Recent Trends in the Canadian Capital Markets

Presented By:

Harold R. Holloway, Managing Director
Global Energy and Power Group
Investment Banking

TD Securities
Introduction

- The Ontario Power Authority forecasts Ontario’s power demand to increase at a CAGR\(^{(1)}\) of 1.2% per annum between 2010 to 2027\(^{(2)}\)
  - Coupled with the many planned retirements of aging coal facilities, there will continue to be a significant requirement for new generation capacity in Ontario despite challenging economic conditions

- Ontario’s regulated utilities are expected to continue to require considerable infrastructure upgrades given:
  - Growth in installed capacity and the shift towards renewable energy
  - Need to upgrade aging transmission and distribution infrastructure

- The ability of Ontario’s regulated utilities to raise capital will be critical to the development of Ontario’s infrastructure
  - The regulated returns, as determined by the Ontario Energy Board (“OEB”) must be sufficient to allow Ontario’s regulated utilities to compete for capital

- The following pages provide a capital markets perspective for the OEB to consider during its review of its policy regarding the cost of capital

---

\(^{(1)}\) Compound annual growth rate
\(^{(2)}\) Ontario Power Authority’s Integrated Power System Plan, July 2007
Canadian Credit Market – Recent Trends

- Fewer lenders participating in the credit market
  - Foreign banks that have been struggling with balance sheet and funding issues have withdrawn from the market
- Credit spreads have widened meaningfully
  - Higher funding costs and a lack of liquidity in the Canadian bank market have driven significant pricing increases over the last four quarters
  - However, all-in costs remain low due to the declining the Bankers’ Acceptance (“BA”) rate
- Deal volume has decreased significantly
  - Volume in the leveraged loan market is limited while investment grade deals are still being completed at market terms
- Transactions have shorter maturities
  - Most recently completed transactions have tenors of 3 years or less
- Investor demand for high leverage deals has decreased significantly
  - Transactions with greater than 3.0x leverage are becoming increasingly difficult to execute
Canadian Credit Market – Shrinking Universe

- Over the last 18 months there has been a significant decline in the number of Canadian and foreign lenders participating in the Canadian bank market due to a lack of liquidity, capital constraints and relative value.
- Certain lenders are focusing on existing relationships while others have chosen to conserve capital and withdraw from the market completely.

Canadian Bank Loan Universe – Number of Participants

January 2008
- 56
  - Cautiously Accepting Opportunities / Extending Existing Deals
  - Open For Business
  - 40
  - 16

August 2009
- 37
  - Cautiously Accepting Opportunities / Extending Existing Deals
  - Open For Business
  - 21
  - 16

Source: TD Securities

(1) Including TD Securities
Canadian Credit Market – Financing Costs

Higher funding costs and a lack of liquidity in the Canadian bank market have driven significant pricing increases over the last four quarters.

(1) Underlying loans comprise senior credit facilities brought to the Canadian bank market in each respective quarter that are: (a) greater >$100 million, and (b) the Borrower is rated either BBB+, BBB or BBB- (or equivalent). Margin is the average of each tier of the grid from BBB+ to BBB-. Each quarter comprises 3 to 6 deals. Upfront fees are not included in the margin.

Source: Bloomberg – Bankers Acceptance rates (CDOR)
Total Canadian Market Loan Volumes

For the year ended December 31

For the year ended December 31


$0 $50 $100 $150 $200

in US$ billions

$71 260 deals $128 382 deals $146 384 deals $77 241 deals

$58.0 180 deals $33.7 117 deals

Sharp reduction in loan volumes can be attributed to borrowers preserving "in-the-money" loan facilities and to a significant reduction in Canadian M&A activity

(1) Source: TD Securities
Canadian Bond Market –
Recent Trends

- Market tone has improved significantly
  - The all-in cost of debt is currently attractive as increases in Government of Canada yields through 2009 have been more than offset by declining credit spreads
  - Deal volume has been strong so far in 2009, with $37.7 billion of issuance YTD via 116 deals
  - Investor demand in 2009 started primarily in the utility and infrastructure sectors, but in recent months has expanded to a variety of industries and across the credit spectrum, including several high yield deals

- Public bond portfolios are facing rebalancing
  - Demand for shorter maturities and for non-amortizing structures
  - Strong appetite for product that is backed by “infrastructure-like” businesses and projects with stable cash flows

- Covenants have become more strict
  - Tighter leverage limits for lower rated / weaker credits
  - Increasing demand for change of control covenants
Canadian Bond Market – Deal Activity

### 2009 YTD Utility Issuance

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Issue Date</th>
<th>Ratings</th>
<th>Size (MM)</th>
<th>Coupon</th>
<th>Maturity</th>
<th>Spread</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enbridge Inc.</td>
<td>28-Aug-09</td>
<td>A/A-/Baa1</td>
<td>$400.0</td>
<td>4.77%</td>
<td>02-Sep-19</td>
<td>135 bps</td>
</tr>
<tr>
<td>Enbridge Inc.</td>
<td>28-Aug-09</td>
<td>A/A-/Baa1</td>
<td>$200.0</td>
<td>5.75%</td>
<td>02-Sep-39</td>
<td>185 bps</td>
</tr>
<tr>
<td>Trans Quebec &amp; Maritimes Pipeline</td>
<td>19-Aug-09</td>
<td>A(low)/BBB+</td>
<td>$75.0</td>
<td>4.05%</td>
<td>15-Sep-14</td>
<td>145 bps</td>
</tr>
<tr>
<td>Maritimes &amp; Northeast Pipeline Limited Partnership</td>
<td>19-Aug-09</td>
<td>A/A/A3</td>
<td>$180.0</td>
<td>4.34%</td>
<td>30-Nov-19</td>
<td>160 bps</td>
</tr>
<tr>
<td>Nova Scotia Power Inc.</td>
<td>22-Jul-09</td>
<td>A(low)/BBB/Baa1</td>
<td>$200.0</td>
<td>5.95%</td>
<td>27-Jul-39</td>
<td>195 bps</td>
</tr>
<tr>
<td>Hydro One</td>
<td>13-Jul-09</td>
<td>A(high)/A+/Aa3</td>
<td>$300.0</td>
<td>5.49%</td>
<td>16-Jul-40</td>
<td>162 bps</td>
</tr>
<tr>
<td>Fortis Inc.</td>
<td>25-Jun-09</td>
<td>BBB(high)/A-</td>
<td>$200.0</td>
<td>6.51%</td>
<td>04-Jul-39</td>
<td>260 bps</td>
</tr>
<tr>
<td>Gaz Metro Inc.</td>
<td>15-Jun-09</td>
<td>A/A</td>
<td>$100.0</td>
<td>4.93%</td>
<td>15-Jun-19</td>
<td>140 bps</td>
</tr>
<tr>
<td>FortisBC Inc.</td>
<td>28-May-09</td>
<td>BBB(high)/Baa2</td>
<td>$105.0</td>
<td>6.10%</td>
<td>02-Jun-39</td>
<td>195 bps</td>
</tr>
<tr>
<td>Newfoundland Power Inc.</td>
<td>21-May-09</td>
<td>A/Baa1</td>
<td>$65.0</td>
<td>6.61%</td>
<td>25-May-39</td>
<td>260 bps</td>
</tr>
<tr>
<td>Enbridge Inc.</td>
<td>13-May-09</td>
<td>A/A-/Baa1</td>
<td>$400.0</td>
<td>5.17%</td>
<td>30-Apr-39</td>
<td>195 bps</td>
</tr>
<tr>
<td>Altalink LP (reopening)</td>
<td>11-May-09</td>
<td>A/A</td>
<td>$100.0</td>
<td>5.24%</td>
<td>29-May-19</td>
<td>195 bps</td>
</tr>
<tr>
<td>Enmax Corp</td>
<td>03-Apr-09</td>
<td>A(low)/BBB+</td>
<td>$250.0</td>
<td>5.85%</td>
<td>08-Apr-14</td>
<td>400 bps</td>
</tr>
<tr>
<td>CU Inc.</td>
<td>03-Mar-09</td>
<td>A(high)/A</td>
<td>$120.0</td>
<td>5.93%</td>
<td>06-Mar-24</td>
<td>265 bps</td>
</tr>
<tr>
<td>CU Inc.</td>
<td>03-Mar-09</td>
<td>A(high)/A</td>
<td>$150.0</td>
<td>6.50%</td>
<td>07-Mar-24</td>
<td>275 bps</td>
</tr>
<tr>
<td>Hydro One</td>
<td>26-Feb-09</td>
<td>A(high)/A+/Aa3</td>
<td>$300.0</td>
<td>5.63%</td>
<td>03-Mar-39</td>
<td>232 bps</td>
</tr>
<tr>
<td>Terasen Gas Inc.</td>
<td>19-Feb-09</td>
<td>A/A3</td>
<td>$100.0</td>
<td>6.55%</td>
<td>24-Feb-39</td>
<td>285 bps</td>
</tr>
<tr>
<td>TransCanada PipeLines Ltd.</td>
<td>11-Feb-09</td>
<td>A/A/A3</td>
<td>$300.0</td>
<td>5.05%</td>
<td>14-Feb-14</td>
<td>305 bps</td>
</tr>
<tr>
<td>TransCanada PipeLines Ltd.</td>
<td>11-Feb-09</td>
<td>A/A/A3</td>
<td>$400.0</td>
<td>6.05%</td>
<td>17-Feb-39</td>
<td>430 bps</td>
</tr>
<tr>
<td>FortisAlberta Inc.</td>
<td>10-Feb-09</td>
<td>A(low)/A+/Baa1</td>
<td>$100.0</td>
<td>7.06%</td>
<td>14-Feb-39</td>
<td>320 bps</td>
</tr>
<tr>
<td>Nova Scotia Power Inc. (reopening)</td>
<td>15-Jan-09</td>
<td>A(low)/BBB/Baa1</td>
<td>$50.0</td>
<td>5.75%</td>
<td>01-Oct-39</td>
<td>390 bps</td>
</tr>
<tr>
<td>Hydro One (reopening)</td>
<td>09-Jan-09</td>
<td>A(high)/A+/Aa3</td>
<td>$200.0</td>
<td>5.00%</td>
<td>11-Dec-13</td>
<td>250 bps</td>
</tr>
<tr>
<td>Hydro One (reopening)</td>
<td>08-Jan-09</td>
<td>A/high/A+/Aa3</td>
<td>$100.0</td>
<td>3.89%</td>
<td>19-Nov-10</td>
<td>230 bps</td>
</tr>
</tbody>
</table>

(1) Source: TD Securities
Canadian Bond Market –
Interest Rate Environment

- Rates remain extremely low on a historical basis
- When investors begin to expect rising interest rates, there will be added issuance activity
  - TD Economics forecasts for Government of Canada (“GOC”) yields to remain flat over the next year before beginning to increase

Historical / Forecast GoC Rates (1)

(1) Source: Historical Rates from Bloomberg; Forecasted Rates from TD Economics (September 11, 2009)
Canadian Bond Market – Yield Curve Trends

- Aggressive short-term rate cuts by the Bank of Canada since Q1, 2008 resulted in a rapid steepening of the curve
  - The steepening trend has been exacerbated by inflation concerns which have caused yields in the long end of the curve to increase since the beginning of Q2, 2009

The Government of Canada Yield Curve Yield Curve (1)

Given the steepening of the yield curve, most borrowers are issuing debt with shorter term maturities

(1) Source: Historical Rates from Bloomberg
Canadian Bond Market – Historical All-In Cost of Debt

GOC Yield and Credit Spreads\(^{(1)}\)

`'BBB' Peak = 8.68%  
Spread over 10YR = 4.92%`

`'A' Peak = 7.69%  
Spread over 10YR = 3.93%`

Spreads for Canadian corporations have contracted after moving from historical lows in 2007 to a historical peak in 2008

\(^{(1)}\) Source: Historical Rates from Bloomberg
Canadian Equity Market –
Recent Trends

- The credit crisis and ensuing recession put severe strain on equity markets
  - De-leveraging of the financial system resulted in an increase in market volatility and indiscriminate selling across all sectors
    - The range of daily volatility increased from 1.78% in 2007 to 8.10% in Q4, 2008
  - There was significant outflows from equity mutual funds as many investors outperformed by keeping cash on the sidelines
  - Investors rotated out of riskier stocks and into defensive sectors such as gold and utilities
    - Premium placed on stable cash flow, dividend paying companies such as utilities

- As a result of the strain on equity markets, cost of equity rose dramatically as demonstrated by contracting trading multiples and increasing issuance discounts

- Since the beginning Q2, 2009 the TSX has staged a 29% rally
  - Following better than expected economic and earning numbers, investors have begun to redeploy cash into equities
    - The range of daily volatility improved to 3.16% in 2009 YTD
  - Fund flows into equity markets have been positive since May 2009 (on a monthly basis)
  - Defensive sectors such as utilities began to underperform as the market rebounded
  - Strong interest in dividend / interest paying offerings including preferred shares and convertible debentures

- Despite the recent market rally, valuations remain depressed by historical standards, and risk appetite is considerably lower than 2007
  - The TSX is still down 18% since Q1, 2008 and trading multiples are still depressed by historical standards
  - The amount of cash sitting on the sidelines is still above historical average
Canadian Equity Capital Markets – Issuance Trends

Historical New Issue Mix
Equity new issue volumes in 2009 have already surpassed 2008 levels

Common / Convert Issuance by Sector
Financials dominated 2008 issuance as banks and lifecos bolstered their capital positions

Equity Fund Flows
Dividend/income funds have returned to inflows while growth/value funds continue to experience small outflows

Follow-on Common / Convert Issuance by Execution
Most equity offerings in 2008 and 2009 have been bought given the volatility in equity markets
Although daily price volatility on the S&P/TSX has moderated from the significant spikes evident in Q4/08, it remains elevated compared to the range in 2007.

Source: Bloomberg, from January 1, 2007 to September 17, 2009
Cost of equity financing has increased as forward trading multiples have contracted 4.0x (22%) from Q1, 2007 and as issuance discounts have increased.

The Canadian Utilities Sector is comprised of Canadian Utilities Corp., Emera Inc., Enbridge Corp., Fortis Inc., TransCanada Corp.
## Summary of Financial Conditions

From Q1, 2008 to Q2 2009 Global Financial Markets Experienced a Severe Financial Crisis ...

<table>
<thead>
<tr>
<th>CREDIT MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Credit supply dropped dramatically as global financial institutions announced massive credit related losses</td>
</tr>
<tr>
<td>▪ Cost of funds increased as banks began to hoard cash to shore up their balance sheets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EQUITY MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ The TSX declined 35%⁽¹⁾</td>
</tr>
<tr>
<td>▪ The range of daily equity volatility rose from 1.78% to 8.10%</td>
</tr>
<tr>
<td>▪ Fund flows into the equity markets were negative for 17 of 18 months</td>
</tr>
<tr>
<td>▪ Equity issuance and volumes dropped as public market values contracted</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bond Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ 10 Year “A” and “BBB” credit spreads widened ~390 bps and ~490 bps, respectively</td>
</tr>
<tr>
<td>▪ Demand for longer dated maturities decreased substantially</td>
</tr>
<tr>
<td>▪ Corporate debt issuance volumes dropped off substantially as investors chose to increase their cash holdings to record highs</td>
</tr>
<tr>
<td>▪ The high yield debt market was effectively frozen</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EQUITY MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ The TSX has rallied 29%⁽²⁾ and equity volatility has subsided</td>
</tr>
<tr>
<td>▪ The range of daily equity volatility has declined and stabilized around 3.16%</td>
</tr>
<tr>
<td>▪ Rate of equity fund outflows have turned positive since May but remain negative on a quarterly basis</td>
</tr>
<tr>
<td>▪ Equity issuance volumes and pricing have improved steadily</td>
</tr>
</tbody>
</table>

... Since Q2, 2009 the Capital Markets and the Economy Have Stabilized

<table>
<thead>
<tr>
<th>CREDIT MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Credit spreads remain high by historical standards, but have narrowed since Q4, 2008</td>
</tr>
<tr>
<td>▪ However, all-in cost of borrowing is low given a steep drop in BA rates (from ~4.50% to ~0.50%) since Q1, 2008</td>
</tr>
<tr>
<td>▪ Access to capital has improved, although new deal volumes remains low</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BOND MARKETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ 10 Year “A” and “BBB” credit spreads have narrowed to ~150 bps and ~240 bps, respectively</td>
</tr>
<tr>
<td>▪ However, they respectively remain 80 bps and 140 bps higher than their Q1, 2007 levels</td>
</tr>
<tr>
<td>▪ Debt issuance volumes have increased steadily in 2009 including considerable issuance by Canadian utilities</td>
</tr>
</tbody>
</table>

⁽¹⁾ From January 1, 2008 to March 31, 2009
⁽²⁾ From April 1, 2009 to September 17, 2009
Disclaimer

These materials were prepared exclusively for the benefit and internal use of the TD Securities client to whom it is directly addressed and delivered in order to assist the Company in evaluating, on a preliminary basis, the feasibility of a possible transaction or transactions. These materials were compiled or prepared on a confidential basis solely and exclusively for the use of the Company and not with a view to public disclosure (whether under any securities laws or otherwise). The information is for discussion purposes only. These materials may not be used for any purpose other than as may be specifically contemplated by a written agreement with TD Securities.

The information in this presentation reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. TD Securities’ opinions and estimates constitute TD Securities’ judgment and should be regarded as indicative, preliminary and for illustrative purposes only. In preparing the materials, TD Securities has relied upon documents and information prepared or supplied to TD Securities from the Company and other sources, without independent verification by TD Securities. Any estimates and projections contained herein have been based upon estimates and projections contained in such documents and third party sources and there is no assurance that such estimates and projections will be realized. Neither TD Securities nor any of its employees, affiliates, advisors or representatives makes any representations (express or implied) as to the accuracy or completeness of such information contained herein and nothing contained herein is or shall be construed or relied upon as, a representation, whether as to the past, present or future. Nothing herein should be construed as tax, accounting or legal advice. TD Securities does not have any obligation to update or otherwise revise the materials and information contained herein.

TD Securities believes that these materials must be considered as a whole and that selecting portions of the analyses and the factors considered by TD Securities, without considering all of the factors and analyses together, could create a misleading view of the presentation. The preparation of a presentation such as this is complex and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lend to undue emphasis on any particular factor or analysis.

These materials must not be disclosed, copied or reproduced, distributed or passed to others at any time without the prior written consent of TD Securities.

Notwithstanding anything herein to the contrary, the Company and each of its employees, representatives or other agents may disclose to any and all persons, without limitation of any kind, the U.S. federal and state income tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Company relating to such tax treatment and tax structure insofar as such treatment and/or structure relates to a U.S. federal or state income tax strategy provided to the Company by TD Securities.

TD Securities’ policies prohibit employees from offering, directly or indirectly, a favorable research rating or specific price target, or offering to change a rating or price target, to a subject company as consideration or inducement for the receipt of business or for compensation. TD Securities also prohibits its research analysts from being compensated for involvement in investment banking transactions except to the extent that such participation is intended to benefit investors.

“TD Securities” is a trademark of The Toronto-Dominion Bank and represents TD Securities Inc., TD Securities (USA) LLC., TD Securities Ltd and certain investment and corporate banking activities of The Toronto-Dominion Bank and its regulated subsidiaries. The Toronto-Dominion Bank, TD Bank Europe Ltd and TD Securities Ltd are regulated for investment business conducted in the UK by the FSA. TD Global Finance is regulated for investment business conducted in Ireland by the Central Bank of Ireland. This document is prepared, issued or approved for issuance in the UK and Europe by TD Securities Ltd on behalf of or as agent and introducer for TD Bank.

These materials do not constitute a commitment by any TD Securities entity to underwrite, subscribe for or place any securities or to extend or arrange credit or to provide any other services.