

Updated: September 25, 2009

EB-2009-0096

Exhibit A

Tab 11

Schedule 2

Page 1 of 1

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**PROSPECTUS FOR**

2

**MOST RECENT FINANCING**

3

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Included in this Exhibit is a copy of the \$3.0 billion Medium Term Note Short Form Base

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Shelf Prospectus dated July 27, 2009.

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.*

*This short form prospectus has been filed under legislation in each of the provinces of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities. All shelf information omitted from this shelf prospectus will be contained in one or more shelf prospectus supplements that will be delivered to purchasers together with the base shelf prospectus.*

*This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities to be issued hereunder have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and may not be offered, sold or delivered within the United States of America and its territories and possessions except in certain transactions exempt from the registration requirements of such Act. See "Plan of Distribution".*

*Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Each shelf prospectus supplement will be incorporated by reference into this shelf prospectus for the purposes of securities legislation as of the date of the shelf prospectus supplement and only for the purposes of the distribution of the securities to which the shelf prospectus supplement pertains. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Hydro One Inc., 483 Bay Street, North Tower, 15th Floor, Toronto, Ontario, M5G 2P5, (416) 345-6044 and are also available electronically at [www.sedar.com](http://www.sedar.com).*

## SHORT FORM BASE SHELF PROSPECTUS

New Issue

July 27, 2009



**HYDRO ONE INC.**  
**\$3,000,000,000**  
**Medium Term Notes**  
**(unsecured)**

Hydro One Inc. may offer and issue from time to time medium term notes (the "Notes") in an aggregate principal amount of up to \$3.0 billion in Canadian currency (or the equivalent thereof in other currencies or currency units at the time of issue) during the twenty-five months from the date of issuance of the receipt for this short form prospectus.

The Notes will have a term to maturity of not less than one year and will be issuable in Canadian currency (or in other currencies or currency units at the time of issue) in fully registered definitive or global form, in which case the Notes will be exchangeable only under certain conditions for definitive Notes.

Notes issued hereunder will be direct unsecured obligations of our company, will be issued under a trust indenture in any number of series or separate issues thereof, and will at their respective dates of issue rank *pari passu* with all other unsecured and unsubordinated Indebtedness (as defined below) of our company then outstanding, except as to any sinking fund which pertains exclusively to any particular Indebtedness of our company.

The specific variable terms of an offering of Notes (including the aggregate principal amount of the Notes being offered, the currency or currencies, the issue and delivery date, the form, the maturity date, the interest rate (either fixed or floating and, if floating, the manner of calculation thereof), the issue price, the interest payment date(s), any redemption or repayment provisions, any provisions entitling our company to extend the maturity date of the Notes, whether the Notes are exchangeable or convertible into other securities issued by our company or, subject to appropriate regulatory approval, by another corporation, partnership, unincorporated syndicate or organization, trust or other entity, the name(s) of the dealer(s) offering the Notes, the commission payable to such dealer(s), the method of distribution and the net proceeds to our company) will be set forth in a prospectus supplement or pricing supplement which will accompany this short form prospectus. Unless otherwise indicated in a prospectus supplement or pricing supplement, the Notes will not be listed on any securities exchange.

This short form prospectus does not qualify the issuance of Notes: (i) entitling the holder to exchange or convert the Notes into securities issued by another entity (other than our company); or (ii) in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items. For greater certainty, however, this short form prospectus does qualify for issuance Notes in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as a prime rate or a bankers' acceptance rate, or to recognized market benchmark interest rates, such as CDOR, LIBOR or EURIBOR.

**There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".**

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#### RATES ON APPLICATION

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The Notes may be offered severally by one or more of BMO Nesbitt Burns Inc., Casgrain & Company Limited, CIBC World Markets Inc., HSBC Securities (Canada) Inc., Laurentian Bank Securities Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. pursuant to the dealer agreement referred to under the heading "Plan of Distribution" or such other dealers as may be selected from time to time by our company (the "Dealers"), in each case acting as agent of our company or as principal. Where the Notes are offered by the Dealer(s) as agent, the commissions payable in connection with sales of such Notes shall be agreed from time to time between our company and any such Dealers. Where the Notes are purchased by the Dealer(s) as principal, the Notes shall be purchased at such prices and with such commissions as may be agreed from time to time between our company and any such Dealer(s) for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period and as between purchasers. In each case, the commissions payable, if any, will be set forth in a prospectus supplement or pricing supplement that will accompany and be incorporated by reference in this short form prospectus. Each Dealer's compensation will increase or decrease by the amount by which the aggregate price paid for Notes by purchasers exceeds or is less than the price paid by the Dealer, acting as principal, to our company. We may also offer the Notes directly to potential purchasers pursuant to applicable statutory exemptions at prices and upon terms negotiated between the purchaser and our company.

**BMO Nesbitt Burns Inc., CIBC World Markets Inc., HSBC Securities (Canada) Inc., Laurentian Bank Securities Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. are subsidiaries or affiliates of lenders (the "Banks") that have made a credit facility available to our company. As of July 27, 2009, there is no outstanding indebtedness under this credit facility, however, if and when there is outstanding indebtedness to the Banks under the credit facility or any future credit facility with the Banks, our company may be considered a connected issuer of such Dealers for purposes of securities laws in certain Canadian provinces. See "Plan of Distribution".**

The offering of Notes is subject to the approval of certain legal matters on behalf of our company by Osler, Hoskin & Harcourt LLP and on behalf of the Dealers by Blake, Cassels & Graydon LLP.

Our company's head and registered office is located at 483 Bay Street, North Tower, 15<sup>th</sup> Floor, Toronto, Ontario, M5G 2P5.

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Unless the context otherwise requires, all references herein to currency are references to Canadian dollars.

### DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have been filed with the securities commission or similar authority in each of the provinces of Canada, are specifically incorporated by reference in this short form prospectus:

- (a) the renewal annual information form of our company dated March 31, 2009;
- (b) the comparative audited consolidated financial statements of our company, and the notes thereto, as at and for the fiscal years ended December 31, 2008 and 2007, together with the report of the auditors dated February 11, 2009 on the financial statements as at and for the year ended December 31, 2008;
- (c) management's discussion and analysis of financial results ("MD&A") for the year ended December 31, 2008;
- (d) the comparative unaudited consolidated financial statements of our company, and the notes thereto, as at March 31, 2009 and for the three month periods ended March 31, 2009 and March 31, 2008 together with MD&A for those periods; and
- (e) the comparative audited consolidated financial statements of our company, and the notes thereto, as at and for the fiscal years ended December 31, 2007 and December 31, 2006, together with the report of the auditors thereon dated February 13, 2008.

Updated earnings coverage ratios, as required, will be filed quarterly with the appropriate securities regulatory authorities either as prospectus supplements or as part of our company's unaudited interim and audited annual consolidated financial statements and will be deemed to be incorporated by reference into this short form prospectus for the purposes of the offering of Notes hereunder.

Any documents of the types referred to in paragraphs (a) through (d) above, and any material change reports (except confidential material change reports) and business acquisition reports filed by our company with the securities regulatory authorities in Canada since the end of the financial year in respect of which our then current annual information form is filed, shall be deemed to be incorporated by reference into this short form prospectus. Upon a new annual information form and new annual financial statements and related MD&A being filed by our

company with, and where required, accepted by, the applicable securities regulatory authorities during the currency of this short form prospectus, the previous annual information form, previous annual financial statements and related MD&A, and all previous interim financial statements and related MD&A filed prior to the commencement of our company's financial year in which the new annual information form, new annual financial statements and related MD&A are filed shall be deemed no longer to be incorporated into this short form prospectus for purposes of future offers and sales of Notes hereunder.

A pricing supplement or prospectus supplement containing the specific variable terms for an issue of Notes will be delivered to purchasers of such Notes together with this short form prospectus and will be deemed to be incorporated by reference into this short form prospectus as of the date of the pricing supplement or prospectus supplement, solely for the purposes of the Notes issued under that pricing supplement or prospectus supplement.

**Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded and not incorporated by reference, for purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such prior statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded.**

## FORWARD-LOOKING INFORMATION

This short form prospectus, including the documents incorporated by reference herein, contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about the business of our company and the industry in which we operate and includes beliefs and assumptions made by the management of our company. Such statements include, but are not limited to, statements about the general development of our business, our strategy, future capital expenditures, and expectations regarding developments in the statutory and operating framework for electricity distribution and transmission in Ontario. Additional forward-looking statements are identified in the various documents incorporated by reference in this short form prospectus, including the section entitled "Forward-Looking Information" in our annual information form and the section entitled "Forward Looking Statements and Information" in our MD&A. Words such as "expect", "anticipate", "intend", "attempt", "may", "plan", "will", "believe", "seek", "estimate", and variations of such words and similar expressions are intended to identify such forward-looking statements. The forward-looking statements contained in this short form prospectus, including the documents incorporated by reference herein, are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. In particular, these forward looking statements are based on a variety of factors and assumptions including, but not limited to: no unforeseen changes in the legislative and operating framework for Ontario's electricity market; favourable decisions from the Ontario Energy Board and other regulatory bodies concerning outstanding rate and other applications; no unforeseen changes in rate orders or rate structures for our distribution and transmission businesses; a stable regulatory environment; and no significant event occurring outside the ordinary course of business. These assumptions are based on information currently available to our company including information obtained by our company from third-party sources. Actual outcomes and results may differ materially from what is expressed, implied or forecasted in these forward-looking statements. While we do not know what impact any of these differences may have, our business, results of operations, financial condition and credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements are discussed in more detail under "Risk Factors" in this short form prospectus and in the sections entitled "Forward-Looking Information" and "Risk Factors" in our annual information form and the sections entitled "Risk Management and Risk Factors" and "Forward Looking Statements and Information" in our MD&A. You should carefully consider these and other factors and not place undue reliance on forward-looking statements.

We do not intend, and we disclaim any obligation, to update any forward-looking statements, except as required by law.

## CREDIT RATINGS

The Notes have been rated A+ by Standard & Poor's Ratings Services ("S&P"), A (high) by DBRS Limited ("DBRS") and Aa3 by Moody's Investors Services, Inc. ("Moody's"). The following information relating to credit ratings is based on information made available to the public by the rating agencies.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The rating agencies rate long-term debt instruments by rating categories ranging from a high of AAA to a low of D (C in the case of Moody's). Long-term debt instruments which are rated in the A category by S&P are considered somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligations is still strong. S&P utilizes a plus or a minus modifier to indicate the relative standing within the rating category. Long-term debt instruments which are rated in the A category by DBRS are considered to be of a satisfactory credit quality, with substantial protection of interest and principal. Entities in the A category, however, are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated securities. The "high" modifier indicates relative standing within this rating category by DBRS. Long-term debt instruments which are rated in the Aa category by Moody's are judged to be of high quality and are subject to very low credit risk. Moody's applies numerical modifiers to each generic rating classification from Aa to Caa. The modifier 3 indicates a ranking in the lower end of that generic rating category.

The ratings mentioned above are not a recommendation to purchase, sell or hold our company's debt securities including the Notes and do not comment as to market price or suitability for a particular investor. There can be no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be revised or withdrawn entirely by any or all of S&P, DBRS and Moody's at any time in the future if in their judgment circumstances so warrant.

## ELIGIBILITY FOR INVESTMENT

In the opinion of Osler, Hoskin & Harcourt LLP, counsel to our company, and Blake, Cassels & Graydon LLP, counsel to the Dealers, unless otherwise specified in the applicable prospectus supplement or pricing supplement, the Notes, if issued on the date hereof, would be qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") and the regulations thereunder for a trust governed by a registered retirement savings plan, registered retirement income fund, registered education savings plan, registered disability savings plan, deferred profit sharing plan (other than a trust governed by a deferred profit sharing plan for which any employer is our company or an employer who does not deal with our company at arm's length, within the meaning of the Tax Act) or a tax-free savings account ("TFSA"). Notes will not be a "prohibited investment" for a TFSA provided the holder of the TFSA deals at arm's length with our company for purposes of the Tax Act and does not have a significant interest (within the meaning of the Tax Act) in our company or in a corporation, partnership or trust with which our company does not deal at arm's length for purposes of the Tax Act.

## OUR COMPANY

We are the leading electricity transmission and distribution company in Ontario. We own and operate substantially all of Ontario's electricity transmission system, accounting for approximately 96% of Ontario's transmission capacity as measured by revenues for the year ended December 31, 2008. Our transmission system is one of the largest in North America based on assets as at December 31, 2008. Our distribution system is the largest in Ontario based on assets as at December 31, 2008 and spans approximately 75% of Ontario, serving approximately 1.3 million customers. We have three reportable segments: (1) our transmission business; (2) our distribution business; and (3) our other business.

Our transmission business, which represented approximately \$7.88 billion of our total assets of \$13.88 billion as at December 31, 2008, transmits electricity through an approximately 29,000 circuit-kilometre high-voltage network. We transmit electricity from generators to our own distribution network, 51 local distribution companies and 63 large industrial customers directly connected to our transmission system. We also own and operate 26 facilities that interconnect our transmission system with systems in neighbouring provinces and states.

Our distribution business, which represented approximately \$5.87 billion of our total assets of \$13.88 billion as at December 31, 2008, distributes electricity through our approximately 123,000 circuit-kilometre low-voltage distribution system to municipalities and to rural areas. Customers of our distribution business include 32 local distribution companies that are not directly connected to our transmission system, 47 large industrial customers and approximately 1.3 million rural and urban customers. Hydro One Brampton Networks Inc. is our urban distribution company, serving approximately 130,000 customers in the Greater Toronto Area with approximately 2,700 circuit-kilometres of lines. We also operate through our subsidiary, Hydro One Remote Communities Inc., 18 small, regulated generation and distribution systems in 20 remote communities across Northern Ontario that are not connected to Ontario's electricity grid.

Our other business segment is primarily represented by the operations of Hydro One Telecom Inc. This subsidiary markets dark and lit fibre-optic capacity to telecommunications carriers and commercial customers with broadband network requirements. The assets of this segment constituted \$126 million of our total assets of \$13.88 billion as at December 31, 2008.

The Ontario Energy Board regulates our transmission and distribution businesses and issues rate orders to establish the revenue requirements required to cover the approved cost of these businesses plus a specified rate of return.

The address of the head and registered office and principal place of business of our company is 483 Bay Street, North Tower, 15th Floor, Toronto, Ontario, M5G 2P5.

### **EARNINGS COVERAGE RATIOS**

For the twelve months ended December 31, 2008 and the twelve months ended March 31, 2009, our company's consolidated income before provision for payment in lieu of corporate income taxes and interest expensed was \$903 million and \$898 million, respectively. Interest expense for these periods was \$292 million and \$295 million, respectively. Preferred share dividends declared for these periods were \$18.0 million and \$18.0 million, respectively.

The following table sets forth the earnings coverage ratio for our company for the twelve month period ended December 31, 2008, based on audited information, and for the twelve month period ended March 31, 2009, based on unaudited information, in each case without giving effect to any Notes to be issued under this short form prospectus:

	<b>December 31, 2008</b>	<b>March 31, 2009</b>
Earnings coverage on long-term debt obligations <sup>(1)(2)</sup>	2.50	2.46

- (1) The earnings coverage ratio has been calculated as the sum of net income, interest expense (which is net of capitalized interest) and provision for payments in lieu of corporate income taxes divided by the sum of interest plus preferred dividends declared.
- (2) The earnings coverage ratio has been adjusted to give effect to the issuance on January 13, 2009 of \$100 million of 3.89% medium term notes due November 19, 2010, the issuance on January 14, 2009 of \$200 million of 5.00% medium term notes due November 12, 2013, the issuance on March 3, 2009 of \$300 million of 6.03% medium term notes due March 3, 2039 and the issuance on July 16, 2009 of \$300 million of 5.49% medium term notes due July 16, 2040, as if such notes had been issued at the beginning of each respective twelve month period noted above. For purposes of calculating the earnings coverage ratio for the periods noted above, it has also been assumed that the proceeds of such notes were used to repay medium term notes maturing in February 2009.

### **DESCRIPTION OF THE NOTES**

The following is a summary of the material attributes and characteristics of the Notes, and does not purport to be complete and is qualified in its entirety by reference to the Notes and the Trust Indenture (as defined below).

The terms and conditions set forth in this section "Description of the Notes" will apply to each Note unless otherwise specified in the applicable prospectus supplement or pricing supplement. We reserve the right to set forth in a prospectus supplement or pricing supplement specific variable terms of or amendments to the Notes which are not within the options and parameters set forth in this short form prospectus. References in this section "Description of the Notes" refer to all medium term notes of our company which have previously been or are to be issued under the Trust Indenture.

This short form prospectus qualifies the distribution of \$3.0 billion aggregate principal amount of Notes in Canadian currency (or the equivalent thereof in other currencies or currency units at the time of issue) which have been authorized for issue under the Trust Indenture. This amount is subject to amendment from time to time as determined by our company. Our company has previously issued \$2.25 billion aggregate principal amount of medium term notes under our short form prospectus dated June 21, 2007. Upon the issuance of a final receipt for this short form prospectus, we will not qualify for distribution any additional Notes under the June 21, 2007 prospectus.

Notes issued hereunder will have a term to maturity of not less than one year and will be issuable in Canadian currency (or in other currencies or currency units at the time of issue) in fully registered definitive or global form, in which case the Notes will be exchangeable only under certain conditions for definitive Notes (as described under the subheading “Global Notes” below). Each interest-bearing Note will bear interest at either a fixed rate (a “Fixed Rate Note”) or a floating rate (a “Floating Rate Note”). Notes will be issued from time to time at such rates of interest and at par, at a premium or at a discount, may be subject to redemption or repayment prior to maturity, and may include terms entitling the holder to exchange or convert the Notes into other securities issued by our company, or to extend the maturity dates of the Notes, which terms shall be determined by our company based on a number of factors, including advice from the Dealers. The Notes will be unsecured and will at their respective dates of issue rank *pari passu* with all other unsecured and unsubordinated Indebtedness and obligations of our company then outstanding, except as to any sinking fund which pertains exclusively to any particular Indebtedness of our company.

Neither the aggregate principal amount of Notes which will be issued and sold nor the issue price to the public of the Notes has been established as the Notes will be issued at such times, in such amounts and at such prices as our company determines from time to time. Notes issued hereunder will be offered and sold during the twenty-five months from the date of issuance of the receipt for this short form prospectus at prices negotiated with the purchasers, and the prices at which the Notes will be offered and sold may vary as between purchasers and during the distribution period. The Notes will be issued from time to time at the discretion of our company in an aggregate principal amount not to exceed \$3.0 billion in Canadian currency, or the equivalent thereof calculated at the applicable rates of exchange prevailing at the time of issue of Notes issued in currencies other than Canadian currency.

The specific variable terms of any offering of Notes, including, in the case of Floating Rate Notes, the information necessary for the calculation of interest thereon, will be set forth in a prospectus supplement or pricing supplement to this short form prospectus. Where Notes are offered and sold in currencies other than Canadian dollars, the Canadian dollar equivalent of the offering price and the rate of exchange at the last feasible date will be included in the applicable prospectus supplement or pricing supplement.

## **Trust Indenture**

The Notes will be issued under a trust indenture dated as of June 4, 2001, as supplemented or modified from time to time (the “Trust Indenture”) between our company and Computershare Trust Company of Canada, as trustee (the “Trustee”, which term shall include, unless the context requires, its successors and assigns). The following is a brief summary of the material attributes and characteristics of the Trust Indenture. This summary does not purport to be complete and reference should be made to the Trust Indenture for more detailed information.

The Trust Indenture permits the issuance from time to time of additional unsecured medium term notes without limitation as to aggregate principal amount, subject to compliance with the covenants contained therein.

The Notes will be direct obligations of our company and will rank *pari passu* with all other medium term notes from time to time issued and outstanding under the Trust Indenture and with other present and future unsubordinated and unsecured Indebtedness of our company, except as to any sinking fund which pertains exclusively to any particular Indebtedness of our company. The Notes will not be secured by any mortgage, pledge or charge, except in the circumstances referred to under the heading “Negative Pledge”.

### Negative Pledge

The Trust Indenture contains provisions to the effect that our company will not, nor will it permit any Designated Subsidiary (as defined below) to, create, assume or suffer to exist any Security Interest (as defined below) on any of our or the Designated Subsidiary's assets to secure any Obligation (as defined below) unless at the same time it shall secure all the Notes then outstanding on an equal basis. This covenant is, however, subject to the following exceptions:

- any Security Interest that secures the Obligations of a Designated Subsidiary which exists prior to the date on which it becomes a Designated Subsidiary and which (a) was not incurred in contemplation of that person becoming a Designated Subsidiary and (b) was not applicable to our company or any other Designated Subsidiary or the properties or assets of our company or any other Designated Subsidiary;
- any Security Interest granted by our company or a Designated Subsidiary to secure the Notes;
- any Purchase Money Mortgage (as defined below) or Capital Lease Obligation (as defined below) of our company or any Designated Subsidiary;
- any Security Interest on a property or asset acquired by our company or a Designated Subsidiary that secures the Obligations of a person, whether or not that Obligation is assumed by the acquiring person, which Security Interest exists at the time that property or asset is acquired and which (a) was not incurred in contemplation of that property or asset being acquired and (b) was not applicable to our company or any other Designated Subsidiary or the properties or assets of our company or any other Designated Subsidiary;
- any Security Interest given in the ordinary course of business by our company or a Designated Subsidiary to any bank or banks or other lenders to secure any Indebtedness payable on demand or maturing within 18 months of the date that Indebtedness is incurred or of the date of any renewal or extension of that Indebtedness;
- any Security Interest granted by any Designated Subsidiary in favour of our company or any Wholly-Owned Designated Subsidiary (as defined below);
- any Security Interest on or against cash or marketable debt securities pledged to secure any non-speculative Financial Instrument Obligation (as defined below) which hedges Indebtedness of our company or of a Designated Subsidiary;
- any Security Interest for taxes, assessments, government charges or claims that are being contested in good faith and in respect of which appropriate provision is made in our consolidated financial statements in accordance with, as at any date of determination, accounting principles generally accepted in Canada ("Canadian GAAP");
- Security Interests securing appeal bonds or other similar Security Interests arising in connection with contracts, bids, tenders or court proceedings, including, without limitation, surety bonds, security for costs of litigation where required by law and letters of credit, or any other instruments serving a similar purpose;
- a Security Interest in cash or marketable debt securities in a sinking fund account established by our company in support of a series of Notes;
- a lien or deposit under workers' compensation, social security or similar legislation or good faith deposits in connection with bids, tenders, leases, contracts or expropriation proceedings, or deposits to secure public or statutory obligations or deposits of cash or obligations to secure surety and appeal bonds;

- any lien or privilege imposed by law, such as builders', carriers', warehousemen's, landlords', mechanics' and material men's liens and privileges, and any lien or privilege arising out of judgments or awards with respect to which our company or a Designated Subsidiary at the time is prosecuting an appeal or proceedings for review and with respect to which it has secured a stay of execution pending that appeal or proceedings for review; or any liens for taxes, assessments or governmental charges or levies not at the time due and delinquent or the validity of which is being contested at the time by our company or a Designated Subsidiary in good faith; or undetermined or inchoate lien privileges and charges incidental to current operations which have not at such time been filed pursuant to law against our company or a Designated Subsidiary or which relate to obligations not due or delinquent; or the deposit of cash or securities in connection with any lien or privilege referred to in this clause;
- any minor encumbrance, such as easements, rights-of-way, servitudes or other similar rights in land granted to or reserved by other persons, rights-of-way for sewers, electric lines, telegraph and telephone lines, oil and natural gas pipelines and other similar purposes, or zoning or other restrictions as to our company's use of real property, which do not in the aggregate materially detract from the value of that property or materially impair its use in the operation of the business of our company or a Designated Subsidiary;
- any right reserved to or vested in, whether by statutory provision or otherwise, any municipality or governmental or other public authority to terminate, purchase assets used in connection with or require annual or other periodic payments as a condition to the continuance of, any lease, license, franchise, grant or permit acquired by our company or a Designated Subsidiary;
- any lien or right of distress reserved in or exercisable under any lease for rent and for compliance with the terms of that lease;
- any Security Interest granted by our company or a Designated Subsidiary to a public utility or any municipality or governmental or other public authority when required by that utility, municipality or other authority in connection with the operations of our company or a Designated Subsidiary;
- any reservation, limitation, proviso or condition, if any, expressed in any original grants to our company or a Designated Subsidiary from the Crown; and
- any extension, renewal, alteration, substitution or replacement, in whole or in part, of any Security Interest referred to in the foregoing clauses, provided that the Security Interest is limited to all or part of the same property that secured the Security Interest, the principal amount of the secured Obligations is not increased by that action, the term of the secured Indebtedness is not shortened and the terms and conditions are no more restrictive in any material respect than the Security Interest so extended.

In addition to the Security Interests permitted above, our company or any Designated Subsidiary may create, assume or suffer to exist any Security Interest on any of its assets if, after giving effect to that Security Interest, the aggregate amount of Indebtedness secured by the Security Interests permitted only by this paragraph does not at that time exceed 5% of the Consolidated Net Worth (as defined below) of our company.

#### *Limitation on Funded Obligations*

So long as any of the Notes issued under the Trust Indenture remain outstanding, neither our company nor any of its Designated Subsidiaries will, directly or indirectly, guarantee, incur, issue or become liable for or in respect of any Funded Obligations (as defined below) unless after giving pro forma effect to that guarantee, incurrence, issuance or liability, including the application or use of the resulting net proceeds, the aggregate principal amount of Consolidated Funded Obligations (as defined below) does not exceed 75% of the Total Consolidated Capitalization (as defined below). This covenant, however, will not prevent the incurrence of Capital Lease Obligations, Purchase Money Obligations and non-speculative Financial Instrument Obligations.

### *Ceasing to be a Designated Subsidiary*

The Board of Directors of our company may elect that any Designated Subsidiary cease to be a Designated Subsidiary, except that an election may not be made in respect of any Designated Subsidiary:

- if the Designated Subsidiary owns any Funded Obligations of our company or any shares, voting interests or Funded Obligations of any other Designated Subsidiary;
- if the Designated Subsidiary owns or has any ownership interest in any Principal Property (as defined below); or
- if, after giving effect to the election, our company would not be entitled to issue Funded Obligations in the principal amount of at least \$1.00.

### *Mergers, Consolidations and Sales of Assets*

Our company will not enter into any transaction in which all or substantially all of our property and assets would become the property of any other person, whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless:

- our company shall be the surviving person, or the person, if other than our company, formed by the amalgamation, consolidation or into which our company is merged or that acquires by disposition all or substantially all of the property or assets of our company shall be a company organized and validly existing under the federal laws of Canada or any of its provinces or territories and shall expressly assume, by a supplemental indenture executed and delivered to the trustee in form satisfactory to the Trustee, all of our company's obligations under the Trust Indenture;
- immediately before and after giving effect to the transaction, no Event of Default or event that with the passing of time or the giving of notice, or both, would constitute an Event of Default shall have occurred and be continuing; and
- neither our company nor any successor, either at the time of or immediately after the consummation of any such transaction, will be insolvent or generally fail to meet, or admit in writing its inability or unwillingness to meet, its obligations as they generally become due.

### **Events of Default**

The following are Events of Default under the Trust Indenture with respect to Notes of any series:

- (1) failure to pay any principal or premium, if any, on any Notes when due, at maturity, upon redemption or otherwise and the continuance of such default for a period of five days;
- (2) failure to pay any interest on any Notes when due and the continuance of that default for a period of 45 days;
- (3) the sale, transfer or other disposition of all or substantially all of our undertaking or assets other than in accordance with the covenant described above under "Mergers, Consolidations and Sales of Assets";
- (4) default in the performance or breach of any other covenant or agreement of our company under the Trust Indenture, any supplemental indenture or the Notes and the continuance of that default for a period of 60 days after written notice to our company by the Trustee or by holders of at least 25% of all Notes issued under the Trust Indenture;

- (5) default by our company or any Material Subsidiary (as defined below), whether as primary obligor, guarantor or surety, on any payment of principal, premium, if any, or interest on any Indebtedness, the outstanding principal amount of which Indebtedness exceeds \$100 million in the aggregate, beyond any applicable grace period or failure to perform or observe any other agreement, term or condition contained in any agreement under which that Indebtedness is created, or if any default, failure or other event under that agreement shall occur and be continuing, and the effect of that default, failure or other event is to cause \$100 million or more of that Indebtedness to become due or to be required to be repurchased prior to any stated maturity;
- (6) the rendering of a judgment or judgments, not subject to appeal, against our company or any Material Subsidiary in an aggregate amount in excess of \$100 million by a court or courts of competent jurisdiction, which judgment or judgments remain undischarged and unstayed for a period of 60 days; and
- (7) specified events of bankruptcy, insolvency or reorganization affecting our company or any Material Subsidiary.

If an Event of Default applicable only to the issued and outstanding Notes of a series occurs and is continuing, either the Trustee or the holders of not less than 25% in principal amount of Notes of that series then outstanding may declare the principal of, and interest and premium, if any, on all Notes of that series to be due and payable immediately.

If, however, an Event of Default applicable to all Notes issued and outstanding under the Trust Indenture, or an Event of Default described in clause (5), (6), or (7) above occurs and is continuing, either the Trustee or the holders of not less than 25% in principal amount of all issued and outstanding Notes, treated as one class, may declare the principal amount of all the Notes then outstanding to be due and payable immediately.

Subject to the provisions of the Trust Indenture relating to the duties of the Trustee, in case an Event of Default applicable to any Notes shall occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Trust Indenture at the request or direction of any of the holders of those Notes, unless those holders shall have offered to the Trustee reasonable indemnity. Subject to such provisions for the indemnification of the Trustee, the holders of a majority in principal amount of Notes of all series affected by an Event of Default will have the right to direct the time, method and place of conducting any proceedings for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee in respect of the Notes of all series affected by that Event of Default.

## **Defeasance**

The Trust Indenture requires the Trustee to release our company from its obligations under the Trust Indenture relating to a particular series of Notes if specified conditions are satisfied. Among other things, our company must deposit money or securities for the payment of all principal of and interest and any other amounts on that series of Notes as well as for the payment of the expenses of the Trustee. The deposited money or securities must be denominated in the currency in which principal of these Notes is payable and, in the case of deposited securities, must constitute direct obligations of Canada or specified provinces of Canada or an agency or instrumentality of Canada.

## **Amendments and Waivers**

The Trust Indenture provides that our company and the Trustee may enter into supplemental indentures (“Supplemental Indentures”) without the consent of the holders of the Notes of any or all series to:

- add limitations or restrictions to be observed upon the amount or issue of Notes, provided that such limitations or restrictions shall not be materially adverse to the interests of the holders of the Notes;
- add covenants for the protection of the holders of the Notes of any series;

- provide for any additional Events of Default;
- make such provisions not inconsistent with the Trust Indenture as may be necessary or desirable with respect to matters or questions arising thereunder, including the making of any modifications in the form of the Notes which do not affect the substance thereof and which it may be expedient to make, provided that such provisions and modifications will not adversely affect the holders of Notes;
- provide for the issue of Notes of any one or more series and establish the form and terms of any series of Notes;
- evidence the succession, or successive successions, of successors to our company and the covenants and obligations assumed by any such successor, in accordance with the provisions of the Trust Indenture; and
- giving effect to any extraordinary resolution or ordinary resolution of the holders of Notes in accordance with the Trust Indenture.

Other amendments and modifications of the Trust Indenture, Supplemental Indentures and Notes may be made by our company and the Trustee with the consent of the holders of not less than 66 $\frac{2}{3}$ % (and in certain circumstances, a majority) in principal amount of Notes of all series voting on such amendment or modification and, if the rights of holders of Notes of a particular series of Notes would be affected differently than rights of holders of Notes of other series, not less than 66 $\frac{2}{3}$ % (and, in certain circumstances, a majority) in principal amount of Notes of the series so affected by that modification or amendment voting on such amendment or modification, in each case, voting as one class. However, no modification or amendment may, without the consent of the holder of each outstanding Note of the affected series,

- reduce the principal amount at maturity of, extend the fixed maturity of, or alter the redemption provisions of, those Notes;
- change the currency in which those Notes or any premium or accrued interest is payable;
- reduce the percentage in principal amount at maturity outstanding of those Notes that must consent to an amendment, supplement or waiver or consent to take any action under the Trust Indenture, Supplemental Indenture or those Notes;
- impair the right to institute suit for the enforcement of any payment on or with respect to those Notes;
- waive a default in payment with respect to those Notes;
- reduce the rate or extend the time for payment of interest on those Notes;
- affect the ranking of those Notes in a manner adverse to the holders; or
- make any changes to the Trust Indenture, Supplemental Indentures or those Notes that would result in our company being required to make any withholding or deduction from payments made under or with respect to those Notes.

The holders of 66 $\frac{2}{3}$ % in principal amount of the Notes of all series with respect to which an Event of Default shall have occurred and be continuing, voting as one class, may waive any Event of Default, except in the case of a default in payment of principal with respect to the Notes or except, further, in respect of a covenant or provision which cannot be modified or amended without the consent of the holder of each outstanding Note affected.

## Definitions

In addition to the definitions set out above, the Trust Indenture contains definitions substantially to the following effect:

“*Capital Lease Obligation*” means any monetary obligation of our company or a Designated Subsidiary under any leasing or similar arrangement which, in accordance with Canadian GAAP, would be classified as a capital lease and for the purposes of the Trust Indenture, the amount of Capital Lease Obligations will be the capitalized amount thereof, determined in accordance with Canadian GAAP;

“*Consolidated Funded Obligations*” means the aggregate amount of all Funded Obligations of our company and its Designated Subsidiaries determined on a consolidated basis in accordance with Canadian GAAP;

“*Consolidated Net Worth*” means, as at any date, the consolidated shareholders’ equity of our company and its Designated Subsidiaries as at that date determined in accordance with Canadian GAAP;

“*Contingent Liability*” means any agreement, undertaking or arrangement by which any person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the Obligation of any other person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other person. The amount of any person’s obligation under any Contingent Liability will, subject to any limitation contained in that Contingent Liability, be deemed to be the outstanding principal amount (or maximum principal amount, if larger) of the debt, obligation or other liability guaranteed thereby;

“*Designated Subsidiary*” means any subsidiary which is designated as such by the directors of our company, provided that any such subsidiary may only be so designated if, after giving effect thereto, our company would be entitled under the Supplemental Indenture to issue Funded Obligations in the principal amount of at least \$1.00 and further provided that a subsidiary cannot be so designated if any of its shares are owned by a subsidiary which is not itself a Designated Subsidiary;

“*Financial Instrument Obligations*” means, with respect to any person at any time, the obligations of that person under any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, commodity future, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other similar transaction, including any option to enter into any of the foregoing, or any combination of the foregoing to the extent of the net amount due to or accruing due by the person under that obligation, determined by marking that obligation to market at that time in accordance with its terms;

“*Funded Obligations*” means all Indebtedness created, assumed or guaranteed, which matures by its terms on, or is renewable at the option of the obligor to, a date more than 18 months after the date of the original creation, assumption or guarantee thereof;

“*Indebtedness*” means, without duplication, with respect to any person,

- (1) all obligations of that person for borrowed money, including obligations with respect to bankers’ acceptances and contingent reimbursement obligations, excluding Preferred Securities issued by that person;
- (2) all obligations issued or assumed by that person in connection with its acquisition of property in respect of the deferred purchase price of that property;
- (3) all Capital Lease Obligations and Purchase Money Obligations of that person; and
- (4) all Contingent Liabilities of that person in respect of any of the foregoing;

*“Material Subsidiary”* means, as at any date, a Designated Subsidiary,

- (1) the total assets of which represent more than 10% of the total assets of our company determined on a consolidated basis as shown in the most recently publicly released consolidated financial statements of our company; or
- (2) the total revenues of which represent more than 10% of the total revenues of our company determined on a consolidated basis as shown in the most recently publicly released consolidated financial statements of our company;

*“Obligations”* means, without duplication, with respect to any person, all items which, in accordance with Canadian GAAP, would be included as liabilities on the liability side of the balance sheet of that person as of the date at which Obligations are to be determined, other than Preferred Securities issued by that person; and all Contingent Liabilities of that person in respect of any of the foregoing;

*“Preferred Securities”* means:

- (1) securities which on the date of issue by a person (a) have a term to maturity of more than 30 years, (b) are unsecured and rank subordinate to the unsecured and unsubordinated Indebtedness of that person outstanding on that date, (c) entitle that person to satisfy the obligation to pay the principal or face amount by issuing common shares, (d) entitle that person to defer the payment of interest for more than four years without causing an event of default to occur, and (e) entitle that person to satisfy the obligation to make payments of interest by issuing common shares; and
- (2) shares of any class in the capital of a corporation or securities representing ownership interests in any person other than a corporation which, in either case, are not common shares;

*“Principal Property”* means any of our company’s and our subsidiaries’ fixed assets used for the transmission, transformation and distribution of electricity in Ontario as of June 4, 2001 (the date of the Trust Indenture);

*“Purchase Money Mortgage”* means any security interest, mortgage, pledge, charge or other encumbrance created, issued or assumed by our company or a Designated Subsidiary to secure a Purchase Money Obligation; provided that the security interest, mortgage, pledge, charge or other encumbrance is limited to the property (including associated rights) acquired, constructed, installed or improved using the funds advanced to our company or a Designated Subsidiary in connection with that Purchase Money Obligation;

*“Purchase Money Obligation”* means Indebtedness of our company or a Designated Subsidiary incurred or assumed to finance the purchase price, in whole or in part, of any property (except any Indebtedness which constitutes a Funded Obligation and which was incurred or assumed to finance the purchase price, in whole or in part, of any shares, bonds or other securities) or incurred to finance the cost, in whole or in part, of construction or installation of or improvements to any real property or fixtures provided that such Indebtedness is incurred or assumed within 24 months after the purchase of such real property or fixtures or the completion of such construction, installation or improvements, as the case may be, and includes any extension, renewal or refunding of any such Indebtedness, so long as the principal amount thereof outstanding on the date of such extension, renewal or refunding is not increased;

*“Security Interest”* means any assignment, mortgage, charge (whether fixed or floating), hypothec, pledge, lien, or other encumbrance on or interest in property or assets that secures payment of Indebtedness or Obligation;

*“Total Consolidated Capitalization”* means, at any time and from time to time, without duplication, the sum of (1) the principal amount of all Consolidated Funded Obligations at the time outstanding, and (2) the total share capital of our company at the time outstanding, based upon the stated capital on the books of our company, and (3) the principal amount of all outstanding Preferred Securities referred to in clause (1) of the definition of “Preferred Securities” plus the total amount of (or less the amount of any net deficits in) the contributed or capital surplus of our company and the retained earnings of our company and all Designated Subsidiaries in accordance with Canadian GAAP after adding back the amount shown on the consolidated balance sheet of our company and its

Designated Subsidiaries for minority interests applicable to Designated Subsidiaries and eliminating all intercorporate items, plus the amount of any premium on capital of our company not included in its surplus, and less the amount, if any, by which the capital account of our company or the consolidated capital surplus account of our company and all Designated Subsidiaries (determined in the manner described above) has at any time been increased as a result of any write-up in the value of the shares of a subsidiary which is not a Designated Subsidiary to reflect the equity of our company in its retained earnings or otherwise, or as a result of a restatement of the amount at which any other assets of our company or any Designated Subsidiary are recorded on its books. The amount of Total Consolidated Capitalization of our company and all Designated Subsidiaries at any time shall be ascertained in Canadian dollars; and

*“Wholly-Owned Designated Subsidiary”* means a Designated Subsidiary, all of the outstanding shares in the capital of which are owned, directly or indirectly, by or for our company and/or by or for one or more other Wholly-Owned Designated Subsidiaries.

## **Global Notes**

Notes denominated in Canadian or United States dollars may be issued in the form of fully registered global notes (“Global Notes”) held by, or on behalf of, CDS Clearing and Depository Services Inc. or another corporation performing similar services that is acceptable to the Trustee (the “Depository”) as custodian of the Global Notes and, in such event, Notes will be registered in the name of the Depository or its nominee (a “Nominee”). Purchasers of Notes represented by Global Notes will not receive Notes in definitive form (“Definitive Notes”). Instead, ownership of such Notes will be constituted through beneficial interests in the Global Notes, and will be represented through book-entry accounts of institutions (including the Dealers), as direct and indirect participants of the Depository (“participants”), acting on behalf of the beneficial owners of such Notes. Each purchaser of a Note represented by a Global Note will receive a customer confirmation of purchase from the Dealer from or through whom the Note is purchased in accordance with the practices and procedures of such Dealer. The Depository will be responsible for establishing and maintaining book-entry accounts for its participants having interests in Global Notes.

Currently, CDS Clearing and Depository Services Inc. only allows depository eligibility for securities denominated in Canadian or United States dollars. Any Notes denominated in a currency other than Canadian or United States dollars will be represented by Definitive Notes until such time as the Depository allows depository eligibility for issues of securities denominated in such currencies.

If Global Note(s) are issued and the Depository notifies our company that it is unwilling or unable to continue as depository in connection with the Global Notes, or if at any time the Depository ceases to be a clearing agency or otherwise ceases to be depository and our company and the Trustee are unable to locate a qualified replacement, or if our company elects to terminate the book-entry system, beneficial owners of Notes represented by Global Notes will receive Definitive Notes.

## **Fixed Rate Notes**

Each Fixed Rate Note will bear interest from its original issue date at the rate per annum on the face thereof until the principal amount thereof is paid or made available for payment. Interest on a Fixed Rate Note will be calculated and payable monthly, quarterly, semi-annually or annually in arrears on the dates specified in such Fixed Rate Note, or other such dates as may be agreed to between the purchaser of the Note and our company (each, an “Interest Payment Date”) and at maturity or upon earlier redemption or repayment. Interest Payment Dates will be set forth in the applicable prospectus supplement or pricing supplement for the Fixed Rate Note. Each payment of interest in respect of an Interest Payment Date will include interest accrued to but excluding such Interest Payment Date.

## **Floating Rate Notes**

Each Floating Rate Note will bear interest from its original issue date at rates described in the Floating Rate Note and specified in the applicable prospectus supplement or pricing supplement.

The rate of interest on each Floating Rate Note will be reset monthly, quarterly, or as otherwise specified in the Floating Rate Note and applicable prospectus supplement or pricing supplement. Interest on each Floating Rate Note will be payable monthly, quarterly or as otherwise specified in the Floating Rate Note and applicable prospectus supplement or pricing supplement. Unless otherwise specified in the Floating Rate Note and applicable prospectus supplement or pricing supplement, our company will be the calculation agent with respect to the Floating Rate Notes. Upon request of the holder of any Floating Rate Note, our company will provide the interest rate then in effect.

### **Payment of Interest and Principal**

Interest on each interest bearing Note will be payable on such periodic basis or at maturity and on such date or dates as may be agreed upon by our company and the purchaser of the Note. Payments of interest on each interest bearing Definitive Note will be made by cheque payable on the interest payment date and mailed to the address of, or if so directed by the holder, funds representing the interest payable will be forwarded by electronic funds transfer on the interest payment date to the account of, the holder appearing on the registers maintained by Computershare Trust Company of Canada, as registrar and transfer agent (the "Transfer Agent", which term shall include such other registrar or transfer agent as may from time to time be appointed by our company) at the close of business in the City of Toronto on the tenth business day (being a day other than Saturday, Sunday, or a day on which financial institutions at the place of payment are authorized or obligated by law or regulation to close) prior to the interest payment date or such other day specified to the Trustee by our company and reflected in a Supplemental Indenture for a particular series of Notes. Payment of principal will be made at any branch in Canada of the bank designated in a Definitive Note against surrender of the Note.

Payment of interest and principal on each Global Note will be made to the Depository or the Nominee, as the case may be, as the registered holder of the Global Note. Interest payments on Global Notes will be made by wire transfer on the date interest is payable and delivered to the Depository or the Nominee, as the case may be, two business days before the date interest is payable. Principal payments on Global Notes will be made by wire transfer on the maturity date delivered to the Depository or the Nominee, as the case may be, at maturity against receipt of the Global Note. As long as the Depository or the Nominee is the registered owner of a Global Note, the Depository or the Nominee, as the case may be, will be considered the sole owner of the Global Note for the purposes of receiving payment on the Note and for all other purposes under the Trust Indenture and the Note.

Our company expects that the Depository or Nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts, on the date principal or interest is payable, with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of the Depository or the Nominee. Our company also expects that such payments of principal and interest by participants to the owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such participants. The responsibility and liability of our company and the Trustee in respect of Notes represented by Global Notes is limited to making payment of any principal and interest due on such Global Notes to the Depository or the Nominee.

Payments of interest and principal will be made in the currency in which the Note is denominated unless otherwise specified in the applicable prospectus supplement or pricing supplement.

If the payment date for any amount of principal or interest on any Note is not, at the place of payment, a business day such payment will be made on the next business day and the holder of such Note shall not be entitled to any further interest or other payment in respect of such delay.

### **Transfers**

The registered holder of a Definitive Note may transfer such Note upon payment of taxes incidental thereto, if any, by executing the form of transfer provided on the reverse side of the Note and surrendering the Note to the Transfer Agent at its principal office in the City of Toronto, upon which one or more new Definitive Notes will be

issued in authorized denominations in the same aggregate principal amount as the Note so transferred, registered in the name or names of the transferee or transferees.

Transfers of beneficial ownership in Notes represented by Global Notes will be effected through records maintained by the Depository for such Global Notes or the Nominee (with respect to the interest of participants) and on the records of participants (with respect to the interest of beneficial owners other than participants). Beneficial owners of an interest in a Note represented by a Global Note who are not participants in the Depository's book-entry system, but who desire to purchase, sell or otherwise transfer ownership of or other interests in Global Notes, may do so only through participants in the Depository's book-entry system. A purchaser's interest in a Note represented by a Global Note will only be exchangeable for Definitive Notes in the limited circumstances set forth under the subheading "Global Notes" above and in accordance with the procedures established by the Depository or the Nominee.

The ability of a beneficial owner of an interest in a Note represented by a Global Note to pledge the Note or otherwise take action with respect to such owner's interest therein other than through a participant may be limited due to the lack of a physical certificate.

No transfer of a Note will be registered during the 10 business days immediately preceding any date fixed for payment of interest on such Note or payment of the principal amount thereof.

#### **PLAN OF DISTRIBUTION**

The Notes may be offered for sale severally and on a continuous basis by one or more of BMO Nesbitt Burns Inc., Casgrain & Company Limited, CIBC World Markets Inc., HSBC Securities (Canada) Inc., Laurentian Bank Securities Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. pursuant to an agreement dated July 27, 2009 among such dealers and our company (the "Dealer Agreement") or such other dealers as may be selected from time to time by our company, in each case acting as agent of our company or as principal. Where the Notes are offered by the Dealer(s) as agent(s), the commission payable by our company shall be agreed from time to time between our company and any such Dealer(s). Where the Notes are purchased by the Dealer(s) as principal, the Notes shall be purchased at such prices and with such commissions as may be agreed from time to time between our company and any such Dealer(s) for resale to the public at prices to be negotiated with each purchaser. Such resale prices may vary during the distribution period as between purchasers. Each Dealer's compensation will increase or decrease by the amount by which the aggregate price paid for Notes by purchasers exceeds or is less than the price paid by the Dealer, acting as principal, to our company. The commission payable in connection with sales of Notes shall be no higher than 1.5% and shall be set forth in a prospectus supplement or pricing supplement that shall accompany this short form prospectus. Our company has agreed to reimburse the Dealers for certain expenses and to indemnify each Dealer against certain liabilities.

Our company may also offer the Notes directly to potential purchasers pursuant to applicable statutory exemptions at prices and upon terms negotiated between the purchaser and our company.

Our company and, if applicable, the Dealers, reserve the right to reject any offer to purchase the Notes in whole or in part. Our company also reserves the right to withdraw, cancel or modify the offering of the Notes under this short form prospectus without notice. In addition, the obligations of the Dealers to purchase any particular issue of Notes may be terminated at the discretion of the Dealers upon the occurrence of certain stated events as set out in detail in the Dealer Agreement. However, the Dealers are obligated to take up and pay for all Notes of a particular issue if any of the Notes of that issue are purchased under the Dealer Agreement.

In connection with any offering of Notes, the Dealers may, when acting as an agent or purchasing as principal, over-allot or effect transactions which stabilize or maintain the market price of the Notes offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Dealers may from time to time purchase and sell the Notes in the secondary market but are not obliged to do so. There is no market through which Notes may be resold and purchasers may not be able to resell Notes

purchased under this short form prospectus. The offering price and other selling terms for any sales in the secondary market may, from time to time, be varied by the Dealers.

The offering of Notes hereunder is directed only to residents of the provinces of Canada and in the United States in certain circumstances exempt from the provisions of the United States Securities Act of 1933, as amended (the "Securities Act"). The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act, including transactions under Rule 144A under the Securities Act. The Dealers have agreed that offers and sales by them of Notes in the United States of America, its territories or possessions will only be made to "qualified institutional buyers" pursuant to the exemption in Rule 144A under the Securities Act. In addition, until 40 days after the commencement of the offering of an issue of Notes, an offer or sale of that issue within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption under the Securities Act.

BMO Nesbitt Burns Inc., CIBC World Markets Inc., HSBC Securities (Canada) Inc., Laurentian Bank Securities Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc. and TD Securities Inc. are subsidiaries or affiliates of Canadian chartered banks (the "Banks") which are lenders to our company under an amended and restated credit facility dated August 10, 2007, of up to \$1.0 billion (as amended and restated from time to time, the "Credit Facility") which is used to backstop the issuance of commercial paper. As of July 27, 2009, there was no outstanding Indebtedness under the Credit Facility. Proceeds from the sale of particular series or issues of Notes in which such Dealers are acting as principals or agents may be used to repay Indebtedness under the Credit Facility, on the basis of each Bank's rateable portion of the Credit Facility. Consequently, if and when there is outstanding Indebtedness to the Banks under the Credit Facility, our company may be considered to be a connected issuer of each such Dealer for purposes of the securities laws of certain Canadian provinces. The decision to distribute the Notes will be made by our company and the terms and conditions of distribution will be determined through negotiations between our company and the Dealers. The Banks will not have any involvement in such decision or determination. As of the date hereof, our company is in compliance with the terms of the Credit Facility. Other than payment of their portion of the commissions, if applicable, or as set forth above in respect of the Credit Facility, none of the proceeds of such offerings of Notes will be applied, directly or indirectly, for the benefit of BMO Nesbitt Burns Inc., CIBC World Markets Inc., HSBC Securities (Canada) Inc., Laurentian Bank Securities Inc., National Bank Financial Inc., RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc. or their affiliates. See "Use of Proceeds".

#### **USE OF PROCEEDS**

The net proceeds from the sale of Notes will be added to the general funds of our company and, together with funding from other sources, including internally generated funds and other external financings, will be used to finance our company's working capital requirements, to repay outstanding bank loans (which may include indebtedness under the Credit Facility), debentures, notes or other Indebtedness, to make advances to subsidiaries of our company, to finance our company's capital expenditure program, to make acquisitions and for other general corporate purposes. Where appropriate, a prospectus supplement or pricing supplement will contain more specific information about the use of proceeds from each sale of Notes. All expenses relating to an offering of Notes, including any compensation paid to the Dealers, will be paid out of our company's general funds. Our company may from time to time issue debt instruments and incur additional Indebtedness otherwise than through the issue of Notes pursuant to this short form prospectus.

#### **PRIOR SALES**

In the 12-month period prior to the date hereof, our company issued the following tranches of medium term notes under our short form prospectus dated June 21, 2007:

<u>Note</u>	<u>Date of Issuance</u>	<u>Par Value</u>	<u>Sale Price (per \$100 principal amount)</u>	<u>Gross Proceeds</u>
Series 15 (5.00%) due 2013	November 10, 2008	\$400,000,000	\$99.890	\$399,560,000
Series 16 (3.89%) due 2010	November 19, 2008	\$100,000,000	\$99.990	\$99,990,000
Series 16 (3.89%) due 2010	January 13, 2009	\$100,000,000	\$100.817	\$100,817,000
Series 15 (5.00%) due 2013	January 14, 2009	\$200,000,000	\$103.169	\$206,338,000
Series 17 (6.03%) due 2039	March 3, 2009	\$300,000,000	\$99.931	\$299,793,000
Series 18 (5.49%) due 2040	July 16, 2009	\$300,000,000	\$99.867	\$299,601,000

### **RISK FACTORS**

In addition to the other information contained and incorporated by reference in this short form prospectus, a purchaser should consult its own financial and legal advisors and should carefully consider the following risk factors before investing in the Notes. Notes will not be an appropriate investment for a purchaser if the purchaser does not understand the terms of the Notes or financial matters in general. A purchaser should not purchase Notes unless the purchaser understands, and can bear, all of the investment risks involving the Notes. For a discussion of the risks to which our business and industry are subject, please see the section entitled “Risk Factors” in our company’s renewal annual information form and the section entitled “Risk Management and Risk Factors” in our annual MD&A. In addition to those risks, an investment in the Notes is subject to the following additional risks:

#### **We Must Receive Dividends and Other Payments from Our Subsidiaries in Order to Make Payments to Holders of Notes**

We are a holding company that has no significant assets or operations other than the debt and equity of our subsidiaries. Our most significant subsidiary is Hydro One Networks Inc., a regulated wholly-owned subsidiary which owns and operates our transmission and distribution assets. We are dependent on dividends, interest, loans and other payments from this and other subsidiaries to meet our debt service and other obligations.

Our subsidiaries are separate legal entities and have no obligation to pay any amounts due under the Notes and, except for their respective obligations under existing intercompany debt obligations owing to us, have no obligation to make funds available to us, whether by dividends, interest, loans or other payments. In addition, these subsidiaries have not guaranteed the Notes. In the event of bankruptcy, liquidation or reorganization of any of our subsidiaries, the creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to us, except to the extent that we are recognized as a creditor of those subsidiaries.

Our subsidiaries currently are not restricted in terms of their ability to pay dividends or make other payments to us, other than by solvency provisions under generally applicable Ontario corporate law. However, they could become so restricted in the future by, among other things, other laws as well as agreements to which they may become parties in the future.

#### **The Notes Have No Existing Trading Market and May Be Subject to Trading Price Fluctuations**

The Notes are new issues of securities for which there is no existing trading market. We do not intend to list the Notes on any Canadian, U.S. or other securities exchange. We cannot predict whether any trading market will develop for the Notes.

Even if a trading market develops for the Notes, the Notes could trade at prices that may be higher or lower than their initial offering prices, depending on many factors, including prevailing interest rates, our results of operations and financial position, the ratings assigned to the Notes and our other debt securities, and the markets for similar debt securities.

### **Foreign Currency Risks**

An investment in Notes that are denominated or payable in other than Canadian dollars entails significant risks that are not associated with a similar investment in a security denominated in Canadian dollars. Such risks include, without limitation, the possibility of significant changes in rates of exchange between the Canadian dollar and the applicable foreign currency unit, the possibility of the imposition or modification of foreign exchange controls by either the Canadian or foreign governments, and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and, where appropriate, will be more fully described in a prospectus supplement or pricing supplement.

The Notes will be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. A judgment by a Canadian court relating to any Note may be awarded only in Canadian currency and such judgment may be based on a rate of exchange in existence on a day other than the day of payment.

This short form prospectus does not describe all the risks of an investment in the Notes denominated or payable other than in Canadian dollars, and prospective investors should consult their own financial and legal advisor as to the risks entailed with respect thereto. Notes denominated in other than Canadian dollars are not appropriate investments for investors who are unfamiliar with foreign currency transactions.

### **Interest Rate Risks**

Prevailing interest rates will affect the market price or value of the Notes. Generally, the market price or value of the Notes will decline as prevailing interest rates for comparable debt instruments rise, and increase as prevailing interest rates for comparable debt instruments decline. Fluctuations in interest rates may also impact borrowing costs of our company which may adversely affect its creditworthiness.

### **Changes in Creditworthiness or Credit Ratings**

The perceived creditworthiness of our company and changes in credit ratings of the Notes may affect the market price or value and the liquidity of the Notes. In addition, negative changes in our company's credit rating may affect the credit ratings of the Notes.

### **Risks Associated with Floating Rate Notes**

Investments in Floating Rate Notes entail risks not associated with investments in Fixed Rate Notes. The resetting of the applicable rate on a Floating Rate Note may result in a lower interest rate as compared to a Fixed Rate Note issued at the same time. The applicable rate on a Floating Rate Note will fluctuate in accordance with fluctuations in the instrument or obligation or other measure on which the applicable rate is based, which in turn may fluctuate and be affected by a number of interrelated factors, including economic, financial and political events over which our company has no control.

## **LEGAL MATTERS**

Certain legal matters in connection with any offering hereunder will be passed upon by Osler, Hoskin & Harcourt LLP for our company and by Blake, Cassels & Graydon LLP for the Dealers. The partners and associates of the foregoing law firms beneficially own, directly or indirectly, less than one percent of the securities of our company or any associate or affiliate of our company.

## **AUDITORS, REGISTRAR AND TRANSFER AGENT**

The auditors of our company are KPMG LLP, Yonge Corporate Centre, 4100 Yonge Street, Suite 200, Toronto, Ontario M2P 2H3. KPMG LLP is independent in Ontario in accordance with its rules of professional conduct.

Registers for the registration and transfer of the Notes issued in registered form are kept at the principal offices of the Transfer Agent in the City of Toronto.

## **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

## AUDITORS' CONSENT

We have read the short form base shelf prospectus of Hydro One Inc. (the "Corporation") dated July 27, 2009 relating to the issue of up to \$3,000,000,000 aggregate principal amount of medium term notes (unsecured) of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use through incorporation by reference in the above-mentioned prospectus of our report dated February 11, 2009 to the shareholder of the Corporation on the consolidated balance sheet of the Corporation as at December 31, 2008 and the consolidated statements of operations and comprehensive income, retained earnings, accumulated other comprehensive income and cash flows of the Corporation for the year then ended.

Toronto, Canada  
July 27, 2009

KPMG LLP (signed)  
Chartered Accountants  
Licensed Public Accountants

## **AUDITORS' CONSENT**

We have read the short form base shelf prospectus of Hydro One Inc. (the "Company") dated July 27, 2009 relating to the issue of up to \$3,000,000,000 aggregate principal amount of medium term notes (unsecured) of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use through incorporation by reference in the above-mentioned prospectus of our report to the shareholder of the Company on the consolidated balance sheets of the Company as at December 31, 2007 and December 31, 2006, and the consolidated statements of operations, retained earnings and cash flows for each of the years in the two-year period ended December 31, 2007. Our report is dated February 13, 2008.

Toronto, Canada  
July 27, 2009

Ernst & Young LLP (signed)  
Chartered Accountants  
Licensed Public Accountants

**CERTIFICATE OF HYDRO ONE INC.**

Dated: July 27, 2009

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all of the provinces of Canada.

(Signed) Laura Formusa  
President and  
Chief Executive Officer

(Signed) Sandy Struthers  
Chief Financial Officer

On behalf of the Board of Directors:

(Signed) James Arnett  
Chairman of the Board of Directors

(Signed) Walter Murray  
Director

## CERTIFICATE OF DEALERS

Dated: July 27, 2009

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated in this prospectus by reference will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of all the provinces of Canada.

BMO NESBITT BURNS INC.      CASGRAIN & COMPANY LIMITED      CIBC WORLD MARKETS INC.

By: (Signed) Grant Williams

By: (Signed) Stephen McHarg

By: (Signed) Darrell Burt

HSBC SECURITIES  
(CANADA) INC.

LAURENTIAN BANK  
SECURITIES INC.

NATIONAL BANK  
FINANCIAL INC.

By: (Signed) Rod A. McIsaac

By: (Signed) Michel Richard

By: (Signed) Paul Prendergast

RBC DOMINION  
SECURITIES INC.

SCOTIA CAPITAL INC.

TD SECURITIES INC.

By: (Signed) Tushar Kittur

By: (Signed) Murray Neal

By: (Signed) Harold Holloway