Special ARC Meeting (January 11, 2018, 3:30pm)

Evelyn, Carlton, Catriona, George, Wendy, Lisa, Jennifer Rowe, John Mauti, Lubna, John Lee, Ken, Jeff, Chris Ginther, Shelley Babin, Les Wong, Brittany Keenan, Lane Doyle,

On phone : Ani, Gerry, Bernard,

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- 2. Accounting of FHP
    - JM: prime forefront of everyones mind is accountingma nd second is day to date accounting
    - Done under both US GAAP and IFRS – obligated to do under US GAAP, and started process to do IFRS given consolidation with province
    - Looking at combination at act itself and itierations of the agreements, fee setup, change of law protection agreemens, etc come to ocnclusion that nothing provides province with ability ot control the trust and allow sus to feel comfortable to sign baseis of consolidation under both US GAAP and IFRS
    - Any rights through documents are protective rights, as guarantor of the debt
    - So conditions support consolidation, high level line by line basis on balance sheet and proposal through P&L is one line from FHT, disclosure being more detaile din notes and MD&A
    - The only key difference between US GAAP and IFRS – set up for financial asset
        - Both led to calling it a intangible asset, so felt it would be appropriate to do it this way and classify it that way and province has no problem with that and some difference in the end n terms of flowing through but fairly small in terms of impact
        - So lots og documentation and details around this open up to questions
        - Lisa: challenges wading through this documentation – rigfht to collect – classification fo financial asset – any concerns about that impacting the constitutional view that this is not an indirect tax
        - Les: not in terms of accountin g more about actual right to collect and how it is structured under FH legislation – in terms of accounting it is a seprate question
        - LD: is that an irrelevant detail or should we look at it?
        - LW: its not so much accountin g- it's the challenge to the legislation and the legislation itself set sout impropose tax and that would be basis of the challeng e
        - LD: no concern that accounting classification would shape the fact of the classification?
        - LW: I wouldn't have thought so – just accounting treatment , just collectionmecanic
        - JL: documentation also reviewed by Torys –
        - LW: province itself looked at if from accounting treatment and knows the treatment – if they thought it would been an issue would have told us
    - GL: intangible asset – is there an example under IFRS that is an intangible asset htat is an earning asset as opposed to good will? Not a big deal since reporting under US GAAP
    - LL: there sno other way of classifying it rather than looking at examples
    - GL: if we ever went back to IFRS reporting and we are the only company in the world earning money on an intangible asset
    - Laney: probably most similar to a royalty interest – the kin dof interest that you would get, and they are classified as an intangible asset . it is a little unusal and nothing exactly the same as this because it is totally passive; royalty at least has something that is revenue generating, but its probsably most similar
    - GL: analysis required on element of both is that the riskness of the debt be reflected – what iw as wondering about is how certain we are abou the DBRS rating being eblow their rating on the senior debt and do we need to publis the rating on the junior debtn

- JL: they will publicany rate – so it will b aavailable – so it in essence it is public
- KH: DBRS will come back AAA on senior and AA for the jnior –
- GL: so no business case for tiering,
- KH: there will be tiering for the DBRS – but confident on the result
- JL: moodys would have ended up AAA, but poltical risk would have capped it because o fhte way the risks were
- GL: any question on the accounting?
- JM: leader from EY form Decembe rand received a final version this morning that is final signed executed documents reflected. Provided ot them so will look at final version in memo received as of yesterday
- GL: maybe we can add the final vesion into the board materials
- CK: OK
- GL: had to read a fair bit to get to the I agree
- Laney: management did very comprehensive analysis and did gereat job of appropriate support under both US GAAP and IRFRS and we are comfortable with the result
- Ani: for 2017 year end, are we going ot be using the US GAAP version of this consolidated with our financial statements?
- JM: yes, the asset acquired on December 21st $1.18B
- Wendy: has KPMG the province's auditor looked at the accounting and do they have questions
- EY: we haven't
- JM: we have been sharing information with the KPMG through IESO and they haven't had information, a uditor general has had some information but in terms of KPMG we are aligned
- Ani: in feb when short term warehouse debt paid to buy 15 year term note – is that reflected as subsequent event or will it be in notes ot financial statements?
- JM: will likely disclose before we file year end results in the note s, and likely MD&A as well
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