

Canada Growth Fund Announces Canada's First Carbon Policy Contract for Difference in Markham, Ontario

Markham, June 26, 2024 – Today, Canada Growth Fund Inc. (“CGF”) and Markham District Energy Inc. (“MDE”), an operator of district energy networks in the City of Markham, Ontario, announced they have entered a financial hedge to enable new investment in Ontario’s energy sector. This 10-year contract for difference (“CfD”) enables MDE’s investment in a new heat pump system that will provide residents in the City of Markham with reliable, efficient, and cost-competitive low carbon energy services.

MDE supplies homeowners and businesses in Markham with heating and cooling services. MDE is building an innovative heat pump system which harnesses the steady temperature of a nearby sewer as a heat sink for thermal energy (the “Project”) and replaces existing technologies that burn natural gas. During its construction period, the Project is estimated to support up to 200 jobs in Ontario. The Project has the potential to reduce approximately 177,400 tonnes of CO₂e emissions over the 10-year CfD term.

“This agreement with Markham District Energy advances CGF’s mandate to establish innovative financial instruments to support Canadian businesses and projects as they adopt key emission reduction technologies,” said Patrick Charbonneau, President and CEO of CGF Investment Management. “Through this contract for difference, CGF is enabling a project that will lower the carbon footprint for heating and cooling energy supplied to customers connected to the district energy system in Markham.”

This transaction advances important heating and cooling technologies, which could unlock further decarbonization opportunities across Canada in the hard-to-abate low-grade heat sector. CGF has a mandate to accelerate emissions reduction technologies in Canada, including by providing CfDs to mitigate policy risk and price volatility and by improving economic outcomes associated with decarbonization projects.

“With the help of Canada Growth Fund, Markham District Energy is now in a position to make a final investment decision on our innovative wastewater heat recovery project,” said Bruce Ander, President and CEO of MDE. “This project will materially reduce our carbon emissions and will support our path to becoming a net-zero carbon utility while providing our customers with competitively priced and reliable thermal energy. A winning outcome for Canada, Markham and our customers.”

CGF’s CfDs are designed to be replicable and scalable over time, which enhances their potential for broader market applications. By seeking to create a standardized financial instrument, CGF aims to promote price discovery, market liquidity, and capital recycling, allowing for greater investments in decarbonization projects across Canada.

Transaction Highlights

- A carbon policy CfD is a financial instrument that provides certainty related to the financial impact of future carbon policy prices, measured against specified volumes of carbon emissions reductions.
- The benchmark for the CfD is based on the Ontario industrial carbon pricing system, known as the *Emissions Performance Standards*.
- The carbon policy CfD is structured as a two-way contract. This means that if the actual carbon policy price exceeds the specified strike price, MDE will make payments to CGF. Conversely, if the carbon policy price falls below the strike price, CGF will pay MDE for the difference.

- Two-way contracts are consistent with CGF's preservation of capital mandate.
- The CfD is set at an initial strike price of \$100 per tonne of CO₂ with escalation, for a 10-year term commencing at the Project's commercial operation date.
- The Project utilizes Noventa Energy Partners Inc.'s Wastewater Energy Transfer (WET™) technology, a cutting-edge solution for extracting thermal energy from wastewater.

About MDE

MDE, an energy company owned by the City of Markham, is a leading developer of municipally-owned district energy systems providing strategic foundations for Markham's sustainability and economic development objectives. MDE owns and operates award-winning community energy systems serving buildings in the developing urban centres of Markham Centre and Cornell Centre.

About CGF

CGF is a \$15 billion arm's length public investment vehicle that helps attract private capital to build Canada's clean economy by using investment instruments that absorb certain risks in order to encourage private investment in low carbon projects, technologies, businesses, and supply chains.

CGF makes strategic investments to help Canada to meet the following national economic and climate policy goals:

- a) reduce emissions and achieve Canada's climate targets;
- b) accelerate the deployment of key technologies, such as low-carbon hydrogen and CCS;
- c) scale-up companies that will create jobs, drive productivity and clean growth across new and traditional sectors of Canada's industrial base;
- d) encourage the retention of intellectual property in Canada; and
- e) capitalize on Canada's abundance of natural resources and strengthen critical supply chains to secure Canada's future economic and environmental well-being.

Further information on CGF's mandate, strategic objectives, investment selection criteria, scope of investment activities, and range of investment instruments can be found on www.cgf-fcc.ca.

About CGF Investment Management

In Budget 2023, the Government of Canada announced that PSP Investments, through a wholly owned subsidiary, would act as investment manager for CGF. CGF Investment Management has been incorporated to act as the independent and exclusive investment manager of CGF.

Advisors

[BMO Capital Markets](#) is acting as advisor to CGF with respect to the CfD with MDE.

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PSP Investments' Conflict of Interest Policy

PSP Investments has established a policy to address the risk of any real, potential or perceived conflicts of interest in the context of the services provided by Canada Growth Fund Investment Management Inc. to Canada Growth Fund Inc., requiring PSP and CGF to disclose where they have overlapping investments.

At the time of the approval of the transaction, PSP Investments held a passive limited partner interest, representing less than 9% of fund commitments, with no investment discretion or decision-making ability, in Ancala Infrastructure Fund III, the majority shareholder of Noventa.

The foregoing is being disclosed in accordance with PSP Investments' Conflicts of Interest Policy