

Aquarion Water Company of New Hampshire

Estimated Issuance Costs

Company Attorney Fees	\$ <u>2,500</u>
Total Issuance Costs	\$ 2,500

AQUARION WATER COMPANY OF NEW HAMPSHIRE  
BALANCE SHEET

ACTUAL AND PRO FORMA TO REFLECT ISSUANCE OF  
PROMISSORY NOTE

	June 30, 2009 Actual	Adjustments Debit      Credit		June 30, 2009 Pro Forma
Net Utility Plant	25,513,175			25,513,175
Cash	8,708		2,500	6,208
Accounts Receivable	358,030			358,030
Miscellaneous Receivables	106,311			106,311
Reserve for Uncollectibles	(32,217)			(32,217)
Notes from Associated Companies	21,595			21,595
Accrued Revenues	651,760			651,760
Materials and Supplies	113,607			113,607
Prepayments	(54,060)			(54,060)
				-
Unamortized Debt Discount	195,091	2,500	500	197,091
Unfunded Deferred Taxes	543,351			543,351
Deferred Pension and OPEB	1,321,975			1,321,975
Other Deferred Debits	436,678			436,678
<b>Total Assets</b>	<b>29,184,004</b>	<b>2,500</b>	<b>3,000</b>	<b>29,183,504</b>
Preferred Stock	2,800			2,800
Common Stock	2,187,075			2,187,075
Paid in Capital	3,558,190			3,558,190
Contributed Capital	480,250			480,250
Retained Earnings	2,089,434	49,691		2,039,743
<b>Total Stockholder's Equity</b>	<b>8,317,749</b>	<b>49,691</b>	<b>-</b>	<b>8,268,058</b>
Long Term Debt	8,900,000		4,000,000	12,900,000
				-
Short Term Debt	4,300,000	4,000,000		300,000
Accounts Payable	130,426			130,426
Accrued Bond Interest	171,938	101,743	184,800	254,995
Income Tax Payable	(41,609)	33,866		(75,475)
Deferred Taxes	2,975,844			2,975,844
				-
CIAC	2,347,203			2,347,203
Customer Advances	2,000			2,000
Accrued Pension Liability	944,483			944,483
Other Post Retirement Benefits	1,014,093			1,014,093
Other Deferred Credits	121,877			121,877
				-
<b>Total Liabilities</b>	<b>20,866,255</b>	<b>4,135,609</b>	<b>4,184,800</b>	<b>20,915,446</b>
<b>Total Equity &amp; Liabilities</b>	<b>29,184,004</b>	<b>4,185,300</b>	<b>4,184,800</b>	<b>29,183,504</b>
Short term Affiliate debt as a % of net utility plant	16.85%			1.18%

AQUARION WATER COMPANY OF NEW HAMPSHIRE  
STATEMENT OF INCOME

Income Statement for the Twelve Months Ended June 30, 2009  
Actual and Pro Forma to Reflect Issuance of Promissory Note

	Twelve Months Ended June 30, 2009			
	Actual	Per Order No. 25,019	Adjustments DR (CR)	Pro Forma
Operating Revenues	\$ 4,945,744	\$ 1,148,868		\$ 6,094,612
Operating Expenses				
Operation & Maintenance	2,644,304			2,644,304
Depreciation	852,737			852,737
Taxes other than Federal Income	477,595			477,595
Income Taxes	139,398	465,636	(33,866)	571,168
Total Operating Expenses	4,114,034	465,636	(33,866)	4,545,804
Utility Operating Income	831,710	683,232	33,866	1,548,808
Net Other Income	69,306			69,306
Income Before Interest Charges	901,016	683,232	33,866	1,618,114
Deductions from Income:				
Interest on Long-term Debt	597,690		184,800	782,490
Amortization of Debt Discount and Expense	8,540		500	9,040
Other Interest Expense	103,227		(101,743)	1,484
Total Interest Charges	709,457	-	83,557	793,014
Net Income	\$ 191,559	\$ 683,232	(49,691)	\$ 825,100

AQUARION WATER COMPANY OF NEW HAMPSHIRE  
 JOURNAL ENTRIES TO REFLECT THE ISSUANCE OF \$4,000,000  
 PROMISSORY NOTE

1	NOTES PAYABLE TO ASSOCIATED COMPANIES LONG TERM DEBT	4,000,000	4,000,000
	TO RECORD THE ISSUANCE OF \$4,000,000 UNSECURED PROMISSORY NOTE		
2	UNAMORTIZED DEBT DISCOUNT AND EXPENSE CASH	2,500	2,500
	TO RECORD ADDITIONAL COSTS ASSOCIATED WITH THE ISSUANCE OF THE NEW PROMISSORY NOTE		
3	INTEREST ON LONG TERM DEBT ACCRUED INTEREST PAYABLE	184,800	184,800
	TO RECORD ADDITIONAL INTEREST EXPENSE ON \$4,000,000 OF NOTE 4,000,000 4.62% 184,800		
4	AMORTIZATION OF DEBT EXPENSE UNAMORTIZED DEBT DISCOUNT AND EXPENSE	500	500
	TO EXPENSE ONE FIFTH OF EXPENSES ASSOCIATED WITH THE ISSUANCE OF THE NOTE		
5	INCOME TAX PAYABLE INCOME TAX EXPENSE	75,102	75,102
	TO ADJUST THE STATE AND FEDERAL INCOME TAXES TO REFLECT THE INCREASE IN INTEREST EXPENSE AND AMORTIZATION OF DEBT DISCOUNT AND EXPENSE AND DECREASE IN INCOME TAXES PAYABLE (\$184,800 + \$500) x 40.53%	75,102	
6	INTEREST PAYABLE - SHORT TERM DEBT INTEREST EXPENSE - SHORT TERM DEBT	101,743	101,743
	TO RECORD REDUCTION IN SHORT TERM INTEREST EXPENSE = \$4,000,000 x average s/t debt rate for year 2.54% 101,743		
7	INCOME TAX EXPENSE INCOME TAX PAYABLE	41,236	41,236
	TO RECORD INCREASE IN INCOME TAX EXPENSE DUE TO DECREASE IN SHORT TERM INTEREST TAX EXPENSE ASSUMING A 40.53% TAX RATE. (\$101,743 x 40.53%)	41,236	

AQUARION WATER COMPANY OF NEW HAMPSHIRE

Statement of Capitalization, Actual and Pro Forma to Reflect Issuance of Promissory Note

	June 30, 2009		June 30, 2009	
	Actual	Percent	Pro Forma	Percent
LONG TERM DEBT (1)	8,900,000	51.7%	12,900,000	60.9%
PREFERRED EQUITY	2,800	0.0%	2,800	0.0%
COMMON EQUITY	8,314,949	48.3%	8,265,258	39.0%
TOTAL CAPITALIZATION (2)	<u>17,217,749</u>	100.0%	<u>21,168,058</u>	100.0%
SHORT TERM DEBT	4,300,000		300,000	

(1) Reflects additional debt of \$4,000,000

(2) Percentages exclude short term debt

	June 30, 2009		June 30, 2009	
	Actual	Percent	Adjusted	Percent
SHORT TERM DEBT	4,300,000	20.0%	300,000	1.4%
LONG TERM DEBT (1)	8,900,000	41.4%	12,900,000	60.1%
PREFERRED EQUITY	2,800	0.0%	2,800	0.0%
COMMON EQUITY (2)	8,314,949	38.6%	8,265,258	38.5%
TOTAL CAPITALIZATION	<u>21,517,749</u>	100.0%	<u>21,468,058</u>	100.0%

Including short term debt

13

Aquarion Water Company of New Hampshire

Evaluation of Financing Proposals  
Internal Rate Of Return

Lender	Promissory Note Parent	Potential Purchaser B	Potential Purchaser C
Refianced Debt	<u>\$ 4,000,000</u>	<u>\$ 4,000,000</u>	<u>\$ 4,000,000</u>
Principal	4,000,000	4,000,000	4,000,000
Coupon rate	4.62% (a)	5.25% (b)	6.10% (c)
<b>Issuance Costs</b>			
Bank Upfront Fee (0.5%)	-	20,000	20,000
Bank Attorney Fee	-	5,000	15,000
Company Attorney Fees	<u>2,500</u>	<u>10,000</u>	<u>10,000</u>
Total Issuance Costs	2,500	35,000	45,000
<b>Effective Interest rate based upon IRR calc.</b>	<b>4.63%</b>	<b>5.45%</b>	<b>6.37%</b>
NET PROCEEDS	3,997,500	3,965,000	3,955,000
YEAR 1	(184,800)	(210,000)	(244,000)
YEAR 2	(184,800)	(210,000)	(244,000)
YEAR 3	(184,800)	(210,000)	(244,000)
YEAR 4	(184,800)	(210,000)	(244,000)
YEAR 5	(4,184,800)	(4,210,000)	(4,244,000)

Notes:

(a) Pricing was based on adding 225 basis points to the yield of the 5 year U.S. Treasury (2.37%+225bp).

(b) Pricing was based on quote from Co Bank.

(c) Pricing was based on quote from Bank of America

PROMISSORY NOTE

JANUARY 1, 2010

US \$4,000,000.00

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC. (the "Company"), a New Hampshire corporation with an address of One Merrill Industrial, Hampton, New Hampshire 03842, hereby promises to pay, upon the terms and subject to the provisions hereof, to Aquarion Company, a Delaware corporation with a mailing address of 835 Main Street, Bridgeport, Connecticut 06604 (the "Holder"), or to any holder, the principal amount of Four Million Dollars (\$4,000,000.00) in lawful money of the United States of America with interest thereon from the date hereof at the Interest Rate as defined below. This Promissory Note (this "Note") is being delivered in connection with, and in consideration for, that certain loan, in an amount equal to the original principal amount of this Note, made by the Holder to, and hereby acknowledged by, the Company as of the date of this Note.

1. Payment of Principal and Interest. Upon the terms and subject to the provisions hereof, on the fifth (5<sup>th</sup>) anniversary of the date hereof (the "Maturity Date"), the entire principal amount of this Note then outstanding, plus all accrued and unpaid interest hereon which is then unpaid shall be due and payable by the Company to the Holder of this Note. This Note may be prepaid without penalty or premium, from time to time, by the Company, in part or in whole. Any prepayments of any portion of the principal amount of this Note shall be accompanied by payment of all interest accrued but unpaid hereunder. Interest shall accrue on the unpaid principal amount of this Note from the date hereof at the rate of five percent (4.62%) per annum ("Interest Rate"). The Company shall pay interest semi-annually in arrears on or before January 1 and July 1 of each year so long as any amount remains outstanding under this Note (each, an "Interest Payment Date"), commencing on July 1, 2010. Interest on this Note will be calculated on the basis of a 360-day year consisting of twelve 30-day months, with payments of principal made by the Company hereunder taken into account in calculating the accrual of such interest. Payment made by the Company shall be credited first to the accrued but unpaid interest due and the remainder applied to principal.

2. Events of Default.

(a) The following events shall constitute an "Event of Default" under this Note:

(i) the Company shall fail to make any payment of the principal on this Note when the same shall become due and payable, whether at maturity or otherwise;

(ii) the Company shall fail to make any payment of any interest on this Note for more than ten (10) days after written notice that the same has become due and payable; or

(iii) (A) the Company shall commence any case, proceeding or action (x) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to its debts or (y) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, (B) the Company shall make an admission in writing of its inability to pay its debts generally or make a general assignment for the benefit of its creditors or (C) the institution of any proceeding against the Company seeking to adjudicate the Company a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of the Company or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for the Company or for any substantial part of its property and, in the case of any such proceeding instituted against the Company that is being diligently contested by the Company in good faith, either such proceeding shall remain undismissed or unstayed for a period of 60 days.

(b) Remedies. If an Event of Default shall occur and be continuing, then the Holder may declare the entire principal amount outstanding under this Note (together with accrued and unpaid interest) and all other amounts owing under this Note (collectively, the "Default Amount") to be immediately due and payable to the Holder by the Company; *provided, however*, that upon the occurrence of any event described in clause (a)(iii) above, the entire principal amount of this Note shall be immediately due and payable without notice or any other action by the holder of this Note; whereupon in either case the entire principal amount of this Note outstanding and any accrued and unpaid interest hereunder shall become due and payable without presentment, demand, protest, notice of dishonor and all other demands and notices of any kind, all of which are hereby expressly waived. No delay or failure by the holder of this Note in the exercise of any right or remedy shall constitute a waiver thereof, and no single or partial exercise by the holder hereof of any right or remedy shall preclude other or future exercise thereof or the exercise of any other right or remedy.

3. Payments.

(a) All payments of principal and interest of this Note shall be made in cash by lawful money of the United States of America in same day funds to a bank account designated in writing to the Company for such purpose, no later than 4:00 P.M. (Connecticut time) on the date specified herein.

(b) Whenever any payment or delivery to be made hereunder shall be due on a date that is not a Business Day (as defined below), such payment or delivery shall instead be made on the next succeeding Business Day. The term "Business Day" shall mean any date that is not a Saturday, Sunday or other day on which banks are required or authorized by law to be closed in the State of Connecticut.

4. Amendment or Waiver. No amendment or waiver of any provision of this Note, nor any consent to any departure by the Company from any such provision shall in any event be effective unless the same shall be in writing and signed by the Holder. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

5. Cancellation. After all unpaid principal and interest owed on this Note have been paid in full, this Note shall be surrendered to the Company for cancellation and shall not be reissued.

6. Assignment. The Holder of this Note shall not be entitled, without obtaining the prior written consent of the Company, as determined in the Company's sole discretion, to assign this Note or its interest in this Note in whole or in part. Notwithstanding the foregoing, the Holder shall be permitted, without obtaining the consent of the company, to assign this Note to an entity that is, directly or indirectly, controlled by, controls or under common control with the Holder. Subject to obtaining such consent of the Company, upon surrender of this Note to the Company with an appropriate assignment and funds sufficient to pay any transfer tax, if applicable, the Company shall, without charge, execute and deliver a new Note in the name of the assignee or assignees named in such instrument of assignment, and this Note shall promptly be cancelled. Subject to the foregoing, the rights and obligation of the Company and the Holder shall be binding upon and be for the benefit of the successors, assigns, heirs, administrators and transferees of the parties hereto.

7. Notices. Any notice or other communication given under this Note shall be deemed sufficient if [in writing and sent by facsimile with written confirmation of receipt and a copy of the notice sent by overnight courier or if delivered by hand against written receipt therefore, to the Company at the address indicated above, or to the Holder at the address indicated above, or in either case such other person or address as shall have been given by notice in accordance with this Section 7. Notices shall be deemed to have been given on the date of actual receipt by the recipient.

8. Payment of Expenses. All costs, fees and expenses incurred in connection with the negotiation and execution of this Note and the consummation of the transactions contemplated hereby shall be borne by the party incurring such costs, fees and expenses.

9. Governing Law. THIS NOTE SHALL BE GOVERNED, CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW HAMPSHIRE, WITHOUT REFERENCE TO ANY PRINCIPLES OF CONFLICTS OF LAW THEREOF.

10. Submission to Jurisdiction. The parties hereby irrevocably submit to the exclusive jurisdiction of the state courts of the State of New Hampshire for the purpose of any litigation or proceeding between and among the parties hereto arising in whole or in part under or in connection with this Note, and the parties hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such court. The parties agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suite on the judgment or in any other manner provided by applicable law.

11. Descriptive Headings; Construction. The descriptive headings of this Note are inserted for convenience only and do not constitute a part of this Note. Whenever used, the singular shall include the plural and the plural shall include the singular.

12. Interpretation. This Note and the provisions contained herein shall not be construed or interpreted for or against the Company or the Holder because that party drafted or caused that party's legal representative to draft any of its provisions.

13. No Third Party Beneficiaries. Nothing in this Note shall be deemed or construed to give any person, other than the Company and the Holder and their respective successors and assigns any legal or equitable rights hereunder.

14. No Recourse Against Others. A director, officer, employee, shareholder or member of the Company, as such, shall not have any liability for any obligations of the Company under this Note or for any claim based on, in respect of or by reason of such obligations or their creation. The Holder by accepting this Note waives and releases all such liability. This waiver and release are part of the consideration for the issuance of this Note.

IN WITNESS WHEREOF, the Company has caused this Note to be executed on the date first written above.

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC

By: \_\_\_\_\_

Name: Charles V. Firlotte  
Title: President

By: \_\_\_\_\_  
Name: Donald J. Morrissey  
Title: Treasurer

**CONSENT TO ACTION IN LIEU OF A  
MEETING OF THE BOARD OF DIRECTORS OF  
AQUARION WATER COMPANY OF NEW HAMPSHIRE**

The undersigned, being all of the directors of Aquarion Water Company of New Hampshire (the "Company"), do hereby consent to the actions set forth herein on behalf of the Company. This consent shall have the same force and effect, as would the directors' vote in favor of such actions at a regularly constituted meeting of the board of directors of the Company called for such purpose.

**RESOLVED:** That the financing program for Aquarion Water Company of New Hampshire (the "Company") consisting of the execution of a \$4,000,000 Promissory Note, at a rate not to exceed 5.50% maturing on the fifth anniversary of the date of the note, be and hereby is in all respects approved subject to the approval of the New Hampshire Public Utilities Commission ("PUC");

and further

**RESOLVED:** That the President, any Vice President and the Treasurer of the Company be, and each of them hereby singly is, authorized, empowered and directed to execute and deliver, in the name and on behalf of the Company, an agreement providing for the execution of a \$4,000,000 Promissory Note to Aquarion Company, in the form presented to the Board, with such changes therein, if any, as may be approved by the President, or any Vice President, or the Treasurer of the Company, as evidenced by his or her execution thereof;

and further

**RESOLVED:** That the filing with the PUC by the officers of the Company, in the name and on behalf of the Company, of an appropriate petition and ancillary documents with respect to the execution of the Promissory Note is hereby authorized and ratified;

and further

**RESOLVED:** That the Company issue, pursuant to the Promissory note at the rate not to exceed 5.50% Series, in the aggregate principal amount of \$4,000,000;

and further

**RESOLVED:** That the borrowing shall be dated and bear interest in accordance with the Promissory Note, shall mature on the fifth anniversary of the Promissory Note shall bear interest at the rate not to exceed 5.50% per annum, payable semiannually in arrears on the 1<sup>st</sup> day of January, and the 1st day of July each year so long as any amount remains outstanding under this Note, commencing on January 1, 2010;

and further

**RESOLVED:** That all of the actions heretofore and hereafter taken by the Company's officers in arranging for the execution of the aforementioned \$4,000,000 Promissory Note are in all respects ratified, confirmed and approved as duly authorized acts on behalf of the Company;

and further

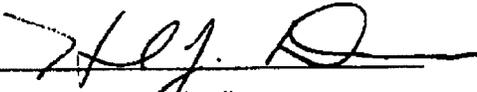
**RESOLVED:** That the proper officers of the Company be and hereby are authorized, empowered and directed to execute and deliver such papers, documents and instruments and deliver such papers, documents and instruments and to do all other acts and things, including making such payments as they may deem necessary, desirable or convenient in order to fully carry out and consummate all of the actions authorized by the foregoing resolutions and to complete this financing program (the "Financing Program");

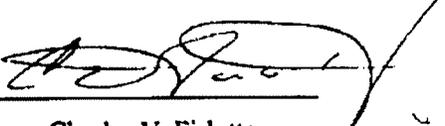
and further

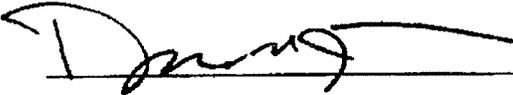
**RESOLVED:** That these resolutions shall supersede any and all prior resolutions of the Board which pertain to the Financing Program to the extent, if any, that any such prior resolutions are inconsistent with the material terms of these resolutions.

IN WITNESS WHEREOF the undersigned, by affixing their signatures hereto, do hereby consent to, authorize and approve the foregoing actions in their capacities as a directors of the Company.

Dated as of the 30<sup>th</sup> day of September 2009.

  
\_\_\_\_\_  
Howard J. Dunn

  
\_\_\_\_\_  
Charles V. Firlotte

  
\_\_\_\_\_  
Donald J. Morrissey