FINANCIAL INFORMATION NOTE

Update following the confirmation of the Government of Québec's financial commitment

March 2017

This financial information note presents an update on different components of the Réseau électrique métropolitain's financial structure, as a result of work carried out over the past few months and confirmation of the Government of Québec's investment in the project.

The estimates contained in this note will continue to evolve over the months to come, depending, among other factors, on the Government of Canada's participation in the project, the outcome of the calls for tenders and the conclusion of an agreement with the ARTM.

Once all these parameters are known, the REM's definitive financial structure, including the rate of return as validated by an external auditor, will be made public as planned.

THE REM'S SHAREHOLDING STRUCTURE

The REM's financial structure provides for investments by three shareholders: CDPQ Infra, the Government of Québec, whose commitment has been confirmed, and the Government of Canada, that was presented with an investment proposal.

The following table presents the expected equity investment of each shareholder and their ownership percentage.

REM shareholding structure

Shareholder	Equity investment	% of ownership
CDPQ Infra	$2.67 B	51.0%
Government of Québec	$1.28 B	24.5%
Government of Canada (*proposed investment*[1])	$1.28 B	24.5%

CDPQ Infra's investment

As with the REM's technical and operational features, CDPQ Infra has worked to optimize the project's financial structure. A number of factors affect an investment's risk-return profile, including its equity and/or debt components.

At this stage of the project, CDPQ Infra's investment in the REM will be only in the form of equity, for three main reasons:

1) Increased simplicity, reducing the complexity of the financial structure to be implemented;
2) Greater efficiency, increasing flexibility during the construction phase and the start of operations; and
3) A more economical solution, that reduces costs before operating revenues are generated by the project and that reduces interest rate risks.

[1] Discussions with the Government of Canada are still ongoing.

REVENUE-SHARING MECHANISM

Return thresholds and sharing of dividends

CDPQ Infra's priority return threshold for its equity investment has been set at 8%.

The priority return threshold is the rate of return that must be achieved by the majority shareholder, CDPQ Infra, to trigger the production of returns for minority shareholders. The priority return is not necessarily the same as CDPQ Infra's anticipated rate of return for the project. An estimate of CDPQ Infra's anticipated rate of return is provided in a later section of this document.

Until CDPQ Infra's 8% priority return threshold is met, all REM project dividends are paid to CDPQ Infra. Once this threshold is met, dividends will mostly (72%) be paid to minority shareholders – the governments of Québec and Canada – until they achieve the minimum target rate of return of 3.7%, as provided by the agreement.

The targeted return of 3.7% is equivalent to the average borrowing costs of the Government of Québec's entire debt. The REM project is the first public transit project where the government will recoup its capital investment and its average borrowing cost.

Once minority shareholders have reached the targeted rate of return, dividends will be paid in accordance with ownership percentages: 51% for CDPQ Infra and 24.5% for each level of government.

Anticipated rate of return

CDPQ Infra currently estimates the REM project's rate of return to be in the range of 8.0% to 9.0%. The anticipated rate of return will depend, among other things, on the Government of Canada's participation and the outcome of the calls for tender.

This rate of return:

- is consistent with CDPQ Infra's role as project operator and developer, and the fact that it will assume construction, ridership and operating risks;
- is aligned with the return objectives of la Caisse's clients, which stand at a little over 6%;
- is comparable to the rate of return expected on unlevered infrastructure investments.

The anticipated range of return is comparable to the market for investments with a similar risk-return profile: greenfield-type projects (i.e. which include the construction phase) in which the shareholder assumes volume risks (ridership risk, for example) and that are financed without debt.

Sample rates of return for projects with a risk-return profile comparable to that of the REM, without leverage

Asset class	Rate of return without leverage	Risks
"Greenfield" highways	8.5% 10.5%	Ridership risk, construction risk (costs and delays), operating risk
"Greenfield" pipelines (regulated)	8.0% 10.5%	Construction risk (regulated), raw materials risk, counterparty/credit risk, operating risk
"Greenfield" wind farms	7.0% 9.0%	Construction risk, wind risk, volume risk (excl. PPA)
Operating railway lines	8.0% 9.0%	Price and volume risk, operating risk

Source: RBC and CDPQ Infra

REM
8% - 9%

An efficient model for a competitive cost

In all return scenarios, the REM's cost is kept between $0.69 to 0.72 per passenger-kilometer. This competitive cost is the result of ongoing project optimization, efficient project management and CDPQ Infra's choice of technology.

The REM's cost per passenger-kilometer covers both capital costs (e.g. infrastructure, including tracks and train cars), operating costs and life cycle costs. At $0.66 per passenger-kilometer, the average costs of existing networks cover operating expenses and only a portion of capital costs.

The Greater Montréal area will therefore get the equivalent of a second métro for an increase of 2 to 4% of the ARTM's budget, assuming constant ridership.

In the event that ridership forecasts are exceeded by 15% and more, the cost per passenger-kilometer will be reduced by 20%, to a range of $0.55 to 0.58. Beyond 40%, only a sum equivalent to user fees will be billed to the ARTM, with no impact on return scenarios.