Authority, the Borrower and the Underwriter will use their best efforts to amend or supplement the Official Statement to reflect, to the satisfaction of the Underwriter, such changes in or additions to the information contained in the Official Statement.

If the obligations of the Underwriter to purchase and accept delivery of the Series 2018 Bonds shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and no party shall be under further obligation hereunder; except that the obligations for the payment of expenses, as provided in Section 12 hereof, shall continue in full force and effect.

12. Payment of Expenses. All expenses and costs of the Authority incident to the performance of its obligations in connection with the authorization, sale and delivery of the Series 2018 Bonds to the Underwriter, specifically including, without limiting the generality of the foregoing, the cost of preparing, printing or reproducing the Series 2018 Bonds, the Preliminary Official Statement, the Official Statement, the Financing Documents, and all ancillary papers, and reasonable fees and expenses of Bond Counsel as previously agreed, shall be paid by the Borrower.

All expenses and costs incurred by the Borrower in connection with the transactions contemplated hereunder shall be paid by the Borrower. In addition, if the Closing does not occur as a result of the failure of the Borrower to meet its obligations hereunder, the Borrower shall reimburse the Underwriter for all reasonable out of pocket expenses, including but not limited to reasonable counsel fees, including the cost of producing this Bond Purchase Agreement, the fees and expenses for qualification of the Series 2018 Bonds for sale under state securities laws and preparation of the Blue Sky memoranda, incurred by them in connection with the contemplated transactions hereunder. The Underwriter shall pay all of the other costs and expenses incurred by it in connection with the public offering and distribution of the Series 2018 Bonds.

In order to ensure compliance with applicable state and/or local ethics statutes that may apply to employees of the Authority as well as federal securities regulations that may apply to the Underwriter, the Authority shall be responsible for and upon presentation by the Underwriter of a bill to the Authority shall pay any expenses on behalf of the Authority's employees that are incidental to implementing this Bond Purchase Agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those employees.

13. Underwriter's Representations and Agreements. The Underwriter hereby represents, warrants and agrees as follows:

(a) The Underwriter has neither requested nor received from (nor does the Underwriter expect to receive from or have reviewed by) the Authority or any of its directors, officers, employees or agents any information with respect to the Borrower, the Project, the Series 2018 Bonds or the security purported to be afforded by the Agreement, or otherwise, except for any such information that is included within the express representations and warranties of the Authority in this Bond Purchase Agreement or the Agreement or under the captions "THE AUTHORITY" and "LITIGATION" (solely with respect to the information pertaining to the Authority) in the Preliminary Official Statement or the Official Statement or in any other instrument delivered to the Underwriter by or on behalf of the Authority in connection with the transactions contemplated hereby or thereby.

(b) The Underwriter has not relied and does not rely on any findings or action taken by the Authority or the findings made by the Authority as required by the Act as constituting information with respect to the Borrower, the Project, the Series 2018 Bonds or the security purported to be afforded by the Agreement, or otherwise.

(c) Neither the Authority nor any of its directors, officers, employees or agents shall have any responsibility to the Underwriter for the completeness of the information obtained by the Underwriter from any source with respect to the Borrower, its assets, businesses,

circumstances, financial condition and properties, or with respect to the Project, the Series 2018 Bonds or the security purported to be afforded by the Agreement, or otherwise, or, subject only to the exceptions stated in paragraph (a) above, for the accuracy of such information and the Underwriter acknowledges that, as between itself and the Authority, the Underwriter assumes responsibility for obtaining such information and making such investigation as it deems necessary or desirable in connection with its decision to purchase the Series 2018 Bonds.

14. Establishment of Issue Price.

(a) The Underwriter agrees to assist the Authority and the Borrower in establishing the issue price of the Series 2018 Bonds and shall execute and deliver to the Authority and the Borrower on or before the Closing Date an “issue price” or similar certificate substantially in the form attached hereto as **Exhibit 1** (the “Certificate of the Underwriter”), together with the supporting pricing wires or equivalent communications, with such modifications to such certificate as may be deemed appropriate or necessary, in the reasonable judgment of the Underwriter, the Authority, the Borrower and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Series 2018 Bonds. Such certificate shall also set forth calculations of the yield on the Series 2018 Bonds and the weighted average maturity for the Series 2018 Bonds and state that the Authority, the Borrower and Bond Counsel may rely on such certifications for purposes of determining compliance with Sections 103, 148 and 149(d) of the Code.

(b) Except as otherwise set forth in Schedule A to **Exhibit 1** hereto, the Authority and the Borrower will treat the first price at which 10% of each Maturity (as defined in **Exhibit 1**) of Series 2018 Bonds designated on Schedule A to **Exhibit 1** as subject to the 10% test is sold to the public (the “10% test”) as the issue price of that Maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be considered a separate Maturity for this purpose). For each Maturity of the Series 2018 Bonds for which the 10% test is not met as of the Date Hereof (which shall be designated on Schedule A to **Exhibit 1** as subject to the hold-the-offering-price rule), the Authority and the Borrower will treat the initial offering price set forth in Schedule A to **Exhibit 1** as the issue price of that Maturity under the hold-the-offering-price rule described below.

(c) The Underwriter confirms that it has offered the Series 2018 Bonds to the public on or before the Date Hereof at the respective Initial Offering Prices (as defined in **Exhibit 1**) therefor. Schedule A to **Exhibit 1** sets forth as of the Date Hereof, the Maturities, if any, of the Series 2018 Bonds for which the 10% test has not been satisfied and for which the Authority, the Borrower and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the Authority and the Borrower to treat the Initial Offering Price to the public of each such Maturity as the issue price of that Maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any Maturity of the Series 2018 Bonds, the Underwriter will neither offer nor sell unsold Series 2018 Bonds of that Maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the Date Hereof and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the Date Hereof; or

- (2) the date on which the Underwriter has sold at least 10% of that Maturity of the Series 2018 Bonds to the public at a price that is no higher than the initial offering price to the public.

The Underwriter shall promptly advise the Authority, the Borrower and Bond Counsel when 10% of a Maturity of the Series 2018 Bonds subject to the hold-the-offering-price rule has been sold to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the Date Hereof and shall confirm in the Certificate of the Underwriter delivered on or before the Closing Date those Maturities of the Series 2018 Bonds as to which the hold-the-offering-price rule has been satisfied.

(d) The Underwriter acknowledges that sales of any Series 2018 Bonds to any person that is a related party to an Underwriter shall not constitute sales to the public for purposes of this Section 15. Further, for purposes of this Section 15:

- (i) “public” means any person other than an underwriter or a related party,
- (ii) (1) “Underwriter” has the meaning set forth in the first paragraph of this Purchase Contract, and (2) “underwriter” means (A) any person that agrees pursuant to a written contract with the Authority (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Series 2018 Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Series 2018 Bonds to the public (including a party to a retail distribution agreement participating in the initial sale of the Series 2018 Bonds to the public), and
- (iii) a purchaser of any of the Series 2018 Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

In the event the Underwriter fails (other than for a reason permitted under this Purchase Contract) to accept and pay for the Bonds at the Closing as provided herein, the Underwriter shall pay to the Authority as full liquidated damages and not as a penalty, the amount of one percent (1%) of the principal amount of the Bonds, and payment of that sum by the Underwriter to the Authority shall constitute a full release and discharge of all claims and damages of the Authority and the Borrower for such failure and for any and all defaults hereunder on the part of the Underwriter. Such amount shall be applied first to the expenses and damages of the

Authority in full and, thereafter, to the expenses and damages of the Borrower. The Underwriter understands that in such event the actual damages of the Authority and the Borrower may be less than such amount. Accordingly, the Underwriter waives any right to claim that the actual damages of the Authority and the Borrower are less than such amount. The Authority, the Borrower and the Underwriter acknowledge and confirm that it would be extremely difficult, if not impossible, to determine the exact amount of damages that would be suffered as a result of a failure by the Underwriter (other than for a reason permitted herein) to accept and pay for the Bonds at the Closing as provided herein and that the liquidated damages provided herein are a reasonable good faith estimate of the actual damages and are not a penalty.

15. Notices. Any notice or other communication to be given to the Authority under this Bond Purchase Agreement may be given by mailing or delivering the same in writing to the Authority at its address set forth above, Attn: [____]; any notice or other communication to be given to the Borrower under this Bond Purchase Agreement may be given by mailing or delivering the same in writing to the Borrower at its address set forth above, Attn: Larry Goodhue, Chief Financial Officer; and any notice or other communication to be given to the Underwriter under this Bond Purchase Agreement may be given by mailing or delivering the same in writing to TD Securities (USA) LLC, 200 State Street, 10th Floor, Boston, Massachusetts 02109, Attn: Ike Papadopoulos, Director. All notices shall be effective upon delivery.

16. Parties. This Bond Purchase Agreement is made solely for the benefit of the Authority, the Underwriter (including the successors or assigns of any Underwriter) and the Borrower and no other person shall acquire or have any right hereunder or by virtue hereof. All of the Authority's and Borrower's representations, warranties and agreements in this Bond Purchase Agreement shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Underwriter and delivery of and payment for the Series 2018 Bonds hereunder.

17. Underwriter's Role. The parties to this Agreement acknowledge that the Underwriter does not have a fiduciary duty to the Authority or the Borrower under the federal securities laws and is, therefore, not required by federal law to act in the best interests of the Authority or the Borrower without regard to its own financial or other interests.

18. Governing Law. This Bond Purchase Agreement shall be governed by and construed in accordance with the laws of the State of New Hampshire and shall constitute an instrument under seal thereunder.

19. Counterparts. This Bond Purchase Agreement may be executed in any number of counterparts, all of which taken together shall be one and the same instrument, and any parties hereto may execute this agreement by signing any such counterpart.

20. Time of Execution. This Bond Purchase Agreement is executed at ____ p.m. on March __, 2018.

Very truly yours,

TD SECURITIES (USA) LLC

By: Ike Papadopoulos
Title: Director

Accepted and Agreed to as of the date hereof

THE BUSINESS FINANCE AUTHORITY
OF THE STATE OF NEW HAMPSHIRE

Authorized Officer

Accepted and Agreed to as of the date hereof

PENNICHUCK WATER WORKS, INC.

By:
Title:

[Signature page to Bond Purchase Agreement]

SCHEDULE A

§ _____
**BUSINESS FINANCE AUTHORITY OF THE STATE OF NEW HAMPSHIRE
WATER FACILITY REVENUE BONDS
(PENNICHUCK WATER WORKS, INC. PROJECT) SERIES 2018A**

Item
Number

1. Date of this Bond Purchase Agreement – March __, 2018
2. (a) Aggregate principal amount of the Series 2018A Bonds – \$ _____
(b) Date of the Series 2018A Bonds – March __, 2018
(c) Years of maturity, principal amounts, interest rates, yields and public offering prices of Series 2018A Bonds:

| Series 2018A Bonds | | | | |
|-----------------------------|-----------------------------|--------------------------|--------------|----------------------------------|
| <u>Date of Maturity</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>Public Offering Price</u> |

^Priced to the optional call date of January 1, 20__

- (d) Optional Redemption of Series 2018A Bonds

The Series 2018A Bonds maturing on and after July 1, 20__ are redeemable prior to maturity on or after January 1, 20__, at the option of the Borrower by the written direction of the Borrower to the Authority and the Trustee, at a redemption price equal to 100% of the principal amount of the Series 2018A Bonds to be redeemed, together with accrued interest to the redemption date.
3. Purchase price of the Series 2018A Bonds – \$ _____ (par amount less underwriter's discount of \$ _____ and plus net original issue premium of \$ _____).
4. Date of the Closing – March __, 2018

SCHEDULE B

\$ _____
**BUSINESS FINANCE AUTHORITY OF THE STATE OF NEW HAMPSHIRE
WATER FACILITY REVENUE BONDS
(PENNICHUCK WATER WORKS, INC. PROJECT)
SERIES 2018B (FEDERALLY TAXABLE)**

Item
Number

1. Date of this Bond Purchase Agreement – March __, 2018
2. (a) Aggregate principal amount of the Series 2018B Bonds – \$ _____
(b) Date of the Series 2018B Bonds – March __, 2018
(c) Years of maturity, principal amounts, interest rates, yields and public offering prices of Series 2018B Bonds:

| Series 2018B Bonds | | | | |
|-----------------------------|-----------------------------|--------------------------|--------------|----------------------------------|
| <u>Date of Maturity</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>Public Offering Price</u> |

^Priced to the optional call date of January 1, 20__

- (d) Optional Redemption of Series 2018B Bonds

The Series 2018B Bonds maturing on and after July 1, 20__ are redeemable prior to maturity on or after January 1, 20__, at the option of the Borrower by the written direction of the Borrower to the Authority and the Trustee, at a redemption price equal to 100% of the principal amount of the Series 2018B Bonds to be redeemed, together with accrued interest to the redemption date.

3. Purchase price of the Series 2018B Bonds – \$ _____ (par amount less underwriter's discount of \$ _____ and plus net original issue premium of \$ _____).
4. Date of the Closing – March __, 2018.

EXHIBIT 1

FORM OF CERTIFICATE OF THE UNDERWRITER

Not Seasonally Adjusted Estimates by Place of Residence

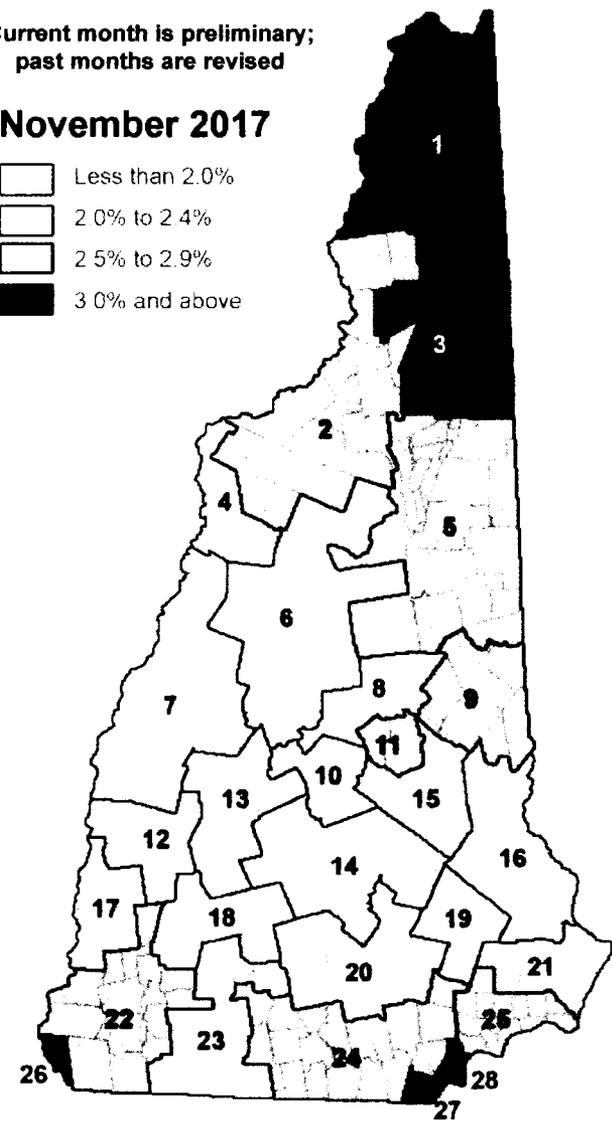
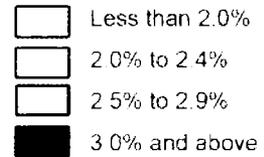
| Labor Force Estimates | | | |
|---------------------------------------|---------------|---------------|---------------|
| New Hampshire | Nov-17 | Oct-17 | Nov-16 |
| Total Civilian Labor Force | 743,040 | 743,250 | 749,290 |
| Employed | 724,500 | 725,310 | 729,720 |
| Unemployed | 18,540 | 17,940 | 19,570 |
| Unemployment Rate | 2.5% | 2.4% | 2.6% |
| United States (# in thousands) | Nov-17 | Oct-17 | Nov-16 |
| Total Civilian Labor Force | 160,466 | 160,465 | 159,451 |
| Employed | 154,180 | 154,223 | 152,385 |
| Unemployed | 6,286 | 6,242 | 7,066 |
| Unemployment Rate | 3.9% | 3.9% | 4.4% |

| Unemployment Rates by Region | | | |
|--------------------------------|---------------|---------------|---------------|
| Not Seasonally Adjusted | Nov-17 | Oct-17 | Nov-16 |
| United States | 3.9% | 3.9% | 4.4% |
| Northeast | 4.2% | 4.2% | 4.2% |
| New England | 3.5% | 3.4% | 3.2% |
| Connecticut | 4.3% | 4.3% | 3.9% |
| Maine | 3.0% | 3.0% | 3.7% |
| Massachusetts | 3.3% | 3.3% | 2.8% |
| New Hampshire | 2.5% | 2.4% | 2.6% |
| Rhode Island | 4.3% | 3.9% | 4.6% |
| Vermont | 2.7% | 2.3% | 2.9% |
| Mid Atlantic | 4.5% | 4.5% | 4.5% |
| New Jersey | 4.8% | 4.7% | 4.2% |
| New York | 4.5% | 4.6% | 4.5% |
| Pennsylvania | 4.3% | 4.2% | 4.9% |

| Unemployment Rates by Area | | | |
|---|---------------|---------------|---------------|
| Counties | Nov-17 | Oct-17 | Nov-16 |
| Belknap | 2.4% | 2.3% | 2.6% |
| Carroll | 2.7% | 2.4% | 2.8% |
| Cheshire | 2.4% | 2.3% | 2.5% |
| Coös | 3.2% | 2.8% | 3.7% |
| Grafton | 2.3% | 2.1% | 2.4% |
| Hillsborough | 2.6% | 2.6% | 2.7% |
| Merrimack | 2.2% | 2.1% | 2.3% |
| Rockingham | 2.7% | 2.6% | 2.8% |
| Strafford | 2.2% | 2.1% | 2.2% |
| Sullivan | 2.3% | 2.1% | 2.2% |
| Map Key Labor Market Areas | Nov-17 | Oct-17 | Nov-16 |
| 1 Colebrook, NH-VT LMA, NH Portion | 3.3% | 2.9% | 3.8% |
| 2 Littleton, NH-VT LMA, NH Portion | 2.7% | 2.3% | 3.0% |
| 3 Berlin NH Micropolitan NECTA | 3.5% | 3.2% | 4.0% |
| 4 Haverhill, NH LMA | 2.4% | 2.3% | 2.7% |
| 5 Conway, NH-ME LMA, NH Portion | 2.6% | 2.2% | 2.6% |
| 6 Plymouth, NH LMA | 2.4% | 2.1% | 2.6% |
| 7 Lebanon, NH-VT Micropolitan NECTA, NH Portion | 2.1% | 1.9% | 2.1% |
| 8 Meredith, NH LMA | 2.3% | 2.2% | 2.6% |
| 9 Wolfeboro, NH LMA | 2.9% | 2.7% | 3.0% |
| 10 Franklin, NH LMA | 2.4% | 2.3% | 2.7% |
| 11 Laconia, NH Micropolitan NECTA | 2.6% | 2.4% | 2.9% |
| 12 Expanded Claremont, NH estimating area | 2.4% | 2.3% | 2.3% |
| 13 New London, NH LMA | 2.4% | 2.2% | 2.5% |
| 14 Concord, NH Micropolitan NECTA | 2.1% | 2.0% | 2.1% |
| 15 Belmont, NH LMA | 2.3% | 2.2% | 2.4% |
| 16 Dover-Durham, NH-ME Metropolitan NECTA, NH Portion | 2.2% | 2.1% | 2.2% |
| 17 Charlestown, NH LMA | 2.1% | 2.1% | 2.1% |
| 18 Hillsborough, NH LMA | 2.3% | 2.3% | 2.4% |
| 19 Raymond, NH LMA | 2.3% | 2.3% | 2.5% |
| 20 Manchester, NH Metropolitan NECTA | 2.4% | 2.4% | 2.5% |
| 21 Portsmouth, NH-ME Metropolitan NECTA, NH Portion | 2.3% | 2.3% | 2.3% |
| 22 Keene, NH Micropolitan NECTA | 2.5% | 2.3% | 2.5% |
| 23 Peterborough, NH LMA | 2.4% | 2.4% | 2.6% |
| 24 Nashua, NH-MA NECTA Division, NH Portion | 2.7% | 2.7% | 2.8% |
| 25 Seabrook-Hampstead Area, NH Portion, Haverhill-Newburyport-Amesbury MA-NH NECTA Division | 2.9% | 2.8% | 3.2% |
| 26 Hinsdale Town, NH Portion, Brattleboro, VT-NH LMA | 3.0% | 2.7% | 3.0% |
| 27 Pelham Town, NH Portion, Lowell-Billerica-Chelmsford, MA-NH NECTA Division | 3.5% | 3.4% | 3.7% |
| 28 Salem Town, NH Portion, Lawrence-Methuen-Salem, MA-NH NECTA Division | 3.2% | 3.2% | 3.4% |

Current month is preliminary; past months are revised

November 2017



New Hampshire unemployment and labor force estimates are calculated using a regression model which depends on Current Population Survey (CPS) estimates. City and town estimates are calculated using the Bureau of Labor Statistics "Handbook Method" and then adjusted to the State levels.

A RESOLUTION AUTHORIZING UP TO \$32,500,000 BONDS FOR PROJECTS FOR
PENNICHUCK WATER WORKS, INC. IN AMHERST, BEDFORD, DERRY, EPPING,
HOLLIS, MERRIMACK, MILFORD, NASHUA, NEWMARKET, PITTSFIELD, PLAISTOW,
AND SALEM, NEW HAMPSHIRE

WHEREAS, the Business Finance Authority (the "Authority") of the State of New Hampshire (the "State") has been requested by Pennichuck Water Works, Inc. (the "Borrower") to finance water facility projects in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem, New Hampshire (collectively, the "Project") under a plan of financing by issuing up to an aggregate principal amount of not to exceed \$32,500,000 of Bonds in one or more series, which may be taxable or tax-exempt or a combination thereof, under RSA 162-I (the "Act");

WHEREAS, the Authority took official action with respect to the Project by passing a resolution on May 15, 2017 approving the issue of up to \$32,500,000 of Bonds; and

WHEREAS, the Authority has been furnished with (a) information and materials about the Borrower and the Project, (b) the proposed LOAN AND TRUST AGREEMENT among the Authority, the Borrower and The Bank of New York Mellon Trust Company, N.A., as Trustee (the "Agreement"), which is a combined financing and security document and which will secure the Bonds, (c) the proposed BOND PURCHASE AGREEMENT (the "Purchase Agreement") among the Authority, the Borrower and TD Securities (USA) LLC, as Underwriter for the Bonds (the "Underwriter"), and (d) other information, materials and assurances deemed relevant by the Authority;

IT IS HEREBY RESOLVED THAT:

Section 1. Findings. On the basis of the information, materials and assurances received by the Authority and considered by it at an open meeting, the Authority finds:

(a) Special Findings:

(1) The Project (which when completed will constitute the "Facility") consists of: financing capital improvements to the Borrower's water supply and water distribution installations, upgrades, replacements, rehabilitations and related support systems at project sites located in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem, New Hampshire, all of which are within the Borrower's service areas, as such service areas are respectively shown at <http://www.pennichuck.com/tefra.php> (the "Service Area Website"), including (i) water treatment media and miscellaneous water supply upgrades; (ii) water main replacement and rehabilitation throughout the Borrower's service areas in Amherst, Bedford, Derry, Hollis, Merrimack and Nashua, including, but not limited to, (a) in Nashua on Park Street, Mulberry Street, Rochette Street, Ash Street, Marquis Street, Lake Street, Chestnut Street, Scripture Street, Water Street, Bridle Path, Tolles Street, Warren Street, Lowell

Street, Green Street, Beard Street, Lemon Street, Proctor Street, Temple Street, Mulvanity Street, Buchanan Avenue, Fowell Street, Zellwood Avenue, Pratt Street, Lincoln Street, Nutt Street, and (b) in Bedford on Route 101; (iii) development of a new well in Plaistow; and (iv) booster station replacement and rehabilitation throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge Subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (v) storage tank installation/maintenance/replacement throughout the Borrower's service areas in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, including, but not limited to, the Kessler Farm Tank in Nashua; (vi) the development and installation of a new raw water intake in the Merrimack River in Merrimack; (vii) improvements to the Bowers Dam spillway in Merrimack; (viii) pump and system operational improvements throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge Subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (ix) service, hydrant and meter replacement or rehabilitation throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (x) replacement or rehabilitation of rolling stock and equipment at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; (xi) customer service support applications, financial accounting and other applications and water system monitoring upgrades and enhancements at 25 Manchester Street in Merrimack; (xii) data presentation and collection system development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; (xiii) geographical information systems development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; and (xiv) asset management system development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield, all of which are or will be owned, operated or used by the Borrower for the purpose of improving its collection, purification, storage and distribution of water in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem, New Hampshire; and

(2) The establishment and operation of the Facility expands or maintains and improves the collection, purification, storage or distribution of water for domestic, industrial, agricultural or other uses, and the water for such uses is to be available on reasonable demand to members of the general public within the State.

(b) General Findings:

(1) The Project and the proposed financing of the Project are feasible;

(2) The Borrower has the skills and financial resources necessary to operate the Facility successfully;

(3) The Agreement contains provisions so that under no circumstances will the Authority be obligated directly or indirectly to pay Project costs, debt service or expenses of operation, maintenance and upkeep of the Facility except from Bond proceeds or from funds received under the Agreement, exclusive of funds received thereunder by the Authority for its own use;

(4) The Agreement does not purport to create any debt of the State with respect to the Facility, other than a special obligation of the Authority acting on behalf of the State under the Act; and

(5) The proposed financing of the Project by the Authority and the proposed operation and use of the Facility will serve one or more needs and implement one or more purposes set forth in RSA 162-I:1, will preserve or increase the social or economic prosperity of the State and one or more of its political subdivisions, and will promote the general welfare of the State's citizens.

Section 2. Determination and Recommendation. The Authority finds that the proposed financing, operation and use of the Facility will serve a public use and provide a public benefit and determines that the Authority's financing of the Project will be within the policy of, and the authority conferred by, the Act. The Authority recommends to His Excellency, the Governor, and The Honorable Council that they make findings and a determination similar to those set forth above, and for that purpose the Executive Director is directed to transmit to the Governor and Council copies of this resolution, the materials received by the Authority with respect to the Project and any other documentation and information the Governor and Council may request.

Section 3. Authorization of the Agreement and the Purchase Agreement. The Authority shall be a party to the Agreement (or multiple versions thereof providing for one or more series of Bonds) and the Purchase Agreement (or multiple versions thereof providing for one or more series of Bonds), and the Chairman, Vice Chairman, Treasurer and Executive Director are each authorized to execute and deliver such Agreements and Purchase Agreements on behalf of the Authority substantially in the forms presented to this meeting (being the draft dated February 1, 2018 with respect to the Agreement) but subject to such changes as the person so signing may approve, his or her signature being conclusive identification of the documents as the Agreement (with approved changes, if any) authorized by this resolution.

Section 4. Authorization and Sale of the Bonds. The Authority shall issue the Bonds in one or more series, as taxable or tax-exempt or a combination thereof, pursuant to a public offering or a direct purchase or a combination thereof, for a plan of financing in an aggregate principal amount not to exceed to \$32,500,000, as provided in the one or more versions of the Agreement, at a fixed interest rate not to exceed 10.00%, and as otherwise provided in the

Agreement(s); the Chairman, or the Vice Chairman, or the Treasurer, and any other member of the Board or the Executive Director, are authorized to execute the Bonds; and the purchase of the Bonds by the Underwriter as provided in the Purchase Agreement(s) is hereby authorized and approved. The Authority consents to the use of one or more Official Statements, if applicable, substantially in the form of official statements prepared for similar bond issues.

Section 5. Actions Not to Be Taken Until After Approval by Governor and Council. The actions authorized by Sections 3 and 4 above (meaning specifically the execution of the Agreement(s) and Purchase Agreement(s) and the issue of the Bonds) shall not be taken until such time as the Governor and Council have made the findings and determination required by Section 9 of the Act, it being the intent of the Authority that the various actions on its behalf which are authorized above are subject to the action of the Governor and Council as required by the Act.

Section 6. Bond Proceeds. The proceeds of the Bonds shall be deposited with the Trustee in accordance with the Agreement(s), or with a disbursing agent or a trustee in the case of a direct purchase; and checks, if any, for such Bond proceeds may be appropriately endorsed by the Chairman, Vice Chairman, Treasurer or the Executive Director.

Section 7. Approval of Project. The establishment of the Project, all in accordance with the provisions of the Agreement, is hereby approved for the purposes of, and to the extent required by, the Act.

Section 8. Allocation of Private Activity Bond Limit. The Authority hereby allocates to the Bonds up to \$6,500,000 of available current year private activity bond volume cap or private activity bond volume cap carry-forward, pursuant to Section 146 of the Internal Revenue Code of 1986, as amended (the "Code"), and RSA 162-M, provided that such allocation shall automatically expire on the last day of December 2018, unless on or before such date the Bonds are issued.

Section 9. Other Actions by Officers. The Chairman, Vice Chairman, Treasurer and the Executive Director are each authorized to take all other actions and execute, deliver or receive such instruments or certificates as they determine are necessary on behalf of the Authority in connection with the whole transaction authorized by the preceding sections of this resolution, but subject in all events to Section 5 hereof. Without limiting the generality of the foregoing, such officers may execute and deliver: receipts; financing statement forms under the U.C.C.; certificates as to facts, estimates and circumstances; information returns for governmental bond issues for the purposes of federal income taxes; and certificates as to proceedings taken, incumbency of officers or any other facts for any other purposes, including the certification required by Section 149(e)(2) of the Code.

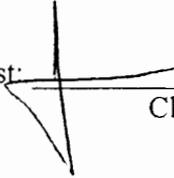
Section 10. Discharge of Lien. The Chairman, Vice Chairman, Treasurer or Executive Director, whenever requested by the owners of the Bonds, may join in the partial release or final discharge of the lien of the applicable Agreement(s).

Section 11. Authorization of Change of Dates. Without limiting any other discretion conferred in this resolution, the date of the Agreement(s) and the date of the Bonds as executed

may be any date or dates acceptable to the Borrower, the Underwriter and the officers of the Authority executing the Agreement(s) and the Bonds.

Section 12. Effective Date. This resolution shall take effect upon its passage.

Passed: February 12, 2018

Attest:  Clerk

SUMMARY OF REQUIRED STATUTORY FINDINGS OF THE GOVERNOR AND COUNCIL UNDER RSA 162-I.

(The materials appearing in quotations below are extracts from RSA 162-I:9. Ellipses indicate deleted provisions relating to pollution control projects or other matters that are not relevant to this transaction.)

* * *

Special Findings

“(1) For any project, the governor and council shall specify the type of facility and shall find that the project to be financed is within the definition of the (type of facility) and may be financed under this chapter;”

The Project consists of (A) the financing of projects as described on Schedule A attached hereto, all of which will be owned, operated and used by Pennichuck Water Works, Inc. (and any affiliates) (the “Borrower”) for the purpose of expanding, maintaining or improving the collection, purification, storage or distribution of water for domestic, industrial, agricultural or other uses in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem, New Hampshire (collectively, the “Locations”). The Project is within the definition of “Water facility” in the Act and may be financed under the Act; and

* * *

“(2) If the facility is a water facility, the governor and council shall find that the establishment and operation of the facility will expand or maintain and improve the collection, purification, storage or distribution of water for domestic, industrial, agricultural, or other uses, and that the water for such uses is to be available on reasonable demand to members of the general public. . .”

The Project enables the Borrower to finance capital improvements to the water supply and water distribution systems at water facility projects at the Locations and therefor will expand or maintain and improve the collection, purification, storage and distribution of water.

* * *

General Findings

“For any project, the governor and council shall find that:

(1) The project and the proposed financing of the project are feasible;” and

* * *

“(2) The proposed user has the skills and financial resources necessary to operate the facility successfully.”

The materials relating to the Borrower under Tab #3 support this finding.

* * *

“(3) The financing and security documents contain provisions so that under no circumstances will the authority be obligated directly or indirectly to pay project costs, debt service or expenses of operation, maintenance and upkeep of the facility except from bond proceeds or from funds received under the financing or security documents, exclusive of funds received under the documents by the authority for its own use;”

The LOAN AND TRUST AGREEMENT (the “Agreement”) (Tab #4) is a combined financing document and security document. Section 101 of the Agreement contains an express statement to the effect required; Section 304 of the Agreement obligates the Borrower to pay all debt service on the Bonds when due; and Section 407 requires the Borrower to pay taxes and costs of operation, maintenance and upkeep.

* * *

“(4) Neither the financing documents nor the security documents purport to create any debt of the state with respect to the facility, other than a special obligation of the authority acting on behalf of the state under this chapter; and”

Express language to this effect is found in the Agreement under Tab #4 in Section 801. Also, see the language in capital letters in the Bond form in Section 301.

* * *

“(5) The proposed financing of the project by the authority and the proposed operation and use of the facility will serve one or more needs and implement one or more purposes set forth in RSA 162-I:1, will preserve or increase the social or economic prosperity of the state and one or more of its political subdivisions, and will promote the general welfare of the state’s citizens.”

This finding can be based on all the materials as well as facts which are matters of general knowledge.

* * *

Ultimate Finding and Determination Required by the
First Paragraph of RSA 162-I:9

“ . . . the proposed financing, operation and use of the facility will serve a public use and provide a public benefit and . . . the authority’s financing of the project will be within the policy of, and the authority conferred by, this chapter.”

The materials and information furnished and the preliminary findings described above support, and enable the making of, the ultimate finding and determination.

Schedule A

The Project consists of the financing of capital improvements to the Borrower's water supply and water distribution installations, upgrades, replacements, rehabilitations and related support systems at project sites located in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem, New Hampshire, all of which are within the Borrower's service areas, as such service areas are respectively shown at <http://www.pennichuck.com/tefra.php> (the "Service Area Website"), including (i) water treatment media and miscellaneous water supply upgrades; (ii) water main replacement and rehabilitation throughout the Borrower's service areas in Amherst, Bedford, Derry, Hollis, Merrimack and Nashua, including, but not limited to, (a) in Nashua on Park Street, Mulberry Street, Rochette Street, Ash Street, Marquis Street, Lake Street, Chestnut Street, Scripture Street, Water Street, Bridle Path, Tolles Street, Warren Street, Lowell Street, Green Street, Beard Street, Lemon Street, Proctor Street, Temple Street, Mulvanity Street, Buchanan Avenue, Fowell Street, Zellwood Avenue, Pratt Street, Lincoln Street, Nutt Street, and (b) in Bedford on Route 101; (iii) development of a new well in Plaistow; and (iv) booster station replacement and rehabilitation throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge Subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (v) storage tank installation/maintenance/replacement throughout the Borrower's service areas in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, including, but not limited to, the Kessler Farm Tank in Nashua; (vi) the development and installation of a new raw water intake in the Merrimack River in Merrimack; (vii) improvements to the Bowers Dam spillway in Merrimack; (viii) pump and system operational improvements throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua, as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge Subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (ix) service, hydrant and meter replacement or rehabilitation throughout the Borrower's service areas (a) in Amherst, Bedford, Derry, Hollis, Merrimack, Milford and Nashua as respectively shown on the Service Area Website, (b) in the Woodlands Subdivision in Epping, (c) in the Shanda Farms/Great Bay Subdivision in Newmarket, (d) in the Sweet Hill, Valleyfield and Twin Ridge subdivisions in Plaistow, and (e) in the Autumn Woods Subdivision in Salem; (x) replacement or rehabilitation of rolling stock and equipment at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; (xi) customer service support applications, financial accounting and other applications and water system monitoring upgrades and enhancements at 25 Manchester Street in Merrimack; (xii) data presentation and collection system development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; (xiii) geographical information systems development, acquisition, installation and implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield; and (xiv) asset management system development, acquisition, installation and

implementation at 25 Manchester Street in Merrimack, 16 DW Highway in Merrimack, 200 Concord Street in Nashua and 371 Catamount Road in Pittsfield, all of which are or will be owned, operated or used by the Borrower for the purpose of improving its collection, purification, storage and distribution of water in Amherst, Bedford, Derry, Epping, Hollis, Merrimack, Milford, Nashua, Newmarket, Pittsfield, Plaistow and Salem, New Hampshire.