ONTARIO POWER GENERATION

OPG Confidential Exclusive

FOR APPROVAL by the Board of Directors

November 22, 2017

OPG Investment Program and Equity Subscription Plan for Fair Hydro Plan

DECISION REQUIRED

The purpose of this memorandum is to request approval from the Board of Directors of the investment program and the issuance of the corresponding equity required to implement OPG's participation in the Fair Hydro Plan as follows:

- OPG will provide debt financing to the Financing Entity in an amount up to 49% of the amount of the investment interest purchased by the Financing Entity. 44% will be funded by equity issued by OPG to the Province. 5% will be funded by OPG debt issued through its public Medium Term Note Program, approved by the Board in August 2017;
- OPG will seek Shareholder approval to amend its articles to create a new class of shares: "Class A Shares";
- OPG will issue up to $2 billion worth of Class A Shares to the Province; this amount is expected to be sufficient to fund OPG's participation in the FHP over the next two years; and
- Request the Board delegate to OPG management the authority to acquire debt of the Financing Entity and to issue the Class A shares, from time to time, as required to implement OPG's participation in the Fair Hydro Plan.

ISSUE

OPG was authorized by the Board to participate in the Fair Hydro Plan and to acquire debt of the Financing Entity, partially funded through an equity investment by the Province in an amount up to 44% of the aggregate investment interest purchased by the Financing Entity. OPG requires the authority to acquire debt of the Financing Entity. In addition, OPG articles will need to be amended by the Shareholder to create an additional class of non-voting, redeemable shares (Class A Shares) and to issue the required number of Class A Shares periodically to the Province. Board approval is required to seek approval from the Province to amend OPG's articles of amalgamation to create the required Class A Shares and a Board resolution is needed to issue Class A Shares to the Province.

ANALYSIS

The Board previously approved OPG's participation in the Fair Hydro Plan (subject to certain conditions), creation of one or more Financing Entities, and the relevant agreements required to implement a Financing Entity's purchase of investment interests from the IESO, all in accordance with the *Ontario Fair Hydro Plan Act, 2017* and regulations made thereunder (collectively, the "FHP"). OPG's investment program includes investment by OPG, in the form of debt, of up to 49% of the Financing Entity's purchases under the FHP (the "Investment Program"), with senior debt from external sources funding the remaining (minimum) 51%.

The Shareholder (Province) has agreed to fund up to 44% of the total funding required by the Financing Entity, through subscriptions for equity of OPG. OPG has agreed to use those equity subscriptions solely to fund the acquisition of debt issued by the Financing Entities to finance the purchases under the FHP.

OPG will require periodic subscriptions for equity corresponding up to 44% of the funding required by the Financing Entity to purchase investment assets, as determined by the IESO from time to time. The Province will subscribe for OPG's Class A Shares in an amount equivalent to those periodic funding requirements (the "Equity Subscription Plan"). It is currently estimated that approximately $2 billion of equity subscriptions will be required on a rolling two year basis to fund the Investment Program.

To implement the Equity Subscription Plan, OPG will request the Shareholder amend OPG's articles to create a new class of shares—Class A Shares. Class A Shares will be non-voting, and will be redeemable at OPG's option from time to time. It is expected that OPG will redeem such Class A Shares using proceeds from the repayment of the debt at the time the Financing Entity repays such debt. Each Class A Share will be issued to the Province at a value per share equal to total shareholders equity, as determined using OPG's last approved quarterly financial statements, divided by the aggregate number of issued and outstanding Common Shares and Class A Shares.

Based on a rolling two year estimate of $4.5 billion for investment interest purchases by the Financing Entity, and the Province's agreement to subscribe for up to 44% of that total by way of equity subscriptions, this submission is requesting approval of the issuance of up to $2 billion of Class A Shares to the Province (the "Allotted Shares"). The Allotted Shares will be issued in tranches, from time to time, as required to fund debt issued by the Financing Entity to OPG.

The Province will obtain approval of planned equity injections through their appropriations process, which is consistent with the process to review OPG's business plan. In addition, OPG Treasury will report on the issuance of Allotted Shares in its semi-annual Financing Report. Management will return to the Board for approval if it is expected that equity in excess of the Allotted Shares will be necessary to acquire debt of the Financing Entity.

RECOMMENDATION / RESOLUTION

That the Board of Directors approves:

1. the request to seek a Shareholder Resolution to amend OPG's Articles of Amalgamation to create a new class of Class A Shares, substantially as described in this Board Memo;

2. the issue of up to $2 billion of Class A Shares to the Province, in accordance with the Board resolution attached as Appendix 1; and

3. delegation of authority to acquire debt of the Financing Entity in accordance with the resolution attached as Appendix 1.

Recommended by:

Ken Hartwick
Chief Financial Officer and Senior Vice President

Approved for submission to the Board of Directors by:

Jeff Lyash
President and CEO

This Board memo was reviewed and approved for submission to the Board of Directors by the Special Committee at their meeting of November 20, 2017.

APPENDICES

Appendix 1: Board of Directors Resolutions—Issue of Class A Shares and the Acquisition of the Debt of the Financing Entity.

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RESOLUTION OF THE BOARD OF DIRECTORS
OF
ONTARIO POWER GENERATION INC.
(the "**Corporation**")

WHEREAS:

A. The Corporation is authorized to issue an unlimited number of Class A Shares;

B. The Government of the Province of Ontario (the "**Province**") may from time to time subscribe for Class A Shares at a per share price equal to the value of Shareholder's Equity, as determined by the most recently approved quarterly financial statement of the Corporation, divided by the aggregate number of issued and outstanding Common Shares and Class A Shares (a "**Share Price**");

C. At the time of each such Class A Share issuance, the Corporation will receive payment in full for the purchase price of each such Class A Share;

D. The Province will represent and warrant to the Corporation at the time of each Class A Share issuance that it is purchasing such shares as principal and is a "security holder of the Corporation" within the meaning referred to in subsection (2) of section 2 of National Instrument 45-106 of the Canadian Securities Administrators; and

E. The Corporation intends to lend to one or more financing entities (each, a "**Financing Entity**") in connection with the *Ontario Fair Hydro Plan Act, 2017* (the "**Act**"), to fund the acquisition of investment interests (as defined in the Act).

NOW THEREFORE BE IT RESOLVED THAT:

1. The Corporation approves the acceptance of the subscription by the Province for up $2,000,000,000 in aggregate of Class A Shares;

2. The Corporation approves the issuance, in one or more transactions, of up to $2,000,000,000 in aggregate of Class A Shares of the Corporation (collectively the "**Share Issuances**" and each a "**Share Issuance**") as fully-paid and non-assessable to the Province upon receipt of the applicable aggregate Share Price for the applicable Share Issuance;

3. The Corporation approves an addition to the stated capital account maintained for the Class A Shares equal to the aggregate proceeds of each Share Issuance;

4. Any two officers of OPG, including at least one of the Chief Financial Officer or Vice President-Treasurer, are hereby authorized to approve and deliver all such documents, agreements, and instruments, including, for clarity, a subscription agreement with the Province, and to do all such other acts and things as may, in the opinion of such persons be necessary or desirable to facilitate the Share Issuances and to implement the intent of this resolution;

5. The Corporation hereby approves and authorizes the lending to one or more Financing Entities, from time to time, for the purpose of funding the acquisition by the Financing Entity of investment interests (as defined in the Act) (the "**Debt Financing**"), such Debt

Financings to be comprised of the aggregated proceeds of the Share Issuances and debt issued from time to time by the Corporation; and

6. Any two officers of OPG, including at least one of the Chief Financial Officer or Vice President- Treasurer, are hereby authorized to execute and deliver all such documents, agreements, and instruments, and to do all such other acts and things as may, in the opinion of such persons be necessary or desirable to facilitate the Debt Financings and to implement the intent of this resolution.