Gadi, Mike and Ken,

Further to the meeting last night, I have been thinking about how we can facilitate the Province's "assumption" option without provoking a lot of extra thinking, conditions and negotiations. In that light, I thought it would be useful to preview an alternative scenario with you before exposing it to others, in order to see if it might accomplish the Province's objectives more easily that the "exchange" and "assumption" mechanics canvassed last night at Torys.

Possible Alternative: In lieu of the current "assumption" option, we would provide for the following:

- The Trust would have a "defeasance option" with respect to all notes and bonds, but exercisable only following a Payment Demand (i.e., demand after a Protection Event)

- The Trust would agree with the Province to exercise the defeasance option and specified termination rights upon a direction by the Province and in no other circumstances

- OPG would ensure that all other Trust obligations (i.e., not notes or bonds) are cancellable at the option of the Trust, on not more than [• months] notice following a Payment Demand, subject to market terms, pricing and conditions applicable for comparable termination rights (similar concept to current Process Agreement, section 6.05)

- If the defeasance option is exercised by the Trust:

    - Province could issue bonds/notes with maturities, interest rates and payment terms identical to and corresponding with the specified terms of the Trust's outstanding notes and bonds

    - In full satisfaction and discharge of the Limited Guarantee in respect of the Trust's outstanding notes and bonds, Province would irrevocably deposit notes and bonds (either newly issued or existing secondary market Provincial notes and bonds having economically equivalent economic terms[1]) into a defeasance account for the benefit of the bond/noteholders[2], sufficient to pay all principal and interest owing under notes

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[1] Sample language: "Government Obligations (full faith and credit is pledged by Province) which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than the due date of any payment, money in an amount, or a combination thereof, sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Indenture Trustee, to pay and discharge, and which shall be applied by the Indenture Trustee to pay and discharge, the principal of and any premium and interest on such securities on the applicable stated maturities or on any redemption date established under the Trust Indenture."

[2] Sample language: "Government Obligations (including the proceeds thereof) deposited with the Indenture Trustee in respect of any securities shall be held in trust and applied by the Indenture Trustee, in accordance with the provisions of such securities and the Trust Indenture, to the payment, either directly or through any such Paying Agent (including the Trust acting as its own Paying Agent) as the Indenture Trustee may determine, to the holders of such securities, of all sums due and to become due thereon in respect of principal and any premium and interest, but money so held in trust need not be segregated from other funds except to the extent required by law. Government Obligations (and the

and bonds as and when they become due and payable in accordance with their respective terms

- The defeasance account would become collateral under the Trust Indenture for the purpose of paying bonds and notes, and Province would be subrogated to the position of existing note/bondholders whose note and bonds have been defeased

- Note/bondholders would be entitled to receive, solely from the defeasance account, payments in respect of the principal of and any interest on their notes and bonds when payments become due

- The Province would pay the Trust any amount required to pay and indemnify the Indenture Trustee against any tax, fee or other charge imposed on or assessed against the Government Obligations deposited into the defeasance account or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the holders of outstanding notes and bonds

- The Trust's obligations with respect to outstanding notes and bonds, and the on-going responsibilities of the Indenture Trustee related to the notes and bonds, would be limited to specified matters, such as the provision of certificates; the mechanics to pass-through funds from the defesance account to pay notes and bonds when due; and the rights, powers, trusts, duties and immunities of the Indenture Trustee

- Province could require the Trust to exercise termination rights under some or all other Trust obligations, provided that Province pays Trust all applicable related termination amounts and charges, whereupon such obligations will be satisfied and the Province's obligations under the Limited Guarantee with respect to such other Trust obligations would be discharged

- Resulting discharge scenarios:

    - If all Trust obligations are defeased or terminated, Collateral would be released from the lien of the Trust Indenture and the Trust could effectively be discontinued[3]

    - If not all Trust obligations are defeased or terminated, Province would continue to observe the Limited Guarantee to the extent of continuing, non-defeased Trust obligations until satisfied, and only after all Trust obligations have been defeased or terminated could the Trust be effectively discontinued.

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proceeds thereof) held pursuant to this Section for the benefit of the holders of subordinated securities shall not be subject to the subordination provisions established with respect to such Securities pursuant to the Trust Indenture."

[3] The Trust would continue to "exist" until the last dollar owing is paid under the outstanding notes. However, all of the related infrastructure and support, and all of the related service providers and charges (other than for the Indenture Trustee), could be discontinued, together with the extensive administration and oversight associated with running the Trust's obligations and functions under the OFHPA program.

<u>Possible Advantages</u>:

- Defeasance is a familiar market convention, and so should be relatively easy to digest by investors and rating agencies in these circumstances, based on market precedents (for example, see attached)

- Since the notes and bonds are technically still outstanding, and since the defeasance condition is not an "exchange", identified issues (e.g., taxes on disposition under an exchange) may not arise or be lessened

- Province can use its own credit by designating only Province debt as "eligible instruments"

- With Trust continuing (albeit hollowed out), the technical issue of a change in investor and rating agency treatment of the outstanding notes and bonds may be much less of a concern

- 'All or nothing' approach to termination of all Trust obligations need not be achieved, subject to consideration of the costs and benefits of allowing certain obligations to continue.

- Complexity of fabricating and explaining an unusual and unprecedented "exchange" mechanic would avoid execution risks

<u>Disadvantages</u>:

- Since the Trust will need to exist until the last debt is repaid from the defeasance account, the Province will not be able to apply a clean "kill shot" to the Trust; although as mentioned, the Trust could be effectively discontinued once other Trust obligations have terminated

- Continued execution, and indirect implementation of the option, through the Trust is more cumbersome than direct rights

- The defeasance option may exact a charge from initial investors to the extent that the market expects to be paid for defeasance rights; although if properly explained, it should be understood not to be real optionality for the Province

- Defeasance may produce "negative carry" to the extent that deposited Province obligations do not perfectly match the payment schedule under existing notes and bonds; although that asymmetry and negative carry can be eliminated by the Province issuing matching obligations

<u>Other Considerations before Tabling the Defeasance Alternative</u>:

- Accounting implications (to be considered by Cindy) for the Province

- Governance and authorization considerations (to be considered by Malle and Toby)

- Cost implications of the Trust continuing to exist (albeit hollowed out) to be considered (OFA)

- Precedent review and consideration (Blakes), to identify any unforeseen or unintended consequences (e.g., tax treatment for investors).