Ontario

MINISTRY OF
ENERGY

Report Back on Secondary Offering, COO Negotiations and MNO Discussions

September 13, 2016

CONFIDENTIAL & COMMERCIALLY SENSITIVE

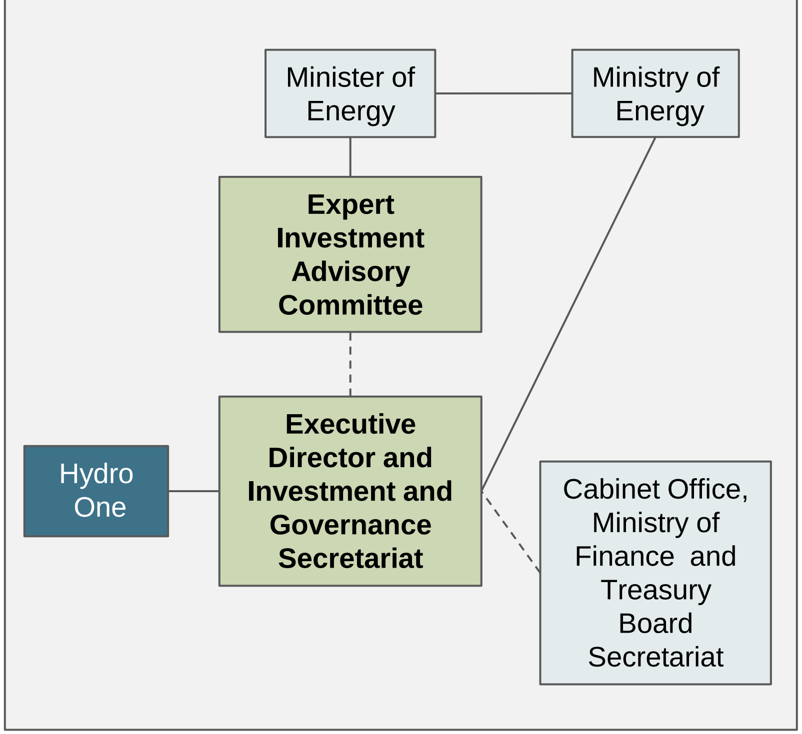
Overview

- The Province is moving forward with the Premier's Advisory Council on Government Assets recommendations to broaden the ownership of Hydro One
- In support of that process, the Ministry:
  - received Treasury Board/Management Board of Cabinet (TB/MBC) approval of a proposed approach for share sales in 2016/17
  - received TB/MBC approval of a revised negotiating mandate for the negotiation with Chiefs of Ontario (COO)
- The Ministry is now providing the report-backs on:
  1. Secondary Offering
  2. COO Negotiation
  3. Métis Nation of Ontario (MNO) Discussion

Overview *(cont'd)*

- Following the IPO, the Ministry of Energy created a separate structure, as shown to the right
  - To support the Minister of Energy in his role as shareholder, an Expert Investment Advisory Committee was established to advise on both investment and governance responsibilities
  - The Committee is supported by an Investment and Governance Secretariat, which is part of the Ministry of Energy
- Through this structure, the Ministry has successfully continued to execute on follow-on Hydro One share sales
  - The secondary offering was completed in April of this year, which reduced the Province's share of Hydro One to ~70%
  - An agreement-in-principle with First Nations to sell up to 2.5% of shares of Hydro One (announced July 12, 2016)
  - The Province will continue with its share sales of Hydro One to ultimately reach 40% ownership

Structure to Support the Minister of Energy as Hydro One Shareholder

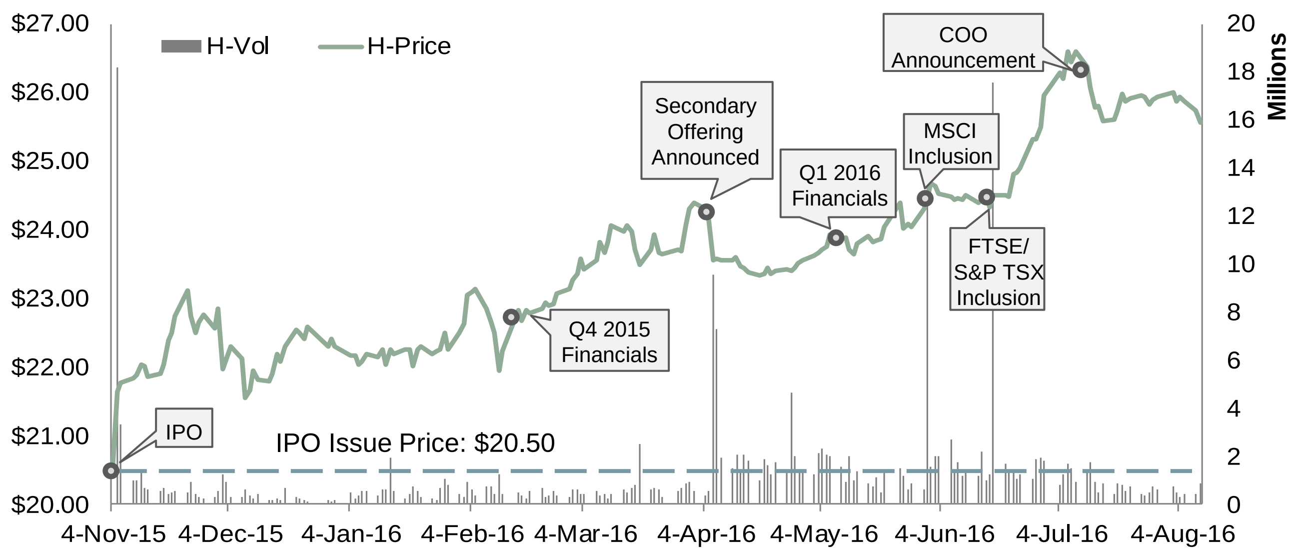


1. Secondary Offering

Context: Share trading data

- Hydro One's share price continues to perform well, trading at ~9% higher than the secondary offering price and ~26% higher than the IPO issue price
- In addition to the secondary offering, Hydro One's inclusion in key indices have also bolstered visibility and trading volumes
  - Hydro One was added to the Morgan Stanley Capital International (MSCI) Index on May 31 and over 13M shares traded that day
  - Hydro One was added to the S&P/TSX Composite and FTSE All-World Indices on June 17 and over 17.5M shares traded on that day, the highest daily trading volume since the IPO

Hydro One Share Trading Performance



As of August 9, 2016 close

Ontario

MINISTRY OF ENERGY

1. Secondary Offering
TB/MBC Mandate

- On March 22, 2016, Treasury Board/Management Board of Cabinet (TB/MBC) approved a secondary share sale strategy for 2016-17 with respect to Hydro One
- The mandate was given to proceed with a transaction within a specific set of parameters as outlined below
- On April 5, the secondary share sale was announced, the base offering closed on April 14 and the overallotment option was exercised in full on April 29, for a total of 14% of Hydro One common shares

	Mandate	**Result**
Offering Size	Sale of ~$2 billion in shares	Achieved ~1.97B
Floor Market Price	$23.30	$24.16 (+3.7%)
Offering Price *(Market Price Net of Discount)*	-	$23.65
Net Price *(Net of Fees, Transaction Cost, and Discount)*	$21.70	$23.16 (+6.7%)
Fees / Transaction Costs and Discounts	Fee: 1-3% Discount: 4-5% **Combined *(Maximum)*: 7%**	Fee: 2% cap *(Institutional @ 1%, Retail @ 3%)* Discount: 2.1% **Combined: 4.1%** (Over 40% Lower)

1. Secondary Offering

IPO and Secondary Process

- A strong group of investment dealers was instrumental in effectively executing on both the IPO and secondary offerings
- For the IPO, the two leads/bookrunners and 14 co-managers/underwriters were selected through rigorous processes outlined below
  - Bids/submissions highlighted credentials, experience, and for the leads, strategy for the IPO
  - All were selected under the observation of Denis Desautels, former Auditor General of Canada and appointed as Special Advisor to the Minister of Energy to advise on the IPO process to ensure fairness and transparency

1. Lead Selection Process:

Evaluation Panel*

1 3 5
2 4 6

Evaluation Process

Under the observation of the Special Advisor to the Minister of Energy

8 candidates invited and responded

2 chosen

2. Co-Manager Selection Process:

Evaluation Panel*

1 3 5
2 4 6
+ 7 8 9

Evaluation Process

Under the observation of the Special Advisor to the Minister of Energy

44 candidates invited

31 responses

14 chosen

***Evaluation Panel Members:**

1. Ministry of Energy Representation
2. Ontario Financing Authority Representation
3. Secretariat for the Premier's Advisory Council Representation
4. Independent Evaluator #1
5. Independent Evaluator #2
6. Independent Evaluator #3

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7. Scotiabank Representation
8. RBC Representation
9. Hydro One Representation

1. Secondary Offering

IPO and Secondary Process (cont'd)

- The process for selecting the leads for the secondary offering built upon the successful IPO process
  - Expert Investment Advisory Committee members and the Investment and Governance Secretariat met with the six leading Canadian banks to discuss the process
  - These banks submitted indicative bids, describing proposed fees and discounts
- The IPO leads Scotiabank and RBC were retained to lead the secondary offering for the following reasons:
  - The lock up period, which the Province entered as part of the underwriting agreement for the IPO, required the approval of the IPO leads (on behalf of the syndicate) for any offering before May 3, 2016
  - The leads demonstrated strong execution capabilities through the successful initial transaction (the IPO) and had a growing knowledge of the company and shareholder base
  - The leads offered the most favorable terms, including a tight fee structure and discount to trading price
- Working with Hydro One, changes were made to the balance of the syndicate (to the right) to reflect management's recent experience with the candidates

Modified Syndicate	IPO	Follow-On
RBC	16.00%	16.50%
Scotia	16.00%	16.50%
BMO	14.00%	14.25%
CIBC	14.00%	14.25%
TD	14.00%	14.25%
National Bank	7.25%	8.00%
Barclays Capital Canada	3.50%	3.50%
Credit Suisse Securities	3.50%	3.50%
Goldman Sachs Canada	3.50%	0.00%
Canaccord Genuity	1.50%	2.00%
Desjardins Securities	1.50%	1.50%
GMP Securities	1.50%	1.50%
Raymond James	1.50%	1.50%
Industrial Alliance Securities	0.75%	1.00%
Manulife Securities	0.75%	0.75%
Laurentian Bank Securities	0.00%	0.75%
Dundee Securities	0.75%	0.25%
Total	**100.00%**	**100.00%**

Changes to allocation outside of Big Six banks

1. Secondary Offering

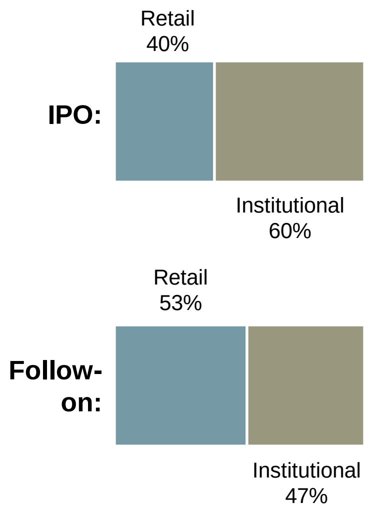
Key Results of Secondary

- On April 5, 2016 after market close, Hydro One announced a $1.71 billion bought deal secondary offering of common shares, which closed on April 14, 2016
  - Notice was given by the underwriters on April 27, 2016 to exercise the over-allotment option, resulting in total proceeds of $1.97 billion, closing two days later on April 29, 2016

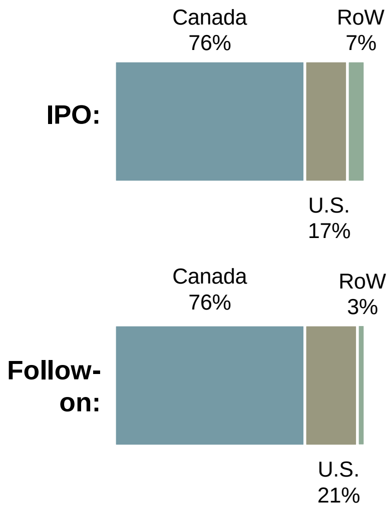
Key Terms

	IPO:	Follow-on:
Issue Size *($)*	$1.83 billion including the over-allotment	$1.97 billion including the over-allotment
Issue Price *($)*	$20.50	$23.65
Offering Size *(# of shares)*	89,250,000 common shares including the over-allotment	83,300,000 common shares including the over-allotment
Over-Allotment Option *(# of shares)*	8,150,000 common shares, or 10% of base offering	10,865,200 common shares, or 15% of base offering
Initial Closing Date	November 5, 2015	April 14, 2016

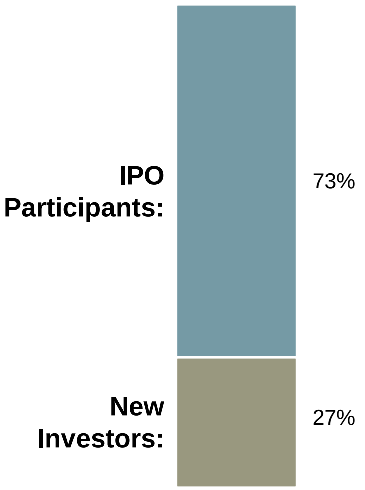
Allocations by Investor Type



Allocations by Geography



IPO Participants vs. New Investors



1. Secondary Offering

Feedback from Leads

Anticipation	• Although timing was uncertain, the secondary offering of Hydro One by the Province of Ontario was anticipated by the market
Retail	• Strong retail placement representing 53% of total allocation
Institutional	• Institutional demand driven by top investors from the IPO adding to positions • Top 5 and 10 institutions represented ~75% and ~90% of institutional allocations, respectively • Only four of the top ten IPO buyers participated in the follow-on offering • Not a lot of new institutional investors as the Province likely would have needed to provide a larger discount to incent new institutional buyers
Tight Discount/Fees	• Consistent investor feedback with respect to the narrow discount • The base deal and over-allotment option took longer to allocate relative to other recent large equity offerings • Scotiabank and RBC indicated they had to give up their work fee in order to bring full syndicate on board
Process	• The syndicate is expecting a fair, transparent and competitive process to determine participation in future share offerings

1. Secondary Offering

Fiscal Plan Estimates

- As shown below, the Province has exceeded its Hydro One gain on sale targets based on the strong offering price with a tight discount/fee structure
  - The gain on the sale (~$600M) was ~$110M higher than the fiscal plan (~$490M)
- The overall fiscal impact of the transaction in 2016-17 was on target at ~$490M, as a result of:
  - OPCD has advised that part of the ~$600M gain (~$70M) in relation to shares acquired by Ontario Power Generation (OPG) may not be recognized as a gain immediately (slide 12)
  - As the sale occurred at the beginning of the fiscal year, forgone Hydro One net income will be higher, partially off-setting the higher gain on sale by ~$40M
- OPCD has advised that gains from the Provincially-loan financed Power Workers' Union (PWU) and Society of Energy Professionals (Society) transactions will not be recognized immediately, affecting the gain on sale to be recognized for 15-16 (~$48M)
- The 2017/18 and 2018/19 plans are in the process of being updated to take into account market conditions, updates to book value and results of recent and upcoming transactions

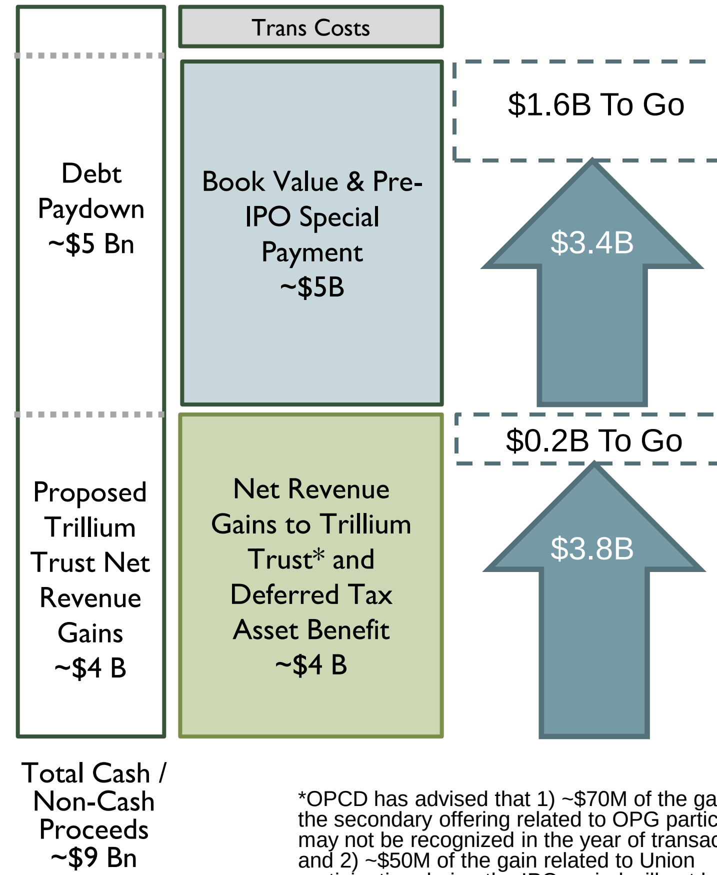
2016 Budget Assumptions	2015/16 (Actual)	2016/17 (Plan)	2016/17 (Actual To-date)	2017/18 (Plan)	2018/19 (Plan)
Gross Price Per Share ($) *(before discounts/transaction costs)*	20.50	22.11	**24.16**	23.45	24.55
Net Price Per Share ($) *(assuming 6.40% discount / fee / transaction cost)*	19.76	20.69	**23.16**	21.95	22.98
Percentage Sold (%)	15.9	14 2/3	**14**	14 2/3	14 2/3
Proceeds ($B) *(net of discount / fee / transaction cost)*	1.90	1.81	**1.93**	1.92	2.01
Gain on Sale	0.8	0.49	**0.60***	0.57	0.62
Deferred Tax Benefit ($B) (To be Updated by Public Accounts)	2.4				

*Includes gain on OPG sale

1. Secondary Offering

Proceeds

- The Province remains on track to generate approximately $9B in gross proceeds and other revenue benefits
  - $3.4B towards $5B target to reduce debt
    - ~$1.0B pre-IPO Hydro One dividend and additional PILs payment
    - ~$1.1B (book value amount) from the IPO and related share sales
    - ~$1.3B (book value amount) from the secondary offering
  - $3.8B towards $4 billion target in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure
    - ~$0.6B gain raised through the secondary offering*
    - ~$0.8B in net proceeds raised through the IPO and related share sales*
    - ~$2.4B non-cash deferred tax asset benefit**



*OPCD has advised that 1) ~$70M of the gain in the secondary offering related to OPG participation may not be recognized in the year of transaction, and 2) ~$50M of the gain related to Union participation during the IPO period will not be recognized in the year of transaction.

** Based on information in Hydro One 2015 Annual Report and subject to adjustment for Public Accounts.

1. Secondary Offering

Ontario Power Generation Participation

- OPG purchased 9M shares in the secondary offering of Hydro One in connection with 15 years of annual share award obligations for its employees, commencing April 2017
  - As part of the collective agreements reached with the PWU and Society last year, OPG agreed to provide annual awards of Hydro One shares (in the context of the increased employee pension contributions required by the collective agreement)
  - OPG's 9M shares mitigate the risk of future price volatility for substantially all of its currently anticipated total obligations through 2032
- OPG was able to benefit from purchasing the shares in the offering rather than the open market
  - Participating in the offering lowered the costs and fees to OPG
  - The alternative, purchasing a large number of shares in the open market, would take several months, and if the market became aware of these purchases, it could increase costs to OPG
- The Ontario Provincial Controller Division (OPCD) has advised that part of the gain in relation to shares acquired by OPG may not be recognized as gains immediately given the Province is the sole shareholder of OPG and it continues to be a majority shareholder in Hydro One
  - Similarly, OPCD has advised that the gain from the Province's transaction with the PWU and the Society will not be immediately recognized and may only be recognized as the loan is paid down.
  - However, even if the estimated ~ $70M gain from the sale of shares to OPG is not included in the 2016/17 Hydro One gain on sale calculation, it is currently anticipated that the 2016/17 gain on sale target will still be exceeded

1. Secondary Offering

Future Considerations

- The Province has met its fiscal target for Hydro One shares sales in 2016/17, and the Ministry should now consider options to most effectively continue on its path to 40% ownership, including:

1. **Size/Timing**: Consider whether continuing on a 15 per cent annual sale path, or if a more accelerated sale is most effective to meet the Province's fiscal objectives

2. **Monetization Mechanisms:** The bought deal structure worked well for this offering and is generally most effective for offerings and issuers of this size and stature. The Province may also want to consider alternatives, given there is now greater liquidity in the market

3. **Lead and Syndicate Selection Process:** While the Province was able to leverage the fair and transparent process undertaken for both the IPO and the secondary offering, the Province will likely renew its process for future offerings
   - Consider a non-deal process in advance of the next offering in order to evaluate and rank the universe of potential leads and syndicate members
   - This would allow for a more streamlined process at the time of the offering (e.g., competing syndicates)
   - A fairness advisor could be hired to ensure a fair, open and transparent process

4. **Hydro One Strategy:** Consider implications of Hydro One business decisions. For example, a large acquisition could dilute the Province's ownership interest closer to, or below, the 40 per cent threshold, assuming the company issues shares to finance the transaction

5. **Government Approval Process**: The Province may want to think about a streamlined approval process for the next offering to limit distribution of sensitive information

2. COO Negotiation

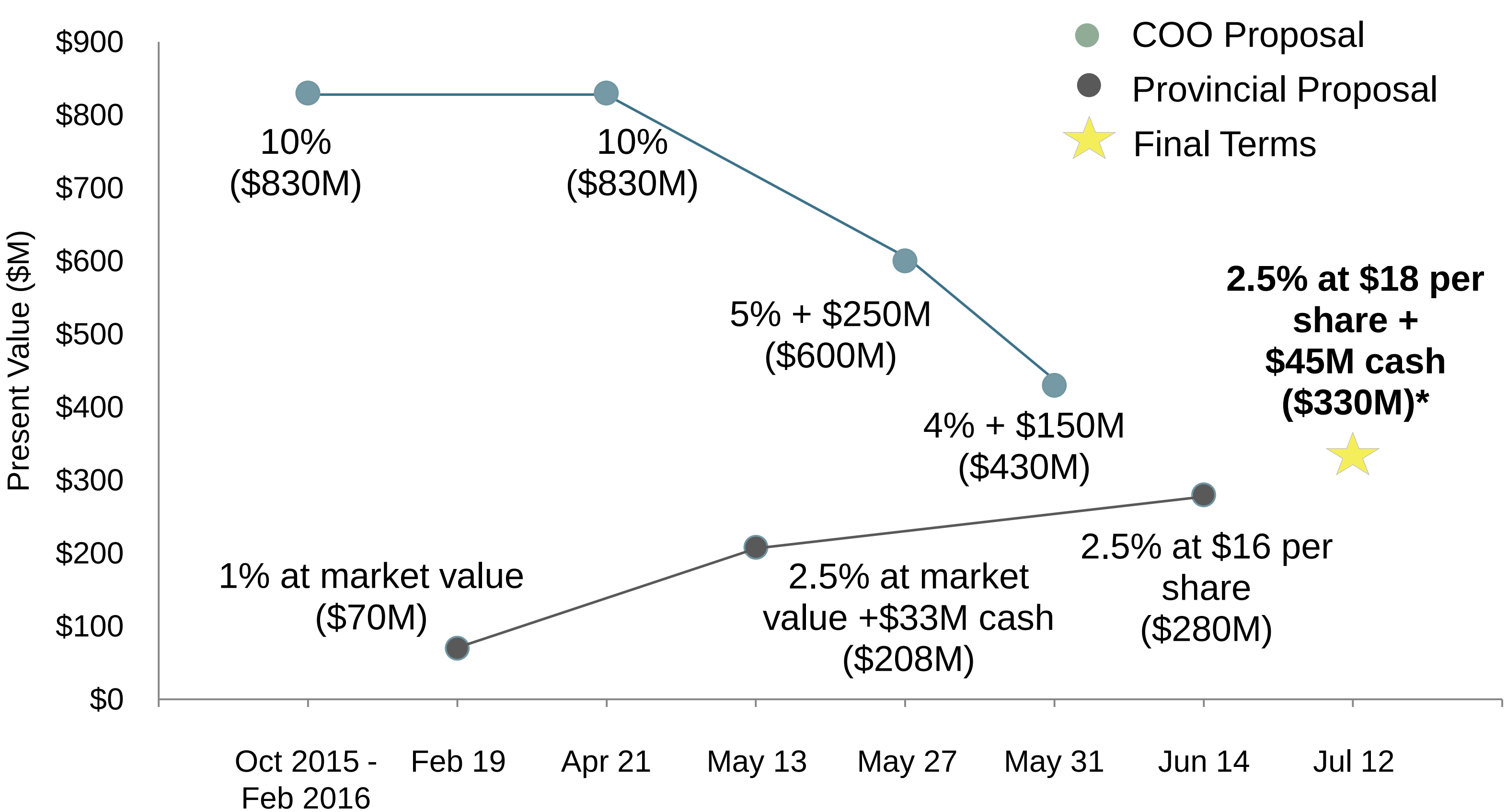
Context

- The Chiefs of Ontario (COO) wrote to Minister Chiarelli on July 13, 2015 advising that First Nations recognize the partial sale of Hydro One as a "significant opportunity…to move past historic grievances and to…share resources and the benefits of the lands."
  - COO stated an expectation to own 10% of Hydro One and to work with the Minister and the Ministry to ensure that ownership of shares is transferred outside of the Initial Public Offering (IPO)
- Minister Chiarelli also received correspondence from Métis Nation of Ontario (MNO) requesting discussions regarding the Hydro One sale
- Minister Chiarelli met with Ontario Regional Chief Day in Thunder Bay on August 26, 2015 and committed to providing capacity funding to assist COO to explore opportunities for First Nation participation in the broadening of the ownership of Hydro One, post IPO
- The negotiations began in January 2016, after the Ministry of Energy received an initial negotiating mandate from TB/MBC to facilitate a purchase of up to 3% of Hydro One shares through terms and conditions that replicate the union share purchase and loan agreements
- TB/MBC revised the negotiating mandate on June 15, 2016, based on insight gleaned from negotiators and where the Province believed it could reach a mutually beneficial agreement
- Minister Thibeault met with Ontario Regional Chief Day in Thunder Bay on June 27, 2016 and confirmed final terms for the agreement-in-principle

2. COO Negotiation

Progression of Negotiations

COO and Provincial Proposals



*Assuming 100% participation

2. COO Negotiation

Comparing June 15 TB Mandate and Final Terms

	June 15 TB Negotiating Mandate	Final Terms
Key Financial Terms:		
Share Value	• Up to 3% of shares *(~17.9M shares)* • Up to Market Value of ~$437M*	• 2.5% of shares *(~14.9M shares)*** • Market Value of ~$364M*
Loan	• Up to $285M • *(equivalent to 3% at $16/share)* • Up to 25 year term	• ~$268M loan plus fees** • *(equivalent to 2.5% at $18/share)* • 25 year term
Value - Loan Ratio	• No less than 130%	• 150%
Immediate Value Provided/ Access to Capital	• Market value – loan value = ~$150M • Cash of up to $60M	• Market value – loan value = ~$96M • Cash of $45M over three years**
Key Non-Financial Terms:		
Release	• Release covers the sale by the Province of 100% of Hydro One shares	• Binding commitment (rather than release) enforceable by the Province from all participating First Nations not to seek damages for or interfere with the sale by the Province of 100% of Hydro One shares
Indemnity	• Indemnity for any claims against pledged shares and (unsecured) against Fund	• Indemnity for any claims against pledged shares and (unsecured) against Fund
Voting rights	• Allowed to vote shares immediately	• Allowed to vote shares immediately

*$24.50 per share, Jun. 17 close
**Assumes 100% participation

2. COO Negotiation

Financial Terms

- Share price at $18 per share
- Loan terms consistent with the union arrangement, except:
  - Term: 25 years (versus 15 years under union arrangement)
  - Repayment: Interest and mandatory principal payments before maturity to be made only to the extent dividends are paid on the shares. Mandatory principal payments before maturity only if the value of the shares is or falls below an agreed margin of 150% on the outstanding value of the loan (versus 200% under union arrangement)
  - Release of Shares: Shares may be released for use by COO as long as an agreed margin of 150% is maintained (versus 200% under union arrangement)
- Cash contribution of $45M ($15M per year assuming 100% First Nations participation, reduced to $30M and prorated if less than 100% participation)
  - $15M in year 1 and up to $15M in each of year 2 and year 3, dependent on participation, which the Ministry of Energy will build into its future budgets.
  - Cash contribution is offset by increasing the price of share sold from $16 (the floor of the TB/MBC mandate) to $18

Present and Nominal Value of Deal:

- Nominal value at the end of year 25 represents ~ $1.1B
  - ~$620M in remaining share value after the loan is repaid
  - ~$290M in net dividends received throughout the term of the loan
  - ~$210M in additional value from leveraging the released shares through private lender
- Present value today of the deal is ~$330M, assuming discount rate of 5.69% and annual market growth of 4.2% for the first four years and 3.5% thereafter

2. COO Negotiation

Non-Financial Terms

Participation Thresholds and Incentives:

- If all 133 First Nations do not approve the transaction within 2 years from the date of the definitive agreements (unless the only First Nation that has not approved by that time is the one that has been identified to the Province), then the Cash Contribution is stepped down by $15M and the shares and remaining cash are pro-rated to reflect actual participation
  - COO confidentially identified one First Nation which may not participate in the deal
- Minimum threshold participation required:
  - 80% (106 First Nations) of the 133 First Nations; representing
  - 80% of the proposed percentage interests in the new vehicle (as determined by COO and set out in the definitive agreements)

Release and Indemnification

- Each participating First Nation shall provide a binding certificate enforceable by the Province confirming that the First Nation shall not (i) initiate any court proceedings or take any other action seeking to prevent or interfere with any sales of common shares of Hydro One by the Province (not limited to 60% of Hydro One shares), (ii) seek damages relating to the IPO or any sales of Hydro One shares, or (iii) seek damages relating to the First Nations' fund vehicle
- Purchaser and the investment fund to provide an indemnity for any losses suffered by the Province as a result of First Nation claims relating to the foregoing, with recourse under the indemnity to the Purchaser's assets, including the pledged shares, and investment fund (the claim against the investment fund is unsecured)

2. COO Negotiation

Non-Financial Terms

- **Voting Rights:** Agree to allow Purchaser voting rights on the pledged and released shares
- **Reps and Warranties on Hydro One**: No representations regarding Hydro One (from Hydro One or Province)
- **Due Diligence:** Allow COO to conduct diligence after announcement and before signing definitive agreements, provided advisors and Chiefs Committee on Energy enter into a confidentiality agreement with Hydro One that prevents disclosure beyond that group
- **Outside Date**: Close by December 2017
- **Standstill:** No First Nation may dispose of or monetize its interest for 5 years after closing
- **Autonomy:** Purchaser will have full autonomy over its investments, without any requirements to report back to the Province on how funds are disbursed

2. COO Negotiation

Required Approvals

- The Ministry is seeking approval for the following related to the COO agreement (see appendix for further details):

1. **Share Purchase and Contribution Agreement**: The Minister of Energy will require approval to sign the share purchase agreement

2. **Loan Agreement**: The Minister of Finance, on behalf of the Province, will advance the loan to the Borrower and require approval to sign the loan agreement

3. **Ancillary Agreements:** Other documents required to facilitate the share purchase and loan agreements

4. **Order in Council**: Authorizing the loan

2. COO Negotiation

Timeline for Agreement

A. Steps to Agreement | B. Steps to Closing | C. Final Payment

Proposed Terms Settled
(Jun 16, 2016)

- Subject to required First Nations approvals

AOCC Approval in Principle
(Jun 29, 2016)

- All Ontario Chiefs Conference approved on June 29
- Followed by settlement of term sheet and joint public announcement on July 12

Definitive Agreements Signed
(Oct 2016 – Apr 2017)

- COO has indicated intention to sign in Oct 2016, but could delay until governance and investment mandate settled (targeted for Apr 2017)
- Prior to signing, Province will require approvals including OIC for Minister of Finance to sign the loan agreement, any necessary exemptions from TB/MBC

Initial Closing
(Apr – Dec 31, 2017)

- Governance and investment mandate of vehicle settled
- Approvals obtained by individual First Nations
- Minimum 80% threshold (by number and equity) required by Dec 31, 2017
- Province contributes first of 3 annual cash amounts ($15M each) to Investment Fund
- Province sells required pro rata percentage of 14.9M Hydro One shares to Purchaser
- Province advances required pro rata percentage of loan to Purchaser

2nd Closing
(Apr - Dec 31, 2018)

- Province contributes $9M or more of second annual cash instalment of up to $15M
- Portion contributed is based on percentage participation achieved by this date
- Province sells further Hydro One shares and advances additional principal amount of loan, based on participation level achieved by this date

Final Pro Ration Determined & 3rd Closing
(Oct 2018 - Dec 31, 2019)

- Non-participating First Nations have 2 years from signing Definitive Agreements to approve and participate
- Province sells balance of Hydro One shares and advances balance of principal amount of loan, based on final participation level

Final Cash Payment (if any)
(Apr - Dec 31, 2019)

- No further cash payment unless 100% participation is achieved by 2nd anniversary of signing Definitive Agreements

3. MNO Discussion

MNO Request

- The MNO wrote to Minister Chiarelli requesting a discussion on the sale of Hydro One in August 2015
  - The Minister expressed an openness to further this discussion, however there were leadership changes at MNO that delayed this process from commencing
- In June 2016, Minister Thibeault received a letter from the new President of MNO requesting a meeting to discuss MNO's interest in broadening the ownership of Hydro One
  - The Minister has responded to this request and a meeting is being coordinated
  - Ministry staff have held preliminary discussions with the CEO of the Métis Nation of Ontario Infinity Trust, who will act as lead negotiator on behalf of MNO to coordinate logistics and timelines
  - It is likely that MNO will seek a similar offer to that reached with COO and has requested capacity funding to support their participation in discussions
- The Ministry received a negotiating mandate for MNO in January at the same time it received its mandate for the negotiation with COO, with a combined maximum allocation of 4 percent of shares on Hydro One
  - However, the Ministry is returning to Treasury Board to refresh this mandate in the context of the First Nation agreement in principle described above
  - As is the case with the COO transaction, any transaction with MNO will have a fiscal impact in the year the transaction closes and the Province will need to find ways to mitigate that impact

3. MNO Discussion

Rationale for Negotiating with MNO

Benefits to Métis:

- Direct economic benefit from equity ownership in Hydro One and long-term value to improve quality of life
- Access to a direct non-governmental revenue stream in the form of dividends, which would improve the financial footing of many Métis
- As Hydro One shareholders, all Métis represented by the MNO would benefit, regardless of size, geography, wealth and access to energy resources
- Become active participants in capital markets
- Own an asset that accumulates value and could be used to collateralize the acquisition of lower-cost debt required to finance economic development projects, once the loan is repaid

Benefits to the Province:

- Demonstrate Ontario's commitment to Métis economic development and to supporting Métis participation in the energy sector
- Help to improve relations and align interests between Métis and Hydro One
- Help improve relations with Métis in Ontario
- Obtain commitment not to interfere with sales of Hydro One shares

Métis unique when compared to First Nations:

- Métis population in Ontario is significantly smaller than that of First Nations
- Economic circumstances on reserves for First Nations are dire
- Métis do not have reserves and their population is dispersed in the province with clusters located in cities and towns
- An existing government sponsored vehicle exists in the Métis Voyageur Development Fund
- Governance structure of the MNO is different from that of First Nations

3. MNO Discussion

MNO Proposed Mandate

- The proposed negotiating mandate with MNO is not an identical or pro-rated version of the final offer to COO based on reasons cited previously
- The Province should seek to reach an agreement which is both beneficial to the MNO and does not have an adverse impact on First Nations approval of the COO proposal
- The following proposed negotiating mandate with MNO will provide negotiators with flexibility, while remaining generally consistent with terms of the COO agreement in principle:
  - **Amount:** up to 2,975,000 shares, which represents 0.5% of the current outstanding common shares outstanding of Hydro One, at a price of no less than $18 per share
  - **Cash Contribution:** none
  - **Term:** the loans mature and become repayable in full up to 25 years from the initial advance
  - **Interest Rate:** the Government of Ontario's borrowing rate for a term equal to the selected interest period, plus 15 basis points
  - **Interest Payments:** are made only from dividends on the shares and are otherwise deferred
  - **Principal Repayments:** Mandatory principal payments before maturity only if the value of shares is or falls below an agreed margin of up to 200% of the loan amount
  - **Recourse and Security:** recourse to the shares effectively be limited to the pledged shares, including dividends received on the shares and the shares may be released from the security to the extent that the value-to-loan ratio exceeds up to 200%
  - **Release and Indemnity:** consider a more expansive release and indemnity relative to the First Nations arrangement given that the Province has not made any commitments to the MNO to discuss grievances separately (but would be prepared to accept commitments comparable to COO agreement-in-principle)
  - **Voting Rights:** Voting rights upon closing

Proposed Minute

Future Offerings

1. RECEIVE a report-back on results of the secondary offering which took place in April 2016
2. DIRECT the Ministry of Energy, working with the Ministry of Finance/OFA and Treasury Board Secretariat to undertake analysis on options to accelerate the sale of the remaining shares with a report back to Treasury Board/Management Board of Cabinet in early 2017 on a recommended approach

Proposed Minute

COO

1. RECEIVE a report back on the results of the negotiations with COO
2. APPROVE that the Ministry of Finance will build in its future year budgets an operating asset of up to $268,000,000 plus any fees of the Borrower's legal and financial advisors not otherwise paid through a transfer payment agreement, up to a negotiated cap, for loans to the entity established by the First Nations for the purpose of borrowing the funds
3. APPROVE the loan agreement to be signed by the Minister of Finance, and the share purchase and contribution agreement to be signed by the Minister of Energy, that include the following key provisions:
   a. The Province will advance term loans in up to three tranches
   b. The loans will be made to the borrowing entity to:
      i. purchase Hydro One common shares; and
      ii. pay for the fees of any legal and financial advisors to COO up to a negotiated cap that are not otherwise paid through a transfer payment agreement
   c. The borrower will be able to vote any shares it owns upon closing of the transaction.
   d. The loans will mature and become repayable in full 25 years from the initial advance.
   e. The interest rate applicable to the interest period (as selected by the borrower) will be the Province's borrowing rate for a term equal to the selected interest period, plus 15 basis points (bps, or 0.15 percentage points).
   f. Interest will be payable in arrears at the end of each fiscal quarter
   g. Interest payments are to be made from quarterly dividends on the shares
   h. If the dividends are insufficient to pay the interest due on any interest payment date, the borrower may elect to defer payment of interest to the next interest payment date
   i. If the market value of the shares pledged by the borrower is greater than 1.5x the outstanding principal and deferred interest on the loan, the borrower may use any dividends in excess of interest payments for its own purposes
   j. If the market value of the shares pledged by the borrower is less than 1.5x the outstanding principal and deferred interest associated with the loans, the borrower must use the excess dividends (i.e. dividends remaining after payment of interest) solely to repay the loans
   k. The borrower may prepay the loans without penalty at the end of an interest period on customary notice and in minimum amounts

Proposed Minute

COO *(cont'd)*

l. If the borrower sells the pledged shares, the proceeds of the sale must be used to repay the loans

m. If there is a change of control of Hydro One Limited for cash, the borrower must repay the loans in full with any net cash proceeds received

n. The loans will be secured by the pledged shares and by dividends received on the pledged shares. If the market value of the pledged shares is more than 1.5x the outstanding principal and deferred interest on the loans, the borrower is entitled to request that the Lender release pledged shares (in minimum amounts to be mutually agreed upon) up to an amount so that the market value of the pledged shares is not less than 1.5X the outstanding principal and deferred interest on the loans.

o. The shares will be sold at $18 purchase price

p. The shares will be sold under a securities law exemption and, therefore, will not be qualified under a prospectus.

4. RECOMMEND an Order in Council to authorize the Minister of Finance to enter into the loan agreement with the vehicle to be established by First Nations and to authorize certain officials to enter into other agreements that are necessary and desirable in connection with the loan agreement
5. AUTHORIZE the Minister of Energy to enter into the Share Purchase and Contribution Agreements with COO
6. NOTE the Ministry of Energy will formally request an expenditure increase of $15,000,000 in 2017-18 to 2019-20 under vote/item 2902-01 for a cash contribution to the Purchaser
7. APPROVE an exemption from the mandatory requirements of the Transfer Payment Accountability Directive to provide autonomy to the Purchaser over the use of the cash contribution of $45,000,000
8. APPROVE an exemption from the mandatory requirements of the Cash Management Directive for all disbursements related to the Purchaser
9. APPROVE a transfer payment appropriation for the difference between the $18 share sale price and the market value of the shares. Market value of the shares to be determined by OFA and OPCD and advised to the Ministry.

Proposed Minute

MNO

1. APPROVE a negotiating mandate for the Ministry of Energy, including:
   a) Sale of up to 0.5 percent of the current outstanding Hydro One shares to MNO at a purchase price no less than $18/share
   b) Terms and conditions including:
      i. Up to a 25 year loan
      ii. Interest rate equal to the Government of Ontario's borrowing rate plus 15 bps spread
      iii. Interest payments made only from dividends on the shares and are otherwise deferred
      iv. Recourse and security effectively limited to the pledged shares
      v. Value-to-loan ratio of up to 200%; if value-to-loan ratio is less than the required margin, excess dividends must be applied to repay principal, and shares may be released from pledge only to the extent value of pledged shares exceed the required margin amount of outstanding loan
   c) The borrower will be able to vote any shares it owns upon closing of the transaction.
   d) An agreement that does not impede the Province from meeting its objectives to sell additional shares of Hydro One during negotiations and after agreement has been reached and to realize from those other sales, sufficient proceeds to meet fiscal objectives
2. DIRECT the Ministry of Energy to report back to Treasury Board/Management Board of Cabinet for approval prior to finalization of the term sheet
3. NOTE the Ministry of Energy will work with MNO in developing a communications protocol in order to enable effective negotiations, including appropriate media blackout
4. NOTE that funding for negotiations would be sourced from existing allocations for future share offerings of Hydro One
5. DIRECT the Ministry of Energy and Ministry of Indigenous Relations and Reconciliation to work with other ministries as appropriate to develop an inventory of both current and planned supports for Métis in order to inform negotiations
6. DIRECT the Ministry of Energy to work with the Ministry of Finance and the Ontario Financing Authority on the loan agreements
7. DIRECT the Ministry of Energy to work with Cabinet Office, Premier's Office, Ministry of Indigenous Relations and Reconciliation, Ministry of Finance and Treasury Board Secretariat on a communications plan