

## **Questions and Answers - Highland Companies Representatives – January 12, 2012**

On Thursday January 12, 2012, Messrs. John Lowndes, John Scherer and Joseph Izhakoff, principals of the Highland Companies, attended a meeting of the Council of Melancthon Township and made the following delegation in response to questions from Council. This is not a transcript and answers provided below may include additional contextual information beyond what was stated at Council.

### **Delegation**

We thank Melancthon Council for inviting us here today. We welcome the opportunity to meet today and on a regular basis going forward. We are a substantial farmer in the community and believe we have demonstrated our commitment to the community in terms of jobs, investments in our farms and local sponsorships. We reiterate our commitment to farming and community.

After years of study, in 2011 we submitted an application to build a quarry on a portion of our properties in Melancthon. The application is undergoing a thorough and rigorous review by the Township's peer review experts as well as by provincial authorities and the Nottawasaga Valley Conservation Authority and we note that there are no automatic approvals. We believe our application will meet all applicable standards.

We came today to answer Council's questions and discuss the economic benefits of our project. We are committed to returning to Council regularly to continue to answer questions about our project and welcome the opportunity to present Council with an overview of our project at an upcoming Council meeting.

### **Questions and Answers**

- 1. In the Autumn issue of Orangeville Living Mr. Lowndes said the quarry would be “contributing \$1.2 million per year in royalties to the community.” Could he please explain how he arrived at that figure?**

Our quarry project will bring significant economic benefits to the local community in addition to what our local farms are already contributing. In Ontario, aggregate producers pay \$0.115 per tonne as license fees or royalties to municipalities and the province. Of this amount, \$0.06 is paid to the local municipality, \$0.015 is paid to the county, \$0.035 is paid to the province and \$0.005 is paid into a provincial rehabilitation fund.

Based on these current royalty rates and an estimated annual tonnage of 10 million tonnes per year, the annual royalties from our proposed quarry would amount to approximately \$1,150,000 with \$600,000 paid to Melancthon Township, \$150,000 paid to Dufferin County, \$350,000 paid to the province, and \$50,000 paid into the provincial rehabilitation fund. If the annual tonnage produced by our proposed quarry increases or decreases, these amounts will vary accordingly.

In addition, regardless of annual production, the quarry will pay approximately \$96,000 more in property taxes than the farms are paying now.

These numbers and estimates are set forth in more detail in the Economic Benefits and Financial Impact report prepared by Altus Group and filed as part of our application.

Recently, the Association of Municipalities of Ontario has been promoting an initiative to increase aggregate royalties to local municipalities from \$0.06 per tonne to \$1.00 per tonne. As an example, in Quebec, annual royalties from aggregate producers are \$0.50 per tonne. We support the efforts of aggregate producing municipalities to increase these royalty rates. Again, assuming an annual production rate of 10 million tonnes, this would represent a significant source of revenue to the Township.

**2. In the same article Mr. Lowndes said “not to mention the benefits of having 465 people working and living in the community.” Based on Mr. Scherer saying on the October 27<sup>th</sup> T.V. show the Agenda with Steve Paikin that the operation “would start slowly” and it was a fifty or hundred year project, could Mr. Lowndes clarify the type of jobs, and the time frame of those 465 jobs?**

The proposed quarry will add a significant number of full-time and permanent jobs to Melancthon. Based on an annual production rate of 10 million tonnes, we estimate that quarry will create approximately 465 positions in the following categories:

- Administration (15)
- Quality control (6)
- Shop (9)
- Maintenance (7)
- Stripping and Rehabilitation (24)
- Drilling and Blasting (16)
- Primary and Secondary Crushers (68)
- Wash plant (6)
- Load-out scales (14)
- Trucking (300)

These positions will be created and filled gradually as the quarry commences and ramps up production. We would expect to ramp up production over several years depending on market demand for our products. After this initial ramp up period, the quarry will reach a steady state at which point the full 465 jobs will be available. The duration of these positions will depend on the life of the quarry, which could extend from 50 to 100 years based on available reserves.

In addition, during the start up and site preparation phase of each excavation area, a substantial number of additional jobs will be created on a more temporary basis. This phase will focus on the building of berms and the water management systems as well as the stripping of overburden to expose the top of rock for the initial sinking cuts. For each excavation area, we expect these activities to occur within the first year prior to extraction and create approximately 356 direct and indirect temporary jobs.

These numbers and estimates are set forth in more detail in the Economic Benefits and Financial Impact report prepared by Altus Group and filed as part of our application.

As of today, we have received almost 400 job applications or expressions of interest for positions at the quarry, with about 180 coming from local Melancthon residents including trucking positions.

**3. In the December 10, 2011 issue of the Globe and Mail Mr. Izhakoff said “it is too early to say whether the firm’s investors would be open to downsizing the excavation plans for Melancthon.” Based on the application and published reports that the quarry would only excavate 300 acres at a time and progressively and aggressively rehabilitate that area, could someone explain how you will balance the need for investor returns and the application requirements?**

Our approach has always been and continues to be to limit the active extraction area of the quarry to approximately 300 acres. We described this at our open house in 2009 and have incorporated restrictions into our Site Plans that will limit the active extraction areas. To avoid further confusion, we will endeavor to make this point more clearly on our site plans.

Our quarry is based on a license area of approximately 2,300 acres with four extraction areas. As extraction in each of the areas proceeds, the active quarry face will generally proceed from the south to the north. Our site plans limit the width of extraction on the quarry floor to 100 meters with the length being limited by the distance across the extraction area. As extraction proceeds, restoration of the side slopes and quarry floor will follow along within 100 meters of the quarry floor. Based on the width of the extraction areas and the expected number of shelves in each area, these limitations insure that only approximately 300 acres are actively extracted at any one time. We will provide a drawing to illustrate this point.

**4. What type and amount of securities would be offered to the Township to protect its’ residents from potential future losses in the event of a failure of the water handling system occurred at some point in the future?**

Our proposal is subject to a rigorous review process and will be required to meet all applicable standards before it is permitted to proceed. The protection of water resources and local residents is one of our highest priorities.

As part of the approvals process, the quarry will be required to obtain permits to take and discharge water from the Ministry of Environment (MOE). The permit process requires us to provide financial assurances to insure that our water management system is fully funded before any activity begins. MOE’s Guideline F-15 provides for detailed calculations as to the amount of financial assurance as well as the form. These financial assurances are held by a third party, which may be the MOE itself. We are working on the more detailed designs of our water management system that will allow for the calculation of the amount of financial assurance under

the MOE guideline. These designs as well as the proposed amount and type of financial assurances will be part of our applications for permits to take and discharge water.

We are already monitoring many of our neighbours' water wells. We host semi-annual well water meetings with our neighbors to discuss the particulars of our monitoring program, address their concerns and listen to their input. We are committed to repairing and/or replacing any of their wells that has an issue. We have an open invitation to our neighbours to participate in this program. If Council is interested in being involved in this program, we can discuss it with them in more detail. We expect that the details of these assurances, including the amount and form, will be determined in discussions with the Township, informed by consultation with the community.

**5. Based on information received, the Milton Quarry produces on average 3.5 million tonnes per year and the quarry in Rogers City Michigan produces about 5 to 6 million tonnes of aggregate a year. Could you explain how you plan to produce on average 10 million tonnes per year given that the Provincial Policy Statement says that aggregate extraction is to be “close to source” of the need for aggregate?**

There is a critical need for aggregate in Ontario. In 2010, the province released the findings of its State of the Aggregate Resource in Ontario Study, which was prepared with the participation of a diverse group of stakeholders including the Ministry of Natural Resources, the Niagara Escarpment Commission, Gravel Watch Ontario, and members of the scientific and planning communities. This study confirmed that while demand for high quality aggregates is increasing, close to market licensed reserves are diminishing. The study found that over the next 20 years demand for aggregate in Ontario will increase by about 13% to an average of 186 million tonnes per year, with about 93 million tonnes per year in the Greater Golden Horseshoe (GGH). At the same time, there are only about 317 million tonnes of high quality licensed reserves remaining in the Greater Toronto Area (GTA). The study also confirmed that the province's policy of sourcing aggregates close to market continues to be an appropriate policy given the substantially higher economic and environmental costs of sourcing aggregates from farther away. For the GTA, the study defined close to market as within a 75 kilometer radius of the Vaughan Corporate Centre.

Because of the weight of aggregates, our proposed quarry will supply aggregate to the GGH with most of it going to the GTA market. The quarry will not export aggregates outside of the province.

**6. On different occasions The Highland Companies have indicated there would be many “other economic benefits” to the Township of Melancthon. Could you expand on that and advise what you perceive them to be?**

Our quarry project will bring significant economic benefits to the local community in addition to what our local farms are already contributing. At a production rate of 10 million tonnes per year, our quarry would create approximately 465 new jobs, pay approximately \$1.2 million in royalties and result in \$140 million of quarry spending. This quarry spending as well as employee spending will create substantial opportunities for the growth and development of other supporting businesses and services in the local area. While we cannot control the exact

destination of the many “other economic benefits,” we are prepared to work closely with Council on local initiatives to ensure that Melancthon captures its fair share.

In addition, we have already demonstrated our commitment to support the local community through sponsorships, donations and other charitable giving. A recent example of our community support is in the sponsorship of the local Snowmobile Club, who are using one of our properties to create a new facility.

**7. There have been inconsistencies in the number of vehicles on the haul routes. Please clarify the traffic volumes and patterns.**

We are sensitive to traffic on local Township roads. In identifying an appropriate footprint for our proposed quarry, we carefully chose a site with direct access onto County Road 124, a former provincial highway and designated truck haul route. This allows trucks entering and exiting our site to do so from County Road 124 avoiding Township roads.

We have never published any numbers regarding the specific numbers of trucks expected from our facility, which is directly related to market demand. Our traffic experts, Morrison Hershfield Limited, studied the capacity and service levels of County Road 124 and its intersections. They concluded that County Road 124 has very little traffic from a highway design perspective and that County Road 124 has the present and future capacity to handle an additional 150 one-way trips (or 300 two-way trips) at the peak traffic hour of the day with very few improvements to the roadway. The details of their findings are contained in a report entitled the Traffic Assessment Study which was filed as part of our application. Any required road improvements, will be paid for by us.

In addition, as part of our plan, we proposed constructing a traffic signal at the entrance to the quarry on County Road 124. We note that a signal warrant analysis that was undertaken for the proposed entrance indicated that a signal was not warranted until traffic reached 200 one-way truck trips.

In response to a concern raised about the closure of County Road 124 for snow, we do not believe snow will be a significant issue for aggregate transportation as we are not planning to produce in the winter time. We expect to produce aggregates about 270 days per year. The vast majority of aggregate shipping will take place between mid-March and mid-December of each year.

**8. With respect to the Provincial Environmental Assessment, many in the opposition would like to garner a Panel Review on a Federal Level. Due to your recent meeting with the Minister of the Environment Peter Kent and with your company’s confidence in the testing of the use and recharge of the water, would it not be prudent for you to encourage a Federal Panel EA as soon as possible as therefore assessments may run in a coordinated timely manner?**

Before any quarry development can proceed in Ontario, it must undergo a comprehensive and rigorous review process under the Aggregate Resources Act (ARA), the Planning Act, the Environmental Protection Act and the Ontario Water Resources Act. These processes include:

- review by provincial authorities, municipal peer reviewers, and local conservation authorities
- public consultation and input
- submission of detailed environmental and other studies
- submission of detailed plans for design, operations, and rehabilitation

In addition, our project was designated under the Environmental Assessment Act (EAA), which will require our project to undergo a more stringent review process than any quarry in Ontario's history.

We believe that this level of review is more than appropriate and sufficient to ensure that our project meets all applicable standards and safeguards the environment and our community.

We continue to move forward with the review processes under the ARA and Planning Act. We have not yet begun the review process under the EAA. No quarry in Ontario has been required to undertake an EAA review and we are taking the time to understand the process. At this time, we have no further updates but will keep the Council and the public informed with next steps.

**9. Do you honestly believe that your application is environmentally sound and on what experience do you base that on?**

Yes.

We believe we have put forth an application that is both comprehensive and environmentally sound. We believe we have taken a responsible and balanced approach to designing the proposed quarry. We have spent many years studying our area and designing a quarry that can operate in harmony with the environment and local community. Mr. Lowndes has spent his entire career in and around aggregate operations and we have assembled a team of the most highly qualified and respected experts and scientists in Ontario to insure that our project is sensitive to the local environment and community. In addition, our project will undergo the most stringent review process of any quarry in Ontario's history.

**10. With respect to job opportunities, you promise 400 local positions. Please list approx. 10 positions that would be available for locals. Have you advertised for trucking companies? Could you please provide a detailed explanation of spin-offs, and how they would help Melancton and not other areas first, i.e.: Alliston, Barrie, Orangeville?**

In response to question 2 above, we described the types of jobs that will be created by the quarry. In response to question 6 above, we described the type of "spin-off" benefits the quarry will create.

Because of the uncertainty around the timing of the opening of the quarry, it is premature to advertise for specific job openings. However, our website contains a list of types of jobs and encourages potential applicants to express their interest.

As of today, we have received almost 400 job applications and expressions of interest for positions at the quarry, with about 180 coming from local Melancthon residents including trucking positions.

**11. How many full time and part time employees does Highlands have in its current farming operation?**

We have 50 full-time employees at our farms with between 10 and 20 part-time employees depending on the season.

**12. How many acres did Highlands have in production this past season? How much of that was potatoes? How does that compare to the previous season?**

We have demonstrated our commitment to our farms through investments in new personnel, equipment and facilities. We reiterate our commitment to continuing farming even when the quarry is operational. Today we manage about 8,500 acres of farmland. Of that, we had about 3,400 acres planted in potatoes this past season, which is about the same as last year. The actual acres that we plant in potatoes in any year changes based on our crop rotations.

**13. Will the establishment of the quarry see a rise in the # of direct employees or will there be more of a shift of employment from one operational area of the company to another? If there will be an increase, what will it be? Will this be immediate or phased in over time?**

The proposed quarry will add a significant number of full-time, permanent jobs to Melancthon. The quarry will not affect the number of jobs at our farms. In response to question 2 above, we described the types and timing of jobs that will be created by the quarry.

**14. What do you see as the major economic role other than employment, of the Highland Companies in our community?**

We play and will continue to play a significant economic role in Melancthon. In addition to being the largest employer in the township, we are also Melancthon's largest taxpayer and community sponsor. Our quarry business will provide additional significant contributions to the economic development of Melancthon not only through employment, but also by providing significant royalties directly to the Township and creating spin-off business opportunities in the local community.

**15. Will the company establish or has it already established a local hiring policy that can be made available to the public?**

We have a policy to hire local first. Our policy is published on our website.

**16. Are there future plans for Highland's community presence and social economic support other than the present levels that the company is involved in?**

In response to questions 2, 6 and 14 above, we described the types of economic and social benefits that are presently provided by our farms and that will be created by our quarry. We have demonstrated our commitment to the community and we expect our community presence to increase over time as our businesses grow.

We recently added a full time community relations professional resident in Melancthon to help us identify additional opportunities for community involvement.

**17. Is Highlands currently pursuing new community/social amenities considering that the YMCA did not materialize? If so, can you elaborate on this?**

Community and social amenities, such a YMCA, require a substantial amount of time and effort, with coordinated input from a number of stakeholders including local businesses, like Highland, and local Councils, like Melancthon.

While we are not presently involved in any specific initiatives like the YMCA, we are open to taking an active participatory role in such initiatives and we are happy to discuss options with Council.

**18. Original presentations by The Highlands Companies identified Highland's interest in wind energy. Are they currently involved in any wind projects or considering a future proposal?**

We are not involved in any wind projects or considering wind at this time. We are following closely the development of the wind farm north of our farms in Melancthon. These are the turbines that were displayed on the scale model of our quarry presented at our open house in April 2011.

**19. While our community has shown its ability to adapt to changing times out of necessity, it remains of the utmost importance that the residents and community have a direct input into their future. What is Highland's plan to incorporate the wants and needs of our community members and what value does the company place on this involvement?**

We very much value our community's input. We have been taking input on our quarry from the community for many years and have incorporated mitigation measures into the quarry design to address community concerns.

The regulatory process to develop a quarry requires a substantial amount of community involvement and input. We have held several open houses on our project and have received over 2,000 letters providing comments about our project. In addition, we have received 3,700 postings with comments on our project forwarded to us by the Ministry of Natural Resources from the Environmental Bill of Rights. We are reviewing these comments and will be required

to attempt to resolve all of the issues presented. Throughout, the Environmental Assessment Act process, there will be many opportunities to include substantial additional community input into our project.

In addition to the regulatory process, we have a voluntary water monitoring program for our neighbours in which we are monitoring many local water wells. We have been holding meetings with participants in this program every six months for the last several years. At these meetings, we discuss the particulars of our monitoring program, address their concerns and listen to their input. We have an open invitation to our neighbours to participate in this program.

We also now have a full time community relations professional resident in Melancthon as a conduit for community input on our project.

Before our quarry begins operations, we will create a community advisory committee, which will allow direct contact between members of the community and the company to address concerns and allow for input.

**20. Highlands has stated in the past that a self-sufficient and sustainable rural community achieves independence by finding a balance between quality of life, local businesses and public funding and that this community can provide the residents with attractive benefits, youth programs and employment opportunities without increasing taxes nor relying on provincial aid. How do you see this evolving in our community? If part of this is improving municipal services, would you be able to elaborate on this?**

Our project will provide an extraordinary opportunity to enhance the prosperity of Melancthon's residents. The direct royalties and taxes paid to the Township will enhance the Township's ability to become self-sufficient and sustainable. By investing in tax reductions and improving amenities and municipal services, the Township will be able to attract stable long term business enterprises and develop appropriate residential communities which further enhance the Township's position.

The decision as to how royalty and tax dollars are ultimately spent is in the hands of elected Council. There are many different types of opportunities for economic development and we are happy to participate in the discussion of how to achieve the right balance in the community.

**21. Can you update on the progress of The Highland Companies to bring family doctors to the area?**

In the past, we have provided support to the Town of Shelburne in its efforts to attract doctors to the area. We are not aware of any present initiatives, but remain willing to assist if we can.

**22. Existing aggregate operations supply aggregates to meet the needs within the province. Will Highland's aggregate operation extend outside of those provincial boundaries?**

In response to question 5 above, we described the critical need for aggregate in the province, specifically in the GTA/GGH.

All of the aggregate extracted from our proposed quarry will go to the GGH/GTA market. Aggregate is typically extracted close to the markets in which it is used because the cost of shipping aggregate represents more than half its total cost. That is why aggregate from our proposed quarry will not be going to China, the US or any other market outside Ontario. All of the aggregate is needed here in the Ontario, specifically the GGH/GTA market where demand is increasing while existing licensed reserves are being depleted without replacement.

**23. As you know this Council has been preparing for an eventual OMB hearing on this application by putting \$100,000 per year away in a reserve fund. It goes without saying that in these tough times, this is a burden that will have negative impact for many people that are struggling to make ends meet. This money might be better spent on just about anything else such as roads and bridges. Are you willing as the Highland Companies Representative to make a commitment to this Council that Highland will pay all of the costs related to the Township of Melancthon's legal and professional costs at any future OMB hearings related to this application, no matter by what reason or by whom this OMB hearing was determined as necessary? I would remind you that in the past other major developers in the wind and aggregate sectors have paid the Township's OMB costs thus taking pressure off their fellow taxpayers. This could be as simple as a yes or no answer.**

As you know, we are already paying for the cost of the peer reviews by Melancthon Township and the Nottawasaga Valley Conservation Authority. We believe that it is too early to speculate on the outcome of these reviews and whether or not there will be a hearing at the Ontario Municipal Board (OMB) and if so, whether or not Melancthon Township will be an opposing participant. We agree that dollars spent by both Melancthon and Highland can be better spent on more important matters and we endeavor to work closely with Council to resolve their concerns about our project.

**24. Who owns 84% of Highland since Baupost only has 16% investment?**

We do not know the source of this information. The principal shareholders are Mr. Lowndes and Baupost. Messrs. Lowndes, Scherer and Izhakoff are the principals responsible for the management of the Highland Companies, including its quarry application.

As a private company, we do not share publicly specific information regarding our ownership structure.