



GREEN BOND 2015 NEWSLETTER

Ontario's Green Bond Features

Ontario's Green Bonds

- Carry the full faith and credit of the Province of Ontario.
- Rank pari passu with Ontario's other bonds and are payable without any preference or priority.
- Payments of principal of and interest on the bonds will be a charge on and payable out of the Consolidated Revenue Fund of Ontario.

"Eligible projects" means projects (mainly infrastructure) funded by the Province that have environmental benefits, exclusive of fossil fuel and nuclear energy projects. Eligible projects are located throughout Ontario communities and align with the Province's environmental and climate change policies.

Without limitation, projects in the following sectors will generally be considered eligible:

- Clean transportation;
- Energy efficiency and conservation;
- Clean energy and technology;
- Forestry, agriculture and land management; *and*
- Climate adaptation and resilience.

Alignment with Green Bond Principles

Ontario's Green Bond program aligns with the Green Bond Principles (GBP) maintained by the International Capital Market Association (ICMA).

The GBP are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a green bond.

Assurance

The Center for International Climate and Environmental Research - Oslo (CICERO) provided a second opinion on Ontario's Green Bond framework (available in the Green Bond section of the Ontario Financing Authority (OFA) website).

The Auditor General of Ontario provided an assurance audit on use of proceeds (available in the Appendix, on Page 6).

Future Issuance Plans

The Green Bond program is an ongoing program of the Province of Ontario. The Province launched its first green bond on October 2, 2014 and plans to issue its second green bond during fiscal 2015 – 16.



Inaugural Green Bond Issuance

As the first Canadian province to issue Green Bonds, Ontario is leading the way to establish and develop a Canadian dollar Green Bond market

Inaugural Issuance

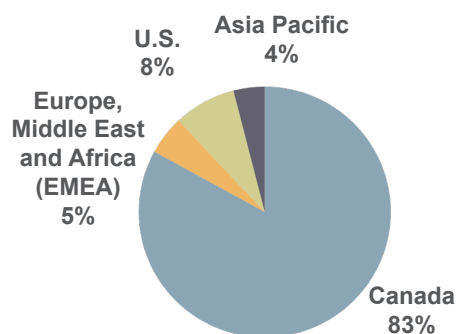
On October 2, 2014, Ontario successfully launched a Green Bond program, with an inaugural global Canadian dollar bond of CAD 500 million, making it the first government in Canada to issue green bonds.

Global offering format was used to leverage and facilitate international investor interest with strong trading liquidity supported by Ontario's Canadian dollar syndicate. This format gives investors the ability to settle in multiple jurisdictions concurrently through any of CDS (in Canada), DTC (in the United States) or Clearstream or Euroclear (in Europe and Asia) if investors are participants of such systems, or indirectly through organizations that are participants in such systems.

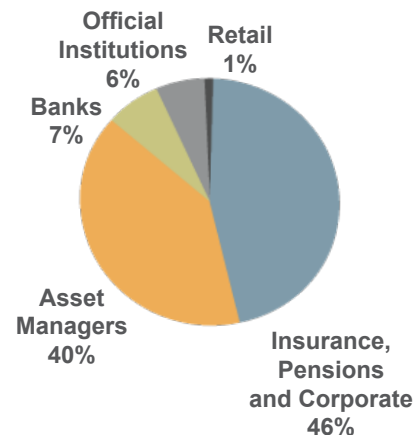
The Eglinton Crosstown light rail transit (LRT) was selected as the green project to receive funding from the inaugural issue, and this project belongs in the clean transportation category (see Page 5 for more detail).

Orders approached CAD 2.4 billion from investors in Canada as well as in the United States, Europe and Asia. Over 80 accounts participated in the transaction with 85% of the deal allocated to investors with Green mandates and/or signatories to the UN Principles for Responsible Investment. Ontario added five new investors and expanded its Canadian dollar investor base by eight names.

Distribution by Geographic Region



Distribution by Investor Type



Transaction Summary

- Issue size: CAD 500 million
- Coupon: 1.75%
- Maturity date: October 9, 2018
- Re-offer spread: 38bps over CAN 1.25% September 1, 2018
- Re-offer price: \$99.823
- Format: Global Canadian dollar bond
- Listing: Luxembourg Stock Exchange Euro MTF Market
- Joint Book Runners: BofA Merrill Lynch, CIBC, HSBC, RBC Capital Markets
- Structural Advisor: SEB
- ISIN: CA68323ACW23

Ontario's first green bond has been included in the following green bond indices:

- Barclays MSCI Green Bond Index
- BofA Merrill Lynch Green Bond Index
- Solactive Green Bond Index
- S&P Green Bond Index



Use of Proceeds

- Green Bond proceeds are paid into the Consolidated Revenue Fund of Ontario and are not in a segregated account. The proceeds are invested short-term in Government of Canada securities.
- An amount equal to the net proceeds of the bonds is recorded in a designated account in the Province of Ontario's financial records. This designated account is used to track the use of and allocation of funds to eligible projects.
- So long as the Bonds are outstanding and the designated account has a positive balance, amounts are deducted from the balance of the account as funds are allocated to eligible projects.
- Green Bond projects are expected to be funded within one year of the date of issue. Green projects will have funding requirements that occur within a twelve month period following and six month period prior to the issue of the green bond.
- An assurance audit by the Auditor General of Ontario verifies the amounts used for selected projects and the balance of proceeds remaining.

Green Bonds Net Proceeds	CAD 498,615,000
Proceeds used for Eglinton Crosstown LRT project - As at March 31, 2015	CAD 202,393,820



Process for Project Evaluation and Selection

The selection of eligible green projects is done on behalf of the Province by the Ontario Financing Authority staff with advice from the Province's Green Bond Advisory Panel (GBAP):

- Only fully approved projects are eligible for consideration. Spending authority for eligible green projects comes through approved ministry and agency spending in accordance with the Province's usual government appropriation and spending processes.
- OFA staff screen projects for all applicable approvals and against eligibility criteria prior to advancing projects to the GBAP for assessment.
- The GBAP, which includes staff from various ministries and agencies, including the Ministry of the Environment and Climate Change and the OFA, evaluates and recommends projects for inclusion in Ontario's Green Bond program.

Selected projects have their funding tracked as well as their progress and environmental performance monitored and reported.

A host of selection criteria is used by the GBAP to assess eligible projects for their suitability for inclusion in Ontario's Green Bond Program. It is specified that:

- Projects should fall within one of the five categories identified in the Province of Ontario's Green Bond Framework;
- In order to reduce financing costs, projects should have funding requirements that occur within a twelve month period following the issuance of the respective green bond and six month period prior to the issue of the green bond;
- Projects should have measurable results (e.g., GHG reductions) or other performance indicators that clearly outline the environmental benefits and features of each project; *and*
- It should also be possible to track the progress and funding for selected projects.

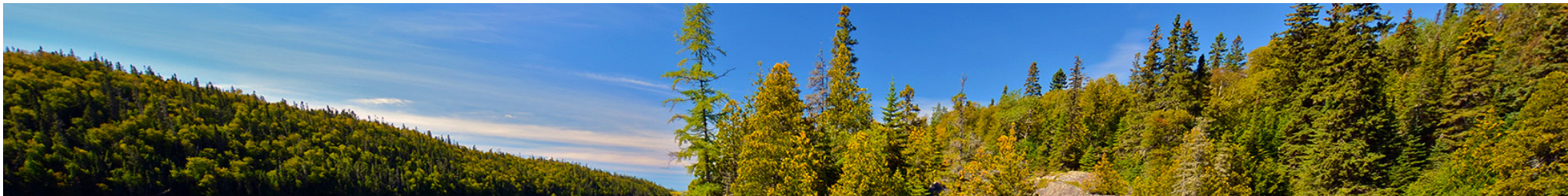
The process can be summarized as:

Ministries and Government Agencies: provide fully approved green projects for consideration

Ontario Financing Authority: screens green projects for all applicable approvals and against eligibility criteria

Green Bond Advisory Panel (GBAP): evaluates and recommends projects for inclusion in Ontario's Green Bond program

Ontario Financing Authority staff: selects projects as recommended by GBAP



Green Bond Project Update

Eglinton Crosstown

Overview

- The Eglinton Crosstown LRT project, which is being administered by Metrolinx, is a CAD 5.3 billion (2010\$) investment by the Government of Ontario to expand transit in Toronto. It is the largest transit expansion in the history of the region and is currently under construction with scheduled completion in 2021. In 2014, the Eglinton Crosstown LRT was selected as the green project to receive funding from the inaugural Green Bond issue.
- The new LRT line will bring 19 new kilometres of rapid transit to Toronto, connecting Mount Dennis in the west to the Toronto Transit Commission's Kennedy Station in the east, and will include a 10-kilometre underground tunnel in its central section between Keele Street and Laird Avenue.
- It will have 25 stations and stops, a link to 54 bus routes, three subway stations and three GO Transit lines. It is anticipated to be up to 60 percent faster than bus service today.
- The Eglinton Crosstown LRT vehicles are electric powered and produce near-zero emissions, making them the right choice for the environment. The Crosstown will also move people more easily and more quickly to their destinations, which will ease traffic congestion and provide an excellent, environmentally friendly travel alternative.

Project Status

- The Eglinton Crosstown LRT project is currently under construction in Toronto.
- Work constructing the 10-kilometre underground tunnel has been underway since 2011. Approximately 4 kilometres of the 6.5-kilometre western segment of the tunnel (between Keele Street and Yonge Street) is complete. Tunnelling on the eastern segment of the tunnel (from Laird Avenue to Yonge Street) began in the fall of 2015. All tunnelling work is expected to be completed by the end of 2016.
- Also in progress along Eglinton is headwall construction, which is a significant aspect of the tunnelling work. Headwalls must be constructed at various points along Eglinton where the 12 underground stations will be located. The headwalls will form a portion of the station boxes, and they must be in place prior to the arrival of the tunnel boring machines.

Project Status (cont.)

- In July 2015, a contract was awarded for delivery of the stations and stops, as well as trackworks, signaling, communications and other required infrastructure for the new LRT line. Some preliminary work will begin on stations in coming months; construction is expected to begin in earnest in early 2017.
- The project is expected to reach completion by September 2021.

Estimated Environmental Benefits

- A reduction of 490,000 tonnes of CO2 emissions by 2031;
- Transit user time savings of CAD 810 million by 2031;
- Auto user time savings of CAD 103 million by 2031;
- CAD 97 million in auto operating costs savings;
- Projected ridership is 5,400 passengers per hour in the peak direction by 2031; *and*
- Reduced auto usage is likely to aid the reduction in Criteria Air Contaminates (CAC) emissions which lead to local air quality improvements.



Metrolinx

- In April 2015, Metrolinx was awarded the American Public Transit Association's (APTA) Sustainability Gold status joining 12 select transportation organizations in North America who currently hold this status with APTA.
- In April 2015, The Metrolinx Energy Management program received a national award in the area of "Corporate Leadership in Environment" from the Canadian Urban Transit Association (CUTA).
- Metrolinx launched a Community Benefits Program targeting employment, apprenticeship and local supplier opportunities for its Toronto transit projects beginning with the Eglinton Crosstown LRT.

Appendix - Auditor General of Ontario's Assurance Audit



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Board of Directors of the Ontario Financing Authority

I have audited the accompanying Schedule of Use of Green Bond Proceeds maturing on October 9, 2018 (the "Schedule") as at March 31, 2015. The Schedule has been prepared by management based on the financial reporting provisions defined in the basis of accounting section below.

Management's Responsibility for the Schedule

Management of the Ontario Financing Authority is responsible for the preparation of the Schedule in accordance with the basis of accounting defined in Note 2 to the Schedule and for such internal control as management determines is necessary to enable the preparation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the Schedule based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.


Opinion

In my opinion, the Schedule of Use of Green Bond Proceeds maturing on October 9, 2018, as at March 31, 2015 is prepared in all material respects, in accordance with the financial reporting provisions defined in the basis of accounting section below.

Basis of Accounting and Restriction on Use

Without modifying my opinion, I draw attention to Note 2 of the Schedule which describes the basis of accounting for the use of green bond proceeds. The Schedule was prepared to assist the Ontario Financing Authority in disclosing its use of green bond proceeds. The determination of the eligibility of the projects under the Ontario Green Bond Framework is the responsibility of the Province and accordingly, I do not express an opinion thereon.

Toronto, Ontario
December 4, 2015


Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

ONTARIO FINANCING AUTHORITY

Schedule of Use of Green Bond Proceeds

As at March 31, 2015

Total Proceeds Received, October 9, 2014	\$498,615,000
Proceeds Used for Eglinton Crosstown Light Rail Transit Project	<u>202,393,820</u>
Balance as of March 31, 2015	296,221,180

Notes to the Schedule of Use of Green Bond Proceeds

1. Background

On October 2, 2014, Ontario launched a Green Bond Program, with an inaugural global Canadian dollar bond of \$500 million, maturing on October 9, 2018. The Green Bonds will be used to help finance transit and other environmentally friendly projects across Ontario. Ontario's Green Bond Framework sets out the types of projects that are eligible for proceeds from Green Bonds. Eligible projects are determined by the Province of Ontario.

2. Basis of Accounting

The Schedule was prepared to track on a cash basis the use of funds generated by the Ontario Green Bonds maturing on October 9, 2018 for selected projects that were approved by the Province under the Ontario Green Bond Framework. The Schedule of Use of Green Bond proceeds shows the net proceeds of the Green Bond issue that is recorded in a designated account in the Province's financial records, which tracks the use of funds for eligible projects. As long as the account has a positive balance, amounts are deducted from the balance of the designated account as funds are used for eligible projects, approved as eligible by the Province.

3. Interest Earned on the Designated Account

Interest earned on the proceeds in the designated account is not available to fund any eligible Green Bond projects. Interest earned is remitted to the consolidated revenue fund of the Province of Ontario.

4. Related Party

Metrolinx is a related party to the Ontario Financing Authority as both agencies are controlled by the Province of Ontario. Metrolinx administers the project to which the green bond proceeds are allocated. As at March 31, 2015, Metrolinx had disbursed an additional \$48,287,159 which had not yet been paid out of Green Bond proceeds by the Ontario Financing Authority.

Approved on behalf of the Board of Directors:


Scott Thompson
Chair


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Chief Executive Officer

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